
***POLITICAL RISK MANAGEMENT, INSTITUTIONAL QUALITY AND OPERATIONAL
EFFECTIVENESS OF MULTINATIONAL CORPORATIONS IN SOUTH SUDAN: (CASE
STUDY OF JUBA)***

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Abstract

Overtime, operational effectiveness of multinational corporations in Juba has been in the spot light with some institutions making losses while others showing signs of inefficiency in their operations. Thus, a study was carried to examine the relationship between political risk management, institutional quality and operational effectiveness of multinational corporations in Juba, South Sudan. The study had three objectives: to examine the relationship between political risk management and operational effectiveness, to identify the relationship between institutional quality and operational effectiveness as well as to assess the combined effect of political risk management and institutional quality on operational effectiveness of multinational corporations in Juba, South Sudan.

The study results revealed that there is a statistically significant positive relationship between political risk management and operational effectiveness as well as institutional quality and operational effectiveness among multinational corporations. More so, the findings revealed that both political risk management and institutional quality were significant predictors of operational effectiveness. Based on the findings, the study recommended that multinational corporations should put in place an effective political risk management mechanism to ensure sound operational effectiveness and this can be done through strategies such as buying insurance schemes as a cover up for risky areas, forming joint ventures with host governments as well as exiting markets that are too risky.

Key words: *political risk management, institutional quality and operational effectiveness*

Background to the study

Multinational corporations must progressively put in place measures to achieve operational performance in the current highly competitive global environment (Kobrin, 2011). Organizations can lower overhead expenses and boost revenue from their current operations by introducing effective and profitable programs. Despite the fact that operational efficiency has become a crucial business factor since the 2008 financial crisis, research to date suggests that the majority of businesses do not adequately attain operational performance (Duffield, 2010).

On the other hand, institutional quality includes rules and practices that are closely related to each company's business operations (Gani & Prasad, 2011), as well as determining how businesses and individuals are motivated to work and be productive, which improves operational efficiency. Islam and Montenegro (2012) argued in their study that good institutional structure increases operational performance of organizations and that a lack of organizational quality is the primary element in explaining why large companies are ineffective.

The World Bank reported in 2013 that South Sudan's FDI inflows decreased from 0.6% in 2013 to -5.3% in 2014. By bridging the gap between savings at home and investment from home, these inflows help the host country break the cycle of underdevelopment while also transmitting technology and assisting in the construction of human capital (Pitia & Lado, 2015). Therefore, it is crucial to conduct research to determine how political risk management affects quality of institutions, operational performance, and for multinational firms headquartered in Juba, South Sudan.

Statement of the problem

The majority of international companies have continued to encounter issues with their operational effectiveness despite their interest in operating in other economies to keep up with the dynamics of internationalization of trade and investment that are changing quickly (Pitia & Lado, 2015). For instance, Abrahamsen (2014) reported a sharp decline in crude oil output in Unity state from 245,000 to 160,000 barrels per day, representing more than 50% of total oil production, leading to the complete shutdown of Greater Nile Petroleum Operating Company: 40% losses to China National Petroleum Corporation (CNPC), 30% to PETRONAS (Malaysia), 25% to Oil National Gas Corporation, and 5% to Nilepet. Additionally, the impact has resulted in significant infrastructure losses for Chinese multinational business companies operating in South Sudan.

The resulting losses increased further and varied across international commercial banks from 7.87% to 48%. Due to their inability to adapt to their business plans, these factors reduced the operational efficacy of these multinational firms. Such events put these international firms' very survival in jeopardy, hinder many economic efforts, and eventually reduce the amount of foreign direct investment coming in. Given that this is the case, there is a need to investigate the question of how the management of political risks and institutional strength affect operational performance in the historical setting of South Sudan.

Research objectives

- 1. To examine the relationship between political risk management and operational effectiveness of multinational corporations within Juba, South Sudan*
 - 2. To find out the relationship between institutional quality and operational effectiveness of multinational corporations within Juba, South Sudan*
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3. *To assess the combined relationship between political risk management, institutional quality and operational effectiveness of multinational corporations within Juba, South Sudan*

Research questions

1. *What is the nature of the relationship between political risk management and operational effectiveness of multinational corporations within Juba, South Sudan?*
2. *What is the nature of the relationship between institutional quality and operational effectiveness of multinational corporations within Juba, South Sudan?*
3. *What is the combined relationship between political risk management, institutional quality and operational effectiveness of multinational corporations within Juba, South Sudan?*

METHODOLOGY

Research design

A cross-sectional methodology was used for this investigation. This study methodology was utilized since it involves gathering information from several respondents working in various capacities for multinational firms in Juba, South Sudan, at a specific period in time. As a result, the researcher was able to draw conclusions on occurrences that affected a large community. The study also used a quantitative method, in which the examination and interpretation of data were based on numbers. Because it was simpler to acquire numerical data, the quantitative approach was chosen. Additionally, it was simple to organize and sort numerical information into reports for analysis.

Study population

The population for this study constituted 72 multinational corporations (MNCs) operating in Juba, South Sudan. This number was chosen based on South Sudan Investors Guide (2013).

Sample size and selection technique

From the 72 multinational corporations, the researcher considered a sample of 59 multinational corporations, which, according to Krejcie and Morgan (1970) statistical tables, this number is representative of the 72 multinational corporations. From the 59 multinational corporations which were chosen by way of simple random sampling, the researcher purposively selected two officers per institution serving in the capacity of Chief Finance Officer and Chief Executive Officer. Thus, constituting a total of 118 respondents who formed the unit of inquiry.

Data collection instrument

The online survey served as the study's primary data collection technique. A questionnaire was chosen since it could be answered at the applicant's discretion and maintained anonymity. The closed-ended survey was created with the study's aims and characteristics in mind. Additionally, the questionnaire replies were based on a 5-point Likert scale, where 1 stood for "strongly disapprove," 2, "disagree," 3, "unsure," 4, and 5, which signified "strongly agree." The questionnaires were given out personally by the investigator in order to maximize data accuracy.

Data processing and analysis

After collecting data from the field, it was sorted, edited, coded and computed using Statistical Package for Social Sciences (SPSS) to facilitate quick analysis and interpretation. Demographic characteristics of respondents were used to explain respondents' opinions while inferential statistics of correlation and regression were obtained to determine the relationship between variables.

RESULTS

Table 1: Multiple correlations between the study variables

Variables		1	2	3	4	5	6	7	8
Political Risk Management	1	1							
Risk Identification	2	.477**	1						
Risk Assessment	3	.475**	.683**	1					
Risk Monitoring & Control	4	.826**	.397**	.319**	1				
Institutional Quality	5	-0.041**	.110*	-.003	.043	1			
Competitive Advantage	6	.279**	-.198	-.129	.422**	.218*	1		
Technological innovations	7	.423**	-.123	-.144	.535**	.243*	.751**	1	
Operational	8	0.131**	.243*	.069*	.145*	.776*	.120*	.187*	1

<i>effectiveness</i>						*			
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** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Source: Based on primary data

Table 2: Summarized correlation table for political risk management, institutional quality and operational effectiveness

Variables	1	2	3
Political Risk Management 1	1		
Institutional Quality 2	-0.041**	1	
Operational effectiveness 3	0.131**	.776**	1

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Based on primary data

Political risk management and operational effectiveness

Results from Table 1 above indicate that, within multinational firms, there is a highly significant and positive association between political risk handling and operational effectiveness ($r=0.131^{**}$, $p0.01$). The findings show that, despite the relatively small link, political management of risks is favorably correlated with multinational firms' operational success. Therefore, if multinational firms want to see an increase in their operational effectiveness, they must stress political risk management measures.

Institutional quality and operational effectiveness

According to the correlation data from table 1 above, the quality of institutions and the operational success of international companies in Juba are positively and statistically related ($r=.776^{**}$, $p.01$). The findings show a robust and favorable relationship between institutional quality within multinational businesses and operational success. The findings also suggest that if competitive advantage and

innovative technological components are increased, operational effectiveness inside global companies will greatly increase.

Regression analysis

The regression between political risk management, institutional quality and operational effectiveness was obtained to determine the extent to which the independent variables predicted a variance in the dependent variable (operational effectiveness). The results are summarized in table 2 hereunder.

Table 2: Regression analysis

Model Summary						
Model	R	R-Square	Adjusted R-Square	Std. Error of the Estimate		
1	.793 ^a	0.629	0.621	0.21799		
a. Predictors: (Constant), Political Risk Management, Institutional Quality						
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.161	0.216		5.364	.000
	Political Risk Management	0.021	0.008	0.163	2.564	.012
	Institutional Quality	0.671	0.054	0.783	12.314	.000
a. Dependent Variable: Operational Effectiveness						

Source: Based on primary data

The extent to which institutional standing and geopolitical risk mitigation predicted operational effectiveness among multinational firms was revealed by the regression analysis from table 2 above. According to the aforementioned data, institutional strength and political management of risks were able to accurately predict up to 62.1% of the variance in operational performance (Adjusted R Square =.621). This

implies that up to 37.9% of the variability in operational performance among global companies could be predicted by factors outside the model. Since managing political danger and institutional quality have a significant impact on the efficiency of operations, international firms should prioritize them.

Conclusion

The research also supported a favorable relationship between organizational excellence and operational efficiency. This is founded on the idea that by securing a competitive advantage and implementing cutting-edge technology, businesses can create procedures and guidelines that are essential to improving productivity within a company. The findings are consistent with earlier studies by several scholars and support the argument and importance of such constructs in achieving the desired operational effectiveness that multinational corporations yearn for in pursuit of their corporate objectives.

Recommendations

To achieve sound operational efficacy, multinational firms should place more focus on establishing an efficient political risk management process. This can be accomplished by identifying risks and implementing ongoing risk monitoring and management measures to protect the firm's operations from dangerous situations. Companies can employ tactics like securing their operations and creating joint ventures with the government to mitigate political risk exposures via early and continual risk identification and management.

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