Integrating political risk analysis into corporate strategy

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The Wharton School
Conflict-cooperation in media reported statements and actions

Foreign actors

Source: Global Database of Events, Language, and Tone (GDELT)
Conflict-cooperation in media reported statements and actions

U.S. actors

Source: Global Database of Events, Language, and Tone (GDELT)
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Chinese actors

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Conflicts—cooperation in media reported statements and actions

U.S. actors

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The global macro risk environment

The impact of external risks on the overall performance of global companies

**Social**
demographics, social identity, migration

**Technological**
automation, cybersecurity, artificial intelligence

**Political**
populism, sanctions, trade and investment policy

**Environmental**
natural or man-made disaster, climate change, public health

**Economic**
global economic conditions, equity and commodity markets, investment flows

Source: EY Geostrategy Survey 2020
n = 1,009
How the global c-suite views political risk

Percentage of CXOs who say the effect of political risk on their company is higher or much higher than two years ago.
The pandemic is generating political risks and accelerating existing trends

Primary forces of disruption

Globalization
COVID-19 will challenge cross-border economic activity and push companies to re-evaluate supply chains, favoring regionalism

Technology
The challenges of combatting COVID-19 make technology critical to national competitiveness

Demographics
The pandemic accentuates the societal, economic and policy implications of aging

Environment
COVID-19 has wiped climate change policy off the agenda for now, but it will return – potentially stronger
Great power politics dominate executives’ geopolitical risk perceptions

The balance of power among the world’s largest economies is shifting

Top geopolitical risks

- U.S.’ role in the world (45%)
- EU stability (beyond Brexit) (42%)
- US-China relations (41%)
- China’s role in the world (26%)
- Brexit (16%)
- Russia’s role in the world
- Transatlantic relations
- Korean peninsula stability
- India-Pakistan relations
- Saudi Arabia-Iran relations

Source: EY Geostrategy Survey 2020
n = 1,009
Peripheral vision

Executives ranked the geopolitical risks closest to their headquarters as having the greatest impact

Source: EY Geostrategy Survey 2020
\( n = 357 \text{ (Asia-Pacific), 240 (Europe), 346 (Americas)} \)
Note: Respondents were asked to select up to 3 risks from a pre-populated list.
Cross-functional impact

Political risk can be felt across the entire spectrum of corporate activity

Source: EY Geostrategy Survey 2020
n = 1,009 (Overall), 245 (US), 170 (China)
The political risk management ‘toolbox’

- Integrate into enterprise risk management: 85% Yes, 15% No
- Assessments of political risk exposure: 79% Yes, 21% No
- Recruit individuals with political experience into leadership: 76% Yes, 24% No
- Collect data on sources of political risk: 73% Yes, 27% No
- Geographic diversification: 71% Yes, 29% No
- Integrate into strategic planning: 71% Yes, 29% No
- Market entry analysis: 70% Yes, 30% No
- Conduct scenario analysis: 69% Yes, 31% No
- Cross-functional office: 64% Yes, 36% No
- Insight from external sources: 63% Yes, 37% No
- Stakeholder management: 59% Yes, 41% No
- Model impact: 57% Yes, 43% No
- Political risk insurance: 54% Yes, 46% No

Source: EY Geostrategy Survey 2020
n = 1,009
Ownership of political risk management

- CRO: 36%
- CFO: 25%
- COO: 7%
- Information Security: 7%
- Security: 5%
- General Counsel: 5%
- Government Relations: 5%
- Country Management: 5%
- Strategy
- Corporate Social Responsibility
- Investor Relations

Source: EY Geostrategy Survey 2020
n = 684
Varied approaches

CXOs who say their company has an individual or function tasked with political risk management

<table>
<thead>
<tr>
<th>Country</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>India</td>
<td>46%</td>
<td>54%</td>
</tr>
<tr>
<td>Canada</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>United States</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>Germany</td>
<td>66%</td>
<td>34%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>Italy</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>France</td>
<td>83%</td>
<td>18%</td>
</tr>
<tr>
<td>China</td>
<td>88%</td>
<td>12%</td>
</tr>
<tr>
<td>Japan</td>
<td>93%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: EY Geostrategy Survey 2020
n = 60 (Japan), 170 (China), 40 (France), 30 (Italy), 40 (United Kingdom), 50 (Germany), 245 (United States), 30 (Canada), 37 (India), 30 (Brazil).
A typology of political risk management approaches

Analysis from the Wharton Political Risk Lab

Relational

The first group relies on relationships under the leadership of their country managers or government/external/public affairs teams who build their own proprietary data.

Financial

A second group of firms adopt a stronger financial perspective with authority vested in their finance or risk management team, with a reliance on external data and a strategy of diversifying or transferring risk.

Operational

A third group takes an operational approach focused on either manufacturing or supply chain implications or IP-related issues under the leadership of manufacturing, operations, or IT.

Strategic

Finally, an important set take a strategic perspective relying on internal data, and conducting scenario analysis, sensitivity analyses, and integrating political risk management into broader strategy.

Source: Wharton Political Risk Lab
Political risk management approaches of US and Chinese firms

Analysis from the Wharton Political Risk Lab

<table>
<thead>
<tr>
<th>Category</th>
<th>U.S.</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relational</td>
<td>29%</td>
<td>-</td>
</tr>
<tr>
<td>Operational</td>
<td>18%</td>
<td>-</td>
</tr>
<tr>
<td>Financial</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>Strategic</td>
<td>26%</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>14%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Source: Wharton Political Risk Lab; EY Geostrategy Survey 2020
n = 215 (United States), 147 (China)
Q&A

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