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POLITICAL RISKS - NOT YOUR CUP OF TEA, BUT WORTH YOUR ATTENTION

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The unpleasant truth is that some regional Family Businesses have recently taken a nosedive trying to survive the civil unrest in the Middle East. Others, unfortunately, have simply lost it all. Studies show that companies have increasingly focused their attention on financial, market and operational types of risk, primarily since the economic meltdown in 2008. Very few did keep the political risks under their radar.

POLITICAL RISKS CANNOT BE ESCAPED, BUT CAN BE MEASURED

The Board of Directors, in Governance-Savvy Family Owned Businesses, should make a conscious decision today towards keeping a tight ship on monitoring political risks, which continues to take different forms in the region. Ranging from the possibility of increased taxation, strikes and protests to wars and terrorism, Risk Committees, a critical Board Committee which ideally oversees the risk management infrastructure - the people, processes, and resources of the Risk Management Program - should step up their efforts in making sure Risk Managers are continuously identifying, measuring and managing political risks.

To accomplish the above, Risk Managers should start at compiling an inventory of such risks and their signals, in an attempt to develop an evidence-based set of risk scenarios, built on specific intelligence directly related to the company's operations and strategy. The key objective is to assess and dollarize the potential impact of each scenario on the business. On a more technical perspective, a Discounted Cash Flow analysis comes in handy at this stage to quantify the financial impact of each scenario in dollar figures. Once dollarization is through, Risk Managers can then dance with the Board to understand their tolerance levels, in an attempt to manage such risks through a clearly defined and budgeted action plan.

IF THEY CAN BE MEASURED, THEY CAN BE MANAGED

Once risks are identified and measured, Risk Managers at this stage, should focus their energy on establishing an effective color-coded Risk Management Framework that is linked to risk metrics. As those metrics change from green to yellow, an appropriate course of action, as part of the action plan, is switched to Execute Mode. Once and if the red zone starts looming, another more expensive course of action is executed to safeguard the business from its worst nightmare. It is obvious that the Board's risk tolerance drops further as the metrics scale up from one color to another. The purpose behind the color-coded framework is to carefully manage the investment made in risk mitigation, to carefully optimize the risk allocated budget.

HOW CAN OKEILI & CO. HELP?

In liaise with our international risk partners, Okeili & Co team undertakes a detailed threat, vulnerability and risk assessment on your Family Business to identify and quantify the potential impact of different risks on the business asset classes. Taking risk tolerance pulse checks at the level of the Board, our team then devises tactics on how priority risks could be mitigated, managed, reduced, accepted or transferred based on the Board's risk appetite. As tactics are planned and budgeted, our efforts conclude with setting up the Risk Committee and the second in line Risk Division that not only spearheads the inaugurated Risk Management Framework, but also empowers the Family Business to tap new revenue streams through access to markets that might seem too risky.

For more information on Okeili&co Next-Generation advisory efforts, please write us to engage@okeili.com