Longview Global Advisors

A GUIDE FOR CORPORATE DIRECTORS

Geostrategy & Political Risk

Management and the board can evaluate several type of political risks:

1. **Geopolitical risk.** Businesses are impacted by acts of war and international competition between state and non-state actors. Geopolitics also shapes business issues such as technological competition and cyberattacks.
2. **Country risk.** Business environments and markets are affected by political and societal drivers, such as changes of government, gridlock, corruption, insolvency, rule of law, and the quality of infrastructure, and human capital.
3. **Policy risk.** Governments influence the fortunes of companies and sectors via regulation, bailouts, tax levies, and bans on products or activities.

To keep pace with developments and provide effective oversight, ask informed questions:

1. **What are our sources of information about the political landscape?** Political insight within the executive ranks and the boardroom is often spotty and biased. Are management and the board getting a comprehensive and objective picture of the business context?
2. **What is management's view of the future?** Politics can add volatility and uncertainty to market forecasts. What are management's assumptions about the political context? How are politics shaping the long-term value of the firm?
3. **How does the situation in Market A differ from that in Market B?** Countries are very diverse and should not be approached as a uniform group. And a preference for globalization can no longer be taken for granted. How is the firm adjusting to market fragmentation and regionalization?
4. **What are the interests of our business partners?** Supply chains have become complex. In many markets, it is essential to partner with local entities. What are their legal, political, economic, and social assets and encumbrances?
5. **Do we have an effective corporate affairs strategy for today's world?** Companies are increasingly viewed as standard-bearers in society, while government and stakeholder scrutiny of companies is intensifying. What are our political and social ground games? Are we striking the right balance between shareholder returns and stakeholder expectations?
6. **Are we ready and able to change course?** Political and social contexts can change quickly. Is the firm sufficiently aware and agile? What are our contingency plans?

Board members can suggest several ways to mitigate risks:

1. **Conduct political risk assessments** as part of market and supply chain planning, cybersecurity strategy, and enterprise risk management.
2. **Enhance the corporate affairs function** to help management stay ahead of political developments. Stakeholder engagement can complement lobbying and public relations campaigns.
3. **Bring in external expertise** to provide objective, third-party insights and "ground truth" information coming up inside the enterprise.
4. **Make periodic board visits** to key markets to meet with staff, business partners, policymakers, and stakeholders. Be sure to peer beyond the plant and office walls.
5. **Diversify board membership** to include policy experience and a broader range of views.