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International Political Risk Management: Perspectives, Approaches and Emerging Agendas

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This paper reviews the extant and emerging perspectives on, and approaches to, political risk management, particularly in the context of foreign direct investment. The authors identify and classify the various theoretical lenses in the domain of political risk management, and suggest a future research agenda. The paper contributes by conceptually categorizing and mapping the extant research onto three approaches to the management of political risk. Through conducting a narrative literature review, the authors suggest three theoretical perspectives on political risk management: institutions; resources and capabilities; and resource dependence. They argue that the institutions approach to political risk management is reactive, responding to external stimuli, whereas the resources- and capabilities-based approach is proactive, preparing and acting in anticipation. The resource dependence domain offers an intermediate approach – the active management of political risk. The authors also suggest that the effectiveness of the domains’ approaches may vary across different national contexts.

Introduction

The often unpredictable and hard to measure nature of political risk makes it difficult to anticipate and manage (Lawton *et al.* 2014; McKellar 2010). For managers, financial, operational and other forms of risk can also arise unexpectedly and have a significant impact on business structure and strategy. But how do you manage the risk to your organization and assets associated with sudden regime change, an unexpected policy shift by government or the political instability caused by a terrorist attack or civil unrest? Despite the range and scale of impacts that political risk can have on companies, many top management teams continue to ignore, avoid or underestimate its strategic importance (Bremmer and Keat 2010; Czinkota *et al.* 2010; Lawton *et al.* 2014). Setting aside extractive industries and other sectors prone to frequent political intervention, firms typically deal with political risk in a tactical and defensive mode (Lawton *et al.* 2014). The extant literature on political risk management

reflects this reactive and avoidance-oriented tendency (Butler and Joaquin 1998; Ellstrand *et al.* 2002; Henisz and Zelner 2003; Henisz *et al.* 2010; Jiménez 2010; Jiménez *et al.* 2014; Kobrin 1979; Moran and West 2005; Mortanges and Allers 1996; Slangen and van Tulder 2009).

In this paper, we challenge this predisposition and show there are other approaches that are proactive and more strategic in managing political risk. We draw on diverse research threads and theoretical perspectives to advance a comprehensive assessment and classification of political risk management scholarship, particularly in the context of foreign direct investment (FDI). We subsequently map these perspectives onto three approaches to the management of political risk: reactive, proactive and active.

As a mode of foreign market entry, FDI – particularly through greenfield investments and international acquisitions – entails greater voting shares (a 10% threshold) and control over the operations and organization in a host country (*Financial Times* 2016). Yet it

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3 also implies greater resource commitment, higher po- 57
4 tential losses and fewer possibilities to remove assets 58
5 from the host country (Feinberg and Gupta 2009; *Fi-* 59
6 *nancial Times* 2016). This conundrum stimulated our 60
7 interest in research on the determinants of FDI deci- 61
8 sions. Much of the extant research focuses on mar- 62
9 ket and corporate determinants such as resource fac- 63
10 tors, including financial, managerial and knowledge 64
11 (Erramilli 1991; Herrmann and Datta 2002; Lecraw 65
12 1993), organizational capabilities such as network- 66
13 ing and timing (Chen and Chen 1998; Chen *et al.* 67
14 2004; Isobe *et al.* 2000; Li *et al.* 2008; Luo 2001), 68
15 company size (Moran 2012; Terpstra and Yu 1988), 69
16 degree of diversification (Doukas and Lang 2003; 70
17 Mudambi and Mudambi 2002), prior acquisitions 71
18 (Harris and Ravenscraft 1991), age of the enter- 72
19 prise (Moran 2012; Mudambi and Mudambi 2002), 73
20 level and extent of FDI experience (Benito and Grip- 74
21 srud 1992; Chan *et al.* 2006), and governance and 75
22 ownership structures (Cui and Jiang 2012; Lien and 76
23 Filatotchev 2015; Meznar and Nigh 1995; Woodcock 77
24 *et al.* 1994). Some studies have also explored how FDI 78
25 decisions depend on factors determined by the indus- 79
26 trial and national systems of host and home coun- 80
27 tries (Jensen 2008). Examples include: industry re- 81
28 sources, size and structure (Denekamp 1995; Moran 82
29 2012; Yu and Ito 1988); national economic, legisla- 83
30 tive, administrative and political systems (Buckley 84
31 *et al.* 2007; Chan *et al.* 2008; Globerman and Shapiro 85
32 1999; Habib and Zurawicki, 2002; Li and Resnick 86
33 2003); and market dynamics such as size, demand 87
34 and competition (Anand and Kogut 1997; Galan and 88
35 Gonzalez-Benito 2001; Kim and Lyn 1987; Sethi 89
36 *et al.* 2003; Tsang 2005). Moreover, some authors 90
37 refer to FDI decisions as being influenced by the ac- 91
38 tivities of international institutions such as the World 92
39 Bank or the World Trade Organization (Lawton and 93
40 McGuire 2005; Lawton *et al.* 2009) or being deter- 94
41 mined by international relations, particularly home- 95
42 host country agreements and relations (Bieler *et al.* 96
43 2004; Lundan 2004; Schuler and Brown 1999).

44 We argue that these FDI determinants cannot be 97
45 fully understood without considering the moderating 98
46 effect of the political environment (De Villa *et al.* 99
47 2015), and without factoring in the risk arising from 100
48 actions or inactions in this political context (Bremmer 101
49 2005). Hence our interest in the political risk factor in 102
50 FDI decision-making. Spar (2001) stresses that FDI is 103
51 inherently political, and political risks remain the key 104
52 determinant of FDI decisions. This perspective is sup- 105
53 ported by studies such as Brewer (1981, 1985), Kobrin 106
54 (1979), Oetzel (2005), and Zhuang *et al.* (1998) that 107
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support the idea of political risk as a significant de- 57
terminant of FDI decisions. Moreover, political risk 58
has implications not only at the pre-investment stage, 59
but also when the FDI is in place (Feinberg and Gupta 60
2009; Oetzel 2005). In this paper, we revisit the link 61
between political risk and firms' overseas investments 62
by reviewing and classifying the relevant literature. 63
We place an emphasis on the role of political risk 64
management in this interconnection. 65

66 For our purposes, political risk refers to the pos- 67
68 sibility that a specific action or inaction in the po- 68
69 litical environment will directly or indirectly, on a 69
70 regular basis or episodically, induce negative or pos- 70
71 itive changes in the economic outcomes of firms at 71
72 macro and micro levels. This study considers polit- 72
73 ical risk particularly in an international context, and 73
74 examines it as one of the most important determi- 74
75 nants of FDI choices. We define the political environ- 75
76 ment as a complex multi-level construct composed of: 76
77 firm-government relations (firm-level); trade associ- 77
78 ations, unions and interest groups (industry-level); 78
79 policies, norms and regulations, and political history 79
80 in host and home countries (national-level); supra- 80
81 national entities, international agreements of, or be- 81
82 tween, a multinational enterprise's (MNE's) host and 82
83 home countries, and political relations between an 83
84 MNE's host and home countries (international-level) 84
(De Villa *et al.* 2015; Doh *et al.* 2012).

85 Since earlier studies (Baglini 1976; Carlson 1969; 85
86 Eiteman and Stonehill 1973; Green 1972; Green 86
87 and Korth 1974; Weston and Sorge 1972) and two 87
88 subsequent reviews (Fitzpatrick 1983; Kobrin 1979), 88
89 research into political risk and its management has 89
90 moved forward in different strands. As more coun- 90
91 tries around the world opened to FDI as the result 91
92 of shifting from import-substitution industrialization 92
93 to market-friendly strategies (Ramamurti 2001), new 93
94 literature streams emerged in the mid-1980s that 94
95 challenged the traditional perspective on political 95
96 risk management, which assumed the authority of 96
97 government (Poynter 1982; Root 1968; Truitt 1970) 97
98 and the passivity of firms in the political environment 98
99 (Faber and Brown 1980). This work also challenged 99
100 the view that political risk has exclusively negative 100
101 implications, should be avoided, and cannot be 101
102 managed by firms (Green and Smith 1972; Root 102
103 1968; Root and Ahmed 1978). We learned from these 103
104 studies that political risk does not always have purely 104
105 negative implications (Jiménez *et al.* 2014) and that, 105
106 if able to adopt a more active stance in the political 106
107 environment (Dieleman and Boddewyn 2012; Getz 107
108 and Oetzel 2009) and thereby influence government 108

(Blumentritt and Rehbein 2008; Holtbrügge *et al.* 2007), firms can actively manage and reduce political risk (Holburn 2001; Oliver and Holzinger 2008; Puck *et al.* 2013; Shaffer 1995). However, we have a limited understanding of the overall political risk research terrain, where these new perspectives could be documented relative to existing approaches to political risk management. Our contribution addresses this knowledge deficiency by categorizing extant literatures into discrete domains, each advancing a distinct approach to the management of political risk, particularly in the context of FDI. Through exploring these domains, we intend to develop a more robust understanding of managerial approaches to political risk strategies for FDI, shed light on their possible complementarities, and suggest a future research agenda. We pursue these objectives through conducting a narrative literature review.

Compared with systematic reviews (e.g. meta-analysis), narrative reviews are particularly valuable where, as in our case, there is the need to integrate advances in a certain research field by reinterpreting and interconnecting many publications on different topics and with diverse methodological approaches (Baumeister and Leary 1997). Moreover, narrative reviews are preferred where, as in our sample, analytical aggregation is impossible owing to a diversity of methodologies in the studies (Baumeister and Leary 1997). Narrative reviews do not always suffer from subjectivity (Hammersley 2002; Jones and Gatrell 2014). Instead, a scholar may enhance the objectivity of a narrative review by borrowing the more rigorous approach of systematic reviews, as well as by attaining a high level of transparency in sample development (Hammersley 2001; Jones and Gatrell 2014).

The remainder of the paper is structured as follows. First, we outline a methodological approach to the review, and propose research domains. Then, we present the research domains and their approaches to political risk management outcomes. We subsequently discuss the results of our review and the implications for future research agendas.

Methodology

To increase the objectivity of this review and the credibility of the analysis, we adopt a methodological approach based on the transparency of procedures in relation to the selection of studies to be included in the review. To increase the research transparency, we

discuss conceptual boundaries, establish thematic and disciplinary parameters, outline the review process, and present survey results by detailing the sample quality and proposing a review framework.

Establishing conceptual boundaries

The boundaries as to what constitutes political risk are based on a synthesis of existing definitions. As shown in the introduction, we propose a broad definition of political risk as the possibility that a specific action, or inaction, in the political environment will directly or indirectly, on a regular basis or episodically, induce negative or positive changes in the economic outcomes of firms at macro and micro levels. We envisage several conceptual implications of this definition. These are summarized in Table 1. It is worth noting in our definition of political risk how we reflect the evolution of the concept by capturing new challenges for firms in modern political environments. For example, in contrast to earlier definitions of political risk (Kobrin 1979; Robock 1971), we emphasize that the economic consequences of political risk are not always negative. In line with Robock's (1971) early classification, we emphasize that political risk may be regular/continuous or episodic/discontinuous. Indeed, as the frequency, magnitude and geopolitical implications of terrorist attacks, violent conflicts and civil unrest increases, there is a need to develop an enhanced understanding of not only potentially manageable systematic political risks, but also exposure to less controllable discontinuous political risks (Oetzel and Oh 2015).

In this review, we consider political risk in the context of FDI into a host country. Our focus is on studies that discuss the link between political risk in host and home countries, and the FDI of firms in host countries. Earlier studies assumed that political risk originates in a host country context. However, subsequent discussions questioned this assumption by suggesting that, being an open system, an international firm is also exposed to political dynamics in its home country (Duanmu 2014; Kobrin 1979; Li and Vashchilko 2010; Murtha and Lenway 1994; Simon 1984; Soule *et al.* 2014).

It is worth noting at this point what this paper considers to be beyond the concept of political risk. Table 1 details what political risks are not.

Establishing thematic parameters

Political risk management and corporate political activity. We distinguish between the literature on

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Table 1. Conceptual boundaries and implications of political risk

Boundaries	Implications
1. Political risk is the possibility that political actions or inactions trigger changes in economic outcomes.	Our definition combines political risk as a construct whose probability can be estimated, and as a construct whose probability is unknown (political uncertainty). The difference between the two constructs was first discussed by Knight (1921), Robock (1971) and Haendel <i>et al.</i> (1975). Since then, some researchers have drawn a clear line between political risk and political uncertainty (Bremmer and Keat 2010; Brink, 2004; Kobrin 1979, 1982; Miller 1992), whereas others have used the two terms interchangeably (López-Duarte and Vidal-Suárez 2010). The two ideas have several differences cutting across normative and positive views. Normatively, drawing on some earlier works (Haendel <i>et al.</i> 1975; Knight 1921; Robock 1971), scholars have assumed that, unlike political uncertainty, political risk can be measured because its probability can be estimated (Baird and Thomas 1985; Boyacigiller 1990; Bremmer and Keat 2010; Brink, 2004; Daniels <i>et al.</i> 1985; Fitzpatrick 1983; Kobrin 1979; 1982; Oetzel <i>et al.</i> 2001). They further surmise that information is what makes the two constructs different. That is, information about the political environment helps managers to convert uncertainty to risk that may be measured, forecast and, consequently, avoided. Yet some authors continue using the terms ‘political risk’ and ‘political uncertainty’ interchangeably. For instance, political risk is considered as a proxy of uncertainty in the political environment in López-Duarte and Vidal-Suárez (2010). These authors make an implicit assumption that, as with political uncertainty, political risk is difficult to estimate and, for this reason, is nearly impossible to manage and avoid. Indeed, the two terms may converge in the conditions of high political instability where, owing to the lack of information, it is almost impossible to provide accurate estimates of political risk and to control its economic implications (Miller 1992).
2. Political risk is a function of not only political action, but also political inaction.	Many early conceptualizations of political risk assumed that it is triggered by political actions (Schmidt 1986; Shapiro 1981; Smith 1971). However, later studies referred to political risks as consequences of political inactions on the part of host and home governments and foreign firms (Oetzel 2005; Wells, 1998). The unwillingness of governments to take an active stance in regulatory policies or elsewhere in the political arena may substantially change conditions of FDI and affect their performance (Henisz 2002). For example, the reluctance of a government to take measures against pollution from foreign manufacturers may occasionally escalate environmental protests and nationalistic movements and put at risk the operations of foreign manufacturers (Lawton <i>et al.</i> 2014). Similarly, the reluctance of firms to cooperate with governments on political matters may occasionally result in the adoption of policies and regulations putting at risk the performance of their FDI (Lawton <i>et al.</i> 2014).
3. Political action or inaction may be triggered not only by governments and their intervention, but also by other actors in the political environment.	Political action or inaction may be taken not only by governments and their intervention – governmental risk (Poynter 1982) – but also by other actors (rebel groups, transnational advocacy groups, non-governmental organizations, and individuals) in the political environment, ^a i.e. societal risk (Iankova and Katz 2003; Ting 1988). This allows the inclusion of a broader range of political risks in our analysis. That is, apart from expropriation, corruption, breach of contract, discriminatory taxation, repatriation of profits, currency controls and other types of governmental risks (Butler and Joaquin 1998; Habib and Zurawicki 2002; Poynter 1982), we consider risks that are indirectly related to government policies. For example, such political risks may be associated with terrorism and violence (Globerman and Shapiro 2003), revolutions (Nigh 1985), civil wars (Nigh 1985), international conflict (Nigh 1985), economic embargoes (Fatehi and Safizadeh 1994), and nationalism and social unrest, such as strikes and demonstrations (Bremmer 2005).
4. Political risks may be regular or episodic.	Political risks may be regular (continuous) or episodic (discontinuous) (Oetzel and Oh 2015). Regular political risks are associated with policy uncertainty and corruption (Oetzel and Oh 2015). By contrast, episodic risks lead to discontinuities ranging from terrorist attacks to violent conflicts, which also influence the political environment but are difficult to anticipate and predict (Oetzel and Oh 2015).
5. The economic implications of political risk may be direct and indirect.	The implications are direct if they have an immediate impact on the profits of firms. They are indirect if they are mediated by changes in managerial policies (Henisz and Zelner 2003; Siegel 2007). For example, firms may respond to the risk of expropriation by engaging in lobbying and by forging international alliances against expropriation legislation and practices, which, if successful, helps to secure profits and, if unsuccessful, undermines profitability (Henisz and Zelner 2003; Siegel 2007).
6. Political risks may induce both positive and negative economic changes.	The economic outcomes do not necessarily have to be negative. Instead, political risk may occasionally create political opportunities and even improve the performance of firms (Alon and Herbert 2009; Holburn and Zelner 2010). For example, corruption in a host country may put foreign firms with little or no knowledge of dealing with corrupt governments at a disadvantage, but it may help those firms with prior experience of high levels of corruption (Holburn and Zelner 2010).
7. Political risks have macro and micro effects on economic outcomes.	We do not limit political risk to either macro effects spanning all firms or micro effects pertinent only to certain firms, firms in specific industries, and firms with certain approaches to branding (Alon and Herbert 2009; Kobrin 1979; Robock 1971). For instance, firms in strategic national sectors may be more sensitive to political risk (Alon and Herbert 2009). Similarly, firms whose corporate brands are closely associated with states leading anti-terrorist initiatives are more exposed to risks of terrorist attacks (Alon and Herbert 2009).

Table 1. Continued

Boundaries	Implications
8. What political risks are not.	We distinguish political risks from economic (e.g. debt level, inflation and GNP), exchange (e.g. volatility of foreign exchange rates), financial (e.g. interest rates), cultural (e.g. cultural distance), social (e.g. strikes and ethnic conflicts), informational (e.g. cyber-attacks and intellectual property loss) and environmental risks (e.g. explosions, pollution and natural disasters) (Grosse and Trevino 1996; Kobrin 1976; Meschi and Riccio 2008; Quer <i>et al.</i> 2007; 2012; Shan 1991; Siegel <i>et al.</i> 2013). Yet, in some cases, the border between political and other risks may be thin (Boddewyn 1988). For instance, a risk of government default on payments does not always have a purely economic nature; rather, it may have political motivations. Given this potential overlap, this review distinguishes political risks from other risks by taking account of the motivations behind actions or inactions in the political environment.

Note: ^aPolitical environment is a complex multi-level construct, which includes: firm–government relations (firm-level); trade associations, unions and interest groups (industry-level); policies, rules of the game and political history in host and home countries (national-level); supranational entities, international agreements of, or between, an MNE’s host and home countries, and political relations between an MNE’s host and home countries (international-level) (De Villa *et al.* 2015; Doh *et al.* 2012).

political risk and its management, and research into corporate political activity (CPA). First, the two literature streams emphasize different origins and implications. Political risk is situated in the firm’s environment (e.g. political uncertainty in the international environment of business) or at the intersection of the environment and the firm (e.g. nationalization) (Kobrin 1979; Lawton *et al.* 2013a). Despite being triggered by events, processes and routines in the market and non-market environment, CPA originates within the firm, hence the focus on legal and illegal political behaviors of firms, including lobbying, fostering political ties, corruption and bribery (Kobrin 1979; Lawton *et al.* 2013a).

As for the implications, strategic management and international business research into the political risk of FDI primarily considers the repercussions for firms and their aggregates, particularly industries (Lawton *et al.* 2013a). However, CPA studies are interested in the political risk effects, not only on firms, but also on other actors in the non-market environment, including host and home governments and non-governmental organizations (NGOs) (Lawton *et al.* 2013a).

Second, the two literatures emphasize different objectives: political risk management focuses on estimating political risk and managing the implications for firms; CPA incorporates strategies and tactics that facilitate political risk assessment and control for performance implications, but it is a broader domain (Lawton *et al.* 2013a). For instance, CPA may aim to foster political ties with home and host governments (Sun *et al.* 2012), or focus on securing first-mover advantages for the foreign investor (Frynas *et al.* 2006).

Political risk management and non-market strategy. Political risk management is not only a dimension of CPA, but is also an element of the broader non-market domain (Kingsley and Vanden Bergh 2015; Lawton *et al.* 2014; Liedong *et al.* 2014; Mellahi *et al.* 2016; Oetzel and Oh 2015; Oliver and Holzinger 2008). A closer look at the research into non-market activity suggests that the discourse on political risk cuts across three major streams in this wider literature: non-market factors; non-market strategies; and outcomes of non-market strategies (Lawton *et al.* 2014; Mellahi *et al.* 2016). The first literature stream considers political risk as a factor originating in the non-market environment of firms. It stems from political events (e.g. corruption, expropriation, nationalization, repatriation of profits and international political conflicts) triggered by socio-political actors such as societal groups, NGOs, firms, and home and host governments (Doh *et al.* 2012; Kingsley and Vanden Bergh 2015).

With its emphasis on non-market strategies, the second literature stream identifies political risk management as being closely intertwined with corporate social strategy (Detomasi 2008), part of corporate political strategy (Keillor *et al.* 2005; Murtha and Lenway 1994), and integrated into overall non-market strategy (Hadani and Coombes 2015; Liedong *et al.* 2014; Oetzel and Oh 2015). For instance, Liedong *et al.* (2014) and Hadani and Coombes (2015) argue that firms manage policy risks through an interplay of two pillars of non-market strategy – corporate political strategy and corporate social strategy. For example, governments, especially those with developmental needs, tend to trust firms engaged in both lobbying and philanthropic activities to fill funding gaps (Liedong *et al.* 2014). Such trust helps to make

Table 2. Journals included in the sample^a

N	Journal ^b	ABS ranking ^c	ABDC ranking	Thomson Reuters JCR impact factor
1	Academy of Management Review	4*	A*	7.817
2	Journal of Management	4*	A*	6.862
3	Academy of Management Journal	4*	A*	4.974
4	Journal of International Business Studies	4	A*	3.597
5	Journal of Management Studies	4	A*	3.277
6	Management and Organization Review	3	A	3.277
7	Strategic Management Journal	4*	A*	2.993
8	Asia Pacific Journal of Management	3	A	2.742
9	International Journal of Management Reviews	3	A	2.673
10	Administrative Science Quarterly	4*	A*	2.394
11	Long Range Planning	3	A	2.111
12	California Management Review	3	A	1.944
13	British Journal of Management	4	A	1.909
14	Journal of World Business	4	A	1.907
15	Strategic Organization	3	A	1.853
16	Harvard Business Review	3	A	1.831
17	Business & Society	3	A	1.804
18	Strategic Entrepreneurship Journal	4	A	1.744
19	Journal of Management Inquiry	3	A	1.594
20	International Business Review	3	A	1.489
21	Journal of Business Research	3	A	1.306
22	Management Learning	3	A	1.245
23	Journal of International Management	3	A	1.096

Notes: ^aThe journals are ordered by the Thomson Reuters JCR impact factor.

^bIn Europe, the ABS rankings were published by the British Association of Business Schools in February 2015 (Harzing 2015). It is worth noting that we decided not to use other European ranking systems because these considered fewer journals, reflected views of academics from only one institution, and included national non-English-speaking journals. In Asia and Oceania, the rankings corresponding to our criteria were represented by the ABDC (2013) edition developed by the Australian Business Deans Council (Harzing 2015). The composition of these rankings overlapped substantially with that of the ABS rankings. In the USA, the journal rankings were developed by Thomson Reuters in the Journal Citation Reports in 2013 (Thomson Reuters 2015).

^cOwing to the selection process, we excluded several 3-AJG and 'A' journals found in the strategy and international business sections of the ABS and ABDC journal quality lists but not ranked in Thomson Reuters Journal Citation Reports. These journals were *Theory, Culture and Society*, *Global Strategy Journal* and *Management International Review*. We excluded 142 journals listed in Thomson Reuters Journal Citations Reports, but not specializing in the disciplines of our interest: strategic management and international business. Those were journals whose primary themes were marketing, research methods, management science, cross-cultural management, human resources, psychology, organizational behavior, logistics, innovations, management information systems, accounting and finance.

generated 1324 results. Based on the relevance to the political risk–FDI link and conceptual boundaries, we further refined this list to 164 publications. Of these, 74 studies belonged to larger domains. These selected publications are marked with the * symbol in the Reference list.

Study results

Sample quality

A closer look at our sample of studies reveals three issues about its quality. First, there is a disciplinary divide between studies focusing on external public policy implications and internal corporate impact. Having gained substantial attention among

public-policy scholars, external public policy implications such as policy change and policy maintenance remain largely beyond the scope of strategic management and international business research. Instead, the political risk scholarship in strategic management and international business tends to cluster around internal corporate impact. For example, work on the corporate impact of political risk cuts across decisions about FDI – such as decisions about when and how to enter overseas markets – and the performance outcomes, including market growth and share, revenue, profits and market capitalization, and security of human assets, intellectual property and facilities.

The disciplinary divide has implications for the quality of our sample. Because our major field of interest is at the intersection of strategic management

and international business, our sample is biased to studies centering on internal corporate impacts. The selected studies fail to address the relationship between external public policy and internal corporate impact. An interdisciplinary research approach is needed to address this deficiency.

Second, there is a theoretical divide among studies in our sample. For the most part, prior to the early 1980s, research into political risk and its implications for FDI was theoretically weak (Simon 1984). However, advances in strategic management and international business research meant that subsequent studies benefited from a broad range of theoretical perspectives, including agency theory, institutional theory, the resource-based view, resource dependence theory, bargaining power theory and stakeholder theory. Our review suggests that an institutional perspective on political risk management emerged from three different approaches: new institutional theory (DiMaggio and Powell 1983); new institutional economics (North 1990); and national business systems (Jackson and Deeg 2008). We identified 41 studies using these theoretical lenses. Moreover, a growing interest in the resource-based view (Wernerfelt 1984) triggered research into the role of resources and capabilities in the political risk management of FDI. We found 16 studies in this field. Similarly, applications of bargaining power (Bacharach and Lawler 1981; Pen 1952; Wagner, 1988) and stakeholder approaches (Freeman 1984) revitalized discussions about the role of resource dependence (Pfeffer and Salancik 1978) in the exposure of FDI to political risk. Our search suggested 19 publications in this stream. Studies adopting other theoretical perspectives are relatively limited (Table 3).

Research framework

We began the development of the research framework by searching for commensurability, or criteria (e.g. assumptions) that would allow evaluation of studies from different theoretical perspectives (Willmott 1993). We found most studies structured their analyses by addressing three major assumptions in the traditional view of political risk (Figure 1). Using these assumptions, we discovered three broader literature domains, which we label as institutions, resource and capabilities, and resource dependence. The three domains also have the largest frequencies of studies in the sample.

The domains shape political risk management outcomes such as (external) public policy and (internal)

corporate impact. With external public policy, a firm aims to enhance its competitive position by changing or maintaining existing policy. The external public policy may have an internal corporate impact manifest in the firm's market performance (e.g. market growth and share), financial dynamics (e.g. revenue, profits and market capitalization) and security of assets (e.g. safety of human capital, security of facilities and protection of intellectual property). The subsequent sections discuss the three domains in detail.

Domain 1: Institutions

The institutional perspective on political risk and FDI decisions in international business is well established (Dahan *et al.* 2006; Green 1972; Kassicieh and Nassar 1986; Moran 1973; Nigh 1985). The earlier mentioned scope and multidimensionality of the institutional perspective (DiMaggio and Powell 1983; Hotho 2014; North 1990; Whitley 2007) facilitates understanding of international business phenomena in general (Hotho and Pedersen 2012), and of non-market strategies in particular (Doh *et al.* 2012). Following Hotho and Pedersen (2012) and Doh *et al.* (2012), we also refer to the three approaches – new institutional economics, neo-institutional perspectives and national business systems – to address the complexity of the institutional domain of political risk research. We present key studies in Table 4.

As with many studies in the non-market strategy field (Doh *et al.* 2012), new institutional economics contributes to political risk management research by focusing on how political and regulatory uncertainty shapes the decisions of firms. Studies in this stream are mostly concerned with deterring the effects of instability in regulatory institutions, and the risk posed to FDI by changes in home and host country institutional environments, as well as moderating factors (Cherchye and Verriest 2016; Delios and Henisz 2000, 2003a,b; Henisz and Delios 2001, 2004; Slangen and van Tulder 2009; Witt and Lewin 2007). Most studies agree that risks associated with uncertainty due to opaque regulatory environments, underdeveloped judicial and financial systems, corruption and engagement in inter-state political conflicts increase the costs of and, therefore, discourage FDI (Chung and Beamish 2005; Delios and Henisz 2000; Desbordes 2007; Fatehi-Sedeh and Safizadeh 1988; García-Canal and Guillén 2008; Gaur and Lu 2007; Habib and Zurawicki 2002; Henisz and Delios 2001; Hiatt and Sine 2014; Holmes *et al.* 2013; Kobrin *et al.* 1980; Lee and Hong 2012; Li and Vashchilko 2010;

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Themes ^a	Studies	Supporting studies ^b	
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			59
Institutions (41 studies)	Arregle <i>et al.</i> (2013)	New institutional economics (North 1990)	60
	Blake and Moschieri (2017)	New institutional perspective (DiMaggio and Powell 1983)	61
	Cherchye and Verriest (2016)		62
	Christmann <i>et al.</i> (1999)	National business systems (Hotho 2014; Whitley 2007)	63
	Chung and Beamish (2005)	Environmental determinism (Hannan and Freeman 1984, 1989)	64
	Click (2005)		65
	Delios and Henisz (2000)		66
	Delios and Henisz (2003a,b)		67
	Desbordes (2007)		68
	Duanmu (2014)		69
	Fatehi-Sedeh and Safizadeh (1988)		70
	García-Canal and Guillén (2008)		71
	Gaur and Lu (2007)		72
	Guillén (2003)		73
	Habib and Zurawicki (2002)		74
	Henisz and Delios (2001)		75
	Henisz and Delios (2004)		76
	Hiatt and Sine (2014)		77
	Holmes <i>et al.</i> (2013)		78
	Kolstad and Wiig (2012)		79
	Kwok and Tadesse (2006)		80
	Lee and Hong (2012)		81
	Li and Vashchilko (2010)		82
	López-Duarte and Vidal-Suárez (2013)		83
	Lu <i>et al.</i> (2014)		84
	Meschi and Riccio (2008)		85
	Mudambi <i>et al.</i> (2013)		86
	Murtha and Lenway (1994)		87
	Quer <i>et al.</i> (2012)		88
	Ring <i>et al.</i> (2005)		89
	Robertson and Watson (2004)		90
	Rodriguez <i>et al.</i> (2005)		91
	Rothaermel <i>et al.</i> (2006)		92
	Salomon and Wu (2012)		93
	Slangen and van Tulder (2009)		94
	Soule <i>et al.</i> (2014)		95
	Tallman (1988)		96
	Witt and Lewin (2007)		97
	Xie and Li (2017)		98
	Zheng (2012)		99
Resources and capabilities (16 studies)	Alon and Herbert (2009)	Proactive approach to political strategizing (Hillman and Hitt 1999)	100
	Demirbag <i>et al.</i> (2011)	Resource-based view (Barney and Arikan 2001; Wernerfelt 1984, 1995; Peteraf 1993)	101
	Frynas <i>et al.</i> (2006)		102
	Getz and Oetzel (2009)		103
	Hadani and Schuler (2013)		104
	Holburn (2001)		105
	Holburn and Zelner (2010)		106
	Jiménez (2010)		107
	Jiménez and Delgado-García (2012)		108
	Jiménez <i>et al.</i> (2014)		109
	Mellahi <i>et al.</i> (2011)		110
	Moon and Lado (2000)		111
	Oetzel and Oh (2013)		112
	Oliver and Holzinger (2008)		113
	Poynter (1982)		114
	Puck <i>et al.</i> (2013)		115

Themes ^a	Studies	Supporting studies ^b	
Resource dependence ^c (17 studies)	Arnoldi and Villadsen (2015) ^{RDT} Blumentritt (2003) ^{RDT + BP} Blumentritt and Rehbein (2008) ^{RDT + BP} Boyacigiller (1990) ^{RDT} Brewer (1992) ^{RDT + BP} Choudhury and Khanna (2014) ^{RDT + BP} Dieleman and Boddewyn (2012) ^{RDT + BP} Holtbrügge <i>et al.</i> (2007) ^{RDT + ST} Inkpen and Beamish (1997) ^{RDT + BP} Kim (1988) ^{RDT+BP} Liu <i>et al.</i> (2016) ^{RDT} Nebus and Rufin (2010) ^{BP + ST} Poynter (1982, 1986) ^{RDT + BP} Ramamurti (2000) ^{RDT+BP} Ramamurti (2001) ^{BP + ST} Ramamurti (2003) ^{RDT + BP + ST} Vachani (1995) ^{RDT + BP} Yan and Gray (2001) ^{RDT + BP}	Resource dependence theory (Hillman <i>et al.</i> 2009; Pfeffer and Salancik 1978; Ramamurti 1986) Stakeholder approach (Donaldson and Preston 1995; Freeman 1984; Frooman 1999) Bargaining theory (Bacharach and Lawler 1981) Obsolescing bargaining power (Vernon 1971)	56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74
Transaction costs and real options (6 studies)	Ahsan and Musteen (2011); Brouthers and Brouthers (2003) Brouthers <i>et al.</i> (2008) Fisch (2011) Hennart (1988) Meschi (2009)	Transaction cost approach (Williamson 1981) Transaction cost approach to CPA (Sawant 2012)	75 76 77 78 79
Agency view (2 studies)	Boubakri <i>et al.</i> (2013) Ellstrand <i>et al.</i> (2002)	Positive political theory of agency research into political risks (Holburn and Bergh 2008)	80
Eclectic paradigm (2 studies)	Loree and Guisinger (1995); Schollhammer and Nigh (1986) Vaaler (2008)	Eclectic paradigm (Dunning 1980)	81 82
Political business cycles (1 study)		Political business cycles (Nordhaus 1975)	83 84
Firm behavior (1 study)	Alcantara and Mitsuhashi (2012)	Behavioral theory of firm (Cyert and March 1963)	85 86
Individual behavior (2 studies)	Amariuta <i>et al.</i> (1979) Maitland and Sammartino (2015)	Microfoundations (Marquis and Raynard 2015) Frynas and Stephens (2015)	87 88

Notes: ^aThe sample is biased to studies discussing institutions, resources and capabilities, and resource dependence. Nonetheless, there is the lack of studies adopting transaction cost/real options and agency theories. Also, there are very few studies adopting other frameworks and theoretical lenses: political business cycles, eclectic paradigm, firm behavior and microfoundations. These studies may stimulate the emergence of new domains in political risk research in the future.

^bThese studies are not in the sample.

^cStudies marked with RDT use the resource dependence theory. Studies marked with RDT + BP complement resource dependence theory with bargaining power theory. Studies marked with RDT + ST complement resource dependence theory with stakeholder theory.

Lu *et al.* 2014; Mudambi *et al.* 2013; Tallman 1988). These risks can even cause subsequent divestment of FDI (Blake and Moschieri 2017; Soule *et al.* 2014).

Yet some studies have shown how firms are not always repelled by political risk in a specific host country. First, firms may opt for a less risky mode of entry (Delios and Henisz 2003a; López-Duarte and Vidal-Suárez 2013; Slangen and van Tulder 2009). Second, firms with previous experience in politically hazardous or culturally similar contexts are more likely to invest in politically hazardous regions (Delios and Henisz, 2003b; Kolstad and Wiig 2012; Meschi and Riccio 2008). Finally, there exist non-firm, or external

environment, factors at industry and country levels that moderate the negative effects of political risk on FDI. At the industry level, political risks are more acute in highly regulated sectors (Desbordes 2007; García-Canal and Guillén 2008). At the country level, political risk is moderated by home country institutions and relations between home and host countries. For instance, FDI into other politically risky contexts may be triggered by the need to escape home country institutional constraints, i.e. institutional escapism (Witt and Lewin 2007). Alternatively, politically risky contexts may be more attractive because of gravity model factors such as larger host country economic

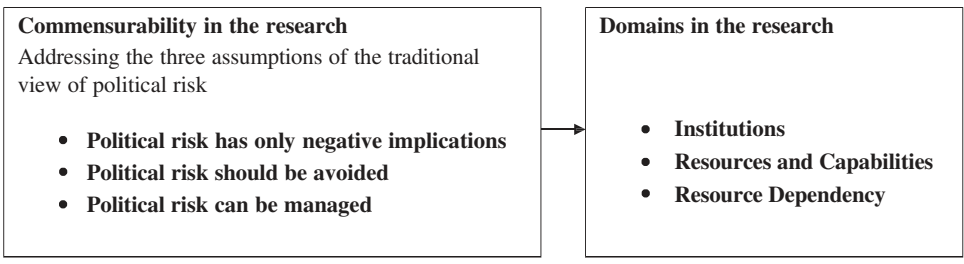


Figure 1. Ontological Framework

mass (or higher development) and smaller distance – cultural difference, dissimilar governance principles, and different economic cost structures – from the home country (Arregle *et al.* 2013; Kolstad and Wiig 2012; Li and Vashchilko 2010; López-Duarte and Vidal-Suárez 2013; Rothaermel *et al.* 2006).

Although the new institutional economics perspective places specific emphasis on the reactions of firms to political instability and associated risks, some studies contributed to the discussion around how firms can take a more proactive approach to politically uncertain contexts by influencing institutional structures (Duanmu 2014; Henisz and Delios 2004; Kwok and Tadesse 2006). Nonetheless, the new institutional economics view remains skeptical about the efficacy of influencing tactics such as lobbying and donations in politically unstable environments. Henisz and Delios (2004) contend that the efficacy of influencing strategies is a decreasing function of political instability. Indeed, politically uncertain contexts are susceptible to regime change, which can negate the investment in political influence. Scholars adopting a new institutional economics perspective prefer to concentrate on firms’ market entry decisions – location, entry mode and investment sequencing (Delios and Henisz 2003a) – and on firms’ market exit decisions (Blake and Moschieri 2017; Soule *et al.* 2014), without considering how firms manage political uncertainty when in the market.

While the new institutional economics viewpoint focuses on the role of institutional structures, the new institutional perspective (DiMaggio and Powell, 1983), also known as organizational sociology, contributes to political risk management research by placing an emphasis on social structures and relationships within societies and on how pressures emanating from them influence organizations and their responses to political risk stimuli. This stream informs how societal norms and practices underpin investment climates and governmental policies and,

most importantly, how they shape firms’ decisions in host countries with higher political risk. A distinctive feature of studies in this stream is the assumption that firms’ responses to political risk are socially embedded in softer aspects (e.g. culture and history) and harder aspects (e.g. formal rules and enforcement systems) of institutions (Granovetter 1985; Jackson and Deeg 2008; Lawton *et al.* 2013a).

In assuming the social embeddedness of firms in institutional environments, the new institutional approach to political risk research suggests that institutions exert mimetic, normative and coercive pressures that trigger similar responses among firms and, therefore, lead to homogeneity, or isomorphism, in their organizational field. For instance, firms may become homogeneous owing to mimetic isomorphism, or through emulating the responses of other firms to political risk stimuli in host markets. In some cases, such responses ignore economic rationality in favor of normative rationality, which takes for granted the legitimacy of decisions made by more successful firms (trait-based emulation) or by most firms (frequency-based emulation). For example, when considering entry into a country with high political risk, a multinational firm may not always follow a less risky, staged entry approach where a joint venture precedes a wholly owned subsidiary. Instead, it may opt for a wholly owned subsidiary if the entry mode is adopted by most multinational firms (Guillén 2003). In parallel, Xie and Li (2017) and Zheng (2012) contend that, in a restrictive environment where political risk events such as expropriation and forced exit are more probable, foreign firms are more likely to choose entry modes of previously successful entrants to the host market. Also, Rodriguez *et al.* (2005) argue that, having entered a specific host market, foreign firms reduce political risks such as corruption by imitating the approaches of successful local firms.

Similarly, similar responses to political risk may occur owing to normative pressures to conform to the

Table 4. Sample studies in the domains

Author	Year	Summary of key papers
Institutions domain (ID)		
New institutional economics		
Delios and Henisz	2000	The study suggests negative implications of political hazards on FDI. Nonetheless, it may be considered as a bridge to the resources and capabilities domain. This is because it views experience as a factor of capabilities needed to cope with political hazards.
Habib and Zurawicki	2002	This paper examines the relationship between corruption and FDI.
Henisz and Delios	2004	The study agrees that political instability has negative implications for FDI. It also contends that the efficacy of influencing strategies is a decreasing function of political instability.
Slangen and van Tulder	2009	This paper examines how soft institutional factors (e.g. culture) influence political risk for firms.
Li and Vashchilko	2010	The study examines the susceptibility of vertical and horizontal FDI to political risks by considering institutional configurations of home and host countries.
Lu et al.	2014	This paper questions the assumption of negative effects of institutions. It examines how decisions about FDI are affected by home country government support and host country institutions.
New institutional perspective		
Henisz and Delios	2001	Looking at the example of Japanese MNCs, the authors explore imitation among firms as a political risk reduction strategy.
Rodriguez et al.	2005	This study argues that, having entered a host market, foreign firms reduce political risks such as corruption by imitating the approaches of successful local firms.
Zheng	2012	This paper suggests that, in a restrictive environment, where political risk events such as expropriation and forced exit are more probable, foreign firms are more likely to choose entry modes of previously successful entrants to the host market.
Guillén	2003	The author concludes that firms are likely to opt for a wholly owned subsidiary if this entry mode is adopted by a majority of other multinational firms.
New business systems approach		
López-Duarte and Vidal-Suárez	2013	The paper examines how differences in configurations of soft institutions of home and host countries affect FDI modes (joint ventures vs. wholly owned subsidiaries).
Quer et al.	2012	The authors discuss how political risks stemming from institutional differences between home and host countries influence decisions about FDI location.
Salomon and Wu	2012	The study explores how political risks originating in institutional differences between home and host countries trigger isomorphic decisions about FDI.
Resources and capabilities domain (RCD)		
Moon and Lado	2000	Building on the resource-based view, this study discusses how firms reduce uncertainties arising from the firm–host government bargaining relationship and attain desired outcomes by using resources and capabilities (e.g. managerial competencies, technological know-how and reputation).
Frynas et al.	2006	This paper shows how firms deploy political resources to generate first-mover advantages from investments in countries with high levels of political uncertainty caused by opaque regulations and legal voids.
Oliver and Holzinger	2008	The authors discuss how political strategies enable the mobilization of firm capabilities to either avoid or reduce political risks (value maintenance objective) or take advantage of political risks (value creation objective).
Holburn and Zelner	2010	The paper defines political resources and capabilities and explains their role as sources of sustainable competitive advantage and factors helping to reduce, and benefit from, political risks.
Sun et al.	2011	The paper draws attention to destructive effects of personal ties to political officials in the process of and after political regime changes.
Puck et al.	2013	This study suggests that political strategies of financial incentives, information and constituency building do not necessarily mitigate exposure to, or generate value from, political risks; rather, they may occasionally lead to a competitive disadvantage.
Jiménez et al.	2014	The authors conclude that previous experience of exposure to political risk helps to develop capabilities (e.g. negotiation and lobbying) needed for future investments into other politically risky countries.
Resource dependence domain (RDD)		
Boyacigiller ^a	1990	The study draws attention to the intra-organizational interdependencies of US MNEs exposed to high levels of political risk in host countries. The study argues that such interdependencies coupled with high political risk may have negative implications for firms and their performance. The papers further suggest that effective management of such interdependencies will require more flexible coordination mechanisms – those where staff members will be recruited from the home country (USA).

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3	<i>Table 4. Continued</i>		
4	Author	Year	57
5		Summary of key papers	58
6	Arnoldi and Villadsen	2015	59
7		The study refers to theory of resource dependence to consider political ties of MNEs in politically	60
8		risky contexts. It suggests that governmental ties may help an MNE to manage its resource dependence	61
9		and exposure to political risk in a host country. Specifically, thanks to central governmental	62
10		ties, an MNE in China can gain access to critical resources, strategically important information,	63
11		preferential treatment and benefits in the host country as well as to reduce the risk of government	64
12		intervention.	65
13	Liu et al.	2015	66
14		Using the resource dependence theory, this study considers localization decisions of	67
15		MNEs as ways to reduce resource dependence on host countries and manage political	68
16		risks and their impacts on firm performance. The paper finds that localization does not	69
17		help to reduce political risks and their impacts on firm performance.	70
18	Bargaining power approach ^b		
19	Poynter	1986	71
20		The paper revisits the role of resource dependence and bargaining power of MNEs vis-à-vis host	72
21		governments in political risky less developed economies, including Brazil, Tanzania, Zambia,	73
22		increase bargaining power vis-à-vis, host governments in order to reduce exposure to the risk of	74
23		government intervention.	75
24	Kim	1988	76
25		This study discusses the bargaining power of MNEs vis-à-vis host governments as an instrument	77
26		helping to reduce exposure to political risk (e.g. government intervention). The paper argues	78
27		that greater corporate political responsiveness enhances bargaining power and reduces the	79
28		political risk exposure of MNEs entering highly competitive markets.	80
29	Brewer	1992	81
30		The author discusses political risks emanating from host government interventions. The study	82
31		takes a closer look at how resources dependence and changes in bargaining power of MNEs	83
32		affect their exposure to host government interventions in strategic industries.	84
33	Vachani	1995	85
34		The study discusses resource dependencies of MNEs on host governments from the	86
35		perspective of obsolescing bargaining power. Using longitudinal firm-level data, this paper	87
36		shows that, if able to reduce their resource dependence on host governments, firms can avoid the	88
37		problem of obsolescing bargaining power. The ability to maintain bargaining power helps	89
38		to reduce political risk (e.g. host government intervention).	90
39	Inkpen and Beamish	1997	91
40		The study refers to the theories of resource dependence and of bargaining power to discuss the ex-	92
41		posure of firms to political risks due to instability in foreign firm–host partner firm relationships.	93
42		The paper argues that the ability of an MNE to maintain or even reduce resource dependence on	94
43		its host partner may help it to avoid undesirable shifts in, and ultimate obsolescence of, its bar-	95
44		gaining power vis-à-vis its host partner and, therefore, reduce exposure to political risk in the host	96
45		country.	97
46	Ramamurti	2000	98
47		The paper revisits the host government–MNE relationship in emerging economies from the perspec-	99
48		tive of resource dependence and bargaining power. Using examples of MNEs in a newly deregulated	100
49		sector – telecommunications – in Latin American countries, it discusses possible outcomes	101
50		of first-mover strategies on bargaining power and exposure to political risk. It concludes that first-	102
51		mover market entry strategies create sustainable competitive advantages for MNEs, strengthen	103
52		their bargaining power vis-à-vis host governments and reduce their exposure to regulatory	104
53		risk.	105
54	Yan and Gray	2001	106
55		The study draws on ideas of resource dependence theory and bargaining power theory to explain	107
56		bargaining between MNEs and their host–partner firms in contexts where political risk stems	108
57		out of government influence.	
58	Choudhury and	2014	
59	Khanna		
60		The study revisits ideas of resource dependence and bargaining power to discuss FDI of	
61		MNEs from politically risky countries. It argues that some firms make FDI abroad to	
62		increase bargaining power and reduce resource dependence in their home countries.	
63	Stakeholder approach ^c	2007	
64	Holtbrügge et al.		
65		Linking ideas from resource dependence and stakeholder theory, this study suggests that MNEs	
66		experience multiple interdependencies, which shape their exposure to international political	
67		risk. The paper further discusses the role and impact of interdependencies on various	
68		stakeholders of German MNEs investing to China, France, India, Russia and the US.	
69	Bridging bargaining power and stakeholder approaches ^d		
70	Ramamurti	2001	
71		The study stresses the need to revisit the traditional approach to MNE bargaining in host countries.	
72		It criticizes the traditional model in the context of politically risky developing economies. It	
73		stresses that the model has a shortcoming: it discusses bargaining as an outcome of	
74		negotiations between two parties – MNEs and host governments – but without consideration of	
75		possible impacts of other actors in the diverse political environment. The paper suggests a new	

Author	Year	Summary of key papers
Ramamurti	2003	<p>model where an MNE can reduce its political risk by building its bargaining power vis-à-vis host governments, as the result of its relationships not only with the host government but also with various entities in its home country, and with international organizations, including the World Bank, the IMF and the WTO.</p> <p>This study draws attention to the role of resource dependence and multiple stakeholders in bargaining outcomes and dynamics of MNEs in politically unstable developing economies. Specifically, it argues that an MNE's bargaining power does not necessary obsolesce over time. Instead, an MNE can enhance constraints on the host government reneging and managing its bargaining power by controlling resource interdependencies with various stakeholders, including international organizations and public and private institutions in home and host countries. The study discusses possible applications of the new model using an example of Enron's Dabhol power project in the Indian state of Maharashtra.</p>
Nebus and Rufin	2010	<p>The study revisits discussions about bargaining power and resource dependence under conditions of political risk (e.g. government intervention and governmental uncertainty during privatization). It argues that the traditional bargaining model fails to address multiple interests and stakeholders in bargaining processes. It further suggests a new model, which takes account of a network of stakeholders whose political behaviors affect the market and non-market performance of firms.</p>

Notes: ^aThese studies only use resource dependence theory.
^bThese studies complement resource dependence theory with bargaining power theory.
^cThese studies complement resource dependence theory with stakeholder theory.
^dThese papers cannot be easily assigned to either the bargaining power or stakeholder approach. However, insights from these studies may help to integrate, or bridge, the two approaches in future research.

same ethical codes of professional practice and education systems. However, even if existing literatures acknowledge a possibility of normative isomorphism in firms' responses to political risk, there is a lack of empirical research about the role of normative factors and processes in firms' behavior in politically risky contexts. For example, little is known about the role of internal normative pressures – those that stem from the norms adopted by a parent organization. Meanwhile, it is possible that subsidiaries follow the norms of their multinational parent when coping with political risk. For example, firms may follow homogeneous political risk assessment procedures established by centralized political risk intelligence units. Indeed, as the increasing globalization of MNEs reduces the autonomy of subsidiaries (Birkinshaw and Morrison 1995), many international factors, including political risk, are becoming strategic domains of parent organizations (Christmann *et al.* 1999).

Also, there is a lack of understanding of external normative pressures originating from sources beyond the parent organization. For instance, it is not known whether firms engage in similar political risk management practices because of being exposed to the recommendations of leading professional service firms and political risk consultancies. Similarly, it is not clear whether and how education systems influence political risk management practices. For

example, very little is known about how different political risk measurement approaches advocated by consultancy agencies and universities determine the international investment decisions of firms.

Finally, firms may become like each other, owing to coercive isomorphism, which presumes compliance with the same legislation on corruption, tax systems, nationalization and other sources of political risk in a host country. For example, designed to reduce corporate bribery, the US Foreign Corrupt Practices Act (FCPA 1977) and its enforcement system have led to isomorphism in how companies registered in the US or trading shares on a US exchange respond to corruption in foreign markets. Rodriguez *et al.* (2005) argue that firms that are eager to comply with the FCPA provisions are more likely to prefer to enter host markets with a high risk of corruption by using arm's-length entry modes such as joint venture instead of FDI (particularly wholly owned subsidiaries).

The national business systems perspective overlaps with the new institutional economics and the new institutional theory approaches to the political risk of FDI. However, it shifts the focus from institutional and social structures to differences among national economic systems (Doh *et al.* 2012). The central hypothesis is that there exist relations between societal institutions and economic and societal

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2
3 outcomes, particularly non-market outcomes such
4 as political risk management (Hotho 2014; Whitley
5 1992, 1994, 1999, 2007). Research examined how
6 cross-national distinctions in institutional configura-
7 tions shape the reactions of firms to political risk
8 (López-Duarte and Vidal-Suárez 2013; Quer *et al.*
9 2012; Salomon and Wu, 2012). The focus is on how
10 and why firms with different soft (e.g. culture) and
11 hard (e.g. ownership control regulations) institutional
12 backgrounds may develop competencies for, and be-
13 come equally effective in, avoiding or minimizing
14 political risk exposure. Furthermore, the new busi-
15 ness systems perspective examines how differences
16 in national institutional organizations contribute to
17 variations in the exposure of firms to political risk
18 and approaches to its management (Salomon and Wu
19 2012).

20 Nonetheless, empirical research in this stream suf-
21 fers from methodological constraints. Owing to mea-
22 surement difficulties, it fails to capture institutional
23 systems by taking account of national differences
24 across a limited set of institutional aspects, such as na-
25 tional culture (Jackson and Deeg 2008; López-Duarte
26 and Vidal-Suárez 2013). For instance, it leaves out
27 such factors of national institutional configurations
28 as state dominance, burden of regulations and union
29 density, among others.

30 The domain makes two major contributions to po-
31 litical risk research. First, it informs us about political
32 risk choices at a macro level. Second, it revisits as-
33 sumptions of the traditional view of political risk. It
34 agrees that political risk has negative implications for
35 FDI and, therefore, should be avoided. It also agrees
36 that, in most cases, firms cannot control political risk.
37 Yet, there are studies that challenge this view. In new
38 institutional economics, such studies argue that firms
39 do not always reject investments; rather, they enter
40 politically unstable contexts with less risky modes of
41 entry or by targeting a host country with support from
42 and/or good relations with the firm's home country
43 (Delios and Henisz 2003a; López-Duarte and Vidal-
44 Suárez 2013; Slangen and van Tulder 2009). In new
45 institutionalism, firms do not adopt any systematic
46 approach to political risk management, and their con-
47 trol over political risk is the outcome of isomorphic
48 decisions (Rodríguez *et al.* 2005). Some decisions
49 may occasionally help to gain control over political
50 risks. In the national business systems approach, con-
51 trol over political risk is possible if firms enter coun-
52 tries with similar institutional frameworks, where they
53 may benefit from existing approaches to political risk
54 management (Quer *et al.* 2012).

55
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57 Nonetheless, the domain has limitations. It de-
58 emphasizes the micro-effects of institutions on the
59 political risk strategies and practices of firms. Fur-
60 thermore, its greater emphasis on the macro-context
61 at the expense of the micro-context is linked to the
62 conceptualization of institutions as sources of polit-
63 ical risk and of firms as actors that react passively
64 to political risk, but cannot influence the political
65 environment and avail of its opportunities. Apart
66 from Robertson and Watson (2004), this perspective
67 implicitly follows the idea of environmental deter-
68 minism (Hannan and Freeman 1984, 1989), suggest-
69 ing that environments determine firms and the latter
70 cannot control the former.

71 The national business systems perspective takes
72 for granted the negative role of political uncertainty
73 in institutions. Indeed, the empirical research in this
74 domain lags the wider institutional scholarship in
75 its conceptualization of institutions (such as gov-
76 ernments, regulatory systems and cultures) as con-
77 straints, and not instruments that create value, in the
78 political environment. This view dominates research
79 into institutions such as trade associations and NGOs
80 (Dahan *et al.* 2006; Doh and Teegen 2002; Lawton
81 *et al.* 2017; Rajwani *et al.* 2015; Tan and Wang
82 2011). However, with few exceptions (e.g. Murtha
83 and Lenway 1994; Ring *et al.* 2005), political risk
84 studies remain silent about the positive effects of in-
85 stitutions (Duanmu 2014; Kwok and Tadesse 2006).

86 Neither does the domain question the need to
87 avoid political risk (Chung and Beamish 2005; Habib
88 and Zurawicki 2002; Mudambi *et al.* 2013). Conse-
89 quently, political risk strategies are considered mainly
90 at the level of market entry decisions, without elabo-
91 rating on what happens when firms have already made
92 investments and must stay in a specific host country
93 (Desbordes 2007; García-Canal and Guillén 2008; Lu
94 *et al.* 2014).

95 Finally, studies claiming that political risk can be
96 controlled are in a minority (Kolstad and Wiig 2012;
97 Meschi and Riccio 2008). Consequently, the question
98 as to how firms invest into, and remain in, political
99 risky countries, has not been fully addressed.

100 101 102 *Domain 2: Resources and capabilities*

103 Some scholars have explored political risk man-
104 agement via the lens of resources and capabilities
105 (e.g. Alon and Herbert 2009; Demirbag *et al.* 2011;
106 Frynas *et al.* 2006; Getz and Oetzel 2009; Hadani and
107 Schuler 2013; Holburn, 2001; Holburn and Zelner
108 2010; Jiménez 2010; Jiménez and Delgado-García

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3	2012; Jiménez <i>et al.</i> 2014; Mellahi <i>et al.</i> 2011; Moon	57
4	and Lado 2000; Oetzel and Oh 2013; Poynter 1982)	58
5	(see Table 4). A common feature of studies in this	59
6	domain is that they place an emphasis on firms and	60
7	their internal sources of political risk management.	61
8	The importance of incorporating political risk into	62
9	firm strategy is not novel. For example, Kobrin (1979,	63
10	1982) suggested that firms should conduct systematic	64
11	assessments of political risk to make more accurate	65
12	decisions about future investments. Yet it is the re-	66
13	sources and capabilities perspective which turned to	67
14	the internal environments of firms as a starting point	68
15	of systematic political risk management.	69
16	Another characteristic of this domain is the possi-	70
17	bility to use political resources and capabilities in po-	71
18	litical risk management. This idea is not new, as it was	72
19	first suggested in relation to industries. Specifically,	73
20	Fainsod (1940) concluded that political resources,	74
21	such as building political coalitions, help industries	75
22	to attain their goals. However, the resources and ca-	76
23	pabilities domain applies this idea to the management	77
24	of political risk in firms.	78
25	The preponderance of scholars in the resources and	79
26	capabilities stream structure their analyses around	80
27	a resource-based view (Barney and Arikan 2001;	81
28	Penrose 1959; Peteraf 1993; Wernerfelt 1984, 1995).	82
29	This assumes that firms are bundles of political re-	83
30	sources and capabilities. The former is defined as	84
31	‘stocks of available political factors to which the firm	85
32	gains access’ (Holburn and Zelner 2010, p. 1291).	86
33	Frynas <i>et al.</i> (2006) suggest that, like other resources,	87
34	political resources may fall into three broad cate-	88
35	gories: physical capital resources (e.g. a firm’s na-	89
36	tionality as a proxy of the extent of home government	90
37	protection); human capital resources (e.g. experience	91
38	of managers in dealing with government officials in	92
39	emerging economies); and organizational capital re-	93
40	sources (e.g. relations between the firm’s managers	94
41	and public-policy-makers).	95
42	Political capabilities refer to a ‘firm’s capacity	96
43	to deploy or leverage its political resources on an	97
44	on-going basis’ (Holburn and Zelner 2010, p. 1291).	98
45	For example, access to key policy-makers may be	99
46	conceived of as an organizational political resource	100
47	(Frynas <i>et al.</i> 2006), whereas an ability to use	101
48	this access by identifying key political actors and	102
49	their preferences is a political capability (Holburn,	103
50	2001; Holburn and Zelner, 2010; Lawton and	104
51	Rajwani 2011). Similarly, experience in dealing with	105
52	government officials is a human political resource	106
53	(Frynas <i>et al.</i> 2006). However, a capacity to use this	107
54	experience by developing ties with, and exerting	108
	sufficient pressure on, government officials to initiate	
	or maintain certain policies, is a political capability	
	(Holburn and Zelner 2010).	
	The resource-based view of political risk manage-	
	ment assumes heterogeneity of political resources and	
	capabilities among firms. Holburn and Zelner (2010)	
	argue that multinational firms differ in political capa-	
	bilities linked to risk assessment and the management	
	of policy-making processes. The idiosyncrasies in po-	
	litical resource and capabilities endowment stem from	
	the unique experiences of firms (Holburn and Zelner	
	2010; Jiménez <i>et al.</i> 2014; Lawton <i>et al.</i> 2013b).	
	The central argument of the resource-based view	
	suggests that, given their heterogeneity, resources and	
	capabilities affect sustainable competitive advantage	
	and the performance of firms (Barney 2001). Political	
	risk studies suggest that key political resources may	
	be conceived of as sources of superior performance	
	and sustainable competitive advantage because they	
	are valuable, rare and costly to imitate (Holburn and	
	Zelner 2010). Indeed, the most effective political	
	behaviors and experiences are typically covert in	
	nature and, therefore, difficult to emulate (Boddewyn	
	and Brewer 1994; Getz and Oetzel 2009; Oetzel and	
	Oh 2013).	
	The resource-based view of political risk manage-	
	ment addresses the central suggestion via two themes.	
	The first focuses on the effectiveness of political	
	strategies in converting resources and capabilities into	
	outcomes (Jiménez <i>et al.</i> 2014; Moon and Lado 2000;	
	Oliver and Holzinger 2008; Puck <i>et al.</i> 2013). For ex-	
	ample, Oliver and Holzinger (2008) discuss how four	
	political strategies allow for mobilizing firm capa-	
	bilities to either avoid or reduce political risk (value	
	maintenance objective), or take advantage of political	
	risk (value creation objective). Specifically, firms re-	
	duce political risk exposure by following reactive and	
	defensive strategies. With reactive strategies, firms	
	align with the political environment by complying	
	with regulatory standards. With defensive strategies,	
	firms foster influence capabilities to protect their in-	
	terests through political ties. In contrast, firms seek-	
	ing to create value from political risk are likely to	
	adopt anticipatory and proactive political strategies.	
	Anticipatory strategies require internal capabilities	
	such as environmental scanning, and predictive capa-	
	bilities to anticipate public policy changes and resul-	
	tant opportunities. Proactive political strategies entail	
	influence capabilities, which enable a firm to create	
	value out of political risk by shaping the non-market	
	environment. For example, redefining norms and es-	
	tablishing standards to redefine existing legislation.	

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3 Nonetheless, some empirical studies question as-
4 sumptions of the resources and capabilities domain.
5 First, it seems political resources and capabilities such
6 as experience in a political environment do not al-
7 ways lead to decisions in favor of entering politically
8 risky markets (García-Canal and Guillén 2008). Sec-
9 ond, political strategies do not necessarily improve
10 performance. For example, Puck *et al.* (2013) found
11 that strategies of financial incentives, information and
12 constituency-building in emerging economies do not
13 necessary mitigate exposure to, or generate value
14 from, political risk. Rather, they may occasionally
15 lead to a competitive disadvantage.

16 The second theme of the resource-based perspec-
17 tive cuts across an evolutionary approach by focusing
18 on the process whereby the resources and capabilities
19 of firms change over time (Barnett *et al.* 1994; Karim
20 and Mitchell 2000; Levinthal and Myatt 1994; Oliver
21 and Holzinger 2008; Teece *et al.* 1997). It is worth
22 noting that the first literature stream places greater
23 emphasis on resources and lower-order capabilities
24 whereas, in the second, discussions revolve mainly
25 around higher-order, or dynamic, capabilities needed
26 to sustain competitive advantage in fast-moving mar-
27 ket and non-market environments.

28 The resources and capabilities domain has made
29 several contributions to political risk management
30 research. For instance, it provides the micro-view
31 of political risk. Indeed, the resource-based view
32 complements the earlier focus of industrial organi-
33 zation economics and internationalization studies in
34 the business environment by taking a closer look at
35 political risk via the lens of the firm (Holburn 2001).

36 Also, the domain reconsiders the traditional view of
37 political risk. It argues that political risk does not nec-
38 essarily deter investment. Instead, it may be a source
39 of opportunities (Jiménez *et al.* 2014). Therefore, po-
40 litical risk should not be avoided (Holburn and Zelner
41 2010) and firms can manage political risk to transform
42 it into opportunities (Holburn and Zelner 2010). In-
43 deed, as the center of attention shifted from the macro
44 (business environment) to the micro level (firm), the
45 resource-based view made it possible to question
46 the assumption of multinational passivity in engag-
47 ing government, and to consider firms as proactive
48 managers of political risk (Holburn 2001; Jiménez
49 2010; Jiménez and Delgado-García 2012; Jiménez
50 *et al.* 2014). This broadened the scope of research
51 from enquiries into how firms react to political risk
52 (Baglioni 1976; Carlson 1969; Eiteman and Stonehill
53 1973; Green, 1972; Weston and Sorge 1972) to studies
54 of why and how some firms gain advantage through

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57 investments in high-risk contexts (Getz and Oetzel
58 2009; Holburn and Zelner 2010; Oetzel and Oh 2013).

59 Also, with its assumption about the proactive
60 role of multinationals, the resource-based view has
61 changed the approach of practitioners to political risk
62 management to one of a tool to create and maintain
63 business value (Oliver and Holzinger 2008).

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66 *Domain 3: Resource dependence*

67 The resource dependence domain considers the polit-
68 ical risk management of a foreign firm in terms of its
69 relationships with and dependence on the resources
70 of other organizations (Holtbrügge *et al.* 2007; Kim
71 1988), including host governments (Arnoldi and
72 Villadsen 2015; Blumentritt 2003; Blumentritt and
73 Rehbein 2008; Dieleman and Boddewyn 2012; Moon
74 and Lado 2000; Poynter 1982, 1986; Ramamurti
75 2001; 2003; Vachani 1995), host-country partner
76 firms (Inkpen and Beamish 1997; Liu *et al.* 2016;
77 Yan and Gray 2001), parent firm (Boyacigiller 1990)
78 and NGOs (Nebus and Rufin 2010). Table 4 shows
79 key studies in the domain.

80 Drawing on resource dependence theory (Hillman
81 *et al.* 2009; Pfeffer and Salancik 1978), this do-
82 main makes the following assumptions. First, it as-
83 sumes that firms are not autonomous (Blumentritt and
84 Rehbein 2008; Dieleman and Boddewyn 2012;
85 Inkpen and Beamish 1997; Liu *et al.* 2016; Pfeffer
86 and Salancik 1978). Instead, they are elements of a
87 network of interdependencies with other organiza-
88 tions (Inkpen and Beamish 1997; Liu *et al.* 2016).

89 Second, this domain assumes that firms are
90 constrained by their environment (Dieleman and
91 Boddewyn 2012; Hillman *et al.* 2009; Pfeffer and
92 Salancik 1978). It is a source of political uncertainty
93 that has negative impacts on the performance of FDI
94 (Liu *et al.* 2016). Aiming to reduce their political
95 uncertainty, firms are motivated to change their
96 environments (Dieleman and Boddewyn 2012).

97 The third assumption is that firms can affect their
98 environments to make them more favorable for their
99 economic activities (Hillman *et al.* 2009; Pfeffer
100 and Salancik 1978). They do so by responding
101 to government regulations and decisions (Arnoldi
102 and Villadsen 2015; Blumentritt 2003; Blumen-
103 tritt and Rehbein 2008; Dieleman and Boddewyn
104 2012; Moon and Lado 2000; Poynter 1982, 1986;
105 Ramamurti 2001; 2003; Vachani 1995), managing
106 relationships with host-country partner firms (Inkpen
107 and Beamish 1997; Liu *et al.* 2016; Yan and Gray
108 2001), headquarters (Boyacigiller 1990) and NGOs

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3 and transnational advocacy groups (Nebus and Rufin
4 2010).

5 The discussions in the domain revolve around
6 two broad themes. The first examines how resource
7 interdependencies influence political risk effects.
8 Authors agree that resource dependence on host
9 partners poses greater risks to economic outcomes
10 of FDI in contexts with institutional ambiguities,
11 ineffective regulation enforcement and low policy
12 credibility (Blumentritt and Rehbein 2008; Liu *et al.*
13 2016; Inkpen and Beamish 1997; Nebus and Rufin
14 2010).

15 The second discusses how managers cope with
16 political risk by managing resource interdependen-
17 cies (Arnoldi and Villadsen 2015; Dieleman and
18 Boddewyn 2012; Holtbrügge *et al.* 2007; Inkpen and
19 Beamish 1997). Studies in this domain suggest firms
20 tend to reduce their political risk by following two
21 approaches to the management of interdependencies:
22 a bargaining power approach and a stakeholder
23 approach. The former complements the resource
24 dependence theory (Pfeffer and Salancik 1978) with
25 bargaining theory (Bacharach and Lawler 1981).
26 Studies center on bargaining power as a factor that
27 allows the choice of more effective bargaining strate-
28 gies (Blumentritt 2003) and helps to attain desired
29 outcomes (Yan and Gray 2001). It considers bargain-
30 ing power in a dyadic interdependence relationship
31 between the firm and a host-country organization
32 such as government or a partner firm (Blumentritt
33 and Rehbein 2008; Inkpen and Beamish 1997). In
34 this relationship, the firm's bargaining power and
35 resource dependence are the obverse of each other
36 (Choudhury and Khanna 2014; Yan and Gray 2001).
37 Bargaining power increases as the foreign firm gains
38 greater control over vital resources and its resource
39 dependence decreases (Choudhury and Khanna 2014;
40 Yan and Gray 2001). By contrast, the firm's bargain-
41 ing power becomes weaker when its control over
42 vital resources drops and its resource dependence
43 increases (Choudhury and Khanna 2014). As in the
44 case of firms, bargaining power of host organizations
45 reflects their control over vital resources and their
46 resource dependence (Inkpen and Beamish 1997).
47 To this end, the firm–host organization bargaining
48 is an ongoing resource interdependence relationship
49 whose outcomes depend on resources the two parties
50 have and require from each other (Behrman and
51 Grosse, 1990; Brewer 1992; Inkpen and Beamish
52 1997).

53 In comparison, the latter approach combines
54 resource dependence theory (Pfeffer and Salancik

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57 1978) with stakeholder theory (Freeman, 1984).
58 This allows a shifting of the focus from the issue
59 of power in a dyadic relationship, to the complexity
60 of dependence relationships with multiple actors –
61 stakeholders – in the political environment (Donald-
62 son and Preston 1995; Holtbrügge *et al.* 2007; Nebus
63 and Rufin 2010; Ramamurti 2003). The stakeholder
64 approach suggests that dependence on valuable re-
65 sources and capabilities and its implications for FDI
66 into politically uncertain environments are outcomes
67 of a dialogue with internal and external stakehold-
68 ers controlling these resources and capabilities
69 (Holtbrügge *et al.* 2007). Such stakeholders may be
70 home governments (Choudhury and Khanna 2014),
71 national and international NGOs such as Greenpeace
72 (Holtbrügge *et al.* 2007), and supranational organiza-
73 tions such as the European Union (Holtbrügge *et al.*
74 2007).

75 Both dyadic and multiple interdependencies can be
76 managed by two strategies: risk aversion and risk tak-
77 ing. The former implies firms avoid investing into
78 higher interdependence projects (Liu *et al.* 2016).
79 That is, they opt not to invest in a host country where
80 access to crucial resources depends on a politically
81 unstable government or a partner firm with low cred-
82 ibility (Liu *et al.* 2016). This option echoes the in-
83 stitutional perspective, suggesting that political risk
84 deters FDI. Alternatively, firms undertake FDI with
85 lower interdependence, suggesting greater chances
86 to control critical resources. Lower interdependence
87 may be achieved by reducing links with the resource-
88 controlling entity (e.g. fewer staff and localization of
89 marketing), and developing internal capabilities such
90 as networking and building coalitions for the supply
91 of crucial resources (Inkpen and Beamish 1997; Liu
92 *et al.* 2016; Nebus and Rufin 2010). Nonetheless, risk
93 aversion strategies may result in the loss of business
94 opportunities, raising doubts about the need to reduce
95 political risk (Liu *et al.* 2016). These doubts bring us
96 back to the question of whether political risk should
97 be reduced. To benefit from opportunities, firms may
98 need to accept political risk.

99 The major contribution of the resource depen-
100 dence domain is that it revisits the traditional view
101 of political risk from the perspective of resource
102 interdependencies. It agrees that political risk
103 has mainly negative implications for FDI. But it
104 concludes that firms can control political risk by man-
105 aging interdependence. Furthermore, the approach
106 cautions against opting for risk aversion without
107 consideration of business opportunities (Liu *et al.*
108 2016).

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3 **Discussion and directions for future**
4 **research**
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7 Our review identifies three distinctive research do-
8 mains in political risk management: institutions; re-
9 sources and capabilities; and resource dependence.
10 In Table 5, we compare the three domains and sug-
11 gest that differences in conceptual assumptions lead
12 to variances in applied approaches to political risk,
13 particularly in the institutions and resources and capa-
14 bilities domains. However, the resource dependence
15 domain has some common features with both the in-
16 stitutions and resources and capabilities perspectives.

17 The effectiveness of approaches to political risk
18 management within the three domains may vary
19 across contexts. Table 6 shows how some approaches
20 may be more effective in one environment, whereas
21 others may work better under a different set of condi-
22 tions. Table 6 also provides examples of how political
23 risk managers may benefit from the three approaches
24 in different contexts.

25 Our findings also identify shortcomings in existing
26 literature on political risk management, and suggest
27 resultant directions for future research. These lim-
28 itations stem from four problems: first, theoretical,
29 contextual and structural biases in FDI outcomes of
30 political risk management; second, partial fulfilment
31 of political risk research objectives in each domain;
32 third, failure to establish links and integrate sugges-
33 tions across the domains; and fourth, the limited scope
34 of research challenging the traditional view of po-
35 litical risk management. We next discuss these four
36 problems, and propose how they may be resolved in
37 future research.
38

39 *Biases in outcomes of political risk management*

40 *Theoretical biases.* The theoretical perspectives
41 emphasize different outcomes. For instance, most
42 studies deploying an institutional lens (70%) provide
43 empirical evidence of negative impacts, whereas
44 positive impacts account for the largest portion of
45 findings drawing on the resource-based view (63%).
46 In the institutions domain, scholars might explore if,
47 how, when and why the institutional embeddedness
48 of firms and their reactive approaches to political risk
49 influence FDI policies. Borrowing methodologies
50 from similar institutional studies in other disciplines
51 such as economic geography, finance, economics
52 and politics, scholars could benefit from spatial
53 analysis, historical analysis, case studies, longitudi-
54 nal research, cross-sectional studies and panel data

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57 analyses (Henisz 2000; Krifa-Schneider and Matei
58 2010; Qiu 2005). Future research may also benefit
59 from integrating theoretical lenses from other disci-
60 plines. For example, public choice theory in political
61 science could inform how public policy outcomes
62 depend on firms' capabilities in detecting the incen-
63 tives and constraints of public officials (Chin *et al.*
64 2000; Getz 2001). Similarly, the resource dependence
65 domain does not explain how the management of
66 resource interdependencies influences public policies
67 (Arnoldi and Villadsen 2015; Blumentritt 2003;
68 Dieleman and Boddewyn 2012; Ramamurti 2001).
69 Future research might benefit from collective action
70 theory in economics to explain how firms not only
71 gain access to critical resources, but also avoid a
72 free riding problem by blocking competitors' access
73 to these resources (Olson 1971 [1965]; Oström and
74 Oström 1977).
75

76 *Contextual biases.* Empirical research on the
77 implications of political risk for FDI is skewed
78 towards advanced economies (Hadani and Schuler
79 2013; Jiménez 2010). Studies drawing data from
80 emerging and developing economies are in a minority
81 (Frynas *et al.* 2006; Holburn 2001). This lack of
82 focus on emerging and developing economies may
83 be due to methodological challenges related to the
84 covert nature of political activities in these contexts.
85 The lack of transparency in the political sphere in
86 these economies hinders idiosyncrasies of political
87 resources and capabilities affecting FDI outcomes
88 of political risk (Hadani and Schuler 2013). The
89 relative lack of insight on emerging and developing
90 economies stems from methodological issues. Most
91 research questions are examined through quantitative
92 analyses of secondary data. Obtaining such data
93 can be problematic in the context of emerging
94 and developing economies. For instance, it is not
95 always possible to apply existing indices of political
96 risk. They do not fully capture complexities and
97 salient elements of political systems in emerging and
98 developing economies. For example, Henisz's (2016)
99 Political Constraints' Index measures the likelihood
100 of changes in the policy regime, but does not tap
101 into other aspects of political risk such as terrorism,
102 inter-country political and military conflicts, and
103 nationalism. Also, the existing indices of political
104 risk may contain no entries for some emerging and
105 developing economies. For instance, drawing on
106 a data set of 100 countries, Global Political Risk
107 Services Index (Political Risk Services 2016) does
108 not report data for several economies in Central and

Table 5. Comparing the domains

ID ^a vs. RCD ^b	ID vs. RDD ^c	RCD vs. RDD
Assumptions		
Conceptualization of political risk	Conceptualization of political risks	Conceptualization of political risks
ID: equates political risk with political uncertainty – a construct whose probability is unknown.	ID and RDD envisage political risk as political uncertainty – a construct whose probability is unknown.	RCD: political risk is a source of opportunities.
RCD: political risk is a source of opportunities.		RDD: equates political risk with political uncertainty.
Origin of political risk	Origin of political risk	Origin of political risk
ID and RCD: disagree about the origin of political risks.	ID and RDD: agree that political uncertainty comes from the external environment of firms.	RCD and RDD: disagree about the origin of political risks.
ID: the political environment is the major source of political risk.	ID: political uncertainty originates in the institutional field.	RDD: the external environment is the major source of political uncertainty due to resource interdependencies; yet, it ignores the role of the internal environment.
RCD: a portion of risk originates within the firm too and, therefore, may be triggered by the internal factors including internal activities and resources and capabilities (e.g. relations among employees and managers, political intelligence and monitoring of non-market environment).	RDD: political uncertainty is a factor of relationships of a foreign firm with other actors in the political environment (e.g. host governments, host partner firms, competitors, society) that influence its access to strategically important resources (e.g. government contracts, license agreements, legitimacy and reputation).	RCD: a large portion of political risk originates in the external environment. However, some risks may be triggered by the firm, be outcomes of its internal processes and heterogeneity of its resources, and be a result of its actions.
Implications of political risk	Implications of political risk	Implications of political risk
ID and RCD: disagree about the implications of political risk.	ID and RDD: agree that political uncertainty has deterring effects on FDI.	RCD and RDD: disagree about possible implications of political risks.
ID: political risks have negative implications.		RCD: political risks may have not only negative, but also positive effects on FDI. Firms may turn risky situations to their favor and generate competitive advantage even in highly unstable markets.
RCD: political risks contain opportunities and, therefore, may have positive effects on firms. This assumption is linked to another assumption: resources and capabilities are assets rather than liabilities of firms.		RDD: political uncertainty is likely to have negative implications for FDI.
Firm–environment interaction	Firm–environment interaction	Firm–environment interaction
ID and RCD: disagree about firm–environment interaction.	ID and RDD: disagree in their conceptualization of the firm–environment interaction and its role in the reduction of political uncertainty.	RCD and RDD: agree that firms influence their political environment and therefore manage their exposure to political risks.
ID: political environment dominates firms; these can only passively respond to pressures of the environment, but cannot control it; hence, the unidirectional relationship between firms and their environments.	ID: assumes a one-directional relationship between foreign firms and institutional environments. Firms are embedded into their institutional environments, but cannot influence them. The institutional environments affect firms and their FDI. Opaque regulatory environments and underdeveloped judicial and financial systems, corruption and engagement in political conflicts, increase political uncertainty.	
RCD: the firm–environment relationship is bidirectional, and firms can influence their political environment too.	RDD: assumes a bidirectional relationship (interdependence) between a foreign firm and its political environment. The firm is dependent on other actors in the political environment because those determine its access to important resources. Other actors are not autonomous either and may be dependent on the firm too.	
Approaches		
Having different assumptions about the firm–environment interaction, the two domains follow different approaches to political risk management.	Having different assumptions about the firm–environment interaction, the two domains suggest different approaches to political risk.	Having different assumptions about the implications of political risks, the two domains have different approaches to political risks.
ID: Unable to influence their political environment, firms react to political risks but cannot control them; hence political risk management is <i>reactive</i> and its primary function is to support market entry–exit decisions only.	ID: takes a <i>reactive</i> approach to political risk. Unable to influence their environments, firms react to, but cannot manage, political risk.	RDD: firms aim to reduce their political uncertainty through the management of resource interdependence with other organizations.
RCD: being able to influence their environment, firms adopt a <i>proactive</i> approach to political risk management. Firms can not only avoid political risk but also benefit from it.	RDD: proposes a more <i>active</i> approach to political risk. Organizations may attempt to reduce their political uncertainty by managing external interdependencies. However, these attempts may not necessarily be successful and may occasionally lead to new patterns of interdependencies.	RCD: adopts a more <i>proactive</i> view of the firm’s objective. Firms are not necessarily concerned with how to avoid or reduce political risks; instead, they may use political risks in order to avail of opportunities in the non-market and market environments.

Notes: ^aInstitutions domain (ID); ^bResources and capabilities domain (RCD); and ^cResource dependence domain (RDD).

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Table 6. *The impact of approaches to political risk management*

Reactive approach (Institutions)	Proactive approach (Resources and capabilities)	Active approach (Resource dependence)
<p>Decisions based on the institutional approach may be more effective in contexts where institutional systems are relatively well-defined and homogeneous across different parts of a country.</p> <p>The approach may be less useful in areas where institutions are very loose (e.g. less developed African economies) and where there is variance of structure and process across different parts of a federal systems (e.g. USA, Germany, Australia or Canada).</p>	<p>The resource-based view of political risk management is likely to bring in better results where the context is highly volatile with weak governmental structures and the institutional system is not clear or is in transition: e.g. in the process of devolution of powers from the central authority units (e.g. national governments), to the lower level administrative units (e.g. states, provinces and counties).</p>	<p>The use of the resource dependence approach makes sense in a context where there exist resources and (inter)dependence relationships between an MNC and other entities in the environment.</p> <p>Dyadic interdependence The approach may be valuable where, owing to factors such as federal structure, ethnic and religious division, and historical development, there is a relative lack of central authority and, thus, norms and behaviors, as well as enforcement of rules and regulations, vary substantially across different parts of a country. In such countries, bargaining of local authorities helps MNCs to integrate into the regions of interest.</p> <p>Multiple interdependence The approach may also be helpful where an MNC has resource interdependence relationships with multiple stakeholders in the political environment.</p> <p>While considering a FDI in a specific sub-national region of a host country, an MNC may need to bargain not only with the state's local government, but also to consider the interests of other stakeholders in the political environment, such as local communities.</p>
<p>Examples: Russia and China</p> <p>The two countries have relatively strong central government authorities and national institutional systems with significant homogeneity across regions. The political risks for a foreign MNC will depend on its integration, or embeddedness, into the host institutional systems. For instance, despite the steadily increasing importance of local governments, the performance of MNEs in China has been highly dependent on their connections to the central government (De Foulouy 2014; Shen 2004). Similarly, the federal reform in Russia strengthened the power of the central government vis-à-vis federal governments by aggregating them into federal districts with envoys directly appointed by the president of the Russian Federation (Kordonsky 2016).</p>	<p>Examples: Venezuela, Ecuador, Nicaragua, Ukraine and the UK.</p> <p>Reliance on resources and capabilities (e.g. adaptive capability) may be particularly effective in volatile contexts (e.g. Venezuela, Ecuador, Nicaragua and Ukraine) (De Villa <i>et al.</i> 2015).</p> <p>Also, the approach may be helpful for MNCs operating in the UK, owing to devolution-driven transitions in the institutional systems of Scotland, Wales and Northern Ireland (O'Neill 2014).</p>	<p>Examples: India and Mozambique</p> <p>In India, each state has its unique institutional organization (Aggarwal, 2005; Sridharan, 2003). In Mozambique, provinces differ in terms of political orientation. Some provinces (e.g. those in the center of the country) are under greater influence and control by the political opposition to the central government and the ruling party (Beck 2014). MNCs may reduce political risks surrounding their direct investments in these contexts by accruing bargaining power vis-à-vis local governments. A failure to reach a bargain with local authorities may result in withdrawal of investment.</p> <p>Example: India and Mozambique</p> <p>Consider the example of Coca Cola, which had to shut down a bottling plant in Mehdiganj. Following protests from the local community against Coca Cola's industrial waste discharge and its use of scarce groundwater resources, the local government revoked its permission for the company to run bottling operations in the area (<i>Ecologist</i>, 2014). To ensure continuance of its onshore gas exploration operations in the Inhaminga, Pande and Temane areas of central Mozambique, South African company Sasol designed a project to engage with local communities in creating biofuels, e.g. oil from <i>Jatropha</i> plants (Borras <i>et al.</i> 2013).</p>

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3 Eastern Europe (e.g. Slovenia, Estonia, Latvia,
4 Lithuania, Belarus and Moldova) and Africa (e.g.
5 Mozambique, Madagascar, Burundi, Somalia and
6 Guinea-Bissau).

7 Nor is it always possible to design new in-
8 dices of political risk in emerging and developing
9 economies. Indeed, corporate political activities in
10 such economies are rarely institutionalized (e.g. re-
11 ported) formally, and scholars may have no secondary
12 data to work with (Lawton *et al.* 2013a). However,
13 where secondary information is not readily available,
14 a possible solution might be using data from reports
15 published in advanced economies on the political ac-
16 tivities of their multinational corporations (MNCs) in
17 emerging and developing economies (Lawton *et al.*
18 2013a).

19 Resource dependence research appears less
20 contextually biased than studies with an institution
21 or resources and capabilities lens. A possible reason
22 is that many of the phenomena in this domain (for
23 instance, obsolescing bargaining power and high
24 resource dependence on coercive regimes) are more
25 salient in emerging and developing economies.
26 Studies of Enron's Dabhol power project and US and
27 European MNEs in India (Ramamurti 2003; Vachani
28 1995), on the Salim Group in Indonesia (Dieleman
29 and Boddewyn 2012), on Unión Fenosa's electricity
30 distribution subsidiaries in the Dominican Republic
31 (Nebus and Rufin 2010) and MNEs in China (Arnoldi
32 and Villadsen 2015) support this view. Meanwhile,
33 some studies caution about possible methodological
34 challenges for future enquiries in some emerging and
35 developing economies (Dieleman and Boddewyn
36 2012; Ramamurti 2003; Vachani 1995). For instance,
37 it may be difficult to address the complexity and dy-
38 namics of resource dependencies in economies where
39 scholars do not have connections with key political
40 actors and where political activity has not been insti-
41 tutionalized (Dieleman and Boddewyn 2012). For ex-
42 ample, Dieleman and Boddewyn (2012) demonstrate
43 how their longitudinal case study benefited from
44 unique access to the key political decision-makers
45 in one of the largest corporations in Asia – Salim
46 Group.

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48 *Structural biases: external outcomes.* Only two
49 studies reported information on external outcomes.
50 In both cases, the external outcomes were repre-
51 sented by changes in levels of corruption (Kwok
52 and Tadesse 2006; Robertson and Watson 2004).
53 We suggest that future research might address
54 questions such as: How does political uncertainty

stimulate firms to engage in CPA intended to change
or secure specific public policy outcomes? And
how do differences in institutional configurations
determine corporate political strategies? Future
studies adopting a resources and capabilities lens
might explore whether and how political resources
and capabilities help firms to influence public policy
outcomes. Also, how are political resources and capa-
bilities deployed within a broader set of non-market
initiatives?

External outcomes received less attention in
the resource dependence domain. Only one study
explored how firms may influence the decisions of
policy-makers (Vachani 1995). Future studies might
explore how complex and changing resource depen-
dencies between firms and their environments factor
changes in the public policy environment (e.g. cor-
ruption) and decisions to change or maintain public
policies.

Structural biases: internal outcomes. Scholars ex-
plored how political risk affects FDI decisions around
entry, mode of entry, ownership and exit (Arregle
et al. 2013; Desbordes 2007; Gaur and Lu 2007; Mu-
dambi *et al.* 2013) and organizational performance
(e.g. Cherchye and Verriest 2016; Li and Vashchilko
2010). However, this literature stream has not fully
considered organizational performance. Several
internal indicators were explored, including market
performance (Christmann *et al.* 1999), the security
of assets – the protection of human resources and
intellectual property and the defense of facilities –
(Li and Vashchilko 2010), and financial performance
(Cherchye and Verriest 2016; Lee and Hong 2012).
However, external indicators were overlooked. Future
studies might consider external dimensions of orga-
nizational performance suggested in Mellahi *et al.*
(2016). For instance, organizational reputation, stake-
holder relationships, positive investor assessment,
consumer loyalty and attractiveness to perspective
employees.

Partial fulfilment of objectives in domains

Of the three domains, the institutions approach has
been discussed more frequently by scholars, whereas
the resources and capabilities and resource depen-
dence perspectives require greater research attention.
Also, our review suggests that each of the three do-
mains does not fully address its objectives in political
risk research. For example, the institutions domain
does not fully address its objective to explain the role

of institutions in exposure to and management of political risk (Cherchye and Verriest 2016; Delios and Henisz 2000; Witt and Lewin 2007). Similarly, the resources and capabilities domain renders only partial explanation of the role of political resources and capabilities in exposure to and management of political risk (Holburn and Zelner 2010; Jiménez *et al.* 2014). Similarly, the resource dependence domain does not fully explicate the role of resource interdependencies in the effects of political risk on FDI performance (Arnoldi and Villadsen 2015; Holtbrügge *et al.* 2007; Liu *et al.* 2016; Vachani 1995). We argue that effective political risk management depends on how successfully firms balance their internal and external interdependencies.

Failure to integrate the domains

Rousseau *et al.* (2008) suggest it is difficult to know what we know, because research communities often do not, and sometimes cannot, talk to each other. As in the wider domain of non-market strategy research (Mellahi *et al.* 2016), this problem stems from the lack of multi-theory or multi-domain inquiries. We argue that, despite different perspectives, the political risk management research domains are not in conflict. Instead, their insights are complementary. The resources and capabilities domain can inform the institutions domain about how firms might use political resources and capabilities to avoid negative, and activate positive, impacts of institutions on FDI in politically risky contexts. The resource dependence domain can inform the institutions domain about possible effects of resource interdependencies on institutions. Also, resource interdependencies may lead to isomorphic practices. Further work is needed to understand these effects.

Challenging the traditional view

The traditional view of political risk management suggests that political risk has negative implications for FDI, is difficult to control, and should be avoided (Green and Smith 1972; Root 1968; Truitt 1970). The three domains identified in this paper adopt different approaches to this traditional perspective. Except for a small number of studies (Delios and Henisz 2003b; Kolstad and Wiig 2012; Meschi and Riccio 2008), the institutions domain largely aligns with the traditional view that exposure to political risk undermines FDI performance and, therefore, should be avoided (Habib and Zurawicki 2002; Hiatt and Sine 2014;

Lee and Hong 2012; Li and Vashchilko 2010; Soule *et al.* 2014). Furthermore, it concludes that political risk is difficult to control (Blake and Moschieri 2017; Lu *et al.* 2014). However, this skeptical view of political risk limits the overall scope of research inquiries. First, FDI decisions (usually not to invest) were discussed mainly at the market entry stage, without consideration of how firms use institutions to deliver FDI, create value and remain in politically risky contexts. Second, FDI decisions were discussed via the lens of political risk, without considering the role of business opportunities. In practice, firms must balance political risk with business opportunities. Firms avoiding investment in politically risky contexts may lose business opportunities (Shrader *et al.* 2000). We argue that addressing these issues will broaden the scope of future research in the institutions domain.

The resources and capabilities domain diverges from the traditional view of political risk management. It contends that political risk has positive implications for FDI, and can be managed by taking advantage of political resources and capabilities (Holburn and Zelner 2010; Jiménez *et al.* 2014; Oliver and Holzinger 2008). This approach mainly considers situations where firms benefit from political resources and capabilities and take political risks while entering, and staying in, host countries. However, it does not discuss situations where political resources and capabilities transform from assets into liabilities, and firms opt not to invest or decide to divest (Sun *et al.* 2011). To broaden the scope of future research, scholars need to revisit assumptions about the positive value of political resources and capabilities (García-Canal and Guillén 2008; Puck *et al.* 2013).

The resource dependence domain only partially diverges from the traditional view. For instance, political risk has negative implications for FDI (Liu *et al.* 2016; Vachani 1995). Also, political risk should be avoided, provided this does not cause the loss of opportunities (Liu *et al.* 2016). Furthermore, firms can and should control political risk by managing resource dependencies (Holtbrügge *et al.* 2007; Inkpen and Beamish 1997; Nebus and Rufin 2010). This moderately skeptical view limits the research scope to either situations where firms opt for risk aversion strategies and reject FDI with high resource dependencies (e.g. Inkpen and Beamish 1997; Liu *et al.* 2016; Nebus and Rufin 2010) or situations where firms take risks and accept FDI with high resource dependencies in politically uncertain contexts, but over time become more exposed to political risks, e.g. obsolescing bargaining power (Liu *et al.*

2016; Vachani 1995). However, further work is needed to explore situations where high resource interdependence does not increase political risk over time. For example, political risk is likely to remain at the same level, or even lower, when the host and home governments decide to cooperate. Consider a case where a firm's access to critical resources depends on a politically unstable host government. Nevertheless, its risks due to this dependence may reduce over time if the home government offers the host government critical resources such as funding, market access, and support in international negotiations.

Conclusions

This paper focuses on political risk research, exposure and management in relation to FDI. We use a strategic management lens and an international business context. We contribute to the literature by integrating research advances that challenge traditional views: political risk has negative implications, should be avoided and cannot be controlled (Faber and Brown 1980; Green and Smith 1972; Root 1968; Truitt 1970). We argue that these advances may be organized into three theoretical domains – institutions, resources and capabilities and resource dependence – that have implications for FDI decisions.

The institutions domain does not substantially challenge the traditional view of political risk. As it centers on macro-effects of political risk, it assumes greater power of institutions over firms, such that institutions influence firms, but firms lack control over institutions and political risk stemming from the institutions (Habib and Zurawicki 2002; Hiatt and Sine 2014; Lee and Hong 2012; Li and Vashchilko 2010; Soule *et al.* 2014). Because this domain assumes that firms cannot control political risk, it places greater emphasis on risk aversion decisions such as avoiding investments into, or exiting, politically risky markets (Blake and Moschieri 2017; Lu *et al.* 2014). We argue that this domain follows a reactive approach to exposure to, and management of, political risk in FDI.

In contrast, the resources and capabilities domain is more micro-oriented. As it takes a micro-view of political risk and its management, the focus shifts from institutions to firms, suggesting greater power of firms (Holburn and Zelner 2010; Jiménez *et al.* 2014; Oliver and Holzinger 2008). Consequently, firms have the possibility to influence the political environment and manage their political risk (Holburn 2001). This suggests

that firms may not necessarily be repelled by political risk (Levinthal and Myatt 1994; Moon and Lado 2000). Instead, they may take advantage of it as an opportunity for future growth (Oliver and Holzinger 2008). This domain informs us about how firms mobilize political resources and capabilities to evade and, where possible, benefit from political risk. It explains why some firms invest in politically risky markets instead of avoiding them, as suggested in the institutional domain. We argue that this domain adopts a proactive approach to political risk management.

The resource dependence domain partially disagrees with the traditional view. In common with the institutions domain, it assumes that firms are embedded into, and constrained by, the political environment (Liu *et al.* 2016; Vachani 1995; Yan and Gray 2001). Following this assumption, it suggests that political uncertainty has negative implications for firm FDI and, as such, should be avoided (Dieleman and Boddewyn 2012; Ramamurti 2001; 2003; Vachani 1995). Nonetheless, like studies in the resources and capabilities domain, this school of thought assumes that firms can affect their environment too and, therefore, can control their political risk (Arnoldi and Villadsen 2015; Blumentritt and Rehbein 2008; Dieleman and Boddewyn 2012). It further informs us how firms control political risk by managing their resource interdependencies with other actors in the political environment. We suggest that this domain follows an active approach to political risk management.

Finally, we argue that the efficacy of the three approaches may vary across different national contexts. In some countries where institutional systems are well defined, the institutions approach may work better. In contrast, managers may abstain from embeddedness into institutional systems by opting for the resources and capabilities approach in highly volatile contexts. Alternatively, the resource dependence approach may be preferred where firms find themselves in a situation of resource interdependence with other actors in the political environment.

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