

MANAGING POLITICAL RISKS FOR ORGANIZATIONAL PERFORMANCE IN MANUFACTURING SECTOR, SOUTH EAST NIGERIA

Ejim, Patrick Emeka PhD. (Nig)

Department of Business Administration and Management
Institute of Management and Technology (IMT), Enugu

Abstract

The study was on managing political risks for organizational performance in the manufacturing sector of South East, Nigeria. As the business environment is becoming more complex. The manufacturing sector is striving to match objectives with performance. The political environment has not been helpful - its instability and the risks therein have been a downturn to the investment urge in the manufacturing sector. The study was motivated by the need to highlight the key political risk factors and proffer solutions so that the manufacturing sector can survive the turbulent situations. The study therefore sought to: ascertain the effect of interest rate on capital on volume of investment, assess the extent to which infrastructural decay affects the cost of doing business and also determine the effect of devaluation of currency on market share among manufacturing firms in South east Nigeria, namely: Abia, Anambra, Ebonyi, Enugu and Imo. The instrument was tested for reliability using Spearman's rank correlation which gave $r = 0.976$ showing that there is a positive correlation between the responses from the respondents. Validity was tested by giving the instrument to five experts, three from the academia and two from the industry to measure face and content validity. The three hypotheses postulated were tested with ordinal logistic regression (OLR) using Statistical Package for Social Sciences (SPSS, version 20). Findings revealed that Interest rate on capital had a negative effect on volume of investment ($\beta = 48.286, p = 0.009 < 0.05$). Infrastructural decay had a significant negative effect on cost of doing business ($\beta = 59.405, p = 0.000 < 0.05$). The study concluded that managing political risk factors will significantly enhance performance of the manufacturing firms. Therefore, recommended that the manufacturing sector should vigorously explore private capital as viable alternative to financing because of the risks associated with government institutions and also Government should encourage and maintain spending towards the manufacturing sector development and simultaneously develop the nation's infrastructural facilities, in other to encourage domestic investors.

Introduction Background of the Study

The business environment is becoming more complex; the manufacturing sector is striving to match objectives with performance. The political environment has not been helpful - its instability and the risks therein have been a downturn to the investment urge in the manufacturing sector (Matthee, 2011). Every firm in today's business environment tends to be on the look on the actions that are happenings in the business environment. Uncertainties tend to be the order of the day. Manufacturing firms are not left out in this quagmire. Risks are part of business factor that make or mar a business concern. Aside from business factors arising from the marketplace, businesses are also impacted by political decisions. There are varieties of decisions governments make that can affect individual businesses, industries and the overall economy. These include taxes, spending, regulation, currency valuation, trade tariffs, labor laws such as the minimum wage, and environmental regulations. The laws, even if just proposed, can have an impact. Regulations can be set at all levels of government, including federal, state and local, as well as in other countries (Bekefi & Epstein, 2006).

Sottilotta (2013) defines Political risk as the threat an investment's returns could suffer as a result of political changes or instability in a country. Instability affecting investment returns could stem from a change in government, legislative bodies, other foreign policy makers or military control. Political risks are associated with government actions that deny or restrict the right of an investor/owner to use. Bruno (2011), states that risk involves the chance an investment's actual return will differ from the expected return. Risk is also defined as the probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, that may be avoided through preemptive action.

Therefore, risks are situations involving exposure to danger (Hood & Nawaz, 2010).

Political risks are uncertainties to business objectives created by political actors or political conditions. Political risks can stem from government. (Ezenwakwelu, 2017).

A lot of Political factors determine how and to what degree a government intervenes in the economy. The government of the day establishes rules and regulations guiding business operation in our economy. This can be in the form of tariff, waivers, import duties, import promotion decrees, industrial promotion policies, etc. The 2004 import waiver granted to Dangote Cement enabled him to become a major cement importer. Also, the 10-year tax holiday given to Dangote Cement factories in 2007, catapulted it to become the number one cement producer in Nigeria with over 65% market share. Also, the 2005 import embargo on Ibeto Cement cost him his market leadership. Dangote did not just get all the above on a platter of gold, he took active part and interest in the political issues that affect his business interests (Perotti and Pieter, 2009)

To many Investors, their confidence level in a country or otherwise is also affected by the character of the ruling class towards economic growth and development because various businesses depend on favourable policies and programs to enable their businesses grow and remain secure. While it is an established culture in the US for businesses to help advance the course of politicians especially during election period, the reverse is the case in Nigeria as Nigerian business men have not really exploited this avenue to their own advantage. The fear of many businesses in Nigeria arises from two basic points namely: the unreliable nature of Nigerian politician(s) and the cost associated with such decision(s) (Kennedy, 2008).

Nigeria's double-digit interest rate regime is an enormous economic index that has resisted persistent efforts of the authorities to tame. At the 2020 Monetary Policy Second quarter Committee meeting; the Central Bank of Nigeria (CBN) retained its benchmark interest rate at 14 per cent. This has been the prevalent figure since the turn of the year. In turn, deposit money banks lend to business at anything between 15 and 29 per cent. This tends to be a prohibitive dilemma. Access to cheap, quality credit by business is pivotal to economic growth. Low interest rates make borrowing attractive and encourage spending (CBN, 2020).

The manufacturing sector, which comprises several activities including oil refining, cement, food, beverages and tobacco, and chemical and pharmaceutical product, is the worst hit by the tough interest rate system. It makes Nigeria a net importer of basic items, a crush that manifests in the excessive demand for foreign exchange.

Statement of the Problem

In recent times, most manufacturing firms in Nigeria have been characterized by declining productivity rate, which is traceable to a large extent to government policies and strategies as successive government tend to pilot the affairs of the country. The CBN noted that the industrial sector has recorded a general decline in the recent times as indicated by the Purchasing Managers Index (PMI). The PMI is an indicator of the economic health of the manufacturing sector

About 272 firms were shut down between 2016 - 2020, while some reduced their production, staff strength and remuneration of workers according to Manufacturers Association of Nigeria (MAN, 2020). It also revealed by CBN - 2021, that the industrial capacity utilization hovers around 20 per cent per year in the past ten years and also more than half of the surviving firms are

classified as ailing, which posed serious threat to the survival of the manufacturing sector. The business environment has been plagued by epileptic power supply, bad roads, high interest rate and high cost of energy which contributed to high cost of production and impediment to competitiveness of the sector.

The situation with the manufacturing in Nigeria especially in the South East has to improve otherwise more manufacturing concerns are bound to fail. The consequences of not addressing these problems are enormous. They will have serious decline in sales turnover of the business, decline in industrial growth, total withdrawal of potential investors, increase in the cost of production as most firms look for alternative source of power to run their heavy machines, low productivity, low volume of credit and investment, very low market share, low product quality, the unemployment rate will be astronomical as many firms will find it difficult to employ and retain workers, market development will be poor and low, business performances will be in decline or reverse gear. However, the study focused on managing political risks for organizational performance in the manufacturing sector of South-east, Nigeria.

Objectives of the Study

The broad objective of the study is to determine the management of political risks for organizational performance in the manufacturing sector of south east Nigeria.

Hence, the specific objectives are to:

- i. Ascertain the extent to which interest rates on capital affect the volume of credit and investment in the manufacturing sector.
- ii. Assess the extent to which infrastructural decay affects the cost of doing business by the manufacturing sector.

Research Questions

The following research questions guided the study:

- i To what extent has interest rates on capital affect the volume of credit and investment in the manufacturing sector?
- ii To what extent has infrastructural decay affect the cost of doing business in the manufacturing sector?

Research Hypotheses

The following hypotheses guided the research:

- i. Interest rates on capital significantly affect the volume of credit and investment in the manufacturing sector.
- ii. Infrastructural decay significantly affects the cost of doing business in the manufacturing sector.

Conceptual Framework Political Risk Defined

The concept of political risk was introduced as a component of country risk, in order to account for the causes of the insolvency of a country, not directly linked to financial/economic factors. Political risk gained more and more relevance in the following decades, as several institutions started to develop specific methodologies in order to evaluate it, trying to keep pace with the fastchanging dynamics of the internationalization of trade and investment (Thunell, 2001).

In 1979, William Coplin and Michael O'Leary began to develop the PoliticalRisk Services (PRS) evaluation system. This variety of political indexes was widely utilized by multinationals in the 1980's. From 1980's up to today, new approaches to political risk were also developed in economic and business literatures. One distinguished feature of these new approaches is their effort to value the political risk and integrate it into the decision-making process of an enterprise, as well as their use of economic-political variables for the assessment of political risk (Zink, 2013).

The Nature and Analysis of Political Risk

Both domestic and international political developments have a major impact on MNC's strategic plans. Multinational corporations (MNCs) face hazards that originate directly from variation and unpredictability in political and governance systems around the world. The State, and its various institutions and agencies continue to pose a direct threat to MNCs through policy shifts in taxation of regulation, through outright or defect expropriation, or by allowing the exploitation of assets by local firms. As government policies change, MNCs must be willing and able to adjust their strategies and practices to accommodate the new perspective and actual requirements (Ezenwakwelu, 2017).

Political Risk Indicators

In recent decades, research on political risk indicators has moved into the centre of economic interest. Stimulated by the theoretical breakthroughs of political models and by the experiences gained by multinationals in their foreign activities, the development of political risk indicators is now one of the most active fields in international finance and in international political economy. Drive by the surge of interest in empirical studies of political indicators, the measures of political instability or political violence; have started to become standard practical variables for the assessment of political risk on the corporate level as well as for explaining cross-country growth regressions in the macroeconomic study of the relationship between economic growth and political variables (Garrido, 2009)

Fiscal Policy as a Factor in Political Risk:

Fiscal policy is the means by which a government adjusts its level of spending to monitor and influence a nation's economy. It is used along with the

monetary policy, which the central bank uses to influence money supply in a nation.

These two policies are used to achieve macroeconomic goals in a nation (Grenome & Tsokanos, 2007).

Fiscal policy is also the means by which a government adjusts its level of spending to monitor and influence a nation's economy. It is used along with the monetary policy, which the central bank uses to influence money supply in a nation. These two policies are used to achieve macroeconomic goals in a nation. These goals include price stability, full employment, reduction of poverty levels, high and sustainable economic growth, favorable balance of payment, and reduction in a nation's debt (Sylvia and Agu, 2015).

Causes of Political Risk

Six internal causes of political risk as stated by Lindeberg (2011) include:

- i) Fractionalization of the political spectrum and the power of these factions.
- ii) Fractionalization by language, ethnic and/or religious groups and the power of these fractions etc.

Business Performance in the Manufacturing Sector

Business Performance (BP) has been taught with many conflicting definitions and it is not a new phenomenon among the academics and the industrialists. Business performance has been a source of influence to the actions taking by firms and the degree to which a business realizes its goals as well as its stated objectives through the strategies and policies of the business). The idea of business performance is hanged on the position or premise that it is a combination of productive assets made up of human, physical, and capital resources, for the major reason of fulfilling a dream, vision or accomplishing a shared purpose (Barney, 2002; Carton & Hofer, 2006).

Theoretical Framework

Risk-adjusted Return on Capital (RAROC) Theory.

This is a theory propounded by Glantz and Morton (2003). It is a risk-based profitability measurement theory for analyzing risk-adjusted financial performance and providing a consistent view of profitability across businesses. The theory was developed by Bankers Trust and principal designer Dan Borge in the late 1970s but was readjusted to a theory by Glantz and Morton in 2003. Note, however, that more and more return on risk adjusted capital (RORAC) is used as a measure, whereby the risk adjustment of Capital is based on the capital adequacy guidelines.

Basic formulae

$$\text{RAROC} = \text{Expected return} / \text{Economic Capital}$$

$$\text{RAROC} = \text{Expected Return} / \text{Value at Risk}$$

Broadly speaking, in business enterprises, risk is traded off against benefit. RAROC is defined as the ratio of risk adjusted return to economic capital. The economic capital is the amount of money which is needed to secure the survival in a worst-case scenario, it is a buffer against unexpected shocks in market values. Economic capital is a function of market risk, credit risk, and operational risk, and is often calculated by VAR. This use of capital based on risk improves the capital allocation across different functional areas of banks, insurance companies, or any business in which capital is placed at risk for an expected return above the risk-free rate.

RAROC system allocates capital for two basic reasons:

- i. Risk management
- ii Performance evaluation

For risk management purposes, the main goal of allocating capital to individual business units is to determine the bank's optimal capital structure that is economic capital allocation is closely correlated with individual business risk.

As a performance evaluation tool, it allows banks to assign capital to business units based on the economic value added of each unit.

The Fiscal Acceleration Theory by Borio and Lowe (2012)

It is also referred to as financial acceleration theory in the financial concept on economic model. This theory according to Borio and Lowe (2002) tries to find details on how undersized financial shocks can be moderately large in the effects of lending as well as borrowing behavior in financial market. The premise relies on the interaction among monetary agents' netting business value, easy of doing business as well as the external money premium that take place due to a symmetric in order between lenders along with borrowers. The financial accelerator product on domestic expenditure occurs since households, as well as firms, invest several of their expenditures by means of money borrowing. In particular, domestic deposit usually finances investments in somewhere to live as well as purchases of other long-lasting goods through raising funds within credit market. These money transactions are too characterized through asymmetric information evils flanked by the borrowers (home) along with the lenders (banks). Consequently, households' capacity with/or conditions beneath which they are able to get hold of funds, for this reason their expenditure, are also prejudiced via their net worth. Since pragmatic in a large amount of households' borrowings are protected by real estate investment, the prose has been listening carefully above all on the effect of rate changes in residence investing values.

Empirical Review

Ahmad (2014) conducted a work on the Impact of Interest Rate Changes on the Profitability of Major Commercial Banks in Pakistan. The core objective of the study is to examine the effect of interest rates changes on the profitability of commercial banks being operated in Pakistan by examining the financial statements of four major banks during 2008 to 2012. The study

employed descriptive research method. Instrument for data collection was questionnaire, and 125 banks were randomly selected from the banks spread across their country. The sample size was 444 drawn from a population of 1050. The hypotheses were tested using chi square. The findings of the study revealed that there was a strong and positive correlation between interest rate and commercial banks profitability and also that if the value of interest rate is increased/ decreased, then the resultant value of banks' profitability will also increase/decrease. The study recommended that banks should monitor interest rates vis a vis government policies and investment results to help investors to break-even.

Lunn (2016) conducted a study on the Impact of infrastructure investment on the economic growth or economic fragility of China. The objective of the study was to examine China's three-decade infrastructure investment boom and its effect on her economic growth. The study used regression analysis to test its hypotheses. The population of the study was 6590 which covered all the elements in the 40 manufacturing firms understudied. The sample size was 1435. The study found that infrastructure creates economic value, and also that China has a distinct advantage in its delivery. Far from being an engine of economic growth, the typical infrastructure investment fails to deliver a positive risk-adjusted return. Where investments are debt-financed, overinvesting in unproductive projects results in the build-up of debt, monetary expansion, instability in financial markets, and economic fragility, exactly as seen in China today. The study concluded that poorly managed infrastructure investments are a main explanation of surfacing economic and financial problems in China. The study predicted that, unless China shifts to a lower level of higher-quality infrastructure investments, the country is headed for an infrastructure-led national financial and economic crisis, which is likely also to be a crisis for the international economy. It therefore, recommended

that optimal attention be focused on infrastructural development because of its positive impact to the economy growth.

Research Gap

Previous works reviewed are: Ahmad (2014) the Impact of Interest Rate Changes on the Profitability of some Major Commercial Banks in Pakistan, Lunn (2016) the impact of infrastructure investment that can lead to economic growth or economic fragility. This study has relevant data and information and will capably fill the observed gap in the literature.

Methodology Design and Technique

The target population consists of junior and senior staff of the selected manufacturing firms in South east Nigeria, which were purposely selected. Primary data were collected from questionnaire. The questionnaire was structured on 5-point Likert scale format in line with the objectives of the study and an interview guide was also developed. The instrument was tested for reliability using Spearman's rank correlation which gave $r = 0.976$ showing that there is a positive correlation between the responses from the respondents. Validity was tested by giving the instrument to five experts, three from the academia and two from the industry to measure face and content validity. The five hypotheses postulated were tested with ordinal logistic regression (OLR) using Statistical Package for Social Sciences (SPSS, version 20). Findings revealed that Interest rate on capital had a negative effect.

Data Analyses Techniques

Data were presented in frequency tables and the corresponding values expressed in percentages. Equally, hypotheses 1, 2, 3, 4 and 5 will be tested with Ordinal logistic regression (OLR), using statistical package for social sciences

(SPSS version 20)

3.6.1 The Ordinal Logistics Regression (OLR) model

$$\ln \left\{ \frac{\text{prob(event)}}{(1-\text{prob(event)})} \right\} = B_0 + B_1 + B_2 X_2 + \dots + B_K X_K$$

Where;

In is the link function or the logit (odds that an event occurs)

B1....B2 are the regression coefficients,

X1...x2 are the predictor (independent) variables, and K

is the number of predictors.

Data Presentation

Objective one: To ascertain the extent to which interest rates capital affect the volume of credit and investment in the manufacturing sector.

Table 4.1 Raising sufficient capital has been difficult for investors due to high interest rates.

	Frequency	percent	Valid percent	Cumulative percent
Strongly Agree	196	36.30	36.30	36.30
Valid – Agree	247	45.74	45.74	82.04
Undecided	21	3.89	3.89	85.93
Disagree	49	9.07	9.07	95
Strongly Disagree	27	5.00	5.00	100
Total	540	100	100	

Source: Field Data, 2021 (computed with SPSS software)

Table 4.1 shows that 196 approximately 36.30 percent of the respondents strongly agreed that raising sufficient capital has been difficult for investors due to high interest rates. 247 or approximately 45.74 percent of the respondents agreed to the question, while 21 or 3.89 percent were undecided on the subject. However, 49 or 9.07 percent disagreed with the notion that raising sufficient capital has been difficult while 27 or 5 percent strongly disagreed. The implication of this finding is that majority of the respondents approximately 82 percent strongly agreed that raising sufficient capital has been difficult for investors due to high interest rates.

Table 4.2 Incessant fluctuation of Monetary Policy Rate (MPR) negatively affects investment plans of the manufacturing firms.

	Frequency	Percent	Valid percent	Cumulative percent
Strongly Agreed	180	33.33	33.33	33.33
Valid - Agreed	260	48.15	48.15	81.48
Undecided	52	9.63	9.63	91.11
Disagreed	30	5.56	5.56	96.67
Strongly Disagreed	18	3.33	3.33	100
Total	540	100	100	

Source: Field Data, 2021 (computed with SPSS software)

Results from table 4.2 shows that 180 or nearly 33.33 percent of the respondents strongly agreed that incessant fluctuation of the monetary policy rate (MPR) negatively affect investment plans 260 or approximately 48.15 percent agreed with the statement. However 52 or 9.63 percent of the respondents were undecided, while 30 or approximately 5.56 of the respondents disagreed with the statement. 18 or 3.33 percent of the respondents strongly disagreed that incessant fluctuation of the monetary policy rate (MPC) negatively affects investment plans. We can infer from this, those incessant fluctuations of the monetary policy rate (MPR) negatively affect investment plans of the manufacturing firms.

Objective Two: To assess the extent to which infrastructural decay affect the cost of doing business by the manufacturing sector.

Table 4.3 Infrastructural decay negatively affects the cost of doing business.

	Frequency	Percent	Valid Percent	Cumulative percent
Valid- Strongly Agreed	283	52.41	52.41	52.41
Agreed	147	27.22	27.	82.89
Undecided	45	8.33	8.33	87.96
Disagreed	35	6.48	6.48	94.44
Strongly Disagreed	30	5.56	5.56	100.00
Total	540	100.00	100.00	

Source: Field Data, 2021 (computed with SPSS software)

It can be seen from table 4.3 that 283 or approximately 52.41 percent of the respondents strongly agreed that infrastructural decay negatively affect the cost of doing business. 147 or 27.22 percent equally agreed to the above assertion. However, 45 or 8.33 percent of the respondents were undecided while 35 or 6.48 percent of the respondents disagreed that infrastructural decay negatively affects the cost of doing business. 30 or 5.56 percent strongly disagreed with that. We can therefore conclude from the result the majority of the respondents, approximately 79 percent agreed that infrastructural decay negatively affect the cost of doing business.

Table 4.4 Epileptic Power Supply raise, production costs

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid- Strongly Agreed	311	57.60	57.60	57.60
Agreed	161	29.80	29.80	87.40
Undecided	09	1.67	1.67	89.07
Disagreed	31	5.74	5.74	94.81
Strongly Disagreed	25	5.19	5.19	100
Total	540	100.00	100.00	

Source: Field Data, 2021 (computed with SPSS software)

Table 4.4 shows that 311 or 57.60 percent of the respondents strongly agreed that epileptic power supply raise production cost. 161 or approximately 29.80 percent of the respondents equally agreed to the subject matter. However, 9 or approximately 1.67 disagreed that epileptic power supply raises production cost. 25 or 5.19 strongly disagreed that epileptic power supply raises production cost. Based on the results, we can therefore conclude, that majority of the respondents or approximately 87.40 percent were in agreement that epileptic power supply raises production cost.

Test of Hypothesis

The hypotheses formulated earlier in this study were tested with the appropriate statistical tool. They were all tested using ordinal logistic regression which is continuously used to investigate the effect of one or more predictor variable on an outcome variable.

Test Results

- i. Interest rates on capital significantly affect the volume of credit and investment.

Case Processing Summary

		N	Marginal Percentage
VolCrIn	17	1	20.0%
	51	1	20.0%
	90	1	20.0%
	120	1	20.0%
	296	1	20.0%
	64	1	20.0%
IntRate	82	1	20.0%
	116	1	20.0%
	627	1	20.0%
	721	1	20.0%
Valid		5	100.0%
Missing		0	
Total		5	

VolCrIn = Volume of Credit and Investment, IntRate = Interest Rates

Pseudo R-Square

Cox and Snell	.596
Nagelkerke	.661
McFadden	.813

Link function: Cauchit.

Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	122.094			
Final	118.015	38.023	4	.020

Link function: Cauchit.

Significant at 0.020, hence the null hypothesis that the model without the predictor is as good as the model with predictor is rejected. This shows that the model improves the ability to predict the outcome.

Goodness-of-Fit

	Chi-Square	Df	Sig.
Pearson	18.231	12	.000
Deviance	18.231	12	.000

Link function: Cauchit.

Model fits because the good-of-fit measures have large observed (0.000) significance levels.

R-square statistics are large (See Cox and Snell) in the table above which is 59.6%. This indicates that interest rates explain a large proportion of the variation in volume of credit and investment.

Parameter Estimates

	Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Threshold [VolCrIn = 79]	56.125	18.855	12.027	1	.01	56.125	58.556
Location [IntRate = 43]	48.286	11.180	32.111	1	.009	48.286	50.577

Link function: Cauchit.

Interpretation of Result:

The result shows that interest rates significantly affects volume of credit and investment with an increase in the odds probability of increased service quality at an odds ratio of 48.286 (95% CI, 48.286 to 50.577), Wald χ^2 (1) = 32.111, $p = 0.009 < 0.05$. Therefore, the alternate hypothesis which states that interest rates significantly affect volume of credit and investment is hereby accepted and the null hypothesis rejected.

ii. Infrastructural decay significantly affects the cost of doing business.
Case Processing Summary

	N	Marginal Percentage
CostdoBus	30	20.0%
	35	20.0%
	45	20.0%
	147	20.0%
	283	20.0%
InfraDecay	49	20.0%
	125	20.0%
	147	20.0%
	489	20.0%
	792	20.0%
Valid	5	100.0%
Missing	0	

Total	5
-------	---

CostdoBus = Cost of doing business, InfraDecay = Infrastructural Decay

Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	84.004			
Final	83.010	43.081	4	.013

Link function: Cauchit.

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	42.454	12	.001
Deviance	42.454	12	.001

Link function: Cauchit.

Pseudo R-Square

Cox and Snell	.527
Nagelkerke	.694
McFadden	.721

Link function: Cauchit.

R-square statistics are large (See Cox and Snell) in the table above which is 52.7%. This indicates that infrastructural decay explains a large proportion of the variation in the cost of doing business.

Parameter Estimates

	Estimate	Std. Error	Wald	Df	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Threshold [CostdoBus = 110]	43.001	10.040	37.458	1	.024	43.001	44.200
Location [InfraDecay = 65]	59.405	19.023	40.474	1	.000	59.785	65.112

Link function: Cauchit.

Interpretation of Result:

The result indicates that infrastructural decay significantly affects cost of doing business with an increase in the probability of increased business cost at an odds ratio of 59.785 [95% CI, 59.785 to 65.112), Wald $\chi^2(1) = 46.568$, $p = 0.000 < 0.05$]. Therefore, the alternate hypothesis which states that infrastructural decay significantly affect cost of doing business is hereby accepted and the null hypothesis rejected.

Decision of Results

In this section, the leading question in the discussion of the findings is 'whether the objectives set out to in this study were achieved? Based on the result from the ordinal logistic regression presented above, there exists strong evidence that the objectives of the study were achieved. We summarized the findings in line with the objectives of the study as follows:

Summary of Findings

The findings of this study are:

1. Interest rates on capital had a significant effect on volume of credit and investment (Wald $\chi^2(1) = 32.111$, $p = 0.009 < 0.05$)
2. Infrastructural decay had a significant effect on cost of doing business (Wald $\chi^2(1) = 46.568$, $p = 0.000 < 0.05$)

Conclusion

Significantly enhance the performances of the manufacturing sector. It's very obvious that interest rate very high to access. The multiple rate system the country adopts is negatively affecting the manufacturing sector in terms of borrowing from banks and other financial institutions. The Nigeria Bureau of Statistics (NBS) and the Manufacturers Association of Nigeria has it on record that many manufacturing firms are plummeting rapidly and there is massive

closure. This has just been proved by this study. Suffice to say that majority of the manufacturing firms (85% according to MAN, 2020) depend on imported raw materials to remain in service. The dwindling foreign reserve (dropped from \$30billion in 2016 to \$19billion in 2020) that has affected the devaluation of the currency is also evident in the study. All these are off shoot of political risks indices emanating from fiscal and monetary policies which are made arbitrarily by the successive governments. The study is predicated on the theories of Schumpter (1999) on modern portfolio theory – which assumes that investors are risk averse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics. This is typical of Nigeria manufacturers typically of the south eastern region who are risk plungers not minding the high risk factors that are obvious in the business environment. Also the Risk-adjusted Return on Capital (RAROC) theory propounded by Glantz and Morton (2003) which risks that are traded off against benefit. The study did well to confirm these theories based on the empirical results. These can be amended with the recommendations listed by the study.

5.3. Recommendations

- 1 The manufacturing sector should vigorously explore private capital as viable alternatives to financing because of the risks associated with the government institutions. Private capital has the tendency to sanitise the system because of the bureaucratic process that is visible in the government institutions. Backward integration in a local content mode

is very important. This will give the manufacturing sector a platform to operate even when there is chaos among the government value chain.

- 2 Government should encourage and maintain spending towards the manufacturing sector development and simultaneously develop the nation's infrastructural facilities, in other to encourage domestic investors and win more foreign investors which are highly competitive globally.

5.4 Contribution to Knowledge

This study has significantly contributed to knowledge in a number ways.

First, it has lent credence to the long age-held premise of the Risk-adjusted Return on Capital (RAROC) that capitals are allocated for two basic reasons namely (i) For risk management and (ii) For performance evaluation. Secondly, the study has also shown that manufacturing firms can operate optimally in politically risky environment through the applications of the recommendations one of which is that manufacturing firms should explore private capital as viable alternatives to financing.

REFERENCE:

- Bekefi, T. & Epstein M. J. (2006). *Integrating social and political risk into management decision-making*. New York: Harper and Row
- CBN *Economic Report*, 2020
- CBN *Annual Report and Statement of Account*, 2005, 2019 and 2020 CBN *Publication Vol. 14 No. 2 (April to June)*, 2016.
- Ezenwakwelu, C., A. (2017). *International business Management*. Enugu: Immaculate Publication Limited.

- Garrido, K., N. (2009). *Contemporary management. International British Journal of Arts and Social Sciences*. New York: McGraw-Hill.
- Glantz, H., J & Morton, M., K. (2003). *Managing bank risk: An introduction to broad-base credit engineering*. Amsterdam: Academic Press.
- Grenome, K., & Tsokanes, M. (2002). Challenges and opportunities for direct investment in Africa. *Finance Management of Journal*, 8(1), 26-79.
- Hood, K.T & Nawaz, U.I. (2010). Country risk rating, challenges and prospect. *Management International Journal*, 33(4), 123 – 128.
- Kennedy, K., L. (2008). Resources and firm performance in International Joint Ventures *Journal of World Business*, 42(6), 47-60.
- Management Guide Quarterly Report Vol. 11 (2) (April to June), 2010.
- Matthee, H. (2011). *Political risk analysis - international encyclopedia of political science*. Thousand Oaks, CA: SAGE Publications.
- Nigeria Bureau of Statistics *Quarterly Report Vol. 12(3) (July to Sept), 2010 NBS Publication Vol.23 No 3 {March to December} 2015*.
- Perotti, J., G & Pieter, G., K. (2009). Political Risk: identification and assessment: *Columbia Journal of World Business*, 16(9), 6-20.
- Sottilotta, C. E. (2013). *Political risk: Concepts, definitions, challenges*. London: Routledge Printers.
- Sylvia, H., I & Agu, A. A. (2015). Good policy or good luck? country performance and temporary shocks. *Journal of Monetary Economics*, 32(6), 459-483.
- Thunell, K. B. (2001). The measurement and management of political risk quarterly. *Journal of Finance, and Development (IMF)*, 16(2), 334 -379.
- Zink, M. K. (2013). An Analytic Derivation of the Efficient Portfolio Frontier, *Journal of Financial and Quantitative Analysis*, 17(5), 256-278