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Political risk management during instability: The Experience of Readymade Garment Manufacturing firms in Bangladesh.

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Abstract

Political risk is one of the major concerns for managers, particularly for those who conduct business in political volatile developing countries. This chapter examines the nature of political risks, their impact assessment process and risk management strategies in a developing country context. Using a multiple case study method for the readymade garment (RMG) industry in Bangladesh, the study discovered that political risks mainly arise from the nature of the political institutions and the governing system of a country; and its evolution as a political entity. The study also finds that institutionalisation of risk assessment is quite rare in developing countries, even for the mature industries. The risk management strategy depends largely on the political activities and connection of the firms. The lobbying power of the trade association is significant as well. Besides the theoretical contributions, this study offers a probability assessment method that is operationalisable in its original form or can be tailored to develop a bespoke risk assessment tool.

Key words:

Political instability, Political risk management, Readymade garment (RMG) industry, Multiple case study method.

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1. Introduction

Political instability at the country level is generally assessed as the susceptibility of constitutional or unconstitutional change in the government (Alesina *et al.*, 1996). Political instability literature, therefore, investigates the nature of change in government and its general impact on the socio-economic condition. The political risk literature, on the other hand, is concerned about the potential implications (mainly negative) of such instability on firms. A further categorisation of this stream of literature divides the published works into two main categories, (i) the nature of political risk that covers the classification of risks and their impacts on firms (Clark, 1997; Quer *et al.*, 2012), and (ii) the risk assessment methodology applied to assess political risk (Xiaopeng and Pheng, 2013; Rios-Morales *et al.*, 2009).

This chapter explores the nature of political risks and their management strategies adopted by the readymade garment (RMG) manufacturing firms in Bangladesh and contributes to the first stream of political risk literature. Moreover, exploration of the assessment methodology has also been conducted to make a contribution to the political risk management discipline. Therefore, we seek to determine: (i) the nature of the political risks; (ii) the risk assessment procedures adopted by the RMG firms; and (iii) the risk management strategies adopted by the RMG firms in Bangladesh. Bangladeshi RMG firms are good examples of manufacturing businesses that are the backbone to the economic growth of a developing country that frequently experiences political instability. The RMG sector is the highest earning industry in Bangladesh, contributing 18% of GDP and 76% of export earnings. More than 4300 RMG firms currently employ 4.4 million people (BGMEA, 2018). As a developing country with the highest population density, weak governance and vulnerability to natural disaster Bangladesh are prone to a significant level of political instability, the extent of which is summarised in Table 1. The RMG firms in Bangladesh thrived within such a politically volatile market over the past decades and provided adequate scope to investigate the political risk approach in a developing market context. Such contextualisation is a proven approach in the risk literature (Jakobsen, 2010; Jime'nez, *et al.*, 2012, 2014; Han *et al.*, 2018).

Moreover, a series of paper (e.g. Huq *et al.*, 2014; 2016; Huq and Stevenson, 2018; Taplin, 2014) that investigated various aspects of the RMG industry in Bangladesh adopted the case study method to

explore nuances in the understanding of the industry's dynamics vis-à-vis various socio-political and economic challenges. The global value chain, economic significance and exposure to policy dialogue at the national and international level makes the RMG industry suitable for political risk analysis. Despite its exposure to political risk and suitability of analysis, there has not been any study, to the best of our knowledge, conducted scoping the RMG industry in Bangladesh.

The risk literature has explored the perception of risk primarily in areas of security of individual/property and natural environment mainly through the Likert scale based risk rating by managers (Al Khattab *et al.*, 2007; Graham *et al.*, 2016). The predominance of risk literature within the international business discipline focused mainly on the impact of political risk on market entry decision (Zarkada-Fraser and Fraser, 2002), or on general business activities (Keillor *et al.*, 2005). The institutionalisation of political risk assessment procedure has received extensive coverage as well (Al Khattab *et al.*, 2008a). The general critique of such literature, however, is their narrow theoretical scope, oversight of the influence of countries political characteristics on risk perception, and its broader economic impact.

In this chapter, we draw on the political economy of Bangladesh to explore how this may have affected the perception of risk within the business community; and also the wider economic impact that pervades beyond the stakeholder of the RMG industry. The chapter is organised in several sections that review the extant literature to develop the theoretical framework (section 2); outlines the methodology of the study (section 3); presents and discusses the results with its contributions and limitations in section 4 and 5.

2. Theoretical framework

2.1. Impact of Political Risk-Country level

Political risks mainly arise from political instabilities and susceptibilities of regime change. Published literature indicates four categories of political instabilities, (i) moderate- regular (within regime), (ii) major-regular (within regime), (iii) irregular (regime level change), and (iv) severe changes (revolutions, *coup d'états*, civil wars and political assassinations) (Campos and Nugent, 2002; Feng, 1997). The regular instabilities present lower risks to firms. But, the irregular and severe ones are far riskier since they cause social chaos. The irregular and severe instabilities, e.g. *coup d'état*, pose greater risks to firms and at times, even reverse economic growth (Table 1). However, in many cases, regular instabilities within a regime may deliver a positive outcome for firms as the instability is perhaps caused by the incumbent regime's poor performance in achieving a promised political and economic outcome. For example, in the

aftermath of the Brexit referendum, we have seen several cabinets and executive changes within the Conservative government.

In a democracy, voters' motivation to re-elect or change the ruling regime is mainly guided by the economic performances of the government. The democratic system is far more flexible to adjust such within-government changes and arising instabilities. Although such changes generally bring some short-term uncertainties, they facilitate greater accountability in favour of growth within the existing political system.

.....**Table 1 about here**.....

Not surprising that the economic growth literature sees the relationship between political risk and economic growth as a bi-directional one (Alesina et al., 1996; Darby et al., 2004; Jong-a-Pin, 2009). Political risk affects a country by decreasing the total factor productivity (TFP) and physical and human capital accumulation (Aisen and Veiga, 2013). Even, uncertainty related to an unpredictable cabinet reshuffle may lead to 2.39% decrease in the real annual GDP per capita.

On the other hand, political risk affects human capital accumulation by reducing investments in skill development similarly as it inhibits firms to invest in the R&D works. Political risk disqualifies economic agents from benefiting from investment in human capital. Therefore, they become reluctant to invest in human capital as they are sceptical of the return of that investment when political uncertainty continues for a more extended period. Heightened political risk shifts resource allocation from developing human capital towards national security and induce brain-drain in developing countries (Gyimah-Brempong and De Camacho, 1998; Hodge *et al.*, 2011; Pellegrini, 2011; Pellegrini and Gerlagh, 2004).

The effect of the political risk on international trade is another stream of literature, although quite narrow in size and scope, contribute to the country level impact assessments. Works of Blomberg and Hess (2006); Blomberg *et al.* (2004); Mirza and Verdier (2008) and Muhammad *et al.* (2013) report structural changes in sectoral, bilateral and commodity trade around the world as a result of terrorism, internal and external conflicts. They classified political risk as a hidden tax that could range from 18% to 24%.

2.2. Impact of Political Risk-Firm level

Political risk impedes productive economic decisions since a higher susceptibility to political instability signals an uncertain policy environment, which makes risk-averse firms hesitant towards investment. There is a plethora of literature in international business that indicates how political instability dictates managerial decision choice (Al Khattab *et al.* 2007; 2008a;b; Busse and Hefeker, 2007;

Jakobsen, 2010). The main risks faced by firms is the breach of contract and property right enforcement (Acemoglu *et al.* 2001; Levchenko *et al.*, 2010) increase of institutional corruption, regulatory shifts in a politically unstable country.

Radical political change often influenced by ideologically motivated government's arbitrary expropriation of property rights also enhances the level of insecurity. For example, we have seen phenomenon such as wholesale nationalisation of private properties in Zimbabwe, Venezuela and Bolivia, forced contract renegotiations in the mining industry in Guinea (see [Jakobsen, 2010](#) for more examples in the mining sector). Keefer and Knack (2002) link these form of arbitrary expropriation with the regime's credibility and time horizon. They argue that governments with relatively longer time horizons are less likely to engage in arbitrary confiscation since it reduces their ability to extract future economic rents due to resulting large scale divestments in the private sector. While regimes with shorter time horizons care far less about future rents. However, the regime's time horizons are determined, to a large extent, by political events such as wars, revolutions and ideological shift. Political uncertainty severely restricts the efficacy of the bureaucracy that institutionalises and enforces economic transaction conducted by firms as well. Firms that trade internally require a higher level of efficacy from the incumbent bureaucracy to stay competitive in the global market (Chan, 2002).

Regimes mired in political turmoil aggressively uses the monopoly of coercive power for self-aggrandisement. As a result, political competition becomes powerless to limit rent-seeking behaviours of the regimes. Such political environment is the breeding ground for institutional corruption. Zafarullah *et al.* (2001) outlined how coercive regimes has limited the efficacy of the state bureaucracy in Bangladesh and endorsed institutional corruption during the military rule. Corrupt and inefficient administration increases red tape and time delays for firms. Cudmore and Whalley (2003) and De Jong and Bogmans (2011) assessed the time value of delays to find that bribing government official is the only practical way to fast track processing of the necessary administrative documentation. As a result, firms incur a higher cost of capital by spending management time negotiating the form and amount of bribe with corrupt bureaucrats in addition to the amount of bribe they are paying (Meon and Sekkat, 2005).

It is evident that corruption increases during political unrest since loyalty shifts towards socio-political ties from nation-state (Fukuyama, 2014; Robbins, 2000). This shift in loyalty endorses discretionary behaviour within the administrative system in a way that undermines the rule of law and accountability. Myrdal's (1968; 1970) exploration of corruption and poverty in postcolonial South Asia provided substantial evidence to support such loyalty based discretion within the administrative system. The South Asian countries struggle for independence from Britain, the separation of the Indian sub-continent and the resulting socio-political upheaval in the immediate aftermath of independence

incentivised discretion and loyalty towards the elite groups. Firms that belonged to the elite groups gained immensely from various trade incentives designed for them to monopolise economic transaction. The license raj in India (1947-90) is evidence of the elite capture of the economic transaction as a result of bureaucratic loyalty towards particular groups within the Indian state (Aghion *et al.*, 2008). Similar elite capture has also been evidenced in Pakistan and Bangladesh due to the lack of institutionalisation of the political system and failure of checks and balance on the bureaucratic autonomy (Robbins, 2000).

However, political risks are a lot lower in countries where frequent political unrest is the norm since firms are experienced in dealing with the consequences of political turmoil. Firms are generally aware of the likelihood of the occurrence of such events, but they do not necessarily know the timing and means of the unrest. Therefore, we see how a higher propensity of political instability can reduce the perception of political risk.

Not only the MNCs, but political risks also motivates the domestic firms to exit from the home country and invest abroad. The nature of this exit is contested in earlier work on political risk driven capital flights by Alesina and Tabellini (1989). Using the examples of Latin American and Asian developing countries, they demonstrate that accumulation of massive external debts by the public sector initiates significant foreign asset accumulation by private sectors.

The severity of political risk varies according to the country's economic status. Firms from developed countries generally receive knowledge of ensuing policy and regulatory changes comparatively earlier than firms hosted by developing countries (Hood and Nawaz, 2004). Firms risk exposure somewhat depends on their country of origin. Developed countries' firms generally face import restriction, exchange control, labour interference, price controls, profit repatriation and contract problems as part of their political risk exposure, whereas socio-political disorder is the most prominent risk faced by firms in developing countries (Jiménez and Delgado-García, 2012; Pahud de Mortanges and Allers, 1996; Rice and Mahmoud, 1990). For developing countries' firms, it is necessary to maintain close ties with the host government in order to favourably condition the impact of ensuing policy changes (Shen *et al.*, 2001).

2.3. Political risk assessment process

Despite recognising political instability as one of the most significant risk factors for business (Shapiro, 2006), the assessment process of such risk is generally subjective, unsystematic and industry specific (Pahud de Mortanges and Allers, 1996; Hood and Nawaz, 2004). This is, perhaps, due to the lack of awareness of political risks or the systematic process of analysing political risk (Burmester, 2000). However, financial, mining and construction firms are ahead of institutionalising the political risk assessment and management process, primarily due to their higher exposure to government's policies on

expropriation and spending budget, compared to manufacturing firms as they are far less influential to the economy of developed countries (Minor, 2003). Even though the manufacturing firms are the backbone to the economies of developing countries institutionalisation of the risk assessment process is absent or at best at its infancy due to reasons mentioned earlier. On the other hand, high tech industries are considerably less vulnerable to political risk than low tech industries in which large scale standardisation has already taken place (Kobrin, 1982).

The level of institutionalisation is determined by the propensity to start and the intensity of carrying out a political risk assessment (Burmester, 2000), and also by the quality of the evaluation (Blank *et al.*, 1980). The risk assessment process generally starts by assigning responsibility to employees or dedicated team within a firm or commissioning an external consultancy. Assigning risk assessment to employees is often quite informal for most firms in the developing world as managers may already conduct risk assessment without having the task explicitly outlined in their job description (Al Khattab *et al.*, 2008). Whereas, the intensity or regularity of evaluation in most developing country firms is generally reactive and often initiated by political events (e.g. sudden regime change, socio-political unrest, mass protest and so on) that are threatening to firms economic outcomes (Oetzel, 2005). The crisis-oriented risk assessment process is commonly based on the senior managers' judgment on the significance and magnitude of the ensuing political risks and their perceived impact on firm's performance. Senior managers' judgement of political risk may often be informed by political insiders. Notwithstanding, the existing literature recognises that, although firms are exposed to the same political risk, the degree of impact affecting them varies according to few typical characteristics: geographical spread (Al Khattab *et al.*, 2007; Howell, 2001), type of industry (Al Khattab *et al.*, 2007; Zarkada- Fraser and Fraser, 2002); years of experience (Al Khattab *et al.*, 2008a; Oetzel, 2005); the size of the firm (Oetzel, 2005; Al Khattab *et al.*, 2007). These characteristics determine the level of institutionalisation of political risk within those firms as well.

3. Research method

A multiple case study method is the adopted method for this study. Three RMG firms and one trade association from Bangladesh supplied the data for the case study approach. The embryonic nature of the political risk research in the developing country/RMG firm context calls for an inductive, exploratory study (Eisenhardt, 1989; 1991; Yin, 2009). The multiple case study method is robust to explore new areas. The method enhances external validity, reduce/eliminate observer bias, augment triangulation, and improve generality as well (Voss, 2008; Yin, 2009).

3.1. Case sample

The case selection process adheres to several criteria: (i) they are general members of the Bangladesh Garments Manufacturing and Exporters Association (BGMEA) or Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA); (ii) they are first tier supplier of multinational fashion brands; (iii) they are in the business for ten years or more to have gone through some degree of political instability; and (iv) employ more than 500 people (Table 2). Smaller manufacturers that did not fulfil these criteria are excluded since they sit in the second or third tier in the local supply chain and mainly order manufacturer. Their exposure to political risk is primarily through their buyers. It was also identified at the sample selection stage that their understanding and awareness of the political risk would not add significant value to the study. The qualitative evidence gathered from the trade association facilitate the triangulation exercise as they hold significant collective bargain power in the political decision-making process in Bangladesh. Beside semi-structured interviews of 20 participants from four organisations conducted during 2015-2017, the author has visited several factories and attended the Bangladesh Apparel & Textile Exposition (BATEXPO) in 2017 to collect a combination of rich and thick primary and secondary data.

.....**Table 2 about here**.....

3.2. Analytical procedure

The analytical procedure treated the collected data as representing phenomena and developed a more meaningful structure through construct coding and categorisation (Ritchie *et al.*, 2013). The coding structure is systemized by keywords searching determined by the number of times a specific key word appears in the text, the adjectives and adverbs used to qualify those words, expressions and gestures used by the interviewees in saying those words during the time of interviews.

It is noteworthy that Bangladeshi people are quite politically engaged and are not shy about expressing their views on political matters in a safe environment. Thus, there was a particular risk of exaggerating political risks and their impacts. Although political enthusiasm and engagement were very much noticed among the interviewees, the extent of exaggerating was limited. In addition, the transcripts were sent for review by the interviewees for further validation. Thus, the quality of the transcript is ensured to capture information disseminated during the interviews. Then, the interview transcripts from each case were analysed individually before cross-case analysis to select common themes (Creswell, 2009). Such steps of reliability and validity were undertaken throughout the analytical process.

The thematic construction of the generated codes followed the two-stage model of Corbin and Strauss (2008) to unbundle the raw data at the first stage of open coding. Later, the axial coding method is applied to establish connections among the codes to develop broad themes. The axial coding disaggregates core themes according to categories and concept. The logical sorting and consistent ordering of the data took place through the selective coding method for main variables identification at the final stage of qualitative analysis.

4. Findings

The findings from the analysis, political risk associate to the RMG industry, assessments methods and management strategies are discussed in this section. The section is structured according to the RQs set out at the beginning of this chapter.

4.1. The nature of the political risks in Bangladesh

To a large extent, political risk is determined by the evolution and nature of politics of a country. Since its independence, Bangladeshi politics has gone through several major periods of instabilities. *Coup d'état*, counter *Coup d'état*, military rule, mass movements for democracy, election rigging are all quite common in Bangladeshi political history. The severity of the instabilities was so grave that they restricted the time horizon of the regimes and crippled the capacity of the state by hollowing out the administrative system with patronisation. The patronisation of the civil and military bureaucracy reached at a level that the regimes relied on their support for survival, and as result, accountability within the administrative system suffered significantly. The serious lack of accountability gave way to corruption and eventually institutionalised it. Table 1 summarises the various regime types, their time horizons, nature of political instability, and dominant groups in Bangladesh. However, a form of political settlement has given democracy a foundation within the governance mechanism, although the nature of such democracy is not beyond question. Nevertheless, the political instability in Bangladesh poses at least three risk factors at the macro level: (i) diminishing the administrative capacity of the bureaucracy that offer primary services to people and businesses; (ii) institutionalised and systematic corruption; and (iii) severely affected the integrity in politics.

Administrative capacity is linked with the socio-political and economic conditions; and the level of accountability present within the governance mechanism (Fukuyama 2013; Zafarullah and Rahman, 2008). In addition, a conducive institutional environment that brings about necessary political support, intra-group cooperation; and required resources to ensure those supports and collaboration are also

needed. Unfortunately, the conducive institutional environment struggles to flourish in Bangladesh; and therefore, the existing administrative capacity is not transforming into proactive and responsive policy guidelines in Bangladesh. Moreover, the resourcefulness of the administrative services in Bangladesh is impaired by the extreme politicising of the bureaucracy and its' exposure to the malign influence of unaccountable coercive power and corruption, our interviews suggest. Data indicates that politicising bureaucracy, lack of institutional coordination, corruption, lack of transparency and accountability, and incorrect implementation of reform initiatives are to blame for a diminishing administrative capacity in Bangladesh.

Corruption within the administrative system is systematic and highly institutionalised. Our interviewees believe that the scope of corruption is deeply rooted in the system of governance. The statistical evidence of the extent of corruption in Bangladesh also supports our data since Bangladesh is generally in the fourth quartile in the corruption perception index (CPI) where the country's position (Transparency International, 2016). The pervasive presence of corruption has a profound influence on the national psyche of Bangladesh. Politician, businessmen, professionals and military personnel are all involved in corruption as our interviewees claimed.

Our data also indicate the existence of both cash based and non-cash based corruption within the administrative system. The cash-based corruption includes institutional and personal bribery, embezzlement; whereas non-cash based bribery involves cartel, power abuse, harassment, extortion, and so on. A non-cash based bribery is often called '*tadbir*' (excessive lobbying in the Bengali language) (Zafarullah and Siddiquee, 2001).

Obscurity and lack of information regarding service provision and complaint procedures deter transparency and fuels administrative corruption. Generally, public demand for information disclosure is watered down with the reference of the Officials Secrets Act 1923 and the Government Service Rules 1979 in Bangladesh. Therefore, citizens have no means to monitor the quality of government services. A member of the trade association (TA) believes that the root cause of administrative corruption:

...is mainly due to the obscure accountability procedure and the 'job for life' arrangement for the civil servant. There is hardly a case of disciplinary measure applied on civil servants after a complaint has been lodged by the general public other than locational transfers. The transfer is part of the civil service, and it is hard to understand how locational transfer can be regarded as a punitive measure to address inappropriate practice by the civil servants. The absence of the practice of administrative laws allows public organisations to treat our needs with indifference.'

'Integrity is a rare commodity in Bangladeshi politics' candidly said the founding CEO of firm F2. Politicians who uphold integrity are gradually marginalised from the centre of politics. Rewarding candidatures in the general election to big donors has become a trend for all the mainstream political parties in Bangladesh. [The Daily Star](#) (2019) quoted the Prime Minister accusing the main opposition of such practice in a public meeting: *'They [BNP] put their nomination in the auction, and the highest bidder got the nomination. Many of them met with me and spoke of their anguish'*. It is an alarming indicator of non-integrity in Bangladeshi politics and resulted in a decreasing number of career politicians in the parliament as MPs (Figure 1).

.....**Figure 1 about here**.....

The questionable motivation of those non-career politicians turned MPs to join politics expose them in a manner that allows corrupt bureaucrats to exert their malign influence. Their lack of political experience makes them vulnerable to the domination of the more politically experienced and professionally qualified bureaucrats. The CEO of firm F2 also suggested a tensed relation between the politician and senior bureaucrats that fuels corruption: *'One of the reasons for corruption is the tension between the bureaucrats and the politicians. Politicians are corrupt because they live in constant paranoia of what would happen when they loss power, so they do corruption as much as possible to gain wealth to secure future, thus loss moral authority to control corruption which facilitates bureaucratic corruption'*.

Senior bureaucrats are routinely rewarded for their political loyalty or personal relationship with politicians. The rules of performance measurement based on merit are often bypassed within the administrative system; and due to policy obscurity, the meritocracy falls victim of malpractice. A World Bank (2000) study highlights that frequent transfers, job rotation, and increased numbers of ministerial posts in recent government have stretched the implementation capacity, complicated the existing coordination problem, and further exacerbated the regulatory intrusiveness.

It is worthy of also mentioning that politics in Bangladesh revolves around personalities, dynasty and political faction¹ (Rahman, 2014). Unfortunately, the democratisation in post-1991 politics has not produced much difference in the patrimonial nature of Bangladeshi politics. Zafarullah (2005) observes the eventfulness of the so-called democratic periods in Bangladesh as an impulsive/abnormal process caused by the main political parties, their mutual distrust and disrespect. Those abnormalities have sporadically thrown the country into violent political chaos and jeopardised the socio-economic growth.

¹ Approximately 17% of the members of the current parliament and almost the entire top political leadership are dynastic (Rahman, 2014).

4.2. Risk assessment procedure within the RMG firms

Admittedly, the nature of political risk in Bangladesh is rooted in its legislative and administrative systems and the interaction between them. Therefore, it is necessary to determine whether the risk assessment procedure within our data sample recognises the distinctive nature of the political risk that pervades in Bangladesh.

All our interviewees unequivocally recognised the importance of political risk to the performance of their businesses. However, it is also identified in our interview that the assessment process is very informal and unsystematic, although senior managers are aware of the existing risk assessment procedures. The institutionalisation process of risk assessment has not even started in most of the RMG firms, confirmed by the Chairman of the trade association (TA).

Similar to the financial or oil industry, the RMG industry in Bangladesh is highly exposed to government policies for its global competitiveness. At present, the Bangladeshi government has several policy incentives (e.g. tax rebate, back-to-back LC, start-up fund, capacity building funds, bonded warehouse) dedicated only to the RMG industry. There is growing criticism from other sectors due to the discriminatory policy incentives. Spokesmen representing other industries argue that the RMG industry has received incentives for over three decades, which made the industry globally competitive. Therefore, the incentives should be diverted to other industries with high growth potency, i.e. shipbuilding and light engineering.

Furthermore, the RMG firms are also exposed to the importing countries trade policies since their landing cost is based on the availability of the generalised system of preferences (GSP). Through the GSP, the developed countries offer partial or full exemption of tariff on the RMG imports to scale up the industry hosted mainly by developing countries. According to Europa.com (2018) and USTR.Gov (2015) India, Vietnam and Bangladesh are the biggest beneficiaries of the GSP facility. Econometric analyses of the impact of the GSP facility also confirm its trade facilitating roles. Rose (2004) and Blomberg and Hess (2006) identify that the GSP nearly doubles the amount of bilateral trade and has a more positive impact on bilateral trade than the effect of the WTO membership. The U.S. withdrawal of the GSP for Bangladesh in June 2013 after the collapse of the Rana Plaza (Brennan, 2013) has led to a decline of Bangladeshi RMG export to the American market.

The propensity and intensity of political risk assessment for the RMG firms are mostly reactive in nature. The executive director of firm F 1 openly acknowledged the absence of systematic risk assessment procedure although the firm is listed in the Dhaka stock exchange. He is aware that the share market reacts to political events regularly, and a negative reaction can mean millions being wiped off from the

company's shareholdings. He explained that almost all RMG firms started as family-owned SMEs and grew in an unregulated environment over the years. *'Nothing was done professionally in the RMG factories'* he suggested.

However, with the extensive growth in recent years and competitive pressures from competitors abroad forced the RMG firms to professionalise their approach to management. Most employees in the industry came with very little or no education and moved their way up into management as they gained required technical skills. But, *things have changed now*, the executive director of firm F 1 gleefully commented, as most management trainees in his business are business school graduates; and quite a few senior managers joined the firm with foreign education. The new breed of managers has a global outlook and familiar with the state-of-the-art of risk assessment process. Pointing at the Head of Merchandising (HoM) (F1), he suggested that the HoM volunteered to lead the in-house risk assessment process alongside his merchandising role. The HoM explained that the current practice of assessing domestic political risk is to approach political insiders for insights and scenario planning based on insiders foresight. He regularly browses the main stream news portals of all the client countries to keep himself up-to-date with unfolding political events. His anxiety about the Brexit and related risks was quite evident in the interview as few British high street retailers are his clients.

However, the HoM acknowledged that the process is, to a large extent, dependant on his political judgement. Yet, he ruled out the use of quantitative risk analysis saying that the data is often narrow; and the analytical outcome generally exaggerates the potential impact of political risk. He was not willing to be too risk-averse and gave away business opportunities based on such analysis. Our findings correspond with Al Khattab *et al.* (2008) as they found that, in the middle-east, managers were assessing political risk informally as part of their job.

Managers from other firms in our interviews acknowledged similar types of informal and judgment based risk assessment practice. The Executive Director (F3) presented us with an example of investment in sewing technology in relation to political unrest. He withheld the investment decision for several months in the run-up to the 2018 general election. Politics becomes quite violent during the election period. Soon as the regime loosens its political control, street violence starts-this used to be the scene during the election period before. *'Many RMG workers are part of the labour wings of the major political parties, and they participated in violence advertently or inadvertently. If they knew that the owner of the firm has an opposite political inclination they did not hesitate to vandalise the factories. Thus, it caused huge financial loss for the employer and risk of lay-off for themselves. It is callous, but people act out of whim sometimes'*. Therefore, making risking significant investment in machineries, didn't seem reasonable to him.

There have been 122 workers action undertaken in 2016 which often turned into moderate to severe violence. Typical workers action in the RMG sector involves mass gathering, highway blockade, strike, and factory seize and vandalism as the Bangladesh Institute of Labour Studies (BILS) (2018) reports. However, these mass protests often serve as the social justice to sanction accountability in a country with minimal basis of accountability.

.....**Table 3 about here**.....

The BGMEA works as the central association to assess and mitigate political risks that have the potency to affect the RMG industry. Therefore, our interviews with the trade association were of great value as we could conduct a probability assessment of potential risk (Table 3) according to the risk bearer (country/industry/firm). Although not exhaustive, this is perhaps the stepping stone of institutionalising the risk assessment procedure in the RMG sector. We have consulted risk literature, the literature on Bangladeshi politics, content from Bangladeshi press and the International Country Risk Guide (ICRG) alongside the interview data.

4.3. Political risk management strategies for the RMG sector

The political risk management strategy within the RMG firms is primarily guided by the firms' political connections. Chairman of the TA indicated that running a successful business is seemingly impossible without the right political connections in Bangladesh. Proximity to political power provides firm owners access to policy decision well in advance and thus reduce the impact of policy shock. We discovered that the BGMEA, as the largest trade association in Bangladesh holds significant lobbying power. It was formed in 1982 as a trade association to serve the collective needs of the factory owners and exporters (BGMEA, 2018). The BGMEA is organised to support factory owners in getting new orders and liaise with foreign buyers. The organisation plays a significant role in export quota negotiations and the administration of the quotas.

The influence of the organisation on the Bangladeshi power circle is evidenced in its success of making political leaders pledge that the apparel sector would be outside the purview of political strikes (Yunus and Yamagata, 2012:19). It is deemed to be a remarkable declaration due to the frequent use of strike in Bangladesh as the most effective resort of political protest. The following quote from the general manager of firm F2 signifies the damages strikes have done to the RMG firms: *'Long strikes, vandalism, arson attacks were common before. One of my HGV trucks were attacked and on fire. The whole container was burnt. Very upsetting situation and we lost a considerable amount of money due to violent politics.'*

He continued, *'Political violence is bad for us; we lost so many clients during the unrest a few years ago. A group of Russian businessman were coming to visit us, but they went back from the airport after finding out how violent political activist have become. It would have been excellent if we got that order, but what could we do. We need to reduce risk and uncertainty'*.

Our data also reveals that the equilibrium of power is maintained by a complicated but delicate political settlement agreed by the political and industrial elites. The political settlement is negotiated through the distribution of informal rents to ensure clients' loyalty to political patrons (Roniger, 2004). The patron delivers the rents to the chosen client group by allowing access to strategic and operational resources, vital trade information, exclusive government contracts and licenses (Ahmed *et al.*, 2014) find that. By limiting the non-elite industrial groups' access rights to these rents, the patron manages the balance of power and enforce cooperation among the industrial elites. The balancing act of collaboration is based on a mutual understanding that any conflict between the client and the patron reduces the rents on offer. We found evidence of such an arrangement in much of the global south in the neo-institutional literature pioneered by Douglas North and his colleagues. Their limited access order theory of development argues the necessity of such an arrangement in the developing world (North *et al.*, 2007).

In circumstances of unavoidable political shocks, negotiations between the patron and client for the rents take place. These negotiations have the potency to replace one political patron by another, and with that, the privileged industrial group also change. However, the overreliance of the Bangladeshi economy of the RMG industry makes it the inevitable client of the political patron. The AGS of the TA reiterated the importance of the apparel industry to the Bangladeshi government:

'The apparel industry is the government's favourite sector due to its contribution to GDP.'

In return for the favourable state support, the industry provides the government with the highest proportion of the export income and employ the largest number of the unskilled labour force in the country. Although political governance has become weaker in the process of constant shifts and balance of power over the years, stable privatisation and export oriented macroeconomic policy environment existed throughout. Therefore, the political settlement in Bangladesh maintains an equilibrium of weak government but a stable economic policy with a consensus for limited market intervention, privatisation, liberalisation, and export-led growth among all the dominant political actors. Thus, the informal settlement smoothed the negative impact of the volatile political environment in Bangladesh.

Beyond using the political lobby power, the RMG sector has been creative in managing political risks as our interviewees indicated. Managers revealed that they started the shift at 5.30 am and finished at 6.30 pm to avoid picketing during political strikes which are generally 6 am -6 pm long. During the

political unrest in the run-up to the general election in 2014 strikes continued for several weeks and took violent turns. In order to maintain a healthy working environment, during the long shifts, employees were provided three meals and entertainment breaks. Female employees with infants were given nursery facilities so that they could bring their infants at work and see/feed them throughout the shifts. These measures helped the RMG firms maintain their lead time and reduce political risk related losses.

The second example of risk management is also unique. Although the restriction on trade unionism limited the risk of labour unrest to a large extent, it suffocated the worker's voice and significantly lowered their bargaining power. Many firms felt the need to create a platform for the collective voice of the workforce. They part-funded the recent labour association election that took place on the 25th of August 2016. The initiative indicated improving the labour-owner relationship and reduced the likelihood of violent labour actions seen many times in the past.

5. Discussion and closing thoughts

Few major themes that emerged from our evaluation of the political risk, its assessment and management strategies in the RMG sector in Bangladesh are : (i) political risk is embedded in the nature of politics of a country and how it has evolved over the years; (ii) although mired in political uncertainties, firms from countries such as Bangladesh do not institutionalise the risk assessment process; (iii) political risks are managed by the political connections of firms or industry's lobby capacity; (iv) experience of doing business in politically volatile environments provides managers with unique risk management strategies; and finally, (v) firms habituated to political volatility generally have high-risk appetite as the trade-off between risk and gain is significant. However, it is noteworthy that the size and scale of the firms determined, to a large extent, the quality of in house risk assessment and survival when faced by severe political risks. There is also a higher preference for political insider/ judgment based risk assessment within the RMG industry, and no indication of hiring a risk consultant is spotted in our data.

In terms of the political risk assessment of the exporting countries, the RMG firms are over-reliant on their buyer. There is a significant level of trust in the political system of the western buyer countries, although events such as Brexit made Bangladeshi suppliers jittery about the weaknesses in the seemingly robust governing system.

It is also worth noting that the RMG sector faces more firm/industry level political risk, e.g. labour unrest, protest for higher wages and better working conditions, compared to the country level at present. While in the past, the macro level risks, e.g. political assassination, terrorism, revolution, coup d'états, were more eminent. The shift in the nature of risk is evidence of general progress within the governance

system in Bangladesh. Although the pace is slow, it provides assurance to the investors of a business-friendly future. It is expected that significant investment will be dedicated to automation and skill enhancement.

We also discovered that significant improvement in the social sustainability dimension and a moderate improvement in lowering gender-based discrimination had taken place in recent years, but the improvement in the process and value-addition for the economic sustainability of the sector is still a work in progress. We understand the social sustainability improvement has the potency to reduce many firm/industry level political risks that arise from social-political injustice and inequality. However, the risk of large scale labour lay-off due to automation in the advance manufacturing pioneered by China can have a severe effect on the risk exposure of the Bangladeshi RMG firms. For a robust, risk management approach, these areas need consideration.

This research will benefit the RMG firms in Bangladesh as well as the FDI within the sector. The connection between national political traditions, political risks at various levels and their impacts inform managers well for a robust risk strategy suitable for the business. The development of the probability assessment of risk is undoubtedly going to offer managers a stepping stone for further bespoke risk assessment procedures. Similarly, recognizing the risk-return and the risk-gain trade-off *vis-à-vis* the RMG sector may inspire reluctant investor to change their minds.

This study was constrained by the lack of sector-specific literature and therefore had to develop the conceptual framework from a synthesis of political economics, political history and risk literature. In that sense, the study is multi-disciplinary. On the other hand, the sectoral and country specific contextualizing of the research scope may reduce the generalizability of the findings. Nonetheless, the relevance of the study can be claimed without much disagreement due to its appropriate scope. Bangladesh as, a developing country, the second largest contributor to the global RMG trade, and home to thousands of RMG business portray a much generalizable landscape for political risk studies.

This study is the first academic work, to the best of our knowledge, scoping the political risk in the RMG sector in Bangladesh. Therefore, the work is inclined to claim thought leadership in the field as it is undeniable that this study set the path for future academic work. Nonetheless, we do not claim that the discoveries are written on stone. They are, of course, subject to further scrutiny and refinement.

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Table 1 Regime Type, and Instability (1972-2018)

Regime	Time Horizon	Regime Type	Category of Instability	Dominant Group
Awami League	1972–75	Parliamentary Democracy	Severe	Politician
Ziaur Rahman	1976–79	Military	Severe	Military
Ziaur Rahman (BNP)	1980–82	Presidential	Severe	Military-Civil bureaucracy
H.M. Ershad	1983–86	Military	Irregular	Military-Civil bureaucracy
H.M. Ershad (Jatiya Dal)	1987–91	Presidential	Major regular	Military-Civil bureaucracy
BNP	1992–96	Parliamentary Democracy	Major regular	Politician
Awami League	1997–01	Parliamentary Democracy	Moderate regular	Politician
BNP	2002–06	Parliamentary Democracy	Major regular	Politician
Caretaker	2007–08	Civil-Military	Irregular	Military-Civil bureaucracy
Awami League	2009–14	Parliamentary Democracy	Moderate regular	Politician
Awami League	2014-2018	Parliamentary Democracy	Moderate regular	Politician

Source: Adopted from Saha (2018)

Table 2 Summary of the Data Sample

Organisation	Type	Interviewee	Nos. of Interviewees	Age	Size
F1	Public Limited Company	Managing Director; Chief Executive Officer; Director of Quality; Executive Director; Head of Merchandising	5	20	5000 employees
F2	Private Limited Company	Managing Director; Chief Executive Officer; General Manager	3	10	750 employees
F3	Public Limited Company	Executive Director; Director of Export; Director of Quality	3	35	7300 employees
TA	Trade association	Assistant General Secretary (AGS); Chairman, Members	4	39	4369 members

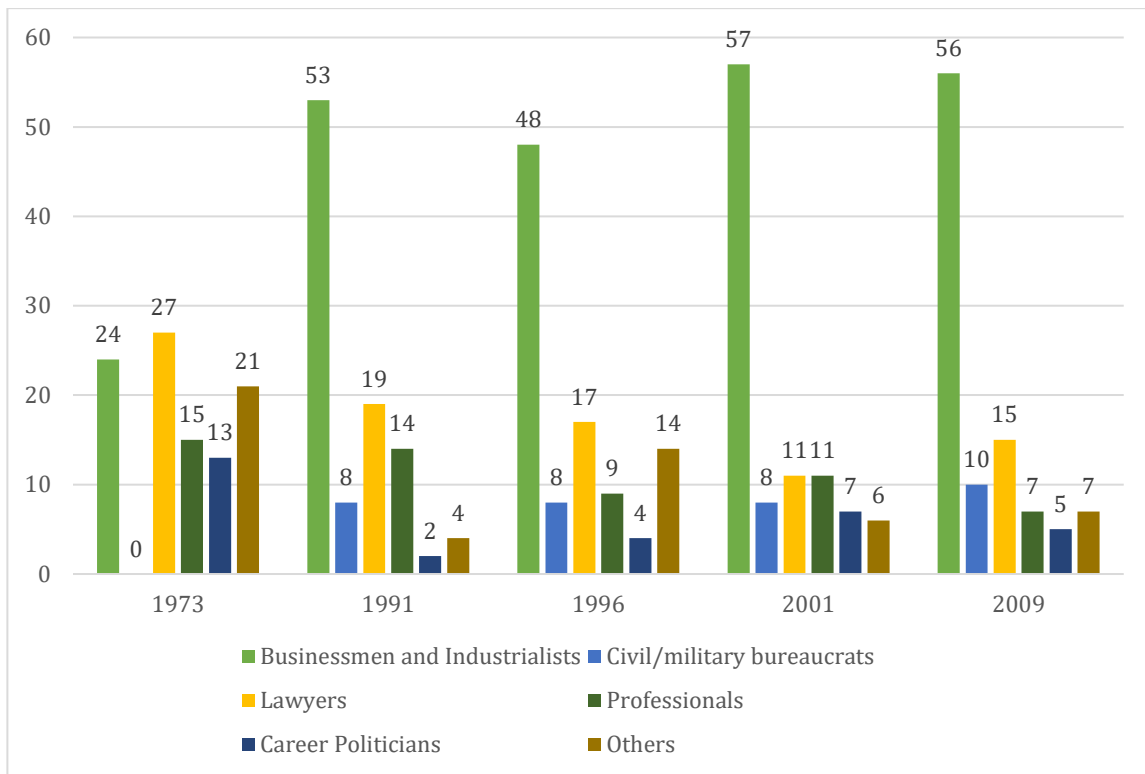
Table 3 Probability assessment of risk

Risk bearer	Risk sources	Probability assessment	
		Bangladesh	Export destination
Country/Industry	Regime change (resulting to change in preferential trade agreements)	N	M
	Cabinet change (resulting to change in preferential trade agreements)	N	M
	New overarching trade agreements	N	M
	Policy change relating to foreign investors/buyers	M	N
	Coup d'états, civil wars, revolution, political assassinations	L	N
	Military invasion/ war	N	N
	Terrorist attacks	L	M
	Organised crime syndicates	H	L
	Arbitrary expropriation	L	N
	Non-convertible currency	N	N
	Predatory taxation	N	N
	Import and/or export restrictions	L	L
	Economic sanctions	N	N
	Mass demonstrations	H	M
	Sectarian violence	M	N
Firm level	Abrupt regulatory/rule change (export/import licences, export/import duties, rules on profit repatriation)	M	L
	Subsidies/incentives/protection for selective companies	H	L
	Targeted attacks/vandalism	H	L
	Firm specific sabotage, extortion	H	L
	General breach of property rights	M	N
	Corruption	H	L
	Bureaucratic harassment	M	L
	Personal safety/security threat	M	L
	Shipping risk/piracy	M	M
	Money transfer risk due to policy change	L	L

Note: H, M, L and N denotes probability of risk occurrences as high, moderate, low and none.

Source: Based on Al Khattab et al., 2007; Alon and Martin, 1998; Alon and Herbert, 2009; Robock, 1971; Rugman and Collinson, 2009; Saha 2018.

Figure 1 Parliament Members' Professional Background



Note: Data for the 2014 and 2018 general elections is not included due to a widespread boycott of the election by the main opposition parties.

Source: Adopted from Saha (2018)

