

The Role of Corporate Risk Managers in Country Risk Management: A Survey of Jordanian Multinational Enterprises

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Abstract

The recent growth in diplomatic, civil and military conflicts presents evolving challenges for international business. These risks create new sources of country risk. Country risk, in this sense, is commonly associated with the risk faced by enterprises in developed countries while conducting their business operations in developing or politically volatile countries. Few studies, however, have been carried out on the impact of country risk on enterprises from developing countries operating in other developing countries.

This research investigates the role of the risk manager in country risk assessment (CRA) within Jordanian multinational enterprises (MNEs) by adopting a survey strategy. The methodology included questionnaires which distributed to the entire Jordanian multinational enterprises.

The main finding of this research was the role of risk managers is still not being maximised, and enterprises may not be achieving optimum benefits from their risk management system.

Keywords: Role of risk manager, Country risk, Jordanian multinational enterprises

1. Introduction

In recent years due to greater political uncertainty and ensuing terrorist threats in parts of the world it may be surmised that country risk has continued to increase. The future may be far more risky for investors compared to the risk they have faced up until now (Al Khattab, 2006b; Al Khattab *et al.* 2007; Agarwal and Feils, 2007; Al Khattab *et al.* 2008a; Aloah and Herbert, 2009, Bderat, 2010, Aldehayyat and Anchor, 2010, Goldberg and Veitch, 2010). Anchor *et al.* (2006) and Knemeyer, *et al.* (2009) continued that in today's turbulent environment, new efforts are needed to understand the role of risk management in international business.

Even though country risk assessment (CRA) has become an important part of international business investment decision making (Rios-Morales *et al.* 2009; Marshall *et al.* 2009), there seems to be little published information available about the impact of country risk on multinational enterprises (MNEs) from developing countries generally and particularly with respect to the role of the risk manager in country risk management (Aldehayyat, *et al.* 2009). Alon and Herbert (2009) continued that guidance for developing a reasoned and systematic approach to assessing the specific sources and consequences of the country risks facing an enterprise or its business units has been sorely lacking. The focus of this research is on the issues facing enterprises in an uncertain world where traditional boundaries among countries have disappeared.

Country risk assessment, according to Marshall *et al.* (2009), is central to the international investment, which recently has increasingly focused on emerging markets. Furthermore, foreign direct investment in developing countries has increased significantly over the last 25 years (Busse and Hefeker, 2007; Bderat, 2010). Therefore, this research is conducted in the context of Jordan, since Jordan stands at the crossing point of Europe, Asia and Africa, representing the hub of communication in the Middle East, and overlooking the Red Sea from Aqaba Port. According to Jordan Investment Board (2009), the industry in Jordan, in 2005, employed 16 percent of the country's labour force and represented 18 percent of Jordan's Gross Domestic Product. The Jordan's industry can be divided in two main sectors: a) mining and quarrying and b) manufacturing. Phosphates and potash are Jordan's main natural resources. Both minerals are used in the production of fertilisers. Jordan is one of the three more

important exporters of phosphates in the world. In recent years, the growth of Jordan's pharmaceutical industry has been very impressive. Jordan is now exporting its pharmaceutical products in more than 30 countries. The manufacturing sector in Jordan is not only pharmaceuticals; it is also detergents, soaps and toiletries. Some enterprises are also manufacturing electronics, electrical appliances or satellite dishes. The finance and investment sector, on the other hand, represented 24.6 percent of Jordan's Gross Domestic Product in 2005. There are now more than 24 banks that operate in Jordan. Services provided by banks and financial institutions are wide and flourishing. It is possible for an expatriate or a foreign enterprise to open an account in both Jordanian Dinars and foreign currencies.

Despite the political instability of the region, Jordan pioneers the countries of the region in terms of economic liberalization and private sector management. Indeed, it has an attractive investment climate, reflected in a package of investment incentives and exemptions and a free flow of capital. There are several free zones and qualified industrial zones with full infrastructure and quality communications network in Jordan, not to mention its highly qualified and competitive human resources.

2. Literature Review

Country risk, as suggested by Al Khattab (2006b) and Goldberg and Veitch (2010) refers to the risk of investing in a country, dependent on changes in the business environment that may adversely affect operating profits or the value of assets in a specific country. This term is also sometimes referred to as political risk, however country risk is a more general term, which generally only refers to risks affecting all enterprises operating within a particular country. The idea of country risk, according to Boddewyn (2005), was narrowly based on the assumption of an inherently adversarial relationship between government and business. This supposition, according to Alon and Herbert (2009), prompted a need for businesses to explicitly assess a government's actual and potential actions for their adverse effects on that country's business environment. Alon and Herbert (2009) continued that the modern view now considers country risk as a broader construct grounded in and influenced by many environmental factors. A country, however, can experience diverse internal and external threats, any combination of which could lead to actions being taken which affect business operations. Defining country risk in terms of a probability estimate of political uncertainty was another important advance by lifting the constraint of deterministic government/business relationships. These considerations of the broader environmental context were incorporated into Marshall *et al.*'s (2009) widely accepted definition of country risk as the potential volatility and default in financial assets due to political and/or financial events in the given country.

Despite this, country risk can be managed. Risk management, as a technical discipline, has become a standard area of business practice in recent years. Risk management, according to Economist Intelligence Unit (2007), was driven initially by recognition that an increasingly complex business world was ill-protected against threats from both within the enterprise and the outside world. Risk management, as suggested by Lessard and Lucea (2009), is an important source of competitive advantage for enterprises. Risk Management Standard (2002) identifies risk management as the process whereby enterprises methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. Risk management, according to the Risk Management Standard (2002), protects and adds value to the enterprise and its stakeholders through supporting an enterprise's objective.

The first stage in risk management is risk assessment. There are no fixed rules about how a risk assessment should be carried out; the process depends on the nature of the undertaking and the type and extent of the risks. Risk assessment, however, is a central component of risk management. The process should be practical, participative and systematic and cover risks, which are reasonably foreseeable. The aim of risk assessment, according to European Environment Agency (1998), is to provide information on which decisions may be made about proposed actions, the adequacy of risk controls and what improvements might be required. According to IPCS and OECD (2003), risk assessment is a process to calculate or estimate the risk to a target organism, system or population following exposure to an agent. The process contains event identification, which, as suggested by O'Donnell (2005), involves developing a list of events that could affect the ability of the enterprise to meet its strategic and operating objectives. The process includes hazard identification, hazard characterization, exposure assessment, and risk characterization. For MNEs, where such assessment involves international markets, the assessment is usually called country risk assessment (CRA) or political risk assessment. For international investors, CRA, as suggested by Marshall *et al.* (2009), is an essential factor in the investment process.

As enterprises today recognize the need to proactively manage their risks, they have to establish a formal risk management function. Recent years have seen a growth in a specific risk management function within medium-sized and large-sized enterprises, despite that the optimum method of achieving effective risk

management within an enterprise is debatable. The reasons for such a growth, according to Hood and Nawaz (2004) are: a) the realisation in enterprises that specific risks which complex, multi-disciplinary businesses faced were increasing, and also that the traditional means of financing these risks was, in itself, inadequate; b) for a large-sized enterprises, the risk can be so varied and potentially so significant that a separate risk management function is justified; c) the activities of individual functional units may create risks which impact on other areas of the enterprise; therefore a discrete function taking an enterprise-wide view is necessary to ensure optimum risk management outcomes; d) it may also be necessary to co-ordinate risk-financing arrangements on an enterprise-wide basis, further justifying a corporate function.

2.1 Risk Assessment Responsibilities

Emerging markets have grown in importance as a destination for international investment and there has been a huge increase in volume of investments in Asia, Eastern Europe and Latin America by funds and individuals (Marshall *et al.* 2009; Bderat, 2010). As country risk has become more apparent, MNEs have become more aware of their risk exposure (Bradford, 2005; Al Khattab *et al.*, 2007, Goldberg and Veitch, 2010) and, as a consequence, the demand for (CRA) has increased (Fitzpatrick, 2005; Al Khattab, 2006b). Furthermore, a risk assessment is an important step in protecting business, as well as complying with the law. It helps an enterprise focus on the risks that really matter in workplace; the ones with the potential to cause real harm. MNEs may conduct such a process internally 'in-house' and/or externally using external institutions.

An obvious source for assessing country risk, according to Marshall *et al.* (2009), is the global country risk rating provided by rating agencies such as International Country Risk Guide and the Economist Intelligence Unit. According to Howell and Xie (1996) the assessment concept for external institutions is that certain attributes today will be followed with a specific period of unwanted actions against the MNEs

As an alternative to risk assessment by external institutions, enterprises can undertake risk assessment internally. Likewise, Alon and Martin (2009) and Al Khattab (2006b) explained that the deficiencies of many CRA models, coupled with the increased investment abroad, convinced many MNEs to conduct CRA 'in-house'. Such 'in-house' assessment of country risk, according to Brink (2004) and Al Khattab (2006b) makes sense when the significance of industry or an enterprise's specific risks is taken into account.

Empirical research conducted in the context of Canadian, Dutch and Jordanian MNEs, as described in Table (1), showed little reliance on external expertise in assessing country risk. For 75.0 percent of Canadian MNEs, 48.0 percent of Dutch MNEs and 84.2 percent of Jordanian MNEs, the assessment was conducted internally only. On the other hand, none of the Dutch MNEs or Jordanian MNEs conducted the assessment externally only, compared to 1.0 percent of Canadian MNEs who did so. Swedish MNEs (Kettis, 2004) were also reported to conduct the process mainly internally. Likewise, Hood and Nawaz (2004) found that UK MNEs ranked 'internal assessment' first in managing country risk while 'external assessment' were ranked third.

Table (1)

2.2 Location of Risk Assessment Responsibilities

For assessment that is done internally, a variety of units are involved. Research conducted in the context of Canadian, Dutch and Jordanian MNEs, as depicted in Table (2), and research conducted in the context of Swedish MNEs (Kettis, 2004), suggested that MNEs may either distinguish the assessment process as a separate function of management or locate the assessment's responsibilities at upper levels of management.

Table (2)

Another common approach within MNEs, as shown in Table (2), was to locate the responsibilities in other units such as finance or sales. Such an approach suggests that there is no consensus on a location for the assessment responsibilities among MNEs. Nevertheless, research conducted in the context of Canadian MNEs (Rice and Mahmoud, 1990), Dutch MNEs (Mortanges and Allers, 1996) and Jordanian MNEs (Al Khattab, 2006b) empirically found that MNEs without specialised units tended to locate the assessment responsibilities at upper levels of management.

Although a specialised unit of CRA can increase the effectiveness of risk assessment (Al Khattab, 2006b), only in a small number of Canadian MNEs (Rice and Mahmoud, 1990), Dutch MNEs (Mortanges and Allers, 1996), UK MNEs (Wyper, 1995), Swedish MNEs (Kettis, 2004) and Jordanian MNEs in 2006 (Al Khattab, 2006b) was CRA distinguished as a separate function of management. Accordingly and as stated by Burmester (2000, p.257), no academic discussion of country risk is complete without a complaint about the generally low standard of country risk analysis undertaken by MNEs. Many country risk research found little evidence of a systematic approach to CRA and conclude that risk assessment is carried out mostly in an *ad hoc* fashion. The view of Burmester (2000)

was also reported by Hood and Nawaz (2004) and Al Khattab (2006b) in recent research of country risk exposure and management in the UK and Jordanian MNEs.

As has been noted, there would seem to be little effort made by previous risk research to explain the tendency of MNEs to locate the assessment at particular locations; thus, an explanatory effort is needed.

3. Research Methodology

To establish a research design on the role of risk manager, attention has to be paid both on methodological issues and the specific questions investigated. Generally, there are two approaches to research philosophy: positivism and phenomenology. A positivist approach, as suggested by Sekaran and Bougie (2010), is deductive and seeks to explain causal relationships between variables. A phenomenological approach, meanwhile, focuses on the meanings that research subjects attach to social phenomena. Phenomenological researchers attempt to understand what is happening and why it is happening. Given the research objectives, this paper utilises quantitative analysis. Furthermore, since country risk is a relatively new era, this research is largely exploratory. The essence of an exploratory research is to find out what is happening in the real world; and to seek new insights from a new light of the research objectives.

3.1 Research Strategy

In this research a survey approach has been used to obtain primary data. The principal advantage of the use of a survey in this research is that the data collected from the survey is standardised allowing easy comparison. Moreover, the survey method, as stated by (Saunders, *et al.*, 2009), is a popular and common strategy in business and management research, as it allows for the collection of a certain amount of data from a sizeable population in a highly economical way.

3.2 Data Collection Method

The questionnaire was delivered to Jordanian MNEs of which the entire target population (ninety-two enterprises) was targeted. The rationale for such a census was to ensure that the sample was representative. The questionnaires were specifically directed toward general managers due to practical difficulties in locating specific persons responsible for assessing country risks in enterprises. Moreover, general managers, according to Oetzel (2005), Al Khattab (2006b), Al Khattab and Aldehayyat (2008) and Aldehayyat and Anchor (2010), are more capable of accurately commenting on their enterprises' approaches to CRA than chairpersons.

Eleven out of ninety-two MNEs selected were unreachable. The questionnaires were then personally distributed to general managers of eighty-one MNEs between January and April / 2009. Nineteen out of these eighty-one questionnaires were ineligible since they could not meet the research requirements with regard to the internationalisation variable. A total of thirty-six questionnaires were returned, of which three were unusable. Thirty-three usable questionnaires were analysed as a sample representative of the population and findings generalised to the entire population since the output of Chi-square statistics indicated no statistically significant difference between respondents and non-respondents with respect to industry category ($X^2 = 2.263$).

Finally, the correlational statistics are used to examine the correlations among the variables. The findings, then, are compared, when possible, with those findings reported in different contexts, including Dutch, UK and US MNEs and Jordanian MNEs in 2006.

4. Results

Respondents to the questionnaires were presented with three literature-derived mutually exclusive choices of risk assessment process and requested to tick only one in which they conducted the assessment. The findings, as depicted in Table (3), are that 78.7 percent of MNEs, country risk was conducted internally using only the enterprise's personnel. For another 12.1 percent of MNEs, the assessment was conducted internally as well as externally and 9.1 percent of MNEs subcontracted the work of risk assessment to external consultants. Internal consultants, as suggested by Al Khattab (2006b), require less ramp up time on a project due to familiarity with the enterprise, and is able to guide an enterprise through to implementation; a step that would be too costly if an external consultants were used.

Table (3)

As inspired by Agarwal and Feils (2007), Al Khattab *et al.* (2008b), Jiménez (2010) and Aldehayyat and Anchor (2010) enterprise-specific characteristics (e.g. size, international experience) can affect the managerial practices. Compared to MNEs that tend to assess country risk internally, MNEs that tend to assess country risk internally as well as externally, as shown in Table (4), were larger in size (*median* US \$ 132 971 versus US \$ 31 182); had more experience in international business (*median* 16 year versus 14); rely more on international revenue (25.1 % versus

23.0 %) and had an interest in more countries (*median* 6.30 countries versus 5.90).

Table (4)

Country risk analysis (CRA) attempts to identify imbalances that increase the risk of a shortfall in the expected return of a cross-border investment. This finding mirrors the general theme of country risk literature. The Jordanian finding also explains why risk assessment is conducted internally by the majority of MNEs using only an enterprise's personnel. Other 'in-house expertise' was also more important than 'external consultants' in managing country risk within UK MNEs (Hood and Nawaz, 2004). Swedish MNEs (Kettis, 2004) and Jordanian MNEs (Al Khattab, 2006b) are no exception, since they conduct risk assessment 'in-house'.

For another 12.12 percent of Jordanian MNEs, the assessment is conducted internally as well as externally. Compared to Canadian MNEs (Rice and Mahmoud, 1990) and Dutch MNEs (Mortanges and Allers, 1996), Jordanian MNEs tend less to subcontract to external consultants in addition to their own assessment (12.12 % compared to 24.0 % and 52.0 %, respectively). Nevertheless, compared to an earlier research by Al Khattab (2006b), Jordanian MNEs in 2006 tend less to subcontract to external consultants in addition to their own assessment (12.12 % compared to 15.8 % respectively). Furthermore, compared to Dutch MNEs (Mortanges and Allers, 1996) and Canadian MNEs (Rice and Mahmoud, 1990) and Jordanian MNEs in 2006 (Al Khattab, 2006b), Jordanian MNEs in this research are more likely to subcontract to external consultants for risk assessment (9.10 % compared to 0.0 %; 1.0 % and 0.0 % respectively).

Internal assessment is still important for Jordanian MNEs since this type of assessment takes into account a enterprise's specific risks. However, providing information on risks, as suggested by Assmuth and Hilden (2008), is a challenging task. Assmuth and Hilden (2008) continued that risk concepts are used in a wide range of meanings, and different uses and users emphasize different aspects of risks.

Brink (2004) strongly supported this approach, arguing that 'good' CRA necessitates a careful regard of the specific issues that are relevant to every individual enterprise. Only a few Jordanian MNEs in 2006, according to Al Khattab (2006b), were aware of the existence of those enterprises that can assess country risk. Furthermore, Jordanian MNEs, according to Al Khattab (2006b), who were aware of such consultants, did not rely on the consultants because of the expense involved, and perceived generality of the analysis provided as opposed to enterprise-specific analysis that was expected. The Jordanian MNEs' perceptions regarding the external consultant are in line with the conclusion reached by Oetzel (2005); country risk research offered little support for the 'effectiveness' of many of the widely used rating by external consultants.

Respondents to the questionnaires were presented with six literature-derived potential locations of the risk assessment process and required to tick one or more in which they conducted CRA. The findings are presented in Table (5). The numbers and percentages of MNEs that located the assessment responsibilities in respective units were: headquarter: twelve enterprises (36.3 %); host country: six enterprises (18.1); risk units: four enterprises (12.1 %); sales units: four enterprises (12.1 %); financial units: one enterprise (3.0 %) and other units (Planning unit): one enterprise (3.0 %). The outputs of Chi-square indicated no significant correlations between locating the assessment responsibilities at particular locations and enterprise-specific characteristics.

Table (5)

The first and most common location of the assessment responsibilities within Jordanian MNEs is at headquarter. The assessment responsibilities are located at headquarter within 36.3 percent of Jordanian MNEs. For 66.0 percent of Canadian MNEs (Rice and Mahmoud, 1990), 39.0 percent of Dutch MNEs (Mortanges and Allers, 1996) and 45.9 percent of an earlier research by Al Khattab (2006b) of Jordanian MNEs, the first and most common location of the assessment responsibilities was also 'headquarter'.

The second common location of the assessment responsibility is host country. In this sense, Al Khattab (2006b) suggested that CRA be done by the foreign affiliates, reasoning the foreign units have more and better information on their local conditions. Such assessment, however, may be subject to bias from being in the host country due to having vested interests in political outcomes, being members of the involved local elite. Dual loyalty, as suggested by Al Khattab (2006a), is compromising the national interest. Moreover, high levels of country risk, as suggested by Alon and Herbert (2009), may threaten the jobs of the affiliate's personnel, creating a subtle bias toward underestimating or underreporting the actual level of country risk facing the local enterprise unit.

The third common locations of the assessment responsibilities within Jordanian MNEs are risk units and sales units. Although 55.9 percent of MNEs have specific risk managers, although with different titles, the CRA responsibilities are conducted by such managers by only 12.1 percent of all Jordanian MNEs. The UK MNEs (Hood and Nawaz, 2004) and Jordanian MNEs in 2006 (Al Khattab, 2006b) also reported a relative

marginalisation of risk managers in the country risk process. The sales unit, on the other hand, is a common location of risk assessment responsibilities. For 12.1 percent of Jordanian MNEs, 26.0 percent of Dutch MNEs (Mortanges and Allers, 1996) and 13.5 percent of Jordanian MNEs in 2006 (Al Khattab, 2006b), the location of assessment was sales units.

The fourth common location of the assessment responsibilities is financial management. The assessment responsibilities are located at financial units within 3.0 percent of Jordanian MNEs. The financial unit was also a 'common' location for the assessment process within Swedish MNEs (Kettis, 2004) and Jordanian MNEs in 2006 (Al Khattab, 2006b).

Obviously, careful checks and balances are necessary, assigning the assessment tasks to trusted and experienced personnel who might report directly to world headquarters rather than transmitting their findings up the local hierarchy. Risk assessments, as suggested by Assmuth and Hilden (2008), should of necessity involve expert and value judgments.

5. Conclusions and Implications

Assessing country risk is vital for investment and risk assessment purposes. The rapid growth of international business activity has meant that many MNEs are crossing national boundaries to either exploit new opportunities or minimize any potential threats. The rapid growth of trade and investment flows testifies to the growing international interdependence both between enterprises as well as between nation states. Country risk takes on a growing importance in an increasingly interdependent world. Jordanian MNEs, therefore, believe that when operating in one or more foreign countries are vulnerable to the consequences of country risk.

The MNEs also believe that the more changeable and complex the environment in which they operate, the greater the need for explicit attention to risk. Therefore, an increasing number of Jordanian MNEs are becoming aware of the need for some in-house risk management capability. Country risk assessment (CRA) is conducted 'in-house' by the majority of MNEs since the time and materials cost of internal consultants is significantly less than external consultants. Furthermore, internal assessment takes into account an enterprise's specific risks, an advantage that cannot be obtained when using external consultants. This approach toward assessment strongly supports the view that good risk assessment necessitates a careful regard of the specific issues that are relevant to every individual enterprise. Enterprises conducting the assessment 'in-house', involve different units. The first and most common location of risk assessment within Jordanian MNEs is at headquarter rather than specialised units. Furthermore, only in a small number of enterprises is risk assessment distinguished as a separate function of management.

Although the majority of enterprises have specific risk managers, managers at headquarter level seem to be sceptical about the capabilities of risk managers. Risk managers, on the other hand, believe that they have appropriate expertise which enables them to conduct the process adequately. The role of risk managers therefore does not seem to be maximised; and as a consequence, enterprises may not be achieving optimum benefits from their risk management system. Poorly conceived risk management procedures, thus, will not inspire confidence, they may even put managers off the subject altogether. Allocating greater authority and responsibility to risk managers, improving their training and development and their position within the management hierarchy or the decision making process should result in increased efficiency and effectiveness of the CRA.

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Table 1. Conducting the country risk assessment / comparison

Conduction of country risk assessment	MNEs		
	Canadian (%)	Dutch (%)	Jordanian (%)
Internally only	75.0	48.0	84.2
Internally and externally	24.0	52.0	15.8
Externally only	1.0	0.0	0.0
Total	100	100	100

The Canadian research by Rice and Mahmoud (1990), the Dutch research by Mortanges and Allers (1996) and the Jordanian research in 2006 by Al Khattab (2006b).

Table 2. Locations of assessment responsibilities / comparison

Location	Canadian MNEs (N=100) ^a		Dutch MNEs (N=23) ^a		Jordanian MNEs (N=37) ^a	
	N	%	N	%	N	%
Headquarter	66	66.0	9	39.0	17	45.9
Risk unit	N.A	N.A	N.A	N.A	7	18.9
Financial unit	N.A	N.A	6	26.0	6	16.2
Sales unit	N.A	N.A	6	26.0	5	13.2
In the host country	N.A	N.A	2	9.0	3	8.1
Country risk unit	3	3.0	3	13.0	2	5.4
Strategic planning unit	N.A	N.A	N.A	N.A	1	2.7
Export unit	N.A	N.A	2	9.0	0	0.0
Legal unit	N.A	N.A	N.A	N.A	0	0.0

Details add up to more than N = 100, N=23 and N=37 and 100 percent because of duplicate responses.

The Canadian research by Rice and Mahmoud (1990), the Dutch research by Mortanges and Allers (1996) and the Jordanian research in 2006 by Al Khattab (2006b).

Table 3. Conducting the country risk assessment in Jordanian MNEs

Conduction of CRA	Jordanian MNEs (%)
Internally only	78.7
Internally and externally	12.1
Externally only	9.1
Total	100

Table 4. Tendency to conduct the assessment internally as well as externally and enterprise-specific characteristics (median)

Conduction of CRA	Enterprise-specific characteristics			
	Assets in US\$ million	Years in international business	Revenue generated from international business	Number of operating countries
Internally only (N = 26)	31 182	14	23.0 %	5.90
Internally and externally (N = 4)	132 971	16	25.1 %	6.30
Externally only (N = 3)				

Table 5. Locations of assessment responsibilities within MNEs

Location	Valid N = 33 MNEs ^a	
	N	%
Headquarter	12	36.3
Host Country	6	18.1
Risk unit	4	12.1
Sales unit	4	12.1
Financial unit	1	3.0
Others	1	3.0

Notice a: Details add up to more than N = 33 and 100 percent because of duplicate responses.