An Assessment of the Political Risk Management Strategies by Multinational Corporations (MNCs) operating in Zimbabwe

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Abstract

The purpose of this study was to assess the nature of political risk in Zimbabwe and strategies used by MNCs in managing the risk. The study was done through a survey on perceptions of decision makers of 25 MNCs operating in Zimbabwe. It was found out that the best of all strategies to manage political risk was the low involvement strategy through an integrative approach. This is done by involving the local government and good citizenship approach, hence prospective investors were recommended to adopt strategies like joint ventures with local firms especially given the government's indigenization bill, employing local management and developing good relations with the host government and comply with the national environmental rules / norms and paying more vigilant attention towards this issue .

Keywords: Political Risk, Multinational Corporations, Management Strategies, Host Government, Joint ventures

1. Introduction

The political environment can be a very strong factor in nurturing economic growth or a country and Zimbabwe is not an exception in as far as such a notion is concerned. In the same way corporate political activity can also be a very important element in a firm's effort to gain competitive advantage. This is so common in areas of international trade where domestic producers seek to bar or disadvantage foreign competitors in the home market through the imposition of trade protection. Witt (2014) noted that, ''an increasing number of investment and trade opportunities are presenting themselves for foreign corporations in most parts of southern Africa. And while there are risks associated with investing and operating in Africa that cannot be ignored as is true of any emerging market it should not mean that the opportunities in the region are overlooked'' The best hope for these developing countries to attain economic growth is through integration into the world economy. And their device, if only they are prepared to use it is the multinational company. Zimbabwe is set apart from many other African countries by its comparatively good factor endowment, a dream for foreign investors dealing in developing countries. Given the current paucity of investment opportunities in the global economy, changes happening in Zimbabwe should rank it as a favoured option for investment, Nyagah (2009). According to Speidell (2011), foreign investors tend to shy away from countries whose governments are unstable, ridden with corruption, and given to fostering unfavourable policies toward foreign investors. Unfortunately, these problems remain prevalent in a number of developing countries. As these countries come to terms with the relationship between capitalism and government, greed seems to overcome logic. Examples of countries with serious political problems for investors today include Zimbabwe, Venezuela, Bolivia, and Ecuador.

Given the current trend of increasing globalization and political risk, there is a need to understand how political risk affects a multinational firm operating in a host country. With the increase in size of Foreign Direct Investment (FDI) projects, a more holistic approach to decision making is needed. Previous authors have attempted to address the problem of political risk and their works are described in the literature review section. At the same time, with increased resource commitments, an MNC begins to learn about the operating environment and becomes more adept at handling local political risk.

According to a report by Hall (2012), the cost of the anti-business policies of Bolivia's president, Evo Morales, has resulted in Bolivia missing the opportunity to develop its lithium deposits, which are believed to be the largest in the world. Bolivia was poised to nationalize more of its natural resource-based industries; a primary focus of the Morales administration since coming to power in 2006. For five years, the government to the citizenry's fanfare has taken control of much of the country's mining, gas, and oil industries; a transition justified by the government in that these sectors are integral for the nation's survival. The presence and activities of multinationals (MNCs) in developing countries has been a subject of controversy in discussions on development, politics and economics. Therefore, whilst liberals would suggest that an unregulated market is best and dependency theorists advocate shunning integration into the world economy, a mercantilist approach, accepting the need for some state policy to attract and control the inevitability of MNCs is clearly the most viable route to development. The standing fact is that there are opportunities for investment by global firms in developing countries but at the same time there is great political risk in the same margins. Should MNCs miss such opportunities? What are the political risk management strategies that these corporations can use to strike a balance between minimizing political risk and capitalising on the investment opportunity? Mawanza et al (2013) noted the fact that Zimbabwe is a potential destination for FDI with rich mineral resources and market base for business but the political structure being in shambles making it difficult for investors to declare their interest have prompted the researcher to look closely on the political risk management strategies available to MNCs operation in the country.

Investment prospects in Zimbabwe were bound to remain dismal due to the country's unstable economic and political environment. Government policies and constitutional amendments eroded rule-of-law and put private property rights at great risk. The importance of understanding political risk has long been recognized by both investors and the top management of multinational firms. Zimbabwe is one of the favourable destinations in Southern Africa for FDI inflow given that it is rich in factor endowment, even though it is presumed to have unstable political make up and poor conditions of required infrastructure. The government reserves several sectors for local investors and foreign investors wishing to participate in these sectors can only do so by entering into joint venture arrangements with local partners or do so in compliance with the indigenization law which requires that "indigenous Zimbabweans" own at least 51 percent of all enterprises. According to the Bureau of Economic, Energy and Business Affairs of 2010, the government of Zimbabwe sanctioned uncompensated seizures of privately owned agricultural land in 2000. Many of the farms seized were subsequently transferred to government officials and other regime supporters. The government amended the constitution in April 2000 to authorize the compulsory acquisition of privately owned commercial farms with compensation limited to the improvements made on the land. In September 2005, the government amended the constitution again to transfer ownership of all expropriated land to the government. (BUREAU OF ECONOMIC AND BUSINESS AFFAIRS 2014)

Despite extremely difficult economic conditions over the past decade, global multinationals maintained subsidiaries in Zimbabwe, largely holdovers from better years a decade and more ago and others are being held as strategic entities presumed to be profitable in the long run. The question to be answered is how are these MNCs coping with the political dynamics of the country? Multinational Corporations are drawn to expand their business into international markets in search of lower costs, new opportunities, and access to resources especially in developing countries. When they arrive, however, they often find that the politics of foreign environments adds risk and complexity to business performance. Hall (2012), in his report, noted that behind the most recent thrust for nationalization is the government's perception that foreign corporations are "sabotaging investment", which is stymieing the country's ability to increase production especially in the mining sector. A question for MNCs operating in politically high risk nations thus becomes how best to manage political risk.

2. Literature Review

2.1 The Nature of Political Risk

Governments, political institutions and other pressure groups influence the flow of foreign direct investment and hence the degree of globalization through trade and investment policies, legal systems and other administrative and political roles (Yin et al 2003). The World Bank (2011) defined political risk as 'the probability of disruptions of the operations of companies by political forces and events, whether they occur in host countries or result from changes in the international environment'.

It is largely determined by uncertainties over the actions not only of the governments and political institutions, but also of minority groups and separatist movements, (Marchetti& Vitale 2013)

Hendrix, (1991) looked at political risk in form of its several elements. 'First, it is found whenever a government prevents a private sector debtor from repaying its commitments. Second, it occurs when the foreign government is itself a debtor and defaults on its own obligations due to its own volition. Third, political risk is present when a government repossesses the assets of a private entity (sometimes referred to as "confiscation," or "expropriation").'' Other examples of political risks include imposition of new controls, war, revolution or insurrection. Ultimately, the exact definition of "political risk" will be listed in any insurance or guarantee documentation. Political risk results from changes to the political and socio-economic conditions of the host country from those that existed at the time the agreements in question were originally entered into (Berlin 2004). Examples of this are the problems that Belco Petroleum Corp. faced in Peru in the 1980s and that Enron Corp. faced in India in the 1990s. In the two cases, a change in the local ruling party resulted in a new government that adopted an anti-foreign investment attitude that differed significantly from that of the predecessor government (or in the case of Enron in India, a regional government that adopted a policy different from that of the national.(Berlin 2004)

Wagner (2000) explained the concept of political risk in terms of its types in order to determine whether a particular government action poses a threat to the investment, viz: firm specific and country specific. Firm-specific political risks are those directed at a particular organisation and are, by nature, discriminatory. For example, the risk that a government will nullify its contract with a given firm or that a terrorist group will target the company's physical operations are firm-specific. On the other hand, country-specific political risks are not directed at a firm, but are countrywide, and may affect firm performance, that is, they are systematic. Examples include a government's decision to forbid currency transfers or the outbreak of a civil war within the host country.
Multinational companies may be able to reduce both the likelihood and impact of firm-specific risks by incorporating strong arbitration language into a contract or by enhancing on-site security to protect against terrorist attacks. By contrast, firms usually have little control over the impact of country-level political risks on their operations. The only sure way to avoid country-level political risks is to stop operating in the country in question.

The other distinction to be made between types of political risk: government risks and instability risks. Government risks are those that arise from the actions of a governmental authority, whether that authority is used legally or not. A legitimately enacted tax hike or an extortion ring that is allowed to operate and is led by a local police chief may both be considered government risks. Indeed, many government risks, particularly those that are firm-specific, contain an ambiguous mixture of legal and illegal elements. Instability risks, on the other hand, arise from political power struggles. Such battles could be between government members fighting over succession, or mass riots in response to deteriorating socio-economic conditions.

Table 1: Categories of Political Risk

	Government Risks	**Instability Risks**
Firm-Specific Risks	▪ Discriminatory regulations ▪ "Creeping" expropriation ▪ Breach of contract	▪ Sabotage ▪ Kidnappings ▪ Firm-specific boycotts
Country-Level Risks	▪ Mass nationalizations ▪ Regulatory changes ▪ Currency inconvertibility	▪ Mass labor strikes ▪ Urban rioting ▪ Civil wars
Source: Robert Egge		

Korbin (1982) categorised the two dimensions of political risk as those that are country-specific (or macro) and those that are firm-specific (or micro).

Expropriation (nationalization) is the most extreme form of political risk. However, there are other levels and forms of political risk, including currency and trade controls, changes in tax or labour laws, regulatory restrictions, and requirements for additional local production. Political risk can be assessed from a country-specific (macro or country risk analysis) and a firm-specific (micro or firm risk analysis) perspective.
A useful indicator of the degree of political risk is the seriousness of capital flight. Capital flight refers to the export of savings by a nation's citizens because of fears about the safety of their capital.

2.2 Strategies for Political Risk Mediation by MNCs

Literature has shown that as MNCs gain more experience in a country they become more likely to reinvest in that country in the future, Song and Kogut, (1999), Davidson, (1980); Chang and Rosenzwieg, (1998). Global capabilities, on the other side, are the generic skills MNCs possess which permit them to successfully manage foreign operations in any country. According to Barkema et al., (1997); MNCs with greater levels of international experience have a greater inclination to enter new countries and markets. They noted that in order to gain a more prosperous viewpoint on international country entry decisions, it is necessary to distinguish some of the scope along which countries differ and to identify whether firms can develop a competitive advantage on these dimensions. The view point that firms tend to expand into countries culturally similar to those in which they are already experienced implicitly links the capabilities firms develop to their institutional environment as firms gain experience of managing subsidiaries in a particular cultural context, they develop a competitive advantage over less experienced rivals in other countries with similar cultural environments.

Iankova and Katz (2003) came up with two major strategies a firm can take to mediate political risk. They noted that complexity in the political risk equation exists because varying corporate entry strategies and industries cause different political risk exposures. As a result, the political risk management objectives of firms can be very different. Some firms have minimal asset exposure either because they operate solely as distributors, with rented space, short-term contracts, and imported goods or because their assets are insured by guarantees abroad. If those MNCs are in relatively low-profile industries, they may operate easily with minimal political risk exposure and so, little consideration of political risk management. Some make long-term investments in production facilities and source products locally; they establish elaborate distribution systems and advertise to increase consumer awareness of their products. For some MNCs, risk exposure may even exceed loss of local assets or loss of local sales if operations are integrated with those of other countries. Companies with internationally integrated production systems, for example, risk disruption of business worldwide if one manufacturing plant is lost. For those firms, exposure to political risk is more obvious as is the need to manage that exposure.

Low Involvement Strategy

There are a number of alternatives for low-cost risk management, including reducing costs by linking with other organizations that have similar goals in trying to avoid political entanglement altogether. This strategy uses the common strategy of gaining scale economy to achieve cost reduction. In this case, firms with similar objectives form coalitions to gain scale in information gathering and action. Several scholars have pointed out that joint venture partners are a common method of expanding political risk management capabilities as noted by Nordin et al (2006), Bradley, (1977); Delios & Henisz, (2000); Iankova, & Katz, (2003).

Coplin & O'Leary, (1976), noted that for wholly-owned operations, coalitions with other similar- interest companies can be formed. For example, firms interested in decreasing import tariffs might join together to share the costs of a lobbying strategy rather than each making the effort independently. The low resource strategy leads firms to simply avoid the appearance of political activity, Gladwin & Walter, (1980) in the hope that they may not be the target of political action. That strategy is only practical if a firm does not want to effect change in the political system. The common argument of both strategies is that they are low involvement for the firm, requiring few resources for their execution. MNCs with limited political risk exposure, for example because they have less equity in the market (as with trading firms) or because their equity investments are guaranteed outside of the market (as with many banks) are likely to pursue this less resource-intense corporate strategy

High Involvement Strategy

Companies with high political risk exposure, however, should be willing to expend greater resources and develop a more elaborate strategy because they can expect to affect the political environment in ways that provide adequate return on their efforts. The idea of a network is still appealing, but instead of a coalition of similar parties to gain scale, this network would be of diverse parties to gain scope. A lot of political stakeholders like consumer groups, labour unions, creditors, environmental and other public interest groups, government agencies, etc. are all potential network members as noted McCahery & Vermeulen, (2001); Vogel, (1978). The high involvement strategy thus creates a network of local, regional, and national stakeholders, including political, social and economic actors.

Through frequent contact and communication, the network acts as an information gathering device and a mechanism to work with potential sources of political risk to reduce the likelihood of actions in conflict with company objectives. When these groups' goals are aligned with the firm, they can supply diverse information leading to better management decisions and use their diverse contacts to make the environment more amenable to the firm.

Iankova, & Katz, (2003) highlighted that this strategy provides opportunities for political influence at varying levels and in regard to a wide variety of issues, with substantially greater sensitivity to the specific needs of the firm. Further, it can address political problems that cannot be solved through changes in the regulatory framework, for example civil unrest. The limited-resource and the high involvement strategy are actually two sides of a spectrum with firms able to move incrementally throughout the range. Firms that have developed high involvement networks may agree to participate in low involvement consortium because they see those as simply another node in their network. A firm devoting very limited resources to political risk management may thus develop a link to a community organization or a direct link to a government agency and begin to slide toward the high involvement strategy. In general, though, we would not expect a low risk exposure firm to choose a high involvement strategy because of its high resource cost. Also, high exposure firms may not choose to participate in low involvement strategies because they may pursue different objectives. For example, a large number of importers involved in a corporate coalition encourage focus on lowering import tariffs, even in exchange for the creation of other taxes, such as export fees or higher corporate tax rates. A foreign company that has invested in local manufacturing, particularly if the output is in part destined for export markets, would be unlikely to support those political objectives.

Ian, (2009) noted that investors, governments and firms should analyze the environment before investing, and understand the political conditions in the country. They should analyze the risks faced by other business in the country before establishing an investment. Investors can get information about the political environment in the country from the website and any other source. For example; the investor will decide to invest in the country or not depending on the political environment of the country. They should also analyze the policies and other regulations used by the government. According to a report released by PricewaterhouseCoopers and Eurasia (2006), most companies having international business do not have systematic monitoring tools. This has made it difficult for investors to manage political risks in different countries. According to the study, most countries have various types of political risks that affect investments in the countries. The political risks have made it difficult for investors to make high profits. To overcome political risks, PricewaterhouseCoopers and Eurasia advise companies to use systematic monitoring tools to manage political risks, (Ian and Zakaria, 2006).

According to Mitchell, Gurumoorthy etal, (2006), the business should design emergency system to overcome disruption like workforce shortage. Workers should be able to work from various places. Some very good and practical examples as quoted from the wall street journal,'' Lafarge evacuated about 30 Cairo-based expatriates and their families. It employs 8,172 workers in Egypt. Its Egyptian operations account for about 4% of its annual revenue, Lafarge's production in Egypt had been "temporarily stopped because of the situation," a spokeswoman for the company told *The Journal of 31 January 2011*. The company, which has six quarries and 62 ready-mix plants on top of six cement-production sites in Egypt, will resume production as soon as conditions in the country allows, she said. Heineken suspended production, evacuated its 25 expatriate employees on private planes and instructed its local employees to stay at home. It wasn't clear when operations will be resumed or what the cost will be to restart them, a spokesman said**.''** Chemicals company Akzo Nobel NV (AKZOY.PK), Dutch brewer Heineken NV (HINKY.PK), consumer-products giant Unilever NV (UL), Japanese automaker Nissan Motor Co. (NSANY.PK), French building materials company Lafarge SA (LFRGY.PK), and General Motors Co. (GM) were among companies suspending operations, according to *The Wall Street Journal (31 January 2011)*

2.3 Empirical Literature

Iankova, and Katz (2003) carried out a study on the strategies for political risk mediation by international firms in transition economies specifically focusing on Bulgaria. Their analysis shows that companies are pursuing two strategies: a low involvement strategy, in which companies, often working as part of a consortium, devote limited resources to mediation of a narrow set of political concerns, and a high involvement strategy, in which companies develop a diverse network of government, business, and public partners who can help them to mediate the political environment broadly. Investment intensity, a possible explanation of the different choice of strategy is considered.

(Yin et al 2003) in their study on how Singapore Companies manage political risk concluded that the favourite strategies to counter political risks were joint ventures with local firms, employing local management and developing good relations with the host government. Good relations with the host government might also make host governments more sympathetic towards foreign investors especially in a crisis. For instance, in the standoff between Bintan residents and Singapore investors operating in Bintan Industrial Estate, investors were able to solve the problem because of support from the central government in Jakarta who sent more soldiers and policemen to deal with the protestors. Such support seems much more likely when the investor has good relations with the host government.

Nordin, et al (2006) in their study showed that the perceptions of political risk elements among the firms vary according to the location of their investments. For example, those investing in developing countries were worried about expropriations of assets, social and political unrest and price fixing. Whilst, those in developed countries were more concerned about restrictions on profits, unfair competition from local competitors due to government subsidy, frequent unilateral change of agreement and ownership restriction. To manage these various political risk issues, most Malaysian based MNC opted for "good citizen policy" strategies.

Berlin, (2004) in their study on managing political risk in the oil and gas industry , concluded that unless a company follows a strategy of complete risk avoidance and stays solely within its national boundaries, it will be faced with the need to consider political risk when investing outside its home country. They also noted that effective techniques in managing the vice include keeping a low profile, maintaining close relationships with the host government, anticipating change and working with it, avoiding geographical concentration, being a good corporate citizen and utilizing local suppliers and personnel to the greatest extent possible so as to create an economic link with the host country that establishes a national constituency with a stake in your continued political survival.

3. Research Methodology

The research was conducted through a survey on 25 MNCs operating with parent companies or their subsidiaries in Zimbabwe and in various sectors and industries of business. The study examined the perceptions of decision-makers of MNCs operating in the country. The questionnaires were intended to be filled out by company financial managers, managers of international divisions, group accountants and international marketing managers, all of whom were expected to have a thorough understanding of their firm's political risk assessment and management. The survey was appropriate as it was a cost-effective and efficient means of gathering data given that the population of the study was very large and dispersed across a large geographic area. The research methodology stretched from both primary data sources through to the secondary sources of data so as to reach out to as many opinions as possible in as far as the issue of political risk is concerned.

4. Data Analysis

The survey first dwell much on the nature of the political risk in the country as perceived by managers and the entry mode used to penetrate the market of the host country.

Table 2: Mode of entry

Entry Mode	Percentage of MNCs
Direct exporting involving the company own subsidiary	**14.3**
Direct exporting involving Agent/Distributer/in FX market	**14.3**
Franchising	**9.5**
Service contracts/Management contracts	**23.8**
Joint venture involving majority share	**9.5**
Joint venture involving 49-51%	**4.8**
Wholly owned subsidiary	**23.8**

The research showed that multinational corporations considered the political risk of the host country as one of the most important determinants in investment decision making, hence use of the various entry modes as strategies to auger well in the country. This concern was due to the belief that unpredictability and volatility in the political environment of the host market increased the perceived risk and uncertainty experienced by the firm. In turn, this disinclined firms from entering with heavy resource commitments (e.g. wholly owned subsidiary, majority equity participation in joint venture).

From the IMF Country Report No. 09/139 of 2009, it was noted that Zimbabwe was not deemed a safe destination due to the following:, a pickup in land invasions, the confiscation of foreign currency deposits, tightening of price controls and exchange restrictions and frequent changes in business policies and regulations made it more difficult to conduct business in the country. In terms of ease of doing business among regional competitors Zimbabwe continues to rank poorly as shown in Table 3 below

Table 3: Ranking from the 2009 doing Business Survey

Unfavorable business regulations constrain Zimbabwe's private sector

(Ranking from the 2009 Doing Business Survey)

	Zimbabwe	Malawi	Mozambique	Zambia	South Africa
Ease of doing business	158	134	141	100	32
Starting a business	164	122	144	71	47
Dealing with construction permits	174	156	153	146	48
Employing workers	127	96	161	135	102
Registering property	85	96	149	91	87
Getting credit	84	84	123	68	2
Protecting investors	113	70	38	70	9
Paying taxes	157	58	88	38	23
Trading across borders	162	167	140	153	147
Enforcing contracts	77	138	124	87	82
Closing a business	154	135	133	80	73

Source: Doing Business 2009

Such a rating had an implication on the location decisions of MNCs and hence the flow of FDI into the country in the near future, that is, the political landscape was baring investors from setting up their operations in the country with fear of mishaps

4.1 Components of Political Risk

While investors from Zimbabwe view political risk as a significant constraint on investment plans, they differ over the type of political risk that is of greatest concern. The study noted that there were a number of political events which could harm businesses operating in the country. Expropriation and nationalisation have been deemed as the most threats for foreign firms in the country. The effects of politics on business operations had always been viewed in the negative. Unexpected political activity by mafia governments or other political groups was another means of political risk. Nationalisation, restrictions on earning repatriation, unexpected changes in government policies, corruption, civil and social wars had also crucial impact on international business in foreign country. Figure1 shows the nature of political risk perceived most severe in Zimbabwe.

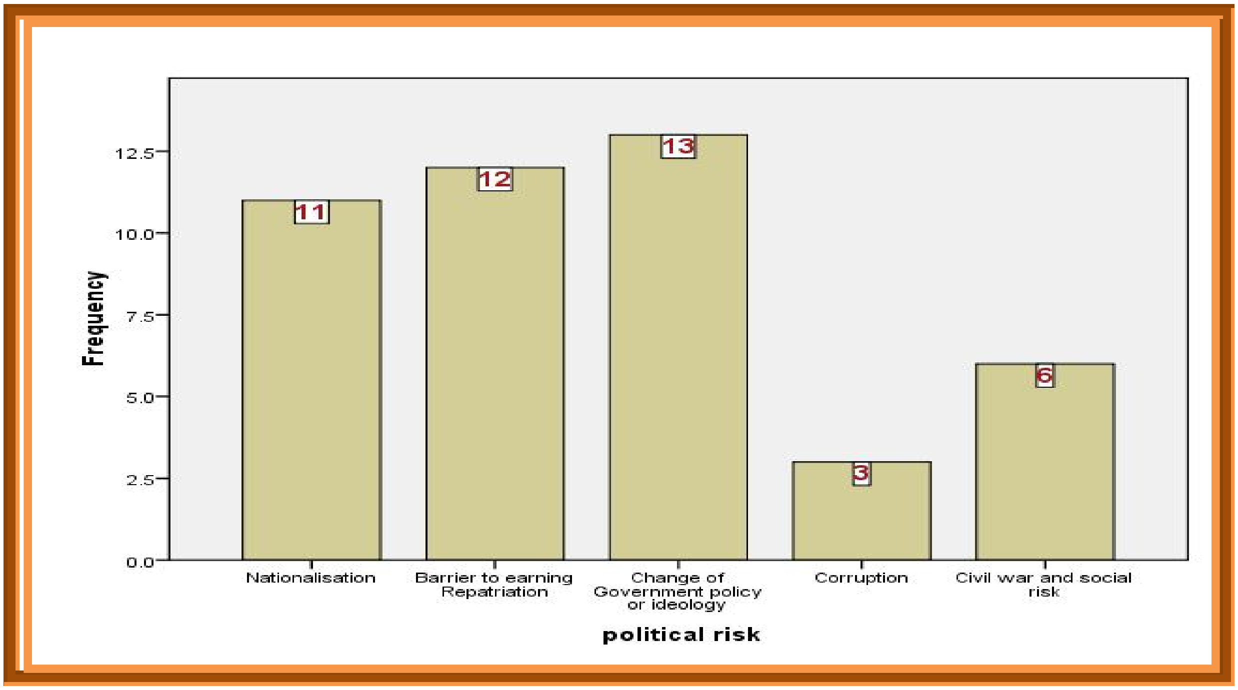

Figure 1: Nature of Political Risk perceived most Severe in Zimbabwe

It was found out that most investors in Zimbabwe considered change of government policy as the principal political risk over the next three years. This was followed closely by Nationalisation and barrier to earning repatriation and non- honouring of sovereign guarantees hence civil war and social unrest. The aggregate findings, however, masked important differences among the MNCs regarding what each considered to be the most worrisome political risk .Corruption and social unrest offers the least contrast in relative weight of political risks for Zimbabwean investors, they were considered the least significant risk for Zimbabwean investors over the next three years. Nationalization was rated as highly risky by 20 respondents and only 2 respondents had an opinion that it's less risky. The business community were stunned by such wide-spread efforts to nationalize and indigenise foreign and private property, regardless of how it was originally obtained. Justifiably, everyone considered this to be an assault on private property rights.

Results from the above presentations indicated that all political risk elements were important but the importance of each element varied between groups. For instance, in the case of MNCs that had operations in Zimbabwe, the political risk element of civil war and social unrest was the least important compared to nationalisation and barrier to earning repatriation. The difference in the importance of the stated elements can help guide investors to distinguish the different level of political risk in the country. The results also implied that the country was ranked as a highly political risk nation to business. Host government intervention in MNC operation such as restricting ownership, control over the remittance of profit back to parent country and the confiscation of MNC assets were some examples of events that have negative implications on MNC operation as well as their profitability hence political risk is the risk of actions taken by the host country that have negative implications on the performance of the business in the host country.

This was consistent with the global survey of 2009 which confirmed that more investors are concerned about government not honouring contract and guarantees and adverse regulatory changes which can result in investment loss than outright expropriation. This was in line with findings of Nordin (2006) and Yasumuro (1984); who noted that for MNCs with operations in developing countries, in terms of political risk what concerned them the most were incidences such as expropriations of assets, social unrest and political unrest and price-fixing. Iloiu and Iloiu (2008) however noted that MNCs that operate in developed countries were most concerned about restriction on profits, unfair competition from local competitors due to subsidy by host government frequent non-honouring of agreement and ownership restriction of which the deviation was as a result of differences between the levels of development of the two worlds. Despite this it can be concluded that non-honouring of contracts, nationalization, restrictions to earning repatriation, were the most inherent political events impacting investment decisions of companies in Zimbabwe.

Nordin et al (2006) noted that for MNCs with operations in developing countries, in terms of political risk what concerned them the most were incidences such as expropriations of assets, social unrest and political unrest and price-fixing. However MNCs that operate in developed countries were most concerned about restriction on profits, unfair competition from local competitors due to government subsidy, frequent unilateral change of agreement and ownership restriction.

4.2 Political Risk Management Strategies by MNCs

The research found out that, whilst political risk was inherent in the country, MNCs were employing various strategies in order to sustain doing business in the country. The graph below shows distribution of responses on the strategies used by MNCs

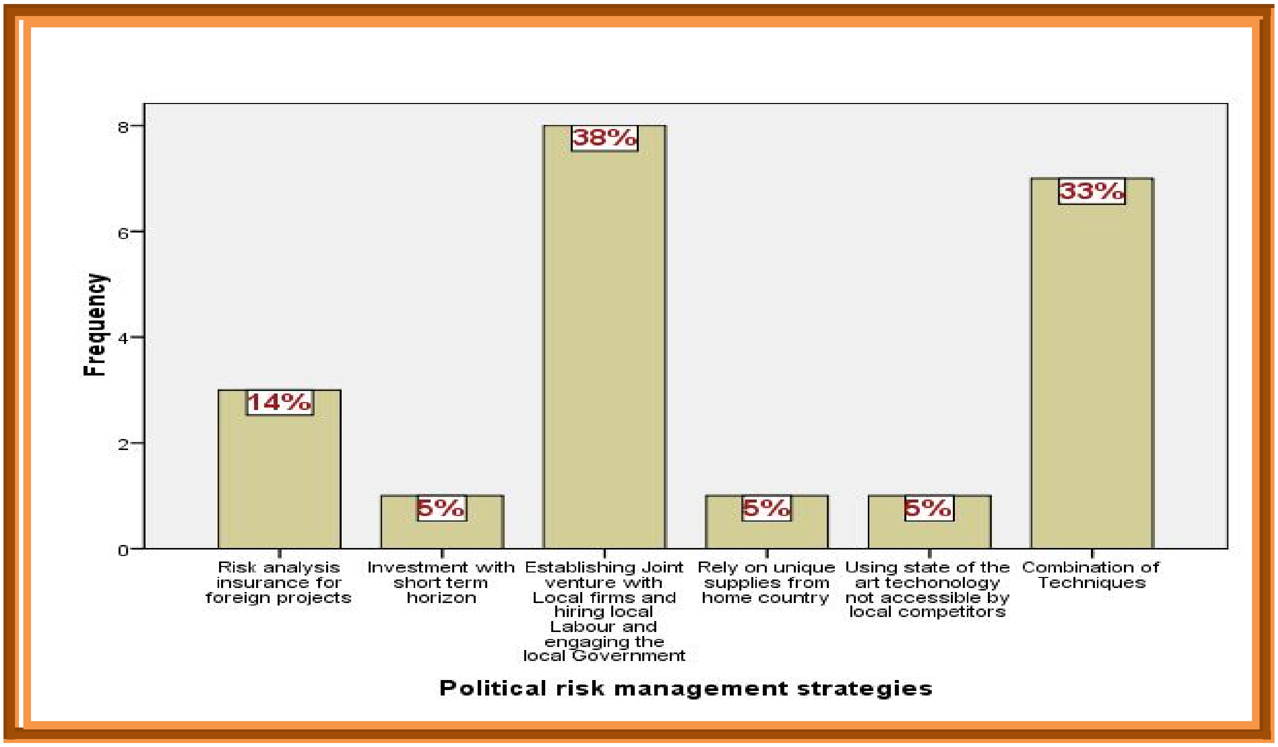

Figure 2: Political Risk Management Strategies

From figure 2 above, a majority of respondents used informal tools, such as engagement with host country, as a measure to hedge or manage political risks.Only 14 percent of investors reported using political risk insurance on average. There was a wide variance in risk perceptions and tolerance as regards political risk. Most firms pointed out that they manage political risk via a variety of techniques, for example using a middle of the road approached of mixing both low involvement strategies with high involvement strategy. The Zimbabwean based MNCs opted for “a good citizen policy” approach to mitigate political risk. Figure 2 above shows some of the strategies used: establishing joint venture with foreign competitors and hiring as many locals as possible (38%) and using credit facilities from local bank in the host country (33%). This implies that in as far as they face the risk; they also assess the risk and managed it. This was consistent with the World Bank Group survey of 2009.

It was concluded from the research that most MNCs claimed that they manage political risks through utilizing a wide range of mechanisms, and in many instances using more than one mitigation tool. Of interest to note were the financial sector participants who indicated new products like political risk insurance. Consistent with the practices of other multinationals as found by Nordin et al (2006), Mortanges and Aller (1996); the Zimbabwean based multinationals mitigated political risks by establishing joint ventures with local firms, hiring local labour and engaging local government. The results were going along with the World Bank’s World investment and Political risk survey (2009) that concluded that most of their respondents used informal tools, such as engagement with host country governments, as a way to mitigate political risks. Yin et al (2003) also found out that good relations with the host government might also make host governments more sympathetic towards foreign investors especially in a crisis.

Managers from Singapore also appear to dislike interfering with political matters in the host country of their investment. "Contributing to host country's government election campaigns." a policy often used in United State of America and other countries, is perceived as the least important strategy by Singapore managers. This may be a reflection of Singapore's political environment where politicians are expected to be pro-business anyway. Managers also appear to prefer to retain equity control of their foreign investments. Little importance is placed on "transfer of majority shares to local partners." Singapore managers probably feel that giving majority shareholding to local partners does not help to manage risk (Yin et al, 2003).

5. Conclusion and Recommendations

It was also noted from the research that the best of all strategies to manage political risk was to involve the local government and good citizenship approach, hence prospective investors are recommended to adopt strategies like joint ventures with local firms especially given the government's indigenization bill, employing local management and developing good relations with the host government and comply with the national environmental rules / norms and should pay more vigilant attention towards this issue rather than local government authority rules and high labour rules. On a continental scale, Witt (2004) noted that long-standing relationships with local African banks are crucial. For example, Commerzbank, which Witt was working for during the time of the study, works together with approximately 350 sub-Saharan African banks meaning that it has a unique risk appetite for confirming letters of credit issued in the region where other banks may have chosen to withdraw their commitments and are scaling back their correspondent-banking networks to reduce risk. While the risks of doing business in the continent sometimes seem to be at the forefront of many companies' minds, simply ignoring the potential for growth is not advisable. Indeed, with the help of the right local banking partner to navigate the risks, the opportunities for foreign investors are limitless, implying that strategic alliances and joint ventures are more effective. All in all, the integrative approach aims at integrating the company with host economy to make it appear local. Against this background the strategies in the functional areas of management would aim at integrating the Company with the host economy. Strategies can be via:

- *Financial Strategies:* Raise equity from the host country and involve local creditors, establish joint ventures with locals and government and ensure that internal pricing among subsidiaries and between headquarters and subsidiaries is fair
- *Management:* Employ high percentage of locals in the organization, ensure that the expatriate understood the host environment and establish commitment among local employees
- *Operations Management:* Maximize localization in terms of sourcing, employment and research and development and Use local sub-contractors, distributors, professionals and transport system
- *Marketing Management:* Share markets with domestic players as collaborators or market products through local marketing companies, appoint local distributors and use local network including transportation of goods and maintain a strong single global trade mark.
- *Government Relations:* The Company, for developing good and cordial relationship may adopt the following strategy: Develop and maintain channels of communication with member of political elite, be willing to negotiate agreements that seem fair to host governments keeping in view the company's interest, provide expert opinion when ever asked for and Provide public services

Future studies should focus on the management of political risk on a particular industry like mining or agriculture rather than a country perspective. This will enable decision makers to undertake appropriate decisions in relation to the industry in which they operate against the vice of political risk.

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