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# ASSESSING POLITICAL RISK: AN OVERVIEW

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Political risk analysis has blossomed in the United States during the 1970s in much the way that formal economic analysis became institutionalized in the 1960s. In 1970, only the rarest firm had an office for a professional political scientist, or spent substantial funds on subscriptions to political risk analyses, but by 1980 most major banks, oil companies, and large internationally oriented mining or manufacturing firms had, usually with some hesitation, acknowledged the importance of political problems by investing some of their funds.

The reasons for this flowering of political analysis were several. First, the Third World, where political instability is much more prominent, has steadily become a more important part of the world market. Second, while the value of economists was by the 1970s universally accepted, the limits of formal economic predictions had become increasingly clear. Third, the North-South dialogue had led to increasingly systematic analysis of issues surrounding the multinational corporation. Fourth, a group of quantitatively oriented political scientists claimed to have new methods of predicting political change. Finally, the upheavals in Iran and Nicaragua so damaged large numbers of major firms that many of them determined to ensure that they would not again be surprised by major revolution. Political risk techniques emerged first in the United States, because American managers are more inclined to formalize and institutionalize such analysis, because the U.S. government stopped using gunboat diplomacy to solve the political problems of its major corporations in the mid-1960s, and because large numbers of American businesses lacked the international perspectives of European business and therefore felt more need for systematic analysis.

Despite the new rise of political risk analysis in the United States, neither political risk nor its analysis is a new phenomenon. The Hebrew bankers in ancient Babylon had networks of spies and couriers throughout the known world to advise them as to the likely victors of wars and feuds. The Rothschild banking empire in Europe owes a part of its successes to a period in which it developed a communication system -- the equivalent for its day of the Reuters wire as well as Business International -- which would advise the Rothschilds of events two days before the government's intelligence systems could communicate. Presumably, if the bankers of 14th century Florence had understood political risk analysis, they would not have suffered the disasters that followed upon their massive loans to Edward of Britain at the time of his difficulties with France.

The Purposes of Political Assessment

Risk. Political risk analysis derived its justification and its name from investigating two particular kinds of risk: the risk of revolution and the risk of expropriation. Thus it served a dramatic but limited market. The expropriation of great firms, particularly without compensation, has become far less popular than it was in the 1950s. Likewise, the staging of great revolutions has been a fairly rare occurrence. The political problems which worry businessmen most of the time tend to be much more subtle. Therefore, the concept of political risk has quickly broadened to include risk of loss of patent or copyright protection; risk that land rights or mineral rights will be limited; risk of severe difficulties with labor or of government-imposed loss of ability to hire and fire employees; risk of constraints on the right to import equipment and raw materials or the right to export commodities and to repatriate profits, investments, and royalties; and risk of loss of fair access to domestic or foreign markets. Such risks as exposure to an arbitrary judicial system, delays due to endless red tape, and demands for corrupt payments have also become prominent on the list of political risks.

All of these varieties of risk are important, and focusing attention on them has greatly broadened the market for political risk analysis. But the whole field has suffered from an excessive focus on risk aversion. Without minimizing the importance of avoiding political risk, it is critically important to recognize other aspects of the political analyst's job: seeking opportunity, advising on negotiating strategy, formulating country strategies, doing strategic planning, and occasionally even exercising political influence.

Opportunity. Politics can create new opportunity as well as risk. Frequently the political analyst will see improvement in a country before the economic indicators reveal it. In China, the re-emergence of Deng Xiaoping created opportunities. In Sri Lanka, the Jayewardene government's efforts to develop the country along the market-guided export-oriented lines pioneered by Singapore, Taiwan, and South Korea offered even more auspicious prospects. In Zimbabwe, a number of analysts, including this one, were able to predict on political grounds that Zimbabwe, under "radical Marxist" leadership, was likely to become one of the most successful economies in Africa and to have a relatively favorable investment climate for multinational corporations.

Negotiations. Political analysis is universally needed in high-level negotiations. For instance, when a coalition of 124 banks was negotiating with the new government in Nicaragua, the banks desperately needed to know whether the Nicaraguans were negotiating in good faith, whether the guerrilla leadership in Nicaragua was likely to back up agreements reached by the formal Nicaraguan negotiators, whether the leadership was likely to remain stable, and whether it was more advantageous to reach a quick agreement or to delay during efforts to educate the new government leadership (in the hope that a more informed and more broadly based decision would have more staying power).

Country Planning. Political risk analysis has moved away from the idea of simply advising banks or corporations to invest or not to invest and has moved toward more detailed alternatives. Whether banks should lend primarily to the government, primarily to indigenous firms, or primarily to local banks, or restrict exposure to trade financing, is more often a critical issue than whether to do business or stay out. Likewise, for the major corporation involved in many countries, it may be more useful to know whether a populist government will improve the income distribution and make a broad low-cost consumer goods market the most attractive, or whether a right-wing government will emphasize heavy industry and make major capital-intensive investments the most lucrative.

Strategic Planning. Frequently the most important decisions do not concern individual governments or countries. Broad patterns, such as the financial, agricultural, and political difficulties of Eastern-Europe; or the international political consequences of a rise in the price of oil; or the portfolio consequences of having Third World investments concentrated in a few countries like South Korea, the Philippines, Brazil, Saudi Arabia, Iran, and South Africa, can help top management make major strategic decisions. Firms which recognized very early the spreading patterns of political stability and economic takeoff in Pacific Asia during the 1970s made major gains on their competitors by weighting their portfolios toward the Pacific. Firms which recognized early that they could be damaged by simultaneous difficulties in

South Korea, Brazil, and Iran, or by portfolios heavily concentrated in Eastern Europe, gained great advantages.

Influence. Banks and corporations are not of course simply the passive objects of political events which happen to them. They can, and do, influence events. Despite the popular image of overwhelmingly powerful multinational corporations pushing around weak countries, this virtually never occurs through the exercise of raw power. Even in a very small country, the stroke of a pen or the single vote of a legislature can quickly put even a very large firm out of business, particularly if it has acted in such a way as to excite widespread nationalist antagonism. However, it is not uncommon for the IMF to set conditions for granting a loan whose major purpose is to trigger a flow of commercial bank loans, and it is not uncommon for banks and multinational firms to give, and to be asked for, advice on the economic implications of various political options. For instance, American firms undertook a major effort to persuade the government of President Reagan to display a favorable political attutide toward the government of Robert Mugabe in Zimbabwe.

## Conceptualizing the Firm

Elaboration of the kinds of political risk, and the kinds of political impacts on the firm other than risk, eventually creates a conceptual dilemma. The impact of political events on the firm can be so diverse as to be unmanageable. For this reason, there is a rapid evolution of more sophisticated conceptual apparatus in thinking about risks and opportunities. One can identify three phases:

Phase One. As noted above, the earliest case studies simply focused on the issues of expropriation and revolution.

Phase Two. More recently, the tendency has been to analyze a limited list of kinds of risks. For instance, some of the quantitative rating services would all choose a list of half-a-dozen issues, including perhaps the risk of expropriation, civil disorder, corruption, remittance restrictions, tax changes, and unreasonable legal problems. Other firms will pick a list of 10-20 issues.

Phase Three. The existence of dozens of different kinds of potential risks, and the arbitrariness with which one must make choices, suggests the need for a broader concept. Instead of making lists of risks, which are arbitrary and which fail to take into account the other kinds of political issues noted above, one needs to be able to think about the whole range of possible political impacts on the firm. In order to do this, it is useful to conceptualize the firm as being composed of its assets, its organizational structure, its operations, and its markets, as in Table 1. Given this broad concept of the firm, one can ask broad questions such as, What is the potential impact of a particular political change on the firm's assets? By asking this broad question, rather than the narrow question about expropriation, one leaves open the possibility of a much more interesting and nuanced answer. The answer could be that the firm faces risks to its share-ownership, to the physical safety of its real property, to its land rights, to its mineral rights, to its patents, or to its copyrights. Many other sub-divisions of the issue of asset control could be explored, and by the time one would have done so, one would have answered far more than the total half dozen questions typically addressed by list makers. One can elaborate the other risk and opportunity issues in whatever detail is desired, on the pattern of Table 2.

Table 1

COMPONENTS OF BUSINESS

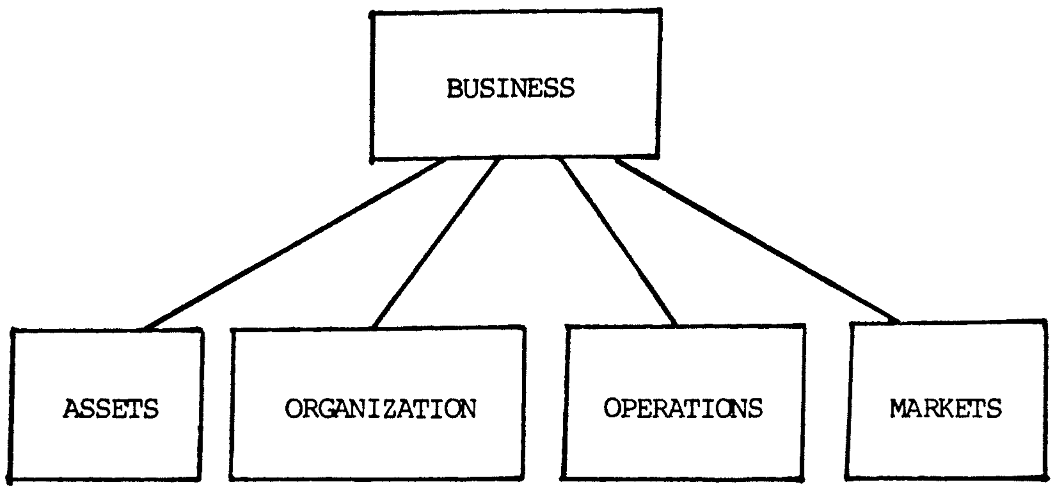


Table 2

**BUSINESS RISKS**

- **ASSETS**
  - Nationalization
  - Wage prices squeezes
  - Inflation/indexing risk
  - Disorder/ambiguous ownership rules
  - Erosion of patent and copyright privileges
  - Seizure of data
- **ORGANIZATION**
  - Over regulation/red tape
  - Denial of approvals for:
    - -- expansion
    - -- technological change
    - -- site shifts
    - -- entering new markets
  - Regulatory indecision
  - War, crime, riots
  - Management indigenization
- **OPERATIONS**
  - Labor shortage
  - Import restrictions
  - Local content rules
  - Export restrictions/embargoes
  - Production quotas
  - Widespread labor conflict
    - -- tradition
    - -- politics
  - Uneducated or unreliable labor
  - Restricted repatriation
    - -- profits
    - -- royalties
    - -- loans
  - Corruption
- **MARKETS**
  - Erratic economic environment
  - Lack of growth
  - Restricted exports
  - Subsidized competition
  - Export subsidy changes
  - Minerals marketing takeovers

The clarity and nuance with which one can analyze the impact of political change on the firm, given a broad concept of the organization of the firm, in orders of magnitude greater than with simple lists. The difference is like the difference between the primitive man, whose mathematical tools were confined to, "one two, three, and a heap," and the man who has the differential calculus at his disposal.

Methods For Analyzing Political Change

A great appeal in the early phases in the political risk analysis was the emergence of new mathematical methods which could allegedly predict change. Today, however, virtually nobody takes such claims seriously. The early models were focused almost exclusively on the phase one questions of revolution, expropriation, and sometimes violence. The brevity of this paper does not permit a thorough review of all the quantitative techniques and the reasons for their demise, but a few examples and issues can be addressed here.

Most of the quantitative theories took simple indicators from economics and sought to expand them into broad theories. One group of theorists postulated that poverty causes revolution, but that theory was embarassed by the fact that most societies have been very poor for most of history and during that time most have not experienced frequent revolutions. Another theory was that worsening poverty caused revolutions, but it turned out that some of history's greatest revolutions occurred in periods of generally increasing prosperity. This stimulated a third theory, which was that revolutions are caused by a sequence of economic improvement, which causes expectations to rise, and followed by a period of decline, which dashes those expectations. This theory was unhinged by the subjectivity with which the components of the so-called "J" curve had to be combined. A further theory held that economic change of any kind was disorienting and therefore upset individuals and dislocated the social structure; unfortunately, this seems to happen to an unmanageable degree in some cases, but not in many other cases. Then there is a theory that social inequality causes revolution. This theory is usually elaborated as a psychological argument that inequality causes frustration, frustration causes anger, anger causes violence, and violence leads to revolution. Unfortunately for this theory, in some cases the deprived groups manage to get themselves organized for a revolution and in other cases they do not.

Far more elaborate theories have been propounded combining various social factors; some have even included political factors, such as the degree of repression, and military factors, such as the availability of areas in which guerrillas can hide. All such theories have failed to predict with a high degree of reliability.

The problems of these quantitative models have been of three kinds: lack of <u>theory</u>; lack of <u>reliability</u>; and lack of <u>validity</u>. Because there is no generally accepted theory, there is no agreement on which variables should be quantified and how those variables should be combined. Even in far more sophisticated areas of social theory, predictions by various expert judgment techniques have proved consistently more reliable than predictions by formal models. Finally, the most fatal of the flaws of the quantitative models is that they were confined to the primitive issues of the field, namely expropriation, revolution, and violence. Even if there were perfect theories in these areas, and even if these theories were perfectly reliable, they still would not be of use to the typical business decision for which political advice is sought.

This latter point is probably worth an illustration. In Ethiopia there is a great deal of violence, a great deal of revolution, and a great deal of expropriation. However, when a bank is asked for political advice on a deal with Ethiopian Airlines, the sophisticated advice is that Ethiopian Airlines is viewed by all political groups as an important national symbol which must have first access to the country's foreign exchange. Therefore, doing business with Ethiopian Airlines is almost certainly a wise decision. Most interesting business decisions are of this character. The situation is always difficult in important ways, and this scares off some or all of the competition, so the politically clever firm obtains unique opportunities. In another case, the question might be how one should manage an existing firm in the face of difficulties posed by a particularly obstreperous minister. In still another case, the risk will be that Brazil's Petrobras will be able to persuade key ministries to refuse project approvals for needed technological modernization of a firm which cannot survive without such modernization, but will represent a competitive threat to Petrobras if it succeeds in modernizing.

Given that the formal models lack theoretical foundations, are unreliable, and don't address the right questions anyway, the methodologists have in many cases had recourse to creating panels of experts and deriving various statistical summaries of their opinions. The standard technique is to create a panel with a diversity of political and disciplinary backgrounds, for instance, a right-wing political scientist, a left-wing sociologist, a lawyer, a labor leader, and so forth. This panel answers questions which may concern the general directions of the polity and economy, the likely trends in particular policy areas, and the severity of a list of particular business risks.

This process produces useful information, particularly when the responses are tabulated individually against the panelist's background characteristics, and even more when the details of their reasoning are provided. This process in effect replicates the process that a good business executive who visited the country would follow. The intelligent foreign executive would systematically search out informants with a broad variety of backgrounds and opinions, and form his own views only after completing such a broad series of interviews. The statistical summary of the average opinion of the respondents would correspond to the results of such interviews by a particularly stupid executive who simply asked everyone for yes or no answers, or simply asked each interviewee to rate the percentage risk and asked nothing more. A table showing that the right-wing political scientist felt one way, and the left-wing sociologist felt another way, would correspond to the results of a foreign executive who conducted interviews, but lacked an interpreter and spoke the language badly enough so that he could only assimilate very simple concepts. The raw interview data would correspond to the raw interview information that an intelligent business executive who asked all the right questions would receive, prior to his synthesizing all that information into his own personal opinion.

Clearly, each of the three levels of information provided by such a study is useful. The vulnerability of this method is that it is theoretically unsystematic. Put another way, none of the three levels corresponds to the digested views of a systematic and thoughtful executive who has decided that certain information provided by the lawyer on one subject is useful, the information provided by the labor leader on another subject is mostly useful, and that the views of the left-wing economist and the right-wing political scientist, while apparently contradictory, really elucidate a third problem which neither of them was able to articulate. In short, the statistical summary fails to provide systematic theoretical synthesis.

It would be highly preferable to have a theoretical approach which, while relying on judgment and not making pretensions to mathematical precision, would systematize information, whether from statistics books or from interviews, into coherent political arguments. I know of only one way of doing this, which is to treat politics as an organizational struggle and to analyze political issues in organizational terms.

## The Organizational Approach

All political regimes are organizations. They have an executive political leadership, which sets atop a group of institutions (the government ministries and others), and which is supported by a social base. (Table 3) The three levels are intergrated in accordance with some principles of organization, such as those of democracy. Political oppositions, while often organized less formally, can be analyzed in the same terms. In order to understand the political system, one analyzes the qualities of the regime organization, the qualities of the opposition organizations, the resources both deploy, and the strategies they are using or can use to defeat one another. (Table 4) This kind of analysis can be used at the highest level of politics, to analyze the likelihood of revolution, and it can be used to explore the most minute political decision by focusing on the particular (perhaps low level) officials who make the decision, the institutional structure within which their decision is made, and the social pressure groups which bear on the decision. Different businesses are affected very

Table 3

ORGANIZATION OF A POLITICAL REGIME

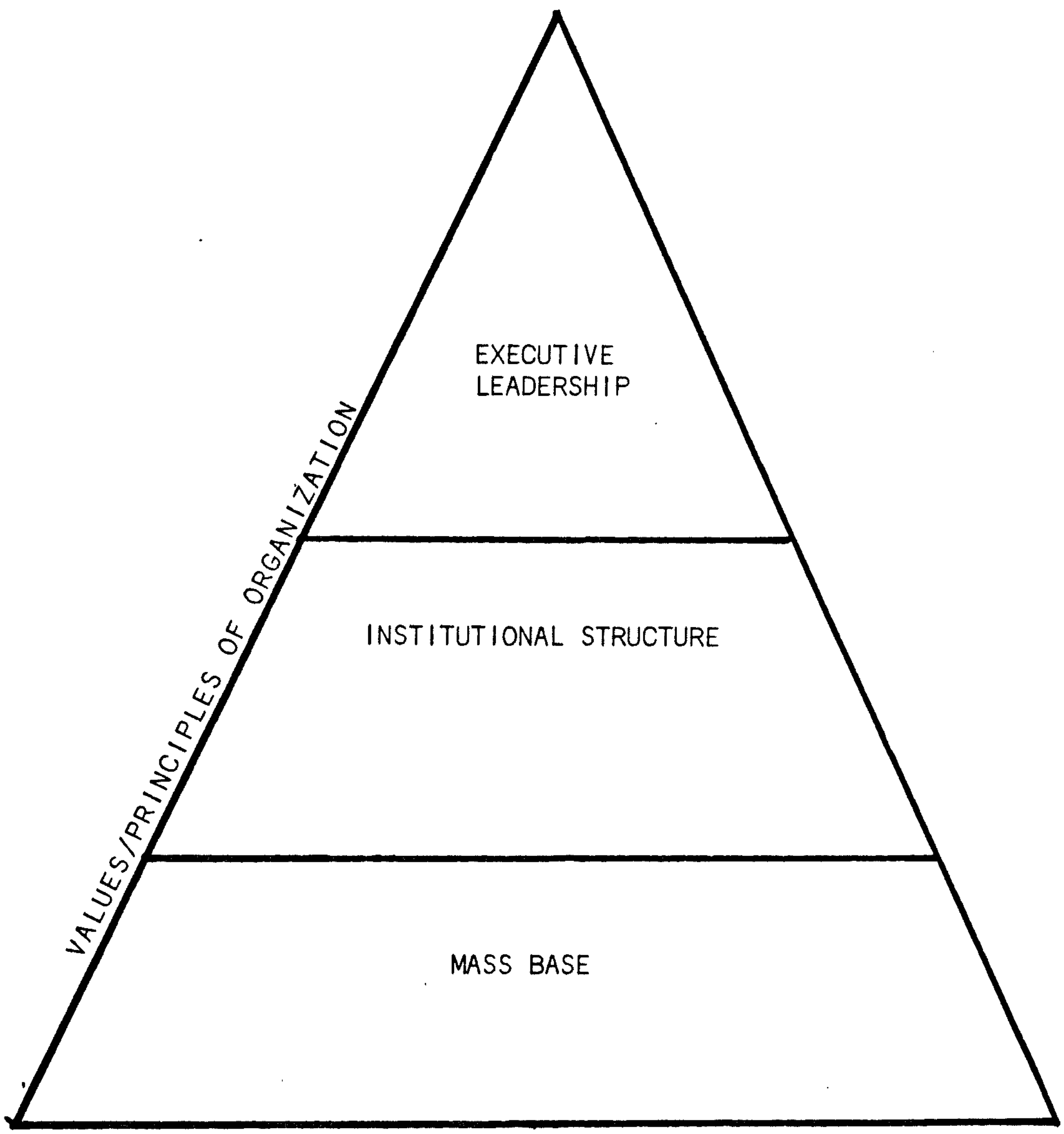
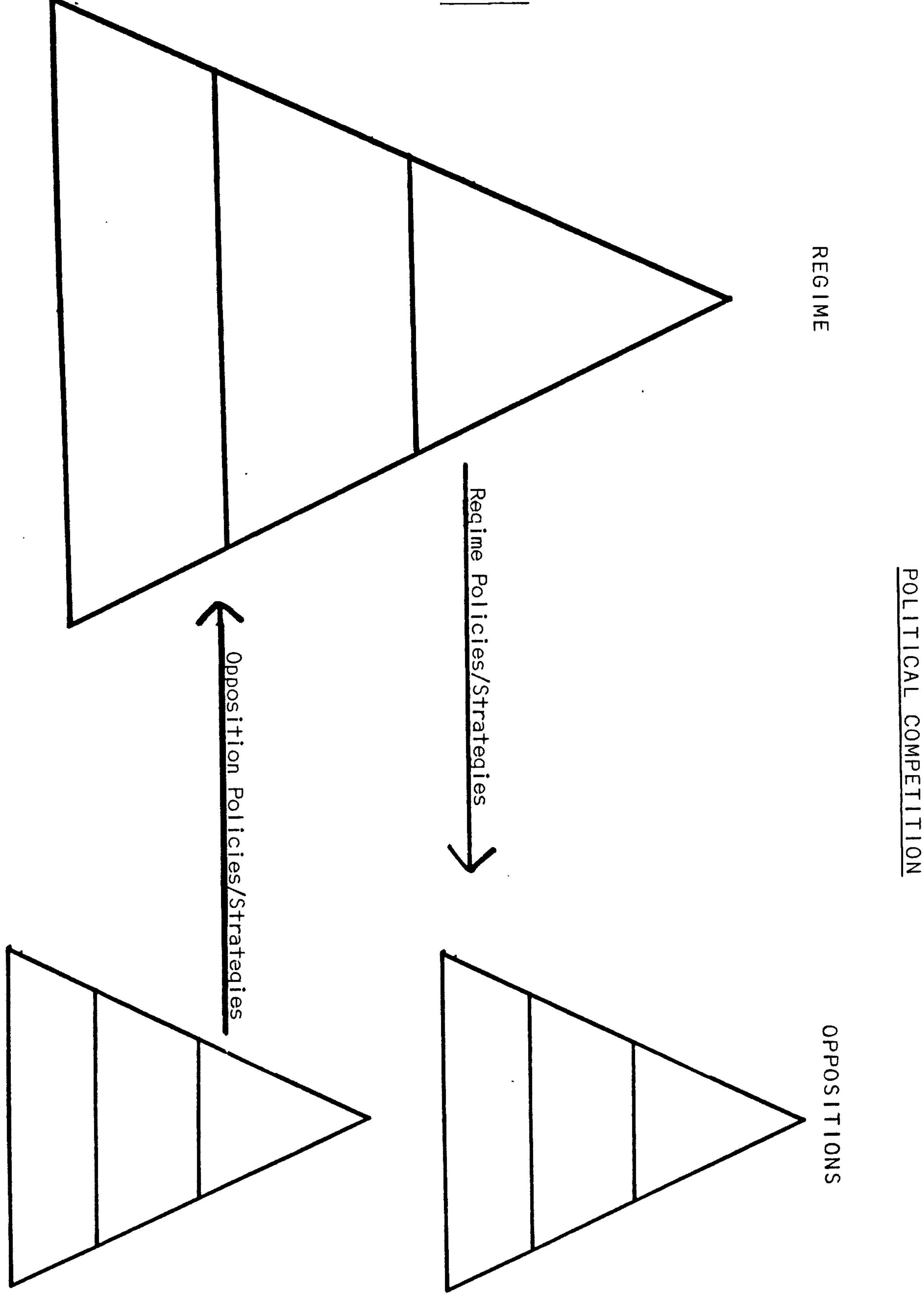


Table 4


POLITICAL COMPETITION
REGIME
Regime Policies/Strategies
Opposition Policies/Strategies
OPPOSITIONS

differently by changes in the differenct components of a regime: its organizing principles, its institutions, its leadership personnel, its policies, and the degree of violence associated with its policies. For instance, some firms will be greatly affected by a coup which changes key leaders, and many will not.

To illustrate organizational analysis, take the issue of revolution. First, one looks at the regime organization. The questions one wants to ask about the executive leadership concern its motives, honesty, strength, and skill. Does the leadership consist of a Somoza, who is motivated primarily to gain wealth and retain power using all the while corrupt methods, with little regard for the economic consequences? Or is one dealing with a Park Chung-hee, who from his earliest days was known as a fanatical patriot, putting the country above himself, as the only honest general in the Korean army, and who demonstrated remarkable administrative skill in the service of a belief that his country's future would be determined primarily by its success at obtaining rapid economic growth and an egalitarian income growth? The most stable Third World countries are led by men of the Park Chung-hee variety, among whom one could include Lee Kwan-yew of Singapore, Chiang Ching-kuo of Taiwan, and many of the founding fathers of the United States.

But an appropriately motivated, skillful leader, who understands and cares about economic outcomes, may avail little if he cannot rely on effective institutions to implement his policies. The qualities one seeks in institutions are high quality <u>personnel</u>, <u>performance</u>, <u>coherence</u>, and <u>crisis adaptability</u>. If one visits the average Third World country, the typical officials, particularly in the third and fourth tiers, are poorly educated, unfamiliar with the proper conduct of their jobs, and corrupt. In comparison, in South Korea, Taiwan, Singapore, or even Zimbabwe, all senior levels of the principal government bureaucracies are populated by energetic, honest officials with high degrees from the leading Western educational institutions. The number of Ph.Ds from Harvard and Yale in the upper regions of the South Korean bureaucracies far exceeds their number at the top of their American counterparts; the same holds true of the highest level academic degrees from Oxford and Cambridge in Zimbabwe and Britain respectively. The <u>performance</u> of Korean institutions, is indicated, for instance, by the number and level of students educated by the education system, the technological levels achieved by its mechanisms for enhancing technological development, or the export growth caused by its export promotion mechanisms. For the latter, the figures are very impressive indeed -- for instance, from about $50 million exports in the early 1960s to about $20 billion today. Even more impressive is <u>adaptation in a crisis</u>. Most Third World countries responded with despair and hapless borrowing to the 1973-74 oil price rise. South Korea, almost totally dependent on Middle East oil, had virtually no exports to the Middle East in 1974, but it decided to solve the problem with an export drive and achieved a balance of payments surplus with the Middle East by 1976. Finally, such institutions would be effective only if they work in common, with <u>coherence</u>, rather than against one another, as occurred in South Korea, but often does not occur in Washington, D.C.

Finally, the stability of a regime with strong leadership and strong institutions will depend on maintaining a social base, just as a business can survive only to the degree it maintains its markets. In South Korea the government was supported by the military, by the civil service, by the industrialists, by a peasantry which prospered under Park Chung-hee, and by the minority of labor which worked in high technology firms.

Having, conducted such a review of the government, and having discovered that it has impressive strength at all three levels, one can examine the condition of the opposition. In South Korea, the opposition had a weak and divided, although sometimes noble, leadership. It had no effective institutions. Its social base consisted of the students, the academics in traditional disciplines, much of the Christian community (which had once been a dominant elite and was losing that position), large parts of the politically active middle class, and a majority of workers.

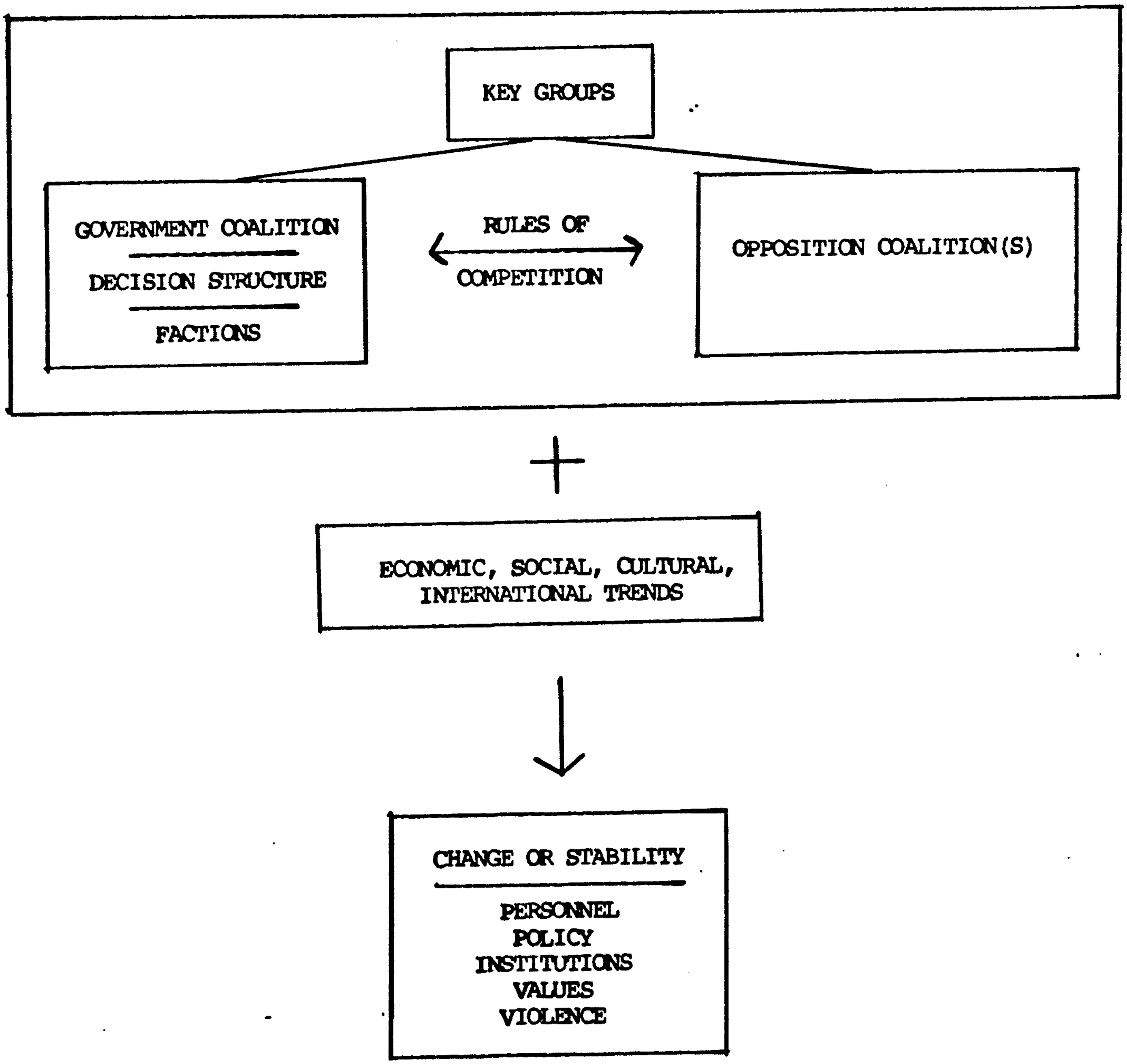
Having surveyed the organizational qualities of the government and the opposition, one needs to assess the strategies and resources which they can bring to bear on one another. Does the opposition oppose the government by seeking to defeat it in an election, in which case the resource it needs is votes? Does it seek to unseat the government by guerrilla war, in which case it needs military facilities and weapons? Does it seek to divide the government politically, in which case it needs effective arguments? Having done such an analysis, the analyst is easily able to explain the persistence of Park Chung-hee´s rule for 18 years. Similarly, he is easily able to predict the fall of the Shah of Iran, who by the end had alienated every group which might have served in his political base and social base.

This organizational approach systematizes the collection and organization of information. It identifies the issues one wants to collect information about. It enables one to make use of the partial insights of all academic theories. All the great man theories, and studies of the psychology of leadership, become focused on the analysis of the executive political leadership. All of the theories of public administration, economic management, and Leninst organization can be used in analyzing the institutional structure. And all the theories of psychological frustration, sociological strain, and economic discontent explain the behavior of particular groups within the social support of the government and the oppositions.

The Need for Scenarios

Political life is extraordinarily complex. Even with powerful and flexible analytic tools, one can seldom predict precisely. Instead, one must explain the past, describe the present so that the decision-maker clearly understands the forces at work, and then sketch alternative imaginative scenarios for the future. The use of free-form scenarios permits the analyst to bring to bear every kind of knowledge, combining everything he has learned about politics, economics, and society. If he cannot handle this synthesis himself, he will have to work with an economist. The scenario-writing process is then disciplined by criticizing the scenarios from the basis of all the analyst's knowledge, and all the criticisms that colleagues from other disciplines can bring to bear. No formal model could incorporate the many kinds of knowledge that go into scenario-writing; despite the apparent arbitrariness of the scenario approach, the process of conjecture and criticism can impose great discipline. In short, the scenario allows one to take into account not only the internal dynamics of the competitive game, but also the impact, over a period of time, of a wide variety of non-political changes on the opposing organizations and their competition (cf. Table 5).

Table 5


KEY GROUPS
GOVERNMENT COALITION
DECISION STRUCTURE
FACTIONS
RULES OF
COMPETITION
OPPOSITION COALITION(S)
ECONOMIC, SOCIAL, CULTURAL,
INTERNATIONAL TRENDS
CHANGE OR STABILITY
PERSONNEL
POLICY
INSTITUTIONS
VALUES
VIOLENCE

The Management of Political Assessment Groups

The most common cause of failure of political assessment groups does not derive from methodological difficulties, but from management difficulties. A high proportion of political assessment relationships do in fact fail. There is a common pattern to these failures. First, a corporation suffers a major crisis, for instance, over Iran or Nicaragua, and concludes that it needs to understand more about politics. However, there are many officers in the firm who are uncomfortable with the idea of political analysis, and, as with any other function, the firm is anxious to minimize its costs. Therefore, it explores a variety of subscription political risk services and chooses one. The firm assigns an economist or an international vice president to take note of the political risk involved in major decisions, and this officer reads the political risk ratings with more or less enthusiasm. However, over time the shock of the experience in Iran or Nicaragua gradually wears off, and the ratings, while interesting, don't seem to have an impact on any particular decision. The ratings come to be read less and less carefully and, when a cyclical downturn and resulting budget-cutting occur, the subscription lapses. This is the first level of failure, and a firm may well forget about political analysis for a considerable period of time.

On the other hand, many firms have such a continuing stream of political problems that key officers may persist. The next recourse may be to hire an articulate young scholar, who has just obtained a doctorate in political science from a major university, and who may have an enthusiastic and persuasive case for a computer model he has developed. The bright young man is hired, given a computer terminal, and assigned to an office in a remote corner of the headquarters building -- or sometimes in a building a thousand miles away from headquarters. He is given a list of countries where decisions are pending and instructed to write appropriate memos. The analyst plunges into the job and produces a stream of analyses that would, at least in volume and frequently in quality, overwhelm his former colleagues caught up in the ennui of academic existence. Unfortunately, top management finds it difficult to work up any enthusiasm for the stream of memos. They seem dry, tedious, academic, and obvious. Like the risk ratings received from outside, the memos don't really go to the heart of the business decision. Moreover, too frequently, the line manager who has five, ten, and even twenty years of experience in the country concerned may overwhelm the analyst's arguments with more persuasive points and far greater detail. The analyst feels isolated and impotent, particularly in situations where political concerns should dominate important decisions, and increasingly spends his time fiddling with new methodologies or presenting papers at meetings of his old academic colleagues. This is the second level of failure.

At the second level, there is an equal and opposite failure scenario which also frequently occurs. The firm hires a bright analyst and has the analyst report directly to the chairman. The chairman finds the analyses interesting and the writing lively and asks the analyst to draft a speech for the chairman's next conference. The speech goes well, and the analyst is asked to write more of them. Eventually, the chairman and his colleagues find that there are more speaking invitations than they can handle and offer the analyst the chance to give a speech. The firm's customers are impressed with the speech, and it becomes clear that the analyst is a potential marketing asset. The firm is impressed with the fact that it can actually earn some money, albeit in small amounts, from the services of the analyst, and the analyst may by this time have become sufficiently street-wise to understand that his position is secure if he is paying his own way. From this point on, the analyst is a member of the public relations department, not of the analysis and planning staff.

The central dilemma of managing a political analysis system is to strike a balance between having the analyst so close to top management that he becomes corrupted or constrained from critical analysis on the one hand, or so far from top management that he becomes irrelevant and impotent. The dilemma is the same in Washington as it is in the financial centers. The State Department has a Policy Planning Staff, which under George Kennan was a group of feisty, senior, critical long-range planners, whose views often diverged from current policy. Over time, the assistant secretaries gained the right to veto the Policy Planning Staff papers, the members of the Staff became more and more junior, and the speech writing tasks of members of the Staff steadily increased. Today the Policy Planning Staff is largely a speech writing team. Likewise, in Washington, there are long range forecasters and planners. One of this writer's first assignments as a Hudson Institute consultant was to write, in 1972, a volume for the Joint Chiefs of Staff of the U.S. Armed Forces called "The World, 1982-1991." A tremendous amount of work went into this document, which was reworked by a group of some 30 colonels and senior civil servants and then passed to the Joint Chiefs of Staff for approval. However, the document simply went onto a shelf and never was read by any individual of great influence, nor did it ever effect any noteworthy decision. And when I say it never effected any noteworthy decision, I am employing the low standards of a young analyst starting a career, not the high standards of a historian.

The secret of maintaining enough distance between analysts and top management is to appoint relatively senior and independent people, to locate them in a unit with a spirit of professionalism and esprit de corps, and to encourage an atmosphere conducive to deep thought and independent analysis. The secret of having the analyst close enough to top management to ensure that analysis is useful and is used is to create direct lines of communication from analyst to manager. At Bankers Trust we do this by having the analyst present at the key decision meetings.

## Conclusions

This paper has briefly presented several major themes.

First, political analysis is a field of ancient, broad, and increasing importance to business.

Second, political risk, narrowly defined, is a truncated profession, and will neither make full use of the abilities of its practitioners, nor create full potential benefits for the businesses it serves, nor achieve wide professional acceptance, until it broadens its terms of reference sufficiently to achieve scope comparable to the scope of professional economists. The political analyst must play to a broadly defined, opportunity-seeking organization, not just to a truncated, purely risk-averting organization.

Third, that broadening of scope is most fruitfully conceptualized through a full-fledged recognition of the organizational structure and interests of firms, and the full range of political influences upon thsose structures and interests.

Fourth, just as a broad concept of the <u>organizational</u> interests of the firm should inform the political analyst's definition of his tasks, so a concept of <u>organizational competition</u> as the basic metaphor of politics should inform all of his analyses. While modern quantitative methodological fads have their uses, particularly as heuristic devices, none of these possesses the sophistication, complexity, or versatility of qualitative organizational analysis.

Fifth, the political analyst must, in every aspect of his work, acknowledge the impossiblity of firm prediction and cope with the irreducible area of uncertainty by mapping it through the use of imaginative scenarios.

Sixth, the political analyst cannot escape the necessity to walk hand-in-hand with economist. He must master economics, or work jointly with an economist, or else retire to the university.

Finally, the single most difficult task of the analyst and his decision-making superior is to structure a relationship in such a way that the analyst is neither so close to the decision-maker that he becomes intimidated, nor so distant from the decision-maker that he becomes isolated.