

TOWARD A BETTER UNDERSTANDING OF POLITICAL RISK IN THE
INTERNATIONAL SUPPLY CHAIN

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ABSTRACT

This study aims to investigate how firms of various sizes in various industries perceive, detect, and mitigate political and legal risk in their international supply chains. Due to the ambiguity of political risk in today's interconnected business environment, companies struggle to find effective ways to handle political disruptions as they inevitably arise. Firms' perceptions of risk and those firms' risk mitigation strategies were determined through a series of structured interviews with supply chain executives with international supply chain experience. The candidates were chosen based on experience, industry, and company size. It was determined that although political risk affects virtually every company with international operations (and even those without), there is still no strategy to detect and mitigate political risk that can be applied to any company's business model, regardless of industry, size, or region in which they operate. This lends itself to the idea that political risk is still a relatively unclear area of research. Future areas of research include a more in-depth investigation into regional discrepancies and the impact that capital structure has on the risk mitigation strategies of firms.

Introduction

Supply chain risk management, otherwise known as SCRM, is an increasingly significant aspect of any multi-national enterprise's global operations. It is defined as "the implementation of strategies to manage both everyday and exceptional risks along the supply chain based on continuous risk assessment with the objective of reducing vulnerability and ensuring continuity" (Wieland, 2012). An important component of SCRM is the assessment of a risk's severity and likelihood of occurrence, allowing a risk manager to establish a "risk index" with which to base business decisions to which the risk pertains. In today's global environment, risks such as natural disasters, regional economic downturn, and political turmoil pose potentially business-ending outcomes if left unchecked or unmanaged. Among the myriad of risks inherent to doing business globally, political risk is characteristically one of the hardest to pinpoint and even more difficult to quantify due to its sporadic, unpredictable nature – "because historical data on these rare events are limited or nonexistent, their risk is hard to quantify using traditional models" (Simchi-Levi, 2015).

Political risk can be defined as the risk of a strategic, financial, or personnel loss for a firm because of such nonmarket factors as macroeconomic and social policies, or events related to political instability (Kennedy Jr., 1988). Although political risk can come in many shapes and forms, a multi-national firm must be able to adapt and effectively manage that risk in order to maintain continuity in its business operations. Examples of political risk include changes in trade regulations, terrorist attacks, expropriation of foreign assets and inventory, and foreign exchange rate manipulation. As firms expand globally and the interconnectedness of the world's supply chain becomes even more complex, it is important for companies – and more specifically, risk

managers – to understand how political changes and instability may or will affect their businesses.

Thus far, there have been many studies that look to analyze SCRM on a global scale and how firms should tailor their strategies to align with their respective risk profiles. Sufficient research has been done regarding risk in general and how to manage it. This is typically done under the assumption that the political environment in question is of a certain type, and that the political and economic climate of the country is unchanging. This model fails to account for the inherently dynamic nature of politics in a system that is as interconnected as the world is today. Firms have yet to figure out a framework for how to specifically deal with the political risk that is present when operating overseas in foreign countries. The specific area of “sociopolitical risk” has not been sufficiently researched, and the resulting lack of knowledge in the literature often leaves businesses struggling to solidify a SCRM plan when entering a market that has a high chance of political or legal disruption. Thus, this study seeks to gain insight from industry leaders about their own experience regarding SCRM in other countries, and then compile the findings, detailing important considerations for enterprises when operating a supply chain on a global scale with risk for political disruption. This study will discuss different types of legal and political risk, how the risk affects firms’ supply chain networks, and where there is a lack of research present.

In a culture where political risk is so ambiguous and unpredictable, yet ubiquitous, this study hopes to advance the current understanding of the effects of political risk and develop a guide of best practices for firms operating within areas of high degrees of political instability (and thus, a high probability for political risk and political disruptions). If companies can develop the infrastructure to monitor, detect, and communicate political risk in their organizations, they

will be better situated to deal with business interruptions that arise as a result of political disruptions in domestic and global environments.

Review of Literature

The following literature review will examine two types of political risk, what has been investigated thus far concerning political risk evaluation and management, current industry perceptions of how political risk can be managed, and prepare the reviewer for the conducted research that follows.

Legal-Governmental Risk vs. Extra-Legal Risk

Political risk within a country can stem from two different sources which both have significant implications for firms that would consider entering that market. As defined by Kennedy Jr. (1988), legal-governmental risk is driven by events produced by the legitimate authority structure within the state, whereas extra-legal risk stems from events that are considered “illegitimate” by the existing political system. Examples of the former often occur as a result of governmental actions like foreign exchange regulation, a change of tariff policy, and more controversially, the sudden but legitimate nationalization of foreign companies’ assets within the country. The latter type of risk encompasses actions like terrorism, political upheavals, and actions that are not controlled by the government currently in charge of the political system. However, both types of political risk carry heavy implications for businesses with operations in the countries in which the political changes take place. Firms must take these potential risks into account when generating a SCRM portfolio analysis, a tool that helps evaluate and identify weak links in the supply chain (Kennedy Jr., 1988). The concept of legal-governmental risk and how legitimate and illegitimate changes to a political system truly affect a business’s supply chain has not been researched to the extent that is sufficient to guide firms. In other words, firms’ interest

in managing political risk far outweighs the amount of information present that relates to this type of risk management. To further investigate the issue, Suder (2005) conducted a comprehensive study that aimed to understand how terrorism specifically affected firms' strategic decisions concerning their supply chains. The study examined how the terrorist attacks on the World Trade Center on September 11th, 2001 affected firms' perception of political risk in the supply chain. It found that firms that focused on the international ramifications of political risk rather than simply the national or regional effects were more prepared to reap the benefits from supply chain initiatives. Suder highlighted an important point – businesses must concern themselves with the ideal of political risk if they are seeking to expand operations globally. It is an unavoidable aspect of doing business for today's multinational enterprise, and one that remains insufficiently researched. Overall, Suder and Kennedy Jr. provide a framework with which to facilitate the sub-categorization of political risk and seek to develop a more solid understanding of how exactly political risk affects the supply chain of international firms.

Political Risk Management

As noted in the abstract, supply chain risk management is becoming an increasingly important field in global business and increasingly more complex. Firms hire risk analysts and risk managers to evaluate the perceived risk with doing business on an international scale. Events like natural disasters, the default of a critical supplier, and infrastructure failures have been identified and analyzed through studies such as Wagner and Bode's (2008). Wagner and Bode's study illustrated the fact that all facets of risk – demand-side, supply-side, infrastructural, regulatory and legal, and catastrophic risk – must be considered while operating internationally. Each facet has its own implications for a company's supply chain. For instance, Wagner and Bode hypothesize that the higher the level of demand-size risk, the lower the supply chain

performance. However, the study did mention the gap in research on the specific *political* (regulatory and legal) aspect of a risk profile for a certain country. Political risk is, unlike other forms of risk, quite unpredictable in size and frequency. Although it is in every firm's best interest to try and efficiently handle risk that originates from political and legal changes, it is a concept that has only just been loosely grasped by risk managers everywhere. The study provides insight into the different kinds of risk categories and identifies the need for additional research in this area. This proposition is reiterated through the work of Banhan (2014), who also investigates management of political risk in the supply chain. Banhan emphasizes that political changes within a country's government especially pose risks to multinational enterprises with supply bases in emerging countries. He continues to hypothesize that the inability of risk managers to quantify and subsequently manage political risk in these countries is due to the lack of what is known as "contingent business interruption" (CBI) insurance coverage. Banhan found that globally, there is a significant absence of insurance coverage for the occurrence of CBIs. This can be attributed to the inherent nature of a CBI itself. Since political risk factors, like general unrest or policy change, do not typically result in physical property damage, contingent business interruption insurance generally does not cover the lost supply or affected supply base. Therefore, risk managers have yet to find a reliable method for transferring the supply chain risk when it occurs and they are left with damaged assets or disrupted business. Because transferring risk under this assumption is not a desired option, companies are left with only a few options: avoiding the risk altogether, building redundancy into their supply chains, and designing more resilient systems so that the disruptions caused by political events and changes does not affect the firm for long. Additionally, Banhan maintains that firms will continue to react to political upheaval rather than proactively plan for those occurrences until a better system can be put into

place to manage them. In summary, the studies from both Banhan and Wagner and Bode highlighted the lack of sufficient knowledge regarding political risk and its effects on firms' supply chains and strategic decisions.

Another aspect of political risk management that has been studied is the difference in effect that a political disruption would have on a large firm as opposed to a small firm – in essence, how the disruption would affect the firm's strategic decision-making process (Varzandeh, Zhu, and Farahbod, 2016). The study examined certain risk factors in the following risk categories: geopolitical, socio-economic, technological, and other. By using the risk index method, the study was able to conclude several things: 1) smaller firms with smaller supply chains would intuitively invest less capital into the development of supply chain risk management programs due to their inherent lack of awareness about overall risk in the supply chain; 2) small firms must adopt a SCRM strategy that focuses on avoiding risk altogether; 3) larger firms can incorporate strategies that leave room for the acceptance of some of the risks that come their way. These findings have several implications that are relevant to this paper's main propositions and question. Part of the reason that political risk and its effects on international supply chains have not been researched sufficiently thus far can be attributed to the reluctance of firms to invest the capital needed to investigate a field that is as ambiguous as it is random. If a firm has a tight budget, it will be less willing to re-allocate resources so that it can deal with risk as it arises, a strategy that refuses to reject one of the hypotheses listed above. Additionally, the study's results indicate that there are two main strategies with which firms can proceed concerning the management of political risk: avoiding the risk altogether – which is suggested to be more beneficial for smaller firms with less room for error – and developing risk mitigation strategies for handling the risk once it has presented itself. Although these findings

don't exclusively relate to political risk, the study still is able to shed light on risk in general and create helpful propositions which can be used to create the guide of best practices for managing political risk.

Risk Management Models

When analyzing risk in today's volatile business environment, it is important to understand the presence of two main risk management models: one based on a period and location of relative stability, and the other that adopts a more realistic view of the international business world by acknowledging the unpredictability of the many variables that affect a firm's supply chain. Holweg and Christopher (2011) investigated the idea of updating the world's current lens with which it views organizational supply chain risk. Their study supports the previous point which states that a more realistic supply chain risk management model would be one that incorporates the actual randomness and variability of the global political environment with regards to firms' supply networks. It also argues that even though traditional supply risk models have built-in flexibility, they are not suited for the increased turbulence that is present in international supply chains today. Companies that employ the traditional model of risk management can still be prepared to handle some fluctuations in their supply networks, but they face stiff competition from firms that use the nuanced model. Regardless of the type of risk management model a company uses, the implications of political change and stagnation remain constant. It stands that if companies are able to use a risk management model to plan for political risk accordingly, they can more appropriately manage resources and nullify the risk as it occurs. This further supports this paper's research question, which seeks to further managerial understanding of political risk and develop a plan for how to manage it effectively so that firms can make smarter strategic decisions. As firms move forward through the turbulent, global

political climate, this paper should help serve as a guide to reduce the impact that political risk can have on a business's operations.

Method & Results

Method

To answer the proposed research question, a series of interview questions was created to help identify how supply chain executives in multinational firms perceive risk, how they have managed political risk regarding their international operations thus far, and what advice they would give concerning operating an international supply chain going forward. The interviews were structured around 5 questions, which were developed to address the industry challenges and gaps in current knowledge identified in the literature review. The questions would provide insight into how the respondents currently perceive political and legal risk in the context of their supply chain operations in their respective industries, how they have dealt with the threat and occurrence of political risk thus far, and the importance that they place on it moving forward. The questions would also try to address the current gap in the literature that previously discussed the industry's current understanding of how political risk can be managed. After the responses were collected, careful analysis was performed such that the respondents' answers could be synthesized into meaningful information. A comprehensive "guide" would then be designed, using the respondents' answers and the information gathered during the literature review. This guide would serve as a synopsis of current best practices for firms concerned with entering a foreign market due to chance of political risk, as well as for firms that are actively operating in foreign markets and wish to effectively manage the chance for political risk.

Respondents

Interviews were conducted with five different supply chain executives in firms of varying sizes, industries, and regions. The industries represented by the interviewed executives are as follows: retail (2), consumer goods (2), and transportation (1). Basic characteristics of the respondents and the companies they represented are shown in Table 1.

Table 1 – Candidate Information

	GENDER	COMPANY NET SALES/REVENUE (2016) IN BILLIONS	INDUSTRY	NUMBER OF EMPLOYEES (IN THOUSANDS)
CANDIDATE 1	Male	\$482.13	Retail	2,300
CANDIDATE 2	Male	\$482.13	Retail	2,300
CANDIDATE 3	Male	\$13.14	Transportation/ Logistics	13
CANDIDATE 4	Female	\$65.30	Consumer Products	105
CANDIDATE 5	Female	\$56.29	Consumer Products	160

Prior to each interview, respondents were provided the following definition so as to ensure a consistent understanding of the term *political risk* across all conversations.

“Political risk can be defined as the risk of a strategic, financial, or personnel loss for a firm because of such nonmarket factors as macroeconomic and social policies, or events related to political instability. Examples of political risk include changes in trade regulations, terrorist attacks, expropriation of foreign assets and inventory, and foreign exchange rate manipulation”

After this statement was provided, the respondents were led through a series of 5 questions, which are displayed in Table 2. As conversations developed around each of these, follow up questions were asked to flush out greater detail and enhance understanding.

Table 2 – Structured Interview Questions

- Question 1** How does your company currently view the possibility of an impact of potential political risk in the international business environment in which it operates?
- Question 2** Has your company taken action to identify and/or mitigate any type of legal/political risk?
- Question 3** Does your company have a current supply chain international risk management plan in place regarding legal and/or political risk?
- Question 4** How have your company’s strategic decisions been affected by the prospect of legal/political risk?
- Question 5** What advice would you give to businesses or supply chain risk managers seeking to successfully manage legal/political risk in their international supply chains?

Results

Proactive Perspective

The most enlightening piece of information that could be gleaned from the interviews that were conducted was the fact that most companies that are financially able to do so are *proactively* planning against political and legal changes in global, regional, and local environments, rather than simply reacting to the risks as they appear. This is done differently between companies, however; one candidate stated that their key to successful risk mitigation is the integration of risk quantification into Sales and Operations Planning, indicating that “[the] key is getting these [monitoring] inputs into the S&OP planning process,” while another explained that their company maintained strong communication channels with national and local

governments in order to “stay out in front of pending change that may have an impact on [company].” Another candidate described their proactive political risk management plan as the development of, “white papers,” or contingency plans, in the case of an unforeseen political or legal disruption. They are formulated through the completion of “what-if” analyses, which, in the words of this interviewee, “help[s] identify resources needed to handle business interruptions.” These white papers would allow the risk manager to have plans in place when disruptions in the political atmosphere occurred that would impact a company’s supply chain.

Risk Monitoring

A common theme throughout the candidates’ answers is the monitoring of risk, whether that is achieved by using specific, highly trained government relations teams that forecast legislative and political change, or risk managers that are tasked with the responsibility of communicating directly with those governments to be able to be prepared in the case of an impending change or disruption. Monitoring and detecting risk is the first step in being able to mitigate it before has any chance to disrupt freight flow, transportation, and value creation. Perhaps more important is the idea that this surveillance of political and legal risk would not provide any value to a company unless they had the proper infrastructure to allow the flow of information to relevant decision-makers. Only one candidate focused on the idea that information was important only if placed into the right hands at the right time despite the fact that this might be the single most critical component in the mitigation of political and legal risk. Given that the nature of political and legal risk is inherently hard to define and manage, it stands to reason that firms able to accurately and quickly relay the information about potential disruptions within their supply chains to decision-makers in the corporate hierarchy would have

greater ability to maintain business continuity than their competitors - even in the face of inevitable change.

Regional Discrepancies

A significant area that lends itself to discussion is the fact that almost all candidates identified Latin America as the cause for high levels of concern regarding political and legal risk. The region is of particular importance to all of the firms represented in the interviews. First, the Panama Canal serves as a critical piece of logistics infrastructure in all of the firm's supply chains. Furthermore, the region exports a tremendous quantity of goods and services to the United States each year, (\$136.6 billion in 2016, (Foreign Trade: Data 2016)), and most of the firms conduct a significant portion of their global business in Latin America. For example, Candidate 1's company has sales of approximately \$123.41 billion in its international division in 2016. In addition, Candidate 4's firm operates 19 manufacturing sites and 12 distribution centers in Latin America alone. Thus, it would make sense that this region would be one of concern for most firms that operate internationally. The aforementioned logistical relevance applies mainly to Candidate 3, whose logistics services are largely impacted by political disruptions in and around Central America and the northern part of South America. Interestingly, it was surprising that a major focus on the detection of political risk in SE Asia, the Middle East, and/or Africa was not highlighted more than occasionally during the candidates' interview responses, even though those regions are typically some of the most politically unstable (The Global Economy, World Map of Political Stability, 2015 Data). The only instances in which those regions of the world were specifically mentioned in the candidates' responses include a mention of mismanagement in the Nigerian oil industry that led to political unrest and a subsequent supply chain disruption, and a mention of legislative barriers to entry for foreign firms in the Indian

business environment. This candidate mentioned that “if oil is a major export, typically political climate is less stable”.

Discussion

Initially, a greater amount of interview information about the perception and mitigation of political risk and its effects within the supply chain were expected. However, it was clear during the interviews that many of the mitigation strategies vary greatly on a situational basis. Thus, candidates tended to explain their companies’ strategies for monitoring and detecting risk rather than their actions taken to actually mitigate the risks once they appeared.

Firms in today’s global business environment clearly need some method of evaluating the probability and impact of political risk, and as evidenced by the candidates’ answers, most firms have risk detection teams that are internal to the company that keep tabs on domestic and foreign governments so they can keep their finger on the pulse of those political environments. These teams are typically small with respect to the whole organization, but are critical in determining how the company is able to handle political disruptions when they arise. By committing enough resources to the process – and as one candidate pointed out, “having the infrastructure that allows the information to come in,” a company can be sure that their political disruption monitoring will be adequate.

An interesting theme throughout the interviews is that although firms are able to plan proactively for the *detection* of political disruptions and risk, it seems that firms still do not have solid plans for the mitigation of the disruption when it actually occurs. As mentioned before, firms have strategic plans when moving into or operating within a certain region, whether it is white papers or a government relations team. Yet, since political risk, and its subsequent disruptions, are so diverse and random, it often forces businesses to use a multitude of mitigation

strategies. These strategies can range from building resiliency through safety stock and communication to completely abandoning a region that is politically unstable. As a result, it seems there is no cut-and-dry solution for companies trying to mitigate political risk.

Implications and Recommendations

For most businesses to which this study is applicable, managing political risk and its potentially severe disruptions is a question of awareness rather than preparedness. The results of this study support the fact that although most firms can deal with political disruptions once they have already occurred, the most popular strategy of internationally-operated firms is to focus on monitoring political risk before it has actually happened. One of the most significant implications of these findings is that a firms' resources will most likely be allocated towards risk detection programs, as opposed to firms looking to spend massive amounts of capital and time in an effort to reduce the impact of a political disruption after it has already happened. This means that detection programs will grow more advanced as time goes on. Firms will continue to funnel resources into things such as government surveillance and political climate specialists, so that they are better positioned to handle the risk before it disrupts business operations domestically or abroad.

Additionally, this study mainly focused on larger firms with the capital available to do as the firm so chooses with regard to political detection and mitigation. The fact that the firms interviewed still did not specifically plan for political risk by actually taking action within their supply chains illustrates the idea that smaller firms have an even greater probability to not spend what extra capital they have on risk mitigation plans.

Finally, it is important to note that firms are continuing to operate in areas of political instability regardless of the inherent risks associated with those areas. It was interesting that none of the

firms chose to pull out of those areas, even after times of crisis or significant political change. For instance, when Candidate 1 expressed his firm's troubles in the Panama Canal, he made sure to state that although it disrupted freight flow, it was a critical region that needed to remain that way in the company's future.

Best Practices Guide

The study was aimed at outlining several best practices so that firms may be better positioned to enter into or remain operating in an international business environment that has some degree of political risk that could lead to a disruption in business operations. Three main ideas can be used by any company that is operating or seeking to operate in an area that is politically unstable, so that the firm can find operational success.

First, a firm must establish a solid informational and communicative connection with the local governments of the area in which it is functioning. Having strong ties with the local governments is a vital component to a firm's ability to be able to successfully detect future political disruptions, and thus, political risk. By deploying teams whose sole responsibility is to monitor legislative changes and the local political climate, firms can look to stay ahead of any impending political risks and prepare themselves in the event of a political disruption.

This leads into the next point of advice, which is to create a concrete contingency plan, containing action that a firm would take in the event of a political risk turning into a political disruption. To expand on the previous point, it does not matter if a firm can detect political risk if it has not performed a "what-if" analysis and developed a contingency plan. Therefore, planning is one of the most important actions a firm can take when entering or operating in an arena

plagued by political instability. Develop plans that detail, for example, where the firm can get supply for a product if a supplier is suddenly nationalized by the government (which has begun occurring in Venezuela with frequency in the recent past). If this type of plan is not in place, detecting the risk will provide no benefit to a firm.

Finally, and perhaps the most important piece to consider, is to develop an infrastructure within the firm that allows for the efficient flow of relevant information to the people who can make decisions that matter. If a firm successfully detects political risk, forecasts a political disruption, and has a contingency plan in place, it can still fail if the information throughout the company is inconsistent and fails to reach the hands of the people who matter. To give an example, think of ABC Company. ABC Company produces metal water bottles, and one of its main suppliers is a lightweight metal manufacturer in Venezuela. Suppose that ABC Company's risk detection team that is stationed in Venezuela finds that a political disruption is impending and then develops a supplier change plan in the event that the disruption happens, in order to ensure supply. If ABC Company does not have the hierarchy that allows for the supplier change plan information to flow to the executives actually making the calls, then the detection and formulation of the plan would not mean anything at all. Ultimately, firms can and should do a few things to better position themselves when operating in areas of political instability: allocate the resources necessary to successfully detect potential political disruptions and political risk, plan and develop contingency plans in the event that a political disruption to a supply chain occurs, and develop the organizational hierarchy necessary to ensure the swift transportation of information to key decision-makers.

Limitations and Future Research

Limitations

While this study aimed to provide commentary for businesses as a whole, there are some clear limitations and aspects of the global business environment that it could not account for. Although the information that was gathered provided certain insights that allowed for a relatively strong discussion of political risk and how it is perceived and managed in the context of firms' supply chains, the sample size of five was not nearly large enough to constitute a "complete" picture of the global supply chain environment and how each moving piece reacts to and plans for this ambiguous risk. Certain demographics that were not represented in the conduction of the interviews include: businesses with <10,000 employees, private firms (that is, firms such as Uber and Airbnb that have not yet gone public), and industries other than retail, transportation, and consumer goods. Inevitably, this means that the insights gained from the interviews are not comprehensive and may not apply to every company's supply chain in every industry – however, the information can be reasonably synthesized into a conceptual approach to political and legal risk that any company could apply to domestic or international operations. In addition to the limited sample size, the interview questions also proved as an area that was limiting with regard to the amount and quality of information gathered. Since the topic of risk – specifically, political risk – and how companies perceive and handle it is relatively unexplored, the formulated questions were slightly vague and of a high-level perspective, designed to lead *into* a more specific discussion on that company's answers. Therefore, if the interview was not conducted as thoroughly as it could have been, information may have been left out of the candidates' answers. Lastly, it is important to note that four out of the five firms that were represented in the interviews were based out of the United States. Only one firm that was interviewed had a

headquarters outside of the U.S. Although all firms had international operations and did a sizable portion of overall business outside of their home country, it could be said that the sample candidates were an insufficient representation of how “most” firms would answer the questions and/or act when faced with the same prospect of political risk.

Future Research

This study found evidence that failed to reject the hypotheses formulated at the beginning of the process, but this evidence did not necessarily provide a significant source of enlightenment about how firms actually handle political disruptions within their supply chains. Future research should investigate several things: how companies specifically maintain relations with the government and the financial implications of doing so, the impact that capital structure has on supply chain risk mitigation expenditures, and if there are differences in how political risk is detected and managed between companies in different states, regions, countries, and cultures. Among the findings in the study is the fact that the majority of firms represented in this study employ specific teams to maintain relationships with foreign and domestic governments in order to stay in front of impending political changes. Although the candidates did not elaborate on how those teams communicated with governments, it is an area that could be enlightening if it were to be researched. It would allow researchers to drill down on the best methods for maintaining strong, positive relations with foreign and domestic governments. Additionally, a further look into how the capital structure of a firm affects its political supply chain risk management could shed light on why certain firms develop the strategies that they do. The amount of free cash flow and available capital for risk management strategies most likely plays a critical role in how the firm handles political disruptions and develops its risk detection plan. It would stand to reason that firms with more free capital would allocate more resources to the development of supply

chain risk mitigation strategies, regardless of the number of employees or size of sales revenue. There is also the question of how geographical and cultural differences would affect political risk detection and mitigation strategies. Certain cultures may perceive political risk differently, and subsequently develop very different detection and mitigation strategies based on their surrounding social and physical environments. A good example could be Eastern Asian firms. Collectivism is a focal point of Asian society, so in the business environment, this could affect how a company sees risk on a high-level. Cultures that are more prone to violence also may develop inherently different risk mitigation strategies due to their pre-conceived idea of the place from where risk arises.

Conclusion

I began this research with the hope of creating a list of best practices for firms looking to enter markets ripe with political risk, but after analysis of the data it was apparent that the list could not be compiled. Political risk is as ambiguous as previously thought – the onus is on individual firms to analyze their business environments and determine which method of monitoring and mitigating political risk is appropriate for their specific situation. The research showed that there is no one-size-fits all strategic model for handling political risk that any firm can apply to their operations regardless of size or industry.

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