

# Political risk assessment and management

[Business](#), [Management](#)



Political risk is the likelihood of an unanticipated politically- motivated incident which affects the results of a business investment. Political risk involves a range of threats which are due to;

- o Inactions or actions of the government that is political instability
- o Military conflict
- o Terrorism
- o Trade frictions
- o Actions of third party state
- o Supranational war
- o Political violence and unrest

Any firm that has invested across the globe is prone to political risks; the firms include exporters, contractors, traders, commodity dealers, manufacturers, projects companies, investors and even banks. Political risk can lead to deprivation of these firms’:

- o Assets
- o Ability to execute contracts
- o Ability to repay loans

The above and any other effects on the firm eventually create a serious effect on the firm’s balance sheet.

The assessment of political risk is offered by International Risk in form of actions that are directed to the needs of the firm’s decision makers. In order for a firm to succeed in business political assessment is very crucial to all investors so that they are able to understand the political environment which is ever changing. The actual political dynamics in a country are very different

from what is seen on the media or the surface hence the importance of sorting insights and facts from gossip and propaganda. Political risk assessment is very important for it saves a firm's cost and time in those political threats can be addressed in the initial stages instead of waiting to commit many resources in solving the problem. Political risk assessment also helps a firm in making a decision on whether to rely on political risk insurance covers (Moffett, et, al, 2006).

There is a crucial issue to be noted in that the firms' executives are not willing to agree that the political risks levels are increasing as a result of searching for large economic rewards. They should also note that their capacity to protect firm economic value and performance by systematic, efficient and consistent management of risk is of paramount importance. Corporate executives should integrate political risk into their businesses' investment decisions and (ERM) Enterprise Risk Management processes so as to understand better their global exposures and thereby be able to balance the achievement of the firm's objectives and the risk appetite. It should be well-known that' since political risks can be predicted, they can as well be managed and measured by taking the actions which are below;

- o Assessing the present exposure of political risk and determining the preparedness level which is done by examining the quality of the present controls and the sufficiency of the risk alleviation plans in relation to the political risks identified.

- o Developing methods for risk adjusted assessment of the opportunities and international risks by scenario planning that controls information of political risk so as to weigh operating and investment opportunities and eventually

come up with associated political risk control steps.

- o Implant considerations of political risk into the risk management structures, continuing business operations and strategic process of decision making in order to make timelier and better decisions on international operations and investments.
- o Lastly is to integrate the elements of the political instability into the assessment process of capital allocation and the current management of the global operations.

SWOT analysis is the method of strategic planning which is used in the evaluation of a company's or a country's Strengths, Weaknesses, Opportunities and Threats which are involved in the business or country. It starts by the specification of the main objective of the project or business investment and then recognizing the external and internal aspects that are either unfavorable or favorable to achievement of the objective. The internal factors that are favorable to the achievement of the objective are strengths (S) while those which are unfavorable are weaknesses (W); the external factors that are favorable are called opportunities (O) while those which are unfavorable are called threats (T). These initials form the word SWOT hence SWOT analysis for the assessment of the business environment.

SWOT analysis leads to the provision of very helpful information in the process of matching the business environment which is competitive to the firm's capabilities and resources; it is due to this fact that it is influential in the process of strategy formulation and the selection.

A business's strengths are the capabilities and resources that form a basis for the development of competitive advantage, such factors include;

- o Good access to a firm's distribution channels
- o Good reputation from its customers
- o Patents
- o Cost advantages due to the proprietor's knowledge
- o Powerful brand names
- o Unlimited access to natural resources

Weaknesses are the factors which are brought about by lack of some importance resources, lack of all the above strengths are known to be weaknesses. A firm which has a large capacity of production can also face the weakness of the capacity preventing the business from reacting fast to the environment changes which are prone to changes always (Hohn, 2008pp 101-109).

Opportunities are the external factors which favor a firm in comparison to the competitors, these factors include;

- o Customer needs which are unfulfilled
- o Slackening of the regulations
- o Elimination of global trade barriers
- o Emerging of new expertise and technologies

Threats are the changes in the outside environment which are unfavorable to the firm, this factors include;

- o Appearance of substitute goods and services from the competitors
- o Increase in global trade barriers
- o Emergence of new regulations which are unfavorable the normal operating process of the firm
- o Changes in the tastes of the consumers away from a business's goods and services

According to the case study of Jerusalem, the SWOT analysis reveals that there only exist threats and weaknesses which have made it very hard for the city's economy to be taken back to track, this has also led to divisions within the residents and reduction of investments by outside cities and countries. The weaknesses present are;

- o Lack of a person who is willing to become the city's mayor
- o Lack of unity among the citizens
- o Very few individuals willing to defend the country
- o Some individuals don't even recognize Jerusalem but instead call it Palestine
- o Moribund economy
- o A third of families and more than half of the children living below official poverty line
- o Young, secular and educated fellows are leaving the country
- o Unemployment
- o Splitting into micro societies which share nothing in common
- o No candidate can pull the society back to track

The external threats are;

- o Attacks by Palestinians Jerusalemites on Israel which deepened the differences
- o Breakdown of coalition talks
- o No investments from the Israelites as it was before

The city is supposed to overcome its weaknesses and threats so as to develop strengths and opportunities. Most of the young and educated youth are going abroad in search of greener pastures due to lack of employment opportunities in the city which has been brought about by moribund economy which unless rectified, it will grow worse.

The city operators should ensure that they first accept that there exists a problem and then find the causes of the problems so as to successfully look for solutions to the problems. Since the situation of Jerusalem city is very bad, the regulators should make sure that the political risks available are managed by assessing the present exposure of political risk and determining the preparedness level, developing methods for risk adjusted assessment of the opportunities and international risks, implanting considerations of political risk into the risk management structures, continuing business operations and strategic process of decision making and lastly integrating the elements of the political instability into the assessment process of capital allocation and the current management of the global operations.