Hello, my name is Toby Thompson. I am here today with Dr Tazeeb Rajwani, Lecturer in Strategic Management here at Cranfield School of Management. Tazeeb, you are an author of the forthcoming book, in 2012, *Aligning for Advantage: Business Strategy for the Political and Social Arenas*, also author of many papers on political activities for organisations – lobbying and so on.

So we are here today on the day that Egyptians at least are in the ‘Day of Departure’ protests, looking to oust President Hosni Mubarak in Egypt - serious times. What does all that mean for businesses, for firms, not just in Egypt, but throughout the world?

A very good question, Toby. I think we need to start from the antecedents; we need to understand first what exactly is political risk. Essentially political risk is the risk of losing money as a result of unstable governments or regulatory environments. Examples of this are terrorism, wars, and in this case a kind of regime that is unstable and losing power.

I think it is very important to understand that there are a large number of multinational firms – and my research shows this – that don’t really understand or appreciate how to deal with political risk. Political risk really can impact firms, as we can see right now, quite badly. And I will give you some examples.

As you know, just now in North Africa and the Middle East there is a lot of turbulence; there is a toxic kind of mix happening there, where in Egypt, for example, we can see quite clearly that the unemployment rate is around 9.4%, the inflation rate is around 12%. The middle class at the moment that are educated are looking for jobs; they can’t find those jobs. So as a result they want to get Hosni Mubarak out. Obviously we can see from Tunisia, to now what is happening in Yemen, down to Jordan, there is a kind of cascade effect and the genie is out of the bottle.

So what I think now is that there are companies out there that are losing a lot of value. So in the case of a company that I recently spoke to, a Portuguese company which has actively got some sites in Libya, for example, are closely watching what is happening in Egypt. And you can see some Indian fast moveable consumer goods companies, companies that are the fourth largest companies with regards to skin care, health care, foods – they are losing market share and they are losing at the same time revenues. Manufacturing sites are getting closed in Egypt.

If we can look at Egypt as a kind of hub, a strategic corner stone, for the North African kind of Middle East region, what we are seeing is
at the moment there is this slow down taking place. Supply chains are getting squeezed, we are seeing oscillations in oil prices and as a result of all these things, we are seeing now top management teams getting hit hard.

Companies that have huge resources placed in Egypt at the moment are suffering because they have got no people there because they are protesting, so people are shutting down sites.

So, what does this mean? I think companies need to be thinking very carefully here about this risk that I think is here to stay.

Toby Thompson

That is a very big picture that you paint there; practically how do companies manage risk?

Tazeeb Rajwani

I think firstly what companies need to do is understand the insurance. I think insurance can be a very powerful way to mitigate political risk. Obviously if you are looking at macro level political risk, these catastrophes are very difficult to manage – but companies can do it and catastrophes require premiums. So you would have to pay a lot of money, but I think that you have got to look at it in combination with other methods to mitigate political risk.

The second point is, I would say, companies need to understand that they have to be proactive. They have to put in place political risk control procedures, I would call them. And I think some companies have chief risk officers, some have government affairs directors and their job is analyse the political arena, develop political capabilities and resources to deal with this risk on an ongoing basis using all sorts of techniques like scoring – which I won’t get into but my book does.

The third point, I would say, is to deal with risks on an ongoing basis. It is not very easy to identify all the political risks, but you have to do it on an ongoing basis and I think companies that are able to do it effectively can, I think, sustain a competitive advantage.

I think also companies need to acknowledge that there is a macro and a micro political risk environment. And what I mean by this is that at the macro level, it is at the country, national level – very difficult to deal with. But at the micro level – which is project level – it is easier to deal with.

And then finally companies need to diversify their risks. I think these political risks can be diversified; countries that have strategic business units in different geographies need to acknowledge that where there is a way to reduce your cost base – there are some regions that look very attractive, but with that comes high political risk. So if you want to move into Nigeria there is high political risk, but at the same time cheap materials do exist. So there is a trade off, you need to diversity your resources in the strategic business
units throughout different regions and don’t focus on just putting all your eggs in one basket.

**Toby Thompson**  Practical advice for interesting times. Tazeeb Rajwani thank you very much indeed for your time today.