

change. In sum, estimating political risk by means of cross-country, highly aggregated data is a powerful tool. Still, we don't go so far as to say that there are no limitations to what you can do with it. That's why some companies complement quantitative measures with in-depth, country-specific qualitative indicators of political risks.

How does this approach work? One tactic entails polling country experts to tap their judgments and insights. Of course, these people consider quantitative factors when assessing a nation's political conditions. The best ones, however, bring something personal to the table. They enrich analyses by adding their own expertise—their sense of how things work in the targeted host country—which involves certain subjective elements. Simply put, spreadsheet estimation, no matter how rigorous, no matter how extensive, can only carry analysis so far. Enriching interpretation requires perspectives and perceptions that intuitively understand the political drama and a country in ways that numbers may tap but never fully represent.

If you want to integrate this tactic into your overall risk-assessment strategy, you could begin by running standardized interviews with experts to identify and evaluate key factors in a country's political environment. A useful starting point is the Internet; entering the search string "political risk management" quickly generates leads to several resources. Consulting these then supports projecting likely scenarios and prudently assigning probabilities to outcomes and their implications—the hallmarks of effective political risk management. ▶

OPIC insurance protects U.S. overseas investment ventures against civil strife and other forms of violence, expropriation, and inconvertibility of currency. Recently, having reduced its role in the political insurance end of the business, OPIC now focuses on investments in emerging markets that fit U.S. foreign policy priorities.

- *Multilateral development banks (MDBs)* are international financial institutions (such as the African Development Bank, the Asian Development Bank, and the World Bank Group) that are funded and owned by member governments. Their goal is to promote progress in developing member countries by providing financial incentives, such as long-term below-market rates. By reducing the amount of company capital at risk, these financial incentives encourage firms to expand into politically risky environments.
- Several private insurance companies underwrite political risk protection—for a price. Many insurers cover "routine" political risks that involve property and income, such as contract repudiation and currency inconvertibility. Private insurers are reluctant to cover the risk of extraordinary circumstances such as political violence in the form of war or insurrection, as well as the risk of nationalization and expropriation of assets.

We have no quarrel with the notion that prediction and control are touchstones of competent management. Still, politics are anything but predictable and controllable. Hence, all things considered, it just makes better sense to avoid the delusion of active management and opt for the practicality of passively managing political risk. ◀

## The Legal Environment

Businesspeople champion consistency in laws from country to country. A uniform set of laws makes it easier to plan where to invest and, once there, how to run operations to comply with regulations. However, just as political ideologies differ from country to country, so do the principles and practices of the prevailing legal system. Consequently, how a country develops, interprets, and enforces its laws is a key aspect of the business environment. Done legitimately, consumers and companies can make lawful decisions that support peace and prosperity. Done arbitrarily, all suffer because "to distrust the judiciary," said Honoré de Balzac, "marks the beginning of the end of society."

### LEGAL SYSTEMS

The **legal system** specifies the rules that regulate behavior of individuals and companies, the processes by which the laws of a country are enforced, and the procedures used to resolve grievances. Legal systems differ across countries due to variations in tradition, precedent, usage, custom, or religious precepts. *Ceteris paribus*, legal systems aim to

A legal system is the mechanism for creating, interpreting, and enforcing the laws in a specified jurisdiction.