

# Forecasting Risk for Business Decision Making

July 2020

“Every battle is won  
**BEFORE**  
it is fought.”

Sun Tzu



# Challenge of Business Risk Analysis

- Human mind poorly "wired" to process inherent uncertainty (the "fog" of complex, ambiguous risk)
- Awareness of cognitive biases does little to help analysts effectively develop conclusions that decision-makers perceive to be relevant, timely, actionable, and believable
- Use of analytical techniques that are communicated in "the language of business" provides decision-makers with an UNDERSTANDABLE, quantifiable basis for business/security risk analysis

# Forecasting Risk: Indications and Warnings (I&W):

- I&W methodology provides a quantifiable basis to determine risk probabilities while lowering the impact of cognitive bias
- I&W is a reliable forecast method for determining “just in time” conclusions to evolving risk questions - it also lowers likelihood of surprise and/or of a “black swan” event
- Enables decision-makers to increase (or decrease) the application of resources, based upon quantifiable “triggers”; customized to organizational risk tolerance levels
- Communicates risk “Indicators”, and the “raw data” supporting activation or deactivation of “Indicators” for leaders to review

# Steps to Forecasting Business Risk using I&W

- I. Identify Risk Scenario(s)
- II. Determine the Indicators within the Scenario(s)
- III. Define the Core Elements contained within the Indicators
- IV. Weight the Core Elements, and the Indicators Relative Importance to the Risk Scenario
- V. Determine “Activation Criteria” for Elements and Indicators
- VI. Identify Collection Sources for Core Elements & Collect Data
- VII. Evaluate Data and Activate Elements & Indicators
- VIII. Establish Risk Tolerance Thresholds & “Triggers for Action” as Indicators are Activated (or Deactivated)
- IX. Communicate the Forecast Conclusions to Decision Makers via Dashboard

## RUSSIA RISK FORECAST TOOL

April 20XX

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13

- Political Risk
- Legal & Regulatory Risk
- Security Risk
- Consumer Risk
- Other Regulatory Risk
- Government Risk

Future Trend*	<u>Political Risk Questions</u>		April Risk Level**	March Risk Level
↔	<a href="#">Q1</a>	To what degree are vested interests / cronyism impeding XXX's ability to conduct business in Russia?	10	15
↔	<a href="#">Q2</a>	To what degree is social unrest or instability in Russia threatening the ability of XXX to efficiently or successfully operate its supply chain or its retail operations?	15	20
↓	<a href="#">Q3</a>	To what degree do Russia's foreign policy and foreign relations with the US affect XXX's potential business model in the country?	5	10

  

Future Trend	<u>Legal and Regulatory Risk Questions</u>		Risk Level	Risk Level
↔	<a href="#">Q4</a>	To what degree are foreign companies in the retail and consumer sectors discriminated against by the Russian government?	50	40
↔	<a href="#">Q5</a>	To what degree are consumer food retailers, specifically those that are owned by multinational corporations, being targeted by the Russian government in the way that extractive industries have been?	5	10
↑	<a href="#">Q6</a>	To what degree are Russian government-imposed price controls, which allegedly will be implemented as an anti-inflationary tool, being used to impede XXX's ability to operate its business profitably in Russia?	30	30

- Overview
- Political Risk
- Legal & Regulatory Risk
- Security Risk
- Consumer Risk
- Government Risk
- Indicator Sources
- Oil & Gas Comparison

**Other Regulatory Risk: Question 9**

Trade law		Risk Level
Q9	To what degree might the new trade law (and related legislation) interfere with WMT's business plan for Russia?	30
Indicators		Activated?
Ind 1	Is the dominance threshold in the draft law for a region lower than under current (2008) regulations?	
Ind 2	Does the new law include price controls?	
Ind 3	Are additional increasingly restrictive laws for the retail or consumer food industries being proposed in the Duma or by senior members of the government?	✓
Ind 4	Has the government targeted a foreign business to use as an example of why new trade laws are necessary?	

**Comments**  
 A long-awaited government discussion of the new trade law was postponed until October. Internal disagreements over bill's provisions remain substantial, and progress on the issue will in part be a function of the depth and length of the current recession. In the meantime, ad hoc price control measures remain on the agenda. The High Arbitrage Court indicated that it would likely support FAS efforts to ban the use of supplier bonuses (see comments on Question 6).

**Other Regulatory Risk: Question 10**

Regulatory Risk		Risk Level
Q10	To what degree is regulatory risk in Russia increasing?	25
Indicators		Activated?
Ind 1	Is the government increasing its rhetoric about "foreign enemies" that are contributing to the destabilization or corruption of Russian society?	
Ind 2	Is there evidence that Russia intends to enact laws prohibiting the repatriation of profits for foreign businesses in Russia?	
Ind 3	Is there evidence that Russia will enact protectionist trade laws that may affect retail businesses?	✓
Ind 4	Have new customs requirements been enacted that may limit the ability to import foreign merchandise for sale at retailers?	

**Comments**  
 There is very modest evidence of rising regulatory risk, but no sign of a significant shift in government policy. Barring a sharp deterioration in the economy and a dramatic shift in current Kremlin policies, capital controls appear unlikely. Some additional food imports duties were imposed, on sugar beet in particular, to support domestic industry.

Overview

Political Risk

Legal & Regulatory Risk

Security Risk

Consumer Risk

Other Regulatory Risk

Indicator Sources

Oil & Gas Comparison

Government Risk: Question 11

	Violent Demonstrations	Risk Level
Q11	To what degree is macro level instability within Russia resulting in a disruption in economic growth?	15

Indicators

		Activated?
Ind 1	Is Putin's approval rating declining?	
Ind 2	Is Medvedev's approval rating declining?	
Ind 3	Is there evidence that Putin and Medvedev are moving in two separate directions politically or of relationship deteriorating?	✓
Ind 4	Has the Russian government taken steps to reduce its budget and to what oil price level to balance it?	✓
Ind 5	Are natural gas prices or sales declining below 2008 baseline levels?	✓
Ind 6	Are there signs of unrest or dissatisfaction with the government within the military or security services that indicate declining support of Putin and/or Medvedev?	✓
Ind 7	Are there indications that Putin and Medvedev have had a falling out politically and are no longer aligned on economic or foreign policy issues?	
Ind 8	Is there evidence of a viable political opposition developing that potentially threatens the existing government?	
Ind 9	Are there signs that either the military or security services are no longer loyal to both the President and Prime Minister and are taking sides politically with one over the other?	
Ind 10	Has Putin failed to keep his promise to invest in infrastructure, education and health care as promised in 2007?	
Ind 11	Is Finance Minister Kudrin likely to be replaced?	
Ind 12	Is the architect of Russian economic policy supportive of a nationalistic economic policy?	

Comments

There is little concrete evidence of macro-level political instability – and thus it appears unlikely that this will impact economic growth in the current environment. The approval ratings of Prime Minister Putin and President Medvedev remained stable in March, at 78% and 71%, respectively. There have been some small signs of a political divergence between the two, but they appear to continue to be broadly aligned and working together well. There have been few signs of public dissent, or within the military; demonstrations and protests have been isolated and poorly attended.



- Overview
- Political Risk
- Legal & Regulatory Risk
- Security Risk
- Consumer Risk
- Other Regulatory Risk
- Government Risk
- Oil & Gas Comparison

Activated Indicators: Political Risk		
Location	Indicator	Source
<a href="#">Q2</a> <a href="#">Ind1</a>	Are organized, well-attended social protests against government political or economic policies increasing?	6 April, <i>Kommersant</i> . CPRF held protest rallies against the government in 30+ cities across Russia. The largest one in Moscow attracted over 1,000 people. According to journalists' accounts, few policemen were deployed to watch the rallies in Moscow.
<a href="#">Q2</a> <a href="#">Ind11</a>	Is there social unrest in Moscow and /or St. Petersburg?	6 April, <i>Kommersant</i> . CPRF held protest rallies against the government in 30+ cities across Russia. The largest one in Moscow attracted over 1,000 people.
<a href="#">Q3</a> <a href="#">Ind2</a>	Is Russia engaged in a foreign policy campaign that is contrary to key US strategic interests in the region surrounding Russia?	2 April, <i>AP</i> . The Russian Foreign Ministry warned the US that helping arm Georgia would be "extremely dangerous" and would amount to "nothing but the encouragement of the aggressor."

Activated Indicators: Legal & Regulatory Risk		
Location	Indicator	Source
<a href="#">Q4</a> <a href="#">Ind2</a>	Has there been any reports of harassment by the courts or regulatory agencies of foreign retailers or their supply chain?	30 March, <i>RIA Novosti</i> . IKEA said that it was reconsidering new investment in Russia, voicing concern over bureaucratic delays in the openings of its stores in a number of regions. 4 April, <i>Kommersant</i> . IKEA store in Omsk didn't open, and reportedly there were over a 100 charges filed against the retailer. 8 April, <i>Kommersant</i> . FAS will bring charges against the Moscow region branch of IKEA for breaking competition laws by forcing counterparties into unfavorable contracts and for creating obstacles for competitors' entry into the market.
<a href="#">Q4</a> <a href="#">Ind4</a>	Is the Russian government providing assistance to Russian-owned retail businesses (i.e., tax breaks, loans, preferential customs tariffs, land purchase/lease incentives, regulatory waivers, etc.) that is not being made to foreign-owned retailers?	23 March, <i>Retail.ru</i> . From 12 to 18 March, Sberbank loaned RUB 5.9 bn to Russian food retailers. 24 March, <i>Interfax</i> . The Volgograd municipal government will allocate more subsidized trading spots at city open air markets to producers and will organize more fairs. 2 April, <i>Retail.ru</i> . In Irkutsk, government organized a project under the banner "Buy Locally," holding open air markets and working with local retailers. 6 April, <i>Vedomosti</i> . Dixy Group, Russia's third-largest listed food retailer, said it got credit lines totaling \$78mn from VTB Group and Alfa Bank to refinance existing debt. 8 April, <i>Retail.ru</i> - From 26 March - 1 April, Sberbank loaned RUB 40.5 bn to Russian
<a href="#">Q6</a> <a href="#">Ind2</a>	Is government economic policy as articulated in major speeches moving toward price controls?	21 March, <i>Interfax</i> . Shuvalov said the government expects that "agricultural producers, processing firms and major trading networks" will soon agree on "maximum possible" crisis-time surcharges for staple foods but said the state would intervene if this is not done. Importantly, in subsequent days, Prime Minister Putin cautioned on price controls

Oil & Gas Comparison

PRINT ALL

Future Trend	<u>Security Risk</u>		Risk Level	Risk Level
↔	Q7	To what degree are violent demonstrations disruptive to XXX's supply chain?	0	0
Future Trend	<u>Consumer Risk</u>		Risk Level	Risk Level
↑	Q8	To what degree is the purchasing power and consumption behavior of the Russian middle class declining?	75	65
Future Trend	<u>Other Regulatory Risk</u>		Risk Level	Risk Level
↑	Q9	To what degree will the new trade law (and related legislation) interfere with XXX's business plan for Russia?	30	25
↑	Q10	To what degree is regulatory risk in Russia increasing?	25	25
Future Trend	<u>Government Risk</u>		Risk Level	Risk Level
↔	Q11	To what degree is macro level instability within Russia resulting in a disruption in economic growth?	15	20

\* Future Trend Key: ↑ WMT risk increasing   ↓ WMT risk decreasing   ↔ WMT risk constant

\*\* Risk Level Key: 1-35 Green ■ 36-70 Yellow ■ 71-100 Red ■  
 Risk level is determined on a scale of 1 to 100, with 100 representing the highest level of risk.

A dark silhouette of a warrior in a long, flowing robe, holding a curved sword high above their head with both hands. The warrior is standing in a field, possibly a battlefield, with a dark, overcast sky and some trees in the background. The overall mood is somber and powerful.

FEARLESSMOTIVATION.COM

Reptile  
**He will win  
who knows  
when to fight and  
when not to fight.**

SUN TZU

# Thanks for Your Attention!

- Questions??
- Comments!!!