International Journal of Architecture and Urban Development
Vol. 9, No.1 , Winter 2019

# Identification and Assessment of Key Political Risk Factors Influencing Corporate Performance of International Construction Companies in North- Eastern (NE), Nigeria.

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Recieved 14.12.2017 ; Accepted 13.11.2018

**ABSTRACT:** International construction companies have settled in Africa and especially Nigeria, to compete for infrastructural projects, in a bid to extend their services across their borders. The trans-border extension of the services offered by these international multi-nationals exposes them to the political risk factors pertinent with the host-country. In order to survive the harsh realities of the political risk indicators operational in Nigeria, especially the north-eastern part of the country, that has been plagued with civil unrest associated with the terrorist operations of Boko haram, it has become necessary to identify and manage these risk factors, to ensure the continuous survival of international construction companies in Nigeria. This paper seeks to identify and assess the prevalence of these political risk factors influencing the corporate performance of international companies operating in the North-east of Nigeria. Data for the study was collected through structured questionnaires administered to 78 expatriates project managers from 6 international construction companies in the 6 states in the North East of Nigeria. Collected data was analysed using relative importance index and factor analysis. Findings revealed that terrorism, corruption, insurrections, sabotages and kidnapping were the top five risk factors with the highest frequency of occurrence. It was also revealed that terrorism, kidnappings, sabotages, corruption and change in government are the risk factors with the highest impact on operations in the region. It is therefore recommended for the federal, state and local Governments to provide security for lives, properties and investments, companies should do more corporate social responsibilities and purchase political risk insurance cover to minimise their losses.

**Keywords:** *Boko Haram, Corporate performance, North-East Nigeria, Political Risk, International construction companies.*

## INTRODUCTION

According to Aswathappa (2008), multinationals are constantly striving to break into international terrains and markets, by providing improved and innovative goods and services, in a bid to stay relevant in fast moving international economies. It is a trite in Decision Theory that every decision has its risks and the risk is largely influenced by external factors. Different countries have different jurisdictions, political, social and environmental risks that the corporate firms must manage as part of its business threats. The ability to control the various risk factors, which can affect the quality of service delivery, by these international construction companies, has been the major reason for their sustained success and the ineffective management of the risks, can lead to failure of these companies (Dikmen et al., 2007). Nigeria's economy was initially dominated by agriculture until the discovery and exploration of crude oil in 1973; oil became the major source of income to the country. A combination of Nigeria's population size and huge income makes her a potential economic force in Africa. Indeed, she is referred to as the Giant of Africa. Nigeria also has many other solid mineral deposits which are presently under exploited. This has made Nigeria, a Mecca for international companies, seeking comparative advantage or any means possible, to profit from the robust and aspiring economy.

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Poor economic opportunities and illiteracy have exposed some African countries including Nigeria to violent social and political unrests. These unrests usually have political and/ or religious undertones and their effects are been devastating. Nigeria has unofficial fault lines dividing the country into the Muslim majority north and Christian majority south. In between these poles are mosaic of ethnic groups and faith affiliations in varying proportions. The North-Eastern (NE) bloc has six states consisting of Borno, Yobe, Adamawa, Bauchi, Gombe and Taraba. Borno, Yobe and Adamawa states have witnessed terror-destructive activities of Boko Haram (BH). BH which means 'western education is forbidden' in hausa (a language commonly spoken in the region) is a terrorist group whose primary mission is to establish an Islamic caliphate in the region. The group operation is violent, its agitations are militarised and its attendant humanitarian crisis is catastrophic. Between 2000 and 2014, BH has killed more than 20,000 people, destroyed private properties and public infrastructures like roads, bridges, public buildings, electricity installations, public water works amongst others (Olaniyan, 2015). Nigerian military forces have been trying to contain BH and rehabilitate the destroyed infrastructure in the region. Government intervention programmes is massive and physical development requiring construction activities is increasing.

According to Omotola (2010), the government of Nigeria has sort ways to reduce the suffering of the populace in North East of Nigeria, by the provision and improvement of infrastructures in the region. This infrastructure lacuna in the North East of Nigeria has attracted various international construction companies to the region. These companies bid for intended projects and engage in on-going civil engineering and construction projects. In the quest to stay afloat and relevant in the Nigerian economy, international construction companies are constantly working on various construction projects in the North-eastern part of Nigeria; this has made them susceptible to political risk factors in the region. According to Aaron (2010) and Jackobsen (2010), international construction companies operating in the NE part of the country have been plagued with political and religious interference with their work. Osumah (2013) also added that, insurgencies in the North East of Nigeria have caused huge economic losses to international investors and the Nigerian Government. Burutai (2017) stated that the North East of Nigeria has lost $9b (Nine billion Dollars) worth of investments by government, local and international investors due to the political instability in the region fuelled by Boko Haram.

Despite the fact that political risk and its effects on international companies and projects is becoming pronounced all over the world, it is alarming that very little effort has been made to research this scourge and its dynamics in developed and developing countries. The study seeks to assess the exposure of international construction companies operating in the NE part of Nigeria to political risks with a view to enhancing the corporate performance of the firms.

## Literature Review

### Political Risk in North East (NE) Nigeria: An Overview

The political turmoil caused by the Boko Haram sect in the NE part of Nigeria is a subject of concern for all business operating in the region. The state of chaos instituted by the Boko Haram Militia in the North East of Nigeria is a cankerworm that is slowly crippling developmental activities happening in the area. The advent of the ruinous sect and its nefarious activities has brought untold hardship, alienation, death, wanton destruction of property owned by government, private individuals, international companies, and threatens to sniff out western presence and education as it exists presently in the country (Olaniyan 2015; Adetoro 2012; Ogbonnaya & Ehigiamusoe 2013). The era of enormous technological advancements and knowledge transfer has made it imminent for international construction companies to cross borders in a bid to survive and succeed in the harsh economic climates and ever-dynamic world. According to Aswathappa (2008), corporate firms are constantly seeking ways to stay relevant and important in the constantly advancing and competitive global market, by providing various services borne out of technological breakthroughs, in various countries. Dikmen et. al., (2007), stated that the reason for the sustained accomplishments of certain multinationals in continually providing high quality services, on international projects, is in their ability to closely monitor and manage the various risk factors associated with their business.

Political risk can be described as risk spurred by political activities (Mortanges & Allers 1996), government interference (Zhuang et al., 1998) and social occurrences (Howell & Chaddick 1994). Political risk studies and forecasting is becoming popular with recent political activities occurring daily around the world. According to Kettles (2004), the close study of political risk is more significant than ever. However, Adebiyi (2011), argued that there has been very little work done in regards investigating this area of knowledge especially in developing countries like Nigeria. Over time, political risk has been seen in different perspectives. Conceptual overview of political risks was carried out by (Howell 2001 & Brink 2004), Deng & Low (2013) and Low et al. (2009) examined effect of political risk on foreign direct investments (FDIs), multinational enterprises (MNEs) and International joint ventures (IJVs) at country and industry level. Others are Rice & Mahmoud (1990), Hashmi & Guveli (1992), De Mortanges & Allers (1996), Hood & Nawaz (2004), Adebiyi (2011), Deng & Low (2013) and Deng et al. (2014). Most of these studies were carried out in developed countries without any relations to developing countries. An overview of literature shows paucity of research on political risk exposure of international construction companies operating in Nigeria, hence the need for the study.

### Political Risk

In the past 30 years, political risk has transformed in various dimensions (MIGA, 2010). Investors and stakeholders have not paid keen attention to the consequences of the risk factors associated with political risk on their investments in diaspora, until recently. According to Weber (2010), The Iranian revolution and the oil crises in 1973 was a practical evidence of political risk negligence, this awakened a political risk awareness in stakeholders thereby initiating the need for proper political risk analysis and assessment when investing in business ventures overseas. Nigeria also had its fair share of the repercussion of paying little attention to political risk factors, examples include; the challenges experienced by international firms exploring oil and gas in the Niger-delta, the boko haram insurgency in the North east of Nigeria. Across the African continent, there was the Aluminium companies and expropriation in Guinea. Lastly, the political wind of change that blew across Northern Africa and the middle east e.g. Bahrain, Libya, Egypt and Tunisia. These events have made political risk assessment a high priority amongst cross-border multinationals (Jakobsen, 2010; Alon et al., 2006).

To further comprehend the dynamics of political risk, a review of literature was carried out to explore the various definitions of political risk by researchers. According to Khattab et al. (2007), the vast amount of research on political risk can be seen in two perspectives; the first dimension defines political risk with regards government intervention in the operations of business ventures while the other defines it in relation to the incidences of any political and social events on international projects. The intervention of the host government in the operations of international firms is a political risk indicator. According to Butler and Joaquin (1998), defined political risk as the risk that a host-government will unpredictably alter the 'rules of the game' under which a business operates. However, Hood & Nawaz, (2004) and Stosberg (2005) argued that, the idea of defining political risk with regards the intervention of the host government in businesses owned by international firms, may be limited for the dynamic nature of international business over time, also, risk is not all about positive variations but it must also comprise negative disparities.

Morales-Rios et al. (2009) simply defined political risk as the likelihood that political terrain in a country overseas will depreciate. However, Voelker et al. (2008) argued that, though political risk factors are driven by the host government's political actions, the negative effects of these risk factors affects international investments which include international construction firms and the general economy of the host country. Also, MIGA (2009) argued that the disturbances in the operations of international businesses by events associated with political risk forces could be inspired by the host government's attitude and the changes in the international business climate based on current or past events.

**Political Risk Factors**

Host Governments are key players in international business transactions. Host governments can alter the business environment of their countries by enforcing economic policies in a bid to secure their interests (Khattab et al., 2007). However, Jakobsen (2010) argued that countries could resolve to soft pedal for the sake of international companies operating in their countries; they opined that host countries can choose to formulate and enforce economic policies that can reduce foreign direct investments and hence cause economic hardship on the international construction investors operating in these countries. Political risk factors can be categorised into two; comprising Host government-caused risk factors and society-caused risk factors. Political risks relating to host government are those caused by the government that has jurisdiction over the territory that the company operates. Risk factors related to host governments are:

(i) Expropriation/Confiscation: According to Erkan (2011), expropriation is the resolution of a host government to seize one or several assets of an international business within a single area of economic activity. Jakobsen (2010) listed Chile, Ethiopia, Angola, Zambia, Zimbabwe, Peru and Dominican Republic as countries that have confiscated the assets of international firms.

(ii) Contract Repudiation: According to Choi et al. (2010), Host governments can breach the terms of reference and rules of engagements between them and the foreign companies involved in developmental projects and infrastructural provisions in their country by taking advantage of lacunas in their porous legal framework. An investigation carried out on Indonesia's power projects revealed that, breach of contractual agreements was the second highest political risk factor affecting the countries power projects (Voelker et al. 2008).

(iii) Currency Inconvertibility: Nigeria at the moment is experiencing a shortage of hard foreign currency, hence, there is a restriction on international foreign exchange (forex) transfers, this affects international companies operating in the country, it has become impossible to repatriate their profits and dividends on investment to their home. Baas (2010) stated this policy could aid economic growth of the home country's economy, particularly if the country is facing economic hardship.

(iv) Ownership/personnel restriction: This happens when the host government make laws that make it compulsory for the indigenes or political office holders to own large shares in the company or impose a percentage of indigenes as staff in the company irrespective of their qualifications (Brink, 2004).

(v) Tax Restrictions: According to Zayed et al. (2007), this political risk factor is of great importance when investing or executing business transactions overseas. This must be analysed carefully by international multinational firms operating in different climes because this risk factor can affect the level of profit recorded by these companies.

(vi) Import and Export Restrictions: Keillor (2005) stated that host countries could choose to enforce import and export restrictions due to industrial policies with the sole purpose of protecting domestic consumers of locally produced goods. Khattab et al. (2007) argued that import and export restrictions have negative effects on the balance of payments of the host country.

(vii) Corruption: The continuous existence of corrupt practices in Nigeria has become a bane of its development. This mostly involves greasing the palms of politicians and government officials in order to get contracts. Sometimes, it involves, agreeing to the terms of corrupt officials in a bid to ensure that approvals for payments for works are received as at when due. This act affects the quality of the project negatively.

(viii) Default in Payment: Delay in payments is a problem contractors have to deal with in Nigeria. The certainty of occurrence is almost certain on projects executed in Nigeria and this usually results in cost and time overrun in projects. According to Brink (2004), the two sources where political risk can emanate from are politics and society. According to Alon and Herbert (2009) host society risk factors are mostly triggered by the citizens of the host country. Minor (2003) added that, risks associated with the host society are triggered in resistance to the actions of a constituted authority at the various levels of government, they adversely affect the level of performance and output of the international firms operating in the country.

Society-related political risks are those caused by the citizens of the country. The various risk factors associated with the society include:

(i) Terrorism: According to Chukwuma & Philip (2014), terrorism is the violence irrationally demonstrated by individuals, groups or states against human beings. It includes, unjustly terrifying, harming, threatening, killing of people and banditry. It also includes any violent act or threat carried out as part of individual or collective criminal plan aimed at terrifying or harming people or endangering their lives, freedom or security. Most of the time international companies operating on foreign soils are most vulnerable to this act of hostility. Terrorism negatively affects the level of production, labour availability, supply chain and business relations between countries (Czinkota et al., 2010).

(ii) Kidnapping: Ngwama (2014) defined kidnapping as the illegal confinement or imprisonment of individuals against his or her own will by another individual or group of people, in such a way as to violate the confined individual's, right to be free from the restraint of movement. Obi (2009) and Aaron (2010) stated that the kidnapping of the staff of multinationals working in the Niger-Delta region by militants is a political risk factor of great concern. There has been an increase in the kidnap of local and especially foreigner workers in the Northern part of Nigeria since Boko Haram started terrorising the region. According to Mohammed (2014), A Korean doctor and employees of an international construction company, Setraco Construction Company (SCC) were kidnapped and killed in Jama'are town in Bauchi State.

(iii) Riots and Insurrections: Bohstedt (2010) defined riots and insurrections as chaotic disturbance of the peace by three or more people, gathering by their own will, with collective intent to assist each other against any who oppose them. According to Khattab et al. (2007), the occurrence of this risk factor would lead to temporal or permanent closure of international construction companies operating in the affected areas, which translates to loss of revenue by the companies and the host country.

(vi) Revolutions, Coup d'état and civil wars: It can be deduced that the occurrence of this risk factor will lead to destruction of property, looting, injuries to persons and loss of lives, this would also lead to huge losses to local and international construction companies operating in the affected regions (Brink, 2004; Khattab et al., 2007).

(v) Destruction & Sabotages: This is always a product of riots, insurrections, revolutions, coup d'états. It has become a norm for private and public businesses to be torched and looted dry during this occurrences. In most cases, international businesses are always targeted for destruction. It also takes a twist in most cases when people target on-going construction works for destruction. They sabotage the work in progress to make a political statement, hence, causing time and cost over-run and making these international businesses to run at a loss.

(vi) Change of Government: Change of government in Nigeria always comes with changes to existing programmes, projects and priorities. The new government can decide to cut funding to projects or sometimes abandon projects. This always spells doom for contractors who are involved with these affected projects. This is a very crucial risk factor to be considered by local and most especially international contractors.

## MATERIALS AND METHODS

### Study Area

The study was conducted in the Northeastern part of Nigeria. This geo-political zone consists of six states, which include Adamawa, Bauchi, Borno, Gombe, Taraba, Yobe state. The northeast of Nigeria is slightly below a third of the countries land area. This region contributes significantly to the Gross Domestic Product (GDP) of the country from Agricultural products and exploration mineral resources. The agricultural products from this region are mainly for export and mineral resources have been discovered in large commercial quantities. Exploration has begun at a very small scale but there is concerted effort by the federal government to attract foreign investors and companies to the area. In a bid to improve the infrastructure of the region, the government has embarked on various development projects, these include: The construction of highways, bridges, dams, water reservoirs, power plants, water networks, schools, hospitals etc. These projects have attracted contractors from within and outside the country. The region has experienced an influx of foreign expatriates in recent years.

### Data Collection

The data employed for this study were collected through the use of a structured questionnaire administered to 78 expatriates project managers from the six states in the North east of Nigeria. The questionnaire design involve asking the project managers assess the frequency and impact of occurrence of political risks on corporate performance of international construction companies operating in the northeastern region of Nigeria on five-point likert scale comprising Very Low (VL), Low (L), Moderate (M), High (H) and Very High (VH). These project managers are directly involved in the design and construction of the various civil engineering infrastructural projects across the North East Nigeria. The data collection was also carried out through face-to-face.

**Data Analysis**

Retrieved primary data were analyzed using the factor analysis and relative importance index (RII) for frequency and impact of occurrence objectives respective. The criticality of the thirty identified political risk factors from the literature was explored using Factor Analysis. Factor analysis was used to assess the multivariate relationship among the identified political risk factors. Principal Component Analysis (PCA) method of extraction was used to determine possible cluster relationships among the risk factors and Varimax with Kaiser Normalization method of rotation was employed to make factors easily interpretable. All factor analysis produced eight factor groupings with Eigen values of 1 and above. The grouping was reduced to five using Eigen Value of 2 and above as reduction criterion because low Eigen value is contributing little to the explanation of variance in the variables and may be ignored as redundant with more important factors. Furthermore, Hardcastle et al. (2004) used five groupings and cumulative percentage variance of 69.2%. Therefore, if five groups account for 67.27% in five grouping with 87.56% total variance explained, it can be deduced that the five grouping would adequately represent the remaining groups. Rotation converged in 23 iterations and produced 5 groupings with Eigenvalues of 2.10 to 4.30 and variance cumulative percentage of 88.66%. Only grouping of Eigen value of 2 and above was selected and this reduced groupings to 5 with Eigen values of 2.11 to 4.34 and variance cumulative percentage of 69.63% respectively. This is shown in Table 1.

Table 1: Factor Matrix (loading) of Level of Frequency of Political Risk Occurrence.

| Factor Components | | 1 | 2 | 3 | 4 | 5 | |
|---|---|---|---|---|---|---|---|
| Expropriation | | .532 | | | | | |
| Confiscation | | .783 | | | | | |
| Contract Repudiation | | .739 | | | | | |
| Taxation Restriction | | .673 | | | | | |
| Import Restriction | | **.842** | | | | | |
| Export Restriction | .407 | | | | | | |
| Currency Inconvertibility | | -.577 | | | | | |
| Terrorism | | **.946** | | | | | |
| Kidnapping | | | **.852** | | | | |
| Sabotages | | | **.865** | | | | |
| Destructions | | | .524 | | | | Insurrections |
| Insurrections | **.874** | | | | | | |
| Revolutions | | | | .793 | | | |
| Civil Wars | | | -.594 | | | | |
| Coup D'état | | | | -.849 | | | |
| Change in Government | | | | | **.839** | | |
| Default in Payment | | | | **.836** | | | |
| Ownership Restrictions | | | | | **.815** | | |
| Personnel Restrictions | | | | | -.450 | | |
| Corruption | | | | | | **.895** | |
| Bureaucratic Bottlenecks | | | | | | **.814** | |
| Demonstrations | | | | | | .568 | |
| Riots | | | | | | -.770 | |

Note: Extraction Method: Principal Component Analysis
Rotation Method: Varimax with Kaiser Normalization
Rotation converged in 23 iterations

Table 2: Summary of Factor Loadings.

| Factor Number and Name | Eigen Value | Percentage of Variance Explained (PVE) | Cumulative PVE |
|---|---|---|---|
| (Terrorism) 1 | 4.34 | 18.08 | 18.08 |
| (Corruption) 2 | 3.80 | 15.84 | 33.92 |
| (Insurrections) 3 | 3.70 | 15.44 | 49.36 |
| (Sabotages) 4 | 2.75 | 11.46 | 60.83 |
| (Kidnapping) 5 | 2.11 | 8.805 | 69.63 |

## RESULTS AND DISCUSSION

### Frequency of occurrence of political risks

Table 1 and 2 shows the factor analysis results of frequency of occurrence of political risk factors. The table above shows that terrorism (0.096), corruption (0.895), insurrections (0.874), sabotages (0.865) and kidnapping (0.852) were the significant risk factors with the highest frequency of occurrence. The finding reveals that the civil unrest in the North East of Nigeria contributes significantly to the risk factors with the highest occurrence. It further reveals that risk factors caused by the society are higher than risks caused by host government. This is in sync with the government policy of strengthening

Table 3: Level of Impact of Political Risk Factors

| Variables | Mean | RII |
|---|---|---|
| Terrorism | 4.43 | 1 |
| Kidnapping | 4.24 | 2 |
| Sabotages | 3.95 | 3 |
| Corruption | 3.81 | 4 |
| Change in Government | 3.75 | 5 |
| Riots | 3.67 | 6 |
| Demonstrations | 3.62 | 7 |
| Delay in Payment | 3.62 | 7 |
| Revolutions | 3.61 | 8 |
| Expropriation | 3.57 | 9 |
| Civil Wars | 3.43 | 10 |
| Confiscation | 3.36 | 11 |
| Export Restrictions | 3.29 | 12 |
| Currency Inconvertibility | 3.26 | 13 |
| Bureaucratic Bottlenecks | 3.25 | 14 |
| Taxation Restrictions | 3.25 | 14 |
| Insurrections | 3.22 | 15 |
| Economic Position | 3.12 | 16 |
| Change in Government Priorities | 3.07 | 17 |
| Destructions | 3.05 | 18 |
| Import Restrictions | 3.01 | 19 |
| Personnel Restriction | 3.01 | 19 |
| Forex Restrictions | 2.96 | 20 |
| Scarcity of Forex | 2.93 | 21 |
| Cost Over-run | 2.92 | 22 |
| Ownership Restrictions | 2.86 | 23 |
| Bribery | 2.63 | 24 |
| Government Policies | 2.61 | 24 |
| Currency Devaluation | 2.53 | 25 |
| Coup d'état | 2.49 | 25 |

foreign direct investment (FDI) and has been making efforts at minimizing host government-related risks.

**Impact of Political Risks**

Table 3 below shows the level of impact of the listed political risk factors on the corporate performance of the international construction companies. The table shows that terrorism, kidnappings, sabotages, corruption and change in government are the risk factors with the highest impact on their operations in the region.

It can be deduced that the civil unrest in that region is affecting the various companies in the region with respect to their revenues, the level and time of project delivery.

## CONCLUSIONS

The study has shown that there are various political risk factors that affect the corporate performance of international construction companies operating in the North East of Nigeria. The research sought to find the level of frequency and impact of political risk factors on the operations of international construction companies in the region. Upon analysis of collected data, it was discovered that terrorism, corruption, insurrections, sabotages and kidnapping were the political risk factors with the highest frequency of occurrence. This finding is in line with Gilbert (2014), Olaniyan (2015), Pérouse de Montclos (2014) who stated that the emergence of the religious sect "Boko Haram" in the region has brought about terrorist actions, kidnapping, sabotages and insurrection, this is in a bid to pursue their goal of eradicating foreign education and culture in the region.

Also, the study revealed that terrorism, kidnappings, sabotages, corruption and change in government had the highest impact on the corporate performance of these companies. This finding agrees with Ohihon (2016), Gilbert (2014), Ogbonnaya &Ehigiamusoe (2013), who stated that activities of the sect have affected the operations of international companies in the area by kidnapping expatriates, sabotaging the development projects and causing civil unrest in the region to prevent development of the region. This research is limited to northeast Nigeria, its findings should not be generalised for entire Northern Nigeria. This research can be replicated to other regions of the country for an in-depth study of the subject matter.

In view of the findings of this study, it is imperative to recommend that the federal, state and local governments should invest more in the security of lives, properties and businesses of all residents in the northeast Nigeria. It is also important for international companies operating in troubled regions to engage in more corporate social responsibilities, to reduce their losses. Lastly, it is becoming imperative with time for international companies to take up political risk insurance to insure their investments interests.

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