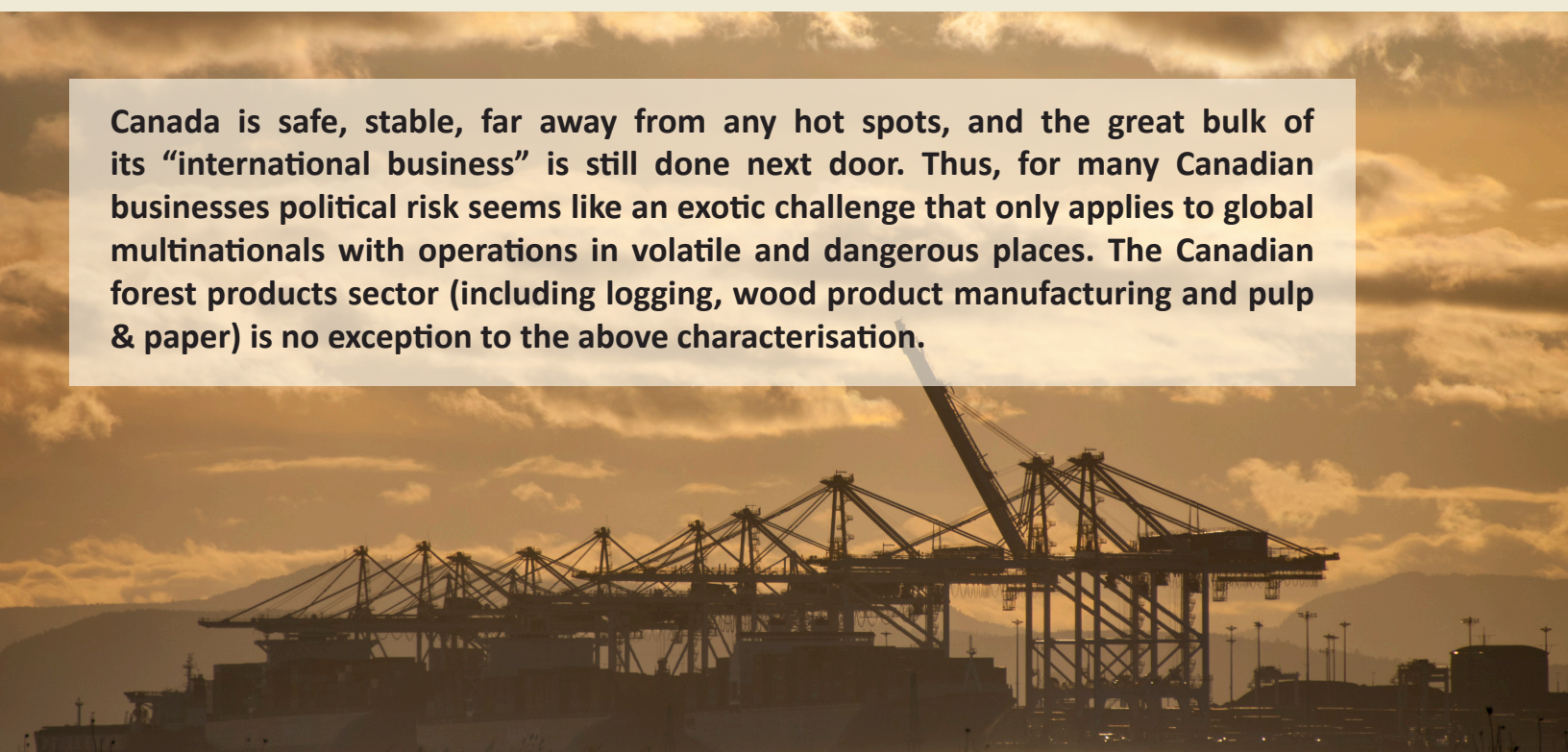


IS IT TIME FOR CANADIAN FOREST PRODUCTS FIRMS TO FOCUS ON POLITICAL RISK MANAGEMENT?

Part one of a two part series

By Robert McKellar, M.B.A., M.A.
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Canada is safe, stable, far away from any hot spots, and the great bulk of its “international business” is still done next door. Thus, for many Canadian businesses political risk seems like an exotic challenge that only applies to global multinationals with operations in volatile and dangerous places. The Canadian forest products sector (including logging, wood product manufacturing and pulp & paper) is no exception to the above characterisation.

The US has long been the largest market for all sub-sectors, and until the early 2000s Japan and Western Europe—safely “normal” markets—took the bulk of the remaining exports. From the early 2000s, China dramatically grew as a significant market, but until quite recently the country was almost univer-

sally regarded as a secure trading partner, not a strategic rival to the US and its allies. And most of the sector’s international business was simply shipping products abroad, a mode which largely avoids the exposure of people and reputation to different political environments.

With that preamble, we arrive at the question which this article poses: Is it time for companies in the Canadian forest products sector to develop an explicit sense of political risk and how to manage it?

However relatively staid the sector's experience with political forces has been, there are two basic problems with a perception that political risk is not something companies need to explicitly think about. One is that political risk is not just about arcane and dangerous problems in faraway places. What it really means is potential challenges from exposure to the political domain, wherein ideologies, values, power contention, social identities, governance and inter-state relations give rise to rationalities and imperatives that can be very different from those of legitimate businesses. Thus stated, political risk is relevant to any company, and always has been. When the political environment is relatively calm or at least predictable, a tacit approach to political risk suffices, but it still helps to have a clear sense of how political dynamics could affect the organisation.

The second problem is that by not explicitly taking the political dimension into account, companies can easily fail to notice when its political, or more broadly socio-political, operating environment has become more volatile and risky, and continue with business as usual even when it would lead to serious vulnerabilities. If we are aware of political risk, we can still use a tacit approach where it works, but we will know when and how political risk is a significant factor and will have the option of ramping up political risk management capabilities accordingly.

With that preamble, we arrive at the question which this article poses: Is it time for companies in the Canadian forest products sector to develop an explicit sense of political risk and how to manage it?

The answer to this question depends on the specific products produced and markets served but also the company or owner's propensity for risk aversion. Research studies have long established that executives in large corporations are reluctant to advocate for risky projects despite that fact that managers can approach risk strategically and reduce its downside. Thus, the approach here is to look at a four broad political dynamics that are either affecting Canadian forest products sector firms or significantly increasing uncertainty, by way of illustrating the potential relevance of political risk awareness and management. Afterwards, readers will have some grist to consider their own answer to the question, and if "yes", what they can do about it.

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Western Forest Products, Ladysmith, BC

The four political dynamics are the China-West rivalry; climate action confusion; Canada-US trade friction; and emerging market challenges. Part 1 of this two-part series includes discussion on the 'China-West rivalry' and 'climate action confusion', and Part 2 addresses the political dynamics of 'Canada-US trade friction' and 'emerging market challenges', as well as what a political risk management capability could mean in practice—should you or your company want to do something about it.

CHINA-WEST RIVALRY

If we start with the global level, wherein political risk is often known as “geopolitical risk”, the current rivalry between the West and China presents some challenges. China has been an important market for Canadian softwood lumber, but over the last decade Canada’s market share has been increasingly squeezed by Russian exports. This has partly been driven by increasing overland logistical links, an element of China’s Belt and Road initiative, but a significant driver has also been closer strategic ties between the two countries since Xi came to power in 2012. Trade is an element of the strategic relationship and is partly aimed at reducing both partners’ economic reliance on the West. Russia is now the predominant softwood lumber supplier to China, and its share has further increased with the war in Ukraine. Sanctions have made it hard for Russia to sell its lumber to Western markets, but China is a willing buyer and its purchases help to shore up Russia’s struggling economy. After the Ukraine war ends, whenever that might be, it is likely that closer trade ties will remain intact and potentially even strengthen as either country foresees further friction with the West.

China is also an important market for Canadian pulp and demand for northern bleached softwood kraft (NBSK) has been growing steadily since 2000 (now making up 34% of total Canadian pulp exports). But as with lumber, Canada’s market share of the Chinese NBSK market has been dwarfed by the growth of Russian imports—for the same reasons as with lumber and with the same prognostication.

An extension of the above challenge is that as China increasingly relies on Russian imports, its cost of playing hardball with Canadian lumber and pulp imports reduces. As Australia (2020) and Lithuania (2021) both well know, China is willing to impose what amounts to trade bans on broad sectors in response to perceived slights or changes in a country’s strategic posture. It also routinely sanctions specific companies whose exports are important to the economy of the offending country. Canada has had diplomatic spats with China and likely will again, and targeting imports of Canadian forest products could well be a lever for China.

Less strategically, but importantly from an ethical and duty of care point of view, is that under Xi the Chinese government has used anti-foreign propaganda to shore up nationalist support for the regime, and hostage diplomacy has become an acceptable way of punishing countries who seem to challenge China’s status. Dual citizens from Australia and the US have suffered detention on spurious charges, and most Canadians are well aware of the cases of Michael Spavor and Michael Kovrig, Canadian citizens detained in China in what seemed very much like retribution for Canada’s arrest of Huawei’s chief financial officer in late 2018. Doing business with China, even just exporting, is significantly facilitated by face-to-face interaction and a local sales and liaison presence. It is not paranoid to suggest that executives in Canada’s forest products sector need to be cautious about going to China during periods of tense bilateral relations. More broadly, the regime has imposed stringent oversight over Western companies and business-people in China, and this has extended to local partners and subsidiaries of Western firms.

The medium-term direction of the Western-China rivalry remains to be seen, but a second Trump presidency would likely ratchet up the tension, particularly through an increase in American tariffs on Chinese imports (and other efforts to contain China, or to “de-risk” the bilateral relationship, would likely continue more or less as under Biden/Harris albeit with stronger rhetoric). China would retaliate, and Canada, including its forest products sector, could be caught in the middle.

CLIMATE ACTION CONFUSION

A very different driver of uncertainty for the Canadian forest products sector is action on climate change. At a global level the forest products sector now lives under a socio-political spotlight because of the potential of wood as a “green” building material, bioenergy as a substitute for fossil fuels, and the effects of logging on forests which are an important carbon sink. The logging industry is particularly exposed to climate action dynamics. The science on what constitutes sustainable logging is creeping towards consensus, but scientists do not create regulations. Politicians do, and in turn they are largely steered by social expectations, or the popular mood. The popular mood is capricious.

On the one hand we see committed climate activism. This tendency would hardly ban logging, but it would, and has, introduced weighty regulatory constraints and stringent sustainability expectations. A recent example is the new EU deforestation-free law, which marks a step-change in demand-side solutions to regulate products entering the European Union. The regulation—part of a broader EU plan to bring down greenhouse gas emission and biodiversity loss—seeks to leverage consumer consumption of commodities linked to deforestation and forest degradation. Unfortunately, the dearth of clarity on deforestation definitions, compliance measures, tracking technology and supply chain implications, raised serious doubts as to its regulatory efficacy and efficiency. Despite these practical shortcomings, EU politicians are confident that they are catering to the mood of the day, which according to a recent study sees 8 out of 10 Europeans favouring a ban on products that drive deforestation.



Not long ago, it was a reasonably safe bet that this climate activism tendency would remain very influential and outweigh climate change sceptics and deniers. However, the increasing influence of ultraconservative nationalist attitudes and politicians in all regions, North America included, has injected considerable uncertainty into the pace of climate action.

The nationalist tendency generally sees climate change as either hyped or as someone else’s fault, and this means that “our nation” should not have to limit its own near-term prosperity when it comes to exploiting natural resources. So far this attitude has mainly manifested in political decisions about hydro-

carbons, but it is easy to see parallels to logging (in fact in Brazil, Bolsonaro's attitude to logging was pretty much the same as Trump's "drill, baby, drill"). In the case of oil and gas, an irony is that many players in that sector had been scaling back exploration and preparing themselves for a green future, only to find that the shift to green was nowhere near as fast as they had expected, partly because of the shift in socio-political attitudes.

Climate change is a real and pressing challenge and it makes long-term sense to stay ahead of the curve. But how far ahead is hard to gauge given the lack of consistency in socio-political attitudes about sustainability and uncertainty about how these could affect logging. Get too far ahead of the curve, and a company might find itself out on a limb while its less conscientious competitors do the bare minimum at less cost. Do the bare minimum and a company could be in for some nasty surprises if and when sustainability regulations harden. This already challenging question becomes a conundrum when we factor in export markets, which have their own attitude swings and between which sustainability standards can significantly vary.

With respect to Canada specifically, it might have a less pronounced populist nationalist tendency than the US or several European countries, but there has been a widening gap between the political centre and centre-right at the national level. Environmental policy would change quite dramatically with electoral changes. Provincial politics broadly mirrors national trends, and for the Canadian logging industry both levels matter. Thus, uncertainty arising from capricious climate action commitment at the global level is reflected domestically.

A noteworthy twist in the story of climate action stems from forests as a source of carbon credits. Carbon credits have become a massive industry, and large funds have seen a strategic opportunity in gaining control, directly or by enrolling landowners in offset schemes, of huge tracts of forest. This has occurred in a number of regions. Perhaps the most grandiose example is Blue Carbon (based in the United Arab Emirates) which intends to buy millions of hectares in Africa. Closer to home, most readers would be familiar with Manulife's Forest Climate Fund.

The main point for purposes here is that land which could potentially support sustainable logging, with a balance between lumber production, local jobs and forest management, is now susceptible to being cut off from the real economy. In effect, the logging industry is in competition with carbon markets, as evidenced in a recent New Hampshire law (HB1697) seeking to offset the impact of carbon offsets on the state's timber tax revenues. Debates about the real impacts of carbon offset schemes aside, on a practical level the effect for logging companies is tangible constraints and additional uncertainty.

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IS IT TIME FOR CANADIAN FOREST PRODUCTS FIRMS TO FOCUS ON POLITICAL RISK MANAGEMENT?

Part two of a two part series

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Part 1 of this series discussed two broad political dynamics affecting the Canadian forest products sector—the ‘China-West rivalry’ and ‘climate change confusion’—in preparation for the question—is it time for Canadian forest products companies to develop an explicit sense of political risk and how to manage it? Part 2 of this series continues with the political dynamics of ‘Canada-US trade friction’ and ‘emerging market challenges’ and concludes with what a political risk management capability could mean in practice.



CANADA-US TRADE FRICTION

The US is the biggest market for the Canadian forest products industry and trade relations can have a significant effect on the sector’s performance. The two countries have had intermittent trade disputes for decades, often arising from fundamental differences in the degree of state participation in the economy. Canada has a relatively mixed economy (with private and state participation) compared to the US, and this has led to charges of unfair government support for Canadian exporters. Readers would be well familiar with the ongoing saga of softwood

lumber disputes. These are driven by a combination of the perceived self interest of US logging companies and a perception that Canadian suppliers have an unfair advantage because of comparatively low stumpage fees charged by provincial governments, and tend to recur when US firms’ margins sink.

Canadian wood companies have become so familiar with these recurrent disputes that they would hardly recognise them as manifested political risk. After all, what is political about US competitors

whining about price competition? Plus these disputes are practically cyclical and Canadian firms are so habituated to them that they seem to be a fixed feature of the North American market. However, although the basic impulse behind recurrent disputes is commercial, that they can eventually lead to significant changes in tariffs is a result of the US political system and US political attitudes. The political system is distinct from Canada's in having a powerful elected senate, members of which represent their states and make clear targets for business lobbies with roots in specific states.

Political attitudes towards trade also tend to vary from those in Canada. While Canadian governments certainly like their companies to perform well and contribute to the national economy, trade is usually regarded as a matter of soft diplomacy and incremental gains. In the US, there is much more variation in attitudes to trade. It tends to swing between shades of multilateralism and protectionism, with the far end of protectionism manifesting as "America first". That became the de facto US trade policy under Trump, and Canadian lumber companies were among those to experience the effects. However, high tariffs on Canadian softwood did not abate under Biden. Although he was not exactly an "American-firster", to get elected in the first place he had to appeal to US nationalist tendencies and therefore sustained some of Trump's legacy (sustaining a hard line on trade also helped him to make the case that he was doing everything possible to help the US economy recover from the covid downturn). Thus, while the US political system lends itself well to targeted lobbying, political attitudes can make the difference between lobby groups nipping heels, or being able to nudge an already strong political tendency for dramatic effect.

The looming prospect of another, even more intensely protectionist, Trump presidency is just a symptom of a wider shift in US politics. There are various explanations for the rise of conservative, populist nationalism (and its attendant bent for protectionism) in Western countries, but an emerging consensus is that it is partly a manifestation of frustration with political-economic systems that tied themselves to globalisation on the premise that it would maximise prosperity, but which in turn have generally yielded one cost of living crisis after another since the 2008 financial crisis. Among Western democracies, the US

is the epicentre of this phenomenon and even if Trump fades from the scene, Trump-like figures will very likely continue to influence US trade policy for years to come, perhaps not consistently but certainly during economic

downturns. Canadian companies in general, but especially those in the forest products sector, need to be able to keep their finger on the pulse of US politics in order to foresee and mitigate surges in protectionism.

As an aside, if Trump does win the 2024 election, Canadian firms will need to consider that resorting to multilateral fora to make the Canadian case will be even less effective than it has been, given Trump's low respect for international organisations and agreements, and the fact that his administration would be even better prepared to enact its protectionist ideals a second time around. That would call for alternative strategies that emphasise mutual self interest, but even they are likely to come up against a solid "us and them" attitude.

Depending how far protectionism in any one period goes, it's not just about trade, but could extend to foreign direct investment and cross-border value chains. Canadian forest product firms have productive

Canadian companies in general, but especially those in the forest products sector, need to be able to keep their finger on the pulse of US politics in order to foresee and mitigate surges in protectionism.

assets and operations, partnerships and financial investments in the US, and in turn also rely on the presence of US companies with operations in Canada. The sector is quite cross-border. It might seem hard to imagine an American administration cracking down on the foreign ownership of US industrial assets or property, or compelling US firms to come home and only use American labour, but being hard to imagine never stopped political risk from manifesting. Socio-political trends and pressures build over time and when they reach a tipping point, often pushed by a trigger, catalyst, or a leaders' personality quirks, what seemed outlandish is suddenly the new situation. In recent years much has happened that seemed inconceivable shortly beforehand, and a US protectionist rampage is hardly unimaginable.

One does not have to look at tumultuous global politics or unstable and conflict-prone regions to find political risk. The Canadian forest products sector has long been accustomed to a degree of business as usual in dealing with the US market, and even trade disputes have had a certain rhythm. But the future of bilateral trade, cross-border business and even political relations cannot be taken for granted.

EMERGING MARKET CHALLENGES

Emerging markets are alluring because of their relatively high growth (or market immaturity), relatively less competition and lower labour costs. The Canadian forest products sector has seen a number of opportunities in emerging markets. Thus far these have mainly been for wood in furniture and construction, but there are potential opportunities for Canadian wood product manufacturers to offshore production to lower-cost environments which are also close to significant foreign export markets, or to provide their manufacturing expertise in partnerships with emerging market firms. Players who can crack emerging markets stand to gain new growth horizons and considerable competitive advantage over their more home-bound peers, and hence international frontiers are strategically significant.

The rewards in developing and transitional countries are potentially high, but along with reward comes risk, and most emerging markets are much more politically risky than what Canadian companies are accustomed to in their own region. Political risk considerably varies according to state fragility and political and economic development levels. It is also important to note that even in one country, political risk is often very specific to a particular company's presence and activities, since companies' socio-political profiles and exposures vary. With those qualifications in mind, we can summarise why emerging markets tend to present higher political risk, after which we will briefly look at two emerging markets of particular interest to Canadian wood product firms for tangible illustration, namely India and Vietnam.

"Emerging market" is business-speak for a developing or transitional country. The country is developing or transiting away from something, or a certain situation. That is usually a state of relative instability and incohesion. Development means that a place is becoming more cohesive, stable, well governed, and safer.



Countries can regress, for example during a civil war or the rule of a particularly eccentric dictator; once these detours are resolved, development re-starts from a new reference point. Because emerging markets have not fully made the transition to a well-functioning, cohesive state, they continue to manifest at least some of the attributes of their starting point, to varying degrees, and they are also at some risk of slipping back towards that point. This is why, in general, emerging markets present more political risk than mature (or developed) ones.

Many emerging markets (and most countries are emerging markets) have come a long way from their last problematic starting points, but most of them still suffer from degrees of instability and social friction, and institutionalisation and the rule of law range from merely okay to negligible. Even in countries generally considered transitional, or relatively far along the development spectrum, foreign companies can face inexplicable bureaucratic delays, corruption and nepotism pressure, hazards because of urban protests, inadvertent social friction because a company did not grasp local social divisions, and the variable enforcement of already confusing rules about trade and foreign direct investment. Go a little further back on the spectrum, and one can add to the above: manipulation by regime-connected cronies with friends in the police and judiciary, mafia extortion attempts (with help from corrupt local officials), blatant regime interference in specific private sector deals and agreements, and a worrying degree of hazard from riots and low-level conflict. What goes on even further back on the spectrum might concern more adventurous multinationals and NGOs, but for our purposes we can leave it there.

We should note that being aware that emerging markets tend to be quite politically risky is not making a moral judgement about these markets, and it certainly does not pertain to cultural differences or national variations in wisdom. After all, we can see in the US and Europe that only robust institutions, which themselves are under increasing pressure, have contained non-democratic, self-aggrandising and divisive political tendencies. Thus, we can be aware of the risks in emerging markets without prejudice, and being aware, both in general and especially with respect to a given country of interest, is critical for a foreign company to conduct profitable business while safeguarding its reputation and integrity.

As an aside, the converse of awareness is simply hype. The author has attended several emerging market country or region investment promotion conferences where everyone was talking about the place, however corrupt, fractionalised or repressive the government, as though it were an undiscovered business paradise. Many companies take the hype with a grain of salt, but if that really were the mindset of companies trying to enter new frontiers, they would be in for a shock and for a run of what seemed like very bad luck, at least until they learned the hard way that their presence needs to be carefully managed above and beyond basic commercial and technical proficiency.





INDIA

With that admittedly very broad characterisation, we can turn to two examples that have been on the radar of the Canadian wood sector. India is one, and it represents a sizeable long-term opportunity as a market for Canadian wood in particular, but also for Canadian wood product manufacturing expertise and even offshoring. India has a vibrant economy backed up by a huge population within which is an expanding middle class and a well educated labour force.

One challenge in India is similar to what a foreign firm would find in Canada: states have considerable power over their own affairs, including important elements of business regulation, and thus a foreign firm has to deal with at least two significant levels of bureaucracy. That is not a political risk, it is just the way it is. On the politically risky side we can point to a few illustrative dynamics:

- Official corruption is widespread although it varies by state (in 2023 India ranked 93 out of 180 on Transparency International's Corruption Perceptions Index [1 is least corrupt], putting it roughly between Pakistan and China);
- Regulatory enforcement can be arbitrary and bureaucratic processes are often slow and convoluted; a smooth encounter with the civil service is rare, and usually depends on friendly or supportive government connections;
- The judicial system is choked with case backlogs and notorious for its slow pace of resolutions, and this applies to business legal disputes;
- There is a high degree of cronyism, or favouritism applied to business friends of officials and politicians, and this can be problematic if a crony feels threatened by a foreign company, if it wants to partner with a reluctant foreign company, or if a foreign company partners with one and then finds itself called out for having relied on unfair and illegitimate advantages;
- Sectarian tensions, especially between Hindus and Muslims, can manifest as sudden violent riots, but perhaps more problematically they can affect workforce cohesion, and if a foreign company inadvertently partners with a local business with strong sectarian values, it can position the foreign firm as socially insensitive at best, or indeed as biased;
- Those same tensions have been stoked by the Modi government and BJP (Bharatiya Janata Party) in recent years to shore up their popularity with their Hindu nationalist voter base – with recent electoral changes this tendency might somewhat recede, but as it stands there is a very high degree of mutual suspicion between the two sectarian communities;
- In addition to sectarian tensions, subnational (or ethnic) divisions can also make it difficult to balance different interests and perspectives, and can likewise lead to periodic violence especially in large cities where subnational groups live side by side;
- Indian cities have experienced serious terrorist attacks in the recent past, and both jihadist and subnational insurgent groups capable of such attacks persist.

Depending on a company's exposure and profile, the above might not present challenges, but one would need to examine the potential intersection of these dynamics with the company's aims, presence and operation to have a sense of what is relevant and the issues they could give rise to.

Before moving onto Vietnam, it is worth noting that bilateral tensions can raise their heads even between India and Canada, and have the potential to affect trade or the treatment of Canadian companies in India. Most recently, Canadian accusations that India was responsible for killing a Sikh nationalist (and Canadian citizen) in Canada in 2023 caused an uproar and a vociferous reaction in Indian political circles. The reaction died down a little after the US intelligence community started to look into similar Indian covert activity in the US, but when Canada was alone in making such allegations, it was very exposed to a potential overreaction from India.



VIETNAM

Vietnam is another country of significant interest to the Canadian wood products sector. It is the second largest furniture manufacturer in Asia after China, and the sixth largest in the world. In an effort to preserve its own tropical forests, the country has sought new sources of sustainable wood and Canadian firms have a significant export opportunity. As with India, this could extend to the provision of wood manufacturing expertise and even the offshoring of wood product manufacturing. And as with India, with opportunity comes some sources of political risk, a few of which we characterise by way of illustration:

- Vietnam is a one-party state under the Communist Party of Vietnam, and like China despite economic liberalisation there is a strong link between business (often state or privatised state companies) and party, partly manifesting as crony ties between business leaders and factional cliques within the party;
- Corruption in Vietnam is not as bad as in India, but it is still quite pervasive in interactions between local party cadres and citizens, and it also manifests as grand-scale illicit mutual opportunism among elite party cliques and their favoured business-political allies;
- Again like China, the leadership has worried that the degree of corruption is undermining the party's legitimacy and has cracked down hard on corrupt officials, leading to intense purges including at the top; there are strong indications that anti-corruption targets include cliques that the party's leading faction regards as potential challengers (given the links between party and business, one can imagine a scenario in which a foreign company's Vietnamese partner becomes targeted in this campaign with consequences for the joint project and for the foreign firm's legal standing and reputation);
- Partly because of the leadership's fear of challenges from within the party, but also concern about growing public scepticism towards the party, in recent years Vietnam has effectively become a police state, perhaps not on par with China under Xi, but not far off either;
- Although Vietnam has made it a lot easier for foreign companies to enter, regulatory consistency and the overall rule of law still compete with the old communist mentality of rule by diktat, and the bureaucracy retains characteristics of its hardline communist days, i.e. big, slow, and opaque (in addition to its performance being affected by anti-corruption purges);
- In recent years Vietnam saw a massive increase in labour activism and strikes, partly driven by labour reforms that have increased private sector employment and reduced job security – the regime has started to crack down on labour activism as part of its general crackdown on potential dissent, but domestic and foreign firms continue to experience considerable labour friction;
- In general, the party has derived its legitimacy from the liberation and unification of Vietnam and subsequent economic growth, but its biggest achievements are becoming old history, and one-party rule is increasingly clashing with the aspirations of a growing, increasingly educated and entrepreneurial middle class – the party and one-party rule are becoming an anachronism but there is no Plan B.

Again, which of these dynamics could matter depends very much on the company's and its operation's own profile and exposures. But as with the India example, we have another case of an emerging market which is routinely portrayed in export promotion circles as the next big thing, but which, when one scratches the surface, is hardly a paragon of stability and ease of doing business.

Both India and Vietnam are quite workable by emerging market standards, but if Canadian wood product companies aspire to long-term success in either of them, how political dynamics could translate into challenges needs to be understood and planned for. In general, emerging markets are challenging, but the risks are manageable. Experienced international companies successfully operate on the ground in some

of the most complex and dangerous places in the world. But a relatively smooth experience in emerging markets is only feasible if we shed assumptions about the separation of business and politics and explicitly manage the links between the two domains.

IF THE ANSWER IS YES, WHAT THEN?

We can return to the original question: Is it time for companies in the Canadian forest products sector to develop an explicit awareness of political risk and abilities to manage it. If the answer is yes, the next question is how a company can instil the appropriate capabilities.

A political risk management capability generally includes:

- Senior management and board buy-in and support for such a capability;
- A strong concept of political risk in the company's context, and this would be a much more company-specific variant of the characterisation rendered in Part 1 of this paper;
- A corporate intelligence process that identified relevant trends and dynamics and derived potential implications (or risks) for the company, with a sub-process for specific foreign country initiatives;
- Straightforward but practical guidelines for how managers could apply political risk intelligence to manage strategic and operational political risk, integrating as appropriate relevant functions including but not limited to strategy, operations, supply chain management, business continuity, business integrity assurance, legal, sustainability / CSR, communications, external / government affairs, and security; and
- A seat of coordination and institutional learning that helped to ensure that lessons were not lost, expertise accrued, and different management functions worked in sync from the same political risk intelligence picture rather than in their own silos or at cross-purposes.

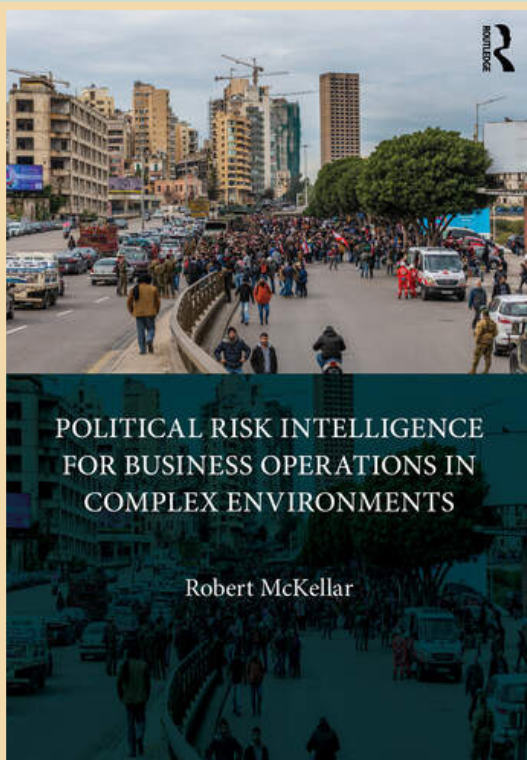
These elements could manifest in a number of different organisational forms, from a kind of hub and spoke model spanning and linking different functions and divisions, to the creation of an internal advisory team that undertook intelligence exercises and provided guidance on specific political risk management initiatives.



The final format would depend on company size, exposure, and culture, but there are four things that probably would not work in most cases:

- Treating political risk management as something different from what managers already do. It is not some arcane specialist domain, rather it is simply how people act on their awareness of potential socio-political challenges in their everyday responsibilities, which could range from strategic planning through to nuts-and-bolts operations;
- Creating a political risk department and expecting it to somehow lead to effective political risk management. This was tried in the 1980s and '90s and such units tended to become silos in their own right, divorced from the very people who would actually manage political risk on the front lines, namely strategic and operational managers;
- Managing political risk only within enterprise risk management (ERM) functions and processes. Political risk is about the company's evolving interaction with a political system and navigating a political environment, not about one-off downside events that can be easily wrapped up in a risk registry and matrix, which in most cases gather dust between annual risk reviews;
- Just talking about political risk, creating a few policy documents and then ticking a box beside "political risk managed". This is worse than useless because it leads people to assume that the political risk base has been covered when the company could actually be vulnerable to harm or disruption.

Political risk management is a nuanced subject and interested readers will need to investigate further, but hopefully this is a modest starting point. For more insights and resources on political risk management visit harmattan-risk.com/insights.html.



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