

Death of the Country Manager: Geopolitics Revisited, Country Risk – and Welcome to the May 2017 PMWJ

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Welcome to the May 2017 edition of the **PM World Journal** (PMWJ). This 57th edition continues to reflect the international nature of this publication; **21** original articles, papers and other works by **20** different authors in **12** different countries. News articles about projects and project management around the world are also included. Since the primary mission of this journal is to support the global sharing of knowledge, please share this month's edition with others in your network, wherever in the world they may be.

Since last August, on the recommendation of several international advisors, I have used this opportunity to mention important trends or issues that I see as journal editor. This month I return to a topic that has been of personal interest to me for many years – international “geopolitics”.

When I was an undergraduate studying business many years ago, I read case studies involving large American organizations such as IBM, IT&T, Standard Oil and others. In many cases, those large companies had a ‘country manager’ in each country where they did business, to both represent the company as well as oversee business development and operations in country; that is no longer the case. In the 1990s when I was running around Russia and pursuing projects in multiple countries on behalf of some U.S. companies, I became familiar with ‘country risk’, a concept used by the U.S. Export-Import Bank and other financial institutions to determine whether and how they would provide financing for equipment sales and/or overseas projects.

Over the last ten years or so, I have followed a global geopolitical think tank, a private intelligence company based in Austin, Texas called Stratfor. The company, founded by George Friedman, one of America's preeminent experts on national security, international affairs and the intelligence business, provides regular analyses and briefings on trends and events occurring in various parts of the world. [1] My editorial this month was stimulated by an April article by Stratfor's Mike Rosenberg titled “Closing the Gap Between Business and Geopolitics.” [2]

Death of the Country Manager

According to Mr. Rosenberg, “Not long ago, most international companies had people in place to oversee operations at the national level... These country managers were widely respected in their firms for local knowledge... Much like ambassadors, country managers played a two-way role, representing their firms in the country while also explaining the nation's environment to their organization's personnel. And in many cases, executives from the country itself filled the country manager role, further cementing the flow of information in both directions...”[2]

As Mr. Rosenberg goes on to describe, “starting in the 1980s, this classic structure of business was gradually replaced by the matrix structure, which typically comprises global business units, global corporate functions and giant geographical areas of responsibility.”

In addition, trends and pressures associated with globalization in recent years, including global communications, finance and supply chains have accelerated the trend away from local management. As a result, global executives tend to be less informed of economic, political and other conditions in individual countries than they used to be when country managers reported to regional and senior management. In fact, it is nearly impossible for an executive with regional or global responsibilities to keep up with local changes in dozens of countries. Warnings about pending risks at the local level are now fewer and weaker, and often drowned out by more pressing problems elsewhere in the world.

The corporate role of the “country manager” seems to be dead and gone.

Global Geopolitics

Also, many senior executives may not be trained in global geopolitics. As Rosenberg points out in his article, “The vast majority of MBA students have undergraduate backgrounds in engineering, science, finance or business – only a handful come from political science or history... Trained to look at events through modern decision analysis and financial modeling techniques, many managers tend to discount the negative value of an unlikely crisis outcome far in the future... These leaders, who are comfortable with hard numbers and facts, rise through the ranks of their organizations because of their analytic abilities and leadership skills... they prefer more pragmatic and action-oriented strategies... in most companies, people are rewarded and promoted for making things happen, not for expressing doubts and advising caution in the face of slow-moving threats.” [2]

It sounds to me like he is describing project managers and project management professionals. But let’s back up and define geopolitics.

According to MacMillandictionary.com, geopolitics is “the study of how a country’s position, economy, and population influence its politics, especially in relation to other countries.” [3] According to Merriam Webster, a definition of geopolitics includes “1) a study of the influence of such factors as geography, economics, and demography on the politics and especially the foreign policy of a state; 2) a governmental policy guided by geopolitics; 3) a combination of political and geographic factors relating to something (such as a state or particular resources) *the geopolitics of oil.*”[4] According to Wikipedia, “Geopolitics is the study of the effects of geography (human and physical) on international politics and international relations. Geopolitics is a method of studying foreign policy to understand, explain and predict international political behavior through geographical variables. These include area studies, climate, topography, demography, natural resources, and applied science of the region being evaluated.” [5]

In other words, geopolitics involves the relations among and between nations based on geography, politics, economics, demographics and other factors. How much do we as project management professionals know about or consider such issues? Do we need to?

Country Risk

Country risk is a very well established concept in international finance. According to Investopedia, “Country risk is a collection of risks associated with investing in a foreign country. These risks include political risk, exchange rate risk, economic risk, sovereign risk and transfer risk, which is the risk of capital being locked up or frozen by government action. Country risk varies from one country to the next. Some countries have high enough risk to discourage much foreign investment.” [6]

According to the freedictionary.com, Country risk is “the risk that a foreign government will significantly alter its policies or other regulations so that it negatively impacts the business climate in that country or the returns on a particular industry, company, or project. Macro-country risk deals with policy changes that harm, say, exporters or foreign-owned businesses in general, while micro-country risk implies that a government will deliberately target a particular company or way of making a living. For example, the political climate of a country in which defense contractors operate may turn against one particular company because of its perceived excesses or against defense contractors in general. This may cause the government to revoke contracts for one or more defense contractors. See also: Reputational risk, political risk, sovereign risk, geographic risk.” [7]

According to Wikipedia, “Country risk refers to the risk of investing or lending in a country, arising from possible changes in the business environment that may adversely affect operating profits or the value of assets in the country. For example, financial factors such as currency controls, devaluation or regulatory changes, or stability factors such as mass riots, civil war and other potential events contribute to companies' operational risks. This term is also sometimes referred to as political risk; however, country risk is a more general term...” [8]

According to Euromoney.com, “Euromoney Country Risk evaluates the investment risk of a country, such as risk of default on a bond, risk of losing direct investment, risk to global business relations etc, by taking a qualitative model, which seeks an expert opinion on risk variables within a country (70% weighting) and combining it with three basic quantitative values (30% weighting)... To obtain the overall ECR country risk score, Euromoney assigns a weighting to six categories. The three qualitative expert opinions are political risk (30% weighting), economic performance (30%), and structural assessment (10%). The three quantitative values are debt indicators (10%), credit ratings (10%), access to bank finance/capital markets (10%).” [9]

Euromoney maintains country risk indices for all countries. You can also find country risk indices maintained by the Economist Intelligence Unit [10], the World Bank and many other financial institutions.

Country risk is used by literally all banks and financial institutions to evaluate the risks associated with investments anywhere in the world, including loans, share purchases, credit guarantees and other funding activities. You get the picture.

So what does this all have to do with project management?

For most Americans, including project managers, geopolitics and country risk have been foreign concepts. Historically, relatively few American project management professionals have worked outside of the USA or have had much to do with projects in other countries. That has changed dramatically in the last twenty years, especially in the context of global supply chains and virtual project teams in technology industries where resources may be located anywhere in the world.

On the other hand, project managers and PM professionals in many parts of the world seldom work on projects that do not involve international partners, suppliers, customers or stakeholders. This article is for those of you who do work across borders, where risks can increase dramatically depending on the politics, economies, social conditions and other factors in or associated with the countries involved. And those risks now affect investments and projects in Britain, Europe and the United States, formerly stable areas that now exhibit political instability, regulatory uncertainty, and potential economic and social turbulence.

It is my opinion that many program/project managers and professionals working in the project management field may not be trained or well-versed in identifying or assessing geopolitical risks. Without country managers, it now falls to us as individuals to understand the economic, political, regulatory and social environments of our projects and those of our investors, suppliers and customers. Project management in a global economy is more complicated than many realize; but then, those of you working in Africa, Asia, Eastern Europe, Latin America and the Middle East already knew that. In any case, perhaps more knowledge about country risk could be useful for many in the PM field.

Now - This month in the Journal

Now for this month's journal which again contains some interesting and outstanding works. We begin with two featured interviews, both conducted by our correspondent in Istanbul, Ms. İpek Sahra Özgüler. İpek's first interview is with Nedret Orbay, co-Chair of the Turkish Professional Project Managers Institute; the second interview is with Simon Buehring, founder and managing director of Knowledge Train, a UK-based PRINCE2 training outfit. These are short but interesting interviews, so please take a look.

Four rather serious featured papers are included this month. Alan Stretton in Australia is back with another fresh take (but based on 50 years of experience) on "Some differences for project managers working in supplier organizations and owner organizations." Recently CCP certified (AACE) engineer Arif Permana in Indonesia is the author "Environmental Mitigation Cost for Mining Road Construction in Indonesia According to IFC Standard Compliance". Experienced project manager and engineer Muhamed Abdomerovic (USA) in response to my April editorial is the author of "Changing the Code of Agile Promotion." Wantuir Felipe da Silva, Jr in Brazil is the author of "Risk Management Strategy in Projects Inspired by the Systems Engineering Model." If you have the time, read these papers.

Three series articles are included. Darren Dalcher in UK has facilitated another excellent '*Advances in Project Management*' article by Routledge author Dr Alexia Nalewaik in California. Darren's introductory article is titled "Homing in on project performance: The long road towards continuous improvement." Alexia's article discusses "Project Performance Audit – a Methodology", based on her recent book on Project Performance Reviews (reviewed among book reviews this month). David Hillson has provided another very interesting "Risk Doctor Briefing", this month on the topic of "VUCA-Prime". These are all interesting articles on topics of current relevance for many readers.

Steve Wake in UK has authored "The Calm Before the Storm", in which he challenges project control professionals to step up and step out in light of the uncertainties associated with Brexit. Two second edition papers are republished this month: The first a paper by Russ Archibald originally presented at a SKEMA workshop in France in 2005 and the second paper by Emils Pulmanis, just presented last month at the 6th Scientific Conference on Project Management in the Baltic States at the University of Latvia in Riga. As media partner for the Riga conference, we will be republishing some of their papers in the PMWJ in coming months.

Interesting reports are again included this month from Alfonso Bucero in Spain, Jouko Vaskimo in Finland and Jaime Videla in Chile. Emils Pulmanis has also provided a report on the results of the April project management conference in Riga, Latvia.

Original works conclude this month with three reviews of very interesting new books. All of the articles, papers, reports and reviews this month contribute to the global project

management body of knowledge. Please read those of interest to you, then share them with others. Sharing knowledge multiplies the impact of good ideas, and some ideas (like projects) can change the world.

The rest of this article is our monthly boilerplate. Please read if this is your first time with the PMWJ or read again if you are a subscriber; it's important for sustaining this publication.

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About the Author



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David L. Pells is Managing Editor of the ***PM World Journal*** (www.pmworldjournal.net) and Managing Director of the PM World Library (www.pmworldlibrary.net). David is an internationally recognized leader in the field of professional project management with more than 35 years of experience on a variety of programs and projects, including engineering, construction, energy, defense, transit, technology and nuclear security, and project sizes ranging from thousands to billions of dollars. He occasionally acts as project management advisor for U.S. national laboratories and international programs, and currently serves as an independent advisor for a major U.S. national nuclear security program.

David Pells has been an active professional leader in the United States since the 1980s, serving on the board of directors of the Project Management Institute (PMI®) twice. He was founder and chair of the Global Project Management Forum (1995-2000), an annual meeting of leaders of PM associations from around the world. David was awarded PMI's Person of the Year award in 1998 and Fellow Award, PMI's highest honor, in 1999. He is also an Honorary Fellow of the Association for Project Management (APM) in the UK; Project Management Associates (PMA - India); and Russian Project Management Association. Since 2010 he is an honorary member of the Project Management Association of Nepal.

Former managing editor of *PM World Today*, he is the creator, editor and publisher of the *PM World Journal* (since 2012). David has a BA in Business Administration from the University of Washington and a Master's degree in business from Idaho State University in the USA. He has published widely and spoken at conferences and events worldwide. David lives near Dallas, Texas and can be contacted at editor@pmworldjournal.net.