Abstract

Political risk has become an increasingly important factor in everyday business life as companies are expanding their operations into new markets and the economic environment is growing more global by the day. New markets, such as Ukraine in the Eastern Europe, are attracting foreign investments by offering vast opportunities for success. However, the risks – especially political risk in the new markets are often larger than those in Western Europe. There are various methods for companies to assess political risk and to hedge themselves against it. The companies can be either proactive or reactive, meaning that they may depending on their resources available either actively prevent risks or react to them as they materialize.

The prime purpose of this research has been to explore the phenomenon in the context of contemporary Ukraine. The main research problem “How can political risks be managed in Ukraine” has been studied through the following sub problems:

- What are the political risks and the factors behind them in Ukraine?
- What are the possible methods of risk management and how companies may use them to control political risks in Ukraine?

The research problems are examined through such theories as defining the seriousness and frequency of the risk, theories that refer to political risk flow, indicators and implications and finally, risk assessment and management theories. This qualitative research was conducted by using interviews. The empirical data was collected through semi-structured interviews in four Finnish companies operating in Ukraine and with two experts, one from the Finnish Ministry of Foreign Affairs as well as one from the Pan-European Institute.

The main findings of this study were that political risk in Ukraine is not seen as a major hinder for companies though the political environment is de facto rather unstable. However, not many companies have been eager to invest in Ukraine yet, but the markets are quickly saturating as the vast population together with a rising living standard create a fruitful environment for investments. The biggest political risks are seen to relate to the internal politics of the country and especially to the grand divide between the Russian-minded East and the Western-minded West. Also the relations with Russia as well as problems in neighboring countries (e.g. Transnistria in Moldova) are seen as an aspect worth considering. Summa summarum, as political risk is not seen as a major defect, the methods of political risk management are also limited to foreseeing laws and demands, getting expert advice and being in contact with the authorities. Even though the results are not widely generalizable, the research provides a better understanding on political risk in Ukraine.