Qualitative Risk Factors of Foreign Direct Investment (FDI): An Exercise in Discovery, Mitigation and Analysis

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As business continues to shift towards internationalization it is important to understand and know how to assess the many risks associated with investing directly in foreign countries, known as foreign direct investment (FDI).

First, one must be able to understand the investment strategy and build an appropriate investment thesis by asking the question: who is the investor, what type of investment will be made, why invest abroad, where and when to invest, and how to invest? These questions direct the investor towards the most important strategic issues and help him/her to focus on risk analysis.

Risk analysis is the analysis of risk factors like trade, government, culture, and international finance. Using a framework is very helpful in ensuring complete, consistent analysis and many frameworks exist which touch on the broad issues of risk. I chose the CAGE framework (cultural, administrative, geographical, and economical risks), developed by Harvard Business School Professor Pankaj Ghemawat, because of its completeness, functionality, and ease of use.

My thesis project is an attempt to explain, with deep literary research, the above mentioned risk analysis' procedure, including a list of data sources for analysis, case studies, and mitigation strategies for foreign direct investing. The project also discusses issues that might not be obvious at first glance, including entrepreneur's respect to religion and the Protestant work ethic, the advantages of bribes, and more. I have drawn from not only published works, but also the knowledge of several professors from across the country in varying fields from international business to political science, through interviews and correspondence.