

TO WHAT EXTENT DO COMPANIES TAKE RISKS IN UNCERTAIN ENVIRONMENTS?

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Introdução

Various factors cause political and economic instability. Some events result in crisis, directly influence the performance of businesses. Historical events enable us to understand the dynamics of the relationship between political risk, uncertainty, and financial performance of companies, particularly to understand the impulse/response function from companies in countries with different levels of development and institutional configuration. Despite the relevance of uncertainty and risk, usually decision-makers have problems in distinguishing and decide how to measure them.

Problema de Pesquisa e Objetivo

What is the effect of political risk and uncertainty in the home country on the financial performance of firms? What are the differences in the impulse/response function among firms from countries with various economic and institutional development levels? Do the institutional environment and technological intensity of the industrial sectors matter? We believe that the contribution of the home country may be a robust theoretical picture in order to contextualize the debate about the relationship between political risk, uncertainty, and firm performance.

Fundamentação Teórica

The literature about risk and uncertainty often refers to the seminal work of Knight (1921), Risk, uncertainty, and profit. From that study on, it was agreed to distinguish conceptually between risk and uncertainty. Zaheer, (1995) emphasized the effect of the host country on subsidiaries, considering the institutional distance and the costs of operating abroad. These costs refer to the Liability of Foreignness (LOF). In addition, Stevens & Shenkar (2012) state that in addition to the Liability of Foreignness, there is Liability of Home Country.

Metodologia

By using the panel vector autoregressive (PVAR), we estimated an empirical model to verify the impact of global uncertainty and political risk at the company's level. For this purpose, we considered a sample of 1,415 companies from 37 countries, operating in 10 different sectors of the economy.

Análise dos Resultados

In a context of uncertainty and political risk, the responses to shock depend on the home country where the company is based, whether developed economies, emerging economies, or transition economies. The companies with higher technology, face uncertainty as part of the constant changes they undergo during their activities. However, the same does not apply to the case of political risk shocks.

Conclusão

The intensity of the response to financial performance in the face of political risk and uncertainty shocks depends on the economic characteristics of the country where the company is based. The impact suffered by the companies with uncertainty and political risk shocks and recovery time are related to the economic sector in which the companies operate. The perceptions of political risk and uncertainty have nuances associated with the context, presenting peculiarities concerning the economic and institutional environment.

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