A study of managers' political risk perceptions and political risk assessment procedures within Kuwaiti international firms during the 'Arab Spring'

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Declaration

No portion of the work referred to in this thesis has been submitted in support of an application for another higher degree or qualification elsewhere.

Sundus Alyatama
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Dedication

To my dear mother who always prayed for me and gave me confidence. To the soul and memories of my father. To my great husband: ***Jamal Aldreess***, for his sacrifices and patience.

To my dearly loved children:

Tasneem.....for being a great friend and offering boundless support

Rawan.....for her endless compliments, and belief in me

Yousef.....for bearing responsibility and being patient

Retaj…….....for her love and understanding

Mohammad..... for filling my life with happiness

I dedicate this work with thankfulness and gratitude

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Abstract

The occurrence of high profile political events coupled with the wave of firm internationalisation have, in recent years, aroused interest in understanding the phenomenon of political risk. Although risk perception and political risk assessment are already established topics, there is limited knowledge about managerial perception of political risk while undertaking international business activities. And, while it can be argued that the way managers perceive risk is important to the subsequent assessment of such risk, the literature on risk perception and the literature on risk assessment have not been connected. Furthermore, there is a well-established body of literature on risk perception using and supporting the relevance of the psychometric framework – this framework has been successfully used to study risks like technological and environmental risks but not political risk in particular. Moreover, the existing political risk literature has not used any generally acknowledged approach like the psychometric framework to enhance our understanding of political risk perception.

This study presents findings on managerial perception and assessment of political risk in the context of the developing economy of Kuwait, and the recent unique series of political events known as the Arab Spring. It argues that understanding both risk perception and assessment, and their inter-relationship, is important in understanding how and why international firms respond to political risk. Data for this study was collected through a mixed methods approach of a questionnaire survey and interviews to achieve two broad objectives: to study managerial political risk perception of Kuwaiti international firms based on the psychometric approach; and to study the political risk assessment and how this relates to political risk perception. The psychometric framework-based questionnaire survey data was collected from 120 managers from across 44 firms. The interview data was collected using face-to-face, semi-structured interviews with 34 managers in 34 Kuwaiti firms.

The main findings revealed that the general model, and the specific risk attributes, used in the traditional psychometric approach are highly applicable to political risk perception. They also showed clear differences in managers' perceptions of governmental and non-governmental risks, with higher risk perceptions being associated with non-governmental risk. In addition, the findings indicate that there is

no influence of firms' characteristics on political risk perceptions. This confirms the basic assumption of the psychometric approach, which is that the characteristics of the perceived risk, not the characteristics of the individual perceiver, are what primarily determine risk perception. The findings also indicated that the level of institutionalisation of political risk assessment is not significantly correlated with any obvious firm characteristic. In addition, managers were found to resist quantitative assessment despite their high awareness of political risk (especially for non-governmental risks).

There are two main intended contributions of this study to the literature on political risk. First, by applying the psychometric paradigm to political risk, this study has not only extended the applicability of the psychometric framework but also made a connection between the political risk literature and risk perception literature. Second, the specific observations reported by the study – for example, the way managers dichotomise risks between governmental and non-governmental sources and the reasons why managers resist quantitative assessment – make a contribution to our understanding of how political risks to firms are considered and prioritised at an organisational level.

The findings from this study also have practical implications for managers of international firms. For example, the strong explanation of political risk perceptions provided by the psychometric framework may help managers predict the risk perceptions of other managers who they may have to persuade or negotiate with. Understanding the reasons why managers dichotomise governmental and non-governmental risk also has practical importance, as it helps them to reflect on their own circumstances and assess whether this dichotomisation is appropriate to these circumstances. Similarly, knowing the way that other managers rationalise the use, or non-use, of quantitative assessment allows a firm to assess whether such reasons fit their own problems, and so come to a deeper understanding of how much formal assessment of political risk is appropriate to their situation.

There are several limitations to this study. Some relate to its external validity, because it is difficult to generalise the findings outside of Kuwait, and some to its internal validity, because the firms included in the sample may not be completely representative. Other limitations include possible sampling bias due to the self-

selection process by potential respondents, and using only a single respondent manager per firm in the interview study. Also it is a cross sectional study, not a longitudinal one, and the characteristic of managerial position is the only individual characteristic considered as potentially affecting political risk perception.

The recommendations for future work would therefore include carrying out similar studies that consider larger samples and different contexts to improve internal and external validity. Such studies should include longitudinal designs and consider other individual characteristics besides managerial position (such as age, gender and education), and their effect on managerial political risk perception.

Keywords: *Risk Perception; Political Risk; Psychometric Paradigm; International Business; Political Risk Assessment.*

Table of contents

List of Figures

List of Tables

CHAPTER ONE: INTRODUCTION

1.1 Study background and motivation

In recent years, many investors have looked at globalisation as a significant opportunity to expand and benefit from international market opportunities. But, unlike investing in a local country, operating in international markets has created vulnerability to a higher degree of risk for investors (Stephens, 1998; Xiaopeng and Pheng, 2013). In international business, political risk has gained increased interest as one of the most prominent risks that deserves considerable attention (Jakobsen, 2010; Zahra, 2011; Al Khattab, et al., 2015). The failure by international firms to appropriately address political risk may culminate in substantially increased costs and losses (Hood and Nawaz, 2004; Xiaopeng and Pheng, 2013; Al Khattab, 2015). One example from the fieldwork of this research was a financial service company heavily committed to investments in Syria; it had most of its investments in real estate and factories, and some involvement in banking and insurance. It did not adequately address the political risk and its operation stopped almost completely as a result of the civil war. Another company had many investments in Yemen, mainly in real estate and development of whole provinces, including the building of roads, houses, malls, schools and other infrastructure, and the only steps it took to manage political risk was to work with the government at the time as a partner, without assessing the potential risks explicitly. This proved to be inadequate because the instability of the government meant that the company's investments were insufficiently protected and it faced considerable financial losses. Such political risk is universal – important in both developing and developed countries. Events such as the 9/11 terrorist attacks in the US showed that political risk has no boundaries (Baek and Qian, 2011).

There is no consensus on the definition of political risk given the diversity of risks among international firms (Burmester, 2000). However, there are two general views that define political risk: the first is that political risk arises by definition from governmental sources (e.g. Butler and Jeoquin, 1998; Buckley, 2000; Butler, 2008), and the second view is that political risk goes well beyond governmental sources and includes other sources such as societal events (e.g. Alon and Martin, 1998; Alon and Herbert, 2009; Jakobsen, 2010). This study adopts the second view, whereby political risk is not just related to governmental sources. The justification for this is that this study is conducted in the context of the Arab Spring in which there were risks to international business which we would call political but which do not arise directly from governmental sources, for example massive public demonstrations.

In this thesis, the aim is to investigate how this political risk is both individually perceived and organisationally assessed by managers for whom it is significant. Investigating both perception and assessment reflects the way that, in risk studies generally, research on how individuals and social groups perceive risk has become as important as research on how risk should be assessed. An individual's judgement of risk does not rely in some simple way on estimates of the probability and consequences of an event; other psychological and social factors typically influence their judgements (Slovic, 1999). Yet this perception is highly relevant to how risks are managed. Not only is the public perception of risk central to the acceptance of technologies and operations in modern society, but also the way that people perceive risk is central to the way they behave. This behaviour can then be an important determinant of the risk that they experience. Accordingly, it can be argued that organisational risk responses should be understood as a combination of people's perception and institutionalised frameworks for assessment.

The term ‘institutionalisation’ is used to characterise “the process by which political risk assessment ‘becomes more explicit and systematic” within a firm (Blank et al., 1980, p.7). Institutionalisation of political risk assessment denotes a process that belongs to the organisation, not simply to individuals, serves organisational goals and is conducted according to organisational standards. Yet it requires individuals’ judgments as it may be triggered by an individual’s judgment that it is needed, and it may be steered by individuals’ prior perceptions. Equally, individuals’ perceptions may be modified by the institutionalised assessment. So a full understanding of how political risk is, and should be, responded to within organisations, requires an investigation of both institutionalised assessment and perception.

Although risk perception and political risk assessment are not new topics, and researchers have emphasised the importance of these two topics separately, there is limited knowledge about managerial perception of political risk and very little treatment of assessment and perception jointly. The literatures on risk perception and on risk assessment have not been connected. For example, in work exploring the institutionalisation of political risk assessment (e.g. Blank et al., 1980; Pahud de Mortanges and Allers, 1996; Kobrin, 1982; Hashmi and Baker, 1988; Al Khattab et al., 2008a), no explicit attempt has been made to understand the relationship with risk perception.

Furthermore, there is a well-established body of literature on risk perception more generally which has not influenced research on political risk responses. Probably the most important and commonly used approach for investigating risk perception has been a ‘psychometric’ framework, which has been successfully applied to other risks of societal significance (e.g. technological and environmental risks). There is therefore

an opportunity to explore whether the psychometric framework is equally applicable to political risk as it is to the other categories of risks addressed in the literature. Previous studies in political risk perception have been carried out only by asking managers to rate how concerned they were about political risks (Al Khattab et al., 2007), or the impact of political risk on the decision of market entry (Zarkada-Fraser and Fraser, 2002), or the impact of political risks on their business activities (Keillor et al., 2005). Applying the psychometric framework to political risk should not only add to this work by providing an alternative approach to analysis, it should also help in understanding the connection between the political risk literature and risk perception literature. This will establish how close the 'risk' in political risk is to the 'risk' in environmental, safety and health risk.

There is another feature of much past work on political risk assessment that this thesis tries to address. Previous studies have typically addressed political risk to investors operating from developed countries like Canada (e.g. Rice and Mahmoud, 1990), the North Atlantic generally (e.g. Stapenhurst, 1992b), the US (e.g. Subramanian et al., 1993) and the UK (e.g Zarkada-Fraser and Fraser, 2002). As a result, emerging and developing countries have received limited attention. Some of these, however, have been highly significant sources of international investment, and political risks experienced by investors in these countries are as significant and interesting as those experienced by those investing from the developed world. The author is a Kuwaiti national, and teaches in a Kuwaiti business school, so naturally has an interest in the political risks encountered by organisations from the Gulf Cooperation Council (GCC) countries, and Kuwait in particular as a member of the GCC. Moreover, the recent prominent political events that have occurred in this part of the world under the general heading of the 'Arab Spring' provide a context in which political risk is

especially stark, in which the status and stability of government has been especially uncertain, and where there has been no clear end-point or resolution. Such a context should provide a rich setting for studying how political risks are responded to, and if international firms take political risk seriously, especially as the literature on political risk suggests that such firms have a low standard of political risk assessment and that it tends to be reactive and subjective.

1.2 Research objectives and questions

The previous section makes an argument for the need to further understand the connection between political risk and risk perception, and to draw on risk perception work more widely by applying the psychometric approach to political risk. Moreover, the context of a developing economy whose investments are vulnerable to the recent political instability of the Arab Spring appears to be a promising setting for this investigation. Accordingly, this study addresses two broad objectives. The first is to study the managerial political risk perception of Kuwaiti international firms based on the 'psychometric approach'. The second objective is to study the political risk assessment and how this relates to political risk perception by conducting a series of interviews. This leads to the following research questions and sub-questions:

RQ1: What are managers' political risk perceptions in Kuwaiti international firms?

RQ1.1: How well does a framework based on explaining risk perception in terms of a risk's attributes apply to managers' risk perceptions?

RQ1.2: What is the influence of firms' characteristics on managerial political risk perception?

RQ2: What is the relationship between Kuwaiti managers' risk perception and political risk assessment in international Kuwaiti firms?

RQ 2.1: How institutionalised is political risk assessment and what is the influence of firms' characteristics?

RQ 2.2: What characterises political risk assessment in these firms and their connections with risk perceptions?

To address these research questions, this study was conducted in both government-owned and non-government owned Kuwaiti international firms using a mixed methods approach involving a questionnaire survey and interviews. The questionnaire survey was based on the psychometric framework and was intended to answer research question one. This framework was based on analysing the relationships among three main dimensions: the specific political risks that are encountered, the general attributes of these risks, and the individual dispositions of risk perceivers. The analysis carried out in the traditional psychometric approach aims specifically to explain differences in the perceptions of different risks in terms of variations in their perceived attributes. But other analyses are possible, and in this thesis the different analyses are compared to assess how variations in risk perceptions are best explained.

The previous literature on political risks also pointed to the relationship between firm characteristics (e.g. number of countries in which the firm is operating, type of industry and the size of the firm) and political risks (see Chapter Three, Section 3.5 and 3.7). Therefore, the research questions also ask whether these characteristics could explain the variation in risk perception better than the psychometric framework.

The interview data was collected through face-to-face semi-structured interviews with 34 managers in 34 Kuwaiti firms and focused on both political risk perception and political risk assessment. Besides validating the questionnaire survey results, the interview study aimed to respond to the second research question concerned with the connection between perception and assessment.

Research question 2.1 aims to understand more specifically the connection between the level of institutionalisation of assessment and firms' characteristics. Understanding this connection is relevant because it suggests that something other than perception of risk drives the risk assessment. If we question whether people's perception determines their assessment or not, then the firms' characteristics are also relevant to consider.

1.3 Study context: Kuwait and the Arab Spring

This study was conducted in the context of the extensive political changes that took place during the 'Arab Spring'. The Middle East and North Africa (MENA) region underwent the destabilising events that began in Tunisia in December 2010 and which later extended into many other Arab countries and became what is called the 'Arab Spring'. The repercussions of this instability are still unfolding and impacting all Arab countries politically, economically, and financially. A number of countries, however, have been relatively protected because of their abundant natural resources, while others have experienced the full impact of the 'Arab Spring' and have still not stabilised (Ramady, 2014). Kuwait – the geographical context of this study – is found in the Middle East region which, as reported by Aon Corporation (2015), is one of the riskiest regions in the world. Recently, the Aon Corporation (2015) reported that 57% of the Middle Eastern countries possess a high to severe risk rating, characterised by problematic geopolitical events. The Arab Spring in particular has created uncertainty

in the business environment of the countries in the Middle East region, reportedly causing heavy losses to firms operating in the region (Sottilotta, 2015).

Kuwait is one of the smallest but richest countries in the Middle-East and has the highest per capita GDP in this region after Qatar (Burney et al., 2013). The main language of Kuwait is Arabic, but English is also spoken in the country. Kuwait has a population of around 4,044,000 people as per 2014 national census. And the majority of the population (70%) are non-nationals who come to the country purposely for work (World Population Review, 2016). Kuwait is highly dependent on international trade and expatriate labour for its economic growth (Al-najem et al., 2013), and its economy largely depends on the exportation of natural resources, mainly gas and oil. Because gas and oil contribute heavily to Kuwaiti national income, the government is said to have concentrated heavily on these sectors and paid limited attention to other sectors (Al-najem et al., 2013).

Kuwait is a member of the Gulf Cooperation Council (GCC), which is a regional co-operation system among six of the Gulf countries: Saudi Arabia, Kuwait, Bahrain, Oman, Qatar, and the United Arab Emirates. The constitution of the GCC was based on principles such as the reconstruction of identity, a single culture and a nation. Benbouziane and Benamar (2010) illustrate that factors such as shared religion, ethnicity, language, culture, political regime, geographical location, regulations and social conditions, strengthened the bonding among these countries and enhanced the establishment of the GCC. The GCC have an Economic Agreement to coordinate, integrate and co-operate in different economic areas, such as having a free trade zone, economic union, and a common market (Laabas and Limam, 2002). In relation to the economic factors, the main revenue of the GCC countries comes from oil: GCC

countries also have approximately 45% of the world's oil reserves and around 25% of crude oil exports (Al-Khouri, 2010).

Furthermore, Kuwait is located amidst three dominant and powerful neighbours: Saudi Arabia, Iran and Iraq, which have longed to control events in the country. Although American and British forces are present to offer protection to the country, this has, at the same time, intensified personal anxiety and fear. To some scholars (e.g. Al-Kazemi and Ali, 2002), this could explain why the majority of Kuwaitis invest their savings abroad. The outflows of foreign direct investments constitute a large proportion of Kuwait's total investments (Behbehani and Al Hallaq, 2013). By the year 2013, Kuwait had become the GCC's and Arab world's largest outflow investor, with $8.4 billion in FDI outwards (Hussein, 2014). FDI outwards emerged in Kuwait's economy since 1953 through investing oil revenues abroad. The institution that conducts public sector Kuwaiti investments abroad is the Kuwait Investment Authority (KIA). This Authority takes the responsibility for administering and managing Kuwait government's funds which include the General Reserve Fund and the Future Generations Fund. The General Reserve Fund consists of investments in Middle Eastern and North African (MENA) countries. The Future Generations fund consists of investments in countries other than the MENA region (KIA, 2016), and has managed about $213 billion (Setser and Ziemba, 2009). Kuwaiti foreign investments, both governmental and private, are in the form of real estate, equities, hedge funds and cash deposits. Approximately 55% of Kuwait's investments are in Canada and Latin America, 25% in Europe, 15% in Asia and 5% in emerging markets (KIA, 2016). Although Kuwait invests heavily in the West, it is also ranked first among contributors to investments in Arab countries, followed by United Arab Emirates and Saudi Arabia. The Arab countries they invested in most included Jordan, Algeria, Iraq,

Egypt and Morocco (Investment Climate in Arab Countries, 2016). There are very limited public statistics to provide any more details than these.

Although Kuwait has historically been influenced by Arab values and culture as well as Islamic beliefs and norms, it has a number of unique features that distinguish it from other Arab countries. For example, over a relatively long period of time, the Kuwaitis, unlike their neighbours, have been exposed to new ideas, cultures and customs (Al-Kazemi and Ali, 2002). As a result, the Kuwaitis demonstrate two opposing values of strong individualism, on the one hand, and a close connection to primary (tribal, sectarian) groups, on the other (Ali et al., 1997). More generally however, Arab employees and managers are only relatively individualistic and have moderate collectivist tendencies (Hofstede, 1983).

The conditions of doing business in Kuwait are generally unfavourable in terms of, for example, initiating a business, accessing electricity, raising credit, and protecting minor investors (Hussein, 2014). Kuwait made it especially difficult to start a business in 2014 by increasing the minimum capital requirement and by increasing the commercial license fee (Hussein, 2014). This all makes this specific context an especially revealing one, potentially, for the study of how managers see political risks – both as matters of individual perception and as matters of formal, organisational assessment. There is this very strong impetus to make outward investments which incur political risk (almost by definition) so the Kuwaiti environment is one where political risk is extremely important conceptually – and one where political risk perceptions and assessments should therefore be clear and prominent. The context of the Arab Spring heightens this sense of risk still more.

1.4 Structure of the thesis

This thesis is comprised of eight chapters, outlined as follows:

Chapter One provides a background and motivation to the study. It briefly explains the gaps identified in the literature which need to be addressed. The objectives and research questions necessary for addressing these gaps are also outlined in this chapter. This chapter also briefly explains how the research questions are to be answered and provides a brief description of the study context of Kuwait and the Arab Spring.

Chapter Two provides a review of the risk perception literature. In this chapter, the psychometric paradigm and cultural theory are discussed as the most often cited and utilised approaches in studying risk perception. These approaches are then compared in order to select a suitable approach for the present research. Other aspects that are central to risk perception such as trust, perceived risks, benefits and affects are also discussed in this chapter.

Chapter Three contains an extension of the literature review focussing on political risk. In this chapter, the nature of political risk and how political risk is assessed is discussed. The nature of political risk is discussed in terms of how political risk is defined, how it is classified and the impact of political risks on international firms and their institutionalisation level. The chapter proceeds by discussing the institutionalisation of political risk assessment.

Chapter Four explains the research methodology used. It begins by defining the literature gap and the research questions that were formulated based on reviewing the literature. The chapter provides a brief discussion of the philosophical commitments

and the general research design. This chapter discusses the mixed methods approach that was used in the study i.e. a questionnaire study and an interview study, and explains how these two methods were implemented.

Chapter Five contains the analysis of psychometric based questionnaire data to answer the questions relating to the managers' political risk perceptions in Kuwaiti international firms. This chapter entails both descriptive and inferential analysis of the data.

Chapter Six follows and analyses the qualitative data collected via face to face semi-structured interviews to answer the research question relating to the relationship between Kuwaiti managers' risk perception and the institutionalisation of political risk assessment in international Kuwaiti firms. This chapter is divided into two main parts: the first part is a more structured way of categorising the data using three main indicators suggested in the literature to investigate the institutionalisation level of political risk assessment. It also examines the relationship between this level of institutionalisation and firm characteristics. The second part is the thematic analysis of the interviews, which identifies the relationship between the institutionalisation of political risk assessment and political risk perception.

Chapter Seven contains the discussion of findings organised under two broad parts: one is the discussion of the questionnaire survey findings and the other is the discussion of the findings from the interviews.

Finally, Chapter Eight provides conclusions, which include the summary of findings, contributions of the findings to literature, practical implications, study limitations and implications for future research directions.

CHAPTER TWO: RISK PERCEPTION LITERATURE

2.1 Overview

The objective of this chapter is to discuss the risk perception literature in detail. It discusses the approaches that have been most often cited and utilised in studying risk perception - the psychometric paradigm and cultural theory. These approaches are compared in order to select a suitable approach for this present research. In addition, there is a detailed discussion of the selected approaches, dealing with such aspects as empirical studies and limitations. Furthermore, this chapter sheds light on other areas that are central to risk perception, such as trust, and perceived benefits and affect.

2.2 Risk perception

Risk research has particularly focused on three broad perspectives: risk perception, risk assessment and risk mitigation. Risk perception is "the subjective assessment of the probability of a specified type of accident happening and how concerned we are with the consequences" (Sjöberg et al., 2004, p.8). Risk assessment is "the scientific process of defining the components and implications of a hazard in precise, usually quantitative terms" (Rohrmann and Renn, 2000, p. 14). Risk mitigation is "to act directly on the pre-identified risks in order to reduce either the occurrence probability or the degree of severity of its consequences" (Tuncel and Alpan, 2010, p.251). The main focus of this current research is risk perception and risk assessment, but the point at which the assessment turns to mitigation is often unclear in practice. Becoming aware of investment risk through assessment, for example, might itself be important to the way an investment is monitored and managed even though it does not lead to a specific mitigating action.

Research on how individuals and social groups perceive risk has become an important research area not only for its important role in the acceptance of technologies and operations in modern society but also for the role that risk perception plays in forming the way that people behave. This behaviour is often an important determinant of the risk people experience. Accordingly, Slovic et al. (1982) suggest that the origins of risk perception research came from decision making and cognitive psychology.

According to Sjöberg et al. (2004), researchers' interest in risk perception started in the 1960s, when the debate regarding nuclear power began. Researchers attempted to understand and explain lay people's perception of such a technology by proposing and developing several models and theories to test individuals' and groups' risk perception regarding various technologies and activities. Their methods included the revealed preferences approach by Starr (1969), the psychometric paradigm by Fischhoff et al. (1978), and cultural theory from Douglas and Wildavsky (1983).

Within the revealed preferences approach, Starr (1969) attempted to explore the basis upon which people decide that something is safe enough, and identifying how people weigh risks against benefits. More specifically, Starr looked at different products and services and measured how much we pay for them and how many fatalities they cause. His argument was that we reveal our risk attitudes to purchased goods and services by the amount of money spent on them. Correspondingly, if the number of fatalities that these products and services cause is high, we evaluate them as being risky. Starr (1969) tested the principle that acceptance of risks is correlated with the benefits associated with it and also that the voluntariness of an event or a technology plays a major role in its acceptance, in that we tend to tolerate voluntary activities

such as skiing, and have less tolerance for involuntary ones such as food preservatives (Starr, 1969).

Starr's model has a number of limitations. For example, Otway and Cohen (1975) and Fischhoff et al. (1978) argued that Starr based his conclusion on computing historical data regarding the risks and benefits of different activities. A conclusion based on such an analysis will be biased as the historical data does not reflect current preferences. Starr's model "assumes that past behaviour is a valid indicator of present preferences" (Fischhoff et al., 1978, p.129). Moreover, the revealed preferences approach relies mainly on people's expenditure to measure perceived benefit. Thus, this approach could only be estimated if there was a free market. However, in developing and emerging countries, such as Kuwait, governments normally monitor and control the economy through a wide range of tools and regulations, such as monetary policy and taxation. In such a situation we cannot conclusively say that individuals' preferences reflect their risk perception. Similarly, when decisions are made within organisations, the revealed preferences approach simply cannot be applied where decisions do not involve purchases. Nonetheless, the revealed preferences model provided a momentum for future study within the cognitive paradigm.

2.3 The psychometric approach

As mentioned earlier, the revealed preference model suggested that acceptance of risks is correlated with the benefits associated with that risk. In addition, this model shows that the voluntariness of an event or a technology also plays a major role in its acceptance. However, rather than just focusing on the benefits and the voluntariness of each hazard, in their development of the psychometric paradigm Fischhoff et al.

(1978) extended Starr's work to include nine major attributes of hazards. These attributes were defined according to whether they were:

- Voluntary or involuntary
- Immediate or delayed effect
- Known or unknown by those exposed
- Known or unknown by scientists
- Controllable or uncontrollable
- New or old
- Chronic or catastrophic
- Severe or not severe consequences
- Common or dreaded.

These attributes have been used in many subsequent studies (such as Longford et al., 1999; Siegrist et al., 2005; Al-Rawad and Al Khattab, 2015; Bassarak et al., 2015). The authors of such studies asked people to rate a list of a diverse series of hazards according to these attributes. The attributes are then grouped into main factors, using Principal Component Analysis (PCA). These factors are given interpretive names and then used to plot the different hazards on a 'cognitive map'. According to Slovic (1987, p.283) the three most important factors found in repeated studies are (in decreasing order of explanatory importance):

'Dread Risk'- "This is characterized by a perceived lack of control, dread, catastrophic potential, fatal consequences, and inequitable distribution of risks and benefits"

'Unknown Risk' - "defines a hazard judged to be unobservable, unknown, new, and delayed in their manifestation of harm", and

'Numbers Exposed'- "reflecting the number of people exposed to the risk".

The consistent finding in previous studies is that the most important factor that came out from the Principal Component Analysis is dread; for example, Fischhoff et al.'s (1978) and Slovic's (1987) empirical studies.

According to Rohrmann and Renn (2000), the psychometric framework is based on four main points: firstly, risk is considered to be a subjective concept, influenced by other factors, rather than being an objective reality. Secondly, risk criteria should incorporate different aspects such as "technical/physical, and social/psychological ones" (p.17). Thirdly, the framework was proposed to understand the risk perception of the general public rather than of experts. Fourthly, by the use of statistical techniques such as factor analysis, the framework can identify a cognitive map that represents risk perception in a coherent way. The problems and limitations of the paradigm are discussed later in this chapter.

2.3.1 Empirical studies

A considerable amount of literature has been published using the psychometric approach. This investigates a variety of different hazards, different kinds of participants and sampling processes, different countries and cultures and different types of analysis. There follows a review of the main streams of research into the risk perception using the psychometric approach.

2.3.1.1 Type of hazard

Risk perception studies, normally, use a predefined and heterogeneous range of hazards in order to test a layperson's risk perception (Rohrmann and Renn, 2000). For example, Fischhoff et al. (1978) made a study of 30 various activities and technologies (e.g. smoking, bicycles, skiing, food colouring, and nuclear power).

Bastide et al. (1989) made a study using a different set of 30 risks (e.g. drugs, oil refineries, motorcycles and mountain climbing). Other studies, such as Marris et al. (1997), Marris et al. (1998), Langford et al. (1999), Siegrist et al. (2005), Siegrist et al. (2007), Bronfman and Cifuentes (2003), Al-Rawad and Al Khattab (2015), Sjöberg (1996) and Keown (1989), all used heterogeneous sets of hazards.

Other researchers, however, have focused on a specific technology or activity that may represent a major concern to individuals. For example, Siegrist et al. (2007) conducted a study that mainly concerned the use of nanotechnology. They aimed to contrast the risk perception of laypeople and experts. Their study showed that the risk perception of laypeople was based on 3 factors: trust, perceived benefit and general attitudes towards technology; whereas that of experts was based primarily on one factor: confidence in governmental agencies.

Similarly, other studies have focused on specific classes of hazards, such as food-related hazards (Sparks and Shepherd, 1994), automobile structural defects (Slovic et al., 1987) and nuclear waste risks (Sjöberg, 2002a).

2.3.1.2 Types of participant

Psychometric studies have used several types of sampling and respondents. However, most of these studies have based their respondent samples on unplanned groups such as students, teachers, or other convenience samples that are not representative of the general public (Rohrmann and Renn, 2000). For instance, Slovic et al. (1980) based their study sample on 175 college students in order to test their perception regarding a list of 90 different activities, substances and technologies. Similarly, Kleinhesselink and Rosa (1991), Keown (1989), Teigen et al. (1988), and Englander et al. (1986)

have all based their research on student samples to study risk perception in different countries.

The use of students as a core sample has been criticized on several occasions, and several studies avoid this. For example, Bronfman and Cifuentes (2003) used a representative sample of the general population in 32 municipalities in Santiago, Chile. The authors included in their random sampling people from different backgrounds, such as people with different levels of income and from different geographical locations.

2.3.1.3 Countries and groups

Cross-cultural differences have received significant attention from risk perception researchers. According to Boholm (1998), the aim of cross-cultural studies is to empirically examine the validity of the psychometric paradigm in different situations and countries other than the USA, in an attempt to diversify the basis of our understanding of public opinion.

Several studies tried to repeat or adapt the original study of Slovic et al. (1980) in other countries and cultural contexts. For instance, Teigen et al. (1988) attempted to compare respondents from Norway with others from the USA. Both studies used the same type of sample, set of hazards, and research instrument. One of their main findings was that the Norwegian respondents tended to be more concerned about specific hazards – for example, chemical substances used for agricultural purposes - than the Americans. Similar other cross-country comparisons have been conducted by Kleinhesselink and Rosa (1991) on Japan and the United States, Englander et al. (1986) on Hungary and the United States, Keown (1989) on Hong Kong and the United States, and Rohrmann and Chen (1999) on Australia and China. Significantly,

Rohrmann and Chen (1999) found that the differences between countries were less evident than those between the different study groups within a single country.

Other studies have attempted to understand inter-group differences within the same culture and society. Sjöberg (2002a) used the psychometric framework to study the differences of risk perception concerning nuclear waste between three groups: the public, engineers and nuclear experts. In this study, participants were asked to rate 20 hazards on 21 risk attributes. Some of these attributes were taken from the classical psychometric model and other attributes were added, such as immoral risk. The added attributes aimed to measure a dimension that was not included in the traditional psychometric model i.e. tampering with nature. The researcher found significant differences in participants' mean risk perception rating: the experts were found to have the lowest mean rating, followed by engineers and lastly the public. Another example is evident in Marris et al. (1998) who utilised the psychometric framework to study the differences of risk perception in groups having four different worldviews suggested by cultural theory in a specific city in England. Cultural theory, including its worldviews, will be discussed in a separate section later in this chapter. But it is worth pointing out here that Marris et al. (1998) found that each worldview related to concerns with different hazards and that these different concerns were consistent with the assumptions of cultural theory.

The general implication of these previous works is that there are systematic differences between individuals, groups and nationalities when their risk perceptions are measured and explained using the psychometric approach. Nevertheless, the general structure of the psychometric approach, explaining risk perceptions in terms of risk attributes, appears to work well in all these cases. It is true that the set of hazards

and the set of attributes used need to be adapted to the type of risk and the type of perceiver, but the psychometric framework that organises the investigations appears to be generally valid. The applicability of this framework to different kinds of risks in different contexts led to this researcher wanting to take it even further by putting it in the context of a completely different kind of risk, (i.e. political risk) and a different kind of perceiver (i.e. managers involved in international business).

2.3.1.4 Focus and level of analysis

As explained earlier, there are three dimensions in the psychometric approach: the attributes, the hazards and the participants. The traditional psychometric approach uses the participants' rating for a number of hazards on different attributes (like voluntariness) and dependent variables (like acceptability and riskiness). The ratings are aggregated across participants and then analysed using Principal Component Analysis (PCA). The outcomes of PCA are factors which can be given interpretive names (such as dread risk). The dependent variables are regressed on to these factors in order to assess their explanatory power. These factors have been found to explain, on average, 70–90% of the variation in the dependent variables (Slovic et al., 1987; Alhakami and Slovic, 1994; Maris et al., 1997; Siegrist et al., 2007; Bronfman et al., 2007).

The traditional approach thus assumes that risk attributes explain differences between hazards, and this justifies the use of aggregated data (data averaged over participants prior to analysis). The traditional analysis answers the question: 'Why are different risks perceived differently?' Gardner et al. (1982) indicated that the use of aggregated data obscures differences among participants and inflates how the model predicts the risk perception. Therefore, several studies attempted to apply the psychometric

paradigm by using different complex analysis. But the result of these analyses yielded lower explanatory power compared with the traditional analysis. According to Bronfman et al. (2008), there are four different ways to apply the psychometric approach. These are illustrated in Table 2.1, and are:

- A hazard focus in an aggregated level of analysis (the traditional approach): each hazard is one case, with a ratings averaged over the participants.
- A participant focus in an aggregated level of analysis (averaged over hazards prior to analysis): each individual is one case, with ratings averaged over the hazards.
- A hazard focus in a disaggregated level of analysis: each hazard is a case, but ratings of different participants are preserved so the interaction (the effect) of participant and attribute can also be used to explain differences in perception across hazards.
- A participant focus in a disaggregated level of analysis: each participant is a case, but the interaction of hazard and attribute can be used to explain differences across participants.

Table 2.1: Differentiating the level and focus of analysis in psychometric studies - adapted from Bronfman, et al. (2008)

Level of analysis	**Focus of analysis**	
	Differences among hazards	Differences among participants
Aggregate	*Aggregate-Level Hazard-Focused* The Traditional psychometric approach; based on A hazard × attribute rating matrix created by averaging responses over all participants	*Aggregate-Level Participant-Focused* Based on a participant × attribute rating matrix created by averaging responses over all hazards or over groups of hazards
Disaggregate	*Disaggregate-Level Hazard Focused* Based on a separate hazard × attribute rating matrix for each participant.	*Disaggregate-Level participant-focused* Based on a separate participant × attribute rating matrix for each hazard.

Participant focus in an aggregated level of analysis (in the upper right quadrant in Table 2.1) was conducted by a number of authors, such as Savadori et al. (2004) and Barnett and Breakwell (2001). Savadori et al. (2004) studied the perception of experts and the public for biotechnology hazards in food and medicine. The explanatory power of this study (R^2) ranged from 30 to 45% depending on the type of hazard (medical versus food) and the group of participant (public versus experts).

Another type of analysis using a disaggregated level, hazard-focused approach (in the lower left quadrant of Table 2.1) was conducted by Bronfman and and Cifuentes (2003), Marris et al. (1997) and Kraus and Slovic (1988). The Kraus and Slovic (1988) research reported the results of two studies, namely a traditional approach and disaggregated-level, hazard-focused approach. In study one (the traditional approach), the R^2 for predicting riskiness for 32 hazards in seven attributes was an average of

94%. In study two, (disaggregated, participant-level, hazard-focus analysis) the resulting R^2 was an average of 69%.

The participant-focused, disaggregated level analysis (in the lower right quadrant of Table 2.1) was conducted by authors such as Gardner and Gould (1989), Sjöberg (1996), Marris et al. (1997) and Marris et al. (1998). Gardner and Gould (1989) conducted a study that involved participants from two states in US (totalling 1021 participants). Participants were asked to rate six hazards in relation to four risk attributes and overall riskiness. When the overall riskiness was regressed on to the risk attributes rating individually for each hazard, R^2 values showed that these attributes explained only an average of 29% of the variation between people in different states.

Some authors used all four methods (as in Table 2.1), such as Willis et al. (2005) and Bronfman, et al. (2007). The aim of these studies was to evaluate the changes in the explanatory power when using all methods as "it is unclear whether observed reductions in the explanatory power of psychometric dimensions result from the change in the level of analysis [disaggregated instead of aggregated] or from the change in the focus of analysis [participants instead of hazards]" (Bronfman, et al., 2007: 527).

Willis et al. (2005) used all four methods (as in Table 2.1) to analyse the ecological risk perceptions for 30 laypeople, by rating 34 ecological hazards on 17 attributes and 3 dependent variables, including acceptability, ecological risk and overall risk. For the overall risk, the R^2 varies when using different methods. The highest R^2 was found in traditional aggregate-level, hazard-focused (81%). It declined in aggregate-level, participant-focused and disaggregated level, hazard-focused (66% and 62% respectively). The lowest R^2 was found in disaggregated level, participant-focused

(48%). For the other two dependent variables (acceptability and ecological risk), the results were similar. Willis et al. (2005) explained that there are two possible explanations for the lack of explanatory power. The first is related to the level of analysis (using of disaggregated data instead of aggregated data), and the second is related to the focus of analysis (participants instead of hazards).

Similar to Willies et al. (2005), Bronfman et al. (2007) conducted a study using all four methods and the results were similar to those reported by Willis et al. (2005). Bronfman et al. (2007, p.549) argued that "psychometric dimensions do a better job of accounting for differences among hazards than differences among people". This may be because respondents' agreements results in a lack of variation in the predictive variables or dependent variables for different hazards (Kraus and Slovic, 1988). An alternative reason may be that the rating scales used in the questions were originally designed for measuring differences between hazards and not for differences between respondents (Bronfman et al., 2007).

Willies et al. (2005) proposed a hybrid analysis strategy as a solution for the aggregated analysis dilemma. This strategy is based on regressing risk perception (e.g. riskiness judgments) onto the factors that were obtained from aggregated level for every participant separately. Results shows that the R^2 for this strategy was very low ($R^2 = 0.458$) and even lower than the disaggregated analysis ($R^2 = 0.667$). Willies et al. (2005) argued that his analysis is useful for showing the extent to which participants' level of agreement about what makes some hazards more risky than others, and how much differences are related to the participants' characteristics

Siegrist et al. (2005) also suggested another method of analysis called three-mode Principal Component Analysis (3MPCA). In this type of analysis the data is analysed

without aggregating among one mode (such as among participants in the traditional approach) and without performing separate analyses for each item in one mode (such as for each hazard in participant-focused at disaggregated level). This type of analysis required pre-processing the data before analysis. This had to be done, firstly, through centring the data for each attribute and hazard; and then subtracting the average rating for each participant for that combination. According to Siegrist et al. (2005) and Bronfman et al. (2007) this centring would have a similar effect of aggregated data as it would eliminate the variation among participants. Bronfman et al. (2007) argued that although Siegrist et al. (2005) related individual-difference measures (such as general confidence, general trust and gender) to participant components, it is not clear how 3MPCA is able to predict riskiness and acceptability judgments that differ among participants and hazards.

As discussed in the next sub-section, the appropriateness of this additional sophistication depends on the goal of the study, and whether the research questions particularly address quite complex interactions. The loss of the clarity of the original psychometric approach, which clearly aims to test the proposition that risk perceptions are explained by risk characteristics, is an important consideration.

2.3.2 Limitation of the psychometric approach

Although the psychometric paradigm has been the dominant approach in studying risk perception, the model suffers from several limitations. The first limitation is the use of unrepresentative samples. For instance, as discussed in the previous section (2.3.1.2), much of the research in risk perception relies on students and other convenient samples (Rohrmann and Renn, 2000). The problem has been that these studies have aimed to describe risk perceptions in a general population but they have not used

samples that are representative of general populations. In this research, the target population is managers involved in international business in Kuwait, and the sampling – although limited by practical constraints – has been specifically directed to this end.

The second limitation is the failure to clarify the risk target (Bronfman et.al 2007), which means respondents are asked about risk without specifying whether the risk bearer is oneself, one's family, or unidentified members of the public. This limitation is addressed in this research by asking the participants to make a judgement specifically about risks to their international business.

The third limitation is using aggregated data (data averaged over participants prior to analysis), and this obscures differences among participants. This led several researchers to apply the psychometric paradigm in different ways, including using a different level of analysis (disaggregated instead of aggregated), as well as using a different focus of analysis (participants instead of hazards), as discussed in Section 2.3.1.4. Willies et al. (2005) contended that although it is true that, in principle, disaggregated level analyses are always better than the aggregated analyses, in practice some considerations may make disaggregated analyses difficult and less useful. These include the increased variability among individuals, the need for researcher's subjective judgement in comparing between participants, and difficulties in precisely summarising and interpreting the result (Willies et al., 2005).

The choice of whether to focus on hazards or participants depends on the goal of the study (Bronfman et al., 2007). The authors argue that if the goal of the study is to examine differences between hazards, then a hazard-focused analysis is more suitable. If, on the other hand, the goal of the study is to examine differences between

individuals' attitudes towards risks, then a participant-focused analysis is more suitable (Bronfman et al., 2007).

The goal of this study is simply to understand the nature of political risk perception, and the original psychometric approach of explaining perception in terms of the attributes of different risks is appealing. Therefore the aggregated, hazard-focussed analysis will be used. But, since prior research in these domains points to potential limitations, two other analyses (aggregating across hazards and attributes) will also be undertaken to examine their explanatory power.

2.4 Trust

Another limitation of the psychometric paradigm is that it ignores the level of trust (Sjöberg, 1996) that the public have in experts and policy makers. Earle and Cvetkovich (1995, p.88) state that social trust can be loosely defined as "the process by which individuals assign to other persons, groups, agencies, or institutions the responsibility to work on certain tasks". From a management perspective, Siegrist et al. (2000, p.354) define social trust as "the willingness to rely on those who have the responsibility for making decisions and taking actions related to the management of technology, the environment, medicine, or other realms". Researchers have highlighted the fact that trust is an essential factor in shaping individuals' risk perceptions. Slovic (1999) contends that the lack of trust that the public has in scientists often results in the former rejecting the risk assessments of the latter. The critical problem of trust is that it takes a long time to develop but only a very short time to destroy.

Several researchers have attempted to study the role of trust in individuals' risk perceptions. For example, while attempting to study risk perception of genetic

technology, Siegrist (2000) established that people who trusted organisations which used or regulated this technology showed a higher perception of the benefits gained from this technology than its risks. Flynn et al. (1992) conducted a study to examine aspects that determine resistance to a radioactive waste repository. They found that trust in management had a strong influence on risk perception. Elsewhere, Siegrist and Cvetkovich (2000) concluded that there is a strong relationship between social trust, and judgement about risks and benefits among people who are not well-informed about hazards. This finding coincides with previous literature suggesting that social trust informs decisions when people do not have sufficient knowledge (Earle and Cvetkovich, 1995). Another principal finding of Siegrist and Cvetkovich (2000) is that the relationship between risk and benefit vanishes when trust is controlled.

On another occasion, Siegrist et al. (2007) used the psychometric paradigm as a framework to understand why people perceived different hazards in different ways. They used trust as one of the risk attributes. Their research found that perceived risks are determined by two factors: the extent to which the applications are dreaded and the degree of trust in government agencies. They also found that both trust in governmental agencies and perceived benefit reduced perceived risks.

On the other hand, Sjöberg (2001, p.189) argues that the relationship between trust and risk perception is not as strong as previous research suggested. He found that the 'unknown–effects factor' is a 'more important explanatory factor than trust for the public and politicians'. One possible reason for the weak relationship between trust and risk perception is that other factors, such as the effects of technology, are not well understood by experts and yet play a significant role in determining risk perception (Sjöberg, 2001). This means that people might trust experts and regard them as

competent, and yet not agree with their conclusions because experts do not always have the right answers (Sjöberg, 2001). Sjoberg is not the only author who suggested that trust has little influence on risk perception: others, such as Bord and O'Connor (1992) and Hallman and Wandersman (1995), made similar findings. While Sjoberg's findings are important, it is unknown whether they can be replicated in different samples from different countries. The generalisability of his results is, therefore, questionable as they were based on samples taken from developed countries such as Sweden, and are likely to differ substantially from those in developing countries such as Kuwait. Nonetheless, Sjöberg (2001) agrees with Siegrist (2000) that it is better to focus on specific trust rather than general trust in order to understand risk perception. Specific trust is trust that is related to a particular authority and not to governments in general.

The need to look at specific rather than general trust means, in the context of political risk, looking at the specific institutions, organisations and groups involved in any particular investment, such as the current governments, opposition parties, franchises, and other relevant parties. Because each company may have various operations in many different countries, the specific issues of trust for each company are likely to be very diverse. The decision was made, therefore, that the present thesis would draw on the general psychometric framework and not address the concept of trust. However, this is acknowledged as a potential line of further work in the Conclusion.

2.5 Perceived risks, benefits and affects

Some researchers have proposed perceived benefits to have a significant influence on individuals' risk perceptions. However, researchers disagree regarding the type and form of this relationship. For instance, Fischhoff et al. (1978) suggest that there is a

direct negative relationship between benefits gained from an activity or technology and its related risk. If, for instance, individuals perceive a technology or an activity - such as nuclear power - to have high benefits, then they would perceive risks associated with this technology to be low and vice versa.

Alhakami and Slovic (1994), on the other hand, stated that the relationship between perceived risk and perceived benefit is not a direct one; however, they added "affect" to this relationship. Affect can also be called emotion (Slovic et al., 2004). To clarify, if an individual's feeling towards an activity was positive then it is very likely to be perceived to have high benefits and low risks. Finucane et al. (2000) argued that while the relationship between perceived risks and perceived benefits in the world tend to be positive, in most people's minds it is inversely related, because "people judge a risk not only by what they think about it but also by how they feel about it" (Slovic and Västfjäll 2010, p.389).

Finucane et al. (2000) refer to the process in the findings of Alhakami and Slovic (1994) as 'the affect heuristic'. Finucane et al. (2000) conducted two studies: the first study aimed to test the affect heuristic by manipulating time pressure. They found that people tend to use the affect heuristic when they have less time and their opportunity to analyse the risk is narrow. A second study aimed to test the effect of information designed on the overall evaluation of hazards. They found that changing people's information about hazards leads to changes of their judgment about benefits and vice versa. These two studies are important because they reveal that affect has an influence on decision making. Finucane et al. (2000) claimed that the purpose of the two studies is not to exclude the use of the cognitive methods in risk perception, but rather to integrate the affect heuristic that plays an unequivocal role in risk perception and

perceived benefit. Dohle et al. (2010) suggested that the dread dimension mentioned in the psychometric framework is closely related to affect.

Epstein (1994) argued that people can view risks in two different ways: the first is "risk as feeling" in which people react to danger in an intuitive and fast way. Epstein also included the experience in this type and called it the "experiential system". The second is "risk as analysis", in which people react to danger in a logical and formal way. Epstein calls this type the "rational system". Slovic et al. (2004) suggest that both the rational system and the experiential system have rationality. Consequently, they suggested the name "analytical system" instead of "rational system". Slovic et al. (2004) agree with Epstein (1994) on these two ways, but also suggest a third way in which people can view risks; they label this "risk as politics", which occurs when the former two kinds of analysis clash. This clash occurs when laypeople, who generally judge risks in an intuitive and fast way, are in conflict with experts who judge risks in a logical and analytical way.

Slovic et al. (2004) argue that affect is very crucial to the decision-making process because we can rightly avoid danger without performing an analysis, but we cannot avoid danger by performing an analysis without relying on affect, because affect comes before analysis. In a different publication, Slovic et al. (2005) reiterate that, while analysis is important in the decision-making process, affect can be more important because it is a faster and more efficient way to make decisions in complex situations. While Slovic et al. (2004) appreciate the importance of affect, they suggest that affect can be misleading sometimes because it can be manipulated by the media, and so they underline the importance of using affect in parallel with the analytic/rational system.

From the foregoing, it can be observed that affect plays an important role in risk perception. However, these studies were in the context of individuals responding as individuals, primarily to risks to safety and the natural environment. They did not have in mind individuals who were organisational members responding to business risks to their organisations and who were expected to make formal and logical judgements.

2.6 Cultural theory

According to Kasperson et al. (1988), risk perception and the level of acceptance of risk is formed through psychological, social and cultural processes. Hence, attempting to understand risk perception only through the psychometric approach may ignore other elements, such as cultural dimensions, that should be given more attention in the study of risk perception (Dake, 1992). A number of authors agree that risk perception of individuals is greatly influenced by the culture or the environment that they live in (e.g.Thompson et al., 1990; Rippl, 2002; Douglas and Wildavsky, 1983).

Cultural theory - in particular grid-group cultural theory - was proposed by the British anthropologist Mary Douglas in her book Natural Symbols, originally published in 1970. This theory was modified by Mary Douglas herself in 1978 and was later developed by Michael Thompson and Aaron Wildavsky, as well as others such as Steve Rayner and Richard Ellis. In some instances, the first three authors mentioned here (Douglas, Thompson, and Widavsky) have worked on the theory together; cultural theory is therefore an approach that has been developed over the past forty-two years. Rippl (2002) however argues that cultural theory really emerged in the 1980s, when sociologists and anthropologists started studying cultural and social factors closely, and investigated the influence of these factors on risk perception.

Thompson et al. (1990) embraced this theory and worked on developing it further, while Dake (1991) and Dake (1992) have tried to empirically test the theory by using quantitative methods.

According to Douglas (1978) there are two dimensions that make up a framework to compare cultures. These two dimensions are: grid - constraints or rules imposed on choice; and group, which is a bounded social entity. Kemper and Collins (1990) argue that the grid dimension of cultural theory proposed by Douglas can be thought of as power, and the group dimension can be thought of as status. To further explain the group dimension, Caulkins (1999) argues that high group represents a social entity in which people spend a lot of time communicating with others in their group, and low group represents a social entity in which people communicate as individuals in 'unbounded social networks'. To better explain the grid dimension, Douglas (1992) makes a case that, when people move from low grid to high grid, their options become limited due to an increase in the external constraints.

Based on the two dimensions proposed by Douglas (1978), Douglas and Wildavsky (1983) developed four types of cultures that individuals belong to: individualist, fatalist, hierarchic and egalitarian. These four types of cultures have been known as the grid/group classification, or cultural theory. According to Schwarz and Thompson (1990), these four types of cultures are sometimes called rationalities or configurations

Caulkins (1999, p.111) explains the different configurations as follows. The individualist configuration, which is characterised by low grid/low group, is the "familiar entrepreneurial or individualistic environment with few constraints and wide scope for forging and severing network connections freely". The fatalist configuration, which is characterized by high grid/low group, is "constrained by exterior social forces without the

advantage of security within a group". Hierarchic configuration, which is marked by high grid/high group, is the "classical Weberian bureaucracy with a clear organizational hierarchy and rule constrained rational action". Finally, the egalitarian, which is characterised by low grid/high group, is represented by "sectarians who emphasize group solidarity and deplore extensive social differentiation".

Based on reviewing the literature, the following is a summary of these four different worldviews:

Hierarchies: (strong group/strong grid) this group contains individuals who are strongly involved in their groups, and comply with the imposed rules. Their main risk concern is law and order.

Egalitarians: (strong group/weak grid) people under this category can be described as suspicious of technology and viewing nature as fragile and in need of protection; they see risk in terms of possible harm.

Individualists: (weak group/weak grid) people under this category have been described as viewing risk as opportunity. Their main concern is war and other threats to markets.

Fatalists: (weak group/strong grid) people under this category feel they have little control over risks. They do not identify with any of the main concerns but for all practical purposes, they show similar patterns of behaviour to hierarchies.

Some literature relates these four different configurations to trust in institutions. For example, Wildavsky and Dake (1990) argue that the conflict in cultures is correlated with 'trust and distrust of societal institutions' and is responsible for differences in

risk perception among individuals. For example, egalitarians have a high level of risk perception towards technology; they do not have trust in corporations to utilise this technology in a way in which everybody can equally benefit. Individuals, on the other hand, have a low level of risk perception towards technology; they encourage competition and don't like to put restrictions on profitable products and services, such as technology. Hierarchists don't have a high risk perception of technology, but rather they are more concerned about 'social deviance' caused by status differences. Similarly, Finucane and Holup (2005) argue that people do not trust experts or institutions in the context of egalitarianism, while people have trust in experts in the context of hierarchy. The authors further add that individualism stresses the achievements made by the individuals and calls for rewarding them.

2.6.1 Cultural theory shortcomings

As with the previous approaches, cultural theory approach has received several criticisms. For instance, Marris et al. (1998) , Boholm (1996) and Sjöberg (1996) stated that cultural theory has two different versions: the stability version and the mobility version. According to Marris et al. (1998, p.637), the stability version "maintains that individuals will choose to attach themselves to institutions with the same type of social organization in different spheres of their lives (e.g. at home, at work, in leisure activities)" and mobility version "suggests that individuals might attach themselves to institutions with different grid and group characteristics in different spheres of their lives, or over time." The two versions of cultural theory have caused some confusion among researchers about the unit of analysis: the stability version, for instance, focuses on individuals as a unit of analysis, whereas the mobility version, on the other hand, makes institutions the unit of analysis.

These two versions of the theory have caused some disagreements between researchers regarding the method of collecting data. Researchers supporting the stability version tend to use quantitative methods to empirically support the model, while the mobility version supporters use the qualitative method of data collection, including focus groups and observation, in order to see the effect of groups on individuals. Hence, both techniques have their weaknesses. For instance, analysing the data driven from the quantitative method may not enable the researchers to clearly differentiate between different types of individuals. Again, respondents may agree with several statements designed to test the egalitarian, but at the same time agree with statements designed to test the individualist. Accordingly, some researchers suggest using both methods to determine the cultural bias of individuals (Marris et al., 1998). However, the qualitative methods cannot be applied in all situations and scenarios, such as the current research. In such cases, researchers will find it very difficult to conduct focus groups with corporate managers.

This research doesn't follow cultural theory as it doesn't look at individuals in a society; it looks at organisations (and people with well-defined roles and functions within the organisation). This means that to define a cultural influence would mean looking at the different cultures and sub-cultures within an organisation, and trying to link these with the cultural categorisation in the general literature. This is difficult in a study that is not ethnographical but which is based on an interview programme.

In addition, cultural theory has not been, in the past, a very good predictor of risk perceptions. Sjöberg (2002b) disagrees with the assumption that cultural theory can be used to understand risk perception. Moreover, Marris et al. (1998) found a low correlation between cultural biases and risk perception in their study. Similarly,

Sjöberg (1996) found that cultural theory was not efficient in studying risk perception in some cultures and countries, including Brazil and Sweden. Moreover, Caulkins (1999) claimed that cultural theory is sensible but that it has not undergone cross-cultural testing.

In a comparison conducted between the two approaches (psychometric paradigm and cultural theory), Sjöberg (1996) shows that the psychometric studies, which tested only the qualitative dimensions initially proposed with this approach, have a 20% explanatory power. However, cultural theory has only a 5% explanatory power (Sjöberg, 1996). Furthermore, Marris et al. (1997) conducted a questionnaire in which they accounted for elements from both the psychometric paradigm and cultural theory. The findings of the questionnaire suggested that the qualitative characteristics of psychometric paradigm had higher explanatory power than cultural biases.

2.7 Conclusion

The literature review has suggested that three main models have been used by researchers studying risk perceptions generally - namely, revealed preferences, the psychometric paradigm and cultural theory. The revealed preference approach has suffered from several limitations that appear to make the model unsuitable for the current research context, investigating the perception of political risks. For instance, the revealed preferences approach relies mainly on the market value of activities or technologies under investigation, which makes sense only if there is a free, observable market in the activities that create the risks. In the context of the investment activity and political risk, it is hard to argue that this is true. Firms rely on private information when making investment decisions, their investment opportunities are intimately related to their specific capabilities and history, and the costs and returns on the

investments are typically commercially confidential. So, although investments do reveal something about the political risk perceptions of investors, getting adequate information on those investments in a way that reveals risk perceptions does not seem feasible.

Cultural theory, similarly, has weaknesses that appear to exceed its advantages. The literature cited earlier shows that in practice it has been hard to find a way of measuring culture that distinguishes successfully between different cultural types (such as Hierarchic Egalitarian, Individualist and Fatalist). Some of these difficulties have been addressed, for example using procedures like focus groups to better enable the research to distinguish between different types of individuals. Results also indicate that cultural type explains very little variance in risk perception once the standard, psychometric attributes have been taken into account.

The advantage of the psychometric approach, on the other hand, is that it is an expressed preferences approach and it has been widely used and validated in several contexts, using different groups of respondents and sets of hazards. Yet, to the best of the present researcher's knowledge, it has not been carried across from the general domains of safety and environmental risk to the domain of political risk, and it has not been used to investigate the perceptions of managers working in the context of organisations making investments that incur political risk.

The psychometric approach appears to capture a basic feature of risk perception that is very likely to be true of political risks experienced by firms, and the attributes of the risk (such as its controllability) that shape risk perceptions.

However, as described, it has a number of limitations. Some of these limitations can be addressed by analysing the psychometric data in a slightly different way; for example, by comparing the relative explanatory strength of hazard-focussed analysis and participant-focussed analysis. Other limitations include its neglect of contextual factors (such as the organisation an individual works for, the nature of the individual's role, the individual's and organisation's history) and the absence of a cultural theory framework. Therefore, the research design for this study, explained in Chapter Four, involves both a psychometric study and a qualitative, interview-based study. This attempts to investigate how managers perceive risk, but also how their perceptions combine with formal risk assessment, and how they relate to managers' organisational contexts.

Having discussed the risk perception literature in this chapter, the next chapter (Chapter 3) will survey the political risk literature. This will attempt to make the link between risk perception generally and political risk specifically.

CHAPTER THREE: POLITICAL RISK LITERATURE

3.1 Introduction

Political risk literature can be divided into two main parts (see Figure 3.1): one is the nature of political risk and the other is how it is assessed. The nature of the risk falls into three main sections: how political risk is defined, how it is classified and the impact of these risks on international firms. These three sections will be discussed in this chapter. The second part covers the assessment of political risk and falls into two sections: developing methods for assessing political risk (Rios-Morales et al., 2009; Azuaje et al., 2006; Alon and Martin, 1998) and evaluating the practice and process of the firms' assessment, in particular the degree to which assessment can be said to be

institutionalised. As the main aim of this research is to examine political risk perception in relation to the institutionalisation level of risk assessment, the literature on developing methods for assessing political risk will not be covered.

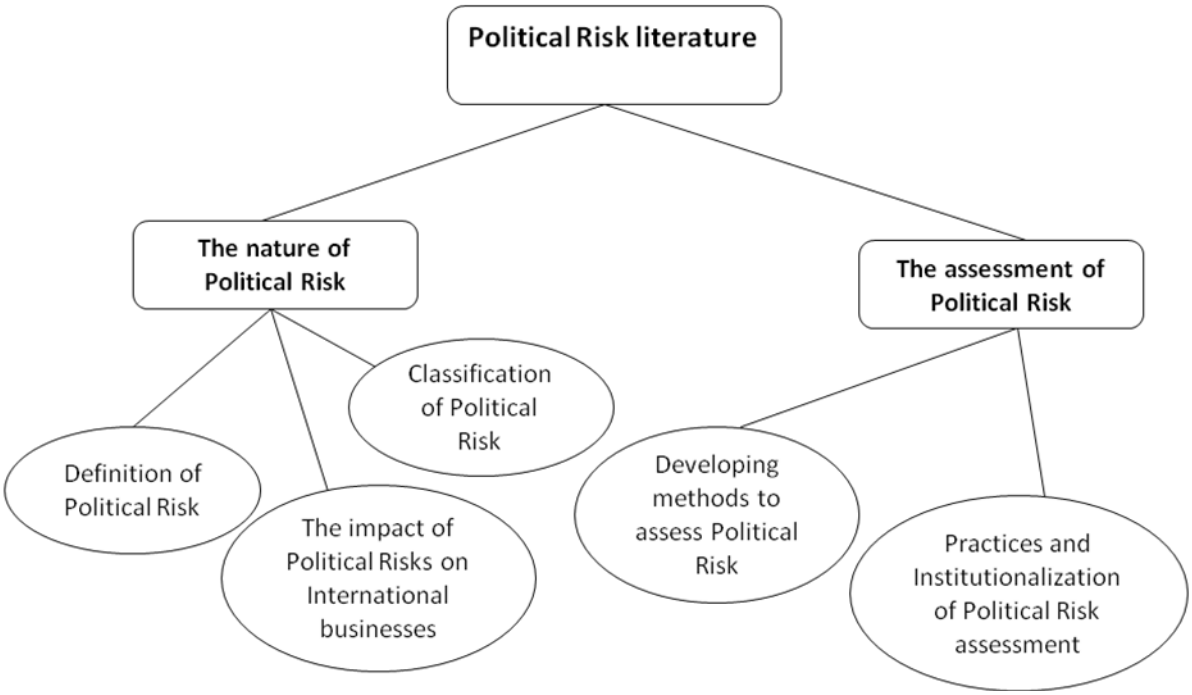

Figure 3.1: Political Risk Literature

3.2 Definition of political risk

Many previous researchers attempted to define political risk; however, there is no clear-cut definition in the literature. This absence of consensus has been attributed to the diversity of risks among international firms (Burmester, 2000). The general body of the literature, however, takes two main approaches to defining political risk. The first defines political risk solely as government interference; the second defines it as any event of a political kind that affects the international operations of a firm, whether it arises from governmental actions or societal events.

The first way of defining political risk relates to the actions and interference of host governments and their ability to "unexpectedly" alter the rules in a way that negatively affects the functions and operations of international firms (Butler and

Jeoquin, 1998, p.599). Similarly, Buckley (2000) defined political risk as the governmental actions that change an investment's value. Furthermore, Butler (2008), agreed with Butler and Joaquin (1998), and Buckley (2000) and described political risk as the influence of 'local forces' on the business environment that might lead to unexpected changes, such as taxes, repatriation restrictions, restriction on employment laws for foreign investors and foreign exchange control. As argued by Minor (2003), and Bartlett et al. (2008), host governments can clearly have different interests from investors, such as protecting national organisations from foreign competitors and it is this fundamental possibility of difference in interest that creates risk.

The second way of defining political risk sees host governments as just one of many actors that contribute to political risk, along with terrorists, rebel groups and other stakeholders (Jakobsen, 2010, p. 482). Restricting the agency of political risks to government produces unduly narrow assumptions (Boddewyn, 2005) and distracts analysis away from other important causes of political risk (Alon and Martin, 1998; Alon and Herbert, 2009). As pointed out by Iankova and Katz (2003), revolutions, riots and civil wars are examples of other risks originating from non-governmental sources that affect the business climate and reduce investors' returns. Zarkada-Fraser and Fraser (2002) accordingly give the most comprehensive definition of political risk and this study adopts their definition as "an aggregate negative effect of governmental and societal actions and/or inertia on a select group, or all foreign concerns operating in or wishing to penetrate a country's market" (Zarkada-Fraser and Fraser's, 2002, p.99).

3.3 Classifications of political risk

There are many approaches to classify political risk in the literature but they tend to fall into one of two categories:

1. The first is related to the influence of the political risk - which typically is seen as micro versus macro (Robook, 1971; Alon and Martin, 1998; Alon and Herbert, 2009) according to the specificity of its effects.
2. The second classification is related to the source of political risk; - typically governmental (or legal) risks and extra-governmental (or non-legal) risks (Rugman and Collinson 2009).

Micro political risks are those that affect particular firms, industries, sectors, or projects (Robock, 1971; Alon and Martin, 1998; Alon and Herbert, 2009; Rugman and Collinson, 2009). Import restrictions that target a specific industry is an example of micro risk. Macro political risk, on the other hand, consists of more pervasive factors (Alon and Martin, 1998) and includes risk that affects all foreign enterprises (Rugman and Collinson, 2009), or all firms and businesses across industries in the host country (Alon and Martin, 1998) or entire geographic regions (Alon and Herbert, 2009). An example of such a macro political risk is civil war.

In the second classification of political risk, governmental or legal risks harm foreign businesses "within the existing political, economic and legislative system" (Rugman and Collinson, 2009, p.391). Extra-governmental or non-legal risks remain outside the governmental and legal system (Rugman and Collinson, 2009). Examples of risks are shown in Table 3.1, classified vertically by how specific their effects are, and horizontally by source, based on Rugman and Collinson (2009).

Table 3.1: Classification of political risks (adapted from Rugman and Collinson, 2009)

	Legal/ governmental	Non-legal/extra governmental
Macro	• Newly elected government • New overarching trade agreements • General changes to policies or laws relating to foreign investors and investments	• Coup or civil war • Military attacks from other nations • Internal terrorist attacks • General corruption • Mafia-type activities • General property expropriation
Micro	• Firm specific legislation with adverse effect (e.g., export licences, import duties, rules on profit repatriation) • Subsidies or protection for companies	• Targeted attacks • Firm specific sabotage, extortion • Theft or abuse of intellectual property rights • Targeted or selective corruption

Al Khattab et al. (2007) extended the second classification, by dividing the extra-governmental risks into two parts: host-society risks and interstate risks. The host society risks are risks that undermine a constituted authority and might have negative effects on domestic and international businesses (e.g. revolution). Interstate risks are political conflicts that occur between countries, such as war and economic sanctions (Al Khattab et al., 2007).

3.4 The nature of risks to international firms

A wide range of literature (e.g. Miller, 1992; Hashmi and Guvenli, 1992; Howell, 2001; Busse and Hefeker, 2007; Al Khattab, et al., 2007; Rugman and Collinson, 2009) reports the different risks experienced by firms making international investments. For example, Busse and Hefeker (2007) include 12 political risks in their study to examine the relationship between these risks and foreign direct investment inflow. These include government instability, ethnic tensions, internal and external conflict. However, these examples are too broad as each of them may include other distinct risks. For example, internal conflict can include riots, revolution or civil war and each of these risks result in different consequences.

Previous studies have typically addressed political risk to investors operating from developed countries. However, some of these risks are less applicable to the context of this thesis such as 'newly elected government', listed by Rugman and Collinson (2009). During the Arab Spring, there has typically been a revolution followed by the establishment of a new government and this is different from the 'newly elected government' suggested by Rugman and Collinson (2009), where there is usually a democratic process that enables the authorised transition from one government to another, and clearly presents different kinds of threat.

Few studies have been conducted in developing countries, and particularly in the Middle East region. To the best of this researcher's knowledge, only one study was conducted in the Middle East region (Al Khattab et al., 2007). This study examines the vulnerability of Jordanian international firms to a list of political risks. Table 3.2 shows the list of political risks suggested by Al Khattab et al. (2007). Interestingly, this study omits corruption, yet corruption threatens international businesses in many

countries (Oetzel, 2005) and is recognised, for example, by Zahra (2011) and Zgheib (2015), as being widespread in the Middle East.

Table 3.2: list of political risks (adapted from Al Khattab et al., 2007)

Source of risk	Risks
Host government	• Currency inconvertibility • Taxation restrictions • Import and/or export restrictions • Contract repudiation • Ownership and/or personnel restrictions • Expropriation and/or confiscation
Host society	• Demonstrations, riots and insurrection • Terrorism • Revolutions and civil wars
Interstate	• Economic sanctions • Wars

The following sub-sections describe the political risks to international business in more detail, under the headings of host government, host society and interstate risks.

3.4.1 Host Governmental Risks

As discussed earlier, host governmental risks are those related to actions of host governments acting against the interests of investors but within the relevant legislative scheme (Rugman and Collinson, 2009). These risks are taxation restrictions, currency inconvertibility, import and/or export restrictions, contract repudiation, ownership and/or personnel restrictions, and expropriation and/or confiscation.

Taxation can be used to either restrict or encourage foreign direct investment (FDI) by increasing or decreasing corporate income tax (Waring and Glendon, 2001). Foreign investors clearly aim to avoid duplication of taxes in the host country and

subsequently when remitting the monies to a home country (Ling and Hoi, 2006; Brink, 2004). Glass and Saggi (2014) compared the competition between host countries in attracting foreign investments and the implications of tax policy co-ordination of those countries. Their study established that host countries can attract FDI by reducing tax on multinational firms.

Currency inconvertibility can be a governmental action if the host country suffers from lack of hard currency reserves (Al Khattab et al., 2007). Currency inconvertibility includes restriction on the repatriation of monies (both capital and revenue) and currency exchange. Blocks or delays in profit repatriation, which sometimes can reach years after the dividend date, erode the investment rate, especially in countries where the currency depreciates in value (Weigel, 1970). Empirical research by Hood and Nawaz (2004: 14), found that "currency or trade control" is one of the biggest potential risks for international businesses. Moreover, Pahud de Mortanges and Allers (1996) found that profit remittances and exchange controls are a serious concern in relation to the political environment.

Contract repudiation is a breach of contract by the host government. This reflects a lack of commitment by the host government (Straub, 2008). Moran (2001) considered this a significant risk as it is typically a termination of an existing investment without compensation. Firms with large assets are unsurprisingly more concerned about contract repudiation by a host government (Al Khattab et al., 2007). Pahud de Mortanges and Allers (1996) found that 39% of international firms experienced contract problems in relation to host governments in their international business.

Import and export restrictions are often considered the most important factor in foreign market selection (Rugman and Collinson, 2009). Import restrictions imposed

by a government typically aim to support domestic production against imported substitutes (Keillor et al., 2005). Import restrictions might affect an overseas investor's ability to import materials like drugs, spare parts or chemical substances, which will have an immediate adverse effect on profits and sales (Keillor et al., 2005). For example, in the mid-1980s, foreign-car manufacturers in Mexico were required to use locally produced materials and parts, which amounted to 50% of the value of each vehicle (Alon et al., 2006) because of import restrictions. As for exports, a government might impose restrictions to protect domestic growth in industries and control 'strategically important' goods (Rice and Mahmoud, 1990). There is a view, however, that international firms may be less concerned about export restrictions as these will negatively affect the host country's balance of trade, making it unlikely that a host government will deploy them (Rice and Mahmoud, 1990; Hashmi and Guvenli, 1992; Subramanian, 1993).

Ownership restrictions are sometimes used by a host government, when it "demands that a government entity, or local nationals, owns part of the affiliate" (Pahud de Mortanges and Allers, 1997, p.305). As Root (1998) indicates, uncertain actions of the host government that create ownership risk can limit or destroy investors' control of affiliates. In addition, personnel restriction takes place when host governments force international firms to employ the domestic workforce regardless of qualifications and experience (Brink, 2004). The main objective of government typically is to increase local employment and engagement in managing foreign investments (Al Khattab et al., 2007). These kinds of restrictions can clearly affect international firms' capacity to make strategic and competent decisions (Keillor et al., 2005).

Expropriation is the power of host governments to deprive foreign investors of the legitimate exploitation of their investment (Howell, 2001). Researchers such as Burmester (2000), Minor (2003) and Shapiro (2006) regard expropriation as a critical and extreme political risk for all international firms. Ramarmurti and Doh (2004) argue that expropriation (or nationalisation of foreign assets) is becoming very uncommon in developing countries, but does still happen. Examples include the effective expropriation of shares by the Bolivian government in 2006 when it demanded that foreign companies renegotiate their contracts. The government argued that the Bolivian constitution allowed for such expropriation if judged to be in the interest of 'public need' (Rosado de Sá Ribeiro, 2009). There was also the nationalisation of 51% of Spanish company Repsol's shares in YPF by the Argentinean government in April 2012. This happened during a time of high inflation, alarming reduction in growth and an increase in capital outflow (Moreno et al., 2013). Typically, the level of expropriation risk is inversely proportional to the level of technology in the industry, i.e. high-technology industries have a lower expropriation risk than low technology industries (Wilkin, 2001). Moran (1998) explains this in terms of the host country's need for new technology and accompanying skills. Although expropriation is considered a critical risk, some have found that managerial concerns are low in relation to this risk (e.g. Al Khattab et al., 2007). Hood and Nawaz (2004) similarly argue that expropriation is diminishing as a concern even in politically volatile regions. They suggest that host countries might be reluctant to use expropriation against international companies because of the adverse consequences for them, such as international economic isolation and the withdrawal of support from the World Bank and the International Monetary Fund (Hood and Nawaz, 2004).

Host governments attract foreign investments through promoting liberal and stable policies (Baek and Qian, 2011) and offering financial (Li, 2006) and tax incentives to foreign investors (Al Khataab et al., 2007; Baek and Qian, 2011). And their reputation is essential to attracting foreign investors while minimising their uncertainty. Consequently, host governments' attempts to regulate businesses are decreasing (Hood and Nawaz, 2005) and this explains the findings of Al Khattab et al. (2007) who show that managers, overall, are becoming less concerned about the host governmental risk.

3.4.2 Host society risks

Risks such as demonstrations, riots, turmoil, revolutions, civil wars and terrorism relate to political actions coming from non-governmental sources (Ting, 1988). Host society risks are ones that interrupt governmental services, affect the supplies necessary for manufacturing, cause personnel loss, result in damage to physical properties and, in some cases, necessitate abandoning the business operation (Minor, 2003; Brink, 2004). Dunn (1983) suggests that these types of risk originate from the values, attitudes and beliefs of the people rather than government. Host society risks include demonstrations, riots and insurrection, terrorism, revolutions, civil wars and corruption.

Demonstrations are public gatherings to protest against something and to express certain views and opinions on political issues (Stevenson, 2010). When such demonstrations lead to a violent disturbance of the peace they become riots, while insurrection is a violent uprising against governments (Stevenson, 2010). These risks are obviously interrelated as demonstrations can turn into riots and riots into insurrection (Tareq, 2004).

Terrorism can cause direct or indirect risks to firms' operations as it might create barriers to the free flow of goods and increase transaction costs (Czinkota et al., 2005). As pointed out by Subramanian et al. (1993), Rice and Mahmoud (1990) and Pahud de Mortanges and Allers (1996), these risks can be of substantial concern to companies operating in developing countries in particular.

Revolution is a radical restructuring of economic and social relations due to the overthrow of an established order and the transfer of state power from one leadership to another (Mclean and McMillan, 2009). Similarly, civil war is a military conflict, involving both government and civilian forces, which centres on territory within a country, involves combatants from that country and is about the right to govern the disputed territory (Mclean and McMillan, 2009). The disintegration of the local economy because of civil war generally forces international firms to leave the host country (Tayeb, 2000).

Corruption is a host society risk existing at least partly outside the governmental system and violating the existing law. It affects the whole business environment (Brink, 2004; Oetzel, 2005), reduces government efficiency, disturbs the financial and economic environment, causes political instability (Merna and Al-Thani, 2007), and generally raises the cost of investment (Johnston, 2001). Based on empirical research conducted by Busse and Hefeker (2007) in 83 developing countries (1984-2003), government stability and corruption are important determinants of FDI inflows. Wei (2000) conducted research into inflow investment from twelve countries to 45 host countries, finding an inverse relationship between corruption and FDI inflow, as would be expected. But, more surprisingly, Egger and Winner (2005, p.949) found that there was a positive relationship between corruption and FDI inflows in 73

countries over the period 1995-1999. The authors argued that corruption could be a "helping hand" by "circumventing regulatory and administrative restrictions" and thereby encouraging foreign investors. This shows that it is reasonable to regard phenomena like corruption as being the source of risks but this does not mean that they are risks in all cases and it does not mean that, at an aggregate level, they deter investment activity.

Overall, host society risks have been found to be more important than governmental risk for firms operating in developing rather than developed economies (Pahud de Mortanges and Allers, 1996; Rice and Mahmoud, 1990; Kobrin 1980). On this theme, Al Khattab et al. (2007) found that Jordanian managers are more concerned about the host society risks, as these risks are common events in the Arab countries and their consequences are expected to be more severe.

3.4.3 Interstate risks

As described in Section 3.3, interstate risks are political conflicts that occur between countries and of which the most important are regarded as economic sanctions and wars (Al Khattab et al., 2007). International economic sanctions are the most frequent feature of political interactions (Caruso, 2003). According to Black et al. (2009, p.412), an economic sanction is "a restriction or prohibition by one country of trade contracts with another country of whose actions or policies it disapproves. Sanctions may be general, or applied to particular goods, especially armaments and oil". Burmester (2000) defined economic sanctions as governmental restrictions on financial transactions or exports and imports, which could harm the target country by decreasing the number of foreign investments it receives (Biglaiser and Lektzian, 2011).

According to Al Khattab et al. (2007), wars have multiple negative consequences, such as interrupting businesses in conducting their normal activities, causing loss of income and equity investments, and causing probable damage to physical assets. Suliman and Mollick (2009, p.47) supported Al Khattab et al. (2007) in arguing that "war events... exert strong negative effects on FDI".

3.5 Political risk in developing and developed countries

Several references have already been made to the importance of a country's economic status, whether developed or developing, in terms of the political risks it creates (Kobrin, 1980; Hood and Nawaz, 2004; Pahud de Mortanges and Allers, 1996). Although host governments in both developing and developed nations can exercise higher managerial control and manipulate regulatory structures (Cantwell, 2014), government regulations and priorities in developing countries can change fairly rapidly whereas, in developed countries, firms are likely to have an advance notice of any changes and be capable of taking action to protect their investment (Hood and Nawaz, 2004). Shen et al. (2001) suggested that international firms need to reduce the less favourable changes in policy by maintaining a good relationship with the host government in developing countries.

More generally, companies have different concerns toward political risk in developed and developing countries. For example, exchange control, profit repatriation and contract problems were found to be the risks which raised the most concern in developed countries, whereas, in developing countries, social unrest was the most important risk (Pahud de Mortanges and Allers, 1996). This result is in line with Kobrin's (1980) finding in which American senior international managers were more concerned about the expropriation and civil disorder in developing countries whereas

labour interference and price controls were found the most important in developed nations. Similarly, Rice and Mahmoud (1990) found that Canadian firms judged 'political and social unrest' as the most important risk while operating in developing economies, whereas 'import restriction' was the most important risk while operating in developed economies.

As explained later in this thesis, the distinction between developed and developing countries becomes relevant to the exploration of risk perception. It is also potentially relevant to this study as the levels of development of the host countries potentially informs the way in which political risks are assessed by the international investors.

3.6 Political Risk Assessment

A growing body of literature indicates the importance of political risk assessment in making investment decisions (Rice and Mahmoud, 1990; Alon and Martin, 1998; Minor, 2003; Fitzpatrick, 2005) in order to avoid or minimise the probability of losing assets and income in host countries (Wilkin, 2001; Shapiro, 2006). Assessing political risks is claimed to help firms cope and survive and prosper in whatever political environment they encounter (Brink, 2004). According to Nawaz and Hood (2004), some firms completely avoid areas in which there are political conflicts, but obviously this has to be balanced against losing opportunities for profit.

Political risk assessment has been defined as "the process of analysing and evaluating political risk while undertaking international business activities" (Al Khattab et al., 2008, p.688). Despite its importance, the low standard in the practice of political risk assessment has been portrayed by many researchers as unsystematic, informal and subjective (Kobrin et al., 1980; Hashmi and Guvenli, 1992; Pahud de Mortanges and Allers, 1996; Hood and Nawaz, 2004). Little research has been conducted to explain

this phenomenon, but Burmester (2000) has attempted to explain it as either lack of awareness of political risks, or as firms resisting the idea that political risk is open to analysis.

The literature uses the term 'institutionalisation' to explain the process by which the assessment of political risk becomes "more explicit and systematic" within a firm (Blank et al., 1980; p.7). A low standard of political risk assessment practice in a firm is associated with a low level of institutionalisation. The following sub-sections therefore explain institutionalisation and its indicators in political risk assessment.

3.6.1 Institutionalisation of political risk assessment

Most empirical researchers deal with "institutionalisation" as a twofold classification: either institutionalised or non-institutionalised, depending on certain indicators. For example, Pahud de Mortanges and Allers (1996) investigated several firms' levels of institutionalisation with reference to whether a political risk assessment department had been established or not. Burmester (2000) differentiated between institutionalised firms and non-institutionalised firms based on the firms' propensity to commence political risk assessment and the frequency with which they undertook it.

Blank et al. (1980, p.7) argued that institutionalisation of political risk assessment is a gradual process and that the degree of institutionalisation at any one time lies on a continuum. There is a "grey area" in which firms may have institutionalised the function from one perspective but not from another. They suggest that there are three indicators of institutionalisation: (a) assigning responsibility to employees and managers; (b) regularity of performing the assessment and (c) the existence of procedures (qualitative or mixed method) that are used in the assessment (Blank et al., 1980).

As explained later in Chapter Six, these three indicators are used in this study; they are therefore discussed in more detail in the next section.

3.6.2 Institutionalisation indicators

- ***Assigning responsibility***

According to the literature, there are basically two ways of assigning responsibility: internal (in-house) responsibility, to individuals or groups within the firm; or external, using other institutions to assess political risk. The literature points to the various deficiencies of relying on external bodies: (a) the differences in how various external assessors define political risk, leading to different assessment results (Alon and Martin, 1998); (b) the reliance of risk assessment models used by external assessors on historical data when there are good reasons to think such data will not predict future risk (De La Torre and Neckar, 1988); (c) the particular, specialised focus of external institutions; for example, a concentration on creditworthiness, while ignoring other risks (Alon and Martin, 1998); and lastly (d), the external assessors provide general assessment that does not necessarily take account of the specific characteristics of the investor and the situations they encounter (Pahud de Mortanges and Allers, 1996).

As a result of these deficiencies, coupled with increased investment abroad (Alon and Martin, 1998), many firms are said to be carrying out *in-house* assessment of political risk. According to Blank et al. (1980), in order for the international firms to be classified as institutionalised, they should at least have dedicated employees for this work. Similarly, Kobrin (1982, p.89) suggested that institutionalised firms should have an internal *"*function, role and position differentiated*"* for the responsibility of assessing political risk. However, Kobrin (1982) admitted that firms may implicitly

conduct political risk assessment without assigning such responsibilities, and Al Khattab et al. (2008) found the majority of Jordanian international firms were conducting the assessment through various individuals without assigning formal responsibility.

- ***Regularity of performing the assessment***

The regularity of political risk assessment is typically taken as the frequency with which political risks are assessed (Blank et al., 1980). An increased regularity of political risk assessments indicates a higher degree of institutionalisation (Blank et al., 1980; Al Khattab et al., 2008a) as the regularity allows organisations to cope with environmental changes and detect unfavourable events that negatively affect their activities (Brink, 2004). Political risk assessment has often been found to be "crisis-oriented" and "on demand", that is triggered by external events or internal activities rather than being in some way planned or pro-active (Rice and Mahmoud,, 1990; Pahud de Mortanges and Allers, 1996; Oetzel, 2005; Al Khattab et al., 2008b). Such external events might include war, taxation restriction and social unrest, whereas internal stimuli include the existence of a new investment opportunity or a firm's expansions into different host countries (Al Khattab et al., 2008b).

- ***Risk assessment procedures***

According to Brink (2004), there are essentially two different procedures for assessing political risk: heuristic (or qualitative) and scientific (or quantitative). The heuristic procedure is regarded as involving subjective judgments, whereas the scientific procedure is seen as typically using mathematical modelling (Waring and Glendon, 2001). Heuristic procedures include the opinion of experts (Walker et al., 2003; Rice and Mahmoud 1990), the Delphi technique of elicitation specifically (Tsai and Su,

2005; Al Khattab et al., 2011), the intuition and judgment of managers (Rice and Mahmoud, 1990), and scenario-based methods (Brink, 2004; Al Khattab et al., 2011).

With reference to expert opinion, firms typically rely on international organisations, local government officials, banks, journalists and former politicians (Pahud de Mortanges and Allers, 1996). The main disadvantage of this technique is its vulnerability to any bias among such experts (Kobrin, 1981a).

According to Merna and Al-Thani (2005), Delphi is a way of collecting expert opinion in which a panel of experts are requested to make their judgments about the risk, independently at first and afterwards by consensus in order to discard any extreme opinions. Burmester (2000) argued that the outcome of Delphi method relies on the quality and the ability of the experts selected and their enthusiasm to participate. The main criticism of this technique is the delay in achieving final results so that the assessment might quickly become invalid (Simon, 1985). It has been found that this technique was not commonly used for political risk (Pahud de Mortanges and Allers, 1996; Rice and Mahmoud, 1990; Al Khattab et al., 2011).

With regard to the intuition and judgment of managers, firms may send managers to the host country for investigation (Pahud de Mortanges and Allers 1996) and meeting with government authorities (Kobrin, 1980). Even then their understanding can be limited and selective. It is thus typically recommended to combine this method with other less subjective methods (Pahud de Mortanges and Allers 1996). But various studies have found that this method was the most common for risk assessment: see, for example, Al Khattab et al. (2011) within Jordanian firms, Pahud de Mortanges and Allers (1996) within Dutch firms, and Rice and Mahmoud (1990) within Canadian firms.

A scenario-based method is a commonly accepted technique used to identify the important risks and opportunities of political risk (Brink, 2004). This method depends on visualizing the future rather than inferring from the past (Levinsohn, 2002).

In order to decrease the subjectivity and the bias of the qualitative procedures, quantitative assessment of political risk is also used (Pahud de Mortanges and Allers, 1996). The quantitative procedures include techniques that depend on mathematical or statistical processes (Ting, 1988) such as the use of regression procedure to predict the political risk (Rice and Mahmoud, 1990). The quantitative techniques could provide a sensible and systematic structure in the assessment of political risk (Tsai and Su, 2005).

A number of quantitative risk assessment techniques exist that have been applied specifically to country risks including political risks. Some of the commonly applied ones include Discriminant Analysis (DA), Logit and Probit models, and Artificial Neural Networks (ANN) (Bouchet et al., 2003). Discriminant Analysis, for instance, has used data such as that on price inflation as independent variables to predict categorical dependent variances such as expropriation (Yim and Mitchell, 2005, Lindeberg and Mörndal, 2002). Discriminant Analysis is used when dependent variables (also known as grouping variables) are known a priori (Bouchet et al., 2003). Accordingly, this technique allows prediction of the extent to which a country is likely to take an action that is unfavourable for foreign investment (Bouchet et al., 2003). Logit and Probit models look into dichotomous or binary variables, thus making them suitable for political risks that normally have either/or results, e.g. either a country goes into war or not. All such approaches have limitations – for example Bouchet et al. (2003) describe the problem that independent variables vary across countries and

times, citing the way in which debt service ratio can have a negative sign in some models but a positive sign in others. In these cases, where data do not fulfil the assumptions, techniques such as Artificial Neural Networks are used (Yim and Mitchell, 2005). Artificial Neural Networks do not follow traditional statistical techniques as they do not assume dependence of the predictors, i.e. the relationship between outputs and inputs is non-linear (Yim and Mitchell, 2005). Several studies (e.g. Cosset and Roy, 1990) have established Artificial Neural Networks as superior to statistical models in terms of providing more accurate predictions of risk in the case of political risks. Yim and Mitchell (2005), studying country risk of Belize, Uruguay, Croatia, Kazakhstan and Panama, combined several of the above mentioned techniques and found that hybrid neural networks produced the best results in predicting country risk.

According to Hood and Nawaz (2004, p.10), the measurement and management of political risk "tend to be more subjective than objective" in practice. Al Khattab et al. (2011) found that managers justified their substantial use of qualitative rather than quantitative procedures with three reasons: firstly, qualitative procedures are quicker to use, especially in rapidly changing environments; secondly, qualitative procedures are less expensive as there is no need to gather historical information; thirdly, quantitative procedures need data that are vulnerable to statistical manipulation and so are unreliable.

In addition to effective risk assessment techniques, firms also employ risk mitigation strategies to reduce the consequences of political risks. Ling and Hoi (2006) summarised several mitigation strategies, including the avoidance of "political hotspots" in countries or regions. Hood and Nawaz (2004) made similar arguments,

but also added that avoidance should be balanced against available opportunities. Ling and Hoi (2006) also supported selecting short-duration projects, and avoiding the participation in government projects whilst working towards keeping good relationships with host governments. Diversification of international activities across different regions can equally be an effective strategy to mitigate political risks (Hood and Nawaz, 2004). In addition to these strategies, insurance is mentioned as a strategy to mitigate political risks (Jensen, 2008) and political risk insurance facilities are provided by a number of firms; e.g. Overseas Private Investment Corporation (OPIC), AON Hewitt, and the Arab Investment and Export Credit Guarantee.

3.7 Political risk, institutionalisation and firm characteristics

This section briefly summarises how both risk and the assessment of political risk are influenced by the specific characteristics of the risk bearer – the firm making international investments. The impacts of political risk on firms can clearly vary, even on those in the same political environment (Robock, 1971; Kobrin, 1982; Alon et al., 2006; Al Khattab et al., 2007; Alon and Herbert, 2009). These variations in impact can be related to specific characteristics including: the number of countries in which the firm is operating (Kobrin, 1982; Keillor et al., 1997; Howell, 2001; Al Khattab et al., 2007); type of industry (Kobrin, 1982; Burmester, 2000; Howell, 2001; Zarkada-Fraser and Fraser, 2002; Al Khattab et al., 2007); years of experience in the international businesses (Kobrin, 1982; Al Khattab et al., 2008a; Oetzel, 2005; Green, 2005); and the size of the firm (Kobrin, 1982; Jenney, 2001; Oetzel, 2005 Stosberg, 2005; Al Khattab et al., 2007). Further studies have demonstrated the relationship between firm characteristics and the institutionalisation of political risk assessment such as: Blank et al. (1980), Kobrin (1982), Hashmi and Baker (1988), Stapenhurst (1992b), Pahud de Mortanges and Allers, 1996 and Al Khattab et al. (2008a). This

section will scrutinize the relationship between political risk, institutionalisation and firm characteristics.

Number of countries in which the firm is operating

The relationship between the impact of political risk and international expansion was found to be positive (Howell, 2001; Al Khattab et al., 2007). Moreover, through international expansion and venturing into less familiar environments in different host countries, firms become more conscious that political risk may be a problem (Keillor et al., 1997). Al Khattab et al. (2007) also indicated that the increase in the number of host countries that firms operate in will increase the transactions between the home country of the investing firm and the host countries, and consequently managers show more concern with currency inconvertibility. Similarly, Kobrin (1982, p.71) indicated that firms operating in larger number of countries become more vulnerable to political risks with a greater tendency to "institutionalise the function". Hashmi and Baker (1988) explained that an increase in the number of operating countries means that the firm is more likely to encounter constraints as a result of political variables, and managers might spend more time on the assessment of political risk. This matches Al Khattab et al. (2008a) who suggested a positive correlation between the level of institutionalisation of political risk assessment and the number of operating countries.

Type of industry

Different industries have been found to receive different levels of exposure to and concern about political risk, even in the same country (Burmester, 2000; Howell, 2001; Zarkada-Fraser and Fraser, 2002; Minor, 2003; Al Khattab et al., 2007). For example, Al Khattab et al. (2007) found that manufacturing firms are more concerned about restrictions on exporting and importing activities when compared to banks and

service sectors. Similarly Zarkada-Fraser and Fraser (2002) argued that sectors that rely highly on the economy and the political environment of the host country, such as the construction industry, are more affected by political risk. Kobrin (1980) suggested that the differences in industrial sectors can determine the exposure to expropriation. By way of illustration, natural resources extractors (such as oil firms), banking and insurance industries are more likely to be expropriated when compared to manufacturing industry because the latter is considered to have less influence over the economy of the host country (Kobrin, 1980). Minor (2003) confirmed Kobrin's (1980) point and argued that oil firms are often subject to expropriation as host governments believe that resources such as oil reserves are endowments to the local people rather than assets exploitable for the benefit of 'foreign' profits. Similarly, Shapiro (2006) argued that the risk of expropriation could be higher in the financial services and utility industries when compared to manufacturing industries.

The level of technology within an industry is another factor that determines the vulnerability to political risk as "technologically intensive industries are significantly less vulnerable to political risk than firms whose technology is widely available" (Kobrin, 1982, p.39). High technology offers a source of bargaining power to the foreign firms (Kobrin, 1982) due to the substantial needs for these technologies in host countries.

The type of industry was also found to influence the level of assessment of political risk. For example, banks and oil firms tend to develop highly sophisticated assessment techniques (Pahud de Mortanges and Allers, 1996). Similarly, Blank et al. (1980) found that the majority of sampled firms operating in the natural resources sector have high institutionalised levels of assessment. In another example, a study by Stapenhurst

(1992b) of political risk assessment in North Atlantic countries reported that institutionalisation level of the assessment was related to the type of industry. In the case of US firms, industrial firms were more likely to be more institutionalised, whereas firms in consumer goods industries were less likely to be so. In Canadian firms, the banks were more likely to be institutionalised than other firms. In Western European firms it tended to be natural resources, banks, and capital-intensive firms.

Years of experience in the international businesses

Experience is one of the determinants that affect concern about risk in international businesses (Kobrin, 1982). Firms with international experience are less likely to pay attention to the assessment of risk as concern about risk decreases according to experience (Kobrin, 1982; Oetzel, 2005). Correspondingly, assessment of political risk can be important to firms with less international experience (Green, 2005). However, Al Khattab et al. (2008a) found that the relationship between international experience and the level of institutionalisation within Jordanian firms is not significant.

Size of the firm

The relationship between political risk and the size of an overseas subsidiary in an international business has been debated in the literature (Stephens, 1998; Jenney, 2001; Oetzel, 2005; Al Khattab et al., 2007). The size of the subsidiary is considered to be more crucial in determining a "firm's susceptibility to political risks" when compared to the firm's overall size (Oetzel, 2005. p. 767). One effect is that the larger the scale of the fixed assets in the host country, the more the firms become vulnerable to expropriation (Stephens, 1998; Stosberg, 2005) and the more concerned they are about contract repudiation or unilateral revision (Jenney, 2001; Al Khattab et al.,

2007). But some have found the opposite effect. Oetzel (2005, p.782) argued that smaller subsidiaries might have higher exposure to political risks as they would be less proficient in political lobbying or suffer from "the absence of bargaining power".

In terms of assessment, the overall size of the firm is likely to determine its capability to conduct formal political risk assessment (Kobrin, 1982). Large firms simply have more resources (such as finances and personnel) to complicated assessments. Stapenhurst (1992a) found that the high cost is an obstacle to conducting political risk assessment by many international firms. Similarly, Calof (1994) reported that the small firms might not be able to hire suitable personnel to carry out an assessment. In their empirical research, Al Khattab et al. (2008a) found that the size of the firm, reflected by the total assets, is positively related to the level of the institutionalisation of political assessment of risk.

3.8 Conclusion

This chapter aimed to discuss the definition of political risk, its classification and the nature of risks to international firms. There were two main approaches to political risk definition: it could be defined as risk arising solely from government interference, or from both governmental and non-governmental actions. The main classifications of political risk are based on either the influence, or the source, of political risk. What is carried forward into the research design is the principle identified in the literature that we can look at risk assessment as being institutionalised to different degrees, and use various indicators to measure this: the nature of responsibilities for assessment, the regularity of performing it, and the procedures used. The ways in which firm characteristics shape political risks and their risk assessment has also been reviewed in

this chapter. These ideas have also been used in this thesis to examine two points in particular: whether these characteristics can better explain the risk perception when compared to the psychometric approach, and whether these characteristics can explain the level of institutionalisation observed better than other factors that emerge during the empirical work.

The findings from the risk perception literature reviewed in the previous chapter, and from the political risk literature reviewed in the present chapter, informed the design of this research more specifically in two main ways. The first was that the nature of the psychometric framework adopted in this research from the literature to examine managers' political risk perception required a questionnaire. When using the psychometric paradigm, researchers attempt to identify people's risk perception through quantitative methods based on risk attributes. Second, both the gap in the literature on the perception-assessment connection, and the gap in explaining the low level of formal assessment, point to the need for deeper inquiry. So interviews were also needed as this research aimed to not only investigate how people perceived risk and what risk attributes influenced their perception, but also to explore why managers perceived the risk in the way they did given the nature of the assessments they perform. This is something which cannot be investigated by the psychometric paradigm or any kind of questionnaire design. Furthermore, the political risk literature, although it revealed that the standard of political risk assessment is low, does not indicate how this might change when events such as those of the Arab Spring occur, and could make a difference to political risk assessment by encouraging managers to adopt a more rigorous approach - and if not, why not. Again, this question required interviews to be conducted.

The next chapter (Chapter Four) will specify the research gap addressed in the thesis, explain the methodology used in more detail, and illustrate how the literature informs the specific design of the questionnaire.

CHAPTER FOUR: METHODOLOGY

4.1 Introduction

This chapter aims to define and explain the research methodology used, but the first task is to define the literature gap and the research questions based on reviewing the literature. Thereafter, a brief discussion of the philosophical commitments in this study will be provided, where critical realism will be presented and justified as being suitable for this study. The chapter will then describe the general design and ethical concerns. This will be followed by a discussion of the two main parts of the work: an interview study and questionnaire study, both of which discuss, in more detail, the study population and sample, the pilot study, the process of data collection, the detailed design, the data analysis and the trustworthiness of each study.

4.2 Literature Gap and Research Questions

The perception of risk has been explored widely in the risk perception literature by using the psychometric approach. Previous studies have covered primarily risks to human safety and the natural environment (as discussed in Chapter Two); but to the best of this researcher's knowledge, the psychometric paradigm has not been applied to political risk. Those studies that have investigated political risk perception have done so without drawing from this wider risk perception literature, especially approaches such as the psychometric paradigm. For example, political risk perception has been investigated by asking managers to rate how concerned they were about political risks (Al Khattab et al., 2007), or the impact of political risk on the market entry decision (Zarkada-Fraser and Fraser, 2002), or the impact of political risks on business activities (Keillor et al., 2005) as seen in Table 4.1.

Furthermore, although the institutionalisation level associated with political risk assessment has been explored in the previous literature (e.g. Blank et al., 1980; Kobrin, 1982; Hashmi and Baker, 1988; De Mortanges and Allers, 1996; Al Khattab et al., 2008a), these studies did not examine on the relationship between this institutionalisation and how political risks were perceived, as summarised in Table 4.1. Yet this relationship seems fundamental to how organizations respond to political risk. Any response seems highly likely to be a product of individuals' instinctive, intuitive judgments and some kind of organized procedure. It therefore makes sense to:

1. Investigate how well-established and apparently successful methods of analysing risk perception (using the psychometric approach) can be applied to political risks.
2. Investigate how assessment and perception take place together within organisations.

It is these two areas of investigation which form the main contribution of this present study to the research.

Table 4.1: Summary of the main political risk literature, including the focus and methodology applied in each study

Study	Focus of study	Methodology
Kobrin (1982)	Managerial concern toward political risk	Mail survey to senior international managers in the U.S asking them to select the four most important political risks out of nine risks provided.
Rich and Mahmoud (1990)	Political risk forecast: what and how to forecast, and how to implement the forecast.	A survey of managers in Canadian international firms, ranking the most important political risk in terms of the impact on their business.
Hashmi and Guvenli (1992)	Perceived importance of political risks in the present and the future, and the institutionalisation of the political assessment (depending on one indicator - the frequency of the assessment)	A survey of vice presidents in the U.S. international firms, asking them to rate the significance of 14 political risks on a five-point scale. The frequency of assessment was measured by four options: never; occasionally; yearly and quarterly.
Pahud de Mortanges and Allers (1996)	The importance of political risks in developed and developing countries and the institutionalisation of the political assessment (depending on one indicator – if there is a specialised unit to assess political risk	A survey of vice presidents and managers in Dutch international firms, asking them to rate the importance of various risks in developed and developing countries. Also asking about the type of political risk assessments in these firms, including location of the assessment to identify the institutionalised firms.
Zarkada-Fraser and Fraser (2002)	Political risk perception by UK firms	A survey of managing directors in the UK construction firms conducting projects in Russia, asking them about the impact of political risk on the decision of market entry and the problem encounter in Russia
Hood and Nawaz (2004)	Perception and management of political risk in the UK international firms	A survey of risk managers across different sectors to measure the extent to which they perceived their exposure to political risk and their involvement in political risk management strategy.
Keillor et al. (2005)	The political risks that organisations face and the political activities that organisations engage in response to such risks	A survey of executive decision makers in multinational firms, asking them to rate the political risks that impede their operation. Also asking them about the significance of political activities in reducing political threats.
Al Khattab et al. (2007)	Political risk perception and firms' specific characteristics	A survey of general managers in Jordanian international firms, asking them to rate how concerned were they about political risks
Al Khattab et al. (2008a)	Institutionalisation of the political assessment (based on three indicators: assigning responsibility, frequency and procedure and firms' specific characteristics	A survey of managers in Jordanian international firms, were asked about the degree of institutionalisation of political risk assessment in relation to firms' specific characteristics.

As indicated in the introduction to the thesis (Chapter One), it was thought that the context of the Arab Spring would be particular revealing as one in which to explore the connection between political risk perception and assessment. The Arab Spring was a process in which there was large-scale political change in a relatively small region, within a relatively short space of time. Moreover, the researcher, as a Kuwaiti national, had good access to Kuwaiti business decision makers. So to address the above literature gap, in this context, the study seeks to answer the research questions outlined below:

RQ1: What are managers' political risk perceptions in Kuwaiti international firms?

> RQ1.1: How well does a framework based on explaining risk perception in terms of a risk's attributes apply to managers' risk perceptions?
>
> RQ1.2: What is the influence of firms' characteristics on managerial political risk perception?

RQ2: What is the relationship between Kuwaiti managers' risk perception and political risk assessment in international Kuwaiti firms?

> RQ 2.1: How institutionalised is political risk assessment and what is the influence of firms' characteristics?
>
> RQ 2.2: What characterises political risk assessment in these firms and their connections with risk perceptions?

The influence of firms' characteristics on the institutionalisation of risk assessment in research question 2.1 was not originally envisaged, but it became apparent after the qualitative analysis of the interviews that it would be useful to understand the

connection between the level of institutionalisation and firms' characteristics (demographic variables in the interview study). The demographic explanation of the institutionalisation level is relevant because it suggests that something other than perception of risk drives the risk assessment.

4.3 Research philosophy, general design and ethics

4.3.1 Research philosophy of this study

Because this study concerns the subjective perceptions and assessments of objective phenomena, it lies somewhere in the middle ground between positivism and social constructionism. The core tenet of positivism is that a social reality exists externally, and it can be measured objectively rather than being dependent on subjective inference (Easterby-Smith et al., 1991). Hence, positivism adopts an epistemological stance that suggests the existence of regular and predictable 'laws' in the physical and social world that enable us to offer explanations and predictions (Easton, 2010). This is the basis of most risk assessment processes, even those of political risk, because the assumption is that political risks are sufficiently regular and law-like that we can anticipate them, and assign probabilities to them. In general, the positivist research design has traditionally attempted to distinguish between the researcher and the subject of the research, claiming that, if the researcher becomes involved, it will contaminate the research (Hammersley and Atkinson, 1995).

There are two problems with the above argument in a study of political risk perception and assessment. The first is that an objective level of political risk is not knowable. Political risk is itself a social phenomenon, and its meaning as a risk to people or organisations arises because of the way they look at the world, their interests and their motives. We call something political risk because it threatens our interest - if

somebody else looks at the same phenomenon, they might not call it a risk. The second problem is that the researcher is also involved in constructing risk, to some degree, by asking people to respond to questions about 'risk', and constraining and interpreting their responses (i.e. through close ended questions). In general, positivism fails to acknowledge that researchers belong to the world they study (Delanty and Strydom, 2003).

On the contrary, social constructionism rejects the idea that social research can be isolated from the society in which it takes place or from the biography of the researcher so that its findings can be uninfluenced by social processes and personal factors (Hammersley and Atkinson, 1995). Social constructionists argue that it is people, and not external, objective factors, that determine reality. The task of the researcher should not, therefore, be to gather facts and measure patterns, but to understand and value the different meanings and constructions that people make of their experiences (Easterby-Smith et al., 1991). Scholars have realised that social science phenomena require an approach that occupies a particular position along the positivism-constructionism continuum (Burrell and Morgan, 1979). One such approach is critical realism, which is adopted for this research.

Critical realism is based on a realist ontology, which suggests the world exists independent of our knowledge of it (Kwan and Tsang, 2001; Easton, 2010). However, it derives its epistemological ideals from relativism and postulates that any knowledge we have is theory laden, fallible and based on the available interpretations (Kwan and Tsang, 2001). Hence, critical realists believe that any conception of reality is potentially biased and can be proven wrong (Kwan and Tsang, 2001). Whereas natural science researchers espouse realist ontology, as they are able to make accurate

calculations and to carry out studies in controlled and closed systems, this is not common with social systems (Easton, 2010). Critical realism advocates the initial use of theory to conceptualise what produces particular events (Easton, 2010) and proceeds to observe events and understand how they confirm, contradict or amend theoretical explanations (Ackroyd, 2004). Critical realism presupposes that reality produces signs which researchers can capture using their methodological tools and interpret through iterative deduction and induction (Kwan and Tsang, 2001). It recognises that there is an actual, external world independent of human consciousness, but that there is also our socially determined understanding of reality (Danermark et al., 2005; Easton, 2010).

Recent scholars have argued for the application of critical realism in risk research (e.g. Parker and Stanworth, 2006; Ojiako et al., 2012). It is known, for example, that entities separately vary their exposure to both objectively real risks, and their subjective risk perceptions, which calls for a fit between the two kinds of risk (Ojiako et al., 2012). While some risk researchers place emphasis on risk as being something 'out there' that presents a challenge to managers, especially where it is 'unanticipated', others view risk as something that intensifies with a certain action (or its absence) and which co-evolves with environmental dynamics (Healy, 2004; Ben-Ari and Or-Chen,2009; Ojiako et al., 2012). This is particularly true of a phenomenon like political risk. A risk is only a risk to some people because they choose particular interests or concerns that are then seen to be at risk. Thus, political risk perception itself is subjective. However, the aim is to take an objective view of how risk is subjectively perceived – via the psychometric paradigm. This approach assumes that risk is subjectively defined by individuals, but such risk perceptions can be quantified (Rohrmann and Renn, 2000). In the interview study, similarly, the

emphasis is on the reasons people give for their perceptions and their ways of assessing risk. Their ways of assessing political risk are objectively knowable but their reasons are subjective, and the connections with their perceptions are equally subjective. Therefore, overall, this study is an intimate combination of the subjective and objective.

4.3.2 General research design

This section explains whether this research design is 1) inductive or deductive, 2) qualitative or quantitative; and 3) explanatory, exploratory or descriptive. The first concerns whether research is done to answer questions derived from prior theoretical considerations (deductive approach) or whether the researcher collects and analyses the data without prior theoretical considerations as a means to build new theory (inductive approach) (Saunders et al., 2009). This research is both deductive and inductive. It is deductive in a sense that it begins with reviewing existing literature to identify research gaps and testing the psychometric framework. Moreover, the three indicators that were used in the interview to identify the institutionalisation level of the assessment of the firms were extracted from previous literature. This research is also inductive in a sense that it explores the connection between the perception and the institutionalisation of political risk assessment with no prior theory. This approach was deemed conducive to this research as argued by Teddlie and Tashakkori (2009) who agreed that both inductive and deductive approaches can be combined, particularly in mixed methods research that employs both quantitative and qualitative procedures. They also argued that answering research questions based on critical realism philosophical assumptions, such as in this research, requires applying an inductive-deductive cycle.

Second, this research design applies a combination of both qualitative and quantitative strategies in the form of interviews and survey questionnaire. Some scholars refer to this combination as mixed methods strategy (Bryman and Bell, 2007; Saunders et al., 2009). The psychometric paradigm based questionnaire, used in this study, examines risk perception using a structured and quantitative approach. Furthermore, this research not only investigates how people perceive risk and what risk attributes influence their perception, but also explores why they perceive the risks the way they do, which calls for using interviews. Interviews investigated the institutionalisation of political risk and how it relates to risk perceptions. This mixed methods approach is consistent with the critical realism philosophical underpinning that considers risk as both objective and subjective. It is also consistent with the idea of using both deductive and inductive approaches in parallel to achieve the research objectives. Moreover, researchers like Miles et al. (2014) argued that qualitative data is needed to validate, complement or illuminate quantitative data collected from the same context. In this study, the interview data was first collected and the findings helped in re-adjusting the survey questionnaire, explaining the results of the questionnaire survey and answering the research questions that would not otherwise be answered by the survey e.g. concerning the institutionalisation level of political risk assessment.

Third, this research design is largely exploratory because there is limited literature on political risk in Kuwait, particularly in the context of the Arab Spring. But the use of the risk perception framework (the psychometric approach) would suggest a confirmatory strategy that would involve stating and testing hypotheses as it also involves testing correlations. However, what is tested in this case is a correlation of a person judgement with the factor structure in the way that is exploratory because what the factor structure is was not defined beforehand. To clarify, the hypothesis of the

psychometric framework is that the variation in risk perception is explained by variation in risk attributes. These attributes are then grouped into main factors, using Principal Component Analysis (PCA). In this sense, applying the psychometric paradigm in this research design is exploratory as it does not hypothesise a specific factor structure beforehand. Moreover, the psychometric framework was never designed to test political risk: it does not test whether a particular set of attributes predict political risk perception. However, this study assumed that the psychometric framework was going to explain people's risk perception and explored what factor structure was explaining manager's risk judgement. Therefore, there were no formal hypotheses that a particular factor structure would predict risk judgement.

4.3.3 Research ethics

In research, there are ethical issues that may affect the participants or any other relevant stakeholders. Therefore, it is the duty of the researcher to ensure that research is conducted morally and responsibly (Saunders et al., 2009). There are multiple ethical concerns in research, including obtaining an informed consent of the participants which ensures confidentiality of the information obtained during the research process, acknowledging signs of physical or mental distress of participants, preserving the privacy of participants and preventing any deception (Holloway and Brown, 2012, Punch, 2005).

To ensure adherence to ethical standards, this research was assessed for riskiness in accordance with Lancaster University code of practice for ethical research, and permitted to proceed since it was found to be less risky. Lancaster University provided ethics clearance, including documents like the participant information sheets and consent forms (see Appendix 1). These documents were to enable potential

participants gain enough information and decide whether or not to participate in the research process.

In accordance with the ethical standards of this research, participants in the qualitative research were allowed to choose the place of the interviews in order to reduce physical harm; all participants selected their workplaces where they felt most comfortable, except one participant who preferred to be interviewed at a cafe. Mental distress was reduced in this research by allowing participants to choose their preferred language, whether Arabic or English, in both the interviews and questionnaires. Furthermore, participation in the research was completely voluntary without imposing any force on participants.

The consent form was introduced to all participants, while ensuring clarity of its components (Holloway and Brown, 2012). This form clearly highlighted the purpose of the research, and also clearly introduced the terms of confidentiality and anonymity in accordance with Berg (2009) who emphasised the need to protect the rights and privacy of research participants. Furthermore, prior to introducing the consent form, the purpose of the research was also clarified to participants through the emails or telephone calls made to arrange the interviews or distribute the questionnaires. Additionally, all participants were informed that their participation in the research is voluntary, and that they have the right to withdraw from the research without providing any explanations. During the interviews, the researchers acknowledged that certain signs of distress from participants might arise, due to the commercial confidentiality of certain aspects of the topic, where there will be a need to discontinue the interviews or change the topic of discussion. Fortunately, there was no

need to discontinue any of the interviews; however, there was a need to change the topic of discussion at certain points during some of the interviews.

4.4 Interview Study

The purpose of the interviews was to conduct an exploratory, qualitative analysis of how firms responded to political risks – investigating their formal processes of assessment in combination with the perceptions of the firms' managers. As explained earlier, part of this analysis involved assessing the level of institutionalisation associated with the assessment.

4.4.1 Sampling

As mentioned in Chapter One, this study was motivated by the Arab Spring that greatly affected many parts of the Arab world and beyond, including international firms in Kuwait. The international government-owned and private-owned companies in Kuwait constitute the population of firms for this research. The population of government-owned international firms was only eight. The international private-owned firms were defined to be those listed in the Kuwaiti Stock Exchange. A total of 130 firms, categorised in seven main sectors – financial services, oil and gas, real estate, banking, insurance, telecommunication, and industrial – were listed. This study used the entire population instead of choosing a sample due to the small size of the population (only 138 firms). Attempts were made to give all the 138 firms equal chances of being selected to participate in the study. This was through direct and indirect contacts as well as the use of e-mails and telephone contacts requesting all the firms to participate.

A total of 34 firms agreed and participated in the interviews. These firms comprised of six out of the eight government-owned international firms and 28 out of the 130

international private-owned firms. This means the government owned firms were well represented with a response rate of 75% (6/8). But the private-owned firms' response rate was lower i.e. 21.5% (28/130). This low response could be attributed to the 'sensitivity' that surrounds political risk activities (Hood and Nawaz, 2004). There is therefore a potential self-selection bias. However, all industry types were fairly represented as illustrated in Table 4.2.

Table 4.2: Number of private-owned and government–owned firms that participated in the interviews from each industry sector

	Industry	Total no. of firms	Interviewed firms	Percentage per industry
PRIVATE-OWNED	Oil and Gas	6	2	33.30%
	Bank	9	5	55.60%
	Insurance	6	4	66.70%
	Real Estate	36	2	5.60%
	Financial Service	36	9	25%
	Telecommunication	3	2	66.70%
	Industrial	19	4	21.10%
	Others	15	----	----
GOVERNMENT-OWNED	Oil and Gas	5	4	80%
	Financial service	1	1	100%
	Others	2	1	50%
Total no. of firms		**138**	**34**	**24.6%**

Table 4.3 provides details about the industry to which the firms belonged, their ownership and the countries in which the firms have invested. The latter is provided to indicate that firms included in the sample (except for four firms) have international businesses in countries involved in the Arab Spring. The four firms (represented by RS6, RS9, RS12, RS13) that do not have international businesses in Arab Spring

countries do nevertheless have investments in unstable countries such as Sudan and Iraq.

Table 4.3: Firms, their ownership and countries in which they have invested

ID	***Industry type***	***Ownership type***	***Countries in which firms have invested***
RS1	Banks	Private	Bahrain, Malaysia, Turkey, U.S, Germany
RS2	Financial Service	Government	All Arab countries exclude Djibouti (21), Large No. All over the world
RS3	Real Estate	Private	Bahrain, Oman, UK, Germany
RS4	Financial Service	Private	Mena region, Europe, China, Iran, Pakistan
RS 5	Real Estate	Private	Saudi Arabia, Bahrain, Dubai & Sharjah
RS 6	Telecommunication	*Private*	Saudi Arabia, Spain, Congo, Tanzania, Liberia & Guinea
RS 7	Bank	Private	Bahrain, Egypt, Libya, Iraq, UK
RS 8	Insurance	Private	Bahrain, Syria, Lebanon, Jordan, Egypt & Iraq.
RS9	Industrial	*Private*	Iraq, Jordan
RS10	Telecommunication	Private	Bahrain, Saudi Arabia, Jordan, Iraq, Lebanon & south Sudan
RS11	Financial Service	Private	Egypt, Saudi Arabia, Bahrain, UAE, Oman, Jordan, Turkey, Greece
RS12	Oil and Gas	*Private*	Sudan, Saudi Arabia, UAE, Kurdistan, North Africa, US and India
RS13	Bank	*private*	Sudan, UK , Indonesia
RS14	Financial Service	Private	G.C.C and MENA Region
RS15	Industrial	Private	Egypt & UAE
RS16	Financial Service	Private	Syria
RS17	Insurance	Private	MENA region, Eastern Asia, Eastern Europe and Sub-Sahara in Africa

RS18	Oil and Gas	Government	Egypt , Tunisia, Yemen, Sudan, Qatar, Syria, Australia, Indonesia Malaysia, china Vietnam, Norway, UK and Pakistan.
RS19	Industrial	Private	Morocco, Tunisia, Algeria, Egypt and Sudan, Lebanon, Jordan and Syria. GCC, all Europe, China
RS20	Oil and Gas	Government	18 Arab Countries including e.g. Egypt & Bahrain, Europe and Asia
RS21	Insurance	Private	GCC, U.S & Europe
RS22	Bank	Private	Dubai, Bahrain, Saudi Arabia, India
RS23	Financial Service	Government	Developing countries including Egypt and Syria, Europe & US
RS24	Oil and Gas	Government	Egypt, Yemen and Tunisia, Europe, Asia, U.S
RS25	Oil and Gas	Private	UAE, Saudi Arabia, Bahrain, Syria and Egypt, Us, china, Korea
RS 26	Financial Service	Private	GCC , Mena region, U.S, Tokyo
RS 27	Financial Service	Private	Jordan, Egypt, GCC, Hong Kong, china, India, US, Pakistan
RS 28	Financial Service	Private	Egypt, Saudi Arabia Bahrain, U.K
RS 29	Insurance	Private	Saudi Arabia, Egypt, Qatar, Turkey, London, Germany
RS 30	Financial Service	Private	GCC, Jordan
RS 31	Industrial	Private	GCC, Iraq
RS 32	Financial Service	Private	In almost all the Arab countries and across the world
RS 33	Oil and Gas	Government	Middle East, Canada & Italy
RS 34	Bank	Private	Algeria, Tunisia, Iraq, Jordan, Bahrain, Europe, US

4.4.2 Pilot interview study

The point of the pilot interviews was to help in refining and validating the final interview questions that had been developed based on the gaps in the risk literature. An interview pilot study was conducted in September 2013 with five managers selected from two government-owned and three private-owned firms. These participants were all involved in international business, and were selected from different types of industry to ensure variety in the sample as summarised in Table 4.4. The pilot interviews were audio recorded, transcribed and analysed by the researcher. Findings from this pilot study helped in adjusting some of the interview questions as well as adding new questions in order to answer the research questions appropriately. Added questions include, for example, how the firms use the outsourced information for their political risk assessment. Furthermore, these pilot interviews supported the researcher in developing interviewing and probing skills.

Table 4.4: Summary of the pilot interview firms

Firm	Interviewee's position	Type of industry
Firm 1	Head of risk management department	Bank
Firm 2	Board member	Real Estate
Firm 3	Head of real estate division	Financial
Firm 4	Deputy manager director and vice chairman	Oil and Gas
Firm 5	Executive manager of investment and development	Industrial

4.4.3 Administration of the interviews

A total of 34 face-to-face semi-structured interviews, which took place between October 2013 and January 2014, were conducted with managers in 34 different firms in Kuwait, with each firm being represented by one manager. Each of the managers

interviewed was involved in international business at his/her firm. Table 4.5 provides details about the survey participants' job titles and their involvement in political risk assessment processes. These interviews were conducted before the questionnaires were distributed. As described later, the items in the questionnaire were influenced in several cases by these interviews. 13 Interviews were conducted in Arabic, and the rest were conducted in English. Some of the participants requested a copy of the interview questions prior to the interviews. Where this was the case, a copy of the interview questions was sent to them with a cover letter explaining the research aim. Before each interview started, interviewees were assured of the confidentiality of the information to be obtained in the process. Furthermore, interviewees were first asked whether they would be comfortable with being audio-recorded. All but two interviewees accepted. Most of the interviews lasted between 20-60 minutes, with the exception of only two interviews, which lasted less than 20 minutes. One of the main challenges faced during the interview process was the interviewees' cancellation and rescheduling of appointments.

Table 4.5: Job titles of the interviewees and description of their involvement in risk assessment

ID	Job title	Description of the involvement in risk assessment
RS1	Deputy general manager and enterprises risk management and portfolio	Linking the analysis that has been conducted by agencies regarding political risk, to financial and other exposures, and to building scenarios.
RS2	Senior investor manager in Arab contribution department	Reviewing reports provided by International institutions on political and economic developments, analysing them to provide reports with recommendation for the top management about existing and new investments.
RS3	Group accounting manager	Gathering all the information for the new projects and making feasibility studies. Making quarterly reports for existing projects and, where there is a loss, reporting it to the top management with recommendations for a pre-emptive procedure.
RS4	Executive manager of investment and development	Receiving the study from the consultant (including on political risk). Preparing report with recommendations based on this study, then raising it with the board of directors. Checking the development of the existing projects and making recommendations.
RS 5	Board member	Studies and advice is provided by third parties, but decisions are taken by board members.
RS 6	Chairman	Head of the committee that includes legal department, financial department and investment development department.
RS 7	Head of risk management department	Assessing potential risks including political risk. Doing a review of the counterparty risk before any new opportunity
RS 8	Head of risk management department	Reviewing reports from representatives abroad and preparing mitigation plans. Preparing a comprehensive study before entering a new market, including on political risk.
RS9	Chairman	Regular meetings with managers abroad, discussing with them the risks they face and how to deal with those risks, including political risks.
RS10	Risk management director	Preparing a full study before entering any country, including on political risk. Conducting regular risk assessments in which political risks are evaluated.

RS11	Head of risk management division	Assessing potential risks associated with international business before starting the business and then on a regular basis.
RS12	Venture development manager	Carrying out due diligence before any business involvement including on political risk assessment. Preparing business plans based on reviewing reports from representatives.
RS13	Manager – operational Risk	Reviewing and analysing international reports such as World Bank reports in order to prepare summaries for the board, with recommendations.
RS14	Senior manager of the risk management	Reviewing reports prepared by the investment department, including on political risk. Preparing a summary report with recommendations to the committee.
RS15	Financial manager	Reviewing reports from the subsidiaries and preparing a summary reports with recommendations and alternative plans for the top management.
RS16	Executive manager of investment	Preparing a comprehensive study to the board before any international business involvement, including on political risk.
RS17	Non-marine manager in Kuwait re-insurance company	Member of a risk management committee that meet regularly to discuss how to manage all kinds of risks including political risks.
RS18	Senior analyst of risk management and head of the Arab function in enterprise risk management	Preparing risk identification analysis before accepting any project and then on regular basis.
RS19	Global channel manager	In charge of all sales around the world. Deciding whether to sell directly, go for indirect selling or stay away, based on assessing the political situation.
RS20	Business development group manager	Generating a risk matrix with external consultants, in order to prepare full reports, covering the political risk and the country risk. preparing mitigation plans.
RS21	Investment manager.	Preparing feasibility study before any business involvement.
RS22	Head of enterprises risk management department	Reviewing the country risk, which includes political risk, at the beginning of each activity. Preparing reports for the committee.
RS23	Legal advisor and head of real estate investment fund division	Together with an engineer and an economist, reviewing investment proposals, preparing reports for the committee, with recommendations.
RS24	Managing director for planning and finance	Identifying risks that could prevent the investment from achieving its target. Assessing the degree of impact, and how much mitigation is required to minimize the effect of such risk.
RS25	Deputy manager director (DMD) and vice chairman	Member of the investment committee that meets regularly to discuss how to manage all kinds of risks.

RS 26	Manager of the compliance and risk management department	Assessing all kinds of risk before starting any business activity. Conducting regular risk assessments for existing activities. Preparing summary reports with recommendations for the board.
RS 27	Head of internal audit department and supervising the risk management department	Preparing management international reports with external consultant, highlighting the potential impact, the exposure on the investment and how to mitigate the risks. Presenting the reports to the risk management committee.
RS 28	leading risk management department	Conducting a final risk assessment based on a due diligence report prepared by the investment department.
RS 29	Assistant general manager and financial manager	Conducting feasibility studies. Preparing quarterly reports for existing projects with recommendations.
RS 30	Internal audit manager	Working with the investment department in assessing and monitoring all types of risk before, during and after investment.
RS 31	Risk management director	Reviewing all types of risk before starting any business, including political risk.
RS 32	Vice president of risk management and compliance	Analysing the reports provided by consultants in host countries to prepare a study with recommendations before any engagements. Assessing how the potential risk might affect ongoing businesses.
RS 33	Team leader of enterprise risk management	Assessing potential risks associated with business activities on a regular basis.
RS 34	Advisor risk management	Providing reports, with recommendations, for the top management about potential risk, including political risk.

4.4.4 The interview guide

The interviews followed a semi-structured guide (Appendix 2), where the researcher ensured that all the relevant questions were covered in the interviews starting with more general questions before moving on to more in-depth questions that uncover thoughts, reasons and processes. These interview guides are essential to improve the reliability of qualitative research (Holloway and Brown, 2012; Patton, 2002) as they offer a guiding framework that can be adapted depending on participants' responses (Holloway and Brown, 2012; Saunders et al., 2009). Initially, the researcher started with general questions about the demographics of the participants and their firms (e.g. position of participants and type of industry). This was followed by descriptive questions asking participants what the most important risks they are concerned about are. More clarifying questions were asked next to uncover the reasons behind the participants' concerns and thoughts. Then, the researcher moved to more in-depth questions, in line with the aim of these interviews, where questions regarding the assessment of political risk at firms were asked, including whether the assessments involved assigned responsibilities to individuals within the firms, the frequency of conducting the assessments and whether subjective or objectives techniques are applied.

4.4.5 Interview data analysis

As described in the interview administration section, all but two interviews were audio recorded. Interview notes were taken by the researcher during the two unrecorded interviews. Following these interviews, transcripts were prepared by the researcher. The 13 interviews that were conducted in Arabic were transcribed into Arabic before having translated into English. The interview data was analysed using two approaches.

The first approach involved a more structured one, while the second was purely qualitative and inductive as described next.

The first approach followed a structured way of categorising the data based on the literature. This aimed to investigate the institutionalisation level of political assessment, and the relationship between this level of institutionalisation and firm characteristics. Three indicators for the degree of institutionalisation of political risk assessment were extracted from the literature described in Chapter 3 (e.g. Blank et al., 1980). These indicators were:

1. Assignment of responsibility – assigning a responsibility to a specific individual or group is the 'minimum' indicator of institutionalised risk assessment (Blank et al., 1980). This was done by assigning scores representing different levels. Where the interviewees indicated that there was completely no assignment of responsibility, this was scored as 0. Where interviewees indicated that they had at least a sense of responsibility (an informal understanding of responsibility), this was given a score of 1. Lastly, when the interviewees described that they had a formal responsibility for assessing political risk, they were scored as 2.
2. Regularity of assessment – This indicator was divided into three categories including: 1) never 2) on demand and 3) on a regular basis, where the latter is seen to represent a higher level of institutionalisation. Therefore, firms that never conducted assessment were scored 0, firms that conducted assessment only on demand were scored 1, while firms that conducted assessments on a regular basis were scored 2.
3. Method of assessment (qualitative and quantitative) – From the literature, it was asserted that firms that use mixed methods of risk assessment are more

institutionalised than those that use qualitative method only. Thus, the "no discernible method at all" was scored 0, "qualitative method" was scored 1, while the classification "mixed assessment" was scored 2. The highest score for this indicator is 2 as no firms had a purely quantitative procedure, and it is not clear whether we would normally think a purely quantitative procedure more institutionalised than a mixed one.

In order to answer one of the research questions of this study, which aims to investigate the relationship between the level of institutionalisation of firms and firm characteristics (i.e. firm size, years of experience, number of Arab countries in which firms were operating, type of industry and ownership), this research calculated the Pearson and Spearman correlation coefficients. In order to calculate this coefficient, it was necessary to have an overall rating of the institutionalisation level of firms. Consequently, this overall rating was calculated by adding the scores on the three indicators of institutionalisation (responsibility assignment, frequency and technique), where the resulting overall rating was included in the analysis of the correlation with firm characteristics.

The second approach to interview data analysis was purely qualitative and inductive, and involved selecting insights from each interview and categorising these insights thematically to arrive at explanations of the organized and judgmental responses they made to political risks. This was in accordance with grounded analysis principles, where an effort was made to avoid being limited by prior theoretical knowledge in order to allow new ideas to emerge from the data rather than fitting the data in predetermined structures, as suggested by Ketokivi and Choi (2014). Two levels of

theme were identified, and these are described in Chapter Six – together with data that support and explain them.

4.4.6 Trustworthiness and rigor of the interview study

Lincoln and Guba (1985) suggested four criteria to determine the trustworthiness of qualitative research: credibility, transferability, dependability and confirmability, which correspond to the criteria of external validity, internal validity, objectivity and reliability, which are normally applied in quantitative research (Lincoln and Guba, 1985). Lincoln and Guba (1985) referred to credibility as the extent to which the findings are true and reflect actual situations, and regarded it as the most important aspect for establishing trustworthiness in qualitative research. In this research, credibility was enhanced by audio recording the interviews (except two) to support detailed data analysis and interpretation. These recordings allowed the researcher to listen many times and accurately remember not just the words but the tone of voice in which claims and observations were made. Furthermore, the research participants were allowed to select their preferred language of choice, whether Arabic or English, which also supported more accurate reflections of actual situations. This created an extra burden of translation in 13 cases but this seemed important in a study looking at managers' perception as well as their firms' formal processes of assessment. Ethical considerations of this research also support its credibility as no participant was forced to take part in the study and participants were also given undertakings of confidentiality as explained earlier in Section 4.3.3. The fact that the researcher was known to all participants as a Kuwaiti, and an academic teacher of insurance and risk management, gives some reassurance that participants were not simplifying their insights.

Transferability in qualitative research is equivalent to generalisability (Punch, 2005), and refers to the applicability of findings in other contexts. This is very difficult in qualitative research due to the limited context and sample size. Yet, researchers in qualitative research should act to support the transferability of findings (Lincoln and Guba, 1985). For example, Morrow (2005) highlighted the importance of the sample size and characteristics. In this study, 34 respondents from eight different sectors were interviewed; all these respondents were involved in international business and aware of different risk aspects of their businesses.

Dependability refers to the extent to which qualitative research produces findings that would be replicated if the study was repeated in similar conditions (Knight, 2002). Lincoln and Guba (1985) agreed that strong credibility supports the dependability of research to some extent, and the former has been established in relation to this research, as described earlier in this section.

Confirmability refers to establishing how the researchers' biases, motivations and viewpoints are minimised (Lincoln and Guba, 2003). Accordingly, confirmability of qualitative research is reflected in its objectivity, taking into consideration that complete objectivity is not possible in qualitative research (Lincoln and Guba, 2003). This aspect is supported in this research through the audio recording of interviews (Lincoln and Guba, 1985). After preparation of the interview transcripts in the participants' native language, they were sent back to the interviewees for a final check and approval before using them in this research.

4.5 Questionnaire study

As mentioned earlier the questionnaire survey aimed to study managerial political risk perception of Kuwaiti international firm, based on the psychometric approach.

4.5.1 Sampling

The original intention was to distribute five questionnaires to each of the 34 companies that had participated in the interviews. But some of the 34 companies were hesitant to accept participation in the questionnaire survey. The reasons for this included the length of the survey questionnaire (i.e. 20 pages) and the managers' busy schedules – there were only two months left for the financial year-end for many of these firms. Consequently, all the other international firms listed in the Kuwaiti Stock Exchange were further requested to participate in the survey. To improve the response rate, a recommendation letter was obtained from the sponsor of the researcher (Public Authority for Applied Education and Training in Kuwait) (see Appendix 3), which was sent to potential participants alongside the request to participate. A total of 400 self-administered questionnaires were hand delivered to managers who were involved in international business and knowledgeable about risks in the 138 firms. A total of 122 questionnaires were returned, but 2 of these were not completely answered and therefore not considered usable. Thus, the number of usable questionnaires was 120 pointing to a response rate of 30% (120/400). All the government-owned firms that participated in the interviews also participated in the questionnaire survey but only 16 out of the 28 private-owned firms that participated in the interviews also participated in the questionnaire survey. Of the usable questionnaires, 70 were collected from firms which had also participated in the interviews, with 20 questionnaires returned from the government-owned firms and 50 questionnaires from private-owned firms. The number of firms that participated in the survey was 44, constituting 32% (44÷138) and this could be a limitation in a sense that it may not be completely representative, as it is only 1/3 of the whole population. However, this sample was not seen biased as the returned usable questionnaires offered a fair representation of all

the industrial sectors in both government-owned and private-owned firms in Kuwait as illustrated in Table 4.6.

Table 4.6: Number of private-owned and government–owned firms that participated in the questionnaire survey from each sector

	Industry	Total no. of firms	Participant firms	Usable questionnaires	% of participant firms per sector	Average usable questionnaires per firm
PRIVATE-OWNED	Oil and Gas	6	3	7	50%	2.3
	Bank	9	3	5	33%	1.7
	Insurance	6	3	8	50%	2.7
	Real Estate	36	7	25	19%	3.6
	Financial Service	36	8	17	22%	2.1
	Telecommunication	3	2	7	67%	3.5
	Industrial	19	4	16	21%	4
	Others	15	8	15	53%	1.9
	Total	130	38	100	29%	2.63
GOVERNMENT-OWNED	Oil and Gas	5	4	15	80%	3.8
	Financial service	1	1	3	100%	3
	Others	2	1	2	50%	2
	Total	8	6	20	75%	3.4

4.5.2 Pilot questionnaire study

Conducting a pilot study before the main empirical work is generally recommended in the research methods literature (e.g. Yin, 2009). In this research, a pilot study of the questionnaire was conducted with 12 managers; i.e. CEOs and risk managers in 6 different firms, 2 of which were government owned. These firms represented three distinct industries i.e. Oil and Gas, Financial service and Bank to ensure variety in the sample. During the process of conducting this pilot survey and after pilot data analysis, two main issues emerged that helped in re-adjusting the questionnaire. First,

the questionnaire was originally drafted in English but 7 out of the 12 managers who participated in the pilot study were Arabs. Three Arab managers clearly did not understand some of the contents of the questionnaire. This signalled a need to re-write the questionnaire in both Arabic and English. As shown in Appendix 4, the final version of the questionnaire was split into two halves – the left half being in English and the right half being in Arabic. The translation of this questionnaire from English to Arabic was approved by the Translation Centre in Kuwait.

Second, this pilot study resulted in adjusting some of the items in the questionnaire. For example, a risk variable labelled 'currency inconvertibility' based on the literature, was originally meant to incorporate three issues i.e. currency exchange restriction, capital repatriation restriction, and profit repatriation restriction. However, some of the participants in the pilot study like the CEOs of oil companies interpreted 'currency inconvertibility' as referring to only currency exchange restriction. This was apparent from their comments that the questionnaire lacked two risk issues (capital repatriation restriction and profit repatriation restriction). Therefore the risk 'currency inconvertibility' was replaced with two independent risks i.e. currency exchange restriction, and restriction on capital/profit repatriation.

Furthermore, there was a risk type labelled 'revolution/civil war' in the original draft questionnaire. But, during the pilot study, one of the managers whose firm operates both in Egypt and Syria indicated that the duration of effect of a revolution (which took place in Egypt) is usually different from the duration of effect of a civil war (which was and continues to take place in Syria). This resulted in considering 'revolution' and 'civil war' as two independent types of risk in the final questionnaire.

4.5.3 Questionnaire study administration

The survey data collection process commenced in February 2014 and was completed in May 2014. As mentioned earlier, a total of 400 self-administered questionnaires were hand delivered to managers who were involved in international business and knowledgeable about risks in the 138 firms. Each firm received a minimum of 3 questionnaires. The approach was to distribute the questionnaires and go back in one or two weeks to collect them. However, although telephone calls, emails, or made personal visits were used to remind respondents to complete the questionnaires, most of the questionnaires had not been completed by the time of collection. Many of the respondents commented that the questionnaire was tedious to complete at once. This is in line with Kleinhesselink and Rosa, 1991 who argued that one of the commonly acknowledged limitations of the survey questionnaire based on psychometric paradigm is its being tedious and demanding, making it susceptible to fatigue (Kleinhesselink and Rosa, 1991). This perhaps explains why some previous researchers adopting the psychometric based risk questionnaire targeted students and used convenience sampling (e.g. Teigen and Brun, 1988; Kleinhesselink and Rosa, 1991; Bronfman et al., 2007; Rawad and Khattab, 2015); however, there are exceptions, for example Siegrist et al. (2005).

4.5.4 Detailed design of the questionnaire study

The content of the questionnaire was based on the review of the literature on risk perception and political risk. Further adjustments and validation were obtained from the findings of the interview study as well as the pilot questionnaire survey.

The survey questionnaire had four main components:

- The list of political risks (shown in Table 4.7). This list was developed from the review of risks in the political risk literature, which were adjusted to fit the study context, as not all political risk cited in political risk literature would be applicable to the context of this research (e.g. newly elected government) as explained in Chapter Three. Moreover, as this research focuses on managerial perception, it should include clear and specific risks that have a direct meaning to managers, but disregard general risks that may be interpreted by managers in different ways. Therefore, this study includes risks such as 'taxation restriction', but did not cover risks such as "changing government regulation", as specified by Miller (1992). Literature supporting the selection of political risks in this study is highlighted in Table 4.7.

  The interviews conducted in this study further helped to confirm the appropriateness of these political risks to the context of this research as shown in Table 4.6. The table includes quotes from different respondents that support the different political risks addressed in the questionnaire. Each quotation in the table is selected based on codes that are highlighted in Table 4.7. Additionally, the list was further adjusted using the pilot questionnaire as discussed earlier in Section 4.5.2.

Table 4.7: list of political risks used in the questionnaire and their link to literature and interviews conducted in this study

Risk issue	References	Respondents' Quotations
Taxation restrictions	Subramanian (1993), Hashmi and Guvenli (1992), Kobrin (1981), Al Khattab et al. (2007), Hood and Nawaz (2004), Alon et al. (2006), Pahud de Mortanges and Allers (1996)	*"There are political risks that we can control somehow and there are some can't be controlled i.e. the increase of taxation can be controlled by increasing the premium that we get for the cover of the insurance."* ***RS8*** *"Jordan imposed suddenly 30% extra taxes on the services we're giving to our customers suddenly. Taxes were 14% and became 44% which is one of the highest in the world."* ***RS10***
Currency exchange restrictions	Hood and Nawaz (2004), Pahud de Mortanges and Allers (1996)	*"Before the Arab spring happens we looked into many political risks such as taxation restrictions and currency exchange control. This is a common practice that we used to do."* ***RS14*** *"In Egypt, the Egyptian clients are wealthy, yet they cannot withdraw their money outside. The law after the revolution does not allow taking large amount of hard currency outside."* ***RS19***
Breach of contract by a host government	Al Khattab et al. (2007), Moran (2001), Pahud de Mortanges and Allers (1996)	*"sometimes we face risks related to changing the regulations which lead for example to repudiation of contract, or more ownership constraint as its very normal to face these kind of risks in the Arab or emerging market countries"* ***RS16***
Capital and/or Profit repatriation restrictions	Desta (1985), Busse and Hefeker (2007), Hood and Nawaz(2004), Alon et al. (2006)	*"Sudan has sanctions from the United Nations and the United States. So, we had a problem which is a risk for us which is repatriation of our revenue which is sitting in the bank of Sudan in their local currency"* ***RS10***
Import and/or export restrictions	Keillor et al. (2005), Alon (2006), Alkhattab (2007), Busse & Hefeker (2007)), Pahud de Mortanges and Allers (1996)	*"I produce Polystyrene in Kuwait cheaper than a factory in Turkey, and we sell it cheaper than the factory in turkey. So the governments set some regulations against that foreign producer ... order to reduce the imports to their country."* ***RS19***
Ownership and/or personnel restrictions	Brink (2004), Keillor et al (2005), Pahud de Mortanges and Allers (1996)	*"sometimes we face risks related to changing the regulations which lead for example to repudiation of contract, or more ownership constraint as its very normal to face these kind of risks in the Arab or emerging market countries"* ***RS16***
Expropriation and/or confiscation	Howell (2001), Hood and Nawaz (2004), Burmester (2000), Minor (2003) and Shapiro (2006) ,(Wilkin, 2001), Desta (1985), Busse and Hefeker (2007)	*"With what is happening now in the Arab Spring countries I don't expect people to be honest and the governments actually applying the law; there is no guarantee of the stability of the regulation which might lead to breach contracts or expropriation. I will need more confirmation."* ***RS14***

Corruption	Merna and Al-Thani (2007),Busse and Hefeker (2007), Wade (2005), Rio-Morales et al. (2009)	*"The corruption happens everywhere before the political unrest. And I'm assuming it will be more because the more poverty, the greater the chance for what we call it in insurance moral hazard".* ***RS8*** *"We are unable to accomplish our procedures in the south because ... and it is not easy to get a license because of the routine and corruption."* ***RS12***
Demonstrations and riots	Wade (2005), Al Khattab et al. (2007)	*"The major political risks at the moment, such as uprising, public kind of riots such as what is happening in Egypt."* ***RS11***
Revolutions	Kobrin(1981), Al Khattab et al. (2007)	*"The most important political risks are Civil war and revolution."* ***RS13*** *"Some Risks cannot be controlled such as the revolution and the civil wars beyond control."* ***RS16***
civil wars	Wade (2005), Busse and Hefeker (2007), Al Khattab et al. (2007)	*"Civil wars are badly affected the infrastructure and the economy in these countries".* ***RS6*** *"once there is a crisis such as civil wars , the whole business might collapse; unlike the investment in real-estates which is safer"* ***RS16***
Terrorism	Alon et al. (2006), Al Khattab et al. (2007), Hood and Nawaz (2004)	*"It was the terrorism part which was the main concern for us"* ***RS17***
Economic sanctions	Burmester (2000), Al Khattab et al. (2007)	*"Sudan has sanctions from the United Nations and the United States. So, we had a problem which is a risk for us which is repatriation of our revenue."* ***RS10*** *"once the sanction carried out, people started to fear that Syria will confront many financial difficulties"* ***RS16*** *"The economic sanction as that affects the flow of premium ...the premium of that business cannot be transferred to Kuwait because of the sanction issue."* ***RS17***
Wars	Al Khattab et al. (2007), Alon et al. (2006)	*"if any war happened with them, our business will be impacted....If Humors Strait shut down, the sea shipments will stop, oil prices consequently the petrochemical price will be impacted".* ***RS33***

- The risk attributes. These were adopted from the instruments normally used in the psychometric research that has been discussed in the literature review (see Chapter Two). Because this study explores whether the psychometric approach fits political risk, it became important to minimise significant deviations from the attributes already used in the literature. Since the psychometric paradigm had not been used in the context of political risk, the interviews conducted in this research supported the identification and confirmation of risk attributes that were used in the questionnaire. Table 4.8 shows the different attributes included in the questionnaire; these included risk attributes that are supported by literature and relevant interviewee quotations. As shown in Table 4.8, most of the attributes have been used multiple times in previous studies. However, some attributes - unanticipated consequences, preventability, increasing-ness and duration of effect - have been used only once. Nevertheless, for the purpose of this study, these attributes were found to be appropriate because they seemed to fit the nature of political risk that firms experienced during the Arab Spring and they emerged from some of the interviews, as shown in Table 4.8. Furthermore, no supporting quotations were identified from the interviews for three of the attributes - voluntariness of risk, knowledge about risk and dread. However; these attributes were included in the questionnaire because they are major attributes and widely used in the psychometric paradigm as mentioned earlier in Chapter Three Section 3.2 and shown in Table 4.8.

Table 4.8:Linking the risk attributes to the literature and interviews conducted in this study

Risk Attribute	References	Interviewees' Quotations
Voluntariness of risk	Sjoberg (1996), Siegrist et al. (2005), Fischhoff et al. (1978), Bronfman et al. (2007), Marris et al. (1997), Kleinhesselink and Rosa(1991), Siegrist et al. (2007), Bronfman et al. (2008), Bronfman et al. (2003), Langford (1999), Jenkin (2006).	
Immediacy of effect	Sjoberg (1996), Siegrist et al. (2005), Fischhoff et al. (1978), Bronfman et al. (2007), Marris et al. (1997), Bronfman et al. (2008), Bronfman et al. (2003), Langford (1999), Jenkin (2006), Willis et al. (2005).	*"Because when you have a social uprising and it is not controlled properly, the safety and security decreases, so what happens people will invest less and travel there less and it becomes like dominant effect. So if, an entity or an institution that does business in a country such as this, you will stop doing business there immediately."* ***RS11*** *"The most important political risks are Civil war and revolution. Because if people don't feel confident they will not spend money. That will affect our business straight away as a bank. People for example will not take loans. Today these risks are increasing"* ***RS13***
Knowledge about risk	Sjoberg (1996), Siegrist et al. (2005), Fischhoff et al. (1978), Bronfman et al. (2007), Marris et al. (1997), Kleinhesselink and Rosa(1991), Siegrist et al (2007), Bronfman et al (2008), Bronfman et al. (2003),Langford (1999), Jenkin (2006).	
Control over risk	Sjoberg (1996), Siegrist et al. (2005), Fischhoff et al (1978), Bronfman et al (2007), Bronfman et al. (2008), Bronfman et al. (2003), Kleinhesselink and Rosa (1991), Siegrist et al. (2007), Jenkin (2006).	*"We have hedging strategies to ensure that if something like this happened how we can respond...but will not stop us from taking the decision to enter the country , but if the security threat is very high, it can stop us, as we can't control this"* ***RS1*** *"There are political risks that we can control somehow and there are some can't be controlled i.e. the increase of taxation can be controlled by increasing the premium that we get for the cover of the insurance"* ***RS8*** *The political unrest and the government instability are ones of the risks that uncontrollable. "The political*

		unrest and the government instability means that everything is delayed in terms of the government spending, changing in rules and regulations and these risks are out of control" ***RS8*** *"I want to say that the political risk or the force majeure is beyond control by either the investor or the country; the environment itself may change. Any investor must know that everything might go positive or negative".* ***RS16***
Newness	Sjoberg (1996), Siegrist et al. (2005), Fischhoff et al. (1978), Bronfman et al. (2007), Kleinhesselink and Rosa (1991), Bronfman et al. (2003), Jenkin (2006), Willis et al. (2005).	*"In Iraq the risk is happening every day. They live with it. They are used to it. they don't complain about it"* ***RS9*** *"There have been issues of political related issues outside of the Middle East for many many years, so it's a big history for example Turkey."* ***RS11***
Catastrophic potential	Sjoberg (1996), Fischhoff et al. (1978), Bronfman et al. (2007), Marris et al. (1997), Kleinhesselink and Rosa(1991), Bronfman et al. (2008), Bronfman et al. (2003), Langford (1999), Jenkin (2006), Willis et al. (2005).	*"Arab Spring is big political issue all over around the Arabic and Islamic areas and that affected a lot of business"* ***RS5***
Dread	Sjoberg (1996), Siegrist et al. (2005), Fischhoff et al. (1978), Bronfman et al. (2007), Marris et al. (1997), Kleinhesselink and Rosa(1991), Bronfman et al. (2008), Bronfman et al. (2003), Langford (1999), Jenkin (2006).	
Unanticipated consequences	Willis et al.(2005)	*"The expectation is difficult as you cannot follow the political events, and you cannot determine the recovery time".* ***RS15*** *"I cannot determine the political risk, you cannot determine the event that will happen tomorrow, it's unpredictable."* ***RS15***
Preventability	Jenkin (2006).	*"we just protect our business from these kind of risk by insurance"* ***RS16*** *"insurance is a recovery solution not protective....the impact will be very high"* ***RS1***

		"Because we already exist there and already have a system that can prevent the K.P.C. from corruption". ***RS24***
Increasingness	Jenkin (2006).	*"The political instability has increased substantially since the beginning of the A.S"* ***RS7*** *"The security and safety risks have increased since the beginning of the A.S. The extremists are occupying the border areas. That is where they grow and expand. their main areas are borders between Syria, Iraq and Jordan"* ***RS9*** *"Because when you have a social uprising and it is not controlled properly, the safety and security decreases, so what happens people will invest less and travel there less and it becomes like dominant effect.."* ***RS11*** *"The most important political risks are civil war and revolution. Because if people don't feel confident they will not spend money. That will affect our business as a bank. People for example will not take loans. Today these risks are increasing".* ***RS13***
Duration of effect	Willis et al.(2005)	*"These events affect the investments in these countries. But it's temporary decline. It will not last."* ***RS16*** *"always officials whom we have close relation with them regarding waves and vibrations issues escape for survival and consequently our investment is affected by such absence, but it's a temporary issue"* ***RS6*** *"The political unrest in Syria has been remaining for long time, there is no operation and we had to shut down these branches."* ***RS8***
Severity	Siegrist et al. (2005), Fischhoff et al. (1978), Bronfman et al. (2007), Marris et al (1997), Bronfman et al. (2008), Bronfman et al. (2003), Langford (1999), Jenkin (2006),Willis et al. (2005).	*"the political unrest did not affect the insurance industry as much as it affect the investment industry and so it affect some companies more than the others"* ***RS8*** *"We just have been affected a little bit from the political violence in Bahrain"* ***RS10*** *"Corruption doesn't have severe impact on us as financial service. If we were in the retail business or a service related entity, maybe it would impact."* ***RS11***

- The demographic variables. These were in six items: a) total size of the firm and its subsidiaries; b) years of experience in international business; c) type of industry; d) number of countries which firms operate in; E) managerial position of the individual completing the questionnaire and F) ownership.

  As regards the total size of the firm, there is a lack of financial data in the GCC, with most private and public organisations basing their definitions of firm size only on the number of employees rather than sales turnover (Hertog, 2010). Moreover, in Kuwait, the total size of the firm is normally defined in terms of capitalization (Al-Najem et al., 2013; Hertog, 2010). Previous studies in the area of political risk (e.g. Al Khattab et al., 2008a) used total assets as a reflection of the total firm size. Therefore, total firm size in the questionnaire included the total assets, capitalization and total number of employees. However, the size of the subsidiary is considered to be more crucial in determining a "firm's susceptibility to political risks" when compared to the firm's overall size (Oetzel, 2005. p. 767) therefore, percentage of assets and number of employees in host countries was included in the questionnaire to indicate the size of subsidiaries.

  As mentioned earlier in Chapter Three, the firms' length of experience in international business and type of industry affect the concerns about risk in international businesses (Kobrin, 1982; Al Khattab et al., 2007), and, therefore, this length of experience was included in the questionnaire. Other demographics including number of countries in which firms operate was included in the questionnaire considering the positive relationship between concerns about political risks and international expansion as highlighted by Howell (2001) and Al Khattab et al. (2007).

The ownership (as a demographic variable) was not discussed previously in political risk studies but, in Kuwait, governmental firms are heavily involved in international business. Ownership – governmental or non-governmental – is therefore examined in the present research. Similarly, the position of managers was not tested in previous political risk studies, but it is plausible that an individual's managerial position will influence their risk perceptions as different positions involve different levels of responsibility. This research does not claim that the position of managers is the only characteristic that potentially affects risk perception; nationality, gender and education are among the characteristics that are also known to affect risk perception. However, the focus of this research study is on political risk perception within organisations, which makes the characteristic of managerial position the most relevant.

- The dependent variables (the perceived level of risk and the perceived acceptability). These variables are regressed against condensed risk attributes in the psychometric paradigm (Slovic et al., 1987; Alhakami and Slovic, 1994; Maris et al., 1997; Siegrist et al., 2007; Bronfman et al., 2007).

As explained earlier, the questionnaire was provided in both English and Arabic by splitting it in halves – the left half being in English and the right half being in Arabic. The questionnaire was composed of three sections. In Section One, participants were asked about his/her position and information about the firm (the demographic variables). Participants were also asked an open question about their understanding of the influence of the Arab Spring; the aim in asking this question was to ascertain the seriousness of the participants in answering the questionnaire. In Section Two, each of the 12 risk attributes was presented on a separate page, with a short description for

each of them. On each of these pages, participants were asked to rate the 14 political risks as they related to each given risk attribute; they rated them using a scale of 5, following previous studies which adopted the psychometric approach (e.g. Marries et al., 1997; Marries et al., 1998, Siegrist et al., 2005; Siegrist et al., 2007). In Section Three, each of the two dependent variables were presented on separate pages with a short description for each of them. Participants were asked to rate the 14 political risks on each of the two dependent variables, using a scale of 5. The detailed questionnaire is attached in Appendix 4.

4.5.5 Questionnaire data analysis

In response to research question one, this analysis sought to investigate the managers' political risk perceptions by ascertaining the variations in perceptions explained by three dimensions: participants, risk attributes and political risks. To clarify, for each of the 120 participants the data consist of ratings of each of the 12 risk attributes (for example voluntariness) for each of the 14 different political risks (for example civil war). This data provides potentially three different two-dimensional views as summarised in the Figure 4.1.

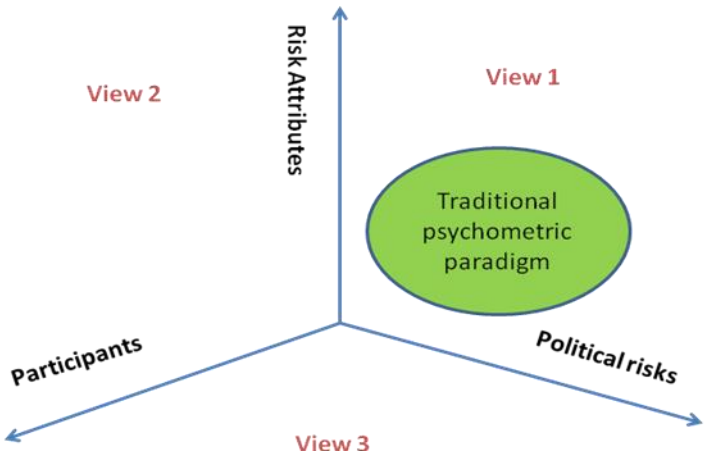

Figure 4.1: The three dimensions in the quantitative analysis of the psychometric approach

View 1 and view 2 are from a psychometric paradigm approach and view 3 is to show the usefulness of risk attributes in risk perception when compared to the two views of the psychometric paradigm approach. These views are:

- View 1 – analyses risk attributes against political risks and aggregating across participants (this represents the-traditional psychometric paradigm)
- View 2 – analyses risk attributes against participants and aggregating across political risks
- View 3 – analyses participants against political risks and aggregating across the risk attributes

Managers were firstly asked to rate the list of political risks on each of the risk attributes outlined in the questionnaire. For view 1 and view 2, the correlations between each pair of attributes were calculated; and in view 3, the correlations between each pair of political risks were calculated. Then Principle Component Analysis was performed for the three views to group the risk attributes/political risks into factors. These factors were used to produce a cognitive map. In order to assess the predictive power of the factors that emerged from the three views, the two dependent variables commonly used in the risk literature (scale of risk and acceptability) were regressed onto the factors.

In order to examine the influence of firms' and participants' characteristics on managerial political risk perception, inferential analysis was conducted by linking the 19 demographic variables with the two dependent variables: riskiness and acceptability. Three demographic variables: type of industry, job title and ownership

(which are all nominal variables) were analysed using non-parametric methods, while the rest of the variables were analysed using parametric methods.

Two non-parametric methods were used, namely: Kruskal-Wallis Test (for more than two categories, e.g. type of industry) and Mann-Whitney U Test (for the differences between two categories only e.g. ownership). Furthermore, a parametric data analysis was used for the 16 remaining demographic variables. Correlation analysis for these variables was first conducted followed by factor analysis to condense the inter-correlated variables. Finally, two regression models were developed to assess the usefulness of the factors in predicting riskiness and acceptability.

4.5.6 Trustworthiness and rigor of the questionnaire study

There are four criteria to verify trustworthiness of quantitative research: internal validity, external validity, reliability and objectivity (Lincoln and Guba, 1985). Internal validity reflects confidence in the 'truth' of the findings (Lincoln and Guba, 2003). External validity demonstrates the extent to which findings of one research study are applicable to other situations. This is commonly shown by demonstrating that the findings are applicable to the larger population (Merriam, 1998). Reliability reflects the extent to which the tool used in the research will produce similar results in different circumstances provided everything else remains the same (Roberts et al., 2006), while objectivity is a characteristic of quantitative approaches as they apply precise statistical measurements that keep the researcher detached from the subjects (Lincoln and Guba, 2003).

In this research study, the psychometric paradigm is applied in the questionnaire. This paradigm has proven validity as it has been thoroughly tested with various risks, various types of respondents and sampling approaches as well as in different countries

and contexts (Dohle et al., 2010). This is highlighted in more detail in Chapter Two Section 2.3.1. However, it has not been previously tested with political risks. Therefore, a pilot study was conducted in this research (see Section 4.5.2) and the interview findings were also used (see Section 4.5.4) to support the development of the questionnaire, which all supported the validity and reliability of the research study. Moreover, to prevent any misunderstanding by any of the participants, the questionnaire was provided in both English and Arabic by splitting the same questionnaire into halves. The translation into Arabic was carried out by a certified translator in Kuwait.

A conventional reliability analysis is inapplicable because there is only one questionnaire item for each 'scale' i.e. each attribute. When these are combined in the principal components analysis, this analysis itself indicates how strongly the attributes loading on each component are inter-correlated.

This study employed two important measures; these are the Kaiser-Meyer-Olkin (KMO) and Bartlett test. KMO measures the sampling adequacy and its statistic value ranges between 0 and 1. According to Field (2005), a KMO value close to 0 indicates that factor analysis is inappropriate while a value close to 1 indicates the obtaining of reliable factors. Kaiser (1974) shows that a value of more than 0.5 is acceptable, whereas KMO values less than 0.5 may require collecting more data or a review of the variables to consider in the analysis. Bartlett's test of sphericity is testing whether our observed correlation matrix is equal to the identity matrix. For factor analysis to produce good factors, the observed correlation matrix should not be equal to zero (the identity matrix); i.e. Bartlett's test statistic value should be significant at 0.05 level (Leech et al., 2005).

KMO coefficient results are presented and supported by the Bartlett test whenever applicable in each section as shown in the next chapter. In this study KMO measures of sampling adequacy were more than 0.5 (as shown in Chapter Five), which indicates that the data is likely to factor well. This was also supported by Bartlett's test of sphericity, where the significance value = 0.000 < 0.001.

4.6 Methodological limitations

In this section, several methodological limitations related to this study are discussed. The study investigates the potential effect of the characteristic of managerial position on political risk perception. This is acknowledged as a methodological limitation as other characteristics, for example age, gender and education, can potentially affect risk perception also. However, managerial position is considered in this study due to its relevance as explained earlier.

Other limitations of this study include the generalisability of findings. This study was conducted in Kuwait where there are only 138 firms participating in international business; and only 44 of these firms responded to the survey. This is a limitation in a sense that the firms may not be completely representative, as they are only 1/3 of the relevant population. And since the study was done only in Kuwaiti firms, there are questions of external validity – it is possible that the findings may not be generally applicable in other different contexts.

Also, possible sampling bias is another limitation to this study due to the self-selection process, whereby the potential respondents had first to be contacted to confirm their willingness to participate due to the size of the questionnaire (20 pages). However, this was important to enhance the response rate as the previous studies have indicated that respondents were reluctant to participate because of the length of the

psychometric questionnaire. Related to this is the use of a single respondent manager per firm in the interview study. This in itself is a potential limitation, as it means the study relies in most cases on using one informant to determine what happens in a particular organisation. Two or more respondents per firm would allow for the triangulation of data across respondents to ascertain consistency of the data in every firm. However, this study used managers who had busy schedules and it was therefore difficult to get more than one manager from every company. Nonetheless, the study used multiple firms and two sources of data (i.e. questionnaire survey and interviews) and their complementarity improved the validity of findings.

Another limitation pertains to the cross-sectional nature of this study. As this study investigates managers' perceptions and its relation to risk assessment, it would be expected that processes would evolve over time, and the cross-sectional study does not capture such processes.

4.7 Conclusion

This chapter provided an overview of the gaps in the literature, laid out the research questions, the philosophy of the research and the methods used. The first gap in the literature was the absence of a prior attempt to apply the psychometric paradigm to the perception of political risk. This was addressed by a questionnaire study, in which 14 political risks and 12 risk attributes were tested. The second gap was the absence of a connection between risk perception and formal risk assessment. This was addressed by the interview study that investigated how Kuwaiti managers responded to political risks, and how they explained both their assessment processes and their judgments of risks. This was analysed in both an open-ended thematic approach, and a more constrained approach that specifically looked at the degree of institutionalisation of

the assessment found in each firm. The basic philosophical commitment in this study was to critical realism.

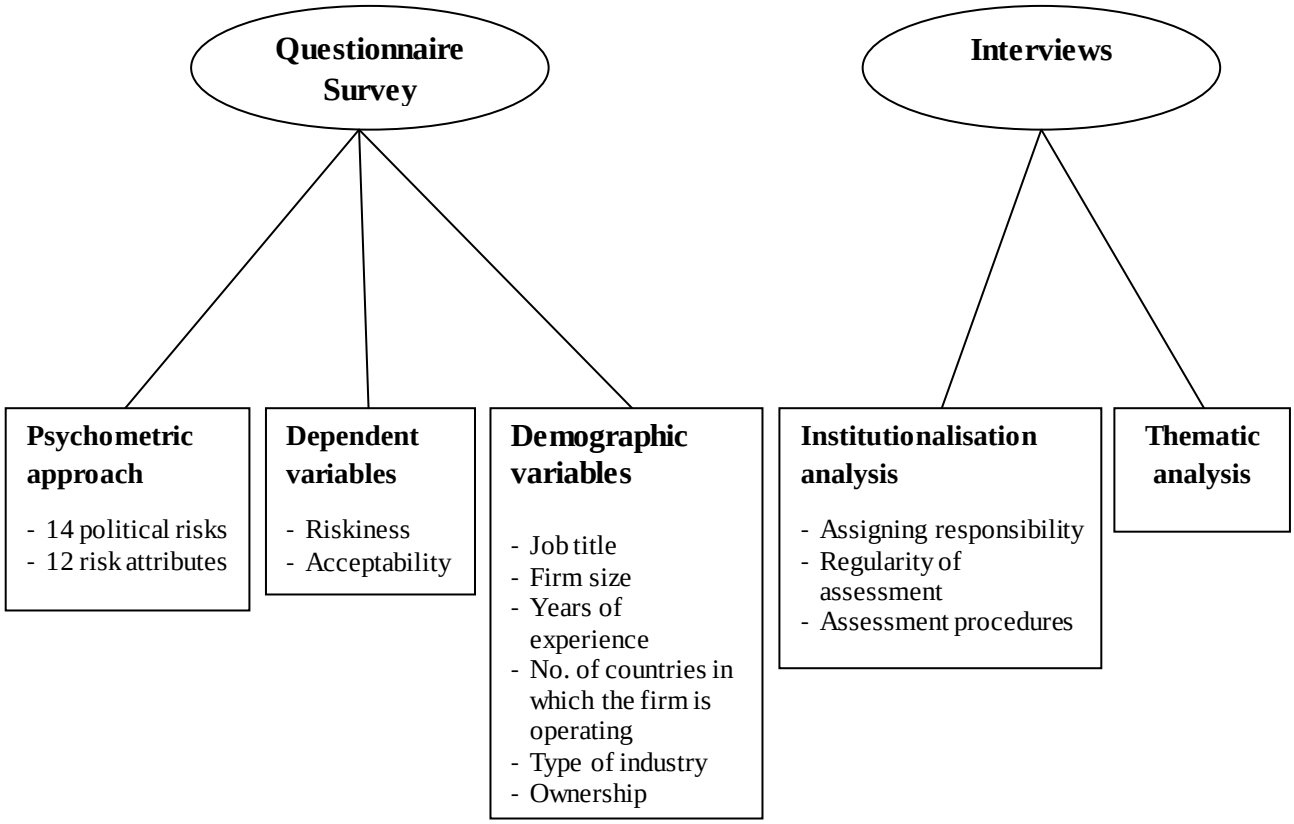

Figure 4.2: Summary of the methods and variables in the current research

This research applies a combination of both qualitative and quantitative approaches in the form of interviews and a survey questionnaire as summarised in Figure 4.2. Although the interviews chronologically come first as they informed the design of the questionnaire, the next section presents the data analysis of the questionnaire first. The reason for this is that the findings of the interviews confirm and explain the results of the questionnaire. Therefore, it was deemed sensible to have the results of the questionnaire presented first.

CHAPTER FIVE: QUANTITATIVE DATA ANALYSIS

5.1 Introduction

The aim of this chapter is to present the quantitative analysis of the psychometric questionnaire study. As described in Chapter 4, there are three views of the data obtained from this analysis. The aim is to compare the first view (the traditional psychometric paradigm) with the other two views in order to assess which offers the best explanation of differences in risk perception, and to compare it with an explanation based on demographic variables (firms' and participants' characteristics). In the risk perception literature, "hazard" is the word normally used to denote discrete, uncertain threats or types of threat. However, the word "risk" is normally used in the political risk literature, and in order to reduce confusion, the word 'risk' will be used here.

The main finding of this chapter is that risk perceptions are most strongly predicted by aggregating across participants, using the attributes (the traditional psychometric approach). Aggregating across risks, again using the attributes, produces a less predictive value. Ignoring the attributes by aggregating across them produces the least predictive model. The demographic variables provide a very weak explanation of risk perceptions. A descriptive analysis is presented in section 5.2, followed by section 5.3, which deals with the analysis of risks, attributes and subjects (the three views). Section 5.4 deals with the analysis of demographic influences on risk perception.

5.2 Descriptive analysis

a) Distribution of respondents by type of industry

In the questionnaire, respondents were asked to choose from one of the following types of industry: Banking, Oil and Gas, Real Estate, Insurance, Financial Service, Industrial, Telecommunications and Others. Due to low frequencies for some types of industries, such as Bank (frequency = 5), Insurance (frequency = 8), Telecommunication (frequency = 7) and Others (frequency = 7), and in order to facilitate comparisons between types of industries, Banking, Insurance and Financial Service are classified under Financial Services, and Industrial, Telecommunications, and Others are classified under Others. Table 5.1 gives insight on the distribution of respondents according to these broader categories of type of industry.

Table 5.1: Distribution of respondents by type of industry

Type of industry	Frequency	Percent
Financial Service	41	34.2
Real Estate	26	21.7
Oil & Gas	22	18.3
Others	31	25.8
Total	120	100.0

b) Distribution of respondents by their job title

Two classifications have been used for managerial positions, firstly, according to seniority, and secondly, according to speciality. Two classes were used for each: the seniority classification included ‘top managers’ and ‘middle managers’; the speciality classification included ‘risk managers’ and ‘other managers’. Tables 5.2 and 5.3 show the proportions of managers in each classification.

Table 5.2: Job Title according to seniority

Job Title	Frequency	percent
Top Management	31	25.8
Middle management	89	74.2
Total	120	100.0

Table 5.3: Job Title according to speciality

Job Title	Frequency	Percent
Risk Manager	20	16.7
Other manager	100	83.3
Total	120	100.0

c) Distribution of respondents by type of ownership

Table 5.4 shows the distribution by type of ownership respondents. Most respondents were from private companies. As mentioned earlier in the Methodology Chapter (see Section 4.4.1), the population of Kuwaiti international firms is 138 and the proportion of international government-owned firms is only 6% (8/138), whereas the proportion of the international private-owned firms listed in the Kuwaiti Stock Exchange is 94% (130/138).

Table 5.4: Distribution of respondents by type of ownership

Ownership	Frequency	Percent
Private	100	83.3
Government	20	16.7
Total	120	100.0

5.3 Analysis of risks, attributes and subjects

As explained in Chapter Four, three types of analysis of the main data set were conducted:

1. Attributes against risks and aggregated across participants (which means ignoring the differences between participants) – the traditional 'psychometric' approach.
2. Attributes against participants and aggregated across risks (which means ignoring the differences between risks).
3. Participants against risks and aggregated across the attributes (which means ignoring the differences between attributes).

5.3.1 Analysing attributes against risks aggregating across participants

In this analysis, each case is a risk (for example civil war). The participants' ratings for each attribute are aggregated as a mean value within each risk. Then the aim is to condense the attributes with principal component analysis. First, Table 5.5 shows the correlation matrix for the attributes. Most correlation coefficients are strongly correlated and significant at the 0.01 level (2-tailed), except that all the correlations with 'increasing-ness' are not significant at the 0.05 level (2-tailed). The correlations are in the direction- that would be expected. For example, the correlation between 'voluntariness of risk' and 'control over risk' (r= -0.953) is a negative strong correlation because of the scales chosen: 'voluntariness of risk' values range from (1=voluntary) to (5=involuntary), while 'control over risk' values range from (1=uncontrollable) to (5=completely controllable). This means that, on average, risks which are felt to be voluntary were also felt to be controllable. The formulation of these scales was developed to stimulate participants' thinking.

Table 5.5: Correlation between attributes aggregated over participants

	Voluntariness	Immediacy of effect	Knowledge about risk	Control over risk	Newness	Catastrophic potential	Common/ Dread	Unanticipated consequences	Preventability	Increasing-ness	Duration of effect	Severity of consequences
Voluntariness	1											
Immediacy of effect	-.834**	1										
Knowledge	.848**	-.802**	1									
Control	-.953**	.831**	-.943**	1								
Newness	-.852**	.742**	-.958**	.923**	1							
Catastrophic	.892**	-.734**	.895**	-.949**	-.905**	1						
Common/ Dread	.891**	-.832**	.957**	-.970**	-.932**	.964**	1					
Unanticipated consequences	-.899**	.847**	-.981**	.960**	.963**	-.942**	-.980**	1				
Preventability	-.948**	.796**	-.928**	.974**	.936**	-.980**	-.968**	.968**	1			
Increasing-ness	.473	-.032	.251	-.439	-.394	.512	.352	-.295	-.494	1		
Duration of effect	.877**	-.877**	.812**	-.902**	-.743**	.886**	.917**	-.870**	-.889**	.257	1	
Severity of consequences	.886**	-.886**	.924**	-.945**	-.890**	.939**	.982**	-.966**	-.943**	.239	.951**	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

N = 14

Kaiser-Meyer-Olkin coefficient and Barttett's test were calculated. As shown in Table 5.6 KMO coefficient measure of sampling adequacy = 0.664, which is more than 0.5. This indicates that the data are likely to factor well. This is also supported by Bartlett's test of sphericity sig value = 0.000 < 0.001. Therefore, it is possible to proceed with performing factor analysis.

Table 5.6: KMO and Bartlett's Test of attributes against risks aggregated across participants

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.664
Bartlett's Test of Sphericity	Approx. Chi-Square	343.240
	Df	66
	Sig.	.000

Next, the principal component analysis was performed on the Risk × Attribute matrix. The resulting two factors explained 94% of the total variance in attribute ratings. Table 5.7 shows the rotated component matrix.

Table 5.7: Rotated component matrix for attributes against risks aggregated across participants

	Component	
	1	2
Voluntariness of risk	**.880**	.356
Immediacy of effect	**-.932**	.130
Knowledge about risk	**.944**	.163
Control over risk	**-.933**	-.327
Newness	**-.886**	-.317
Catastrophic potential	**.884**	.421
Dread	**.959**	.242
Unanticipated consequences	**-.968**	-.195
Preventability	**-.915**	-.392
Increasing-ness	.124	**.982**
Duration of Effect	**.924**	.117
Severity of consequences	**.981**	.119
% of Variance explained	79%	15%

As shown in Table 5.7, severity of consequences loads most highly on factor 1, but 10 out of the remaining 11 attributes also load highly on factor 1, and factor 1 accounts for 79% of the variance. Factor 1 is termed severity of consequences. Factor 2 only incorporates a single attribute, increasing-ness, and accounts for 15% of the variance. It is reasonable to term this increasing-ness.

This factor structure, with all but one attribute loading heavily on one factor, is very different from all previous traditional studies about perception of environmental risks and activities such as Fischhoff et al. (1978), Marris et al. (1997), Bronfman and Cifuentes (2003) and Siegrist et al. (2005), in which the results contained a much more balanced factor structure. This could be due to the difference in the nature of the risks being studied, as this research focuses on political risk; it could also be due to the difference in the context of this study and type of participant, i.e. managers in international business, rather than the general public. It might be considered that the layout of the questionnaire contributed to this anomaly but this is unlikely as these results, as will be shown later, are in line with previous literature about political risk and with the results of the interviews. With the attributes condensed into two principal components, the different risks can be plotted in factor space. This is often done in psychometric studies (where it is referred to as a 'cognitive map') to show how risks appear to be differentiated. Figure 5.1 represents the location of the 14 political risks within the two-factor space.

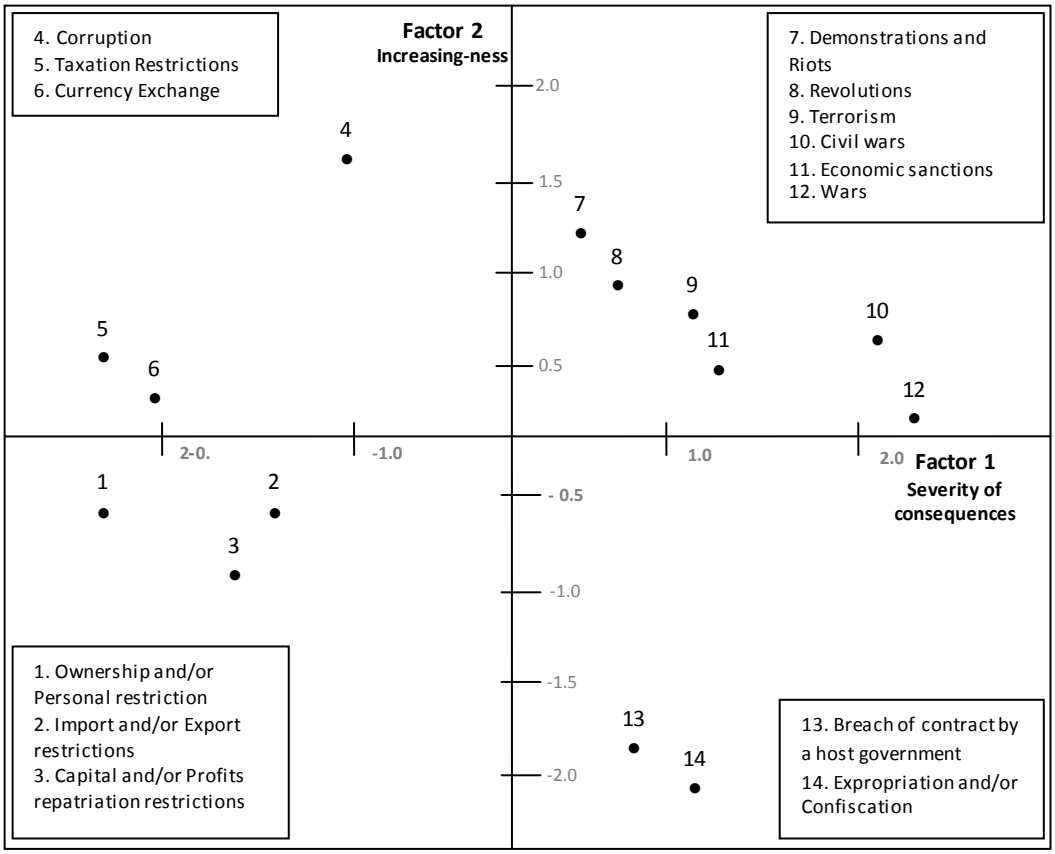

Figure 5.1: Factor space for attributes against risks

As shown in Figure 5.1, risks in the first quadrant (high in both factors) are risks that are not imposed by the government, such as demonstrations and riots, revolutions, terrorism, civil wars, economic sanctions, and wars. It is also notable that corruption is very high in increasing-ness, although not in severity of consequences. Breach of contract by a host government, and expropriation and/or confiscation, were both high in severity, and very low in incerasing-ness. This supports the findings of Hood and Nawaz (2004) which indicate that these two risks have been decreasing in the recent years as governments have come to realise that they affect their credibility and make it hard to get World Bank support.

In order to assess the predictive power of the two factors, the mean ratings across participants for the two dependent variables (riskiness and acceptability) were

regressed against the two factor scores for the 14 risks. Table 5.8 shows the results for the two regression models. Both factors have high values of adjusted R^2. Coefficients for both factors are highly significant in the model of riskiness, but only the severity factor has a significant coefficient in the model of acceptability. This coefficient is negative as should be expected, since acceptability would normally be high when riskiness is low.

Table 5.8: Regression model of riskiness and acceptability onto two attributes factors

Dependent Variable	Predictors	B	Std. Error	Beta	t-value
Riskiness R^2=.966	(Constant)	3.660	.026		141.320*
	Factor 1	.499	.027	.955	18.566*
	Factor 2	.126	.027	.241	4.688*
Acceptability R^2=.903	(Constant)	2.063	.053		38.890*
	Factor 1	-.607	.055	-.954	-11.034*

*P-value<.0001

It has been claimed in the literature of risk perception (Chapter Two) that the traditional psychometric analysis seems to obscure differences among participants and inflates how the model predicts the risk perception (Gardner et al., 1982). This is because the regression produces a higher R^2 when ratings are aggregated across participants. Aggregation is said to 'wash away' the effect of participant differences (Bronfman et al., 2007). Therefore, several studies attempted to apply the psychometric paradigm by using different types of analysis (Gardner and Gould, 1989; Savadori et al., 2004; Bronfman et al., 2008).

Nonetheless, it can be said that the attributes explain variation in risk perception very well. This is interesting because those attributes are very similar to the ones in the traditional psychometric model, indicating that such attributes have great generality. They are equally useful for explaining the perception of safety risks among the

general public and the perception of political risk among managers in organisations. But they work in a way that differs between these two situations because they combine into factors in a different way. Somehow people use this very general set of attributes when making judgments about risks, but have a different way of combining them in different contexts.

5.3.2 Analysing attributes versus participants aggregating across risks

This analysis ignores the differences between risks and concentrates on differences among participants. But it retains the idea that the attributes are what explain variation in risk perceptions. To clarify, in this analysis each participant is a case, with ratings averaged over the risks. Then the aim is to condense the attributes with principal components analysis. Table 5.9 shows the correlation matrix for the risk attributes. Many correlation coefficients between attributes are found to be significant at the 0.01 or 0.05 levels (2-tailed) except those involving the knowledge attribute, which appears uncorrelated with other attributes.

Table 5.9: Correlation between attributes aggregating over risks

	Voluntariness	Immediacy of effect	Knowledge about risk	Control over risk	Newness	Catastrophic potential	Common/ Dread	Unanticipated consequences	Preventability	Increasing-ness	Duration of effect	Severity of consequences
Voluntariness	1											
Immediacy of effect	-.095	1										
Knowledge	.142	.176	1									
control	-.265**	.465**	-.117	1								
Newness	.094	.220*	-.108	.180*	1							
Catastrophic	.215*	-.268**	-.002	-.416**	-.030	1						
Common/ Dread	.106	-.241**	-.015	-.482**	-.215*	.573**	1					
Unanticipated consequences	-.121	.158	-.114	.154	.299**	-.015	-.030	1				
Preventability	-.310**	.387**	-.144	.573**	.196*	-.465**	-.472**	.112	1			
Increasing-ness	.270**	-.216*	-.066	-.260**	-.006	.279**	.216*	-.254**	-.280**	1		
Duration of effect	.348**	-.282**	.114	-.472**	-.019	.591**	.462**	-.112	-.493**	.397**	1	
Severity of consequences	.231*	-.422**	-.014	-.452**	-.079	.637**	.601**	-.163	-.516**	.361**	.706**	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

N =120

Kaiser-Meyer-Olkin coefficient and Bartlett's test were calculated as shown in Table 5.10. KMO measure of sampling adequacy = 0.810, which is more than 0.5 and closer to 1; this predicts that the data are likely to factor well. This is also supported by Bartlett's test of sphericity sig value = 0.000< 0.001. Therefore, it is possible to proceed with performing factor analysis.

Table 5.10: KMO and Bartlett's Test of attributes versus participants aggregating across risks

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.810
Bartlett's Test of Sphericity	Approx. Chi-Square	467.899
	Df	66
	Sig.	.000

Next, principal component analysis was applied to the participant × attributes matrix. The resulting four factors explained 67% of the total variance in attribute ratings. Table 5.11 shows the rotated component matrix.

Table 5.11: Rotated component matrix for attributes against participants aggregated across risks

	Component			
	1	2	3	4
Voluntariness	.215	**.686**	.116	.281
Immediacy of effect	-.444	-.106	.418	.442
Knowledge about risk	.066	.043	-.133	**.902**
Control over risk	**-.679**	-.155	.283	-.064
Newness	-.157	.265	**.800**	-.088
Catastrophic potential	**.796**	.117	.130	-.055
Common-Dread	**.803**	-.112	-.076	-.044
Unanticipated consequences	.077	-.463	**.699**	-.037
Preventability	**-.714**	-.177	.210	-.142
Increasing -ness	.242	**.708**	-.115	-.249
Duration of effect	**.731**	.394	.063	.063
Severity of consequences	**.799**	.250	-.046	-.142
Percentage of Variance Explained	31.3	13.1	12.5	10.1

As shown in Table 5.11, factor 1 includes the following attributes: control over risk, catastrophic potential, common-dread, preventability, duration of effect and severity of consequences. Factor 1 is highly correlated with dread so is termed ‘dread’. It accounts for 31.3% of the total variance explained. The attributes control over risk and preventability load negatively on factor 1 given the scales used in the questionnaire. Factor 2 includes increasing-ness and voluntariness attributes. Factor 2 is highly correlated with increasing-ness so is termed ‘increasing-ness’ and accounts for 13.1% of the total variance explained. Factor 3 includes newness and unanticipated consequences and accounts for 12.5% of the total variance explained, and is termed newness.

Factor 4 includes only one attribute: knowledge about risk so is termed ‘knowledge about risk’ and it accounts for 10.1% of the total variance explained. As far as the immediacy of effect attribute is concerned, there is no strong factor loading observed on any of the four factors (factor loading < 0.45). Therefore, immediacy of effect attribute has been removed from the analysis.

Figure 5.2 represents the location of participants in the factor space defined by the first two of these principal components: dread and increasing-ness. It shows no visual indication that there is any clustering.

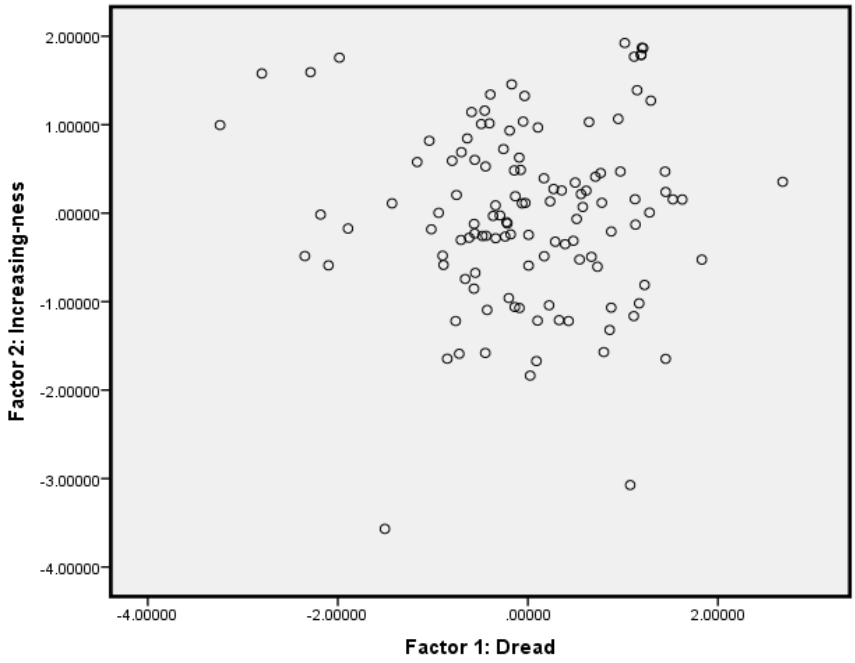

Figure 5.2: Factor space for attributes against participants

In order to assess the predictive power of the four factors, the mean rating for the two dependent variables (riskiness and acceptability) across the 14 risks for each participant were regressed onto the factor scores. Table 5.12 shows the results, first for the stepwise regression linking riskiness with the factors, second for the stepwise regression linking acceptability with the factors. For the first, the adjusted $R^2 = 0.346$, indicating a moderate fit. The first two factors only (dread and increasing-ness) have significant coefficients. In the second model, the adjusted $R^2 = 0.316$ and factors 1 and 3 (dread and newness) have significant coefficients. None of the other factors had significant coefficients at the 0.05 level so are not shown.

Table 5.12: Regression model of riskiness and acceptability onto four attributes factors

Dependent Variable	Predictors	B	Std. Error	Beta	t-value
Riskiness R^2=.346	(Constant)	3.660	.055		65.950**
	Factor 1	.398	.056	.529	7.138**
	Factor 2	.208	.056	.277	3.739**
Acceptability R^2=.316	(Constant)	2.063	.057		36.0728**
	Factor 1	-.398	.057	-.526	-6.938**
	Factor 3	.172	.057	.227	2.993*

*P-value<.01; **P-value<.001

The results of the Acceptability regression model agree with common sense that as Dread increases, Acceptability decreases. Also, as the risk becomes old, it will become more acceptable to managers, and vice versa. Voluntariness and knowledge about risk are excluded from the acceptability regression model as these factors are found to be not significant predictors to the aggregated acceptability.

The R-squared for both models in this view is substantially lower than view 1 (the traditional approach). This indicates that aggregating across risks produces less predictive value. This finding is in line with Bronfman et al. (2007), Willis et al. (2005), Savadori et al. (2004) and Barnett and Breakwell (2001). Bronfman et al. (2007, p.530) concluded that "psychometric dimensions are less useful for explaining differences among participants than explaining differences among hazards".

5.3.3 Analysing participants against risks aggregating across attributes

The aim here was to assess the effect of risks against participants and aggregated across attributes, thereby ignoring the differences between attributes. So the assumption here was that attributes have no particular significance, and that all predictive value, in terms of anticipating risk perceptions, lay with the participants and

the risks. This is contrary to the thinking behind the psychometric approach, and was examined to determine whether the psychometric approach is substantially better.

Table 5.13 shows the correlation matrix for political risks. Almost all correlation coefficients between risks are found to be significant at the 0.01 level or 0.05 level (2-tailed), except that between Import/Export restrictions and Wars.

Table 5.13: Correlation between risks aggregating over attributes

	Taxation restriction	Currency exchange restriction	Breach of contract	Capital/Profit repatriation restriction	Import\ Export restriction	Ownership/Personnel restriction	Expropriation/ Confiscation	Corruption	Demonstration/ Riot	Revolutions	Civil Wars	Terrorism	Economic sanctions	Wars
Taxation restriction	1													
Currency exchange restriction	.693**	1												
Breach of contract	.501**	.539**	1											
Capital repatriation restriction	.524**	.731**	.570**	1										
Import/Export restriction	.509**	.553**	.524**	.650**	1									
Ownership/ Personnel restriction	.393**	.518**	.432**	.619**	.548**	1								
Expropriation/ confiscation	.335**	.401**	.718**	.446**	.392**	.286**	1							
Corruption	.349**	.468**	.417**	.478**	.456**	.304**	.335**	1						
Demonstration / Riot	.211*	.341**	.443**	.355**	.338**	.263**	.324**	.636**	1					
Revolutions	.210*	.385**	.398**	.351**	.261**	.258**	.298**	.664**	.881**	1				
Civil Wars	.212*	.368**	.432**	.328**	.228*	.215*	.334**	.652**	.835**	.889**	1			
Terrorism	.196*	.309**	.436**	.309**	.246**	.212*	.336**	.623**	.869**	.847**	.840**	1		
Economic sanctions	.223*	.375**	.487**	.388**	.317**	.266**	.357**	.608**	.750**	.772**	.808**	.801**	1	
Wars	.197*	.334**	.411**	.325**	.171	.229*	.341**	.579**	.731**	.806**	.891**	.805**	.784**	1

**Correlation is significant at the 0.01 level (2-tailed).

*Correlation is significant at the 0.05 level (2-tailed).

N =-120

First step in principal component analysis is to calculate the Kaiser-Meyer-Olkin coefficient measure and Bartlett's test as shown in Table 5.14. KMO measure of sampling adequacy = 0.903, which is very close to 1; this predicts that the data is likely to factor well. This is also supported by Bartlett's test of sphericity sig value =

0.000< 0.001. Therefore, it is possible to proceed with performing principal component analysis.

Table 5.14: KMO and Bartlett's Test of participants against risks aggregating across attributes

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.903
Bartlett's Test of Sphericity	Approx. Chi-Square	1.468E3
	Df	91
	Sig.	.000

The principal component analysis was performed on the Risk × Participant matrix retaining components with eigenvalues greater than 1.0 and rotating the solution using the orthogonal varimax method. The resulting two factors explained 70.5% of the total variance in attribute ratings. Table 5.15 shows the rotated component matrix for the aggregate-level risk-focused analysis, and highlights risks assigned to each component. Risks with a factor loading >= 0.5 are included in the relevant component.

Table 5.15: Rotated component matrix for risks against participants aggregated across attributes

	Component	
	1	2
Taxation restrictions	.063	**.755**
Currency exchange restrictions	.217	**.812**
Breach of contract by host government	.348	**.707**
Capital/Profit repatriation	.205	**.835**
Import/Export restriction	.122	**.789**
Ownership/Personnel restriction	.103	**.706**
Expropriation	.272	**.574**
Corruption	**.654**	.412
Demonstration and Riot	**.887**	.213
Revolution	**.919**	.185
Civil War	**.936**	.166
Terrorism	**.919**	.155
Economic sanction	**.849**	.249
Wars	**.890**	.151
Percentage of Variance Explained	40.048	30.453

As shown in Table 5.15 the risks corruption, demonstration/riots, revolution, civil war, terrorism, economic sanctions and wars had very high positive loading on factor 1, which account for 40% of the variance. As the source of these risks is not directly the host government, factor 1 can be called non-governmental risk. Factor 2 includes taxation restriction, currency exchange restrictions, breach of contract, capital repatriation, import and export restrictions, personnel restriction and expropriation. It accounted for 30.5% of the variance. Since the source of these risks is related to governmental policy, factor 2 can be termed governmental risk. Figure 5.3 represents the location of 120 participants in the factor space as defined by the two factors. It suggests that there are no clusters among participants.

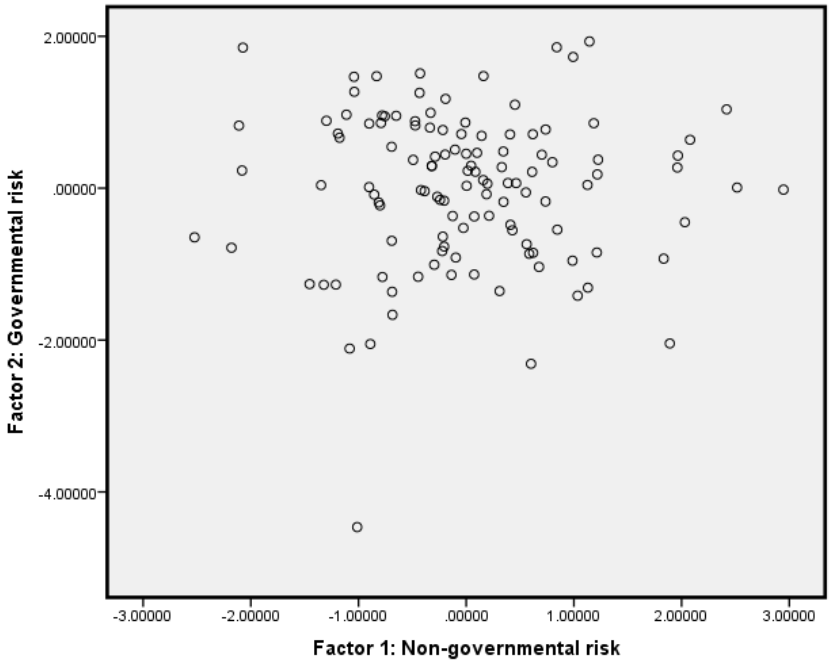

Figure 5.3: Factor Space for risks against participants

As before, riskiness and acceptability are regressed against these factors to determine how well they explain variation in the two dependent variables. As can be seen from the Table 5.16, the riskiness regression model has an adjusted $R^2 = 0.143$, which is very low and indicates that the data does not fit the model well, and a lot less well than the two previous models (the psychometric models).

Table 5.16: Regression model of riskiness and acceptability onto two factors of risks

Dependent Variable	Predictors	B	Std. Error	Beta	t-value
Riskiness R^2=.143	(Constant)	3.660	.064		57.620**
	Factor 2	.248	.064	.330	3.890**
	Factor 1	.166	.064	.220	2.597
Acceptability R^2=.033	(Constant)	2.063	.068		30.326**
	Factor 1	-.153	.068	-.203	-2.247*

*P-value<.05; **P-value<.001

The mean rating for acceptability was also regressed on to the two factors, as shown in Table 5.16. But the stepwise regression identified Factor 1 (non-governmental risk) as

the only significant variable, excluding factor 2 (governmental risk). So for both outcomes factor 1 (non-Governmental risk) is a highly significant predictor of both riskiness and acceptability, and the well-defined result of the principal components analysis clearly separates governmental and non-governmental risk. But the model performs poorly compared with the psychometric procedures described earlier (view 1 and view 2). This is a confirmation that the psychometric approach – explaining risk perception in terms of attributes – carries across well to the political risk domain. In the analysis of interviews (Chapter Six) and the discussion (Chapter Seven), the question of why governmental and non-governmental risks might be treated differently will be re-visited.

5.4 Demographic analysis

The demographic analysis is intended to answer RQ1.2 on the influence of 19 firm and participant characteristics on managerial political risk perception; this is done by linking them with the two dependent variables, Riskiness and Acceptability. The effect of type of industry, job title and ownership (which are all nominal variables) are analysed using non-parametric methods, while the rest of the variables are analysed using parametric methods.

5.4.1 Demographic non-parametric analysis

A Kruskal-Wallis test (used when assessing more than two categories) was conducted to examine whether there was a significant difference between the type of industry categories with respect to riskiness and acceptability. As shown in Table 4.17, no significant difference was observed.

Table 5.17: Kruskal – Wallis test between type of industry vs. riskiness and acceptability

Dependent Variable	Predictors	Chi-Square	Asymp. Sig.
Riskiness	Industry	1.022	.796
Acceptability	Industry	2.343	.504

*P-value<.05

The Mann-Whitney U test (used in assessing the differences between two categories only) was conducted to check for a significant difference between types of ownership (private owned or government owned), job title in terms of specialty (risk manager or other kind of manager) and seniority (top managers or non-senior manager) with respect to Riskiness and Acceptability. As shown in Table 5.18, there was no significant difference between the categories of ownership and job title except in the case of risk managers where it significantly affected acceptability at the 0.05 level. This may be due to chance as it is an isolated result.

Table 5.18: Mann-Whitney U test between both ownership and job title vs. riskiness and acceptability

Dependent Variable	Predictors	Z-value	Asymp. Sig.
Riskiness	Ownership	0.437	0.235
	Job Title- Speciality	-1.459	0.145
	Job Title-Seniority	-1.557	0.119
Acceptability	Ownership	-0.088	0.93
	Job Title- Speciality	-2.372	.018*
	Job Title-Seniority	-0.063	0.95

*P-value<.05

5.4.2 Demographic parametric analysis

Parametric data analyses for the 16 demographic variables were performed. First the correlations among them were calculated, and then condensed using principal component analysis. Riskiness and acceptability were regressed against factors from the principal components. The correlation matrix is shown in Table 4.19, indicating many inter-correlated variables.

Table 5.19: Pearson correlation coefficient between 16 demographic variables

	Total capital	Total assets	Assets in GCC (%)	Assets in non GCC Arab countries (%)	Assets in non-Arab developing countries (%)	Assets in non-Arab developed countries (%)	Number of years in international business activities	Total number of employees	Employees in GCC (%)	Employees in non GCC Arab countries (%)	Employees in non-Arab developing countries (%)	Employees in non Arab developed countries (%)	Number of GCC countries in which firm operates	Number of non GCC Arab countries in which firm operates	Number of non-Arab developing countries in which firm operates	Number of non-Arab developed countries in which firm operates
Total capital	1															
Total assets	.485**	1														
% of assets in GCC	-.379**	-.288**	1													
% of assets in non GCC Arab countries	.187*	0.038	-.399**	1												
% of assets in non Arab developing countries	.299**	0.003	-.506**	.627**	1											
% of Assets in Non-Arab developed countries	.221*	0.019	-.416**	.256**	.380**	1										
Number of years in international business activities	.490**	.309**	-.329**	0.045	0.095	0.087	1									
Total number of employees	0.157	.427**	0.026	0.161	-0.039	-0.047	.308**	1								

% of employees in GCC countries	-.267**	-0.039	.404**	-.280**	-0.055	-0.147	-.368**	-0.057	1							
% of employees in Non GCC Arab countries	0.084	0.055	-0.107	.449**	.257**	0.139	0.029	.186*	-.382**	1						
% of employees in Non-Arab developing countries	.220*	0	-.249**	.470**	.591**	.419**	0.12	0.026	-.301**	.316**	1					
% of employees in Non-Arab developed countries	.222*	0.155	-.201*	.266**	.315**	.613**	.187*	0.085	-0.158	.196*	.409**	1				
Number of GCC countries in which firm operates	-0.121	0.005	0.141	-0.024	-0.159	-0.056	0.099	.227*	-0.165	-0.005	0.141	-0.149	1			
Number of non GCC Arab countries in which firm operates	.578**	.186*	-.284**	0.111	0.045	0.035	.601**	0.109	-.442**	0.041	0.137	-0.142	.364**	1		
Number of non-Arab developing countries in which firm operates	.350**	0.167	-.389**	-0.048	0.027	-0.007	.449**	-0.031	-.347**	-0.087	0.108	-0.08	0.122	.631**	1	
Number of non-Arab developed countries in which firm operates	.245**	0.106	-.254**	-0.047	0.142	.462**	.265**	0.129	-.191*	-0.085	.314**	.533**	0.12	0.054	0.031	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Sample size= 120

First step in factor analysis is to calculate the Kaiser-Meyer-Olkin coefficient measure and Barttett's test. As shown in the Table 5.20 KMO measure of sampling adequacy = 0.589, which is more than 0.5. Although it is slightly higher than 0.5, it indicates that the data is likely to factor well as this is supported by Bartlett's test of sphericity with sig value = 0.000 < 0.001. Therefore, it is possible to proceed with performing factor analysis.

Table 5.20: KMO and Bartlett's Test for the 16 demographic independent variables

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.589
Bartlett's Test of Sphericity	Approx. Chi-Square	1.101E3
	df	120
	Sig.	.000

Principal components analysis over these 16 variables produced 5 factors as shown in Table 5.21.

Table 5.21: Factor analysis for the 16 demographic independent variables

	Component				
	1	2	3	4	5
Total capital of firm	.456	.135	.162	.501	.592
Total assets of your firm	.276	.008	.023	.882	.186
Percentage of firms asset in the GCC countries to the total assets of your firm	-.635	-.331	-.218	.034	-.386
Percentage of firms asset in the non GCC Arab countries to the total assets of your firm	.077	.837	.061	.107	.146
Percentage of firms asset in the non-Arab developing countries to the total assets of your firm	.119	.633	.274	-.053	.436
Percentage of firms asset in the non-Arab developed countries to the total assets of your firm	.069	.315	.711	-.141	.163
How many years firm involved in international business activities	.663	-.034	.285	.373	-.025
Total number of employees that your firm employee	-.032	.137	.040	.868	-.272
Percentage of firms employees in the GCC countries to the total number of employees	-.598	-.395	-.097	.011	.269
Percentage of firms employees in the non GCC Arab countries to the total number of employees in firm	-.029	.744	-.025	.148	-.169
Percentage of firms employees in the non-Arab developing countries to the total number of employees	.123	.641	.476	-.113	-.003
Percentage of firms employees in the non-Arab developed countries to the total number of employees	-.088	.284	.834	.090	.064
In how many GCC countries your firm has facilities such as representative offices, subsidiaries etc.	.186	.013	-.008	.094	-.810
In how many non GCC Arab countries your firm has facilities such as representative offices, subsidiaries etc.	.930	.075	-.081	.165	-.121
In how many non-Arab developing countries your firm has facilities such as representative offices, subsidiaries etc	.894	-.113	-.066	.013	.043
In how many non-Arab developed countries your firm has facilities such as representative offices, subsidiaries etc	.139	-.224	.799	.202	-.066

Two regression models were developed to predict the riskiness and the acceptability using these factors. As shown in Table 5.22, the Adjusted R^2 for riskiness and acceptability are both low (0.193, 0.090).

Table 5.22: Regression model of riskiness and acceptability vs. the five factors

Dependent Variable	Predictors	B	Std. Error	Beta	t-value
Riskiness R^2=.193	(Constant)	3.651	.074		49.372*
	Factor 1	.011	.074	.015	.154
	Factor 2	-.024	.074	-.031	-.326
	Factor 3	.015	.074	.020	.206
	Factor 4	.140	.074	.182	1.890
	Factor 5	-.039	.074	-.050	-.522
Acceptability R^2=.090	(Constant)	2.045	.066		30.830*
	Factor 3	-.192	.067	-.263	-2.880*
	Factor 5	.141	.067	.193	2.109*

*P-value<.05

This indicates that there is very little or no influence of firms' and respondents' characteristics on managerial political risk perception, in contrast to the psychometric model.

5.5 Open ended question in the questionnaire

As mentioned in the methodology, an open-ended question in the questionnaire aimed to assess the seriousness of respondents towards the questionnaire and the general problem of political risk during the Arab Spring. The question was: *What is the influence of the Arab Spring on the way you think about risk in your firm's international business?* A total of 76 respondents answered this question, out of 120 valid questionnaires, which represents about 63% of the total respondents, as shown in Figure 5.4. The responses were divided into four categories; the categories were:

- No or minimal impact of the Arab Spring.
- Significant impact of Arab Spring.
- More attention given to political risk as a result of the Arab Spring.

- Irrelevant or incomprehensible responses.

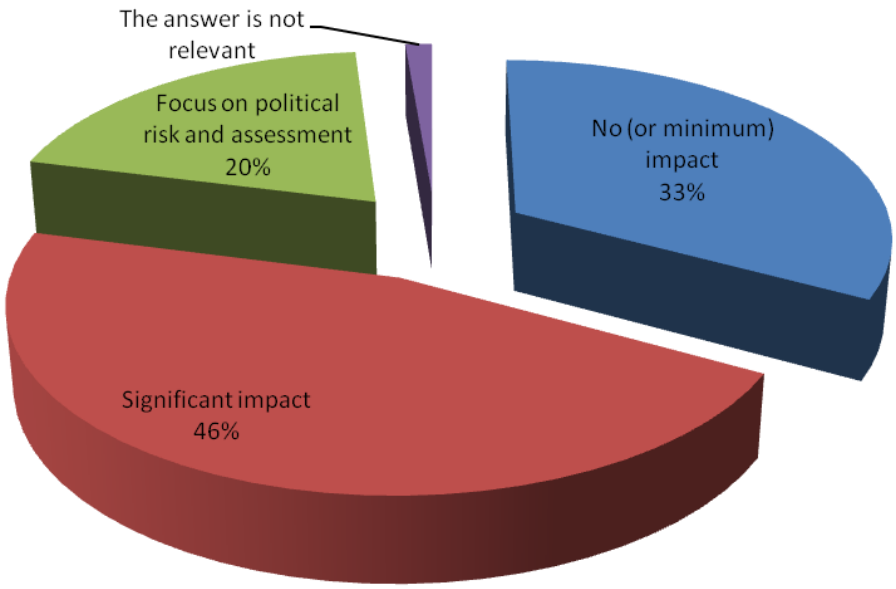

Figure 5.4: Proportion of open-ended responses in each category

In the first category, 25 out of 76 (33% of questionnaire participants) indicated that the Arab Spring has no or minimal impact on the nature of the risk they experience. The answers were classified into two sub-groups: those indicating they had no business in the affected countries, and those indicating they expected the impact to be temporary. For example, one participant said *"no effect - our strategies focus on the GCC countries"*. Another participant said *"yes, some the company's assets have been affected due to such uprisings and especially the company's assets in Egypt, and it has been considered that such impact would be temporary only, that I have full trust that these assets will return back to their level in terms of market value after the political instability in Egypt ends"*.

In the second category, the majority of responses, 35 out of 76 (46% of questionnaire participants), answered that the Arab Spring was having a significant impact on their businesses. These participants talked about avoiding or stopping their business in these countries. For example, one participant said "*Of course* [there has been] *a significant impact on the real-estate markets, in addition to instability and the fear of the fate of investments in these countries; as a result of these risks we have postponed any planned investments in these countries."*

In the third category, 15 out of 76 (20% of questionnaire participants) accepted the importance of political risk and the need for assessment. For example, one participant said *"the company becomes more cautious in selecting investment opportunities with focus on the political risk assessment and their reflection on the economics of such countries".*

Generally, then, these responses support the view that most participants at least took the questionnaire seriously, and that they had given some thought to the issues involved.

5.6 Conclusion

This chapter has described the quantitative analysis that addresses Research Question One: What are managers' political risk perceptions in Kuwaiti international firms? Firstly, three views were tested to identify the best predictor of risk perception, two of which were from the psychometric paradigm and the third view, which did not use risk attributes to explain risk perceptions, was used as a contrast. The main point is that the model in view 2 provided a fit to the data that was intermediate between that of view 1 (the traditional psychometric paradigm) and view 3. So it can be concluded that political risk perceptions are strongly predicted by the traditional psychometric

paradigm – and in particular by risk attributes. The least predictive model aggregates across these attributes.

Second, in order to test whether the firms' and participants' characteristics (demographic variables) can better explain the risk perception when compared to the psychometric framework, 19 variables were linked with the two dependent risk perception variables. The findings show that there is no evidence of an influence of these characteristics on risk perception. Again this confirms the relative usefulness of the psychometric approach and the proposition that risk attributes, not demographics, are what determine risk perception.

CHAPTER SIX: QUALITATIVE DATA ANALYSIS

6.1 Introduction

The aim of this chapter is to analyse the qualitative data collected via 34 face-to-face semi-structured interviews to answer Research Question Two: What is the relationship between Kuwaiti managers' risk perception and the institutionalisation level of political risk assessment in international Kuwaiti firms? The analysis was divided into two main parts: the first part involved a pre-determined way of categorising the data using three main indicators of institutionalisation suggested in the literature, and then examining the relationship between this level of institutionalisation and firm characteristics. The second part is an inductive thematic analysis of the interviews. The principal themes turn out to be: 1) why managers come to be more concerned about non-governmental risk; and 2) why they resist quantitative analysis of political risk.

6.2 Institutionalisation of political risk assessment

Blank et al. (1980, p.7) introduced the term "institutionalisation" as a process through which the political risk assessment function becomes "more explicit and systematic within corporate organisation." They argued that institutionalisation is shown by three main indicators: the nature of responsibility for risk assessment, the regularity of the assessment, and the use of defined assessment methods (qualitative or quantitative). Institutionalisation of political risk is a "bipolar continuum" (Kobrin, 1982, p.69), and there is a "grey area" through which firms might be ranked from being "less institutionalised" to being "more institutionalised" (Blank et al., 1980, p.7). Thus, any one firm may have institutionalised according to one or two of the three indicators, but not the others (Blank et al., 1980). Three institutionalisation indicators were identified

and discussed in the literature survey (see Chapter Three Section 3.6.2). They are as follows:

- Nature of responsibility for political risk assessment:
    - Implicit responsibility
    - Formal allocation of responsibility
- Regularity of political risk assessment:
    - Assessment carried out only on demand (triggered by external or internal events)
    - Assessment carried out on a regular basis
- Assessment method:
    - Qualitative
    - Both qualitative and quantitative

The relevance of these indicators to the interviews was supported by the participants' responses as explained next.

6.2.1 Indicators of institutionalisation

6.2.1.1 Responsibility for political risk assessment

The allocation of formal responsibility to a specific individual or group within the firm is the minimum requirement to be institutionalised (Blank et al., 1980). Kobrin (1982) argued that institutionalisation should itself be a part of the responsibilities assigned to some position, and The Institute of Risk Management (2002) recommends assigning risk responsibilities throughout an organisation. However, Kobrin (1982) found that firms may implicitly conduct political risk assessment, whereby firms demonstrate a general sense of responsibility without formal allocation of these responsibilities. As Table 6.1 shows, an analysis of the interviews indicates that all

organisations had at least some sense of responsibility for conducting political risk assessment and most had a formal allocation of responsibility for it. Three firms were found to be less institutionalised as they lacked formal allocation of responsibility, but presented evidence that they took some kind of informal assessment seriously. To clarify, their assessment involved organizational activity, not just individual judgment. For example, RS15 reflected: "*The employees in Egypt have a great experience in Petroleum field and industry. So they play a big role in understanding the political situation.*" In comparison, 31 other firms assigned formal responsibility. This was reflected in the comments of interviewee RS6: "*It's a committee, as we have to do our due diligence with three factors: legal factor, financial factor and visibility study factor which include political risk."*

Table 6.1: Responsibility of assessment

	Number of firms	Percentage
Sense of responsibility (less institutionalised)	3	8.8
Assigning formal responsibility (More institutionalised)	31	91.2
Total	34	100

6.2.1.2 Regularity of political risk assessment

The regularity of assessment is the second indicator of institutionalisation of political risk assessment, and is related to the design of the normal reporting network within the corporate organisation (Blank et al., 1980). The more regular assessments of political risks are thought to indicate a greater degree of institutionalisation (Blank et al., 1980; Al Khattab et al., 2008a). Regular assessments should enable companies to

cope with dynamic political environments; for example, changes in governmental policies or actions, and economic developments which constantly affect investment opportunities (Tsai and Su, 2005). As shown in Table 6.2, the interviews indicated two main approaches regarding regularity of assessments: 1) on demand; and 2) on a regular basis.

Responses that indicated assessments were conducted 'on demand' were considered to reflect less institutionalisation as the assessments were triggered by either external events, such as war, or by internal events, such as proposals for new international business, rather than being carried out on a regular basis. For example, RS15 stated "*We receive reports from them periodically. It is quarterly; attached to the financial reports, but these reports don't include political risks. However if there is any new event, we recognize it, we follow it step by step*." In another example, RS13 said "*For the credit risk and operational risk we assess them continuously; on a daily basis, monthly and quarterly. For political risk,* [only] *when needed. For example, if something* [produces an] *alert and might affect us*." Some respondents indicated that assessment is triggered by internal events; for example, RS21 said: "*before each new activity* [assessments are carried out] *by reading reports in newspapers and publications like U.B.S (Union Bank of Switzerland)...to prepare reports and recommendation to the top management."*

Responses indicating that assessments are regularly conducted were considered to reflect greater institutionalisation because they assess political risks as part of a normal reporting network in comparison to the on demand approach. As shown in Table 6.2, the majority of respondents (65%) conducted the assessment on a regular basis. For example, RS24 commented: "*Once the project is there we cannot consider*

the political risk the same, we are already there in the country, so we assess how much impact and how mitigation is required to minimize the effect of such risk on quarterly basis." In another example, RS11 said: "*Before the start of the Arab Spring, we've already had a very solid process in place in terms of evaluation of risk. .... it is an ongoing process; it's a life process. Therefore the Arab Spring didn't change the way that we went into an assessment process. We didn't change regularity and the way that we went into an assessment process; we didn't need to do special assessment for the Arab spring.*"

Table 6.2: Regularity of political risk assessment

	Number of firms	Percentage
On demand (Less institutionalised)	9	26.5
On a regular basis (Most institutionalised)	25	73.5
Total	34	100

6.2.1.3 Risk assessment method

The assessment method is divided into two types: qualitative assessment and mixed methods (qualitative and quantitative methods). More institutionalised firms are considered to use mixed methods (Blank et al., 1980) in which objective measures are included in the assessment to minimise bias and subjectivity in human judgments (Pahud De Mortanges and Allers, 1996; Brink, 2004). As shown in Table 6.3, the majority of respondents (65%) use only qualitative methods in the assessment of political risk at their firms. For example RS5 mentioned*: "For political risk, it's qualitative based on the reports and the recommendation and of course based on our experience as the board members have a considerable experience in the investment*

field and the real estate." In one of the firms using mixed methods, RS7 said: "*One of the tools is the stress test technique, putting some sort of scenario analysis i.e. what if a catastrophe took place in Libya. How will it affect our business? Then we monitor and measure in a quantitative format the impact on the bank*." The reasons behind why most of the firms do not use quantitative assessment methods will be analysed in Section 6.3.2.

Table 6 3: Methods of political risk assessment

	Number of firms	Percentage
Qualitative (Less institutionalised)	22	64.7
Mixed (quantitative & qualitative) (More institutionalised)	12	35.3
Total	34	100

6.2.2 Quantifying the level of institutionalisation

The aim of this section is to quantify the level of the institutionalisation of political risk assessment in the participating firms, using the three indicators. It will examine the relationship between the levels of institutionalisation and firm characteristics that was discussed in the literature review (See Chapter Three Section 3.7). Table 6.4 illustrates the scoring system that was applied to the firms based on the categories they fell into for each indicator. It is extremely simple but it seems reasonable to use a cardinal scale and use integers for the levels of institutionalisation associated with each category. For the three indicators, the categorisation is mutually exclusive. The scores on each dimension are summed up to get an overall rating of institutionalisation for each firm. A multiplicative model would mean that, if any of the scores are zero, the total would then be zero irrespective of the other scores, and this seems counter-

intuitive. A more complex model would be inappropriate because the judgments made about which category a firm falls into are only approximate ones, and it would be misleading to analyse the scores in a sophisticated way. The result can only be an approximate, summary understanding, and has to be interpreted on this basis. But it allows us to: 1) characterise a firm's assessment in a simple way; 2) look for evidence that they can be explained by the firm's characteristics. In the previous chapter, it was shown that demographics provide a poor explanation of individual risk perceptions, and it is interesting to ask whether demographics provide a better explanation of organisational risk assessment.

Table 6.4: Rating scores of classifications for each indicator in the level of institutionalisation

Indicators	Classifications	Score
Assigning responsibility	No responsibility	0
	Sense of responsibility (An informal understanding of responsibility)	1
	Allocation of formal responsibility	2
Regularity of assessment	Never	0
	On demand	1
	Regular assessment	2
Assessment methods	No discernible method at all	0
	Qualitative	1
	Mixed (quantitative & qualitative)	2

Based on the rating scores of classifications for each indicator, Table 6.5 shows the overall rating of the level of institutionalisation for each of the 34 firms. A tick (✓) indicates membership of a category. It can be observed that the main differentiating indicator with regard to the institutionalisation level related to the type of assessment method as 12 out of 34 firms used mixed methods in analysing political risks, and

these firms were the ones that presented with a high level of institutionalisation. The shaded rows indicate a high level of institutionalisation.

The next section will examine the relationship between firm characteristics and the overall rating of level of institutionalisation.

Table 6.5: The overall rating of the level of institutionalisation for each of the 34 firms

	Indicators of the Institutionalisation of political risk assessment									Overall rating	Type of industry	Years of experience	No. of Arab countries	Ownership	Firm size (total capital)
	Responsibility assignment			Frequency			Method								
	No formal responsibility	Sense of responsibility	Assigning formal responsibility	Never	On demand	On a regular basis	No discernible method at all	Qualitative	Quantitative & Qualitative						
Score	0	1	2	0	1	2	0	1	2						
RS1			✓			✓			✓	6	Bank	10	1	Private	476,503,599
RS2			✓			✓		✓		5	Holding Co	53	21	Government	1,300.000,000
RS3			✓		✓			✓		4	Real estate	18	2	Private	51,272,341
RS4			✓		✓			✓		4	Financial service	15	18	Private	35,320,187
RS5			✓			✓		✓		5	Real estate	8	3	Private	42,000,000
RS6			✓		✓			✓		3	Telecom.	7	1	Private	87,234,161
RS7			✓			✓			✓	6	Bank	50	4	Private	157,488,047
RS8			✓			✓			✓	6	Insurance	13	6	Private	18,703,912

RS9		✓				✓		✓		4	Industrial	10	2	Private	5,000,000
RS10			✓			✓			✓	6	Telecom.	25	8	Private	432,705,890
RS11			✓			✓		✓		5	Financial service	17	7	Private	87.300,000
RS12			✓			✓		✓		5	Oil & Gas	6	5	Private	75,000,000
RS13			✓		✓			✓		4	Bank	5	1	Private	206,325,157
RS14			✓		✓			✓		4	Investment Co	53	18	Private	55,125,000
RS15		✓			✓			✓		3	Industrial	13	2	Private	78,750,000
RS16			✓			✓		✓		5	Financial service	12	1	Private	17,627,690
RS17			✓			✓		✓		5	Insurance	42	18	Private	15,000,000
RS18			✓			✓			✓	6	Oil & Gas	32	6	Government	1,200,000,000
RS19			✓			✓		✓		5	Industrial	17	5	Private	114,000,000
RS20			✓			✓			✓	6	Oil & Gas	30	18	Government	1,000,000,000
RS21			✓		✓			✓		4	Insurance	30	6	Private	19,404,000
RS22			✓		✓			✓		5	Bank	35	3	Private	304,812,789

RS23			✓		✓			✓		5	Financial service	52	18	Government	2,000,000,000
RS24			✓			✓			✓	6	Oil & Gas	52	7	Government	1,200,000,000
RS25		✓				✓		✓		4	Oil & Gas	30	5	Private	20,962,500
RS26			✓			✓		✓		5	Financial service	35	18	Private	53,130,000
RS27			✓			✓			✓	6	Financial service	9	8	Private	41,316,276
RS28			✓			✓			✓	6	Financial service	3	3	Private	24,937,593
RS29			✓			✓			✓	6	Insurance	8	2	Private	10,760,000
RS30			✓			✓		✓		5	Financial service	15	7	Private	49,546,875
RS31			✓			✓		✓		5	Industrial	10	7	Private	27,428,908
RS32			✓			✓			✓	6	Financial service	15	18	Private	26,330,175
RS33			✓			✓			✓	6	Oil &Gas	20	18	Government	400,000,000
RS34			✓			✓		✓		5	Bank	32	5	Private	250,000,000

6.2.3 Level of institutionalisation and firm characteristics

Previous studies demonstrated the relationship between firm characteristics and the level of institutionalisation of political risk as discussed earlier in Chapter Three (Section 3.7). These characteristics include: 1) years of experience in the international businesses (Kobrin, 1982; Oetzel, 2005; Al Khattab et al., 2008a); 2) the size of the firm (Kobrin,1982; Stapenhurst, 1992b; Al Khattab et al., 2008a); 3) the type of industry (De Mortanges and Allers, 1996; Blank et al., 1980); and 4) number of countries in which the firm is operating in (Kobrin ,1982; Hashmi and Baker, 1988; Al Khattab et al., 2008a).

Given the research context of the Arab Spring, the relationship between the institutionalisation score and the number of Arab countries in which the firm was operating was tested instead of the overall number of countries (the fourth characteristic). Moreover, the relationship between ownership (private or governmental) and the overall rating of the level of institutionalisation was also tested. This is because governmental firms in Kuwait are heavily involved in international business (Ministry of Finance, 2006) and it seems possible that this will influence the institutionalisation of risk assessment procedures.

As shown in Table 6.6, Pearson correlation coefficients were calculated for the relationship between the level of institutionalisation score and three parametric variables: a) overall firm size; b) years of experience in the international businesses; and c) number of Arab countries in which the firm was operating. The results showed no significant correlation with overall firm size ($r = 0.301$), years of experience ($r = 0.091$) and number of Arab countries ($r = 0.167$). All these correlations are not significant at P-value < 0.05 level.

Spearman coefficients were calculated for the relationships between the institutionalisation score and two non-parametric variables: a) type of industry; and b) ownership. The results showed no significance correlation with type of industry (r = 0.066) but it showed a slight weak correlation with ownership (r = -0.341) which is slightly significant at P-value <0.05 level. Although the results showed no significant relationship between the type of industry and institutionalisation score, all government-owned oil firms were highly institutionalised. This specific point is unsurprising as oil production is a fundamental industry in Kuwait and the main driver of its economy. As participant RS24 stated: *"We are concerned about and quantify all types of risks including the political risk because our oil industry is the heart of our economy".* The thematic analysis of the interviews, described later, will attempt to explain what is motivating firms to deal with risks in different ways.

Table 6.6: Pearson and Spearman correlation between overall rating and firm characteristics variables

		Overall rating
Years of Experience	Pearson Correlation Sig. (2-tailed)	.091 .607
No. of Arab countries	Pearson Correlation Sig. (2-tailed)	.167 .346
Total Capital	Pearson Correlation Sig. (2-tailed)	.301 .084
Ownership	Spearman Correlation Sig. (2-tailed)	-.341* .048
Type of Industry	Spearman Correlation Sig. (2-tailed)	-.066 .711

N=34 **. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

6.2.4 Influences of the Arab Spring on risk assessment

The previous section provides a static picture of the institutionalisation of political risk assessment. However, the respondents were asked about the influence of the Arab Spring, as an important, dynamic aspect of the environment, on the assessment. From the interviews, there is some evidence that in five of the firms, political risk assessment has changed as a result of the Arab Spring. For example, RS1 talked about political risk assessment, including the assessment of non-governmental political threats being introduced from 2013 onwards. RS8 similarly talked about including the political unrest in detailed assessments after the Arab Spring.

Some respondents talked about changing the frequency after Arab Spring. For example, RS7 said *"Since the Arab Spring we conducted several reviews on political risks and counter party risk".* RS18 said: *"After the A.S we more concentrate on the countries [in which we] have operation, we consider the risk of securing people more than before by frequent follow up."* He also added: *"In the past, we used to study any risks every three months .... But today, if four protestors demonstrate in any country we take such action into consideration. If clashes happen in one area* [this] *shall be taking into consideration... Before the Arab spring we used to conduct a report every three months. The currency rate was steady. Nowadays even the gold rate is highly fluctuating."*

RS18 also referred to a change in the method of analysis: *"Before the Arab Spring we just mentioned the potential political risk in our report, but now we measure the probability and the effect of this risk over for example, the exchange rate."*

6.3 Thematic analysis of the interviews

As discussed in the chapter on methodology, the thematic analysis of the interviews was conducted to answer Research Question Two, on the relationship between Kuwaiti managers' risk perceptions and the institutionalised levels of political risk assessment within their firms. The development of these themes has been divided into two main sections. The first section deals with managers' concerns about political risk, explaining in particular the way they emphasise non-governmental risks in their perceptions or judgments. The second section investigates what underlies the institutionalisation of the assessment, explaining especially why managers often resist the use of quantitative methods, and why the Arab Spring often did not lead them to adopt more rigorous assessment. Figure 6.1 shows these themes.

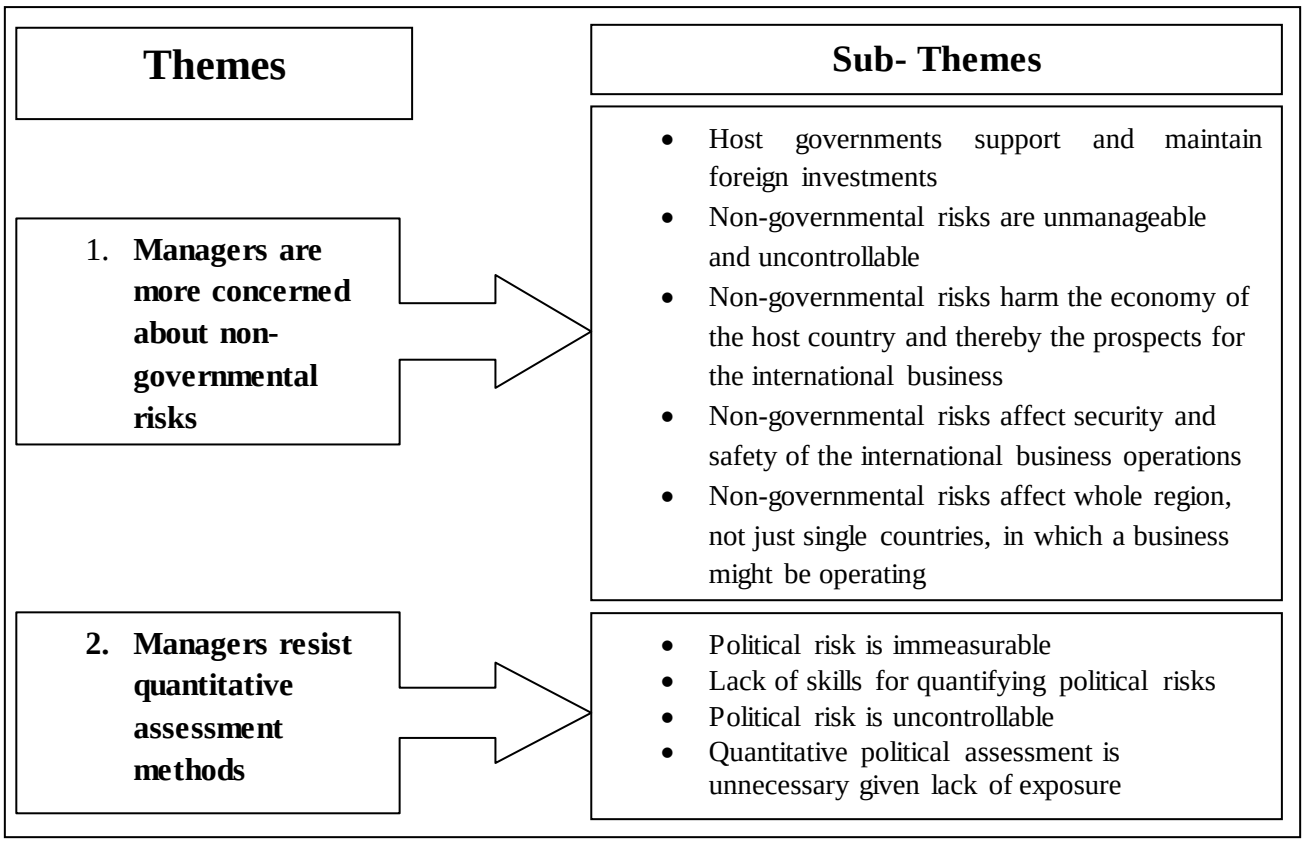

Figure 6.1: Thematic analysis of qualitative data

6.3.1 Theme One: managers are more concerned about non-governmental risks

The questionnaire analysis (traditional psychometric view) showed that managers were more concerned about the non-governmental risks, such as civil wars and revolutions, compared to governmental risks, such as taxation and capital repatriations. Based on the analysis of qualitative data, the reasons that explain why managers are more concerned about the non-governmental risks can be divided into five sub-themes:

- Host governments support and maintain foreign investments
- Non-governmental risks are unmanageable and uncontrollable
- Non-governmental risks harm the economy of the host country and thereby the prospects for the international business
- Non-governmental risks affect security and safety of the international business operations
- Non-governmental risks affect whole regions, not just single countries, in which a business might be operating.

6.3.1.1 Subtheme One: host governments support and maintain foreign investments

Many respondents pointed to the support often given by a host government to foreign investors. RS2, a senior investor manager in the Arab contribution department in a holding company, said: *"Host governments encourage the foreign investments and enact laws for attracting investments. In Tunisia for example, the Electoral programs of all parties fully depend on attracting the foreign investments."* RS16 similarly mentioned: "In *general I have noticed that most of these countries in the recent years are trying to attract investors by reducing and minimising these risks* [governmental risk]". RS16 added that even with the changing laws and regulations in countries like

Morocco, Tunisia and Algeria, "*there are no problems in work and business as all these laws* [and] *changes* [are] *in favour of investors. So there was no problem".*

Governments of almost any description exist within a larger economic community of nation states and cannot opt out of such a community. Therefore, whatever their ideologies, they are restrained from acting in ways that harms international businesses. This is clearly evident to the managers of such businesses describing the risks they are taking. This was reflected in the opinion of RS23, a legal advisor in real estate investment, who said: *"changing the regulation as a consequence of changing the government is not a concern as that does not relieve the new government of the commitments that the previous government took, this is an international rule. In fact the new government, to ensure the acceptance of the international community and to maintain the current investors, usually announce that they are responsible for all previous obligations."* This respondent also said that host governments *"give more facilities to attract the foreign investors as FDI is very important to revive* [their] *economy."* RS20, a business development group manager in oil and gas company, was concerned about "*changing the regulations due to changing of the government",* which might create "*some disturbance",* but it is "*not a critical risk as usually they* [governments] *keep their commitment, it just consumes time to get assured again, because most of the governments try to attract foreign investors by offering incentives and reducing restrictions."*

In some cases, the foreign investors might need to negotiate with the new governments in host countries regarding the changes of rules and regulations. This was mentioned by RS9, a chairman of an industrial company, who said, *"Every time the regime changed in Iraq,* [this] *causes changes in rules and regulations which lead to*

confusion for some time. But in most cases the regulations will be to our benefit and, if not, we can negotiate with them because ultimately it's for the benefit of their economy to keep foreign investors."

RS24, a managing director for planning and finance in an oil and gas company, provided a recent example of governmental risks in Egypt during the period of the Arab Spring which summarised the previous views: *"Political risk, such as what is happening around the Middle East, may change the regulations such as tax issues, repatriation of dividend, repatriation of capital or defaulting in paying the proceeds as what happened with Egypt during the period of the Arab Spring. But this issue has been solved quickly because the new government and even the previous regime are normally aware that the constancy of their rules and obligations are very important for them whether in long or short term to maintain with their business developers, otherwise nobody would invest in Egypt. Therefore the new government immediately paid the proceeds to us".*

RS6 explained that, even if the change in the government that was initiated by non-governmental risks such as civil war, *"to reach settlement they* [the new governments] *try to attract foreign investors by offering incentives."* RS18, Senior analyst of risk management and head of the Arab function in enterprise risk management in an oil and gas company, said *"even if the government has been changed due to the revolutions or elections, for example, these people* [new governments] *try to maintain the investors".*

RS8 and RS9 talked about political turbulence in Syria and the expected situation after political settlement. However, both respondents were optimistic about the future facilities for foreign investors. For example, RS8 observed: *"we know that if the situation stabilized in Syria, the new government will also give a lot of facilities for the*

foreign investors whatever the orientation of the new government". RS9 observed that there were opportunities in the Syrian market: *"we are arranging to hit the Syrian market; there will be big potential opportunities as we are sure that the new government will give more incentives and freedom to encourage the private sector and the foreign investors to do business".* It should be mentioned, however, that this interview took place on October 2013 when the longevity of civil war in Syria may still not have been appreciated.

6.3.1.2 Subtheme Two: non-governmental risks are unmanageable and uncontrollable

Non-governmental risks were considered to be unmanageable and uncontrollable for different reasons. The first reason is that governmental risks can be controlled by hedging strategies, whereas non-governmental risks cannot. This was indicated by RS1, a deputy general manager in a bank, who commented: *"Governmental actions, such as taxation and currency conversion are controlled by hedging strategies as we have hedging strategies to ensure that, if something like this happened, how we can respond...but will not stop us from taking the decision to enter the country, but if the security threat is very high, it can stop us as we can't control this".* RS8, the head of risk management department in an insurance company, said *"there are political risks that we can control somehow and there are some that can't be controlled i.e. the* [risk of] *increase of taxation can be controlled by increasing the [insurance] premium".* RS8 also explained that *"The political unrest means that everything is delayed in terms of the government spending and these risks are out of control".*

RS16, an executive manager of investment in a financial institution, said that some non-governmental risks cannot be controlled, such as those arising from revolutions

and civil war. At the same time, RS16 explained the controllability of governmental risks in terms of having partnerships with locals in the host countries who have appropriate connections and experience: *"As you know, Syria was dominating with high bureaucracy and they may impose some restrictions which may cause delay to complete the project. But we have had high experience in how to deal with this risk as all the contributors were Syrian shareholders and they have a massive connection in each sector. Therefore, I can say that there was no risk before the events. We have connections in a host country and experience which facilitates the work."* RS6**,** a chairman of a telecommunication company similarly said that local partners can reduce and manage these kinds of risks (i.e. governmental risks).

RS10, the risk management director in a telecommunication company, argued that governmental risks, such as taxation increases, are manageable because these will be added to their prices. RS10 highlighted: "*I'm trying to say that these kinds of risks are easy to deal with compared to political turmoil and political unrest which are difficult to deal with."* RS30, an internal audit manager operating in GCC countries and Jordan, mentioned that factors related to governmental risks like changes in tax laws and ownership laws can concern managers, but they are manageable. This respondent also commented on the current political unrest by saying "*if such kind of political unrest that happened in Libya, Egypt or, what is happening in Syria, happens for example in Saudi Arabia, then that would be unmanageable for us...Because we cannot really control that. There is nothing much we can do".*

RS31, the risk management director in an industrial company operating in the GCC countries and Iraq, summarised all these points when saying: *"The law differs from one GCC country to another and they may change the regulation suddenly but that*

will not affect us badly compared to the country instability and the political unrest risk for example the instability in Iraq... We might anticipate and be alerted of the new regulation through our connection in the host country. And once you comply with the new regulation, the risk is reduced and managed. And if you find it very hard to follow the new rules you can exit; I want to say that you can manage these kinds of risk in different ways."

It seems clear that governmental risks therefore tend to be inherently manageable. Most governmental actions affect all market players and competitors (like taxation). And governmental risks can often be anticipated and mitigated with influential and powerful local partners in the host countries. The majority of respondents talked in a much more relaxed tone about governmental risks than non-governmental risks. The perceived uncontrollability and unmanageability of non-governmental risks, on the other hand, appeared to increase managers' awareness of such risks considerably.

6.3.1.3 Subtheme Three: non-governmental risks harm the economy of the host country and thereby the prospects for the international business

The strength of the economy of the host country was an issue for many respondents, especially respondents who are working in banks and the financial service industry. This economic state was highly vulnerable to non-governmental political risks. RS7, the head of a risk management department in one of the banks, said: *"the political instability affected the economical aspect of these countries, accordingly* [it] *negatively impacted sovereign risk rating of each and every country; i.e. Egypt downgraded almost three times since 2011."*

The deterioration of the economy of the host country, due to non-governmental risks, affected the currency exchange rates which negatively influenced foreign investments.

RS2 explained: *"Before the Arab Spring, Egypt's economic conditions were normal but the Egyptian currency faced sharp devaluation after the Arab Spring and that greatly affected our asset values".* RS4, the executive manager of investment and development in one of the financial services companies, stated: *"For example, our real estate value in Egypt declined because their currency declined as result of the revolution."* RS28, in a risk management department in a financial services firm, when asked about the most important political risks, answered: "*the instability; because it affects the value of our investment plus the financial market inside this country".* RS26, a manager of the compliance and risk management department in another financial services firm, mentioned that "*during the civil wars or the revolutions usually the stock market does not work and, even if it is acting, there is no value so it will be difficult for us to buy and sell, especially sell"*. RS15, financial manager in one of the industrial companies, explained: *"Because of the revolution there is no stability in Egypt and that affects our business greatly; more than 90%, as the revolution and the instability caused economic deflation and there are few suggested projects, and I can say almost that we stopped working there".*

RS6 described the effect of civil wars which "*badly affect the infrastructure and the economy in these countries"*. RS13, operational risk manager in one of the banks, said "*the most important political risks are civil war and revolution because, if people don't feel confident, they will not spend money. That will affect our business straight away as a bank. People, for example, will not take loans. Today these risks are increasing".* RS11, head of a risk management division in a financial services firm, similarly argued that: *"when you have a social uprising and it is not controlled properly, the safety and security decreases, so what happens people will invest less and travel there less and it becomes like dominant effect on the economy".* RS29,

assistant general manager and financial manager in an insurance company, mentioned the economic challenges after the Arab Spring: "*because of the currency devaluation and the change is so quick... recently the currency rate is changing rapidly on a daily basis as a result of the instability."* RS29 also commented: *"any country facing problems such as the Arab Spring leads to capital escape and consequently that affects the currency rate. The conflicted countries, or those expected to face conflicts, lead to capital escape."* RS11 also talked about capital flight and said: *"if an entity or an institution that does business in a country such as this (in social uprising events), you will stop doing business there immediately.... you need to get out of there as quickly as possible, because otherwise you are going to lose whatever you have."*

But some participants thought that even exiting the market would be difficult. RS14, a senior manager of the risk management department in a financial services company, said: *"the instability affects many aspects; most importantly is the economy because exiting the market will be difficult.....therefore now, the management has less appetite to go to the market of Arab countries that have Arab Spring events".* RS28 explained *"We have a company in Tunisia; automotive industry. It was a very good company, but because of the instability there, it has difficulty in sales. So, the sales pre-Arab spring was much higher, plus the problem which we are facing now apart from this is exiting the market. Our strategy was to get out of this investment after two years from investing, but after the Arab Spring we cannot exit easily because no one would buy. Plus the liquidity of the buyer; they do not have money to buy. Plus there is no appetite for new investors to get inside these regions."* The complexity involved in exiting the markets was also mentioned by RS27, head of an internal audit department in one of the financial services firms, who said that: *"all firms' major target is to maximize the profit. Now it is quite complicated, I cannot easily invest and I cannot easily exit or get*

my returns. So, now it's complicated. Any other investment company will tell you the same thing. It's so complicated".

6.3.1.4 Subtheme Four: non-governmental risks affect security and safety of the international business operations

Several participants described how non-governmental risks affected the safety and security of workers and goods. This was indicated by RS9, who talked about the instability effect on security and safety in Iraq and Syria due to extremists and hijackers in certain areas. He argued: *"The security risks have increased since the instability in Syria. The extremists are occupying the border areas. That is where they grow and expand. Their main areas are borders between Syria, Iraq and Jordan...when I transport my goods from free zone Amman to Erbil and Baghdad, there are the hijackers, bombers and there are so many risks in the way".*

RS25, a deputy manager director and vice chairman, mentioned that withdrawal decisions can be due to security and safety risks, commenting that: *"We decided to withdraw from Iraq because of the instability there, murders of the workers took place, stealing of the equipment took place; the security safety risk was very high there."* RS10 mentioned that instability can lead to an unsafe environment for employees, so the firm would evacuate them to safety, stating: *"we had to evacuate all our people from there* (Sudan)*; the situation wasn't safe at all...Our priority is the safety of our employees, therefore we just kept a couple of people there just to keep our network".* Also, RS10 mentioned that it is difficult to find people who accept going to high security risk areas to work, arguing that: *"our people don't want to go and work in Iraq as it's a risky country; the security risk is very high".*

6.3.1.5 Subtheme Five: non-governmental risks affect the whole region, not just single countries, in which a business might be operating.

A small proportion of participants had no business in the Arab Spring countries and yet was still affected because non-governmental risk was seen as being regional rather than national in nature. RS5, a board member in a real estate firm, explained: *"Arab Spring is a big political issue all over around the Arabic and Islamic areas and that affected the economy of these countries and the region as a whole"***.** RS28 said that *"the Arab Spring gives red flags towards these regions so that's why we avoided such regions"*. This was supported by RS20, because after the Arab Spring international lenders are requiring "*a lot of guarantees from our side* [the firm]. *They want to insure that we are stable and we are not been affected with the surrounding events",* and this delays bank lending processes "*just to assure them we are safe and we are okay"* to pay back the debit.

RS1 argued that the effect of the Arab Spring reached non-Arabic countries and this would slow down their economic growth: *"Turkey, for example, is not an Arab country, but the impact will be very high, Syria will impact Turkey, to make a truly contagion effect of the countries."* RS29 also talked about the Turkish economy, saying "*Syria situation has affected the Turkish economy. Demonstrations organized by the youths in Turkey in August and September caused problems; as a result the stock exchange went down."* RS34, an advisory risk manager in a bank, said "*the Arab Spring and the escalating tensions with Syria is an issue today. Things are really aggravated; one could lead to another and the entire region may be vulnerable"*.

RS21, an Investment manager in an insurance firm, mentioned ***"****the escalation of tensions between Iran the United States"* would affect the whole region "*even though*

we do not have any business in these countries, any political instability in the region will affect our business". RS34 pointed out that *"we are also watching sanctions against Iran.... if anything happens in the Strait of Hormuz, the whole global [economy] will be affected because oil prices will go up. The oil prices, when go up, will affect everything, it will change the equation."*

6.3.1.6 Summary of Main Theme One

There were several factors that influenced managers' judgments that non-governmental risks were a distinct category of risk, and that such risks tended to be higher than risks in the governmental category. Non-governmental risks were seen as especially uncontrollable and unmanageable, they created safety and security problems, and they were regional in nature. In contrast, governmental risks were seen as being less important because it was clearly in a host government's interest not to create them and, even when they did, it was easier to influence them through local contacts and partners.

However, this general analysis was contradicted in a small number of cases. Respondents like RS3 and RS21 disagreed with the effect of governmental risks. RS21 argued that, political risks in *"stabilized countries, Europe and American" are "tolerable",* whereas in Arab countries they were intolerable due to frequent *"changes in the regulations".* RS3 also indicated that even *"Before the Arab spring events, we were against any decision to invest in Arab countries, because there are no fixed regulations, the regulations are always changing overnight. Add to that the official abuse".* So the basic division between the two types of political risk – governmental and non-governmental – was a useful heuristic for most of the informants when

making their risk assessments. But it is only a heuristic: a rule that may accurately reflect their own specific experience, but not every firm's experience.

6.3.2 Theme Two: managers resist quantitative assessment methods

With reference to section 6.2.1.3, it has been found that the majority of the managers (64.7%) were using subjective assessment methods even after the start of the Arab Spring. In this second theme, there are four reasons explaining why managers resist quantitative assessment. These are presented in this section as four subthemes: a) political risk is immeasurable; b) lack of skills for quantifying political risks; c) political risk is uncontrollable; and d) quantitative political assessment is unnecessary given lack of exposure.

6.3.2.1 Subtheme One: political risk is immeasurable

With reference to the interviews, managers believe that political risk is immeasurable for two reasons. The first is that politics are so volatile, making it impossible to follow political events quantitatively. The second is that managers believed that quantification cannot adequately capture or summarise their experiences in previous political events and the intuitions they gain from these. RS15, for instance, commented: *"How can* [we] *assess the political risks quantitatively? I cannot determine the political risk; you cannot determine the event that will happen tomorrow. It's unpredictable… the expectation is difficult as you cannot follow the political events, and you cannot determine the recovery time. The situation is changing overnight and this makes it difficult to follow and quantify political risk; there were two revolutions in Egypt in two years".* Similarly RS9 said, "*To reach success you need to have guts, initiative, and calculated risks, but not for political risk as it cannot be calculated; in Iraq the risk is happening every day".* The respondent's

view that "*risk is happening every day"* could be taken as being a reference to the repeated experience of the same risk every day, but the assertion that it cannot be calculated suggests that the risk is somehow different every day, and that what is meant by 'risk' is not a stable probability of a specified outcome. RS16 made the following observation: *"It is quantitative in terms of the financial risk side as we have to do some ratio analysis. But not for political risk as it's difficult to trace the political events; the political situation may suddenly change; who would have expected that all this will happen to Syria?* RS14 added that *"For political risks, it's qualitative. We can't quantify what will happen. But we can quantify what is our exposure there, as that helps us making decisions whether to continue or not."* This suggests that one component of the risk (the 'exposure') is quantifiable but another (the threat, presumably) is not.

The second reason why managers consider political risk immeasurable is that they believe quantification cannot express their observations in a satisfactory way. RS26, for instance, indicated that it is only after facing political incidences that the firms can take corrective actions and change future plans: *"Political risk, such as the social uprising, is beyond measure; it's not about something we can measure, it's about something we can see. We look at how it's affecting our investments, would it affect our plan? How would it affect it? And would it impact our decision on future investments in that country?"* RS34, an advisory risk manager in a bank, explained that, after experiencing political events, it is managers' intuition that is used to evaluate the consequences of the future political events, not the use of quantitative methods: *"We watch and see, we watch all of the situation, and we have the sense of what it can lead to... we have our take, as it cannot be a quantitative model driving everything. The point is that we have our take, if tomorrow it happens what do we do?*

So it is more of qualitative". There is also an indication here that what is important is knowing how to act or do, not having an analysis. Although analysis may be seen as a way of choosing actions, it does not capture the idea of 'watch and see' that RS34 expresses. Similarly, RS16 indicated that the primary job is to listen to the source of information networks that are embedded in the place where risk is occurring, not to perform a calculation: *"For political risks, we have many relations with businessmen and qualified people in the republic of Syria, which give us ideas of the situations there as they are on the ground; they know better about risks because political risk can't be evaluated quantitatively."* RS15 argued in the same way that their employees in Egypt had great experience and played an important role in understanding the political situation. RS9 also indicated: *"one of the ways to overcome these risks is qualified managers i.e. the manager in Karbala sent me a report that there are risks to have an office there and he advised to close our office there and go back to Baghdad, and it was a right advice".* The emphasis is on human sources of continued understanding of risky situations, not formal, snapshot analyses.

RS11 expressed scepticism about the effectiveness of quantitative models used in risk assessment in well-regulated countries: *"In the West they had very well regulated procedures and financial institutions had risk management department and quantitative models and everything to prevent financial crisis. But it didn't prevent* [such a crisis]."

6.3.2.2 Subtheme Two: lack of skills for quantifying political risks

Lack of skills for assessing political risk quantitatively was another reason for the rejection of quantification. RS1 mentioned that "*we haven't the skills to cover political risk"* and they have "*a full reliance on third parties to provide us* [the

company] *with the political studies".* RS12, a venture development manager in an oil and gas company, commented: "*the outside consultant provides us with these ratings as we don't have qualified people to provide us with the rating."* RS13 said: *"We don't have experts in political risk, my experience is financial and my colleague is expert in operational risk, therefore we do financial risk analysis and operational risk analysis quantitatively and qualitatively in house. But for political risk we rely on outsource such as News, market intelligence and rating reports such as World Bank Report".* RS25 added that "*it's very difficult to find employees who have the ability to assess political risk quantitatively"*. Consequently, managers took a purely qualitative approach to assessment by "*discussing what's happening, what problems we are faced* [with], [have] *the problems increased or decreased"*. He also mentioned that "*we decide to stay away from unstable areas; we refused to start business in Bahrain, we moved away from Iraq, we feel that it's the right decision".* This was seen as in some way making quantitative assessment unnecessary, a prior kind of filtering that was so clearly right that it did not need assessment to justify it.

Outsourcing was clearly for some a solution for handling the lack of quantification skills. RS22, head of the enterprise risk management (ERM) department in a bank said: *"Do you think banks in Kuwait have the capability to do a country risk assessment as compared to Economist Intelligence Unit E.I.U.? They are specialists. And the report we get from economists or the specialist is perfect".* However, RS33, a team leader of the ERM department in a governmental oil and gas firm, said: *"When we established the ERM department, which was in 2007, we hired specialised consultants from America and Britain to help us in establishing the risk register and for building the model and also to train our employees. But not anymore; we become an expert, we have analysts, and we can help ourselves. But of course we are still*

attending training courses, inside and outside Kuwait, to improve ourselves." Similarly, RS24, the managing director for planning and finance in a governmental oil and gas firm, said: *"these quantifications are done by our qualified employees who have undergone intensive training courses to make them eligible for it"* So, for the majority of the firms, the lack of analytical skills led to a neglect of quantitative assessment and relying on external expertise.

6.3.2.3 Subtheme Three: political risk is uncontrollable

Another reason for rejecting quantitative assessment was the idea that even when risks could be measured they might not be capable of being controlled. RS30 commented that: *"It* [political risk] *is not something that we can control as a private business enterprise. We have to live with the political risk that is there; there is a certain amount of political risk but we have to live with that… Because we cannot really control that; there is nothing much we can do to prevent such event from happening. So we do not really focus on that, we leave it to government of the region to basically worry about that, to make sure that is really a stable peaceful environment where people can live and businesses can flourish".* RS16 said: *"I want to say that the political risk or the force majeure is beyond control by either the investor or the country; the environment itself may change. Any investor must know that everything might go positive or negative."* The term *"force majeure"* is very clearly an expression of something beyond the firm's control, and the respondent appears to be equating political risks with force majeure.

RS1 argued: *"If the security threat is very high, it can stop us, as we can't control this...how can we manage something like this?"* RS8 added: "*The political unrest means that everything is delayed in terms of the government spending and these risks*

are out of control". RS13 contrasted the controllability of other risks with political risk: *"We manage operational risk and credit risk in house because we can control these kinds of risks. But we are not focusing on political risk. We manage what we control and political risk is uncontrollable."*

Some respondents saw 'insurance' as the solution to the uncontrollability of political risks. RS9 said: *"the only thing I can do for political risk is insurance as this kind of risk is hard to control; without insurance I can't work in Iraq. Who has the guts to work in Iraq?"* RS16 stated: *"we just protect our business from these kinds of risks by insurance".* The point about insurance is that in some degree it transfers risks to another party (the insurer) which controls its exposure by pooling multiple risks from multiple firms. Individual risks may be uncontrollable and therefore not worth assessing to the risk bearer. But the risk of a pool of such risks may be more controllable and it may be more quantifiable. However, insurance was not a universal solution. RS5 mentioned that the high cost of insurance to cover the political risks required them to deal with the political risk by withdrawal from an attractive project in Yemen. The respondent observed: *"because of the instability we decided to stop the business there. Even though there is an Arabic organisation* [insurance company] *that can cover the risk by insurance to encourage investing in Arab countries, the cost of the insurance is very high".*

6.3.2.4 Subtheme Four: quantitative political assessment is unnecessary given lack of exposure

Assessment was claimed to be unnecessary due to the low exposure to political risks. This low exposure can happen due to two reasons, including the firm having only

limited activities in the potentially unstable countries, or the firm deciding to stop investing in countries in which instability emerged.

RS2 who was asked about the change in the assessment of political risk commented: *"No. it remains the same, as I told you earlier our investments in these Arab countries were extremely weak; most of our investments in developed countries and here is no need to quantify the political risk for non-risky countries."* RS3 claimed that the Arab Spring did not change the assessment as most of the firm's investments were in developed countries: *"Nothing has changed. 90% of our* [firm's] *projects are in developed countries and these are very stable countries and we haven't faced any problem with them since we have started business there in 1993. …We have no risk at all; zero risk."* RS21 commented: *"We don't need to do quantitative assessment because we do not have investments in these* [unstable] *countries ... We focus on stabilized countries, Europe and American, and for political risks we believed that this risk is a tolerable risk in these countries. And we were very cautious even before the Arab Spring to invest outside the GCC countries and the US and Europe and we still very cautious."* RS31 said, *"No, quantitative assessment is not in our plan, because most of our businesses are in the GCC countries and these countries are stable; we haven't faced any problem there".*

RS30 talked about the history of political issues in Saudi Arabia and argued: *"since we haven't faced any political issue* [in Saudi Arabia] *we do not have to tackle any major political risk*." Of course it could be argued that this division between stable and unstable countries, especially where it is based on a single firm's experience, could be misleading. But the responses suggested that respondents thought stability was itself a stable property: that countries or regions that had been stable would

continue to be stable. But as RS34 and RS16 indicated, Egypt and Syria had been stable countries for a long time and no one expected that the sudden events these countries experienced as part of the Arab Spring would happen. RS34 said: *"Nobody ever imagined that Egypt could suddenly go under this revolution in very short time; we thought that Egypt is the safest place in the Middle East."* RS16 said: *"The political situation may suddenly change; who would have expected that all this will happen to Syria?"*

RS30 said that the firm has low exposure in an unstable country like Iraq, which is a small market for them, and, thus, did not motivate the firm to change their method of assessment. The respondent stated: *"We do not need to change the method to analyse political risk quantitatively...for our sales in Iraq, even though the sales have reduced significantly due to the political instability there, but this has not affected the overall sales because Iraq is small market for our company."* RS28 commented: *"We do not give it too much weight to the political risk because it is too minor as the percentage of our business in unstable countries is very low. For example, it is half a million Kuwaiti Dinar out of our total equities* [so it] *is nothing. So, the cost of doing in depth political risk assessment is more than the benefit."* RS28 added: *"Our strategy is to focus on low risk regions such as the UK. which has a minor political risk. And that does not force us to do a full political risk assessment."* RS34 also said that firms are not motivated to move to a more quantitative assessment method in small markets like Tunisia: *"The method remains the same. We did not lose too much because of the events. For example in Tunisia it is only half million dollars balance sheet, so compared to our program it is a small operation."* RS12 indicated: *"Our company wasn't affected that much by the Arab Spring, therefore, nothing* [the assessment] *has changed after the Arab Spring. Before the events in Syria by a few months there was a*

study to start some activities there but we were lucky, the events escalated before we became involved." However, this respondent also commented: "*Our company was more affected by the financial crisis than the Arab Spring, therefore since the financial crisis we give more attention to the financial aspects".* This clearly indicates that such firms prioritise classes of risk before conducting any risk assessment, rather than using risk assessment itself to perform this prioritisation.

As this research was conducted during the Arab Spring events, it might be expected that this event made a difference in political risk assessment in terms of encouraging quantitative assessment. But instead it led firms to completely avoid or quit operations in unstable countries. The decision to quit did not come about because of a risk assessment, but instead preceded any consideration of the need for risk assessment. RS11 said: *"The biggest impact now is Syria, it is a crisis, so - do I want to start a new business there? Or rather go somewhere else. And for that you don't need a quantitative model, and if you already have something there, it's an issue of - what do I do? – do I leave it or do I get out? ...obviously I need to get out of there as quickly as possible, because otherwise I'm going to lose whatever I have".* RS12 said: *"We don't need to do complicated analysis as our new company policy is to avoid the so called high risk and high return countries or projects because extremely risky projects may have low benefits or even losses."* RS4 and RS5 similarly decided to *"avoid"* unstable countries. RS4 stated: *"It* [the Arab Spring] *affects our decision as we decided to avoid unstable countries and focus in the Gulf area because we think that the Gulf is more stable."* Similarly, RS14 said *"It doesn't need as much assessment. I do have a political issue in those countries and I have an existing investment there. I will not be willing to invest more. The only thing I can do is just wait and maintain our current investment."* RS5 argued: *"Our decision is to continue avoiding these*

areas and expanding in the GCC countries. Maybe other companies that having business or planning to enter these countries need to assess political risk quantitatively". Leaving the unstable country was also supported by RS3 who said: "*We do not need to do quantitative risk assessment in that sense, if the situation in Bahrain is not stable, so we want to stop there. We don't have a formal political risk assessment."*

But this instinctive risk aversion was not universal. RS18 and RS34 talked about opportunities in risky countries. For example, RS18 talked about investments in Sudan and Myanmar which are suffering from sanctions, so no US or European firms are operating there. Such countries, for this reason, are characterised by less competition: *"The instability in some countries might have a privilege for us... Give you an example, Sudan, it is one country that the American companies farm out* [subcontract to Kuwaiti firms] *due to their government decision. Another example is Myanmar, there is a sanction from the United States and the political situation is quite high risk, but it might be an opportunity to us. As I told you the restrictions on some companies by the government, due to the political instability, give us an opportunity to compete."* RS34 similarly commented: *"Once you take a decision to invest in a country such as Iraq, you buy those risks; I mean you accept such risks. The chaos is not always bad, sometimes chaos gives you opportunities, so businessmen are more looking for opportunities and* [they] *see the returns of the opportunities."*

RS34 further explained that opportunities in unstable countries are appealing when compared to developed countries like UK and US based on the level of competition and the country's growth rate: *"Do you think our experience as a Kuwaiti bank can compete with banks in mature economy countries…? Kuwaiti bank cannot for*

example bring anything to the US and the UK. Besides, the growth rates are very low in these countries and the opportunities are very low. So why would we want to be there if does not make economic sense even though it is a stable environment." RS6 commented: *"In developed countries there are a lot of competition; many of international firms are there and it's very difficult to compete with them where as there are less competition in emerging markets. In emerging markets always have high investment return and therefore we accept the risk. We have an equation in investment saying that High risk... High return. Sometimes we accept the risks if the return is High."*

RS6, RS34 and RS18 clearly correlated risk and benefit positively. However, RS12 argued that risk and benefit are inversely correlated, he said: "extremely risky projects may have low benefits or even losses", therefore their new company policy was to avoid the so called high risk and high return countries. This is interesting because previous literature (see Chapter Tow Section 2.5) suggested that the relationship between risk and benefit is positively correlated in the world, but when there is an emotional engagement – otherwise known as affect – they are negatively correlated (Alhakami and Slovic, 1994, Slovic and Västfjäll 2010).

Overall, the respondents appeared to say that they made a basic commitment to investing in a particular region or country or not. This commitment was a judgment, and most described this judgment in a way that suggested it was completely obvious to them. It did not need a process of quantitative assessment. And when the judgment was to avoid commitment then there was no need for a quantitative assessment. In this sense, the risk perception associated with a fundamental decision (like whether to

invest in a certain country) always preceded risk assessment, often making it unnecessary.

6.3.2.5 Summary of Main Theme Two

Managers have several justifications for resisting the quantitative assessment of political risk:

1. The belief that political risk is immeasurable for two reasons. The first is that politics are so volatile, making it impossible to follow political events quantitatively. The second is that quantitative assessment cannot adequately capture or summarise their experiences in previous political events and the intuitions they gain from these.
2. The belief that a firm lacks the expertise to assess political risk quantitatively.
3. The belief that the causes of political risk are uncontrollable, and why assess something you will have no control over?
4. The belief that avoidance of threatening situations (generally unstable countries) makes assessment unnecessary.

Together, these findings suggest that firms make the perception of political risk primary and the assessment of risk secondary. But it is important to say that managers stressed the role of knowledgeable human sources of understanding, and the process of regularly consulting these to update their understanding of risks as they were emerging. So 'risk perception' among managers should not be seen as an irregular process of stating an opinion (in the way that the psychometric risk perception questionnaire is administered). Instead, it is a process of active engagement with intelligence sources and active decision making in which commitments are always under review. The most important criterion in this process of continual review,

according to the first main theme in this chapter, was whether a risk was governmental or non-governmental in origin.

Political risks involve causes (e.g. revolutions and wars) and consequences (e.g. loss of investment). Managers in my study referred to the uncontrollability of the causes, but not the consequences; they spoke about controlling the latter by avoiding unstable countries and taking out insurance to mitigate the consequences. This may suggest that they are fatalistic about the causes of political risk, but not the consequences.

CHAPTER SEVEN: DISCUSSION

7.1 Introduction

As previously stated, the aim of this research is to examine how political risks are responded to in terms of individuals' perceptions and organisational assessment processes. This was carried out in the context of the extensive political changes which took place during the 'Arab Spring'. In order to achieve the aim of the research, two objectives were formulated: the first was to study managerial political risk perceptions in Kuwaiti international firms based on the 'psychometric approach'; the second was to study the firms' political risk assessment and how this relates to political risk perception, through conducting interviews. In this chapter, the discussion will be divided into two main parts, following the two objectives.

7.2 Discussion of the questionnaire survey findings

In the psychometric paradigm, it is the risk attributes, not individuals' attributes, that are expected to determine people's risk perceptions. Thus, the participants were asked to rate a list of risks on such attributes, later condensed into main factors using principal component analysis. These factors were given interpretive names and used to plot the different risks on a 'cognitive map' showing the relative status of the different risks. Then, risk perceptions were regressed against factor scores to determine how well the factors accounted for variance in risk perceptions.

The previous studies applying the psychometric paradigm have focused on a variety of risks such as technological and environmental risks (Fischhoff et al., 1978; Marris et al.,1997; Marris et al.,1998; Langford et al., 1999; Siegrist et al., 2005; Willies et al., 2005; Bronfman et al., 2007). However, to the best of this researcher's knowledge,

none has used the psychometric paradigm specifically to study the perception of political risks. One of the contributions of this research therefore is to examine the applicability of the psychometric approach to political risks. To achieve this, three views of the same dataset from the questionnaires were tested:

- View (1): Attributes against risks – aggregated across participants (the traditional approach). Individual differences between participants are 'washed out' (Bronfman et al., 2007) in this approach.
- View (2): Attributes against participants - aggregated across risks. Differences between the natures of the risks, other than what is expressed by the attributes, are lost in this approach.
- View (3): Risks against participants - aggregated across the attributes. The effect of the attributes is lost in this approach, so it is clearly different from the basic principle of the psychometric paradigm.

7.2.1 The psychometric model applied to political risk perceptions

As shown in Chapter Five, principal component analysis resulted in grouping the 12 attributes into two factors: factor 1 included 11 attributes, and factor 2 included only 1 attribute. The result of this study is different from all previous traditional studies about technological and environmental risks, such as Fischhoff et al. (1978) , Marris et al. (1997), Bronfman and Cifuentes (2003) and Siegrist et al. (2005). In these studies, the results showed a much clearer balance of attributes across the factors. In this study, severity of consequences loaded most highly on factor 1 so it was named 'severity of consequences'. Factor 2 included only 'increasing-ness'.

When these two factors were used to plot the 14 political risks in a factor space (see Figure 5.1 in Chapter Five), it was found that risks in the first quadrant, which were

high in terms of both severity of consequences and increasing-ness, were all non-governmental risks. These risks included demonstrations and riots, revolutions, terrorism, civil wars, economic sanctions, and wars. This indicates that there are clear differences in managers' perceptions of governmental and non-governmental risks: higher risk perceptions are associated with non-governmental risk compared to governmental risk. Although this research was conducted during the Arab Spring period, which witnessed very serious non-governmental risks, the results are in line with Al Khattab et al. (2007) who found, in a period long before the Arab Spring, that managers were less concerned about host government risk than host society risk and interstate risk. Al Khattab et al. (2007) did not use the psychometric approach so, although they found the separation of governmental and societal risk, they did not explain it in terms of risk attributes. Instead, the authors asked the participants to rate their concerns about each risk on a five-point rating scale. In the previous literature, the managers' lesser concern about non-governmental risks has been arguably due to Foreign Direct Investment (FDI) related policies in the host countries, which have tried to attract foreign investors by offering financial and tax incentives (Li, 2006; Al Khataab et al., 2007; Baek and Qian, 2011). Host governments have therefore been seen as providing opportunities to international firms rather than as being sources of risk. This was supported by the results from the interview analysis, which also indicated that managers are more concerned about non-governmental risk for various reasons, including the reason that the host governments support and maintain foreign investments (see section7.3.2.1). This consistency between prior findings, the interviews and the clustering produced in the psychometric analysis, further supports the strength of the psychometric approach in the domain of political risk.

Furthermore, the factor space (Figure 5.1) illustrates that two types of risk i.e. breach of contract by a host government and expropriation and/or confiscation, are located in the fourth quadrant, so high in severity of consequence, but low in increasing-ness. These results are in agreement with the assertion of Hood and Nawaz (2004) that expropriation has been decreasing in recent years. This has been reportedly due to its potential negative consequences to the host countries, such as international economic isolation and end of support from the International Monetary Fund and the World Bank (Hood and Nawaz, 2004). The above finding is also supported by Ramarmurti and Doh (2004) and Slaughter (2003).

The analysis in Chapter Six proceeded to assess the explanatory power of the two factors (severity of consequence and increasing-ness) in predicting risk perception. Hence, two dependent variables (riskiness and acceptability) were regressed onto the two factors. This showed that the two factors made a strong contribution in explaining variation in judgments of riskiness and acceptability (R^2 = 0.966 and R^2 = 0.903 respectively). This also helped support the validity of this procedure in studying political risk perception.

7.2.2 Two other views of risk characteristic data

From the literature in Chapter two, the traditional approach has been criticised for focusing on the differences among risks while ignoring the differences among the individuals. This arguably obscures differences among participants and inflates the explanatory power of the psychometric paradigm (Gardner et al.,1982; Gardner and Gould, 1989; Sjöberg,1996; Marris et al.,1998). To address this critique, two more analyses were carried out, and their results compared with those from the traditional approach.

The first analysis examined risk perception by looking at the relationship between the participants and the risk attributes so the focus of analysis moved from the risks to the participants. Variation between participants is retained whereas variation across risks is lost, so now the analysis looks at what explains variation in risk perceptions across perceivers, instead of across perceived risks. Principal component analysis condensed the 12 attributes into four factors; when the two main factors were used to plot 120 participants in a factor space on the two most important factors, the map showed no obvious clustering among the participants (see figure 5.2 in Chapter Five). The lack of clustering indicates that the participants are variants within one population of risk perceivers.

In order to assess the explanatory power of the four factors in predicting risk perception, the two dependent variables (riskiness and acceptability) were regressed onto them. The adjusted R^2 indicated a weaker contribution in predicting the riskiness and the acceptability than the traditional approach (R^2 equals 0.346 and 0.316 respectively). This finding is in line with Bronfman et al. (2007), Willis et al. (2005), Savadori et al. (2004) and Barnett and Breakwell (2001). Bronfman et al (2007, p.530), for example, concluded that "psychometric dimensions are less useful for explaining differences among participants than explaining differences among hazards".

In the second alternative analysis, the risks were scored in terms of the average level across all the attributes, for each participant. So the principal components analysis is based on how the risks tend to correlate with one another in terms of average attribute strengths, given individual participants as the unit of analysis. This grouped the 14 risks into two factors. Factor 1 included risks that were not imposed directly from the

host government policy, and was accordingly named ‘Non-governmental risk’. Factor 2, which included risks that are related to governmental policy, was named ‘Governmental risk’. When the two factors were used to plot 120 participants in a cognitive map, again there was no clustering among the participants. Similar to view two, this view therefore did not show group differences among the participants regarding political risk perception. A regression model that linked the two factors to the same two dependent variables as earlier (riskiness and acceptability) was even weaker than the previous analysis (R^2 = 0.143 and 0.033 respectively).

It can therefore reasonably be concluded that political risk perception is strongly explained by the traditional psychometric paradigm, despite the great differences in context. Furthermore, political risk perception can be understood using the attributes similar to those used in previous studies that focused on technological and environmental risks (Fischhoff et al., 1978; Marris et al., 1997; Marris et al., 1998; Langford et al., 1999; Siegrist et al., 2005; Willies et al., 2005; Bronfman et al., 2007). This suggests that those attributes have a wide general applicability, irrespective of the context: they are not only useful for explaining how lay people perceive technological and environmental risks, but also for explaining how organisational managers perceive political risk to their organisations. Political risk perception appears to have much in common with risk perception of different technologies and activities. However, the factor structures look different. When the participants looked across the range of political risks (taxation risk, currency risk etc.), the ways in which one relevant attribute (voluntariness, immediacy etc.) correlated with another looked very different to the way they correlated in the case of societal safety and health risks (nuclear waste, recombinant DNA technology etc.). It is very difficult to think of an explanation for this different and unusual structure. There is no obvious, intuitive

explanation and there is no explanation that has emerged from the qualitative analysis of interviews discussed below. In the Conclusion this is suggested as a topic for further research.

7.2.3 Firms' and managers' characteristics and perception of risk

The foregoing discussion has so far emphasised the role of risk attributes in explaining variation in risk perception. However, as earlier observed, the previous literature pointed to the relationship between firm characteristics and political risks (see Chapter Three, Section 3.5 and 3.7). The relevant firm characteristics mentioned in the literature were used to construct the demographic items in the questionnaire, and the aim was to test whether these characteristics could explain the variation in risk perception better than the psychometric framework.

The correlation between these demographic characteristics and the two dependent variables, as shown in Chapter Five (Section 5.4), revealed no significant statistical relationship. This suggests very little influence of firms' and managers' characteristics on managerial political risk perception. It therefore further supports the application of the psychometric approach, which assumes that it is the risk attributes, not individuals' or firms' characteristics, that explain variations in risk perception. Previous studies of political risk have specifically found some relationship between demographic variables and political risks, even in the same region in which this study was carried out, in countries like Jordan (Al Khattab et al., 2007). However, these studies were conducted before the occurrence of the Arab Spring and it is plausible that the strong influence of political events during the Arab Spring has made the attributes of risks more important than the demographics of the perceivers in forming risk perceptions.

7.3 Discussion of the interview findings

In order to evaluate the political risk assessment in relation to political risk perception, an analysis of qualitative interview data was conducted and the results are discussed in this section. This discussion is divided into two sub-sections. The first sub-section (7.3.1) specifically concerns the institutionalisation level of political risk assessment in Kuwaiti international firms. The second sub-section (7.3.2) discusses the outcomes of the thematic analysis and the two main themes that emerged.

7.3.1 Institutionalisation level of political risk assessment of Kuwaiti international firms

An important line of work in the previous literature is to look at political risk assessment in terms of its institutionalisation. As described earlier, institutionalisation "describes the process by which political risk assessment becomes more explicit and systematic" within a firm (Blank et al., 1980; p.7). It refers to the extent to which the assessment has become part of the formal organisational processes. Institutionalisation denotes a process that belongs to the organisation, not simply to individuals, and serves organisational goals and is conducted according to organisational standards. An institutionalised risk assessment process is therefore, by definition, different from a risk perception process. Risk perception processes relate to individuals, whereas institutionalised processes relate to organisations. In the literature, institutionalisation has essentially been seen as an indicator of how seriously political risk is treated and of how mature an organisation's approach to it is. In this study, it is seen as expressing the balance that organisational decision makers set between formal, analytical approaches and their own intuitions about political risk.

The results in the previous chapter provided descriptive findings regarding the firms' level of institutionalisation and also the correlation between levels of institutionalisation and firm characteristics. These were based on previous researchers' (e.g. Blank et al., 1980) use of three indicators: allocation of responsibility, regularity of assessment and assessment method. The results indicated that 31 of 34 firms formally allocated responsibility, and the remaining three at least expressed a strong sense of responsibility for considering political risk; so in this sense institutionalisation was fairly strong.

In terms of regularity as an indicator, previous researchers like Al Khattab et al. (2008b) and Brink (2004) have argued that high regularity allows organisations to cope with environmental changes and detect unfavourable events that negatively affect their activities. In this study, it was found that the majority of the respondents assessed political risk routinely (25 firms – 74%). This is different from previous studies in which political risk assessment was found to be strongly crisis-oriented rather than regular (e.g. Pahud de Mortanges and Allers, 1996; Oetzel, 2005). Even in previous research in the same geographical environment, e.g. in Jordan, political risk assessment was found to be "on demand" rather than a regular activity.

This difference between the findings and the previous literature can be explained from a cultural point of view. It is sometimes argued that in countries in the Middle East, people tend to be more fatalistic (Welsh and Raven, 2006), thinking that they have little control over risk and that long-term planning and precautionary actions are not worthwhile (Aykan et al., 2000; Slovic, 1999). The regularity of political risk assessment in this study's Kuwaiti sample suggests a less fatalistic outlook and, indeed, the Kuwaiti culture is said to be unique in relation to that of its local

counterparts in tending towards Western culture (Ali, 1988,). Kuwaiti individuals are said to be widely travelled and more exposed to different cultures (Al-Kazemi and Ali, 2002). Moreover, although some studies in Western cultures (e.g. Pahud de Mortanges and Allers, 1996) also found that political risk assessment is not conducted regularly, Kuwait is located in a politically unstable environment with aggressive neighbours like Iraq and Iran (Al-Kazemi and Ali, 2002). Kuwait also reportedly leads the rest of the countries in the GCC and the Arab world in terms of Foreign Direct Investment (UNCTAD report, 2014). It is probably for these reasons that Kuwaiti organisations tend to be proactive, assessing political risk regularly and not simply waiting for threatening events to emerge.

However, the results showed that 22 firms out of 34 (65%) used qualitative methods alone in the assessment of political risk. These firms are regarded as less institutionalised because a lack of quantitative assessment is thought to make the process of investment more susceptible to some degree of bias: managers and experts may, for example, encourage investments for personal reasons such as existing relationships with key people in the host government (Pahud de Mortanges and Allers, 1996). It is recognized that the use of quantitative assessment arguably has shortcomings: for example, it could be based on obsolete data that leads to wrong decisions (Pahud de Mortanges and Allers, 1996). So the use of both qualitative and quantitative methods in combination is seen as being the most institutionalised method (e.g. Blank et al., 1980; Pahud de Mortanges and Allers, 1996). In this study only 12 firms (35% of the sample) used such mixed methods. These results, which show a preponderance of qualitative assessment, are in line with previous studies (e.g. Hood and Nawaz, 2004; Rice and Mahmoud, 1990; Al Khattab et al., 2011). It turned out

that the explanation of why managers resist quantitative analysis was one of the main themes in the thematic analysis, so this question is discussed later, in section 7.3.2.

As described in the results, the next stage was to examine whether there was any relationship between institutionalisation in general and the firms' characteristics, in particular the type of industry (e.g. Pahud de Mortanges and Allers, 1996), years of experience in international business (e.g. Al Khattab et al., 2008a), number of countries the firm operates in (e.g. Kobrin, 1982; Al Khattab et al., 2008a) and size of the firm (e.g. Kobrin, 1982; Stapenhurst, 1992a). Such a relationship would indicate that the nature of an organisation, rather than the risks it faces, is what most directly influences the way it responds to political risks. As described in Chapter Six (Section 6.2.3), the results showed that the overall score for institutionalisation is not significantly correlated with any of the firm characteristics except a weak correlation with ownership. This correlation could be attributed to the fact that all of the governmental oil firms (four firms) were found to be highly institutionalised. An explanation suggested in Chapter Six was that the oil industry is considered to be the heart of the Kuwait economy so managers come under strong influence to demonstrate that they take political risk seriously at an organisational level. Recent research has shown how the Kuwaiti government's heavy reliance on gas and oil has forced it to concentrate heavily on this sector and pay less attention to others (Al-Najem, 2013).

The results showed demographics fail to explain both the risk perception and the institutionalised level of assessment. How the managers in this study explain the way they think about and assess political risk was illuminated more by the thematic analysis, the results of which were described in the second part of Chapter Six and this is discussed in the next section.

7.3.2 Discussion of the thematic analysis results

From the analysis in the previous chapter, two main themes emerged: 1) managers are more concerned about non-governmental risks; and 2) managers resist quantitative assessment methods. Figure 7.1 shows the structure of the thematic analysis which includes the main themes and sub-themes that emerged from the data analysis. This is a hierarchy of beliefs expressed in the interviews and the reasons that are used to support those beliefs. In the remainder of the section, the sub-themes are discussed in further detail.

Theme one: managers are more concerned about non-governmental risks

Sub-theme 1: host governments support and maintain foreign investments
Sub-theme 2: non-governmental risks are unmanageable and uncontrollable
Sub-theme 3: non-governmental risks harm the economy of the host country and thereby the prospects for the international business
Sub-theme 4: non-governmental risks affect security and safety of the international business operations
Sub-theme 5: non-governmental risks affect whole regions, not just single countries

Theme two: managers resist quantitative assessment process

Sub-theme 1: political risk is immeasurable
Sub-theme 2: lack of skills for quantifying political risks
Sub-theme 3: political risk is uncontrollable
Sub-theme 4: qualitative political assessment is unnecessary given lack of exposure

Figure 7.1: Structure of the thematic analysis

7.3.2.1 Theme one: managers are more concerned about non-governmental risks

The first main theme was that managers differentiate between risks based on the source of risks they perceive. In particular they place more emphasis on non-governmental risks (e.g. civil wars and revolutions) than governmental ones (e.g. taxation and capital repatriations). According to the literature, governmental risks harm foreign businesses within the existing system i.e. political, economic and

legislative (Rugman and Collinson, 2009), while non-governmental risks, by definition, remain outside the governmental and legal system (Rugman and Collinson, 2009). Five reasons emerged regarding this point, four of which reflected characteristics related to non-governmental risks as indicated in Figure 7.1.

The first reason for being less concerned about governmental risks was the prediction that it was in the host governments' interests to support foreign investors instead of restricting them. Foreign direct investment was expected to be seen as being important to economic growth and development. As described in Chapter Six, interviewees claimed that, in some cases, there can be a change in government initiated by a non-governmental risk such as civil war. However, a new government is still likely to try to incentivise and attract or maintain foreign investors in order to regain stability. Respondents argued that, even if the change in government led to changes in regulations, firms could still negotiate with new governments in host countries. This again is consistent with the literature (Minor, 2003; Baek and Qian, 2011).

Although the majority of the interviewees highlighted the positive role of host government regarding international firms, this view was contradicted by two respondents. They expressed concern over the host governments of developing countries due to sudden changes in the laws and regulations when compared to stable countries like the USA and EU. They emphasised that they could not support investing in developing countries even before the Arab Spring due to the discontinuity of regulations that they experienced there. Related to this, Hood and Nawaz (2004) explained that, unlike in the developed countries, governmental regulations in developing countries could change abruptly. There was no obvious difference in the nature of these two firms to explain the difference in understanding from the majority.

So the basic principle of distinguishing governmental and non-governmental risk, and regarding the former as being inherently lower, should be seen as a tendency but not a universal rule. Firms have specific experiences and specific interests that sometimes resist generalisation.

The other four reasons why managers were more concerned with non-governmental risks were related to the characteristics of those risks. The first characteristics were unmanageability and uncontrollability of non-governmental risks, in contrast to governmental risks, which are controllable to some extent because they are related to the investing firms' internal capabilities. It was reported that international firms can adapt to the changes and amend their strategies. Such adaptation can, for example, be implemented through hedging strategies and increasing prices in order to manage the risk of additional taxation. Also, firms can manage governmental risk by using their relationships with influential and powerful local partners in host countries. This is described in previous studies, which argued that relationships with the host governments can reduce the chance or impact of less favourable changes in policy (Shen et al., 2001; Ling and Hoi, 2006). The interviewees, however, stressed that non-governmental risks, in contrast, are beyond any similar kind of influence. Thus political risks are perceived by managers not just in terms of probability and impact but in terms of controllability, and the possibility of being able to observe and act on unfolding events. This concern with controllability is also found in the psychometric framework, where it is one of the risk attributes used to explain risk judgments.

The second characteristic linked to non-governmental risks was the potential harm to the host economy and, in consequence, to international business. For example, it was claimed that social unrest produced economic deflation, including the halting of on-

going and potential government projects. Social unrest made people feel less confident and adversely affected their spending patterns. This is in line with previous literature which argues that non-governmental risks lead to political and economic instability (Minor, 2003; Brink, 2004; Buss and Hefeker, 2007). Furthermore, some respondents revealed that the disintegration of the local economy as a result of non-governmental risks led to the termination of foreign investments. This is in agreement with the previous studies, which assert that civil wars force international firms to leave the host countries (e.g. Tayeb, 2000).

The third characteristic of non-governmental risks that causes more concern to managers was their adverse effect on the security and safety within host countries, both of personnel and goods. Interviewees, for example, explained that the perpetual instability in Iraq and its effect on security led to the withdrawal of foreign investors. In relation to this, the previous literature has similarly shown that non-governmental risks, like military conflicts, can destroy international factories and manufacturers' assets, besides causing workers' death or injuries (Jensen, 2008; Bussmann, 2010).

The fourth characteristic identified in the analysis was that non-governmental risks often have no boundaries. Interviewees reported that these risks can spread across a region without regard to state or country borders. A similar observation was made in the literature, which indicated that non-governmental risks such as civil war have an influence on nearby nations (Murdoch and Sandler, 2004). Respondents argued that the Arab Spring had affected neighbouring countries such as, Turkey.

7.3.2.2 Theme two: managers resist quantitative assessment methods

It is well documented that quantitative approaches to political risk assessment are not common (Kobrin et al., 1980, Hashmi and Guvenli, 1992). Burmester (2000) has

attempted to explain this as being due either to a lack of awareness of political risks or to firms resisting the idea that political risk is open to analysis. It would be expected that extreme political instability, like that found during the Arab Spring, should lead to more emphasis on detailed, explicit risk assessments. The findings in Chapter Five and Six show a high awareness of political risk (especially for non-governmental risks) and yet also a continued resistance to quantitative assessment. Kuwaiti managers described four reasons behind their resistance to this type of assessment: political risk is immeasurable, there is a lack of skills for quantifying political risks, political risk is uncontrollable, and quantitative assessment of political risk is unnecessary.

The first reason which respondents used to justify their view was the immeasurability of political risk, due to the inherently volatile nature of political events – especially non-governmental ones. This meant that attempts by managers to somehow quantify the risks arising from political events would fail to represent their complex and rapidly changing nature. Earlier observations on the preference for qualitative analysis in the literature (Al Khattab et al., 2011) have stressed that qualitative methods are quicker than the quantitative ones; however, the interviews indicated that the problem was not speed of assessment but the speed of change in what was being assessed. Moreover, interviewees believed that political risk was immeasurable due to their belief that quantification cannot express their observations in a satisfactory way. Therefore, after experiencing political events, it is managers' intuition that is used to evaluate the risk of future political events, not the use of quantitative methods.

The second reason provided by other respondents for resisting the quantitative assessment was related to the lack of skills needed to quantify risks. This reportedly means that they rely on external sources. This outsourcing of analytical expertise is

described in the literature (Pahud De Mortanges and Allers, 1996). But it is probably not just the possibility of outsourcing that is relevant here. It seems likely that Kuwaiti firms do not invest in analytical skills because of a fatalistic culture. This leads to consider investment in employee training as unnecessary because of an assumption that, by nature, employees can never be changed (Aykan et al., 2000). However, the outsourcing of analysis rather than the complete neglect of analysis suggests that this fatalism is moderated. Earlier researchers have established that a fatalistic attitude is becoming less prevalent for those travelling more frequently outside the Middle East and interacting with people from different backgrounds (e.g. Welsh and Raven, 2006).

The exception to the resistance to quantitative assessment was found in government oil firms, whose managers talked about the importance of training their employees on quantitative risk assessment. Within the analysis of the level of institutionalisation of political risk assessment all the government oil firms were rated highly (see Chapter Six Section 6.2.3). It seems highly likely that the acceptance of a more analytical approach to political risk assessments comes both from the influence of the Kuwaiti government as an owner, and perhaps also from the oil industry which has had a tradition of using quantitative risk assessment.

The uncontrollability of political risk was the third reason given for resisting quantification of risk assessment. This was also earlier highlighted as a reason behind managers' concerns about non-governmental risks. But there was a distinction between the uncontrollability of events and the uncontrollability of the impact of those events on a business. So some respondents described the use of insurance as a means of limiting the impact of uncontrollable political events. This finding is in line with Nawaz and Hood (2004) who argued that insurance can provide partial protection but

is not a comprehensive solution. In fact, some respondents dismissed insurance due to its cost; they argued that withdrawing their investments from politically risky countries was the best solution.

On its own a lack of controllability does not, necessarily, make risk assessment pointless. The uncontrollability of political risk could, in theory, lead equally to analysing risk more intensively, or less intensively. The reluctance to engage in more intensive analysis could be seen as another example of a fatalistic culture, but the fact that they do attempt some qualitative assessment, and consider insurance as one way of dealing with risks, shows that this is only moderately fatalistic.

The fourth reason for resisting quantitative assessment is managers' belief that it is unnecessary because they had limited or no activities in unstable countries, including those that witnessed the Arab Spring. They claimed that the majority of their investments were in developed countries, which were relatively politically stable, e.g. in Europe and USA. It should be acknowledged, however, that firms in developed countries may also face political risks. Cantwell (2014) argued that host governments in both developed and developing nations can manipulate regulatory structures, which might repel or attract international projects. Similarly, since 9/11 attacks, political risks have become more pronounced in developed countries (Baek and Qian, 2011).

Managers divided the Arab countries into GCC and non-GCC countries and, based on their past experience, found the GCC countries to be more stable, requiring no quantitative assessment. The question is for how long GCC countries will remain stable, however. Some respondents admitted that they had been surprised by how political instability cropped up in Egypt and Syria, which previously had been considered stable. But this is not surprising as the previous literature shows that

political risks are volatile in nature and situations can change suddenly (Brink, 2004; Baek and Qian, 2011).

In some cases, respondents argued that quantitative risk assessment was unnecessary because they had decided to avoid investing in unstable countries. It might be expected that the Arab Spring would have encouraged firms to carry out more quantitative assessment, but the findings indicated that it simply led them to avoid, and walk away from, unstable countries to focus on more politically stable regions like UK, US and GCC countries.

Overall, the respondents' reasoning often left little room for formal risk assessment. They argued it was unnecessary because, either the host country is stable and poses few political risks, with those few risks tending to be governmental and therefore unlikely to damage investor interests; or, when the host country is unstable, the quantitative assessment is incapable of representing highly volatile situations or is made unnecessary because the firm simply pulls out of the country altogether.

However, it would be wrong to say the firms avoided risk assessment because they were risk averse. Three respondents talked about investing in unstable countries such as Myanmar and Sudan as an important opportunity. They argued that the level of competition and growth in emerging countries is less than those in developed countries, so incurring the related risks produced corresponding benefits. In connection with this, Nawaz and Hood (2004) argued that avoidance has to be balanced against losing opportunities to make profits, by accepting a certain degree of political risk. Respondents made the same argument, saying that risk can be acceptable if the return is high. There is an interesting connection here with the literature on risk perception, and the role of emotion in this perception. It has been

found that, in reality, risk and benefit are positively correlated (e.g. Fischhoff et al., 1978). Yet, especially in the case of highly emotive risks, people's risk perceptions exhibit a negative correlation between risk and benefit. They expect activities with high risk to have low benefit, and expect highly beneficial activities to have low risk (Alhakami and Slovic, 1994). In some of the interviews, respondents said that they would rather avoid the so-called high risk-high benefit countries because they seemed to think the higher level of risk meant lower benefits and or losses. If the literature is correct that the negative correlation of risk and benefit is associated with an emotional response, this deviates from our expectation that managers making organisational decisions should do so without particular emotion.

The above three respondents showed some degree of risk acceptance. However, two of them indicated that they used qualitative assessment methods only. The failure to conduct quantitative assessment seems to contradict the suggestion by Nawaz and Hood (2004) who proposed that accepting a degree of risk should be accompanied by effective risk management. The two respondents said that the level of competition and the growth rates are more favorable in emerging countries than those in developed countries, and they therefore accepted the risk. This implies that doing rigorous assessment doesn't necessarily relate to accepting or avoiding risks. The managers may overlook the political risk because of the low competition and high growth rate of the host country; whatever political risk there was, they would accept it.

7.4 A synthesis of the two studies

As explained earlier, this research utilised a mixed methods approach. This included a quantitative method using a questionnaire survey to look at managerial risk perception and a qualitative method using interviews to look at the way firms responded to

political risk. In principle, the two studies looked at different things (individual judgments and organisational processes) at different levels of analysis (individuals and organisations). However, although for the questionnaire survey the unit of analysis is the individual, individuals' views are shaped by the organisation of which they are part. The questionnaire was filled in by 120 individuals but they came from 44 organisations. These individuals were not isolated: they were individuals who are shaped by the same regional (e.g. GCC country) and business (e.g. international firm) contexts. In relation to the interviews, the unit of analysis is the firm because the interview questions were specifically about the firm's processes of responding to political risks, and the explanations were about the nature and workings of the organisation – not the psychology of individuals. But the way respondents think about a company's assessment process is still individualised. Different people are likely to have different views of the same procedure, and have different individual experiences that they use to justify a procedure.

Despite the differences between the units of analysis, the questionnaire and the interview produced common results. The cognitive map in the traditional psychometric paradigm (see Chapter Five, Figure 5.1) indicates clear differences in managers' perceptions between governmental and non-governmental risks, with high perceptions of non-governmental risk compared to governmental risk. This was also the first main theme of the interview analysis, which showed why managers made this basic distinction between these two categories of risk. This distinction seemed to be a kind of entry point: if managers are asked about political risk, their first consideration is whether it is governmental or non-governmental. It appeared to be a useful heuristic guide for most managers when making their risk assessments. Furthermore, the finding that interviewees were concerned about non-governmental risks, due to the

scale and nature of their consequences, supported the result of the survey questionnaire, which indicated that the first main factor arising from the principal components analysis was highly correlated with severity of consequences (see Chapter Five, section 5.3.1). Similarly, one of the main reasons given by the interviewees for resisting measurable assessment was the uncontrollability of non-governmental risks. Uncontrollability was also identified in the questionnaire study as one of the risk attributes that affects perception.

The model in Figure 7.2 summarises the relationship between individual perception and organisational assessment. Both connect a subject (a manager in an international business) with an object (political risk arising from their investments). The findings outlined there show that there are certain factors which affect both political risk perception and assessment, as indicated by the thick edged shapes in Figure 7.3. These factors include the dichotomisation of governmental and non-governmental risk, and one of the psychometric attributes i.e. controllability. But it doesn't exclude the possibility that other attributes might emerge in future studies. The findings also show that certain factors affect perception only, while others affect assessment only. For example, attitude to the assessment method (e.g. quantitative assessment is unnecessary) and the potential cultural influences were found to affect assessment only. However, there is no evidence from the psychometric study of the influence of the culture on risk perception as the psychometric study is not designed to determine cultural factors. Therefore, we cannot be sure whether culture does influence the perception or not. The culture is important here because this study is about a specific region in the world where there is a claim that the culture is fatalistic, and this is very relevant with regard to risk. What can be said is that three factors were found to influence perception and not assessment. These were the general psychometric

attributes, and, as emerged from the interviews, psychological influences (i.e. affect) and potential benefits from host governments.

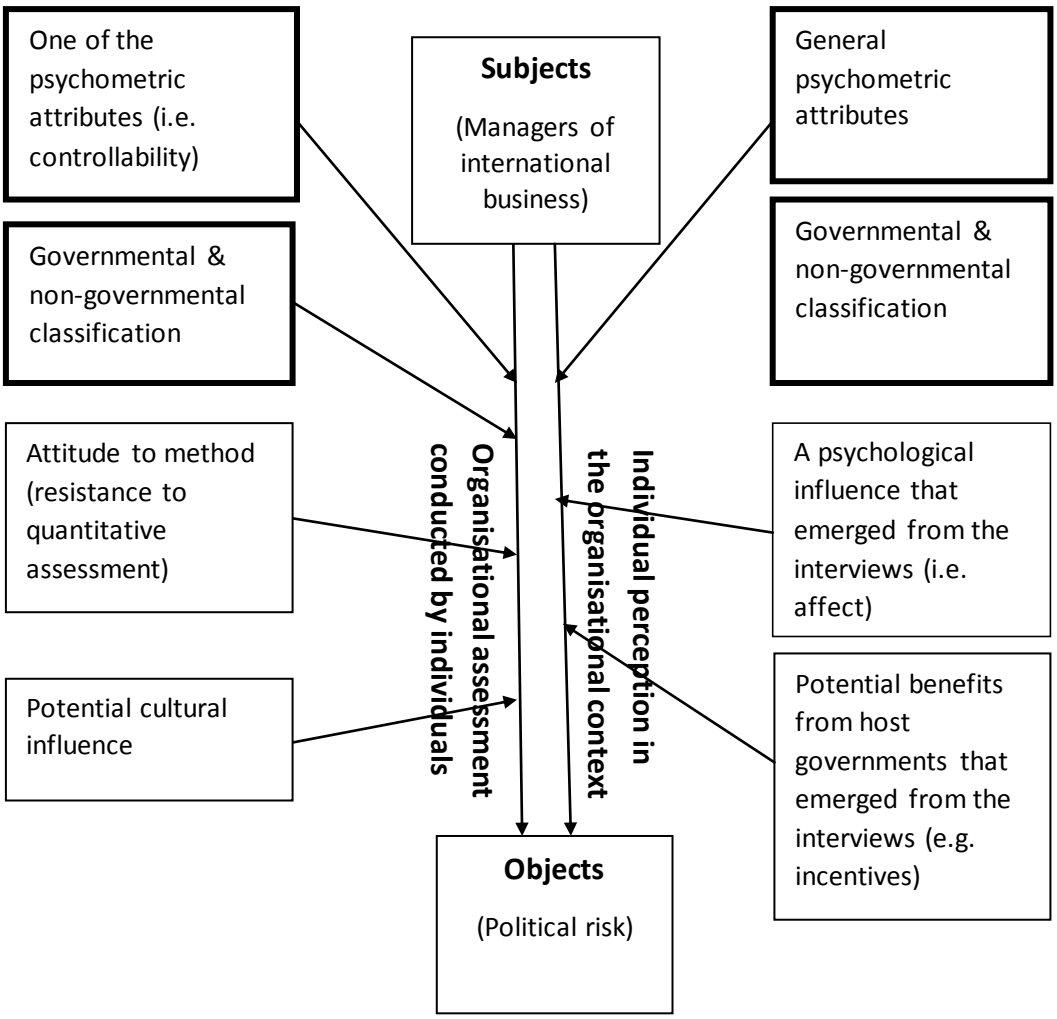

Figure 7.2: A model of the main processes of political risk response

This chapter has provided a detailed discussion of the findings from both a questionnaire survey and interviews and how both the interview and questionnaire findings come together to answer the research objectives. At the end of the chapter, the relationship between individual perception and organisational assessment was discussed and illustrated in a model. The next chapter (Chapter eight) will provide the conclusion for the thesis, mainly discussing the research contribution.

CHAPTER EIGHT: CONCLUSION

The aim of this study was to explore managers' political risk perception and firms' risk assessment in Kuwaiti international firms. Although political risk is not a new topic, this current research addresses it because of the very significant political risks caused by the recent events in the Middle East, referred to collectively as the Arab Spring. These events are characterised by extremely high levels of political instability and so seriously affect any firm trying to operate, or already having operations, in this region. Therefore, this research investigated whether the Arab Spring made international firms take political risk more seriously, or made any difference to the way firms approach risk. This is especially important given that the literature on political risk reveals that there is a low standard of political risk assessment carried out by international firms as it tends to be reactive and subjective. Any reaction by firms to risk consists of two elements: 1) individuals who are responding to risk based on their judgement and perception; and 2) organisational processes of assessing these risks. This study looked at these elements in parallel. It did so because it could be argued that how managers perceive risk is important to the subsequent processes of assessing such risk However, the literature on risk perception and the literature on risk assessment have not been connected, especially in relation to political risk. There is a well-established body of literature on risk perception using, and indeed, supporting the relevance of the psychometric framework. And, although this framework has been successfully applied to other risks (e.g. technological and environmental), it has not yet been applied to political risk in particular. Since the existing political risk literature has not used any established framework to enhance our knowledge about managerial perception of such risk, it was deemed important, in this study, to investigate whether the psychometric framework is equally applicable to this kind of risk. In so doing, this

study was mainly intended to connect the political risk literature and risk perception literature.

This study focussed particularly on Kuwaiti international firms – a relatively small population of firms that belong to the Arabian region. Although Kuwait was not directly involved in the Arab Spring, its international firms have to make decisions about their investments and operations in countries that were; and Kuwait frequently leads the rest of the Arab world in terms of Foreign Direct Investment. This study used a mixed methods approach involving a questionnaire survey and interviews, with both data sets collected around the same time. The questionnaire survey data was collected from 120 managers from across 44 firms with the aim of enabling a response to research question one, which sought to explore the managers' political risk perceptions based on three dimensions: political risks, risk attributes and participants. The interview data was collected through face-to-face, semi-structured interviews with 34 managers from Kuwaiti firms, with each manager representing a firm. Part of the interview data was analysed quantitatively to establish the level of institutionalisation of political risk assessment of the firms studied. The remaining part was analysed qualitatively through a thematic analysis, focusing on both risk perception and risk assessment. More specifically, besides validating the questionnaire survey results, the interview study responded to the second research question, which sought to explore the relationship between Kuwaiti managers' risk perception and the political risk assessment in international Kuwaiti firms.

The findings of this study, which were earlier discussed in depth in Chapter Seven, will be further summarised in the next section. The contribution of the thesis to the literature will also be highlighted. Thereafter, this chapter will explain the practical

implications, followed by an outline of the study limitations and suggestions for potential future research.

8.1 Summary of the finding

To begin with, on exploring the applicability of the psychometric framework to political risk perception, the questionnaire survey findings revealed that the risk attributes in the traditional psychometric approach are highly applicable to political risk. The two factors that emerged from the principle component analysis of the 12 risk attributes (severity of consequences and increasing-ness) when regressed against the dependent variables (acceptability and riskiness) both showed a very high prediction (of more than 90%) for both dependent variables. Both 'severity of consequences' and 'increasing-ness' were used to plot the 14 political risks in a cognitive map to understand whether managers differentiate between political risks on the basis of the two factors. The cognitive map showed that risks which were positioned in the quadrant representing very high levels in both severity of consequences and increasing-ness were all non-governmental risks. This indicated clear differences in managers' perception of governmental and non-governmental risks, with higher risk perceptions being associated with non-governmental risk.

The validity of the psychometric framework as a procedure for investigating risk perception in the context of political risk was further supported by theme one in the interview. Managers were found to differentiate between risks based on the source of risks they perceived. Managers gave more emphasis to the non-governmental risks than governmental risks based on the comparison between these categories of risks. Managers argued that the non-governmental risks are uncontrollable, unlike governmental risks which they indicated can be managed. This differentiation

between governmental and non-governmental risk is likely to be universal and not specifically characteristic of the experience of the Arab Spring as Al Khattab et al. (2007) found a similar position in their argument that managers are less concerned about host government risk than host society risk and interstate risk. The authors however never used the psychometric approach; instead, they asked the respondents to rate their concerns about each political risk on a five-point rating scale. This consistency with the previous literature on specific findings, as well as the support from the interview findings, added to the general validity of the psychometric approach as a procedure for investigating risk perception in the context of political risk.

This traditional approach has been critiqued for focusing on the differences among risks while ignoring the differences among the individuals. This arguably obscures differences among participants and inflates the explanatory power of the psychometric paradigm (Gardner et al.,1982; Gardner and Gould, 1989; Sjöberg,1996; Marris et al.,1998). Based on this, it was deemed important, in this study, to conduct a further analysis that focuses on the relationship between the participants and the risk attributes. This meant shifting the focus from the risks to the participants, to establish whether participants who use high values of a particular attribute also use high values of another attribute. The principal component analysis grouped the 12 attributes into four factors. When the two main factors were used to plot 120 participants in a cognitive map, the map showed no obvious clustering among the participants. This indicated that there is no difference among participants regarding political risk perception. And when the four factors that emerged from the 12 attributes were regressed on to two dependent variables (riskiness and acceptability), the predictive power was lower (34.6% and 31.6% respectively) when compared with that of the

traditional psychometric approach. This finding is in line with Bronfman et al. (2007), Willis et al. (2005), Savadori et al. (2004) and Barnett and Breakwell (2001). Bronfman et al (2007, p.530) for example concluded that "psychometric dimensions are less useful for explaining differences among participants than explaining differences among hazards."

In order to further establish the usefulness of the risk attributes in risk perception, a third analysis was made that looked at the relationship between the participants and the risks, ignoring the difference between the attributes. This meant focusing on whether participants giving high attribute ratings of a certain risk also tend to give high attribute ratings to another risk. The principal component analysis grouped the 14 risks into two factors, which were used to plot 120 participants in a cognitive map. Similar to the second analysis described above, there was no clustering among the participants, meaning there were no group differences among the participants regarding political risk perception. Again, using a regression of the two risk factors into two dependent variables (riskiness and acceptability), it showed a very low contribution in comparison with the previous two analyses (i.e. 14.3% and 3.3% respectively). Overall, the results from the three kinds of analyses, when compared, confirm that the risk attributes (emphasised in the traditional psychometric approach) are strongly applicable to understanding political risk perception.

Furthermore, the previous literature indicated that a relationship exists between firm characteristics and political risks. Thus, a further analysis was conducted by linking 19 demographic variables with the two dependent variables (i.e. riskiness and acceptability). But these demographic characteristics of the respondent firms and managers were found to have no significant statistical relationship with managerial

political risk perception. This further supported the assumption of the psychometric approach that it is the risk attributes, not individuals' or firms' characteristics, that explain the variations in risk perception.

As mentioned earlier, this study also sought to explore the relationship between Kuwaiti managers' risk perception and the institutionalisation of political risk assessment, and whether the Arab Spring made international firms take political risk more seriously and made any difference to the way firms approach risk. This was the core aim of conducting the interview study. To establish the institutionalisation level of political risk assessment, interview data was analysed quantitatively using numerical scores assigned to three indicators of the level of institutionalisation that were identified from the literature. These indicators are: responsibility for political risk assessment, regularity of assessment and the assessment method. The findings revealed that all of the interview firms met the minimum requirements of the institutionalisation of political risk assessment. Of the 34 respondent firms, 31 firms reported that they assigned formal responsibility while three firms had just a sense of responsibility. This means that, in the three firms, there was at least an effort and a process carried out regarding political risk assessment, though not formalised. A slightly higher degree of institutionalisation than firms' responsibility for political risk assessment is arguably shown by the regularity of performing the assessments. From the findings, the majority of the respondents (25 out of the 34 firms) reported that they assessed political risk routinely rather than on-demand. These two findings indicate that all of the interview firms take risk seriously. This contradicts the idea that Arabic cultures tend to be fatalistic and suggests that Kuwaiti culture is less fatalistic and, indeed, the Kuwaiti culture is said to be unique in relation to that of its local counterparts in tending towards Western culture (Ali, 1988). In regard to method, the

literature indicates that firms using both qualitative and quantitative methods are generally considered to be more institutionalised than those employing qualitative methods only. It was expected that the Arab Spring should be a strong impetus to increase the use of more rigorous political risk assessment. This study indicates that this was not the case as only 12 firms were found to use mixed methods.

The previous literature indicates that a relationship exists between the level of institutionalisation of political risk assessment and firm characteristics. Thus, having established the firms' level of institutionalisation of political risk assessment in this study, it was deemed important to establish how this relates to firms' characteristics. This was done on the assumption that there could be other factors, other than political risk perception, that influence the assessment processes. In general, the findings show that the level of institutionalisation is not significantly correlated with any of the firm characteristics. Institutionalisation of risk assessment appeared almost random, except that a distinct sub-population – the government-owned oil firms – was clearly more institutionalised. This is probably due to their importance in the Kuwaiti economy, and the political pressure they come under from the Kuwaiti government and society to be seen to take political risks seriously, particularly in light of the Kuwaiti government's heavy reliance on gas and oil.

The thematic analysis of interviews was conducted to investigate the relationship between Kuwaiti managers' risk perception and the institutionalisation of political risk assessment. The data revealed two major themes: the first was that managers are more concerned about non-governmental risks and the second was that managers resist quantitative assessment, meaning they resist the highest level of institutionalisation. As mentioned earlier, managers were more concerned with non-governmental risks

than governmental risks because governmental risks can be controlled and managed e.g. by amending their strategies and using their relationships with influential and powerful local partners in host countries. Furthermore, managers argued that the host governments support foreign investors instead of restricting them e.g. by providing incentives. In addition, managers were concerned about non-governmental risks due to their consequences. For example, managers claimed that non-governmental risks adversely affect the host economy, security and safety of host countries, and that non-governmental risks have no boundaries as these risks affect the whole region, not just single countries, in which a business might be operating. More generally, both the questionnaire survey and interview results suggested that, if managers are asked about political risk, they first consider whether it is governmental or non-governmental risk and then express their greater concern for the latter.

On the second theme, which explained why managers resist quantitative assessment process (the highest level of institutionalisation), despite their high awareness of political risk (especially for non-governmental risks) as summarised above, managers gave four main reasons. The first reason was that political risk is immeasurable; managers believe that the assessment of political risk is based on intuition and experience rather than quantification. The second reason was the lack of skilled employees to carry out the quantification. The third reason was that political risk is uncontrollable, while the fourth reason was that quantitative political assessment is unnecessary. Generally, the finding showed that Kuwaiti managers believe that the assessment of political risk is based on intuition and experience rather than quantification. In addition, managers indicated that it was difficult to quantify political risk due to a lack of skilled employees to do quantification.

The uncontrollability that was highlighted as a reason for resisting quantification of risk assessment was also highlighted as a reason as to why managers were concerned about non-governmental risks. In other words, this factor affects both perception and assessment. Some managers, however, argued that quantitative political risk assessment was unnecessary since they had limited activities in unstable countries and also avoided investing in unstable countries e.g. the non GCC countries. While, it was initially anticipated that the Arab Spring made a difference in political risk assessment by encouraging firms to do quantitative assessment, the findings showed that it did not. Instead, firms opted to avoid and walk away from unstable countries to focus on more politically stable regions like UK, US and GCC countries. A few managers, however, indicated that they would consider investing in unstable countries such as Myanmar and Sudan as an opportunity. These managers argued that risk and benefit are positively correlated. However, other respondents said that they would rather avoid the so-called high risk-high benefit countries because, to them, the higher level of risk actually meant lower benefits and/or losses. According to risk perception literature, risk and benefit are, in fact, positively correlated and the negative correlation of risk and benefit is associated with an emotional response. This suggests that emotion plays a role in risk perception among some of the managers.

Overall, this study found that both risk perception and assessment have something in common; particular factors affect both political risk perception and assessment. These factors include the dichotomisation of governmental and non-governmental risk, and one of the psychometric attributes i.e. controllability (see the thick edged shapes in Figure 7.3). These distinctions seemed to be a kind of entry point: if managers are asked about political risks, their first considerations are whether they are governmental or non-governmental, and whether they are controllable or

uncontrollable. These appeared to be a useful heuristic guide for most managers when making their risk assessments. The findings also show that certain factors affect perception only, while others affect assessment only. For example, attitude to the assessment method (e.g. quantitative assessment is unnecessary) and the potential cultural influences were found to affect assessment only. Three factors were found to influence perception and not assessment. These were the general psychometric attributes, and, as emerged from the interviews, psychological influences (i.e. affect) and potential benefits from host governments.

8.2 Contribution to literature

The findings of this study have made two intended contributions to the literature. First, there are established literature streams on risk perception and political risk but these have been isolated from each other. The literature on risk perception has explored and demonstrated the usefulness of established frameworks, such as the psychometric framework, to explain how people react to risk. And the psychometric paradigm based framework has been applied to understand the perception of different risks such as technological risks and environmental risks (e.g. Marris et al.,1998; Langford et al., 1999; Siegrist et al., 2005; Willies et al., 2005; Bronfman et al., 2007). However, this framework has not been used to understand political risks. The current globalisation of firms, coupled with the emerging important political events that aggravate risk, such as the recent Arab Spring, means that the phenomenon of political risk and its potential impact on international firms' decisions, deserve important consideration. However, the literature reviewed in Chapter Three indicates that, besides failure to apply the psychometric paradigm on political risk, no other established framework has so far been used to understand political risk perception. This thesis therefore contributes to the literature by showing the applicability of the

psychometric framework to political risk. The findings have shown that the traditional psychometric framework strongly applies to political risk perception. The risk characteristics in the framework contributed to over 90% of the variation in political risk perception. This study, in demonstrating the applicability of the framework to managers reacting to political risks, suggests it is a very general framework. Remarkably, it shows that the same framework, with the same set of risk attributes, works equally well for lay perceptions of societal safety risks as for managerial perceptions of political risk to a business.

The previous studies applying the traditional psychometric approach to technological and environmental risks have found more of a balance of risk attributes across different factors (e.g. Fischhoff et al., 1978; Marris et al., 1997; Bronfman and Cifuentes, 2003; Siegrist et al., 2005). However, this thesis found an unbalanced factor structure whereby 11 attributes were highly correlated to 'severity of consequences' forming factor 1, but factor 2 included only one factor: 'increasing-ness'. This means that, although political risk perception can be understood using the attributes similar to those used in previous studies that focused on technological and environmental risks, the factor structures looked different, meaning the way risk attributes correlated with one another emerged differently. This indicates that, although these attributes look universal, they fit together differently when they are applied to different domains. The same attributes apply to political risk because we are looking at constants in human risk perception, but the different nature of the risks may account for the different way these attributes are correlated. This would be a worthwhile subject for future study. In general, this study has not only extended the applicability of the psychometric framework to facilitate understanding of political risk, but also showed the connection between political risk literature and risk

perception literature, which as indicated in Chapter Two and Three have previously been isolated.

Second, the processes of risk perception and political risk assessment have not been linked together in the previous literature. As mentioned earlier, there is an established line of work that looks at risk perception and there is also another important line of work that looks at political risk assessment in terms of its institutionalisation. It is expected that the processes of risk perception and assessment should be connected. Both of these processes involve the same subject and the same object (i.e. a manager trying to understand political risk). However, these processes look different as risk perception is based on human psychological process while risk assessment is based on a rational organisational process. Risk assessment denotes a process that belongs to the organisation, not simply to individuals although they are conducted by individuals on behalf of their organisations. Risk perception concerns the psychology of the individuals but this is influenced by other factors, including the type of organisations such individuals represent. This study found that the Arab Spring influenced the risk perception but not the assessment as most of the firms remained resistant to quantitative assessment. Therefore, the pertinent contribution here is the detailed work that explained why managers resist quantitative assessment. The dichotomisation between governmental and non-governmental risk that managers made, and the uncontrollability consideration of non-governmental risk, were found to be the main reason for the resistance. Other reasons were also revealed in this study including: the belief that political risk is immeasurable, due to the fact that quantification cannot express managers' observations in a satisfactory way; and the fact that political risk is based on firms' intuition and experiences in previous political events, rather than

quantification. Furthermore, there was the belief that avoidance of threatening unstable countries makes assessment unnecessary.

8.3 Implications for practice

With regard to practical contributions, the research can benefit international firms as well as host countries in significant ways. Firstly, the connection between political risk perception and assessment established in this study might help managers in international firms to consider the relationship between their judgment (their intuitive perception) and their organisational assessment processes. Managers could use the psychometric framework to check whether the outcomes from the assessment and the perception are consistent or whether they are going in different directions. Formal risk assessments look mainly at probabilities and consequences; however, the psychometric framework captures aspects of risk, namely risk attributes, which, in a formal risk assessment, are ignored. These aspects were found to be important. If the outcome from the perception and assessment is different, this might indicate that something more needs to be taken into account in the assessment process.

Secondly, understanding the reasons why managers dichotomise governmental and no-governmental risk has practical importance, as it helps firms to reflect on their circumstances and assess whether this dichotomisation works in these circumstances. Similarly, the variety of reasons provided in the interviews to justify the assessment procedure are very important as they might help managers to understand how others rationalise the use, or non-use, of quantitative assessment. They thereby allow managers to assess whether such reasons fit their own problems and so come to a deeper understanding of how much formal assessment of political risk is appropriate to their situation.

Furthermore, this study finds that the traditional psychometric framework significantly predicts political risk perception. This finding can help the host countries wishing to attract and retain foreign investments in identifying the most important risks that are of concern to the managers of international companies. Based on this, the host governments can look for ways of incentivising investors, or participate in assessing such risks (e.g. through assisting the firms in managing the outcomes of such risks) in order to help the investors make rational decisions. Besides its use by the host countries, the psychometric framework can provides a way of helping managers predict the risk perception of other managers who they may have to persuade or negotiate with.

Finally, the psychometric framework can be used to provide managers with a list of risks that are important and relevant to their firms. This list can offer a basis for assessing risks – either qualitatively or quantitatively.

8.4 Study limitations and implications for future research

This study has had some important limitations. The first involves the generalisability of findings. This study was conducted in Kuwait where there are only 138 firms participating in international business; and only 44 of these firms responded to the survey. This is a limitation in a sense that the firms may not be completely representative, as they are only 1/3 of the relevant population. And since the study was done in only Kuwaiti firms, there are questions of external validity – it is possible that the findings may not be generally applicable in other different contexts. But, importantly, findings in this study provide a starting point for further similar studies in other different and similar contexts to ascertain generalisability.

Another limitation of this study is the possible sampling bias, due to the self-selection process (where people chose to respond or not to respond) as the potential respondents had to first be contacted to confirm their willingness to participate due to the size of the questionnaire (20 pages). However, this was important to enhance the response rate as the previous studies have indicated that respondents were reluctant to participate because of the length of the psychometric questionnaire. Related to this is the use of a single respondent manager per firm in the interview study. This in itself is a potential limitation, as it means the study relies in most cases on using one informant to determine what happens in a particular organisation. Two or more respondents per firm would allow for the triangulation of data across respondents to ascertain consistency of the data in every firm. However, this study used managers who had busy schedules and it was therefore difficult to get more than one manager from every company. Nonetheless, the study used multiple firms and two sources of data (i.e. questionnaire survey and interviews) and their complementarity improved the validity of findings.

This study investigates the potential effect of the characteristic of managerial position on political risk perception. This also is acknowledged as a methodological limitation as other characteristics, for example age, gender and education, can potentially affect risk perception also. However, managerial position is considered in this study due to its relevance, as explained earlier. It is therefore recommended that future studies consider other characteristics such as age, gender and education, and their effect on managerial political risk perception.

In this study, some potentially interesting findings emerged, but it was difficult to get further explanations for them from the data. For example, the principle component

analysis of risk attributes in the use of the traditional psychometric approach resulted in an unbalanced factor structure, where 11 attributes loaded on 'severity of consequences' forming factor 1, while factor 2 included only 'increasing-ness'. This was a departure from the traditional studies applying the psychometric approach e.g. to technological and environmental risks, that showed more of a balance of attributes across the different factors. This study could not find an appropriate explanation for this deviation and future research could investigate this further, especially by using interviews to get in-depth explanation.

Another limitation pertains to the cross-sectional nature of this study. As this study investigates managers' perceptions and its relation to risk assessment, it would be expected processes would evolve over time, and the cross-sectional study does not capture that. Perhaps the most important direction for future work could be a longitudinal study. And it could be conducted by using the psychometric instrument at regular intervals of time, and also re-interviewing mangers at regular intervals of time, to look at how the perception and the assessment processes develop.

Further, this study was constrained by the literature in the sense that it adopted an already existing framework: the psychometric framework. The potential for future research is perhaps to refine the psychometric framework and revisit all its attributes. Although the existing attributes are shown to be applicable and significant in this study, there were other factors that emerged from the interviews that went beyond it e.g. affect. The interview findings indicate that affect is probably important in risk perception because some managers noted that the relationship between risk and benefit is positive, while others regarded them as inversely related, and the literature has shown that this inverse relationship is related to affect. This therefore suggests that

the high explanatory power of the traditional psychometric framework does not mean that we cannot develop it further.

Another avenue for further work is to use more sophisticated psychometric approaches like 3MPCA, as suggested by Siegrist et al. (2005). In using 3MPCA, the data is analysed without aggregating among one mode (such as among participants in the traditional approach), and without performing separate analyses for each item in one mode (such as for each risk in participant-focused at disaggregated level). But the question is perhaps what value this adds as, it is not clear how 3MPCA is able to predict riskiness and acceptability judgments that differ among participants and risks.

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APPENDICES

Appendix 1: participant information sheet and consent form

Participant Information Sheet
September, 2013

Political risk perception and assessment of Kuwaiti international firms during the 'Arab Spring'

My name is Sundus Alyatama and I am conducting this research as part of my PhD in Management Science Department at Lancaster University Management School, Lancaster, United Kingdom.

You are being invited to participate in a research study. Please read the following carefully and feel free to ask us if you would like more information.

1. The purpose of this study is to examine the managerial perception of political risk and the institutionalisation level of political risk assessment within Kuwaiti international firms in the context of the Arab Spring.

2. You have been approached because the study requires information from managers who have been involved in international business activities.

3. Your participation in this study is voluntary and you have the right to withdraw at any time. If you withdraw up to 2 weeks after the interview, the data will be destroyed and not used. But after this point the data will remain in the study.

4. The information you provide is confidential. The audio file will be deleted from the recorder as quickly as possible when the data has been transferred to secure storage. The secure storage includes encrypted, password protected laptop. The data collected for this study, whether in a form of recorded tapes or hand written notes, will be stored securely and only the researchers conducting this study will have access to this data. The data that will be extracted from the interview for use in any kind of publication will not contain your name.

If you have any questions about the study, please contact the researcher:

Sundus Alyatama, PhD Student at Lancaster University

alyatama@exchange.lancs.ac.uk

Also you can contact the researcher's supervisor: *Jerry Busby,* Senior Lecturer *of Management Science at Lancaster University, j.s.busby@lancaster.ac.uk*

If you wish to make a complaint or raise concerns about any aspect of this study and do not want to speak to the researcher, you can contact:

Prof. Mike Pidd

PhD Research Director

Management Science Department

Email: m.pidd@lancaster.ac.uk

Tel: (01524) 593870

Lancaster University

Lancaster

LA1 4YX

Thank you for taking the time to read this information sheet.

Participant Identification Number:

CONSENT FORM

Name of Researchers: Sundus Alyatama, PhD Student at Lancaster University Management School; Jerry Busby, Senior Lecturer *of Management science at Lancaster University*.

(Please put √ for agreement and X for disagreement)

1. I confirm that I have read and understand the information sheet dated September 2013 for the above study. I have had the opportunity to consider the information, ask questions and have had these answered satisfactorily. ☐

2. I understand that my participation is voluntary and that I am free to withdraw at any time, without giving any reason. But if I withdraw after 2 weeks of the interview, the data will remain in the study. ☐

3. I understand that any information given by me may be used in future reports, articles, researcher's thesis or presentations by the research team. ☐

4. I understand that my name will not appear in any published reports, articles or presentations, unless further consent is sought. ☐

5. I agree that my interview with the researcher(s) will be tape recorded. ☐

6. I agree to take part in the above study. ☐

_____	_____	_____
Name of Participant	Date	Signature
_____	_____	_____
Researcher	Date	Signature

Permission from the firm

My name is Sundus Alyatama and I am conducting my research as part of my PhD in Management Science Department at Lancaster University Management School, Lancaster, United Kingdom.

The purpose of this study is to examine the managerial perception of political risk and the institutionalisation level of political risk assessment within Kuwaiti international firms in the context of the Arab Spring.

Your firm has been approached because the study requires information from managers who have been involved in international business activities.

The information you provide is confidential. The data that will be extracted from the interview for use in any kind of publication will not contain your company name.

I would appreciate if you give permission to conduct my research by administrating a written survey to your employees and also conducting face-to-face interviews with managers in your company.

If you have any questions about the study, please contact the researcher:
Sundus Alyatama, PhD Student at Lancaster University alyatama@exchange.lancs.ac.uk

Also you can contact the researcher's supervisor: *Jerry Busby,* Senior Lecturer *of Management science at Lancaster University, j.s.busby@lancaster.ac.uk*

If you wish to make a complaint or raise concerns about any aspect of this study and do not want to speak to the researcher, you can contact:
Prof. Mike Pidd
PhD Research Director
Management Science Department
Email: m.pidd@lancaster.ac.uk
Tel: (01524) 593870
Lancaster University
Lancaster LA1 4YX

To whom it may concern

On behalf of ----------, I am writing to formally indicate our awareness of the research proposed by Mrs Sundus Alyatama, a PhD student at Lancaster University. We are aware that she would like to examine the managerial perception of political risk and the institutionalisation level of political risk assessment within Kuwaiti international firms in the context of the Arab Spring. We are also aware that Mrs Alyatama intends to conduct her research by administrating a written survey to our employees and also conducting face-to-face interviews with managers and decision makers.

I, ----------, give Mrs Alyatama permission to conduct her research in our company.

If you have any questions or concerns, please feel free to contact me.

Sincerely,

Appendix 2: Interview Guide

1. What is your position?
2. Can you tell me about your firm? For example, what kind of international business your firm is involved in? Which type of industry your firm belong to e.g. Oil & Gas, Real Estate, Industrial, investments Instruments?
3. How many years has your firm been involved in international business activities?
4. In how many Arab countries does your firm have facilities such as representative office, branch, subsidiary, affiliate, franchise agreement, joint venture and strategic alliance?
5. What are the most important political risks that you are concerned about at the moment? Why? How have these risks changed since the beginning of the Arab Spring?
6. Does your firm assign formal responsibility for Individual(s) to analyse potential risks associated with firm's international activity? If yes, since when? And how?
7. How often do you assess potential risks associated with your firm's international business activities? Why? How has this changed since the beginning of the Arab Spring?
8. What type of methods do you use to assess political risks that are associated to your international business activities? Why? How have these methods changed since the beginning of the Arab Spring?
9. How do you use the results that you obtain from these methods to assess political risks; i.e. do you quantify the outcomes of the qualitative analysis?
10. What kind of inputs do you get from third party providers and how do you use them to take an action?
11. Is the process of PRA helpful to the firm in avoiding or at least reducing risk?

Appendix 3: Recommendation letter from The Public Authority for Applied Education and Training in Kuwait

الهيئة العامة للتعليم التطبيقي والتدريب
THR PUBLIC AUTHORITY FOR APPLIED EDUCATION & TRAINING
كلية الدراسات التجارية
THE COLLEGE OF BUSINESS STUDIES

AACSB
عضو الهيئة الأمريكية لتطوير التعليم في كليات إدارة الأعمال

المرجع: ٨٧١
التاريخ: ٢٧ / ٣ / ٢٠١١

مساعدة إجراءات باحث :

نظراً لقيام الأستاذة / **سندس خليفة اليتامى** – عضو هيئة التدريس بقسم التأمين والبنوك بكلية الدراسات التجارية–للقيام بعمل ورقة بحثية تحت عنوان :

(الدليل العلمي لإدراك المخاطر السياسية المؤثرة على النشاطات التجارية الكويتية الدولية) .

(Empirical Evidence of Executives Perception of Political risk in Kuwaiti international business)

يرجى التكرم بالتعاون معها بتسهيل مهمتها لتوزيع الاستبيان على قطاعاتكم المختلفة .

شاكرين لكم حسن تعاونكم.

وتفضلوا بقبول فائق الاحترام،،،

عميد الكلية

د/ مشعل حميد متلع
عميد كلية الدراسات التجارية

نسخة الملف الشخصي.
نسخة الملف.
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P.O.BOX 44069 HAWALLI (32055) KUWAIT – TEL 22619913 FAX. 22660362

ص ب 44069 حولي (32055) الكويت بدالة 22619913 فاكس 22660362

الهيئة العامة للتعليم التطبيقي والتدريب - كلية الدراسات التجارية - عضو الهيئة الأمريكية لتطوير التعليم في كليات إدارة الأعمال
The Association to Advance Collegiate Schools of Business
AACSB

Appendix 4: Political risk perception questionnaire

Managerial political risk perception questionnaire survey
استبانة إدراك المخاطر السياسية

The current research aims to examine the managerial perception of political risk and the institutionalisation level of political risk assessment within Kuwaiti firms that have international business activities. Understanding managerial perception of political risks may help host governments to contribute to a favourable business environment by reducing such risks. The research findings would also help both current and new investors to understand political risk that may face their international business.

Please be assured that all information given will be regarded as strictly confidential and no personal identification is necessary.

As a participant of this questionnaire, you are entitled to receive a free copy of the research findings. If you are interested in obtaining such information, please complete your details below, to reserve your free copy.

Name (Optional): .....

Email Address: .....

يهدف البحث الحالي إلى فحص الإدراك الإداري للمخاطر السياسية وعملية إضفاء الطابع المؤسسي لتقييم المخاطر السياسية في الشركات الكويتية التي لديها نشاطات تجارية دولية. فهم الإدراك الإداري للمخاطر السياسية قد يساعد الحكومات المضيفة للمشاركة في بيئة عمل محببة عن طريق تقليل هذه المخاطر. نتائج البحث سوف تساعد أيضا كلا من المستثمرين الحاليين والجدد على فهم المخاطر السياسية التي قد تواجه أعمالهم الدولية.

يرجي التأكد من أن كافة المعلومات المذكورة سوف تعامل على أنها معلومات سرية ولا يشترط التعرف على هوية الشخص المشارك بالاستبانة.

وكمشارك في هذه الاستبانة، يحق لك استلام نسخة مجانية من نتائج البحث. فإذا كنت مهتما بالحصول على مثل هذه المعلومات، يرجي استكمال التفاصيل التالية، لحجز نسختك المجانية.

الاسم (اختياري): .....

البريد الالكتروني: .....

Section One: Information about you and your firm

القسم الأول: معلومات عنك وعن مؤسستك

Please read the following definitions before completing section one.

يرجى قراءة التعريفات التالية قبل تعبئة القسم الأول

International business activity: any business activity that is conducted across national borders, and it includes exporting and/or importing services and/or goods and /or producing services and/or goods in countries other than Kuwait.

النشاطات التجارية الدولية : أي نشاط تجاري تجريه عبر البلاد ويتضمن خدمات تصدير و/أو استيراد و/أو بضائع و/أو انتاج خدمات و/أو سلع في دولة اخري بخلاف الكويت.

Political risks: These are risks from political or administrative changes (e.g. Taxation restrictions, Import and/or export restrictions, ownership restrictions, wars) or events in society (e.g. riots, revolutions, demonstrations, civil wars) which could cause unfavourable consequences for a firm.

المخاطر السياسية: هي مخاطر ناشئة عن التغيرات السياسية أو الإدارية (مثلا؛ القيود الضريبية، قيود الاستيراد و/أو التصدير، القيود على الملكية، الحروب) أو الأحداث في المجتمع (مثلا؛ أعمال الشغب والثورات والمظاهرات والحروب الأهلية) التي من الممكن أن تتسبب في نتائج غير محببة للشركة.

1.	What is your job title?		ما هو مركزك الوظيفي؟ .1
2.	How much is the total capital of the firm? (in Kuwaiti Dinars)		كم تقدر رأس مال الشركة (بالدينار الكويتي)؟ .2
3.	How much are the total assets of your firm (approximate – in Kuwaiti Dinar)?		كم تقريبا إجمالي أصول الشركة (بالدينار الكويتي)؟ .3
4.	What is the percentage of the firm's assets in the GCC countries to the total assets of your firm?		كم تمثل نسبة أصول الشركة في دول الخليج من إجمالي أصول الشركة؟ .4
5.	What is the percentage of the firm's assets in the non GCC Arab countries to the total assets of your firm?		كم تمثل نسبة أصول الشركة في الدول العربية غير الخليجية من إجمالي أصول الشركة؟ .5
6.	What is the percentage of the firm's assets in the non Arab developing countries to the total assets of your firm?		كم تمثل نسبة أصول الشركة في الدول غير العربية النامية من إجمالي أصول الشركة؟ .6
7.	What is the percentage of the firm's assets in the non Arab developed countries to the total assets of your firm?		كم تمثل نسبة أصول الشركة في الدول غير العربية المتقدمة من إجمالي أصول الشركة؟ .7
8.	For how many years has your firm been involved in international business activities?		كم تقدر عدد سنوات الخبرة منذ قيام الشركة بأول نشاط تجاري دولي؟ .8
9.	Approximately; what is the total number of employees that your firm employs?		كم تقريبا العدد الكلي لموظفين الشركة؟ .9
10.	What is the percentage of your firm's employees in the GCC		كم تمثل نسبة موظفين شركتك في دول الخليج من المجموع الكلي .10

countries to the total number of employees?

للموظفين؟

11. What is the percentage of your firm's employees in the non-GCC Arab countries to the total number of employees?

11. كم تمثل نسبة موظفين شركتك في الدول العربية غير الخليجية من المجموع الكلي للموظفين؟

12. What is the percentage of your firm's employees in the non-Arab developing countries to the total number of employees?

12. كم تمثل نسبة موظفين شركتك في الدول غير العربية النامية من المجموع الكلي للموظفين؟

13. What is the percentage of your firm's employees is in the non-Arab developed countries to the total number of employees?

13. كم تمثل نسبة موظفين شركتك في الدول غير العربية المتقدمة من المجموع الكلي للموظفين؟

14. In how many GCC countries does your firm have facilities such as representative offices, subsidiaries, branches, affiliates, franchise agreement, joint ventures and strategic alliance?

14. كم عدد الدول الخليجية التي تملك فيها الشركة نشاطات تجارية دولية كالمكاتب التمثيلية, الشركات التابعة, الفروع, الشركات الحليفة, المشاريع المشتركة, التراخيص, الامتياز, الحليف الإستراتيجي؟

15. In how many non GCC Arab countries does your firm have facilities such as representative offices, subsidiaries, branches, affiliates, franchise agreement, joint ventures and strategic alliance?

15. كم عدد الدول العربية غير الخليجية التي تملك فيها الشركة نشاطات تجارية دولية كالمكاتب التمثيلية, الشركات التابعة, الفروع, الشركات الحليفة, المشاريع المشتركة, التراخيص, الامتياز, الحليف الإستراتيجي؟

16. In how many non-Arab developing countries does your firm have facilities such as representative offices, subsidiaries, branches, affiliates, franchise agreement, joint ventures and strategic alliance?

16. كم عدد الدول غير العربية النامية التي تملك فيها الشركة نشاطات تجارية دولية كالمكاتب التمثيلية, الشركات التابعة, الفروع, الشركات الحليفة, المشاريع المشتركة, التراخيص, الامتياز, الحليف الإستراتيجي

17. In how many non-Arab developed countries does your firm have facilities such as representative offices, subsidiaries, branches, affiliates, franchise agreement, joint ventures and strategic alliance?

17. كم عدد الدول غير العربية المتقدمة التي تملك فيها الشركة نشاطات تجارية دولية كالمكاتب التمثيلية, الشركات التابعة, الفروع, الشركات الحليفة, المشاريع المشتركة, التراخيص, الامتياز, الحليف الإستراتيجي

18. Which of the following type of shareholders best represents your firm's majority ownership? (Please tick (✓) one box only)

18. إلى أي القطاعات التالية يمكن تصنيف ملكية شركتكم ؟ (الرجاء وضع إشارة (✓) في مربع واحد فقط)

- Private
- Government

- قطاع خاص
- قطاع حكومي

19. Which of the following categories best represents your firm's primary industry?
(Please tick (✓) one box only)

19. أي نوع من القطاعات الصناعية يمكن أن تصنف نشاط الشركة الأساسي؟
(الرجاء وضع إشارة (✓) في مربع واحد فقط)

- Industrial ☐ صناعي
- Banking ☐ بنوك
- Oil & Gas ☐ النفط والغاز
- Real Estate ☐ عقارات
- Insurance ☐ تأمين
- Financial Service ☐ خدمات مالية
- Telecommunications ☐ الاتصالات
- Others, Please specify ..... ☐ أخري، اذكرها ......

20. What is the influence of Arab Spring on the way you think about risks in your firm's international businesses?

20. ما هو تأثير الربيع العربي على طريقة تفكيركم في استشعار المخاطر في نشاطات شركتكم الدولية؟

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Section Two: Managerial Political Risk Perception	القسم الثاني: إدراك المخاطر الإدارية السياسية
In this Section of the questionnaire there are twelve parts. Each part asks you about a particular attribute of political risk; these attributes are: voluntariness, immediacy of effect, knowledge about risk, control over risk, newness, catastrophic potential, common – dread, unanticipated consequences, preventability, increasing, duration of effect and severity. Please rate the listed political risks in relation to each attribute as explained in the following parts:	في هذا القسم من الاستبيان يوجد اثني عشر جزء. كل جزء يتناول خاصية معينة للمخاطر السياسية. وهذه الخواص هي: طوعية المخاطر، وفورية التأثير، والمعرفة بالمخاطر، والسيطرة على المخاطر، والحداثة، واحتمال الكارثية، والفزع، وعواقب غير متوقعة، وإمكانية الوقاية، والزيادة، ومدة التأثير ودرجة الشدة. يرجي تقييم المخاطر السياسية المدرجة فيما يتعلق بكل خاصية كما هو موضح في الأقسام التالية:

Part 1: ***Voluntariness of risk***: Do you consider the following risk issues to be voluntary? That is, do you have a choice about your international business activity being affected by them? If you think you have a choice then they are voluntary risks, but if you believe that you have no or little choice then they are involuntary risks. For each item, please indicate an appropriate position on the 5-point scale.	**الجزء 1:** **طوعية المخاطر:** هل تعتقد أن المخاطر التالية طوعية؟ هذا بمعني، هل لديك اختيار فيما يخص تأثر نشاطك التجاري الدولي بهذه المخاطر؟ إذا كنت تعتقد أن لديك الاختيار في التعرض للمخاطر التالية فإنها هذه الحالة تكون مخاطر طوعية، ولكن إذا كنت تعتقد أنه لا اختيار لديك أو أن لديك القليل من الاختيار فإنها في هذه الحالة تكون مخاطر غير طوعية. يرجي تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس.

Risk issue	Voluntary	Mostly Voluntary	Moderately Voluntary	Slightly Voluntary	Involuntary	الخطر
	طوعي	طوعي غالبا	طوعي باعتدال	طوعي قليلا	غير طوعي	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

Part: 2 **Immediacy of Effect:** to what extent do you consider the following risks have immediate consequences to your international business? Do these risks affect your business activity straight away or are they delayed in time? For each item, please indicate an appropriate position on the 5-point scale.	**الجزء: 2** **فورية التأثير:** إلى أي مدي تعتقد أن المخاطر التالية لها تأثير فوري على نشاطك التجاري الدولي؟ هل تؤثر هذه المخاطر على نشاطك التجاري بشكل فوري أو أن التأثير يستغرق وقتا؟ يرجي تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس.

Risk issue	Very Immediate Effect	Immediate Effect	Moderate Immediate Effect	Delayed Effect	Very Delayed Effect	الخطر
	تأثير فوري جدا	تأثير فوري	تأثير فوري معتدل	تأثير متأخر	تأثير متأخر جدا	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

Part: 3 **Knowledge about Risk:** to what extent do you know about the following risks? Do you know all about them or are they unknown to you? For each risk, please indicate an appropriate position on the 5-point scale.	**الجزء: 3** **المعرفة بالمخاطر:** الي أي مدي لديك معرفة بشأن المخاطر التالية؟ هل تعرف كل شيء بخصوصها أم أنها غير معلومة بالنسبة لك؟ لكل خطر من هذه المخاطر، يرجي تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس.

Risk issue	Known precisely	Very Known	Moderately Known	Slightly Known	Unknown	الخطر
	معلومة بدقة	معلومة الى حد بعيد	معلومة بشكل متوسط	معلومة بشكل طفيف	غير معلومة	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

Part: 4 **Control over Risk:** If your firm is exposed to the following risk issues, to what extent do you consider the following risk issues to be controllable? For each item, please indicate an appropriate position on the 5 point scale.	**الجزء: 4** **السيطرة علي المخاطر:** اذا كانت شركتك معرضة للمخاطر التالية، الي أي مدي تعتبر المخاطر التالية يمكن السيطرة عليها؟ يرجي تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس.

Risk issue	Uncontrollable	Slightly Controllable	Moderately controllable	Very controllable	Completely Controllable	الخطر
	غير مسيطر عليها	مسيطر عليها قليلا	مسيطر عليها	مسيطر عليها جدا	مسيطر عليها تماما	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

Part: 5 **Newness:** Are the below risk issues new to your international business activity or are they old risks that you have known about for quite some time? For each item, please indicate an appropriate position on the 5 point scale.	**الجزء: 5** **الحداثة:** هل المخاطر التالية جديدة بالنسبة لنشاطك التجاري الدولي ، أم أنها مخاطر قديمة تعلم بها منذ فترة؟ يرجي تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس.

Risk issue	Completely New	Very New	Moderately New	Slightly New	Old	الخطر
	جديدة تماما	جديدة الى حد بعيد	جديدة بشكل متوسط	جديدة قليلا	قديمة	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

Part: 6 **Catastrophic potential:** A risk with catastrophic potential is one that is likely to affect large numbers of international business activity at once. For each item, please indicate an appropriate position on the 5 point scale.	**الجزء: 6** **احتمال الكارثية:** الخطر ذو احتمال الكارثية هو الخطر الذي من المحتمل أن يؤثر على أعداد كبيرة من النشاطات التجارية الدولية في وقت واحد. يرجي تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس.

Risk issue	No catastrophic potential	Slightly catastrophic potential	Moderately catastrophic potential	Mostly catastrophic potential	Completely catastrophic potential	الخطر
	لا احتمال بالكارثية	احتمال الكارثية قليل	احتمال الكارثية متوسط	احتمال الكارثية غالبا	احتمال الكارثية بشكل تام	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

7. Common - Dread: Are the following risk issues ones that your firm has learnt to cope with and can think about calmly? Or are they ones that are greatly dreaded to your international business. For each item, please indicate an appropriate position on the 5 point scale.	**الجزء: 7** **مفزع:** هل المخاطر التالية من المخاطر التي تعلمت شركتك التعامل معها ويمكن التفكير بها بهدوء؟ او أنها مخاطر مفزعة الي حد كبير بالنسبة لأعمالك الدولية. يرجي تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس.

Risk issue	Not dreaded	Slightly dreaded	Moderately dreaded	Dreaded	Very dreaded	الخطر
	غير مفزع	مفزع قليلا	مفزع بشكل متوسط	مفزع	مفزعة جدا	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

Part 8: **Unanticipated consequences:** To what extent the following risk issues will lead to unanticipated effects in regards to your international business activity. For each item, please indicate an appropriate position on the 5 point scale.	**الجزء: 8** **عواقب غير متوقعة:** الي أي مدي سوف تؤدي المخاطر التالية الي تأثيرات غير متوقعة على نشاطك التجاري الدولي. يرجي تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس.

Risk issue	Unanticipated	Slightly anticipated	Moderately anticipated	Very anticipated	Completely anticipated	الخطر
	غير متوقعة	متوقعة قليلا	متوقع بشكل متوسط	متوقعة الى حد بعيد	متوقعة تماما	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

Part 9: **Preventability:** The extent to which the following risk issues can be prevented in your international business activity. For each item, please indicate an appropriate position on the 5 point scale.	**الجزء: 9** **إمكانية الوقاية:** الي أي مدي يمكن الوقاية من المخاطر التالية في نشاطك التجاري الدولي. يرجي تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس.

Risk issue	Not preventable at all	Slightly preventable	Moderately preventable	Very preventable	Completely preventable	الخطر
	لا يمكن اتقائها اطلاقا	يمكن اتقائها قليلا	يمكن اتقائها بشكل متوسط	يمكن اتقائها الى حد بعيد	يمكن اتقائها تماما	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

Part 10: **Increasing:** The extent to which the following risk issues are increasing over time in regards to your international business activity. For each item, please indicate an appropriate position on the 5 point scale.	**الجزء: 10** **الزيادة:** الي أي مدي تتزايد المخاطر التالية على نشاطك التجاري الدولي مع مرور الوقت. يرجي تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس.

Risk issue	Strongly decreasing	Slightly decreasing	Neither decreasing nor increasing	Slightly increasing	Strongly increasing	الخطر
	تتناقص بشدة	تتناقص قليلا	ثابتة	تتزايد قليلا	تتزايد بشدة	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

Part 11: **Duration of Effect:** How long do the effects of the following risk issues last in regards to your international business activity? For each item, please indicate an appropriate position on the 5 point scale.	**الجزء: 11** **مدة التأثير:** الي أي مدي تستمر مدة تأثير المخاطر التالية على نشاطك التجاري الدولي. يرجي تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس.

Risk issue	Almost no time	Short time effect	Moderate time effect	Long time effect	Very long time effect	الخطر
	تقريبا لا وقت	تأثير لمدة قصيرة	تأثير لمدة معتدلة	تأثير لمدة طويلة	تأثير لمدة طويلة جدا	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

Part 12: **Severity:** The extent to which the consequences of exposure to the following risk issues are severe among your international business. For each item, please indicate an appropriate position on the 5 point scale.	**الجزء: 12** **درجة الشدة:** ما مدي شدة عواقب تعرض نشاطك التجاري الدولي للمخاطر التالية. يرجي تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس.

Risk issue	Not severe at all	Slightly severe	Moderate severe	Very severe	Completely severe	الخطر
	غير شديدة اطلاقا	قليلة الشدة	شديدة بشكل متوسط	شديدة الى حد بعيد	شديدة تماما	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

Section Three: Two different definitions of risk perception

In this section we would like you to rate the following risk issues on two different definitions of risk perceptions namely Riskiness and Acceptability.

Part 1:

Riskiness: How risky are the following risk issues to your international business activity? For each item, please indicate an appropriate position on the scale.

القسم الثالث: تعرفين مختلفين لإدراك الخطر

في هذا القسم نود منك تصنيف المخاطر التالية وفقا لتعريفين لإدراك المخاطر، ألا وهما المخاطرة وإمكانية القبول.

الجزء 1:

المخاطرة: ما هو مدي خطورة المخاطر التالية على نشاطك التجاري الدولي؟

يرجى تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس.

Risk issue	No risk	Slight risk	Moderate risk	High Risk	Very high risk	الخطر
	غير خطرة	خطرة قليلا	خطرة بشكل متوسط	عالية الخطورة	خطورة عالية جدا	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

Part 2: **Acceptability:** How acceptable are the following risk issues to your firm? For each item, please indicate an appropriate position on the scale.	**الجزء 2:** **إمكانية القبول:** ما مدي تقبل شركتك للمخاطر التالية؟ يرجي تقييم كل بند من البنود التالية بالدرجة الملائمة وفقا للمقياس

Risk issue	Completely unacceptable	Moderately unacceptable	Neither unacceptable or acceptable	Moderately acceptable	Completely acceptable	الخطر
	غير مقبولة تماما	غيرمقبولة بشكل متوسط	لا مقبولة ولا مرفوضة	مقبولة بشكل متوسط	مقبولة تماما	
Taxation restrictions	1	2	3	4	5	القيود الضريبية
Currency exchange restrictions	1	2	3	4	5	القيود على تحويل العملة المحلية إلى عملة صعبة
Breach of contract by a host government	1	2	3	4	5	نقض العقد من قبل الدولة المضيفة
Capital and/or Profit repatriation restrictions	1	2	3	4	5	القيود على إعادة رأس المال و/أو الأرباح
Import and/or export restrictions	1	2	3	4	5	قيود على الاستيراد أو التصدير
Ownership and/or personnel restrictions	1	2	3	4	5	قيود على الملكية و/أو تعيين الموظفين
Expropriation and/or confiscation	1	2	3	4	5	التأميم و/أو المصادرة
Corruption	1	2	3	4	5	الفساد
Demonstrations and riots	1	2	3	4	5	المظاهرات وأعمال الشغب
Revolutions	1	2	3	4	5	الثورات
civil wars	1	2	3	4	5	الحروب الأهلية
Terrorism	1	2	3	4	5	الإرهاب
Economic sanctions	1	2	3	4	5	العقوبات الاقتصادية
Wars	1	2	3	4	5	الحروب

Thank You Very Much for Your Time and Help
شكرا جزيلا لك على المساعدة

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