

An Enabling Concept – “Political Risk” in the Organisation’s Context

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November 2022

Organisations with international experience often contain an array of skills and disciplines that are relevant to understanding and managing the potential effects of socio-political dynamics and reactions. However, this capability remains latent and unorganised for as long as the socio-political variable lacks conceptual definition. This paper examines the utility of a concept, and some questions around formulating one appropriate to the organisation’s context and needs.

An Illustrative Scenario

A hypothetical but realistic scenario helps to frame the problem. After a thorough commercial analysis, a company goes to a new country to start a project, or to set up a subsidiary. Corruption hassles and bureaucratic delays might be par for the course, but over time these seem to get worse. Then the company starts to face unexpected approval delays, and more frequent inspections and audits. At the same time, the city where the country office is based begins to see periodic protests. These seem to intensify with each round. This not only affects local movement and logistics, but it also raises staff’s stress levels. Strikes occur with increasing frequency and affect public services and infrastructure, causing logistical delays and even impinging on the basic amenities of daily life. Local partners and contacts become increasingly distracted, and the company finds it hard to sustain their interest in joint initiatives. Local staff start asking about the possibility of getting a visa to the company’s home country, or of being transferred to a different country office.

The operation grinds on but performance is suffering. HQ wonders if more resources would help, and decides to double down with more staff and investment. A few months later, the project is effectively stalled. Some people in HQ and on the country team want to call it quits, while others feel that the sunk costs need to be recuperated, and that extrication from current contractual obligations would be far too messy. After a period of dithering, duty of care obligations alone finally necessitate an exit, which is too sudden to worry about much more than personnel.

From the organisational perspective and for many individual managers, what occurred in the two years leading up to exit was a series of unlucky incidents and random if intensifying hassles. In the

conceptual framework of business, the operation was still viable. There was still commercial and financial potential and competitive advantage. The rest was just disjointed noise.

With its conceptual blinkers well in place, the company had no reason to even try to learn, and thus no chance to discover, that the pressures it faced were actually driven by specific, interconnected factors and interests. The increase in corruption pressure and regulatory hassles was largely caused by regime cronies who saw the foreign company as a threat to their interests. They used their connections in the government to make life difficult. The very same weak and self-interested governance that led to these hassles were also drivers of political dissent. When the government cut food and power subsidies in response to a budget crunch, socio-economic protests were a result, and the political opposition managed to steer and coordinate it as an organised movement. At the same time, there was a factional struggle within the regime, between the president's clique and an old guard leftover from the days of military rule. One axis of factional infighting was attacking each other's networks with trumped up anti-corruption investigations, and this led senior bureaucrats and business leaders to keep their heads down for fear of becoming a target. Many ordinary citizens, including among the company's local staff, began to worry about several scenarios. One was a chaotic revolution, another was a violent government crackdown, and a third was a coup by the opposing regime faction.

This picture might have remained unknown to the organisation as a whole, but individual people in the company were not obtuse or ignorant. Several expat managers gained considerable insight about national dynamics and players through their local interactions, and local staff were well plugged into informal networks and worried enough to ask for help to leave the country. Several planning analysts at HQ also had some ideas about how the situation might unfold. But these insights were mainly discussed in private conversations wherein people commiserated with each other's anxiety. Perspectives remained fragmented, and insights anecdotal. Functions and departments reactively dealt with the issues affecting their particular remits without any clear notion that they were dealing with the same factors that were affecting the whole operation. A lack of fora or processes to discuss the wider challenge was not the problem, since structures can adapt to meet known planning requirements. Rather, the problem was that there was no concept of the challenge, and hence no rationale to share insights or to try to learn what was really going on.

The example, though based on some actual cases, is hypothetical. However, in broad outline it reflects myriad real instances in which a foreign organisation faced mounting socio-political pressure and failed to adapt. Bad luck, weak processes, and an excess of positive thinking all play their part. But the most fundamental constraint on a capability to learn and plan for socio-political challenges is

not knowing that they are a “thing” in the first place, and not having a common notion of what that thing is so that people can share information and coordinate. For example, if there was no concept of the weather, we would just randomly get wet from time to time as though a little genie flew over our heads and tipped a watering can. There is no point in trying to proactively manage it. It just happens. If a farmer had no concept of an elephant, he would just think that a big blob periodically blundered through his garden. You cannot assess, manage, or talk to a random blob. It just is.

Politics (Socio-Politics) as a Tangible Variable

Random events and plain bad luck do affect organisations, but most external pressures are caused by the dynamics of integrated systems and the interplay between them. Politics, or more accurately socio-politics¹, is one such system, fuelled by socio-political actors’ values, fears and ambitions, and the exercise of their levers of power and influence. When working in a country or region where political dynamics are quite low-key and where change is incremental, the system seems remote from day-to-day concerns, and separate from the private organisation’s main arena of interaction. When working across regions or within volatile times and places, the political system, whether global or national, can noticeably intrude on other arenas of activity, and even warp or subsume them. Thus, while not everything that affects an organisation needs a label or can be wrapped up as a concept, political pressures can be, and often should be if one is to be capable of adapting to forces that could have a significant effect.

By itself, a concept of politics is not enough to provide a basis for aligning an organisation around relevant challenges and enabling coordination. To operationalise it, we also need to understand how politics relates to the organisation, and the contexts or conditions under which politics is particularly germane to organisational health and performance. In order to indicate approaches and solutions, a concept also needs to be framed as a challenge, not just as an abstract phenomenon.

The Need for a Contextualised Concept

Political risk, “above ground risk”, “non-commercial, non-technical risk”, international risk, and the challenge of sustaining the official and social licences to operate are only some of the existing labels

¹ There are various definitions of politics. One that works in this context is behaviour driven by an interest in influencing, sustaining or replacing a given government or institutional framework. The driving interest can simply be wealth and prosperity, but it is often some combination of group self-preservation or dominance, a vision of a society governed according to certain values and ethics, and power as the means of attaining one’s ends. “Socio-politics” usefully emphasises that politics is not just about governments and their direct opponents, rather myriad groups and organisations can be at least partly “political” if they undertake even some influencing, sustaining or replacing behavior. In our context, politics is shorthand for “socio-politics”.

for problems caused by politics. Political risk, which has been in use for decades, is still the most widely known even if it remains rather obscure to non-afficionados, and having received considerable academic attention it is the most conceptually well developed. Thus, it is tempting to just adopt a standard version of it as the organisation's own concept. However, there are several reasons why an "off the shelf" version would not be particularly effective as the conceptual glue for a specific organisation. As an aside, readers can peruse online notions of political risk for a sense of what is out there and to see if anything would be directly applicable, bearing in mind that a conceptualisation goes beyond just the initial two-line definition that is usually proffered.

The most basic problem is that standard conceptualisations are either too broad or too specific. Academic work on the concept and its practical manifestations needs to be quite broad, or the resulting theories are only anecdotal. Broad concepts can be adapted to specific contexts, but by themselves are too generic to operationalise. The narrow conceptualisations tend to come from certain sectoral or industry perspectives, for example from insurance, portfolio investing, or capital intensive industries (there are very few that come from the NGO space, which is ironic given how germane the challenge is to that sector). What is at stake or risk considerably varies between these perspectives, as do the relevant elements and levels of politics. Additionally, a sectoral focus likely has blind spots. It will emphasise assets and factors that most closely relate to its core business or activity, while understating other potentially very relevant variables. For example, political risk from an institutional investor perspective focuses almost exclusively on the effects of government decisions and geopolitical interactions on exchange rates, market dynamics and capital flows. But a fund could well have people and critical infrastructure scattered around the world, and directly exposed to the effects of conflict, weak governance and instability in specific environments.

There are three other problems with most standard conceptualisations. One is that they heavily emphasise governments as the principal agent or instigator. Governments are important, but they are certainly not the only socio-political actors who matter. The second, which is only relevant to businesses, is that they focus on profit as the thing at risk. Profit is a company's *raison d'être*, but it is the outcome of the coordination of an array of other assets, including people, property and simply freedom of action. Especially for operations on the ground, these enabling assets are directly exposed to the environment, while profit is only indirectly exposed. Additionally, reputation is important asset for any legitimate organisation. Finally, since the deluge of enterprise risk management (ERM) standards and frameworks, "risk" is getting excessive emphasis. "Political risk" has been around for a long time, and early formulations discussed risk, but were not dogmatic about it. Now, because of the "risk" label, it is often reworked into ERM-speak, with a consequent dumbing

down. Systemic relationships, socio-political stakeholders, evolutionary paths, and situational scenarios, for example, do not sit well on a risk matrix or registry. Maybe these and other critical strategic perspectives do not disappear and just migrate to another conceptual home, but when a rigid ERM-centric conceptualisation is imposed, they do not sit within political risk anymore.

To summarise to this point, without a concept of the socio-political variable, an organisation has no basis to recognise when it is relevant, or to initiate investigations of socio-political dynamics to inform useful adaptations. Political systems are the source of socio-political pressures on organisations, but just knowing this does not provide a concept capable of aligning awareness and action in an organisation. Finally, the concept of political risk is available, but just taking an off-the-shelf formulation as the organisation's own would be somewhere between useless and problematic. Thus, we arrive at how to derive or adapt a concept that can be operationalised within an organisation's unique context.

Contextualising a Concept of Political Risk

The aim is quite modest. It is not to create a policy or plan, or suggest how the organisation should approach political risk. It is simply to give people a clear mental picture so that they can recognise when political risk is relevant and therefore learn and plan for it. The fact that this is a shared picture within the organisation also means that it enables information exchange and coordination in relevant circumstances. Thus, the company in the example above would not have sat on its hands bemoaning its bad luck. People would have recognised that political risk was upon them and acted accordingly, in concert. Even better, they would have sensed that the country was politically risky ahead of time, and proactively learned and planned for critical factors and interests. People should be able to say, correctly in retrospect, "Political risk will be an important variable in this initiative and it's worth our while to do an assessment", or "This isn't just bad luck – it's time to see what's really going on with the political situation / our socio-political relationships."

To construct an appropriate mental picture, several organisational attributes bear consideration, including:

- where the organisation operates and its international spread, both now and in the medium-term future;
- the assets typically exposed in operations, including people, and what operations typically depend on for performance;
- how and the degree to which the organisation is affected by global and geopolitical forces, such as great power rivalries, alliance patterns, and disputes;

- the social attitudes and values that underpin a general acceptance of the organisation as legitimate and socially valuable;
- the organisation's basic socio-political profile (its current public reputation, and socio-political associations and symbolism) and potential reputational vulnerabilities that arise from this;
- the kinds of socio-political issues and complications that the organisation and its industry or sector peers have experienced, or typically experience.

Rather than expounding on each of the above, we will take a shortcut and assume that the points were considered for two very different types of organisation, an international NGO and an international oil and gas company. The resulting conceptual outlines are brief, and could be framed in other ways. The important point is they are different, being tailored to the organisation rather than being the result of just tweaking mainstream conceptualisations.

International development NGO with a direct presence in Africa, the Middle East and South Asia

Political risk refers to actual and potential challenges from:

- host country government and socio-political attitudes and reactions to our organisation and to foreign NGOs in general;
- hostile and predatory ("bad actor") threats in host countries;
- conflict dynamics, including repression, that could harm personnel and other people we are responsible for;
- changes in development aid policy in our home region with a potential to affect government donor funding;
- and changes in socio-political attitudes in our home region with a potential to affect individual funding and our perceived social acceptability.

The principal assets that are at risk include:

- personnel;
- our reputation as impartial, honest, conscientious and effective;
- access to beneficiary communities and the freedom of action to execute high-impact programmes;
- and funding.

Political risk is an especially important consideration in:

- programme delivery in conflict-prone or highly fragile states, and when working with fractured communities;
- where the rule of law and governance standards are particularly weak;
- countries where governments are highly suspicious of civil society organisations and of the introduction of foreign ideas and values;
- the ideological rivalry in our home country and region between inward-looking nationalist tendencies and globalist, cosmopolitan outlooks;
- periods of economic decline and uncertainty in our home country and region.

Mid-sized international oil and gas company with operations in Eastern Europe, the Caucasus, North Africa, and the Middle East

Political risk refers to actual and potential challenges from:

- changes in host country government commitment to agreed projects;
- weak governance and corruption in host countries;
- host community and ethical observer reactions to the effects of operations;
- conflict – either direct threats from conflict actors or violence in the vicinity of operations;
- foreign state company competition leveraging direct home government support;
- OPEC and major producers' production and pricing policy, as well as geopolitical trends that affect oil and gas markets;
- home region and government policy with respect to energy company socio-economic obligations (for example the imposition of windfall taxes during periods of high energy prices and costs);
- and shifts in global socio-political attitudes towards conventional energy sources and firms.

The principal assets that are at risk include:

- personnel;
- counterparty contractual commitment;
- physical assets and intellectual property;
- business continuity including country access;
- our reputation for integrity and sustainability, as well as for our conscientiousness towards host communities;
- and our profit margins as a product of global prices, and host and home government tax and domestic supply obligation policies.

Political risk is an especially important consideration in:

- corrupt and weakly governed countries, in general and especially with respect to adherence to environmental standards and human rights and security;
- fragile and conflict-prone environments;
- operations in which the state national oil company is the controlling partner, and where governance is acutely weak;
- periods of OPEC and major producer disputes and price wars, of intense geopolitical dynamics that affect oil and gas markets, and of particularly high home country energy costs;
- and the overall process of a global shift away from hydrocarbons-based energy.

The examples could be considered first drafts and each is certainly open to further refinement. It could also be useful to divide the conceptualisation between global and strategic, and country and operational. For example, the global / strategic level for the NGO would include political risk as it relates to overall organisational funding, an obvious strategic consideration, as well as significant shifts in social attitudes that could affect public perceptions. For the oil company, the global / strategic level would include forces that affect global prices and margins, the shift to clean energy, and perhaps foreign state company competition as an aspect of global great power rivalries and the strategies of major transitional country powers.

The strategic / operational distinction is about as far as a concept statement can go in suggesting functional remits in political risk management. The statement is only aimed at making political risk identifiable and at pointing out when and why it is especially relevant. Thus, the concept is only a starting point in developing or honing organisation-wide capabilities. That said, even if an organisation stopped here, the concept statement would still have practical value. If we go back to the hypothetical example of a company experiencing political risk, imagine that all international managers in the company had read and absorbed a tailored concept statement before the country project was even planned, and for good measure that it was passed around again during initial planning. People would have been attuned to the possibilities, mental red flags would have arisen, and people would have been inspired to investigate.

Some Caveats

There are a three noteworthy points about a conceptualisation. First, it is not a checklist of if or when to get the “political risk people” involved, or when a project or initiative should be redirected to some additional due diligence step. It is simply there to make everyone aware that political risk is a thing, and that it can be relevant to the organisation. With respect to any handover to specialist

staff, even if there is a political risk or similar team in a company, decision-makers and frontline operational managers actually manage political risk, and hence conceptual awareness matters well beyond any specialist department.

Second, while a concept statement is not a political risk assessment or even based on one, it is tailored from thinking about the organisation's context and experiences, as well as relevant top-level socio-political dynamics. All of these can change, and hence a concept statement can become outdated. Thus, a statement should be revisited and tested on a regular basis to make sure that it is not becoming a historical curiosity.

There is an even more fundamental point, which is that concepts can be wrong from the outset. For example, ancient Mesopotamian societies regularly experienced varying degrees of pestilence and drought. These were a known "thing" in themselves, but people felt compelled to develop an explanation for them, and gods and demons not only sufficed, but the concept provided a way to mitigate hardship – religious ceremony and charms. This concept did not prevent people from developing practical mitigation measures, like water and grain storage, but it did inhibit an empirical exploration of why these problems arose in the first place, and hence was a drag on a strategic capability to foresee, avoid and manage them. All concepts are abstractions of a more complex reality, but to be useful a concept needs to at least reflect reality. The first concepts we latch onto are usually a quick mental sketch, and bear ongoing challenging and revision.

There is much that an organisation can do to develop and hone capabilities to understand and plan for the socio-political variable, often just by effectively drawing on and aligning current people and competencies. However, without a robust concept, there is no basis for organisational initiatives and the development of relevant practices. Political risk, by whatever label, remains an unknown unknown, and its manifestations might as well derive from the capriciousness of supernatural beings whose motives and moods remain beyond human comprehension and influence.

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