



Geopolitical Risk and Disruption

A CONVERSATION GUIDE FOR MANAGEMENT AND BOARD DIRECTORS

MAY 2022

Summary

Geopolitical risk is currently front and center for executive management and boards. The war in Ukraine and accompanying geopolitical disruptions are an action-forcing event for nearly every multinational company and investor, regardless of the size of the business or portfolio at risk. At [FCLTGlobal's recent executive summit](#), executives identified a need for frameworks and risk analysis tool kits to expand awareness of what boards and management teams can do to navigate fast-paced, highly uncertain changes in the global marketplace while uncovering related risks and opportunities relevant to the company's short- and long-term strategies.

The war in Ukraine represents an immediate crisis to which businesses must respond. At the same time, its impact on the geopolitical environment and existing global order presents boards and management with a longer-term, complex challenge. Boards and management of multinational companies will continue to face greater pressures from stakeholders to pair a global strategy with a geopolitically cognizant risk management approach. Coupled with societal, regulatory, economic, and related market risks, that are emerging regularly, boards will continue to face fluid operating environments. Boards and management are expected to act in the short term, with proper consideration of the wide-ranging implications for long-term strategy and investment decisions.

By starting with corporate purpose, then taking inventory of evolving responsibilities to their various stakeholders, companies can address geopolitical risks with an understanding of how they might impact stakeholders and material business functions. From there, they can plan and adjust strategy to incorporate these responsibilities and risks. These steps can be integrated into the EY geostrategy framework, which encourages executives to undertake the management of political risk systematically—to scan the political risk landscape (take an inventory of material risk), understand the impact it has across the organization (assess and process the risk), and then act to address the risk and adjust strategy as needed. In exercising their oversight responsibilities, boards can ask whether management is successfully integrating dynamic risk assessment into the short- and long-term business strategies.

SCAN THE POLITICAL RISK LANDSCAPE (TAKE AN INVENTORY OF MATERIAL RISK), UNDERSTAND THE IMPACT IT HAS ACROSS THE ORGANIZATION (ASSESS AND PROCESS THE RISK), AND THEN ACT TO ADDRESS THE RISK AND ADJUST STRATEGY AS NEEDED.

THE STRATEGIC IMPERATIVE OF ADDRESSING POLITICAL RISK

In an [EY survey of 1,000+ executives conducted in 2021](#), 94% reported they had been impacted by unexpected political risks over the last 12 months, and 58% prioritized improving how their organization assesses political risk. Most, however, have been in reactive mode; just one in three reported proactively coordinating political risk management and only 25% of boards regularly considered political risk when making board decisions. Additionally, [prior FCLTGlobal research](#) found 67% of executives said the board needed to contribute more to their team's strategy, but [EY research](#) shows confidence in managing political risks has plummeted (see Figure 1).

For organizations to succeed in building resilient long-term strategies, this needs to change.

Over the last few years, we have seen a steady rise in the levels of political risk, fueled by great-power rivalries that have challenged assumptions about the trajectory of globalization. With the advent of the war in Ukraine, there is a heightened impetus to embark on a more sober assessment of the landscape of geopolitical risk and give increased attention to the governance of political risk management.

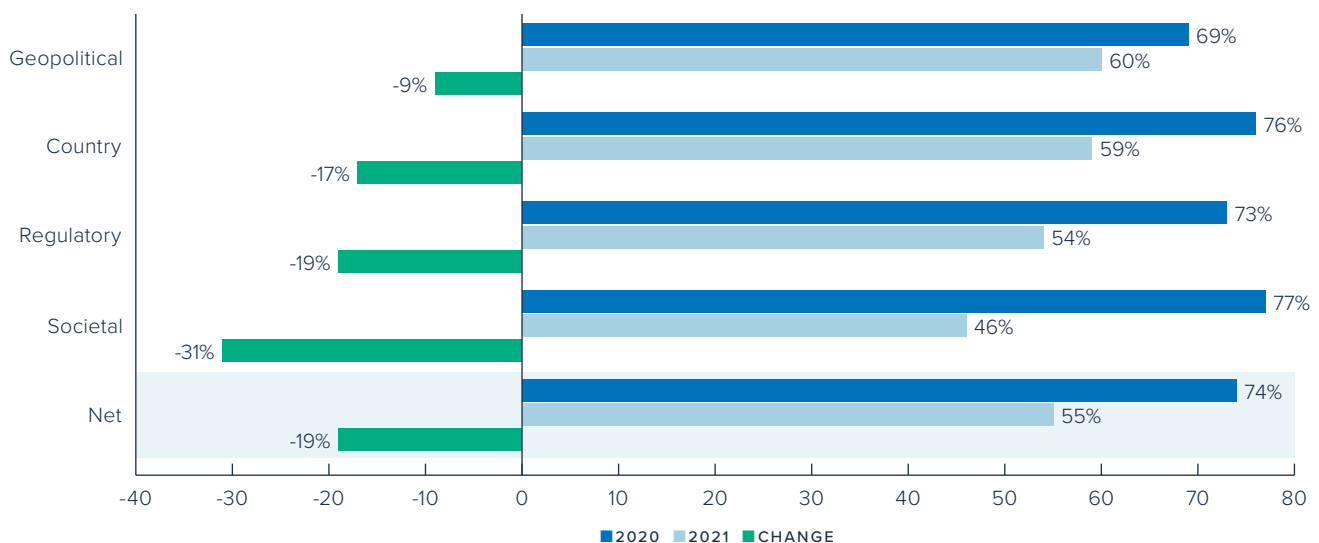
A NEED FOR FRAMEWORKS

When it comes to managing multi-horizon systemic risks, frameworks embedded in a stakeholder-focused strategy can help organizations prioritize and take action. Frameworks will not save companies and their boards from the disruption of a crisis, but they are designed to help prepare for one before it hits. They are important, actionable tools to bring order into a complex environment, test assumptions, and catalyze strategic decision-making.

By starting with corporate purpose, then taking inventory of commitments to stakeholders, and anticipating how responsibilities may be evolving, companies can address dynamic risks with an understanding of how they might impact stakeholders and material business functions. From there, they can plan and adjust long-term strategy to process and fulfill expectations—to act and to create a strategy to fulfill stakeholder responsibilities, including through governance and risk management of geopolitical developments.

Figure 1: C-suite confidence in managing political risks has plummeted¹

How confident are you in your company's ability to manage the following types of political risk?



¹Source: EY Geostrategy in Practice 2021. The share of global executives highly confident about their company's ability to manage political risks dropped from 74% to 55% between the 2020 and 2021 editions of the EY Geostrategy in Practice survey.

Figure 2: EY Geostrategy Framework

SCAN	FOCUS	ACT
<p>Identify and dynamically monitor political risks for opportunities and challenges</p> <ul style="list-style-type: none"> • Geopolitical • Country • Regulatory • Societal 	<p>Assess the impact of political risks on company functions and the global footprint</p> <ul style="list-style-type: none"> • Revenue • Growth and Investment • Operations and Supply Chain • Data and Intellectual Property • Human Capital • Finance and Tax • Reputation and Compliance 	<p>Manage political risk in a holistic and cross-functional manner at both the operational and strategic levels</p> <ul style="list-style-type: none"> • Strategy • Governance • Risk management

These steps can be integrated into the EY geostrategy framework (illustrative view in Figure 2). The framework encourages executives to undertake the management of political risk systematically—to scan the political risk landscape (take an inventory of material risk), understand the impact it has across the organization (assess and process the risk), and then act to address the risk and adjust strategy as needed.

GEOPOLITICAL CONVERSATION GUIDE

No matter where a company sits in its maturity in political risk management, addressing disruptions involves investing time to take stock, reassess, and ask the right questions. Geopolitical events often present similar threats in terms of potential disruption to long-term strategy but come with their own idiosyncratic characteristics.

Below is an adapted version of the Risk Conversation Guide, developed to facilitate board decisions that meet both long-term objectives and short-term risks in the face of geopolitical crisis or disruption. The guiding principle is that geopolitical risk, like any other external risk, can be proactively managed. This guide is meant to help organizations evaluate how significant geopolitical risks affect their ability to operate and allow boards and management to guide more forward-leaning, coordinated strategies.

1. What is happening? Dynamic information, insight and expertise are the foundation of geopolitical risk management. Boards can ask:

Scan:
How are we confirming that the board and management have a steady, relevant, sufficiently expansive set of insights on how a geopolitical situation is evolving and what could happen?

Take Inventory:
What current obligations do we have to stakeholders that may have changed because of the development?

2. How and where will it impact us? Understanding the impact across the organization, in a comprehensive way, is important to geopolitical risk due diligence, for a crisis or for long-term planning. Boards can ask:

Focus:
How are key business elements, such as operations, finance, reputation and compliance, and our people, impacted by geopolitical developments?

Anticipate:
How are our long-term objectives and competitive advantages impacted by this crisis?

3. What do we do about it? Take action to address immediate risks, update enterprise risk management (ERM) to incorporate geopolitical risk and consider shifts in strategy. Boards can ask:

Act:
How is executive management adapting risk management practices, and is any change in strategy needed?

Fulfill Expectations:
What resources are required to continue to fulfill our responsibilities and meet long-term objectives?

Appendix: Geopolitical Risk Conversation Guide

The below list of key questions is provided as a conversation guide to support board members and other executives in processing and responding to a geopolitical crisis in a manner consistent with their organization’s purpose and long-term value creation strategy.

1. What is happening? <i>Dynamic information, insight and expertise are the foundation of geopolitical risk management.</i> Boards can ask:	
Scan	<ul style="list-style-type: none"> • How are we assessing the actual and potential impact of a geopolitical situation on the company’s operations, stakeholders, performance, and strategy? • How are we confirming that the board and management have a steady, relevant, sufficiently expansive set of insights on how a geopolitical situation is evolving and what could happen? • What processes are in place to strengthen the information infrastructures used by management and the board to perform their respective responsibilities?
Take Inventory	<ul style="list-style-type: none"> • What current obligations do we have to stakeholders that may have changed because of the development?
Regularity of Updates	<ul style="list-style-type: none"> • Is the board regularly receiving relevant updates on the evolving crisis and its actual or potential impact on the company’s operations, stakeholders, performance, and strategy?
Insights Quality	<ul style="list-style-type: none"> • Do we have insights from both internal (including directors) and external sources? • Are we considering all levels of material political risk (geopolitical, country, regulatory, and societal) over time horizons most relevant to our strategic objectives? • How are we making certain that we have timely access to transparent and accurate material information?
Coverage Sufficiency	<ul style="list-style-type: none"> • Does this crisis warrant management conducting more extensive due diligence on political developments in other markets we are operating in?
Reputation and Compliance Responsibility	<ul style="list-style-type: none"> • What degree of responsibility does the organization have in this situation? • Are any adjustments to our overall strategy necessary to address this responsibility? • Are there any legal exposures from the situation? • How are our long-term financial performance and long-term performance indicators (KPIs) likely to be affected? Are they still relevant in the current environment?
Long-term Value Impact	<ul style="list-style-type: none"> • Has the crisis at any point affected our company’s ability to fulfill its purpose and live its values? • Are the short-term pressures we are currently facing because of this crisis disrupting our long-term strategy? • How will this crisis impact consumer confidence, competitive fairness, and long-term value?

Geopolitical Risk Conversation Guide



2. How and where will it impact us? <i>Understanding the impact across the organization, in a comprehensive way, is important to geopolitical risk due diligence, for a crisis or for long-term planning. Boards can ask:</i>	
Focus	<ul style="list-style-type: none"> • How are key business elements, such as operations, finance, reputation and compliance, and our people, impacted by geopolitical developments?
Anticipate	<ul style="list-style-type: none"> • How are our long-term objectives and competitive advantages impacted by this crisis?
What are the range of impacts to our key stakeholders?	<ul style="list-style-type: none"> • Employees: Are our people safe? How do we keep them safe and supported? • Investors and Regulators: Do we need to communicate the impact of the risks to shareholders and regulators? • Business Partners: What impact has the crisis had on our supply chain or distribution network? Do our suppliers or partners need support we may be well placed to provide? • Communities: What level of responsibility do we have to the communities in which we operate in this crisis?
What is the range of functional impacts to our business from this crisis?	<ul style="list-style-type: none"> • Revenue and Growth Projections: <ul style="list-style-type: none"> – Are our prior capital allocation and investment priorities still relevant? If so, can we maintain them? – How are customers being affected? What responsibilities do we have to our customers in the near, medium, and long term? • Operations and Supply Chain: <ul style="list-style-type: none"> – What is the status of physical/operational assets in the affected geography? What steps must be taken to secure them? – Can the business continue local operations (regardless of whether we wish to)? – What is the risk exposure to the suppliers and overall supply chain of the business? What are viable alternatives or adjustments to the supply chain? – Is the business able to access necessary support (e.g., government support, credit insurance)? • Financial Capital: <ul style="list-style-type: none"> – What is the overall exposure of the business and any investments to the geography in question (directly and indirectly)? Is the business able to quantify it? – How are operations in the affected geography being financed? – Is the business able to manage commodity prices, FX movements, and cost inflation satisfactorily? – Is market volatility affecting any planned corporate actions (e.g., M&A activity, IPO pricing)? Should timelines be adjusted?

Geopolitical Risk Conversation Guide



3. What do we do about it? <i>Take action to address immediate risks, update enterprise risk management (ERM) to incorporate geopolitical risk and consider shifts in strategy. Boards can ask:</i>	
Act	<ul style="list-style-type: none"> • How is executive management adapting risk management practices and is any change in strategy needed?
Fulfill Expectations	<ul style="list-style-type: none"> • What resources are required to continue to fulfill our responsibilities and meet long-term objectives?
Risk Management	<ul style="list-style-type: none"> • How do we adjust our risk management strategy for future geopolitical crises? Have we considered: <ul style="list-style-type: none"> – Explicitly adding “Geopolitical Risk” into the ERM and internal audit processes? – What potential future scenarios need to be considered? • Are there opportunities to better prepare for a shifting geopolitical environment? <ul style="list-style-type: none"> – Collaborating with sector peers (e.g., workshoping with peers, working alongside trade associations)? – Utilizing quantitative political risk indicators to flag future risks?
Governance	<ul style="list-style-type: none"> • What long-term governance changes or enhancements are needed? • How will we judge our overall success in navigating this crisis?
Strategy Shift	<ul style="list-style-type: none"> • Has management evaluated the impact of the geopolitical situation to core strategic decisions (e.g., market entry, pending M&A transactions)? <ul style="list-style-type: none"> – How will we best balance short-term interests in crisis response with long-term objectives? – Has the crisis at any point suggested a change to our purpose? <ul style="list-style-type: none"> » Does our crisis response strategy align with our stakeholders’ expectations? – Has the crisis impacted the business’ strategic advantages or disadvantages? – Does the business need long-term adjustments to the business model? – Does the current geopolitical environment necessitate a reevaluation of our overall growth strategy (e.g., consumer trends) or operating model (e.g., supply chain strategy)? – Does the business have the resilience in its capital structure to succeed in the new environment? • During geopolitical crises, has there been a shift in responsibilities or duties of... <ul style="list-style-type: none"> – Staff? – Executives? – Board members and relevant committees?
Desired Outcomes and Key Metrics of Success	<ul style="list-style-type: none"> • Are we framing our performance relative to the long-term goal in our performance reports during the crisis? • What are our desired outcomes and key metrics of success? (sample responses follow) <ul style="list-style-type: none"> – Continued-crisis performance (status quo) – Maintaining social license to operate – Capitalizing on new market opportunities – Stakeholder impact, operating according to our values

FCLTGlobal and the EY organization are collaborating to bring together their respective research on maintaining a long-term focus and managing geopolitical risk to provide an initial crisis conversation guide. FCLTGlobal's work on addressing risks to meet long-term objectives in ["Balancing Act"](#) and ["Walking the Talk"](#) aligns with the necessity of anticipating geopolitical risks. EY work on identifying the leading practices of political risk management through its ["Geostrategy in Practice"](#) survey of corporate executives and [board integration best practices](#), offers research to help shape a geopolitics-focused risk management strategy. Together, we have developed this conversation guide to aid organizations in evaluating and acting on geopolitical risks in ways consistent with their long-term purpose and objectives.

WRITTEN BY

Ariel Fromer Babcock, CFA

Managing Director and Head of Research
FCLTGlobal

Ben-Ari Boukai

Assistant Director
Geostrategic Business Group
Ernst & Young LLP

Mary Cline, PhD

Senior Advisor
Geostrategic Business Group
Ernst & Young LLP

Oliver Jones

Partner and EY Global Leader
Geostrategic Business Group
Ernst & Young LLP United Kingdom

Nur Robleh

Research Associate
FCLTGlobal

Thanks to the contributions provided by the EY Center for Board Matters and Courtney Rickert McCaffrey, EY Global Insights Leader, Geostrategic Business Group.

ABOUT EY

EY exists to build a better working world, helping create long-term value for clients, people and society and build trust in the capital markets. Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate. Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

The EY Geostrategic Business Group (GBG) helps companies translate political insights into business strategies. A global team of EY professionals with a background in strategy, political science and management, the GBG is focused on helping companies assess the impact of global political risk on their businesses, mitigate risk and develop resiliency while defining the opportunities that shifting politics can generate. We partner with global EY professionals and leading industry experts to deliver real-time, focused geopolitical analysis and strategy to clients.

To learn more, please visit ey.com/geostrategic-business-group.

ABOUT FCLTGLOBAL

Millions of people around the world are saving money to meet personal goals—funding a comfortable retirement, saving for someone’s education, or buying a home, to name a few.

The funds to support these goals are safeguarded by institutional investors—pension funds, sovereign wealth funds, insurers, and asset managers—who invest in companies for the prospect of growth and security. These savers, their communities, and the institutions that support them make up the global investment value chain, and each benefit from long-term decisions in different ways.

Data shows that long-term-oriented investors deliver superior performance, and long-term-oriented companies outperform in terms of revenue, earnings, and job creation. But despite overwhelming evidence of the superiority of long-term investments, short-term pressures are hard to avoid. A majority of corporate executives agree that longer time horizons for business decisions would improve performance, and yet half say they would delay value-creating projects if it would mean missing quarterly earnings targets.

Today, the balance remains skewed toward short-term financial targets at the expense of long-term value creation.

FCLTGlobal’s mission is to focus capital on the long term to support a sustainable and prosperous economy. We are a non-profit organization whose members are leading companies and investors worldwide that develops actionable research and tools to drive long-term value creation for savers and communities.

To learn more please visit www.fcltglobal.org.

EYG no. 004419-22Gbl

