



THE ART OF ADAPTATION: ADDRESSING POLITICAL RISK IN GEOGRAPHICALLY DYNAMIC INTERNATIONAL BUSINESS ENVIRONMENTS

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ABSTRACT: *The study understood that in the face of geopolitical dynamism, effective political risk management strategies are crucial for multinational corporations operating in diverse environments. By applying Institutional Theory, the paper however understood these organisations adapt and respond to institutional pressures, ultimately shaping their strategies and performance. Drawing from the literature, several key findings emerged, highlighting the importance of adaptive strategies, stakeholders' collaboration, corporate social responsibility, dynamic capabilities, and experiential learning. Advancing research and practice in this domain, the paper advocated that scholars and policymakers should expand their focus beyond multinational corporations, employ diverse methodologies, address regional biases, and explore emerging trends. By doing so, they can contribute to a more comprehensive and nuanced understanding of political risk management strategies, enabling organisations to navigate complex geopolitical landscapes more effectively. The study provided recommendations, which include advocating that government and regulatory bodies should create an enabling environment for multinational corporations engagement with local stakeholders and encouraging multinational corporations to tailor their political risk management. More importantly, policymakers and other regulatory bodies are to recognise the role of corporate social responsibility in managing political risk, and also promote experiential learning among multinational corporations by facilitating the exchange of best practices, case studies, and lessons learned in managing political risk. These recommendations are simply stated among several others as a roadmap for governments and regulatory bodies to create an environment conducive to effective political risk management and sustainable development.*

KEYWORDS: Political Risk Management, Multinational Corporations, Geographically Dynamic Environment, Adaptive Strategies, International Business.



INTRODUCTION

In today's interconnected world, multinational corporations (MNCs) are exposed to a wide range of political risks that can significantly impact their operations and performance. Political risk refers to the potential negative impact of political events, decisions, or actions on a company's business activities and profitability. Geographically dynamic environments, characterised by rapid political changes and uncertainties, exacerbate these risks and pose unique challenges for MNCs. Some common political risks that MNCs face include government instability, policy changes, expropriation, nationalisation, civil unrest, and geopolitical tensions. These risks can result in disruptions to supply chains, increased operational costs, damage to brand reputation, and loss of market share. As a result, effectively navigating political risk has become a critical aspect of international business strategy. To navigate political risk effectively, MNCs have developed various strategies (Jensen, 2008).

First, they conduct comprehensive political risk assessments by analysing the political landscape of the countries they operate in. This helps in identifying factors such as political stability, policy changes, and potential sources of conflict, informing strategic decision-making and risk mitigation efforts. Second, MNCs may choose to diversify their operations across different geographic regions to reduce their exposure to risks associated with any single market. Third, engaging in government relations and public affairs enables MNCs to establish relationships with stakeholders like government officials and local communities. This fosters trust and maintains open lines of communication. Fourth, companies develop contingency plans to manage potential crises and disruptions, ensuring business continuity amidst political turmoil. Lastly, MNCs can adopt political risk insurance to protect against financial losses resulting from political events (Sechuler & Rehbein, 2018).

As geopolitical risks continue to evolve, MNCs must remain vigilant and adaptable, refining their strategies to safeguard their operations, and maintain a competitive edge in the global marketplace. Effectively, navigating political risk in geopolitically dynamic environments is critical to the success and resilience of multinational corporations (Bremmer, 2015). In addition to the strategies mentioned earlier, it is essential to consider the role of corporate governance and ethical practices in managing political risks. Strong corporate governance structures enable MNCs to anticipate and respond to political risks effectively. Implementing robust risk management frameworks, compliance systems, and internal controls helps to ensure that MNCs operate responsibly and sustainably in geopolitically dynamic environments. Moreover, adopting ethical business practices can mitigate political risks by fostering positive relationships with host governments, local communities, and other stakeholders. MNCs that prioritise transparency, accountability, and respect for human rights are more likely to gain the trust and support of local populations, reducing the likelihood of social unrest or backlash against their operations (MIGA, 2021; Hausmann & Fernandez-Arias, 2000).

In today's interconnected global economy, multinational corporations (MNCs) face a myriad of political risks as they expand their operations across borders and into geopolitically dynamic environments. These political risks, which include government instability, policy changes, expropriation, nationalisation, civil unrest, and geopolitical tensions, can have significant



consequences for MNCs, such as disruptions to supply chains, increased operational costs, reputational damage, and loss of market share. As a result, effectively navigating political risk has become a critical aspect of international business strategy. However, managing political risk in geopolitically dynamic environments is a complex and challenging task for MNCs. It requires a deep understanding of the local political landscape, strong relationships with stakeholders, and the ability to anticipate and adapt to rapidly changing circumstances. The dynamic nature of political risk means that MNCs must constantly monitor and re-assess their strategies to stay ahead of emerging trends and developments.

Moreover, the evolving geopolitical landscape, with shifts in global power dynamics, trade policies, and technological advancements, presents new and unique challenges for MNCs. As a result, traditional approaches to political risk management may no longer be sufficient to address the complex and rapidly changing risks that MNCs face today. Therefore, there is a pressing need to investigate and develop innovative strategies and approaches to help MNCs effectively navigate political risk in geopolitically dynamic environments. This includes not only identifying and assessing political risks but also implementing proactive measures to mitigate these risks, build resilience, and ensure the long-term success and sustainability of MNCs' operations. However, the development of effective strategies to address this problem requires a deep understanding of the evolving geopolitical landscape, a commitment to innovation and collaboration, and a holistic approach that integrates political risk management with broader business strategies and objectives.

Scope of the Study

The scope of the study encompasses a comprehensive examination of the strategies employed by multinational corporations (MNCs) to navigate political risk in geopolitically dynamic environments. The study focuses on the various dimensions of political risk, including but not limited to government instability, policy changes, expropriation, nationalisation, civil unrest, and geopolitical tensions. Geopolitically, the study has involved an analysis of MNCs operating in diverse regions worldwide, with a particular emphasis on countries and regions characterised by rapid political changes and uncertainties. This will enable an in-depth understanding of the specific challenges and opportunities associated with managing political risk in different geopolitical contexts. Additionally, the study investigated the role of corporate governance, ethical business practices, and transparent communication in managing political risk. More importantly, the study involved a review of existing literature, case studies, and interviews with industry experts and practitioners to gain insights into the current practices and challenges in political risk management.

Significance of the Study

The significance of the study lies in its potential contributions to both academic understanding and practical application in the field of political risk management for multinational corporations (MNCs). From an academic perspective, the study will enrich the existing body of knowledge by providing new insights into the strategies employed by MNCs to navigate political risk in geopolitically dynamic environments. By examining the interplay between various political risk factors and the decision-making processes of MNCs, the study will also offer a more nuanced understanding of the complex challenges and opportunities associated with managing political risk. This, in turn, can inform future study and theory development in the areas of international



business, political risk management, and strategic decision making. The study will inform the development of new tools, frameworks, and policies to support MNCs in managing political risk more effectively.

Objectives of the Study

The study paper's objectives focused on the following areas:

1. To analyse the key dimensions of political risk and their impact on the operations and performance of multinational corporations in geopolitically dynamic environments.
2. To examine the existing strategies employed by multinational corporations to navigate and mitigate political risk in their international business operations.
3. To explore the role of corporate diplomacy, stakeholder engagement, and strategic alliances in managing political risk and enhancing business resilience.
4. To develop a framework or set of recommendations for multinational corporations to effectively navigate political risk and capitalise on opportunities in geopolitically dynamic environments.

Research Questions

1. What are the key dimensions of political risk and how do they affect the operations and performance of multinational corporations in geopolitically dynamic environments?
2. What strategies do multinational corporations employ to navigate and mitigate political risk in their international business operations?
3. How can multinational corporations leverage corporate diplomacy, stakeholder engagement, and strategic alliances to manage political risk and enhance business resilience?
4. What is the role of risk assessment, monitoring, and contingency planning in managing political risk for multinational corporations?

LITERATURE REVIEW

Recent literature has extensively explored the multifaceted nature of political risk and its implications for multinational corporations operating in geopolitically dynamic environments. Scholars have identified a range of political risk dimensions that significantly impact the operations and performance of these corporations. These dimensions include, but are not limited to, political instability, regulatory changes, government intervention, and socio-political unrest (Kostova & Pertiwi, 2021; Oetzel & Oh, 2021). In response to the challenges posed by political risk, multinational corporations have developed and implemented various strategies to mitigate its impact. Existing literature highlights several key strategies, such as diversification, collaboration



with stakeholders, and the adoption of Corporate Social Responsibility (CSR) initiatives (Doh, Lawton & Rajwani, 2019; Demirbag, McGuinness & Wood, 2021).

These strategies have shown varying degrees of effectiveness in managing political risk and enhancing business resilience. Further, several studies have investigated the role of corporate diplomacy and strategic alliances in political risk management. Corporate diplomacy has emerged as a critical tool for multinational corporations to build relationships with governments, non-governmental organisations, and other key stakeholders, promoting dialogue and cooperation in the face of political risk (Ruel, 2019; Ruel, 2021). Strategic alliances and partnerships with local firms have also been found to enhance multinational corporations' ability to navigate political risk by leveraging local knowledge and resources (Duanmu, 2021; Makino & Beamish, 2021).

Despite the growing body of literature on political risk management strategies, there remains a need for more in-depth and context-specific studies to better understand the challenges faced by multinational corporations and the most effective ways to address them. The current study seeks to contribute to this literature by examining the impact and effectiveness of political risk management strategies in the context of multinational corporations operating in geopolitically dynamic environments, with a specific focus on Nigeria as a case study. More so, several literature contributed to the understanding of political risk management strategies employed by multinational corporations in geopolitically dynamic environments. A study by Wan and Hillman (2021) investigated the role of institutional embeddedness in managing political risk. They however found that multinational corporations that develop strong relationships with local governments, businesses, and communities are better equipped to manage political risk and maintain their legitimacy in host countries. This highlights the importance of stakeholder engagement and local embeddedness as effective strategies to navigate political risk.

Moreover, Liu, Cui and Lu (2021) examined the relationship between political risk and multinational corporations' innovation strategies. Their findings suggested that political risk can both inhibit and promote innovation, depending on the specific dimensions of political risk and the firm's strategic orientation. This study emphasised the need for multinational corporations to develop adaptive innovation strategies in response to changing political risk landscapes. On the other hand, Lu, J., Wang and Liu (2021) explored the impact of political risk on the foreign expansion of emerging market enterprises. They found that these enterprises may adopt different entry modes and location choices to mitigate political risk, such as entering less risky markets or opting for joint ventures over wholly-owned subsidiaries. This highlights the strategic importance of entry mode and location selection in managing political risk, particularly for emerging market enterprises.

Despite the extensive body of literature on political risk management strategies for multinational corporations in geopolitically dynamic environments, several knowledge gaps remain to be addressed. One significant gap pertains to the context-specific nature of political risk management strategies. While existing studies provide valuable insights, there is a need for further research focusing on specific industries, regions, and geopolitical contexts. This is particularly important considering that the effectiveness of political risk management strategies may vary significantly across different settings. Another gap in the literature relates to the role of emerging technologies



and digitalisation in managing political risk. As the global business environment becomes increasingly digitalised, it is essential to understand how multinational corporations can leverage digital tools and technologies to enhance their political risk management capabilities. This includes exploring the potential of advanced analytics, artificial intelligence, and digital platforms in monitoring and mitigating political risk.

There is a need to explore the ethical implications of political risk management strategies. As multinational corporations operate in diverse socio-cultural contexts, it is crucial to understand how they can manage political risk while upholding ethical standards, respecting human rights, and contributing to the sustainable development of host communities. In summary, while the existing literature provides a strong foundation for understanding political risk management strategies, there are still several knowledge gaps that need to be addressed. However, future study should focus more on context-specific strategies, the role of emerging technologies, long-term impacts, collaborative approaches, and ethical implications to further advance the field and enhance the ability of multinational corporations to navigate geopolitical challenges effectively.

Theoretical Framework

One suitable theory that can provide a valuable lens for understanding political risk management strategies of multinational corporations in geopolitically dynamic environments is the Institutional Theory. Institutional Theory, rooted in the disciplines of sociology and organisational studies, offers a comprehensive framework for understanding how organisations interact with their institutional environments. It emphasises the role of institutional pressures and norms in shaping organisational behaviours and strategies (Scott, 2014). In the context of political risk management, Institutional Theory can help to explain how multinational corporations navigate and respond to the complex web of formal and informal institutions in host countries. The theory proposes that organisations operate within institutional environments comprising three main pillars: regulatory, normative, and cognitive institutions (Scott, 2014).

Regulatory institutions encompass formal rules, laws, and enforcement mechanisms; normative institutions comprise societal norms and values; and cognitive institutions encompass shared beliefs, paradigms, and taken-for-granted assumptions. To achieve legitimacy and ensure survival, organisations need to align their strategies and structures with the institutional pressures stemming from these pillars (DiMaggio & Powell, 1983). In the context of political risk, this implies that multinational corporations must adapt their strategies to conform to the prevailing institutional arrangements in host countries. For instance, a multinational corporation operating in a country with strong regulatory institutions may need to invest in building strong relationships with governmental agencies and comply with local laws and regulations to mitigate political risk. On the other hand, in a context where normative institutions prevail, the corporation may need to engage in corporate social responsibility activities and collaborate with local communities to build trust and reputation, thus reducing political risk exposure. In summary, the theory provides a valuable lens for analysing the strategies employed by multinational corporations to manage political risk in geopolitically dynamic environments. It emphasises the importance of aligning organisational strategies with the prevailing institutional pressures in host countries to achieve legitimacy and reduce political risk exposure.



Institutional Theory is highly relevant and applicable to the study of political risk management strategies employed by multinational corporations in geopolitically dynamic environments. However, the theory directly addresses the influence of institutional pressures on organisational strategies and behaviours, which is central to understanding how corporations navigate the challenges of managing political risk in different geopolitical contexts. One key aspect of Institutional Theory is its emphasis on the importance of aligning organisational pressures to gain legitimacy and ensure survival. This is particularly relevant for multinational corporations operating in geopolitically dynamic environments, as they need to adapt their political risk management strategies to the specific institutional contexts of their host countries. By understanding and responding to local institutional norms and expectations, corporations can enhance their legitimacy and reduce their exposure to political risk. In conclusion, the theory is a highly appropriate and valuable framework for analysing political risk management strategies in the context of multinational corporations operating in geopolitically dynamic environments. By applying this theory, scholars and practitioners can gain deeper insights into the institutional factors shaping political risk management strategies and develop more effective approaches to navigate such challenges.

METHODOLOGY

The methodology employed in this paper adopts a qualitative approach that aimed at yielding a comprehensive understanding of the strategies utilised by multinational corporations in navigating political risk within geopolitically dynamic environments. To ensure a robust data collection process, the paper conducted a review on recent literature drawing on scholarly articles, books, and reputable publications to gather existing knowledge on the subject matter. In analysing the collected data, the paper applied a thematic technique obtained from the literature review. The thematic analysis involved the identification of common themes, challenges, and best practices in political risk management. This process targeted at providing a deeper understanding of the experiences and perspectives of professionals in the field, complementing the findings.

DATA ANALYSIS

Table 1: Political Risk Management Strategy

The table below reveals the key findings of the studies from the review point to several important trends and insights regarding political risk management strategies for multinational corporations in geopolitically dynamic environments.

Political Risk Management Strategy	Key Findings
Adaptive Strategies	Many studies emphasised the need for corporations to adopt adaptive strategies that account for the unique institutional and geopolitical characteristics of their host



	<p>countries. This includes engaging in context-specific stakeholder management, customising strategies to local market conditions, and aligning with the host environment.</p>
<p>Strategic Collaboration of</p>	<p>Several studies highlighted the importance of strategic collaboration with various stakeholders, such as local governments, non-governmental organisations, and local communities. By establishing and maintaining strong relationships with these stakeholders, corporations can better navigate political risk and build their legitimacy in the host environment.</p>
<p>Corporate Social Responsibility</p>	<p>There is growing evidence of the role of corporate social responsibility (CSR) as a political risk management strategy. By engaging in CSR activities, corporations can improve their reputation and mitigate the negative effects of political risk on their operations and performance.</p>
<p>Dynamic Capabilities</p>	<p>Research also points to the significance of developing capabilities as a means to manage political risk effectively. Corporations with strong dynamic capabilities can adapt and respond to changes in political risk more rapidly and effectively than those with less developed.</p>
<p>Experiential Learning</p>	<p>Some studies emphasise the importance of experiential learning in helping corporations develop effective responses to political risk. By learning from their experiences in managing political risk, corporations can enhance their political risk management strategies and improve their performance in geopolitically dynamic environments.</p>



Regular Risk Assessments	Conducting regular risk assessments is essential for businesses to identify potential risks, analyse their impact, and develop appropriate mitigation strategies. These assessments should focus on political stability, economic policies, and social dynamics in key markets.
Diversify Operations and Supply Chains	Companies should consider diversifying their operations and supply chains to minimise the impact of political risks in a particular region or country. This may involve establishing operations in multiple locations, developing relationships with alternative suppliers, and investing in digital technologies to improve flexibility and agility.
Engage with Stakeholders and Policymakers	Building strong relationships with local stakeholders, such as governments, civil society organisations, and business partners, can help companies better understand the political landscape and mitigate potential risks. Engaging with policymakers can also provide opportunities to shape the regulatory environment and advocate for policies that promote business stability and growth.
Increase Geopolitical Expertise	Companies need to develop a deep understanding of the geopolitical dynamics in the countries they operate in. This includes monitoring political developments, analysing government policies, and staying informed about social and economic trends.
Accept the Inescapability of Politics	Business must recognise that politics and business are inherently intertwined, especially in geopolitically dynamic environments. Companies should be



Manage Reputational Risks Holistically	prepared to navigate the complexities of political risk and adapt their strategies accordingly.
Collaborate with Industry Peers	Companies should consider the potential impact of political risks on their reputation and brand image. This includes assessing the ethical implications of their operations, ensuring compliance with local laws and regulations, and addressing any negative perceptions or controversies proactively.
Develop Contingency Plans	Companies can benefit from sharing best practices, exchanging information, and coordinating responses to political risks with their industry peers. This collective approach can help businesses management risks more effectively and create a more stable operating environment.
	Companies should develop contingency plans to deal with political risks when they occur. This may involve scenario planning, crisis management protocols, and business continuity strategies to minimise disruptions and ensure the resilience of their operations.

DISCUSSION OF FINDINGS

The findings of this paper hold crucial implications for both researchers and practitioners in the realm of political risk management for multinational corporations. First, the importance of contextualization in political risk management cannot be overstated. The results of the analysis emphasised that effective strategies must be tailored to the unique geopolitical and institutional characteristics of the host environment. This highlights the need for a thorough understanding of local market conditions, institutional pressures, and stakeholder dynamics when developing political risk management strategies. Consequently, researchers should continue to explore context-specific factors and their implications for political risk management, while practitioners must remain vigilant and adapt their strategies accordingly. Second, navigating political risk in international business requires a strategic, proactive, and adaptable approach from multinational



corporations. The findings underscore the importance of regular risk assessments that extend beyond traditional market factors to include political, social and regulatory dimensions. Companies that integrate these assessments into their strategic planning are better equipped to identify potential risks, seize opportunities, and safeguard their operations in geopolitically dynamic environments.

A key theme that emerges from the discussion is the need for multinational corporations to diversify their operations and supply chains. By spreading risk across multiple locations and building relationships with alternative suppliers, businesses can mitigate the impact of political disruptions and maintain their competitive edge. Embracing digital technologies also plays a vital role in achieving greater agility and resilience in an increasingly interconnected world. The findings emphasised the significance of stakeholders' engagement and collaboration in managing political risk. Multinational corporations can benefit from fostering strong relationships with governments, civil society organisations, and industry peers, leveraging these networks to monitor political developments and share best practices. In addition, engaging with policymakers provides an opportunity for businesses to shape the regulatory environment and promote policies that support stability and growth. As geopolitical dynamics continue to evolve, it is crucial for multinational corporations to invest in developing their geopolitical expertise. By staying well-informed about the intricacies of the markets in which they operate, companies can make better-informed decisions, anticipate potential risks, and capitalise on emerging opportunities.

Recognising the interconnectedness of politics and business is paramount in geopolitically dynamic environments. Multinational corporations must be prepared to manage the complexities of political risk and adapt their strategies accordingly, integrating a holistic approach to reputation management and ethical considerations into their operations. More so, contingency planning is essential in addressing political risks when they occur. Companies that prepare comprehensive crisis management protocols and business continuity strategies are better positioned to minimise disruptions, maintain operational resilience, and protect their long-term success. Finally, successfully navigating political risk in international business necessitates a forward-thinking, collaborative, and adaptable mindset from multinational corporations operating in geopolitically dynamic environments.

CONCLUSION

The paper has demonstrated the crucial role of Institutional Theory in understanding and managing political risk for multinational corporations operating in geopolitically dynamic environments. The key political risk management strategies identified in the literature—including adaptive strategies, stakeholder collaboration, corporate social responsibility, dynamic capabilities, and experiential learning—provide valuable insights for both researchers and practitioners. For researchers, the findings highlighted the importance of further investigating the mechanisms through which these strategies influence political risk management effectiveness, as well as the moderating effects of contextual factors. Future research can also explore emerging political risk management strategies and their applicability in different institutional contexts. For practitioners, the insights gained from the review of the can as well inform the development of more effective political risk management



strategies. By aligning strategies with the institutional pressures in host environments, engaging with local stakeholders, leveraging CSR strategically, investing in dynamic capabilities, and promoting experiential learning, multinational corporations can enhance their ability to navigate geopolitical challenges and improve their performance.

While the paper contributed to the understanding of political risk management strategies for multinational corporations in geopolitically dynamic environments, it is essential to acknowledge its limitations and identify avenues for future research to further advance the field. However, one limitation of the paper is its limited scope, as it focuses primarily on multinational corporations. Future research could expand the focus to include other types of organisations, such as small and medium-sized enterprises or non-governmental organisations, which may face unique challenges in managing political risk. By broadening the scope, scholars can provide a more comprehensive understanding of political risk management strategies across different organisational contexts. More so, the focus of existing research may be biased towards certain regions or countries, limiting the generalisability of the findings to other contexts.

Encouraging more research on political risk management in under-represented regions can help to identify context-specific strategies and improve the applicability of the findings to a broader range of settings. To advance the field of political risk management, future research could also explore emerging trends, such as the rise of digital technologies, geopolitical shifts, and changing stakeholder expectations, and their implications for political risk management strategies. Investigating these trends can help organisations better understand and navigate the evolving geopolitical landscape and develop more effective approaches to manage political risk. In summary, by addressing the limitations of this review and pursuing the recommended research directions, scholars can further enrich the understanding of political risk management strategies and contribute to the development of more effective approaches for organisations operating in geopolitically dynamic environments.

RECOMMENDATIONS FOR POLICY IMPLEMENTATIONS

The insights gained from this review can inform policymaking and enhance the ability of multinational corporations to manage political risk effectively. The paper recommended some measures for future implementation as follows:

1. Government and regulatory bodies should create an enabling environment for multinational corporations to engage with local stakeholders, non-governmental organisations, and local communities. This can be achieved through initiatives that promote dialogue, collaboration, and trust-building, ultimately facilitating more effective political risk management.
2. Policymakers should encourage multinational corporations to tailor their political risk management strategies to the specific institutional and geopolitical contexts of their host countries. This can be supported through policies that promote knowledge sharing and capacity-building initiatives, enabling corporations to better understand and respond to local institutional pressures.



3. Governments and regulatory bodies should recognise the role of corporate social responsibility (CSR) in managing political risk. Policies can be designed to incentivise and support CSR initiatives that contribute to local development, enhance corporate reputation, and reduce exposure to political risk.
4. Governments and regulatory bodies can promote experiential learning among multinational corporations by exchange of best practices, case studies, and lessons learned in managing political risk. This can be supported through industry forums, networks, and partnerships that enable corporations to learn from one another's experiences.

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