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Are International Companies Conducting Applicable Political Risk Analysis?

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Abstract
For many western business professionals the recent uprising in the Middle East was just a blow and unpredictable. On the other hand; during the last five years several Arab scholars and business experts were expecting such uprising and in such scale. Search engines are full of such analysis. So, was it possible for those living out of region to expect a turbulent event on the horizon? And be better prepared?
Pursuing overseas or cross borders businesses require understanding of the political risk, it is indisputably a key consideration. Political scientists and scholars are not very much divided around the definition of the political risk; as the political events that can turn the business objectives and strategies into an undesirable direction. Investments whether it is a domicile business or a non-operating shareholding should consider a broader approach of political risk and diverse political systems. Market intelligence or intuitive knowledge on political factors might be inaccurate and risky.
Full country or political system evaluation is beyond business capacity and rather a political assignment, and here lies the dilemma for business to conduct most focused, targeted, and adequate assessments that meets necessary requirements for a quality business decisions and enables swift responses.
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1. How Political Risk perceived?

Deloitte Consulting published a study on 2007 about executives view on the likelihood of risks. Obviously the world wasn't politically stable at that time, however the results on the likelihood of Geopolitical Risk (one element of Political Risk) were: Not at all likely 20% and not very likely 52%. On 2013 Deloitte conducted a survey called "300 executives around the world say their view of strategic risk is changing"; when they asked "Does your organization have an explicit focus on managing strategic risks?" 79% answered with Yes in Middle East, 83% in Americas, and 81% in Asia pacific. Over 90% agreed that their approach changed in the last three years. When asked whether their risk management programs supports their business only half agreed for Middle East and two thirds agreed Americas and Asia. Political Risk nowadays is a concern to decision makers, however there is a lake of understanding, monitoring, and mitigation.

Political risk could have decisive consequences on investments: direct or indirect effect on security of businesses, continuity, reputation, costs, cash flow and profitability. The outcome of a political risk could hinder ability to withdraw capital– e.g. expropriation.

Fundamental inaccurate practice that large western corporation falling into is that risks analysts tend not to intensely explore political risk due to the fact that political risks is not often represented by charts, figures, substantial facts and almost impossible to be quantified. It has a somehow a different and unique risk nature. Political risk determination also cannot be as it is the case for technical solutions where 'Best Practices' may help. For technical and finance experts identifying or quantifying the political risk is not a favorable exercise, moreover, many still believe that political risk is unpredictable (crystal ball), and this is also inaccurate.

What can be the best practical approach for non-political experts, i.e. business, managers and planners to understand such complexities and draw down realistic political risk plans and expectations? And moreover; is that possible? Defining reasonable business measures to deal with such developments and mitigate undesirable consequences can be also a challenge.

Political Risk can even occur in very stable countries or countries that 'give the impression' of stability, like Tunisia and Egypt on the pre Arab Spring times. Unlike Europe; government's stability and stable financial position is not a stability guarantor in many countries. Political risk can be steadily escalating without displaying any obvious signals or noticeable alarming phenomenal. However; as an old orient quote says "no fire without a smoke". Corporations must at all-time allocate enough capacity and resources to be sensible, conscious and ready for political risk events with various levels of severity.

Instability could result from a change in government, legislative bodies, other foreign policy makers, or military control, or other unlimited number of risks and uncertainties. Some political risks can be insured through international agencies or other government bodies. Political insurance products available are insuring "only losses that are due to political acts only, not to economic or financial conditions or circumstances".

Political Risk is not possible to be quantified, valued, but can rather be described or qualitatively studied. Major methodologies are describing Country Risk which encompassing political instability - mainly "default", risk premiums, currency risk …etc. For major investors country sovereign risk and currency risks where always been the object, political risk can be much more complicated and wider than that, and can has a different considerations.

The quantitative methods can be used when explicit needs for figures are needed, such as cash flow analysis, profitability … etc. A combination of indexes can be used to combine different political indices and using a customized in-house 'tool box'. However political risk can be better understood and managed when semi-qualitative method used, by having a descriptive qualitative criteria of risk together with certain risk indications. The question may always remain: are we calculating what can be calculated? All aspects of political risk components may look positive in statistics and charts; however one single political factor can turn around the whole system. In a nutshell; figures are helpful in some aspects, but are not sufficient for full political risk determination.

Conducting full country or system evaluation is also beyond business capacity and rather a political assignment, and here lies the dilemma for business to conduct most focused, targeted, and adequate assessments that meets necessary requirements for a quality business decisions and enables swift responses.

2. How to keep an eye on Political Risk:

- Every business has a special nature, every single nation has its unique specialty, and therefore a wide but simple model can be identified bearing in mind that Political Risk for foreign investors will be looked at from the same point of view as a potential threat to business objectives. Focus on how business enterprises and corporation can establish own assessment.
- For political monitoring, several alarming plans can be identified, as well as major and minor Political Risk factors that can severely expose investors' interests. "Major" Political Risk indications, 'Minor" Political Risk indications, and "Alarming Phenomena". If the model of Political Risk evaluation and monitoring if correctly designed, it can serve as a useful Political Risk control. A set of escalation method can be developed that can help to identify or at least activate Political Risk major criteria. Certain business needs' measures always should be available to deal with 'shocks'.

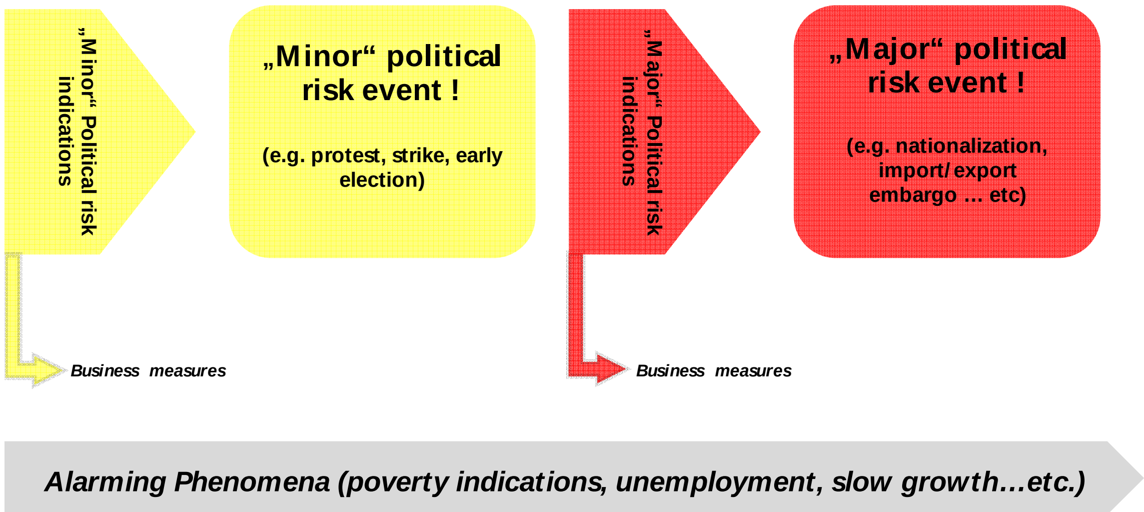

Figure 1. The Political Risk possible monitoring

- It will be ideal when identifying Political Risk events is to be grouped, e.g. social components, geopolitical, geographical, ethnic, economic … etc.

3. Conclusion:

Appropriate political risk assessment for business decisions should be based on a package of simplified and strong standards: political system, economic structure, social, geography, and demography.

Several tools and researches are assessing quantitatively political risk, however conducting quantitative modeling sometimes may combine what cannot be combined, and result in a cumulative or aggregated result, whereas each individual aspect can be crucial.

In several available studies single or few elements on political assessment where used such as Good Governance practices, Institutional maturity … etc. And obviously full understanding of political risk may require looking into the full picture. Understand core roots and not the consequences.

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