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The relationship between political risk and financial performance of firms in Africa

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Abstract

Africa as an emerging market offers firms from Multinational Corporations (MNCs) significant opportunities to expand and capitalise on the continents economic growth and combined consumer spending. Africa has significantly higher levels of state fragility and political risk in comparison to the rest of the World. Managers of firms looking to enter the African market need to analyse political risk in Africa when the firm risk taking and financial return relationship is considered.

The objective of this research study was to establish if there is a relationship between political risk and financial performance of firms in Africa. This study used various financial performance ratios of 406 firms operating in five African countries and numerous country political risk variables to investigate if such a relationship exist over an eight year period.

The findings indicate that there is a positive political risk financial return relationship for firms operating in Africa. Firms seem to achieve higher financial performance results in countries with higher overall political risk. This study suggest that African countries need to be analysed on an individual basis when considering political risk and published political risk data should not be used for decision making without deeper understanding and analyses of the country.

Keywords: Emerging market, political risk, financial performance.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out my research

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Contents

Abbreviations

Abbreviation:	Definition:
MNCs	Multinational Corporations
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ROA	Return on Assets
ROE	Return on Equity
CAGR	Compounded Annual Growth Rates
MENA	Middle East and North Africa

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CHAPTER 1 DEFINITION OF PROBLEM AND PURPOSE

1.1 Research Title

The relationship between political risk and financial performance of firms in Africa.

1.2 Introduction: Research problem

Africa as an emerging market has fifty four sovereign states that are each governed by various political leaders who run different political regimes, each enforcing specific policies and procedures. As part of entry strategy for Multinational Corporations (MNCs), the management of the firm will assess the political risk factors of a country, as risk is one of the most important factors that need to be considered when leaders need to make decisions (Demirbag, Tatoglu, & Glaister, 2007). Country risk has become a topic of major concern for the international financial community over the last two decades as governments play an increasingly important role in the shape and direction of the business environment (Hoti & McAleer, 2004; Lloyd, 1974). Moreover, it is essential that thorough analysis of a country's political risk is completed before a firm is exposed to these risks (Hoti & McAleer, 2004; Lloyd, 1974). Firms prefer to enter emerging markets where the political risk is low (Feinberg & Gupta, 2009). It is important that firms in emerging markets analyse and obtain an understanding of the risk-return relationship of financial performance in high political risk environments.

Previous literature has established that country specific conditions do matter when assessing the performance of firms in the country of operation (Christmann, Day, & Yip, 1999; Demirbag et al., 2007;). Political risk is one of the key factors that is analysed along with country specific conditions for firms in emerging markets (Al Khattab, Awwad, Anchor & Davies, 2011). Financial transparency and political instability are powerful obstacles to the success of investments in emerging markets (Girard & Sinha, 2008).

This research study investigated whether political risk and various dimensions of political risk have a direct impact on the financial performance of firms operating in Africa in the long term. This study will thus investigate the relationship between the financial performance of firms operating in five African countries and the political risk present in these countries. An understanding of the relationship between the financial performance of a firm and political risk in the country of operation is important for companies operating in emerging markets in Africa; so that these companies are able to identify the variables that will decrease risk and specifically political risk when regime change happens after entering the African emerging market.

Country specific conditions are mainly outside the control of management, but if companies are able to understand the mechanisms of political risk, management can influence corporate characteristics and subsequent strategies which are in their control (Christmann et al., 1999). Hence the need for a detailed assessment of country risk components and the impact on international business operations for MNCs is crucial (Hoti & McAleer, 2004). Recent studies show that a loss of resilience due to a change in environmental stability usually paves the way for a switch to an alternative and adverse state, which suggests that strategies for sustainable management of firms should be focused on building and maintaining resilience (Marshall & Cole, 2009).

Africa comprises of fifty four sovereign states which are vastly different from one another and therefore difficult to generalise. However, one element they all share is a challenging internal environment. An increasingly competitive global arena ensures that booming economies no longer exist, contrary to the strong American/European consumer demand and inexpensive oil that fuelled the thriving economies of the early 1990s (The Economist, 2008). To grow and increase profitability, developed market firms must look elsewhere for consumers of their products and services. Africa is a significant emerging market to research because Africa's economic growth accelerated after the year 2000, making it the world's third-fastest growing region, after Asia and the Middle East (Roxburgh, 2010).

There is no reason why firms would not ideally attempt to capitalise on Africa's growing opportunities in terms of Gross Domestic Product (GDP) and combined consumer spending. Africa's collective GDP in 2008 was $1.6 trillion, and Africa's combined consumer spending in 2008 equalled $860 billion (Roxburgh, 2010). Currently the projected collective GDP for Africa in 2020 is estimated at $2.6 trillion, and Africa's consumer spending is estimated at $1.4 trillion in 2020 (Roxburgh, 2010). It has been noted that the key reason behind this surge in growth in Africa is a result of government moves to end armed conflicts, improve macroeconomic conditions, and adopt microeconomic reforms to create a better business climate (Roxburgh, 2010). Africa as a continent is perceived as being inherently risky, and has by virtue of their geographical location received less Foreign Direct Investment (FDI) than other countries (Asiedu, 2002). It is important to understand political risk and political institutions of emerging markets, as developing institutional frameworks differ greatly from those in developed markets (Meyer, Estrin, Bhaumik, and Peng, 2009).

The political landscape in Africa has received global attention in the past year. In the Ivory Coast, the former president Laurent Gbagbo, stepped down from the position of head of state in April 2011, which showed the promise of a new era in the Ivory Coast ("Justice: Different countries," 2011). One of the biggest challenges for Alassane Quattara, the internationally recognised president of the Ivory Coast, is not only economic reconstruction of the country, but also nation building, as the Ivory Coast has a history of being deeply divided and in some areas, very unstable ("Justice: Different countries," 2011). In Egypt, Hosni Munbarak also departed as the leader of the country in February 2011 after pro-democracy and anti-government protests ("Justice: Different countries," 2011). Maintaining macroeconomic stability and social cohesion and the weakening external environment, remains a challenge in Egypt ("IMF concludes," 2011). Libyan leader, Muammar Gaddafi died on 20 October 2011 after being captured in Sirte (Malone, 2011). This comes after the International Criminal Court (ICC) announced that it was pursuing a case against the Libyan leader ("Justice: Different countries," 2011). Libya's prospect for a stable government, a democratic regime and civil respect for the rule of law received mixed opinions and contributes to political instability in the country (Malone, 2011). In Uganda, protesters have expressed their dissatisfaction with both rising inflation and the fact that the government seems to be using violence against its own people ("Uganda: Noise annoys," 2011). In April 2011, Nigeria, Africa's most populous country went to the polls ("Nigeria: Deadly divisions", 2011). Human Rights Watch acknowledged that the balloting was relatively democratic, but also said it to be one of the bloodiest elections in Nigeria's history ("Nigeria: Deadly divisions", 2011). In Tunisia president Zine al-Abidine Ben Ali was forced to leave Tunisia after a large number of people casted off their fears of the current regime and demanded by protests, an end to years of oppression and free expression that was associated with the authoritarian regime (Henegan, 2011; Wells, Tran & Owen, 2011).

Prime Minister Mohamed Ghannouchi promised the Tunisian people to respect the constitution and implement the political, economic and social reforms announced (Henegan, 2011; Wells, Tran & Owen, 2011). It is evident that Africa is a hot-bed of political change and upheaval, which translates into a precarious platform for relationships to be cultivated with international companies that seek increase financial performance.

The essence of the unilateral, globalisation perspective was succinctly captured in von Clausewitz's famous dictum, "War is simply the continuation of politics by other means" (Marshall & Cole, 2009). The global mapping of state fragility and warfare in the global system indicates that state fragility and warfare are closely bound (Marshall & Cole, 2009). Recently ended wars increased the number of post war recovery states where political tensions continue to challenge state authorities (Marshall & Cole, 2009). Figure 1 below indicates the global mapping of state fragility. From this figure it is apparent that when studying political risk, Africa is an extremely good example, as the majority of the African countries fall into the ratings that indicate serious, high and extreme state fragility. Based on this global mapping of state fragility no other continent in the world has countries that have higher levels of state fragility and political risk in comparison to Africa. Africa is thus different to the rest of the world in terms of political risk.

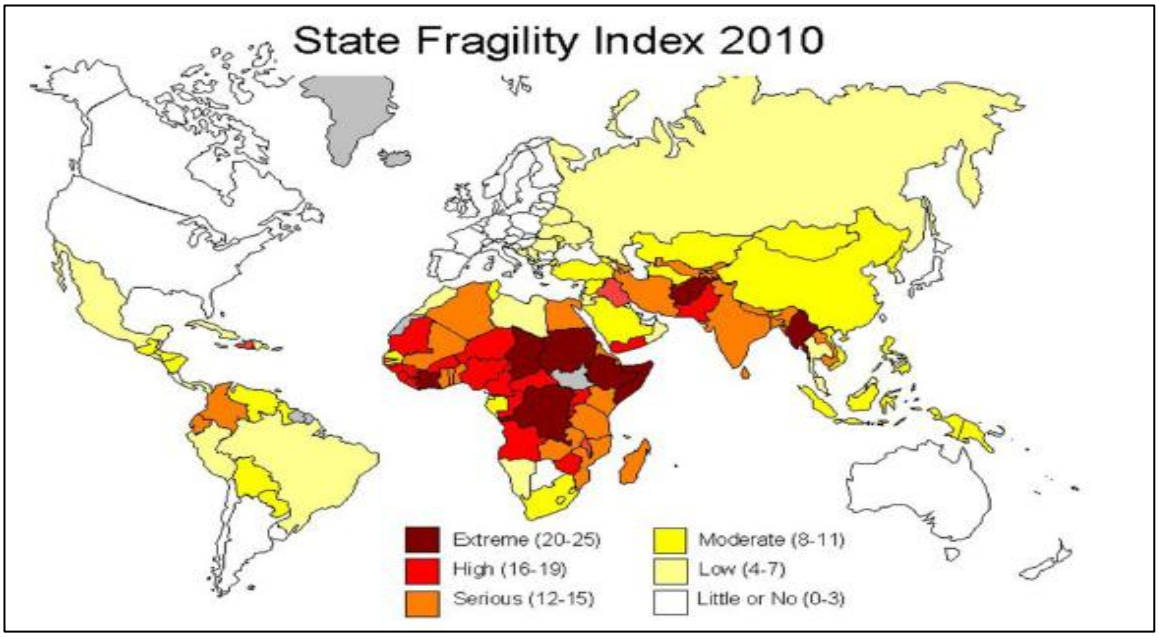

Figure 1: State Fragility in the Global System (Marshall & Cole, 2009)

1.3 Research aim and purpose

The aim of this research was to evaluate whether country specific factors, specifically political risk and the drivers of political risk, influence the financial performance of firms operating in Africa's emerging markets. To be able to draw conclusions about this relationship, this study analysed the factors that lead to an environment with increased political risk and whether the financial performance of firms operating in these environments varied in the long term. It is likely that firms operating in environments with increased political risk, especially in the African context, have lower financial performance than firms operating in environments with lower political risk due to the difference in context of the host country. Some of the political risk factors may even have a more significant impact on financial performance than others. This research study aims to fill the gap in the research that is relevant to the influence of country

specific risk like political risk on firms as well as the gap in the literature that is Africa-specific.

It has been established that country conditions as a determinant of firm performance is vital information for companies to acquire and understand (Christmann et al., 1999). Regardless of their nationality, firms are likely to be exposed to a common political risk when investing in a developing country (Desbordes, 2010). This research study contributes to a better understanding of the relative relationship of political risk and the impact on operations and firm performance in a politically unstable environment like Africa. This study achieves this by investigating the direct relationship of political risk on financial performance of firms and contributes to the body of literature by eliminating the contradictory and inconclusive views established in previous studies that used indirect evidence. This study uses multiple country data to establish the dynamics between political risk and financial performance of firms. This research study contributes to the renewed interest about the link between political institutions and political risk facing firms (Jensen, N., 2008) by investigating the effect of democratic and authoritarian regimes on countries and firms.

The study determines whether firms benefit from staying in an environment that has changed to become more risky, by looking at the long term financial performance effect. To achieve this, the researcher evaluated the financial performance of firms that remained invested in countries with significant exposure to political risk, specifically in Africa. Africa is an excellent example when investigating political risk, as this continent has excellent examples of institutional voids. The research study also expands and contributes to knowledge on developing countries in Africa, where governments are less transparent. The study achieves this by analysing different political risk dimensions and using multiple political risk indicators of five African countries to identify political

risk variables that could have an effect on firm financial performance. The study also extends the geographical reach of empirical research done on emerging markets (Meyer et al., 2009).

1.4 Justification for research

Two of the main challenges for firms that desire to expand into emerging markets include the selection of country markets for entry and investment and the evaluation of performance of foreign subsidiaries (Christmann et al., 1999). Hence, the factors that impact on the performance of firms remain of much interest to managers, investors and researchers (Kyaw, Manley, & Shetty, 2011). Management of large corporations have acknowledged that globalisation is the most critical challenge they face today (Khanna, Palepu, & Sinha, 2005). Management is also keenly aware that it is has become more challenging during the past decade to identify internationalisation strategies and to "correctly" choose the countries in which to do business (Khanna et al., 2005, p. 63). Firms operating in emerging markets are influenced by the different factors of the country in which it operates. Firms use a standardised approach and many are struggling to develop successful strategies in emerging markets (Khanna et al., 2005).

Africa's GDP increased by 4.9 per cent per annum from 2000 to 2008 (Roxburgh, 2010). Today, Africa ranks among the fastest growing economic regions in the world (Roxburgh, 2010). It is clear that expanding into African markets is the next step for MNCs. Rapid economic growth and lower factor costs are driving firms to significantly increase FDI into high risk countries (Feinberg & Gupta, 2009; Khanna et al., 2005). There is extensive literature on the determinants of FDI to developing countries, but

most of the analyses are based on a relatively small number of countries and very few African countries are included in the samples (Asiedu, 2002). Thus in the literature on the subject of FDI, Africa remains under researched (Asiedu, 2002).

Inward FDI by firms into emerging markets like Africa cannot be analysed in isolation. When exploring FDI activity, firms need to consider the concepts of political risk and institutional relationships. Political risk is one of the many important variables to take into account by firms when expanding to emerging markets like Africa. There is a renewed interest in how political risk affects firms operating in emerging markets (Jensen, N., 2008). Political risk is an obstacle for firms, because it is difficult for firms to minimise political risk in emerging markets as a result of the power that governments wield in these markets (Girard & Sinha, 2008; Jensen, N., 2008). Existing studies have only allowed for indirect evidence of the relationship between political institutions and political risk (Jensen, N., 2008).

By using political risk insurance claims from insurance companies it has been shown that there is a link between democratic regimes and lower levels of political risk (Jensen, N., 2008). Firms can try to insure against political risk, but they can never fully do so (Kesternich & Schnitzer, 2010), hence the importance of understanding the influence of political risk on financial performance. There is existing literature that discusses strategies for firms to deal with exogenous and political risk after entry (Feinberg & Gupta, 2009). Although political risk aspects of firms' operations have not received much attention (Kyaw et al., 2011), previous studies have calculated the effects of political risk (risk of nationalisation) on FDI, and the effect of political risk on firms' investment strategies and capital structure (Kesternich & Schnitzer, 2010). However none of these authors have allowed for the effect of political risk on the firms' financial performance (Kyaw et al., 2011).

Further to the relationship between political risk and political institutions, there have been contributions made to the existing literature regarding the relationship between democratic institutions and FDI (Jensen, 2008). The body of literature on the subject has generally argued that democratic regimes have lower levels of investment risk than other forms of political institutions such as authoritarian regimes, dictatorships and military coups, but the relationship and evidence remains largely inconclusive (Bechtel, 2009; Demirbag et al., 2007; Jensen, N., 2008; Jensen, N., & Johnston, 2011; Maeda, 2010).

The political impact on companies in developed markets has been explored, but the limitation to these studies is that it was done with the assumption of transparency, where companies in developed markets disclose the impact of the political environment on the business (Niessen & Ruenzi, 2009). The political impact on companies has not been explored within an emerging market context where there are no transparency of firms and political connectedness. Political risk studies have focused mostly on developed countries (Al Khattab et al., 2011). There has been much less effort in attempting to understand emerging markets, in spite of the fact that they have grown in importance as a destination for international investment (Al Khattab et al., 2011). Studies have suggested that policies that have been successful in other regions may not be equally successful in Africa, implying that Africa is different (Asiedu, 2002). In general emerging markets are diverse and relatively unexplored in terms of research and literature (Meyer et al., 2009).

Similarly studies indicated that risk and return behaviour of firms in developed markets behave differently to firms in emerging and frontier markets, implying that these markets are different (Girard & Sinha, 2008). Risk and return relationships of firms in both developed and emerging markets have been well documented, while literature

has ignored the segment of frontier emerging markets (Girard & Sinha, 2008). The majority of African countries fall into the frontier markets segment of emerging markets.

No study can address all of the significant questions pertaining to the phenomenon of an interest in foreign markets, nor are there simple answers to the questions regarding political risk (Feinberg & Gupta, 2009; Lloyd, 1974). Successful firms take decisions to expand beyond their original national boundaries and invariably result in a substantial increase in a firm's exposure to political risk (Lloyd, 1974). Previous studies on performance have largely focused on the developed to developed country context that encompass relatively stable environments and where the host country factors have a similar impact on subsidiary performance (Demirbag et al., 2007). The relevance of the findings in this research study looks beyond the advanced market economies, and helps to provide an understanding of performance of firms in emerging markets.

Emerging markets tend to be characterised by high and volatile levels of political risk, making it easier to identify the impact of uncertainty on the required return of firms (Desbordes, 2010). In addition to the above, this research study contributes to previous studies that discuss the relationship between political institutions and political risk and the influence of political risk on firms by investigating the extent to which political risk affect financial performance of firms. We have learned that successful companies work around institutional voids and make the most out of operating in emerging markets (Khanna et al., 2005). Khanna et al. (2005) argue that Emerging MNCs (EMNCs) have developed superior capabilities for emerging markets when compared to Developed MNCs (DMNCs), through institutional voids and that these EMNCs lead to superior performance.

The contribution made by this study will aid firms in understanding the impact of political risk on their financial performance and work around these risks. This study is relevant within the globalised business environment as political risk, whether due to change in regime, institution or social inequality, will affect firms. It is of strategic business importance to identify the variables that can be used to anticipate or mitigate the increased political risk. The results from this study will also be important to investors and analysts who follow MNC stock, government policymakers who seek to influence the level of investment, and academics who study the behaviour of MNCs and their effects on other variables (Click, 2005).

The literature argues that there is a relationship between democracies and political risk which will affect firms (Jensen, N., 2008). Currently a recent regressive trend of democracy is seen worldwide (Maeda, 2010). If the trend continues, more democracies may experience reversals (Maeda, 2010). In light of the regression of democracy, this research study is current and relative in the current business climate and contributes to the understanding not only of the current and past performance of firms, but also the future performance of firms. Research of democratic survival is of great importance at the present moment (Maeda, 2010), and hence the factors influencing political risk and performance of firms will be valuable for business decisions.

Most of the existing literature has focused on the characteristics of the entering firm when it comes to foreign market entry strategy (Meyer et al., 2009). There was also a focus on resources and capabilities and the need to minimise transaction costs (Meyer et al., 2009). While these aspects are important in foreign market entry strategy, recent work has suggested that strategies are moderated by the characteristics of the particular context in which firms operate, thus the environment in which they operate (Meyer et al., 2009). The reality is that firms may negotiate lucrative entry deals before

entry, but after firms have entered a certain country, they can become the hostages of the host government (Jensen, N., & Johnston, 2011). Thus multinational investors are exposed to political risk and host country factors after investment and entry (Jensen, N., & Johnston, 2011).

Despite a large number of studies that have examined the performance of cross-border affiliates, there is no consensus on the importance or the determining factors of the performance of firms, particularly for operations in emerging markets (Demirbag et al., 2007). Institutional factors have been less well deliberated in research studies when compared to studies concerning firm specific and host country specific factors, but are more likely to be an important determinant (Demirbag et al., 2007). For firms doing business in Africa, institutional factors are likely to be greater and will have significantly more impact on affiliate performance in emerging market economies compared to more mature economies (Demirbag et al., 2007).

CHAPTER 2 THEORY AND LITERATURE REVIEW

2.1 Introduction

Two competing theories of firm performance have been proposed in the business strategy literature, namely the industry structure view and the resource-based view of the firm (Christmann et al., 1999). However, these studies have been limited to using mostly single country data (Christmann et al., 1999). Missing from the debate on firm performance is an international dimension that includes the relative importance of country conditions as a determinant of firm performance (Christmann et al., 1999). MNCs are exposed to financial and political risk arising from operations in foreign subsidiaries, which comprise their total risk (Click, 2005). Subsequently research has found that specific countries are of importance in explaining the variation in behaviour and performance of firms and those country characteristics are an important determinant in subsidiary performance (Christmann et al., 1999; Demirbag et al., 2007).

It has been observed that frontier markets provide greater return potentials than emerging and developed markets and these markets also offer diversification benefits for investors (Girard & Sinha, 2008). Previous research has shown that political, economic and financial risk factors have the greatest impact on the risk premiums from frontier markets. (Girard & Sinha, 2008). MNCs should pay greater attention to institutional reforms and political systems in the frontier markets when diversifying and investing in these markets as these factors will impact on the financial performance of their firms.

The literature review addresses particular external environment factors that a firm faces when operating in a foreign country that may possibly have an effect on financial performance. It will cover institutional factors such as political risk and political institutions. The literature review also analyses the macro-economic factors such as economic growth and foreign direct investment; these are normally factors that are influenced by the host country. In light of the recent events on the African continent the literature review also serves to discuss the socio economic or human element of country conditions, as well as the impact of social inequality on political risk. The risk and return relationship between investors and the countries' risk profiles will also be discussed as part of the argument regarding financial performance.

2.2 Political risk

2.2.1 Defining Political risk

Political risk is generally viewed as a non-business risk introduced strictly by political forces (Hoti & McAleer, 2004). Political risk is the loss of control over ownership or loss of benefits of enterprise by government action (Fitzpatrick, 1983). Political risks are usually associated with operating in less developed countries, but they are implicit in any investment decision (Lloyd, 1974). Political risk encompasses not only sovereign risk, that is the risk that the sovereign state will interfere with a firm's ability to pay its investors as promised, but also other forms of political, economic and country-specific risks that affect the profitability of an investment in a foreign country and that would not be present if the country had a more stable and developed business, environment and legal institutions (Investopedia, 2011; Kesternich & Schnitzer, 2010;).

Political risk is thus determined by the actions and the policies of the host country both internally and abroad which may have a negative effect on firms (Demirbag et al., 2007). Political risk has been considered as one of the most important risks for firms to consider, as political risk has been identified as a factor that could seriously affect the profitability of international ventures for MNCs (Al Khattab et al., 2011; Hoti & McAleer, 2004). Political risk is also known as geopolitical risk and becomes even more significant for firms to contemplate as the time horizon of an investment becomes longer (Investopedia, 2011).

Political risk emerges from events such as wars, internal and external conflicts, territorial disputes, revolutions leading to regime changes, and terrorist attacks around the world (Hoti & McAleer, 2004). Social factors include civil unrest due to ideological differences, unequal income distribution and religious clashes (Hoti & McAleer, 2004). Political risk is difficult to anticipate, and is further complicated by the fact that what is classified as political risk for one firm is not necessarily of any relevance to another (Lloyd, 1974). Exposure to political risk is a function of both the characteristics of the firm itself, as well as the nature of any political change (Lloyd, 1974).

2.2.2 Types of Political risk

Political risk can take the form of outright expropriation or nationalisation, where the firm loses all assets and can no longer service its debts (Hoti & McAleer, 2004; Kesternich & Schnitzer, 2010; Lloyd, 1974). In this scenario the government can possess property without any compensation (Kesternich & Schnitzer, 2010). This type of political risk is the classical form of political risk, but seems to be less prevalent in the current world order (Kesternich & Schnitzer, 2010; Lloyd, 1974). Literature

established a positive correlation between resource wealth and expropriation (Jensen, N., and Johnston, 2011). Expropriation political risk is able to jeopardise firms' economic interest in multiple ways, for example it may increase the risk that a firms' asset investments can be expropriated at less than full market value (Feinberg & Gupta, 2009). All states have reputation costs from reneging on contracts, but governments in natural resource dependent economies, like those in Africa, are less sensitive to these costs, leading to greater probability of expropriation and contract disputes (Jensen, N., & Johnston, 2011).

Political risk can also take the form of creeping expropriation or political violence which negatively affects the expected returns of investments (Kesternich & Schnitzer, 2010; Lloyd, 1974). Creeping expropriation is in many situations more important than straight forward expropriation and particularly difficult to define (Lloyd, 1974). It increases the risk of constrained business opportunities and weak enforcement of contracts (Feinberg & Gupta, 2009). Creeping expropriation is also understood as a lack of protection of intellectual property rights, as well as economic constraints like currency or exchange rate controls, labour laws, price controls and tariff policies, restriction on share transfers or particular regulatory requirements directed at foreign multinationals (Kesternich & Schnitzer, 2010; Lloyd, 1974).

The literature available that discusses capital structures classifies the types of political risk that directly affects the profits of investments (Kesternich & Schnitzer, 2010). Defined as confiscatory taxation political risk, this type of political risk arises if the host country imposes discriminatory and confiscatory taxation, asks for bribes or blocks the repatriation of funds from the host country to the home country (Hoti & McAleer, 2004; Kesternich & Schnitzer, 2010; Kyaw et al., 2011).

Another contributor to political risk occurs in political systems which use proportional representation and form coalition governments (Bechtel, 2009). The reason behind this increased political risk is that during periods of coalition formation there is increased uncertainty about the policies that coalition parties will eventually agree on (Bechtel, 2009).

2.2.3 Relevance of Political risk in Africa

Political risk is very relevant to Africa, as conflicts in Africa have received particular attention, owing to Africa's experiences of extreme poverty, corruption and violence (Carey, 2007). Africa is also known as one of the most resource rich continents in the world and recently studies have been concluded to investigate political factors, such as government policies and the contribution to the resource curse, which increase political risk, as governments have been suspected to be the main culprit (Jensen, N., & Johnston, 2011).

Resources will contribute $540 billion to Africa's estimated annual revenue of 2.6 trillion by 2020 (Roxburgh, 2010). There is a growing trend in the literature on the effect of natural resources on both economic performance and political regimes (Jensen, N., & Johnston, 2011). Previous studies have established that natural resource wealth leads to higher levels of political risk for all firms even after the study controlled for political regimes (Jensen, N., 2008; Jensen, N., & Johnston, 2011). The fact that Africa owns most of the world's resources will thus imply that political risk for Africa will be higher as a result of natural resource wealth, regardless of bad governance and political regimes. For example, it has been projected that the volume of oil production will grow by $65 billion, assuming prices hold at 2008 levels, in 2020 (Roxburgh, 2010, p. 44). Oil, gas

and coal productions account for roughly 85% of Africa's resource production (Roxburgh, 2010, p. 44). Research has shown that oil-exporting countries are at a higher risk of rebellion, and during times of political instability, the political risk in terms of large-scale violent dissent increases substantially (Carey, 2007).

2.2.4 Impact of political risk on firms and performance

MNCs investing in developing countries face political risk which negatively affects foreign business operations and investments and is associated with government instability, corruption, weak property rights and protection and economic imbalances (Desbordes, 2010). Political risks are significant for MNCs to make decisions that result in investments in developing countries (Desbordes, 2010). Political risk is very important with regard to the operations and performance of firms (Demirbag et al., 2007). Not only does political risk have a great impact on firms, but low political risk is crucial to well-functioning economies, as it encourages capital investment, facilitates growth, and enhances the overall economic performance of a host country (Bechtel, 2009).

Political risk is thus one of the key variables that will impact on firms' decision making when designing a strategy for entering foreign markets. Previous studies have found a relationship between political risk and firms' mode of entry decisions and performance (Demirbag et al., 2007). When perceived political risk was high, firms tended to use low commitment entry modes (Demirbag et al., 2007). Greater political risk means greater uncertainty about future cash flows and increased cost of debt (Kyaw et al., 2011). Notably, firms will need to respond to different political environments in different locations that may give raise to varying political risks (Kesternich & Schnitzer, 2010).

This will also impact immensely on the financial performance in terms of reduced profitability of firms, given the higher cost of debt and expected cash flow (Kesternich & Schnitzer, 2010; Kyaw et al., 2011; Meyer et al., 2009).

Firms often avoid high risk countries, or develop strategies that will limit their exposure to country level political risk (Jensen, N., & Johnston, 2011). Thus political risk can lead to a misallocation of capital and the structuring of deals for firms that decrease the positive effects of FDI (Jensen, N., & Johnston, 2011). In opposition to this view, literature has also proved that lower political risk ratings (high risk) are associated with higher expected returns, presumably because uncertainty about future returns increase (Desbordes, 2010; Girard & Sinha, 2008). While economic and financial risk explain expected returns in developed markets, political risk explains returns in emerging markets (Girard & Sinha, 2008). Other studies have indicated that changes in political risk are factored into the price and have a strong effect on returns on emerging markets (Girard & Sinha, 2008).

Political risk assessment is important to firms if they want to survive and prosper in the countries they have already entered (Al Khattab et al., 2011). Recent developments in countries like Bolivia, Russia, Jordan and Venezuela indicated that political risk still affects firms, and firms have a limited means of reducing these risks (Al Khattab et al., 2011; Jensen, N., 2008). Country characteristics are mainly outside the control of management, where corporate characteristics and subsidiary strategy are under management's control (Christmann et al., 1999). Firms can attempt to minimise firm-level and country-level risks, but will have difficulty in minimising political risk as a result of limits to arbitration (Jensen, N., 2008), and these attempts are minimal when compared to the power that governments have in emerging markets. Although risk management has advanced in the last two decades and most firms have techniques to

deal with risk exposures, few are prepared to deal with the growth in political risk that today's new geopolitics presents (Al Khattab et al., 2011). Political violence in a country can make a firm's operations unprofitable as governments still enact policies that have negatively impact the profitability of the firms either directly or indirectly (Jensen, N., 2008).

Political risk assessment can mitigate political risk and help management of firms to control financial performance in countries where political risk is prevalent (Al Khattab et al., 2011). One might expect that firms with a high degree of internationalisation or those operating in politically volatile regions would use sophisticated techniques for political risk assessment (Al Khattab et al., 2011). Empirical studies of political risk indicate that firms tend to use heuristic techniques that are subjective and vulnerable to the bias and errors of the analyst, more often than scientific methods (Al Khattab et al., 2011). In emerging markets and in Africa where authoritarian systems still exist, statistics are subject to political manipulation and there is a shortage of quality suitable data and information (Al Khattab et al., 2011).

2.3 Political institutions

2.3.1 Role of political institutions

Political institutions have an essential role to play in an economy to support the effective functioning of the market mechanism (Meyer et al., 2009). Political institutions, also called the 'rules of the game', in the host economy will significantly shape and directly determine a firm's strategy when foreign market entry is considered (Meyer et al., 2009). Political scientists largely agree that political institutions are important for

decision making processes and policies (Bechtel, 2009). Political institutions also play a predominant role in understanding political risk (Bechtel, 2009; Carey, 2007). Despite political institutions' importance for a country's performance, little is known about the relationship between political institutions and investment risk (Bechtel, 2009).

2.3.2 Categories of political institutions

Host country institutions can be broadly classified as political, legal and societal institutions (Demirbag et al., 2007). The two political institutions mainly consist of two broad categories, namely the democratic regime and the authoritarian regime (Carey, 2007; Marshall & Cole, 2009). Principle differences are found in the ways executive power is acquired and transferred, how political power is exercised and constrained, how social order is defined and maintained, and how much influence private interests and public opinion have on the decision making process (Marshall & Cole, 2009, p. 8).

A democracy is defined as a form of government where the people have a voice in the exercise of power, typically through elected representatives (Oxford University Press, 2006). An autocracy is defined as a system of government by one person with absolute power and an authoritarian government is defined as a government favouring or enforcing strict obedience to authority at the expense of personal freedom (Oxford University Press, 2006). In addition to democracies and authoritarian regimes, literature also includes semi-democracies, or mixed political regimes that combine both democratic and autocratic elements, which is also known as anocracies (Carey, 2007; Marshall & Cole, 2009). It is however often unclear to what extent regimes are mixed and how this is reflected in their political institutions (Carey, 2007).

Another factor to consider when discussing political institutions is the rational partisan model of government (Bechtel, 2009). This model explains that different political parties are not only assumed to pursue different economic policies, but they also vary with regard to the predictability of these policies (Bechtel, 2009). This is attributable to political parties that differ in their ability to design and effectively implement economic policies, as well as respond to crises with beneficial and skilful policy response (Bechtel, 2009). Despite a long history of research on political institutions, a lack of consensus remains on the primary mechanisms of democratic breakdown and how they operate in terms of their causal processes (Maeda, 2010). The rational partisan model of government provides some kind of explanation (Bechtel, 2009).

2.3.3 Impact of political institutions on firms and the operating environment

Previous research indicates that the environment in which firms operate has a significant impact on the firm's strategy and outcome, especially in emerging market economies, where institutions and institutional factors are particularly important because institutional immaturity raises transaction costs and risk levels (Demirbag et al., 2007). Firms that operate under more favourable external environment and circumstances, such as stable political institutions, have a better chance of prospering and performing (Demirbag et al., 2007).

There is a renewed interest in the literature reviewed about the link between political institutions and political risk facing firms (Jensen, N., 2008). Existing literature either has conflicting views on the effect of political risk to firms due to democracy (Jensen, N., 2008), or studies have previously produced inconclusive results on the impact of

democracy on political risk (Carey, 2007). The literature reviewed has also emphasised the economic advantages of democracies compared to dictatorships, as political predictability may be crucial in order to create an environment that is beneficial for investments and growth (Bechtel, 2009). The literature reviewed has also largely ignored the question of whether certain regimes are more successful in creating an environment which generates persistently low investment risk for firms (Bechtel, 2009).

Democratic regimes

The problem with democracies is that democracies can become non-democracies through exogenous factors (military coups) and endogenous factors (leaders end democracy themselves) (Maeda, 2010). In Africa the natural resource wealth greatly affects the incentives for specific types of government behaviour, even in countries where there is a democratic regime structure (Jensen, N., & Johnston, 2011). This result in a lack of consensus in terms of mechanism for democratic breakdown and the results thereof contribute to increased political risk even in democratic countries (Jensen, N., & Johnston, 2011).

Democracy decreases political risk

One of the mechanisms that are argued to decrease political risk as a result of democracy is the stability of policy (Jensen, N., 2008). Firms can enter foreign markets with the assurance that the policies will not change dramatically after entering the market (Jensen, N., 2008).

Another mechanism of democracy is the transparency of the policymaking process, where the transparency has a positive impact on a firm's ability to predict and mitigate political risk (Jensen, N., 2008). Political institutions with policies that reduce performance of firms will in turn have lower levels of FDI (Jensen, N., 2008). Politicians will run the risk of not being re-elected and have a reputational cost to these acts, and the incentive for expropriation in democratic regimes are reduced (Jensen, N., 2008). In the same light when a firm's preference overlaps with domestic firms or when a firm can influence politicians, democratic governments can provide strong protection for firms reducing political risk (Jensen, N., 2008).

Democracy is normally highly correlated with political constraints, it is possible to have unconstrained democracies and highly constrained authoritarian regimes (Jensen, N., and Johnston, 2011). A study based on expropriation risk price category has found that democratic institutions lead to lower levels of risk as a result of political constraints placed on executives in democratic regimes (Jensen, N., 2008; Jensen, N., and Johnston, 2011).

Democracy increase political risk

Previous literature argues that democracies can be associated with an increase in political risk (Jensen, N., 2008). Democratic regimes can lead to instability through a normal change in government (Jensen, N., 2008). Democratic regimes can also lead to higher political risk through the retiring politician that makes policy changes that bind future governments, even if the policy has a poor macroeconomic outcome (Jensen, N., 2008). Thus individual politician's preferences to be re-elected can lead to policy positions that can harm firms (Jensen, N., 2008). Literature provides evidence that

lower levels of economic development as well as lower economic growth rates increase the risk of military coups, which will lead to changes in government and a breakdown in democracy (Maeda, 2010). This will lead to increased political risk. Economic development and growth has no significant impact on the risk of endogenous termination.

There are arguments for democracy that both increase and decrease political risk, and there is also a variety of additional sources of uncertainty that are present democracies that influence political risk (Bechtel, 2009). The reason for this is that the predictability of economic policies can be greatly influenced by a single political event such as unexpected policy failure, replacement of political candidates, resignation of ministers or the call for the resignation of the president or a minister involved in a scandal (Bechtel, 2009).

Authoritarian regimes

Literature has established a relationship between high levels of natural resource dependence and the persistence of authoritarian regimes and the resultant breakdown of democratic regimes (Jensen, N., & Johnston, 2011). McKinsey estimated that from the combined revenue of $ 2.6 trillion in Africa, natural resources will contribute $ 540 billion dollars, thus 21% of the total revenue in 2020 (Roxburgh, 2010, p. 37). This implies that authoritarian regimes will probably exist in African countries for years to come, as natural resource wealth can threaten democratic regimes (Jensen, N., & Johnston, 2011).

Previous studies have also found that changes towards more authoritarian structures increase state repression, whereas changes towards democracy decrease it (Carey, 2007). From the literature reviewed, it was also found that during drastic changes of political institutions, governments become more vulnerable; this instability has repeatedly been shown to increase the risk of civil war and authoritarian regimes (Carey, 2007).

2.4 Economic growth

2.4.1 Sources of economic growth

Economists generally single out five important sources of economic growth (Colander, 2010). The first source is growth-compatible institutions (Colander, 2010). Growth-compatible institutions are institutions that foster growth, and these typically emphasize the importance of economic institutions and having the correct institutions in place as vitally important for growth (Colander, 2010). In some developing economies where a type of mercantilist policy is followed, governments must approve any new economic activity (Colander, 2010). In this type of economy government officials are often offered bribes by individuals who want to undertake economic activity; as mercantilist policies inhibit economic growth (Colander, 2010). Many regulations coupled with the lack of property rights also tend to inhibit economic growth because it inhibits entrepreneurship (Colander, 2010).

The second source of economic growth is investment and accumulated capital (Colander, 2010). This implies that investment is absolutely necessary for growth, and

financial markets are an important aspect of investment and hence such an important part of macro-economic policy (Colander, 2010).

The third source of economic growth is available resources (Colander, 2010). If an economy is to grow, it will need resources (Colander, 2010). The production processed of an economy and the technology that the economy possesses will determine what is classified as a resource (Colander, 2010).

Technological development is the fourth source of economic growth. Advances in technology shift the production possibility curve out by making workers more productive, allowing them to produce more of the same products as well as new and different products (Colander, 2010).

Lastly, entrepreneurship is the fifth source of economic growth. It is the ability to take charge of business and complete financial goals (Colander, 2010).

2.4.2 Mechanisms of economic growth

Firms as investors, respond to political changes and political risk by investing less or not investing at all in countries with frequent and changing economic policy (Feinberg & Gupta, 2009). In the presence of political risk firms shift resources from economic to political activity (Feinberg & Gupta, 2009). Both of these channels lead to lower and less economically productive investment and lower rates of economic growth (Feinberg & Gupta, 2009).

2.4.3 Economic growth and political institutions

The relationship between economic growth and democracy has been extensively studied since the 1950s (Maeda, 2010). There is a broad consensus that economically developed democracies are unlikely to break down (Maeda, 2010). Empirical analysis confirms that both a high level of economic development and a high economic growth rate inhibit break down of democracy through military coups (Maeda, 2010).

The legitimacy of a political system is closely related to perceptions of its effectiveness by the citizens, and such effectiveness means there needs to be constant economic development (Maeda, 2010). In developing countries where there is relatively higher levels of corruption, political corruption is not a significant factor that shapes electoral outcomes, because the economy occupies the voters' minds as the most important issue, as economic performance mediates the effect of political corruption when it comes to re-election time (Choi & Woo, 2010; Spanakos & Renno, 2006). Highly corrupt governments were empirically proven to demonstrate more economic success than less corrupt regimes in developing countries (Choi & Woo, 2010). When voters' and investors' priorities are aligned, elections may have a limited effect on economic indicators (Spanakos & Renno, 2006).

In developing countries where there is economic growth, the risk of change in the political institution will decrease, which will decrease the level of regime change. Literature confirms that elections can significantly affect key economic indicators, such as inflation and the real exchange rate (Spanakos & Renno, 2006). Thus good macro-economic management policies under democratic governments offer improvements to the political business cycle.

2.5 Foreign Direct Investment

2.5.1 International Foreign Direct Investment Flow

Globalisation has brought about a change in the investment development path in which a country's FDI position is systematically associated with its economic development (Lee & Slater, 2007). The world has seen an astonishing increase in the flow of international capital or foreign direct investment (FDI) (Bechtel, 2009). Countries today are competing for FDI on a global scale and are increasingly interested in which and how political factors influence the performance of financial markets and the flow of FDI (Bechtel, 2009). Natural resource economies, for example those in Africa, have a natural advantage in attracting FDI (Jensen, N., & Johnston, 2011). There is a growing consensus that attracting FDI is important for a countries development, and developing nations are attracting FDI, where emerging markets are often wary of foreign firm entrance to their markets (Bechtel, 2009; Feinberg & Gupta, 2009; Jensen, N., 2008; Jensen, N., & Johnston, 2011). As knowledge based investments become increasingly more important in the global economy and FDI not only includes capital and jobs but also the access and transfer of knowledge and global production and distribution networks, the benefits of FDI are even greater than in the past, and can no longer be ignored (Jensen, N., & Johnston, 2011).

Governments have the ability to enact policies that have an effect on political risk which affect the profitability of firms both directly and indirectly (Jensen, N., 2008). Firms are interested in maximizing the value of their capital investment in a country (Bechtel, 2009). These companies have to adapt their optimal investment strategy to local conditions worldwide when they invest in foreign countries (Kesternich & Schnitzer,

2010). Thus the government policies that have a negative effect on firms will have a negative effect on FDI.

The liberalization policies of most emerging and developing countries date back to the early 1980s when these countries began to open up their economies and introduce more accommodating FDI policy frameworks (Demirbag et al., 2007). Since 1985, FDI into emerging markets has grown at a compounded annual rate of 15%, well above the growth rate of the gross domestic product (GDP) in these economies (Feinberg & Gupta, 2009). Although neoclassical models of international capital predict that international capital should flow from the rich countries to the poor countries, most FDI is currently still between wealthy countries (Jensen, N., & Johnston, 2011). The current status is thus contradictory as most studies on FDI internationally use at least one measure of natural resources for FDI potential (Jensen, N., & Johnston, 2011). One of the potential reasons for this lack of investment in the developing world is the lack of secure property rights in these countries (Jensen, N., & Johnston, 2011). Property rights and institutions are especially important to firms where investments in capital and production facilities cannot be easily disinvested in response to political change (Jensen, N., & Johnston, 2011). As the regulatory environment in an emerging economy improves, more sectors will be opened to FDI and entrants into the market will face fewer requirements from the government (Meyer et al., 2009).

Studies have argued that in resource rich countries like Africa, governments still have incentives to renege, renegotiate, or outright nationalise the FDI of firms (Jensen, N., & Johnston, 2011). The reason for this is that as attractiveness of the country to foreign investors increase, leaders in countries like Africa, are able to pursue riskier strategies with foreign investment, without fearing the loss of FDI in the aggregate (Jensen, N., & Johnston, 2011, p. 667). Thus firms consume investment opportunities in their chosen

foreign country, and the leaders of that country set their prices by expropriation levels (Jensen, N., & Johnston, 2011).

2.5.2 Impact of political institutions and political risk on Foreign Direct Investment

The institutional environment of the host country has been found to have an impact on the FDI performance, where a non-discriminatory approach in terms of policies from the host country government had a positive impact on the firm's performance (Demirbag et al., 2007). With a given level of political risk, natural resource economies will attract more investment than non-resource economies (Jensen, N., & Johnston, 2011, p. 66). This fact also leads to a different type of leadership behaviour based on the level of natural resources of the leader's country (Jensen, N., & Johnston, 2011).

Most researchers have found a positive and significant relationship between resource dependence, increased political violence, increased civil conflict and military victories (Jensen, N., and Johnston, 2011). The strong negative impact of political risk on FDI was found in a growing number of papers and is likely to be explained by the uncertainty that political risk creates about future returns and the direct costs it generates (Desbordes, 2010). With every other factor being equal, political risk drives firms to either avoid or at least minimize their equity exposure in high risk countries (Demirbag et al., 2007; Feinberg & Gupta, 2009). Low political risk is important for a country as it encourages capital investment (Bechtel, 2009).

Political risk due to diplomatic tensions affecting MNCs has been globally ignored by the literature on FDI, and was rather focused on the impact of political instability and

corruption (Desbordes, 2010). Existing empirical literature on democracy and its' effect on FDI is inconclusive (Asiedu, 2002; Jensen, N., 2008). Thus the literature fails to confirm either a negative or positive influence of democratic political institutions on political risk (Jensen, N., 2008). Scholars examining political risk have associated democratic institutions with higher levels of FDI flows to a country (Jensen, N., & Johnston, 2011). Research has also shown that a higher return on investment and better infrastructure in a country has a positive impact on FDI in non-Sub Saharan African countries, but the same factors have no significant impact on FDI to Sub Saharan African countries (Asiedu, 2002). Low economic growth in a country increases the risk of exogenous termination of regimes, and increases political risk in a country (Maeda, 2010).

Firms contribute to the economic development and growth of emerging markets by increasing FDI. Research has provided empirical support for predictions that political risk will reduce the likelihood of entry into foreign markets by firms (Feinberg & Gupta, 2009). The literature reviewed also argues that the weakness in institutions in emerging economies can lead to smaller, more volatile, and less liquid stock markets (Meyer et al., 2009). This leads to a lack of transparent financial data and other information, which makes it more challenging for potential investors to evaluate investments (Meyer et al., 2009). Thus, the cost and the risk of the investment will increase in markets where the political institutions are weaker (Meyer et al., 2009).

In resource rich countries like Africa, governments are less sensitive to the reputational cost for not upholding contracts, but not upholding contracts will have a negative effect on FDI, as these countries will receive less investment in the future (Jensen, N., and Johnston, 2011). When a government defaults on contracts with investors, the action will increase political risk (Jensen, N., and Johnston, 2011). Thus the political risk of a

country should be attractive to firms to invest in the country to increase FDI to that country, which will increase economic development and ensure democratic regimes stay in place. Political risk in all its shapes and forms affects the investors' decisions in different ways when deciding whether or not they should invest FDI in a foreign country (Kesternich & Schnitzer, 2010). If all these factors stay constant, firms are able to perform in foreign countries.

Political, economic and financial risks have strong implications for stock market development in thinly traded markets like Africa (Girard & Sinha, 2008). A lowered political risk would attract more investment and better allocation of resources to firms through the stock markets (Girard & Sinha, 2008). MNCs attracted to potential returns from firms in frontier markets should pay close attention to institutional reforms and political risks in these markets as it affects potential return on investment (Girard & Sinha, 2008). MNCs may require a substantial risk premium to undertake a project in a political risky country, which narrows down the number of investment opportunities meeting the profitability threshold (Desbordes, 2010). As countries increase their reliance on FDI for economic development strategies it may affect the incentives of political leaders in resource rich countries in positive ways (Jensen, N., and Johnston, 2011).

2.6 Socioeconomic conditions and social violence

The factors leading to social, political and economic instability are invariably interrelated and any major changes in the political environment will have several

causes and effects (Lloyd, 1974). It is thus evident that socioeconomic conditions are crucial to assess when firms are considering political risk of countries to operate in.

2.6.1 Inequality

Inequality is a multi-dimensional construct that can occur in three different dimensions which is the political, economic and social dimensions (Østby, 2008). Inequality can be inequality of income or other financial assets, inequality of welfare and inequality of rights and liberties (Østby, 2008). Researchers argue that in the globalized world the inequality-conflict nexus should get more attention in the future as conflict arises from unequal socio-economic distributions (Østby, 2008). This view is supported by an apparent global decline in political armed conflict in recent years, while a rise in social violence has been noted (Fox & Hoelscher, 2010; Marshall & Cole, 2009).

Several authors have noted that two different types of inequality exist, namely vertical inequality and horizontal inequality. It has been argued that horizontal inequalities (i.e. inequality between groups) can lead to the politicization of group identities and stimulate inter-group violence (Fox & Hoelscher, 2010). Horizontal inequalities may enhance both grievances and group cohesion among the relatively deprived and thus facilitate mobilization for conflict (Østby, 2008). Horizontal inequality will be mobilized when power and resources are unequally distributed between groups or when one of the groups feels it is being discriminated against, or another group enjoys privileges which it fears to lose (Østby, 2008). Groups tend to mobilise when they share a common identity (Østby, 2008).

Vertical inequality (i.e. income inequality between individuals) on its own will not increase the risk of violent conflict, as one must consider the group aspect of inequality (Østby, 2008). Inequality and relative deprivation and perceived injustice may inspire groups to turn on their leaders or each other, even if the opportunity costs of doing so are high (Fox & Hoelscher, 2010). When groups are inspired to turn on their leaders and each other, countries experience political instability and increased political risk.

2.6.2 Social violence

Social violence has been comparatively understudied in literature, but represents a political risk to a country as human security is at risk (Fox & Hoelscher, 2010). Social violence is the acts of violence between individuals or small groups of individuals that does not have an explicitly political motivation (Fox & Hoelscher, 2010). Social conflict can be attributed to scarcity factors, socio-economic and socio demographic factors such as levels of poverty, inequality and ethnic diversity which explain variation in rates of social violence across countries (Fox & Hoelscher, 2010; Nel & Righarts, 2008). Every country contains groups with grievances that may inspire rebellion and encourages individuals or groups to internalize the costs of enforcing laws by exercising self-control by use of social violence (Fox & Hoelscher, 2010). Greater economic opportunity will mitigate the risk of increased social violence as it is associated with lower levels of social violence (Fox & Hoelscher, 2010; Nel & Righarts, 2008).

2.6.3 Political institutions and the impact on political risk due to inequalities

Political institutions contribute to social violence as political and social violence share at least one common underlying cause: hybrid political institutions (Fox & Hoelscher, 2010; Nel & Righarts, 2008). Instable political institutions can force individuals and groups to bear the burden of directly defending their interests, inhibit economic growth and undermine a state's capacity to deliver public goods, further exacerbating the conditions of poverty and inequality that drive people to commit violent acts (Fox & Hoelscher, 2010). Recent research on state failure and civil war illustrated strong democratic and strong autocratic regimes are less prone to political instability and social violence than weak or hybrid political institutions (Fox & Hoelscher, 2010). Research found that the least violent and wealthiest countries in the world tend to be strong democracies (Fox & Hoelscher, 2010).

Historically, political instability and violence have often been associated with the demographic phenomenon of youth bulges, a period during which there is an unusually high proportion of 15 – 24 year olds relative to adults in a population, where sizeable youth cohorts may engender frustration or aggression when access to education and job opportunities are scarce (Fox & Hoelscher, 2010). High rates of violence can undermine the legitimacy of political institutions and actors, which may in turn sustain political volatility, thereby increasing political risk (Fox & Hoelscher, 2010).

2.6.4 Societal-systems and political risk

Societal system analysis is based upon a fundamental assumption that societal-systems are self-actuating, self-organising, self-regulating and self-correcting (Marshall & Cole, 2009). The figure below illustrates the interaction of societal systems.

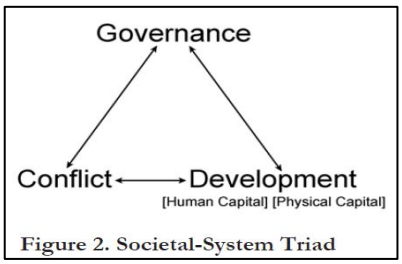

Figure 2: Societal-System Triad (Marshall & Cole, 2009)

The three fundamental dimensions of societal-systems are governance (political risk), conflict and development (Marshall & Cole, 2009). Conditions and characteristics of each of the three fundamental dimensions of societal-systems critically affect the other two dimensions; any change in one dimension will have consequences for each of the other dimensions, and any limitations or weaknesses in one of the key dimensions will lessen the prospects for improvement in the other dimensions (Marshall & Cole, 2009). Problems that arise in societal-system dynamics can stem from any of the three fundamental dimensions but will manifest in all three dimensions if the problem is not managed effectively and resolved (Marshall & Cole, 2009).

Global system performance of societal-systems concerns the status and episodes of political violence (Marshall & Cole, 2009). Societal inequality will manifest in political risk if not managed or resolved. An increase in social inequality will therefore increase political risk and will have consequences for the entire societal-system. Political

violence includes societal and interstate warfare (Marshall & Cole, 2009). Societal warfare has been the predominant mode of warfare in recent times with a steep, linear increase over the years (Marshall & Cole, 2009). Political tension and low level violence continue to challenge state authorities as armed conflict and societal wars increase especially in Africa, which brings about an increased political risk (Marshall & Cole, 2009). Countries bordering as war-torn and war-recovery states experience the spill over effects like increased political risk, corruption and challenging local authorities (Marshall & Cole, 2009). Many African countries, for example Nigeria, Angola, Sudan, Chad and Equatorial Guinea have recently experienced complicated conflict dynamics due to the disputes over the property rights and revenue shares from discovered oil (Marshall & Cole, 2009). Thus if societal systems fail and the risks of societal warfare like armed conflict increase, political risk will increase.

2.7 Performance measures and Risk return relationship

2.7.1 Performance of firms

Firm performance is a multidimensional construct (Acquaah & Yasai-Ardekani, 2008; Gaur & Lu, 2007). Some studies have used return on sales, return on assets and return on investment as measurement of firm performance (Acquaah & Yasai-Ardekani, 2008; Asiedu, 2002). The survival of firms in foreign countries is an important indicator of venture success (Gaur & Lu, 2007). Prior studies have found empirical evidence that the survival of firms correlates positively with financial measures of performance (Gaur & Lu, 2007).

In accounting literature return on equity (ROE) is considered to be the most important ratio in the suite of financial performance ratios as this measure drives the share price (Graham, 2007, p. 58). It relates the increase in the value of the business during the year to the total value of the business at the end of the year (Graham, 2007, p. 58).

The Piotroski score is a well-known method in investment finance to assess the strength of a firm's financial position (Investopedia, 2011). Piotroski used simple accounting based on the fundamental analysis strategy of firm performance (Piotroski, 2000). He argued that investors can benefit from trading on various signals of financial performance and that an array of financial ratios created from historical financial statements can accurately predict future changes in earnings (Piotroski, 2000). He used nine fundamental signals to measure three areas of the firm's financial condition: profitability, financial leverage/liquidity and operating efficiency as these are easy to interpret, understand and have a broad appeal as summary performance statistics (Piotroski, 2000). In terms of profitability of firms, the Piotroski score focuses on aspects of return on assets (ROA) as it provides information on the firm's ability to generate funds internally (Investopedia, 2011; Piotroski, 2000). In terms of efficiency, the Piotroski score focuses on aspects of asset turnover and an improvement in asset turnover signifies greater productivity from the asset base which can arise from more efficient operation or improved market conditions for firms (Investopedia, 2011; Piotroski, 2000).

2.7.2 Perception of Performance

The literature reviewed has demonstrated that input quality, comparative cost advantages and government regulations demonstrate a statistically significant impact

on the perception of performance of firms (Demirbag et al., 2007). Political risk, financial incentives and cultural distance showed to have no significant impact on the perception of performance of companies (Demirbag et al., 2007). These research findings indicate that firm specific factors are less important than institutional or perceived environment specific factors within a host country, when it comes to influencing the perceptions of firm performance (Demirbag et al., 2007). Opposing this argument is the view that managerial decisions are based on the heuristic and bias of decision makers, thus managerial perceptions are important in determining firm strategy and assessing performance (Demirbag et al., 2007).

2.7.3 The risk-return behaviour

Investment decisions are based on a risk-return analysis (Lloyd, 1974). The risk-return trade-off is the balance between the desire for the lowest possible risk and the highest possible return: if there are expectations of higher levels of risk associated with a particular investment then greater returns are required as compensation for that higher expected risk (Alagidede, 2011, p. 135). Alternatively an investment with relatively lower levels of expected risk would require investors to settle for relatively lower returns (Alagidede, 2011). This is a general standard in the finance literature and does not generally hold true in all cases (Alagidede, 2011). Just as risk means higher potential returns it also means higher potential losses (Alagidede, 2011).

Low political risk is important for a country's overall financial and economic performance (Bechtel, 2009). The importance of political risk for a country's performance has been highlighted in literature, but despite this little is known about the relationship between politics and investment risk (Bechtel, 2009). Investment risk and

the risk and return relationship are important concepts to understand as firms are interested in maximizing the value of their investment through returns (Bechtel, 2009). The return generating process in emerging markets has been investigated by a number of researchers; however the frontier markets like those in Africa have been ignored in these papers (Girard & Sinha, 2008). Investment risk will have an impact on capital reallocations or FDI which are of great importance to a country's economy as capital is needed to finance growth, which will affect consumption and wealth (Bechtel, 2009).

The capital asset pricing model (CAPM) has been used in literature to assist in determining the expected return and the return standard deviation of an asset in equilibrium (Bechtel, 2009). Despite the simplicity the CAPM provides valuable analytical leverage, as the model points out that a portfolio comprises of two types of risk (Bechtel, 2009). The first type is unsystematic risk, which does not pose a problem to an investor interested in minimizing risk, because it can be diversified away by constructing a portfolio in which idiosyncratic risk associated with different securities cancel each other out (Bechtel, 2009).

The second type of risk, systematic risk, poses a problem as investors cannot get rid of systematic risk (Bechtel, 2009). Systematic risk refers to uncertainty common to all assets in a country, and will thus be the minimum level of risk to take by firms, which makes unsystematic risk irrelevant (Bechtel, 2009). Given the great importance of a country's market return and investment risk that influence FDI, literature argues that political factors are important determinants of a country's systematic investment risk (Bechtel, 2009). There are various and interrelated channels through which political variables affect systematic risk (Bechtel, 2009). An example is the uncertainty about government policies and the danger of gridlock activates higher systematic risk during times of coalition formation (Bechtel, 2009). The literature reviewed has suggested that

a multifactor extension of CAPM consisting of the fundamental factors as well as country specific factors such as government stability, inflation rate and foreign bad debt provides a better understanding of frontier markets (Girard & Sinha, 2008).

Risk plays an important role in explaining investment-return relationships (Cooper & Priestly, 2011). A multifactor approach to risk-return has been suggested internationally where country risk rating models (political risk ratings, economic risk ratings, financial risk ratings) can provide further explanations for the return in emerging markets (Girard & Sinha, 2008). The bulk of investment-return relationships were explained by differential exposure to macroeconomic risk factors like country specific risk (Cooper & Priestly, 2011). A fundamental assumption in financial theory is the positive risk-return relationship for investments, where it is hypothesized that because investors are rational decision makers, they will only take on additional risk if there is a great probability of higher returns than alternatively less risky investments (Danielson, 2010). Several models provide risk-based explanations for negative investment-return relations and shows that the level of investment increases with low risk (Cooper & Priestly, 2011). Hence in times of economic downturns when risk is high, dividends and financial returns are low (Cooper & Priestly, 2011).

The positive risk-return relationship has also been tested by using stock market returns with beta as a measure of risk within the CAPM (Nickel & Rodrigues, 2002). An additional theory, and one which is largely supported is that good managers of firms should be able to achieve a higher return at a lower level of risk than less competent managers, which can be achieved through superior strategic conduct (Andersen, Denrell & Bettis, 2007; Danielson, 2010). Literature found that economic and financial risk provides the most information about expected returns in developed markets, while

political risk has explanatory power in emerging and developed markets (Girard & Sinha, 2008).

The ability of stock markets to fulfil their roles in the diversifying investment risk depends on their efficiency (Alagidede, 2011). Frontier markets are not extremely efficient but provide better diversification benefits for investors (Girard & Sinha, 2008). These markets provide small, illiquid, less accessible and less known investment opportunities and are also highly risky due to exchange rate volatility and inadequate legal and regulatory frameworks (Girard & Sinha, 2008). The positive risk return relationship studies have primarily been focused on developed economies and the emerging markets in Asia and Latin America (Alagidede, 2011).

Concerning Africa, there have been limited studies concerning the behaviour of risk and return in markets (Alagidede, 2011). While integration to globalised markets is generally a goal of any emerging market, it offers little reward for international investors seeking diversification due to low financial rewards (Neaime, 2006). The fast growth and impressive performance of African markets, coupled with the low correlation to developed markets still make these markets attractive for reducing risk and portfolio diversification, however the correlating behaviour in returns are lacking for African markets (Alagidede, 2011). There is a significant positive risk return trade-off in these markets and returns are higher and uncorrelated with developed markets (Alagidede, 2011; Cheng, Jahan-Parvar, & Rothman, 2010; Girard & Sinha, 2008). Literature implies that investors in Africa's emerging markets seem to have an increased risk tolerance over the long-term in exchange for the possibility of higher returns potential (Alagidede, 2011; Girard & Sinha, 2008).

2.8 Conclusion

In conclusion, political risk could affect the profitability of firms though multiple channels such as expropriation, political violence and government policies (Al Khattab et al., 2011; Hoti & McAleer, 2004; Kesternich & Schnitzer, 2010; Lloyd, 1974). Political risk in Africa will always be high as a result of resource wealth, political violence, extreme poverty, government instability and corruption (Carey, 2007; Desbordes, 2010; Jensen, N., and Johnston, 2011; Kesternich & Schnitzer, 2010; Lloyd, 1974). The level of political risk has a great impact on the risk premiums in frontier markets (Girard & Sinha, 2008).

The popular debate in the literature on political risk and financial return suggest that low political risk is crucial to high financial returns for firms because low political risk creates well-functioning performing economies, encourages capital investment and facilitates growth (Bechtel, 2009; Girard & Sinha, 2008; Jensen, N., 2008; Kesternich & Schnitzer, 2010; Kyaw et al., 2011; Meyer et al., 2009). This view is in line with the widely supported risk-based explanation for the negative investment-return relationships which states that managers should be able to achieve higher financial returns at lower levels of risk (Andersen, Denrell & Bettis, 2007; Cooper & Priestly, 2011; Danielson, 2010).

Recently literature started to suggest that high levels of political risk are associated with higher expected returns (Desbordes, 2010; Girard & Sinha, 2008). This view is in accordance with the positive risk return relationship studies that suggest that firms have an increased risk tolerance over the long-term in exchange for the possibility of higher returns potential (Alagidede, 2011; Girard & Sinha, 2008).

Although the importance of political risk has been highlighted in literature, little is known about the relationship between political risk and investment risk (Bechtel, 2009). Missing from the debate on political risk and firm performance is an international and multi-country analysis specifically focused on emerging frontier markets like Africa (Alagidede, 2011; Christmann et al., 1999; Demirbag et al., 2007; Girard & Sinha, 2008).

Hypothesis 1: *Lower levels of political risk within a country are associated with higher levels of firm financial performance.*

The relationship between political institutions and investment risk has not been extensively researched (Bechtel, 2009). Previous studies had conflicting views on the effect of political risk to firms due to democracy, or produced inconclusive results on the impact of democracy on political risk (Carey, 2007; Jensen, N., 2008). There is an increased interest on the effect of political institutions on political risk and a popular view is that democracy decrease political risk as a result of the stability of policy, transparency of the policymaking process and decreased state repression (Carey, 2007; Jensen, N., 2008; Jensen, N., and Johnston, 2011). Another view is that democracy can also increase political risk due to change or breakdown in government or a politician policy preference (Bechtel, 2009; Jensen, N., 2008; Maeda, 2010). Missing from the debate on political institutions is a view on the relationship between democratic political institutions and levels of financial performance of firms.

Hypothesis 2: *Democratic political institutions are positively associated with higher levels of financial performance of firms.*

There are other country specific variables such as economic growth, FDI and socioeconomic factors that impact political risk. In countries with high levels of political risk resources shifts to political activity which decrease economic growth while low levels of political risk is associated with high levels of economic growth (Feinberg & Gupta, 2009; Maeda, 2010). There is an increased interest in how political factors influence the performance of financial markets and the flow of FDI (Bechtel, 2009). Political risk affect the profitability of firms which explains the lack of investment in developing countries due to high political risk levels as countries need institutions with a positive environment for FDI to be able to attract MNCs (Bechtel, 2009; Demirbag et al., 2007; Jensen, N., 2008; Jensen, N., & Johnston, 2011). The debate could be supplemented by the relationship between economic growth and FDI and financial performance of firms in high political risk countries.

A rise in social violence leads to political instability and increased political risk (Fox & Hoelscher, 2010; Marshall & Cole, 2009; Østby, 2008). This phenomenon was experienced recently in Tunisia and Egypt. Political institutions are contributors to social violence as political and social violence share at least one common underlying cause: hybrid political institutions and sizeable youth cohorts engendered with frustration or aggression when access to education and job opportunities are scarce (Fox & Hoelscher, 2010; Nel & Righarts, 2008). Missing from the studies on socioeconomic conditions and social violence is the relationship that these events have with firm performance. The relationship between political risk and financial return in frontier markets generally have been ignored in the past (Girard & Sinha, 2008).

Hypothesis 3: *There is a relationship between all the political risk dimensions consisting of overall political risk, political institutions, economic growth, foreign direct investment and socioeconomic conditions, and the financial performance of firms over time.*

CHAPTER 3 RESEARCH HYPOTHESIS

This study investigates whether political risk in Africa has an impact on the financial performance of firms operating in African countries in the long run. In addition, the study examines the relationship between the firms' financial performance and the different dimensions of country specific factors that influence political risk. This research specifically aims to answer the following research questions:

Research Question 1:

Are lower levels of political risk within a country in Africa associated with higher levels of firm financial performance?

Hypothesis 1: The null hypothesis states that lower levels of political risk in a country will lead to statistically different and higher levels of financial performance of firms. The alternative hypothesis states that higher levels of political risk in a country will lead to statistically different and higher levels of financial performance of firms.

Research Question 2:

Are democratic or autocratic political institutions positively associated with higher levels of financial performance of firms in Africa?

Hypothesis 2: The null hypothesis states that democratic political institutions will lead to statistically different and higher levels of financial performance of firms. The alternative hypothesis states that autocratic political institutions will lead to statistically different and higher levels of financial performance of firms.

Research Question 3:

Which dimension influencing political risks (overall political risk, political institutions, economic growth, FDI, socioeconomic conditions) has the strongest relationship with firm financial performance in Africa?

Hypothesis 3: The null hypothesis states that all the political risk dimensions will have statistically significant relations with financial performance of firms. The alternative hypothesis states that none of the political risk dimensions will have statistical significant relations with financial performance of firms.

CHAPTER 4 RESEARCH METHODOLOGY

4.1 Research setting

This study aimed to investigate the relation between political risk and the financial performance of firms operating in Africa. To establish the strength and direction of these relationships, 28 representative countries from the 54 countries in Africa were chosen. These countries include:

Table 1: Representative African countries (Osiris, 2011)

Representative African countries					
1	Algeria	11	Kenya	21	Sudan
2	Benin	12	Malawi	22	Swaziland
3	Botswana	13	Mauritius	23	Tanzania United Republic of
4	Burkina Faso	14	Morocco	24	Togo
5	Cape Verde	15	Mozambique	25	Tunisia
6	Côte d'Ivoire	16	Namibia	26	Uganda
7	Egypt	17	Niger	27	Zambia
8	Gabon	18	Nigeria	28	Zimbabwe
9	Gambia	19	Sierra Leone		
10	Ghana	20	South Africa		

The countries listed above were chosen to represent the study as these are African countries which have financial data of companies publicly available. Africa has the least developed capital markets of all the continents in the world, also the fewest relative to the number of countries on the continent (Ibru, 1997). Of the 26 stock exchanges in Africa, 22 are members of the African Securities Exchanges Association (ASEA, 2011).

The oldest stock exchange in Africa is the Egyptian exchange established in 1883, followed by the Johannesburg Stock Exchange established in 1886 (Ibru, 1997; Wikipedia, 2011). These were the only markets existing on the African continent in the nineteenth century (Ibru, 1997). Early in the twentieth century the Casablanca Stock Exchange in Morocco was established (1929) (Ibru, 1997). After the 1950s the rest of the African stock markets came into existence.

Most of the African capital markets that existed prior to independence were promoted mainly by the white communities in these countries since they had investible funds and they understood the techniques of raising funds through capital markets (Ibru, 1997). After independence, many of the markets suffered a set-back as a result of the new political order in many countries (Ibru, 1997). The local entrepreneurs whose companies could have been quoted on the stock exchange were reluctant to do so for fear of losing control and ownership of their companies (Ibru, 1997).

Africa does not have many well-developed stock exchanges. There are 2147 companies that have been listed and trading in Africa (Osiris, 2011). Of the 2147 companies 1036 companies have delisted over a period of time. Eighty six per cent of the companies were listed in five African countries namely Egypt (849), Morocco (76), South Africa (674), Nigeria (196), and Tunisia (58) (Osiris, 2011).

The following are the stock exchanges in Africa:

Table 2: African Stock exchanges and Location (McGregor BFA Research Domain, 2011; Osiris 2011; Wikipedia, 2011)

Stock exchange	Location and Country	Founded
Bourse Regionale des Valeurs Mobilieres	Abidjan (Côte d'Ivoire). Represent the following countries: Benin; Burkina Faso; Guinea Bissau; Côte d'Ivoire; Mali; Niger; Senegal; Togo	1998

Botswana Stock Exchange	Gaborone (Botswana)	1989
Bourse des Valeurs Mobilières de Tunis	Tunis (Tunisia)	1969
The Egyptian Exchange	Cairo, Alexandria (Egypt)	1883
Casablanca Stock Exchange	Casablanca (Morocco)	1929
Dar-es-Salaam Stock Exchange	Dar es Salaam (Tanzania)	1998
Ghana Stock Exchange	Accra (Ghana)	1990
Lusaka Stock Exchange	Lusaka (Zambia)	1994
Malawi Stock Exchange	Blantyre (Malawi)	1995
Maputo Stock Exchange	Maputo (Mozambique)	1999
Nairobi Stock Exchange	Nairobi (Kenya)	1954
Nigerian Stock Exchange	Lagos (Nigeria)	1960
Namibian Stock Exchange	Windhoek (Namibia)	1992
The Stock Exchange of Mauritius	Port Louis (Mauritius)	1988
Swaziland Stock Exchange	Mbabane (Swaziland)	1990
Uganda Securities Exchange	Kampala (Uganda)	1997
Zimbabwe Stock Exchange	Harare (Zimbabwe)	1993
Johannesburg Stock Exchange	Johannesburg (South Africa)	1887
Bourse d'Alger	Algiers (Algeria)	1997

Douala Stock Exchange	Douala (Cameroon)	2001
Bolsa de Valores de Cabo Verde	Mindelo	-
Libyan Stock Market	Tripoli (Libya)	2007
Rwanda Stock exchange	Kigali (Rwanda)	2005
Khartoum Stock Exchange	Khartoum (Sudan)	-
Agricultural Commodities Exchange of Zambia	Lusaka (Zambia)	2007
Abuja Securities and Commodities Exchange	Abuja (Nigeria)	1998

By using 28 of the 54 countries in Africa, the study was controlled for region specific factors and provided a spread of countries situated in Africa. In general, the data for the important factors, such as financial data was not readily available for most developing countries (Asiedu, 2002). The data set enabled the researcher to use a rich data set in the research study.

4.2 Research design and methodology

The research design was a quantitative study of secondary data. Quantitative research is a process that is systematic and objective in its ways of using numerical data from only a selected subgroup of a universe (or population) to generalise the findings to the universe that is being studied (Maree, 2010, p. 145). This approach was deemed

appropriate for this study as it contained all the important elements of objectivity, numerical data and generalizability to cover the research questions. Specifically, a quantitative causal time series study was undertaken based on secondary data in the form of time series. A causal study explains that the distribution on one variable is said to produce the distribution on another variable if it can be established that the two variables are associated, that the second variable follows the first in a time sequence, and that other possible causes can be eliminated (Blaikie, 2003, p. 307). Thus causal analysis is concerned with how one variable affects or is responsible for changes in another variable (Blumberg, Cooper, & Schindler, 2008, p. 211).

This study also displayed elements of a predictive study, as the researcher sought to obtain plausible explanations for an event after it had occurred (Blumberg et al., 2008). This approach was deemed adequate as the study investigated a risk-performance relationship between political risk and financial performance of firms in Africa (Blumberg et al., 2008). When performing causal studies, it is aimed to determine the cause-and-effect relationships between independent and dependent variables (Blumberg et al., 2008). An independent or predictor variable is defined as a variable that is involved in influencing or predicting the values of an outcome variable (Blaikie, 2003). For the purpose of this research study country specific factors that determine and represent indicators of political risk were used as the independent variables. A dependent variable or outcome variable is defined as a variable whose values are influenced or predicted by one or more predictor variables (Blaikie, 2003, p. 316). Financial performance of the firm operating in Africa was used as the dependent variable for this research study.

No consensus on an appropriate definition and measurement of financial performance has yet emerged (Demirbag, Tatoglu, & Glaister, 2007). The researcher used four

different measures for firm's financial performance as dependent variables. These were return on assets (ROA), return on equity (ROE), asset turnover and revenue. Return on assets and return on equity are relatively well known accounting measures of performance, but have been criticised in the past for not taking into account the bias in favour of industry effects (Wernerfelt & Montgomery, 1988). Return on assets was used as a measure of efficiency as it was hypothesised that firms operating in the African context will have more difficulty using their assets to generate revenue from due to expropriation of assets in high political risk environments. Revenue was used as a measure as revenue is one of the fundamental building blocks of financial performance of companies. Companies that do not generate revenue have no reason for existence.

The quantitative causal research study was completed over a longitudinal time period (eight years). Longitudinal studies are repeated over an extended period (Blumberg et al., 2008, p. 199). The advantage of a longitudinal study is that it can track changes over time and are more powerful regarding tests of causality (Blumberg et al., 2008, p. 199). A study of the relationships between for example A and B required that A happened before B (Blumberg et al., 2008, p. 199). Having measurements of A at time t = 0 and B at time t = 1 ensured that A indeed happened before B (Blumberg et al., 2008, p. 199). The longitudinal element of the study incorporating time lags was needed to test for the risk-performance relationship which may span over years (Bromiley, 1991).

The researcher relied on secondary data for this research study. Secondary data is the raw data that has already been collected by someone else, either for informational purposes, or for a specific research project and archived in some form (Blaikie, 2003, p. 18). The data required to test the proposed hypothesis was already available and the researcher relied on this secondary data as secondary information offers relatively

quick and inexpensive answers to many questions (Blaikie, 2003). The researcher had limited power to influence the variables and performed an ex-post facto design (Blumberg et al., 2008). The researcher reported only on what had happened and this minimised bias. The topical scope of the study was a statistical study as it was designed for breadth rather than depth (Blumberg et al., 2008, p.199). The financial performance data used for this research study, provided a number of advantages over existing studies, specifically in allowing the researcher to directly measure the risks faced by firms in comparison to indirect data such as political risk insurance data used in past studies (Jensen, N., 2008; Jensen, N., & Johnston, 2011). Political risk has not been examined in terms of conventional financial measures because its underlying causes are not easily quantifiable (Click, 2005). Only by testing data from more than one economy and from more than one time period can hypotheses that are intended to be general be proven to be applicable beyond one economic context (Hamermesh, 2007).

The researcher used the sampling method as Blumberg et al. (2008, p.228) argued it is at a lower cost, provides greater accuracy of results and is able to provide greater speed of data collection. This approach was deemed to be a strategic fit to the research study as the study had limited time and limited funding available. The researcher used a non-probability purposive sampling and selected certain countries on purpose. The area sampling method was used, which is the most important form of cluster sampling (Blumberg et al., 2008, p.246). This was the chosen sampling technique as the sampling method was applied to firms operating in African countries.

4.3 Unit of analysis and population

The unit of analysis for this research was the firm operating in the African continent. The population consisted of all companies listed on a stock exchange and trading in Africa. The African stock exchanges represent the following countries: Algeria, Benin, Botswana, Burkina Faso, Cape Verde, Côte d'Ivoire, Egypt, Gabon, Gambia, Ghana, Kenya, Liberia, Malawi, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, South Africa, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

The universe (Osiris, 2011) for this research study consisted of all the companies that are trading or traded in Africa. The table below outlines the universe grouped by country:

Table 3: Universe for research purposes (Osiris, 2011)

Country and Number of companies in the universe					
Algeria	2	Kenya	55	Sudan	12
Benin	1	Malawi	13	Swaziland	6
Botswana	24	Mauritius	45	Tanzania United Republic of	10
Burkina Faso	1	Morocco	76	Togo	1
Cape Verde	4	Mozambique	2	Tunisia	58
Côte d'Ivoire	30	Namibia	8	Uganda	6
Egypt	849	Niger	1	Zambia	21
Gabon	1	Nigeria	196	Zimbabwe	18
Gambia	1	Sierra Leone	1		

Ghana	31	South Africa	674	**Grand Total**	**2147**

The population for this research study consisted of all the African firms as identified by the Osiris and Bloomberg database that were listed and trading in Africa. From the universe 1036 companies have been delisted. The list below outlines the population segmented by countries:

Table 4: Population for research purposes (Osiris, 2011)

Country & Number of companies in population					
Algeria	2	Kenya	54	Sudan	12
Benin	1	Malawi	13	Swaziland	5
Botswana	23	Mauritius	38	Tanzania United Republic of	10
Burkina Faso	1	Morocco	67	Togo	1
Cape Verde	4	Mozambique	2	Tunisia	53
Côte d'Ivoire	30	Namibia	6	Uganda	6
Egypt	223	Niger	1	Zambia	21
Gabon	1	Nigeria	144	Zimbabwe	15
Gambia	1	Sierra Leone	1		
Ghana	28	South Africa	348	Total	1111

4.4 Sample method and size

The sample consisted of firms with eight years' financial data available as identified by Osiris and Bloomberg. The eight years commenced in 2002 and concluded in 2009 and were deemed longitudinal for the purpose of this research. The financial data available

for the sample consisted of important financial performance ratios such as ROE, ROA, asset turnover and revenue. As companies with accurate public data are listed companies, the companies in the sample had to be listed and had to trade in an African country. The final sample represented five countries and 406 companies. The firms in these five countries combined represented 86% of the companies listed in the universe. The sample included all of the firms that qualified under the eight year financial data criteria rather than a random selection to ensure that the countries in Africa were adequately covered. In order to ensure a cross-section of companies listed in Africa, and avoid selection bias, the criteria of having eight years of available data was deemed appropriate for analysis. As data for most developing countries was unavailable, the researcher sought to ensure that the sample size was large enough to be of statistical relevance (Asiedu, 2002). The researcher used two sources to ensure a sample size that had enough data points for meaningful analysis. The table below outlines the sample as the number of firms per country was represented.

Table 5: Sample size (Bloomberg, 2011; Osiris, 2011)

Country & Number of companies in sample					
Egypt	104	Nigeria	33	Tunisia	30
Morocco	44	South-Africa	195		
				Total	**406**

4.5 Data gathering process

The analysis in this study was based on secondary financial data at the African firm level. For the purpose of this research study financial data was downloaded from the

Osiris and Bloomberg database of African firms based on the following selection criteria:

1. Companies trading in African
2. Companies listed on a African stock exchange
3. Companies with financial data available from 2002 to 2009

Alternative databases such as McGregor BFA Research Domain and I-Net Bridge were considered for this study, but the researcher deemed Osiris and Bloomberg to be the most comprehensive in terms of available financial performance data for firms trading in African countries. As financial databases have only recently started to gather complete and accurate data on the African continent, the researcher decided to use both Bloomberg and Osiris, to establish the most data points per country for meaningful analysis. The financial data on both databases was extracted on the same basis, for the same financial performance measures as well as for the same time period. To ensure that there were no data duplications for companies in a country, the researcher used only one database for all the measures per country, as these databases do not denote company names, tickers and reference numbers in the same way.

The following is a summary of the financial data gathered:

Table 6: Summary of financial performance data used

COUNTRY	ROA	ROE	ASSET TURNOVER	REVENUE
Egypt	Osiris	Osiris	Osiris	Osiris
Morocco	Bloomberg	Bloomberg	Bloomberg	Bloomberg
Nigeria	Osiris	Osiris	Osiris	Osiris
South-Africa	Bloomberg	Bloomberg	Bloomberg	Bloomberg
Tunisia	Bloomberg	Bloomberg	Bloomberg	Bloomberg

For the purpose of establishing a relationship between political risk and the financial performance of these firms, country specific data was used as independent variables. This secondary data included data on political risk ratings, political institutions, economic growth, FDI and socio-economic factors. These datasets were retrieved from publicly available data platforms such as the Mo Ibrahim Foundation, INSCR, World Bank, Gapminder and UNCTAD. The data used in this research study did not affect the ethics as all the datasets were in the public domain and available for use in research studies.

4.5.1 Financial performance variables

As far as possible, multiple variables were used as proxy indicators for firm financial performance such as ROA, ROE, asset turnover and revenue. This was done to control for inconsistencies from using only one performance measure as a dependent variable and to highlight the different aspects of financial performance.

Literature has used widely differing measurement of performance in the past (Abdo & Fisher, 2007), and the researcher used performance measurements that would reflect the substance and the form of companies affected by political risk in Africa. Firm financial performance was correlated to country political risk factors and thus specific industry and specific pricing would not play a major role for the purpose of this research as firms were not compared to each other. Financial ratios were used rather than financial statement amounts as financial ratio analysis was deemed a better indicator for comparability of how well firms performed by providing their asset and equity base.

Revenue as a financial performance measure was added to the financial performance variables as the ability to generate revenue was deemed one of the most important abilities for firms operating in Africa.

The researcher used two sets of financial ratios as firm financial performance variables, namely profitability ratios and efficiency ratios because political risk in a country may have an impact on the profitability and the utilisation of assets (expropriation) of firms (Investopedia, 2011; Kesternich & Schnitzer, 2010). Although the researcher deemed market ratios as important for investors, the researcher decided that market ratios were out of the scope of this study as market ratios are affected by the perception of shareholders and does not always truly reflect how a company performs based on operations. Further to the profitability and efficiency ratios used, the researcher decided to add total revenue (turnover) to the firm financial performance measure as political risk in a country could have an impact on the ability of firms to generate revenue. Generating revenue is one of the most important things that any business must achieve, and the researcher wanted to evaluate firm's ability to do this given political risk (Graham, 2007).

In terms of profitability ratios return on assets (ROA) and return on equity (ROE) was used as financial performance measures. Using annual financial statement information obtained from the Osiris and Bloomberg databases for the eight years under review from 2002 to 2009, the ROA and ROE for the period was extracted for each of the companies in the sample. ROA indicated the ability of the company to generate profits from investment in assets and is one of the fundamental performance ratios (Graham, 2007, p. 57; Walsh, 2008, p. 50). Performance was measured by establishing relationships between these two sets of values (Walsh, 2008, p. 48). A ROA percentage of 20.54% indicated that for every R100 of assets at its disposal the

company made a profit of R20.54 (Graham, 2007, p. 58). An increase in ROA year on year would mean that the company had utilised its assets more profitably or eliminated poorly performing assets (Graham, 2007, p. 58). ROE is probably the most important ratio in the suite of ratios as it is considered to be the measure that drives share price (Graham, 2007, p. 58). It relates the increase in the value of the business during the year to the total value of the business at the end of the year (Graham, 2007, p. 58). To put return on equity in context, assuming the risk-free interest rates are 8%, a firm with an ROE of 42%, made an after-tax return of 42%, approximately 36% more than the risk-free rate.

The second set of financial performance that was measured used an efficiency ratio. Asset turnover was used as a measure as it was deemed appropriate as this ratio aids in the understanding of the relationship between revenue (sales) and the assets that were used to generate the revenue (Graham, 2007, p. 53). An asset turnover ratio of 2.21 will indicate that for every R1 invested in assets, R 2.21 of revenue will be created (Graham, 2007). On its own, however this ratio has no meaning and only acquires meaning when compared relative to the prior year, hence it will have meaning in this study when compared over an eight year period, and will indicate if companies are able to utilize their assets efficiently to generate revenue when they invest in Africa (Graham, 2007). Using annual financial statement information obtained from the Osiris and Bloomberg databases for the eight years under review (2002 – 2009), the asset turnover extracted for each of the companies in the sample is provided.

In the table below the different performance measures are summarised:

Table 7: Firm specific performance variables

Financial performance measure	Formulae

Return on Assets (ROA)	$\frac{Net\ profit}{Total\ assets}\ x\ 100$
Asset Turnover	$\frac{Revenue}{Total\ assets}$
Return on Equity (ROE)	$\frac{Net\ profit}{Equity}\ x\ 100$
Revenue	Total revenue earned from operations

Source: (Graham, 2007; Walsh, 2008)

4.5.2 Political Risk

As stated previously, the researcher used political risk indicators as the independent variables and this was used to correlate to the dependent variables which consisted of the financial performance measures. As discussed in the literature review section of this research paper, political risk is a multidimensional concept. Political risk is notoriously difficult to quantify because there are limited sample sizes or case studies when discussing an individual nation (Investopedia, 2011).

Political risk data also has two different elements to it, either actual political risk data, which is based on actual numbers and quantitative data, or the data is perceived political risk data which is based on perceived opinions and ideas from surveys. Under each dimension of political risk discussed in the literature, the researcher identified variables that best reflected the dimensions of overall political risk, namely political institutions, economic growth, FDI and social inequality.

Country risk has become a topic for major concern for the international finance community over the last two decades (Hoti & McAleer, 2004). Country risk ratings are determined by combining a range of qualitative and quantitative information regarding

alternative measures of economic, financial and political risk into composite risk ratings (Hoti & McAleer, 2004). Political risk ratings is a common variable used in country risk rankings (Euromoney, 2011). This rating is deemed a perception variable as the rating is derived from participants in a survey that rate each country for which they have knowledge from zero to ten across five sub factors (Euromoney, 2011). The categories of political risk scores are generally based on the following perceptions: corruption; government non-payments/non-repatriation; government stability; information access/transparency; institutional risk; regulatory and policy environment (Euromoney, 2011). Although there is no consensus on the methodology used for political risk ratings, it is inclined to be based on qualitative methods based on political analysis (Wikipedia, 2011). In the table below the political risk variables are summarised and an indication are given in terms of the meaning of the ratings.

Table 8: Political Risk Variables

Political Risk Measure	Data source	Rating scale
Political Risk		
Mo Ibrahim index Governance & Political risk	Ibrahim Index of African Governance 2002 – 2009	The Ibrahim Index assigns a score to each country from 1 (high risk) to 100 (low risk)
State fragility index	Center for Systemic Peace 2002 – 2009	The state fragility index classify countries in terms of levels of fragility: Extreme (20 – 25) High (16-19) Serious (12 – 15) Moderate (8 – 11) Low (4-7) Little or No (0-3)
Political stability (no violence	World Bank	Political stability ratings indicate risk on a scale. A country with a rating

rating)	2002 -2009	greater or equal to zero is less likely to be overthrown than a country with a negative rating.
Political Institutions		
Polity scores (democratic/autocratic)	Center for Systemic Peace 2002 – 2009	Polity scores measure a country's democratic and free nature. Autocratic governments will score between -6 and -10 and democratic governments will score between +6 and +10, while anocracies will score between -5 and +5.
Government effectiveness	World Bank 2002 - 2009	Government effectiveness ratings indicate risk on a scale. A country with a rating greater or equal to zero is more effective than a country with a negative rating.
Economic Growth		
Annual Real GDP growth rates	UNCTAD 2002 - 2009	Real GDP growth rates indicate the rate at which an economy grows.
Foreign Direct Investment		
Inward FDI flows annually as a percentage of GDP	UNCTAD 2002 – 2009	Inward FDI flow indicates the capital coming into a country from foreign investors.
Social Inequality		
Confidence in rule of law	World Bank 2002 - 2009	Confidence in rule of law rating indicates confidence levels on a scale. A country with a rating greater or equal to zero has a population that have more confidence than a country with a negative rating.
Social exclusion - Mo Ibrahim Foundation: Ibrahim Index of African governance	Ibrahim Index: African Governance 2002 – 2009	The Ibrahim Index assigns a score to each country from 1 (high risk) to 100 (low risk)

4.6 Data analysis

The data analysis was a predictive analysis as it was concerned with trying to establish the direction and strength of influence between variables (Blaikie, 2003, p. 47). Repeated measures of analysis of variance (also referred to as “ANOVA”) is used when there are more than two independent groups that need to be compared on a single quantitative measure or score (Maree, 2010, p. 229). Specifically it tests whether the groups have different average scores (Maree, 2010, p. 229). It is also used to make comparisons between two or more groups to see if they differ on the outcome variable (Blaikie, 2003, p. 154). This approach was thus suited for the purposes of this research study, as basic correlations were deemed adequate.

After the repeated ANOVA was performed, for significant effects or differences the Scheffe post-hoc analysis was used to identify the source of the difference. Post-hoc comparisons were used to conduct a whole set of comparisons, exploring the differences between each of the groups in the study (Pallant, 2010). Post-hoc comparisons are designed to guard against the possibility of an increased Type 1 error due to the large number of different comparisons being made (Pallant, 2010, p. 209). This is done by setting more stringent criteria for significance, and therefore it is often more difficult to achieve significance (Pallant, 2010, p. 209). The Scheffe test is one of the most commonly used post-hoc tests (Pallant, 2010, p. 209). The Scheffe test is the most cautious method for reducing risk of a Type 1 error (Pallant, 2010, p. 209).

Another data analysis approach that was used was the multiple regression analysis. Multiple regression analysis is used in situations where more than one independent variable is used to predict a single dependent variable (Maree, 2010, p. 242). This technique has been developed for use with numerical scale (dependent and

independent) variables only (Maree, 2010, p. 242). The multivariate stepwise regression analysis approach was also used for the purposes of this research study as it explained the linear relationship of the independent variables on the dependent variables of risk and performance.

The Spearman rank order correlation was used to explore the strength of the relationship between the dependent and independent variables. The Spearman's rank order correlation method gave an indication of both the direction (positive or negative) and the strength of the relationship (Pallant, 2010, p. 103). A positive correlation indicates that as one variable increases so does the other. A negative correlation indicates that as one variable increases, the other decreases (Pallant, 2010, p. 103). Table 9 below suggests the following guidelines in terms of correlations, which apply whether or not there is a negative sign out the front of the r value calculated by the Spearman's rank order correlation method (Pallant, 2010, p. 134).

Table 9: Interpretation of r values: Spearman (Pallant, 2010, p. 134)

Strength of relationship	rho value
Small	r = .10 to .29
Medium	r = .3 to .49
Large	r = .50 to 0.69
Significant	r = 0.70 to 1.0

4.7 Research assumptions

The researcher implied the following assumptions:

1. The financial performance ratios and data as published by Osiris and Bloomberg are accurate and correct.
2. By extracting the same financial performance ratios on the same basis for the same time period on Bloomberg and Osiris, it was assumed that the ratios were calculated on the same basis as these ratios are commonly used in analysis.
3. The number of companies listed on Osiris as trading in Africa is a complete set of all the companies and is thus equal to the population.
4. The effect of lagging on the data would be minimal.
5. The researcher made the assumption that political risk indicators are equally weighted for decision making when countries were ranked according to political risk dimensions.

4.8 Research limitations

The following data limitations to the research should be considered:

1. The proposed research was limited to the availability and quality of data. Data on important factors is not readily available for most developing countries (Asiedu, 2002). For the universe in this study historical data was also limited (Girard & Sinha, 2008).The relationship proposed to be investigated was limited to the data obtained.

2. Previous literature studies were mainly based on developed countries. Prior research studies often reveal an extensive amount of historical data or decision-making patterns (Blumberg et al., 2008, p.202). There were limited prior research studies specific to this topic in emerging markets, hence identifying methodologies that proved to be very successful were difficult to identify.

3. Finding an appropriate measure for financial performance was problematic for developing countries as most developing countries do not have well-functioning capital markets (Asiedu, 2002).

4. The sample represented listed companies due to the inaccessibility of financial performance data on unlisted companies, as unlisted companies are not under the financial reporting requirements of listed companies.

5. The sample was limited to companies with articles of incorporation in the representative African countries due to the inaccessibility of financial performance data on subsidiaries of companies operating in African countries, which is not listed or incorporated in these countries. Financial performance of subsidiaries which is publicly available is normally grouped together in clusters or hubs for Africa, and is not reported per country.

6. The study covered the most recent period for which data was available. This study also covers an eight year period which was the most number of years that could be studied in a meaningful way as a result of limited data availability. During 2008/2009 there was a global economic recession, which could have had an impact on financial performance ratios and research results.

7. The research study was conducted over an eight year period from 2002 to 2009 to mitigate for lag effects in the data. However lag effects were not incorporated for the period before 2002 and after 2009.

8. The researcher completed a time series analysis over an eight year period. An eight year period is short for time serious analysis, although it is longitudinal, a longer time period would have more significant results.

CHAPTER 5 RESEARCH RESULTS

5.1 Preliminary data analysis and descriptive statistics

Descriptive statistics were calculated on the data as they provide information on the distribution of scores on continuous variables (Pallant, 2010, p. 57). This step was deemed necessary as the results was needed in order to use the variables in parametric statistical techniques like analysis of variance (ANOVA) (Pallant, 2010, p. 57). The means (average) of the financial performance data were evaluated by country, and it was found that the means were biased by the extreme skewness in the data. The skewness value provides an indication of the symmetry of the distribution (Pallant, 2010, p. 57). As a result of the skewness of the data across countries, the medians for financial performance ratios were also considered when comparing countries.

A repeated measure of analysis of variance (ANOVA) on the mean ROE, ROA, asset turnover and revenue for the companies of the different countries in the sample were computed over the eight years under review to establish if there were differences in performance of companies within these countries over time. This method was used to describe the interaction effect of the two main effects of the data analysed, namely the year and the country effect. Thereafter, for significant effects or differences, the Scheffe post-hoc analysis was used to identify the source of the difference, for example for a significant country effect, the Scheffe test result indicated the countries in the sample with significant different means.

Descriptive Excel graphs were used to describe the five countries' political risk profiles, and the difference in trends of political risk for these five political risk dimensions over the eight year period considered.

5.1.1 Financial performance data

Return on equity (ROE)

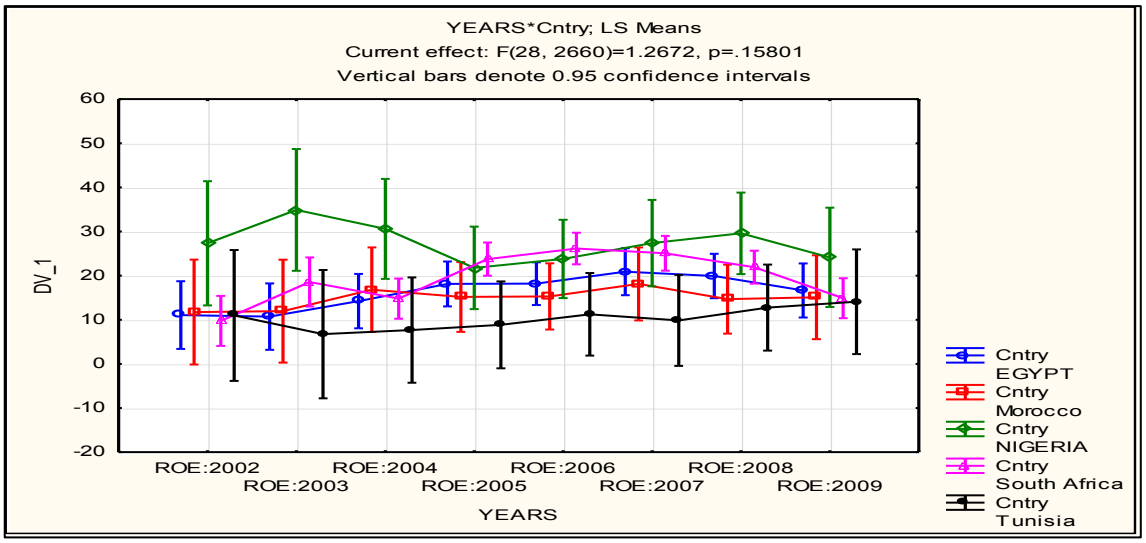

Figure 3: ROE comparison across countries and time

The non-significant year by country interaction effect in Figure 3 ($F(28,2660)=1.2672$, $p>0.05$) indicated that when ROEs of companies within the five sampled countries were compared over time, the pattern of changes in ROE over time was not significantly different for the five countries.

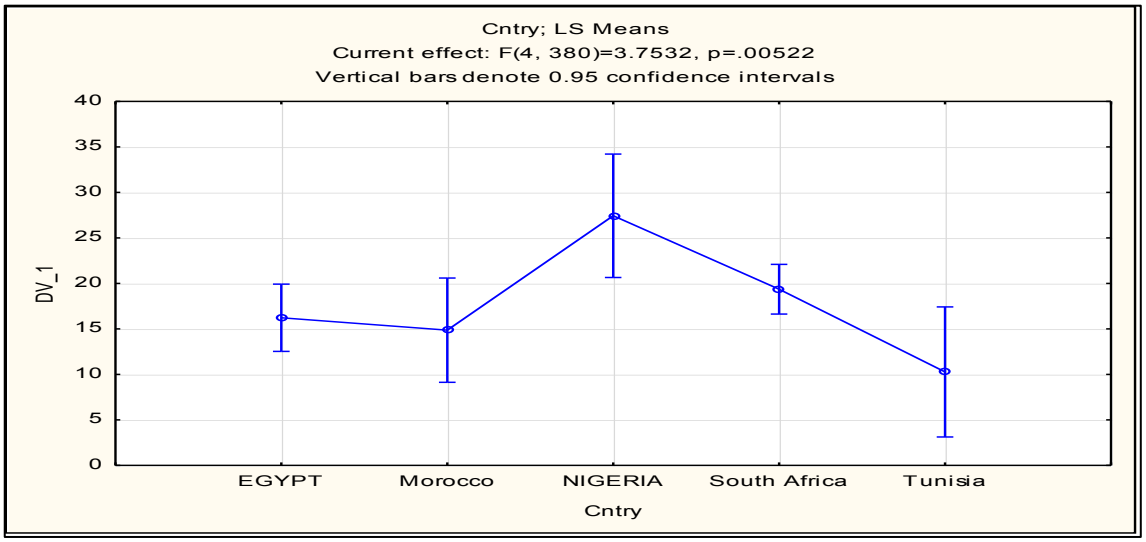

Figure 4: ROE comparison per country across years

Figure 4 indicated a significant country effect ($F(4,380)= 3.7532$, $p<0.01$) in terms of ROE. This means that over time, countries' ROE's were significantly different. In particular, based on the post-hoc Scheffe test, the ROE of Nigerian companies was significantly higher than that of the companies in the other countries in the period considered.

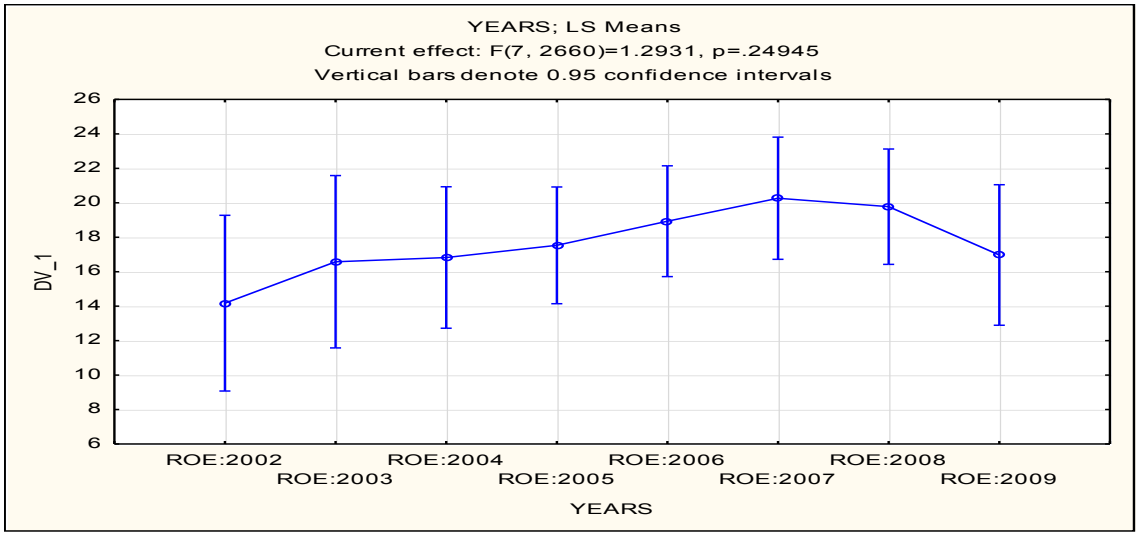

Figure 5: ROE comparison per year across countries

Figure 5 illustrated the non-significant time effect for the ROE of the companies in the five countries over the eight years ($F(7,2660)= 1.2931$, $p>0.05$). This indicated that there was no significant difference between the ROE's considered jointly for the five countries, over the eight years.

Table 10: ROE: Summary Repeated Measures Analysis of Variance

	SS	Degr. of - Freedom	MS	F	p
Intercept	567957	1	567956.6	198.9679	0.000000
Cntry	42854	4	10713.5	3.7532	0.00522
Error	1084715	380	2854.5		
YEARS	6246	7	892.3	1.2931	0.249451
YEARS*Cntry	24483	28	874.4	1.2672	0.158005
Error	1835436	2660	690		

In summary the company ROE's for the eight year period considered, when compared across countries, show significant differences with the mean ROE of Nigerian

companies being the highest and the mean ROE of Tunisia companies being the lowest.

Asset turnover

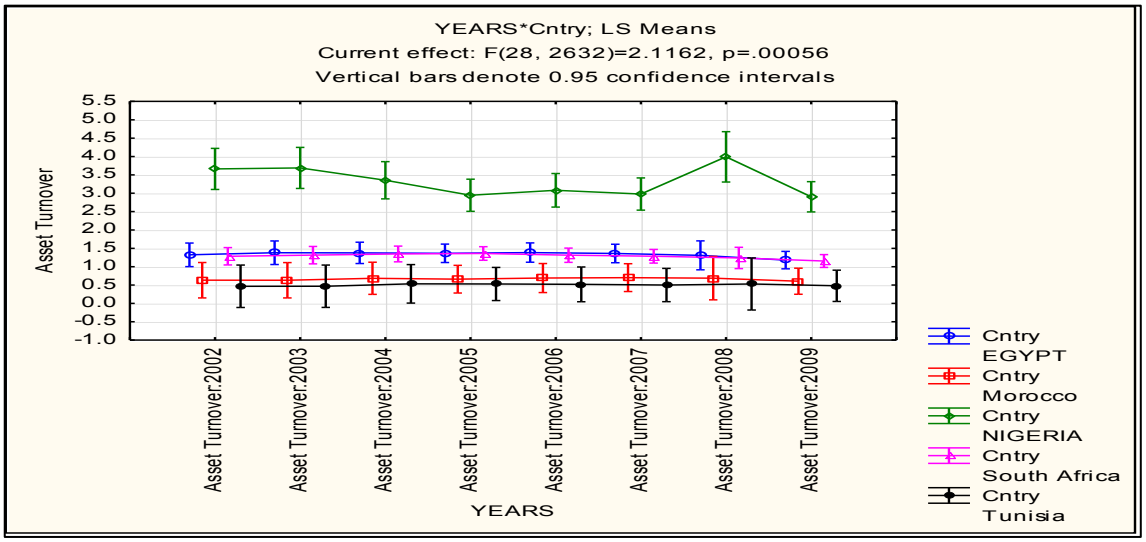

Figure 6: Asset turnover comparison across countries and time

The significant year by country interaction effect in figure 6 above ($F(28,2632)=2.1162$, $p<0.001$) indicated that when asset turnovers of companies within the five sampled countries were compared over time, the pattern of changes in asset turnover over time was significantly different for the five different countries. As evident from figure 6, the mean asset turnover of Nigerian companies compared to the mean asset turnover of companies in the other four countries over the eight year period considered, was significantly higher and reflected a different trend.

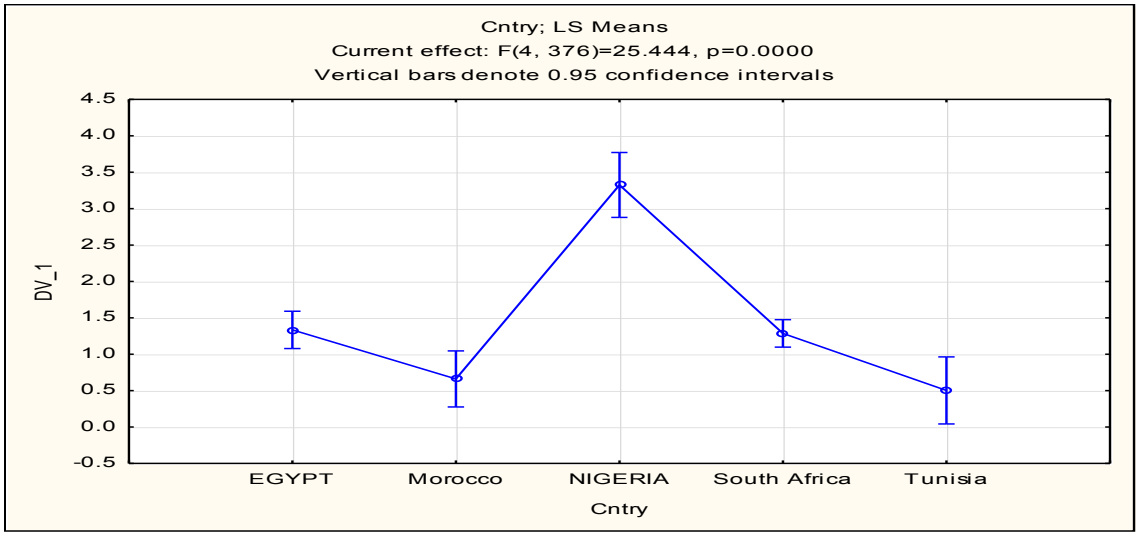

Figure 7: Asset turnover comparison per country across years

Figure 7 above indicated a significant country effect ($F(4,376)= 25.444$, $p<0.001$) in terms of asset turnover. The Scheffe post-hoc analysis indicated that the mean asset turnover of Nigerian companies considered over the eight year period was significantly different from the mean asset turnover of companies in the other countries. There was also evidence from the Scheffe post-hoc analysis, although weakly significant, of a difference between Tunisia and Egypt.

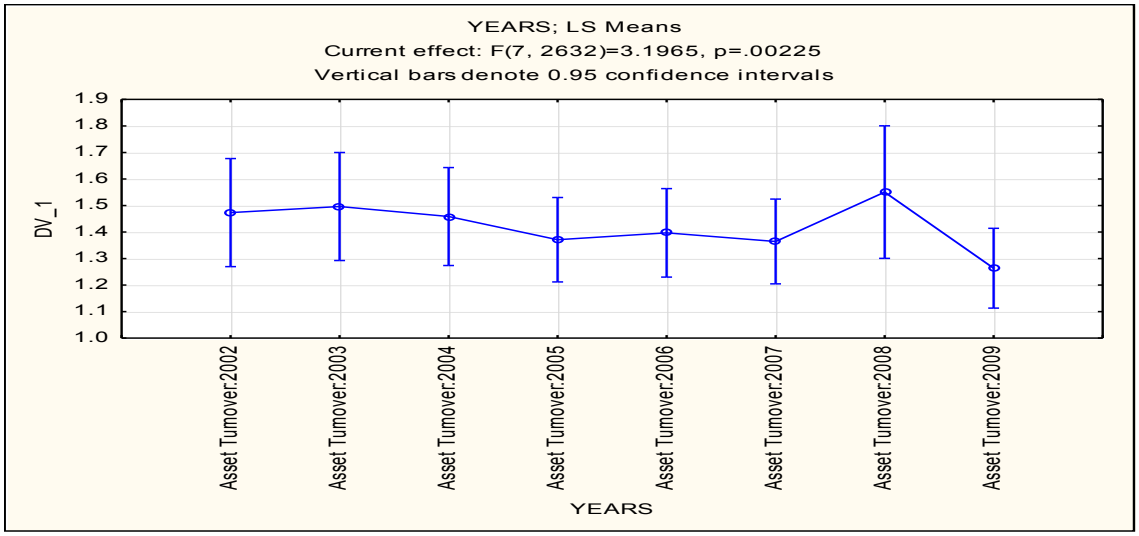

Figure 8: Asset turnover comparison per year across countries

Figure 8 illustrated the significant time effect for the asset turnover of the companies in the five countries over the eight years ($F(7,2632)= 3.1965$, $p<0.01$). This indicated that there were significant differences in assets turnover over the eight year time period.

Table 11: Asset turnover: Summary Repeated Measures Analysis of Variance

	SS	Degr. of - Freedom	MS	F	p
Intercept	3897.841	1	3897.841	296.0319	0.000000
Cntry	1340.095	4	335.024	25.4443	0.000000
Error	4950.777	376	13.167		
YEARS	13.885	7	1.984	3.1965	0.002253
YEARS*Cntry	36.768	28	1.313	2.1162	0.000564
Error	1633.245	2632	0.621		

In summary the data indicated that for Nigerian companies, asset turnover was significantly higher with different trends over the eight years considered, compared to the companies in the other four countries.

Return on assets (ROA)

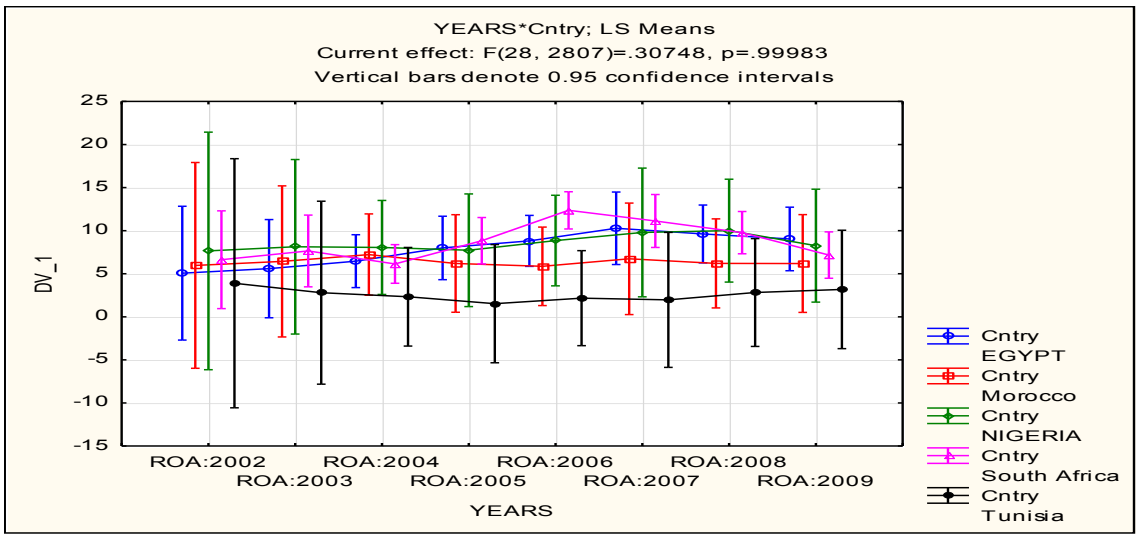

Figure 9: ROA comparison across countries and time

The non-significant year by country interaction effect in figure 9 ($F(28,2807)=0.30748$, $p>0.05$) indicated that there were no differences in the patterns of companies' ROAs in the different years across countries.

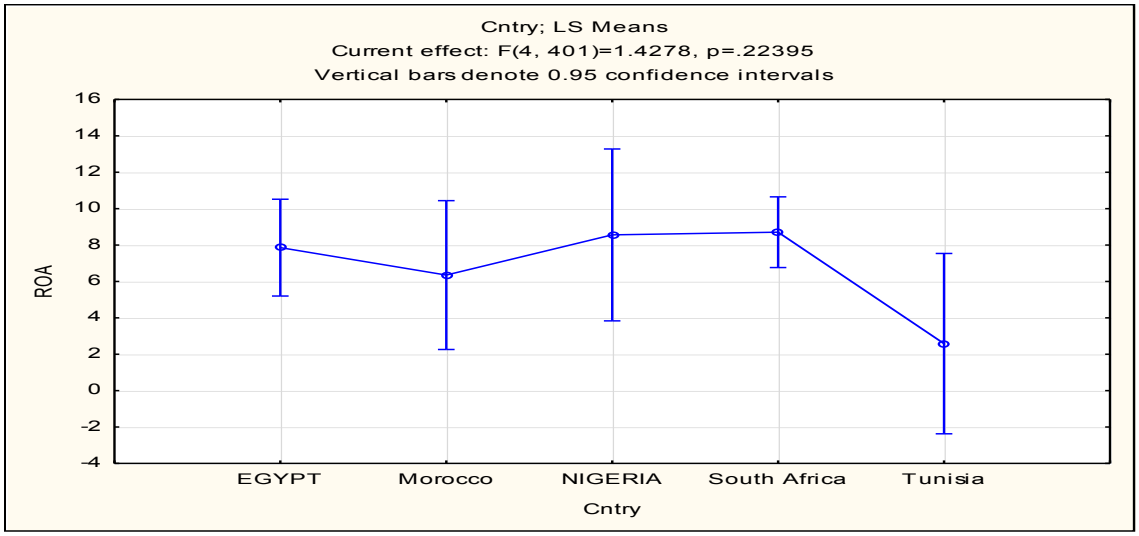

Figure 10: ROA comparison per country across years

Figure 10 indicated that there was no significant country differences (F(4,401)= 1.4278, p>0.05) in terms of ROA.

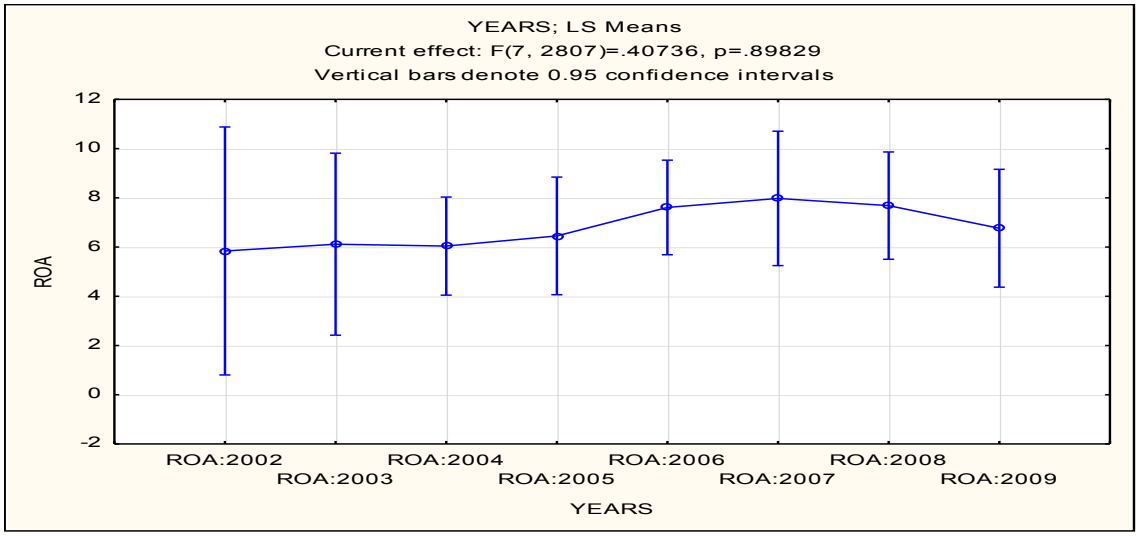

Figure 11: ROA comparison per year across countries

Figure 11 illustrated that there was no significant time effect for the ROAs of the companies in the five countries over the eight years ($F(7,2807)= 0.40736$, $p>0.05$) .

Table 12: ROA: Summary Repeated Measures Analysis of Variance

	SS	Degr. of - Freedom	MS	F	p
Intercept	91784	1	91783.98	60.2099	0.000000
Cntry	8706	4	2176.48	1.4278	0.223950
Error	611284	401	1524.4		
YEARS	1213	7	173.29	0.4074	0.898293
YEARS*Cntry	3662	28	130.8	0.3075	0.999833
Error	1194116	2807	425.41		

In summary the data indicated that there were no significant differences for ROA over the eight year period, there were also no significant differences between the five countries. This implies that ROA is probably not a sensitive financial performance measure to study, when studying variances, as the trend of the companies' ROAs in the countries are not significantly different from each other over the eight years considered.

Revenue

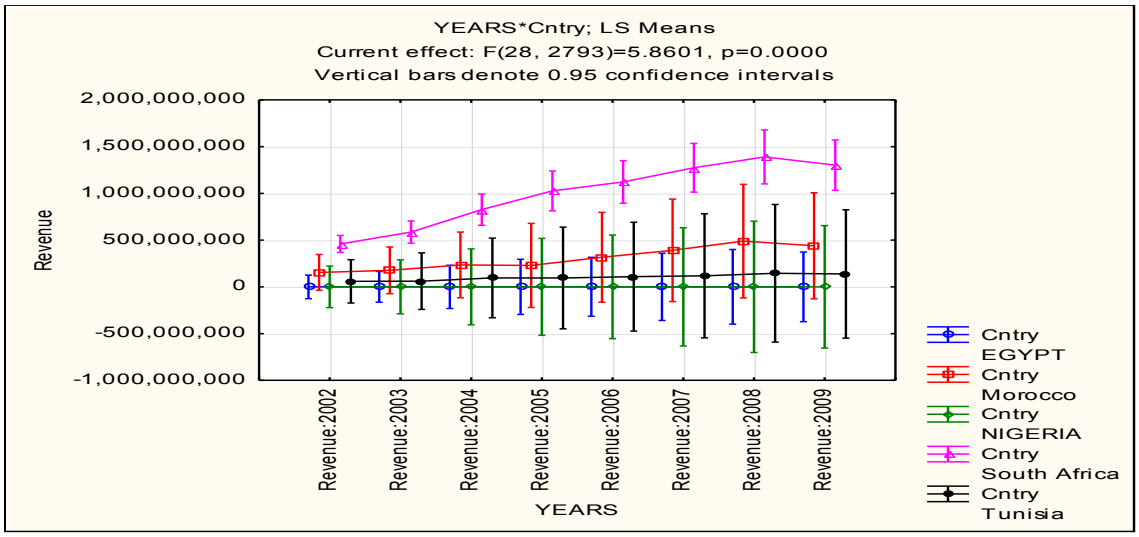

Figure 12: Revenue comparison across countries and time

The significant year by country interaction effect in figure 12 ($F(28,2793)=5.8601$, $p<0.001$) indicated that when revenues of companies within the five sampled countries were compared over time, the pattern of changes in revenue over time was significantly different for the five different countries. As evident from figure 12, the mean revenue of South African and Moroccan companies compared to the mean revenue of companies in the other three countries over the eight year period considered, were significantly higher and reflected a different trend. The mean revenue of companies in South Africa and those in Morocco reflected an increase over the eight years considered with a slight down turn toward the period 2008 and 2009. As evident in figure 12 above, there was a clearly significant interaction effect of year by country in terms of revenue over the eight year period between the five African countries considered in this research study.

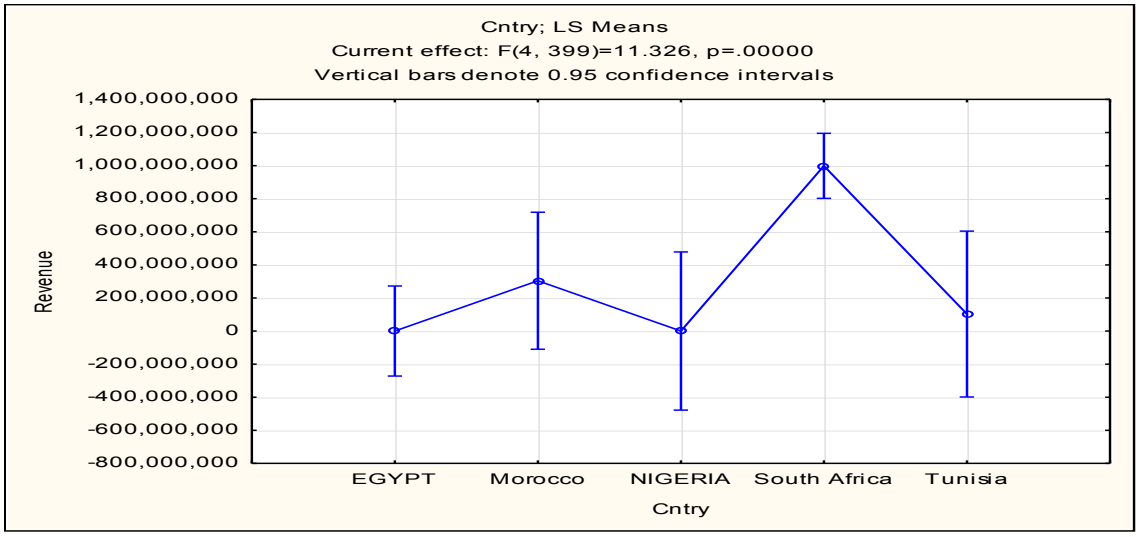

Figure 13: Revenue comparison per country across years

Figure 13 above indicated a significant country effect ($F(4,399)= 11.326$, $p<0.001$) in terms of revenue. The Scheffe post-hoc analysis indicated that the mean revenue of South African companies considered over the eight year period was significantly higher than the mean revenue of companies in the other countries. There was also evidence, from the Scheffe post-hoc analysis, that there was a significant difference for Moroccan companies, considered over the eight year period compared to the companies in the other countries.

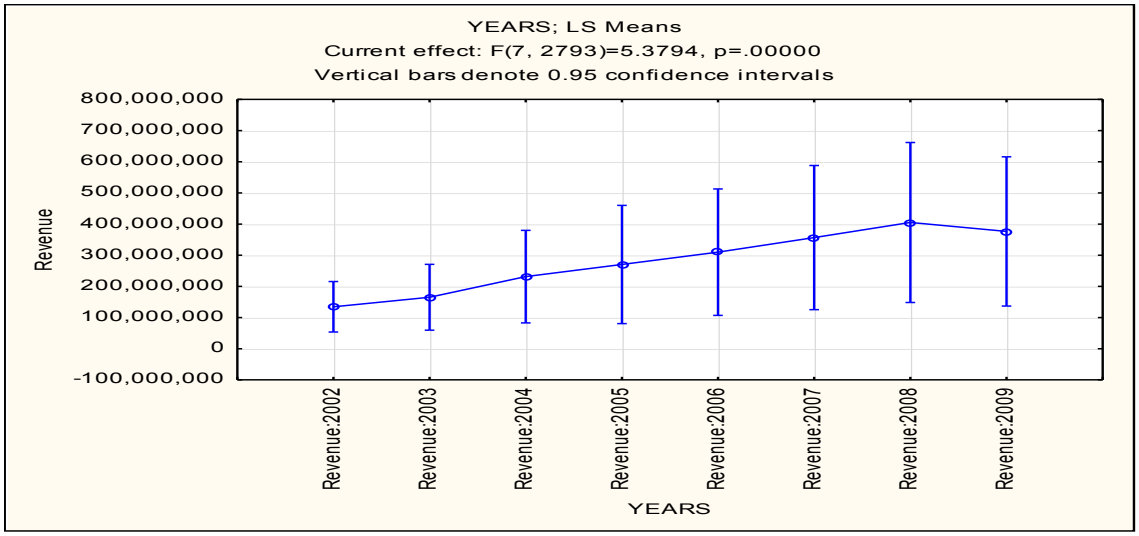

Figure 14: Revenue comparison per year across countries

Figure 14 illustrated the significant time effect for the revenue of the companies in the five countries over the eight years ($F(7,2793)= 5.3794$, $p<0.001$). This indicated that there were significant differences in revenue over the eight year time period for the five countries considered jointly. As evident from figure 14 the mean revenues of the companies in the countries had an increasing trend over the first seven years with a decreasing trend during 2008/2009.

Table 13: Revenue: Summary Repeated Measures Analysis of Variance

	SS ('000 000 000 000)	Degr. of - Freedom	MS ('000 000 000 000)	F	p
Intercept	156056900	1	156056900	9.9943	0.001690
Cntry	707391000	4	176847700	11.3258	0.000000
Error	6230246000	399	15614650		
YEARS	16913400	7	2416199	5.3794	0.000004
YEARS*Cntry	73699200	28	2632114	5.8601	0.000000
Error	1254497000	2793	449157.4		

In summary the data indicated that there were significant differences for revenue over the eight year period, there were also significant differences between the five countries. Specifically, the results of the post hoc Scheffe test indicated that companies in South Africa's mean revenue was significantly different from the mean revenue of the companies in the other countries, and the mean revenue of companies in South Africa were especially different to the mean revenue of companies in Egypt, Morocco and Nigeria.

Conclusion: Descriptive statistics of financial performance data

There were no significant differences or significantly different trends in terms of ROA between the five countries over the eight years considered. In terms of ROE and asset turnover, Nigeria was significantly different to the rest of the countries and had the highest ROEs and asset turnover over the eight years considered. Tunisia had the lowest ROE and asset turnover over the eight years considered. In terms of mean revenue, South Africa had the highest revenue over the eight years considered.

5.1.2 Political risk data

The researcher plotted the political risk data in descriptive Excel graphs (see figure 15 to 23) to visualize the different political risk profiles per country. The graphs below were compiled for each independent variable of political risk and clustered into the five

dimensions of political risk discussed in the literature consisting of overall political risk, political institutions, economic growth, foreign direct investment and social inequality.

Dimension 1: Overall political risk

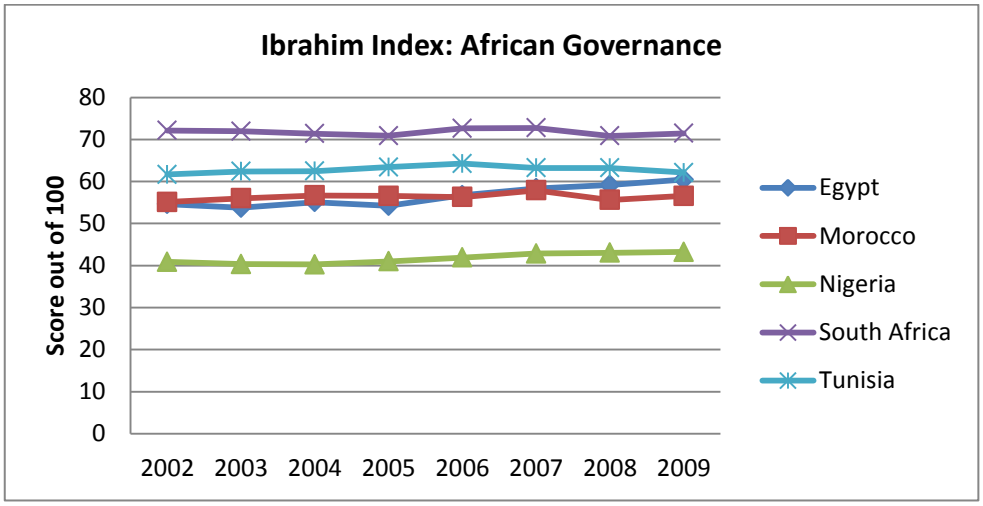

Figure 15: Political risk (Source: Ibrahim Index of African Governance (2011))

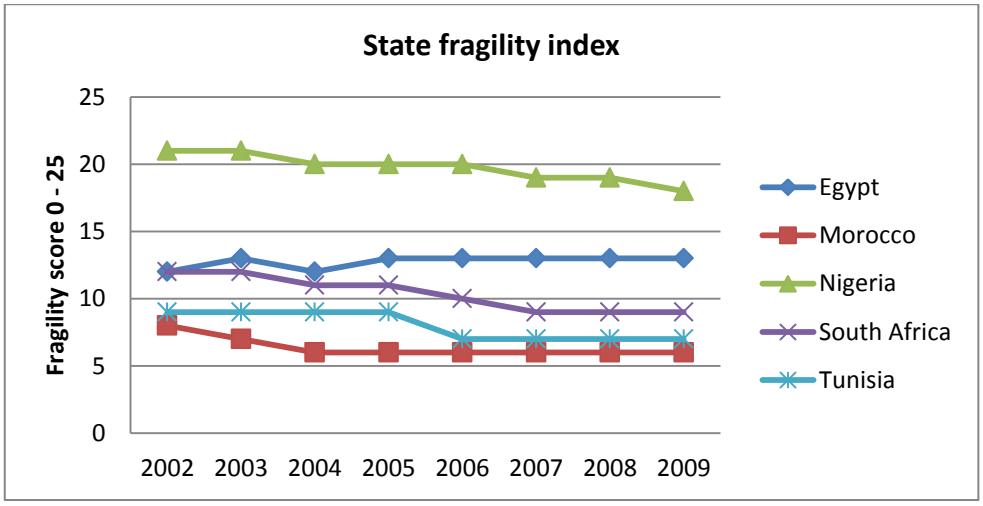

Figure 16: Political risk (Source: Center for Systemic Peace (2010))

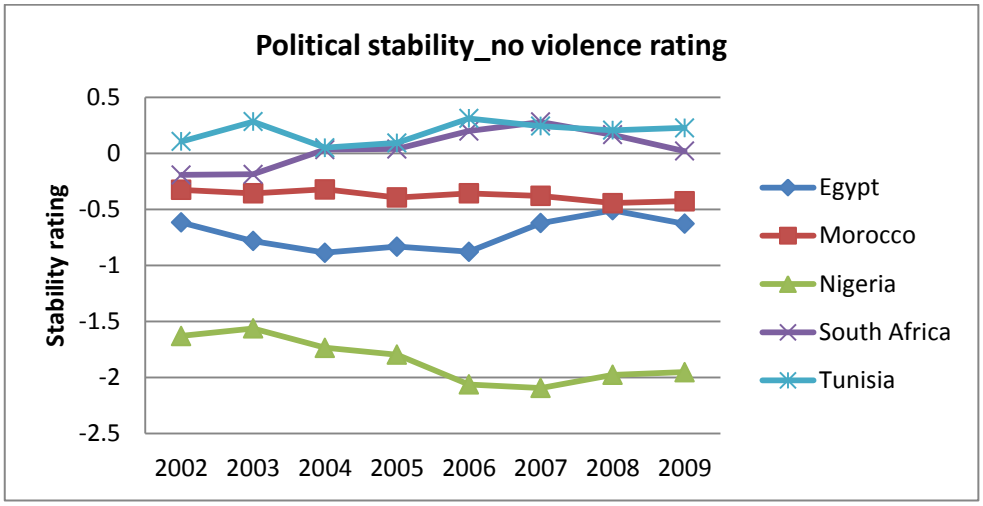

Figure 17: Political risk (Source: World Bank (2010))

The three political risk indicators used to measure levels of overall political risk specific to countries, illustrated in figures 15 to 17 were summarised below by giving each country a score out of five, relative to their position in terms of political risk of the five countries studied and over the eight year period considered. The country that had the lowest political risk in terms of the overall political risk indicators was given a rank of one, where the country with the highest political risk in terms of the overall political risk indicators was ranked five.

Table 14: Summary of political risk rankings: overall political risk (1 = low political risk; 5 = high political risk)

	Overall political risk variables		
Country	Ibrahim Index	State fragility	Political stability
Egypt	3	4	4
Morocco	4	1	3
Nigeria	5	5	5
South- Africa	1	3	2

Tunisia	2	2	1

From the political risk data and the summary table above it was concluded that if weighted equally in terms of political risk indicators, overall, Nigeria was the country that achieved the highest political risk rating configuration, thus Nigeria was the country with the most risk in terms of its country political risk rating configuration.

Egypt was the country that achieved the second highest political risk configuration and was thus the second riskiest country in terms of country political risk. Morocco was the country that carried the third highest political risk configuration, South-Africa had the fourth highest political risk configuration and Tunisia was the country with the lowest political risk configuration and was thus the country that has the least overall political risk between the five countries over the eight year time period considered.

Dimension 2: Political institutions

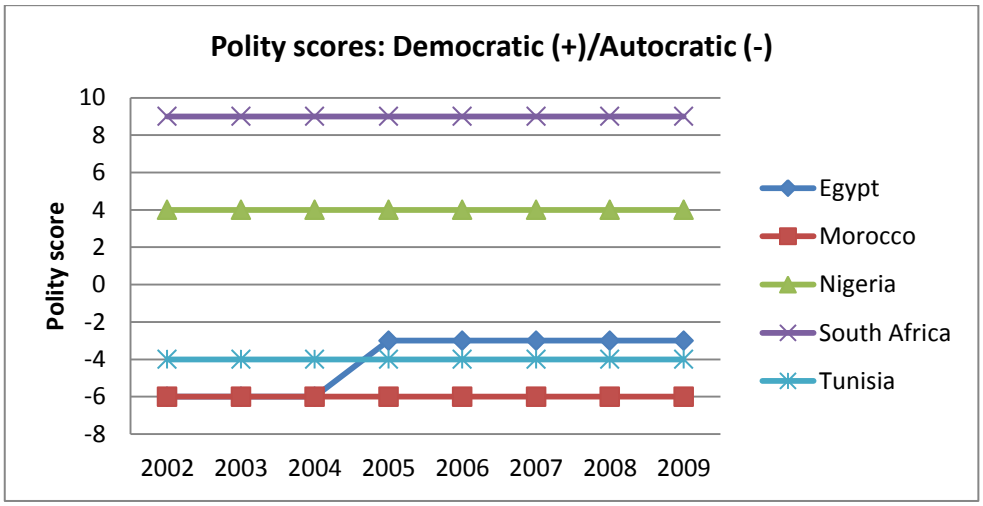

Figure 18: Political institutions (Source: Center for Systemic Peace. (2010))

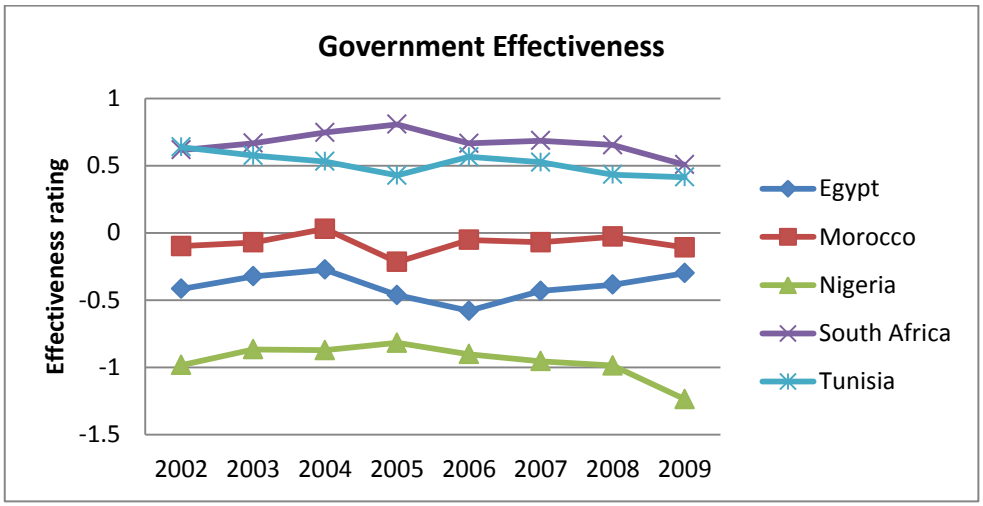

Figure 19: Political institutions (Source: World Bank (2010))

Table 15: Summary of political risk rankings: political institutions (1 = low political risk; 5 = high political risk)

	Political institutions: political risk variables		
Country	Polity score (D)*	Polity Score (A)*	Government effectiveness

Egypt	3	3	4
Morocco	5	1	3
Nigeria	2	4	5
South- Africa	1	5	1
Tunisia	4	2	2

The countries were ranked under the assumption that democratic countries had lower levels of political risk (D) and assuming that autocratic countries had lower levels of political risk (A). The researcher deemed that this was necessary as the literature reviewed (refer to section 2.3) was conflicted between the two types of regimes and argued for both lower levels of political risk in democratic and autocratic regimes (Bechtel, 2009; Carey, 2007; Jensen, N., 2008).

From the descriptive data set out in table 15 the researcher concluded, based on the assumption that democratic countries have lower levels of political risk, in terms of political risk due to political institutions; that Morocco was the country with the highest level of political risk, based on country risk from political institutions. Nigeria and Egypt had similar political risk profiles based on the assumption that democratic regimes have lower levels of political risk. Tunisia had the third highest overall political risk ranking based on political institutions and South Africa was ranked as the country with the lowest level of political risk due to political institutions.

Assuming authoritarian regimes had lower levels of political risk; Nigeria was the country with the highest overall political risk due to risk in terms of political institutions. Egypt had the second largest political risk rankings based on overall political institutional risk out of the five countries based on the eight years considered. South

Africa was the country with the third highest political risk ranking and Morocco and Tunisia had similar political risk profiles based on political risk due to political institutions. Egypt was the only country from the five countries analysed that increased its authoritarian score from 2005 to 2009 over the eight year period considered in this research study.

Dimension 3: Economic growth

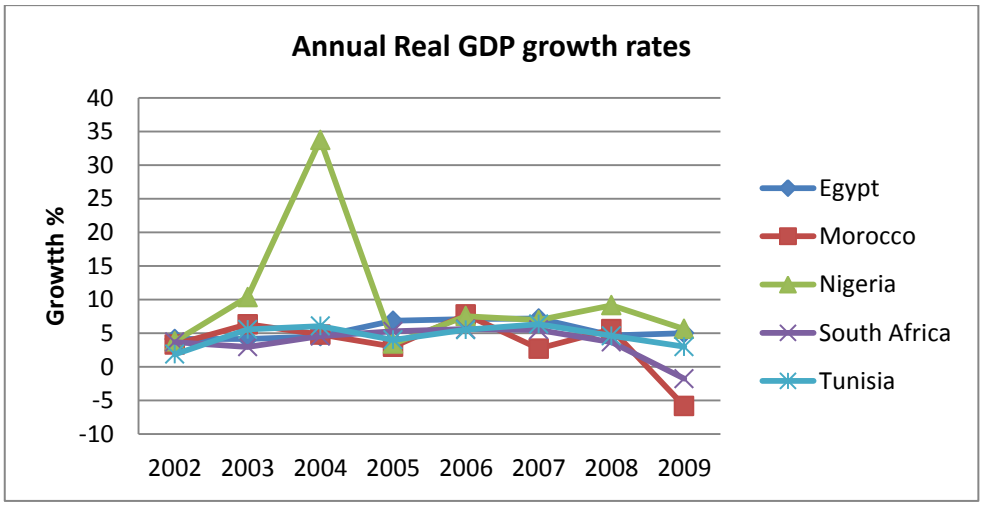

Figure 20: Economic growth (Source: UNCTAD (2010))

Table 16: Summary of political risk rankings: economic growth (1 = low political risk; 5 = high political risk)

	Economic growth: political risk variables
Country	Real GDP growth rates
Egypt	2
Morocco	5
Nigeria	1
South- Africa	4

Tunisia	3

The data and the trend in figure 20 above indicated that in terms of annual real GDP growth rates, Nigeria as a country had the highest GDP growth rate and thus the highest economic growth rate in comparison to the other four countries over the eight years considered. Egypt had the second highest economic growth rate and Tunisia the third highest growth rate. According to Maeda (2010), countries with high economic growth rates had lower levels of political risk, which meant that Nigeria had the lowest overall political risk in terms of the economic growth indicator. Morocco had the highest political risk if considered in terms of country's economic growth rates as the real GDP growth rates for Morocco were the lowest in comparison with the rest of the countries.

Dimension 4: Foreign Direct Investment (FDI)

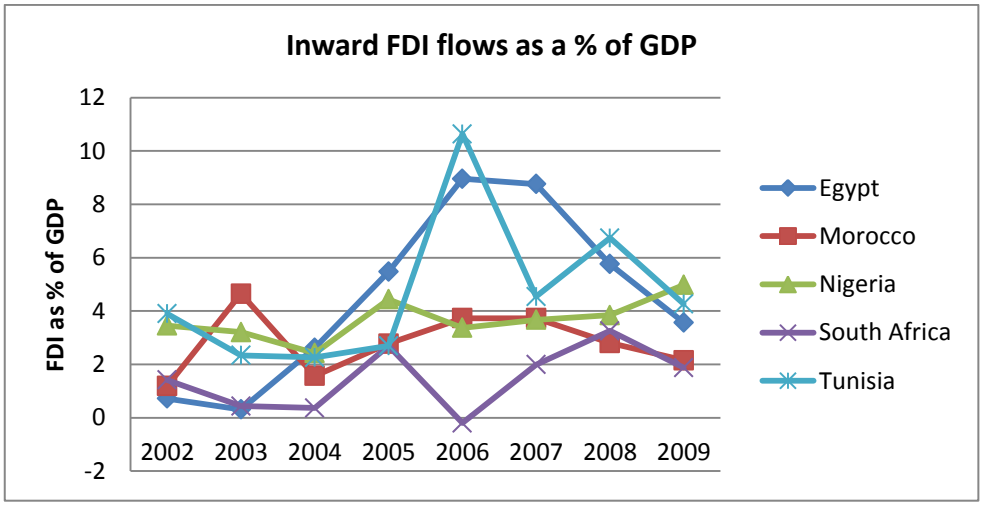

Figure 21: Foreign Direct Investment (Source: UNCTAD (2010))

Table 17: Summary of political risk rankings: FDI (1 = low political risk; 5 = high political risk)

	FDI: political risk variables
Country	Inward FDI flows as a % of GDP
Egypt	2
Morocco	4
Nigeria	3
South- Africa	5
Tunisia	1

The data and trends in figure 21 above show that there was variability and fluctuation year-on-year across the five countries with regard to FDI inflow into these African countries. Inward FDI inflow was examined on an overall level across the eight years between the five countries and it was observed that Tunisia is the country that received the most inward FDI for the eight year period considered. Egypt received the second most inward FDI and South Africa received the least amount of inward FDI in comparison to all the other countries. The literature reviewed (Bechtel, 2009; Demirbag et al., 2007; Desbordes, 2010; Feinberg & Gupta, 2009) argued that countries with high FDI inflows have lower levels of political risk and countries with low levels of inward FDI flows have higher levels of political risk (Jensen, N., and Johnston, 2011). Tunisia is the country with the lowest level of political risk assessed based on inward FDI flows and South Africa is the country with the highest level of political risk assessed on receiving the least amount of inward FDI over the eight year period considered.

Dimension 5: Social inequality

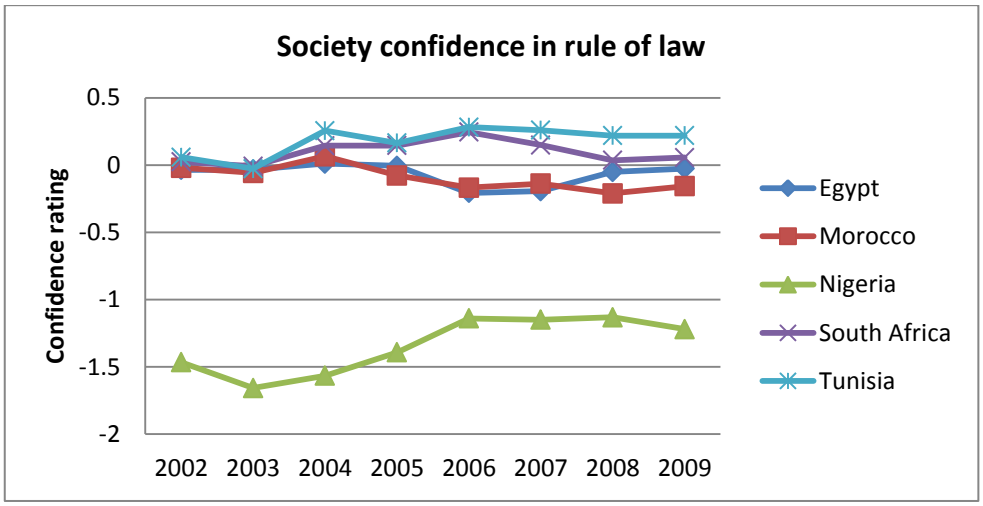

Figure 22: Social inequality (Source: World Bank (2010))

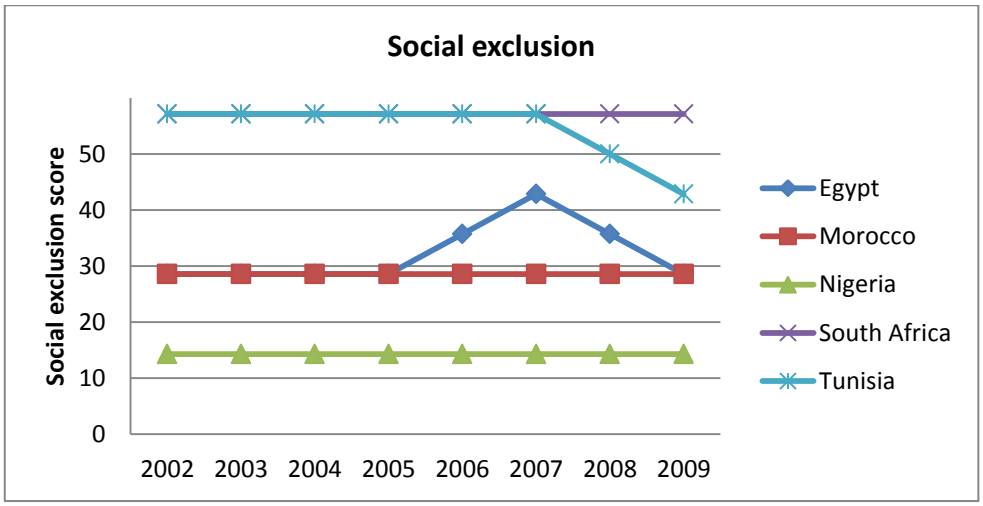

Figure 23: Social exclusion score (Source: Ibrahim Index of African Governance (2011))

Table 18: Summary of political risk rankings: social inequality (1 = low political risk; 5 = high political risk)

Social inequality: political risk variables

Country	Society confidence in rule of law	Social exclusion
Egypt	3	3
Morocco	4	4
Nigeria	5	5
South- Africa	2	1
Tunisia	1	2

The evidence from the data and the trends above indicated that based on social inequality, Nigeria's population was the most social unequal society based on the high social exclusion in its population and the low confidence in rule of law, in comparison to the other countries over the eight years considered. Nigeria had the highest political risk based on social inequality measures. Morocco had the second largest unequal society and South Africa and Tunisia were the countries with lower social exclusion rates as well as higher confidence in rule of law over the eight years considered.

Conclusion: Descriptive statistics of political risk data

Table 19 below summarise the political risk rankings discussed above over the five political risk dimension for the five countries in the sample.

Table 19: Summary of political risk rankings per country over the 5 dimensions (1 = low political risk; 5 = high political risk)

Political Risk indicator	Egypt	Morocco	Nigeria	South Africa	Tunisia

Overall Political Risk	Ibrahim Index	3	4	5	1	2
	State Fragility	4	1	5	3	2
	Political Stability	4	3	5	2	1
Political Institutions	Polity score	3 (D) 3 (A)	5 (D) 1 (A)	2 (D) 4 (A)	1 (D) 5 (A)	4 (D) 2 (A)
	Government effectiveness	4	3	5	1	2
Economic Growth	Real GDP Growth	2	5	1	4	3
FDI	FDI Inflow	2	4	3	5	1
Social Inequality	Rule of law	3	4	5	2	1
	Social Exclusion	3	4	5	1	2
Total	Democracy decrease risk	3	4	5	2	1
	Autocracy decrease risk	3	4	5	2	1

In summary the political risk data indicates that the economic growth and FDI dimension had a different trend to the other three dimensions analysed. The conclusion from this observation suggest that political risk indicators suggested in the literature and used for decision making are contradictory and mangers should look at a country on an individual basis and assess each of the indicators and underlying data carefully before decisions are made towards firm expansion. For example the literature suggests that low economic growth and low levels of inward FDI inflows are associated with higher levels of political risk (Demirbag et al., 2007; Desbordes, 2010; Feinberg & Gupta, 2009; Maeda, 2010), but the analyses above gives an indication that countries with high levels of political risk in this sample might have higher levels of economic growth and inward FDI.

The analyses of the political risk dimensions above conclude that irrespective of the debate that democracy increase or decrease political risk, the final political risk rankings for the countries in the sample remains unchanged. Nigeria has the highest level of political risk and Tunisia has the lowest level of political risk. Morocco and Egypt trend towards the higher levels of political risk and South Africa trends towards the lowest levels of political risk.

In light of the political risk rankings above it is interesting that over the eight year period 2002 to 2009, Tunisia was the country with the lowest overall political risk ranking. According to the political risk indicators Tunisia was the most political stable country with citizens with the highest confidence in rule of law. However in early 2011 a revolution led by a large number of educated youth forced the authoritarian regime of president Zine al-Abidine Ben Ali to an end (Henegan, 2011; Wells, Tran & Owen, 2011). Ben Ali was a powerful and entrenched leader and he turned Tunisia into a police state known for efficiency, but was forced to leave Tunisia after days of riots and

public outrage (Henegan, 2011; Wells, Tran & Owen, 2011). From the summary above the only political risk dimension that indicates high political risk levels for Tunisia was the political institutions dimension with a high polity score when it was assumed that autocracies increase political risk.

Egypt followed the example set by Tunisia in middle 2011 and protested for political reform which ended President Mubarak's authoritarian regime ("IMF concludes," 2011). From the political risk rankings above Egypt trended towards the higher levels of political risk for the period 2002 to 2009, also with a high polity score when it was assumed that autocracies increase political risk. However Egypt also ranked very high in the overall political risk dimension, a trend that Tunisia did not display. Another commonality between Tunisia and Egypt was that both of them received the highest levels of inward FDI for the period 2002 to 2009. Morocco has high political risk assigned on the political institutions dimension with the highest polity score when it was assumed that autocracies increase political risk. Considering the total political risk ranking of the countries Morocco ranks second on highest political risk from all the countries and this might give an indication that this is the next country to have possible anti-government riots. This observation could also strengthen the view that political risk indicators are contradictory and vastly different between countries and that countries should be looked at on an individual basis.

5.2 Segmenting results and descriptive statistics by country

5.2.1 Compounded annual growth rates (CAGR)

The researcher calculated the compounded annual growth rates of the selected financial performance measures (ROE, asset turnover, ROA and revenue) of each of the companies in the sample per country over the eight years (2002 – 2009) considered. This was completed to obtain a summary of the growth rates of the financial performance measures per company in a country over the eight years to be able to correlate and compare to the summary of the growth rates of the political risk dimensions per country over time. The results of the CAGR of financial performance for the companies per country are set out in the sections below.

Financial performance

Table 20: CAGR % of companies with positive/negative growth rates per country

Country	CAGR Growth	ROE	ROA	Asset turnover	Revenue
Egypt	Positive	58%	65%	54%	90%
	Negative	42%	35%	46%	10%
Morocco	Positive	67%	59%	58%	91%
	Negative	33%	41%	42%	9%
Nigeria	Positive	57%	55%	31%	94%
	Negative	43%	45%	69%	6%
South Africa	Positive	46%	51%	38%	94%
	Negative	54%	49%	62%	6%
Tunisia	Positive	78%	70%	40%	100%

	Negative	22%	30%	60%	0%

The description of the trends of the companies within the five African countries in the sample over the eight years indicated that for ROE, ROA and revenue CAGR, the majority (more than 50%) of companies had positive growth in terms of CAGR. South Africa was the only country where there was an exception to the trend, as the majority of companies in South Africa had negative growth in terms of CAGR for ROE over the eight years considered. Asset turnover was the only financial performance indicator that had a different overall trend in comparison to ROE, ROA and revenue CAGR. The majority of the companies operating in Egypt and Morocco had positive growth in terms of asset turnover CAGR, whereas the majority of companies operating in Nigeria, South Africa and Tunisia had negative growth trend in terms of the CAGR of asset turnover.

The researcher cross tabulated the categorised trends in the financial performance CAGR results of ROA, ROE and asset turnover of the companies in the countries sampled over the eight years to a lower level. This was done to obtain an indication of the percentage of firms that had positive CAGRs in all the measures, the percentage with positive and negative CAGRs and the percentage of firms with negative CAGRs in all the financial performance measures. This was done to identify the countries where the country specific conditions were of such a nature that the majority companies could achieve positive CAGR in all four of the financial performance measures elected to analyse for this study.

In the analyses completed, ideally a country that has a high financial performance climate would have the majority (highest count of companies) of their companies in the

positive/positive quartile. Put differently, the majority of companies should have achieved positive CAGR in terms of all the financial performance measures, ROE, ROA, asset turnover and revenue. It is evident from the trends that Egypt and Morocco were the only two countries that had the majority of their companies in the positive/positive quartile, which is in line with the overall observation of the preceding section. South African companies had the highest count of negative/negative frequencies in terms of CAGR for financial performance indicators, indicating that South African companies' financial performance over the eight year period overall was the worst performing in comparison to all the companies within the five countries analysed.

Political Risk

Table 21: CAGR for political risk indicators

Country	Real GDP	Polity Score	Government effectiveness	Ibrahim Index	Inward FDI	Political Stability	Rule of law	State Fragility	Social exclusion
Egypt	3%	9%	5%	1%	26%	0%	5%	1%	0%
Morocco	-208%	0%	-1%	0%	9%	-4%	-34%	-4%	0%
Nigeria	6%	0%	-3%	1%	5%	-3%	3%	-2%	0%
South Africa	-190%	0%	-3%	0%	4%	172%	13%	-4%	0%
Tunisia	7%	0%	-6%	0%	1%	12%	21%	-4%	-4%

In the segmentation analyses completed for political risk indicators for each of the five countries in the sample over eight years, the ideal would have been to have positive CAGR in terms of the political risk ratings and political risk scores. Positive growth rates in terms of CAGRs of political risk indicators could indicate lower levels of political risk and vice versa. It is evident from the CAGR for political risk indicators that Egypt improved the most in terms of political risk ratings, with the highest positive CAGR in

comparison to the other countries in the sample considered over the eight year period. Morocco had the highest negative CAGRs for the political risk indicators over the eight years considered and deteriorated in terms of political risk. Tunisia had an overall improvement in terms of the political risk indicators, while South Africa and Nigeria remained at the same level of political risk considered over the eight year time period.

5.2.2 Actual financial performance results 2002 versus 2009

When descriptive statistics were calculated it was noted that the data of the companies' financial performance ratios were not normally distributed and outliers or companies that achieve extremely good or extremely poor financial performance results skewed the mean of the financial performance ratios analysed. The researcher calculated the average financial performance ratios of ROE, ROA and asset turnover over the eight year period, for the population considered, to be used as a benchmark to enable the researcher to classify countries according to firm performance.

The researcher benchmarked the financial performance ratios of companies within the five countries considered for the year 2002 and the year 2009 against the population average calculated, and distinguished between above average, average and below average performing companies in the sampled countries. Revenue is not a ratio and not a good financial performance measure to benchmark as comparability is limited. Revenue was excluded in the analyses below. Table 22 indicates based on the calculation performed the segmentation of below average, average and above average performance benchmarks.

Table 22: Benchmark: performance per company

Performance	ROE	ROA	Asset turnover
Below average	< 15%	< 7%	< 1.3
Average	15% - 20%	7% - 10%	1.3
Above average	> 20%	> 10%	> 1.3

Return on Equity (ROE)

The table below provides an indication of the ROE in 2002 versus the ROE in 2009 for each of the companies in the five country sample. The percentages indicated the total percentage of companies with above, below and average ROE benchmarked against the eight year average performance of companies in the five countries sampled as indicated above.

Table 23: ROE performance of companies 2002 versus 2009

Performance	Egypt	Morocco	Nigeria	South Africa	Tunisia
2002					
Above average	30%	27%	42%	40%	17%
Average	9%	5%	18%	14%	7%
Below Average	62%	68%	39%	46%	77%
2009					
Above average	35%	34%	45%	37%	33%
Average	14%	23%	9%	12%	20%
Below Average	51%	43%	45%	51%	47%

According to table 23 it was concluded that in 2002 and in 2009 Nigeria had the most companies achieving above average ROEs. South Africa was the only country where the distribution of above average performing companies decreased from 2002 to 2009 relative to the other four countries that had an improved ROE distribution from 2002 to 2009. In 2002 Tunisia had the largest percentage of companies with below average ROEs and in 2009 Tunisia had the largest percentage of companies that improved their performance in terms of ROE migrating to the average and above average performance classification.

Return on Assets (ROA)

Table 24 gives an indication of the company ROAs in 2002 versus the company ROAs in 2009 for the companies in the five country sample. The percentages indicate the percentage of companies with above, below and average ROA benchmarked against the eight year average performance of companies in the five countries sampled as indicated above.

Table 24: ROA performance of companies 2002 versus 2009

Performance	Egypt	Morocco	Nigeria	South Africa	Tunisia
2002					
Above average	23%	25%	33%	31%	7%
Average	14%	16%	9%	14%	17%
Below Average	63%	59%	58%	55%	77%
2009					
Above average	38%	25%	39%	30%	10%
Average	16%	16%	9%	13%	3%

Below Average	46%	59%	52%	57%	87%

Table 24 indicated that overall company ROAs did not greatly improve in any of the countries between 2002 and 2009, except in Egypt that had a big improvement of company ROAs from 2002 to 2009. Nigeria had the highest percentage of companies in both 2002 and 2009 with above average ROA ratios, where Tunisia had the largest percentage of companies with below average performance in terms of ROA.

Asset turnover

Table 25 provided an indication of the company asset turnovers in 2002 versus the company asset turnovers in 2009 for each of the companies in the five country sample. The measurements indicated the percentage of companies with above, below and average asset turnover benchmarked against the eight year average performance of companies in the five countries sampled as indicated above.

Table 25: Return on assets performance of companies 2002 versus 2009

Performance	Egypt	Morocco	Nigeria	South Africa	Tunisia
2002					
Above average	30%	9%	82%	48%	10%
Average	6%	20%	6%	13%	0%
Below Average	64%	70%	12%	39%	90%
2009					
Above average	25%	9%	73%	45%	13%
Average	17%	14%	15%	8%	0%

Below Average	58%	77%	12%	48%	87%

From table 25 it was observed that although the percentages of Nigeria's above average performing companies in terms of asset turnover decreased from 2002 to 2009, Nigeria had the largest percentage of companies in both 2002 and 2009 with asset turnovers above the market average asset turnover. Although Tunisia reduced its percentage of below average companies slightly in terms of asset turnover from 2002 to 2009, Tunisia had the largest percentage of companies with below average asset turnover for both 2002 and 2009.

5.3 Results from correlations

It was evident from the descriptive statistics, analysis and data segmentation presented in the sections above that company financial performance and political risk drivers in countries need to be looked at on a per country basis as the financial performance and political risk of the countries studied over the eight years had different trends. The researcher decided to disaggregate the analysis performed above and analyse each individual country in terms of which of the political risk independent variables had the most significant correlation with the dependent variables of financial performance. It must be explained however, that the dependent variable was measured at company level and thus was different from company to company within and across the years, but the independent variables were measured at country level and so each of the predictor variables were constant i.e., had the same value for a country within a year. Thus the

assumption of independent observations necessary to calculate correlations was violated.

The method used to overcome this problem was to summarise the companies within a country for each year by calculating the median of the company performance values per year. The median was used in preference to the mean as the underlying distributions were skewed. In so doing, the data was reduced to median values for each year, yielding eight rows of median data, one for each year. Using this dataset a correlational analysis was carried out based on the Spearman rank order correlation coefficient that accommodates small sample sizes.

For each country in turn, the researcher explored the strength of the relationship between the ranks of the country-level predictor variables and the medians of the company-level variables.

The results are presented per country in section 5.3.1 to section 5.3.6 below.

5.3.1 Egypt

Table 26: Egypt: Spearman Rank Order Correlations. Correlations are significant at p <.05000

Political Risk	ROA: EGYPT	Asset turnover: EGYPT	ROE: EGYPT	Revenue: EGYPT
Real GDP Growth: EGYPT	0.81	0.93	0.83	0.52
Polity score: EGYPT	0.85	0.86	0.85	0.73
Government effectiveness:	-0.33	-0.64	-0.45	-0.10

EGYPT				
Ibrahim Index: EGYPT	0.71	0.31	0.57	0.93
FDI Inflow: EGYPT	0.88	0.86	0.90	0.57
Political Stability: EGYPT	0.21	-0.07	0.17	0.55
Rule of law: EGYPT	-0.55	-0.29	-0.52	-0.43
Social Exclusion: EGYPT	0.87	0.61	0.87	0.49
State Fragility: EGYPT	0.63	0.57	0.63	0.38

Return on Assets (ROA)

The relationship between the political risk variables and ROA was investigated and there was significant positive correlation between real GDP growth (r=0.81) and ROA and polity score (r=0.85), Ibrahim index (r=0.71), FDI inflow (r=0.88) and social exclusion (r=0.87). The strongest positive relationship was between ROA and FDI inflow (r=0.88) which means that when inward FDI increase, ROA increases as well. There was no significant correlation between ROA and state fragility (r=0.63, p>0.05), political stability (r=0.21, p>0.05), government effectiveness (r=-0.33, p>0.05) and confidence in rule of law (r=-0.55, p>0.05).

Asset turnover

The relation between asset turnover and political risk variables was investigated and there was significant positive correlation between asset turnover and real GDP growth (r=0.93), polity score (r=0.86) and FDI inflow (r=0.86). The strongest positive relationship was between asset turnover and real GDP growth (r=0.93) which means that when real GDP growth increased, asset turnover increased as well. There were no significant relations between asset turnover and social exclusion (r=0.61, p>0.05), state fragility (r=0.57, p>0.05), government effectiveness (r=-0.64, p>0.05), Ibrahim index (r=0.32, p>0.05), political stability (r=-0.07, p>0.05) and confidence in the rule of law (r=-0.29, p>0.05).

Return on Equity (ROE)

The relation between ROE and political risk variables was investigated and there was significant positive correlation between ROE and real GDP growth (r=0.83), polity score (r=0.85), FDI inflow (r=0.90) and social exclusion (r=0.87). The strongest positive relationship was between ROE and FDI inflow (r=0.90) which means that when FDI inflow increased, ROE increased as well. There were no significant relations between ROE and government effectiveness (r=-0.45, p>0.05), Ibrahim index (r=0.57, p>0.05), political stability (r=0.17, p>0.05), confidence in rule of law (r=-0.52, p>0.05), and state fragility (r=0.63, p>0.05).

Revenue

The relationship between revenue and political risk variables was investigated and there was significant positive correlation between revenue and polity score (r=0.73) as well as the Ibrahim index (r=0.93). The strongest positive relationship was between revenue and the Ibrahim index (r=0.93) which means that when the rating on the Ibrahim index increased, revenue increased as well. There was no significant correlation between revenue and real GDP growth (r=0.52, p>0.05), government effectiveness (r=-0.10, p>0.05), FDI inflow (r=0.57, p>0.05), political stability (r=0.55, p>0.05), confidence in rule of law (r=-0.43, p>0.05), state fragility (r=0.38, p>0.05) and neither for social exclusion (r=0.49, p>0.05).

Summary

Overall the polity score had significant positive relationships with the variables of ROA, ROE, asset turnover and revenue. This indicated that when the polity scores increased the financial performance increased as well. All the significant observations concerning Egypt between the political risk variables and financial performance variables were positive correlations, thus Egypt exhibited lower political risk correlated with higher financial performance.

5.3.2 Morocco

Table 27: Morocco: Spearman Rank Order Correlations. Correlations are significant at p <.05000

Political Risk	ROA: MOROCCO	Asset turnover:	ROE: MOROCCO	Revenue: MOROCCO

MOROCCO				
Real GDP Growth: MOROCCO	0.14	0.50	-0.52	-0.05
Polity score: MOROCCO	0	0	0	0
Government effectiveness : MOROCCO	0.31	0.90	0.07	0.52
Ibrahim Index: MOROCCO	-0.14	0.05	0.55	0.24
FDI Inflow: MOROCCO	0.33	0.19	0.14	0.26
Political Stability: MOROCCO	0.14	0.31	-0.69	-0.52
Rule of law: MOROCCO	0.12	0.12	-0.45	-0.69
Social Exclusion: MOROCCO	0.45	-0.05	-0.65	-0.51
State Fragility: MOROCCO	0	0	0	0

The relationship between the political risk variables and ROA, ROE, asset turnover and revenue was investigated and there was one significant positive correlation. There was a significant positive correlation between asset turnover and government effectiveness (r=0.90). This means that when government become more effective, efficiency per asset turnover increased as well.

5.3.3 Nigeria

Table 28: Nigeria: Spearman Rank Order Correlations. Correlations are significant at p <.05000

Political Risk	ROA: NIGERIA	Asset turnover: NIGERIA	ROE: NIGERIA	Revenue: NIGERIA
Real GDP Growth: NIGERIA	0.81	0.74	0.24	0.00
Polity score: NIGERIA	0	0	0	0
Government effectiveness: NIGERIA	0.02	0.07	0.19	-0.55
Ibrahim Index: NIGERIA	0.05	-0.19	0.19	0.88
FDI Inflow: NIGERIA	-0.36	-0.55	-0.07	0.62
Political Stability: NIGERIA	-0.17	-0.02	-0.21	-0.79
Rule of law: NIGERIA	0.26	-0.07	0.29	0.83
Social Exclusion: NIGERIA	-0.10	0.12	0.09	-0.93
State Fragility: NIGERIA	0	0	0	0

Return on Assets (ROA)

The relationship between the political risk variables and ROA was investigated and there was significant positive correlation between real GDP growth (r=0.81) and ROA. This means that when real GDP growth increased, ROA increased as well. There was

no significant variance in the polity score and social exclusion data, hence meaningful correlations could not be established. There was no significant correlation between ROA and government effectiveness (r=0.02, p>0.05), Ibrahim index (r=0.05, p>0.05), FDI inflow (r=-0.36, p>0.05), political stability (r=-0.17, p>0.05), confidence in rule of law (r=0.26, p>0.05) and state fragility (r=-0.10, p>0.05).

Asset turnover

The relation between asset turnover and political risk variables was investigated and there was significant positive correlation between asset turnover and real GDP growth (r=0.74). This means that when real GDP growth increased, asset turnover increased as well. There was no significant variance in the polity and social exclusion data, hence meaningful correlations could not be established. There was no significant correlation between asset turnover and government effectiveness (r=0.07, p>0.05), Ibrahim index (r=-0.19, p>0.05), FDI inflow (r=-0.55, p>0.05), political stability (r=-0.02, p>0.05), confidence in rule of law (r=-0.07, p>0.05) and state fragility (r=0.12, p>0.05).

Return on Equity (ROE)

The relation between ROE and political risk variables was investigated and there was no significant correlation between ROE and political risk variables.

Revenue

The relationship between revenue and political risk variables was investigated and there was significant positive correlation between revenue and the Ibrahim index (r=0.88) as well as confidence in the rule of law (r=0.83). The strongest positive significant relationship was between revenue and the Ibrahim index (r=0.88) which means that when the rating on the Ibrahim index increased toward less political risk, revenue increased as well. There was significant negative correlations between revenue and political stability (r=-0.79) as well as state fragility (r=-0.93). This means that when Nigeria becomes politically more stable and the state becomes less fragile, revenue decreased. There was no significant variance in the polity and social exclusion data, hence meaningful correlations could not be established. There was no significant correlation between revenue and real GDP growth (r=0.00, p>0.05), government effectiveness (r=-0.55, p>0.05) and FDI inflow (r=0.62, p>0.05).

Summary

Overall there were significant positive correlations between real GDP growth and ROA and asset turnover. This means that an increase in real GDP growth has a relation with an increase in ROA and asset turnover. There were significant positive and negative correlations with the political risk variables that make up the overall political risk ranks (Ibrahim index, political stability and state fragility) as well as a positive significant correlation with society confidence in rule of law. This indicated that the different political risk indicators have different effects on revenue of firms in Nigeria.

5.3.4 South Africa

Table 29: South Africa: Spearman Rank Order Correlations. Correlations are significant at p <.05000

Political Risk	ROA: SOUTH AFRICA	Asset turnover: SOUTH AFRICA	ROE: SOUTH AFRICA	Revenue: SOUTH AFRICA
Real GDP Growth: SOUTH AFRICA	0.98	0.60	0.86	0.26
Polity score: SOUTH AFRICA	0	0	0	0
Government effectiveness: SOUTH AFRICA	0.64	0.88	0.55	-0.12
Ibrahim Index: SOUTH AFRICA	0.29	-0.05	0.31	-0.14
FDI Inflow: SOUTH AFRICA	-0.14	-0.33	0.14	0.55
Political Stability: SOUTH AFRICA	0.83	0.19	0.86	0.76
Rule of law: SOUTH AFRICA	0.83	0.43	0.67	0.43
Social Exclusion: SOUTH AFRICA	-0.20	0.46	-0.28	-0.96
State Fragility: SOUTH AFRICA	0	0	0	0

Return on Assets (ROA)

The relationship between the political risk variables and ROA was investigated and there was significant positive correlation between real GDP growth (r=0.98), political stability (r=0.83), confidence in rule of law (r=0.83) and ROA. The strongest positive relationship was between ROA and real GDP growth (r=0.98) which means that when real GDP growth increased, ROA increased as well. There was no significant correlation between ROA and government effectiveness (r=0.64, p>0.05), Ibrahim index (r=0.29, p>0.05), inward FDI (r=-0.14, p>0.05) and state fragility (r=-0.20, p>0.05). No meaningful correlation was calculated for polity and social exclusion data over the eight years.

Asset turnover

The relation between asset turnover and political risk variables was investigated and there was significant positive correlation between asset turnover and government effectiveness (r=0.88). This means that when governments become more effective, asset turnover increased. No meaningful correlation was calculated for polity and social exclusion data. There was no significant correlation between asset turnover and government effectiveness (r=0.60, p>0.05), Ibrahim index (r=-0.05, p>0.05), FDI inflow (r=-0.33, p>0.05), political stability (r=0.19, p>0.05), confidence in rule of law (r=0.43, p>0.05) and state fragility (r=0.46, p>0.05).

Return on Equity (ROE)

The relation between ROE and political risk variables was investigated and there was significant positive correlation between ROE and real GDP growth (r=0.86) and ROE and political stability (r=0.86). The relation is equally significant and means that ROE would increase when real GDP growth increased or when political stability increased. There were no significant relations between ROE and government effectiveness (r=0.55, p>0.05), Ibrahim index (r=0.31, p>0.05), inward FDI (r=0.14, p>0.05), confidence in rule of law (r=0.67, p>0.05), and state fragility (r=-0.28, p>0.05). No meaningful correlation was calculated for the polity and social exclusion data over the eight years considered.

Revenue

The relationship between revenue and political risk variables was investigated and there was significant positive correlation between revenue and political stability (r=0.76) and a significant negative correlation between revenue and state fragility (r=-0.96). This means that revenue increased as South Africa becomes politically risky or when the state became more fragile. There was no significant correlation between revenue and real GDP growth (r=0.26, p>0.05), government effectiveness (r=-0.12, p>0.05), Ibrahim index (r=-0.14, p>0.05), inward FDI (r=0.55, p>0.05) and confidence in rule of law (r=0.43, p>0.05).

Summary

Overall political stability had significant positive relationships with the variables of ROA, ROE and revenue. This indicated that when the country became more politically stable the financial performance would increase as well. Other significant positive correlations included the relation between real GDP growth and ROA and ROE, the relation between government effectiveness and asset turnover and the relation between confidence in rule of law and ROA. There was a significant negative relation was between state fragility and revenue.

5.3.5 Tunisia

Table 30: Tunisia: Spearman Rank Order Correlations. Correlations are significant at p <.05000

Political Risk	ROA: TUNISIA	Asset turnover: TUNISIA	ROE: TUNISIA	Revenue: TUNISIA
Real GDP Growth: TUNISIA	-0.43	0.62	-0.19	-0.05
Polity score: TUNISIA	0	0	0	0
Government effectiveness: TUNISIA	-0.10	0.05	-0.36	-0.74
Ibrahim Index: TUNISIA	-0.64	0.64	-0.02	0.31
FDI Inflow: TUNISIA	0.33	-0.26	0.81	0.71
Political Stability: TUNISIA	0.26	-0.05	0.45	0.12

Rule of law: TUNISIA	-0.24	0.40	0.24	0.52
Social Exclusion: TUNISIA	-0.44	0.22	-0.87	-0.87
State Fragility: TUNISIA	-0.76	0.51	-0.73	-0.73

Return on Assets (ROA)

The relationship between the political risk variables and ROA was investigated and there was significant negative correlation between social exclusion (r=-0.76) and ROA, which means that as social exclusion increased, ROA would increase as well. Increased political risk would result in increased financial performance. There was no significant correlation between ROA and real GDP growth (r=-0.43, p>0.05), government effectiveness (r=-0.10, p>0.05), Ibrahim index (r=-0.64, p>0.05), inward FDI (r=0.33, p>0.05), political stability (r=0.26, p>0.05), confidence in rule of law (r=-0.24, p>0.05) and state fragility (r=-0.44, p>0.05). No meaningful correlation was calculated between ROA and the polity scores over the eight years.

Asset turnover

The relation between asset turnover and political risk variables was investigated and there was no significant correlation between asset turnover and political risk variables.

Return on Equity (ROE)

The relation between ROE and political risk variables was investigated and there was significant positive correlation between ROE and FDI inflow (r=0.81). This means that when FDI inflow increased, ROE increased as well. There was also significant negative correlation between ROE and state fragility (r=-0.87) and ROE and social exclusion (rho=-0.73). This means that when political risk increased as a result of a more fragile state and more people in the population were excluded, the ROE would also increase. There were no significant relations between ROE and real GDP growth (r=-0.19, p>0.05), government effectiveness (r=-0.36, p>0.05), Ibrahim index (r=-0.02, p>0.05), political stability (r=0.45, p>0.05) and confidence in rule of law (r=0.24, p>0.05). No meaningful correlation was calculated between ROE and the polity scores over the eight years.

Revenue

The relationship between revenue and political risk variables was investigated and there was significant positive correlation between revenue and inward FDI (r=0.71). This means that when Tunisia received more inward FDI revenue of firms would also increase. There was significant negative correlations between revenue and government effectiveness (r=-0.74), state fragility (r=-0.87) and social exclusion (r=-0.73). This means that more political risk as a result of ineffective government, fragile states and increased social exclusion would have a positive impact on revenue from firms. There was no significant variance in the polity scores; hence meaningful correlations could not be established. There was no significant correlation between

revenue and real GDP growth (r=-0.05, p>0.05), Ibrahim index (r=0.31, p>0.05), political stability (r=0.12, p>0.05) and confidence in rule of law (r=0.52, p>0.05).

Summary

Overall significant negative relations were observed, which indicates that when the political risk increases the financial performance increases as well. The only significant positive relation was between inward FDI and ROE and revenue.

5.3.6 Correlations in terms of CAGR

Finally the researcher ensured any autocorrelation in the time series data was removed by calculating the CAGR of the medians of dependent and the independent variables over the eight years considered. The sample size was thus reduced to one row per country, with compound annual growth rates across all eight years for each of the company and country variables per country. The researcher then performed a Spearman's rank order correlation on the relation between the growth rates in the summarised dependent variables and independent variables over the eight years considered. As there were insignificant growth in the medians of the polity scores and social exclusion indicators, these two independent variables were removed from the series.

Table 31: CAGR: Spearman Rank Order Correlations. Correlations are significant at p <.05000

Political Risk	CAGR	CAGR	CAGR	CACR Revenue -

	ROA - Median	ROE - Median	Asset Turnover - Median	Median
CAGR Real GDP - Median	-0.30	0.30	-0.10	-0.30
CAGR Government Effectiveness – Median	0.70	-0.20	0.60	-0.30
CAGR Ibrahim – Median	0.40	0.10	0.70	-0.60
CAGR FDI – Median	0.60	-0.10	0.70	-0.40
CAGR Pol Stability – Median	-0.20	-0.30	-0.50	0.20
CAGR Rule of law - Median	-0.10	0.10	-0.30	-0.10
CAGR SFI – Median	0.21	0.05	0.46	-0.62

The relationship between the CAGRs of the political risk variables and the CAGRs of ROA, ROE, asset turnover and revenue was investigated and there was no significant correlation. This means that the compounded annual growth rates of the political risk variables have no significant relation with the compounded annual growth rates of the financial performance variables.

5.3.7 Summary of correlations

Below is a summary of the significant correlations from the Spearman's rank order correlation test.

Table 32: Summary of significant correlations from Spearman's rank order correlation test

	Political Risk	ROA	Asset turnover	ROE	Revenue
Overall Political Risk	Ibrahim Index	Egypt	None	None	Nigeria Egypt
	State Fragility	None	None	Tunisia (-)	South Africa (-) Nigeria (-) Tunisia (-)
	Political Stability	South Africa	None	South Africa	South Africa Nigeria (-)
Political Institutions	Polity score	Egypt	Egypt	Egypt	Egypt
	Government effectiveness	None	South Africa Morocco	None	Tunisia (-)
Economic Growth	Real GDP Growth	South Africa Nigeria Egypt	Nigeria Egypt	South Africa Egypt	None
FDI	FDI Inflow	Egypt	Egypt	Egypt Tunisia	Tunisia
Social Inequality	Rule of law	South Africa	None	None	Nigeria
	Social Exclusion	Egypt Tunisia (-)	None	Egypt Tunisia (-)	Tunisia (-)

The majority of the significant correlations from the Spearman's rank order correlation test were positive correlations between financial performance and political risk. This means that when political risk decreases, financial performance increase. Tunisia had significant negative correlations from the Spearman's rank order correlation test which indicates that when the political risk increase the financial performance increase as well. Revenue had a strong significant negative correlation with state fragility for three of the countries in the sample. This finding suggests that when the state becomes more fragile i.e. political risk increase and firms earn more revenue.

CHAPTER 6 DISCUSSION OF RESULTS

Three theoretical contributions emerged from this research for the growing body of work on the political risk and performance relationships of firms in Africa. These findings are explored in greater detail in this section.

Finding 1: Lower levels of political risk within a country in Africa are not associated with higher levels of firm financial performance. There is evidence that in countries with higher overall political risk, firms perform better with higher financial performance results. This is in support of the positive risk-return relationship (Alagidede, 2011; Desbordes, 2010; Girard & Sinha, 2008).

Finding 2: There is a lack of significant evidence to come to a meaningful conclusion that there is a positive correlation between high levels of financial performance and either democratic or autocratic political institutions in Africa.

Finding 3: Firm financial performance is a multi-dimensional construct and each firm performance measure should be evaluated individually (Acquaah & Yasai-Ardekani, 2008; Gaur & Lu, 2007). The relationship between firm financial performance and political risk should not be generalised across Africa. The five African countries analysed suggest that political risk dimensions may vastly differ across these countries. For each country in Africa there are different political risk dimensions that could have a correlation with firm financial performance.

6.1 Finding 1: Political risk and return behaviour

Contrary to hypotheses one that states that low political risk is crucial to high levels of financial performance of firms (Bechtel, 2009; Jensen, N., 2008; Kesternich and Schnitzer, 2010; Kyaw et al., 2011; Meyer et al., 2009), this research found that in the five African countries represented in the sample, the country that had the highest overall political risk ratings had firms that achieved the highest levels of financial performance. The results of this study support the alternative hypothesis that states that higher levels of political risk in a country will lead to statistical different and higher levels of financial performance of firms. This finding supports the positive risk return relationship suggested in literature where high levels of political risk are associated with higher expected returns (Alagidede, 2011; Desbordes, 2010; Girard & Sinha, 2008).

An insight gained from this research was that when looking at overall political risk (i.e. all the dimensions of political risk), countries with high levels of political risk also had high levels of financial performance. Political risk was the highest in Nigeria over the eight years considered from the five sampled African countries. After it was established that ROA was not a sensitive financial performance measure to study, it was observed that Nigeria had the highest overall trend for ROE and asset turnover, over the eight years considered. In summary Nigeria consistently had the highest levels of political risk as well as the highest levels of financial performance over the eight years. This observation was supported by the trends identified when looking at snapshots of financial performance across countries for the year 2002 and 2009. Nigeria consistently had the highest percentage of companies that achieved above average market

performance in terms of ROA, ROE and asset turnover for both 2002 and 2009, given the highest level of political risk over the eight years considered.

This insight also held true when analysing low political risk countries over the eight years considered. Countries with low levels of political risk also had low levels of financial performance. Tunisia had the lowest level of political risk over the eight years considered out of the five sampled African countries and in turn the lowest overall trend for ROE and asset turnover. In summary Tunisia consistently had the lowest levels of political risk as well as the lowest levels of financial performance over the eight years considered. Similar to Nigeria, this observation was supported by the trends identified when looking at snapshots of financial performance across countries for the year 2002 and 2009. Tunisia with the lowest level of overall political risk consistently had the lowest percentage of companies that achieved above average performance and the highest percentage of companies that were performing below market average.

Four important contributions are evident from these results. First, there is support for the positive risk-return relationship discussed by Alagidede (2011), Desbordes (2010) and Girard and Sinha (2008) who state that where there are expectations of higher levels of risk associated with an investment, greater returns are required as compensation for that higher expected risk. An investment with relatively lower levels of political risk would require investors to settle for relatively lower returns (Alagidede, 2011; Desbordes, 2010; Girard & Sinha, 2008).

The positive risk return relationship for investments has been a fundamental assumption in financial theory, where it is hypothesised that because investors are rational decision makers, firms only have an increased risk tolerance in exchange for a great probability of higher returns than alternatively less risky investments (Alagidede,

2011; Danielson, 2010; Girard & Sinha, 2008). Subsequently there were also theories developed that provided risk-based explanations for negative investment-return relations where managers should be able to achieve higher financial returns at lower levels of risk (Andersen, Denrell & Bettis, 2007; Cooper & Priestly, 2011; Danielson, 2010). Literature argued that low political risk is crucial to high financial returns for firms because low political risk creates well-functioning performing economies, encourages capital investment and facilitates growth depicted that the level of investment returns would increase with low risk (Bechtel, 2009; Girard & Sinha, 2008; Jensen, N., 2008; Kesternich & Schnitzer, 2010; Kyaw et al., 2011; Meyer et al., 2009).

The findings in this research are thus opposing the negative investment-return relation in support of the significant positive risk-return trade-off for firms operating in Africa. The finding that a positive political risk financial return relationship was observed could indicate that changes in political risk are factored into the returns of firms in emerging markets as suggested by Girard and Sinha (2008).

The second contribution from these results is that although positive risk return relationship studies have primarily been focused on developed economies and the emerging markets in Asia and Latin America (Alagidede, 2011), there is evidence from this study that the positive risk return relation theory also holds true for African markets. This implies that firms in Africa can accept high political risk in exchange for the possibility of higher and uncorrelated returns with developed markets (Alagidede, 2011; Cheng et al., 2010; Girard & Sinha, 2008). It seems that low levels of political risk in Africa is thus not crucial and does not seem to impact immensely on the financial performance of firms in terms of negative and reduced profitability as argued by Bechtel (2009), Jensen, N. (2008), Kesternich and Schnitzer (2010), Kyaw et al. (2011) and Meyer et al. (2009).

This research makes a third contribution to literature and contributes not only to the limited research done on African countries (Alagidede, 2011; Christmann, Day, & Yip, 1999), but extend the scope by analysing multiple country data instead of single country data for a more meaningful analysis of firm performance across countries. This contribution is towards the theories of firm performance in the business strategy literature that have been limited to using mostly single country data (Christmann et al., 1999).

The literature reviewed suggested that a multifactor extension of CAPM consisting of the fundamental factors as well as country specific factors such as government stability, inflation rate and foreign bad debt would provide a better understanding of frontier markets (Girard & Sinha, 2008). It has also been recorded in past studies that economic and financial risk provides the most information about expected returns in developed markets, while political risk has explanatory power in emerging and developed markets (Girard & Sinha, 2008). This research study supports this observation and the fourth contribution to the literature is that frontier and emerging markets political risk a good variable at explaining the high returns in Nigeria and the low returns in Tunisia. This research study emphasised the importance of including political risk variables in an extension of the CAPM when analysing performance of firms in emerging markets.

Two additional observations are evident from these research results. The first observation made is the long lag time in terms of the improvement of the political risk environment and correlating impact on the financial performance of firms. An example in terms of the CAGR of political risk that indicated that Egypt and Tunisia had the most improved political risk environment over the eight years, yet this did not translate into accelerated high firm financial performance. Although there was an improvement in

terms of firm financial performance for both Tunisian and Egyptian firms from 2002 to 2009, the improvement was less than expected given the lower political risk. This observation was made considering the literature that states that political risk could affect the profitability of firms though multiple channels (Al Khattab et al., 2011; Hoti & McAleer, 2004; Kesternich & Schnitzer, 2010; Lloyd, 1974).

A second interesting observation made was regarding revenue as a measure for firm financial performance in Africa. Revenue as a financial performance indicator displayed a different trend between the five African countries in the sample across the eight years considered. This observation supports the argument that firm performance is a multidimensional construct (Acquaah & Yasai-Ardekani, 2008; Gaur & Lu, 2007). For example South Africa had a significantly high revenue trend over the eight years considered in comparison with the five countries sampled. South Africa's overall political risk level was low and close to the political risk level of Tunisia. What this observation suggests is support for the models that provide risk-based explanations for negative investment-return relations and shows that the level of investment returns increases with low risk (Cooper & Priestly, 2011).

The interesting observation from the above is that revenue is recognised before expenses like taxation and operating costs, which were expected to be influenced by political risk factors impacting the country's business environment, while ROE and ROA performance ratios were based on net profit, thus after tax and operating expenses. Taking this into account it strengthens the observation that for African countries low levels of political risk leads to low levels of profitability, as high revenue in a low political risk county like South Africa did not translate into expected high profitability levels evident in financial performance ratios like ROE and ROA. High levels of political risk does not seem to impact immensely on the financial performance of firms in terms of

reduced profitability as argued by Jensen, N. (2008), Kesternich and Schnitzer (2010), Kyaw et al. (2011) and Meyer et al. (2009). Instead this observation may suggest that revenue could be higher in low political risk countries but profitability seem to be lower. Financial performance of firms is a multi-dimensional construct and revenue should probably be looked at in isolation but in conjunction with profitability when firm performance is evaluated (Acquaah & Yasai-Ardekani, 2008; Gaur & Lu, 2007).

In conclusion, for firms operating in African countries there is a positive risk return relationship. This positive risk return relationship for African countries implies that high political risk environments enable firms to achieve high profitability levels. This is important as the importance of political risk has been highlighted in literature while little is known about the relationship between political risk and investment risk (Bechtel, 2009). It could be usefull if political risk is factored into financial returns when the CAPM is used in emerging markets.

6.2 Finding 2: Political institutions and financial performance of firms

This study has found some evidence, although not significant for the null hypothesis, that states that democratic political institutions will lead to statistically different and higher levels of financial performance of firms. Despite renewed interest on the link between political institutions and political risk facing firms (Carey, 2007; Jensen, N., 2008; Jensen, N., and Johnston, 2011), this research could not support with significant evidence that there is a positive correlation between high levels of financial performance and either democratic or autocratic political institutions in Africa.

Previous literature has pointed out that there are economic advantages of democracies when compared to autocracies as political predictability may be crucial in order to create an environment that is beneficial for investments and growth of firms (Bechtel, 2009). The observations from this study, although not significant evidence, indicate that the economic advantages of democracies might hold true for African countries. The evidence from this research is limited to the significant positive correlation between polity scores and all the financial performance measures for Egypt only. The significant correlation between the polity scores and the financial performance of firms indicates that as Egypt becomes more democratic financial performance in terms of ROA, ROE, asset turnover and revenue of firm's increase, which is in support of the view that there are economic advantages in democratic countries (Bechtel, 2009). The reason for the advantages of increased financial performance in democratic countries might be associated with the political predictability of democratic countries as argued by Bechtel (2009), but might also be as a result of the world understanding democracies better as the developed world's political regimes reflects democracies. Managers of firms might have developed and established capabilities to increase financial performance of firms as they are familiar with the 'rules of the game', in the host economy. The managers of these firms will significantly shape and directly determine their firm's strategy to adapt to a democratic environment when foreign market entry is considered (Meyer et al., 2009).

This research was unable to make a significant contribution to the literature on political institutions in Africa as polity scores that indicate levels of democracy and autocracy for the five African countries in the sample did not display significant variance for a meaningful correlation for four of the five African countries over the eight years considered. The limitation that the discussion about the relationship between political

institutions and financial performance of firms in Africa is limited to one country (Egypt) from the five country sample, supports previous studies that have suggested that conditions in other regions may not be equally successful in Africa, implying that Africa is different (Asiedu, 2002). This study expanded on this observation made by Asiedu (2002) and suggests that conditions in one African country may not be equally successful in another country in Africa hence firms should not generalise across Africa.

Two additional contributions are evident from the results on the relationship between political institutions and financial performance of firms. The first interesting observation was that when analyses of the political risk dimensions was done the results conclude that irrespective of the debate that democracy increase or decrease political risk, the final political risk rankings for the countries in the sample remains unchanged. Nigeria has the highest level of political risk and Tunisia has the lowest level of political risk irrespective of assigning risk rankings on the view that democracies decrease and increase political risk. In other words whether the researcher ranked countries according to the assumption in the literature that democracies decrease political risk (Carey, 2007; Jensen, N., 2008; Jensen, N., and Johnston, 2011) the overall rank for all the countries was equal to the calculation when assumed democracies increase political risk (Bechtel, 2009; Jensen, N., 2008; Maeda, 2010). Thus Nigeria remained the country with the highest overall political risk rank and Tunisia remained the country with the lowest political risk rank. This observation might suggest that although political institutions contribute to political risk, political institutions may not play a predominant role in understanding political risk as argued by Bechtel (2009) and Carey (2007). Political institutions should be taken into account for international expansion of MNCs, but the results suggest that less attention may be given to this aspect of political risk if financial performance of firms is considered.

The second interesting observation from the results on political institutions were that although democratic regimes might be positively associated with increased financial performance, this research study does not necessarily agree with the literature that supports the notion that democracies decrease political risk (Carey, 2007; Jensen, N., 2008; Jensen, N., and Johnston, 2011). An insight gained from the results on Egypt indicate that although Egypt's political regime changed over the eight years to become more democratic, it remained the country with the second highest overall political risk after Nigeria. This observation is interesting in light of recent (early 2011) events in Tunisia and leading to events in Egypt.

In addition to the above mentioned interesting observation and in light of recent events in Tunisia and Egypt it seems that authoritarian regimes also increase political risk, hence it may be possible that both democracies and autocracies increase political risk. For example Tunisia was the country with the lowest overall political risk ranking from the five countries sampled. According to the political risk indicators Tunisia was the most political stable country with citizens with the highest confidence in rule of law. However in early 2011 a revolution led by a large number of educated youth forced the authoritarian regime of president Zine al-Abidine Ben Ali to an end (Henegan, 2011; Wells, Tran & Owen, 2011). The only political risk dimension in this study that indicates high political risk levels for Tunisia was the political institutions dimension with a high polity score when it was assumed that autocracies increase political risk.

Egypt followed the example set by Tunisia in middle 2011 and protested for political reform which ended President Mubarak's authoritarian regime ("IMF concludes," 2011). Although Egypt trended second on overall political risk for the period 2002 to 2009, it also had a high polity score when it was assumed that autocracies increase political risk. In saying this, Morocco also had a high political risk assigned on the political

institutions dimension with the highest polity score when it was assumed that autocracies increase political risk. Considering the total political risk ranking of the countries Morocco ranks second on highest political risk from all the countries and this might give an indication that this could be the next country to have possible anti-government riots. These observations might give an indication of the dynamic and unpredictable political risk environment that is present in Africa and supports the literature that concludes that political predictability, irrespective of regime, may be crucial in order to create an environment that is beneficial for firms (Bechtel, 2009).

In conclusion the findings from Egypt suggest that democracies may be positively associated with increased financial performance. In addition to this finding it was observed that political institutions do not contribute largely to overall political risk rankings when financial performance is considered. Political predictability and stability may be factors that are crucial in order to create an environment that is beneficial for firms (Bechtel, 2009), irrespective of whether regimes are democratic or autocratic, which also explained the observation that authoritarian and democratic regimes might be associated with higher levels of political risk. The results from thus study may suggest that firms in the African markets or firms looking to enter African markets should consider other factors influencing overall political risk which may be more important when considering the environment that enables increased financial performance.

6.3 Finding 3: Political risk dimensions and firm financial performance

The findings from this research study reject both the null and alternative hypothesis. The findings from this study aimed to establish which political risk dimension or political risk indicator had the most significant relation to financial performance of firms. The results suggest that firm financial performance have correlations to different political risk indicators over the eight years between the five countries. Hence a generalisation of the relationship between political risk and financial performance of firms across Africa may not be meaningful for decision making. This observation emphasise that no study can address all of the important questions pertaining political risk in foreign markets, nor are there simple answers to the questions regarding political risk (Feinberg & Gupta, 2009; Lloyd, 1974). Political risk is difficult to anticipate and analyse, and is further complicated by the fact that what is political risk for one firm is not necessarily of any relevance to another (Lloyd, 1974).

The discussion below is executed per political risk dimension and the observations from the countries will be discussed based on the significant correlations as summarised in table 32 (section 5.3.7: Summary of correlations), unless insights were sufficiently discussed in finding one or finding two.

6.3.1 Country specific observations

This study made two contributions in terms of country specific trends. The first contribution is that during this study it was noted that Morocco had, except for government effectiveness, no significant correlation between financial performance indicators and political risk dimensions. This may suggest that firms in Morocco or firms looking to enter Morocco should consider other country specific factors because political risk does not seem to influence financial performance significantly. This is probably an indication of exposure to political risk as a function of both the characteristics of the firm itself, as well as the nature of any political change (Lloyd, 1974). This observation can be explained by the fact that political risk for one firm in Morocco is not necessarily of any relevance to another (Lloyd, 1974) hence no significant relationship was observed. Another possible explanation for this phenomenon could be that political risk may have to be defined differently in Morocco as what political risk consists of in the other countries is not necessarily relevant in Morocco. Another explanation for this observation could be that political risk indicators could be contradictory and firms may need to analyse the country on an overall basis for decision making.

The second country specific observation made was that Tunisia had significant negative correlations between political risk indicators and financial performance indicators. A possible explanation from the insights gained from this observation could be the positive risk-return relationship discussed in theme one. Tunisia ranked the lowest on overall political risk and these correlations indicated that if Tunisia's political risk levels increase, financial performance of firms might increase as well. This possibly implies that there are optimum political risk levels in countries in which firms can and should be operating in to gain maximum financial performance rewards. In the case of

Tunisia political risk had explanatory power in terms of the low returns and supports the observation made in the literature that higher political risk ratings (low risk) is associated with lower expected returns, presumably because when uncertainty about future returns increase, performance of firms increase as well (Desbordes, 2010; Girard & Sinha, 2008) .

6.3.2 Overall political risk and firm financial performance

An insight gained from the study of the relations between the overall political risk variables and the financial performance variables, was that there was no significant correlation between asset turnover and overall political risk. In other words although political risk increases and decreases, asset turnover will be not be effected.

The observation that there is no correlation between asset turnover and overall political risk makes a contribution to the fundamental political risk definition, which states that political risk is the loss of control over ownership or loss of benefits of enterprise by government action (Fitzpatrick, 1983). In increased political risk environments where loss of control over ownership or loss of benefits of enterprise occur (expropriation), which is the loss of control over firm assets, firms will not be able to utilise their assets to earn revenue. From the insights gained from this study it is evident that although political risk rankings are high for some of these countries, the ability to generate revenue from firm assets did not change, as there was no correlation between asset turnover and overall political risk rankings. Expropriation or nationalisation of firms assets was the classic form of political risk, and seems less prevalent nowadays (Kesternich and Schnitzer, 2010). The fact that asset turnover has no relation with

political risk is in line with the observation that expropriation is less prevalent at the present time.

A second insight gained from the study of the relations between the overall political risk variables and the financial performance variables, was that there was significant negative correlation between revenue and overall political risk. This observation support the findings in theme one and agrees with the positive risk-return relationship discussed by Alagidede (2011) where expectations of higher levels of risk associated with an investment, greater returns are required as compensation for that higher expected risk (Alagidede, 2011, p. 135). The significant negative correlation between revenue and political risk indicated that higher levels of revenue is earned in countries where political risk increases.

A third insight gained from the study of the relations between the overall political risk variables and the financial performance variables, was that there was one country's observations that had significant correlation between revenue and the profitability ratios ROE and ROA. Keeping in mind that what is political risk for one firm is not necessarily of any relevance to another (Lloyd, 1974), this observation supported the argument that firms will need to respond to different political environments that in different locations may give raise to varying political risks impacting vastly on financial performance in terms of reduced profitability (Al Khattab et al., 2011; Hoti & McAleer, 2004; Kesternich and Schnitzer, 2010; Kyaw et al., 2011; Meyer et al., 2009).

6.3.3 Political institutions and firm financial performance

The findings from this research study that explore the relationship between political institutions and firm financial performance was discussed in theme two.

6.3.4 Economic growth and firm financial performance

An insight gained from the study of the relationship between economic growth and the financial performance variables, was that although there is sufficient support that economic growth positively correlates with increased financial performance in terms of the profitability and efficiency measures, there was no relation between economic growth and revenue. This is in contradiction with the perception that in the presence of political risk firms shift resources from economic to political activity, which leads to lower and less economically productive investments (Feinberg & Gupta, 2009; Maeda, 2010). There was no relation between revenue and economic growth and it does not appear that firms shift their resources around, but rather that they continue to manage and run business irrespective of the economic growth in a country.

Literature found that economic and financial risk provides the most information about expected returns in developed markets, while political risk has explanatory power in emerging and frontier markets (Girard & Sinha, 2008). The findings from this study indicate that economic growth that is a contributor to political risk also explains returns/profitability in emerging markets like Africa. It is important to note that factors leading to political and economic instability are invariably interrelated and any major changes in the political environment will have several causes and effects (Lloyd, 1974).

6.3.5 FDI and firm financial performance

An insight gained from the study of the relations between FDI and financial performance variables, was that the two countries that received the most inward FDI over the eight years considered, Egypt and Tunisia, have significant positive relations with the financial performance variables ROE, ROA, asset turnover and revenue. This observation is in support of the literature that purports that the institutional environment has an impact on the FDI performance of the country, where a non-discriminatory approach in terms of policies towards FDI from the host country government had a positive impact on the firm performance (Demirbag et al., 2007). It is thus a logical assumption that countries in frontier markets that receive high levels of FDI can invest in capital and assets that will make their firms more profitable and efficient.

Another observation from the study of the relationship between inward FDI and political risk indicated that Tunisia received the highest amount of inward FDI over the eight years and was the country with the lowest political risk. This observation may suggest that FDI flow to countries with low political risk and explains the lack of investment in developing countries due to high political risk levels and supports the notion that countries need institutions with a positive environment for FDI to be able to attract MNCs (Bechtel, 2009; Demirbag et al., 2007; Jensen, N., 2008; Jensen, N., & Johnston, 2011).

6.3.6 Social inequality and firm financial performance

From the study of the relationship between social inequality and financial performance, it was observed that there was no significant correlation between asset turnover and

social inequality. This means that firms are still able to generate revenue from their asset base even in a country where high social inequality persists. Social inequality of a country does not affect the efficiency of firms. Another observation was that firms in the five sampled African countries had different relations between social inequality measures and financial performance. This emphasises the observation made previously stating that political risk is difficult to anticipate and analyse, and is further complicated by the fact that what is political risk for one firm/country is not necessarily of any relevance to another firm/country (Lloyd, 1974).

6.3.7 Conclusion

Conclusions may be drawn that conditions in one African country may not be equally successful in another African country and correlations between one African country and financial performance could probably not be generalised for all the countries in Africa. Countries in Africa need to be assessed individually to determine the drivers of political risk and the influence these drivers have on financial performance of firms as to what is regarded as political risk in one country may not necessarily be relevant in another country. Firms operating in Africa or firms looking to enter Africa need initiate an analysis of the real political risk factors and the specific impact that political risk will have on their firm's financial performance because what constitutes political risk for one firm does not necessarily constitute political risk for another firm. Political risk dimensions will affect firms in different African countries in different directions. Financial performance in Africa is a multi-dimensional construct and all the country specific drivers impacting financial performance of firms in African countries should be analysed in detail. For example the correlation between financial performance and the political

risk dimensions in Morocco was not significant at all and the correlation between financial performance and the political risk dimensions in Tunisia is significantly negative. Systematic risks pose a problem for investors as they cannot get rid of this type of risk (Bechtel, 2009), it thus needs to be understood in great detail. From the observations from this study conclusions may be drawn that firms need to understand the underlying dynamics of a country's political risk dimensions as multiple variables are present and could possibly influence decision making.

CHAPTER 7 CONCLUSION

The focus of this study was to better understand the relationship between political risk and financial performance of firms in Africa. While a large body of literature has investigated political risk and returns relations in developed markets, to a lesser extent these relations were investigated in emerging markets. Very few research papers have investigated risk return relationships, specifically political risk return relationships, in the particular class of emerging markets which African countries fall into that are referred to as frontier markets.

Thus, an investigation into the political risk and financial return of these markets addresses a crucial gap in finance and investment literature. This study makes a contribution to both the country risk, political risk and the finance field because it considers data pertaining to both these fields. The findings may be valuable for MNCs evaluating new investment opportunities in Africa or re-evaluating risk management of their existing African operations. This study was a quantitative study and the findings from this study provide strength in contrast to qualitative studies.

This research study set out to answer a few questions pertaining political risk, for example: whether country specific factors, specifically political risk and the drivers of political risk, influence the financial performance of firms operating in emerging markets Africa. The theory has been supported with the results of three key findings. Firstly support for a positive risk-return relationship between political risk and financial performance in the African context emerged from the research. The study contributes to the limited research done on African countries and extends the single country

studies on political risk into a multiple country study. In support of the positive risk-return relationship it may be concluded that political risk should be factored into returns when the CAPM is used in emerging markets. Financial performance indicators was observed to be a multi-dimensional construct and firms may want to look at a range of performance measures when assessing firm performance in emerging markets.

The second finding accepted and supported the literature that democratic institutions lead to higher levels of financial returns (Bechtel, 2009). However in saying this, the study also found evidence that political institutions may not be a significant contributor to political risk as argued by Meyer et al. (2009). This study also show evidence that neither democracies nor autocracies decrease political risk. Thus from the outcome of these findings the researcher contributes to the conflicting views on the effect of political risk to firms due to democracy (Carey, 2007; Jensen, N., 2008). By answering the question above the research study fills the gap in the research that is relevant to the influence of country specific risk like political risk on firms as well as contributes to the literature that is specific to political regimes.

The research study also set out to determine whether firms benefit from staying in an environment that has changed to become more risky, by looking at the long term financial performance effect. By rejecting the null hypotheses and supporting the alternative hypotheses there is evidence from this study that firms will benefit in terms of financial returns when staying in an environment that engaged in political changes to become more risky, as the study provides evidence over an eight year period, where high political risk is associated with high financial returns. The researcher has also found that what is political risk for one firm can be irrelevant for another firm; this implies that firm specific factors also contribute to the financial performance of firms in

high political risk environments. Firm specific attributes were not part of this research study.

This study aimed to provide an understanding of performance of firms in emerging markets and contributed to previous studies that discussed the relationship between political institutions and political risk and the influence on firms by investigating the extent to which political risk affected financial performance of firms. This study achieved this by proving a positive political risk return relationship for firms in emerging markets Africa. This concludes that generalisation on the relationship between financial performance and political risk across Africa may be inappropriate.

Lastly, this study contributed to previous studies that discuss political risk and the effect it has on firms operating in foreign markets by providing evidence from hypotheses three that political risk for one firm is possibly not political risk for another firm and that firms in foreign and specifically African markets are affected to different extents by political risk variables. Literature has argued that firm specific factors are less important than institutional or perceived environment specific factors within a host country, when it comes to influencing the perceptions of firm performance and that firms that operate under a more favourable external environment and circumstances, such as stable political institutions, have a better chance of prospering and performing (Demirbag et al., 2007). The researcher has found that political risk factors explain financial return to an extent in emerging markets, but also acknowledge that firm specific factors also play a role in increased financial performance.

7.1 Future research recommendations

In light of the rapid changes in the African landscape regarding political unrest and regime change, future studies could extend the time period of this study and look at financial results beyond 2009. A future research suggestion would be to investigate the financial performance results of firms in Tunisia and Egypt after the revolutions of early 2011. The longitudinal effect of political revolutions on firm financial performance in these countries would be interesting.

This research study only investigated the relationship between political risk and the overall financial performance of firms aggregated per country. The data from this research study provided evidence that companies within countries have different trends in terms of financial performance, although exposed to the same levels of political risk. For example, there are companies that have positive CAGR as well as companies with negative CAGR within the same country. To the same extent there are companies that achieve financial performance results above the industry average and companies that achieve financial performance results below the industry average within the same country. The data also indicated that political risk drivers and dimensions do not equally influence companies within countries' performance over time. A recommendation for future research would be to identify a political risk driver or dimension that highly correlates with financial performance of companies within a country and identify the company specific factors that distinguish the companies that perform well in terms of financial performance ratios from the companies that does not perform well, being exposed to the same level of political risk.

The positive political risk return relationship for firms operating in Africa became evident in this research study. A research study that explores optimum political risk

levels and preferred political risk dimensions in which firms can achieve optimal financial performance results could make a viable contribution to the literature regarding political risk and financial literature studies.

Literature has suggested that a multifactor extension of CAPM consisting of the fundamental factors and country specific factors such as government stability, inflation rate and foreign bad debt provides a better understanding of frontier markets (Girard & Sinha, 2008). It could be valuable to develop a CAPM for frontier and emerging markets incorporating the main drivers affecting firms in certain countries.

Given that the need for detailed assessment of country risk and its impact on international business operations is crucial for MNCs (Hoti & McAleer, 2004) together with the observation from this research study that political risk is a multi-dimensional construct it would be worthwhile to explore a country risk rating model and adapt it for current political environments that will only include risk ratings impacting on the performance of firms of MNCs, specifically aimed at frontier markets.

7.2 Research Limitations

The scope of this research study was limited to only investigate the financial performance of firms operating in five of the 54 African countries and the relationship with the levels of political risk in these countries. The results of this study are limited to the five countries investigated. This study only analysed political risk factors of the countries and its' impact on financial performance and did not include a study of firm specific attributes contributing to increased financial performance. The firms' characteristics could also explain the return premium in emerging markets, but this was

out of the scope of this research study. However this should not have been a problem due the size of this sample. Additional country variables could also influence firm financial performance such as culture and the countries openness to foreign firms. These variables should be investigated in future studies.

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APPENDICES

Appendix one: List of firms used in the analysis

Company name	Country
ORASCOM CONSTRUCTION INDUSTRIES COMPANY S.A.E	EGYPT
ORASCOM TELECOM HOLDING S.A.E	EGYPT
EZZ STEEL COMPANY S.A.E	EGYPT
TELECOM EGYPT	EGYPT
EGYPTIAN COMPANY FOR MOBILE SERVICES S.A.E - MOBINIL	EGYPT
EL EZZ ALDEKHELA STEEL - ALEXANDRIA	EGYPT
SUEZ CEMENT COMPANY	EGYPT
EASTERN COMPANY S.A.E	EGYPT
ORIENTAL WEAVERS	EGYPT
EGYPT ALUMINUM COMPANY S.A.E	EGYPT
EGYPTIAN CONTRACTING (MOKHTAR IBRAHIM) COMPANY S.A.E.	EGYPT
ABU KIR FERTILIZERS AND CHEMICAL INDUSTRIES SAE	EGYPT
OLYMPIC GROUP FINANCIAL INVESTMENT CO. S.A.E	EGYPT
ALEXANDRIA PORTLAND CEMENT CO S.A.E	EGYPT
ORASCOM HOTELS AND DEVELOPMENT S.A.E.	EGYPT
EGYPT KUWAIT HOLDING CO S.A.E.	EGYPT
CAIRO POULTRY COMPANY S.A.E	EGYPT
SIDI KERIR PETROCHEMICALS CO. S.A.E	EGYPT
MARIDIVE & OIL SERVICES	EGYPT

SINAI CEMENT CO. S.A.E.	EGYPT
TOURAH PORTLAND CEMENT COMPANY S.A.E.	EGYPT
NATIONAL CEMENT COMPANY S.A.E	EGYPT
EGYPTIAN INTERNATIONAL TOURISM PROJECTS S.A.E	EGYPT
DELTA SUGAR COMPANY S.A.E	EGYPT
MISR REFRIGERATION AND AIR CONDITIONING MANUFACTURING COMPANY S.A.E.	EGYPT
ARAB COTTON GINNING CO. SAE	EGYPT
MIDDLE & WEST DELTA FLOUR MILL COMPANY S.A.E	EGYPT
UPPER EGYPT FLOUR MILLS CO. SAE	EGYPT
EGYPTIAN INTERNATIONAL PHARMACEUTICALS COMPANY S.A.E	EGYPT
LECICO EGYPT S.A.E.	EGYPT
EGYPT GAS COMPANY S.A.E	EGYPT
MEDICAL UNION PHARMACEUTICALS COMPANY S.A.E.	EGYPT
GOLDEN PYRAMIDS PLAZA S.A.E	EGYPT
EGYPTIAN SATELLITE CO. - NILESAT	EGYPT
PAINTS AND CHEMICAL INDUSTRIES COMPANY S.A.E.	EGYPT
EGYPTIAN FINANCIAL & INDUSTRIAL COMPANY (S.A.E.)	EGYPT
MEMPHIS PHARMACEUTICALS & CHEMICAL INDUSTRIES CO. S.A.E.	EGYPT
SIXTH OF OCTOBER FOR DEVELOPMENT INVESTMENT COMPANY ""SODIC"" S.A.E	EGYPT
EAST DELTA MILLS CO. S.A.E	EGYPT
ASEK COMPANY FOR MINING	EGYPT
EGYPTIAN ELECTRICAL CABLES	EGYPT
ALEXANDRIA CONTAINER AND CARGO HANDLING COMPANY S.A.E.	EGYPT
EL EZZ CERAMIC & PORCELAIN CO S.A.E.	EGYPT
SAMCRETE MISR ENGINEERS & CONTRACTORS S.A.E	EGYPT
NORTH CAIRO MILLS COMPANY S.A.E.	EGYPT

EL NASR CLOTHES & TEXTILES - KABO	EGYPT
SPECIALISED CONTRACTING & INDUSTRIES CO. S.A.E.	EGYPT
NILE COMPANY FOR PHARMACEUTICALS & CHEMICAL INDUSTRIES S.A.E.	EGYPT
THE ARAB CERAMIC CO. S.A.E.	EGYPT
EGYPT FREE SHOPS CO. S.A.E.	EGYPT
EL NASR TRANSFORMERS & ELECTRICAL PRODUCTS CO. S.A.E.	EGYPT
CAIRO PHARMACEUTICALS COMPANY	EGYPT
THE EGYPTIAN COMPANY FOR FOODS (BISCO MISR) S.A.E.	EGYPT
SUEZ BAGS COMPANY S.A.E.	EGYPT
ALEXANDRIA FLOUR MILLS AND BAKERIES SAE	EGYPT
NASR COMPANY FOR CIVIL WORKS (S.A.E.)	EGYPT
EGYPTIAN MEDIA PRODUCTION CITY - SAE (THE)	EGYPT
ARAB POLVARA SPINNING & WEAVING CO. S.A.E	EGYPT
UPPER EGYPT CONTRACTING COMPANY (S.A.E.)	EGYPT
ALEXANDRIA PHARMACEUTICAL AND CHEMICAL INDUSTRIES S.A.E	EGYPT
EXTRACTED OIL & DERIVATIVES CO. S.A.E	EGYPT
EGYPTIAN CHEMICAL INDUSTRIES S.A.E	EGYPT
ARAB ALUMINUM COMPANY S.A.E.	EGYPT
CAIRO OILS & SOAP S.A.E	EGYPT
PYRAMISA HOTELS, RESORTS & NILE CRUISES CO. SAE	EGYPT
ALEXANDRIA SPINNING & WEAVING CO. S.A.E.	EGYPT
SEMIRAMIS HOTELS CO. SAE	EGYPT
ARAB PHARMACEUTICALS	EGYPT
EGYPTIAN TRANSPORT & COMMERCIAL SERVICES CO. EGYTRANS S.A.E. (THE)	EGYPT
AJWA FOR FOOD INDUSTRIES COMPANY EGYPT	EGYPT
ISMAILIA MISR POULTRY COMPANY S.A.E	EGYPT
CAIRO INVESTMENT AND REAL ESTATE DEVELOPMENT S.A.E.	EGYPT

GOLDEN TEXTILES & CLOTHES WOOL CO. SAE	EGYPT
DEVELOPMENT & ENGINEERING CONSULTANTS COMPANY S.A.E.	EGYPT
DELTA FOR CONSTRUCTION & REBUILDING CO.	EGYPT
ZAHRAA EL MAADI INVESTMENT & DEVELOPMENT COMPANY S.A.E.	EGYPT
EL GUEZIRA HOTELS & TOURISM CO. SAE	EGYPT
ARAB GATHERING INVESTMENT COMPANY S.A.E.	EGYPT
GENERAL COMPANY FOR PAPER INDUSTRY S.A.E. - RAKTA	EGYPT
MANSOURAH POULTRY COMPANY (S.A.E.)	EGYPT
CANAL SHIPPING AGENCIES CO. SAE	EGYPT
UNITED HOUSING & DEVELOPMENT CO. (S.A.E.)	EGYPT
NOZHA INTERNATIONAL HOSPITAL (S.A.E.)	EGYPT
RUBEX PLASTICS COMPANY S.A.E.	EGYPT
WADI KOM OMBO LAND RECLAMATION COMPANY S.A.E.	EGYPT
NORTH UPPER EGYPT FOR DEVELOPMENT & AGRICULTURAL PRODUCTION CO. (S.A.E.)	EGYPT
EL KAHERA HOUSING & DEVELOPMENT COMPANY S.A.E.	EGYPT
SHARKIA NATIONAL FOOD COMPANY S.A.E.	EGYPT
EL SHAMS HOUSING & URBANIZATION S.A.E	EGYPT
ARAB INVESTMENTS FOR URBANIZATION CO. S.A.E.	EGYPT
EL AHLI INVESTMENT AND DEVELOPMENT CO. SAE	EGYPT
EL KAHERA EL WATANIA INVESTMENT S.A.E.	EGYPT
MENA FOR TOURISTIC & REAL ESTATE INVESTMENT S.A.E.	EGYPT
TOURISM URBANIZATION COMPANY S.A.E	EGYPT
NILE COTTON GINNING COMPANY SAE	EGYPT
OSOOL ESB SECURITIES BROKERAGE S.A.E.	EGYPT
MISR FINANCIAL INVESTMENTS COMPANY S.A.E.	EGYPT
ISLAMIC GHARBIA CO. FOR DEVELOPED BUILDINGS P.L.C.	EGYPT
UNITED ARAB SHIPPING S.A.E	EGYPT

EGYPTIANS ABROAD INVESTMENT & DEVELOPMENT CO. S.A.E	EGYPT
TRANS OCEANS TOURS CO. S.A.E.	EGYPT
CAIRO DEVELOPMENT & INVESTMENT CO. S.A.E	EGYPT
ASSIUT ISLAMIC TRADING CO. S.A.E.	EGYPT
SAUDI EGYPTIAN INVESTMENT & FINANCE CO.S.A.E	EGYPT
CENTRALE LAITIER	Morocco
MAGHREBAIL	Morocco
BERLIET MAROC	Morocco
NEXANS MAROC	Morocco
LESIEUR CRISTAL	Morocco
BANQUE MAROCAINE	Morocco
LAFARGE CIMENTS	Morocco
MED PAPER SA	Morocco
CREDIT DU MAROC	Morocco
BANQUE MAROCAINE	Morocco
FERTIMA	Morocco
SOC DES BRASSER	Morocco
BALIMA	Morocco
BRANOMA	Morocco
ACRED	Morocco
IB MAROC.COM	Morocco
ZELLIDJA SA	Morocco
SOFAC CREDIT	Morocco
BANQUE CENTRALE	Morocco
MAROC LEASING	Morocco
COSUMAR	Morocco
HOLCIM	Morocco

CREDIT IMMOB HOT	Morocco
ALUMINIUM DU MAR	Morocco
OULMES ETAT	Morocco
SONASID	Morocco
SCEPC	Morocco
AFRIQUIA GAZ	Morocco
CTM	Morocco
AGMA-LAH TAZI	Morocco
UNIMER	Morocco
ATTIJARIWAFA	Morocco
MAROC TELECOM	Morocco
SAMIR	Morocco
SOC METALLURGIC	Morocco
AUTO HALL	Morocco
DIAC SALAF	Morocco
AUTO NEJMA	Morocco
CIMENTS DU MAROC	Morocco
WAFA ASSURANCE	Morocco
EQDOM	Morocco
MANAGEM	Morocco
MAGHREB OXYGENE	Morocco
TASLIF	Morocco
OANDO NIGERIA PLC	NIGERIA
JULIUS BERGER NIGERIA PLC	NIGERIA
NIGERIAN BREWERIES PLC	NIGERIA
CONOIL PLC	NIGERIA
GUINNESS NIGERIA PLC	NIGERIA

DANGOTE SUGAR REFINERY PLC	NIGERIA
NESTLE NIGERIA PLC	NIGERIA
MOBIL OIL NIGERIA PLC	NIGERIA
PZ CUSSONS NIGERIA PLC	NIGERIA
UAC OF NIGERIA PLC	NIGERIA
LAFARGE CEMENT WAPCO NIGERIA PLC	NIGERIA
CADBURY NIGERIA PLC	NIGERIA
ASHAKA CEMENT PLC	NIGERIA
R.T. BRISCOE (NIGERIA) PLC	NIGERIA
GLAXOSMITHKLINE CONSUMER NIGERIA PLC	NIGERIA
A.G. LEVENTIS (NIGERIA) PLC	NIGERIA
CEMENT COMPANY OF NORTHERN NIGERIA PLC	NIGERIA
VITAFOAM NIGERIA PLC	NIGERIA
UNITED NIGERIA TEXTILES PLC	NIGERIA
C & I LEASING PLC	NIGERIA
MAY & BAKER NIGERIA PLC	NIGERIA
PRESCO PLC	NIGERIA
LONGMAN NIGERIA PLC	NIGERIA
CHEMICAL AND ALLIED PRODUCTS PLC	NIGERIA
BERGER PAINTS PLC	NIGERIA
NIGERIAN ENAMELWARE PLC	NIGERIA
BOC GASES NIGERIA PLC	NIGERIA
ACADEMY PRESS PLC	NIGERIA
NEIMETH INTERNATIONAL PHARMACEUTICALS PLC	NIGERIA
UNIVERSITY PRESS PLC	NIGERIA
CUTIX PLC	NIGERIA
THOMAS WYATT PLC	NIGERIA
UNILEVER NIGERIA PLC	NIGERIA

AVI LTD	South Africa
SOVEREIGN FOOD	South Africa
AFRICAN & OVERS	South Africa
SECUREDATA HOLDI	South Africa
DELTA EMD LTD	South Africa
CONTROL INSTRUMT	South Africa
GRINDROD LTD	South Africa
MOBILE INDS LTD	South Africa
MTN GROUP LTD	South Africa
EXCELLERATE HLDG	South Africa
TELKOM SA LTD	South Africa
KAP INTERNATIONA	South Africa
MR PRICE GROUP	South Africa
EXXARO RESOURCES	South Africa
OCEANA GROUP LTD	South Africa
VALUE GROUP LTD	South Africa
TRUWORTHS INTL	South Africa
SABVEST LTD	South Africa
SUPER GROUP LTD	South Africa
BONATLA PROPERTY	South Africa
INTERTRADING LTD	South Africa
DISTRIBUTION & W	South Africa
SEKUNJALO INVEST	South Africa
TRANS HEX GROUP	South Africa
PRIMESERV GROUP	South Africa
AFRICAN BANK INV	South Africa
UCS GROUP LTD	South Africa
VERIMARK HOLDING	South Africa

AVENG LTD	South Africa
TONGAAT HULETT	South Africa
DISTELL GROUP	South Africa
ISA HOLDINGS LTD	South Africa
HOSKEN CONS INV	South Africa
SENTULA MINING L	South Africa
AG INDUSTRIES LT	South Africa
FOUNTAINHEAD PRO	South Africa
HYPROP INVEST-UT	South Africa
SPAR GRP LTD/THE	South Africa
SHOPRITE HLDGS	South Africa
LABAT AFRICA LTD	South Africa
BAUBA PLATINUM L	South Africa
ITALTILE LTD	South Africa
LIBERTY HLDGS	South Africa
NASPERS LTD-N	South Africa
BARLOWORLD LTD	South Africa
EOH HOLDINGS LTD	South Africa
INDEQUITY GROUP	South Africa
METOREX LTD	South Africa
IMPERIAL HLDGS	South Africa
ASTRAL FOODS LTD	South Africa
SIMMER & JACK	South Africa
SILVERBRIDGE HOL	South Africa
OCTODEC INVESTME	South Africa
BASIL READ HLDGS	South Africa
CROOKES BROTHERS	South Africa
TIGER BRANDS LTD	South Africa

MERCHANT & INDUS	South Africa
HUDACO INDS LTD	South Africa
PICK'N PAY HLDGS	South Africa
PUTPROP LTD	South Africa
PICK'N PAY STORE	South Africa
CAPRICORN INVEST	South Africa
STELLA VISTA TEC	South Africa
CLICKS GROUP LTD	South Africa
CASHBUILD LTD	South Africa
MMI HOLDINGS LTD	South Africa
WINHOLD LTD	South Africa
ADAPTIT HOLDINGS	South Africa
BRIMSTONE INVEST	South Africa
MONEYWEB HOLDING	South Africa
DATACENTRIX HOLD	South Africa
AECI LTD	South Africa
CERAMIC INDUSTR	South Africa
TRENCOR LTD	South Africa
MUSTEK LTD	South Africa
HOWDEN AFRICA	South Africa
COMPU-CLEARING	South Africa
CULLINAN HLDGS	South Africa
BELL EQUIPMENT	South Africa
ASPEN PHARMACARE	South Africa
IMPALA PLATINUM	South Africa
THABEX LTD	South Africa
TREMATON CAP INV	South Africa
NETCARE LTD	South Africa

FARITEC HOLDINGS	South Africa
JASCO ELECTRONIC	South Africa
NEDBANK GROUP	South Africa
PARACON HOLDINGS	South Africa
PREMIUM PROP-UTS	South Africa
ANGLO AMERICAN P	South Africa
GIJIMA GROUP LTD	South Africa
AFRICAN MEDIA EN	South Africa
MURRAY & ROBERTS	South Africa
COMAIR LTD	South Africa
CAPEVIN INVESTME	South Africa
MERAFE RESOURCES	South Africa
CAPE EMPOWERMENT	South Africa
SALLIES LTD	South Africa
MASONITE AFRICA	South Africa
KAIROS INDUSTRIA	South Africa
CITY LODGE HOTEL	South Africa
REDEFINE PROPERT	South Africa
EVRAZ HIGHVELD S	South Africa
SPANJAARD LTD	South Africa
ELB GROUP LTD	South Africa
FIRSTRAND LTD	South Africa
FONEWORX HOLDING	South Africa
SOUTHERN ELECTRI	South Africa
STEINHOFF INTL	South Africa
ONELOGIX GROUP	South Africa
THE FOSCHINI GRO	South Africa
AFRICAN RAINBOW	South Africa

RAINBOW CHICKEN	South Africa
M CUBED HOLDINGS	South Africa
ZAPTRONIX LTD	South Africa
ADVTECH LTD	South Africa
MIRANDA MINERAL	South Africa
REX TRUEFORM	South Africa
INVESTEC LTD	South Africa
DIGICORE HOLDING	South Africa
NU-WORLD HLDGS	South Africa
REMGRO LTD	South Africa
TSOGO SUN HOLDIN	South Africa
METROFILE	South Africa
ALLIED TECHNOLOG	South Africa
DATATEC LTD	South Africa
NEW AFRICA INVTS	South Africa
CAXTON AND CTP P	South Africa
SASFIN HOLDINGS	South Africa
BIDVEST GROUP	South Africa
MEDICLINIC INT	South Africa
GOLIATH GOLD MIN	South Africa
ASSORE LTD	South Africa
PINNACLE TECHNOL	South Africa
METAIR INVTS LTD	South Africa
FAMOUS BRANDS LT	South Africa
NORTHAM PLATINUM	South Africa
PETMIN LTD	South Africa
GROWTHPOINT PROP	South Africa
SANTAM LTD	South Africa

SPUR CORP LTD	South Africa
PRETORIA PORTLAN	South Africa
PALABORA MINING	South Africa
WILSON BAYLY HOM	South Africa
MICROMEGA HLDGS	South Africa
CAP PROPERTY FD	South Africa
PEREGRINE HOLD	South Africa
ARGENT INDUS LTD	South Africa
REUNERT LTD	South Africa
BUILDMAX LTD	South Africa
PSG GROUP LTD	South Africa
DISCOVERY HLDGS	South Africa
DRDGOLD LTD	South Africa
VOX TELECOM LTD	South Africa
NICTUS LTD	South Africa
GOLD FIELDS LTD	South Africa
SA CORPORATE REA	South Africa
AFRICAN DAWN CAP	South Africa
SQUARE ONE SOLU	South Africa
AMALG APPLIANCE	South Africa
HARMONY GOLD MNG	South Africa
JD GROUP LTD	South Africa
ALLIED ELECTRONI	South Africa
COMBINED MOTOR	South Africa
ARCELORMITTAL SO	South Africa
ABSA GROUP LTD	South Africa
DORBYL LTD	South Africa
NAMPAK LTD	South Africa

OMNIA HOLDINGS	South Africa
SUN INTERNATIONA	South Africa
ANGLOGOLD ASHANT	South Africa
PURPLE CAPITAL	South Africa
ZURICH INSURANCE	South Africa
SANLAM LTD	South Africa
SASOL LTD	South Africa
SABLE HOLDINGS	South Africa
ILIAD AFRICA LTD	South Africa
BEIGE HOLDINGS	South Africa
TRANSPACO LTD	South Africa
MASSMART HLDGS	South Africa
ILLOVO SUGAR LTD	South Africa
AFROCENTRIC INVE	South Africa
MERCANTILE BANK	South Africa
STANDARD BANK GR	South Africa
GROUP FIVE LTD	South Africa
INVICTA HLDGS	South Africa
AFGRI LTD	South Africa
REAL AFRICA HLDG	South Africa
CARGO CARRIERS	South Africa
PBT GROUP LTD	South Africa
MVELAPHANDA GROU	South Africa
WOOLWORTHS HLDGS	South Africa
KAGISO MEDIA LTD	South Africa
ORION REAL ESTAT	South Africa
ASTRAPAK LTD-UTS	South Africa
SOC NOUVELLE MAI	Tunisia

UNION INTL BANQ	Tunisia
SOC TUNSIENNE D'	Tunisia
STEQ	Tunisia
INDUSTRIES CHIMI	Tunisia
BANQUE NATL AGRI	Tunisia
SOC INDUSTRIELLE	Tunisia
ARAB TUNISIAN	Tunisia
AMEN BANK	Tunisia
ATTIJARI LEASING	Tunisia
ARAB TUNISIAN BK	Tunisia
CIE INTL DE LEAS	Tunisia
BANQ DE L'HABITA	Tunisia
SOC TUNSIENNE D'	Tunisia
BANQ INTL ARABE	Tunisia
TUNISIE LEASING	Tunisia
SOCIETE TUNISIEN	Tunisia
SOC TUNISIENNE B	Tunisia
BANQ TUNISIE EMI	Tunisia
SOC IMMOBILIERE	Tunisia
SOCIETE MAGASIN	Tunisia
ATTIJARI BANK	Tunisia
AIR LIQUIDE TUNI	Tunisia
SOC CHIMIQUE ALK	Tunisia
CIE D'ASSUR-ASTR	Tunisia
BANQ TUNISIE	Tunisia
SOMOCER	Tunisia
UNION BANCAIRE	Tunisia

SOC FRIGORIFIQUE	Tunisia
SOC TUNISIENNES	Tunisia