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Managing political risk in international project operations: The case study of a developed multinational enterprise (DMNE) in emerging markets (EMs).

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ABSTRACT:

This research investigates the perception and management of political risks by developed country multi-national enterprise (DMNE) when undertaking infrastructure development projects in emerging markets (EMs). The study adopted 11 political risk elements and 16 political risk management strategies/mechanisms. The theoretical framework of the study is derived from the relevant literature review of social exchange/institution theory, transaction cost theory, project management literature, and finance literature. This framework is empirically tested based on an exploratory mono-qualitative research methodology. A single case study and purposive sampling technique were utilized to obtain interview data from four of the project managers of Wärtsilä Corporation, Finland over the summer of 2020.

The study finds that managing political risks in (international project operations) IPOs has been found extremely important for Wärtsilä's success in the selected IPO case countries. The study finds that only 5 of the 11 identified political risk elements have received empirical evidence of causing tensions in Wärtsilä's operation in the investigated countries. Whereas, out of the 16 identified political risk management strategies only 10 strategies were reaffirmed by the empirical findings. The empirical findings suggest that most of the respondent (100%) have utilized and perceived developing personal relationship approach, adopting a localization strategy, avoiding business misconduct, etc. as effective measures against political risks management.

Besides these findings, an interesting empirical finding is utilizing The Embassy of Finland's help in China to get access to Chinese higher authorities. This strategy has found to be particularly important as China practices a hierarchical power distance method. Furthermore, as a novelty of this research endeavour, the empirical findings suggest that a certain political risk management strategy assisted the case company to control or reduce a specific political risk elements in its respective IPOs. For instance, specifying medium of business transactions in € Euro (Euroization) assisted the company to avoid currency inconvertibility political risk in all of the investigated IPOs.

KEYWORDS: Political risk management, International project operation, Emerging market.

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List of Selected Abbreviations

ADB: Asian Development Bank

APM: Association for Project Management

BOOT: Build Own Operate Transfer

BOT: Build Operate Transfer

BV: Best Value

DMNE: Developed Multi National Enterprise

EIU: Economist Intelligence Unit

EM: Emerging Market

EPC: Engineering, Procurement and Construction

EU: European Union

FDI: Foreign Direct Investment

GDP: Gross Domestic Product

HQ: Head Quarter

ICRG: International Country Risk Guide

IMF: International Monetary Fund

IPLC: International Project Life Cycle

IPO: International Project Operation

LC: Letter of Credit

MIGA: Multilateral Investment Guarantee Agency

MNC: Multi National Corporation

MNE: Multi National Enterprise

NAFTA: North American Free Trade Agreement

OECD: Organisation for Economic Co-operation and Development

OEM: Original Equipment Manufacturer

OPEC: The Organization of the Petroleum Exporting Countries

PLC: Project Life Cycle

PMBOK: Project Management Body of Knowledge

PMI: Project Management Institute

PPP: Public Private Partnership

PRA: Political Risk Assessment

R&D: Research and Development

RM: Risk Management

SAFTA: South Asian Free Trade Area

WB: World Bank

WTO: World Trade Organization

Chapter 1: Introduction

This chapter provides a detailed outline of the study. It begins with a background of the study which aims at creating an interest in the topic of the study concerned, laying out the broad foundation for the research problem, justifying the importance of the topic, and subsequently identifying the research gap. Secondly, the purpose, research question and objectives of the study based on identified research gap are discussed. Successively, the delimitations of the study and a brief overview of the previous studies in the field of this research are presented in the third and fourth section of this chapter respectively. Definitions of the key terms used in the literature view chapter are discussed in the fifth section. Finally, the last section of the chapter presents a structure of the thesis.

1.1 Background of the study

Economic and political developments are increasingly transforming our present day business world and promoting us to consider multilevel global perspectives in doing businesses. In the coming years, most of the world's economic growth is expected to occur in the emerging markets (Here after EMs) (Cavusgil et al. 2013.) For instance, The Global Economic Prospects of June 2019 by the World Bank (2019) suggests that the real GDP growth in the EMs and developing economies will experience a steady growth at 4.6 percent in 2020 from 4 percent in 2019, whereas the same real GDP growth in the developed economies such as United States, Euro Area and Japan will experience a slight decline at 1.5 percent in 2020 from 1.7 percent in 2019 (World Bank 2019). With this economic growth potential in mind, many EMs are preparing themselves for internationalization by heavily investing in infrastructural development such as creating better transportation, power and communication systems (Cavusgil et al. 2013). As a result, various widespread opportunities for many multinational enterprises from developed countries (Here after DMNE for Developed Multinational Enterprise) are arising to execute international project operations especially in the construction industry in many EMs of Asia, Africa and Latin America (Chang et al. 2018).

However, a smooth entry or internationalization efforts into these EMs have not always been considered as positive for many DMNEs because of some country specific differences, ethical aspects, economic and political risks associated with these EMs (Cavusgil et al. 2013). Yet,

many countries with EM's characteristics have been experiencing several efforts to liberalize and reform different volatility and economic risks but a proper framework to minimise or to early predict governmental political risks in doing business in EMS specially in the international project operations remain as an area of research that needs some attention (Cavusgil et al. 2013; Chang et al. 2018; Hadjikhani 1998).

In order to broadly define the proposed research problem, it is important to highlight why EMs matter and what possible positive outcomes the DMNEs can achieve by effectively managing country specific EM's political risks in executing various international project operations. While economic growth rate in the EMs is likely to be steady, the global economic prospects by the World Bank (2019) suggests that many EMs will be spending between 4.5 to 8.2 percent of their GDP to improve access to efficient power and electricity, reliable logistics and transportations, upgrading digital technologies for efficient communications and institutional quality. Hence, this amount of spending towards infrastructural development opens a big window of opportunity for DMNEs in generating profits and encouraging job creations (World Bank 2019; Cavusgil et al. 2013).

However, Ashley & Bonner (1987) and Ling & Hoang (2010) submit that DMNE will always experience some degree of political risks while entering into EMs even though the business opportunities might represent some green postures in terms of growth and profitability. On the other hand, Voelker et al. (2008) further argued that political risks are some of the most vague, uncertain and often uncontrollable risks which might hinder a DMNE's ability to take right investment decisions while venturing outside their home countries. For instance, while attempting to execute an international project operation, a DMNE might face one or some of the following political risks in a typical EM such as currency transfer restrictions, breach of contract, expropriation, war and civil disturbance, legal, regulatory and bureaucratic risks and non-governmental action risks (MIGA 1985; Sachs 2006).

Hence, it is of the strategic interest for the DMNE not to ignore possible political risks that might arise from executing international project operations in the EMs (Deng & Low 2014; Jia et al. 2017). Nevertheless, A DMNE's ability to manage political risks in executing international project operations has serious implications for its achievement of various business and strategic objectives such as financial gain, growth potential, survival,

internationalization, market expansion and reputation (Low et al. 2013). Furthermore, a careful assessment and management of political risks offer several strategic benefits to DMNE specially in the EMs such as creating a close and long-term cooperation with the public authorities (Voelker et al. 2008) and better coordination, resource allocation and learning to achieve the long term goal of the company (Gordon et al. 2009).

Political risk management in international project operations has been studied extensively in recent times (MIGA 1985; Hadjikhani 1998; Howell 2001; Sachs 2006; Al Khattab et al. 2007; Zhang & Wei 2012; Cavusgil et al. 2013; Chang et al. 2018). Most of these studies reveal and categorize political risks in many ways such as according to Al Khattab et al. (2007) political risk in international projects can be divided into three categories (i.e., Host-government related risks, interstate-related risks and host-society related risks). However, in the general body of the political risk management literature relating to international business studies there has been no concrete unanimity regaining the typology of political risk categories or definitions (Nawaz & Hood 2005). But, Butler & Joaquin (1998), Buckley (2000), Brink (2004), Stosberg (2005), and Al Khattab et al. (2007) argue that there are two main approaches to define the political risks in international business. While, Butler & Joaquin (1998) and Buckley (2000) define political risk of international project operations from a direct governmental interference with business operations point of view, Brink (2004) and Stosberg (2005) suggest that political risk of international project operations can also emerge because of the changes in the societal sources.

Despite various opinions and divided thoughts on this body of literature, it is generally accepted that Howell (2001) has the most representative definition of political risk in the context of international business operations (Al Khattab et al. 2007; Zhang & Wei 2012). According to Howell (2001), political risk refers to the possibility of change in the business climate of a country as a result of changes in the political decisions, political or societal events which will ultimately lead the investors to lose money or reduce their ability to generate enough money as originally planned when the investment was made.

However, it is important to acknowledge that political risk management in international project operations is particularly crucial as mismanagement of such risks can impact other organizational functions and their related risks (Ford & Randolph 1992). Furthermore, proper

risk management can moderate the relationship between risk levels and international project's outcomes (Zwikael & Ahn 2011) and thus a DMNE can achieve several positive strategic advantages as discussed by Low et al. (2013) and Gordon et al. (2009) earlier.

It is quite apparent that in several theoretical and empirical studies there have been some attempts to identify political risk events (Al Khattab et al. 2007; Deng & Low 2013) and political risk factors (Cavusgil et al. 2013; Deng & Low 2014; Deng et al. 2014; Chang et al. 2018) within the context of developed countries (Al Khattab et al. 2007). But, a little emphasis was devoted to investigate this topic to provide accurate guidelines regarding how to manage political risk (Chang et al. 2018) while executing international project operations in the developing/emerging economies (Al Khattab et al. 2007; Cavusgil et al. 2013).

Therefore, this topic would focus on creating a theoretical framework by integrating relevant literature from social exchange/institution theory, transaction cost theory, project management literature and finance literature in order to assist a DMNE to identify appropriate risk elements and their control mechanisms to manage possible political risks in executing international project operations in the EMs.

Existing literature on the political risk management has several perspectives. Firstly, there are extensive research on management of political risks from a transaction cost point of view. Secondly, there are studies that reveal the relationship orientation between DMNEs and host-country governments in enhancing organizational co-operations and commitments under the umbrella of social exchange theory (Dunning 1997; Luo 2001; Cavusgil et al. 2013). Finally, there are extensive research that analyse the impact of political risks for the successful outcome of executing international construction projects under the project management theory (Al Khattab et al. 2007; Deng & Low 2013; Deng & Low 2014; & Deng et al. 2014).

In addition to that there many studies that provide important frameworks and rating measures for identifying and calculating the impact of the political risks in executing international projects in a developed country (Hadjikhani 1998; Al Khattab et al. 2007). As such all of these important research insights will provide this topic a strong scaffolding for an in-depth literature review.

However, as mentioned before that a little emphasis was devoted to investigate the importance of managing political risks in international project operations to provide accurate guidelines regarding how to manage political risk while executing international project operations in the emerging economies. Thus, this study seeks to integrate these different fields of studies in order to offer a comprehensive framework incorporating social exchange/institution theory, transaction cost theory, project management literature, and finance literature in order to assist a DMNE to identify appropriate risk elements and their control mechanisms to manage possible political risks in executing international project operations in the EMs.

1.2 Purpose, research question and objectives of the study

1.2.1 Purpose and Research Question

The primary purpose of the thesis is to create a theoretical framework by integrating relevant literature from social exchange/institution theory, transaction cost theory, project management literature, and finance literature in order to investigate the perception and management of political risks by DMNE when undertaking infrastructure projects in emerging markets (EMs). In order to do so, it will be imperative to thoroughly review all the relevant literature of conceptualization of political risk, different elements of political risks, conceptualization of international project operations and life cycle of international project operation, importance of managing political risk in international project operations and identification of political risk during the life cycle of international project operations.

From these in-depth understanding of the literature and the proposed theoretical framework as mentioned earlier, the thesis will attempt to answer the following research question:

´´How a developed country's MNE (DMNE) perceives and manages political risks when undertaking infrastructure projects in emerging markets (EMs)?´´

1.2.2 Objectives

In order to clearly define, specify and provide a detailed set of directions to answer the underlying research question of this study, the following research objectives have been set as primary research objective and sub-objectives. They are;

- ***The primary objective*** of the study is to investigate and critically analyse the perception and management of political risks by DMNE when undertaking infrastructure projects in emerging markets (EMs).
- ***Sub-objective 1:*** To critically analyse the conceptualization and elements of political risk.
- ***Sub-objective 2:*** To critically analyse the conceptualization of international project operations, importance of managing political risks in international project operations, and identification of political risk during the life cycle of international project operations.
- ***Sub-objective 3:*** To explore and critically analyse the mechanisms of political risks management.
- ***Sub-objective 4:*** To empirically investigate and critically analyse the perception and management of political risks by DMNE when undertaking infrastructure projects in Bangladesh, India, China and Pakistan.

1.3 Delimitations of the study

To offer an empirical evidence to the previously mentioned research question, this study will examine and test the theoretical framework from the point of view of a DMNE *(such as, a Finland based DMNE)* going to execute international project operations in the field of infrastructural development in four Asian EMs *(such as, Bangladesh, India, China and Pakistan).* This study sets such a point of view by integrating relevant literature from social exchange/institution theory, transaction cost theory, project management literature and finance literature in order to explore and suggest some empirical evidence based discussions to the Finnish managers while doing business in the EMs of Bangladesh, India, China and Pakistan. Thus this study delimits its scope of research particularly aiming at studying the notion of managing political risks of the highly complex infrastructural development projects

undertaken by the selected case company within the context of the EMs of Bangladesh, China, India and Pakistan. Thereby, the study has delimited and narrowed its research results only relevant to highly complex infrastructural development projects, and it does not represent the overall situation of political risk management strategy for all types of international project operations by all types of organizations in all of the EMs of the world.

One of the main reasons for that is, highly complex international infrastructural development project operations imply the negotiations and international business efforts with the governments of these four countries and thus require the need of understanding the necessary strategies to minimize or reduce the associated political risks to conduct international business in these EMs. Moreover, four EMs of Asia *(i.e., Bangladesh, India, China and Pakistan)* were chosen so that enough data can be collected to analyse and generalize the interpretations of the research findings from the research's validity and reliability point of views.

1.4 Previous studies

The following table 1 provides a detailed account of some of the studied previous literature in the field of this current thesis.

Table 1. Previous studies related to political risk management and international project operations. (Own illustration 2020).

Author(s)	Applied theory(ies)	Methodology	Sample size	Focus of the study	Finding(s)
Kardes et al. (2013)	- The prospect theory - Self-justification theory - sunk cost effect theory	Exploratory study	N/A	To examine the behaviour of decision making under risk in megaprojects.	By adopting a successful risk management approach and following best practice, success rate and the productivity of global collaborative projects can be enhanced.
Floricel et al. (2016)	- Institution theory - Social Exchange theory - Complexity theory - Project complexity theory	Quantitative and qualitative	81	To investigate how complexity influences projects and their performance.	Some planning-stage strategies interact with certain complexity factors and these interactions have a beneficial effect on completion, innovation and operation performance in projects.
Meschi (2005)	- Resource dependency theory - Transaction cost theory	Quantitative	210	To examine the impact of country risk on the survival of international joint ventures formed in emerging countries.	Joint venture with one or more local people in the EMs is viewed as a mechanism aimed at reducing or providing protection against environmental uncertainty. Moreover, control of relations with the environment in the emerging country is considered as an intangible, specific and rare resource held by local partners which reinforces the notion of forming joint venture with one or more local people in the EMs.
Jaafari (2001)	- Project management literature	Exploratory study	N/A	To propose a strategy-based project management	Key success factors for successful project management are *1.) Recognition and proactive*

				approach in which risks, uncertainties and opportunities can be managed in real time by using a life cycle project management approach.	*management of complexities, 2.) Strategy-based decision making, 3.) Integration of project phases, and 4.) Inclusion of environmental variables.*
Oetzel (2005)	- Political lobbying literature - Bargaining power theory - Country risk (Sovereign vs Non-Sovereign risk) - Liability of foreignness in a host country - The resource based view	Exploratory qualitative study	14	To examine how managers assess and manage political and economic risk once their company's foreign direct investment (FDI) is on the ground.	- Petty corruption poses a serious and potentially growing political risk to foreign direct investors. - Industries outside of the host country's FDI focus face greater political risk after their initial investment than companies within the country's FDI focus. - The nature of economic and political risks faced by firms are different. Firms face similar economic risks regardless of industry, while political risks are distinctive across different industries and firms.
Lyons & Skitmore (2004)	- Project management literature - Project risk management - Project life cycle phases	Quantitative Survey	200	To provide the results of a survey of senior management involved in the Queensland engineering construction industry, concerning the usage of risk management techniques, perceived risk tolerance of individuals and companies, factors limiting the implementation of risk management, risk	- An overall preference was identified for the use of qualitative methods of risk analysis ahead of quantitative and semi-qualitative methods. - The most frequently used tools for identify risks are brainstorming, case-based approach and checklists. - The most frequently used risk assessment techniques are intuition, judgement and previous project management experience.

				management usage in each of the project life cycle phases.	
Hwang et al. (2014)	- Risk management - Project management literature - Quality management	Quantitative Survey	668	To investigate risk management (RM) in small projects in Singapore in terms of status, barriers and impact of RM on project performance.	The results reported the positive correlation between RM implementation and improvement in quality, cost and schedule performance of small projects.
Hadjikhani (1998)	- Political risk - Sleeping relationship strategy - Exit Strategy	Qualitative Case Study	3	To study the behaviour of project-selling firms when interacting with non-business actors (i.e., the governments) under the circumstances of sudden drastic political change.	- Business firms facing political risk do not necessarily need to exit from a turbulent market as the sleeping strategy can assist later to regain a position in the market. - Political risk may also have a positive effect by which business firms can obtain market imperfection if the response strategy makes the actors stand close to the market. - The management of a political crisis is dependent upon three interrelated factors: the specific actions of non-business actors, earlier commitments, and future expectations.
Chang et al. (2018)	- Political risk - International project phases - Political risk management strategies	Quantitative Survey	155	To provide practitioners an in-depth understanding of the identified 27 political risk management strategies in international construction projects and provide a useful reference to manage political risks when venturing outside their home countries.	- The results suggest that all of the identified 27 political risk management strategies are important for political risk management in international construction projects. - However, the five most important strategies to manage political risks were (1) choosing suitable projects, (2) building proper relations with host governments, (3) conducting market

					research, (4) avoiding misconduct, and (5) choosing a suitable entry mode.
Zhang & Wei (2012)	- Country risk - ICRG political risk ratings - Social exchange theory: International joint venture - Finance literature: International political risk insurance - Institution theory	Qualitative Case study	N/A	To assess the political risk for Chinese contracted projects at three levels and study their countermeasures to this emergency and the effects of political risks on Chinese constructors in Libya.	- The impact of political risk on multinational companies' (MNCs') local investment can be divided into three categories: (1) direct financial loss and employees' injury or death (2) negative effects on the continuity of MNCs' operation in local and global markets; and (3) extra expenditures or unexpected adjustments to the operation plan might lead to losses. - Political risks have negative effects on the targets of profit maximization. - Unpredictable political risk in Libya has led to tangible and intangible losses for Chinese constructors such as covering time, cost, human resources, and reputation.
Al Khattab et al. (2007)	- Finance literature: International political risk insurance - Political risk	Quantitative Survey	44	To examine the vulnerability of international projects to political risks in the developing countries.	- The findings suggest that the political risk associated with international projects poses a threat to the majority of respondents and that the vulnerability to political risk is related to a firm's degree of internationalisation. - Classification of political risk according to its source are: - *Host-government: Expropriation, Contract repudiation, Currency inconvertibility, Ownership and/or personnel restrictions, Taxation restrictions, Import and/or export restrictions*

					- *Host-society: Terrorism, Demonstrations, riots and insurrection, Revolutions, coups d'e´tat and civil wars* - *Interstate: Wars, Economic sanctions* - International projects are more concerned about host-society and interstate related risks than host-government related risks.
Voelker (2008)	- Political risk in Public-Private Partnership projects - Social exchange theory: International joint venture - Finance literature: International political risk insurance - Institution theory: Involving public insurers	Quantitative study	17	To identify and to assess specific political risks associated with Indonesia's public private partnership (PPP) power projects and their generally available mitigating measures, based on the perception of the main stakeholders (government, investors, lenders and insurers).	- The study identified that the political risk perception for Indonesian power projects is still relatively high, due to its legal and regulatory risk and breach of contract risk. - The success of public private partnership (PPP) projects is based on a proper risk management between both the public and the private sector and a desirable host-government support. - An additional appropriate instrument to mitigate the political risk is to bring a public insurer such as the World Bank into the project.
Miller & Lessard (2001)	- Social exchange theory: International joint venture - Finance literature: International political risk insurance - Institution theory: Institutional engineering - Transaction cost theory: Cost-benefit analysis	Qualitative	N/A	To sketch-out the various components of risks, outline strategies for coping with risks and suggest a dynamic layering model for managing and shaping the risks of projects.	- There are three major risks in large engineering projects such as (1) Market related risks: demand, financial and supply, (2) Completion risks: technical, construction, operational, and (3) Institutional/sovereign risks: regulatory, social acceptability and sovereign political aspects. - However, institutional risks are typically seen as greatest in emerging economies because of their incomplete laws and regulation.

Han et al. (2018)	- Transaction cost theory
	- Real option theory
	- Institutional theory
	- Political risk
	- Social exchange theory
		Qualitative Case study	16	To examine how Chinese MNEs perceive political risk when operating in developed and developing host countries, specifically, the European Union (EU) and Africa.	- Firms may perceive a lower degree of political risk when their activities are more aligned with the government's long-term goals.
					- Some of the identified political risks and their sources are;
					  - Home-Country Sourced Political Risks in the EU: The 'hand' of the home-country government.
					  - Host-Country Sourced Political Risks in African Countries: A change of political regime, breach of contracts, political shocks, etc.
					  - Industry-Sourced Political Risks in the EU: heavy governmental regulations such as product safety rules, entry requirements, and capacity control, etc. on the 'key industries.
					  - Firm-Behaviour Sourced Political Risks in Both Markets: firm's inappropriate behaviour such as ignorance of sustainable development, a lack of respect towards the local culture and hostile industrial relations.

Mshelia & Anchor (2018)	- Political risk - ICRG political risk ratings - Institution theory	Quantitative Study	The data set of the ICRG 2011 to 2015 for Nigeria	To critically investigate the political risk assessment (PRA) techniques used by MNCs in Nigeria and their applicability.	The findings reveal that most firms use qualitative such *as (1) Delphi Technique, (2) Judgment and Intuition of Managers, (3) Expert Opinion, (4) Standardized Checklist, and (5) Scenario Development,* etc. rather than quantitative PRA techniques.

It is noteworthy to mention that for each of the explained literature review element, a group of main writers have been identified during the initial phase of the research. It is expected that there will be some more important writers yet to be identified as the research would roll into further phases. However, in the fields of Emerging Markets (EMs) and Developed Multinational Enterprise (DMNE) the research contributions of The World Bank (2007; 2019), Cavusgil et al. (2013), and Chang et al. (2018) have been used. Secondly, in the fields of International project operation, Infrastructural development projects and Life cycle of an international project operation, the research insights of the Al Khattab et al. (2007), Li & Zou (2012), Zhang & Wei (2012), Kardes et al. (2013), Watt (2014), Vaskimo (2015), Kerzner (2017), Chang et al. (2018), and Project Management Institute (2019) have been thoroughly assessed.

Thirdly, the fields of Political risks and Political risk management mechanisms, the studies from MIGA (1985) Butler & Joaquin (1998), Hadjikhani (1998), Buckley (2000), Howell (2001), Brink (2004), Nawaz & Hood (2005), Stosberg (2005), Sachs (2006), Al Khattab et al. (2007), Voelker et al. (2008), Zhang & Wei (2012), Chang et al. (2018), and The World Bank (2019), etc. have been extensively used as these publications provide extensive theoretical and empirical foundations to the literature review of the study.

Finally, borrowing from Turner & Keegan (2001) and Turner (2001) have offered a good foundation to understand the importance of managing political risks from a transaction cost point of view. Furthermore, the research contributions of Cavusgil et al. (2013), Luo (2001) and Dunning (1997) have assisted this research extensively to understand the relationship orientation of executing international project operations and its associated political risks between DMNEs and host-country governments under the umbrella of social exchange theory.

1.5 Definitions of key terms

The main concepts and their associated definitions are discussed below so that a clear overview can be illustrated to the reader of this study.

1.5.1 Emerging Markets (EMs)

Emerging markets are countries which are in a transition phase from developing to developed markets due to rapid growth and industrialization. Hence, markets which have *a)* started an economic reform promises aimed at alleviating problems such as poverty, poor infrastructure and overpopulation, *b)* achieved a steady growth in gross national product (GNP) and gross domestic product (GDP) per capita, and *c)* increased integration in the global economy, can be considered as EMs. (Cavusgil et al. 2013.)

1.5.2 Developed Multinational Enterprise (DMNE)

DMNE is characterized as a company that has originated from a developed country (i.e., The UK, The USA, Euro Area, and Japan etc.) and has international business across many countries (Cavusgil et al. 2013). There are several reasons for which a DMNE prefers internationalization or conducts international businesses such as gaining access to the market share of the larger economies (such as the EMs), natural resources or technological knowhow, financial gain as earning more profits, and gaining taxation benefits etc. (OECD 2018.)

1.5.3 International project operation (IPO)

International project operation refers to the initiatives undertaken by a company to execute a unique product, service or result to a host-country (Watt 2014). In international projects, a company usually in the form of a MNE attempts to coordinate activities in order to direct and control a temporary endeavour to deliver a project outcome to its client (Vaskimo 2015).

1.5.4 Life cycle of an international project operation

Unlike a standard project operation, an international project has four specific stages in its life cycle. They are project initiation, planning, execution, monitoring and control, and closure. In each of these stages there are various risk assessment and quality measures are used so

that project outcomes can be delivered as promised to its client. (Li & Zou 2012; Watt 2014; Vaskimo 2015; Kerzner 2017: 613).

1.5.5 Infrastructural development projects

Infrastructural development is a broad concept that embraces public investment in physical assets and social services (Olaseni & Alade 2012). According to the Cambridge English Dictionary (2020), Infrastructural development projects refers to the projects that are undertaken by a country or organization to establish the basic systems and services, such as transport and power supplies, that a country or organization uses in order to work effectively.

1.5.6 Political system and political risk

Political system refers to the set of formal institutions forming the government and the interactions among these institutions. Thus, political system comprises of different political parties, interest groups, trade unions and legislative authorities of a given country. (Ghauri & Cateora 2010.) On the other hand, political risk refers to the probability of adverse effects on a MNE's business due to political events that happened in a host country such as a breach of contract, exploration, political violence, revolution, sabotage, terrorism and restrictions on certain business activity or international money transfer (Glaeser et al. 2004).

1.5.7 Political risk management mechanisms

Political risk management mechanisms refer to the available strategies or securities that the international company use to protect its business and strategic interests while undertaking an international project operation in a host country. There are several examples of such mechanisms can be observed in the field of internationalization studies. A few noteworthy mention are international risk insurance, advance payment method, guarantees, trade agreements and treaties (such as, EU Trade Agreement, NAFTA, SAFTA etc.), protection from the 3rd party organizations and/or associations such as WTO, ADB, OPEC, WB, IMF etc. (Moran et al. 2007.)

1.6 Structure of the study

This master's thesis will be written into five chapters namely *introduction, literature review, research methodology, empirical findings and conclusion of the study*. The first chapter described the introduction of the study. In this chapter, a detailed background of the study, research question and research objectives, delimitations of the study, definition of the key terms and a detailed review of the previous studies in the field have been covered so that the reader would have gained a complete point of view to understand the thesis.

The second chapter will address important literature review. This section will further be divided into four sub-chapters to present a complete overview of the existing theories in this field of research and to construct a theoretical framework. As mentioned earlier, *political risks, international project operations and political risks*, and *theoretical roots to political risk management, and different mechanisms to manage political risks* will be analysed in each of the sub-chapters of the literature review so that a coherent overview of the knowledge can be illustrated to the reader. After discussing these three sub-chapters, a theoretical framework will be proposed along with the research proposition.

The third chapter will be dedicated to illustrate the rationale of choosing a particular research methodology. A comprehensive overview of the data collection method, sampling design and size, interview method, interview transcripts, data analysis method etc. will be presented to address the traceability and credibility of the data collection.

The forth chapter will be dedicated to data analysis for empirical findings. In this chapter, the proposed theoretical framework will be empirically tested based on developed research proposition or assumption. However, a detailed description, analysis and evaluation of the findings will be also given in this chapter.

Finally, the thesis will conclude with a summary of the major findings as conclusion. In this chapter, relevant propositions will be offered as managerial implications based on the data analysis of the theoretical framework. Moreover, limitations and suggestions for future research in this field of study will also be indicated in this chapter.

Chapter 2: Literature Review

2.1 Introduction

This chapter constitutes a comprehensive review of the literature relevant to the research. The foremost aim of this chapter is to provide an overview of the theoretical foundations to conceptualization of political risks and different elements of such risks in international project operations (IPOs). Secondly, definitions and life cycle of IPOs, identification of political risks during the life cycle of IPOs and different methodologies available to identify such risks will be discussed. Thirdly, relevant theoretical roots to political risks management will be comprehensively assessed based on Social exchange/Institution theory, Transaction cost theory, Project management literature and Finance literature in order to set the board context of the study, offer justifications, critiques and definitions of different political risk management mechanisms. Finally, based on the synthesised review of the literature and available secondary data in those literature a theoretical framework of the study will be introduced.

It is noteworthy that reviewed papers have been selected predominantly from academic international business management and project management journals such as *International Journal of Project Management (IJPM), Project Management Journal (PMJ), International Business Review (IBR), Journal of Business & Industrial Marketing (JBIM), Journal of International Management (JIM), Journal of World Business (JWB), Journal of Financial Management of Property and Construction (JFMPC), International Journal of Strategic Property Management (IJSPM), Business Process Management Journal (BPMJ), Erasmus Research Institute of Management (ERIM), World Bank Publications (WBP), etc.*

2.2 An overview of political risk in IPOs

In the recent years, the number of IPOs have risen precipitously in the EMs due to increasing infrastructural development needs (Kardes et al. 2013). For instance, a recent study by OECD (2007) estimates that between 2007 and 2030, both developed and emerging markets will spend some USD $53 trillion for updating current infrastructure and building new infrastructure respectively (OECD 2007; Gil & Beckman 2009).

However, such a colossal business opportunity in the infrastructural development projects for many DMNE's international project operators do not come without certain degree of uncertainty, complexity and risks. Meschi (2005) argues that expansion or internationalization in EMs ought to be considered as a difficult decision. In one hand, these markets offer opportunities for increasing profits, but on contrast, these markets are plagued with many uncertainties, complexities and risks such as political risks (Meschi 2005; Chang et al. 2018).

The phenomenon of relevant uncertainties, complexities and risks in IPOs is reviewed in the following sub-section.

2.2.1 Uncertainty, complexity and risk in international projects

IPOs are often not successful because of many underlying uncertainties, complexities and associated risks that they have to go through (Howell 2001; Kardes et al. 2013; Floricel et al. 2015) in the emerging economies which are considered to be more volatile in terms of such uncertainties and risks than that of the industrialized countries (Lessard 1996). Previous studies in international business and IPOs relating to risk management have demonstrated how different risks can critically affect DMNE's ability to successfully complete international

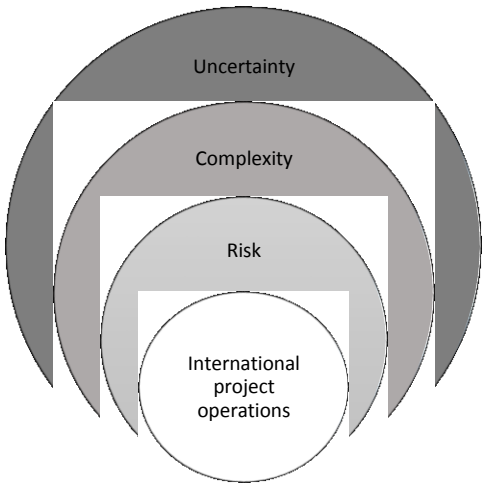


Figure 1. Uncertainty, complexity and risk in IPOs, (Own illustration 2020)

projects in a host-country, but a succinct agreement has not been yet confirmed to classify, define, and conceptualize such risks faced by DMNE especially in the emerging economies (Lessard 1996; Liesch et al. 2011; Buckley 2016).

As long as, uncertainty, complexity and risk in general terms are considered in relation to IPOs, there are two streams of research literatures exist (Han et al. 2018). In one hand, some scholars prefer to use statistical probability approach to define uncertainty, complexity and risk as quantifiable events that will occur and negatively influence the project operations (Liesch et al. 2011; PRS Group 2019), while others define uncertainty, complexity and risk as significant contingencies of unknowable external, environmental and organizational variables that impact project operations in a given market or country (Miller 1992, 1993a, 1993b & 2007).

In this study, the empirical findings of Miller (1992, 1993a & 1993b) have been utilized to classify, define, and conceptualize relevant uncertainties associated with IPOs.

Uncertainty and its types in IPOs

Duncan (1972) & Galbraith (1977), in their grounding work on perceived environmental uncertainty and organization design theory respectively first noticed that inadequacy of accessing and/or obtaining information about relevant environmental and organizational variables in decision making limits managers' ability to positively impact corporate performance. On the same line of research, Lessard (1988) pointed out that such situations that impact corporate performance can arise from exogenous shocks such as political or social environments of a host-country and/or unforeseeable behavioural choices that the company must adopt in a host-country such as compromising business ethics to obtain certain permits by engaging with bribery or corruption etc.

But, Miller (1992) argued that both of these literatures have a significant drawback as neither of them offer a multidimensional treatment of uncertainty for managerial decision-making. He further argued that not only a firm experience uncertainty because of inadequate information resource, exogenous shocks and unforeseeable behavioural choices in host-country , but also a firm might experience uncertainty because of its own firm specific

variables such as inability to operate, research and develop and manage employee actions in both home and host markets (Miller 1992).

Thus by encompassing all the possible elements, Miller (1993a) defined uncertainty as *"the unpredictability of environmental, organizational, and firm specific variables that impact corporate performance."*

To facilitate managerial decision-making in international business, Miller (1992) offered a threefold categorization of perceived managerial uncertainties as demonstrated in table 2 below;

Table 2. Categorization of perceived managerial uncertainties. (Adapted from Miller 1992).

Perceived managerial uncertainties										
(1) General environmental			(2) Industry specific			(3) Firm specific				
Political uncertainty	Policy uncertainty	Macroeconomic uncertainty	Input market uncertainty	Product market uncertainty	Competitive uncertainty	Operating Uncertainty	Liability uncertainty	R&D uncertainty	Credit uncertainty	Behavioural uncertainty
- War - Revolution - Coup d'état - Changes in government - Other political turmoil	- Fiscal and monetary reforms - Price controls - Trade restrictions - Nationalization - Government regulations - Barriers to earnings repatriation - Inadequate provision of public service	- Inflation - Changes in relative prices - Foreign exchange rates - Interest rates - Terms of trade	- Quality uncertainty - Shifts in market supply - Changes in the quantity used by other buyers	- Changes in the consumer tastes - Availability of substitute goods - Scarcity of complementary goods	- Rivalry among existing competitors - New entrants - Technological uncertainty	- Labour uncertainty - Input supply uncertainty - Production uncertainty -	- Product liability - Emission of pollutants	- Uncertain results from R&D activities	- Problems with collections	- Managerial or employee self-interested behaviour

Complexity and its types in IPOs

IPOs can be of various types and they can represent a DMNE with multiple complexity dimensions in terms of project size, completion time, cost & budget, requirements, stakeholder management, and political implications, etc. (Kardes et al. 2013). Generally speaking, large-scale investment projects *(often termed as Megaprojects)* in the emerging markets involve substantial amount of cost, direct and/or indirect impact to the community, environment and the national economy and thus expose those projects to critical public attention and various uncertain complexities (Van Marrewijk et al. 2008; Kardes et al. 2013). Williams (1999) and Shenhar (2001) submit *"complexity as a major source of uncertainty and risk in projects which increases cost and affect project performance"* in their research.

Whereas, Kardes et al. (2013) consider complexity as a major challenge for the managers of megaprojects.

However, extant literature on project complexity identifies some of the sources such as number of stakeholders included in project such as contractors, sub-contractors, sponsors, governments, local authorities, suppliers, investors, grantors, etc. (Kardes et al. 2013), lack of cooperation among these stakeholders with conflicting interests (Kardes et al. 2013; Bruijn & Leijten 2008; Van Marrewijk et al. 2008), changes in the laws and regulations (Capka 2004), lack of funding and construction difficulty (Frick 2008), new development and changes in technology (Shenhar 2001), country risk (Meschi 2005; Oetzel 2005; Howell 1998; Kobrin 1978; Robock 1971), high-level of public interests or political interests (Van Marrewijk et al. 2008), etc. that increase project complexities.

Cleland & King (1983), Baccarini (1996) and Bruijn & Leijten (2008), identified two types of project complexities such as technical and social. They submitted that technical complexity relates to the size, design, structural scope and machinery requirements of the project. On contrast, social complexity arises from interaction and conflicting interests of the different stakeholders involved in a project. But, this classification of project complexity does not offer a comprehensive view of different structural and dynamic complexities in project such as organizational and target market related issues that might also impose upon some degree of complexities in an IPO.

Thus this study adopts the classification of project complexities as a source of uncertainty and risk in IPOs by Floricel et al. (2016) as demonstrated in table 3 below:

Table 3. Types of project complexity. (Adapted from Floricel et al. 2016).

	Structural	Dynamic
Intrinsic	Institutional complexity	Organizational complexity
Representational	Technical complexity	Market complexity

- *Institutional complexity:*

  This complexity arises from various interactions and cooperation needed to execute a project among number of stakeholders. For instance, in order to execute an international project, the international project operator(s) need to engage with several interested parties such as the parent organization, stakeholders, suppliers, insurers, and political and regulatory bodies. Some of the resulting complexities stem from this are but not limited to legislative permit requirements, job creation, equal access and treatment to local labour, environment protection, etc. (Floricel et al. 2016.)

- *Technical complexity:*

  This complexity arises from the technical and machinery requirements and their availability in a host market (Floricel et al. 2016). Moreover, in some international projects such as the infrastructural development (e.g., dams, ports, railroads, power station, highways) and extraction (e.g., minerals, oil and gas) require coordinated applications of capital, sophisticated design and technology and intense planning (Gellert & Lynch 2003; Kardes et al. 2013) and computational challenges (Floricel et al. 2016).

- *Organizational complexity:*

  This complexity arises from the project operator(s) and their associated partners' interactions and methods to plan, execute and complete different milestones of an international project (Floricel et al. 2016). For instance, not being able to agree on a singular reporting and control authority structural (Hierarchical vs Collaborative) might end one party with inadequacy of information in taking a timely decision which ultimately increases uncertainty and project complexity (Duncan 1972; Galbraith 1977). Previous qualitative evidence suggests that such human side of projects (House 1988) and social interactions of different project stakeholders (Lundin & Söderholm 1995) often result many organizational complexities in a project such as but not limited to conflicting stakeholder interests (Kardes et al. 2013; Bruijn & Leijten 2008; Van Marrewijk et al. 2008), opportunism, misunderstandings, cheating, interpersonal conflicts and even criminal behaviours (Floricel et al. 2016).

- *Market complexity:*

  This complexity arises from the fluctuation in market demand for a particular type of project in a target market such as infrastructure, extraction, production and/or consumption projects (Gellert & Lynch 2003; Kardes et al. 2013), inability to forecast host government's foreign direct investment (FDI) focus or developmental needs (Oetzel 2005), intensity of market competition, available rivalry and threat of new entrants (Miller 1992), liability of foreignness (Zaheer 1995; Zaheer & Mosakowski 1997), relative bargaining power over time against the competing local firms (Kindleberger, 1969; Vernon, 1980), and economic situation of a target market such as inflation, currency fluctuations and economic crises (Miller 1992, 1993a; Howell 2001; Oetzel 2005; Al Khattab et al. 2007; Voelker et al. 2008).

Risk and its types in IPOs

Risk is a social construct and thus there is no single agreed or correct definition of risk (Rockett 1999; Solberg & Njå 2012; Buckley 2016). Risks are often multi-dimensional and their meanings and interpretations largely depend on certain social, psychological, cultural and political belief systems (Solberg & Njå 2012). But, extant literature has offered various definitions of risks based on specific point of views (Han et al. 2018). For instance, Miller & Lessard (2007) defines risk as the possibility of the occurrence of an event that will turn out differently than previously assumed. Whereas, Al Khattab et al. (2007) defines risk as;

> *"… Risk can be seen as a combination of the probability that an event will occur with its consequences. Risk may result in losses or gains and may affect all forms in a class or particular firms."*

It is noteworthy that throughout the literatures of international business and international project management, various authors have interchangeably used *'uncertainty, harm or hazard, complexity, and risk'* relative to each other (Al Khattab et al. 2007; Kardes et al. 2013; Buckley 2016; Floricel et al. 2016; Han et al. 2018). But, Knight (1921) and Kardes et al. (2013) attempt to distinguish between 'uncertainty' and 'risk' are the most representative. Knight (1921) argued that while the likelihood of occurrence of risks as a set of possible outcomes can be early predicted and calculated, whilst uncertainty as a set of outcomes cannot be

known in advance. On contrast, risks can be defined in statistical terms, but the odds for uncertainty is either unknown or cannot be fully understood in terms of causality and potential outcomes (Kardes et al. 2013).

However, extant literature on risk management has yielded a range of risks that often impact an international project's performance (Liesch et al. 2011 ; Solberg & Njå 2012), but there has been no concrete agreement on a universally accepted typology of categorising risks faced by international project operators or international businesses (Nawaz & Hood 2005). A number of such studies as illustrated in figure 2, have reported some of the risk components experienced by the international businesses or IPOs.

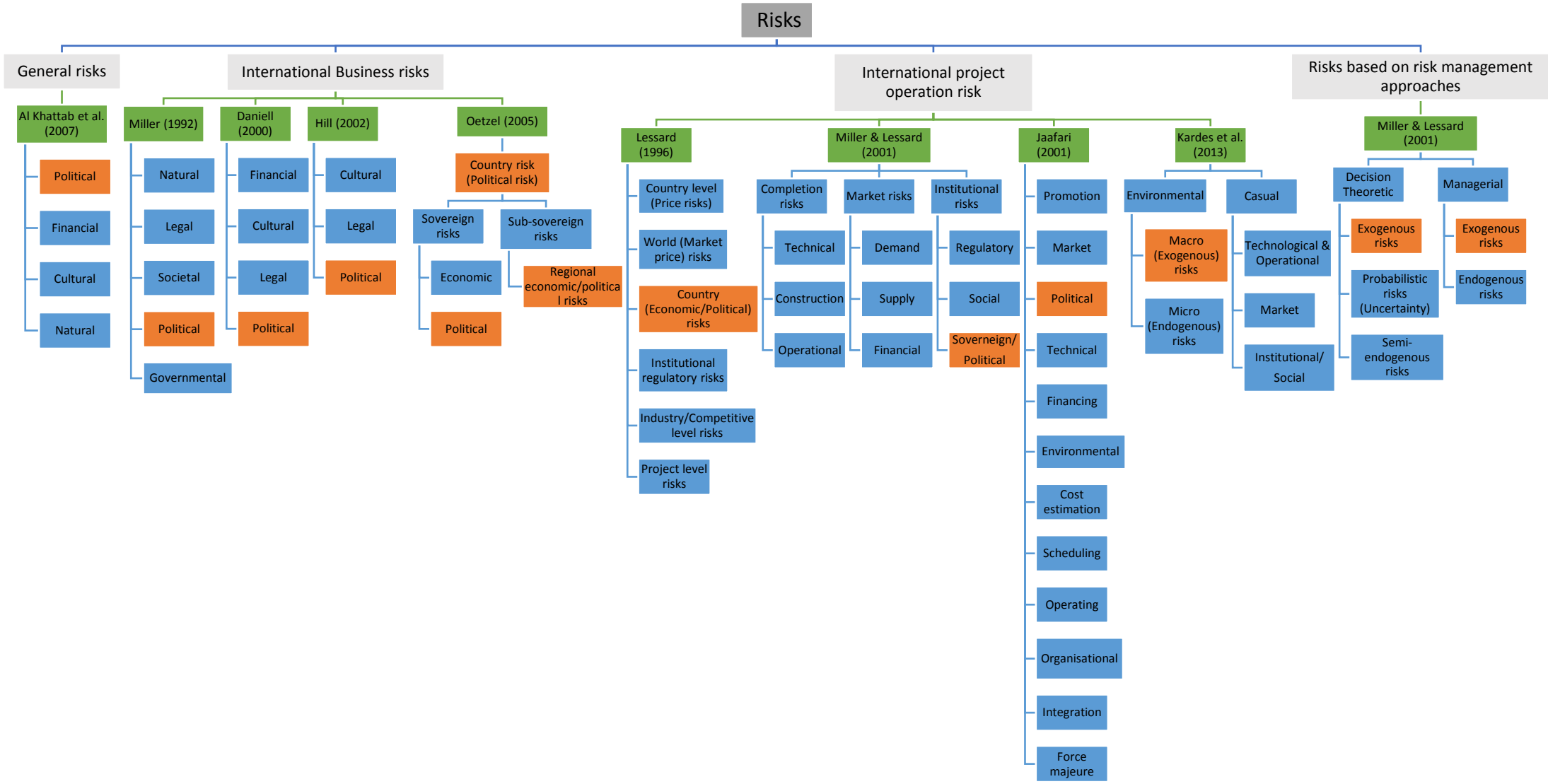


Figure 2. A consolidated typology of risks in International Business and International Project Management literatures. (Adapted from Miller 1992, 2001; Lessard 1996; Daniell 2000; Miller & Lessard 2001; Jaafari 2001; Hill 2002; Oetzel 2005; Al Khattab et al. 2007 & Kardes et al. 2013).

It is evident that perhaps one way to objectively classify various types of risks that impact international project performances, is to succinctly look at their possible sources of occurrence and approaches to deal with such risks. In general terms according to Al Khattab et al. (2007) risks can be classified as political, financial, cultural, and natural. In the international business context extant literature reported at least four major classifications, such as Miller (1992) submitted that international firms at least experience five types of risks which are natural, legal, societal, political and governmental.

On the similar notion, Daniell (2000) removed governmental risk and incorporated financial risk instead, while Hill (2002) argued on cultural, legal and political risks as the main risk components faced by the international firms. Finally, Oetzel (2005) have exclusively examined country risk (often considered as political risk) and reported three different sets of risks that impact a firm performance in international markets such as the sovereign economic risks (e.g., currency crises, inflation, unemployment rate etc.), the sovereign political risks (e.g., corruption, expropriation, war, inconvertibility of financial assists and currency, etc.) and the sub-sovereign regional political/economic risks (e.g., corrupt government officials, delay and red tapes in securing permits and licenses, frustration of contracts, etc.).

Under the IPOs context, Lessard (1996), Miller & Lessard (2001), Jaafari (2001) and Kardes et al. (2013) have reported several risks. For instance, Lessard (1996) argued that an international project can be affected by six kinds of risks such as country level (price risks), world (market price) risks, country economic (political) risks, institutional/regulatory risks, industry competition risks, project level risks. In contrast to avoid similarity and offer convergence, Miller & Lessard (2001) have grouped various risks into three major categories such as completion, market-related and institutional risks.

On contrast, Jaafari (2001) argued that an international project can be affected by as many as 12 different kinds of risks that range from market-related to political to technological issues. Finally, Kardes et al. (2013) examined project risks from both environmental risks (Macro – Exogenous, e.g., political, economic, natural, industrial and social; and Micro – Endogenous, e.g., stakeholder relationship management) and casual factors such as technical & operational risks, market risks, institutional/social risks.

Last but not least, risk can also be realized in an international project by the application of a certain methodology or approach to risk management. For instance, Miller & Lessard (2001) argue that while under the scope of the decision theoretic approach risk can be assumed as exogenous, probabilistic and semi-endogenous, whilst by managerial approach risks are both exogenous and endogenous types.

Among various risks and their types discussed earlier, Political risk as one of the singular risk elements is vividly common in the wider context of the risk management literature (Miller 1992, 2001; Lessard 1996; Daniell 2000; Miller & Lessard 2001; Jaafari 2001; Howell 2001; Hill 2002; Oetzel 2005; Al Khattab et al. 2007; Kardes et al. 2013).

Thus this study seeks to explore and investigate more on this i.e., Political Risk element to its breath and depth to develop a theoretical framework. In the following sub-section conceptualization of political risk and its various risk elements will be introduced.

2.2.2 Conceptualization of political risk

IPOs especially the construction projects have been experiencing widespread opportunities in the emerging markets of Asia, Africa and Latin America (Chang et al. 2018). These markets are also volatile in terms various risks than that of their industrialized counterparts (Lessard 1996). Thus international project operators will be exposed to new risks as they attempt to internationalize their businesses in these emerging markets (Ling & Hoang 2010; Chang et al. 2018). Among various exposure to such risks, political risk is considered as one of the most volatile risk components that affect international business performances (Daniell 2000; Miller & Lessard 2001; Jaafari 2001; Howell 2001; Oetzel 2005; Al Khattab et al. 2007; Zhang & Wei 2012; Han et al. 2018; Chang et al. 2018).

However, extant literature has defined political risks from various perspectives but a consensus definition has not been yet confirmed (Kobrin 1979; Al Khattab et al. 2007; Buckley 2016; Han et al. 2018). Moreover, Jakobsen (2010), Liesch et al. (2011) & Buckley (2016) argue that conceptualizing the scope of political risk in the international business literature still remains a fragmented and narrowly defined area. But, existing research has defined political risks mostly as unanticipated changes in the policy (such as change of the *'rules of game'*) by host-country government which adversely affect business operations of international firms (Lessard 1996; Butler and Joaquin 1998; Casson and Lopes 2013). Whereas, Bradley (1977), Shubik (1983), Korbin (1984) & Ting (1988) argued that political risk stems from governmental interventions such as a major change in the political regimes.

Several authors have defined and conceptualize the scope of political risks based on their filed of research streams such as International Business and International construction project. For instance, Ozorhon et al. (2007) & Lehkonen & Heimonen (2015) argue political risk in the context of international business as an unexpected changes in the national and international business environments resulting from the changes in the political climate of a host-country such as a sudden change and inconsistency in taxation laws and government policies, foreign and domestic conflicts, import and fund repatriation restrictions, cooperation and communication to and from the governing institutions, etc. On contrast, Deng & Low (2014) and Chang et al. (2018) argue political risk in international construction projects as uncertainties related to political events (e.g., political violence, regime changes, breaches of

contract, terrorist attacks, and wars) and to arbitrary or discriminatory actions (e.g., expropriation, foreign exchange restrictions, capital restrictions, corruption, and labour restrictions) by host governments or political groups that can have adverse effects on international projects.

However, Al Khattab et al. (2007) argue that political risk definition literatures can be distributed into two main approaches. While the first approach defines political risks as governmental interference with the business operations such as force divestment (Butler and Joaquin 1998; Buckley 2000), whilst the second approach also acknowledges societal aspects that impose new challenges to international firms in a host environment (Howell 2001; Brink 2004; Stosberg 2005). Thus Howell (2001) definition provides a comprehensive view to conceptualize political risks in both international business and IPOs contexts (Al Khattab et al. 2007; Zhang & Wei 2012; Deng et al. 2014; Mshelia & Anchor 2018). Howell (2001) defined political risk as follows;

> *"… political risk to the possibility that political decisions or political or societal events in a country will affect the business climate in such a way that investors will lose money or not make as much money as they expected when the investment was made."*

Although aforementioned research implications provide a solid foundation to understand the concept of political risk in international business, but it lacks the scope to understand political risks from a causal relationship *(e.g., Co-operative relationship between DMNE and host-country governments)* perspective. Based on this streams of research, DMNEs can realize certain political risk in a host-country based on their ability or inability to align business objectives in relation to that of the long-term political, economic and social agendas of those host-countries' governments. (Henisz & Zelner 2005; Click 2012; Stevens et al. 2015; Darendeli & Hill 2016; Han et al. 2018.) For instance, firms may perceive a higher/lower degree of political risks in a host-country if their business objectives and investment choices are less/more consistent with the host-country government's long-term objectives (Henisz & Zelner 2005 & Oetzel 2005). Nevertheless, often political risk arise from completely unrelated stakeholder groups *(such as labour unions and/or environmental groups)* within a host-country who can affect firms performance should they *(the international firms)* fail to

acknowledge their corporate social responsibilities towards sustainable business practices and fair treatment to local employees (Scherer et al. 2013).

Thus Click (2012) & Stevens et al. (2015) conceptualize political risk as a complex and multi-dimensional phenomenon where such risks can be of different types and may be stemmed from multiple host and home-country sources. The subsequent section, therefore, attempts to exclusively focus on identifying such risk elements.

2.2.3 Elements of political risk

Political risk management has been considerably an important and widespread area of study in the field of international business and project management (Ford & Randolph 1992; Zhang & Wei 2012; Chang et al. 2018; Project Management Institute (PMI) 2017). Consequently, Voelker et al. (2008) state;

> *"… The success of public private partnership (PPP) projects is based on a proper risk management between both the public and the private sector. …In particular, the political risks are of major concern due to the close and long-term cooperation between the private sector and the public authorities. Political risks therefore play a key role in the course of investment decisions because they seem to be the most vague, uncertain and uncontrollable risk category. Especially in developing economies political risks far outweigh economic risks due to unstable conditions."*

Generally, there has been a consensus in the extant literature regarding the impact of political risks on DMNE's performance in a host-country situation, but what constitute political risks is still an area of research that needs succinct agreement (Al Khattab et al. 2007; Jakobsen 2010; Han et al. 2018).

Extant literature has adopted both quantitative and qualitative methods to assess political risks and consequently has resulted in an array of such risk elements considering international business in a host-country (Oetzel 2005; Lehkonen & Heimonen 2015). Figure 3 represents a consolidated typology of political risk elements that can be found in some of the main streams international business and international project management literatures.

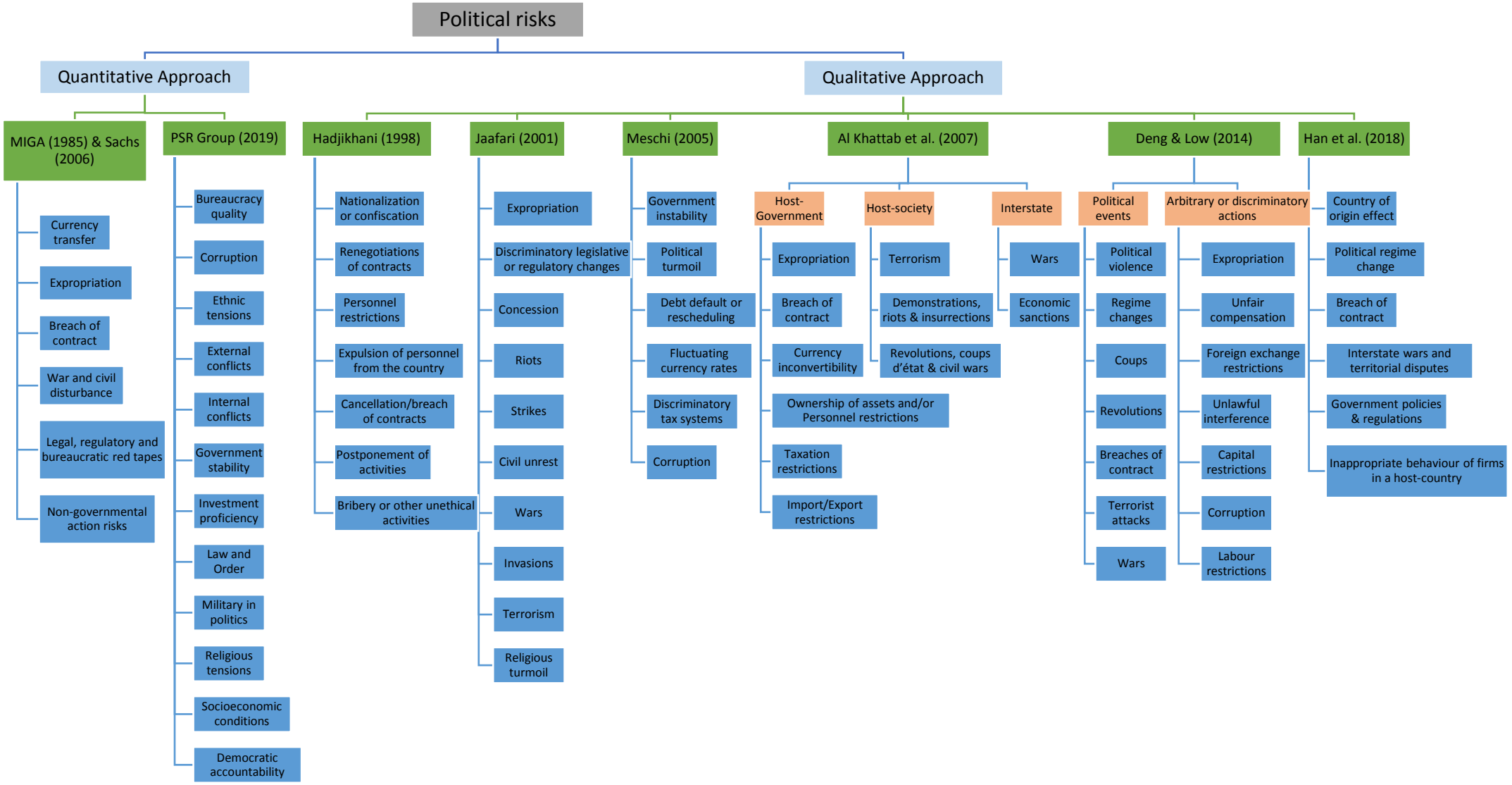


Figure 3. A consolidated typology of political risk elements. (Adapted from Multilateral Investment Guarantee Agency (MIGA) 1985; Hadjikhani 1998; Jaafari 2001; Meschi 2005; Sachs 2006; Al Khattab et al. 2007; Deng & Low 2014; PSR Group 2019; Han et al. 2018).

Under the scope of quantitative method to assess political risks, MIGA (1985) and Sachs (2006) argued that there are five types of political risks such as currency transfer restrictions, expropriation, breach of contract, war and civil disturbance, legal, regulatory and bureaucratic red tapes and non-governmental action risks. On the other hand, PSR Group (2019) identified 12 political risk rating elements popularly known as International Country Risk Guide (ICRG) *(Please refer to figure 3).* Even though a considerable number of studies have shown interest in these political risk elements (Voelker et al. 2008; Bekaert et al. 2011; Asiedu & Lien 2011; Zhang & Wei 2012; Lehkonen & Heimonen 2015; Rahman & Bristy 2016; Mshelia & Anchor 2018) but empirical studies have yielded little support to use such risk ratings such as the ICRG as quantifying political risk is difficult and often not predictable (Oetzel et al. 2001; Oetzel 2005; Lehkonen & Heimonen 2015).

On contrast, extant literature has empirically found that a qualitative approach to identify political risks can offer a holistic and conclusive understanding as these are subjective and do not offer generalization (Hadjikhani 1998; Oetzel 2005; Han et al. 2018). Therefore, under the scope of qualitative political risk assessment, Hadjikhani (1998) argued that a firm can expose to some political risks such as nationalization or confiscation of assets, renegotiations of contracts, personnel restrictions, expulsion of personnel from the country, cancellation/breach of contracts, postponement of activities and bribery or other unethical activities, etc. On the other hand, Jaafari (2001) argued that an international firm can be exposed to expropriation, discriminatory legislative or regulatory changes, discriminatory concession to local and/or other foreign firm, riots, strikes, civil unrest, wars, invasions, terrorism and religious turmoil.

However, Meschi (2005) categories political risks as country risk and argues that some risks as country risk can be stemmed from government instability, political turmoil, debt default or rescheduling, fluctuating currency rates, discriminatory tax systems and corruption. On the similar line of research, some of the other studies also submit country risk as similar to political risk which often impose detrimental effect to the performance of DMNE in a typical host-country situation (Miller 1993a; Miller 1993b; Lessard, 1996; Meschi 2005; Oetzel 2005; Lehkonen & Heimonen 2015; Rahman & Bristy 2016; Mshelia & Anchor 2018).

Moreover, in their qualitative study, Han et al. (2018) also attempt to classify and analyse the impact of political risk on international firms' performance in a host-country. Han et al. (2018) argue that along with breach of contract, Interstate wars and territorial disputes, government policies & regulations, a DMNE can also be exposed to political risks because of the country of origin effect *(e.g., China being a Communist country can be assumed sceptical on a Capitalist country such as The EU)*, political regime change, and inappropriate behaviour of firms in a host-country *(e.g., different labour or environment groups can impose threats for unequal labour treatments and unsustainable business practices, etc.)*.

It is notable that throughout the extant literature related to political risks, Al Khattab et al. (2007) and Deng & Low (2014) identify and classify such risks based on their source of threats, political events and arbitrary actions respectively that might occur in a host-country. For instance, Deng & Low (2014) identify and classify political risks based on different political events (e.g., political violence, regime changes, coups, revolutions, breaches of contract, terrorist attacks and wars) and arbitrary actions (e.g., expropriation, unfair compensation, foreign exchange restrictions, unlawful interference, capital restrictions, corruption and labour restrictions). But, Deng & Low's (2014) political risk classification on political events fails to acknowledge the unique role of host-country's societal aspects (Al Khattab et al. 2007; Chang et al. 2018). For instance, political violence, revolutions and terrorist attacks do not always necessarily have to be politically motivated and therefore they might occur because of certain societal aspects such as conflicting interests of different opinion groups, stakeholders or religious bodies (Jaafari 2001; Voelker et al. 2008; Kardes et al. 2013; Floricel et al. 2016).

In a wider context, political risks constitute both societal and legal risks (Al Khattab et al. 2007). Al Khattab (2007) further argue that previous political risk classifications do not comprehend all elements of political risks such as the societal issues of a host-country for international businesses who are subjective to certain political and societal environments of that country in question. On a similar research stand, Wilkin (2001), Nawaz & Hood (2005), and Brink (2008) submitted that it is imperative to ensure two important issues in classifying political risks. While the first issue being considering all possible political and societal events that can impose threats to international projects, such as threats that are internal or external, insurable or uninsurable and favourable or unfavourable. Whilst, the second one suggests to

incorporate trivial risks (e.g., import quotas) as well as the most extreme ones (e.g., nationalization or forced divestment policy).

Therefore, to encompass all areas of political risk events and actions that can impact the performance of international firms in a host-country, Al Khattab et al. (2007) divide political risks into three categories according to their sources of harm/threats. According to Al Khattab et al. (2007), firstly, an international firm may perceive some of the political risks because of the host-county's governmental interventions with the international firms such as expropriation, contract repudiation/breach of contract, currency inconvertibility, ownership and/or personnel restrictions, taxation restrictions and import and/or export restrictions. Secondly, unstable situations in the wider host-societal context can impose some of the political risks to an international firm such as demonstrations, riots and insurrection, revolutions, coups d'état and civil wars, and terrorism. Lastly, risks that can be emerged because of interstate conflicts such as wars and economic sanctions.

Table 4 represents such categorization of political risks which has been adopted in this study from Al Khattab et al. (2007) to exclusively focus on political risks in the emerging markets context. Definitions and examples of such risks throughout the extant literature are discussed in the following sub-section.

Table 4. Political risks in emerging markets. (Adapted from Al Khattab et al. 2007).

Political risks in emerging markets	1) Expropriation
	2) Breach of contract
	3) Currency inconvertibility
	4) Ownership of assets and/or Personnel restrictions
	5) Taxation restrictions
	6) Import/Export restrictions
	7) Terrorism
	8) Demonstrations, riots & insurrections
	9) Revolutions, coups d'état & civil wars
	10) Wars
	11) Economic sanctions

- Expropriation

  Throughout the extant political risk literature, expropriation has received considerable attention (MIGA 1985, 2010; Howell 2001; Oetzel 2005; Sachs 2006; Jaafari 2001; Al Khattab et al. 2007; Deng & Low 2014). Expropriation refers to the extreme governmental intervention where a sovereign host-country government attempts to confiscate investments of a foreign firm (Howell 2001). On contrast, MIGA (2010) describes expropriation as a process by which a host-government's actions can reduce or eliminate ownership or control of investments made by the foreign firms in that sovereign country in question. Oetzel (2005) argues that at the very least a foreign firm may experience some degree of creeping expropriation which refers to governmental actions either at the national or provincial levels that introduce new policy changes to gradually erode the ownership right or the value of the property of foreign investments.

  In this instance, the example of Argentine economic and political crisis in 2001 & 2002 vividly represents how creeping expropriation affects international investments in a foreign country (MIGA 2010).

- Breach of contract

  Breach of contracts or contract renegotiations is one of the major political risks for IPOs in the context of emerging markets (MIGA 1985, 2010; Sachs 2006; Hadjikhani 1998; Moran 2001; Jaafari 2001; Oetzel 2005; Al Khattab et al. 2007; Deng & Low 2014; Han et al. 2018). Breach of contract can be triggered from the major political regime change or change in the political power and/or ideology (Zhang & Wei 2012; Deng & Low 2014; Han et al. 2018). Moreover, volatile political and legal environments of a host-country can also contribute to this risk in greater extend such as Han et al (2018) report that weak regulatory frameworks in African nations have exposed Chinese investments to several risks such as breach of contracts by the host governments.

  However, Al Khattab et al. (2007) defines breach of contract as a host-governmental actions to terminate foreign firm's investment contracts without

compensation. Along with the previously stated reasons, a host-government can breach contracts for lower standard of performance (Al Khattab et al. 2007), change in the FDI investment focus (Oetzel 2005), change in the operating agreements (Moran 2001), and monetization of foreign currency into local currency or devaluation of foreign currency rates (MIGA 2010), etc. For an example, in 2001 an Argentine law declared all public contracts as ineffective due to indexation clauses and subsequently frozen all bank deposits after devaluation of exchange rates from USD to Peso (MIGA 2010).

- Currency inconvertibility

  Currency inconvertibility, irregular foreign exchange rate fluctuations and host-country restrictions to transfer or trade in foreign currency can expose international project operators in peril (MIGA 1985, 2010; Sachs 2006; Meschi 2005; Al Khattab et al. 2007; Deng & Low 2014). An international project operator can experience such risk in a host-country when the host-government feels at the edges with increasing shortage of hard foreign currencies in reserve such as the USD reserve in the central bank and consequently impose restrictions to prevent conversion or transformation of hard currencies out of the monetary market of that host-country in question (Al Khattab et al. 2007). Even though in recent times, a considerable number of countries are encouraging delimitation of exchange controls (Hussey 2005), many international investors still perceive currency inconvertibility as one of the major political risks to invest in the emerging markets (Hood & Nawaz 2004; MIGA 2010).

- Ownership of assets and/or Personnel restrictions

  Many host-country governments impose discriminatory legislative or regulatory requirements to international firms' ability to own property and recruit overseas employees over locally available employees (Hadjikhani 1998; Al Khattab et al. 2007; Deng & Low 2014; Han et al. 2018). Practically, there are numerous reasons as to why host-governments impose such risks to international firms (Al Khattab et al. 2007). Luo (2001) submitted that an international firm might have to go through certain degree of political accommodation in a host-country in order to

generate local employment, offer financial support to local infrastructure and thus the firm might perceive some form of ownership of assets and/or personnel restrictions.

Brink (2004) maintained that a host-government might also want to see local representation in both managerial decision making positions and labour force in IPOs regardless of local nationals' experience or technical skills required for those jobs. Furthermore, unequal treatments to local labour force can also trigger such risks in an international projects (Alden 2005, Zhang & Wei 2012; Han et al. 2018).

For instance, Alden (2005) and Han et al. (2018) pointed out that in many Chinese international projects administered in African nations have shown lack of appropriate respect to local cultures, unsustainable business practices and outnumbered recruitment of Chinese nationals over local Africans have resulted in strict regulations in terms of labour laws and property ownership regulations in those markets.

- Taxation restrictions

  Host-governments use taxation restrictions either to encourage or restrict certain investments, industries or nationalities (Al Khattab et al. 2007). But, regardless of the intention of the host-governments, imposing higher taxes can enhance higher operating costs and reduce profitability for foreign firms and thus can essentially make a particular country as least preferred destination for international business (Brink 2004; Al Khattab et al. 2007). On the other hand, host-governments of the developing and emerging economies are increasingly experiencing the importance of inward FDIs and thus adopting policies to encourage foreign firms to invest by reducing tax requirements (Stosberg 2005; Al Khattab et al. 2007; Chang et al. 2018).

- Import/Export restrictions

  A host-government can change the rule of game by constantly changing its policies for trading, exporting and importing (Lessard 1996; Keillor et al. 2005; Stosberg 2005; Ozorhon et al. 2007; Al Khattab et al. 2007; Zhang & Wei 2012; Han et al. 2018). There are different objectives to impose import and export restrictions. For instance, import restrictions can be imposed upon foreign firms to protect the interests of domestic import substitute producers under industrial grounds (Keillor et al. 2005). Whereas, for the very industrial reasons, export restrictions on raw materials and equipment can be introduced to encourage domestic processing industries (Al Khattab et al. 2007).

- Terrorism

  Extant theoretical and empirical studies have taken interest on analysing the impact of terrorism on international business (Jaafari 2001; Hood & Nawaz 2004; Czinkota et al. 2005; Brodsky 2005; Al Khattab et al. 2007; MIGA 2010; Deng & Low 2014). Brodsky (2005) and Hood & Nawaz (2004) argue that terrorism has increasing desire to cause mass destruction and disrupt business operations across an array of activities and locations. Czinkota et al. (2005) further maintained that terrorism is an act of spreading terrors to meet an ends to the ill political intentions. Surprisingly enough there is no concrete discretion on the definition of terrorism among various governments and academics (Al Khattab et al. 2007), but the impact of terrorism for certain industries and countries can be extremely detrimental (Czinkota et al. 2005; Brodsky 2005; Al Khattab et al. 2007; MIGA 2010; Deng & Low 2014).

  For instance, in a recent study by MIGA (2010) pointed out that international firms perceive the threats of terrorism in emerging markets as one of the most concern political risks to do international business in those markets. Among numerous perils, terrorism can impose considerable number of threats to IPOs by declining investment attractiveness, market demands, interrupting supply and value chains, deteriorating international relations and pursuing governments to enact new policies, laws and regulations to control international trading functionalities under

strict government scrutiny (Czinkota et al. 2005; Zhang & Wei 2012; Han et al. 2018).

- Demonstrations, riots & insurrections

  In the political risk literature, demonstrations, riots & insurrections have their roots from host-societal aspects or non-governmental actions risks (MIGA 1985; Brink 2004; Sachs 2006; Al Khattab et al. 2007). However, extant literature has also taken keen interest in this type of political risk (MIGA 1985; Sachs 2006; PSR Group 2016; Jaafari 2001; Meschi 2005; Al Khattab et al. 2007; Deng & Low 2014). Different studies have related demonstrations, riots & insurrections to non-governmental actions risks (MIGA 1985 & Sachs 2006), ethnic, internal and religious conflicts (PSR Group 2016), riots, strikes, religious turmoil (Jaafari 2001), government instability and political turmoil (Meschi 2005), and political violence (Dang & Low 2014).

  But, Al Khattab et al. (2007) argue that it's often difficult to succinctly differentiate between these three risks concepts. However, in his study (Tareq 2004) differentiated between demonstration, riot and insurrection as follows;

  > *"… A demonstration can turn into a riot if a demonstration results in sabotage and riot can turn into insurrection if arms are used."*

- Revolutions, coups d'état & civil wars

  Revolutions, coups d'état & civil wars are non-governmental and host-societal actions that seem to have periled many international businesses (Jaafari 2001; Brink 2004; Tareq 2004; Meschi 2005; Deng & Low 2014; PSR Group 2016). PSR Group (2016) and Meschi (2005) closely relate revolutions, coups d'état & civil wars to internal conflict and governmental instability respectively. Whereas, Dang & Low (2014) classify revolutions and coups d'état as discrete political risk elements.

  However, Brink (2004) and Tareq (2004) attempt to define these terms. For instance, revolutions refer to the situation when a large group of people in host-

society attempt to radically change the political system of that country in question. On contrast, coups d'état refers to an organized attempt by a small group of people in a host-society that try to replace the top power figure. (Brink 2004; Tareq 2004; Al Khattab et al. 2007.)

Lastly, civil war refers to the situation when different interest groups (large or small) in a host-society engage in conflicts and emerge in a stage of complete or partial shutdown of sovereign public authority or governments (Tareq 2004; Al Khattab et al. 2007; Zhang & Wei 2012). However, Tareq (2004) submitted that distinction between revolution and civil war is arbitrary as a civil war may leads to revolution if the political and societal structures experience a radical change followed by the civil war.

- Wars

  Not all political risks have their roots from home/host-country governmental or societal aspects. Some of the political risks may be stemmed from conflicting interests of different sovereign governments (Brink 2004). Wars between different sovereign governments *(such as World War I, World War II, Vietnam War, Gulf War, Afghanistan War, etc.)* have various negative tangible and intangible effects to international business such as suspension of contracted projects, robbery and severe damage to property and equipment, death and serious injuries of employees, bad reputation and image crisis of the host-country, high issuance costs or revenue loss, non-payment, general social and business interruption, loss of equity investments, etc. (Al Khattab et al. 2007; Zhang & Wei 2012).

- Economic sanctions

  Economic sanctions refer to restrictions imposed upon a sovereign government and its business community on international trading and financial transactions in terms of exporting and importing by other sovereign government(s) (Al Khattab et al. 2007). Often because of extreme host-governmental interventions with international businesses in a host-country (such as force nationalization of foreign investments, breach of contracts, and change in the rule of game), some external

pressure groups or international treading community such as the World Bank, The EU, The UN, The World Trade Organization, etc. impose economic sanctions to those sovereign countries' governments (Ozorhon et al. 2007: 800; Al Khattab et al. 2007; Voelker et al. 2008; Zhang & Wei 2012; PSR Group 2016).

Economic sanctions in general terms have extreme disadvantageous impacts to both local and international businesses in a host-country who is under such restrictions. For instance, the operating firms in an economic sanctioned country will be exposed to import/export losses, less or no foreign investments, no supply of required imported raw materials, demand loss and essentially force divestments, etc. (Burmester 2000; Al Khattab et al. 2007; Zhang & Wei 2012).

2.3 IPOs and political risk

In OECD and emerging economies, IPOs have seen a tremendous growth in volumes and investments (Gil & Beckman 2009; Kardes et al. 2013). As mentioned previously, a recent study estimates between 2007 and 2030, some $53 trillion USD capital expenditure to be spent in OCED countries and emerging markets for upgrading the current infrastructure and developing new infrastructure respectively (OECD 2007; Gil & Beckman 2009; Kardes et al. 2013). This kind of huge IPOs demand may stem from worldwide population growth, rapid urbanization needs, technological advancement (Kardes et al. 2013) , and present day globally integrated and interdependent world economy (Köster 2013: 2).

Unfortunately, not all IPOs see their triumph over various previously stated uncertainties, complexities and risks (Kardes et al. 2013; Köster 2013: 2). Orr & Metzger (2005) reported a World Bank's assessment of 46 cancelled project investments that amounted to $21 billion USD during early 2000s. Whereas, Stanleigh (2006) highlighted an analysis conducted in 2004 by the Pricewaterhouse Coopers who investigated the success rate of some 10,640 international projects in 30 countries of various sizes at a total value of $7.2 billion USD. This analysis have yielded an alarming success rate of 2.5 per cent globally and called for immediate actions form international business, project managers, trade organizations and relevant governments. Numerous attempts have been undertaken to investigate such a high failure rate in IPOs. For instance, Miller & Lessard (2001) argued that international projects have higher chance of failure because they are high-stake games where project operators have to commit on a substantially large amount of irreversible investments and often rewards or profits can be realized after 10 years on an average.

Moreover, conflicting interests of different project stakeholders such as host-country government vs private project company (Bruijn & Leijten 2008; Van Marrewijk et al. 2008; Kardes et al. 2013), changes in the laws and regulations (Capka 2004), differences in cultures, languages and political systems (Shore & Cross 2005), country risks (Meschi 2005; Oetzel 2005; Howell 1998; Kobrin 1978; Robock 1971), political risks (Hadjikhani 1998; Jaafari 2001; Meschi 2005; Al Khattab et al. 2007; Deng & Low 2014; Chang et al. 2018; Han et al. 2018) can also be considered responsible somehow for such high level of project failure rates in the IPOs context.

However, to delimit the scope of this study conceptualization of IPOs, life cycle of IPOs, identification of political risk during the life cycle of IPOs, methodology to identify such risks and importance of managing political risk in IPOs are discussed in the following sub-section.

2.3.1 Conceptualization of IPOs

IPO or international project management has its root derived from the general project management literature. Project refers to any unique and short-term endeavour to deliver agreed beneficial change, value or outcome for an organization considering the limitations of cost and time (Köster 2013: 3). Whereas, The Association of Project Management (APM) (2006) defines project management as;

> *''The process by which projects are defined, planned, monitored, controlled and delivered such that the agreed benefits are realised.''*

The Project Management Institute's (PMI) a guide to the Project Management Body of Knowledge *(PMBOK® Guide, 6th Edition)* (2017), defines project management as;

> *''Project management is the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements.''*

PMI's PMBOK® Guide (2017) conceptualizes project management into five broad project management processes and 10 project management knowledge areas. The five processes are also considered as the project life cycle and they are divided as initiating, planning, executing, monitoring and controlling, and closing. Whereas, the 10 project management knowledge areas are integration, scope, time, cost, quality, procurement, human resources, communications, risk management, and stakeholder management.

However, emergence of international project management can be realized when projects are executed across a project company's national boundary by deploying human recourse and other technical resources in different cultures and involving stakeholders from another country other than that of the project company's home country (Köster 2013: 12). (Köster 2013: 12) further maintains international project operators (companies) go beyond their national boundaries to deliver value, change or project benefits to a group of diverse multicultural stakeholders. For instance, an assessment a of global megaproject called the

Nabucco Project 2009 by Kardes et al. (2013) clearly represents one of the examples of complex international project management endeavour. The concept of the Nabucco project was realized in enactment in 2009 in order to build a gas transmission pipeline among Georgia, Turkey, Romania, Bulgaria, Hungary and Austria. Consequently, a consortium was formed consisting six companies and an intergovernmental agreement was drawn among participating countries. The length of pipeline was assumed to be 3900 km with an approximate investment of €7.9 billion EURO.

However, IPOs can be classified into two groups such as the small projects (Griffith and Headley 1998; Dunston & Reed 2000; Liang 2005; Hwang et al. 2014) and megaprojects or large projects (Miller & Lessard 2001; Gellert & Lynch 2003; Van Marrewijk et al., 2008; Haas 2009). But, there is no concrete agreement on this aforementioned classification and the definitions of small projects and megaprojects (Köster 2013; Kardes et al. 2013; Hwang et al. 2014).

Griffith and Headley (1998) have attempted to characterize small projects and commented that small projects are typically of short durations, have limited documentation requirements and experience high uncertainty. Whereas, Dunston & Reed (2000) maintained that small projects are those which are repetitive, require uncomplicated construction process, and total investment requirement is less than $1 million USD. For instance, maintenance, renovations, remodelling and upgradation projects. Liang (2005) offers the most representative characterization of small projects where ***a)*** project costs is between $0.1 million to $5 million USD; ***b)*** project duration is no more than 14 months to complete; ***c)*** project work hours is up to 100,000 hours; ***d)*** project does not consume a significant percentage of firm resources. However, small projects are undertaken most often nationally (Hwang et al. 2014), but megaprojects are often of international scope involving multiple stakeholders from various industries and countries (Kardes et al. 2013).

Megaprojects or large projects are massive manufacturing or infrastructural initiatives (Kardes et al. 2013) that require substantial amount of coordinated capital, advanced technology, comprehensive planning and reporting requirements and strong political influence (Gellert & Lynch 2003). In general, megaprojects require many months to complete, are extremely expensive and require substantial irreversible resource and capital

requirements by the project contractors and various stakeholders often from multiple countries (Miller & Lessard 2001; Kardes et al. 2013).

Van Marrewijk et al. (2008) further maintained that these projects mostly undertaken by the sovereign governments and delivered by the highly sophisticated and specialized private contractors. Despite general agreement on the definition and categorization of the megaprojects (Kardes et al. 2013), megaprojects can be divided into four categories according to Gellert & Lynch (2003) such as infrastructure development projects (e.g., power plants, dams, ports, railroads, etc.); extraction projects (e.g., minerals, oil, gas, etc.); production or manufacturing (e.g., military defence equipment, chemical plants, production lines/parks, etc.); and, consumption (e.g., manmade tourist attractions, shopping malls, theme parks, etc.)

On the other hand, Haas (2009) even sub-categorized megaprojects into four categories based on some project complexity dimensions such as size, time, cost, schedule/budget, political implications, and risk level and so on. The following table 5 illustrates a comparative view of different characteristics of international small and megaprojects.

Table 5. Different characteristics of international small and megaprojects. (Adapted from Liang 2005 and Haas 2009).

Characteristics	**Small projects**	**Megaprojects**			
		Independent project	Moderately complex project	Highly complex project	Highly complex program ‘‘megaproject’’
Size	Less team members	3–4 team members	5–10 team members	>10 team members	Multiple diverse teams
Time	<1.2 years	<0.25 year	0.25 to 0.5 year	0.5 to 1 year	Multiple years
Cost	$0.1–5 million USD	<$250 K USD	$250-$1 M USD	>$1 M USD	Multiple millions USD
Schedule/budget	Fixed / 100,000 working hours	Flexible	Minor variations	Inflexible	Aggressive
Requirements	Do not need full-time project management resources.	Understood, straightforward	Understood, unstable	Poorly understood, volatile	Uncertain, evolving
Political implication	None	None	Minor	Major, impact core mission	Impact core mission of multiple organizations, states, countries
Risk level	High	Low	Moderate	High	Very high

However, IPOs either small or large can be undertaken in various industries and fields such as physical infrastructure, telecommunications, networking and satellite navigations, large scale IT systems and computing, etc. (Gil & Beckman 2009). In particular, emerging markets are demonstrating increasing demands for infrastructure development projects in recent years. (OECD 2007; Gil & Beckman 2009; Kardes et al. 2013; Chang et al. 2018). Infrastructure development projects provide substantial opportunities for emerging markets to develop appropriate support structures and delivery of services required to ensure economic growth (Gil & Beckman 2009). Moreover, these projects have the potential to positively change the social-technical systems of a country by supporting a wide range of production activities (Hughes 1987).

Gil & Beckman (2009) attempted to classify infrastructure development projects and grouped them into four categories as demonstrated in figure 4 below;

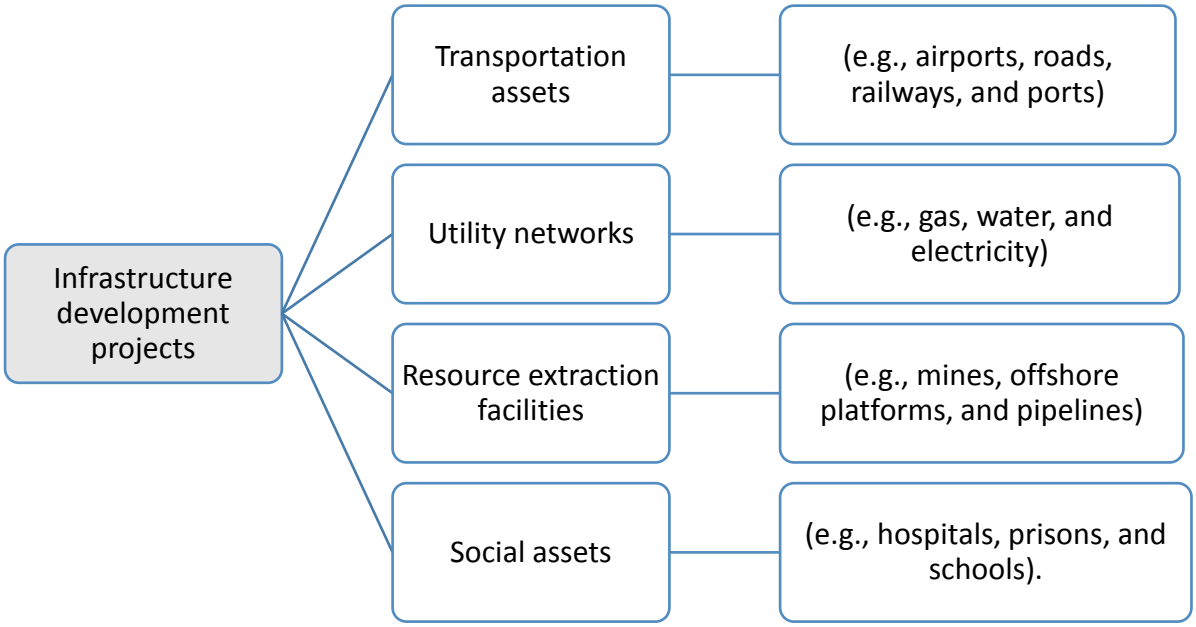


Figure 4. Typology of infrastructure development projects. (Adapted from Gil & Beckman 2009).

However, regardless of such potential profit and growth opportunity exist in this field, extant empirical evidence suggest a significant paucity of recent research that analyse the impact of political risk in international Infrastructural projects relative to the developing countries, in

particular to the context of emerging markets (Gil & Beckman 2009; Kardes et al. 2013; Chang et al. 2018; Han et al. 2018).

Thus the primary objective of this study is to investigate the perception and management of political risks by DMNE when undertaking infrastructure development projects in EMs. As such, this study adopts the classification of infrastructure development projects and characteristics of highly complex project offered by Gil & Beckman (2009) and Liang (2005), Haas (2009) respectively as a scope of this research.

2.3.2 Life cycle of IPOs

Extant literature has described IPOs as a process (APM 2006; PMI 2017) with several processes or group of activities as beginning of projects and other processes that lead towards an end to it (Köster 2013: 5). But, PMI (2017) and Kerzner (2017) suggest that there is no single best way to define international project's life cycle. As such, nature of business, internationalization scope of a firm, and nature of stakeholder engagement required for the international project and so on can implicate some extra processes or activities that are often not covered by the available scope of project life cycle (PLC) literature (Köster 2013: 5). Regardless of the debate on PLC definitions, Chapman & Ward (2003: 17) argued PLC as a structured framework to examine and conceptualize different required decision making activities over a course of project's life. Chapman & Ward (2003: 17) further maintained that PLC provides important guideline about the possible future uncertainties and risks in a project and offer a framework to understand how project risk management should address those risks as the PLC move along from starting to an end throughout the different phases.

Adams & Barndt (1988) identified four phases such as conceptualization, planning, execution and termination that constitutes PLC. Drawing on Adams & Barndt's (1988) PLC phases, Chapman & Ward (2003: 18) have argued that a PLC must include eight stages in those identified 5 phases such as in the conceptualization phase it must include conceive the project/product as the first stage. Subsequently, design the project/product strategically, plan the execution strategically, and allocate resources tactically ought to be considered as second, third, and fourth stages under the planning phase of the PLC. Execute production or execute project operation is the fifth stage under the execution phase in the PLC. Finally, deliver the

product/project, review the process and support the product/project's basic maintenance are considered as sixth, seventh and eighth stages that belongs to the termination phase of the PLC.

However, Köster (2013: 5) have outlined PLC into 4 major phases also such as initiating, planning, executing & controlling and project completion. On contrast, PMI (2017) outlines five groups of processes and their associated activities in a PLC which are project initiation, planning, execution, monitoring and controlling and closure.

Despite differences in a succinct agreement on different processes, activities or stages in a life cycle of a project, an international project can be concurrently argued in this study with that of the PMI's (2017) definition of PLC which suggests PLC as a group of processes and their associated activities *(see figure 5)* that apply various knowledge, skills, and tools necessary to achieve a project's deliverables or objectives.

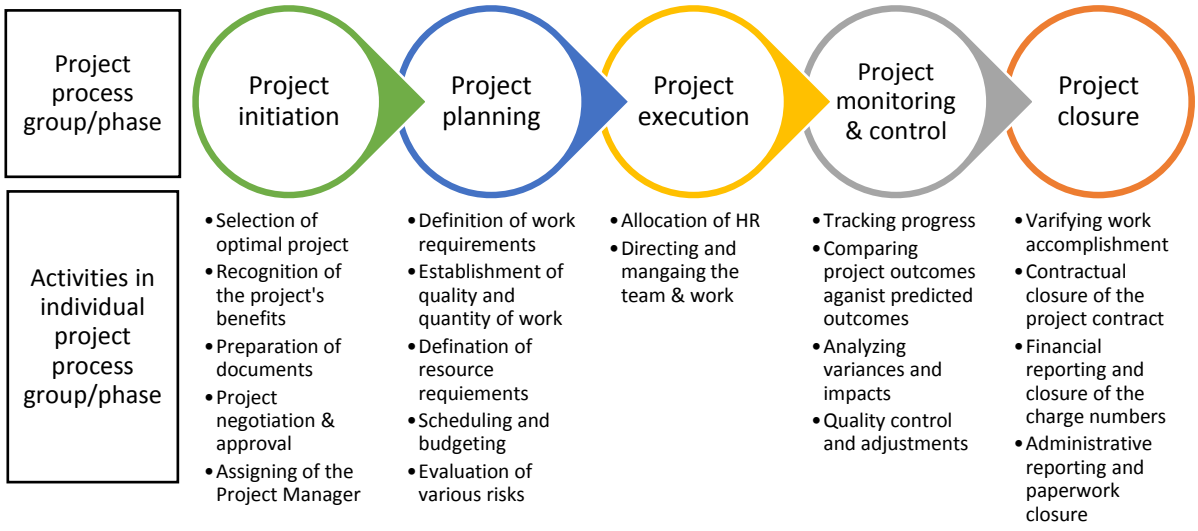


Figure 5. Life cycle of IPOs. (Adapted from PMI 2017).

2.3.3 Identification of political risk during the life cycle of IPOs

International projects are normally exposed to various risks be it political, environmental, technical or other due to complexities, uncertainties and dynamic natures at any stage of their life cycles (Zhao et al., 2010). Additionally, international project companies have to access and cooperate with various stakeholders (Kardes et al. 2013; Bruijn & Leijten 2008; Van Marrewijk et al. 2008) and thus this engagement with numerous stakeholders require them to assess various environmental, economical, societal, cultural, regulatory and political risk factors time to time (Walewski et al. 2006).

Extant literature especially those related to international construction and public private partnership (PPP) infrastructure projects suggest that it is important to assess, manage, control, transfer or allocate these aforementioned risks from a project life cycle perspective (Zou et al. 2008). Zou et al. (2008) further maintained that in an international project (regardless of types e.g., PPP project) risks ought to be identified and assessed in as early phase (i.e., project initiation) of the PLC as possible so that proper management and allocation of risks can be assured by appointing the right stakeholder who is capable of controlling those risks. For instance, a study on more than 1000 projects by World Bank (1996) demonstrated that projects with an early stage risk identification and assessment (e.g., a comprehensive initial project design at the project initiation phase) experienced 80% success rates than those of their counterparts who experienced 30% success rates because of not having an early stage risk identification and assessment initiative within the life cycle of a project. However, a continuous project risk monitoring strategy and a proactive tendency to response to certain risks should always be encouraged as a good practice during the entire course of an international project (Zou et al. 2008). Irrespective of the PLC phases, project risks are ought to be identified and control of such risks is an overreaching objective of any international project manager (Kardes et al. 2013).

As stated earlier, an IPO's risks can be of any uncertain event(s) be it political, environmental, technical or other and if it occurs, it can negatively impact at least one of the project outcomes such as project's quality, time, cost, etc. (PMI 2017), this study sets it delimitation to only discuss relevant political risks identification in different phases of an international project life cycle.

Political risks are complex and multidimensional phenomena to the context of IPOs (Click 2012; Stevens et al. 2015). The impact of political risks may vary across different industries, nature and size of projects and time of execution (Korbin 1982). For instance, although an international project is executing its deliverables according to the agreed project key success factors (e.g., time, cost, budget, etc.), it might experience undesirable vulnerability to increased political risks provided that the host government has changed its FDI focus to a different industry (Oetzel 2005) or the administration of the host-country suddenly changes its legislative requirements (Lessard 1996; Black 2002; Keillor et al. 2005; Stosberg 2005; Ozorhon et al. 2007: 800; Al Khattab et al. 2007; Zhang & Wei 2012; Han et al. 2018) concerning the ongoing international project in question.

Thus political risk identification during the entire life cycle of an international project ought to be considered as an integral and ongoing part of the project management process rather than finding out different political risks as they might occur on each phase of the PLC (Raftery 1994; Chapman & Ward 2003: 31; Zou et al. 2008; Li & Zou 2012; Kerzner 2017: 612; PMI 2017).

However, extant literature has attempted to identify different political risks during a course of a PPP infrastructure projects' life cycles. Li & Zou (2012) in their study extensively reviewed 6 academic papers of risk identification in PPP projects from the UK, China, India, and Portugal, and offered a risk identification and classification considering a project life cycle perspective. Kerzner (2017: 613) also offers a generic project life cycle risk analysis. Drawing on the empirical evidence from Akintoye et al. (1998), Wang et al. (2000), Grimsey & Lewis (2002), Lemos et al. (2004), Li et al. (2005), Sight & Kalidindi (2006), Al Khattab et al. (2007), Li & Zou (2012), PMI (2017) and Kerzner (2017), this study argues that the following political risk elements in table 6 can be identified during the life cycle of IPOs.

Table 6. Identification of political risk during the life cycle of IPOs. (Adapted from Li & Zou 2012 and Kerzner 2017: 613).

Political risk elements		Life cycle of IPOs				
		Project initiation	*Project planning*	*Project execution*	*Project monitoring and control*	*Project Closure*
1	Risk of not-permit approval *(Legal & regulatory)*	Ref. [1], [2], [4], [5], [6]				
2	Land acquisition and compensation problems *(Asset ownership restrictions)*	[1], [2], [4], [5], [6]		[1], [2], [4], [5], [6]		
3	Public oppositions *(Demonstrations, riots and insurrection)*	[1], [2], [5], [6]		[1], [2], [5], [6]	[1], [2], [5], [6]	
4	Political oppositions/hostility *(Revolutions, coups d'e´tat and civil wars)*	[2], [5]				
5	Regulatory legislation change *(Taxation and/or import/export restrictions)*		[1], [2], [3], [4], [5], [6]	[7]	[1], [2], [3], [4], [5], [6], [7]	
6	Excessive contract variations *(Contract repudiation/breach of contract)*			[1], [2], [5]		
7	Non-availability of materials/ skilled labour *(Ownership and/or personnel restrictions)*			[2], [4], [5], [7]		
8	Political force majeure events *(Wars or Economic sanctions)*			[2], [5], [6]		
9	Expropriation, revoke, sequestration of assets *(Expropriation)*			[2], [5]		
10	Strike *(Demonstrations, riots and insurrection)*)			[7]		

References:

[1]. Akintoye et al. (1998)
[2]. Wang et al. (2000)
[3]. Grimsey & Lewis (2002)
[4]. Lemos et al. (2004)
[5]. Li et al. (2005)
[6]. Sight & Kalidindi (2006)
[7]. Kerzner (2017: 613)

However, it is arguable based on extant research that IPOs are prone to political risks more in the project planning and execution phases as compare to the other phases of the PLC (Lyons & Skitmore 2004; Li & Zou 2012; Goh & Abdul-Rahman 2013; Kerzner 2017: 612). To conceptualize the rationale for such high tendency of political risk exposure in the project initiation and the execution phases, Kerzner (2017: 613) argues that owing to lack of information and actionable risk response strategy, international project companies cannot accurately assess and identify all the possible political risks at the beginning of the international PLC phase. Whereas, international projects face substantial political risks exposure at the project execution stage because of gaining critical public attention (Van Marrewijk et al. 2008; Kardes et al. 2013), conflicting stakeholder interests (Kardes et al. 2013; Bruijn & Leijten 2008; Van Marrewijk et al. 2008), and already made substantial resource investment and commitments (Kerzner 2017: 612).

Furthermore, it is noticeable that international projects face no or less political risks at the project closure phase as risks related to this phase are mostly concerned to financial risks such as cash flow problems (Kerzner 2017: 612), technical risks such as transmission failure (Wang et al. 2000; Lemos et al. 2004) or project quality risk such as poor quality of work which is unacceptable to customers (Kerzner 2017: 612).

2.3.4 Methodology to identify political risk in IPOs

Extant literature represents both quantitative and qualitative methods to identify political risks in IPOs. While application of quantitative methods require statistical data or mathematical applications to produce objective results for a selected sample size (Al Khattab et al. 2008; Mshelia & Anchor 2018), whist qualitative methods relay exclusively on individual or collective judgment, experiences and observations to yield a subjective result to understand a phenomenon to its depth and breadth (Pahud de Mortanges & Allers 1996; Mshelia & Anchor 2018). Because political risks are subjective and may vary from country to country, from time to time, and from industry to industry (Walewski et al. 2006), extant research suggests that political risks ought to be understood subjectively and thus qualitative methods to identity political risks would offer best outcomes (Pahud de Mortanges & Allers 1996; Lyons & Skitmore 2004; Brink 2004; Hood and Nawaz 2004; Mshelia & Anchor 2018; Han et al. 2018). However, despite a clear consensus on no single best methodology available to assess political risks in all cases (Lyons & Skitmore 2004), Al Khattab et al. (2011), and Köster (2013: 103) suggest qualitative risk identification methods offer cost effectiveness, flexibility and simplicity in identifying political risks in international projects.

Thus this study adopts the qualitative methods to identify political risks in IPOs as suggested by Rice & Mahmoud (1990), Pahud de Mortanges & Allers (1996), Uher & Toakley (1999), Chapman & Ward (2003: 130-152), Lyons & Skitmore (2004), Al Khattab et al. (2011), and Mshelia & Anchor (2018). Consequently, the following table 7 briefly highlights some of the qualitative methodologies available to identify political risks in IPOs.

Table 7. Different qualitative methodologies available to identify political risks in IPOs. (Adapted from Rice & Mahmoud 1990; Pahud de Mortanges & Allers 1996; Uher & Toakley 1999; Chapman & Ward 2003: 130-152; Lyons & Skitmore 2004; Al Khattab et al. 2011; and Mshelia & Anchor 2018).

Serial	Type	Characteristics	Benefit(s)	Drawback(s)
1	Delphi technique	A panel of geographically dispersed experts	- Group dynamics - Collective opinions	- Time consuming - Quality of chosen experts and their motivations
2	Judgement & intuition of managers	Managers' professional experience, education and competency	- A grand-tour approach provides first-hand knowledge & experience - Networking opportunity	- Biasness - Subjectivity - Relatively costly
3	Expert opinion	External industry experts and consultants	- Valuable multiple sources of information - Group dynamics	- Biasness - Subjectivity - Conflicting or overlapping imprecise data - Dependency
4	Standardised checklist	Systematic identification and assessment of risks	- Systematic review and analysis - Formal and easy to administer - Quick and cost effective	- Future risk events are ignored - Limits managers' ability to creative thinking - In-depth political risk assessment is not possible
5	Scenario development	Futuristic method to strategic risks and opportunities management	- Plausible futuristic strategy development - Proactive strategy - Develop perceptions - Prepares for surprising risks and uncertainties	- Probabilistic prediction
6	Brain storming	Thinking the unthinkable to offer more possible solutions	- Creative - Group dynamics - Generation of large number of ideas	- Time consuming - Too many ideas can overwhelm the strategy formulation - Fear of criticism may demotivate assertive participation
7	Flowchart	Summarize any political risks and their impacts, strategy to control, etc. in a step by step approach	- Structured and offer guidelines to assess a cause-effect relationship - Offer a total picture - Establish links among political risks elements, sources, response strategies, etc.	- Complex process - Future uncertain risk events are ignored
8	Influence diagram	A technical and useful aid to understand a complex situation	- Analyse cause-effect relationships - Represent a complex situation as a cognitive mental map - Identify important links to formulate a response strategy	- Complex process - Cannot predict the types and timing of future political risk occurrence

- Delphi technique

  Delphi technique is particularly useful to gather collective opinions about political risks of a certain target country/market form a panel of geographically dispersed experts who are knowledgeable about that country/market's political situations (Gupta and Clarke 1996; Loo 2002; Al Khattab et al. 2011). Zolingen and Klaassen (2003) and Tsai and Su (2005) submit, in delphi technique a group of experts initially provide independent analysis of political risks for a target country/market and then a group consensus determined the final evolution of risks analysis. As a result, besides generating collectively agreed expert opinions on political risks identification and analysis, this method can also offer group dynamics to predict and understand political risks phenomenon of a target country/market when the firm has no historical data available on that target country/market in question (Al Khattab et al. 2011). However, this method can consume a lot of time and the overall outcome largely depends on the experts' quality of work in the panel and their respective motivations to contribute to the panel satisfactorily (Burmester 2000; Al Khattab et al. 2011).

- Judgement & intuition of managers

  In this technique a manager undertakes a political risk assessment of a target country/market based on individual professional experience, education and competency. Most often DMNEs use this method (Rice and Mahmoud 1990; Uher & Toakley, 1999; Lyons & Skitmore 2004) under a grand-tour approach by sending their managers in a target country in order to conduct a preliminary research (Oetzel 2005). Luo, (2001), Oetzel (2005) and Al Khattab et al. (2011) argue that this method can offer a first-hand knowledge and experience on the political risk assessment and also enables a DMNE to connect and establish important networking with local leaders, officials and business people. However, this method can be costly to execute and outcomes can be largely influenced by managers' previous experience, biasness and subjectivities (Al Khattab et al. 2011). Moreover, Chapman and Ward (2003: 131) submitted that political risk identification based on manger's present and previous experiences may not be applicable to future projects.

- Expert opinion

  Expert opinion is particularly useful in gathering valuable insights on managing some real problems faced by international firms. In this technique a group of externally sourced industry experts and consultants (e.g., Researcher, Analyst, Consultant, Lawyer, Former CEO or Executive, Banker, Local government official, Academics, Former politicians and Journalist, etc.) are pulled together to assess and obtain multidimensional point of views on a political risk situation for an IPO in a target country/market. This method results in offering valuable insights from multiple sources and ensure a holistic group dynamics to tackle political risks for an international project. (Al Khattab et al. 2011). However, offer of conflicting or overlapping imprecise data, the quality of gathered industry experts and consultants and their motivation, biasness, and subjectivities can largely influence the overall outcome (Walker et al. 2003; Al Khattab et al. 2011).

- Standardised checklist

  Standard checklist is a formal and easy to administer method to systematically identify and assess political risks of an IPO based on managers' previous experiences (Chapman & Ward 2003: 132; Al Khattab et al. 2011). Although this method is relatively quick and cost effective, it might not enable managers to conduct an in-depth political risk assessment because of two obvious shortcomings (Al Khattab et al. 2011). Firstly, it limits managers' ability to think situations or possible risks outside of the list items thus restrict creative thinking ability of the managers (Al Khattab et al. 2011). Secondly, it does not allow managers to foresee or consider future political risks event that might occur in the long run (Chapman & Ward 2003: 133). However, Al Khattab et al. (2011) suggest that this method ought to be considered during the project initiation and initial screening of the host-country situations because of these two limitations. Conversely, Chapman & Ward (2003: 133) suggest that because it is formal and easy to apply, the project manager and the project audit team can use this technique to interrogate, assess the quality of the project work and manage political risks' impact at any stage of the PLC of IPOs.

- Scenario development

  Scenario development is futuristic method to carefully understand, evaluate, and identify probable future political risk elements, events and opportunities so that a proactive and plausible futuristic political risk management strategy can be developed (Brink 2004; Al Khattab et al. 2011). Chapman & Ward (2003: 131) compares this technique with 'synectics' where a group of carefully selected experts individually attempt to view a political risk situation from an unfamiliar perspective. This method enables managers to develop perceptions on the future political risks and uncertainties so that surprising risks and uncertainties when they unfold at any stage of the PLC can be strategically managed and controlled (Al Khattab et al. 2011). However, Chapman & Ward (2003: 132) argue that too much creative thinking and construction of too many scenarios based on probabilistic predictions can overwhelm the political risk management process and owing to possible criticisms of ideas put forwarded by the individual experts can demotivate them to participate effectively.

- Brain storming

  Brain storming is the creative and imaginative process of thinking the unthinkable to offer more possible solutions to a certain problem. This process involves a group of six to twelve expert individuals of different backgrounds who attempt to analyse a political risk(s) and its negative impacts from different points of views and typically generate a large number of ideas to manage this/those risks analysed. In the pursuit of generating an excellent idea to manage a political risk situation, this method can be broken down at least into three stages. At the initial stage, wild and diverse ideas are welcomed and encouraged. Then, in the idea evaluation stage, experts are asked to criticise, evaluate, and judge the practically of those generated ideas while withholding their personal judgements. At the last stage, accepted ideas are modified and experts are encouraged to use others' ideas to offer a conclusive outcome of the process. However, there are important drawbacks to this method such as it is time consuming, too many ideas can overwhelm the strategy formulation process and fear of criticism may demotivate assertive participation of the experts involved in the process. (Chapman & Ward 2003: 131).

- Flowchart

  Flowchart is a structured but complex process to summarize any political risks and their impacts, strategy to control, etc. in a step by step approach. Flowchart offers guidelines to assess a cause-effect relationship of political risk elements and their possible impacts to the performance of the international project. This system offers a total picture of the possible project complexity and establish links among political risks elements, sources, and their respective response strategies if in case they occurs. Flowchart can also offer a shared understanding and guideline on how best to tackle, report, and audit or manage a political risk element among the IPO execution, control and closure teams. However, due to the complexity of making flowcharts easy to understand by all stakeholders involved in an IPO and ignorance of possible uncertain political risk elements within the framework can demotivate project managers to use this method. (Chapman & Ward 2003: 147).

- Influence diagram

  Influence diagram is a technical and useful aid to understand a complex and casual political risk situation. It explores positive and negative outcomes of a political risk's event and offers an effective risk response strategy. One of the major advantages of this method is that it represents a complex situation as a cognitive mental map which enables prompt decision making. To its downsides, it is difficult to construct and an accurate prediction of the future political risks types and their timing of occurrence is also not possible using this political risk identification technique. (Chapman & Ward 2003: 150-152).

2.3.5 Importance of managing political risk in IPOs

Recent research related to political risk management in IPOs consider political risks as one of the major concerns (Voelker et al. 2008; Zhang & Wei 2012; Han et al. 2018) which play a crucial role for the international projects' success and investment decisions particularly in the context of emerging markets (Meschi 2005; Sachs 2006; Kardes et al. 2013; Voelker et al. 2008; Han et al. 2018). Sachs (2006) and Voelker et al. (2008) argued political risks in the Asian emerging markets as an uncertain, vague and uncontrollable risk element which represent a negative correlation among perceived level of political risks, PPP opportunities and investment desire into these markets. However, Kardes et al. (2013) submit that even though global megaprojects are swamped with various risks including those of the political risks, the success rate of global megaprojects can be assured by adopting proper risk management approach and by following the best practices.

On the other hand, Zhang & Wei (2012) highlight the importance of managing political risks in IPOs by categorizing the possible negative impact of political risks on MNCs' local investments. Zhang & Wei (2012) and Han et al. (2018) outline that because of the negative impact of political risks, MNCs can realize the following negative outcomes in their international investments;

1) *Direct financial loss and injury or death of local and expat employees (e.g., Strikes or political turmoil, terrorism attacks, violence, etc.) (Zhang & Wei 2012).*
2) *MNCs' ability to continue IPOs in local and global markets (e.g., Reputational crisis, country of origin effects and hand of home country government) (Han et al. 2018).*
3) *Profit loss because of extra expenses to adjust the unexpected costs into the operational plan (e.g., the ambiguity in the rent creation and rent extraction by government regulation, etc.) (Zhang & Wei 2012).*

Furthermore, Harms (2002), Economist Intelligence Unit (2007) and Zhang & Wei (2012) conclusively argue that political risks have negative effects on MNCs' profit maximization ability in their IPOs. On a similar research stance, Diamonte et al., (1996), Perotti & Van Oijen (2001) and Lehkonen & Heimonen (2015) collectively argue that democracy and underlying political risks in the emerging markets have statistically significant correlation with

international firms' investments and stock market returns. In this instance, research results indicate that higher stock market investment returns are resulted from decreasing political risks in the emerging markets (Lehkonen & Heimonen 2015).

To evident the underlying importance of overall project risk management *(may include political risk management)* Royers (2000) and Lyons & Skitmore (2004) argued that risk management ought to be considered as an integral part of the overall project management as often unmanaged risks lead to higher chances of project failure. This conclusion is also elaborated in one of 10 project management knowledge areas *(i.e., Project risk management)* as defined by PMI's PMBOK® Guide (2017).

Concurrently, Hwang et al. (2014) argue that a formalized and standardized risk management process throughout the entire course of the PLC of a small project enable project managers' to develop a strong risk awareness and ensure proper flow of risk management information among various teams which facilitate the execution of adopted risk management strategies. Nevertheless, in general terms, proper risk management in small projects have demonstrated positive correlation between risk implementation and project performance *(i.e., project quality, cost and schedule/budget)*, and risk management was considered to be significantly important for the overall success of small construction projects in Singapore (Hwang et al. 2014).

Evidently, this study acknowledges various previous research that demonstrated the benefits of overall risk management in the infrastructure construction projects, such as Mok et al. (1997) and Mills (2001) argued that proper risk management enhances cost estimation and decision making qualities in construction projects. Klemetti (2006) submitted proper risk management reduces transaction costs and improves risk allocation ability of a construction firm. Conversely, risk management ensures project completion on agreed time and within allocated schedule/budgets (Ali 2000).

However, a few studies such as Zhang & Wei's (2012) provides an extensive review of the importance of managing political risk in international infrastructure development project operations in an emerging market such as the Libyan construction industry. In their study, Zhang & Wei (2012) as demonstrated in table 8, outlines a number of intangible and tangible

losses that some 75 Chinese MNCs had to go through for not having a proper political risk management approach in Libya.

Table 8. Different intangible and tangible losses faced by the Chinese MNCs in the Libyan construction industry. (Adapted from Zhang & Wei 2012).

Type of loss	Element
Intangible	*Contract value loss*
	Expenses to evacuate and rearrange jobs for the expatriate employees
	Negative business reputations and image crisis
	Future high costs in insurance
	Future stressful political risk management
Tangible	*Suspension of contracted projects*
	Robbery and severe damage to property and equipment
	Death and serious injuries of employees
	Evacuation of the expatriate employees

Thus this study concurs with the empirical research evidence of Zhang & Wei (2012) and Hwang et al. (2014) to reinstate that it is critically important to manage political risks in IPOs in order to avoid the mentioned intangible and tangible losses and to improve project performance (i.e., project quality, cost and schedule/budget).

Although it is beyond the scope of this study to discuss the positive side effects of political risks for international project companies in a host-country situation, however, this study acknowledges the empirical evidence of Booth (1993) and Hadjikhani (1998) who argue that political risks do also have positive side effects for international firms provided that these firms choose to adopt a so-called ***'sleeping strategy'*** particularly in an empty turbulent market to increase market imperfection when all of the competitors have gone away because of the extreme political risks' exposure.

2.4 Theoretical roots to political risks management

IPOs especially those in the international construction or infrastructure development projects are extremely critical to political risks, and DMNEs ought to control and manage those risks to realize project success (Chang et al. 2018). Previous research in international construction or infrastructure development projects have yielded results from various risk management perspectives such as general risk management in large engineering projects (Miller & Lessard 2001) and global megaprojects (Kardes et al. 2013), project risk management in engineering construction industry (Lyons & Skitmore 2004), management of major risks in construction industry (Goh & Abdul-Rahman 2013), risk management in small construction projects (Hwang et al. 2014), a PLC perspective of managing risks, uncertainties and opportunities of projects (Jaafari 2001), financial risk management (Gilbert et al. 2017), risk management in PPP projects (Voelker et al. 2008; Zou et al. 2008; Li & Zou 2012; Hwang et al. 2013; Burke & Demirag 2017), management of project quality risk (Mai & Wang 2017).

On the other hand, a handful of research are available to either identify political risks (MIGA 1985; Hadjikhani 1998; Jaafari 2001; Meschi 2005; Sachs 2006; Al Khattab et al. 2007; Deng & Low 2014; PSR Group 2016; Han et al. 2018, etc.), or assess political risks (Rice & Mahmoud 1990; Pahud de Mortanges & Allers 1996; Uher and Toakley 1997; Chapman & Ward 2003: 130-152; Lyons & Skitmore 2004; Zou et al. 2008; Al Khattab et al. 2011; Walewski et al. 2012; Li & Zou 2012; Mshelia & Anchor 2018, etc.) in IPO context. However, a significant paucity of empirical research have been noticed in the field of studying effective political risk management strategies/mechanisms to the context of international infrastructure development projects (Chang et al. 2018; Han et al. 2018) especially those are related to the emerging economies (Al Khattab et al. 2007; Gil & Beckman 2009; Kardes et al. 2013; Jiang et al 2019a; Jiang et al. 2019b).

However, a comprehensive literature review of 25 selected academic papers represent a number of mechanisms or strategies to manage political risks of IPOs from different theoretical roots such as the social exchange/institution theory, transaction cost theory, project management literature and finance literature. Based on the review of those literature, this study sets its scope to elaborately discuss the following 16 identified political risk management mechanisms as demonstrated in table 9.

Table 9. Different political risk management mechanisms. (Own illustration 2020).

Type	*Theoretical root*	*S.N*	*Political risk management mechanism*
Informal strategy	Social Exchange / Institution theory	*1.*	Developing personal relationship
		2.	Adopting a localization strategy
		3.	Avoiding misconduct
		4.	Maintaining good relation with public
Formal strategy	Transaction cost theory	*5.*	Arm length/optimal contractual relationship
		6.	Non-Equity Joint Ventures (Strategic Alliances)
		7.	Equity Joint Ventures
		8.	Wholly owned subsidiary in host-country
Methodological strategy	Project Management literature	*9.*	Selecting the right payment methods
		10.	Making a higher tender offer
		11.	Selecting the right types of projects
Security strategy	Finance literature	*12.*	Buying political risk insurance
		13.	Obtaining sovereign guarantee
		14.	Guarantee from the public insurer
		15.	Financial hedging of currency exposures
		16.	Dollarization of business transactions in $US

2.4.1 Social exchange/Institution theory and political risk management

Establishing a healthy spirit of collaboration for mutual interests is the underlying objective of both Social exchange and Institution theories towards political risk management in IPOs (Luo 2001, 2004; Kardes et al. 2013; Darendeli & Hill 2016; Han et al. 2018). Social exchange theory premises on the element of mutual understanding and cooperation between DMNE and host-country government (Stopford 1994; Dunning 1997). Granovetter (1985) submitted that to realize a balanced mutual understanding and cooperation between DMNE and host-country government, a certain degree of give and take ensures future obligations to reciprocate the favour of received rewards from one party to another.

On the other hand, institution theorists suggest that different institutions such as the government and its associated autonomous bodies seek to retain a degree of autonomy in their decision makings and legislative requirements (Jepsen and Eskerod 2009; Floricel et al. 2016). Thus it's imperative of the managers of IPOs to attempt to shape, influence and transform the decision makings of those legislative bodies in favour of the DMNE's long-term interests to smoothly operate the IPOs in a host-country (Oliver 1996; Luo 2001; Miller & Lessard 2001; Oetzel 2005; Voelker et al. 2008; Zhang & Wei 2012; Kardes et al. 2013; Müllner 2016; Han et al. 2018). In this instance, an attempt to establish an informal and personalised social networking/exchanges become an excellent means to achieve a positive degree of institutional attachment and influence different institutions towards a mutually beneficial outcome for both the host-governments and DMNEs (Oliver 1996; Burt 1997), especially within the context of EMs as political environment in these markets is often volatile and laws and regulations are somehow incomplete and instable (Oliver 1996; Luo 2001; Miller & Lessard 2001). Furthermore, Miller & Lessard (2001) have described this process of influencing local regulators and governments as institutional engineering.

However, in the following sub-section, some of the identified political risk management strategies based on social exchange and institution theories are discussed.

2.4.1.1 Developing personal relationship

Developing personal relationship with the host governments and their affiliated institutions have been widely acknowledged in both social exchange and institution theories (Granovetter 1985; Oliver 1996; Burt 1997; Luo 2001). Ling & Low (2007), Ling & Hoang (2010) and Chang et al. (2018) assert that such attempt to develop personal relationship with the host-governments can significantly help MNCs especially those in the international construction projects to manage different political risks. Luo (2001) outlined that either for key resource dependency (i.e., educational, technological, industrial infrastructure, etc.) on host-governments or to secure a long-term buyer-seller relationships (i.e., governments as a key customers, suppliers or partners of IPOs), a DMNE must seek to develop a social exchange based personal relationship with the host-governments. Moreover, as medium to large scale IPOs especially those in the infrastructural development projects have the potential for local job creation in a host-country and positively impact local and/or national economy, these IPO

companies naturally enjoy a flexibility to approach for establishing a personal relationship with the host-governments (Grosse 1996, Oetzel 2005; Alon & Herbert 2009; Deng et al. 2014).

Extant literature has suggested some ways to establish personal relationship with host-governments for DMNEs. For instance, Luo (2001) suggested ***'political accommodation'*** as a strategy to establish personal relationship with host-governments. Whereas, Ashley & Bonner (1987), Kennedy (1988), Rice & Mahmood (1990), Low & Shi (2001), and Deng et al. (2014) propose the same as ***'the adaptive organizational culture'*** strategy in a different political environment. Political accommodation refers to the DMNE's ability to response and contribute to the societal and governmental concerns in a host-country. A DMNE can ensure good political accommodation by generating local employment, providing education and training to local employees, developing local social infrastructure such as financial support to establish a school, hospital, and other public interest projects. (Luo 2001.) Whereas, an adaptive organisational culture exemplifies a DMNE's endeavours to accept, imitate, and conform with the societal norms, standards, practices, business ethics and culture in a different political environment to survive as compares to those of the home-country's societal norms, standards, practices, business ethics and culture (Deng et al. 2014).

Regardless of the political accommodation or adaptive organisational culture strategy, developing personal relationship with the host governments can benefit an IPO in the following ways;

- *Networking and personal relationship with the host governments' officials reduces regulatory barriers and ensure institutional supports (Oliver 1996).*
- *It facilitates information exchange which ultimately assists in improved environmental screening, cost reduction and advanced preparedness to changing legislative requirements. It also improves DMNE's ability to adjust with the host-country red tapes and bureaucratic processes. (Luo 2001.)*
- *It assist DMNE to respond to the various host-government's needs, which strengthens formal and/or informal relationship with government's institutions and help DMNEs to achieve trustworthiness, and organizational credibility in a host-country (Grosse 1996; Lou 2001).*

- *It helps DMNEs to reduce the liability of foreignness in a different political environment (Kostova & Zaheer 1999).*
- *It enables DMNEs to manage political and legal risks by lobbying host-country governments to enact preventive regulations or reforming inefficient government processes (e.g., increasing environmental standards, reduce customs, electronic permit processing, etc.) (Oetzel 2005).*

2.4.1.2 Adopting a localization strategy

Adopting a localization strategy to manage political risk in IPOs is generally acknowledged in international business, social exchange and institution theories (Bonner 1981; Ashley & Bonner 1987; Rice & Mahmood 1990; Low & Jiang 2004; Wang et al. 2004; Oetzel 2005; Alon & Herbert 2009; Law et al. 2009; Deng & Low 2013, 2014; Deng et al. 2014; Liu et al. 2016; Jia et al. 2017; Chang et al. 2018). A higher degree of localization ability in terms of production and project operations give a DMNE and its IPO the ability to integrate into the host society (Deng & Low 2013; Chang et al. 2018) and thereby it reduces the chance of less discriminations and public oppositions in executing the IPOs in a host-country (Wang et al. 2004; Jia et al. 2017; Chang et al. 2018). Ashley & Bonner (1987), Alon & Herbert (2009) and Deng et al. (2014) maintained that among other strategies, a high localization strategy enables a DMNE to achieve a degree of competitive advantage and high profitability in a host-country. Müllner (2016) considered localization strategy for IPOs as a risk diversification strategy by which political risks in IPOs can be significantly reduced because of the local presence in many different countries.

Furthermore, Law et al. (2009) and Liu et al. (2016) argue that the degree of localization and firm performance in a host-country are positively associated as this strategy allows for resource transfer (e.g., Staff localization) in relatively safer manner and enables utilization of locally available resources (e.g., input localization, raw materials, labour, public infrastructure, logistics etc.) for successful operations of IPOs without extreme political or environmental restrictions.

On a different research stream, Alon & Herbert (2009) argue that some degree of local ownership in other words, extend of localization in a host-country by the parent firm or the

international project company is somehow expected in the IPOs to eliminate the tendency of being considered having an exploitive business relationship with the host-country. Lou (2008) maintained that local resources in a host-country are controlled and managed by the host-governments and thus a degree of localization enhances the chance of accessing those restricted local resources and to avoid conflicting interests with the host-governments, local authorities and the public.

Grosse (1996), Oetzel (2005), Alon & Herbert (2009), Deng et al. (2014) continued that localization enhances a DMNE's business commitment in a host-country which ultimately works as rubric for establishing a long-lasting personal relationship with the host-government and its local authorities. As a result, localization strategy can promote economic development by foreign investments, generate local employment by buying or establishing new production units, and financing on social infrastructure development in public interest projects in a host-country, which enables DMNE to be perceived as more ethically and socially responsible business entity within the host-market (Ashley & Bonner 1987; Kennedy 1988; Rice & Mahmood 1990; Low & Shi 2001; Luo 2001; Deng et al. 2014). Last but not least, higher degree of localization can also provide DMNE and its IPOs a certain bargaining power over time provided that the localization scale and affiliated opportunities offered by this strategy are preferred by the host-country government (Oetzel 2005).

However, this strategy is not immune to certain limitations, such as a higher degree of staff localization from the parent company to the host-country subsidiaries will limit the ability of the DMNE to establish strong personal relationship and networking with the host-governments because of not having enough local representation in the host-country subsidiaries' managerial decision making positions (Law et al. 2009; Liu et al. 2016). Conversely, reducing input localization (e.g., not sourcing locally available raw materials, labour, public infrastructure, logistics etc.) will make the DMNE not seriously committed to the host-country which have serious consequences such as tendency of having an exploitive business relationship with the host-country (Alon & Herbert 2009), engage in business misconduct (Jauch 2011; Zhang & Wei 2012; Chang et al. 2018; Han et al. 2018), negligence to support local economic development and employment (Oetzel 2005; Alon & Herbert 2009; Liu et al. 2016), reduced favouritism and legitimacy from the host-country government and lack of local community supports (Ahlstrom et al. 2008; Liu et al. 2016), a high perceived

feeling of outsider and liability of foreignness which will in turn reduce the subsidiary's or the overall DMNE's IPO performance in a host-country (Eden & Miller 2004; Law et al. 2009; Liu et al. 2016).

2.4.1.3 Avoiding misconduct

Avoiding business and contractual misconducts are relatively common prescribed political risk management strategy in IPOs especially those are related to international construction projects (Oetzel 2005; Jauch 2011; Zhang & Wei 2012; Chang et al. 2018; Han et al. 2018). Han et al. (2018) argue that because of firm-behaviour sourced *(i.e., engaging in inappropriate business and contractual misconducts)* some DMNEs in the international construction industry have exposed to higher degree of political risks in the EMs. A DMNE especially those in the IPOs can induce higher level of public oppositions and political risks by demonstrating some inappropriate behaviour, for instance, ignoring the sustainable development goal of the host-governments, disrespecting the local culture and industrial relations, exploiting local employees rights as compare to those of the home-country personnel, violating legal and environmental regulations etc. (Oetzel 2005; Jauch 2011; Zhang & Wei 2012; Chang et al. 2018; Han et al. 2018).

Oetzel (2005), Jauch (2011) and Chang et al. (2018) further submit that IPOs can perceive a higher level of political risks in the project execution phase for dishonest business conducts such as offer of bribery and engagement of petty corruption with the host-country government officials. However, cultural conflict between the DMNE's home-country and the host-country employees can lead to further escalation of engaging into business and/or contractual misconducts (Zhang & Wei 2012). For instance, in a study conducted by the United Nations Development Programme (UNDP) found that limited cross-cultural communications between the Chinese and African employees lead various Chinese owned international construction projects into extreme level of governmental scrutinises and changes in the labour laws to hire foreign expatriates into those projects and thus escalated certain legal and political risks (UNDP 2007; Zhang & Wei 2012).

However, by avoiding unnecessary business and/or contractual misconducts a DMNE and its ongoing IPO can enjoy the following benefits in a host-country;

- *Reducing political risks by respecting cultural, environmental, social, labour, and ethical code of conducts of the host-country, which in turn will enhance business reputation in both home and host-markets (Jauch 2011; Chang et al. 2018; Han et al. 2018).*
- *It helps the DMNE to avoid any risks that might arise from not respecting or violating local culture and thus it would enable the DMNE to respect and abide by the local cultural code of conduct in a host-country (Bonner 1981; Ashley & Bonner 2009; Chang et al. 2018).*
- *It can represent DMNE's commitment for fair trade and sustainable business practices as expected by the host-government and its society which will inspire good corporate citizenship, environmental protection and conservation, and cultivation of good relations with the local public (Oetzel 2005; Chang et al. 2018).*

2.4.1.4 Maintaining good relation with public

Maintaining a good relation with public and local powerful groups has been extremely appreciated as a strategy in the extant political risk management literature (Bonner 1981; Ashley & Bonner 1987; Alon & Herbert 2009; Zhang & Wei 2012; Deng & Low 2013; Deng et al. 2014; Liu et al. 2016; Marques 2017; Chang et al. 2018; Han et al. 2018). Chang et al. (2018) consider this strategy as a medium to shape a favourable operating environment in a host-country. Whereas, Bonner (1981) and Ashley & Bonner (1987) asserted that it is of imperative importance for the international project companies especially those in the international construction projects to maintain a good relation with the host-country public and local powerful groups such as the available local media, trade unions, industry associations, consumer rights associations, and environmental conservation activists groups, etc.

Liu et al. (2016) and Marques (2017) further maintained that since DMNE has resource dependency on the external environmental elements of a host-country *(i.e., governments, local authorities, powerful public groups, public opinions and legitimacy, etc.)*, thus maintaining a good relation with public and local powerful groups reduces political interferences in one hand, and increases the ability to access necessary social, legal and environmental recourses, on the other. Moreover, MIGA's (2010) World investment and political risk report found that a significant number of DMNEs and MNCs use engagement

with local communities and non-governmental organizations *(in other words, maintaining a good relation with public and local powerful groups)* as a strategy to mitigate political risks such as transfer and convertibility restrictions, expropriation, war and civil disturbance, terrorism, breach of contract and non-honouring of government guarantees in the EMs.

Furthermore, as pointed out earlier that large-scale infrastructural development projects in the EMs have direct and/or indirect impact to the local community, environment and the national economy of the host-country, thus these projects often receive critical public attention (Van Marrewijk et al. 2008; Kardes et al. 2013), which ultimately initiates first hand oppositions by the local public to execute the IPO functions in that particular host-country in question (Liu et al. 2016).

Lastly, extant research suggests that by establishing and maintaining good relationships with governments, power groups, and public in the host-country, a DMNE can enhance the likelihood of achieving a lasting completive advantage and higher profitability in IPOs (Bonner 1981; Ashley & Bonner 1987; Wang et al. 2004; Alon & Herbert 2009; Deng et al. 2014).

2.4.2 Transaction cost theory and political risk management

Transaction cost theory on political risk management premises on the formal and contractual relationship between the international project owner(s) (i.e., the host-government or local buyer) and the IPO Company (Turner 2001). Under the scope of transaction cost theories, DMNE attempts to manage political risks of IPOs in a host-country by examining and assessing comparative costs of planning, adapting and monitoring project task completion under a formal and contractual governance structures (Williamson 1996; Turner 2001). Moreover, application of transaction cost theories to manage political risks are necessary measures to avoid the limitations of strategies previously identified under the scope of social exchange theory. For instance, too much involvement with local government and its official might raise questionable business practices for DMNE in a host-country (Oetzel 2005). Williamson (1996) and Turner (2001) maintained that establishing a formal and contractual governance structures beyond social networking enable a DMNE and the international project owner(s) *(i.e., the host-government or local buyer)* to align mutually beneficial goals and avoid opportunistic behaviours against one another as formal contract *(such as a strategic alliance or joint venture)* ensures appropriate profit and risk sharing stakes among various stakeholders in an IPO.

Furthermore, among other things, establishing an optimal contractual relationship, strategic alliance and joint venture with local partners, carefully crafted detailed project contract, etc. are considered to be important strategies to manage political risks of international infrastructure development projects throughout the extant literature (Kennedy 1988; Ling & Hoang 2009; Giambona et al. 2017; Jiang et al. 2019b).

Drawing on the transaction cost theory to manage political risks of the international infrastructure development project operations, the following political risk management strategies are discussed.

2.4.2.1 Optimal contractual relationship

Optimal contractual relationship refers to the degree to which a DMNE selects locally and internationally accepted contracts, drafts contracts with vigilant attention to determine duration of contractual relationship, mutually beneficial contract clauses, payment terms and conditions, liability for any potential breach of contracts, clearly specify the dispute mitigation terms and conditions, protection of intellectual and confidential assets and information, force majeure clauses and grounds for consideration, etc. (Chang et al. 2018). The underlying importance of selecting an optimal contractual relationship for efficient management and execution of transactions and dispute resolutions in an IPO is long acknowledged throughout the extant literature (Kennedy 1988; Miller 1992; Williamson 1996; Akintoye & MacLeod 1997; Turner 2001; Dayanand & Padman 2001; Guasch 2004; Lyons & Skitmore 2004; Davies et al. 2006; Loosemore et al. 2006; Safford 2007; Zou et al. 2008; Ling & Hoang 2009; Gil & Beckman 2009; MIGA 2010; Goh & Abdul-Rahman 2013; Liu et al. 2016; Floricel et al. 2016; Giambona et al. 2017; Chang et al. 2018; Jiang et al. 2019b).

Miller (1992) argued that specifying important contents of the project contracts such as fixed price, time, quantity, etc. help international project companies to avoid or prevent future risks in the IPOs. On the similar research stand, Kardes et al. (2013) and (Chang et al. 2018) prescribe that contract formulation plays an important role for the IPO's success and thus contractual agreements and relevant treaties should carefully outline IPO goals, different stakeholders' rights and obligations.

Dayanand & Padman (2001), Guasch (2004), Davies et al. (2006), and Gil & Beckman (2009) suggest that while choosing a contractual relationship with host-country government it would be preferential for the DMNE to select long-term contractual relationship over short-term, as the host-country government would consider a long-term contract from the international project company as a commitment to not behaving opportunistically such as reducing investment, raising fees or tariffs. Moreover, long-term contractual relationship and well planned contracts reduces the need of future project adjustments and renegotiation possibility (Guasch 2004; Safford 2007).

However, selecting an optimal contractual relationship either in terms of long-term duration and/or careful considerations of the different important contract clauses, clarity of those contract clauses will yield the following benefits in executing an IPO in a host-country. They are;

- *Optimal contractual relationship arrangement among various stakeholders enable them to collectively agree on mutually beneficial project contract elements that insure project success (Dayanand & Padman 2001; Loosemore et al. 2006).*
- *Optimal contractual relationship between key stakeholders such as the client and suppliers ensure maximum cooperative relationships (Miller 1992) which ultimately enables the international project company to implement lean management practices in managing international megaprojects (Gil & Beckman 2009).*
- *Optimal contractual relationship along with a well-crafted contract helps DMNE to reduce some of the political risks in the EMs such as non-payment of the project instalments, breach of contract, no-honouring of government guarantees, etc. (MIGA 2010).*

However, writing long-term contracts considering both locally and internationally accepted contract terms and conditions (Chang et al. 2018) are costly and difficult when uncertainty about the political risks is high for a particular target market (Gil & Beckman 2009). And, if contracts are written with vague assumptions and unmeasurable performance criteria, it can lead to higher breach of contracts, disputes and renegotiations costs (Guasch 2004; Safford 2007; Gil & Beckman 2009; *MIGA 2010).*

2.4.2.2 Non-Equity Joint Ventures (Strategic Alliances)

Forming strategic alliance with local firms and/or host-governments through non-equity joint venture is a well-recognized political risk management strategy in the international construction projects (Miller 1992; Lessard 1996; Hitt et al. 2000; Tatoglu & Glaister 2000; Turner 2001; Khanna & Rivkin 2001; Low & Jiang 2004; Wang et al. 2004; Meschi 2005; Oetzel 2005; Chan & Makino 2007; Alon & Herbert 2009; Müllner 2016; Liu et al. 2016; Chang et al. 2018).

Miller (1992) and Lessard (1996) argued forming strategic alliance with local firms and/or host-governments as a co-operational strategy to avoid uncertainties in IPOs. Conversely, Low & Jiang (2004), Wang et al. (2004), Chan & Makino (2007), Alon & Herbert (2009) and Chang et al. (2018) consider forming strategic alliance with local firms and/or host-governments as means to link with resourceful local businesses and to employ capable local partners to execute the IPOs' activities in a host-country. Low & Jiang (2004) and Chan & Makino (2007) maintained that engaging capable and resourceful local partners with the IPOs in a host-country reduce political risks by assisting to gain legitimate power under certain institutional pressure and thus reduce IPO costs and improve work efficiency.

On a similar research stand, Oetzel (2005) argues that strategic alliance with local firms especially those of the local competitors can be extremely beneficial for international project companies (i.e., DMNE) as these local competitors might possess strong political connections with the host-country governments and thereby having an alliance with them will assist DMNE to achieve the desired IPO success and long-term competitive advantage because of such leverage of the political relationships with the host-country governments. On the other hand, linking with local businesses through strategic alliance can assist DMNE to strengthen co-operation with local businesses, reduce political risks to enjoy a share of the profits, reduce the image of foreignness and avoid involvement in the micro-political elements in a host-country (Turner 2001; Wang et al. 2004; Alon & Herbert 2009; Chang et al. 2018).

Moreover, Tatoglu & Glaister (2000) and Müllner (2016) assert that despite the benefit of political risk management, strategic alliance with local firms and/or host-governments through non-equity joint venture secures a convenient market entry strategy in the EMs. Last

but not least, strategic alliance with local firms and/or host-governments through non-equity joint venture also has implications for increasing localization of input and resources which ultimately leads to better access to local knowledge, establish new business opportunities and contacts, and share of political and other environmental risks with local partners (i.e., local firms and/or host-governments) (Hitt et al. 2000; Khanna & Rivkin 2001; Liu et al. 2016).

2.4.2.3 Equity Joint Ventures

A considerable number of studies recognize investing in the EMs though international equity joint venture with one or more local partners and/or host-government as an important political risk management strategy (Connolly 1984; Hennart 1988: 362; Miller 1992; Lessard 1996; Pan 1996; Yan 1998: 773; Kale & Anand 2001; Yescombe 2002; Luo 2004; Meschi 2005; Gulati and Sytch 2007; Voelker et al. 2008; MIGA 2010; Peng and Beamish 2014; Liu et al. 2016; Jiang et al. 2019b).

Hennart (1988: 362) explained *''international joint ventures are formed when two or more companies [originating from different countries] bring given assets to an independent legal entity and are paid for some or all of their contribution from the profits earned by that entity''.*

International equity joint venture with one or more local partners and/or host-governments of the EMs assist DMNE in various ways. For instance,

- *It enables foreign partner to reduce or control macro environmental uncertainties in the host-country (Meschi 2005).*
- *It enhances the functional co-operation of IPO at a greater strength. For example, while the foreign partner (DMNE) offers upstream resources (i.e., fund, brand value, technical know-how), whilst the local partners and/or host-governments of the EMs offer downstream resources (i.e., local market awareness, access to labour and distribution networks, access to knowledge of local regulations and state authorities) (Connolly 1984; Pan 1996; Kale & Anand 2001; and Meschi 2005).*
- *It reduces governmental interferences by sharing profits with the local national companies which also has implications for higher macroeconomic benefits such as jobs creations, local resource consumptions, incoming FDIs and so on (Hennart 1988: 362; Yescombe, 2002; Voelker et al. 2008).*

- *It reduces substantial investment requirement of the DMNE in a host-country, while enhancing the possibility of accessing reliable information, technical know-how, tangible and intangible resources of the local partner organizations in host-country (Gulati and Sytch 2007; Peng and Beamish 2014 and Liu et al. 2016).*

However, Miller (1992) and Lessard (1996) asserted equity joint ventures with local firms and/or host-governments as a co-operational strategy to avoid environmental uncertainties in IPOs. Whereas, Lou (2004) emphasized that infrastructure development projects especially those in the power generation and transportation construction sectors are very critical to macro-environmental uncertainties and thus a joint venture investment with the host-government can easily safe guard the investments in such IPOs. On a similar research stand, MIGA (2010) found that about 35% of the respondents attempt to control perceived political risks in the EMs by establishing local joint ventures with local private and/or national companies, while most attention to forming such international joint ventures are higher in the infrastructure development projects such as building utilities and communications than that of the IPOs in the service or manufacturing industries.

Regardless of the aforementioned benefits of international equity joint ventures with one or more local partners and/or host-governments of the EMs, managing such investment based on formal transactional relationship is particularly challenging because of the intercultural and interorganizational dynamics in a constantly changing political and economic landscapes of the EMs (Yan 1998: 773).

2.4.2.4 Wholly owned subsidiary in host-country

Several studies have recognized acquisition or establishment of a wholly owned subsidiary in a host-country as a political risk management strategy under the premise of transaction cost theory (Ring et al. 1990; Kobrin 1991; Miller 1992; Grosse 1996; Das & Teng 2002; Luo 2003; Oetzel 2005; Brouthers and Hennart 2007; Alon & Herbert 2009; Feinberg & Gupta 2009; Deng et al. 2014; Müllner 2016; Lindner et al. 2016; Liu et al. 2016).

Extant literature has presented different rationales for acquiring or establishing a wholly owned subsidiary in a host-country to manage political and environmental risks. For instance, Ring et al. (1990), Kobrin (1991), Miller (1992), Feinberg & Gupta (2009) and Liu et al. (2016)

consider establishment of a wholly owned subsidiary in a host-country as a safe intra-organizational resource transfer and risk control mechanisms which have the capacity to reduce dependency for critical resources from the external partners in a politically risky and volatile host-country, thus ultimately reduces the chance of exposure to certain political and environmental risks in that host-country in question.

Lindner et al. (2016) and Müllner (2016) maintain that establishing a wholly owned subsidiary in a host-country assist DMNE to diversify its business functioning in several markets which ultimately ensures lower the cost of systematic risks and thus creates a risk management portfolio in the pursuit of decreasing overall political risks in IPOs. Furthermore, Grosse (1996), Oetzel (2005), Alon & Herbert (2009), and Deng et al. (2014) consider this strategy as a strategy-based exposure to control political risks in IPOs and argue that because these large scale foreign subsidiaries in a host-country have local macro-economic benefits in job creation, employment, training, local resource consumptions and societal development, thus it enables DMNE's ability to control environmental uncertainties and political risks in their advantage.

However, this strategy is not immune to certain limitations. For instance, establishing a wholly owned subsidiary in EMs especially those with the previously known high political risks evidence can lead a DMNE to higher political risks exposure such as expropriation of assets, breach of contracts, currency inconvertibility and change in the rule of games in ownership of assets and/or personnel restrictions (Müllner 2016). Moreover, the unprecedented nature of political risk occurrence in a host-country can have significant negative impact on the overall performance of the DMNE's IPOs and subsequently its subsidiaries' ability to engage with co-operational relationship with local partners in a host-country (Luo 2003; Brouthers and Hennart 2007; Feinberg and Gupta 2009; Liu et al. 2016). Furthermore, a tension of interdependence and a control of autonomy between the home-country parent company and host-country subsidiaries, presents another limitation for DMNE's success in host-country by deploying this strategy (Das & Teng 2002; Liu et al. 2016).

Lastly, Liu et al. (2016) argue that the performance of a foreign subsidiary in a host-country depends on whether the parent company is a state-owned enterprise or the private company in the home-country. As the state-owned enterprise represent the home-country government

in a host-country and is assumed to have strong political influence and interest with the host-country governments, thus a state-owned foreign subsidiary would enjoy more immune to certain political risks exposure in a host-country than that of their counterparts (Liu et al. 2016).

However, other studies have found that a state-owned foreign subsidiary would be more prone to complex scrutiny and political interferences in a host-country if the host-governments are in the realization that those state-owned foreign subsidiaries are working as a hand of the home-country governments who have certain reputation of conflicting political ideology or belief as compare to the political systems practiced in the host-countries. For instance, certain Chinese state-owned companies might be perceived as representing Chinese government's Communist political system and practices in their foreign subsidiaries in different host-countries such as in the EU, where those practice of the Communist political ideology is long forgotten and thus these Chinese state-owned companies might have to go through complex scrutiny and political interferences to operate in the EU for example. (Han et al. 2018.)

2.4.3 Project management literature and political risk management

Project management literature on political risks management premises on the methodological application of available best project management practices such as determining on the appropriate project payment methods with the project client, offering an optimal tender offer and selecting the right types of projects which are highly desirable by project client (i.e., the host-government or local public). The underlying objectives of such best project management practices in IPOs are twofold. In one hand, they aim to establish a co-operational goal alignment strategy between the international project company (i.e., DMNE) and the project client (i.e., the host-government or local public). On the hand, these practices assist DMNE to substantially reduce different political and macro-environmental risks from their ongoing IPOs in the host-country. (Turner 2001; Chapman & Ward 2003: 323-329; Deng et al. 2004; Chang et al. 2018.)

However, in the following subsection some of the identified strategies from the extant project management literature are discussed.

2.4.3.1 Selecting the right payment methods

A DMNE can adopt a political risk allocation or control mechanism by selecting an appropriate project contract payment terms with project client(s). In this instance, Turner (2001) and Chapman & Ward (2003: 325) argued that there are two options available for the DMNE to choose from. They are as follows;

- Cost-plus fixed fee (CPFF) contract

  In the cost-plus fixed fee (CPFF) contact, the project contractor (i.e., DMNE) is paid a fixed fee plus reimbursement of other costs incurred during the entire completion of the project by the project client. According to the contract, the client bare all the risks associated in the project and pays for any overrun costs (such as, labour, plant, materials, cost of errors, and other charges) in executing the projects to the project contractor. (Chapman & Ward 2003: 325.) On the other hand, Turner (2001) argued that in this contract payment method, the project contractor is paid for a fixed price of the project cost along with an agreed profit margin. In this case, the profit margin

can be a percentage of the saved out-turn costs that the project contractor could enjoy by controlling the project costs than that of the previously calculated.

There are certain advantages attached to this project cost payment method for both the project client and the project contractor. While the project contractor can be off the responsibilities to bare and manage any risks involved in the project, whilst the client enjoys limited cost and protection from the project contractor's opportunistic behaviour of making excessive profits from the project. Moreover, agreement on a possible share of profit margin motivates the project contractor to reduce and control the costs of executing the project. However, if some project client failed to deliver on such uncertain cost commitment and share of profit margin can have serious implications for the motivation and overall quality of the project work from the project contractor end. (Chapman & Ward 2003: 325.)

However, the critics in disfavour of this strategy suggest that opportunistic behaviour of the client can lead the project contractor to unmotivated towards project efficacy and quality. Furthermore, agreeing on what extra costs will be paid, how to allow them and record them in the open accounting book always have conflicting outcomes which may bring negative outcomes to the co-operation and communication between the project client and the project contractor. Moreover, if the project client is not keeping a track record of the costs occurring in the execution of the project, then the project contractor can expend more money on items that are beneficial to conduct its (i.e., the project contractor) jobs such as purchase of extra equipment, payment for excessive testing and research, payment of more commissions to the suppliers to motivate regular resource and material inflows and so on. (Chapman & Ward 2003: 325.)

International project contractor company (i.e., DMNE) usually prefers this payment method when the project level, macro-economic, political risks and uncertainties are considerably lower in the host-country (Turner 2001).

- Fixed-cost price contract

  In the fixed-cost price contract, the project contractor (i.e., DMNE) will bear and manage all the project risks and the project client or owner (i.e., host-government or the local company in the host-country) pays a fixed price for the entire job to the project contractor regardless of the actually cost to complete the project by the project contractor (Turner 2001; Chapman & Ward 2003: 326). This contract type are usually beneficial for the project client as they can entirely transfer or allocate the project risks to the project contractor, who typically win the project contract through a competitive tender of offering the lowest possible fixed priced bidding (Chapman & Ward 2003: 326). This contract type is particularly useful when it comes about saving cost and maintaining project execution milestones in time. Chapman & Ward (2003: 326) argued that fixed-cost price projects motivate the project contractors to keep the cost downward as they will not be reimburse for any extra costs or time to complete the project other than the previously bid costs and time frame. As such, Turner (2001) argued that the project client have to be vigilant and careful about exactly what is expected of the project contract in terms of time, quantity, quality and other key performance indicators and communicate such project success criteria beforehand to the project contractor so that the project contractor can offer the best price bid considering all of these predefined project success criteria by the project client.

  Some of the critics of this strategy suggest that because of not knowing the future uncertainties and possible project risks entirely by the project contractor, some of the project costs might overrun during the course of the project and this may negatively affect the project performance or the overall project quality. As such instance, the project contractor will pursue to overcome loses by cutting back on the quality and quantity of the materials, services or post-project services, or systematically claiming new costs for unforeseen events that are not easily understood by the project client (Turner 2001; Chapman & Ward 2003: 327 - 328).

  However, an international project contractor may pursue this payment method if the host-country has a stable macro-economic and political environment and project uncertainties can be assessed critically beforehand. Otherwise, if the host-country's

> macro-economic and political environment are volatile and several project uncertainties may arise in any stage of the PLC, then the project client will prefer this strategy the most over the project contractor. (Chapman & Ward 2003: 326.)

2.4.3.2 Making a higher tender offer

International construction projects regardless of their sizes and natures *(i.e., complex mega projects or small projects)* are predominately awarded to the lowest responsible bidder, a commonly used value for money strategy that safeguard against corruption by objectively assessing lowest possible costs in completing a project (Scheepbouwer et al. 2017). However, there are increasing evidence that such practice does not objectively guarantee the quality of project work under the estimated costs and time as promised in the lowest bid. Rather, this process of awarding the project to the project contractors based on the lowest cost bids encourage collusion among tendering companies for the project contracts, motivate the project contractors to develop a deceiving scheme aiming to recovering their discounted profit margins by claiming extra expenses or cutting on the quality of project work (Charbonneau & Lachance 2015; Scheepbouwer et al. 2017).

In the recent time, to safeguard against such collusion of companies tendering for the project contracts and deceiving scheme of the project contractors, the project clients in many countries are appreciating higher tender offer from the project contractors which can be also be considered as a best value (BV) project award system (Samuelson & Rosenthal 1986; Scott et al. 2006; Blanchard 2007; Tran et al. 2016; Scheepbouwer et al. 2017; Chang et al. 2018).

Scott et al. (2006) and Scheepbouwer et al. (2017) assert that in the BV project award system the aim is to focus on the quality of the project work while assessing the comparative benefits of the project's long-term performance, project contractor's reputation of good performance, qualifications, best practices, and overall value of the construction work over mere price or cost of completing the project. Chang et al. (2018) maintain that such higher tender offers in the BV project award system enables the international project contractors to invest more money on risk reduction strategies in a particularly risky project with an aim of receiving a higher rate of return.

Moreover, Scott et al. (2006), Blanchard (2007), Tran et al. (2016), and Scheepbouwer et al. (2017) argue that higher tender offers in the BV project award system can ensure best quality of the project work and better performance of the project contractors, reduce PLC costs, improve task completion rates within the scheduled timeframe and encourage innovation to enhance the overall value of the construction work. In this instance, Chang et al. (2018) propose that an international project contractor can systematically increase the price of the materials for their good quality in order to increase the overall price of the tender.

However, there are also serious implications of offering a higher tender to win a project contract. For instance, a comparative evaluation of project quality over price may be perceived as a subjective judgement of the project awarding body and thus it might demotivate the public sector project clients to involve themselves in this subjective judgement which has implications for fairness in the selection process (Scheepbouwer et al. 2017). On contrast, bidding on a project contract price higher than that of the equivalent project contractors' might significantly reduce the chance of winning the project after all (Samuelson & Rosenthal 1986; Change at al. 2018).

2.4.3.3 Selecting the right types of projects

Selecting the right types of IPOs especially those are mostly desired by the host-country governments and the local public have important implications for political risk management. Extant literature suggests that IPOs with greater public interest and high host-government desirability experience less exposure to political risks in a host-country (Ashley & Bonner 1987; Wang et al., 2000; Deng et al. 2014; Chang et al. 2018).

As such, Oetzel (2005) and Han et al. (2018) propose that international project contractors must be vigilant in identifying which industries and projects are to be chosen in order to avoid intense governmental interference. Oetzel (2005) reported that investments in industries recently offset by the host-government's FDI focus experience grater political risks than that of the industries currently favoured by the host-government. Whereas, Han et al. (2018) argue that investments in the highly regulated industries by the host-governments *(such as, utilities, healthcare, pharmaceuticals, energy, financial services and telecommunications, etc.)* may perceive greater political risks than that of the non-regulated industries in the host-

countries. Therefore, selecting the right types of IPOs always play an important role in managing political risks.

However, among various types of IPOs such as the partial, build-operate-transfer (BOT), build-own-operate-transfer (BOOT), turn-key, turn-key plus, etc. an international project contractor *(i.e., DMNE)* ought to carefully choose one project type that has the most potential for managing political risks in the host-country. A partial project refers to the undertakings where the project contractor only provides some of the key elements *(i.e., technical know-how, product, material, services, etc.)* to complete the total package of the project work. In this project type, the project client takes all the responsibilities to coordinate and execute project work, while the project contractors receives a fee for the delivery of the key elements necessary to complete the project. (Luostarinen & Welch 1990.)

On the other hand, a BOT project is a private project financing technique where an international project company undertake and construct the project, operate and maintain the project, earn revenues as tolls form the project for a specified contract time and then handover the project ownership to the host-government after the concession period is reached (Tiong 1990; Kreydieh 1996). There are extant research that suggest infrastructural development projects such as megaprojects in the transportation, power generation, tunnels and pipelines to transport mineral resources are often undertaken by the BOT projects (Tiong 1990; Kreydieh 1996).

A BOOT project has a similar notion as the BOT project expect for the ownership opportunity of the project by the project contractor until the concession period is reached, until when the final project/product will be handed over to the host-government free of charge along with the complete ownership and operational right (Jefferies et al. 2002). To illustrate the difference between a BOT and BOOT project, Walker & Smith (1995) posited,

> *''… When a private sector group has a concession to build and toll a motorway project for say 20 years, this is a BOT. If, however, their concession also allowed them to own, build and rent warehouse space (for the concession period of 20 years) at certain locations along the motorway then the contractual arrangement in place is described as a BOOT agreement.''*

Jefferies et al. (2002) argued that a BOOT project enables a host-government to welcome investments in the large scale infrastructural development projects without constraining its financial budgets and increasing public debts. However, Walker & Smith (1995), McDermott (1999), Angeles & Walker (2000), and Jefferies et al. (2002) suggest that BOOT projects are increasingly becoming popular in undertaking infrastructural development projects throughout the developed and emerging countries for their unique benefits of a win-win situation for both the project contractor and the host-government over BOT projects.

Turn-key and turn-key plus projects are gaining increasing attention as international market entry modes in the IPO industry particularly in the developing EMs (Kock et al. 2003, Ahola et al. 2007, Yau & Yang 2012. A turn-key project entails a major shift in the responsibility to the project contractor who is legally and technically bound to build, test, operate, install, and then handover a complete package of project functioning and services to the project client as specified in the project contract (Kock et al. 2003, Ahola et al. 2007).

Whereas, in the turn-key plus contract a project contractor is also given a responsibility as bounded by the project contract to manage, operate, and provide maintenance services to the project facility for a specified period of time after the completion of the turn-key project with an aim to transfer technology required by the project client to efficiently maintain the project in the future (Kock et al. 2003).

Both of the turn-key and turn-key plus projects have some unique benefits attached to them which include but not limited to reduced construction time and costs, execution of project work with best quality practices, transfer of project and other risks to the project contractor, acquisition of expert project technical and managerial knowledge from the foreign experienced project contractors, joint collaboration and innovation in executing the project, increased or complete commitment by the project contractor to execute the project milestones in specified time, etc. (Kock et al. 2003, Ahola et al. 2007, Yau & Yang 2012).

However, extant literature also suggests that turn-key and turn-key plus projects have some disadvantages which include but not limited to difficulties in on time project completion (Yau & Yang 2012), increasing responsibilities and liabilities of the project contractors particularly

in the volatile EMs (Kock et al. 2003), higher degree of complexity and rigorous tendering process as compare to other project financing options (Ahola et al. 2007).

2.4.4 Finance literature and political risk management

Finance literature on political risk management premises on the strategies that provide formal security arrangements for the project investors, project contractors, suppliers and other parties against unprecedented changes in the regulations of the host-country and the opportunistic behaviour of the project client such as the host-government (Bradford 2005; Al Khattab et al. 2007; MIGA 2010; Jakobsen 2012; Ginsberg 2013; Chang et al. 2018; Mayer 2018). Under the scope of finance literature, DMNE attempts to manage political risk of its foreign investments in a particularly volatile host-country in several ways such as by purchasing political risk insurance, obtaining sovereign guarantee from the host-governments, obtaining guarantee from the public insurers *(i.e., MIGA, World Bank (WB), International Monetary Fund (IMF), Asian Development Bank (ADB), World Trade Organization (WTO), etc.),* financial hedging of currency exposures and dollarizing of all business transactions in the US $.

These financial security based strategies have important positive implications for managing political risks of IPOs especially in the infrastructure development projects in the EMs (Kennedy 1988; Ling & Hoang 2009; Giambona et al. 2017; Jiang et al. 2019b). Furthermore, these strategies are designed and crafted by the public investment facilitators *(i.e., WB, MIGA, IMF, etc.)* and private international insurance companies to assist DMNE to control and protect its investment against some of the socio-economic and unprecedented regulatory changes in the laws and regulations of the host-countries such as war and political violence, currency inconvertibility, breach of contracts, expropriation of assets, restrictions on assets ownership or employment of home-country personnel, restrictions on repatriating profits, non-honouring of the debt and sovereign guarantees etc. (Bradford 2005; Al Khattab et al. 2007; MIGA 2010, 2013; Jakobsen 2012; Ginsberg 2013; Chang et al. 2018; Mayer 2018).

Drawing on the finance literature to manage political risks of the international infrastructure development project operations, the following political risk management strategies are discussed.

2.4.4.1 Buying political risk insurance

Purchasing political risk insurance for IPOs has received extreme attention as a political risk management strategy throughout the extant political risk and finance literature (Kennedy 1988; Miller 1992; Wang et al. 2000; Bradford 2005; Al Khattab et al. 2007; Voelker et al. 2008; Ling & Hoang 2009; MIGA 2010, 2013; Jakobsen 2012; Zhang & Wei 2012; Ginsberg 2013; Berne Union 2016; Liu et al. 2016; Giambona et al. 2017; Chang et al. 2018; Han et al. 2018; Mayer 2018; Jiang et al. 2019b;).

Bradford (2005), Al Khattab et al. (2007), MIGA (2010, 2013), Jakobsen (2012), Ginsberg (2013), Chang et al. (2018), Han et al. (2018) and Mayer (2018) suggest that political risk insurance provide enormous benefits to the international project companies in avoiding some major uncontrollable host-government sourced regulatory political risks such as such as damages caused by the war and political violence in the host-country, currency inconvertibility, breach of contracts by the host-governments, expropriation of assets, restrictions on assets ownership or employment of home-country personnel, restrictions on repatriating profits to the home-country, non-honouring of the debt and sovereign guarantees by the host-governments, etc. Conversely, Kennedy (1988) and Miller (1992) argued purchasing political risk insurance as a financial risk avoidance strategy to organizational response to uncertainties in international business.

Considering the purchase of political risk insurance for international infrastructure development projects in the developing and EMs have seen increasing importance over the years (Kennedy 1988; Ling & Hoang 2009; MIGA 2010, 2013; Berne Union 2016; Giambona et al. 2017; Mayer 2018; Jiang et al. 2019b). For instance, Berne Union (2016) which is a trade association for global export credit and investment insurers, reported that its members have issued some $112 billion USD worth of political risk insurance alone in 2016 of which 17% of such investments accounted for the South East Asian markets which is also the focus of this study.

However, MIGA (2013), Mayer (2018) and Chang et al. (2018) suggest that political risk insurance can be arranged for the international project contractors by three types of providers. Firstly, some public multilateral and bilateral investment institutions can issue political risk insurances such as the WB, ADB, MIGA, WTO, the African Trade Insurance

Agency, etc. Secondly, some private investment companies can offer political risk insurances such as the Lloyd's syndicates and other giant private insurance companies that are located in London, New York, Singapore, Hong Kong and so on. Lastly, there are some private reinsurance companies who sell political risk insurances services such as Berkshire Hathaway/General Re of the United States, Swiss Re of Switzerland, and the Munich Re & Hannover Re of Germany, and the China Export and Credit Insurance Corporation.

Moreover, extant literature on political risk insurance as a political risk management mechanism yielded some unique benefits to protect the interest of the international project contractors in a politically volatile host-country. These benefits include but not limited to the following aspects;

- *Political risk insurance reduce and mitigate the risk of constantly changing governmental regulations in a host-country (Wang et al. 2000; Jiang et al. 2019b).*
- *Political risk insurance protects international project contractors' business interests in a politically volatile host-market environment (Han et al. 2018).*
- *Political risk insurance is an excellent legal instrument when it comes about challenging host-governments' unlawful actions against limiting the scope of operations and profit maximization abilities of the foreign investors and international project contractors. As such, the insurance providers act as a solicitor and legal intervenors to make the host-government accountable for its unlawful actions such as attempt to expropriate foreign investments, impose of laws that make currency convertibility and transfer of profits restricted, breach of contracts and non-honouring of sovereign financial obligations to pay off the debts of the lenders and investors. Moreover, this insurance also covers the costs and damages caused because of the political violence in the host-country such as war, terrorism, and civil unrest. (MIGA 2010.)*

However, extant literature also suggests some of the drawbacks of the political risk insurance, which include but not limited to the following aspects;

- *Political risk insurance products and services are limited and often costly to purchase from the private market (Zhang & Wei 2012; Mayer 2018).*

- *Many private political risk insurers have limited knowledge and therefore cannot advise effectively to manage political risks of certain host-country such as the case of China, where only a few private political risk insurers can advise on political risk management as identified by Zhang & Wei (2012).*
- *Purchasing political risk insurance require allocating extra funds, which might demotivate the international project contractors to purchase this insurance (Liu et al. 2016).*
- *Political risk insurance does not always produce effective result as compare to the co-operational support system between the host-governments and the international project contractors and host-government guarantees (Voelker et al. 2008; Jiang et al. 2019b).*
- *Political risk insurance does not cover against all kinds and types of risks. Moreover, claiming for the losses and litigation processes due to political instability in a host-country are complex, costly and time consuming. Moreover, there is also a lack of knowledge available among the international project managers about the availability and processes, and general preference of purchasing political risk insurance to mitigate political risk in an IPO. (MIGA 2010; Mayer 2018.)*

2.4.4.2 Obtaining sovereign guarantee

Obtaining sovereign host-government guarantee is considered as an extensively important and secure political risk management strategy throughout the extant literature (Tiong 1990; Wang et al. 2000; Chapman 2001; Levi-Minzi 2004; Voelker et al. 2008; MIGA 2008, 2010; Woodhouse 2008; Zou et al. 2008; Alon & Herbert 2009; Deng et al. 2014; Chang et al. 2018; Mayer 2018; Jiang et al. 2019b). To illustrate the importance of issuing sovereign host-government guarantees to promote foreign investments in developing countries through private BOT projects, Tiong (1990) argued that the host-governments should support the foreign project contractors by ensuring meaningful contractual incentives and guarantees to protect their business interests. The World Bank and its international trade associations such as the MIGA recognize such sovereign host-government guarantees as important support system ensured by the host-governments to facilitate growth and foreign investments in the agribusiness, manufacturing, services sectors and infrastructure development projects in the

developing EMs (MIGA 2008, 2010; Mayer 2018). On a similar research stand, Voelker et al. (2008) demonstrated that most of the survey respondents in their study recognized sovereign host-government guarantees as more effective and appropriate risk management strategy than that of purchasing political risk insurance.

Voelker et al. (2008) further maintained that some host-governments also attempt to support their foreign project contractors by issuing offtake and currency convertibility and transferability guarantees. While the offtake guarantee confirms host-government's commitment of payment obligation to the project contractor for the delivery of its completed and contractual services provided that the state-owned company of the host-government refuses to pay for the said services. Whilst currency convertibility and transferability guarantee confirms host-government's commitment to assist the foreign project contractors to repatriate their profits and return on investments from the host-country. (Voelker et al. 2008.)

However, obtaining appropriate host-government's sovereign guarantees have become extremely important for the success of the IPOs than ever before. A recent global study by MIGA (2010) found that about 34% of the global respondents reported that non-honouring of the sovereign guarantees by host-governments is one of the major political risk perils that they have experienced in their IPOs. Whereas, non-honouring of the sovereign guarantees by host-governments as a political risk has experienced a tremendous growth in the EMs, especially in Russia and Brazil at 59% and 58% respectively in 2009 (MIGA 2010).

As such, Woodhouse (2008), Zou et al. (2008), and Jiang et al. (2019b) argue government guarantees as one of the important risk management factors which lead to the success of PPI projects especially those in the EMs' infrastructural development projects and this strategy has implications for less political risk exposure as suggested by Wang et al. (2000), Alon & Herbert (2009), and Deng et al. (2014).

There are some specific advantages attached to this risk management strategy for the private project contractors in a host-country. They are but not limited to the followings;

- *This host-government sovereign guarantees work as a **risk engineering** process for the private foreign project contractors which in turn assist them to achieve a*

commercial bargaining power over host-governments, secure payment security and a flow of regular project income, reduce host-governments' opportunistic behaviour of breaching the contracts, and ensure legal parameters to get favourable legal acceptance in the local jurisdictions and arbitration courts (Woodhouse 2008; MIGA 2008; Alon & Herbert 2009).

- *It provides diplomatic protection of the foreign investments made by the private foreign contractors in a host-country and makes international arbitration, and enforcement of contractual terms processes easy in the host-country (Chapman 2001; Woodhouse 2008; MIGA 2008).*
- *It assists the private foreign contractors to avoid increased project maintenance costs and ensures receiving money as compensation from the political risk insurers provided that host-government declines to pay for the project service delivery fee (Chang et al. 2018).*

However, there are also some drawbacks attached to the host-government sovereign guarantees for the international project contractors. For instance,

- *An issued host-government sovereign guarantee can be viewed as a long term debt obligation by the host-government which has implications for public debt, taxation and commodity price index such as the price of the fuel and other fundamental inputs might go up in order to pay or cover for the said guarantee (Woodhouse 2008; MIGA 2008).*
- *Obtaining sovereign guarantee is a long and difficult process as some host-governments consider such guarantees as limiting their power to control private sector infrastructural development investments and enhancing their obligations (Levi-Minzi 2004; Voelker et al. 2008).*

2.4.4.3 Guarantee from the public insurer

When obtaining sovereign guarantee becomes problematic and time consuming, international project contractors can reach out to the various public insurers to issue guarantees in securing their investments in a volatile host-country. There are many studies conducted which suggest to bring a public insurer such as the WB, MIGA, ADB, SINOSURE, etc. into the IPOs who essentially provide a safety net for the security of payment obligations and a fair treatment from the host-governments to the international project contractors (Ashley & Bonner 1987; Wang et al. 2000; Jaafari 2001; Doh and Ramamurti 2003; Voelker et al. 2008; MIGA 2010, 2017; Deng et al. 2014; Müllner 2016; Mayer 2018).

In the recent years, there have been a colossal growth in involving public insurers to obtain guarantees for IPOs particularly in the private sector investments in the developing EMs (Mayer 2018). For instance, in 2017, MIGA alone has issued about $2.5 billion USD worth of guarantees in supporting private sector investments in the developing EMs (MIGA 2017, Mayer 2018). There are several multilateral and export credit agencies who promote private investments in the developing EMs through issuing guarantees for non-commercial risks such as currency inconvertibility, breach of contracts by the host-governments, expropriation of assets, restrictions on assets ownership and non-honouring of the debt and sovereign guarantees by the host-governments (MIGA 2010; Mayer 2018).

Jaafari (2001), Voelker et al. (2008), MIGA (2010), and Mayer (2018) have mentioned a few of those organizations who act as public insurers to safeguard foreign investments in a volatile host-country. They are, the World Bank and its MIGA, the African Trade Insurance Agency (ATI), the ADB, the Arab Investment and Export Credit Guarantee Corporation (AIECGC), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), The UK Export Finance Agency (UKEF), China Export & Credit Insurance Corporation (SINOSURE), etc. (Jaafari 2001; Voelker et al. 2008; MIGA 2010; Mayer 2018).

There are some investment specific benefits that guarantees from the public insurers can offer to the private international project contractors. For instance,

- *Non-honouring of the powerful public insurer's (i.e., WB or MIGA) guarantees can be detrimental for the host-government's image and future creditworthiness from the*

international lenders such as the IMF, WB, ADB, WTO, etc. Moreover, in case of non-honouring of the powerful public insurers' guarantees can lead to economic sanctions imposed upon the host-country by these powerful pressure groups and insurers. (Voelker et al. 2008.)

- *Involvement of the public export credit agencies from the home-country represent a strong co-operation of the home-country government in a host-country, which has implications for protection of the foreign project contractors' investments through diplomacy and political protection. Moreover, a host-country government intends to avoid any conflicts with the home-country government in order to facilitate future incoming investments and exporting opportunities. (Doh and Ramamurti 2003: 345; Müllner 2016.)*
- *A formal security measure from the public insurers reduces the chance of political risk exposure significantly in the context of IPOs in the EMs (Ashley & Bonner 1987; Wang et al., 2000; Deng et al. 2014).*

However, there are also some disadvantages attached to this form of security measurement. For instance,

- *Securing investment guarantees from large organizations such as the MIGA is extremely bureaucratic and less-investor friendly. For instance, the application process to MIGA is usually lengthy, time consuming and must align with MIGA's sustainability and development goals which might be different from the intention of the IPO. (Mayer 2018.)*
- *The weak and underdeveloped legal frameworks and regulatory bodies to hold the host-governments (especially those in the EMs) accountable for their unlawful legal actions against the business interests of the international project contractors can impose a degree of difficulty for the public insurers to exercise their power to mitigate or legally arbitrate some of the political risks. Thereby, coverage for those risks in some countries can be unavailable and/or cost intensive. (Jaafari 2001; Mayer 2018.)*

2.4.4.4 Financial hedging of currency exposures

Financial hedging of currency exposures help DMNE to avoid some of the political risks such as currency inconvertibility, host-government's restriction on profit repatriation, foreign exchange rate fluctuation, etc. Several studies in relation to assessing financial risks in international construction projects have suggested financial hedging as an effective measure to control financial risks in IPOs that are induced by the political uncertainties of the developing EMs (Miller 1992, 1993; Lessard 1996; Huffman 2002; Oetzel 2005; Ling & Hoi 2006; Miller & Lessard 2007; Kardes et al. 2013; Müllner 2016; Fernando et al. 2017).

There are several financial hedging instruments available for the international project companies (DMNEs) to safeguard against aforementioned financial risks of IPOs. For instance, Miller (1992, 1993) and Fernando et al. (2017) have identified the following financial hedging instruments that are relevant to the international construction projects in developing EMs.

- *Forward contracts*
- *Future contracts*
- *Swap contracts*
- *Option contracts*
- *Structural or balance sheet hedges*
- *Invoicing in the local currency*

Among these financial hedging instruments, Miller (1992, 1993) and Fernando et al. (2017) argue that forward and future contracts are the most popular and preferable methods that DMNEs attempt to use in their IPOs to control some of the financial risks of the developing EMs.

In this instance, forward contract as a financial hedging confirms and fixes the rate of the foreign exchanges on current market price that would be executed in a future date. Since the contract is drawn up in current market price rates, it provides the guarantee that even though the foreign exchange rate for a certain currency would fall in the future, the international project companies (DMNEs) will be paid based on the agreed exchange rates as specified. Thus, this instrument provides excellent safeguard against foreign exchange price fluctuations with the limitations of non-settlement before the contract period is over *(Less liquidity)* and

induced counterparty risk for not knowing the exact future market conditions (Fernando et al. 2017).

Conversely, future contracts also provide guarantee of a fixed foreign exchange rate to buy or sell foreign exchanges in a future date which has been agreed based on the current market price rate. However, in the future contracts, the participant can trade their contracts in a public stock exchange which has the potential to exchange the contracts to other parties *(highly liquid)* and thus reduces counterparty risk as trading are done with more information and detailed knowledge of the contract (Fernando et al. 2017).

However, Lessard (1996), Oetzel (2005), Miller & Lessard (2007), Kardes et al. (2013) and Müllner (2016) have suggested financial hedging as an important risk management strategy for the success of IPOs particularly to the context of developing EMs. On a similar research stand, Huffman (2002) have argued that financial hedging assists international companies to effectively manage and control financial risk, foreign currency risk, and liquidity risk of foreign investments. Whereas, Ling & Hoi (2006), in their research on the international construction industry identified that financial hedging in the form of partial invoicing in the local currency and a dual currency contracts enable firms to avoid and control some of the political risks such as currency inconvertibility, host-government's restriction on profit repatriation, foreign exchange rate fluctuation, etc.

2.4.4.5 Dollarization of business transactions in USD $

Dollarization of business transactions in USD $ provides an excellent measure against currency inconvertibility and currency fluctuation rate risks (Oetzel 2005). Although it has become a regular practice in international business to dollarize the business transactions in USD $, only a few studies have covered this topic in relation to completing IPOs in the unprecedented political environments of EMs (Miller 1993; Oetzel 2005; Berne Union 2009: MIGA 2010). Often in order for the international firms to generate enough profits and avoid any currency inconvertibility and currency fluctuation rate risks in the host-countries, host-governments peg their currency at per with a stable foreign currency such as the USD $. For instance, Miller (1993) identified that international managers in Panama experienced exceptionally low macroeconomic uncertainties as long as currency inconvertibility and

currency fluctuation rate risks are concerned as compared to other Latin American countries such as Costa Rica, EI Salvador, Nicaragua, Guatemala and Honduras. One of the main reasons for this less macroeconomic uncertainties in Panama was the host-government's attempt to peg its local currency at per with USD $ (Miller 1993).

Conversely, there are also evidence that suggests host-governments revoke the pegging of currency arrangement to restrict the outflow of reserved foreign currencies from their home-markets and thereby introduce unprecedented political and economic risks for the international companies (MIGA 2010). For instance, the **"pesification"** attempt of the Argentine government in the early 2000s strongly demonstrate how revoking of the pegging of currency arrangement to restrict the outflow of reserved foreign currency from the home-market leads to frizzing of valuing foreign currency *(devaluation)*, breach of contracts, non-payment of project service costs, transfer restrictions of foreign currency, civil disturbance and eventually expropriation of foreign investments (Berne Union 2009; MIGA 2010).

Therefore, Oetzel (2005) study on Costa Rica's economic and political risks strongly demonstrates the importance of the strategy of conducting as many business transactions as possible in USD $ than that of using local currency to avoid aforementioned political risks. Oetzel (2005) argued this strategy was found to be an effective one against some of the political and economic risks of Costa Rica such as currency fluctuation rates and increasing inflation rates.

However, to vividly illustrate the importance of financial hedging of currency exposures and dollarization of business transactions in USD $ as important measures against political risk management, one of the respondent from Oetzel (2005) study reported the following statement;

> **…***"We do everything in dollars now. When I first came here we were doing business in all kinds of currency, you name it. To reduce our exposure to currency fluctuations we use a currency overlay system which is essentially a complicated system that involves hedging currencies. Depending upon the kind of money outstanding [our broker] will buy and sell currencies for us in order to mitigate currency risks."*

2.5 Theoretical framework and research proposition of the study

In particular emerging economies are more politically and economically volatile than that of their developed counterparts. There are many reasons for which DMNE perceive and experience both micro and macro level managerial obstacles to conduct international business in these emerging economies. Moreover the degree of such micro and macro level managerial obstacles are also relative to industries and sectors where the international businesses are conducted. Besides, there are also various uncertainties, complexities and risks that DMNEs have to undergo while conducting international businesses in a host-country.

Throughout the extensive review of the literature it has been demonstrated that in particular, international project operations (IPOs) in the infrastructure development/construction projects in EMs are extremely prone to host-government, host-society and interstate sourced political risks. This study identifies and adopts some of those political risks as suggested by Al Khattab et al. (2007) as the context of this thesis and they are ***1. Expropriation, 2. Breach of contract, 3. Currency inconvertibility, 4. Ownership of assets and/or Personnel restrictions, 5. Taxation restrictions, 6. Import/Export restrictions, 7. Terrorism, 8. Demonstrations, riots & insurrections, 9. Revolutions, coups d'état & civil wars, 10.Wars, and 11. Economic sanctions***.

This study also extensively reviewed relevant literature to discuss different characteristics of international small and megaprojects, life cycle of IPOs and identification of political risk during the life cycle of IPOs. After careful analysis of the reviewed literature, this study adopts highly complex megaproject *(Please refer to table 5)* in the infrastructure development industry of EMs as the context of the thesis. The study also adopts the PMI's (2017) proposed life cycle stages of IPOs to conceptualize the life cycle of IPOs and identification of political risk during the life cycle of IPOs. The adopted life cycle stages of an IPO are ***1. Project initiation, 2. Project Planning, 3. Project execution, 4. Project monitoring & control, and 5. Project closure***. However, the study also found that various types of political risk can be identified during the different life cycles of IPOs as demonstrated in table 6.

Since management of political risks is considered as one of the most important but challenging aspects for the success of IPOs in a host-country, extant literature represents both quantitative and qualitative methods to identify such risks. But, this study adopts the qualitative methods to identify political risks in IPOs as suggested by relevant literature which are ***1. Delphi technique, 2. Judgement & intuition of managers, 3. Expert opinion, 4. Standardised checklist, 5. Scenario development, 6. Brain storming, 7. Flowchart, and 8. Influence diagram.***

Extant literature has suggested different theoretical roots and their accompanying strategies to manage political risks of IPOs. Out of many of those theoretical roots, this study adopts the following theories and their accompanying political risk management strategies as the context of the thesis, which are discussed briefly below.

1. **Social Exchange / Institution theory:** Social Exchange / Institution theory to political risk management premises on the informal strategy of establishing a strong relationship with the host-government and host-societal aspects such as the influential local public and powerful local groups. There are four main strategies that have been consistently found in relevant Social Exchange / Institution theory literature. Thereby, this study seeks to evaluate the role of the following strategies to manage political risks of international infrastructure development projects in EMs based on the Social Exchange / Institution theory. They are; ***1.1. Developing personal relationship with the host-government, 1.2. Adopting a localization strategy, 1.3. Avoiding misconducts, and 1.4. Maintaining good relation with public.***
2. **Transaction cost theory:** Transaction cost theory to political risk management premises on the formal strategy of establishing profitable business relationships with the host-government and capable local partners. Under the scope of transaction cost theory, four strategies have been selected to evaluate their roles in managing political risks of international infrastructure development projects in EMs. They are; ***2.1. Arm length/optimal contractual relationship, 2.2. Non-Equity Joint Ventures (Strategic Alliances) with local firms/government, 2.3. Equity Joint Ventures with local firms/government, and 2.4. Wholly owned subsidiary in host-country.***

3. **Project Management literature:** Project management literature to political risk management premises on the methodological strategy of selecting the right kind of payment options and project proposals. Under the scope of this literature, three strategies have been selected to evaluate their roles in managing political risks of international infrastructure development projects in EMs. They are; ***3.1. Selecting the right payment methods, 3.2. Making a higher tender offer, and 3.3. Selecting the right types of projects.***
4. **Finance literature:** Finance literature to political risk management premises on the security strategy of ensuring appropriate payment schedule, insurance, guarantees and utilization of available financial instruments to avoid host-country's financial, economic and political risks. Under the scope of this literature, five strategies have been selected to evaluate their roles in managing political risks of international infrastructure development projects in EMs. They are; ***4.1. Buying political risk insurance, 4.2. Obtaining sovereign guarantee, 4.3. Guarantee from the public insurer(s), 4.4. Financial hedging of currency exposures, and 4.5. Dollarization of business transactions in USD $.***

Consequently, based on the comprehensive analysis and discussion of the preceding literature review this study sets its theoretical framework to propose that the ***identified political risk management mechanisms can reduce certain political risk element(s) in an international infrastructure development project*** as illustrated in the figure 6.

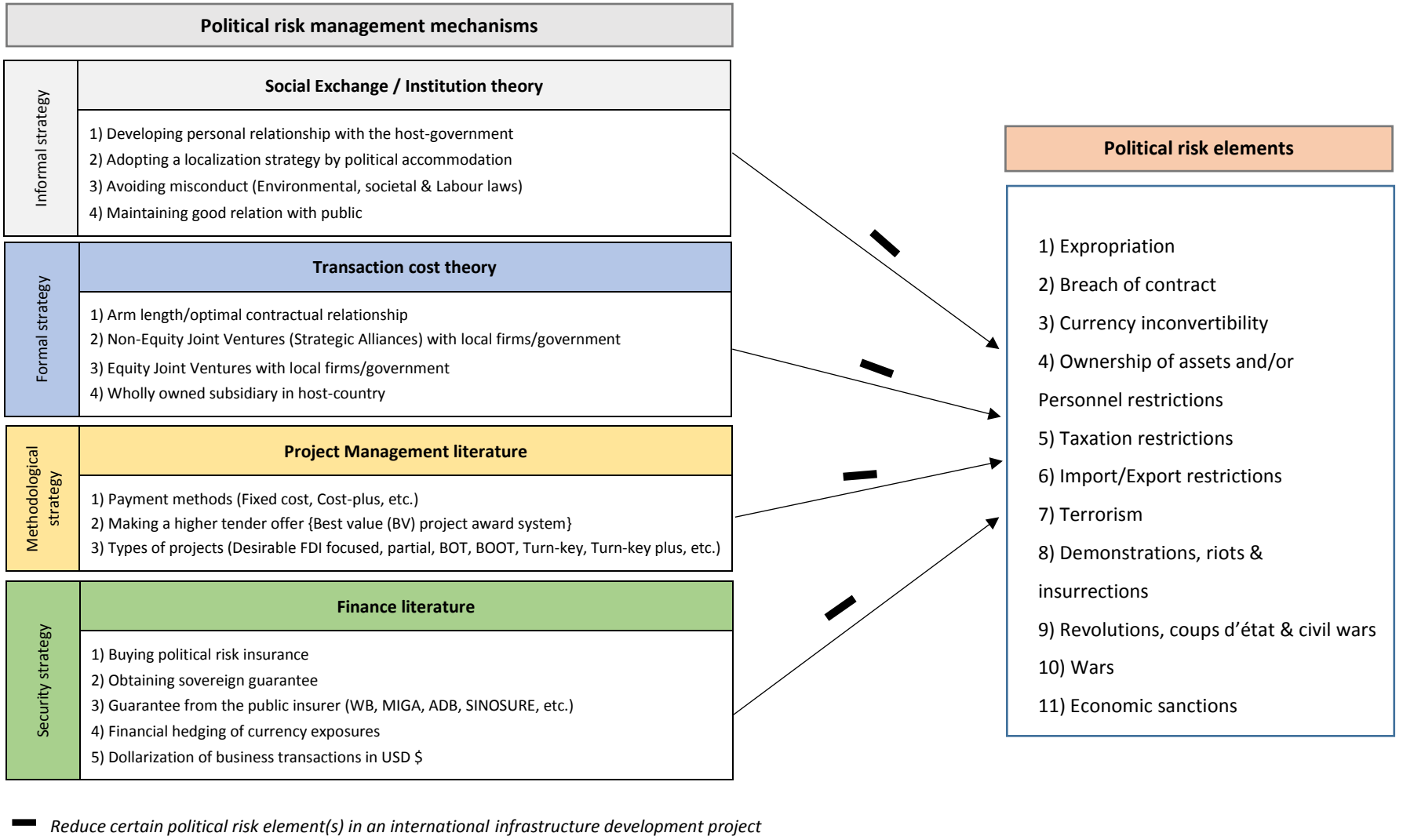


Figure 6. Theoretical framework of the study. (Own illustration 2020).

Chapter 3: Research Methodology

3.1 Introduction

This chapter constitutes a discussion of the research methodology applied in this thesis. To illustrate an overall summary of the research methodology, ***the research onion*** concept has been applied as suggested by Saunders et al. (2019: 129). The research onion concept introduces different steps and layers of the research methodology one at a time until it reaches to the core of its process (Saunders et al. 2019: 129). According to the concept as demonstrated in figure 7 below, the following section firstly introduces the research philosophy adopted for this study. Consequently, adopted research approach and research method are discussed. This section also provides justifications for choosing a particular research design strategy, case company, case countries and time horizon of conducting this study. Moreover, this chapter also discussed an overview of the research data collection, analysis techniques and procedures. Finally, the chapter concludes with a justification for the research validity and reliability.

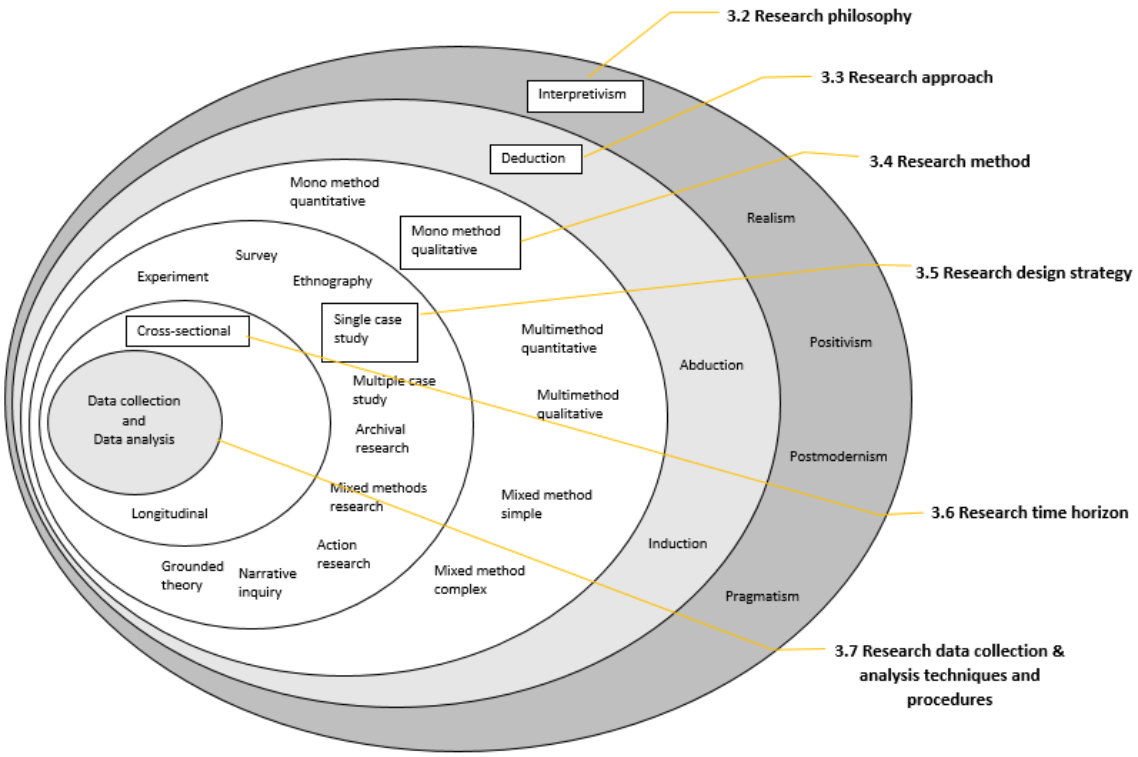


Figure 7. The research onion – *A summary of the Research Methodology applied in this study.* (Adapted from Saunders et al. 2019: 130).

3.2 Research philosophy

A research process involves a series of stages in which a number of assumptions and choices are to me made in each stage in order to systemically analyse and answer the underlying research question of the study (Burrell & Morgan 2016). In this instance, the foremost assumption or choice is to be made is regarding the adoption of a research philosophy (Saunders et al. 2019: 130). According to Saunders et al. (2019: 130) a research philosophy refers to a system of beliefs and assumptions in developing new knowledge.

In the quest of developing new knowledge based on beliefs and assumptions, research philosophy can broadly be divided into three main philosophies: *ontology, epistemology and axiology*. Moreover, in all of these three philosophical assumptions, business and management researchers are often influenced by the multidimensional set of continua of two opposite points of view popularly known as objectivism and subjectivism. (Saunders et al. (2019: 133, 134.)

Ontology as a research philosophy explains the nature of being, reality and existence (Vaskimo 2015; Saunders et al. 2019: 133). It attempts to investigate research assumptions such as *what is the nature of reality? What is the world like?* etc. (Saunders et al. 2019: 135). On the other hand, **epistemology** refers to research assumptions that explain what and how can we know what we know? What is considered acceptable knowledge? What constitutes good, acceptable and valid knowledge? What kinds of contribution to knowledge can be made? and how to communicate such knowledge to others (Burrell & Morgan 2016; Saunders et al. 2019: 135). Conversely, **axiology** refers to the role of the researcher's personal values and ethics that might impact and shape the way we go about research and let our (i.e., the researcher's) and research participants' values shape the research conclusion (Saunders et al. 2019: 135).

Objectivism in research embraces the assumptions of the natural science and assume that social realities or subject areas of the research are external and independent of the researcher's personal beliefs, values, awareness or knowledge. Researchers who believe in objectivism argue that there is only one true reality (universalism) of the social construct that

we research and objectively attempt to find a solution that has a degree of generalizability. (Patton 2015; Burrell & Morgan 2016; Saunders et al. 2019: 135.)

On the other hand, ***subjectivism*** in research adopts a much simpler and flexible point of view of the arts and humanities and postulates that social realities or subject areas of the research are largely influenced by the researchers', research participants' and other people's perceptions, knowledge, opinions, and different cultural and social constructs. Thus, in subjectivist approach there are multiple realities (relativism) exist for a similar research outcome and a big emphasis ought to be given on the attributed interpretation, specificity, and context of the study rather than drawing a universal generalizability of the research conclusion. (Patton 2015; Burrell & Morgan 2016; Saunders et al. 2019: 137.)

However, Saunders et al. (2019: 144) further divided the aforementioned three major research philosophies into five research philosophical positions in business and management research: *positivism, critical realism, interpretivism, postmodernism, and pragmatism*. A **positivist** research philosophical position adopts an objective stance where a researcher is detached and independent of what being researched and attempt to generalize the research findings as a universal law-like observable and measurable fact which has only a true reality. However, researchers who adopt a positive research philosophical position prefers a deductive approach and highly structured quantitative research method. Whereas, a **critical realist** research philosophical position adopts a researcher's value driven approach that consider knowledge and facts are historical and socially constructed where the research outcome can be largely influenced and biased by the researcher's and research participants' cultural and social experiences, knowledge and opinions. However, in this philosophy position a researcher takes a retroductive, in-depth historically situated analysis along with an objective stance and as much as possible to avoid mistakes, generalizations and biasness. (Saunders et al. 2019: 145.)

An **interpretivist** research philosophical position adopts a subjective stance where a researcher assumes that there are multiple meanings and realities of a social construct which are different across various cultures and societies and his personal beliefs, values, knowledge, experiences, etc. are part and dependent of what being researched. In this philosophical position much emphasis is given to the specific context of the study and the narratives,

perceptions, cultural experiences, and interpretations etc. of the research participants in understanding and drawing research conclusions to offer a new and richer understanding of the existing social contexts. Interpretivist researchers often prefer small sample size to conduct an in-depth qualitative investigations and offer contextual interpretations of the research outcomes to contribute novelty in the existing body of knowledge. (Saunders et al. 2019: 145.)

On the other hand, **postmodernism** challenges the power relations of the dominant ideologies and considers dominant ideologies as the truth and knowledge. Researchers who prefer postmodernism are influenced by their personal belief, values and preferences of the previous knowledge and experiences. In-depth qualitative study of different texts, realities and their anomalies against themselves are the primary focus of this research philosophy. However, a critical challenge of the dominant views and a quest to think what is an acceptable way of thinking to give a voice to the alternative disregarded views are one of the primary outcomes or contributions to new knowledge development that this research philosophy prevails. (Saunders et al. 2019: 150.)

Whereas, **pragmatism** adopts an action oriented research to offer a practical solution for a given research problem (Kelemen & Rumens 2008; Saunders et al. 2019: 151). In pragmatism, a researcher considers previous research findings, available theories, concepts, and hypotheses, etc. as contextual instruments of thoughts and actions and determine their roles in offering a practical solution to an underlying research problem. This philosophy can take both objective and subjective views while dealing with facts, social realities and values. Thereby, researchers are largely influenced by their personal doubts, beliefs, values and previous knowledge when dealing with pragmatic research view. (Saunders et al. 2019: 151.) Furthermore, in pragmatism a multiple realities exist for a same social construct and considers there are always many ways to interpret and undertake research to solve a research riddle. Thus, based on the underlying research problem and research question a range of methods such as, mono quantitative, mono qualitative, mixed, multiple, and action research, etc. can be applied as long as a practical solution can be offered from the study. (Kelemen & Rumens 2008; Saunders et al. 2019: 151.)

Consequently, based on the preceding discussion this thesis adopts a ***subjective interpretivist epistemological research philosophy*** for the following reasons;

- This study adopts ***a subjective point of view*** because as a researcher I personally believe that political risk in international project operations are social realities or subject areas which can be largely influenced by my research participants', other people's and my personal perceptions, knowledge, opinions, and different cultural and social constructs. I also explored by the previous literature review section that there are multiple realities (relativism) exist for a similar research outcome (i.e., management of political risk in international project operations) and a big emphasis ought to be given on the attributed interpretation, specificity, and context of the study, company and country rather than drawing a universal generalizability of the research conclusion (Patton 2015; Burrell & Morgan 2016; Saunders et al. 2019: 137) as not every country, every firm or every industry faces the same degree of political risks in their international project operations (Oetzel 2005; Al Khattab et al. 2007, 2011; Voelker et al. 2008; Chang et al. 2018; Han et al. 2018).
- This study adopts ***an interpretivist epistemological research philosophical position*** because as a researcher I personally assume that there are multiple meanings and realities of a social construct exist which are different across various cultures and societies and my personal beliefs, values, knowledge, experiences, etc. are part and dependent of what I am going to research. By this philosophical stance, I want to emphasis on the specific context of the study and the narratives, perceptions, cultural experiences, and interpretations etc. of my case company's (i.e., the research participant) presence and management of political risks while undertaking infrastructure development projects in China, Bangladesh, India and Pakistan. And, I aim to understand and draw research conclusions to offer a new and richer understanding of the applied mechanisms and management of the political risk in international project operations in these four countries in order to contribute new insights into the field of international project management and political risk management body of knowledge. Moreover, this philosophical position also support my choice of the research design and preference of a small sample size to conduct an

in-depth qualitative investigations to offer contextual interpretations of the research outcomes as indicate by Saunders et al. (2019: 145).

3.3 Research approach

A deductive research approach is adopted in this study. This was imperative because of the nature of the study as it has been built upon existing literature. Wilson (2014) and Saunders et al. (2019: 153) argue that deductive research approach builds on a clear theoretical framework and series of propositions and then data are collected to establish and test the suitability of the proposed theoretical framework and propositions.

As such this study concurs with the arguments of Wilson (2014) and Saunders et al. (2019: 153) and attempts to test a proposed theoretical framework and the underlying proposition that ***'the identified political risk management mechanisms in the theoretical framework of this study can reduce certain political risk element(s) in an international infrastructure development project'*** which was built based on the comprehensive review of the existing literature on the political risk management and international project operation literature.

Moreover, qualitative data from research respondents' interviews were also collected to test and evaluate the suitability of the proposed theoretical framework and proposition which are related to the existing theories of political risk management and international project operation literature.

3.4 Research method

Research method is a systematic and focused measure to collect data and generate information to answer the underlying research problem or question of a study (Ghauri et al. 1995: 83). There are several research methods available throughout the research methodology literature such as mono-quantitative, mono-qualitative, multi quantitative, multi qualitative, mixed method simple, and mixed method complex, etc. (Saunders et al. 2019: 130).

However, this study adopts **an exploratory mono-qualitative research methodology**. This research method has been chosen because of its widespread popularity in the previous political risk management research (Hadjikhani 1998; Lee 1999; Miller & Lessard 2001; Jefferies et al. 2002; Oetzel 2005; Ahola et al. 2007; Zou et al. 2008; Han et al. 2018; Mayer 2018). Qualitative exploratory research method is a useful tool when it comes about opening the 'black box' of a phenomenon to its entirety and answer the *what*, *how* and *why* questions (Yin 2003; Doz 2011: 583; Han et al. 2018). This study also aims to discuss and explore the *what*, *how* and *why* a DMNE from Finland perceives as political risks and how it goes about managing such risks while undertaking major infrastructure development projects in the EMs of Bangladesh, China, India and Pakistan.

An exploratory mono-qualitative research methodology is also appropriate for this study as because it wants to examine and explain the existing concepts discussed in the preceding literature review in terms of their meaning and interpretation to a specific context of analysis which is relevant to the perspective of managing different political risks by a DMNE in the infrastructure development projects in the EMs (Lee 1999; Ketokivi and Choi 2014; Vaskimo 2015).

Furthermore, this study seeks to collect and use qualitative data to understand and gain an in-depth insight of the perception of managing political risks from a DMNE's point of view in four of the major EMs through the landscape of four different schools of thoughts: social exchange / institution theory, transaction cost theory, project management literature and finance literature. Thus, this study would help in offering new theoretical insights from DMNE's point of view (Ghauri et al. 1995: 84) and enable the managers of political risks to re-

conceptualize the notion of managing political risks of their international infrastructure development projects in the EMs of Bangladesh, China, India and Pakistan.

Lastly, the choice of research design through a single case study analysis and collection of primary data via semi-structured interviews also support the view of adopting an exploratory mono-qualitative research methodology to conduct this study (Jankowicz 1991: 159; Ghauri et al. 1995: 86; Denscombe 2010: 282-293); Han et al. 2018).

3.5 Research design strategy

A research design strategy is particularly important to collect appropriate data and information in order to answer the research questions and meet with the research objectives (Saunders et al. 2007: 135). Saunders et al. (2007: 131) maintained research design strategy as a 'blue print' or 'the general plan' of the research regarding what strategies and choices are to be adopted in order to effectively answer the underlying research question(s) of the study. Whereas, Ghauri et al. (1995: 26) considered choice of research design as the overall strategy to obtain important information necessary to conduct the study. Furthermore, Ghauri and Grønhaug (2005: 56) argue research design strategy as *"the overall plan for relating the conceptual research problem to relevant and practicable empirical research"*. However, despite differences in the definitions of research design strategy, most arguably it can be viewed as an action plan of obtaining necessary information for getting from the research questions to research conclusions (Rowley 2002).

Extant literature on the research design strategy represents a variety of strategies. For instance, Yin (2003), Wilson (2014), and (Saunders et al. 2007: 135, 2019: 130) argue that a researcher can choose one of these strategies to conduct a study such as; *Experiment, Survey, Ethnography, Case study: Single vs Multiple & Holistic vs Embedded, Archival research, Action research, Narrative inquiry, Grounded theory or a Mixed method research combining two or more of these research strategies.*

However, while choosing a particular research design strategy it is imperative to review researcher's research constraints such as time, budget and skills (Ghauri et al. 1995: 26), researcher's research aim, question(s) and objective(s) (Yin 2003) and amount of theory available in the intended research area (Ghauri and Grønhaug 2005: 115). Furthermore,

Ghauri et al. (1995: 88), Yin (2003), and Ghauri and Grønhaug (2005: 115) suggest that given with research constraints of time, budget and inadequate amount of available theories in investigating a *'why'* and *'how'* type of research question, a case study method can be an ideal choice.

Moreover, Fellows & Liu (1997) and Jefferies et al. (2002) argued that a case study method is an excellent choice when the research aim is to generate a deep but narrow understanding of the research results. This study particularly accepts this view as the researcher's aim is to comprehensively study the notion of managing political risks of the highly complex infrastructural development projects by a Finnish MNE *(A developed country MNE i.e., DMNE)* within the context of the EMs of Bangladesh, China, India and Pakistan. Thus, the study delimits and narrows its research results only relevant to highly complex infrastructural development projects, and it does not represent the overall situation of political risk management strategy for all types of international project operations by all types of organizations in all of the EMs of the world. Furthermore, a case study method will allow a possible empirical test of the research proposition and suggested theoretical framework as derived from the extant literature and thereby it can reinforce the important of managing political risks in international infrastructure projects undertaking in the EMs in particular.

Additionally, according to Yin (2003), a case study strategy is *''an empirical inquiry that investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident''.* As previously argued that political risk and political risk management strategy are social phenomenon and primarily influenced by the host societies' cultural, governmental and institutional aspects where there are no consensus on either the definition of the political risks or the strategies to manage such risks in the extant literature (Howell 2001; Hill 2002; Oetzel 2005; Al Khattab et al. 2007, 2008, 2011; Kardes et al. 2013, Chang et al. 2018, Han et al. 2018). Hence, to empirically investigate this poorly understood research area especially in the context of managing political risks of international infrastructure development projects in the EMs, this study reinforces the importance of choosing case study strategy as an ideal option. Lastly, since this study seeks to test, evaluate and validate the previously demonstrated political risk management strategies in the theoretical framework in a generic *'real world'* context, choice of a case study

strategy again corroborates with that of choice made in the previous research (Jefferies et al. 2002; Yin 2003).

However, case study strategy can be divided into four categories as suggested by Yin (2003) such as; *1. Single case study - holistic (single case and single unit of analysis), 2. Single case study - embedded (single case but multiple units of analysis), 3. Multiple case study - holistic (multiple cases but single unit of analysis), and 4. Multiple case study - embedded (multiple cases and multiple units of analysis).*

Considering the above mentioned suggestions from Yin (2003), this study adopts **a single case study - embedded strategy** as the scope of the research design strategy. This is a single case study - embedded strategy because the study attempts to look at a single organization's *(the case company)* political risk management experiences in several infrastructure development projects *(multiple units of analysis)* undertaken in the selected EMs.

In the following sub-section more detailed rationales for choosing a single case study strategy, and case study context for this study are discussed.

3.5.1 Single case study strategy

A single case study strategy adopts and reviews a single case or organization to conduct the entire study (Ghauri et al. 1995: 93; Yin 2003; Saunders et al. 2007: 140). Yin (2003) and Saunders et al. (2007: 140) argued that a single case study strategy is particularly an appropriate choice when it comes about observing and analysing a phenomenon which few have considered in the past for a detailed scientific investigation. Saunders et al. (2007: 140) maintained that this kind of research strategy aims to review, observe and analyse an actual case in order to generate new perspectives or insights in furthering an established theory. Whereas, Ghauri et al. (1995: 93) and Yin (2003) argued a single case study strategy can be chosen as a pilot study with an aim to conduct a more comprehensive study later.

This study accepts all of these views as argued by Ghauri et al. (1995: 93), Yin (2003), and Saunders et al. (2007: 140) and wishes to use this thesis as a pilot study towards a more comprehensive PhD study later.

It is notable that a single case study strategy can be considered as a subject of criticism because of its less systematic procedure and reliability, less generalizability, too much subjectivism and deep personal involvement of the researcher which can affect the research results (Yin 2003; Gog 2015). However, this study adopts several strategies and suggestions from previous research to avoid these shortcomings of applying a single case study strategy as discussed in the following sections but more particularly in the research data collection & analysis techniques and procedures section.

3.5.2 Case study context

As discussed earlier the unit of analysis is multiple for an individual firm that has recently executed infrastructure development projects in Bangladesh, China, India and Pakistan. These four Asian EMs have been chosen in order to compare and contrast the case firm's perception and experience of managing political risks in IPOs.

3.5.2.1 Case study Company

Wärtsilä Corporation is one of the global leaders of manufacturing smart technologies and complete life cycle solutions for sustainable marine, power and energy markets. It has a strong presence in over 200 locations of more than 80 countries and employs nearly 19,000 employees. This company's main business focused areas are sustainable marine, energy and business services industries. The company is particularly competent in delivering large scale international infrastructural development projects in the marine and power & energy generation industries. For instance, as of 2019 the company has delivered power plants to 180 countries. Moreover, Wärtsilä Corporation has a strong presence in the selected EMs for this study. For instance, 38.1% of the group net sales in 2019 was generated from Asian markets. (Wärtsilä Corporation 2019.) However, the following table 10 briefly represents Wärtsilä Corporation's business profile.

Table 10. Case company profile as of 2019. (Adapted from Wärtsilä Corporation Annual Report 2019, Wärtsilä Corporation 2019).

Name	Wärtsilä Oyj Abp / Wärtsilä Corporation
Year of establishment	1834
HQ	Helsinki, Finland
Main business areas	Marine, Energy and Business Services
Global presence	Over 200 locations in more than 80 countries
Net sales	5,170 Million Euros
Operating profit in %	36.2%
ROI rate	11.5%
Share index	7.52 Euro / Per share
Earnings per share (EPS)	0.37 Euro
Total employees	18,795

More information about the company is available at its Annual report of 2019 <*contains web link*>.

3.5.2.2 Selected countries and their political country risk profiles for this study

Wärtsilä Corporation's four of the highly complex international infrastructural development projects executed in the EMs of Bangladesh, China, India and Pakistan have been selected for this study. In the following sub-sections, briefly the selected countries and their political country risk profiles are discussed.

3.5.2.2.1 Bangladesh's political country risk profile

Bangladesh is one of the frontier EMs with a total population of over 160 million and a USD$ 274 billion in GDP economy as of 2018 (World Bank 2020a.) It has been demonstrating a tremendous economic growth and social development over the past decades in terms of ready-made garments export, foreign remittance earnings, women empowerment, massive scale income poverty reduction and achievement of many Sustainable Development Goals (SDGs) indicators (IMF 2019a).

Although IMF's (2019a) report on Bangladesh economic outlook estimated a record breaking Real GDP growth of 8% and 7.6% in 2019 and 2020 respectively, World Bank (2020a) presents data on Bangladesh economic outlook after considering the COVID-19 global pandemic and followed by a global recession that the country will experience a major disaster in the Real

GDP growth rate at only 1.6% and 1% in 2020 and 2021 respectively. However, regardless of the present COVID-19 situation, the country is expected to be one of the middle-income countries by 2024 (IMF 2019a; World Bank 2020a).

Bangladesh proposes a massive scale international business opportunities for many DMNCs in the manufacturing, rural infrastructure development, healthcare, pharmaceuticals, education, information technology, climate change, agriculture, and energy generation industries (Goncalves et al. 2015: 108; World Bank 2020a). For instance, The World Bank alone has issued a USD$ 2.4 billion support to Bangladesh for clean and renewable energy generation and distribution systems aiming to alleviate poverty and enhanced rural infrastructural development (World Bank 2020a). Moreover, Bangladesh is also one of the major recipients of different international foreign direct investments. World Bank (2020b) reports that Bangladesh has received about USD$ 1.597 billion as net inflows in foreign direct investments in 2019.

However, doing business in Bangladesh can be of extreme troublesome experience for many DMNEs. For instance, the World Bank (2020c) has recently classified Bangladesh economy as 168th rank out of 190 economies in its report on ease of doing business. Whereas, Transparency International (2019) has ranked Bangladesh as 146 out of 198 countries for having a high level of perceived public sector corruption and bureaucracy regarding doing businesses. Moreover, MIGA (2009) argued some MNCs *(a majority of 42% i.e., 5 respondents out of 12 participated in the survey)* perceived Bangladesh as a moderate politically risky country to invest in international business.

More information about Bangladesh's economic and political situation is available at The World Bank in Bangladesh, IMF in Bangladesh, International Country Risk Guide – Bangladesh and Ministry of Commerce, Government of Bangladesh. <*contains web link*>.

3.5.2.2.2 China's political country risk profile

China is a major global hub for low-cost manufacturing base along with one of the biggest consumer markets for many DMNCs involving a total population of 1.39 billion and a USD$ 13.608 trillion worth of GDP economy as of 2018 (Cavusgil et al. 2013: 165; World Bank 2020d). China has a strong economy that is exclusively based on some of the major industries such as mining, steel, aluminium, iron, machinery, petroleum, textiles, information technology, electronics, telecommunications technology & equipment, automobile, fishing, agriculture and consumer products, etc. (Cavusgil et al. 2013: 165; World Bank 2020d).

Since the opening up and major reformation of the Chinese economy in 1978 from a conservative closed to a market economy, the country has experienced major economic progress and today China belongs to a upper-middle income economy which is also the 2nd largest in the world (World Bank 2020d). Moreover, a USD$ 13.608 trillion worth of GDP economy (World Bank 2020d) has also made China as the single largest energy consumer of the world (Economist 2020). Thus, a huge market for clean power & energy generation and distribution exist in this market (Cavusgil et al. 2013: 166). However, Chinese economy is still controlled and governed by the communist regime but with an open market approach to attract competition and foreign investments (Cavusgil et al. 2013: 165). For instance, World Bank (2020e) reports that China has received a total of USD$ 155.815 billion in net FDI inflows in 2019.

However, doing business in China can be of moderately wearisome experience for many DMNEs. For instance, the World Bank (2020c) has recently classified China economy as 31st rank out of 190 economies in its report on ease of doing business. Whereas, Transparency International (2019) has ranked China as 80 out of 198 countries for having a high level of perceived public sector corruption, regulation to control private enterprises and high level of bureaucracy regarding doing businesses. Moreover, MIGA (2009) argued some MNCs *(a majority of 51% i.e., 121 respondents out of 237 participated in the survey)* perceived China as a moderate politically risky country to invest in international business.

More information about China's economic and political situation is available at The World Bank in China, IMF in China, International Country Risk Guide – China and Ministry of Commerce, Government of China. <*contains web link*>.

3.5.2.2.3 India's political country risk profile

India propose a massive scale international business opportunities for many multinational companies with a projected Real GDP of 7.5% in 2020 and population of 1.2 billion (IMF 2019b; World Bank 2019). World Bank (2017) suggests that in 2017, India has significant international trading with The USA, China, The EU, Singapore and The UAE. It is also one of the biggest recipients of international foreign direct investment in the world. For instance, World Bank (2020f) submits that in 2019, India received about USD$ 50.605 billion as foreign direct investment.

Even though being considered as one of the emerging tigers of the BRIC nations, India is not immune to its political and some extend of the country risks. For instance, the World Bank (2020c) has recently classified Indian economy as 63rd rank out of 190 economies in its report on ease of doing business. Whereas, Transparency International (2019) has ranked India as 80 out of 198 countries for having a high level of perceived public sector corruption regarding doing businesses. Moreover, MIGA (2009) argued some MNCs *(a majority of 46% i.e., 94 respondents out of 204 participated in the survey)* perceived India as a moderate politically risky country to invest in international business.

Furthermore, poor gross infrastructural development, high tariffs, public sector perceived corruptions, bureaucratic red tape processes etc. remain as some of the major challenges to conduct international businesses in India (Bensidoun et al. 2009). OECD (2008) argued compared to other BRIC countries, the governmental tendency of protectionism and high tariffs would still remain higher in India. However, Aggarwal (2009) argued that despite these differences, present efforts of the Indian government towards infrastructural development and implementation of internet-based technologies would increase the attractiveness and ease the difficulties of doing business in India in the near future.

Regardless of the international business adversities, India has a diverse economic platform ranging from traditional framing to manufacturing to IT services. Airport & ground handling,

electric power generation, textile and agricultural manufacturing, machinery & mining, production of telecommunication equipment, food processing & distribution, education, IT services, and outsourcing etc. are some of the major areas where there are significant promising growth rates available for India. (US Commerce, 2011a]; Cavusgil et al. 2013: 161-163).

More information about India's economic and political situation is available at The World Bank in India, IMF in India, International Country Risk Guide – India and Ministry of Commerce and Industry, Government of India. <*contains web link*>.

3.5.2.2.4 Pakistan's political country risk profile

Pakistan is one of the important new frontier Asian EMs with important strategic endowments and development potential (World Bank 2020g). It has been making significant progress in macroeconomic stability over the past decades particularly with the help of its increasing youth population (World Bank 2020g) and governmental steps to liberalize international trade along with the commitments and assistances provided by the international development communities such as the World Bank, WTO, and IMF (Cavusgil et al. 2013: 192). Today Pakistan has a total population of 212.21 million and a USD$ 314.588 billion GDP economy as of 2018 (World Bank 2020g).

Pakistan offers impressive growth opportunities for international business and foreign investments in several important industries such as airport and ground support equipment, infrastructure development, oil and gas excavating equipment and services, telecommunications equipment and services, construction equipment, electrical power systems and power generations, computers, textiles, manufacturing, and transportation and logistics services, etc. (US Commerce 2011b]. Moreover, Pakistan has important and strategic business relationships with major economies of the world such as the EU, The UK, The USA, Japan, and Canada and so on and major MNCs have their active presence within the country. For instance, in 2009, The USA has issued a USD$ 5 billion assistance fund through the Enhanced Partnership Agreement with the Pakistan Act of 2009 to developed important infrastructure for facilitating international trade (Cavusgil et al. 2013: 192).

Furthermore, Pakistan is also a major recipient of international FDIs. For example, in 2019 the country has a net FDI inflows of over USD$ 2.221 billion in different industries (World Bank 2020h) However, active military presence within the country's political structure, several military coups since its independence, high levels of political instability, risks of unprecedented terrorist attack, and a close proximity to Afghanistan, etc. are continuously affecting international investors' confidence on foreign investments in Pakistan (EIU 2011; Cavusgil et al. 2013: 191-194). For example, World Bank (2020h) submits that Pakistan is experiencing a gradual decline in incoming net FDIs for the last three years where the net FDI inflows have been reduced to USD$ 2.221 billion in 2019 from USD$ 3.232 billion back in 2017.

As such, doing business in Pakistan can be of extreme difficulty for many DMNEs. For instance, the World Bank (2020c) has recently classified Pakistan economy as 108th rank out of 190 economies in its report on ease of doing business. Whereas, Transparency International (2019) has ranked Pakistan as 120 out of 198 countries for having a high level of perceived public sector corruption and bureaucracy regarding doing businesses. Moreover, MIGA (2009) argued some MNCs *(a majority of 44% i.e., 4 respondents out of 9 participated in the survey)* perceived Pakistan as a high politically risky country to invest in international business.

More information about Pakistan's economic and political situation is available at The World Bank in Pakistan, IMF in Pakistan, International Country Risk Guide – Pakistan and Ministry of Commerce, Government of Pakistan. <*contains web link*>.

Even though this study adopt an qualitative approach to assess and analysis the political risk situations of these selected countries against the Finnish case study company, the following table 11 and the figure 8 represent the importance of choosing and analysing the political risk situations of these four selected countries as well.

Table 11. Selected countries' political risk ratings from 2010 to 2016. (Adapted from PSR Group 2016).

Country	2010	2011	2012	2013	2014	2015	2016	Mean	Risk status*
Bangladesh	53.88	49.63	48.50	48.17	49.63	51.17	52.75	50.53	High risk
China	64.46	60.92	61.13	61.29	57.04	56.38	55.00	59.46	High risk
Finland	92.08	90.88	88.96	87.29	86.63	87.38	86.83	88.58	Very low risk
India	62.04	58.33	57.63	58.83	60.46	61.63	62.88	60.26	Moderate Risk
Pakistan	46.25	45.17	44.96	48.79	50.08	48.58	50.54	47.77	Very High Risk

Risk status score* — ***1.*** *0.0% to 49.9% = Very High Risk;* ***2.*** *50.0% to 59.9% = High Risk;* ***3.*** *60.0% to 69.9% = Moderate Risk;* ***4.*** *70.0% to 79.9% = Low Risk;* ***5.*** *80.0% or more = Very Low Risk.*

Drawing on the above table 11 it can be argued that this study's choice of the countries confirms that all of these selected countries have a contrasting political risk situations than that of Finland. While Finland enjoys very low risk profile for political risk, other countries such as Pakistan, Bangladesh, China, and India have significant political risk implications for international firms. Thus, it would be an interesting topic for research to compare and contrast how a Finnish firm being coming from a low risk political environment perceives and manages different political risks situation's in these four high political risk environments.

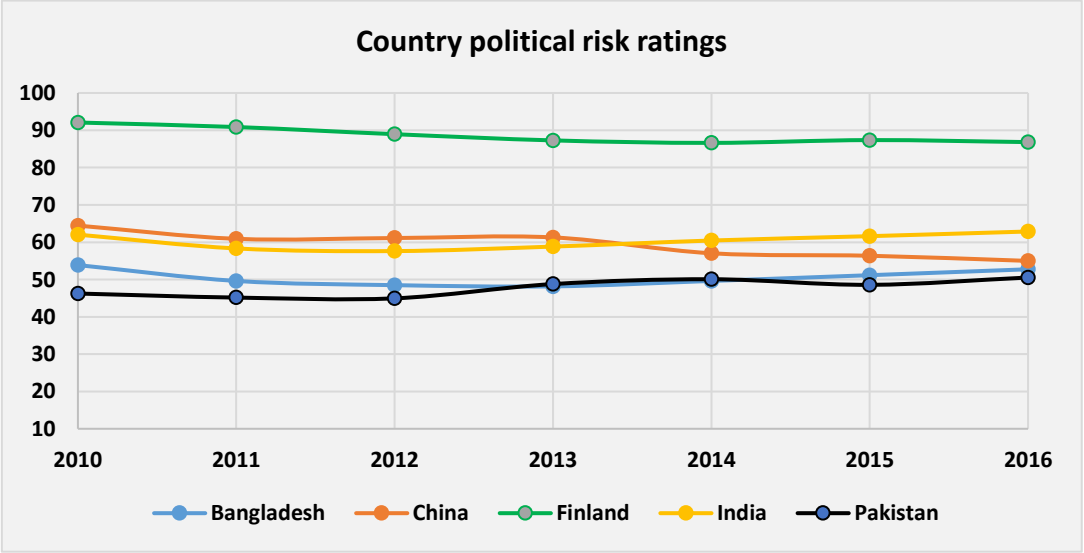


Figure 8. Country political risk ratings from 2010 to 2016. (Adapted from PSR Group 2016).

3.6 Research time horizon

A cross-sectional time horizon has been adopted to conduct this research. Cross-sectional time horizon refers to the study of a particular phenomenon at a particular point of time (Saunders et al. 2007: 148). One of major reasons to choose a cross-sectional time horizon is that the constraint of the research completion time allocated to complete this study. Meanwhile, this time horizon has some important advantages that are suitable for this study, such as providing a potential snapshot understanding of contemporary political risk management strategies applied by the case company in its one-off international projects in the selected countries (Vaskimo 2015). Moreover, an explorative nature of the study along with a suitable match with the research context, motive, and research design of a qualitative single case study method, and research question, etc. have also motivated the choice of such research time horizon (Saunders et al. 2007: 148; Vaskimo 2015).

3.7 Research data collection & analysis techniques and procedures

The following sub-sections address sampling, data collection, interview structure & operationalization, recording of interview primary data, role of the researcher, data analysis techniques and procedures that are utilized for this study.

3.7.1 Sampling technique and sample size

A non-probability purposive or judgemental *(A typical case)* sampling technique has been adopted for this research. In a non-probability sampling technique, the probability of a case selection out of a population of cases in unknown and it is a most commonly preferred sampling technique for research that requires exploratory analysis of primary data. Thus, the choice of an exploratory case study research methodology perfectly suits with a non-probability sampling technique. (Saunders et al. 2007: 207.)

However, there are five different types of non-probability sampling techniques available for researchers, such as: *Quota, Purposive or Judgemental, Snowball, Self-selection, and Convenience* (Saunders et al. 2007: 207). Based on the preceding discussion about the research context, motive, research design of a qualitative single case study method, and

research question, etc. a purposive or judgemental sampling technique best suits this research's sampling requirement.

Saunders et al. (2007: 230) argued that a purposive or judgemental sampling technique can be an ideal choice especially when dealing with a very small sample size *(in particular, a single case study research method)* and researcher's personal knowledge, experience and judgement that provide substantial confidence to best address and answer the underlying research objective(s) and the research question(s). Furthermore, Saunders et al. (2007: 226) maintained that within the constraints of resources and time to complete the research if a single case study can provide with an information-rich context to explanatorily analyse an important phenomenon, a non-probability purposive or judgemental sampling technique can be effectively utilized. This research certainly aims to study an information-rich context to explanatorily analyse the importance of managing political risk in IPOs within the constraints of resources and time to complete the research. Thus, the choice of a purposive or judgemental sampling technique for this research corroborates with that of the previous studies conducted in this research stream (Muchenga 2016).

However, Saunders et al. (2007: 232) and Patton (2015) submitted that there are five important grounds upon which the selection choice of a particular purposive or judgemental sampling technique can be justified, such as: *i) if the case is an extreme or deviant case, ii) a heterogeneous or maximum variation case, iii) a homogeneous case, iv) a critical case, and, v) a typical case.*

This research most vividly matches with the criteria of **a purposive or judgemental sampling technique – a typical case situation**. One of the major reasons for that is the ability to use the political risk management perception and experience of Wärtsilä Corporation in Bangladesh, China, India and Pakistan as an illustrative example for non-definitive profiling of political risk management phenomenon to the reader of this research who are not familiar with the subject matter. Secondly, as Wärtsilä Corporation is one of the global leaders in its industry, this case can also provide a representative point of view regarding the importance of managing political risks of IPOs by a typical DMNE in the EMs. (Saunders et al. 2007: 232.)

3.7.2 Data Collection

Data collection for a study largely depends on its research strategy, question(s) and objective(s) (Saunders et al. 2007: 290). It is considered as a process of gathering empirical data from a variety of sources necessary to answer and analyse a research question (Wilson 2014:15). Extant literature suggest that two kinds of data can be collected: primary, and secondary (Ghauri et al. 1995: 54; Saunders et al. 2007: 290) by employing several methods such as participant observations, structured, semi-structured, unstructured in-depth, or focus group interviews, survey, documents, and narrative accounts, etc. (Ghauri et al. 1995: 54; Rowley 2002; Yin 2003; Saunders et al. 2007: 249, 310-313).

In this research to ensure data collection reliability and validity **several data collection methods** such as participant observations, semi-structured interviews, academic and commercial published documents, etc. were utilised to collect both primary and secondary data. Moreover, a case study protocol, most commonly known as the interview guide (Bryman & Bell 2011; Robson 2011; Vaskimo 2015) was also created and piloted before conducting the actual semi-structured interviews. The case study protocol provided opportunity to include important list of themes around political risk elements, and their management strategies and related open-ended questions aimed to be discussed during the interviews. **Appendix B** provides a snapshot of the utilised case study protocol for this study.

The case study protocol was sent out to the research supervisor for review and comment. Based on the constructive criticism from the research supervisor, a revised interview guide and semi-structured interview questionnaire were finalized to be utilized for data collection.

3.7.2.1 Primary Data

As mentioned earlier primary data for this study was collected through **face-to-face semi-structured interviews.** Primary data was mostly collected to address the research questions. Since the respondents had opportunities to provide detailed personal opinions, past experience and comprehensive analysis of the asked open-ended questions, the primary data was extremely information-rich and choice of the face-to-face semi-structured interviews corroborates with earlier research (Ghauri et al. 1995: 65; Saunders et al. 2007: 249, 310-313).

3.7.2.2 Secondary Data

A variety of secondary data was collected by adopting an **area based multiple source secondary data method** (Saunders et al. 2007: 251-253). These collected data have been extensively utilized throughout this study to complete the thesis introduction, literature review, data analysis and major findings chapters. Moreover, secondary data retrieved from various published academic journals, books, newspaper coverages, etc. predominately in the international project management subject area used in the study assisted to develop the theoretical framework, research proposition, semi-structured interview questionnaire and corroborate with the interviewee responses. Furthermore, case company's annual reports, press releases and corporate website along with relevant websites of the selected countries' have assisted in representing the case company background and the selected countries' political risk profiles in a contextual manner in this study.

Lastly, the collected information from the secondary data sources were compared against information gathered from the actual interviews to ensure ***data triangulation*** which is a data collection accuracy and validity measurement for studies that collect primary data via semi-structured interviews. (Ghauri et al. 1995: 93; Rowley 2002; Saunders et al. 2007: 139).

3.7.3 Semi-structure interview structure and operationalization

The potential interviewees for the semi-structured interviews were approached through the research supervisor's and the author's personal networks. At first, an invitation to participate in this research, the research outline and the case study protocol along with necessary explanation of the important background information, literature review and themes to be covered during the interviews were made clear and available to the interviewees via personal communication at least a week before. Thus the author ensured that the respondents were comfortable and familiar with the intended semi-structured interview topics, questions and themes. Moreover, this approach has also given opportunity to ask if the interviewees would like to prefer anonymity based on the EU General Data Protection Regulation (GDPR) 2018 and how the personal data will be processed and reported in this study. The Case company and respondents were guaranteed complete confidentiality based on the GDPR regulations. Furthermore, based on the interviewees' request for anonymity each respondent has been identified and reported as respondent 1, 2, 3, etc. instead of using their actual names in the data analysis section of this study. However, **Appendix A** provides a snapshot of the utilised research invitation and research information sheet for this study.

Lastly, a total of four (4) semi-structured interviews were conducted during the summer of 2020. Each interview lasted for at least for 75 minutes to maximum 120 minutes. After the interviews were completed a thank you correspondence note has been sent out to each respondent for appreciating their valuable participations in this study. Moreover, the respondents were regularly communicated with the progress of the data recording, analysis, and reporting. Nevertheless, verbal or written correspondences were always appreciated between the author and the respondents during the course of data collection and data analysis stages to clarify any questions that either parties had before, during and after the interviews. **Appendix C** provides a snapshot of the utilised semi-structured interview questionnaire for this study.

Table 12. Semi-structured interview schedule. (Own illustration 2020).

Case company	Interviewee	IPO host-country	Date & Time	Medium	Place
Wärtsilä Corporation	1	Bangladesh	1.10.2020 14:00 – 16:00	Zoom	Dhaka, Bangladesh
	2	China	18.09.2020 16:08 – 17:50	Face-to-face	Vaasa, Finland
	3	India	24.09.2020 13:00 – 14:45	Zoom	New Delhi, India
	4	HQ Global Perspective & Pakistan	5.10.2020 16:00 – 14:00	Zoom	Vaasa, Finland

However, interview questions were grouped into different sections to smoothly operationalize the interview discussions and data recording. The following table 13 provides a snapshot of the operationalization of the interview discussion.

Table 13. Semi-structured interview operationalization. (Own illustration 2020).

Question section	Question numbers	Intended outcome(s)
1. Respondent profile	1 - 5	To know about the respondents' profile, i.e., educational, experience, and job responsibilities etc.
2. Case company	6 – 10	To know about the case company's profile.
3 & 4. IPO project and host-country	11 – 28	To know about the executed IPO project and general experience in the host-country.
5. Elements of the political risk(s)	29 - 31	To know about the experienced elements of the political risk(s) while executing the IPO in a selected host-country.
6. Methodology to identify political risk(s)	32 - 34	To know about what methodology that the case company employed to identify different political risks before and/or during executing the IPO in a selected host-country.
7. Identification of the political risk(s) during the life cycle of the IPO	35 - 39	To know about what kind of political risks were identified or emerged during the life cycle of the IPO in a selected host-country.
8. Importance of managing political risk in IPO	40 - 44	To know about interviewees' professional and personal opinions regarding the importance of managing political risk in IPOs.
9. Political risk management mechanism	45 - 46	To know about different political risk management mechanisms based on social exchange/institutional theory, transaction cost theory, project management literature and finance literature that the case company employed to manage identified political risk(s) while executing the IPO in a selected host-country.

3.7.4 Recording data

All of the interviews were recorded on the electronic device of the author upon receiving prior consent to do so from each of the interviewees. Important notes, observations and suggestions on the research outline and project were actively taken on board during each interview. Subsequently, to ensure accurate recording of valuable insights and data from the interviews, the golden rule of recording or transcribing each interview within the 24 hours' time frame has been strictly followed (Ghauri et al. 1995: 71; Saunders et al. 2007: 291). **Appendix D** provides a snapshot of the anonymised summary of the interview transcripts utilized in the data analysis section of this study.

3.7.5 Role of the researcher

An **observer as participant** role of the researcher has been adopted in this study. This role was particularly well suited because of the purpose of the research, research question(s) and objective. During the data collection sessions, the author *(the researcher)* revealed his identity to his interviewees and facilitated the interview discussions merely as an observer without being actively involve and deliberately influence the answers given by the interviewees. Moreover, this stand of the researcher's role helped the author to maintain a good ethical position throughout the data collection process as there were no instances where the author's personal biases that could have affected the data collection and research process in any way. (Gill & Johnson 2002; Saunders et al. 2007: 288.)

3.7.6 Data analysis

Data analysis for this study has been conducted in several stages. At the initial stage, data analysis began with actively taking interview notes, making observations and paying attentions to the interviewees' non-verbal cues, gestures, voice tones, etc. while discussing the open-ended questions. Secondly, all of the audio recorded interviews were transcribed, grouped and reviewed several times to get intimately familiar with the content of the qualitative data in those transcripts. In this instance, the interview transcripts were grouped based on the operationalization of the studied IPOs in the respective host-countries such as in Bangladesh. This classification of the interview transcripts enormously assisted in gaining a

comparative political risk management situations undertaken by the case company in different host-countries.

Thirdly, by appointing codes to each interview transcript **a within-case analysis** was performed. The within-case analysis helped the author to get intimately familiar with the contents of the data. At this stage, the focus was to identify key political risk elements and political risk management strategies that were considered and adopted respectively in each IPO and host-country from the emerging data against the key themes mentioned earlier in the literature review and theoretical framework sections (Miles & Huberman 1994; Vaskimo 2015). Moreover, these emerging data from the within-case analysis were given different descriptive codes based on their data categories, i.e., *'political risk', 'political risk management strategy', 'theoretical root to political risk management', 'methodology to identify political* risk', *'life cycle of IPO', identification of political risk during the life cycle of IPO', etc.* and searched for within the transcripts and in the secondary data for further corroboration. Furthermore, the within-case analysis assisted in **unitising** a chunk of textual data for instance to validate research findings and argumentation based on their relevant data categories, i.e., *providing illustrative demonstration of what interviewees' discussed about experienced political risk element(s) in a host-country under the 'political risk' data category* (Saunders et al. 2007: 479).

Lastly, **a cross-case analysis** was performed to find similarities and differences in terms of the perception of political risk and adopted political risk management strategies in different host-countries (Miles & Huberman 1994; Oetzel 2005; Vaskimo 2015; Han et al. 2018). This analysis also assisted in recognizing relationship of the different data categories by **pattern matching** of the emerging data in order to determine or confirm the suitability of the utilized theories in the theoretical framework. Moreover, it has also helped enormously to empirically test the research proposition in pursuit of arriving to a generalizable research conclusion. Nevertheless, the pattern matching technique assisted in identifying the most common themes, contents, and constructs regarding the similarities and differences of the perception and management of political risks by DMNE when undertaking infrastructure projects in different emerging markets (EMs). (Oetzel 2005; Saunders et al. 2007: 489; Vaskimo 2015.)

It is worthwhile to mention that throughout the data analysis process different **analytic aids** such as *interview summaries* and *author's self-memos* were sought by the author to provide strong visible evidence that the data analysis process was consistent and connected with the collected data, research findings and results (Saunders et al. 2007: 485-487). **Appendix E** provides a snapshot of the analytic aids that were utilized in the data analysis process of this study.

3.8 Validity and Reliability

Extant literature suggests that in qualitative studies validity and reliability are considered as two of the most important issues whether to accept a study's findings as worthy of a valid and constructive addition to the existing body of the knowledge (Rowley 2002). Saunders et al. (2007: 150) and Denscombe (2010: 298) argue that validity of a study concerns the data collection and data analysis processes that provide evidence on the appropriateness of the investigated data relative to research design strategy, research question(s) and objective(s). In other words, validity confirms the findings of a study are really about what they appear to be about (Saunders et al. 2007: 150).

Whereas, reliability of a study confirms the repeatability of the consistent research findings if similar data collection and data analysis procedures are to be applied in other research. Thus a reliable study must demonstrate transparent evidence on how research conclusions were sensed based on collected raw or primary data. (Saunders et al. 2007: 149.)

To support the validity of this study it confirms several validity aspects i.e., *construct, internal and external or generalisability* of a qualitative study as discussed by Yin (2003). In this instance, **construct validity** of this study has been achieved by putting in together a systematic data collection and data analysis procedure considering Yin's (2003) two criteria of selecting the sample firm (i.e., the case company) and interviewees. Firstly, Yin's (2003) suggestion regarding the firm's length of internationalization experience has been strictly followed and thereby the case company was selected because of its many years *(at least more than 5 years)* of global scale internationalization experience. By following this first suggestion, this study ensures collection of meaningful primary and secondary data on the case firm's perception of managing political risks in IPOs.

Secondly, Yin (2003) suggested that interviewees ought to have sufficient knowledge, experience and influential decision making abilities to their company's international strategies and operational aspects. This suggestion has been strictly followed as well by selecting responsible international business strategy managers, international relations and operations managers and international project managers of the case firm as the most appropriate research participants/interviewees.

Moreover, a chain of evidence to support data analysis based on collected primary data has been demonstrated in different appendices. All of the interviews were audio recorded and transcribed by the author. The accuracy of the data interpretations and review of the primary data analysis were presented for discussion and checking to the thesis supervisor. Nonetheless, data triangulation has been confirmed by examining case company's internal documents and archival data, website information and annual report information against collected primary data.

A cross-case analysis to find similarities and differences in the emerging data by applying pattern matching technique enabled the study to achieve **internal validity** (Yin 2003; Oetzel 2005; Saunders et al. 2007: 489; Vaskimo 2015).

In terms of **external validity or research generalisability**, this study has attempted to generate a deep but narrow understanding of the research results by testing a theoretical framework derived from studied literature against a case study situation. The study particularly aimed at studying the notion of managing political risks of the highly complex infrastructural development projects undertaken by the case company within the context of the EMs of Bangladesh, China, India and Pakistan. Thus the study has delimited and narrowed its research results only relevant to highly complex infrastructural development projects, and it does not represent the overall situation of political risk management strategy for all types of international project operations by all types of organizations in all of the EMs of the world.

However, to maintain the **reliability** of the study, this research has ensured to develop and utilize a case study database that contains ***i.)*** Evidence of sent out invitation and participant information sheet to participate in this research *(please see appendix A)*; ***ii.)*** Case study protocol *(please see appendix B);* ***iii.)*** Semi-structured interview questionnaire *(please see*

appendix C); ***iv.)*** Audio records and transcripts of the interviews, data codes and categories, and unitising a chunk of textual data to be presented in the data analysis section wherever appropriate, etc. *(please see appendix D);* ***v.)*** Evidence of utilized analytic aids i.e., summaries, interview notes, and self-memos *(please see appendix E).*

Chapter 4: Empirical Findings

4.1 Introduction

This chapter represents the empirical findings as within-case and cross-case analyses which are derived from the conducted four semi-structured interviews. The chapter includes four subjections to introduce the interviewees' background information, the host-country's buyer(s) and case IPOs' background information, Wärtsilä HQ perceptions of political risk management globally, actually experienced political risks in selected case countries and utilised strategical mechanisms to control those risks IPOs in Bangladesh, China, India and Pakistan. The main objectives of this chapter is to get intimately acquainted with the collected empirical data for each of the executed IPO case in the selected countries, analyse what were the actual political risks experienced by Wärtsilä while undertaking infrastructural IPOs in those countries and how did the company best managed those risks. Moreover, this chapter also benefited the research to determine or confirm the suitability of the utilized theories in the theoretical framework and to empirically test the research proposition in pursuit of arriving to a generalizable research conclusion.

The chapter begins with providing descriptive information about the research interviewees, host-country's (Buyer) & IPO case backgrounds. A within-case analysis *(being the third sub-section in this chapter)* provides relevant information about each IPO case's utilised project type, physical structure of the IPO, utilised payment method, etc. to build a strong foundation for analysing Wärtsilä's context of managing political risks in its IPOs in Bangladesh, China, India and Pakistan. Lastly, a cross-case analysis provides a holistic and comparative analysis of the identified key political risk elements experienced by Wärtsilä in its IPOs, what were the effective methodologies to identify political risks that the company have utilised in its IPOs, what were the key stages/phases of the IPO life cycle (IPLC) and what stages/phases of the IPLC were prone to political risk management, why it were important to manage political risks in IPOs and what were the key political risk management mechanisms that proven effective for the company in its IPOs.

However, please not that to keep confidentiality of the respondents, their responses have been anonymised with Respondent 1, 2, 3, 4 codes. Whereas, host-country's buyers and IPO

names have been levelled as A, B, C and X, Y, Z respectively throughout the following analysis sections.

4.2 Interviewee backgrounds

Yin's (2003) suggestion regarding selection of appropriate interviewees have been strictly followed in this research. Yin (2003) suggested that ideal interviewees for case study research method must have sufficient knowledge, experience and influential decision making abilities to their company's international strategies and operational aspects. In this instance, this research chooses four interviewees who are working at the case company's corporate HQ level and case country specific Project Manager, Construction & Commissioning Services Manager and Business Development Manager levels. Moreover, the interviewees are also located in different countries, for instance, Respondent 1 is working as Construction & Commissioning Services Manager in Bangladesh, Respondent 3 is working as Project Manager in India, and Respondent 3 and 4 are working as Business Development Manager and Sr. Project Development Manager in Finland respectively.

All of the interviewees are expert employees in their respective fields who are working for no less than 5 years to a maximum of 25 years with Wärtsilä Corporation. As the interviewees perform different roles and responsibilities related to IPOs in different countries it was possible to derive actual and information rich expert opinions on the asked interview questions.

However, table 14 below briefly provides a snapshot on the respective interviewee's professional and project management relative background information.

Table 14. Interviewee background information. (Own illustration 2020).

Interviewee background	**IPO host-country**			
	Bangladesh	China	India	HQ Global perspective & Pakistan
Interviewee's name	Respondent 1	Respondent 2	Respondent 3	Respondent 4
Interviewee's title	Construction & Commissioning Services Manager	Business Development Manager	Project Manager	Sr. Manager, Project Management Development

Job location	Dhaka, Bangladesh	Vaasa, Finland	New Delhi, India	Vaasa, Finland
Role and responsibilities	Managing, Construction & Commissioning Services to the Energy business project operations.	Responsible for the sales development, commercial negotiations and finalization of projects in Northeast Asia and Southeast Asia.	Managing, controlling and executing projects.	Developing the practices and systems for the whole energy business.
Number of years in current job position	5 Years	9 years	10 years	1 year
Number of years of experience in managing IPO in the target host-country	18 Years	9 years	25 Years	12 years

4.3 Host-countries buyers & IPO backgrounds

The investigated IPO case examples in the selected countries represent that Wärtsilä has strong business relationships with both host-government public and private equity investment companies. For instance, Wärtsilä have sold Engineering, Procurement, and Construction (EPC) projects *(alternatively, theoretically it can be referred as IPO)* to private equity investment companies in Bangladesh and Pakistan. Whereas, the company sold the same EPC projects to the public companies in China and India.

However, as one of the major global leaders in smart energy production and distribution, Wärtsilä also prefers to do business in the same industry. It can also be noticed from the table 15 below that all of the investigated EPC (or, IPO) projects for this study where chosen where Wärtsilä sold an EPC project to the buyers who have more than ≥ 1€ Million Euro business turnover and whose primary industry was energy production and distribution.

Thus, selection of the cases from these host-country EPC project buyers provide this research a balanced overview regarding how Wärtsilä as a DMNE perceived and managed different political risks while executing the investigated infrastructural development projects in the utility networks – power, energy, gas, water, and electricity.

Table 15. Host-countries buyers background information. (Own illustration 2020).

Host-country's buyer background	**IPO host-country**			
	Bangladesh	China	India	HQ Global perspective & Pakistan
Host-country's buyer(s) name(s)	A	B	C	Not mentioned (~)
Buyer'(s) ownership type	Private	Public	Public	Private
Buyer'(s) primary industry	Energy production and distribution			
Size of your buyer's company	Large turnover ≥ 1€ Million Euro			

As previously mentioned that this research adopts a highly complex infrastructural development project type as the scope of research investigation suggested by Liang (2005), Gil & Beckman (2009), and Haas (2009), the following table 16 confirms the suitability of the selected IPO cases' political risk management strategies as units of investigation in this research.

For instance, Liang (2005) and Haas (2009) argued that a highly complex project must have >10 team members, usually take 0.5 – 1 year to complete, have 1 million USD cost, etc. Whereas, the table 16 reveals that in all of these important categories of a highly complex project, the selected IPO cases exceed those expectations and reinforce the suitability of such sample as appropriate cases to be investigated in this research. Moreover, Gil & Beckman (2009) classified infrastructure development projects into four categories, one of which is the utility networks – i.e., project in the power, energy, gas, water, and electricity industry. And, all of the selected IPO cases for this research are chosen from the infrastructure development projects in the utility networks – power, energy, gas, and electricity production and distribution industries.

Thus, selection of the following IPO cases again reinforces the appreciate grounds to investigate the research theoretical framework and research proposition based on derived empirical information from them.

Table 16. IPO background information *(Highly complex infrastructural development projects).* (Own illustration 2020).

IPO background information	IPO host-country			
	Bangladesh	China	India	HQ Global perspective & Pakistan
IPO name	X *(This company bought Gas based electricity production project)*	Y (30 MW combined heat and power (CHP) plant & three Wärtsilä 34SG engines running on natural gas.)	Z (70 MW Smart Power Generation plant & seven Wärtsilä 34SG engines running on natural gas.)	~
Year of IPO start	2019	2017	2016	~
Year of IPO completion	On going	2019	2018	~
Name of the industry where the IPO was undertaken	Infrastructure development projects in the utility networks – power, energy, gas, water, and electricity			
Total number of employees in the undertaken IPO	≥101	≥101	51 - 75	~
Number of employees from your firm to the IPO in the host-country	≤5 - 25	10	≤5 - 25	~
Number of local citizen employed in the project	76 – 100	≥101	≤5 - 25	~
Size of the IPO (In Million EURO)	≥ €1 M	€15 M	€40 M	~

4.4 Within-case analysis

The following within-case analysis provides information about each IPO case's project type, physical structure, project partners and utilised payment methods in order to grasp country wise project specific information which will then assist in cross-case analysis.

4.4.1 IPO case in Bangladesh

This IPO 'X' was sold to a private equity company 'A' in Bangladesh in 2019 who has considerable employee base and business operational experience in the utility networks of generating and distributing electricity in the local markets. The IPO was sold as **a partial EPC project contract** to deliver original equipment for a gas based electricity production plant. The project was due to be complete in 2020 but for an unprecedented issue of not obtaining gas supply connectivity from the local gas production and distribution company as of yet, the

project is awaiting for commissioning phase. In fact with the prior discretion of the Respondent 1 it can revealed that the anonymise gas supply company has not awarded an institution price to this IPO owner and thus the case has went to the arbitrary court in Bangladesh to settle the issue for an institution pricing other than the awarded commercial price rate.

However, the scope of this IPO is very limited from Wärtsilä's end as the customer has only purchased the original equipment and not the life cycle maintenance services. The physical structure of the project is Wärtsilä Finland has independently undertook the IPO from the host-country buyer and provided all the technical and management advises. Whereas, Wärtsilä's regional branch office in Bangladesh was responsible for contract negotiations, customer relations, project executions, managing and commissioning and warranty services. The following figure 9 represents the physical structure of the IPO in Bangladesh.

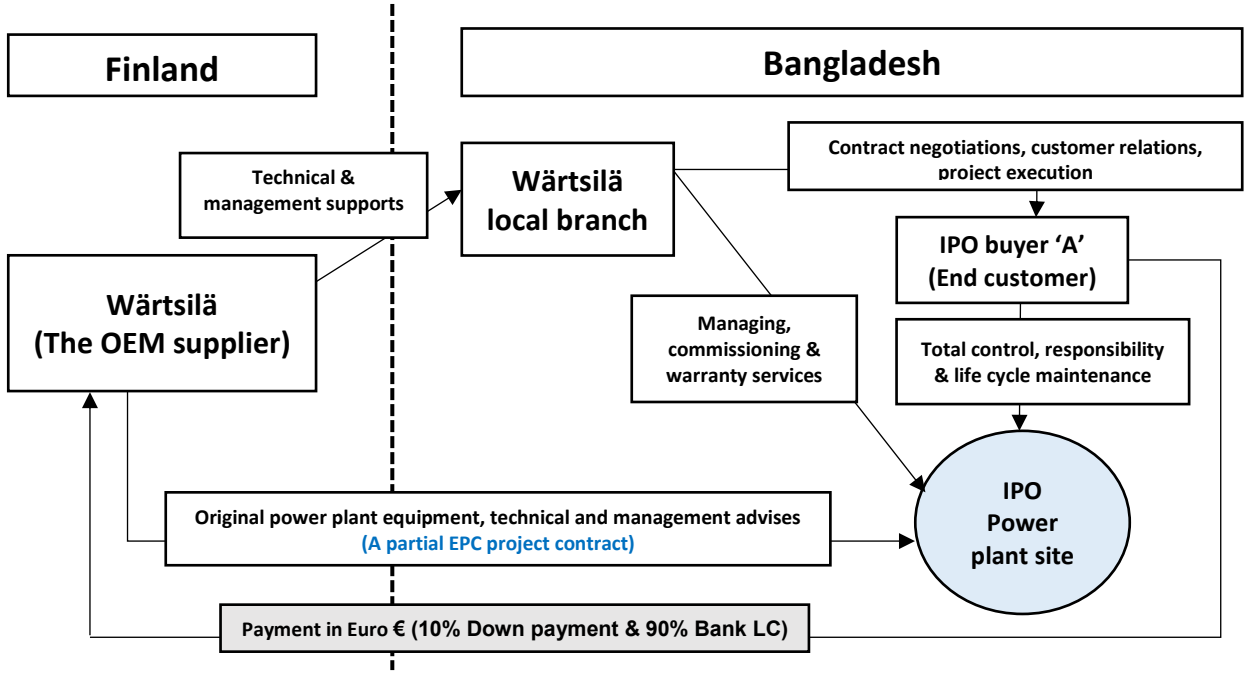


Figure 9. The physical structure of the IPO in Bangladesh. (Own illustration 2020).

However, for this IPO Wärtsilä utilised a fixed-cost price contract and progressive payment method. The host-company A has to send an approved letter of credit (LC) document from the listed bank in Bangladesh as approved by Wärtsilä Corporation. As per Wärtsilä's policy, the LC must have been sent within one month of paying the 10% down payment so that the purchasing of equipment can be done from Wärtsilä Finland side. So Wärtsilä policy about

progressive payment was clear and they *(i.e., Wärtsilä Corporation in Finland)* assigned vessel for equipment shipment after receiving 100% payment *(10% from the client company A and 90% from the client's approved LC Bank)*, thus no risks of non-payment was experienced in this IPO. In a nutshell, the IPO's technical, sales and payment aspects were managed as follows;

- *At the project signing stage the company A paid 10% down payment within a 14 days or 1 month notice period*
- *After 10% down payment sales team hand over project to the project team*
- *Manufacturing stage and procurement started*
- *After manufacturing client had sent a LC for the remaining 90% payment*
- *Wärtsilä's corporate banking partner Nordea Bank Limited approved the LC suitability from the client in Bangladesh*
- *Equipment was loaded on the vessel for delivery after receiving the LC payment*
- *Thereby 100% payment was already obtained before the shipment of equipment that arrived in Bangladesh port. Thus, no risk of non-payment of IPO price was experienced in this case.*

4.4.2 IPO case in China

This IPO 'Y' was sold a public Chinese company 'B' to install a 30 MW combined heat and power (CHP) plant and to deliver three Wärtsilä 34SG engines running on natural gas. The IPO was sold as **a partial EPC project contract** to deliver original equipment for a gas based electricity production plant. This IPO was a breakthrough market penetration project for Wärtsilä in the Chinese smart energy generation and distribution industry. The interview discussion with Respondent 2 revealed that Wärtsilä was awarded with this €15 million Euros IPO in 2017 and the company successfully executed the project in 2019. It generated more than ≥101 jobs locally in China with having 10 employees from Wärtsilä end.

As a host-country, China offers significant business opportunities for Wärtsilä. But, there are significant differences in terms of government control of the energy industry, business culture, negotiations, contract laws, arbitration procedures, language barrier, payment system, currency transactions, etc. between Finland and China. Moreover, without having

high politically hierarchical contextual and personal relationship building approach, it's almost impossible to penetrate into the country's energy industry. For instance, Respondent 2 shared the experience of obtaining this IPO contract as a difficult and lengthy process. The Respondent 2 explained,

> …*"When it comes to power industry, Wärtsilä was not having any big contracts and then China is a very much closed country, that they are not allowing any foreign company to come into the electricity market, energy business market, I would say precisely. It's very difficult to come unless you have some context. So first, we took many years to develop the contacts, prepare document of the contacts, it takes a lot of efforts from Wärtsilä Finland side. And we also have the network companies in China that is based in Beijing and Shanghai, taking up their helps in finding the right persons then meeting the right persons because if you try to meet them directly, they won't allow and you need to have some high qualified person to meet them. Or high designated person such as Vice President and like that."*

However, as an OEM, Wärtsilä's scope was very limited in this IPO. The company chose to do so as the actual customer B in this project wanted Wärtsilä to deliver the entire project without any prepayment and they *(host-company B)* wanted to draw up a business contract observing Chinese contractual law. Thereby, Wärtsilä's approach was to introduce a capable local third party company between the actual buyer and Wärtsilä. Hence, Wärtsilä sold this project to the local third party company as partial EPC contract observing standard European business law and contractual terms & conditions and in Euro € currency, whereas the third party company sold the entire project as Turnkey-plus project to the actual buyer in Chinese RNB currency ¥ observing Chinese business law and contractual terms & conditions. In this instance, the Respondent 2 commented,

> …*"We have three entities here, one is the end customer (Company B), another one is our third party partner company and Wärtsilä, Finland. So Company B has some contractual obligations like you will get your payment only after receiving the goods to our (i.e., Company B's) site. But, as a Finnish company we don't accept that. Because there were such very strict terms and conditions, we found involving a Chinese local company to deal with the end Chinese customer would be easy as in China it is quite acceptable and normal between Chinese companies to deal in such strict conditions. Yeah, but as a European company, we cannot accept these kind of payment terms. So, that is why we did introduce this third party company to Company B. Thus at first we sold the project to the third party*

company and then the third party company sold it to the company B with their profits and plus costs of purchasing the project from us (Wärtsilä).”

The following figure 10 represents the physical structure of the IPO in China.

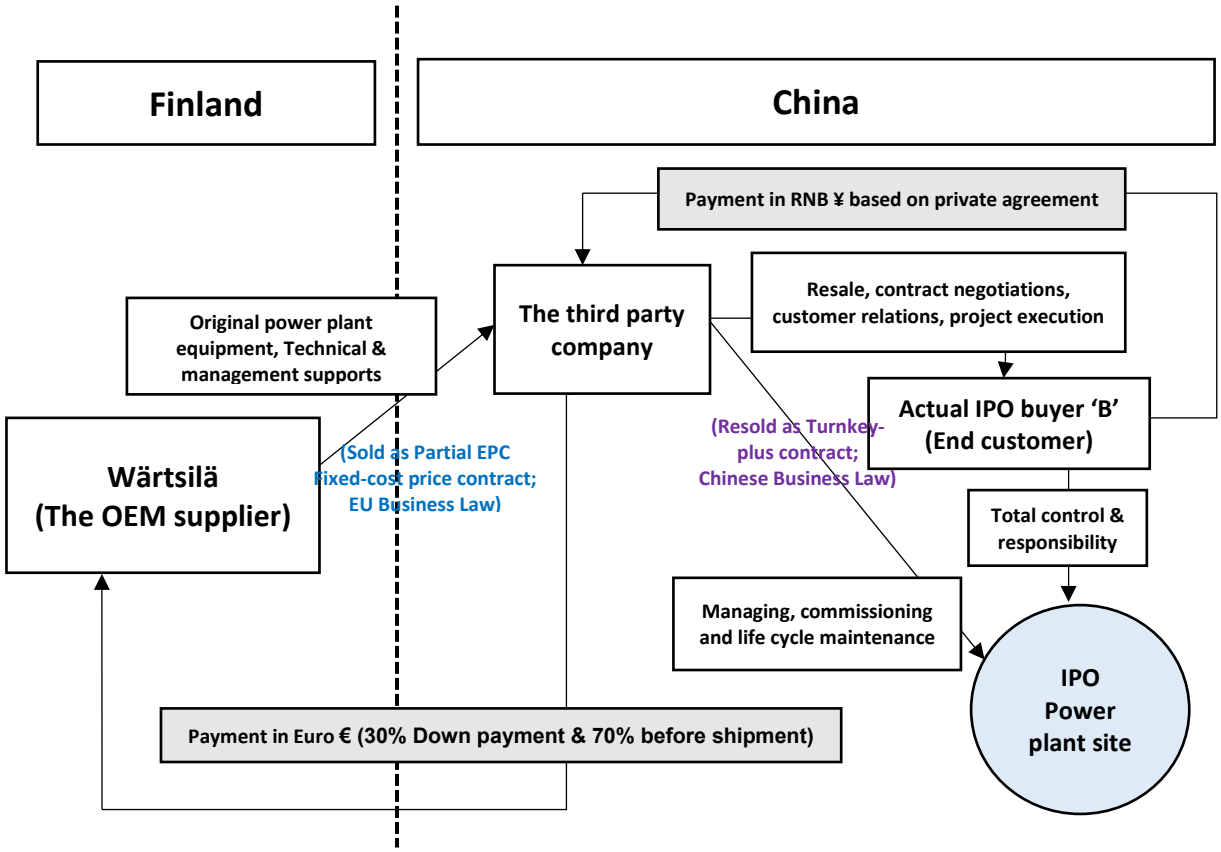


Figure 10. The physical structure of the IPO in China. (Own illustration 2020).

However, for this IPO Wärtsilä utilised a fixed-cost price contract and progressive payment method. Based on the Respondent 2’s revealed information, the third party company paid the total price of the IPO to Wärtsilä as follows;

Table 17. Utilized progressive payment schedule in the Chinese IPO case. (Own illustration 2020).

Project stage	**Payment %**	**Total balance**
Contract signing, project planning, engineering designing	30	30
Equipment manufacturing	30	60
Organizing logistics & shipment	20	80
Pre-shipment payment	**80**	
After equipment reaching the IPO project site	10	90
Project handing over (Project Closure)	10	100

4.4.3 IPO case in India

This IPO 'Z' was sold to a public Indian company 'C' as an **EPC turnkey project** to install a 70 MW Smart Power Generation plant to deliver seven Wärtsilä 34SG engines running on natural gas. Information revealed by the Respondent 3 suggested that the company C awarded the IPO to Wärtsilä directly at a cost of €40 million euros in 2016 and it was successfully executed in 2018. This IPO was undertaken in the Indian infrastructure development utility network industry to generate and distribute electricity in the Company C's local markets. The IPO generated more than 75 jobs for the local Indian community involving more than 25 project sales and engineering team members from Wärtsilä end.

Wärtsilä's scope in this IPO was garter than that of the Bangladeshi and Chinese case. In Indian case, Wärtsilä's Indian network (local) office undertook the project directly from the client company C and Wärtsilä Finland was directly involved for providing the original equipment, necessary technical specifications, managerial advices and managing the payment in Euro € as well. Furthermore, contract signing, negotiations, observance of the Indian business and contractual laws, payment medium for the life cycle maintenance and spare parts in Indian rupees ₹, etc. were managed and dealt with by the local Wärtsilä Indian unit.

However, a fixed cost price contract with a progressive payment method were utilized in this IPO. Respondent 3 reported that the client company C paid 10% of the total payment as down payment at the contract singing stage. Then 80% from the remaining balance were collected at the project initiation, planning, executing, and shipment stages. The final 10% of the remaining payment was paid after handing over (project closure & commissioning stage) of the original equipment to the client company.

The following figure 11 represents the physical structure of the Indian IPO case.

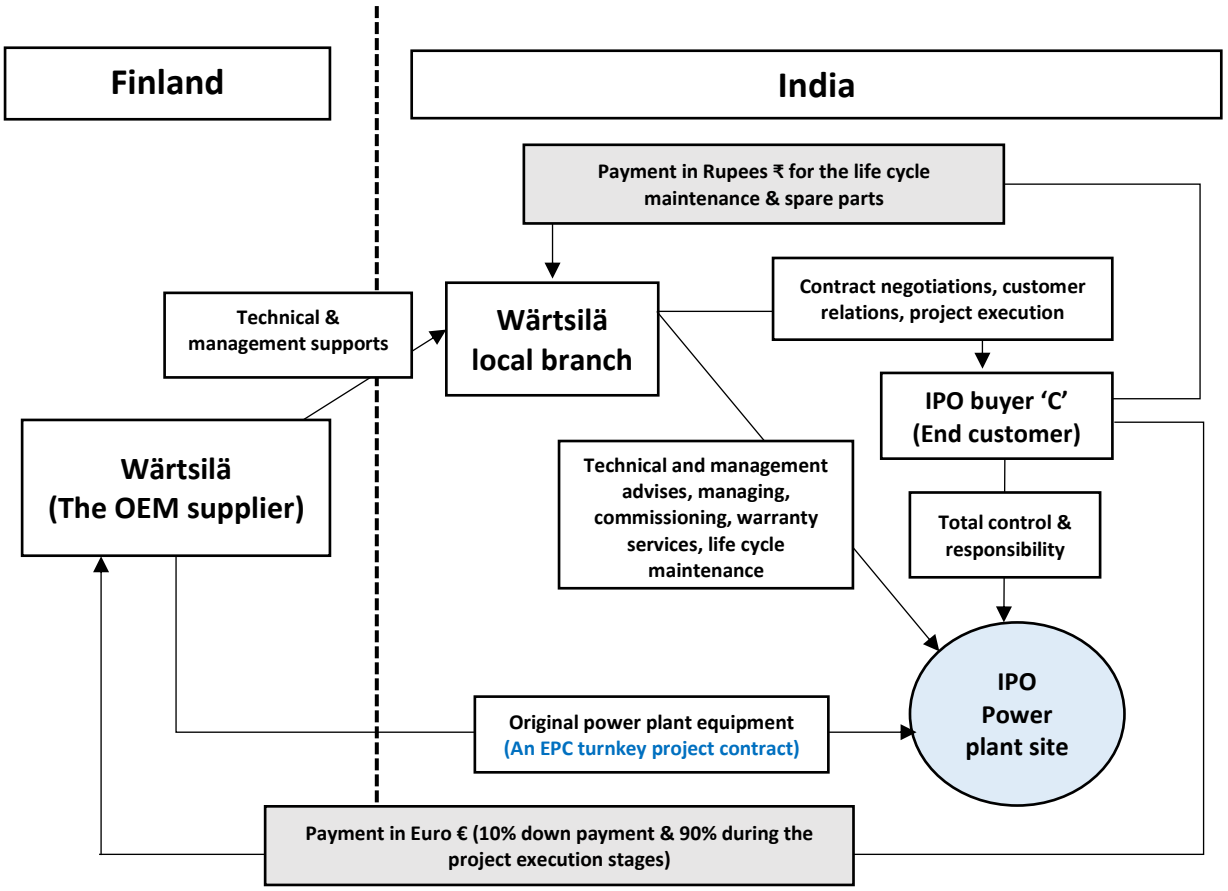


Figure 11. The physical structure of the IPO in India. (Own illustration 2020).

4.4.4 HQ global perspective and IPO case in Pakistan[1]

Wärtsilä's corporate focus is to engage capable local subcontractors or project partners who have strong footprint and influence in the local community and with the local government institutions. This strategy enables Wärtsilä to share local employment, socio-political and certain economic risks. This strategy which has been consistently observed in all of the four case countries also represents Wärtsilä as an equal employment opportunity company who is contributing in the local community by generating local employment.

[1] *Please not this section provides a corporate level global HQ perception about standard project management practices across different countries with a special but limited focus of how IPOs are managed and different political risks are dealt with in Pakistan market context. It should be stressed that the Respondent 4 was reluctant to specifically pointing out any specific questions regarding the Pakistan IPO case context, thus no specific protect type, physical structure of the executed IPO, and utilised payment method in Pakistan were presented in the following discussion. And, also the specific political risk elements and their accompanying risk management strategies for Pakistan case were not discussed in the cross-case analysis section. So, this interview with the Respondent 4 was utilised as a Wärtsilä's corporate level global HQ perception on standard project management practices across different countries.*

With regard to the types and physical structure of the IPOs, Wärtsilä Finland and Wärtsilä Pakistan unit work in collaboration and hold a flexible approach. In most cases, the IPO type and physical structure of the IPO depend on how customers are arranging their financing and what are their technical specifications in the projects. In this instance, drawing on the Pakistani IPO context, the respondent explained nowadays most IPO are deliver as partial EPC, EPC plus, turnkey or turnkey plus contracts where some of the IPOs were secured by the local Pakistani office and other projects were obtained by the direct intervention of the Wärtsilä Finland unit. The Respondent 4 expressed,

> …*"I think we don't sell any BOOT projects, but those are turnkey and turnkey plus projects. We do turnkey projects or EPC projects. After the construction phase we hand over the plant to the buyer. But then we also have had operational maintenance contracts, for example, five year contract for life cycle maintenance."*

But, whatever can be the source of the contact, Wärtsilä Finland unit always provides country specific technical specifications, contract singing formalities, secure payment options, and management supports to carry out the operations. Whereas, Wärtsilä Pakistan unit secures contract negotiations, developing and maintaining relationship with end customers, subcontractors, and important stakeholders, etc. Moreover, the local unit also provides technical and management advises, managing, executing, commissioning, warranty services and life cycle maintenance services.

Moreover, according to the HQ perspective on different project selling approaches, nowadays Wärtsilä is combining power plant construction and services for maintenance around 5 to 10 years under EPC plus projects for example. Whereas, Wärtsilä's complete life cycle maintenance projects which are sold as a separate project starts mainly after handing over the EPC projects to its buyers. And, often the new life cycle maintenance projects last for at least 5 years. In this kind of projects, Wärtsilä takes the responsibility of operational efficiency and providing the spare parts etc. However, Wärtsilä also keeps a maximum customization approach when it comes about selling projects based on customers' financing capacity, operational efficiency and other technical requirements. The Respondent 4 commented

> …"*When we have combined both we are selling the contracts also with EPC Plus which means that we construct the plant and then we run it for next five year to*

> *10 years, taking the responsibility of operational efficiency and providing the spare parts etc. So this is how on the company level we are approaching the business but it all depends again now who are our customers, what type of financing they have, and what is their operational profile etc."*

In Pakistan, Wärtsilä prefers to avoid direct involvement of doing business with the host-government or its affiliated institutions. This strategy of selling IPOs to private equity companies have been consistently found in Wärtsilä's Bangladesh, India and Pakistan operations. In this instance, Respondent 4 commented,

> *…"Now, if I look at last 10 to 15 years, none of our projects were directly sold to any state owned organization, or an investment who owned by or a joint venture set up with some shares from a state owned company. So, we sell our projects to private equity owners."*

4.5 Cross-case analysis

The cross-case analysis provides detailed empirical analysis of identified key political risk elements in IPOs, effective utilized methodologies to identify those political risks, key stages/phases of the IPO life cycle (IPLC) that are prone to political risk management, importance of managing political risks and key utilised political risk management mechanisms in the investigated IPOs.

4.5.1 Key political risk elements in IPOs

The cross-case empirical analysis reveals that Wärtsilä's IPOs were mostly affected by 5 of the 11 previously identified political risk elements which are currency inconvertibility, breach of contract, terrorism, taxation restrictions, and import/export restrictions. The table 18 below illustrates that, 4/4 (100%) of the respondents experienced currency inconvertibility as of the major political risk in the selected IPOs. Whereas, breach of contract was experienced in ¾ (75%) of the IPOs. On the other hand, taxation restrictions and terrorism risks were experienced in 2/4 (50%) of the IPOs. Lastly, import/export restrictions and demonstrations, riots & insurrections as political risk elements were experienced in ¼ (25%) IPOs. The following sub-sections provide detailed account of these identified political risk elements in Wärtsilä's IPOs.

- **Currency inconvertibility**

  Currency inconvertibility has been found as a major political risk for Wärtsilä's IPOs in the selected countries. Since all of the different four countries have different local currencies Wärtsilä's IPO experience suggest that cautious had to be invested to avoid the risk. Even though none of the selected countries have any strict national policy regarding foreign firm's ability to repatriate profits from those host-countries but to avoid foreign currency exchange rate changes and risk exposure of currency hedging and so on Wärtsilä uses EURO as a medium of currency while selling EPC projects to these countries. Moreover, progressive payment (often 100% payment are made before on boarding the equipment on vessel from Finland) in Euros assisted Wärtsilä to easily avoid currency inconvertibility risk in Bangladesh, India and Pakistan.

According to the corporate HQ point of view, Wärtsilä avoids currency convertibility risk by adopting a companywide policy of not trading in the local currency of the host-IPO countries. In this instance, it has been consistently found in Bangladesh, China, India and Pakistan cases that Wärtsilä utilizes Euro currency as the medium of business transaction. Even though in some other host-countries Wärtsilä might be utilizing USD as the medium of payment but euroization of business transactions have found to be most effective for the company. In this instance, in Wärtsilä's IPO contracts the company specify and stress on the payment medium in Euro currency. However, in support of the view Respondent 4 illustrates,

> …*"In those emerging markets (*Bangladesh, China, India, Pakistan, and other)*, we avoid doing any contracts in the local currency, especially if there are some currency related risks. I think it sets USD or Euro these are the two preferred ones. And for example, in some of the African countries, there is a high risk that currency has no value or even if there is a value there will be again further degradation. In those cases, we always assess the international review and then the corporate decision is to make contract in either USD or Euro currency."*

According to the Respondent 1, Wärtsilä never do business transaction in Bangladeshi Taka to avoid currency rate fluctuation problem. To illustrate the strategy to avoid this risk in Bangladesh, Respondent 1 reported,

> …*"Currency inconvertibility can be a problem is Bangladesh and we always do business transaction in Euro currency. That's why we advise our customers to become the member of foreign currency dealing agency, Bangladesh Investment Development Authority (BIDA) or receive approval from the Bangladesh Bank to deal with foreign currency payment such as paying in Euro for our EPC products. And, by this way we avoid the currency inconvertibility problem."*

On the other hand, having contract clause specifically address the payment medium in Euro currency is tremendously benefiting Wärtsilä's Chinese and Indian operations. For instance, Respondent 2 addressed,

> …*"Currency is an issue in China, but we try to avoid it. That is the reason when we made a contract with another Chinese company, we sold it in Euro currency, and we didn't take the risk of that one. So that kind of risk we passed on to our customer by making euro as the medium of payment currency."*

However, when it's come about business transactions between Wärtsilä India and Indian customers especially for the spare parts and other life cycle maintenance payments it has been found that Indian rupees are being used. The Respondent 3 commented,

> …*"Our customers are responsible for payments in Euro currency. So we don't do business in local Indian rupees. That's why we don't have to convert any money into USD or Euro for example. So, when it's any business with Wärtsilä Finland and India then transaction is in euros but Wärtsilä India and customer in India is in Indian rupees."*

- **Breach of contract**

Breach of contract as a political risk element has been consistently found in many IPOs executed by Wärtsilä in the selected case countries. And, the corporate HQ is also perceives this risk element as a considerable threat to execute projects in many countries, including the EMs. Often the company has also be experienced that breach of contractual terms have led to commercial disputes. In this instance, corporate HQ correspondent & Respondent 4 mentioned,

> …*"The breach of the contract, I think this is very common in developing as well as in developed countries. But if you talk about the breach of contract on the payments like a bigger payment which then turns into disputes, we have seen quite many so this is not abnormal in projects."*

Moreover, there are various reasons for such breach of contracts which may range from but not limited to sudden bankruptcy of the customers or customers who are unable to receive essential permissions from the host-governments to commission the project in time, etc. But, in any case, Wärtsilä prefers to have certain bank guarantee or LC as a risk management mechanism to avoid such breaches. Drawing on a previous case example, Respondent 4 reported,

> …*"So, for example, in one case we shipped the equipment and the delivery terms were to be paid by the customer when the equipment reaches the customer's port. So, when the equipment reached there we delivered the documents to the customers that now these are the documents and according to the contract you have to pay. So, when we were collecting the documents and making the invoices it didn't take more than a day or two to inform the customer with needed information. And, within that time customer informed us that they have went*

> *bankrupt. So, they are unable to pay the money immediately but they didn't say that they will not pay, but they said we cannot pay at the moment. There were certain guarantees in place such as the bank guarantees. So, we knew that the money will come either by the customer or by the banks. So, it took about four months to receive the payment, I think it was around €50 million. The equipment was put on the port and that was a clear breach of the contract."*

Whereas, the Indian case illustrates that breach of contract can also be stemmed from certain rule of game change or policy change in the host-country's government level. For instance, Respondent 3 reported that a customer In India could not pay Wärtsilä in time because after the project commissioning the end customer could not start the project operation and thus refused to pay the project price as agreed in the contract. The Indian customer's argument was because they haven't get the gas supply because of a sudden change in the government's rule regarding the distribution of gas supply to all of the new customers owing to a nationwide gas supply and distribution crisis. However, the customer company submitted a bank guarantee by which Wärtsilä was able to recover some portion of the project price.

To reveal the reason behind this breach of contract, Respondent 3 argued this risk occurred not because the customer would not have liked to pay the project price. It was mainly because the Indian government has suddenly change its rule of game by providing excuse of nationwide gas supply crisis to all of the new gas customers such as this client of Wärtsilä. Moreover, the customer also did not evaluate the project scope and its capability, local networking and personal relationship with host-government institutions well in advance. Nevertheless, Wärtsilä also failed to choose the right capable local partner and evaluate its scope and capabilities in terms of personal relationship with the local host-government. Respondent 3 further mentioned,

> *…"Breach of contract happened as they were not in a position to get a gas supply for totally different reasons. The government had a policy change (Rule of game) during the execution stage and said that they were not having enough gas reserves. So, they said that all the new consumers will not be given any gas supply. They (The client company) actually did not do proper evaluation actually, before going for the project. So, they did not get the gas production and gas was not available, they were not in a position to start the operation. So, it was kind*

> *of frustration he was having. So to overcome that frustration, Wärtsilä accepted his bank guarantee."*

On the other hand, a rule of game change or sudden policy change from the host-country's industrial environment such as from the major utility supplying company can also trigger breach of contract issues. For instance, Respondent 1 reported that in Bangladesh case, because of the local gas Distribution Company's sudden change in the policy decision regarding industrial pricing Wärtsilä's client company could not get the gas connection to start commissioning and executing the project in commercial operations. Since the client company couldn't start the project in time it's somehow also restricting Wärtsilä's ability to close the project, finalize payment in time and move on to the life cycle maintenance contract.

This finding on the breach of contract stemmed from the sudden policy change and rule of game change in the host-countries' political and economic environment corroborate the previous findings of Butler & Joaquin (1998), Zhang & Wei (2012), Casson & Lopes (2013), and Han et al. (2018).

However, Wärtsilä's overall approach towards breach of contract is very flexible as the company wants to maintain good long term customer relationships. Respondent 4 concluded,

> *"So, we focus on long term relationship with the customer. So, sometimes you live with those breaches and if those are of smaller nature, then you absorb those risks relate to the cash flows and then you move forward."*

- **Taxation restrictions**

Taxation restriction risk has been found to be a problem in Chinese and Indian IPO contexts. But, Wärtsilä in both of the host-countries operate as a limited scope project company. In China, Wärtsilä devised its strategy in such a way that clearly specify the scope of Wärtsilä responsibility and customer responsibilities. In all cases, customers are liable for all kinds of host-country related taxation and custom duties, whereas Wärtsilä as EPC exporting company pay for the required customs and duties. In this instance, Respondent 2 outlined,

> …*"We sell our EPC projects to Chinese customers excluding all the taxes, we say to the customers that they have to pay all the custom duties and everything. So this is their responsibility. So basically, when before making a contract, we will also make a scope of supply kind of a document. So in the scope of supply, we mentioned, who's responsible for what? So the taxes and duties, everything's is part of customer scope. So we will not take that."*

Moreover, involving a capable local third party in Chinese operation has also assisted Wärtsilä to avoid the taxation risk. For instance, the Respondent 2 stressed,

> …*"Because we sold everything by the third party, so the third party has to take the risk of the taxation. So we don't have any risk of that. We knew that if you sell locally, then this risk will come."*

Whereas, In India there are some differences in national and individual state level taxation policies, which also create some issues. But, Wärtsilä avoids this risk in India by keeping its scope limited only to exporting EPC projects to the local customers. Thus local customers are responsible for their own income and import taxes. Where Wärtsilä pays applicable custom duties, taxes as agreed on the project contract. The Respondent 3 commented,

> …*"Sometimes, some tax rules are different such as the national rules and the state tax rules. So because of these differences, sometimes we face the problems, but generally the impact is very less. In most of the cases, what we say is that all the taxes have to be borne by customers."*

- **Terrorism**

Terrorism as a political risk has been found evident in Bangladesh and Pakistan IPO cases. Even though both Bangladesh and Pakistan is relatively politically safe host-countries but certain terrorism risk can still be present in these markets. For instance, because of the internal conflicts among rival groups of a particular host-country, an IPO site can be unexpectedly in the middle of the conflicting areas or be declared as an active warzone or might experience certain terrorism attacks or activities. However, keeping IPO contract in such host-countries for instance in Pakistan where a certain areas have reputation of having rival conflicting groups or terrorist activists as limited scope as possible certainly assist to avoid and manage terrorism and war induced political risks. To vividly light on

the importance of having an arm length/optimal contractual relationships in particularly volatile host-countries, Respondent 4 commented,

> …*"I think in one country you can have an EPC contract and the same country you can have an arm length for example, in Pakistan, there was a project built by a builder in a region, which was somehow declared as a warzone. So, those areas were quite much affected by the terrorists or terrorist activities. So, in that part definitely we will take care so that maximum risk can be transferred to someone else. So there we will have only arm length contractual relationship."*

On the other hand, local powerful groups with certain political affiliations can also influence on IPO operationalization in a host-country. In this instance, choosing a capable local partner with strong political and institutional relationship in a host-country can save a lot of trouble. For instance, Respondent 1 argued that In Bangladesh often in the execution stage, Wärtsilä hears complaints from its customers that some local powerful group of people under a certain political influence attempt to impose barriers in project execution. Those local powerful groups often ask for delivering some construction materials, labours, logistics services, etc. to gain some business opportunities or sale locally available raw materials to the project customer company. Even though this issue never influences Wärtsilä's ability to execute a successful project, but Wärtsilä's strategy is to let the client company tackle this issue itself. Wärtsilä as a foreign company in the host-society never involve itself in such matters. But, it's evident that in most of the cases the client companies in the host-society are effectively capable of managing those minor risks *(which loosely can be defined as terrorism risks)* because of their personal connection and relationship with the local political and powerful public groups. In this instance, Respondent 1 reported,

> …*"Time to time we hear from our customers that some local people mainly who are under certain political party's wing come and ask for project works such as delivering logistic services, construction materials, labour, etc. So, if some local people are asking for project works or attempt to impose barriers for smooth operationalization of our project implementation, out Client Company takes care of that. But, I must say that our clients are very capable to avoid and manage such issues arising from powerful local groups."*

- **Import/Export restrictions**

Import/export restrictions as a political risk has been only found relevant to the Chinese case context. One of the main reasons for such restriction is that the power and energy generation industry is under the Chinese government's top priority industries. In this instance, Respondent 2 submitted,

> …*"China is a difficult country, it's very difficult for any foreign company to enter into Chinese electricity and energy business market, I would say precisely. And, especially companies from European countries, they don't allow unless you're in a very higher business context."*

Moreover, in China business culture, observance of the contractual law, arbitration procedures, and other institutional aspects always support local Chinese companies over a foreign counter part. And, in most cases Chinese contractual agreements don't agree with the international intellectual property rights, international contractual rules and regulations such as the European business and contractual laws.

This also imposes critical shade on the export/import ability of a foreign firm considering any future negative outcomes might occur while executing mega IPOs in the Chinese energy market such as imitation of the technology, breach of contract, etc. However, this finding has corroborated with Keillor et al. (2005) where they argued that import restrictions can be imposed upon foreign firms to protect the interests of domestic firms or import substitute producers under industrial grounds.

Thus, keeping an arm length and limited scope contractual agreement with a capable local Chinese company who is willing to do business under European business laws, regulations, and conventions might assist in avoiding such political risk in China. Thereby to support the rationale of keeping Chinese projects to a limited scope in avoiding export/import restriction risk, Respondent 2 argued,

> …*"We cannot avoid certain restrictions or imitation of our technology in China because they (Chinese companies) don't agree any rules and regulations and the government is supporting their own domestic companies. So, we cannot avoid it but best ways to avoid this is to sell our EPC projects with limited scope."*

Table 18. Identified key political risk elements in IPOs. (Own illustration 2020).

Political risk element	IPO host-country				
	Bangladesh	China	India	HQ Global perspective & Pakistan	Occurrence
Expropriation					***0***
Breach of contract	●		●	●	***3***
Currency inconvertibility	●	●	●	●	***4***
Ownership of assets and/or Personnel restrictions					***0***
Taxation restrictions		●	●		***2***
Import/Export restrictions		●			***1***
Terrorism	●			●	***2***
Demonstrations, riots & insurrections					***0***
Revolutions, coups d'état & civil wars					***0***
Wars					***0***
Economic sanctions					***0***

However, the research has not found any significant empirical evidence regarding expropriation, ownership of assets and/or personnel restrictions, demonstrations, riots & insurrections, revolutions, coups d'état & civil wars, wars, and economic sanctions as a considerable political risk element in any of the investigated IPOs undertaken by the case company.

4.5.2 Effective methodologies to identify political risks in IPOs

With regard to the corporate HQ perception of identifying different political risks in an IPO, Wärtsilä utilizes the following methodologies. They are;

- *Judgment and intuition of the managers*
- *Expert opinions*
- *Standardized checklist*
- *Scenario development*

However, expert opinions seem to have much garter impact in terms of identifying different possible political risk in IPOs than that of the other methodologies. To support the effectiveness of expert opinions as a methodology, Respondent 4 expressed,

> *…"We have experts for example in different parts of the organization. So, if there are some commercial related issues we have experts who know about those commercial aspects. If there are some security related things, there are experts on the security. So, if there are political risk related to the transaction or transportation of the goods, we have experts on that one as well."*

With regard to the Indian case, the respondent indicated that Wärtsilä utilizes the following methodologies to identify political risks in IPOs in India. They are;

- *Judgement & intuition of managers*
- *Expert opinion*
- *Standardized checklist*

Regarding the judgement & intuition of managers Wärtsilä always welcomes field managers' suggestions and attempts to solve and identify any potential risks of a project. And, its corporate research and development and marketing team are extremely involved in the pre-project screening stages to identify any possible risks such as the potential political risk elements of a project to be executed in India. Nevertheless, the local office India always follows a standardize checklist to screen out the best capable project partners in order to avoid or divert any possible risks all together to the project customer.

However, for both Bangladeshi and Chinese IPO cases judgement & intuition of managers and expert opinion have been found to be effective methods. To illustrate the effectiveness of both methods Respondent 1 argued,

> *…"Head office people, R&D, IT, Management and Marketing department regularly advise us on Bangladesh market and by this we try to avoid any possible risks. Plus, we have about 11 trusted local and some Chinese customers with whom we are regularly doing businesses. So our previous experience with the existing customers, manager's experience and expert home office opinions are the tools that we use to identify any possible political risks."*

Whereas, to support the view of expert opinion Respondent 2 concluded,

> *…"And we have our expert research from the legal team of Wärtsilä who research about the Chinese business law, local contracts, local customers, etc."*

The following table represents the summarised snapshot of utilized methodologies to identify political risks in Wärtsilä's investigated IPOs.

Table 19. Utilized methodologies to identify political risks in IPOs. (Own illustration 2020).

Methodology to identify political risks	**IPO host-country**				
	Bangladesh	China	India	HQ Global perspective & Pakistan	Occurrence
Delphi technique					***0***
Judgement & intuition of managers	●	●	●	●	***4***
Expert opinion	●	●	●	●	***4***
Standardized checklist			●	●	***2***
Scenario development				●	***1***
Brain storming					***0***
Flowchart					***0***
Influence diagram					***0***

4.5.3 Key stages/phases of the IPO life cycle (IPLC) and stages/phases of the IPLC prone to political risk management

In Wärtsilä project life cycle phases varies based on the certain project characteristics, types, financing setups and so on. But, to have a common understanding and operational efficiency the company follows Phase GATE model which identifies the project life cycle phases as follows;

1. The market development phase
2. The initial assessment phase
3. Tailoring the figure and project proposal phase
4. The negotiation phase
5. The project execution phase
6. The Warranty phase

In most cases, political risk assessment and its likelihood of occurring during a project's life cycle is performed at the market development and/or the initial assessment phase. In this regard, the corporate HQ correspondent & Respondent 4 reported,

> *"If you are doing two projects in a same country for instance in Pakistan or in China, projects may have many variations between them, when it comes to different stages. So, in one project the tasks you perform or the risk mitigations you do in first phase of the project. Maybe like in the second project, you do think that risk will take action in another phase."*

Moreover, as an original equipment manufacturer (OEM) Wärtsilä's project life cycle phases go beyond the identified project life cycle phases as suggested by PMI (2017) in the literature review section. For instance, while PMI (2017) argue that project closure being as the last phase of a project, Wärtsilä assumes projects can never be closed as customer relationship and contractual agreement between Wärtsilä and its IPO owners not simply end after project execution phase. As Wärtsilä provides complete life cycle maintenance as warranty (ranging from 5 – 10 years) to secure operational efficiency of the IPO or as a separate contract such as the EPC Plus project, the warranty phase opens up a new relationship with the customers. In this instance, Respondent 4 argued,

> *"The warranty phase is the difference. So, in PMI or in other institutions or bodies they say that after the project execution, you close it. Yes, we do certain closures, but because we are original equipment manufacturer (OEM), our relationship with the customer doesn't end after the execution. So, this is a major aspect which literature doesn't focus much. But for us, if the project closure is closing one part of the relationship with the customer, we are opening a new phase of customer relationship with the warranty phase."*

However, in the local context for example in Bangladesh, Wärtsilä's scope in the project is very limited and the company adopts a risk averse strategy by only keeping the contract as an arm length contractual relationship. Wärtsilä only sells an EPC project where customers are mostly responsible for managing any emergent political risks at any stage of the project. But, Wärtsilä always advices the customers on important matters related to technical solutions and possible risks that the customers' might face with regard to project maintenance and execution. It is notable to mention that Wärtsilä attempts to reduce all kinds of political risks and other risks by receiving 100% payment before shipment of the equipment in Bangladesh. And, the company also advices the customers' to establish interactions with relevant authorities to receive permits and make necessary arrangements and keep everything ready before starting the project.

But, as long as Bangladesh market and its possible political risks are considered Wärtsilä attempts to identify/access possible emergence of political risks at the project Initiation/signing and planning stages. And, the company considers identifying and assessing political risks of an IPO in Bangladesh as an ongoing process.

> *"As we discussed before, is it technically not a problem for Wärtsilä as we are not facing this kind of problems because our scope is very limited. In our projects customers are deeply involved and often they are responsible for all kinds of risks and interactions with relevant authorities to receive permits and other requirements early before the goods would arrive in Bangladesh. Moreover, we only deliver them the original equipment and technical advices. And, in most cases we receive full payment before goods arrive in Bangladesh. But, we always advice out customers to make necessary arrangements and keep everything ready before we start the project. So, maybe in the project initiation/signing and planning stages we think about the possible political and other risks problem and this problem finding is always an ongoing matter."*

But, in general political risk management in Bangladesh can be of a cumbersome process as in most cases Wärtsilä's customers solve those political issues themselves without directly communicating the knowledge with the company. This also helps Wärtsilä to avoid mixing up with political and unprecedented environmental risks in Bangladeshi operation. The Respondent 1 further argued,

> *"I already mentioned that we are only the EPC project provider, so we are not directly involved in political risk management as this is our customer's scope. Even from the customer's side, its personnel and other project related individuals don't know what and how some of the political risks (if there is any!) are managed and solved."*

Whereas, Wärtsilä in India identifies its possible political risk elements and their appropriate control strategies mostly in the planning stage of the PLC. However, because some of the political risks might occur or emerge during the execution, monitoring and controlling stages, thus Wärtsilä in India attempts to consider political risk identification as an ongoing process that could be stress up to the execution stage of the PLC.

On the other hand, In China possible political risks are identified and minimized during the early stages of the project *(Project planning, contract singing and Negotiations/manufacturing stage)*. After that when the project is executed and commissioned there are virtually on risk for the Wärtsilä company as the company has already received 100% payment of the project even before project commissioning in China.

However, the only problem remains is to maintain and offer the lifecycle maintenance services, spare parts and manpower to fix the maintenance issues. Thus, there is no risk while the lifecycle maintenance contract is ongoing. In this case, Respondent 2 commented,

> *… So we get 100% payment after the project installation and handing over. Then the project starts working. So then this lifecycle of the project is around 20 years, for example. And during the project lifecycle, a lot of risk can be incurred. But our risk are very low here, because we have already done the project execution and after the execution we only supply the spare parts and manpower for the maintenance as required thus our political risk are not much. We don't incur anything."*

The following table represents the summarised snapshot of key stages/phases of the IPO life cycle (IPLC) that are prone to political risk management in Wärtsilä's investigated IPOs.

Table 20. Key stages/phases of the IPO life cycle (IPLC) that are prone to political risk management. (Own illustration 2020).

Host-country	**Key stages/phases of the IPO life cycle (IPLC) and occurrence and attempt to identify the political risk(s)**					
Bangladesh	*Project initiation/ contract signing*	*Project planning*	*Equipment Manufacturing*	*Shipment*	*Project Commissioning & Handing Over (Closure)*	*Warranty services (if any!)*
	●	●			●	
China	*Project initiation/ contract signing*	*project and manufacturing planning*	*Manufacturing stage*	*Shipment*	*Project Commissioning & Handing Over (Closure)*	*Warranty services (if any!)*
	●	●	●			
India	*Project initiation*	*Project planning*	*Project execution*	*Project monitoring and control*	*Project Closure*	*Warranty services (if any!)*
	●	●	●	●		
HQ Global perspective & Pakistan	*The market development phase*	*The initial assessment phase*	*Tailoring the figure and project proposal phase*	*The negotiation phase*	*The project execution phase*	*The Warranty phase*
	●	●				

4.5.4 Importance of managing political risks in IPOs

Wärtsilä considers political and other risk management as important aspects for IPO success in a host-country. The pursuit of effective political risk management is benefiting Wärtsilä in many ways for instance,

- Understanding host-country market, political and environmental structure
    - It's helping to understand different host-countries' political structure, policy related risks, etc.
    - It's helping to understand different policy requirements of a host-country such as the national energy policy.
- International project customization, ideation, design and project/product development
    - It's helping to design, customize and construct optimal energy solutions for different host-countries.
- Developing personal relationship with the host-government to communicate optimal energy solution capability
    - It's helping to establish, contact and maintain a good relationship with the national host-governments and its affiliated institutions. By incorporating project team and sales team to understand possible political risk exposures and their impact from the early phases of the IPO, the company is excellently managing political risk. Moreover, it's also gives opportunity to work closely with the policy makers to build awareness about how the company can design an optimal energy solution based on the current national energy policy which has the full potential to achieve a host-government infrastructural development goal.
- Creating value and maintaining an arm length/optimal contractual relationship with the customers
    - By understanding customer's requirements and project expectations in advance, Wärtsilä is able to offer effective commercial and technical solutions which work best for the IPO owners. As such the IPO owners gets a long term solution and continuous operations for making profits for a long term. In other

words, Wärtsilä offers customized energy solutions to customers based on their technical and commercial specifications. Therefore, Wärtsilä can ensure a lasting commercial relationship with the IPO owners be it public or private companies in a host-country.

In this instance, to encompass the above mentioned benefits and to highlight the importance of managing political risks in IPOs, Respondent 4 articulated,

> …*"So, if we understand those policies such as the energy policy for the whole country, then we will able to deliver the optimal solution for that market. For example, under the smart power generation campaign during 2012/2013, in Estonia, we did quite much work with the policymakers to understand the needs of their energy system. And based on their needs of the energy system and policies for next 10 years, we devise the commercial terms and technical terms of the plant, which could work for them. So, if you work so closely already from the sales phase, with the policymakers and the concerned stakeholders in the country, you can manage the political risk using different mechanisms, and then you can deliver a solution which is suitable for the needs of the country in the longer term.*
>
> *..And if they will make more money, we will have good relationship with them through continual business transactions."*

4.5.5 Key political risk management mechanisms in IPOs

The following sub-sections provide detailed account of the identified political risk management mechanisms in Wärtsilä's IPOs. Please see table 21 which demonstrates the occurrence of relative political risk management mechanisms in the investigated IPOs.

- **Developing personal relationship with host-governments and its affiliated institutions**

Wärtsilä's strategic position on this strategy is very clear and concise across all of its IPO host-countries expect in China. As a foreign DMNE, the company prefers to keep a contextual understanding and cooperative relationship with the host-governments and its affiliated institutions but not a business one. For instance, in Bangladesh, India and Pakistan, Wärtsilä prefers to avoid direct involvement of doing business with the host-

government or its affiliated institutions. This avoidance strategy has been found in contradiction with Luo (2001) who suggested *'political accommodation'* as a strategy to establish personal relationship with host-governments.

As such Wärtsilä strategy is to have a limited contract scope as an OEM supplier and the entire scope of the project relies on the customer's end. So Wärtsilä doesn't directly involve with the Bangladeshi, Indian, and Pakistani host-governments to develop any personal relationship. However, the company host different programs for interested parties (i.e., local people, government agencies, project suppliers, project customer, etc.) to inform about the projects, to share information about the project benefits, and what kind of new technology the company is offering in these countries.

But, as foreign company in a host-market Wärtsilä cannot avoid the necessity of developing personal relationship with the host-government as long as the company is not involving with any unethical business practices. As a result, the company utilises two strategies. Firstly, Wärtsilä utilises the hand of its local government's presence in the host-country such The Embassy of Finland in China assisted the company to develop and secure important business meetings, sales negotiations, etc. with major state owned Chinese companies. This strategy was particularly important as China practices a hierarchical power distance method and it's easy that way to approach the authority as it represented commitment from a higher level from one to another authority. This finding corroborates with Han et al. (2018) where they emphasized that some Chinese construction companies have received important strategic benefits by involving the hand of Chinese government in their African IPOs. However, the Respondent 2 mentioned,

> *…"Then we took help from the Finnish embassy in China. The embassy was helping us to fix the meetings. The embassy has a contexts in certain high level, and they try to find out the right person to meet, then when we meet them we present our views and what ideas and what kind of values we can bring to the system, and how it can benefit to the Chinese system."*

Secondly, to avoid dealing with local host-governments Wärtsilä uses the connection with capable local or Chinese customers who can then sell the IPOs to the host-governments in Bangladesh, India, and Pakistan. However, HQ correspondent suggested that in Pakistan the tendency is less apparent than that of Bangladesh for example. According to

the Respondent 4 recently during past three to four years, almost all of Wärtsilä's plants are invested by local private equity owners in Pakistani market.

But, it is an interesting finding that Wärtsilä in India doesn't utilize its Finnish Embassy's influence to make a personal relationship approach with the host-government and its affiliated institutions as compared to a regular practice by the same organization noticed in the Chinese context. One of the reasons might be that because of the chances of changing political powers in the next national election. The Finnish Embassy doesn't want to involve with any political party or ruling government appointed by the political parties. As such current ruling party can be the next election's opposition party and thus it can negatively impact and influence Finnish government's diplomacy over Wärtsilä's effective business operations as oppose to Finnish government's personal involvement and non-solicitation with any political party. Moreover, another option might be that Wärtsilä doesn't want to have a long term business commitment with the host-government in India and thus doesn't seek help from any influential public figure such as its local foreign embassy in India.

- **Adopting a localization strategy**

Wärtsilä utilizes localization strategy across all of its IPO host-countries. The company's corporate focus is to engage capable local subcontractors or project partners who have strong footprint and influence in the local community and with the local government institutions. This strategy enables Wärtsilä to share local employment, socio-political and certain economic risks. This strategy also represents Wärtsilä as an equal employment opportunity company by generating local employment. This strategy is also enabling local people's representation in the decision making roles. Even though Wärtsilä has maximum control over the project decision making *(70% of the project managers and decision making roles are located in Finland)* but it also employs a significant number of locally dispersed project managers (*nearly 30% project managers at Wärtsilä are globally dispersed)* to ensure local inputs in localization strategy.

This strategy is particularly assisting Wärtsilä to understand local requirements from customers' and host-governments' point of views, enhancing social exchange through

knowledge and skill sharing, contract signing and negotiations, political and social risk management from the local perspectives, establishing arm length/optimal contractual relationship with the local investment companies and consulting firms, and essentially enabling Wärtsilä to maintain good relation with local public. The findings from this strategy corroborate with Ashley & Bonner (1987), Rice & Mahmood (1990), Low & Shi (2001), Luo (2001), Law et al. (2009), Deng et al. (2014), and Liu et al. (2016).

However, adopting a localization strategy especially in terms of local employment can be a risk or social issue for a DMNE in a host-country. Often there are certain expectations form the local community that an IPO in their community would essentially generate local employment. Thus, a DMNE such as Wärtsilä must consider its positions carefully in order to respect but effectively manage different stakeholders' expectations to bring out certain economic benefits in the community. It can be also apparent that relocation of the employees in a distant local community can cause managerial issues. For instance, Respondent 4 reported that in 2009 the company had to go through a stakeholder management issues in Pakistan especially in terms of localization of employees and meeting certain local community's expectations to bring about certain economic benefits to the local community. The Respondent concluded,

> …*"Of course, there are expectations from the society because these foreign direct investment though we cannot say it as the foreign direct investment, but still some investments are done in a particular firm, village, society or a population which has certain expectation that when there is going to be an investment of hundreds of millions of euros or dollars in our village there will come some economic benefits for the local people."*

- **Avoiding business misconduct**

Wärtsilä takes strong stand point when it comes about implementing the corporate ethical code of conduct to avoid any business misconducts be it environmental, social, labour laws or economic. Moreover, Wärtsilä arranges the corporate ethical code of conduct training every two years for all of its employees across different levels. The company also regularly communicates the consistent message regarding strict reservation of good ethical practices in all business transactions to its external stakeholders, IPO

owners, subcontractors, third party suppliers, consultants, expert advisers, local host-country governments and their affiliated institutions, etc.

Moreover, it has been found that this strategy is assisting Wärtsilä to avoid some of the political risk elements in almost all of their IPOs such as the breach of contract risk. Nevertheless, to vividly represent the corporate stand point on the observance of ethical code of conduct Wärtsilä has a companywide policy which makes its officials to mandatorily report for receiving of any gifts worth more than €50 Euros from any business partners inside or outside of the company.

However, to present the strict necessity of observing the corporate ethical code of conduct in all business transactions at Wärtsilä, the Corporate HQ correspondent and Respondent 4 illustrated,

> *…"I think this is very clear for us. Whatever happens, our business misconduct or all those economic engineering or like doing something which is not according to the ethics when it comes to business that is fully prohibited. We do not get into this. And even if there are some local consultants involved, we clearly stated in our contracts that we are not hiring them for doing any kind of lobbying for us. We are there to make sure that we don't get involve into this mess.*
>
> *Moreover, we have a clear messaging on the management level that hey guys! Just repeating what we know, don't get into unethical business practices. So I think after every two years, I myself as an employee, not as a manager, I go through this code of conduct trainings. So I did my code of conduct training. Furthermore, I can give an example, in our company policy, it is clearly stated that if you are giving or receiving a gift of over 50 euros to any official or any third person, you have to report it. So up to this level, I have to report for example."*

Wärtsilä always attempts to be a good citizen in a local community by implementing good ethical business practices. By this way, the company can avoid many unprecedented challenges of mixing up with wrong people and avoiding possible unethical business practices induce by the local partners. So typically Wärtsilä doesn't need to maintain and build good relationship with the local powerful groups rather the company focuses on providing high quality energy solutions to build and develop infrastructure in a local host-community by applying its corporate good citizenship practices. This finding corroborates

with Oetzel (2005) and Chang et al. (2018) where they argued such reputation building sustainable business practices represent a DMNE as a fair trade and good corporate citizen company within the local community.

But, time to time the company attempts to adopt some political accommodation strategy to improve its reputation in the local project execution areas. For instance, recently Wärtsilä built some fresh water drinking facilities in one of its project sites in India from more a philanthropic point view other than a project execution requirement in that host-community. Wärtsilä often characterize such social investment as their CSR initiative to benefit the public interests at the project execution sites. So, there are some evidence of political accommodation but it can also be largely explained as Wärtsilä's reputation building CSR activities to benefit the communities who can be affected perhaps from the project construction and execution works. This finding also corroborate with Ashley & Bonner (1987), Kennedy (1988), Rice & Mahmood (1990), Low & Shi (2001), Luo (2001), and Deng et al. (2014) where they suggested that this approach enables a DMNE to be perceived as more ethically and socially responsible business entity within the host-market.

- **Arm length/optimal contractual relationship**

Keeping a short-term arm length/optimal contractual relationship with the IPO owners in the selected host-countries assisted Wärtsilä to control and avoid negative outcomes of breach of contract, terrorism and wars induced political risks. Even though Pakistan is relatively politically safer host-country than before it might still be apparent to experience certain terrorism and war induced political risks. For instance, because of the internal conflicts among rival groups of a particular host-country, an IPO site can be unexpectedly in the middle of the conflicting areas or be declared as an active warzone or might experience certain terrorism attacks or activities. However, keeping IPO contract in such host-countries for instance in Pakistan as limited scope as possible certainly assist to avoid and manage terrorism and war induced political risks. To vividly light on the importance of having an arm length/optimal contractual relationships in a particularly volatile host-country, Respondent 4 commented,

> …*"I think in one country you can have an EPC contract and the same country you can have an arm length. For example, in Pakistan, there was a project built by a builder in a region, which was somehow declared as a warzone. So, those areas were quite much affected by the terrorists or terrorist activities. So, in that part definitely we will take care so that maximum risk can be transferred to someone else. So there we will have only arm length contractual relationship."*

However, this view of keeping a short-term limited scope contract in the selected countries contradict with the research findings of Dayanand & Padman (2001), Guasch (2004), Davies et al. (2006), and Gil & Beckman (2009) where they suggested a typical DMNE to opt for a long-term contractual relationship over short-term in order to avoid perceiving as an opportunistic international company who will in the future reduce investments, raise project price, service fees or tariffs.

Whereas, Wärtsilä in China and India believe that by keeping contract very simple *(Transactional arm length relationship)* and scope of the contract limited only to supply of the EPC projects and life cycle maintenance as a service, the company can avoid breach of contract risk. To illustrate how a concise contract under transactional arm length relationship helped Wärtsilä to avoid breach of contract, the Respondent 2 concluded,

> …*" We never had breach of contract risk in China because we try to keep our contract too limited about the risk. We specific in our contract that I'm just giving you supply with this equipment, this equipment will cost this much money, and these are my payment terms. So we try to make it very simple and straightforward. Everything is there, then it has to be according to European law and standards and everything. So that's how we made a contract to avoid all the risk and all the problems."*

This view of drafting a clear and concise contract support the research findings of Guasch (2004), Safford (2007), Gil & Beckman (2009) and MIGA (2010).

- **Non-Equity Joint Ventures (Strategic Alliances) /project partners**

Wärtsilä employs capable local company/ project partners in its IPOs not only to reduce certain political risks but also to understand, learn and know about the customers' demand, technical, market and local institutions' requirements of an IPO. Moreover, as Wärtsilä cannot involve host-government and its local institutions as a project partner, it

always seeks to incorporate a local capable company/people to make awareness, necessary arrangements and understanding of the local host-government's policy requirements and communicate what and how Wärtsilä can assist the host-governments to achieve such policy ambitions. To illustrate this issue, Respondent 4 argued,

> *"…So we don't have that political power to do political thing, but what we have is the competence to help the local institutions to design the system and that is what we are we are doing. The front perspective from our end of course is a local person who understands which of the local institutions in a particular country should come on board. So, we help them to understand their systems, and then it is learning for us about what are the actual market requirements, because for all the project based system it works on the needs and requirements of the customers."*

This finding corroborates with Low & Jiang (2004) and Chan & Makino (2007) who argued that engaging capable local partners assisting DMNE to gain legitimate power under certain institutional pressure and thus reduce IPO costs and improve work efficiency.

On the other hand, strategic alliances or business relationship with capable local firms/people also assists Wärtsilä to exchange important business knowledge from the local host-market to the corporate HQ. As such Respondent 4 argued,

> *"…You cannot live without it (having strategic alliances or business relationship with capable local firms/people). In one type or another, you have to have an alliance with local companies. Because it's not only about business, it's about knowledge. So, no single company can possess all the knowledge even though we have our local offices and we have certain experts in our local offices. So what we have seen is that the local experts are very important, but still they cannot possess all the knowledge. So you establish certain relationship mechanisms with some commercial terms and conditions to get the knowledge exchange from the local to headquarters and so on."*

However, this finding also corroborates with Hitt et al. (2000), Khanna & Rivkin (2001), and Liu et al. (2016) who argued that this strategy leads to better access to local knowledge, establish new business opportunities and contacts, and share of political and other environmental risks with local partners.

It has also been noticed that not always Wärtsilä or a typical DMNE can enjoy the fruit of such strategic relationship with capable local companies/people due to some conflicting business orientations and goals. For example, while one construction company can join the board with Wärtsilä to power collaboration in local construction, procurement and engineering, etc. this company might feel it unnecessary to continue any further relationship as soon as the intended construction is complete or the IPO is executed. Whereas, Wärtsilä cannot ends its commercial relationship with the IPO owners due to its business obligations of warranty or complete life cycle maintenance contracts. Thus, under this circumstances the strategic alliance doesn't hold the umbrella of unity anymore against the torrential wind of conflicting business goals. To illustrate on this grey area of uncooperative strategic alliance in a host-country situation, Respondent 4 reports,

> *"…So, for example, we went into a big project with a big alliance or joint venture from the investment companies. We were awarded with a contract of building up a big infrastructure project. And we were a junior partner (i.e., the smallest partner), there were some other partners as well. So relying on the other partners (i.e., the big partners), we went for certain consortium set up to form of an alliance or type of an alliance instead of us delivering the whole EPC project, we did a joint venture with a company who had the local footprint and the local knowledge. So chose them because they had done similar projects in the past years. However, that strategy didn't work although we had the mechanisms in place and we had to take certain losses, or certain hits. So what happens in our type of business is that usually the joint ventures are made either with the investors or those who are mainly the construction companies. And those who are mainly in the construction companies, their relationship ends as soon as the project is handed over. But our relationship with the end customers that continues for many years to come as lifecycle maintenance service contracts."*

But, regardless of the possible disadvantages of the strategy it has been found to have extreme importance in Bangladeshi IPO case for two specific reasons. Firstly, even though in Bangladesh most projects are directly related to the government owned projects, Wärtsilä prefers to engage with the local private companies to avoid any long term commitment issues and direct involvement with the host-government. Thus Wärtsilä prefers to execute an IPO with the private companies where indirectly the private companies' relationship and link with the host-government can enormously benefit

Wärtsilä in achieving its business objectives without taking direct liability of establishing relationship with the host-government. This finding corroborates with Turner (2001), Wang et al. (2004), Alon & Herbert (2009), and Chang et al. (2018) who argued that linking with local businesses can assist DMNE to strengthen co-operation with local businesses, and reduce political risks by avoiding involvement in the micro-political elements in a host-country.

Moreover, a good strategic alliance with the local project partners can also assist to break the high power distance and establish connection with the local host-government. For instance, In China this strategy is particularly assisting Wärtsilä to establish access to high level Chinese public authorities. In this instance, Respondent 2 submitted,

> …*"In China a high level connection requirement is very much important. Otherwise, if you are at the low designation or at a low manager post or something, nobody will ask about your product be it the best, superior or top class product. Everything goes with the systematic local powerful contact in China!"*

- **Selecting the right payment methods**

Wärtsilä's corporate policy about payment terms are mostly defined by the incoterms and contractual agreements. But, as a risk averse company it prefers fixed-cost price projects with progressive payment method in all of its operations in the selected case countries. The company prefers that a certain portion of the payment in advance such as 10% down payment at the contract signing stage and 90% of the remaining payment is secured with certain financial risk management mechanisms such as the advance payment guarantee from the banks and other financial institutions in terms of Letter of Credit (LC) arrangement. However, as long as the payment terms are concerned in a project, be it in Bangladesh, China, India, Pakistan or somewhere else, Wärtsilä's primary concern is to ensure maximum utilization of money and securing a smooth case flows management. In this instance, Respondent 4 argued,

> …*"Based on the Incoterms we are setting up a payment schedule. According to that when the delivery takes place, we would like to get maximum out of the money. It's all about the cash flow of the company. So, you can say that not hundred percent advance in most of our cases, if we say we cannot work like*

that. But on the other hand, we cannot have deferred payments for two years or three years. And then there are always mechanisms for example, advance payment guarantees and other financial mechanisms which are in place such as letter of credits (LC)."

- **Medium of business transactions in € Euro (Euroization)**

Wärtsilä avoid currency convertibility risk by adopting a companywide policy of not trading in the local currency of the host-IPO countries. In this instance, it has been consistently found in Bangladesh, China, India and Pakistan cases that Wärtsilä utilizes Euro currency as the medium of business transaction. Even though in some other host-countries Wärtsilä might be utilizing USD as the medium of payment but euroization of business transactions have found to be most effective for the company. In this instance, in the IPO contracts the company specify and stress on the payment medium in Euro currency. However, in support of the view, Respondent 4 illustrated,

"In those emerging markets, we avoid doing any contracts in the local currency, especially if there are some currency related risks. I think it sets USD or Euro these are the two preferred ones. And for example, in some of the African countries, there is a high risk that currency has no value or even if there is a value there will be again further degradation. In those cases, we always assess the international review and then the corporate decision is to make contract in either USD or Euro currency."

On the other hand, this strategy also helps the company to avoid extra costs of currency hedging and risk of profit losses owing to fluctuating currency prices. The Respondent 2 responsible for Chinese IPO stressed,

…"The currency risk is very high in China. The euro and the RMB it varies a lot. I still remember that when we sold this project, 1 Euro was equal to 7.2 RMB. Today it's about 8. So it's a big fluctuation and this kind of risk we cannot take it. If we have to take it then we have to hedge the money to take that kind of risk. But our company is very much against that."

This strategy has been also found to be a new effective measures against currency convertibility political risk which also closely corroborates with previous studies such as in Oetzel (2005), Berne Union (2009) and MIGA (2010). In these studies, authors argued that

nominating USD as the medium of business transactions helped the MNCs in a volatile EM to reduce currency inconvertibility and currency fluctuation rate risks.

- **Selecting the right types of projects**

It has been found that Partial EPC (3/4 IPO cases) and turnkey projects (1/4 IPO case) have been utilized by the case company in the investigated IPOs. But, all of these IPOs were executed in the host-country government's FDI focus or political agenda areas, i.e., infrastructure development projects in the energy generation and distribution industry. For instance, Respondent 3 reported that Wärtsilä utilized Indian power crisis in the early 1990s and penetrated into one of the Indian government's FDI focus industries. On that occasion, Wärtsilä took a great advantage of the situation and entered into Indian energy market through a joint venture project with one of the Indian local company. This move of Wärtsilä was well appreciated then and from that time Wärtsilä always have enjoyed a good market share in Indian energy market. Moreover, in present terms there is still power crisis in the country and this power and energy is still one of the Indian government's FDI focus project areas.

On the other hand, in Bangladesh Wärtsilä also utilized the host-government's FDI focus which has been ongoing for several years. For instance, recently two 600 MG Watts and 2200 MG Watts diesel based power plant were approved in Bangladesh. So the company helped Bangladeshi government to stabilize the energy market, power production and distribution.

This project selling approach via partial EPC contracts in the host-country's FDI focus areas assisted Wärtsilä to execute the IPOs successfully. This finding also corroborates with Oetzel (2005) where they suggested that IPO organizations in the host-country's FDI focus industries enjoy the benefit of less political risk exposures.

- **Guarantee from the public insurer(s)**

Wärtsilä often accepts and encourages the IPO owners to obtain guarantee from the public insurers such as the World Bank, Asian Development Bank, etc. to avoid payment insecurity and expropriation political risk. In this regard Respondent 4 mentioned,

> *"If there is a risk that the state will take over some plants and investments, we will not make any investments for a longer time. So, we will make sure that our investments are paid back as quickly as possible, directly or indirectly, either in terms of cash, invoicing or otherwise. And there are certain institutions who are giving guarantees, for example, if you have in your project guarantees from Asian Development Bank, or World Bank, or other African Development Banks, so if there are some guarantees there, they make sure that your investments will come back. So there is no risk that if the country or some political party or some dictators take over and they take over your project and plant as well, then your money will be lost."*

- **Maintaining good relation with public**

Wärtsilä attempts to maintain good relation with public time to time by supporting some of the local causes such as contributing certain donations to social institutions (i.e., local schools, religious institutions, hospitals, etc.) These donations to important social causes work as representing Wärtsilä as a good corporate citizen within the local community.

However, Wärtsilä attempts to respond to these social causes (if any) on an irregular basis which is unprecedented and often not included within the context of the IPO contract. Nevertheless, such strategy of responding to the social causes have been found apparent in Indian and Pakistani case contexts but not in Bangladeshi and Chinese cases. For example, Respondent 3 agued this strategy as CSR activities to the local community where the IPO was executed in India. However, with regard to the Pakistan case and wider corporate HQ context, the Respondent 4 commented,

> *"I think time to time it comes there to support some local social causes. So, even though sometimes it is not written within the contract, we try to do these things because, as said, if the locals are not with you, then like in one of our projects in the Middle East, as well as in one project in Pakistan, there was quite a big pressure from the locals to get certain help. For these social causes we participated in even though these were not agreed in the contract."*

But, with regard to the Indian IPO, even though Wärtsilä received such local pressures but it never accepted any such requests because of its corporate ethical code of conducts. However, previous research suggest that perhaps supporting local causes and donations assist DMNE to avoid any form of local pressure groups' issues, terrorism risks as along the DMNE feels that there is ethical ground to support a good local cause. It also support the views of maintaining good relation with local public as a political risk management strategy under the premise of Social Exchange and Institution theory (Bonner 1981; Ashley & Bonner 1987; Alon & Herbert 2009; MIGA 2010; Zhang & Wei 2012; Deng & Low 2013).

On the other hand, often by maintaining good relationship with public and local powerful groups an international organization can utilise the benefit of local networking, sales lead, negotiations, and turning a potential customers into an actual customer. For instance, with regard to the Chinese context maintaining good relationship with the local Chinese engineering companies have been enormously benefiting the company to break through the Chinese high context bureaucracy and business culture. In this regard, the Respondent 3 highlighted,

> *…" We're hiring local engineering companies. Local engineers are also required in China because most of the projects and their technical aspects are decided by them as the end customer doesn't know the technical things. So there has to be an engineering company in between Wärtsilä and the end customer. So you also need to work with them. You need to influence them also because they are they're the one who will technically convince the end customers regarding what needs to be done.*
>
> *…So you need to have the good relations with engineering companies, they are the real sellers in China. Because in the end company, the big bosses, they don't go deep into technical things at all. They don't want to compare the technical things, but these are the guys (the local engineering company) who compares. If you educate them properly, then they will take your message to be that level to the right customer."*

However, this finding corroborates with Chang et al. (2018) where the authors suggested this strategy as a medium to shape a favourable operating environment in a host-country.

Table 21. Identified key political risk management mechanisms in IPOs. (Own illustration 2020).

Political risk management mechanism	***IPO host-country***				
	Bangladesh	China	India	HQ Global perspective & Pakistan	Occurrence
Developing personal relationship	●	●	●	●	***4***
Adopting a localization strategy	●	●	●	●	***4***
Avoiding misconduct	●	●	●	●	***4***
Maintaining good relation with public		●			***1***
Arm length/optimal contractual relationship	●	●	●	●	***4***
Non-Equity Joint Ventures (Strategic Alliances) /project partners	●	●	●	●	***4***
Equity Joint Ventures					***0***
Wholly owned subsidiary in host-country					***0***
Selecting the right payment methods	●	●	●	●	***4***
Making a higher tender offer					***0***
Selecting the right types of projects	●			●	***2***
Buying political risk insurance					***0***
Obtaining sovereign guarantee					***0***
Guarantee from the public insurer			●	●	***2***
Financial hedging of currency exposures					***0***
Medium of business transactions in € Euro (Euroization)	●	●	●	●	***4***

However, the research has not found any significant empirical evidence regarding forming equity Joint ventures, establishing wholly owned subsidiary in host-country, making a higher tender offer, buying political risk insurance, obtaining sovereign guarantee, and having financial hedging of currency exposures as a considerable political risk management mechanisms in any of the investigated IPOs undertaken by the case company.

Chapter 5: Conclusion

5.1 Introduction

This chapter provides information about the summary of the key empirical findings, a validation of the theoretical framework and research proposition, theoretical contributions, managerial implications, directions for future research and limitations of the study.

5.2 Summary of the key empirical findings

The purpose of the thesis was to create a theoretical framework by integrating relevant literature from social exchange/institution theory, transaction cost theory, project management literature, and finance literature in order to investigate the perception and management of political risks by DMNE when undertaking infrastructure projects in emerging markets (EMs). As a result, the thesis formed its research questions as,

> ***´´How a developed country's MNE (DMNE) perceives and manages political risks when undertaking infrastructure projects in emerging markets (EMs)?´´***

In order to achieve the research objectives as outlined in section 1.2, the study adopted 11 political risk elements *(please see table 4)* as proposed by Al Khattab et al. (2007). Out of these 11 political risk elements, only 5 of them were identified to have empirical evidence of causing tensions in Wärtsilä's operation in the investigated countries. They are currency inconvertibility, breach of contract, terrorism, taxation restrictions, and import/export restrictions. However, holistically currency inconvertibility and breach of contract risks were appeared to be most occurred, perceived and experienced political risk elements in Wärtsilä's operation in the selected countries. Unexpectedly, the empirical analysis did not found any significant empirical evidence regarding 6 of the other political risk elements namely expropriation, ownership of assets and/or personnel restrictions, demonstrations, riots & insurrections, revolutions, coups d'état & civil wars, wars, and economic sanctions as a considerable political risk element in any of the investigated IPOs undertaken by the case company. This finding contradicts the assumption of Al Khattab et al. (2007) and raises challenge for the suitability of all these 6 risk elements that did not get empirical support to be considered as political risk elements in IPOs especially in the EM contexts.

With regard to the effective methodologies to identify political risks in IPOs expert opinions, judgment and intuition of the managers, and standardized checklist have been found to empirically significant. This finding supports the previous research of Luo (2001), Oetzel (2005), Al Khattab et al. (2011), Walker et al. (2003) and Chapman & Ward (2003: 132) who argued utilizing these methods as effective political risk identification methodologies. But, delphi technique, brain storming, flowchart, and influence diagram did not found any empirical support to be effective risk identification methods in the investigated IPO cases. This finding surprisingly contradicts the findings of respective authors *(i.e., Gupta and Clarke 1996; Loo 2002; and Al Khattab et al. 2011 supporting the delphi technique; and Chapman & Ward 2003: 131, 147, 152 supporting brain storming, flowchart, and influence diagram respectively)* who identified these mediums as important ways to identify political risks in IPOs.

It's has been found that Wärtsilä's stages/phases of the IPO life cycle (IPLC) greatly differs from those suggested by PMI (2017) and Kerzner (2017). Wärtsilä utilizes a 6 stage Phase gate model as its IPLC phases and they are the market development phase, the initial assessment phase, tailoring the figure and project proposal phase, the negotiation phase, the project execution phase, and the warranty phase. It has been empirically found that in most of the investigated IPOs, the respective project managers found and analyse the possible occurrence of political risks in the market development, initial assessment and tailoring the figure and project proposal phases. This finding corroborates with previous research of Akintoye et al. (1998), Wang et al. (2000), Grimsey & Lewis (2002), Lemos et al. (2004), Li et al. (2005), and Sight & Kalidindi (2006).

Managing political risks in IPOs has been found extremely important for Wärtsilä's success. In this instance, the respective respondents summarised the benefits of such risk management as important tool to *a)* understand host-country market, political and environmental structure, *b)* customize, ideation, design and develop international project, and *c)* develop personal relationship with the host-government to communicate optimal energy solution capability, *d)* create value and maintain an arm length/optimal contractual relationship with the customers.

On the other hand, a total of 16 political risk management strategies/mechanisms were identified from the relevant literature review of social exchange/institution theory (4 strategies), transaction cost theory (4 strategies), project management literature (3 strategies), and finance literature (5 strategies). Out of these 16 strategies only 10 of the strategies were reaffirmed by the empirical findings. The empirical findings suggest *(Please see table 21)* that most of the respondent (100%) utilised and perceived developing personal relationship approach, adopting a localization strategy, avoiding business misconduct, adopting an arm length/optimal contractual relationship, selecting capable local project partners as non-equity strategic alliance partner, selecting the right payment methods and specifying the medium of business transactions in € Euro (Euroization) in the project contract as effective political risk management mechanisms in case of the selected countries IPOs. Whereas, selecting the right types of projects and obtaining guarantees from the public insurers were thought to be effective mechanisms by 2 of the respondents (50%). Finally, maintaining good relation with the local public and powerful groups was thought to be effective mechanism by only 1 of the respondents (25%).

Whereas, unexpectedly 6 of the strategies namely equity Joint ventures, wholly owned subsidiary in host-country, making a higher tender offer, buying political risk insurance, obtaining sovereign guarantee and financial hedging of currency exposures did not get any empirical support. Even though it can be assumed that a single company would use all of the 16 strategies, but not finding any mention of these strategies perhaps contradicts previous research in these fields and raises a valid argument whether these strategies ought to be not considered as effective political risk management strategies for IPOs with in the EM contexts.

An interesting empirical finding was utilizing The Embassy of Finland's help in China to get access to Chinese higher authorities. This strategy was found to be particularly important as China practices a hierarchical power distance method. And it was easy that way for Wärtsilä to approach and represent the company's commitment from a higher level from one to another authority.

Furthermore, as a novelty of this research endeavour, the empirical findings suggest that a certain political risk management strategy assisted the case company to control or reduce a specific political risk elements in its respective IPOs. For instance, specifying medium of

business transactions in € Euro (Euroization) assisted the company to avoid currency inconvertibility political risk in all of the investigated IPOs. Whereas, adopting a localization strategy assisted the company to reduce or control breach of contract and terrorism risks in Bangladesh, and Pakistan, breach of contract and terrorism risks in China and India respectively. Further empirical findings are presented in the table 22 below.

Table 22. Specific strategy that reduced/controlled specific political risk(s) in IPOs. (Own illustration 2020).

Political risk management mechanism	***IPO host-country***			
	Bangladesh	China	India	HQ Global perspective & Pakistan
Developing personal relationship	- *Breach of contract*	- *Export/import restrictions* - *Taxation restrictions* - *Terrorism*	- *Breach of contract* - *Terrorism*	- *Breach of contract* - *Terrorism*
Adopting a localization strategy	- *Breach of contract* - *Terrorism*	- *Breach of contract*	- *Terrorism*	- *Breach of contract* - *Terrorism*
Avoiding misconduct	- *Breach of contract*	- *Breach of contract*	- *Terrorism*	- *Breach of contract*
Maintaining good relation with public		- *Terrorism*	- *Terrorism*	
Arm length/optimal contractual relationship	- *Breach of contract*	- *Breach of contract*	- *Breach of contract* - *Taxation restrictions* - *Terrorism*	- *Terrorism*
Non-Equity Joint Ventures (Strategic Alliances) /project partners	- *Breach of contract* - *Terrorism*	- *Export/import restrictions* - *Taxation restrictions* - *Terrorism*	- *Breach of contract*	- *Breach of contract* - *Terrorism*
Selecting the right payment methods	- *Breach of contract* - *Currency inconvertibility*	- *Breach of contract*	- *Breach of contract*	- *Breach of contract*
Selecting the right types of projects	- *Breach of contract*		- *Taxation restrictions* - *Terrorism*	- *Breach of contract*
Guarantee from the public insurer			- *Breach of contract* - *Terrorism*	- *Breach of contract*
Medium of business transactions in € Euro (Euroization)	- *Currency inconvertibility*	- *Currency inconvertibility*	- *Currency inconvertibility*	- *Currency inconvertibility*

5.3 Validation of the theoretical framework and research proposition

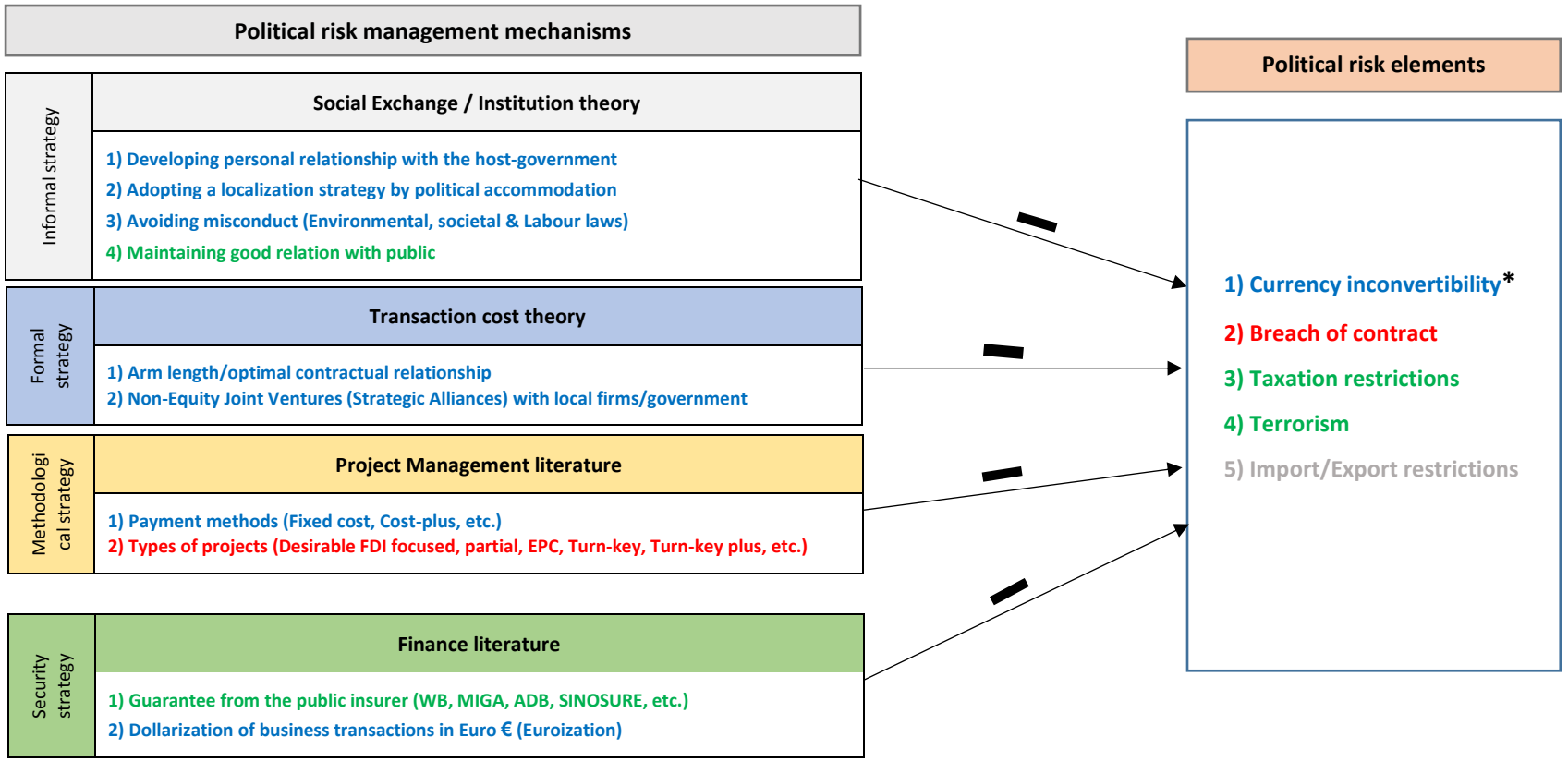
This study developed its theoretical framework from extensive literature review of the relevant social exchange/institution theory, transaction cost theory, project management literature and finance literature. Based on the identified strategies from these theoretical roots to political risk management, the study set its research proposition as ***the identified political risk management mechanisms can reduce certain political risk element(s) in an international infrastructure development project.***

Drawing on the preceding in-case and cross-case empirical discussions, key empirical findings and illustration of table 22, this study argues that the research primary purpose and objectives are met. As it has been reliably established based on the empirical analysis that a certain risk management mechanism has assisted the case company effectively to reduce or control certain political risk element(s) in its several international infrastructure development project operations, this thesis can confirm and validate the suitability of the utilised theoretical framework. As an example, it can be argued that by utilizing medium of business transaction in Euro currency (Euroization) strategy *(i.e., a strategy that has been derived from the proposed theoretical framework as demonstrated in figure 6)* the case company was able to reduce or control currency inconvertibility risk in the investigated IPOs of Bangladesh, China, India and Pakistan.

Thereby, based on substantial empirical evidence this study confirms and validates its research proposition which states;

> *The identified political risk management mechanisms in the revised theoretical framework can help a DMNE to reduce certain political risk element(s) in its international infrastructure development projects which are being undertaken in the context of EMs.*

The revised theoretical framework based on the empirical findings is illustrated in the figure 12.



▬ *Reduce certain political risk element(s) in an international infrastructure development project*

***** *A risk element and startegy in bold blue color typeface indicates the emiprical support for these items in all of the four cases. Whereas, the bold red color typeface indicates the empirical support in three of the cases, the bold green color typeface for two of the cases, and the bold gray color typeface for only one of the cases.*

Figure 12. Revised outcome of the theoretical framework based on the empirical findings. (Own illustration 2020).

5.4 Theoretical contributions

Although political risk is a relatively well studied area of research, but a significant paucity can be observed when it comes to empirically studying the impact of political risk management for the success of international infrastructure development projects in the developing EMs (Oetzel 2005; Al Khattab et al. 2007, 2011; Chang et al. 2018; Han et al. 2018, Mshelia & Anchor 2018; Jiang et al. 2019b etc.) such as Bangladesh, China, India and Pakistan. On the other hand, some studies attempted to represent individual theories to political risk management but none has holistically applied multiple theoretical roots to analyse the impact of managing political risk of IPOs in EMs.

Furthermore, some of the empirical and theoretical studies have exhibited the behaviours of DMNEs in different politically and economically volatile host-markets (Oetzel 2005; Al Khattab et al. 2007, 2011; Chang et al. 2018; Han et al. 2018), but none of those studies have represented the same DMNE's cross-national behaviour to manage political risks from a variety of theoretical perspectives (Mshelia & Anchor 2018). In this instance, a DMNE from Finland demonstrating cross-national behaviour of managing political risks from a variety of theoretical perspectives in its international infrastructure development projects in Bangladesh, China, India and Pakistan have not yet been previously discussed or empirically studied. Thereby, this study contributes to the research stream of political risk management by investigating the perception and management of political risks by DMNE when undertaking international infrastructure development projects in the EMs.

Secondly, the study has empirically identified and analysed which of the political risks a typical DMNE could experience while executing IPOs in the EMs such as in Bangladesh, China, India, and Pakistan. And, the study also demonstrates what course of actions would produce effective results to control or reduce those potential risks in the IPOs. Thus, this study contributes and closes an important research gap by linking political risk management strategies to control a specific group of political risks within the wider context of EMs.

Thirdly, this research also identified utilization of a DMNE country's hand of government influence to receive favourable business advantages in a host-country environment. For instance, it has been found that Wärtsilä has been effectively utilizing The Embassy of

Finland's help in China to fix important business meetings and approach to the Chinese host-government and its affiliated institutions for project selling purposes. This strategy of utilizing home-country government's hand in the host-country has been previously found from an EM context to African market context (Han et al. 2018) but not from a developed country context to an EM context. However, this strategy was only relevant for Chinese case and despite having an Embassy in India, Wärtsilä never utilised the embassy's help in order to penetrate into the Indian market or to do business with the Indian host-government.

Finally, euroization of business transaction was also found to be a novel finding in the political risk management literature. In previous research it has been proven that utilizing USD as the medium of business transaction has efficiently reduced the currency convertibility and fluctuation rate risks in IPOs (Oetzel 2005) but none of the study focused on euroization of business transactions. Nevertheless, Wärtsilä has been found to be effectively reducing the currency convertibility and fluctuation rate risks in all of the investigated IPOs by specifying euroization of business transaction in its IPO contracts.

5.5 Managerial implications

This research provides some important managerial implications especially to the project managers of an international construction or infrastructure development project company. Firstly, it provides empirical evidence regarding suitable political risk management strategies in order to reduce some political risk elements. Thus, the study can assist the project managers to choose and outline effective political risk management strategies in order to execute IPOs especially within the wider context of EMs. Secondly, the study outlines with significant reliability what project phases are more prone to political risks than the others and what identification methods would best serve the purpose of dealing with those risk in a particular project phase.

Thirdly, based on the empirical analysis this research revealed that keeping a limited contractual scope and keeping the project contract very concise can enormously assists an international company to avoid breach of contract, develop optimal business relationship, establish effective payment terms, and avoid payment security risk. For instance, keeping an arm length limited scope contract with a precise description of the project contract terms and

conditions, Wärtsilä has been effectively managing its IPOs and avoiding breach of contract risk in its Bangladeshi, Chinese, Indian and Pakistani operations. That can be an illustrative example for other project managers in a similar market context.

Fourthly, this study also attempts to inform the IPO operators about the unparalleled significance of collaborating with the right capable local project partners. The study points out that capable local partners can not only assist a DMNE to reduce certain political risks but also they can help to understand, learn, know about the customers' demand, technical specifications, market conditions and requirement of the local institutions, and gain legitimate power from the local host-government because their political influence in a host-country (Low & Jiang 2004 and Chan & Makino 2007). However, the study also suggests while choosing a project partner it's important to check the partners' reputations, capabilities and resources (Low & Jiang 2004; Chan & Makino 2007), possess strong political connections with the host-country governments (Oetzel 2005) and have access to local knowledge, business opportunities, contacts, and could share the potential political and other environmental risks in a host-country (Hitt et al. 2000; Khanna & Rivkin 2001; Liu et al. 2016).

Finally, this study informs that often there are no goals and business strategy alignment between the host-government and the international company. Time to time the host-government would like to change its FDI focus (Oetzel 2005) and thus maintaining a long-term relationship with the host-government would imply a change in the international company's corporate strategy to respond to those unprecedented host-government's business strategy or political agenda changes. Thereby, the rationale of having short-term contractual relationships or no relationship with host-governments is really a choice between the foreign firm's willingness to localize its business operations or maximizing the profitability of the IPO. But, in any case the study confirms that the case company's approach of selling projects only limited to the host-private equity companies is working rather effectively. But, attention must be paid on missing out important benefits of having host-governments as project partners as suggested by Oliver (1996), Grosse (1996), Kostova & Zaheer (1999), Luo (2001), and Oetzel (2005).

5.6 Directions for future research

As discussed in the theoretical contributions section that this research has advanced the scenario of political risk management literature from a DMNE perspective to emerging country context. But, it has raised some specific needs of future research in order to comprehensively answer some of the unanswered questions.

For instance, firstly the study reveals that some of presented the risk management strategies can effectively reduce some specific political risk elements. But, the study couldn't statistically provide any evidence on what specific strategy can reduce a certain risk element at an acceptable statistical significance level. Thus, conducting a quantitative study with the identified strategy and risk variables could lead to a more comprehensive and scientific realism of how certain risk element ought to be managed in an IPO. Secondly, it would be necessary to generalize and cross-check the empirical findings of this research by incorporating interviews from both side of the spectrum (i.e., IPO owners and the Case company). By this way, why a particular risk element was arose at the first place from the IPO owner's end could be better understood, so that the case company could develop a comprehensive view of the IPO owners' project buying behaviour. This perspective will also assist the case company to know better about the possible emergence of risks and devise a companywide risk management philosophy.

Thirdly, by incorporating a variety of companies (small, medium, large scale) in different fields such as physical infrastructure, telecommunications, networking and satellite navigations, large scale IT systems and computing, etc. a multi-case research could be conducted to establish more reliable generalizability of the empirical data. Often different companies of various sizes and in different industries have firm specific capabilities, opportunities, and limitations. Thus, incorporating different industries' political risk management approach can provide a holistic picture on the matter.

Finally, it was found that Chinese Wärtsilä operation utilises the help of the Embassy of Finland in China to fix important business meetings and to approach the Chinese host-government and its affiliated institutions for project selling purposes. Whereas, despite having an Embassy in India, Wärtsilä never utilised the Embassy's help in order to penetrate

into the Indian market. Since, it's a novel finding of this research, it would be interesting to conduct an in-depth qualitative study incorporating both The Embassy of Finland's personnel and Wärtsilä's project managers of other operations where they are possibly utilising any other foreign Embassy of Finland's help in promoting international projects in those countries.

5.7 Limitations

There are few limitations of this study exist. Firstly, the research delimits and narrows its research results only relevant to highly complex infrastructural development projects in Bangladesh, China, India, and Pakistan. Thus, it does not represent the overall situation of political risk management strategy for all types of international project operations by all types of organizations in all of the EMs of the world. Perhaps selection of other international projects in various industries would reveal more generalizable research insights. Secondly, only four semi-structured interviews were selected to interview for each IPO countries *(one interview for each country)*. Interviewing 2 people for each of the country could have also provided more insights, detailed stories, examples, facts, cross checking of the facts etc. which could have ultimately improved data triangulation and accurate interpretation of qualitative data.

Finally, no correspondences and interviews were carried out with the selected countries' relevant local authorities and representatives or IPOs' project owners to cross check the reliability and consistency of the primary information provided by the respondents. There are twofold reasons for this limitation of primary data collection. Firstly, it is notable in previous research that in some of EMs, there is no culture of freely and objectively providing necessary information to the researchers (Oetzel 2005). Thus it is of the author's personal opinion that the situation of collecting data from the public authorities of Bangladesh, China, India and Pakistan would have unlikely be of any difference in this instance. Secondly, it was not financially suitable and access to managers and decision makers of the selected countries' relevant local authorities was not possible or feasible (Oetzel 2005).

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Appendices

(Please note that the following appendices are stored on author's personal Google Drive folder. Please communicate with the author at b112836@student.uwasa.fi or hossan.zakir007@gmail.com to get the link to access these files!)

Appendix A. Research invitation and research information sheet.

Appendix B. The case study protocol.

Appendix C. The semi-structured interview questionnaire.

Appendix D. The anonymised summary of the interview transcripts.

Appendix E. The analytic aids utilized in the data analysis process.