Publication date: Available online 28 June 2013
Source: Journal of World Business
Author(s): Alfredo Jiménez , Isabel Luis-Rico , Diana Benito-Osorio
Political risk not only constitutes a threat for multinational enterprises but can also be a source of opportunities. Exposure to and accumulated experience dealing with political risk allows firms to better implement a wide set of political actions such as negotiation of entry conditions, lobbying, litigation, campaign contributions and coalition formation, leading to preferential conditions, reduced environmental uncertainty, reduced transaction costs and increased long-term sustainability to the firm. These advantages facilitate investments in countries with higher and more diverse levels of risk and make political risk to be positively associated with the firm's scope of internationalization. This effect is not homogeneous across firms. Drawing from a sample of 164 Spanish companies with investments in 119 countries, we find that the impact is greater for companies in industrial sectors that are the object of greater governmental regulation than it is for firms in non-regulated manufacturing or service sectors, with less frequent interactions with home and host-country institutions.

Read Full Article