

Playing Your Cards Well; Managing Political Risk in International Business

Political risks are any changes in the political environment that may adversely affect the value of a firm's business activities. Most political risks can be divided into three categories:

1

Ownership Risk

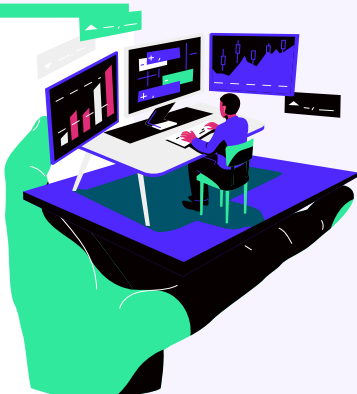


Occurs when the property of a firm is threatened through confiscation or expropriation

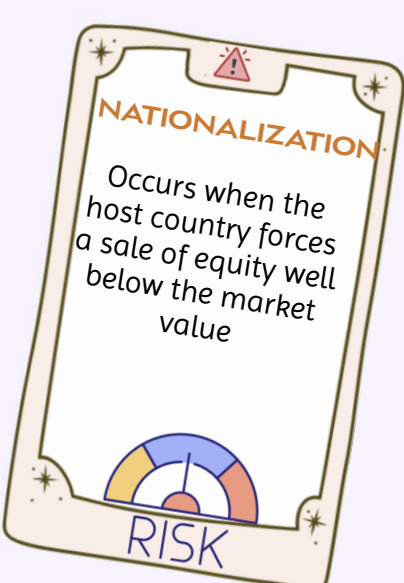


2

Operating Risk

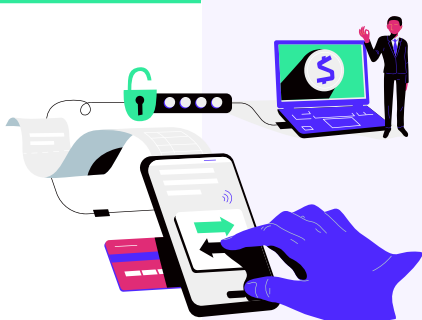


Occurs when the ongoing operations of a firm or the safety of its employees are threatened through changes in laws, environmental standards, tax codes, terrorism, armed insurrection, and so forth

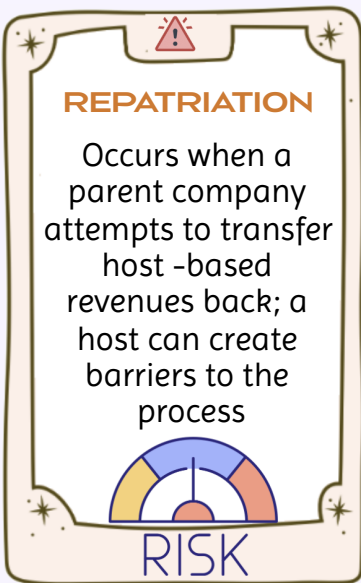


3

Transfer Risk



Occurs when the government interferes with a firm's ability to shift funds into and out of the country



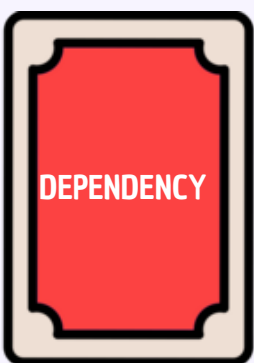
Risk Mitigation Strategies



Avoid investment or withdrawing investment

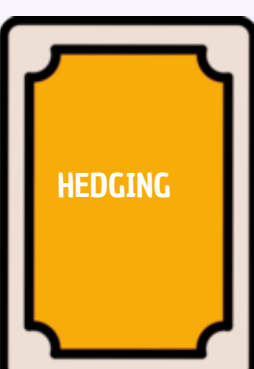


- participative management
- actively involve locals
- equity sharing
- economic development



Keep the host entity dependent by:

- control of raw materials, tech, and know how
- control the means of production
- position control



Refers to a set of guidelines and procedures implemented by a company to manage and mitigate risks related to price volatility, currency fluctuations, or interest rates

Any firm contemplating entering a new market should acquire basic knowledge of that country, learning, for example, about its political and economic structures to control the firm's political risks.