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Political risk and internationalization of enterprises: a literature review

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Abstract

This work aims to analyze how the national and international literature has explored variables that have an impact on the perception of political risk within an enterprise's internationalization process. The lack of specialized bibliography in Brazil and the difficulty for entrepreneurs to plan the internationalization hinder reaching clear parameters of how to measure political risk and strategies to mitigate this type of risk. The bibliographical section of Kobrin from 1978 was used a theoretical framework and whose definitions provided the initial parameter to identify the opinions of other authors on the topic. The methodology used gathered bibliographic content for defining political risk in 41 articles of international journals downloaded from databases made available on the Internet and handled through the software program EndNote 6. A content analysis using the software "R" identified "variables" as a sub-topic. The discussion presents the identification of political, economic, and socio-cultural variables that can be quantified in future studies and will make it possible to establish a mitigation of the risks and achieve success in the internationalization process.

Keywords: Political Risk. Internationalization Process of Enterprises. Foreign Investment. Host Country.

Risco político e internacionalização de empresas: uma revisão bibliográfica

Resumo

Análise sobre como a literatura nacional e internacional tem explorado variáveis que impactam na percepção de risco político dentro de um processo de internacionalização de empresas. A carência de bibliografia especializada no Brasil e a dificuldade por parte de empresários ao planejar a internacionalização dificultam o encontro de parâmetros claros de como medir o risco político e de estratégias de mitigação desse tipo de risco. Como referencial teórico, foi utilizada a vertente bibliográfica de Kobrin, de 1978, cujas definições serviram de parâmtero inicial para identificação das opiniões de outros autores sobre o tema. A metodologia buscou reunir conteúdos bibliográficos para a definição de risco político em 41 artigos de periódicos internacionais baixados de bancos de dados disponíveis na internet e tratados por meio do program ENDNOTES 6. Uma análise de conteúdo por meio do ***software*** "R" identificou "variáveis" como um subtema. A discussão apresenta a identificação de variáveis políticas, econômicas e socioculturais que poderão ser quantificadas em estudos futuros e possibilitarão estabelecer uma mitigação dos riscos e o alcance do sucesso no processo de internacionalização.

Palavras-chave: Risco Político. Processo de Internacionalização de Empresas. Investimento no Estrangeiro. País de Destino.

Riesgo político e internacionalización de empresas: una revisión de la literatura

Resumen

Análisis sobre cómo la literatura nacional e internacional ha explorado las variables que influyen en la percepción del riesgo político en el proceso de internacionalización de empresas. La falta de bibliografía especializada en Brasil y la dificultad de los empresarios al planificar la internacionalización obstaculizan la obtención de parámetros claros acerca de cómo medir el riesgo político y de las estrategias de mitigación de este tipo de riesgo. Como marco referencial teórico se utilizó la bibliografía de Kobrin, de 1978, cuyas definiciones sirvieron de parámetro inicial para identificar la opinión de otros autores sobre el tema. Para la definición de riesgo político, la metodología empleada fue la recopilación de contenido bibliográfico de 41 artículos de periódicos internacionales descargados de bases de datos disponibles en Internet y procesados por medio del programa ENDNOTES 6. Un análisis de contenido utilizando el software "R" identificó "variables" como un subtema. El debate presenta la identificación de las variables políticas, económicas y socioculturales que podrán cuantificarse en estudios futuros y permitirán establecer medidas de mitigación de riesgos y lograr éxito en el proceso de internacionalización.

Palabras clave: Riesgo político. Proceso de internacionalización de empresas. Inversión en el exterior. País de destino.

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INTRODUCTION

Systemic transformations in recent decades through globalization, the increase in trade transactions and investments, and the growing interest of enterprises for internationalization in order to remain or become more competitive have led scientists to search for increasingly robust explanations about the internationalization process, including its motivation, location, process, among other aspects. But few of these studies have explored the variable "political risk". Much of the Foreign Direct Investment (FDI) that has gained empirical force in the contemporary world is directed to developing countries whose history has more political instability when compared to the developed economies, which underscores the importance of considering the subject at hand.

In general, as is the view of Hood and Nawaz (2004), "[...] there is no universally accepted definition of what is and what constitutes political risk." Kobrin (1978) presents several definitions of political risk related to investment abroad of large multinational companies. For Chermak (1992), the political risk is affected by socio-cultural, political, and economic phenomena. As for Demirbag, Glaister, and Tatoglu (2007), the political risk is an important dimension of the institutional environment since multinational companies mainly face a new political system and set of rules in a new location. They mention that the coercive power of the State requires enterprises to behave in accordance with what the new regulatory and political environment requires. In this context, the State's regulatory environment may turn out to be a risk factor for international business.

Thus, it is worth mentioning some situations that indicate the existence of a risk model that would be linked to the attitudes of governments and that undermine the success of the companies in foreign countries. In 2011, for example, in Libya, many large Brazilian construction contractors such as Odebrecht and Queiroz Galvão left the country due to developments arising from Arab Spring and the beginning of the Civil War. On this occasion, the employees of the companies had to rely on diplomatic help from Brazil and made the journey back to the country through vessels. In a similar way, Petrobras was heavily

* Source: Elaborated by the authors (work analyse).

impacted by the Bolivian government's decision to nationalize gas, leading to an instability of the legal rules of operation in the country. Jiménez, Luis-Rico, and Benito-Osorio (2014) also point out that in 2012 the Argentine government announced the expropriation of 51% of the company YPF, which is owned by REPSOL of Spanish origin. This type of situation also occurred in previous times, as in the case of Mexico, who in 1938 nationalized its oil & gas industry, which directly affected the American companies. Albuquerque (2006) also highlights the examples of Iran that expropriated the Anglo-Iranian Oil Company in 1951, and of Chile in 1971 with the mining industries operating in the country.

There are other examples involving other components of political risk that impact the decision of the company to go international, such as the case of China in Box. Market and economic feasibility studies were carried out in Mexico by this company during its FDI planning. A socio-cultural variable of a political risk was not identified at the time of its internationalization in 2000. According to Marques, Merlo, and Lucchesi (2005), Mexico's economy was identified as stable, there was a great potential for the company's business in that country, and no political or social factors were identified that could present restrictions to the success of the venture. Milder sanitary laws, however, resulted in difficulties in training Mexican employees, culturally lagging behind in relation to the processes and food handling standards originally established by the company. This difficulty impacted in a high turnover of employees at the beginning of the project and, consequently, on the internationalization process.

Furthermore, another two unsuccessful experiments by the company China in Box demonstrate the existence of political and economic variables of political risk in addition to the socio-cultural ones. Also, according to Marques, Merlo, and Lucchesi (2005), a franchisee of this company from São Paulo was selected to internationalize through a large store in Buenos Aires in 1998. According to the study, the economic crises in Argentina together with the errors of "overestimating" the local market caused the store to close after three years of operation, resulting in a loss of US$ 300,000. Another investment took place in 2001 when the intention was to open a new business in Miami-USA, but the September 11 terrorist attacks put a delay in the plans. These aspects characterize examples of cultural, economic, and political variables of political risk that may interfere with the success of the internationalization process. Thus, revolutions, civil wars, expropriations, and other events linked to the notion of political risk tend to have a direct impact on the business structure of the enterprises internationalized, making it essential to develop mitigation strategies for these risks and more robust analyses in this direction.

Internationalization studies have shown a concern with this variable and it was the object of Simon's research in 1985 when he identified a serious scientific gap between the "country risk methods". More than thirty years after this statement, the contemporary international political, economic, and socio-cultural instability reinforces this thinking and also highlights the existence of a large deficit of studies with this focus. In Brazil specifically, the lack of specialized bibliography and the difficulty for entrepreneurs to plan the internationalization hinder reaching clear parameters of how to measure political risk and strategies to mitigate this type of risk. Given the above, this article, through a review of national and international bibliographies, aims to observe the frequency with which the variable "political risk" appears in enterprise internationalization studies and notice how this has been inserted in the theoretical models of this area.

The contribution of this article is associated with the empirical relevance of the subject and with the diagnosis of the dispersion in the theoretical treatment of this variable in enterprise internationalization studies. The intent is to recover the state of the art in this area of treating the political risk and organize discussions based on three main factors: 1) Political: the structure of the State and its institutions; 2) Economic: related to the stability of the country in their agencies and organizations for monitoring the capital market (ranking); and 3) Cultural: in relation to xenophobia and the ethnic, religious, and behavioral standards of the host country's society in relation to the enterprises, to the product, or the entering service.

One of the premises for presenting the research is related to the fact that especially small and medium enterprises do not have a political risk analysis framework to assess the chances of success in an internationalization process in the early planning stages. Questions of "why" and "how to" internationalize, if well answered before making a decision, provide a greater probability of success. Therefore, a deeper knowledge of the phenomenon "political risk" when starting an internationalization process, especially for smaller companies, will facilitate its recognition and motivate a discussion in business and academic environments.

This article is structured as follows to answer the issues stated above: identification, in the second section, of the main theoretical aspects of enterprise internationalization, of the strategies used, and what is political risk. The third section includes a description of the non-exhaustive bibliographical research methodology, but directed to aspects directly related to political risk and internationalization. There is a discussion in the fourth section aimed at looking into the political risk variables with potential to affect enterprises that want to tread the path of external expansion of their activities. Conclusions and perspectives for further studies end the paper. The impact of the perceived risk in the host countries of the internationalization may raise new demands for quantifying the variables directly related to small and medium enterprises, including "born globals", in order to establish the likelihood of success of this process while still in its planning phase.

THEORETICAL FRAMEWORK

Internationalization of enterprises

According to Wafo (1998), FDI began before World War I when investors from Western Europe used a part of their savings to finance foreign governments and companies in other parts of the world. At this time, almost all FDI from Europe was from England, France, and Germany in the form of creating or financing mines, plantations, public utilities, railways, and ports, mostly in Africa and Latin America.

Also during this period, Great Britain, as the great imperial power of the time, dominated international business with over 45% of the world's total FDI shares in 1914. After World War II, the leadership passed to the United States of America (USA) with American companies such as General Motors, IBM, and ITT developing production bases around the world, particularly in Europe and Latin America. In 1960, the US accounted for over 48% of the world's FDI. Later, the resurgence of European multinational companies and Japan's entrance into the international investment scenario somewhat overshadowed the leadership achieved by the United States (Wafo, 1998).

More recently, according to Acioly and Leon (2012), the People's Republic of China also began to take a leading role in this field, developing a series of government incentives to encourage the internationalization of enterprises, varying the financing mechanisms and facilitating the administrative procedures. This trend is in line with current data provided by the United Nations Conference on Trade and Development (UNCTAD) on the flows of FDI in the world, which no longer follows a path from North to South as in the past, but also includes movements of FDI issued from developing countries with vertical and horizontal transactions (south-north and south-south). This new dynamic of the FDI flows made the decision process on internationalization even more complex as it expands and diversifies the receivers and transmitters of this investment around the globe.

Lloyd (1974) highlights this aspect by pointing out that the main difference between a national and international business decision is in the variety of political, economic, and value frameworks. For him, in essence, investment abroad is similar to domestic investment except for the existence of some variables that arise due to a series of characteristics that are unique to international operations, which are as follows: the transfer of resources between borders; the regulation by governments on the transfers of profits; the relationship between the foreign company, society, and its host government; the unpredictable nature of intergovernmental relations that characterizes political risk and the substantial increase in the number of variables that must be considered; and the large number of new risk factors difficult to quantify.

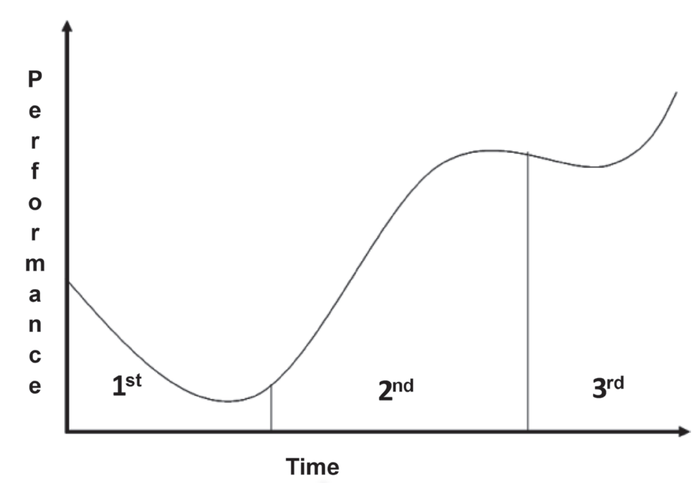
This seminal consideration raises the perspective of searching for variables to quantify the political risk in order to foresee and prevent possible losses by multinational companies or investors. Studies show that the process of internationalization is based on the accumulation of experience through "trial and error", in the relationship with business partners, and in the commitment of both administrative and technical human resources— (MORTANGES et al., 1986; KASHLAK, 1998; HENISZ and ZELNER., 2002; BUSSE and HEFEKER, 2007; DEMIRBAG, GLAISTER and TATOGLU, 2007; KHATTAB et al., 2008; SLANGEN and VAN TULDER, 2009; LÓPEZ-DUARTE and VIDAL-SUÁREZ, 2010; DUANMU, 2012; JIMÉNEZ, LUIS-RICO and BENITO-OSORIO, 2014; LIU et al., 2015).

Thus, this study was based on presenting the internationalization of enterprises considering the need for customizing the product for the local consumer, the direct interference of the entrepreneur to adapt the company to the market's needs, and the creative capacity of this entrepreneur to adapt means to the risks for preventing losses as well as the interference of the competitors in the host country. The cultural distance is an important factor in choosing the type of foreign market in the internationalization process. Firms with little experience prefer markets of a short cultural distance (BUCKLEY and CASSON, 2001).

Wafo (1998) warned that, compared to domestic investment, FDI seems to be more risky and expensive, involving a range of costs, expenses, and risks due to lack of information on the markets and regulations of the foreign countries. According to Jimenez and Delgado-García (2012), companies pass through three stages in their internationalization processes. At first, the impacts of multinationality and lack of experience act negatively on performance since the firm faces problems that are largely unknown. In the second phase, to acquire the knowledge needed to manage operations abroad, the increase in the degree of multinationality is accompanied by an increase in performance until the third stage. In the last stage, the management of the operations abroad becomes too complicated, which implies in a degradation of performance, as illustrated in Graphic 1.

Graphic 1

Steps of the internationalization process



Performance / Time / 1st - 2nd – 3rd

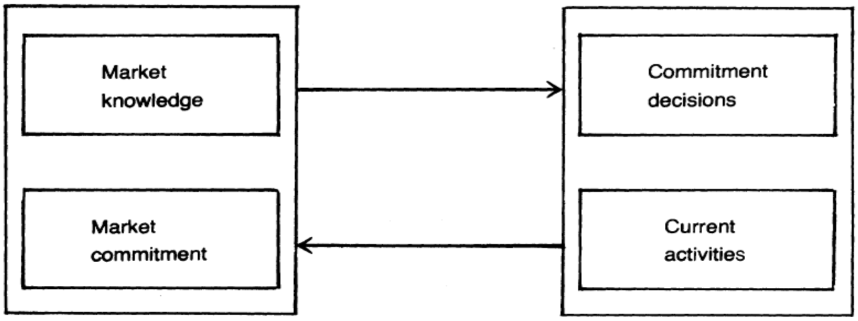
Source: Adapted by the author (JIMÉNEZ and DELGADO-GARCÍA, 2012, p. 2).

The company has the conditions and size in its home country at the beginning of the internationalization process that allow for an exchange of resources in order to acquire learning in the host country's market. This endogenous learning curve is in agreement with the Uppsala Theory. The internationalization process is related to learning with companies having to deal with the difficulties inherent to the process and to the experiences themselves. Johanson and Vahlne (1977, p. 3) emphasize learning by experience in the internationalization process: "[...] experience is acquired by developing activities in the market abroad." The greater the company's experience in the international market, the lower the risk and uncertainty of the operation, creating conditions for greater involvement and identifying political risks related to the host country. In this respect, the political risk would be directly related to the company and entrepreneur's ability to identify it, quantify it, and decide how, when, and why to internationalize.

Another pattern described is that firms enter new markets whose psychic distance is increasing greater. The psychic distance is defined as the sum of factors that interfere with the flow of information between the firm and the market (Johanson and Vahlne, 1977). The distance is manifested, for example, in the differences in language, education, culture, political systems, business practices, and industrial development. Therefore, companies that internationalize initiate the process preferably in markets that are culturally close to that of the home country.

Figure 1

Basic mechanism of internationalization



Source: Johanson and Vahlne (1977, p. 4).

A key assumption is that the market knowledge, including the opportunities and problems, is mainly acquired through experience provided by the ongoing business. Thus, as the firm's experience increases in relation to how to operate in a particular country, its resource commitment also gradually increases and the perception of political risk, in turn, follows this development. According to Johanson and Wideersheim-Paul (1975), the model about the internationalization process can explain internationalization patterns. The first of them is that the commitment to a certain country evolves as a sequential process, such as, initially export, after that the use of sales representatives, and then the establishment of a sales subsidiary, and eventually it may reach to local production.

This gradual evolution denotes an increasing commitment of resources related to learning and the reduction of uncertainty resulting from a better knowledge of the market. This view, however, demonstrates the existence of empirical studies that do not consider the variables of uncertainty related to the host country, which implies that there is a reductionist view of the company's learning and of its evolution in the internationalization process, which is lagging behind considering the reality of the 21st century.

INTERNATIONAL ENTREPRENEURSHIP AND THE PERCEPTION OF OPPORTUNITIES AND RISKS

The current literature in the area of international business has suggested different reasons that lead a company to internationalize, such as (a) a search for new markets, especially when domestic markets have been saturated (or close to that) or due to the relative attractiveness of foreign markets when compared with the domestic market (Johanson and Vahlne, 1977); (b) opportunities to exploit the advantages of a company in the production, marketing, knowledge, coordination of activities, reduction of labor costs or energy costs (Dunning, 1988); or (c) an attempt at consolidation in other markets. In a complementary direction, the 2006 UNCTAD report points to several factors that have motivated companies to open operations abroad through FDI, namely: search for markets (access to consumer markets); search for efficiency (reducing costs, especially labor); search for resources (raw materials); search for assets already created (through mergers and acquisitions); other reasons (strategic and political objectives, risk reduction).

These aspects involving the motivations and modes of operation were also interpreted by John Dunning in the study "Eclectic Paradigm" (1988). His analysis model consists of three key variables: O (ownership), I (internalization), and L (location). The first one refers to the specific advantages of property that may be derived from the company's structural (assets) or transactional factors. The other pillar has to do with the advantages of location whose operations and choices would be tied to the conditions offered by the target market. Finally, the advantage of internalization in which the modes of entrance would be defined either by the opportunities inherent to the environment or by the strategies to mitigate the operation's risks. With this, the author brings to the debate the tangible and intangible factors that define the company's process of deciding in favor for internationalization.

Thus, while entrepreneurship is not the central object of analysis in the Dunning model, the strategic calculations involving the three variables underlie this debate since in most cases the entrepreneurs are largely responsible for the decision as well as to establish mechanisms for identifying international opportunities. International entrepreneurship can therefore be considered as the discovery and exploration of opportunities beyond national borders in order to create future goods and services. Thus, in the vision of McDougall and Oviatt (2000), international entrepreneurship is a combination of an innovative, proactive behavior that seeks risks, crosses national borders, and aims to create values in organizations. There may be a performance advantage in a rapid internationalization considering that the sooner this occurs, the faster the growth will be. The means of transportation, communications, and digital technology are characterized as the foundations for achieving a rapid internationalization of an entrepreneurial opportunity.

Through filters and their personal characteristics (years of experience in international business) and psychological traits (propensity to take risks), Oviatt, Shrader, and McDougall (2004) pointed out that entrepreneurs observe and interpret the potential of the opportunity, the potential of communication, transportation, information technology to enable the internationalization and to identify the level of threat from the competitors in the foreign country. These influences in the perceptions clarify or block the entrepreneur's decision-making process. Consequently, an accelerated or delayed entrepreneurial behavior cannot be explained by a measure of technology or of competition, but only by understanding how the opportunity and the entrepreneur's perception are interpreted. In this respect, the entrepreneur's networking is the key aspect that can leverage the internationalization process.

INTERNATIONALIZATION STRATEGIES AND POLITICAL RISK

In the analysis about the possibilities of expanding to other countries, entrepreneurs should decide on the best means of entrance into a foreign market. According to the literature on internationalization, there are five basic ways of expanding into the international market: export, licensing, franchising, joint venture, and wholly owned subsidiary. For the purpose of carrying out such a task, they can be termed as internationalization strategies since each one of them depends on attitudes and activities by the entrepreneur and the company that will require decision making and making resources available as events take place.

According to Root (1994 *apud* GARRIDO et al., 2009), the way of entering an international market is based on an institutional arrangement that makes the entrance of products (technology, human skills, management, or other resources of a company) into international markets possible. The strategies to do this include objectives, targets, resources, and policies that guide the international business of a company for a period sufficient to achieve sustainable growth in the foreign market. The author also suggests that the modes of entrance are classified as follows: (i) export (indirect export, direct export), (ii) contract (licensing, franchising, technical agreements, service contracts, management contracts, production contracts, among others), (iii) influx of investments (individual investments through new ventures or acquisitions and joint ventures through new undertakings or acquisitions).

Similarly, Blomstermo, Sharma, and Sallis (2006) realized that American companies usually make use of franchising or joint venture in culturally dissimilar markets. In Chart 1, the author presents five ways of entering international markets—or strategies, according to Root (1994)—with their respective advantages and disadvantages, according to Bateman and Snell (1998):

Chart 1

Ways of Entrance

Ways of Entrance	Definition	Advantages	Disadvantages
Export	Internal production and sale abroad through sales reps or accredited resellers.	• Economy of scale for avoiding manufacturing costs in other countries. • Strategic consistency of the headquarters.	• High costs in detriment to locations with low costs. • High cost of transporting the products. • Existence of tariff barriers in the host country.
Licensing	Acquisition by entrepreneurs from the host country of a manufacturing or production license (receiving royalties).	• Lower development costs.	• Probability of losing control of property when it involves licensing of technological training.
Franchises	Similar to licensing, but used more by service companies (right to use the trademark).	• Less likely to suffer from political risks.	• Probability of losing quality control over the services franchised, devaluing the brand.
Joint Venture	A joining with entrepreneurs/ partners in the host country for the division of costs and risks of the undertaking.	• Knowledge of the local market. • Shared costs and risks. • Only option considering the possible political instability of the host country.	• Loss of control in the case of technology transfer. • Loss of control over subsidiaries in the event of conflicts with partners.
Wholly Owned Subsidiary	Establishment abroad of an independent, wholly-owned company.	• Maintenance of control in the case of technological development. • Centralized control over operations in the host country.	• Costs and risks are borne by the entrepreneur.

Source: Elaborated by the authors.

Experience is an interesting aspect in relation to the internationalization process. Blomstermo, Sharma, and Sallis (2006) find that the greater the experience in foreign markets, less is the need for control through tools, processes, and routines to establish controls. The routines, processes, and mechanisms of informal contacts established reduce the need for a more intensive monitoring by the entrepreneur. These authors consider that the means of entrance would be directly related to the level of control over the company's international operations. The control is presented as a basic key factor for determining the risks and return, the amount of friction in the relations between buyers and sellers, the performance of the investment abroad, the quality of the service over time and now for international customers as a resulting protection of the company's reputation.

The internationalization risk factor should also consider aspects of uncertainties and political instabilities in the host country, the lack of knowledge of the local market, uncertainty of the demand and of the competition's intensity, the legislation, and the contracts of permanence with the public agencies in the locality. In these terms, Heniszs (2013), when evaluating the thesis of Buckley and Casson (1976) in the service industry of the electricity sector, considered some aspects, such as idiosyncrasies, that if well managed can generate a competitive advantage for the internationalization of services. The idiosyncrasies are related to the government sector and, according to the author, are as follows:

- Identification of the institutional configurations that offer risks or opportunities through the relationship between regulating and political elements, observation of new entrants into the sector and of those already existing in the host country, and identification of the role of international institutions (World Bank, IFC, etc.) and those with a multi-faceted nature of the government officials.
- Ability to promote (or prevent) changes in (un)favorable public policies, pay attention to the local partners, carry out a detailed field survey, and assess the ability of decision to influence regulators or politicians.
- Ability to improve the skills to influence public policy through experiential learning in other countries and to establish an assessment of the effectiveness of its existing skills in a given market compared to other competitors.

These considerations may lead the company to learning how to manage the political risk. When a company is exposed to some kind of political risk, measures should be taken to safeguard its position. According to Mortanges and Allers (1996), there are three options: adapt to the host government's policies, not enter or withdraw from the market when already working there, or reconcile a competitive advantage based on the company's strengths for the host government's needs.

Upon analyzing the national and international literature, the purpose was to identify the variables that have an impact on the perception of political risk within a company's internationalization process. To operate in an unknown market in a culturally and politically different country, Bernstein (1997) highlights the ability of the decision makers to manage the risk by choosing to venture into new undertakings. The willingness to take risks and make bold choices is a key element of the energy that drives the economic system, in the case cited by the author. Datta (1988) suggested that, in the internationalization process of enterprises, three actors (the multinational company, the local company, and the host country's government) have different objectives that are directly influenced by external environmental forces that include various cultural, economic, and political systems. Thus, before moving on in the debate, it is worth questioning the very conceptual definition of the term.

IN SEARCH OF A DEFINITION FOR THE CONCEPT

A consensus cannot be found in the literature specific for the area of international business as to a definition of what is a political risk and how it would be related to the internationalization process of enterprises. For example, this concept in economic literature is historically linked to the political events that took place in the 1960s when newly independent countries tried to overcome their lack of capital by taking over the foreign subsidiaries of multinational companies (expropriation or nationalization). Furthermore, the rise of the communist premises during the second half of the 20th century, corresponding to the Cold War period, led many States to take actions aimed at nationalization and political control over the activities of multinational companies (SOTTILOTTA, 2015, p. 2). Because of this, confiscations, expropriations, and nationalizations became critical concerns for companies with operations overseas (FÄGERSTEN, 2015, p. 24).

Similarly, after the fall of the Shah of Iran in 1979, issues of political instability were added to investment risk variables (SCHMIDT, 1986; HOWELL and CHADDIK, 1994; SOTTILOTA, 2013). Later, Sottilotta (2015, p. 2) shows that, after the attacks on the World Trade Center in New York in 2001, terrorism has also become a major source of concern for international investors and entered in on the scene as a form of political risk. Similarly, Lehkonen and Heimonen (2015) highlighted the Arab Spring phenomenon as a recent event that had a direct impact on the concern of international investors who believed that the protests would spread to other oil producing countries in the region.

In short, what can be seen is that as historical phenomena move forward and become more complex, the perception of political risk is also altered and expanded. As a result of this, the literature has responded in order to find definitions for this phenomenon. Robock (1971), for example, points out that there is political risk in international business when governmental discontinuities occur in the business environment. Usually these discontinuities are difficult to predict and are the result of political changes that could significantly affect the profits or other objectives of a particular company. Kobrin's (1982, pp. 32-33) understanding, in turn, is the following:

> Political risk is often conceived in terms of governmental or sovereign interference with business operations... [or as] political acts, restrictions imposed on enterprises [by governments], or a combination of both.

As for O'Connell (1997, p. 230-232 *apud* Howell, 2014):

> Political risks are associated with government actions that deny or restrict the right of an investor/owner: (1) to use or benefit from his or her assets; or (2) reduce the value of a firm. The best-known political risk factors include war, revolutions, expropriation, nationalization or confiscation, and actions to restrict the movement of profits or other revenues to the home country. Political risks are those associated with acts of government.

Several authors associate political risk to the risk found in the capital and credit market whose potential financial losses occur when one of the contracting parties does not honor its commitments. The losses are related to the resources that will no longer be received. This type of risk can be divided into three groups highlighted by Khattab et al (2007):

a) Country risk, as in the case of moratoria of Latin American countries
b) Political risk, when there are restrictions on the free flow of capital between countries, states, municipalities, etc. This may originate from military coups, new economic policies, as a result of new elections, etc.
c) Risk of nonpayment, when one of the parties in a contract can no longer honor its commitments.

In a complementary way, Robock and Simmonds (1973) pointed out that there is political risk in an international investment when government discontinuities occur in the business environment, which are difficult to anticipate and when these discontinuities result from a political change. For Wafo (1998), the main concerns related to political risk by foreign investors would be related to stability of the local economy and the absence of high inflation, fair and equitable treatment by the host government, the absence of arbitrary regulations and actions by the government, free transfer of profits from the host country, ability to sell or liquidate the investment and then later to take away funds from the country, and political will and capacity to make structural reforms.

In short, the following history of the conceptual evolution suggested by Wafo (1998) can be considered.

- Beginning in the 1970s: period of awareness of political risk at the corporate level motivated by ideological views (nationalism and Marxism) linked to the spread of collective doctrines.
- Beginning in the 1980s: a period of scientification and professionalization of the concept of political risk through the birth of quantitative analysis methods of risks along with the probabilistic interpretation of political risk and the systematic use of these quantitative approaches at the corporate level by professionals.
- Beginning in the 1990s: period of scientific refinement of the concept of political risk due to contributions from other fields of research such as political science, sociology, decision theory, and psychology.

So, based on the theoretical and analytical framework given above, research has identified a range of definitions by different authors according to which political risk is differentiated by the scope of the multinational company highlighted by the authors, by the host country where the internationalization process occurred, and by the type of risk identified (political, economic, or socio-cultural). Accordingly, the definitions established in a seminal text (Kobrin, 1978) and how each author is positioned in relation to each definition is highlighted below. Chart 2 lists the authors and definitions in order to assist the analysis of how the literature has explored variables that impact the perception of political risk within an internationalization process of enterprises.

Chart 2

Definitions of Political Risk by Kobrin (1978)

Definitions of political risk by Kobrin (1978)	Authors	Country of Origin of the Publication	Methodology
Government interference in business operations.	Lloyd (1974)	Great Britain	Quantitative
	Schmidt (1986)	USA	Qualitative
	Lensink, Hermes e Murinde (2000)	Great Britain	Quantitative
	Jiménez, Herrero and Corchado (2008)	Spain	Quantitative
Actions of national governments that interfere or hinder business transactions or change the term of the agreements or cause the loss of all or part of the foreign-owned business.	Tower and Neckar (1988)	USA	Qualitative
	Chermak (1992)	USA	Qualitative
	Keillor, Wilkinson, Owens (2005)	USA	Quantitative
	Quer, Claver, and Rienda (2012)	China	Quantitative
Interference by the government or sovereign in business operations.	Sottilotta 2013	Italy	Qualitative
	Cherian and Perotti (2001)	USA	Quantitative
	Slangen, Van Tulder (2009)	Sweden	Quantitative
Reflection of the activity of governments that lead to changing the circumstances in a way that brings consequences to the enterprise.	Bernhard and Leblang (2002)	USA	Quantitative
	Tsai and Sub (2005)	USA	Quantitative
	Busse, Hefeker (2007)	Germany	Quantitative
	Jensen (2008)	USA	Quantitative
	Kolstad and Villanger (2008)	Norway	Quantitative
	Rios-Morales et al. (2009)	Sweden	Quantitative
	Duanmu (2012)	Great Britain	Quantitative
	Jiménez, Luis-Rico and Benito-Osorio (2014)	Spain	Quantitative
	Fägersten (2015)	Sweden	Qualitative
	Liu et al. (2015)	China	Quantitative
Government policy towards foreign investors.	Simon (1985)	USA	Qualitative
	Henisz and Zelner (2002)	USA	Qualitative
Political events or acts and restrictions imposed on the company, or a combination of both.	Mortanges and Allers (1996)	Great Britain	Quantitative
	Jiménez and Delgado-García (2012)	Spain	Quantitative

continue

Expropriation (partial or total) in the context of the lesser developed and unstable countries.	Drobnick (1984)	USA	Quantitative
	Demirbag, Glaister and Tatoglu (2007)	Great Britain	Quantitative
Damage to property, expropriation, government interference with existing contracts, control of the exchange rate, and discriminatory taxation and regulations.	Kashlak (1998)	USA	Qualitative
	Coltro (2000)	Brazil	Qualitative
	Howell (2014)	USA	Qualitative
Political event of any kind at home or abroad that can cause a loss of potential of profit and/or assets in an international business operation.	Howell (1994)	USA	Quantitative
	Clark (1997)	Great Britain	Quantitative
	Wafo (1998)	Germany	Qualitative
	Khattab, Anchor and Davies (2007)	Great Britain	Quantitative
	Jacobsen (2010)	Norway	Qualitative
	Kyaw, Manley, Shetty (2011)	USA	Quantitative
	Osabutey and Okoro (2015)	Great Britain	Quantitative
	Howell (2007)	USA	Quantitative

Source: Elaborated by the authors.

It might be noted that there is a search for identifying variables of political risk and for quantifying them in order to determine beforehand the lowest potential of losing the investment. Over 60% of the texts researched were based on quantitative research with different methodologies. The research was restricted to searching for texts not related to political risk in the capital markets. The activity of financial investments in foreign countries is already a theme deeply studied by financial institutions and, therefore, consolidated.

ORIGINS OF POLITICAL RISK

According to Nardulli, Peyton, and Bajjalieh (2013), the confluence of events related to political, economic, and socio-cultural instability of the host country have led entities such as the World Bank and the International Monetary Fund to seek strategies aimed to help so that the unstable countries in the application of FDI adopt political reforms that would allow economic and legal cohesion along with practices of "good governance". The policies are designed to increase the accountability of leaders through democratic reforms and the strengthening of civil societies. Legal reforms were essential for these strategies of development since without a coherent and credible commitment, the prosperity of free enterprise or democracy as a whole would not be able to be reached.

Political risks manifest themselves in different ways. Many attempts have been made in economic literature to catalog and classify the various sources of political risk. Wafo (1998) describes 14 aspects of manifestations of political risk in a host country for internationalization (FDI).

Chart 3

Manifestations of Political Risk in the Host Country according to Howell (1994) and Wafo (1998)

Manifestations of Political Risk in the Host Country		
Political	Economic	Socio-cultural
Regulatory Incentives for Internationalization.	Currency inconvertibility (profits).	Cultural distance. Psychic distance.
Expropriation or nationalization of assets or resources.	Limits of remittances.	Civil strife damage.
Breach of contract for political reasons or by a political body.	Discriminatory taxation.	Actions against staff (such as kidnapping).
Damage or restrictions to property.	Loss of copyright protection.	Fragile political structures.
Government interference in the terms of a contract.	Restrictions on the proportion of capital that a foreign investor can hold in a company.	Weak organizational level of society.
Regulations on operations based of political criteria.	High taxes and weak incentives.	Corruption.
Vague criteria in the official approval of the FDI.	Limits of capital for the venture.	Crime.
Local content of requirement rules.	Limits on repatriation of equity and foreign exchange.	Civil war.
Long delays of repatriation	Control on the prices of products.	Coup d'etat.
Control of prices for exploring natural resources.	Anti-monopoly regulation.	Hostile attitudes of elite people and society in relation to the FDI.
Inability of the government to regulate the economy and carry out reforms.	Exploration of the sector of industry/service competing with the state company.	Hostile attitude towards foreigners (violence, intolerance, and restrictions on labor).
Lack of democratic institutions.		
Troubled relations with the IMF, the World Bank, and the UN.		
Lack of the government's commitment to international standards of environment and labor.		
Troubled relations of the government with foreign investors in the last five years.		
Lack of commitment to bilateral investment rules.		
Subtle expropriation of returns obtained.		
Hostile statements from political parties.		
Reluctance of the host countries to reveal reliable information (lack of transparency and secrecy in most political and economic decisions).		
Restrictions on the types of companies that foreign investors can participate in.		

Source: Elaborated by the authors.

Notice that according to the authors, political risk in the internationalization process of enterprises is more related to government activities at the political level. But the economic and socio-cultural variables also interfere in the process depending on the host country and the FDI type to be used.

IMPORTANCE OF POLITICAL RISK

Kobrin (1978) already pointed to the idea that when the enterprise expands internationally, it faces political institutions and risks not found by their national counterparts. Given the need to carry out simultaneous operations in a large number of different environments, an intuitive understanding of politics no longer meets current management demands. Abrupt changes in politics in host countries may occur with relative frequency and cause surprises. Thus, when companies venture abroad, they perceive political aspects as the most important for achieving their objectives and also as more difficult to deal with.

According to Demirbag, Glaister, and Tatoglu (2007), the theory of transaction costs offers a variety of factors, including those relating to the firm and with the host country (size of the headquarters, multinational experience of the headquarters, investment intensity in research and development by the headquarters, relative size of the investments, degree of diversity of products, and experiences acquired abroad). Typical examples of the factors related to the host country are the level of development and the size of the country's market.

Scott (1995) classifies three pillars of the institutional environment of the host country: regulatory, normative, and cognitive. The regulatory pillar refers to rules and laws of society to provide stability, transparency, and order. The normative pillar refers to the domain of social values (culture, language, and norms of society). Normally, according to the author, this aspect can be difficult to interpret for a foreigner. The cognitive pillar represents the cognitive structures in the society that are taken as being right. The institutional environment of the host country is also known to influence decisions in the mode of entrance of multinational enterprises (MNEs). Political risk obviously influences considerations of cost and risk, which in turn impacts the internationalization process.

The fact that all countries of the world employ investment incentives to varying degrees in order to promote their objectives does not necessarily mean that the political risk does not appear. On the contrary, recent events show that political risks continue to be a concern for foreign investors. Kobrin (1978) points out that the company presents itself as a system within an environment that is directly affected by the turmoil of the context in which it operates.

METHODOLOGY

To analyze the impact of political risk more generally in the research of international business, a bibliometric study was used from the databases listed in Chart 3 from 1974 to 2015. The bibliometric method is well-known and refers to the mathematical and statistical analysis of potential trends and patterns based on written documentation. This bibliometric study includes the analysis of academic papers published in highly reputable journals. The analysis specifically reverted to the observation of the content of the papers that infer links between topics and sub-topics.

The consultations were done in the main databases available at COPPEAD. At this stage, no effort was made to restrict the databases nor keywords in order to increase the possibility of finding interesting research papers. This theme is explored internationally and several studies indicate aspects of specific political risk in countries, businesses, and enterprises.

The research was developed in order to investigate the political risk in internationalization processes of enterprises. Databases were searched from leading international and national journals related to the area of Social Sciences based on the keywords "political risk" and "internationalization". They were used as separate words during the search. Once the quote of political risk was located, a verification was done to check its relation to internationalization processes. They were identified with the following highlights:

Chart 4

Database of Journals

Journal	Results	Observations
Brazilian Administration Review (BAR) – ANPAD	0	Keyword “Political Risk” as main search factor
Revista de Administração Contemporânea (RAC) – ANPAD	0	Keyword “Risco Político” as main search factor
Revista de Administração Pública – Scielo.br – Print ISSN 0034-7612	0	Keyword “Risco Político” as main search factor
Revista de Administração de Empresas – FGV – www.rae.fgv.br	0	Keyword “Risco Político” or “Political Risk”
CAPES Portal of Periodicals	2	Keyword “Risco Político” and “Political Risk”
Magazine ADM.MADE- Estacio de Sá University	0	Keyword “Risco Político” or “Political Risk”
BASE- Vale dos Sinos University- Virtual Library	0	Keyword “Risco Político” or “Political Risk” in the title
INTERNEXT – ESPM	0	Keyword “Risco Político” or “Political Risk” in all search categories
Google Scholar	1,900	“Risco Político” in all search categories, including citations
	60,900	“Political Risk” in all search categories, including citations
JSTOR – Journal Storage	14	“Political Risk” in the title. Database saved and transposed to EndNote for content analysis, selection, and reading.
JSCM- Journal of Supply Chain Management	0	
Google (call for paper)	245,000	“Political Risk” as search keyword
JPR- Journal of Political Risk- www.jpolrisk.com	9	“Political Risk” as a keyword in the title The articles found were downloaded and saved for reading and analysis
Science Direct- www.sciencedirect.com	4,045	“Political Risk” as a general search keyword
	237	“Political Risk” as a search keyword in the Title, Abstract, and Keywords
	8	“Political Risk” and “Internationalization” as search keywords in the Title, Abstract, and Keywords
Emerald Insight	231	“Political Risk” and “Internationalization” as search keywords in Abstract
Scopus	305	“Political Risk” as a search keyword limited to the period of 2015 to 2011 and including only articles and reviews

Source: Elaborated by the authors.

Considering the quantity of articles found, a refining was then done of the terms used for the search. The methodological process involved a content analysis of articles published in international journals, books, chapters of books, and doctoral theses, selected and downloaded from databases on websites. For bibliometric analysis, only the articles were separated by the program EndNote 6. After checking the keywords in the title, abstract, and in the text, 41 articles allowed the scope necessary for its consolidation as a theme in future studies.

The content analysis technique was restricted to selected and separate articles of books, book chapters, and theses. The method aims to analyze what is explicit in the text in order to obtain indicators that allow to make inferences. For the type of verification in question, the qualitative analysis modality is indicated (seeks to analyze the presence or absence of one or more of various keywords in the text). After a first general reading with the aim of identifying the definition of the concept of political risk, the intention was to codify (note, classify, aggregate, and categorize) words related to the theme that appeared the most and thus allow to identify sub-topics. The software "R" was used in its version 3.2.2 to check content analysis.

It was found that national journals related to the area of Administration in general are incipient in relation to the topic of political risk. The low number of publications found on CAPES's portal alone denotes that the topic of political risk is new in the context of national journals. Thus, in order to direct the systematic review to the research's sample, the search was refined to the term "political risk" (title and abstract), excluding "financial risk" (abstract and content), while keeping the term internationalization (abstract). The refining was followed by seeking these terms in scientific articles published in national and international journals.

Considering the validity and reliability that a research requires, strategies were established to confirm the accuracy of the results: triangulation of different sources of information of data and clarification of the biases among the authors brought to the study and the presentation of negative or discrepant information.

Because of time constraints, the bibliographic research carried out comprised 38 international and one national texts selected from 1974 to 2015 and among them is the book of Stephen Kobrin, "Political Risk: a Review and Reconsideration" that was used as a base because the author presents several definitions of political risk. This work was used this way because it is considered to be a seminal publication and presents a diversity of views. Thus, through it, a comparative table was established to demonstrate the alignment of the various authors of the texts researched, the origin of the publication, and the respective types of methodology used to explore the theme (quantitative or qualitative).

DISCUSSION

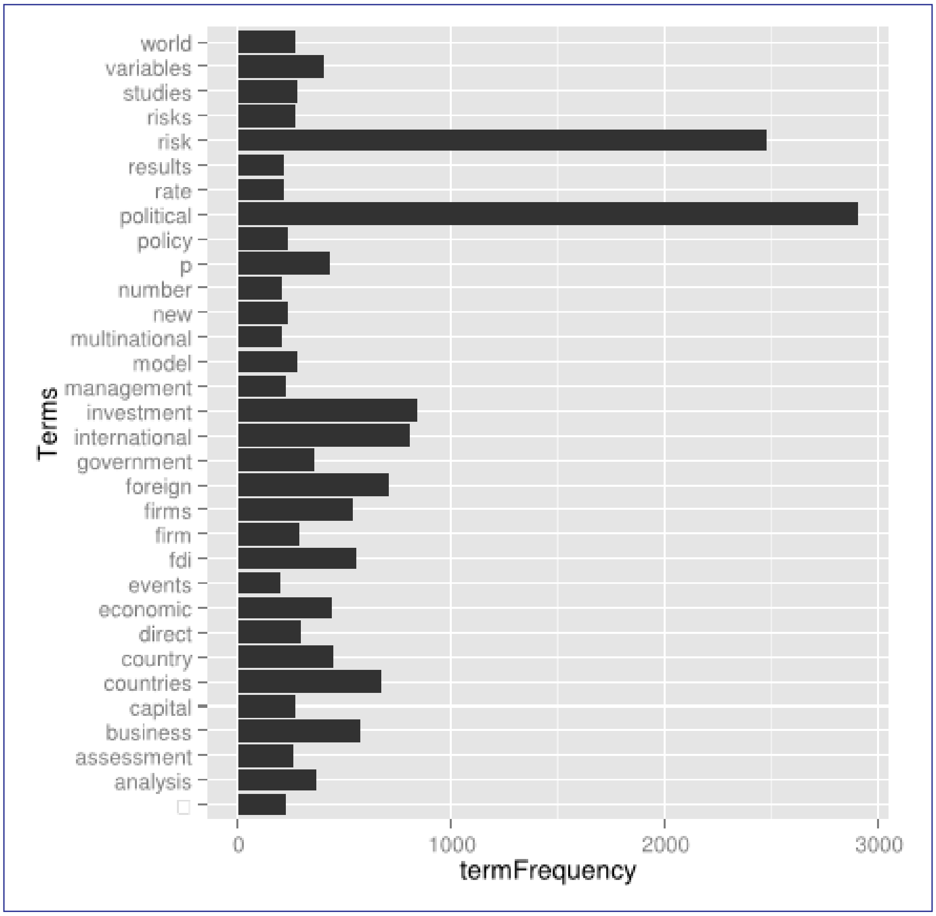
Next, an analysis was done of the terms that appear most frequently in the list of texts of the authors cited in the table of definitions. Graphic 2 and Figure 1 present aspects analyzed using the software R and demonstrate the main sub-topics associated with the main theme of "political risk" identified in the 41 articles of the international journals searched. The analysis of the content in software "R" of the articles chosen led to inconclusive observations. The great repetition of key words in the figures mentioned partially demonstrated what was observed by Bardin (2009, p. 123):

> Not all of the material for analysis is likely to give rise to a sample, and, in this case, it is better to be refrained and reduce the universe itself (and, therefore, the scope of the analysis) if this is too important.

The content of the articles can also be seen in Graphic 2 and Figure 1.

Graphic 2

Graphics in "R" of the content analysis on political risk



Source: Elaborated by the authors.

Then the analysis of the thematic aspects of the articles was done without paying attention to the issues of formal and structural order. Graphic 2 presents the list of the most significant terms. It can be observed that the terms "Political", "Risk", "International", "Investment", "Foreign", "Countries", "Firms", and "Variables" appear more often, which suggests the direction of the studies for more in-depth approaches in relation to the political risk variables that affect the internationalization processes.

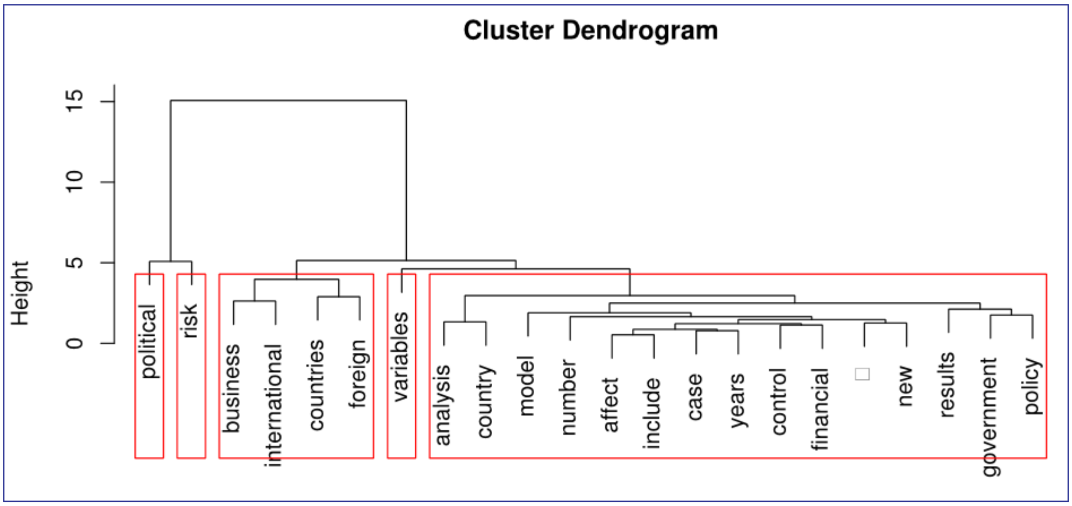
The bibliographic details identified a total of 41 articles, of which only two are national (COLTRO, 2000; ÁVILA, 2013). It can be observed that the references most used to address the theme of political risk in International Business are in papers written by foreign researchers.

Another aspect to be considered refers to the geography of the origin of the authors. Figure 1 summarizes the data, which shows a wide predominance of the United States followed by Great Britain. It is striking to notice that more than half refer to North American researches and it would be important to understand whether this evidence is indicative of the greater emphasis given to quantitative research and political risk in the US compared to other countries. This reality can be motivated by the history of foreign direct investments by the United States and for the maturity of the theme in that country. Considered in this analysis is the lack of substantial references that come from Brazil, which causes motivations for the deepening of studies of Brazilian companies investing abroad.

The dendrogram shown in Figure 1 corroborates with the alignment of the most significant words. In it, “variables” stands out as the word most closely related to international business and political risk in foreign countries.

Figure 1

Clustering Dendrogram related to Political Risk



Source: Elaborated by the authors.

Qualitatively, however, a few observations are worth mentioning. In general, it was observed that most of the theorists that focus on understanding the phenomenon of internationalization of enterprises and political risk point out that international ventures are influenced by the goals of a multinational company. These influences are as follows: (1) the cultural distance between the origin and host countries; (2) the relative stability of the host country’s economic environment; and (3) political risk in the country and restrictions of the host government to receive foreign companies. In this context, three aspects of the political risk have been identified in this study as being central, namely: political, economic, and socio-cultural variables. Another aspect empirically pointed out by the literature is that the global expansion of the business would be the best means of managing the political risk. Strong associations through joint ventures would be able to influence even “ideological” governments to be pragmatic. This aspect could decrease the possibility of influence of political risk on internationalization.

In the view of the neoclassical growth model, the capital should flow from rich countries to poor countries, given the logic of higher returns. This does not, however, explain why most of the foreign direct investment (FDI) takes place among developed countries rather than come from the Organization for Economic Cooperation Development (OECD) for the developing world. One explanation for this theoretical and empirical paradox could be found in high political uncertainty in less developed countries. Thus, if the less developed countries desire to attract FDI flows, they should make efforts to reduce political risk. Many authors associate expropriation and nationalization for the interest of society. Corporate decision makers try to identify selective elements of political and economic instability in the host country that could influence the success in the investment. The hiring of expert consultants exogenous and endogenous to the host country is a tactic commonly used to classify and identify the level of risk in the country being considered.

Internationalization can be understood as a growing and continuous process of engagement of an organization’s operations in other countries outside of its home base. This is an old and widely studied phenomenon. Through 6,838 foreign subsidiaries in Turkey, Demirbag, Glaister, and Tatoglu (2007) identified important institutional variables to explain the success of the undertaking. Those that gained particular prominence were those related to political risk, cultural distance, linguistic distance, agglomeration, location, and size of the affiliate.

In China's case, Quer, Claver, and Rienda (2012) point out that institutional barriers are mitigated due to the state owning many Chinese multinational companies and their political objectives, which reduces the impact of risk because of the political assistance of the Chinese government. In some respects, the political risk is linked to the State's power for taking measures of intervention or definitive expropriation. To avoid these, multinational companies tend to choose smaller equity investments through joint ventures.

Therefore, when associating the definitions of the authors studied, the content analysis carried out, and the political risk manifestations observed in Chart 2, a decision was made to try to list the variables in the three spheres intrinsically linked to the internationalization process of enterprises so as to reach a future quantification by empirical application.

With the examination of the publications identified in Chart 2 by means of the bibliometric research, we observed the emphasis connected to the variables on the dendrogram in Figure 1. Lotka's Law helps in indicating the degree of maturity of the scientific literature on the subject. This indicates that in more consolidated areas, few authors concentrate a significant production, while a larger number shows a reduced production. If the theme of political risk, it can be observed (see Chart 2) that it is not yet a consolidated area in Administration since there are numerous papers and authors on the subject.

Thus, the aspects made by Howel (1994) and Wafo (1998) in Chart 3 are related and highlight the political risk variables that could undergo quantification in future studies, namely: political variables, socio-cultural variables, and economic variables.

POLITICAL VARIABLES

Howell (1994) presents a variable that he considers to be a fractionalization of the political spectrum, which nowadays can be considered as an influence of the political parties within a system of government and their degree of influence on the government. This variable could be considered a high level political risk when taking into account an exaggerated number of political parties influencing government decisions. Therefore, the idea is that the greater the number of political parties in a democratic State, the more difficult is the government's position to implement changes in favor of internationalizations and greater political risk. Howell reinforces, on the other hand, authoritarianism/totalitarianism as interfering in the stability of the undertaking or as a high political risk factor that usually imposes restrictive, coercive measures and reflects the perspective of the arbitrary actions of the government and abrupt changes of rules due to the government's manipulation in the implementation of decisions. It is based on the principle that the more authoritarian that a country is, greater will be the political risk for internationalization. Democracies are considered to be more stable and have less possibility of political risk.

Wafo (1998) points to political sub-variables that influence the internationalization process of enterprises. According to this author, in general, instability or frequent changes of government, political violence can generate a negative image of a certain country and result in a high level of political risk. It may be possible to quantify the level of risk by establishing a probability of occurrence of these types of events.

SOCIO-CULTURAL VARIABLES

According to Schneider (1976), there is a contrast between the standard of conduct and a society's culture. While the standards are oriented to the standards of action, culture constitutes a body of unwritten definitions, assumptions, assessments, propositions, and perceptions about the universe and man's place. For the author, the standards have to do with how to play and behave in the environment. Culture on the other hand demonstrates how the scene is set and what it means. In this context, the farther away the culture is from the home country in relation to the society of interest in the internationalization, the greater will be the possibility of risk in the process.

For Ávila (2013), the psychic distance depends on the knowledge and on the objective information that the executive has about the host country, as well as beliefs and subjective assumptions that he believes to be true. The concept is associated with the Behavioral Theory of Uppsala developed by Johanson and Vahlne (1977). In it the authors assume that the lack of information, knowledge, and experience on the international external market brings uncertainty to decision makers interested in the internationalization, leading to a conservative position in the internationalization process desired and consequently to a gradual exit. In this case, the risk factor would be directly linked to the company's experience in internationalization processes. Some knowledge of the market and cultural behavior of the host country's society increases the possibility of success, interfering so as to reduce the political risk.

Shenkar (2001) points out several factors that could narrow the cultural gap between the two countries: globalization, geographic proximity, international experience of the investor company's executives, absorption of elements of the host country's culture, and hiring executives familiar with both cultures. Howell (1994) also presents a variable that he calls "mentality". This socio-cultural variable is linked to xenophobia, nationalism, corruption, nepotism, and to loyalty of commitment, as well as acceptance by the local market of the host country of the internationalized product or service.

ECONOMIC VARIABLES

According to Simon (1985), political risk is the ability of a country to meet its financial obligations. For the purposes of this study, the political risk studies considered were the ones conducted by international institutions that do the survey and annual ranking of more than one hundred countries, such as Political Risk Service (PRS), Moody's, Standard & Poors, and Fitch Ratings. These companies are specialized in ranking countries by their degrees of investment. The methods used to classify the degree of risk (AAA, AA+, BBB+, etc.) incorporate a considerable number of economic variables, which simplifies the political risk analysis when selecting a host country. Usually the probabilities established by these rating agencies cover a time horizon from eighteen months to five years.

Possible changes in the level of political turbulence are analyzed along with eleven types of government intervention that affect the business climate (capital restrictions, exchange controls, changes in fiscal and/or monetary policies, labor costs and requirements for local labor, and external financial liabilities). After consolidation of probabilities, the models convert the numbers found in the variable into groups of letters (on a scale from A+ to D-) for various areas of investments such as:

- Financial transfers (banks and lending)
- Exports to the market of the host country
- Foreign direct investment (retail, manufacturing, mining, and others)

In the case of PRS, there is an overall rating for each country in a total of one hundred countries. Users can customize PRS's forecast model for individual projects or for a company's specific exposures by adjusting the weight given to each one of the variables, adding or subtracting variables, or otherwise adapting the model to emphasize potential specific sources of risk.

Another economic variable to be considered in the host country refers to the Human Development Index (HDI) of the United Nations (UN). The HDI is presented as a general summary measurement of human development of the countries linked to the UN. New methodologies were incorporated to calculate the HDI in 2010 when the Human Development Report completed 20 years. Currently, the three pillars that make up the HDI (health, education, and income) are measured in life expectancy, average years of adult education, expected years of schooling for children at the age of starting school life, and standard of living (income) measured by Gross National Income (GNI) *per capita* in US dollars. Because of this, a method of assigning weights in relation to the perception of entrepreneurs for these variables is understood as relevant and may constitute a quantitative model that identifies the probability of political risk in the internationalization process of enterprises considering the country to be chosen.

In general, it can be observed that most of the studies are quantitative and this number denotes the search by scholars for a quantization of parameters so as to establish a numerical model that can establish a prediction. Nevertheless, the incidence of qualitative studies and the dispersion of papers over time demonstrate that the subject is, in a way, in a maturing phase by the academia, opening opportunities for going deeper into the theme, especially in Brazil.

CONCLUSION

This scientific paper investigates aspects of the political risk related to internationalization processes of enterprises. It was demonstrated that there are political, economic, and socio-cultural variables in the host countries that interfere with the success of the enterprise. The aim is to analyze how the national and international literature of international business has explored variables that have an impact on the perception of political risk within a company's internationalization process.

It was pointed out that definitions of political risk have been made by various authors from 1974 to 2015 that constitute diverse interpretations on the subject and could be searched in order to identify the individual aspects of the internationalization process studied that motivated that definition.

The methodology used for gathering information sought to bring together bibliographic and documentary content related to the main aspects for the definition of political risk. Articles were used from International journals that had been downloaded from databases available on the Internet and handled through the software program EndNote 6. After reading to identify the definitions of political risk, a content analysis was done using the software "R" to identify sub-topics. The main sub-topic was related to "variables".

The theoretical foundation addressed the aspects of internationalization of enterprises, the entrepreneur's characteristics to venture into an undertaking in a foreign country, as well as aspects related to the specific topic of political risk (history, origins, and definitions). As a framework, we used the bibliographical section of Kobrin from 1978 whose definitions provided the initial parameters to identify the analyses of other authors on the subject. Thus, in relation to the manifestation of the political risk, for this study, the main definitions would be as follows: regulatory incentives for internationalization; vague criteria in the official approval of the FDI; local content of requirement rules; limits of remittances; discriminatory taxation; loss of copyright protection; control on the prices of product; cultural distance; hostile attitudes of elite people and society in relation to the FDI; and hostile attitude towards foreigners (violence, intolerance, and restrictions on labor). The conclusion is that the political risk is directly linked to political, economic, and socio-cultural variables. In other words, it means that the possible occurrence of a political event of any type (e.g. war, revolution, coup, expropriation, taxation, depreciation, exchange controls, and import restrictions) in the home country or abroad can cause a loss of potential of profit and/or assets in an international business operation. These factors are reinforced by Drobnick (1984) to define political risk as fundamental social, economic, and political forces that may change the relationship of a society with foreign companies identified and analyzed in advance.

Finally, a method of assigning weights in relation to the perception of entrepreneurs regarding these variables may constitute a model that quantifies the probability of political risk in the internationalization process of enterprises considering the country to be chosen. Future studies may continue the research in order to check in the context of international relations and through a quantification model how these political risk variables could give rise to a breach of relations between countries or armed conflict because of their influence on the commercial interests of the countries. Similarly, qualitative researches aimed at deepening in specific cases can provide additional contributions to understanding the complexity surrounding the topic and explain better the fundamentals that involve the interactions between the company and the host country in its different dimensions.

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