

# Political Risk Management Quiz

Insight paper by Harmattan Risk

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The reader might notice that this is more of a thought exercise than a quiz, and in most cases the question is too nuanced for a straight right or wrong. That being said, it could be interesting. The aim is that the reader stretches their conceptual boundaries in terms of political risk issues and options, and also their own values when it comes to more nuanced circumstances. All of these questions are relevant to political risk management, but what we take away from this will be partly a factor of our experience, ambitions and personal perspective.

- 1. Political concerns are similar to business concerns – both are about building and distributing resources for sustainable growth and development**
  - a) True
  - b) False
  - c) Depends – most political systems do have a strong element of resource development and allocation, but who controls the process and by what rules can significantly vary between political ideologies, national cultures, and specific political regimes
  - d) It is not always safe to assume that business and politics share the same values
  - e) c and d
  
- 2. An international company is a political actor, in that it has an ideological perspective (e.g. capitalism), seeks to influence policy decisions, and has an impact on its socio-political environment**
  - a) True – a company should partly interpret its relationship with host countries as a political relationship
  - b) False – a company is a product of the nearly universally accepted premise that private ownership and profit are an important part of resource organisation and development, and while it might need to negotiate with political actors, a company is inherently politically agnostic

- c) It can be true, but if a company develops too strong a political persona, then it is subject to the same rules of the game as any other political actor, and that playing field can be a lot harsher than normal business competition
- d) The question is absurd – of course a business is not a political actor, in fact politics is just a ball and chain and without regulation and borders the world would be a much more efficient place, and scarcity would be much more easily addressed
- e) “d” would be fine if the ideology underlying business contained an ethical element that helped to ensure that scarcity really was addressed, but as it stands, business seems to assume the “state” will look after that, and its principal remit is to increase the bottom line

**3. If a company has a dispute with a democratically elected government, it is usually the “bad guy” because it is playing for profit, while the government is concerned about the wellbeing of citizens**

- a) True – companies are inherently selfish, that is the nature of a capitalist enterprise
- b) False – governments consist of politicians, after all, and there is usually a dark and narcissistic streak in politicians
- c) Depends – there are often strong socio-economic development benefits to an international business’ presence even beyond revenue take or taxes, and these can be emphasised if the company seeks a long-term sustainable presence; conversely, democracy does not necessarily make a regime right, especially in an era where populism and majoritarian rule seem to be an increasingly widespread tendency, and sometimes disputes with foreign companies are manufactured as a way of trumpeting the regime’s populist credentials or distracting the voter base from more pressing socio-economic or foreign policy issues
- d) It depends on how the dispute was initiated – did the company abrogate its obligations, or did the government? If the company allowed contract terms to remain ambiguous and took a back-door deal rather than a clean and public result, then it might have set itself up for hassle

**4. The “three Cs” are important (company, customer, competitor) as are technological developments that could boost our or competitive capacity or efficiency. Politics, however, is like the weather – we can take our umbrella but otherwise there is nothing we can do about it, and hence a focus on politics is just unnecessary distraction from core business operations**

- a) True – if you play in enough fields, the law of averages suggests that you will see more sunny days than storms, so swallowing a loss or two is a price worth paying to not have our managers distracted by such arcane stuff, and instead focused on strong execution
- b) False – politics defines the regulations that we need to abide with, and can result in a dramatically different playing field, and additionally political priorities when they affect national or transnational development initiatives can be a major factor in building new markets (e.g. renewable energy)
- c) Depends – if we stick to places we know so well that politics is essentially “background noise”, then we do not need to think about it, and hence adapt just through common sense, but if we go where politics is more volatile, then it might be something we need to explicitly address
- d) If we are excellent at what we do, in terms of our core business, then we would likely find a good reception anywhere, because we deliver on our promises – any official political actor would see the merit to partnering with a smart, efficient company bringing best practice to the equation

**5. Risk appetite or tolerance is defined as a financial bet – we can stand to lose this much but we hope it works out in our favour. When it comes to complex emerging markets, there is no real difference in this equation, we just look at the odds of making our returns**

- a) True – profit is what business is about, and socio-political conditions in themselves are only interesting in so far as they affect potential financial returns
- b) False – profit and investment returns might work for a bank or hedge fund investing at arm’s length, and even then they still bear reputational concerns; for an organisation on the ground, meeting targets cannot compensate for a manifested security issue, or a major socio-political dispute and reputational fallout – risk appetite needs to go beyond profit and loss and consider human and reputational factors
- c) Financial considerations might help to decide where to go, but then these are adjusted after a risk assessment and we see how much needs to be spent on sustaining our presence and keeping our people safe – then we re-do the numbers and see how it stacks up
- d) Our competitors are moving quickly and probably not pausing to consider such nuances – we will focus on our competitiveness first and foremost – risk appetite is not relevant to our context, it is do or die in competitive terms, but we do apply common sense and try to keep people safe (this in part has been heard from small extractive firms premised on one or a few specific operations)

**6. The union through which we source employees is having a fit about our not giving time off for a national holiday, and this was never in the contract. They are wrong, we are right.**

- a) True – if it is negotiated upfront and the company sticks with its end of the bargain, then union dissent is just pressure to make a buck at our expense, and we should stick to our position so as not to reward such shenanigans
- b) False – it is an important national holiday and a no-brainer, of course workers will want time off to be with their families, and the union probably didn't even think about it because any degree of cultural know-how would have made this too obvious to mention
- c) National unions often do have a scammer element, and in developing countries the foreign firm is often seen as a cash cow opportunity, but the issue of holiday time might have been an oversight on our part – we should accept that we made a mistake and just plan for a few days of no production
- d) We should have considered that in advance, but now it is important to get a deal that adheres to our time-table while still showing some respect for national traditions – maybe if we ask for half the workers to remain and pay some overtime, we can maintain production while still showing cultural respect, but this cannot be ambiguous in the future and will have to be explicitly built into the labour contract
- e) Never mind, the regime is very interested in our performance as it brings tax and royalty revenues, and if our operation is smooth then it helps the regime to attract more companies with the right expertise – tell them our issues and let them handle it

**7. We operate in a volatile environment, with an insurgency and rebel activity – hence we need very robust security to protect us and also to pose a deterrent, and frankly we will give our security contractors enough rope to hang themselves as long as our operation proceeds on track and our people are safe**

- a) True – insurgents are an existential threat and a company has the right to protect itself, and the government won't complain because they have the same enemies
- b) False – insurgents might be threatening if our company is seen as a political target, but they are part of the local community and their actions are expressions of concern about how we affect local livelihoods, so we should listen and adapt to their concerns
- c) Our security providers were recommended word of mouth by another foreign company in an adjacent sector and we do not really know who they are or their tribal / clan / sub-national or indeed government affiliations – if we let them “do their thing” we might be stepping into a political role; first, we need to know who these providers really are, second,

we need tight and enforceable rules such that we protect our people without harming people in the host community

- d) If we need this level of security in the first place, why did we come here? Time to pack up and go home, and then focus on easier environments

**8. The Liaison Office of the Ministry of Mines and Energy has suggested that a facilitation fee would expedite our tender and improve our chances, and our local agent agreed – we should go for it, because it's normal in this environment, our Chinese competitors might well play this game to their advantage, and there is a lot of pressure on us (country management) to make this deal**

- a) True – “when in Rome...” – it is another world and we need to be flexible; once we make this payment we won't have to worry about it anymore after we show our technical prowess
- b) False – it is a legal liability and OECD countries are increasingly investigating acts of bribery, especially for back-door deals, plus if we pay once, then this can be used against us as blackmail, and we lose control and bargaining power, plus our liability increases
- c) Maybe some small culturally appropriate gifts would suffice to show our respect – tokens of appreciation, not bribes, right...?
- d) We make it clear that engaging with us has legitimate benefits in terms of local content, tax and revenue generation, and skills transfer, all as in the contract – our competitors might be more flexible in some ways, but by engaging with us, the relevant authority can look forward to a transparent and well executed project that bears little to no liability for either side
- e) Corruption?! We are out of here!

**9. We need the best team in place for this job, and X is the best engineer for this type of work, but he has said that he does not want to go to the country in question because his family is worried about his security – we can assure his security and he does work for us, so we are right in telling him to get on that plane**

- a) True – If we feel confident that we can ensure that X is safe, then we have a right, given that we are paying him, to ask X to go and join the country team
- b) False – individual choices need to be respected, and the country is volatile; not everyone is going to feel comfortable going there no matter how much support they get, so we will respect his decision and seek someone else
- c) X might not have to be there all the time anyway – if he is okay with a few short visits and then crunching the analysis from his desk at HQ, fine. We can send out a willing engineer to

act as his eyes and ears, and we can certainly ensure best practice in keeping X safe when he goes to the country operation on brief visits (and if he does not want to go at all it might still be workable with e-conferencing and sufficient remote project liaison)

- d) Who is this guy? We do what we need to do and go anywhere to do it, that's what makes us better than our competitors – we're frontiersmen, not desk jockeys! (good luck with that attitude...)

**10. I have my own experience and ideas about international politics and business, but I need some specific insights on a country where we are considering a long-term presence, and this place is seldom reported in the news. If I commission a study by a mainstream political risk advisory, I'll get the insights that I need.**

- e) True – this will be an independent report about issues relevant to operation, and we can use it to plan for risk management
- f) False – the analyst or author might know the place and top level dynamics, but they won't know how it relates to our business, and while it might form one input, it won't be the last word in our risk assessment
- g) I don't trust these academic types, they have no shared sense of business urgency and they always say the same thing to anyone – it's just so much "blah", even if we need to commission a report just to say we did our homework
- h) If we know how to use this expertise, we can shape the brief such that it is useful and contextualised to our situation and project – it might cost a bit more to get contextualised insight, but if it is an interactive process then we will benefit. And of course we need to add to this our own discussions and insights as experienced business people for a more holistic set of priority issues.

The reader can probably extrapolate from this that political risk know-how is the tip of an iceberg. From security to labour relations and global planning, in-depth expertise is relevant to political risk assessment, planning and mitigation / relationship initiatives. But there is a conceptual umbrella to these kinds of issues, and recognising and treating challenges that stand beyond organisational efficiency and the competitive arena is key to sustainable operations in challenging environments.

There is no answer key, but suffice to say that the answers recognising ethical and cultural ambiguity tend to be better, and in the nuanced game of operations in politically sensitive environments, the black and white answers could lead to trouble (not much is "true", and perhaps that's a truism). In

most cases a combination of answers is the more effective guidance, and of course this was written by one person with his own narrow experiences.

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