

# Sustainability Planning for Political & Systemic Risks.

*Multinational businesses can be better prepared for future crises.*

April 4, 2023. By Gregor McQueen

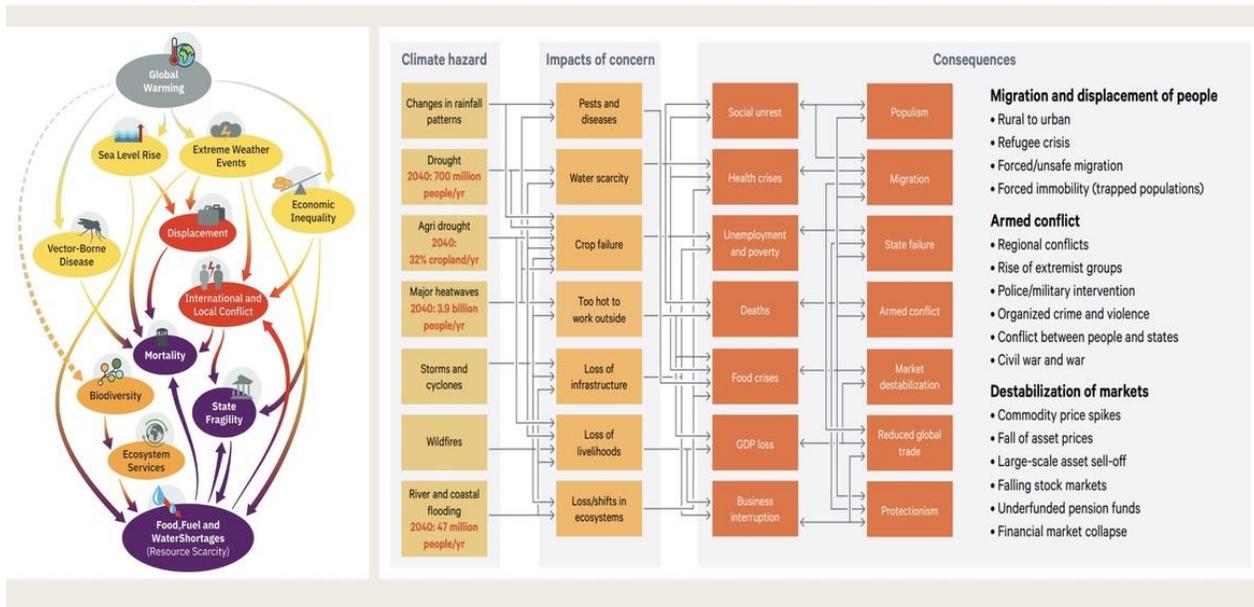
Political and systemic risks are never binary. There is no black or white – only shades of gray. Multinational businesses struggle with these threats precisely because they are so complex, ever-present, and connected with other uncertainties. History is awash with example events – from the fall of the Roman Empire to China’s “century of humiliation” and rise to being the second-largest economy, WWI & II, the Cold War, and more recently the 2007-08 global financial crisis, Covid-19, a single container ship blocking trade in the Suez Canal, and of course Russia’s 2014 and 2022 invasions of Ukraine.

The trigger events are increasing in their diversity, frequency, impacts, and velocity with which they appear due to new technologies. Corporations that focus on their long-term sustainability and ethical business practices correctly see them as threats that require constant assessment, preparation, and incorporation into their decisions about existing and planned operating (and supplier) locations.

The specific risks can be either highly obvious, probable but often ignored ‘known’ events – aka Gray Rhinos as explained by [Michele Wucker](#) – or highly improbable, unforeseeable ‘unknown’ events – aka Black Swans by [Nassim Nicholas Taleb](#). Either can have severe impacts on business objectives and strategy and are highly challenging. Some are within internal controls; many are external threats. Future events are difficult to predict precisely because humans and their decisions – including those of country leaders – can be duplicitous, highly prone to both cognitive & motivational biases, and without critical thinking, often result in poor decisions contrary to their self-interests or those of the country.

Climate warming is one example of a highly obvious Gray Rhino risk. Based on evidence and quantitative data, it is caused by humans, including government actions and inactions.

## Cascading Systemic Risks & Climate Warming Impacts on Geopolitics



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Sources: L. Kemp et al. (2022) [Climate Endgame: Exploring catastrophic climate change scenarios](#), [Chatham House Climate Change Risk Assessment 2021](#)

The latest UN Intergovernmental Panel on Climate Change (IPCC) science-based 6<sup>th</sup> assessment [report](#) (March 2023) reemphasizes:

- human activities, principally through emissions of greenhouse gases, have unequivocally caused global warming, with global surface temperature reaching 1.1°C above 1850–1900 in 2011–2020

- global surface temperature has increased faster since 1970 than in any other 50-year period over at least the last 2000 years
- limiting global surface warming to between 1.5°C and 2°C requires rapid, deep and in most cases immediate greenhouse gas (GHG) emission reductions.

According to the [World Bank](#), the Peoples Republic of China (PRC) is currently the world’s largest (33%) emitter of GHG. In November 2021, the PRC officially submitted its [carbon neutrality “before 2060” target](#) and [updated NDC targets](#), strengthening its previous non-fossil share and carbon intensity targets, while adding a new renewable energy capacity target. Even though rapidly advancing use of electric vehicles, Climate Action Tracker currently [rates](#) the PRC as “highly insufficient” based on its government policies and action to-date. China is the world’s largest emitter of GHG because it is:

- ⇒ the world’s largest (26.5%) consumer of fossil fuels at 157.65 Exajoules in 2021 (as reported in [bp’s 2022 Statistical Review of World Energy](#)). This is one driver for its recent foreign policies with Saudi Arabia and Russia; and
- ⇒ significantly expanding its use of coal-fired power plants, with 50 GW of coal power capacity started construction in 2022 – a more than 50% increase from 2021 – and a total of 106 GW of new coal power projects permitted in 2022, the equivalent of two large coal power plants per week, according to [CREA](#), the Center for Research on Energy and Clean Air; and
- ⇒ the latest [data](#) from 2021 shows PRC GHG emissions rose to 14.3 GtCO<sub>2</sub>e which is concerning as power consumption has been projected to rise 5–6%.

Without the PRC and other governments rapidly reducing fossil fuel use and instituting policies to successfully transition to a low-carbon economy, achieving global climate goals under the Paris Agreement will be impossible by 2050. As highlighted in the [Chatham House Climate Change Risk Assessment 2021](#), the impacts and consequences are enormous.



Gray Rhino risks can occur because individuals or corporations feel unable to effect change. *So how can businesses be better prepared in their strategic planning and decision-making?* To increase the probability of achieving successful outcomes, it is critical to include a holistic and continuous assessment of political and systemic risks among others.

1. **Identify Categories** – registers of individual political risks are not always helpful and can lead to inaccurate assumptions and ineffective results due to the omission of potentially critical risks, or cognitive and motivational biases. It is better to identify categories of risks and continuously scan them to enable early detection and response as soon as possible. This includes identifying:

- signals, indicators, noise & trends, assumptions, drivers & buffers
- knowns, emerging risks, uncertainties & unknowns, and use of
- pure Political, Environmental, Societal, Governance, Economic & Technological (‘PESGET’) or similar categories that contribute to them.

“There are an inordinate number of unexpected things we can’t think of in advance. Things I don’t yet know that I don’t know.”

**Malcolm Gladwell**

2. **Geopolitical Futures Planning<sup>SM</sup>** – given uncertainties, many organizations undertake scenario planning to help envision possible futures. Research [shows](#) that multinational corporations with strategic foresight practices perform better over the long term – with average profitability 33% greater, and average market capitalization growth up 200%. The practice is crucial to building sustainable organizations that are strong enough to withstand future shocks. Undertaking Geopolitical Futures Planning<sup>SM</sup> takes this a step further by identifying plausible and more likely *political* scenarios through:

“In the face of uncertainties, planning defines the particular place you want to be and how you intend to get there.”

**Peter Drucker**

- use of strategic foresight combined with ...
- training against cognitive and motivational biases
- utilizing subject matter experts to frame scenarios
- stress-testing geopolitical scenarios and simulations
- developing better questions about the future, and
- using evidence-tested forecasting to determine the probability of scenarios occurring.

“Foresight is not about predicting the future – it’s about minimizing surprise.”  
**Karl Schroeder**

3. **Assess Impacts** – in order to improve allocation of resources it’s important to “clear your mind of wishful thinking or the false reassurance of overconfidence” (*Malcolm Gladwell*). This should include careful assessment of the impact of more plausible geopolitical scenarios on revenue, growth & investment, operations & supply chains, reputation, regulatory compliance, security, human resources, and data & intellectual property.

4. **Prepare, Plan, & Mitigate** – to realize opportunities and objectives, focus on:
- integrating this geopolitical focus into strategic planning and enterprise risk management, including resilience, business continuity, contingency, and crisis planning. This includes continuous reassessment of existing operating facility locations and adjustment of tactics as necessary
  - corporate diplomacy and socio-political responsibility: promoting integrity & ethics, stability & sustainability, and
  - use of insurance or alternate risk vehicles. When available, exercise care as insurance won’t cover all risks.

“Don’t put all your eggs in one basket.”  
**Warren Buffett**

“Innovation distinguishes between a leader and a follower.”  
**Steve Jobs**

Can all political or systemic risks be foreseen? No, there will always be some unexpected events, but many can be anticipated through rigorous and holistic planning for foreseeable ‘known’ and ‘unknown’ threats. Organizations can build their long-term sustainability by being better financially and operationally prepared for when, not if, the next events happen.

### Rethinking Political & Systemic Risks: a Framework for Better Insights & Planning



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