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**INVESTIGATING POLITICAL RISK  
IN THE GERMAN ENERGY INDUSTRY**

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This study analyses the phenomenon of political risk in the German energy industry. Political risk can be understood as “the probability that factors caused or influenced by the (in) action or reactions of stakeholders within a political system to events outside or within the country” (Brink 2004). This study asks for determinants and characteristics of political risk, its origination, its occurrence, and its impact. The focus of this study lies in the German energy industry, where politically initiated drastic changes are the predominant challenge for utilities (Roland Berger, 2013). The industry levels investigated include strategic and risk company’s issues and are focused on the senior management and senior politicians’ insights. It looks for the identification and analysis of the linkage of political risk and their effect on utility companies in Germany of different sizes and active within different sectors.

While political risk is not limited to Germany or the energy industry, there have been enormous changes in this field recently: the German government recently decided to shut down all nuclear-fuelled power plants as part of a programme called energy turnaround (*Energiewende*). The content of this programme will change the industry structure radically. Renewable energy is now heavily favoured with a consequent decline in nuclear energy usage.

This study analyses political risk combining two approaches: an outside-in and an inside-out analysis. Two important perspectives are captured, evaluated and compared with each other. The first group of interviews focuses on senior political experts, who are strongly connected with the energy industry. This

“inside” information comes from experts including members of the state and federal parliament, as well as European parliament and one former federal minister of economics. The second group of interviews therefore seeks “outside” information from industry experts, senior managers of the German energy industries, who are daily confronted with the impact of political risk.

It is enriching to combine these two sides, to develop an understanding of the phenomenon of political risk in the German energy industry. The approach of having two interview series with conflicting expert opinion generates a new view of this topic. The findings illustrate these ideas, thoughts, and opinions together, which helps to explain the different sides of political risk in the German energy industry and generates approaches for the utility companies to take to mitigate political risk.

The analyses of the experts’ insights generated the following results

- (1) identification and description of the definitional tensions of understanding political risk in the German energy industry
- (2) analysis of the political risks the industry is facing
- (3) evaluation of the potential impact of these risks on the industry and its companies
- (4) development of a conceptual approach for political risk management in the German energy industry.

In detail, it has been derived from the analysis that there are huge differentiations in the understanding of political risk between politicians and managers. There is

## ABSTRACT

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also no common understanding within the group of politicians. The different perception of political risk was also evident for the types of political risk that were discussed in this study.

Despite the observed influence of political decisions on single enterprises in Germany in recent history, there are also differentiations in the evaluation of the impact of political risk within practice. Managers perceive it as a given fact and accept it as an element of their environment that they must interact with, while some political experts argue towards a legislative character of political decisions.

The generated insights of the experts were used to develop a conceptual approach for the evaluation of political risk in the German energy industry. It uses three groups of criteria (inside view, outside view, and level of political communication) to evaluate the level of political risk. Three levels of political risk are described and linked with level-related sets of recommendation as a main contribution to theory and practice. The model enables the individual company to take individual actions by anticipating their individual political risk exposure.



AUTHOR'S DECLARATION

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I declare that the work in this thesis was carried out in accordance with the regulations of the University of Gloucestershire and is original except where indicated by specific reference in the text. No part of the thesis has been submitted as part of any other academic award. The thesis has not been presented to any other education institution in the United Kingdom or overseas.

Any views expressed in the thesis are those of the author and in no way represent those of the University.

Signed ..... Date .....





DEDICATION

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TO MY PARENTS

GABRIELE AND BRUNO FOR TEACHING ME TO HAVE A FREE MIND

TO MY FAMILY

MELANIE AND ANNABELL FOR THEIR PATIENCE AND THEIR SACRIFICES

IN LOVING MEMORY OF  
HEINZ GUENTER VOS (1959-2011)



## ACKNOWLEDGEMENTS

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The insights into political risk are at the heart of this thesis. I had the opportunity to gain access to some of the most experienced managers and politicians in the German energy sector. I would like to thank the many experts for their time and their shared insights.

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## PUBLICATIONS

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## ABBREVIATIONS

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B'90/Gruene	The Greens (Buendnis 90/Die Gruenen)
BDEW	Federal Association of the Energy and Water Industry ( <i>Bundesverband der Energie- und Wasserwirtschaft</i> )
BDI	Federation of German Industry ( <i>Bundesverband der Deutschen Industrie</i> )
BERI	Business Environment Risk Index
BMWI	Federal Ministry of Economics and Technology ( <i>Bundesministerium fuer Wirtschaft und Technologie</i> )
CDU	Christian Democratic Union of Germany ( <i>Christlich Demokratische Union Deutschlands</i> )
CRM	Customer Relationship Management
CSU	Christian Social Union ( <i>Christlich Soziale Union</i> )
EEG	Renewable Energy Law ( <i>Erneuerbare Energien Gesetz</i> )
ESC	Energy Services Company
EU	European Union
FDI	Foreign Direct Investments
FDP	Free Democratic Party ( <i>Freie Demokratische Partei</i> )
GPRI	Global Political Risk Index
IAA	International Motor Show ( <i>Internationale Automobil Ausstellung</i> )
IG BCE	Industry Labour Union Mining, Chemistry, Energy ( <i>Industriegewerkschaft Bergbau, Chemie, Energie</i> )
kWh	Kilowatt hour
MNE	Multinational Enterprises
MW	Megawatt
NABU	Nature and Biodiversity Conversation Union ( <i>Naturschutzbund Deutschland e.V.</i> )
NRW	State of North Rhine–Westphalia
PR	Political Risk
RQ	Research Question
SME	Small to medium-sized enterprise
SPD	Social Democratic Party of Germany ( <i>Sozialdemokratische Partei Deutschlands</i> )

## ABBREVIATIONS

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UC	Utility Company
VKU	Association of municipally determined enterprises ( <i>Verband Kommunalen Unternehmen</i> )

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**“Man is by nature a political animal”**

Aristotle (384 BC – 322 BC)

### **1 Introduction to the thesis**

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This thesis investigates the “black box” of the construct of political risk in the German energy industry. While political risk can be analysed from a wide range of perspectives, the unique approach of this thesis is to combine insight perspectives from two expert groups: politicians and managers of the industry. Their insights are used to answer four research questions (sections 5.3 – 5.6) and combined in the development of a conceptual approach for political risk management in the German utility industry.

Political risk is one of the most interesting phenomena in today’s business world, although there is an absence of a unified definition (Fitzpatrick, 1983; Ekpenyong & Umoren, 2010). The analysis of this construct and the development of explanations and possible courses of action are highly fascinating and challenging. The German energy industry has gone through many changes since the reunification of East and West Germany in 1990. With the fall of the wall, the number of local energy suppliers increased to over 900 (BDEW, 2012). However,

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there was still no competition. The sector consisted solely of regional monopolies and its market liberalization only started in 1998. Since then, different political actions have turned the business environment into a highly competitive market (BDEW, 2012). Political influence has significantly increased within the last decade (Bremmer, 2005) as well as the importance for political knowledge (Chen, Bin & Chen, 2005; Bremmer, 2009).

The overall idea of this study is not only to deliver insights into decision-making within utility companies but to generate a conceptual framework as an output. In the end, politicians and managers of the energy industry will profit from the results of this research project by learning and understanding about the concept of political risk.

A concept can be understood as a connection of multiple thoughts, ideas and facts which are related to each other (Webfinance, 2013). This connection is then structured and aggregated to a superior level to enable a generalization of the concept. A concept therefore can be transferable to different but similar incidents. To be precise: the resulting concept, which is based on interviews with 20 experts, is transferable to any German energy company, to determine their individual political risk exposure.

The design of this research project is focused on a two-sided in-depth interview series (see chapter 4 for details). The interview series consisted of one group including politicians, with managers of the German energy industry in a second group. The interviews were semi-structured and had identical, or at least similar,

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topics. The results were compared on a group-to-group basis and deliver two perspectives on political risk.

Within this thesis, the phenomenon of political risk in the German energy industry is investigated. This chapter aims to introduce this important field and sets the road map for the upcoming chapters.

### 1.1 Focus of the thesis

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The research focuses on the personal experiences of the experts; it asks for special experiences and actions in certain situations. The aim is to develop a conceptual approach that reflects the party structure on the one side, and the industry structure on the other side.

### 1.2 Research Area

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The academic field of political risk is, despite its attractiveness, relatively young and unanalysed, neither broadly nor deeply. The literature review in chapter 2 delivers details on the academic perceptions of political risk. Political risk is a unique phenomenon, which can be described as the intersection of risk management literature and political science literature. There is little published scholarship on political risk alone.

The German energy sector is full of interesting topics that are often emotionally discussed in German society. There are demonstrations by thousands of people against the transportation of nuclear waste; there are also (local) demonstrations

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against the building of wind power plants. Companies are publicly accused if they run, or invest in, nuclear power plants. There are also demonstrations against lignite power plants.

This thesis presents the research results on political risk perception in the German energy industry and develops a conceptual approach to enable managers to handle political risk more effectively. It is important to understand that the energy industry in respect to this study covers companies acting in Germany which produce, trade, transport and/or sell energy. Due to limited resources regarding time available to work on this thesis, it is not possible to include the areas of commodity exploration and / or the oil industry. However, impacts on commodity prices were analysed by Bazzi and Blattmann (2011).

### 1.3 Research Questions

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It is useful to develop a road map for the analysis of the phenomenon in question. The approach of analysis of political risk is derived from existing literature and published research projects. It also accounts for the specific situation in the German energy industry and in German politics. As an insight analysis on political risk in the German energy industry has not been undertaken, it is useful to choose a “high” perspective, rather than a detailed view.

Based on this, the thesis analyses the construct of political risk using four research questions.

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1. Are there definitional tensions in the way in which political risk is understood and defined as (a) an academic concept and (b) in practice, by German politicians and energy managers?
2. What political risks face the German energy industry and its companies?
3. What is the potential impact of these political risks on the German energy industry and its companies?
4. How might a unified concept of political risk enable German energy companies to manage political risks more effectively in the future?

**RQ 1: Are there definitional tensions in the way in which political risk is understood and defined as (a) an academic concept and (b) in practice, by German politicians and energy managers?**

It is useful to research a definition of political risk in the context of this study at the very beginning. To clarify the definition sets the foundation for further understanding of the experts. The way that political risk is defined by the individual experts offers their perspective on the whole construct and their interaction with political risk issues. The definition sets a first landmark in this research by focusing on the core of political risk: are political decisions able to influence the market and its players intensively? How is it understood by the people involved?

In addition, a definition is necessary as there is no common understanding on political risk in the academic world, which fact is demonstrated in chapter 2, in the review of literature. While in practice political risk analysis is often part of a

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comprehensive country risk approach (Altug, Demers & Demers, 2007; Vij, 2005; Vij & Kapoor, 2007), a stand-alone definition of political risk therefore extracts the essential understanding of political risk.

The definition of political risk varies depending on various factors. One main factor is the perspective of analysis: within this study, it is aimed to deliver an inside perspective of political risk. Political risk will be defined from the experts' point of view; the two perspectives: from politicians and senior managers of the industry are combined and analysed for similarities and differences.

The second main factor for the definition is the perspective of a certain industry: while it is easily understood that risk in general, and political risk as a specific phenomenon, differs from sector to sector, the aim within this study is to develop an industry-specific definition for the energy sector.

Within this section of the thesis, it is also investigated whether there is a consensus on political risk reached by the two groups, and if there is none, to identify and evaluate the different perspectives.

The progress in respect of RQ 1 is to understand political risk. This research question aims to deliver answers on the thoughts behind a definition, and on the understanding beyond. Political risk is a complex construct and the clarification undertaken in RQ 1 deserves detailed observation.

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It is a useful step to ask for the perception of political risk. The thoughts on political risk from the politicians' own perspective are important in this section as well as the thoughts on political risk perception by the other expert group.

**RQ 2: What political risks face the German energy industry and its companies?**

While RQ 1 looks for a definition in more theoretical, fact-based terms, RQ 2 investigates the understanding in practice. This research question asks for the political risks with which the German energy industry is actually faced. It researches historical and present risks in the industry from two different perspectives.

For both perspectives, it is important to understand which risks actually occur in the German energy industry and affect the business performance of the companies. RQ 2 tries to narrow down the overall perspective sought in RQ 1 and focus it on the energy industry in Germany. RQ 2 looks for the identification of relevant political risks.

**RQ 3: What is the potential impact of political risk on the German energy industry and its companies?**

Research question 3 looks at the identification and evaluation of the potential impact of political risk. Combining the two perspectives of politicians and senior managers from the energy industry, it is interesting to investigate the impact

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politics can have on a certain industry (see chapter 2.11 for examples). While there have been several major incidents in recent history, this research question aims to uncover the personal perception of, and personal interaction with, some of those incidents.

This research question also seeks to evaluate the overall impact which political risk has on the German energy industry. It is challenging to bring the two different, sometimes opposite, positions together. Political decisions might influence not only the framework of the company's action but also influence the performance of single businesses. This question is also answered in RQ 3.

Once an influence at any level has been identified, the research leads to the next question: is an influence on an industry and companies legitimate, helpful or even more: intended and necessary? Research question 3 tries to discover answers to these issues.

**RQ 4: How might a unified concept of political risk enable German energy companies to manage political risks more effectively in the future?**

While research questions 1–3 deliver answers on hidden insights, this research question leads to a practical concept for managers in the German energy industry. The concept is derived from the broad spectrum of insights and offers a recipe to handle political risks more effectively.



## 1. INTRODUCTION

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Political risk as a research area has been analysed poorly in the past (see chapter 2). Hence, only a limited number of political risk concepts have been developed. The number of handbooks on the subject is also small. How are managers supposed to handle political risks? Experts of a certain industry should know the main characteristics of the environment in which they are acting. However, a straightforward guide for effective handling of political risk in the German energy industry has not yet been published. Research question 4 tries to fill that partial gap. The underlying motivation is – from a theoretical analysis – to develop a useful conceptual approach for daily business activities.

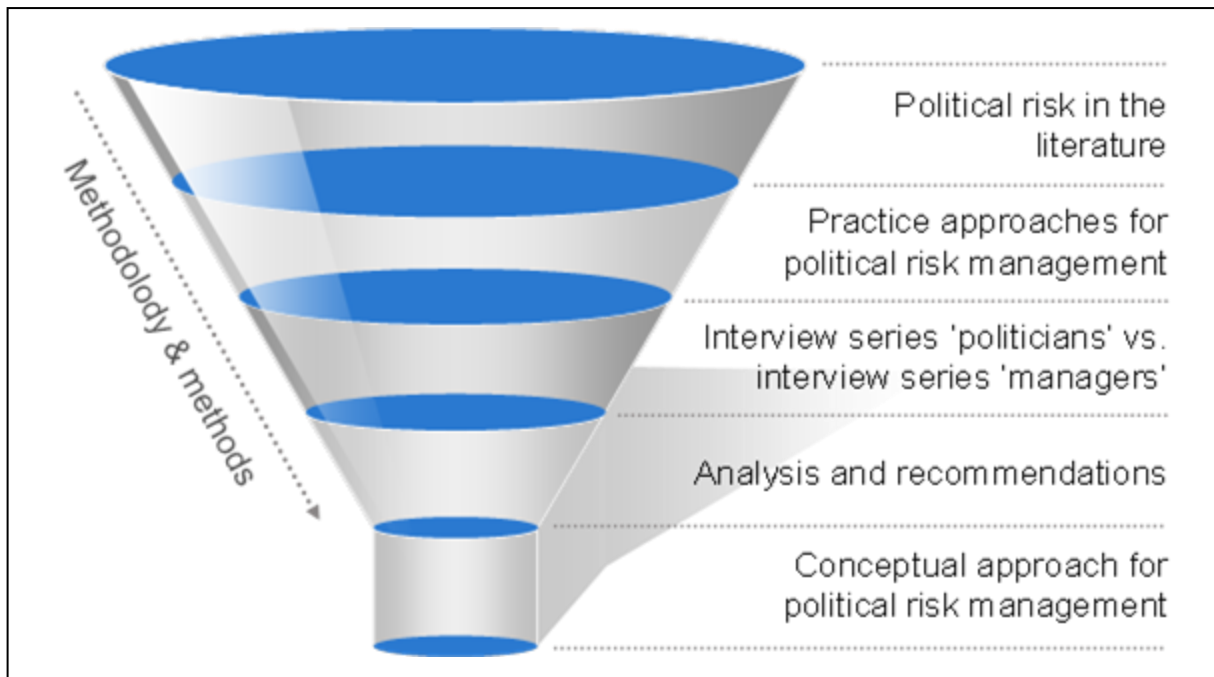
### 1.4 General Strategy

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The development of this study follows the ideas of several researchers and is also inspired by research guides (see for example Althaus, 2004; Jensen & Johnston, 2011; Fisher, 2007; Kamler & Thomas, 2006; Leedy & Ormrod, 2005; Johnson & Christensen, 2010). It consists of a systematic literature review as a foundation for further research and tries to fill the identified gap with an inside-out/outside-in comparative interview analysis on political risk. The results of this analysis are then used to develop a conceptual approach to enable companies to manage political risk more effectively. Figure 1 indicates the relation between the different chapters:

## 1. INTRODUCTION

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**Figure 1: general research strategy (own illustration)**

A systematic literature review sets the foundation for further research. It results in, besides a detailed analysis of existing literature, a set of identified models of political risk. These models and their transfer on to the German energy industry create the starting point for the two interview series. The comparative analysis of the conducted interviews then identifies the relevant aspects for the development of a unique model for political risk in the German energy industry. This is the conceptual approach to enable companies to manage political risk more effectively. The procedure can therefore be considered as business research (Sekaran, 2003).

### 1.5 Thesis structure

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The structure follows the ideas and thoughts on the phenomenon of political risk and the derived procedure described in the previous sections. The introduction

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chapter closes with a snapshot of the German utility industry, to provide a basic understanding of the industry and the challenges facing. The literature review in chapter 2 sets the foundation for the further research. Literature is analysed from three different areas. Political risk cannot be attributed to one single research area; political risk is – the term itself indicates this – a mix of political science and risk management. Therefore, it is appropriate to analyse these academic areas separately in terms of political risk literature. In addition, chapter 2 highlights the stand-alone political risk literature. Although there has been only limited work on political risk, it is important for it to be pointed out here.

The identified and evaluated literature will set the framework for the thesis. It will impact the next steps of the process of this study and is therefore a critical issue. In order to provide a thorough review of the relevant literature, this chapter follows the structured research process of McDermott, Graham and Hamilton (2004).



**Figure 2: thesis structure (own illustration)**

Chapter 2 also offers a snapshot of the German energy industry. This is useful to emphasize the current issues with which managers, as well as politicians, are confronted. This section is supported by information on the historical development of the German energy industry as well as past political regulations. Hence, this chapter helps to detail the specific environment in which the experts operate. It also complements the picture of political risk, with the results of the literature review and the models of political risk.

Chapter 3 (Theory: models of political risk) delivers insights into extracted political risk models. The analysis of different approaches is useful to complete

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the results of the literature review and to point out potential research gaps. Within chapter 3, three types of political risk models are described and analysed. Choosing three main types ensures that a broad range of approaches is sufficiently covered. Their strengths and limitations are pointed out and approaches are questioned regarding their application in the German energy industry.

The research methodology is described in chapter 4. Derived from the research strategy, a methodological framework sets the cornerstones for the chosen research approach. Qualitative research as a general field is introduced and the reasons for choosing interviews are demonstrated. Interviews as a research method are outlined in chapter 4. The research method – interviews – is analysed and parameters are set and justified. This includes sampling size, experts' selection process, techniques, framework, and data analysis. As a closing section in chapter 4, the rationale for qualitative research and interviews is demonstrated and their strength and limitations are illuminated.

Chapter 5 presents the findings with the data analysis. At the beginning of this chapter, it is useful to analyse the background of the interviewed experts. Information on their job role and on their experience in business and politics gives further context to the research focus. This study aims to generate results representing the views of all active parties in Germany as well as views from all types of German utility companies.

Following the analysis of experts' backgrounds, this chapter analyses the findings of each research question. Interviews were conducted in an attempt to deliver

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insights into each of the research questions. It is useful during this chapter to analyse the findings step by step, to highlight the unique characteristics of each of the research questions.

Chapter 6 offers a conclusion for this study. The conclusion delivers recommendations for the understanding of political risk. The identified items will enable both groups: politicians and energy managers, to gain a better understanding of the development of political risk, how it occurs, what the impact can be, and how it can be mitigated. The practical and theoretical contributions are also outlined. Chapter 6 links the contribution to theory with the identified insights. A critical view on research aims vs. research outcomes shows whether the targets set are achieved within this study. This includes a reflection on the chosen research method and the course of action taken. Chapter 6 closes with a view of the perception of political risk by politicians and energy managers.

The chapter summarizes the research findings and derives the main conclusions. It points out the conceptual approach for the German energy industry and offers insights into how to handle political risk more effectively. Future research recommendations are also made.

A management summary at the end of each chapter enables the reader to follow the process of analysis and ensures a logical development of the research.

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### 1.6 Snapshot of the German Utility Industry

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This section delivers basic information on the German utility industry. It is useful to conduct an industry analysis for this research study as it is highly important to understand the history as well as today's challenges to develop a fundamental knowledge for further research.

#### **Introduction**

The German utility sector is very unique and this is due to several reasons. It was mostly erased after World War II and had to be built up again and consequently, most of it has only been in existence for 60 years, at most.

From the very beginning, the German energy sector was confronted with political regulations. The written German constitution details the government's public care responsibilities on drinking water, traffic, garbage and cleaning, and energy. This means that the government is, even today, still responsible for the supply of energy in Germany, although, in fact, the energy companies have been granted authority to supply energy.

#### **Value chain**

The value added chain in the German energy industry is generally characterized by five steps, as shown in figure 3 below. First, there is the raw material production, also known as mining, while power generation, with conventional or renewable power plants, is the second step.

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**Figure 3: value chain stages German utility industry (own illustration based on RWE, 2013a)**

The third stage – energy trading – links power generation with distribution. The role of energy trading has increased enormously over the last decade (Erdmann, 2009). The management of electricity and gas networks represents the fourth stage in the value chain. This is one major area where political regulation occurs (Bundesnetzagentur, 2012). The last stage of the value chain is sales of electricity and gas and due to its high market exposure, it can be considered the stage with the highest level of competitiveness.

Figure 4 illustrates the companies' diversification along the value added chain. While single companies are often active in more than one area, it still shows that there is a focus on sales of power and gas and the operation of power and gas networks.



## 1. INTRODUCTION

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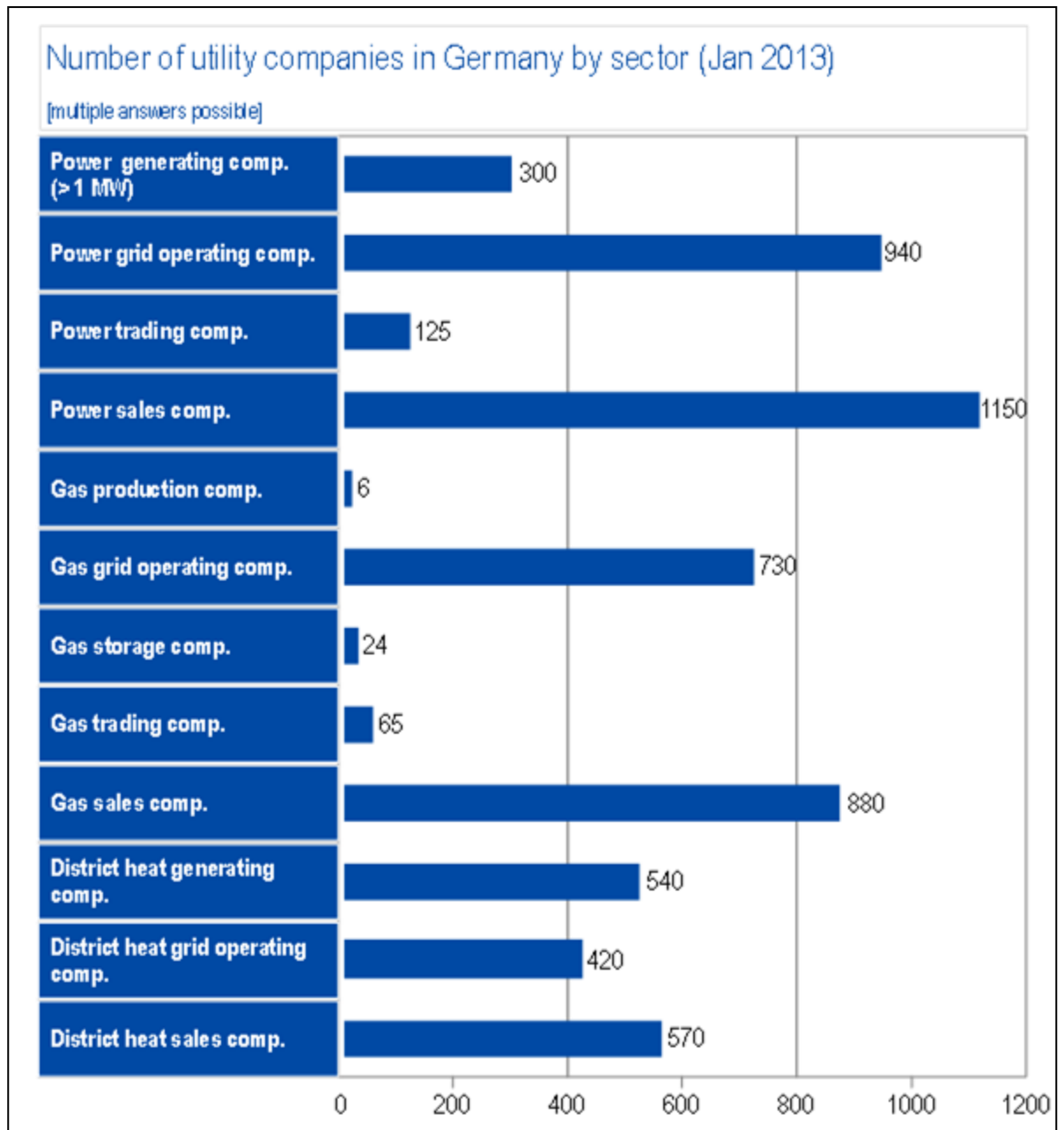


Figure 4: Utility companies by sector (own illustration based on Statista, 2013)

### Historical Development

It is useful to understand the history of the German energy industry to be able to derive the uniqueness of its affiliation within the German economy. While it would be too much information to describe all political decisions in detail, it is appropriate to focus on the main items. The industry and its companies have had a

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strong relationship from the very beginning, as the energy sector in Germany has its roots back to the immediate post-WW2 years.

With Germany's defeat in May 1945, German industry was left destroyed by the allied forces. The infrastructure had to be built up from the bottom, and at that time, Germany had no relationship with any neighbouring country.

A first main step to rebuild German infrastructure in the energy sector was the coal and steel union (*Montanunion*). The Ruhr area is a natural source of hard coal and consequently became the home of the German steel industry. The coal and steel union can in the retrospective be considered as the first step of a European energy policy (Brunn, 2004; Geden & Fischer, 2008, p. 24).

In 1957 the treaty of Rome was signed by Belgium, France, Italy, Luxembourg, Netherlands and West Germany, which founded the European Economic Community. With this treaty the Euratom contracts were established, focussing on a common development of the peacefully usage of nuclear energy. Since then several contracts on the topic of energy and energy policy were negotiated. (Brunn, 2004; Geden & Fischer, 2008)

This all led to the treaty of Maastricht, the founding contracts for the European Union. By publishing the Green paper in 1994 the development of a united European energy policy has started (Brunn, 2004; Geden & Fischer, 2008, pp. 28ff). In 2007 the EU presented the 20/20/20 goals which aim to reduce CO2 emissions by 20 per cent compared to 1990, to increase energy efficiency by 20

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per cent, and to achieve a proportion of 20 per cent of renewable energy in the consumption perspective. (Geden & Fischer, 2008).

### **Today's Industry Structure**

Within the last 20 years, the energy sector has gone through enormous changes. Until 1997, the market in all three end-customer products – power, gas and water – was characterized by monopolistic structures (Diekmann, 2007).

The sector in Germany today is mainly divided into two groups of companies. It is dominated by four companies, representing over 70 per cent of the annual industry turnover (Melzer, 2006). These companies, often referred to as the big four, are: E.ON (42.7 billion € turnover in 2010), RWE (34.8 billion € turnover), EnbW (17.5 billion € turnover) and Vattenfall Europe (13.0 billion € turnover). The big four are well known for operating nuclear power plants. (BDWE, 2012).

## 1. INTRODUCTION

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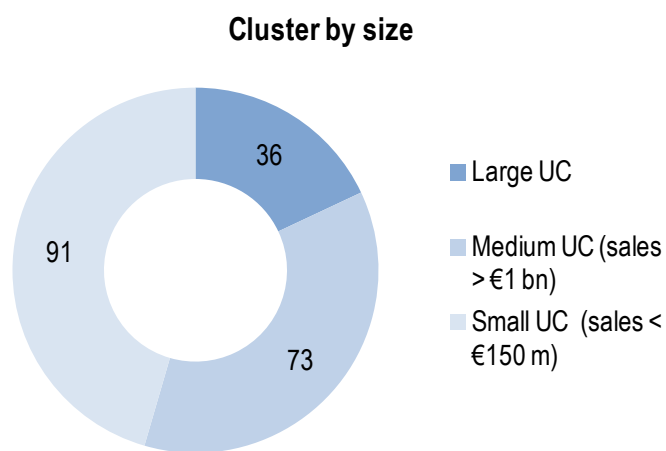
No.	Company	Turnover in million Euro
1	E.ON	42.651
2	RWE Konzern	34.803
3	EnBW	17.509
4	Vattenfall Europe	13.040
5	EWE	6.969
6	Wingas	6.862
7	Verbundnetz Gas Leipzig	5.293
8	Rheinenergie AG	4.052
9	Stadtwerke München	3.766
10	MVV	3.359
11	Stadtwerke Leipzig	3.115
12	Stadtwerke Hannover / Enercity	2.482
13	N-Ergie	2.383
14	Bayerngas	1.736
15	Pfalzwerke	1.765
16	Mainova	1.670
17	Stadtwerke Düsseldorf	1.658
18	ENERVIE	1.443
19	Gasunion	1.236
20	Berlin Wasser	1.204
21	Gasvers. Süddeutschland	1.164
22	Gasag Berliner Gaswerke AG	1.162
23	Stadtwerke Bremen	1.147
24	Drewag	1.052
25	Stadtwerke Karlsruhe	999
26	HEAG Südth. Energie AG	704
27	Enovos Deutschland AG	615
28	GKM	453

**Table 1: company rankings by annual turnover, based on individual company reports for 2010, available from their websites and published on [www.bundesanzeiger.de](http://www.bundesanzeiger.de)**

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Apart from the big four companies, there are over 100 SMEs. Geyer (2013) analysed 200 companies and came to the clear conclusion that the market is unevenly divided, with nearly half of the analysed companies, by generating an annual turnover of less than 150 million €, being regarded as small utility companies (UC).

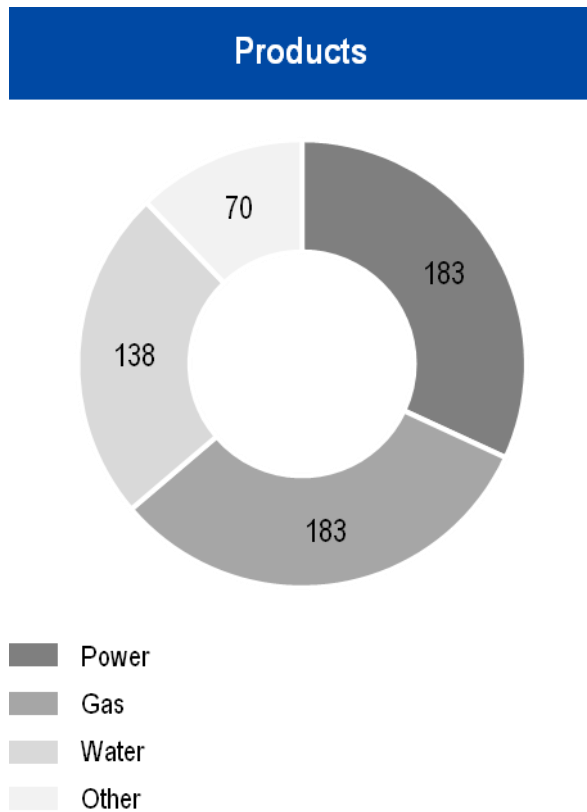


**Figure 5: market cluster by company size (Geyer, 2013)**

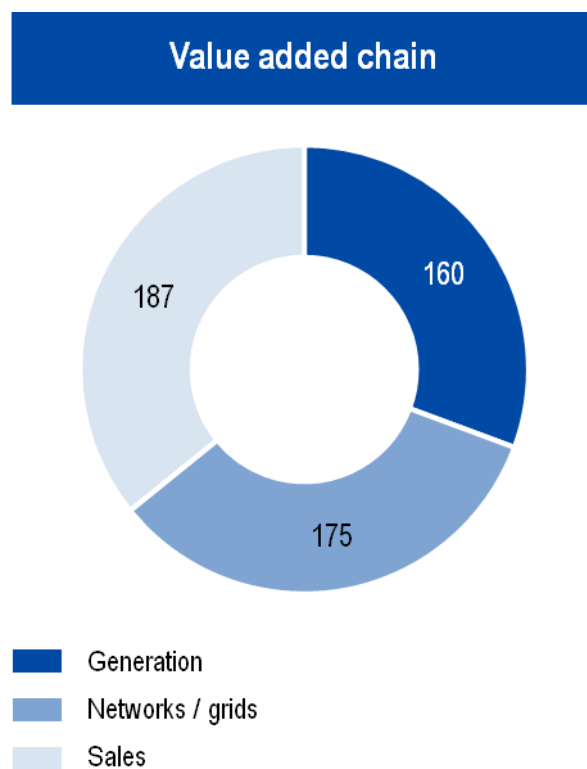
The output perspective is characterized by a wide range of products offered, although there is a large focus on electricity, gas and water, in any combination, as a product mixture (see figures 6 and 7).

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**Figure 6: Products of the analysed companies (Geyer, 2013)**



**Figure 7: Active areas of the analysed companies (Geyer, 2013)**

### **Company profiles**

With over 74,000 employees, the largest utility company in Germany is E.ON, which generates an annual turnover of 42.7 billion euros. The company's shares comprise over 80 per cent free float, nearly 6 per cent owned by Norway and the other shares are owned by investment companies. E.ON's activities are divided into five global and twelve regional units, covered by global reporting structures: generation, renewables, optimisation and trading, and exploration and production. The power plant structure of E.ON, based on generation capacity, is characterized by a high proportion of nuclear power plants (12 per cent), hard coal (24 per cent) and gas fired power plants (38 per cent) (E.ON, 2012, p. 31; Onvista, 2012a). In total there are 67,732 MW at the end of 2012 (E.ON, 2013, p. 29).

RWE is second largest utility in Germany and generates with over 65,000 employees an annual turnover of 34 billion Euros. It is ranked third in Europe and for gas and power the largest utility company in Germany. RWE is often characterised as a state-owned company (interviews with M4, M7 and M8) which is based on its intensive connection to its municipal shareholders. RWE shares are split of as follows: over 34 per cent are owned by cities in the RWE "home region", the state of North Rhine-Westfalia and additional 51 per cent by foreign institutional investors (Onvista, 2012c). The installed capacity of RWE is characterised a high proportion of conventional types of power plants. This includes gas (30 per cent), hard coal (23 per cent) as well as lignite (21 per cent). RWE also owns nuclear fired power plants. The installed capacity of RWE aggregates to 51,977 MW in 2012 (RWE, 2013b, p. 57; Onvista, 2012c).

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Swedish Vattenfall is ranked third in Germany. The company is 100 per cent owned by the country of Sweden. It employs more than 33,000 employees and generated a group turnover of 19 billion Euros. Vattenfall's generation portfolio is characterised by a large proportion of hydro power plants (24 per cent). In addition Vattenfall operates 46 per cent in fossil power plants and 27 per cent in nuclear power plants, (Vattenfall, 2013)

EnBW is the acronym of energy Baden-Wuerttemberg and is with a turnover of 19 billion Euros number '4' in the German energy market. It employs 20,000 people. EnBW's activities are divided into generation and trading, grid and sales, gas, and energy and environmental services. The gas division is the largest activity by generation 40 per cent of the group's turnover. The installed generation capacity is 13,400 MW. It is split up into 52 per cent with conventional power plants (hard coal, lignite, gas), 25 per cent of nuclear power, and 19 per cent from renewable energies. (EnBW, 2013; Onvista, 2012c).

### **Party system in Germany**

The German party system is dominated by the conservatives and the social democrats. Besides these big two, there are several smaller parties.

At the last federal election in 2009, the proportions are as follows:

CDU Christian Democratic Party	33.8 per cent
SPD Social Democratic Party	23.0 per cent
FDP Free Democratic Party	14.6 per cent
LINKE Left Party	11.9 per cent
BUENDNIS 90/GRUENE Green Party	10.7 per cent



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(Bundeswahlleiter, 2009)

This diverse party system almost automatically creates political conflict and energy politics especially seem to be such a field of opposing positions (Schmidt, 2010). The following figure 8 illustrates the influence of the EU politics on the German legislation process (Wessels, 2008).

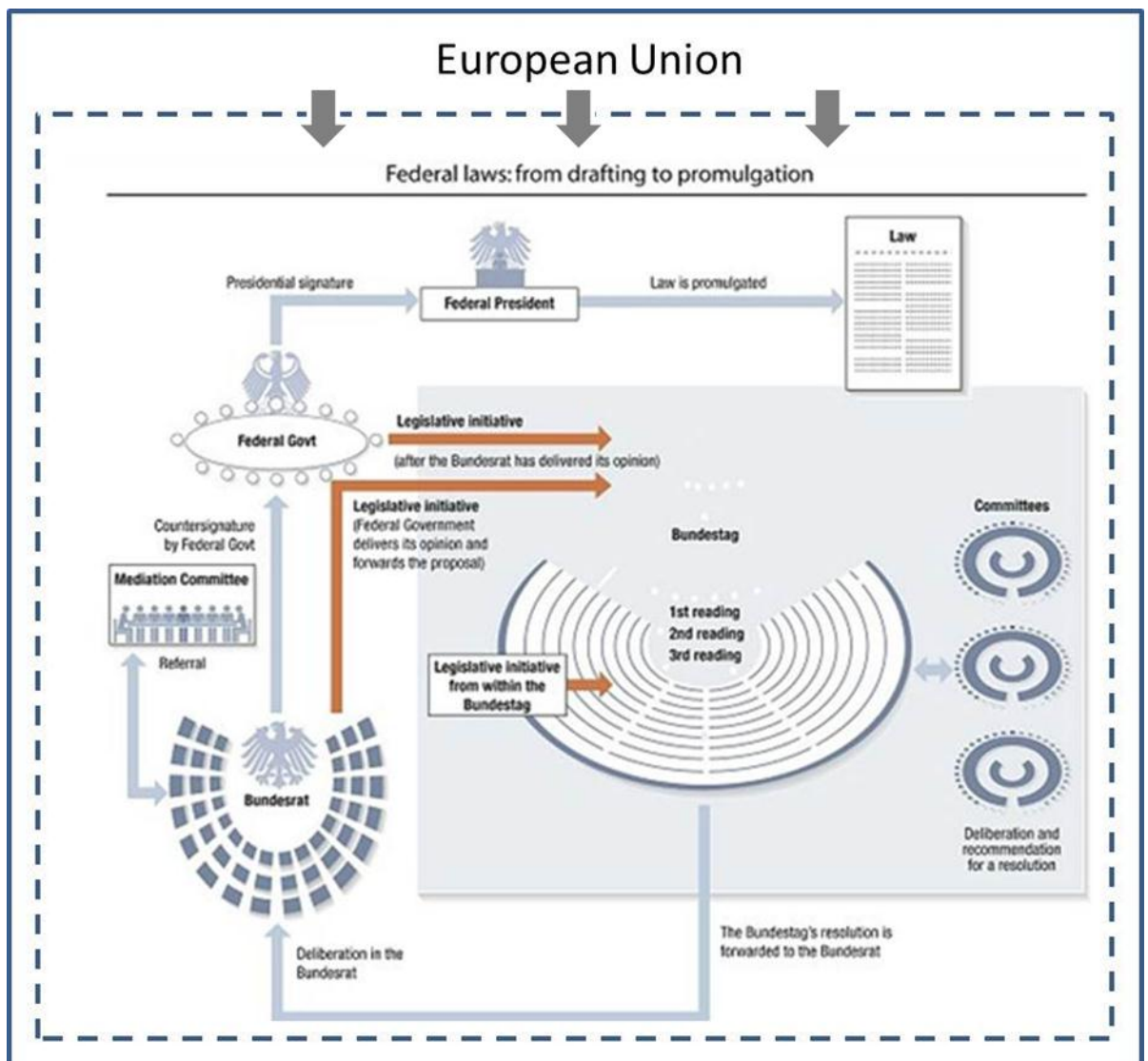


Figure 8: German legislation process (own illustration with material from Bundestag, 2013)

### **Industry Outlook**

The German energy sector is facing its biggest crisis in the last 40 years. By calling out the “energy turnaround” (*Energiewende*), German chancellor Merkel set the cornerstones for the industry development in the next decades (Hermann, Matthes, Emele & Jung, 2012; DIHK, 2011).

The turnaround of the German energy industry was started after the decommissioning of seven nuclear power plants, following the nuclear accident in Fokushima, Japan in March 2011 (Bundesregierung, 2013).

At the time (May 2012), the term energy turnaround created doubtful responses. Papers on the turnaround addressed the main issues, but possible solutions are still not fully understood by the industry.

The German course of action for the energy turnaround is separated into nine main areas (Bundesregierung, 2011, p. 2):

- A. Renewable energies as a cornerstone of future energy supply
- B. Energy efficiency as the key factor
- C. Nuclear power and fossil-fuel power plants
- D. An efficient grid infrastructure for electricity and integration of renewables
- E. Energy upgrades for buildings and energy-efficient new buildings
- F. The mobility challenge
- G. Energy research into innovation and new technologies

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H. Energy supply in the European and international context

I. Transparency and acceptance

Parallel to the energy turnaround the European energy goal 20/20/20 (EU climate and energy package) is set by the European Commission to be achieved in 2020. It aims to reduce the greenhouse gas emissions in the EU by at least 20 per cent from the 1990 level. Energy consumption in the EU should be reduced by 20 per cent and 20 per cent of the energy consumption should come from renewable energy sources. This is the framework of targets, which the EU members need to aim to achieve.

Those are the topics that will determine the future of the German energy industry in the next ten years.

The German utility sector is characterized by unique attributes. It is important to understand these characteristics and their interdependences to allow a deeper understanding of the relationship between politics and the utility companies.

Necessarily, the industry structure, as well as the companies' types of shareholder will be analysed. The level of politics which have strong connections with the sector and its companies will be demonstrated. This chapter also shows the specific level of political interaction.

A recent study by Geyer (2013) on the profitability of the industry demonstrates the challenging market environment. The study analysed 200 German utility companies and states that 18 per cent of them generate a turnover of over 1 billion

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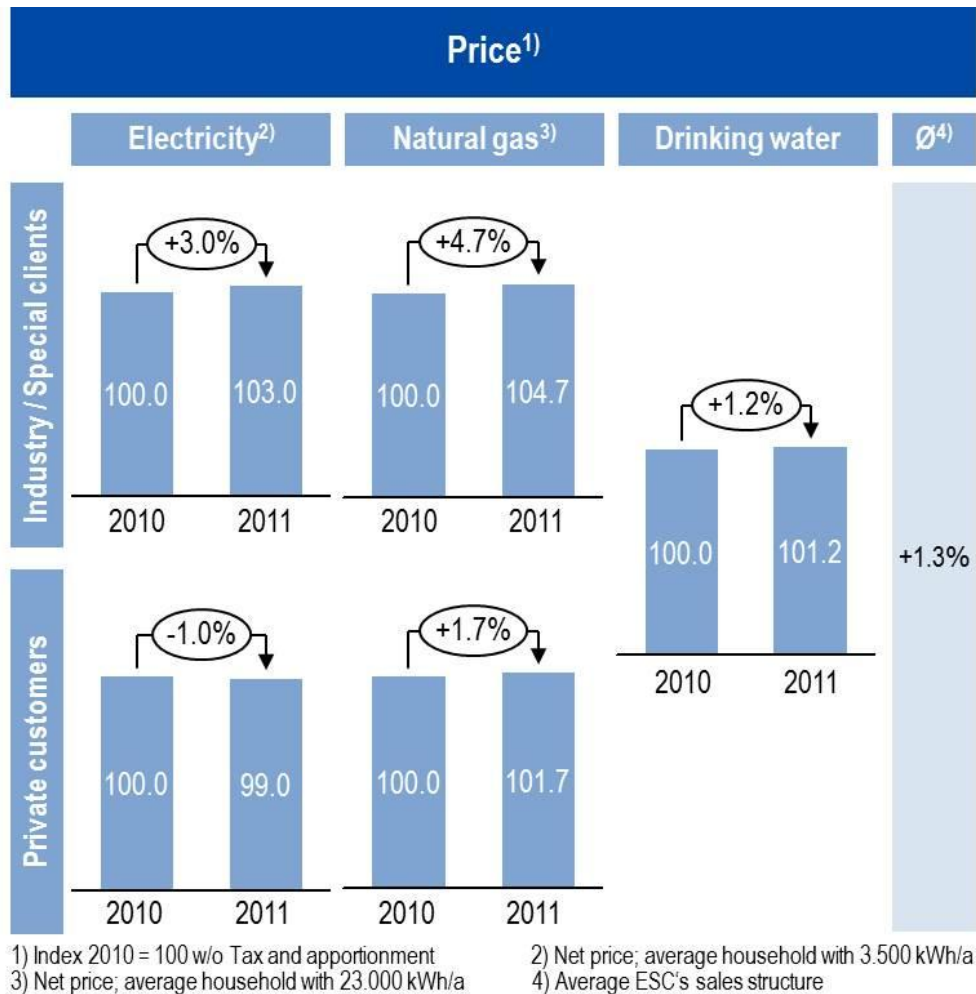
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EUR, 37 per cent, between 150 million EUR and 1 billion EUR, and 45 per cent with a turnover of less than 150 million EUR. Their value added chain is nearly equally split into generation, grids and sales (Geyer, 2013).

The industry growth is 1.8 per cent on average and approximately 2/3 of the companies generate growth, with decreasing margins (Geyer, 2013).

The prices for end customers increased by 1.3 per cent on average, with a larger increase for industrial customers. In detail, this increase is distributed in terms of the individual commodities as follows:

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**Figure 9: End consumer price development (Geyer, 2013, p. 11)**

While prices for private customers have decreased for electricity and slightly increased for gas, by only 1.7 per cent, industry customers are faced with a much larger increase, especially for gas (Geyer, 2013).

The companies' performance situation is also critical: the return on sales has decreased by 1.7 per cent, with a broad spread over the industry. Smaller utility companies perform much better than medium-sized or larger energy companies (Geyer, 2013).

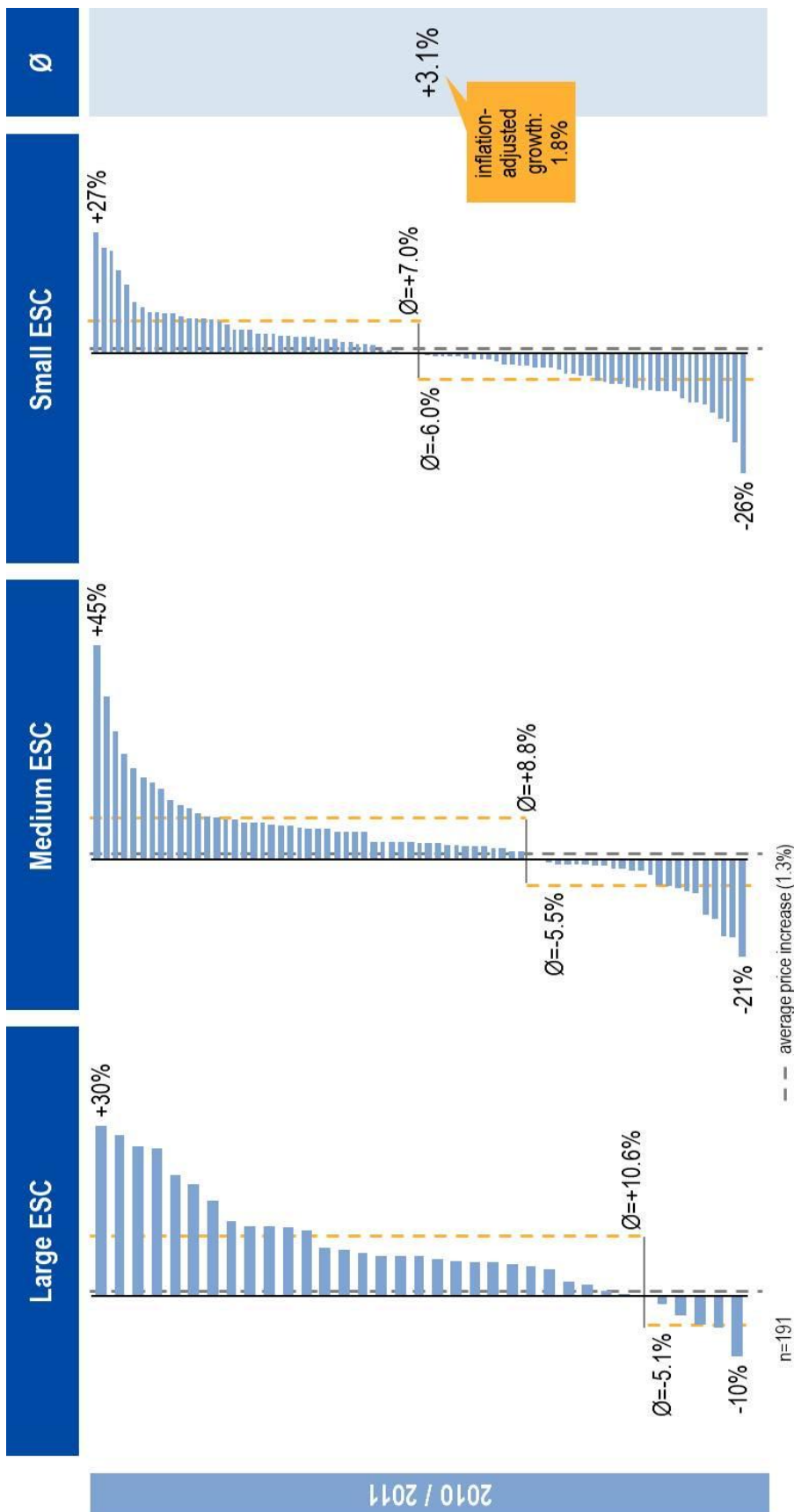


Figure 10: Turnover development of the analyses companies (Geyer, 2013)

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The previous figure 10 presents the analysis on the turnover development of the companies. On average, there is an average growth rate of 3.1 per cent, or inflation adjusted 1.8 per cent. This indicates a stable market environment. Again, for detail analysis, the companies are clustered in three groups. The group of large companies has an average growth rate of 10.6 per cent for positive development. For companies with negative development there is a 5.1 per cent decrease. Within the medium sized companies there is an average turnover growth rate of 8.8 per cent for the positive and -5.5 per cent for the companies with negative turnover. For the group of small UC there is an nearly even split: Ø 7.0 per cent positive and Ø 6.0 per cent negative.

The implications out of this turnover analysis show that larger companies did perform better on average as medium or small companies. The question is, whether this growth is related to positive or negative margin developments and illustrated in figure 11.

The following figure 11 indicates the challenging situation of the German utility industry by displaying growth in relation to profitability. The analysis demonstrates that there are many companies that put growth before margins, with 44 per cent of the analysed companies realizing growth but with declining margins. An additional 23 per cent are faced with critical shrinkage – that all adds up to 67 per cent of companies in challenging situations.

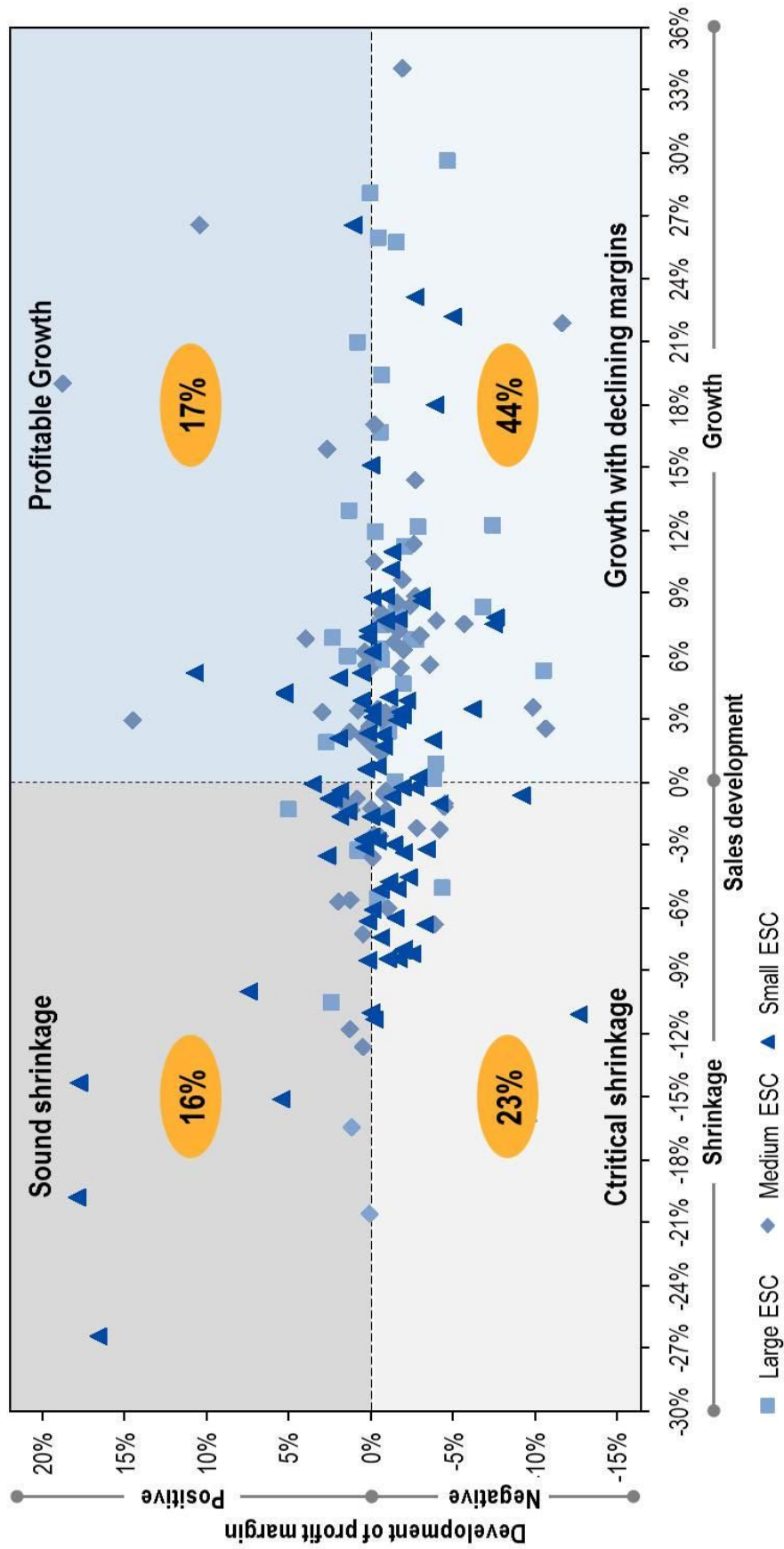


Figure 11: Development of turnover and sales margin analysis (Geyer, 2013)



### 1.7 Conclusion

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This chapter has introduced the main thoughts that characterize the construct of this study. The research area of political risk, even as a stand-alone consideration, is fascinating. This study imposes political risk analysis on the German energy industry and is therefore at least twice as challenging. The focus of the thesis has been made clear and research aims and objectives defined. The chosen course of action within the next chapters has been described and justified. An introduction to the main characteristics of the industry has been provided.

The following chapter (2) highlights the relevant literature for the area of political risk. It describes the process of a systematic literature review and sorts the evaluated results into groups of research areas.

Chapter Summary	
Content	Result
Introduction	The field of political risk has been introduced and the main challenges outlined.
Focus of the thesis	The focus of this study is to develop a concept for political risk management in the German utility industry, based on the gained insights by the interviewed experts.
Research questions	The four research question that drive this study are explained and justified.
Research procedure: structure of thesis	The thesis structure with ist 6 chapters has been described and offers an easy to follow course of action.

**Figure 12: summary of chapter 1**

**“Politics is the art of the possible”**

Otto von Bismarck (1815 – 1898)

## **2 Literature Review**

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### **2.1 Introduction**

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The previous chapter offered the introduction to the thesis. It described the research area, the research question and the general research strategy. Chapter 1 also demonstrated the thesis structure.

This chapter sets the foundation by carrying out an analysis of the literature. The aim of the study is to develop a concept of political risk, reflecting the nature of political risk and representing the unique environment for utility companies operating in Germany.

It provides a focused but comprehensive review of the literature relevant to the area of political risk.

Chapter 2 combines a traditional management literature review and a systematic approach to describe the field of political risk and its main characteristics. The

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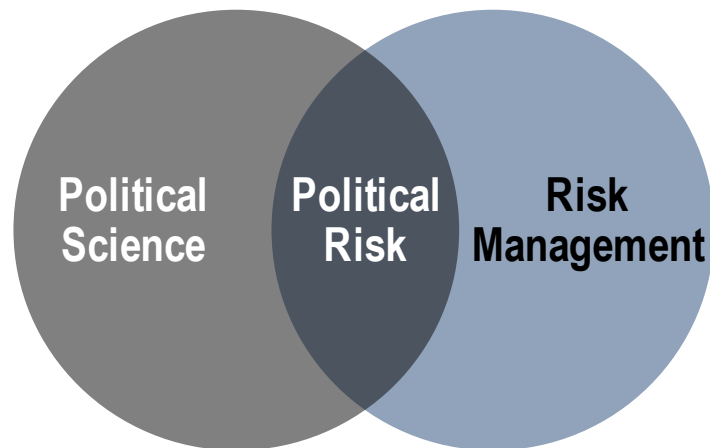
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project progress so far has identified that political risk is poorly covered by academic literature and that no model of political risk in the German energy industry could be found. Neither could literature that covers this topic to a sufficient degree be identified. The specific focus of this research study might be a key challenge. Collin and Fauser (2004) have described this problem as for “some review topics, however, the strengths of the systematic review may turn into weaknesses. The primary problem is that the narrow focus and prescribed methods of the systematic review do not allow for comprehensive coverage” (p. 103).

Chapter 2 is composed of 12 sections (including introduction), representing the main steps to generate a useful foundation of literature for this study. The rationale for a literature review is followed by a definition of key terms. Sections 2.3 to 2.5 define the aims and outline the strategy used for this review, while section 2.6 describes the selection criteria and section 2.7, the quality analysis of the results. Sections 2.8 to 2.10 synthesize, analyse and link the relevant literature. This chapter closes with a snapshot of the German utility industry.

### **Comprehensive approach**

Given the nature of this topic, based on the denotation of the term “political risk”, this research project touches different fields of research. Political risk is partly included in political science, in risk management, and to some degree, is covered by political risk experts. Figure 13 indicates how these three fields are connected, based on the researcher’s knowledge prior to this study.



**Figure 13: political science, risk management and political risk (own illustration)**

Following the idea of political risk being an area of intersection of two research areas, this systematic literature review covers, as a first step, two fields to identify the relevant literature for this project:

- (1) the field of political science
- (2) the field of risk management

Political risk combines two fields of research. First, there is political science, representing the political approach, and second, the perspective of risk management delivers a different point of view. Hence, the literature review has to be conducted on political science and risk management literature as a foundation, to ensure the encompassment of both perspectives. In the third part, the literature review focuses on political risk as an intersection of both areas.

By analysing both of these research areas, the outcome of this review will lead to a high qualitative literature collection, representing most of the issues relevant to

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the development of a concept of political risk. Doing this as a first step ensures a value-free approach for the second step – the research on “pure” political risk literature.

Literature on political risk will furnish a deeper understanding of political risk and especially on the research which has been conducted. It will identify key authors in this area, describe core issues, and provide – if such exist – different approaches to conceptualizing political risk.

### **Experts**

As any research area has its leading experts, political risk might be driven by leading theoretical opinion in the business world and politics. This research project is, by definition, focused on applied research. Hence, another main step in the process of conducting a systematic literature review is to identify leading experts and analyse their contributions to the field of political risk.

Expert opinions are systematically included in this project. Experts, in this case, are those authors publishing more than three pieces of work with high relevancy regarding political risk and/or one work of outstanding quality. This might be valid for academic researchers who are highly active in the area of political risk or are publishing the results of their first work.

### **2.2 Rationale for a Literature Review**

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A literature review is a key research objective within any academic discipline (Tranfield, Denyer & Smart, 2003). The most common differentiation is between

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a traditional management review on the one side and a systematic review on the other side (Tranfield, Denyer & Smart, 2003; Cronin, Ryan & Coughlan 2008; among others).

A traditional review usually provides a summary and critique of the selected studies where the selection criteria are often not apparent (Cronin, Ryan & Coughlan 2008; Bern, 1995). It aims to deliver a topic-based comprehensive overview on the selected research area and may identify potential research gaps (Bern, 1995; Cronin, Ryan & Coughlan, 2008).

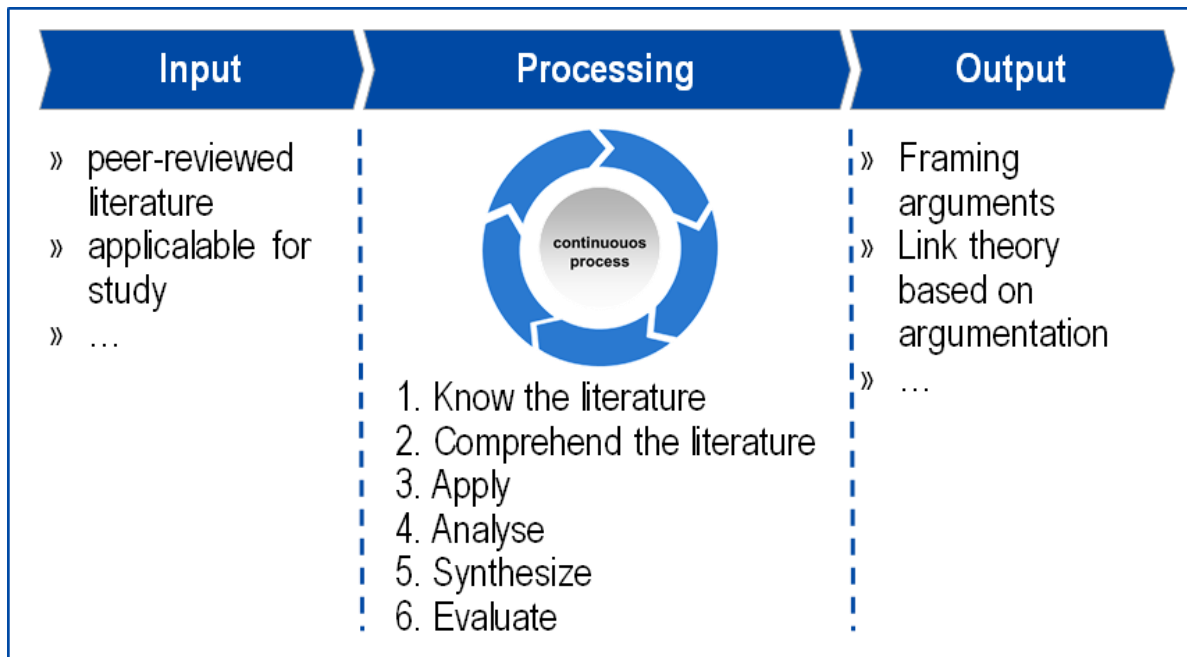
While a management review has a more narrative character and is included in the research based on the researcher's perception (Fink, 1998; Hart, 1998), it is the purpose of a systematic review to engage in an evidence-based transparent process, with a minimized bias. Cook et al. (1997) argue that false recommendations, based on a poor-quality assessment of the literature, can occur. However, a systematic review might have a narrative character (Rodgers et al, 2005).

The process of a systematic review offers a replicable way of analysis (Tranfield, Denyer & Smart, 2003). It can be understood as a "fundamental scientific activity". An effective literature review is defined by Webster and Watson (2002, p. 13) as creating "a firm foundation for advancing knowledge. It facilitates theory development, closes areas where a plethora of research exists, and uncovers areas where research is needed".

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Levy and Ellis (2006) provide a stage-by-stage approach for a systematic review.



**Figure 14: process of a systematic literature review (own illustration based on Levy & Ellis, 2006)**

This model will set the framework for the literature review. The three steps: input, processing and output frame the operation. The review process itself is described in section 2.5.

### 2.3 Key Terms

---

This section seeks to deliver definitions on certain key terms that are used in the following chapters. It is useful to provide a common understanding of the key definitions at the outset. As with most terms, there is a wide range of definitions. Although it is one main research aim of this study to develop a common definition of political risk, it is useful and appropriate to state a broad definition that will help to work through the literature review process.



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The definition of certain terms that are used in this study at an early stage is also important. Due to the character of this chapter, definitions of the following terms are intended as a foundation for this study and not its result. The terms are defined from the researcher's perspective and reflect his understanding at the beginning of the literature review.

**Expert:** "There are two kinds of experts: those whose expertise is a function of what they know (epistemic expertise), or what they do (performative expertise)" (Weinstein, 1993, p. 57). In the context of this study, an expert is understood as a current or former professional who has significant experience in a certain field. For this study, an experience of ten years minimum is understood as significant.

**Political expert:** Adapting Weinstein's (1993) definition of an expert, the political component is added to define a political expert. A political expert is a current or former professional, as described above, who has special and significant experience in the political field. For this study, political experience is understood as significant when the expert is elected for a parliament and has relevant experience in working with topics relating to the energy industry.

**Industry expert:** Analogous to the understanding of the term political expert, Weinstein's (1993) definition of an expert is also adapted to the term industry expert. For the purpose of this study, an industry expert is understood as a current or former professional, who has special and significant experience in the energy industry. For this study, long-term experience at a senior level is preferred.

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**Political influence:** This term is understood, within this study, as the first main step within a political risk evolution process. While influence in general can be defined as the impact on a certain topic, political influence, therefore, is that characterized by a political perspective.

**Lobbying:** It is useful to predefine the term ‘lobbying’ with its main characteristics. Kleinfeld (2007) understands it as the approach of influencing actors of politics within the decision-making process. Lobbying in Germany is often associated with a negative image. It is sometimes linked with illegal activities such as bribery (Kleinfeld, 2007).

Lobbying plays a major role within the German energy industry in particular. Gammel and Hamann (2005) analysed whether the suggestions of RWE lobbyists are copied word for word into the law text. However, Loesche (2007) argues that an exchange of interests between politics and companies is necessary. This can be realised directly or indirectly via associations. From a company’s perspective, it is also important to develop an organisational structure that is able to perform efficiently in public affairs and professional lobbying. This is important, as the influence of the law-making process combined with constant risk management can lead to competitive advantages (Koeppel, 2003). This politically focused risk management is necessary to estimate the wide range of fields for action: it leads from ‘risk identification’ to ‘strategic alliances’. This diversity can consist of over a dozen sections that might be suitable for the individual company to influence its individual position (Rieksmeier, 2007). Dagger (2009) in addition

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has identified major linkages between politics and the energy industry by the amendment of the law on renewable energies.

**Political risk:** The definition of this term and the analysis of its underlying concept are some of the key issues within this study. While the term literally speaks for itself, as it describes risks which are of a political nature, the concrete definition needs to be derived from the research results. As a “working definition”, political risk, at this point, is understood as risks created by politicians’ action or non-action (Althaus, 2004).

### 2.4 Aims of the Literature Review

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Following the rationale for the literature review, this section presents the aims. While previously a literature review has been considered as a useful instrument to define the groundwork for this research study, this sets the overall aim of this section. For a comprehensive analysis, several steps are necessary: definition of research strategy [section 2.4], selection criteria [section 2.5], quality assessment [section 2.6], key terms used [section 2.7], relevant literature on political science [section 2.8], on risk management [section 2.9] and on the special field of political risk [section 2.10]. The review provides insights into literature from different perspectives. It therefore looks for the individual perception of political risk within (a) the political science literature and (b) the risk management literature. In addition, this chapter aims to identify the main models of political risk and their characteristics.

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This literature review, with its systematic approach, delivers a useful overview of the relevant publications within the field. By systematically identifying and analysing the literature on political risk, this instrument offers a summary as a result, with a comprehensive overview on the relevant literature (Okoli & Schabram, 2010).

### 2.5 Research Strategy for the Literature Review

---

Defining a strategy for the research on existing literature is important as it determines the character of this study (Fisher, 2007). By choosing such a strategy, a framework is generated that may influence the rest of this study intensively (Cullum & Droogan, 1999). As previously described, a combination of a management review and a systematic review is used for this study (Collins & Fauser, 2004).

The management review is based on the researcher's practical experience in this area and on the outcomes of the taught phase of the DBA programme. It also includes literature identified prior to this research study, e.g. for the development of the initial research proposal. The results frame the foundation for literature on political risk. Even though there is no overall coherent scientific approach behind these reviews, the results were checked for quality and applicability to this study. The main results of the management literature review, with the key authors, build the foundation of literature for this study (Fisher, 2007).

However, the results of the traditional literature indicated that political risk is not an independent research area and therefore not sufficiently covered by academic

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literature, although it is an emerging topic in grey literature. Grey literature can be useful as a complementary but not as a single source type (Alberani et al., 1990). Therefore, a systematic literature review was undertaken to complement the management literature review. This systematic literature review follows the ideas of McDermott, Graham and Hamilton (2004) and separates the review into four steps:



**Figure 15: process of literature review, based on McDermott, Graham and Hamilton (2004)**

Prior to the main review process, a review of expert literature was conducted to identify leading authors with recent publications and previously analysed literature reviews. Those literature reviews can be useful as a framing groundwork, to deliver a first research frame for existing literature in this field

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and shaping roughly the upcoming literature review process of this project (McDermott, Graham & Hamilton, 2004).

The basic strategy is to use search engines for automated search. Search engines compare the content of the research papers with the defined search terms. The usage of several search engines ensures that there is a broader coverage of articles (Fisher, 2007). In addition, search is undertaken in English and German.

The advantage of search engines lies within the aggregated perspective offered by these instruments. While there are many limited, single, online libraries, which are often of good quality, the number of publications can be strictly limited and a higher, more aggregated perspective within the search is required (Fisher, 2007; Pope, Mays & Popay, 2007).

This search was carried out on more than ten online databases. Among these were the Social Science Research Network, several British, American, and German university library databases, German National Library, databases for PhD thesis (English language) such as ETHOS or NLA Australia and online bookstores. This search was conducted using the term political risk within the title and abstracts. Via hand search, the results were analysed by date of publication, type of literature (academic/non-academic), complexity and focus on the topic of political risk. In addition, the literature, including concepts, was preferentially considered, as the conceptualization of political risk is a key aspect of this project.

The used search terms are:

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\*political risk\*

\*politics\* and \*risk\*

\*politician\* and \*risk\*

\*political science\* and \*risk\*

\*risk management\* and \*politics\*

This search delivered 263 articles in total. For the following selection, all abstracts were read, and the articles' quality evaluated by the criteria described in section 2.6.

### 2.6 Selection Criteria for the Literature Review

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The time of publication is considered to be one main selection criteria. The year of publication is important, as this study tries to combine two perspectives: actuality and comprehensiveness. While a small coverage (e.g. for the last 3 years) would deliver results of very high actuality, only a broader search can generate a full picture in the field of political risk (Littell, Corcoran and Pillai, 2008; Popay et al., 2006; Saunders, 2009).

As described above, another main review step is the evaluation of the articles by reading the abstracts. The abstracts include all the necessary information on the research field, the research strategy and the content. It is useful to evaluate whether or not the article is suitable for this study (Rodgers et al., 2009).

A third criterion is focused on the results; the outcomes of the articles are filtered for their relevance to this study, i.e. articles dealing with the field of political risk and / or closely related topics.

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The following charts summarize the inclusion and exclusion criteria for the literature review:

Item	Criteria for inclusion	Criteria for exclusion
Publication year	> 1992	< 1992
Abstract content	Political	Not risk or political risk related
Results	High and medium relevance	Low relevance

**Figure 16: inclusion/exclusion criteria for literature (own illustration)**

The application of these criteria to the results of the first step narrowed down the number of articles to 146.

### 2.7 Quality Analysis of Results

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Though an inclusion/exclusion analysis supports the process of finding the relevant literature for this study, it does not determine the content quality. For quality assessment, the resulting articles need to be analysed on certain quality issues. However, the quality assessment within quality research is difficult (McDermott, Graham & Hamilton, 2004). Research articles are of different quality, revised or unrevised, published in a journal of high reputation or “online only”. However, online only publications can of course also be of high quality (Cronin, Ryan & Coughlan, 2008; Levy & Ellis, 2006).



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For this study, there are three sub-criteria, adding up to an overall criterion. The selected sub-criteria are information value, integrity and credibility.

### *Information reliability*

Information reliability in the context of this study is understood as a relevant contribution to the research area, and although it is more difficult, analysis is carried out not only to determine whether there is information of value but to evaluate the degree of such information value in detail for each of the references. The process focuses on the possibility of being able to repeat the research study, based on provided information. However, reliability can only be estimated (Collis & Hussey, 2003).

### *Integrity*

Integrity is understood as the criterion of the robustness of the research study. The quality can be assessed by determining how heavily the authors rely on the research process steps (Coughlan, Cronin & Ryan, 2007).

### *Validity*

Validity analyses whether the results represent the analysis phenomenon. It tries to measure the degree of a successful research for a specific citation (Collis & Hussey, 2003). Silverman (2009) sees validity as another expression for truth.

The researcher used these three criteria to assess the quality of the already identified and filtered literature. Each criterion was evaluated on a scale from 0 to 2, with “0” being not fulfilled, “1”, partly fulfilled, and “2”, fulfilled. That equals

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a maximum of six points. Only the literature with four points or more are included in the following table.

The following table presents the results of the systematic literature review. It summarizes the outcome with its categories and ratings. However, during the research, several new papers have been added.

## 2. LITERATURE REVIEW

No.	Authors	Title	Pub. Year	Rating
<b>Country risk</b>				
1	Erb, C., Harvey, C, Viskanta, T.	Political Risk, Economic Risk and Financial Risk	1996	4
2	Harvey, C.	Country Risk Components, the Cost of Capital, and Returns in Emerging Markets	2004	6
<b>Model of political risk</b>				
3	Clark, E.	Valuing Political Risk	1997	4
<b>Political risk insurance</b>				
4	Jensen, N.M.	Measuring risk: political risk insurance premiums and domestic political institutions	2005	5
5	Liebenberg, A., Liebenberg, I., Ruhland, J.	Market Pricing of Political Risk: Evidence from the Property-Liability Insurance Industry	2008	6
<b>Political risk and FDI</b>				
6	Busse, M., Hefeker, C.	Political Risk, Institutions and Foreign Direct Investment	2007	6
7	Desai, M., Floey, C., Hines Jr., J.	Capital Structure with Risky Foreign Investment	2008	4
8	Dutta, N., Roy, S.	Foreign Direct Investment, Financial Development and Political Risks	2011	5
9	Holmen, M., Pramborg, B.	Capital Budgeting and Political Risk: Empirical Evidence	2009	4
10	Jensen, N.M.	Nation-states and the multinational corporation: a political economy of foreign direct investment.	2008	5
11	Kim, S.	Bilateral Investment Treaties, Political Risk and Foreign Direct Investment	2007	5
12	O'Brien, T.	Hurdle Rates for Overseas Projects	2008	5
13	Perotti, E., Cherian, J.	Option Pricing and Foreign Investment under Political Risk	2001	6

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No.	Authors	Title	Pub. Year	Rating
<b>Political risk and interantionalisation</b>				
14	Bartram, S., Dufey, G.	International Portfolio Investment: Theory, Evidence, and Institutional Framework	2001	4
15	Bracken, P.	The Multinational Corporation Today	2004	5
16	Clark, E., Tunaru, R.	Emerging Markets: Stock Market Investing with Political Risk	2000	6
17	Poulsen, L.	The Importance of BITs for Foreign Direct Investment and Political Risk Insurance: Revisiting the Evidence	2010	4
<b>Political risk and investments</b>				
18	Altug, S., Demers, F., Demers, M.	Political Risk and Irreversible Investment	2007	5
19	Bilson, C., Brailsford, T., Hooper, V.	The Explanatory Power of Political Risk in Emerging Markets	2000	4
20	Bonini, S., Aktuccar, S.	The Political and Legal Determinants of Venture Capital Investments around the World	2012	5
21	Bremmer I., Keat, P.	The fat tail: the power of political knowledge for strategic investing	2009	6
22	Chen, D., Bin, F., Chen, C.	The Impacts of Political Events on Foreign Institutional Investors and Stock Returns: Emerging Market Evidence from Taiwan	2005	5
23	Desbordes, R.	Global and Diplomatic Political Risks and Foreign Direct Investment	2010	6
24	Desierto, D.	Sovereign Policy Flexibility for Social Protection: Managing Regulatory Risk in IIAs	2012	5
25	Gao, Y.	Managing political risk in cross-national investment: a stakeholder view	2009	4
26	Harvey, C.	The Drivers of Expected Returns in International Markets	2000	5
27	Hill, C.	How Investors React to Political Risk	1998	6
28	Hooper, V.	Multinational Financing Strategies in High Political Risk Countries	2004	5
29	Kleimeier, S., Hainz, C.	Political Risk, Development Banks and the Choice of Recourse in Syndicated Lending	2010	5
30	Mishra, D., O'Brien, T.	Risk and Ex Ante Cost of Equity Estimates of Emerging Market Firms	2004	5
31	Perotti, E., Oijen, van P.	Privatization, Political Risk and Stock Market Development in Emerging Economies	2001	6

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No.	Authors	Title	Pub. Year	Rating
32	Wang, S.Q. et al.	Evaluation and management of the political risks in China's BOT projects	2000	4
33	Yartey, C.	The Determinants of Stock Market Development in Emerging Economies: Is South Africa Different?	2008	4
<b>Country specific political risk</b>				
34	Bertelli, A., John, P.	Public Policy Investment: Risk and Return in British Politics	2011	5
35	Clark, E.	Political Risk in Hong Kong and Taiwan: Pricing the China Factor	1998	6
36	Dinar, A., Balakrishnan, T., Wambia, J.	Political Economy and Political Risks of Institutional Reform in the Water Sector	1998	5
37	Heller, W., McCubbins, M.	Politics, Institutions, and Outcomes: Electricity Regulation in Argentina and Chile	1996	4
<b>Political risk</b>				
38	Choi, S., Gulati, G., Posner, E.	Political Risk and Sovereign Debt Contracts	2011	4
39	Dutta, N., Sobel, R., Roy, S.	Entrepreneurship and Political Risk	2012	5
40	Ekpenyong, D., Umoren, N.	Political Risk and the Business Environment: An Examination of Core Challenges	2010	6
41	Heaney, R.; Hooper, V.	World, Regional and Political Risk Influences Upon Asia Pacific Equity Market Returns	1999	5
42	Heaney, R.; Hooper, V.	Regionalism, Political Risk and Capital Market Segmentation in International Asset Pricing	2001	5
43	Hill, C.	The Promise and Limits of Financial Engineering in Emerging Markets	2000	4
44	Jensen, N.M.	Political regimes and political risk: democratic institutions and expropriation risk for multinational investors	2008	5
45	Li, C., Balding, C., Lee, M.	Sovereign Risk, Elections and Contagion	2013	6
46	Moser, C., Nestmann, T., Wedow, M.	Political Risk and Irreversible Investment	2008	5
47	Schauer, F.	The Political Risk (If Any) of Breaking The Law	2012	5
48	Weiner, R., Click, R.	Resource Nationalism Meets the Market: Political Risk and the Value of Petroleum Reserves	2009	4

**Table 2: literature review: quality results**

#### **Political science**

The theory of political science consists of three sub-areas: comparative analyses of historical and current political systems, research on international relations and its actors, and the theory itself, with a focus on historical and current theories on politics and political philosophy.

Within this thesis, the role of political science is understood as the possibility to combine political theory with empirical research. Patzeld (2007) delivers a detailed overview on appropriate research methods and its conceptions, while Guehlstorf (2004) offers an approach to link political theories with decision making processes in practice.

McDermott (1998), in addition, combines the fields of political science and risk management with her work “risk taking in international politics”. She analyses the structure of risk-taking behaviour as a critical component of choice. This choice-based approach is, to a significant degree, comparable with Althaus (2004) but operates with different methods. Furthermore, the regional focus is different: McDermott conducts her analysis in an international context, while Althaus (2004) delivers a deep understanding of risks emerging in Australian politics.

The consistency of their results, offers a shared understanding of political risk in politics across borders. McDermott identifies a difference between risk assessment and risk perception, while Althaus (2004) approaches risk by defining an inside-out and an outside-in perspective, identified by literature. Both analyse the importance of the subjective point of view of political risk.

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For this study, this review leads to the need for an inclusion of two perspectives on political risk: the perspective of politicians as well as the perspective of managers.

### 2.9 Risk Management Literature on Political Risk

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The overall aim of risk management is to assess any possible financial harm to the company. The importance of risk management and its tasks has increased greatly since 1998 (Bracken, Bremmer & Gordon, 2008). Its literature covers a wide spread of possible dangers and advice on suitable action (Kessler, 2008). Political risk is only one of the risks involved, and whilst the analysed literature shows its importance, it also identifies the limitations of the existing literature on the subject. The importance of risk management, especially for investment projects lies in the volume and time of such investment projects. This is challenging for, as Hill (2000) states, “macroeconomic conditions can change dramatically with little warning” (p. 1).

When considering an investment in general, a risk management process is initiated. Risk management can be defined, as the companywide measurement and control of all business risks. The whole investment project will be analysed from different points of view, trying to lead to a yes or no decision (Wolke, 2008; Bartram & Dufey, 2001).

While project risks exist irrespective of the investment location, country-level risks have a significant impact on foreign investment (Clark, 1998; Wang et al.,

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2004; Kleimeier & Hainz, 2010). There are commonly different hurdle rates for foreign or overseas investment projects (O'Brien, 2008).

Investment strategies, both those of FDI and those related to the capital market, such as venture capital investments or stock market investments, have been part of previous investigations (Brewer, 1981). Dutta, Sobel and Roy (2012) argue that higher entrepreneurship leads to lower political risk. While Bonini and Alkan (2012) state that entrepreneurship and innovation benefit from venture capital activities, Chen, Bin and Chen (2005) identify an insignificant relation between political events and market reactions. Harvey (2000) and Mishra and O'Brien (2005) found evidence for the relation of risk factors and average returns in international emerging markets. The importance of regional factors in emerging markets is demonstrated in Heaney and Hooper (1999) and Heaney and Hooper (2001). The stock market can be influenced by political risk, law and order and bureaucracy (Yartey, 2008).

Wolke (2008) argues that the process of risk management as part of decision-focused thinking is generally characterized by four important steps:

- (1) risk identification
- (2) risk measurement
- (3) risk control (focusing on instruments)
- (4) risk controlling (focusing on organization).

The identification and measurement of business risks depend on the specific situation of a company and its environment (Al Khattat, Anchor & Davies, 2008).



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Wolke (2008), Al-Thabatabai and Alex (2000) and Sachs, Rosa and Tiong (2008) agree that there can be sector-specific factors, as well as potential political risk derived from regional distinctions. However, risk identification in most cases leads to various types of risk, including market risks, default risks, operational risks and merchandising risks.

Risk measurement is a central element of the risk management process. There are two ways for risk measurement: quantitative and qualitative. Methods of quantitative measurement include the calculation of the maximum loss, volatilities and the value of risk.

While the value of risk concept analyses what the expected loss within a certain timescale and to a certain entry probability amounts to, it does not consider losses above that entry probability. This is calculated with different scenarios accumulating to the qualitative methods. The philosophical perspective of risk has been analysed by Lewens (2007).

Step (3) risk control can be separated into four different instruments (Jardine Lloyd Thompson, 2008). There is risk precaution, risk limitation, risk diversification and risk compensation. While risk precaution focuses on increasing securities, as higher equity leads to higher risk capacity, risk limitation simply defines limits for different factors. The diversification of risk follows the idea of investing in multiple projects or multiple products. In case one project or product results in a loss, the residual portfolio might compensate for the realised losses. Additionally, it can be a useful strategy to use investments in foreign countries to

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participate in foreign growth (Bartram & Dufey, 2001). Risk compensation is a process to back up potential losses by insurances, options or futures (Bremmer & Zakaria, 2006; Berry Palmer & Lyle, 2013; Jensen, 2005; Moser, Nestmann & Wedow, 2008).

Risk controlling as step (4) connects common controlling objectives, such as planning, controlling and information as a supporting field for the management decision process. The planning process combines future goals of the company with its faced and potential risks, whereas the information function takes places, whenever it is necessary to report relevant information about business units and vice versa. The controlling itself can be understood as a central function: it coordinates risk measurement and risk control activities between different business departments, the management as well as internal and external stakeholders (Wang, 2008; Shapiro, 1981).

A main part of the risk management process is the evaluation of political risk. According to Micallef (1982), political risks and their sub-risks are identified in a first step, then evaluated in respect to their impact and entry probability, and as a last step, mitigation aspects are discussed. Bilateral investment treaties are one method of mitigating political risk to FDI (Butler & Joaquin, 1998; Kim, 2007; Poulsen, 2010). Erb et al. (1996) offer an approach for measuring the economic content by combining five different measures of country risk. Wang et al. (2004) developed a risk mitigation model with a focus on qualitative risks using a hierarchy and a level-specific mitigation approach. Their concept (figure 5) provides a wide difference in the difficulty of mitigation at each level. Using this

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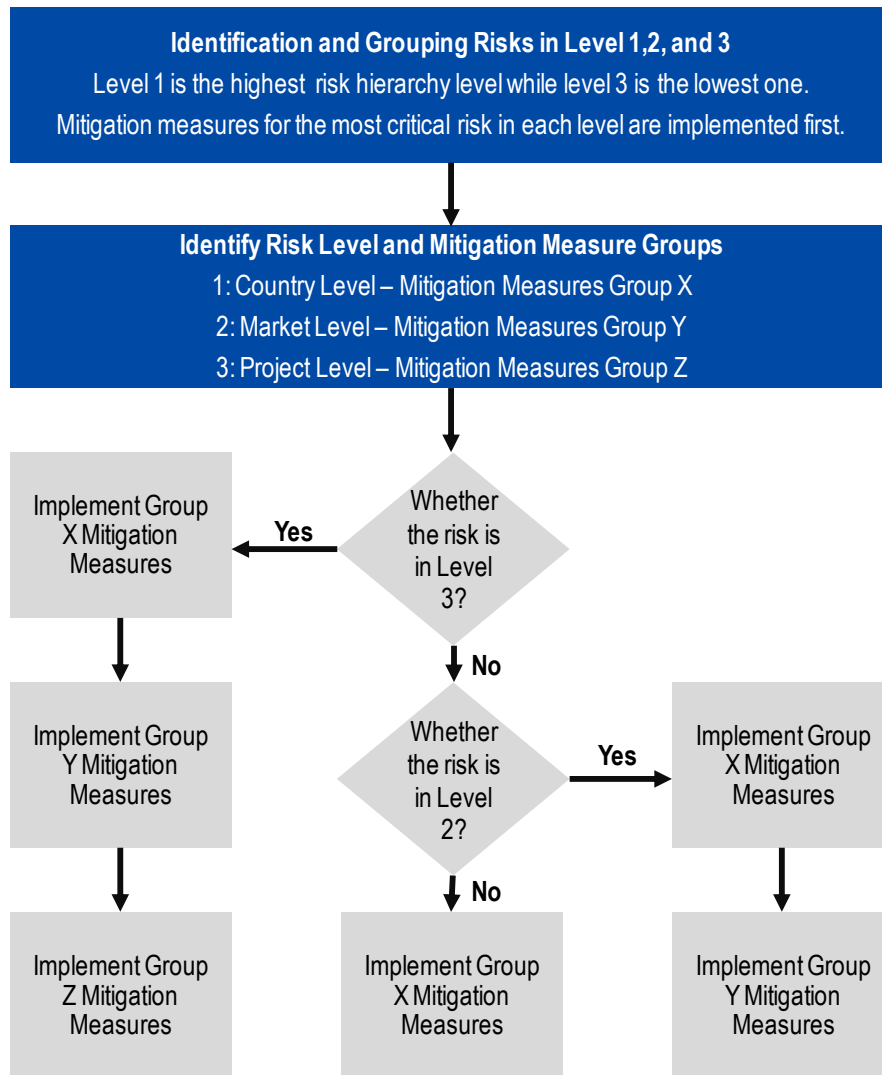
model, the identification and classification determines whether the risk belongs to the project level.

Given the classification as a project-level risk, this initiates mitigation groups for all three types. In case project-level risk is negated, an evaluation about market level is undertaken. To achieve this, mitigation groups for market and country level will start mitigation (see Holmen & Pramborg, 2009, for business practice examples).

Given the result that the analysed risk is not classified as a market-level risk, it is automatically considered as a country-level risk. Hence, only the specific mitigation of the country-level group is initiated (Wang et al., 2004).

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**Figure 17: proposed qualitative risk mitigation framework (own illustration based on Wang et al., 2004)**

The result of this three-sections-process is an analysis where each risk is reviewed by a group of specialists, who have the ability to determine the impact on the level and the overall risk. Wang et al. (2000) argue that impact-based mitigation is necessary for the effectiveness of the risk management process.

In addition, risk might have a philosophical aspect: recent debates on management actions and their responsible behaviour towards society have led to a focus on

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such discussions despite business logic. It has become a matter of values, specifically, moral values.

Examples of effective mitigation approaches have been identified and evaluated in the literature (Irwin, 1998). Desierto (2012) argues for an even conception and treatment of international investment agreements to handle political risk effectively.

The literature review established that risk analysis is often driven by quantitative analysis, however, some questions simply do not fit into this number-driven approach. For example, how can values be calculated? What degree of influence do the ethical and moral values of the deciding managers have? Hansson (2007) delivers an overview on three ethical-led approaches to establish the characteristics of this relationship. He states that although risk assessment is supposed to be a process free of values, values do impact the process outcome. Risk management thereof, as the following and closing part of this procedure, is mainly subjectively driven. It is the process of managerial decisions to minimize risk or – in the best case – to avoid it totally. Subject-based decisions are always, explicitly or implicitly, impacted by values.

Hansson argues that the best way to overcome these hidden values is to discover them and conceptualize their relations. A systematic analysis can determine how values can influence the outcome of risk assessments.

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Another suggested approach is to conduct the risk analysis from different points of view. Hansson recommends analysing the risks and the risk-created decisions from an ethical perspective. His experienced-based findings lead to several questions, indicating specific relationships between different risk types. However, the background of risks is mostly complex and often not directly accessible. Subjective motivation and evaluation can create difficulties in risk assessment. This is also evident in Hansson's approaches.

Althaus (2004) analyses risk management literature and asks for their perspective of analysis. She finds that the result of her analysis demonstrates that there is a focus on the outside-in perspective within risk management literature.

### **2.10 Political Risk Literature**

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The previous sections have demonstrated that there is limited literature that focusses on political risk only. Within the political risk area, the author has identified the following publications as especially useful for a descriptive analysis of political risk literature.

Therefore, even though there are additional sources in this section, the following sources create the foundation for political risk literature.

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Author	Source
Althaus, C. E. (2004).	<i>Policy design and the calculation of political risk</i> . Griffith: Griffith Business School.
Bremmer, I., & Keat, P. (2009).	<i>The fat tail: The power of political knowledge for strategic investing</i> . New York: Oxford.
Brink, C. H. (2004).	<i>Measuring political risk: Risks to foreign investment</i> . Hants: Ashgate.
Gao, Y. (2009).	Managing political risk in cross-national investment: A stakeholder view. <i>Singapore Management Review</i> , 31(1), 99-114.
Jensen, N. M. (2008).	<i>Nation-states and the multinational corporation: A political economy of foreign direct investment</i> . Princeton: Princeton Press.
Simon, J. D. (1982).	Political risk assessment: Part trends and future prospects. <i>The Columbia Journal of World Business</i> , 17(3), 62-70.
Tuempfen, M. M. (1987).	<i>Strategische Fruehwarnsysteme fuer politische Auslandsrisiken</i> . Wiesbaden: Gabler.

### Defining Political Risk

By defining political risk as “the probability that a particular political action will produce changes in economic outcomes”, Bremmer and Keat (2009, p. 5) state quite clearly the limitations of, and the differences between, other risks that an enterprise might be facing. According to their argument, this leads to individual characteristics whereby political risks are much harder to quantify, the occurrence of major events quite rare, although, once they have occurred, their impact is generally serious. Bremmer and Keat (2009) talk, in this case, about “shocks” as the result of political action. This is in line with the perception of the author on political risk, as it is the understanding that political decisions can create surprises for companies.

Political risk is, in its broadest definition, defined as the impact of politicians’ actions (with actions including forbearance) on a company. Hence, when conceptualizing political risk, both sides take a keen interest. There is always the politicians’ perspective and a company’s point of view. The review will analyse

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the leading literature on political risk, point out its main theories, and critically discuss their usability for companies' daily business. In addition, the literature will be analysed from the perspective of its origin: whether the model is based on a politician's or a risk manager's point of view.

A comparative analysis of literature identifies that a common definition of political risk and its characteristics does not exist; neither within literature nor in business practice (see for example Althaus, 2004; Weiner, 1992). There is a more intensive coverage on political risk identified for the period beginning in 1990. However, it is understood by the author of this thesis that political risk is a rising topic as political influence has increased over the last years. Kobrak and Hansen (2004) have analysed political risk occurrence in the time from 1920-1945. Generally, the term "political risk" is understood in the academic literature as a negative influence on a firm's activities; often those in a foreign country (see for example Skovgaard & Lauge, 2010; Wang et al., 2000; Weiner & Click, 2009; Wilkin, 2004). According to Tuempfen (1987) and Gao (2009), this impact can differ from small changes in daily business activities up to a complete expropriation of company as a whole (see for example the 'Yokus'-case in Russia). This negative oriented perception is not sufficient to the author: political decisions can obviously also have positive impacts on company's performance.

Howell and Chaddick (1994), in addition, state that political risk can generally be clustered in macro political risk and micro political risk. These different clusters describe the environment of a company: micro as the proximate environment, and



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macro as the industry and country perspective. Hence, political risk does exist for domestic and foreign investors.

Simon (1982) is one of the first authors who links different definitions of political risk, depending on the organization and their analysts. He identified eighteen definitions in total. It has to be stated, that due to the strong political changes that occurred over the last 30 years, a book published in 1982 can only have limited relevance for the analysis today. However, the author sees Simon's work as important as it consolidated several views in the –at that time- new field of political risk. The Bank of America (2009) defines it as an aspect of country risk, and sees it related to economic, financial, political, legal and social conditions in a specific environment (see also Desai et al., 2008). The World Political Risk Forecast and the Political System Stability Index determine a much broader understanding, as political risk is viewed as the probability of political events occurring that will change outcome of a given investment.

By categorizing political risk in expropriation risk (Acemoglu & Johnson, 2005), disposition risk, transfer risk (Bachmann, 1992), and security risk, these authors offer another approach to differentiation. Yet, the result in any case is financial damage, according to research by Rarick (2000). The author does not agree in any case with this perception, as there have been some cases where also non-profit organisations were faced with political risk, but not with financial damages.

Contrary to this argument, Bremmer and Keat (2009) developed a definition of political risk with a neutral outcome perspective. Brink (2004) sees political risk

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always with the danger of a less than expected return or even a complete loss of the investment. She finds political risk analysis as being highly dependent on human subjective evaluation and therefore having its limitations when it comes to transferring a risk estimation model from one situation to another.

Brink (2004) proposed a risk analysis model, with the aim of limiting the influence of the human factor on the analysis result. This model assists in the decision-making process by having over 100 political risk factors evaluated and therefore offering a constant basis for each analysis. From the authors way of understanding, Brink's model is enriching as it covers a wider range of input parameters, however, a concept with over 100 factors seems too complex for a daily use.

Analysing political risk leads, in the first place, to the issue of risk understanding. Risk always contains two unknown aspects: first, there is the knowledge of a specific risk with an unknown entry probability; second, uncertainty of issues that might come up, which create, what Brink calls, the problem of "not knowing" (Brink, 2004; Adams, 1999). If managers and risk analyst do not know what issues are out there, "not knowing" creates uncertainty that can affect their actions. Risk analysis has therefore been focused on the aspect of analysing entry probabilities and in addition, minimizes the impact of uncertainty (Cherian & Perotti, 2001).

Garver (2009) names expropriation, political violence and currency inconvertibility as the three traditional political sub risks. However, new risks

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have appeared and forced foreign investors to rethink their risk management (see also Hooper, 2004).

Desbordes (2010) states, those both, global and diplomatic political risks are taken into account by companies when investing abroad. The sub-risks of political risk are clustered by Bremmer and Keat (2009) into four main groups: domestic instability, terrorism, expropriation and regulatory risk (see also Abadie, 2004; Desierto, 2012).

Domestic instability can be categorized as revolutions, civil wars and state failures (Ditte, 2008). Revolutions are an example of a suddenly occurring, often violent change in ruling authorities, impacting heavily on enterprise strategy. Bremmer and Keat (2009) state that, of all the different sub-risks in political risk, domestic violence and combat represent the most widespread sub-risk. One major risk origination is a fundamental social change (Culpitt, 1999). The challenge for the risk analyst is to identify such civil-war risks before they become reality. For example, at the time of the Iran revolution in 1978, foreign investors, active in the oil business, were not greatly concerned. The shah, leader of Iran, was commanding 50,000 police, backed up by the US. Still, signs of upcoming threats were there: the charismatic opposition leader returned from exile, US President Carter put pressure on the shah to liberalize Iran's political system, and finally, the people's voice for change was there. The shah and his entire staff were unable to recognize their peoples' potential and will for a revolution.

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Another more recent example is the war in Iraq in 2003. There are assertions that this war is not only a war on terror but also a war on resources. Greenpeace (2004) stated that the US depends on oil more than any other nation.

Besides a construction of the different understandings of definitions, results of this review deliver additional insight into the main sub-risks as they are understood by relevant authors.

### **(1) Risk of Expropriation**

Jensen (2008) and Sachs et al. (2008) reflect expropriation as the most significant characteristic of political risk. Expropriation risk is understood as the danger of a partial or a complete loss of assets and/or rights, including or excluding compensation. This generally results in an at least temporary abort of business activities. Expropriation can be observed in both: legislative or administrative areas of action.

By limiting a company's right of control regarding their investment, governmental institutions actions are considered as creeping expropriation. For example: a foreign investor is forced to form joint ventures with governmental or domestic partners in order to receive permission to found a subsidiary (Shapiro, 1981).

### **(2) Risk of Disposition**

Risk of disposition can be seen as any political action which restricts foreign investments' business scope. This is mainly observable in administrative

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requirements. This results in the facts that, this type of risk can occur in many different orders (Smith & Gannon, 2008).

For example: an administrative requirement can be an order which fixes a domestic raw materials quote, which forces the foreign company to buy a certain amount of commodities from local businesses. Hence, a problem within the production process can occur when the local economy is not able to provide the necessary amount or quality of a special input factor.

Another limitation can be observed in respect to administrative orders on the workforce split (the ratio of domestic and foreign employees). The workforce can be limited by numbers and in addition, there might be a minimum wage.

A second characteristic of the disposition risk is the local customs policy, which includes tariffs and other financial duties. By implementing tariffs, the local government is able to harm the whole investment activity. This is realised by altering tariff levels for an investment's necessary commodities (Tuempfen, 1987).

### **(3) Risk of Transfer**

Transfer risk describes the danger of limitation by the host government in the fields of transfer of profits, goods or services. This risk can increase due to some countries' debt issues. Especially in cases where central banks are willing to execute their payment duties, it might not be possible due to a limitation of foreign currency (Ramon-Ballester & Wezel, 2008).

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While the cash transfer is limited by a central bank, the limitation in the transfer of goods and services is realised following the idea of protection the local industries.

Tuempfen (1988) argues that the consequences of those limitations in transfer are, in the first instance, unwanted payouts of profits. When companies are not able to transfer these across borders, an enlargement of their existing production sites and / or a change in the ownership structure might be the result (Kesternich & Schnitzer, 2010).

### **(4) Risk of Security**

The term risk of security is understood as the consolidation of all dangers associated with the potential harm to the freedom and health of employees, and potential destruction of a company's assets (Jensen & Young, 2008).

Security risk can often be observed in countries going through major changes within their political and economic structure. For example: protests against the political parties, the parliament or current leader of the country sometimes result in actions against FDI (Brewer, 1983).

It might even happen that the actions of a company itself lead to public protests, and further on, to a risk of the destruction of company's activities. Cateora and Graham (2005) identify this within the Nestle scandal about baby food in Africa in 1974. The negative public opinion about Nestle at this time could have led to

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protests and the risk of the future destruction of the company in Africa as well as in other countries.

The author agrees with the results of different sub-risks as it is also his perception that political risk is a complex area. The risk of expropriation is one popular example of political risk and also publically known. The author analyses risk of disposition and risk of transfer a financial orientated risk, which seem therefore to be more relevant for investment projects. Risk of security is a common issue when investing in non-industrialised countries and also publically known. But it has to be stated that the individual characteristics depend on a case-to-case basis and are therefore subject to change. This is valid for the partial impact of different sub-risks on the overall political risk exposure but also for the different sub-risks itself: every analysis depends on the individual situation of the company.

### **Causes of political risk**

Political risk is, to a high degree, caused by a company's stakeholder influences on their foreign direct investments (Agarwal & Feils, 2007; Buthe & Milner, 2005; Janeba, 2002). This is a situation, which can be confirmed by the author, as he has experienced this many times in business practice. Especially the energy sector seems to be facing this threat to a major proportion. Gao (2009) states that the enterprise “has relationships with many consistent groups and that it can engender and maintain the support of these groups by considering and balancing their relevant interests”. His view stresses that there is a focus in management actions towards potentially important stakeholders. The importance of an investment

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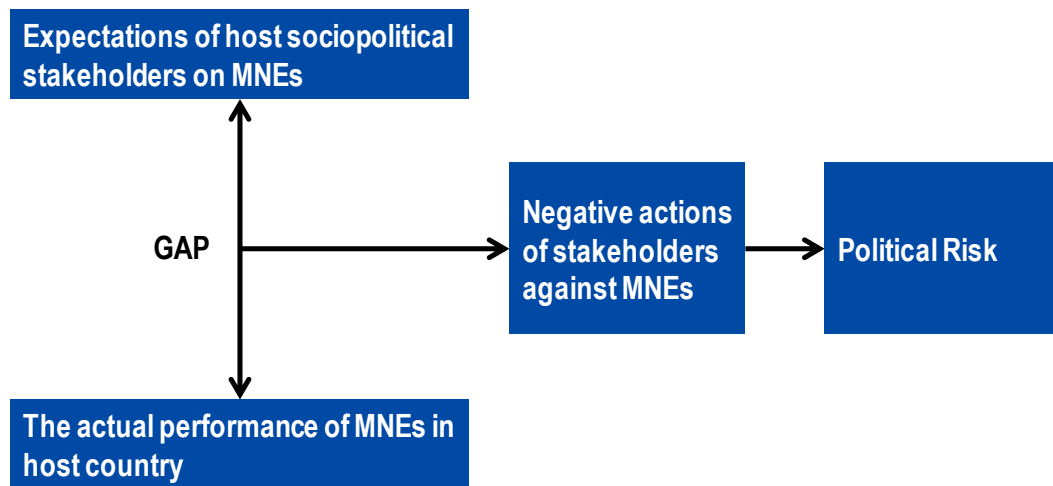
project's stakeholders is dependent upon the individual risk evaluation of the enterprise and its stakeholders (Gao, 2009; Wells, 1998).

In addition, Gao (2009) points out that a wider definition of stakeholders, meaning anyone who might be affected by a company's action, is a potential stakeholder with individual expectations. Political risk in a narrow perspective is mainly influenced by those who have a real impact on the actions of an organization.

While political risk is, in many cases, industry-specific or company-specific, need to be pointed out that political risk exposure might grow if stakeholder expectations are not met. Therefore the identification of stakeholder requests or interests is one of the first steps in managing political risk (Gao, 2009). This reflects quite clearly the normal industry procedure the author has experienced. Stakeholder management is important for any company.

Figure 18 illustrates the effect of differences between stakeholder expectations and a company's actual performance can create PR: unfulfilled requests may lead to negative impressions and develop to actions against the company's activities and in the end, result in PR. (Bonini & Alkan, 2012; Borodina & Shvyrkov, 2010). Clark (1997) offers a model which links the effects of PR with the performance of foreign direct investment projects. In addition, Dutta and Roy (2001) state, that there is no linear linkage between PR, and financial development and FDI. The effect of privatization and political risk has been the subject of analyses by Perotti and van Oijen (2001).





**Figure 18: stakeholder framework of political risk (own illustration based on Gao, 2009)**

Internationalization is a challenging business (Bracken, 2004). Gao (2009) identifies seven different stakeholder cluster, see table 3. Their action usually arises whenever the certain group stakeholder related to the company recognizes a differentiation in action from their individual expectations. Hence, companies have to pay attention to a lot of different key interests and expectations. There can be consistent interests, but in some cases those interests may be interrelated and conflict with each other (Giersch, 2009). For instance, local customers may be interested in having the company competing with local enterprises in order to realise products of higher quality at lower prices, whereas some trade associations might be fighting for the opposite and may see this as their influence threatened (Bracken, 2004).

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Stakeholders	Key Interests on MNEs
Host government	<ul style="list-style-type: none"> <li>• Making investment commitment</li> <li>• Increasing employment</li> <li>• Abiding by laws and regulations</li> </ul>
Host employees/ labour union	<ul style="list-style-type: none"> <li>• Complying with labour policies</li> <li>• Improving host employees' welfare</li> </ul>
Community and other NGOs	<ul style="list-style-type: none"> <li>• Complying with laws, regulations and business routines</li> <li>• Respecting local social and commercial culture</li> <li>• Supporting education, environmental protection, sports, and other charities</li> <li>• To be a responsible corporate citizen</li> </ul>
Host competitors/ trade association	<ul style="list-style-type: none"> <li>• Fair competition</li> <li>• Maintaining a relative balance in industrial structure</li> </ul>
Host suppliers	<ul style="list-style-type: none"> <li>• Localization of purchase for raw materials or components</li> </ul>
Customers/ consumers	<ul style="list-style-type: none"> <li>• Providing high quality goods or services at reasonable price</li> </ul>
Opposition party / criminal gangs	<ul style="list-style-type: none"> <li>• MNE is taken as a tool to realize specific but hard to be identified goals</li> </ul>

**Table 3: key interests of stakeholders of companies operating abroad (based on Gao, 2009, p. 106)**

Tuempfen (1987) argues that political action against foreign direct investments can be observed in all types of industry. The reasons for this are multifarious but mainly driven by national interests in controlling the autonomic supply of the population with goods and services which are evaluated as life-essential. The closer an industry is related to this interest, the higher is the exposure risk of being impacted by governmental authorities by limitations or regulations (Feils & Sabac, 2000; Dutta & Roy, 2001; Desai, Foley & Hines, 2008).

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The relations in can conceptual perspective of countries' characteristics, companies' characteristics, and the resulting political risk are illustrated in figure 19.

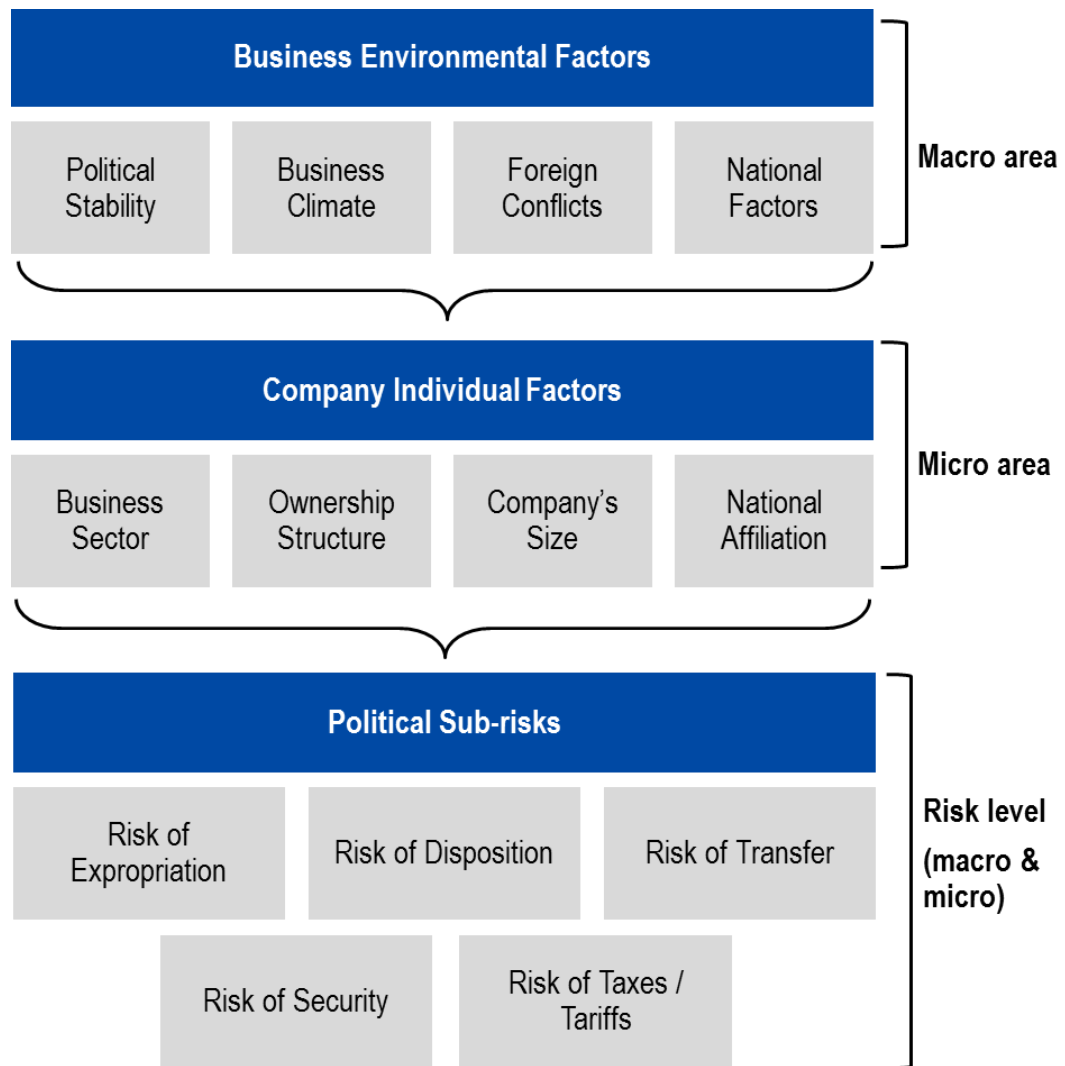


Figure 19: concept of political risk (own illustration based on Tuempfen, 1987)

This figure indicates that it is not a single item that creates a risk, but rather it is the sum of all items which results in a partial political risk. The first group of characteristics describes the environmental perspective. Examples of this are business climate or internal domestic stability. The sum of these factors can be interpreted as the macro risk.

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For example: company individual factors are business sector, size of the company, or ownership structure. The sum of the enterprise factors is called the micro risk.

While the macro risks determine the environment, micro risks, to some degree, filter the portfolio of risk, and focus it down to country- and company-specific risks, illustrated in the risk level. Within the section of risk level, the risks are differentiated as: expropriation risk, disposition risk, transfer risk and security risk (Tuempfen, 1987). This has implications for this study, in identifying whether there is a categorization of PR in the German energy industry.

### **Calculating Political Risk**

In addition to the direct impact of political risks on companies' performance, Bremmer and Keat (2009) also identify an important impact on capital markets: government actions such as currency devaluations, sovereign credit defaults and regulatory changes have a direct impact on the domestic and, in a more minor way, even on foreign capital markets. This phenomenon has also been identified in the case of regime switches (Altug et al., 2007). From the authors' perspective, the calculation of political risk is as important as it is difficult. The improvements in this area made by Bremmer and Keat are highly important to daily business activities.

A correlation between country risk measures and future equity returns in emerging markets has been identified by Harvey (2004): while a direct impact generally requires specific actions on the capital market, indirect influences (known as market panics) are often driven by market participants' observations, expectations and fears about political actions (Bilson, Brailsford & Hooper, 2000). This group includes elections (see Fowler, 2006; Bertelli & John, 2013 for

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impact of elections), public statements, changes in government make-up and – in one of its most extreme occurrences – declarations of war.

Participants in capital markets have, in most cases on average a clear view on future market development. On 28 September 2009, the main German stock market index reached its annual maximum, up to that day, as a result of the new government having been elected the day before (see Bailey & Chung, 1995; Clark & Tunaru, 2001 for stock market risks). This was as a result of the fact that the winning parties of the 2009 elections: conservatives and liberals were expected to extend the allowed operation period for nuclear power plants, making this election result a billion Euros win for nuclear energy producers.

### **Today's political risk management**

Garver (2009) contends that risks of a non-economic nature have substantially increased for multinational companies and the need for political risk insurance has increased simultaneously. Its related product portfolio and its pricing has changed in nearly the same way, although there are still differences between public and private PRI providers. This is driven by each insurance's main goal and every private insurance provider's aim, just like any other private company, – to maximize shareholder value. Public insurance providers do not have this strict overall target. However, when it comes to insurance configuration, the price of coverage does not automatically reflect an insurance's success. Pricing calculations might be different in both types of insurance company, but experience and information access also play a key role (Predierei & Zuck, 2004).

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Models for insurances on political risk vary greatly but have perceptions of the associated risk as the foundation for pricing in common (Liebenberg et al., 2008). As simple as this might sound, pricing with this complexity of the political risk construct remains a major challenge. BPL Global (2013) provides an overview of different PRI risks and in their pricing approaches, it becomes obvious that there might be huge differences in terms of conceptualizing the premium-influencing factors. Differentiation varies also by selection of risks and the minimum premium value. Although this study analyses the perception of PR, it will be interesting to identify the methods which German companies use to identify and evaluate their PR.

### 2.11 Conclusion

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#### **Conceptual framework**

As the literature review establishes, the area of political risk has not been covered sufficiently by academic literature. Most studies are focused on business relevancy and are therefore not of academic quality. Even although political risk is of high importance for business professionals, yet there is, for some reason, no such linkage to the academic world. Research is conducted on project-based specifications in most cases and does not offer a transferable concept.

The research field of political risk offers threats and challenges. Political risk has not been analysed deeply, as it has mainly been considered as a side effect, with its existence being accepted, and with only limited focused research.

In addition, the area of political science delivers only limited analyses on politicians and their perception of political risk. Whilst academic literature offers

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dozens of theories in the field of political science, it is often not in an adequate or useful format for business practitioners.

This thesis will fill, not fully but partially, the gap between academic literature and political actions in reality and its impact on business performance.

Althaus (2004) is one of the first who focuses on politicians and their view of political risk. She conducts an interview series with Australian politicians from the local, state and country level, and assesses political risk from the politicians' point of view. In addition, the concept of Brink (2004) is transferable and adjustable to many different research questions. Her model measures political risk as threats to foreign direct investments.

Today, political risk is still, in some cases, an underestimated field of study, yet it is represented at a high level in practice, e.g. within a recent World Bank report, which states that "political risk is a top concern for corporate foreign investors – from industrialized but also developing countries – when venturing into emerging markets" (The World Bank, 2010, p. 3). From the authors' perspective this is in line with the development within the German energy industry: there have been a lot of politically initiated changes within this sector over the last 3 years and this lead to enormous impact on the companies. Within their 2009 survey, their results showed clearly that political risk has been evaluated as being of higher importance than seven other risks, among them macroeconomic stability, corruption and infrastructure capacity. Furthermore, Brink argues for the need for further research: "The multi-disciplined research environment of political risk analysis seemed to have lost its momentum toward the end of the Cold War. This does not imply that there is no longer a demand for political risk analyses – quite the

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contrary” (Brink, 2004 p. 3). Thus the importance of this issue for doctoral research is established.

When analysing business and academic literature on political risk, it has to be stated that there is no comprehensive research available analysing the linkage between risk management and politicians within the political risk area. The existing material delivers a lot of useful information from one perspective or the other but research illuminates only one perspective at a time.

Although political risk became more and more of interest within the last decade, the term itself is often not well known among politicians and managers. It is a fixed matter for research when full country risk reports are conducted. It is also often used when large-scale changes in politics are analysed. However, preliminary work for this research project has demonstrated that the term “political risk” is often unknown. To explore the understanding of political risk, its impact and possible approaches to manage it, research must look beyond existing parameters.

This chapter established a systematic literature review of the field of political risk. The following chapter (3) provides the next step in the research study. It offers a more detailed view of the three identified types of model for political risk: qualitative, quantitative and index-based models, which are highlighted and which offer a deeper understanding of the area of political risk.



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Chapter Summary	
Content	Result
Literature review	Relevant literature has been identified and evaluated for consideration within the further research process.
Political risk models	The existing political risk models were identified and analyzed in respect to their fit for the German energy industry and this study.
Research gap	It has been demonstrated that there has been some research on political risk but there is no research on PR in the German energy industry.

**Figure 20: summary of chapter 2**



**“Politics is largely a matter of heart”**

R. A. Butler (1902 – 1982)

### **3 Theory: models of political risk**

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#### **3.1 Introduction**

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The literature review in the previous chapter has demonstrated that even political risk does not rank among the top business research areas, however, there are several authors with a deep interest in this field. Chapter 2 has delivered a snapshot of the industry which sets the foundation of this study.

As a next step in this research process, this chapter aims to deliver an overview of the main types of model that are used to describe and analyse the phenomenon of political risk. The literature review has established that there are three main categories of political risk models: qualitative, quantitative and indices and these three types are analysed more closely in this chapter.

At the beginning of this study, the different models seemed to exist independently from each other. During the preceding part of the study, the idea emerged of analysing the different models by clustering them. A cluster analysis offers the

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opportunity to guide the reader, and of course the author as well, through a certain topic, in a more structured way. Analysis of political risk models has led to three categories of political risk models: qualitative, quantitative and indices.

Besides providing snapshots of the main models of each category, this chapter evaluates these different approaches.

#### 3.2 Political Risk: Qualitative Models

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Althaus (2004) developed a risk model to evaluate political impact within the Australian political system. She explores definitions of whether an issue is politically risky. Her interview survey with over 100 Australian political actors investigates the relationship within the political system of Australia.

Althaus and Brink have been identified previously as leading authors. While the model of Brink is considered as quantitative and therefore described in chapter 3.3, Althaus' work is focused on Australian politicians and analyses how political actors evaluate whether an issue is politically risky and decides on the resulting implications. Her research identified that political risk can be calculated on a daily basis. Hence, there is a significant influence on the daily political life and the policy decision process. In addition, she explores an existing gap within the literature on political risk, and concludes that this gap is a weakness of the concept.

The chosen method in her work is based on an empirical approach as she conducted a survey of 111 Australian political actors and four selected case studies. From these interviews she derived insights on the policy decision making process within the Australian political system. She analyses motivations, opinions,

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and critical thinking of the political actors involved to develop an approach for political risk measurement in Australia.

Jensen (2008) offers a different model. His work focused on attractiveness for a country to foreign investors. It illuminates the conditions of politics that matter to investors. The perspective of his work is on the impact on multinational companies that act on foreign ground. Jensen “utilizes qualitative evidence from investors, insurers, and location consultants” (Jensen, 2008, p. 5) and investigates the linkage between democratic regimes and lower levels of political risk. He finds that companies can reduce political risk in countries with democratic systems as there is often a more restrictive acting of executive officials (such as police force) stipulated (Jensen, 2008).

#### 3.3 Political Risk: Quantitative Models

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When thinking about risk, managers generally tend to be number focused. Risk has to be calculable (Bremmer & Keat, 2009). Brink (2004) developed a model to calculate political risk and she offers a more general approach as her work results in the development of a mathematic model for political risk calculation. Brink’s work examines the impact of 103 contextualized risk factors and their risk factor indicators. She develops guidelines for using these factors in order to transfer the concept and perform generic macro analyses. It even offers company- or industry-specific analyses to generate a detailed focus of such analyses (Brink, 2004).

In detail, each of the factors consists of different indicators: e.g. political terrorism summarises the indicators intensity of terrorist activity in the past six month,

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government expenditure on terrorist defence, and if such activity does not prevail (Brink, 2004, p. 123). These 103 factors are separated into three groups: (1) the sum of political risk factor indicators as weighted by the analyst or rater, (2) the sum of economic factor indicators as weighted by the analyst or rater, (3) the sum of social risk factor indicators as weighted by the analyst or rater (Brink, 2004, p. 118). These three groups are used to calculate the real percentage probability that political risk might occur. The calculation results in an overall risk indication based on the following table:

Percentage change that PR might occur	Incremental scale	Risk indication
0 % - 10 %	highly advisable	LOW RISK
11 % - 20 %	advisable	
21 % - 30 %	very low risk	
31 % - 40 %	relatively low risk	MODERATE RISK
41 % - 50 %	low to moderate risk	
51 % - 60 %	relatively moderate risk	
61 % - 70 %	moderate to high risk	HIGH RISK
71 % - 80 %	relatively high risk	
81 % - 90 %	unadvisable	
91 % - 100 %	highly unadvisable	

**Table 4: incremental risk scale for investment (Brink, 2004, p. 119)**

Another approach has been developed by Busse and Hefeker (2007), who explored for 83 countries the linkage between political risk and foreign direct investments. “The results show that government stability, internal and external

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conflict, corruption and ethnic tensions, law and order, democratic accountability of government, and quality of bureaucracy are highly significant determinants of foreign investment inflows.” (Busse & Hefeker, 2007, p. 397). They used the following twelve risk indicators for their calculation:

Governmental stability, socio-economic pressure, investment profile, international conflict, external conflict, level of corruption, influence of military in politics, religious tensions, law and order, tensions among ethnic groups, democratic accountability of the government, and the strength and quality of the bureaucracy (Busse & Hefeker, 2007, p. 401). For the calculation of a correlation of political risk and FDI four control variables are used. This resulted in a fixed-effects model with an additional country specific effect which demonstrates the linkage between political risk and investments.

#### 3.4 Political Risk: Indices

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Besides qualitative and quantitative models, which have been described above, indices represent a third type of risk model that can be used for political risk analysis.

One main tool that practitioners use to evaluate and anticipate political risk is risk indices. An index illustrates the development of a specific key figure; it is a method of statistical comparison for a given timeframe. It usually covers changes affecting a high number of goods. A price index describes alterations of a group of products, without the influence of quantity differentiations (Degen & Lohrscheid, 2002). Indices can be considered as a combination of the described

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types of model (see for example Busse & Hefeker, 2007). While quantitative models strictly focus on numbers and the calculation, qualitative models rely on the subjective input of human beings. A comparison of three risk projection approaches has been undertaken by Howell and Chaddick (1994).

Political risk indices are calculated from dozens of factors. These factors can be weighted or non-weighted. While the calculation of these factors and display in an index is quantitative in nature, there is also a qualitative element that lies within these indices. Not the factors themselves, but the value of the factor depends on subjective input. Indices' factors are usually ascertained by asking experts for their opinion via rating scales, e.g. on a scale from 1 to 5. The author has experienced in business practice that indices can be a useful tool to estimate an issue under uncertainty.

Within the area of indices for the measurement of political risk, these are provided by different consulting agencies. Table 5 lists a broad range of indices which are related to political risk.



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	Number of countries rated	PR factors included	Kind of rating	Industry specificity	Format
<b>BERI</b>	50	10	Mostly credit	Yes	Index
<b>CRG</b>	118	3	Mostly credit	Yes	5 point likert scale
<b>Country Outlook</b>	80	None	Credit	No	Country groupings
<b>EIU</b>	100+	22%	Mostly credit	Yes	Letter grades
<b>Euro-money</b>	180	25%	Mostly credit	No	Letter grades
<b>II</b>	135	None	Credit	No	0 (worst) to 100 (best)
<b>ICRG</b>	140	50%	Political risk	Yes	Very low to very high
<b>Moody's</b>	35	Some	Credit	No	Letter grades
<b>PRS</b>	106	Yes	Political risk	Yes	Letter grades
<b>S.J. Rundt</b>	-	33,3%	Some political risk	No	1 (best) to 10 (worst)
<b>S &amp; P</b>	-	Willingness to pay	Credit	Yes	Letter grades

Table 5: political risk indices (Brink, 2004, p. 57)

The main indices will be introduced in the following:

*Global political risk index (above named Political Risk Service PRS)*

Among many global political risk indices, (GPRI) of Bremmer's Eurasia group is probably the most well-known.

“The index defines stability in terms of its conceptual opposite, instability – or proneness to crisis. Unstable states are thus prone to, and most likely to experience crisis; stable states are not prone to and least likely to experience crises. The index defines crises as major systematic dislocations that threaten the survival of governments, regimes, or states.

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Crises include, but are not confined to such system-level phenomena as revolutions, rebellions, civil wars, and regime breakdowns. Risk, as potential exposure to crisis, is highest in low-stability states and lowest in high-stability states.” (Bracken, Bremmer & Gordon, 2008, p. 266)

The GPRI includes four groups of variables which are government, society, security and economy. Each group “consists of discrete institutional and temporal indicators. Institutional indicators capture the institutional fundamentals of individual variables and constitute the core of stability. Temporal indicators capture changes in policy and other events that, if sustained, may herald changes in institutional fundamentals” (Bracken, Bremmer & Gordon, 2008, p. 267). The higher a country’s stability rating, the less prone it is to crises and the lower the risk. The lower a country’s stability rating, the more prone it is to crises and the greater the risk. A linkage of the rating of a financial system of a country with risk perception has been analysed by Purda (2007).

#### *Index of PRS group*

Another mixed approach, named prince model, is the basis for daily political risk analysis performed by The Political Risk Services Group (Howell, 2001). Their evaluation of political risk is based on a single action level, meaning that the model consolidates the partial risks of the actions of individual players regarding a specific incident. The individual perspectives towards this incident are weighted by their position of the experts, their power and the priority of this topic. On the basis of this approach, individual probability scores representing either the support, oppose or neutral positions are calculated to an overall probability of entry for a specific incident.

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#### *Business Environment Risk Intelligence Index (BERI)*

The BERI index analyses socio-political conditions in nearly any country by: (1) creating a multi-component system to weigh key factors, (2) utilizing a permanent panel of experts, (3) providing data that can move independently of other BERI risk measures (Weber, 2008). The index is calculated with an overall scale from 0 to 100, to which degree PR occurs. Results can be interpreted as, the higher the scale, the lower the level of PR.

Additional, a PR outlook is created over four different time periods: present conditions, conditions in one year, five years and ten years.

As a first step, a country's political situation is evaluated by eight causes (internal and external) and two symptoms of political risk – table 6.

<b>Causes and symptoms of political risk</b>
<b>Internal causes of political risk</b>
1. fractionalization of the political spectrum and the power of these factions 2. fractionalization by language, ethnic and/or religious groups and the power of these factions 3. restrictive (coercive) measures required to retain power 4. mentality, including xenophobia, nationalism, corruption, nepotism, willingness to compromise, etc. 5. social conditions, including population density and wealth distribution 6. organization and strength of forces for a radical government
<b>External causes of political risk</b>
7. dependence on and/or importance to a major hostile power 8. negative influences of regional political forces
<b>Symptoms of political risk</b>
9. social conflict involving demonstrations, strikes, and street violence 10. instability as perceived by non-constitutional changes, assassinations, and guerrilla wars.

**Table 6: causes and symptoms of political risk (based on a survey of the relevant evidence by Weber, 2008; Sepulveda, 2005; Li, 2009)**

The presented characteristics in table 6 are evaluated from zero (meaning prohibitive problems) to seven (meaning no problems). The results are aggregated and a sum of 70 points represents a country without PR. As one or more causes may have a higher impact on political stability than others, there is a second step of evaluation included. It is allowed to allocate 30 points to extreme positive situations, which is done by the expert.

The sum of these two evaluation steps results in a perfect rating of 100 points for a country without PR.

The BERI index is separated into four sections: 100–70 points corresponding to a low risk level, 69–55 points corresponding to a moderate risk level, 54–40 points

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corresponding to a high-risk country, and 39–0 points for a country with prohibitive political risk.

#### *Country Risk Guide (CRG)*

The CRG is calculated based on a variety of factors, such as political-, financial-, and economic-risk factors with 24 factors in total. These factors are estimated as follows: PR is based on subjective analysis, financial risk indicators are based on objective analysis criteria, and the economic analysis part is based on both.

Several authors have found that there has been empirical evidence about the correlation between the CRG index and a country's per capita income. It has been developed within research that PR rises as income per capita decreases. Therefore, Harms (2002) concluded that PR is higher in developing countries than in industrialized ones (Harms, 2002). Erb et al. (1996) explored the linkage between the CRG and stock market returns and developed that there is a correlation with future returns on equity as far as investments are concerned. Harvey (2004) identified that this correlation is limited to emerging markets.

Another perspective has been presented by Noordin, Harjito and Hazir (2006): they offer a practical approach to measure regional-specific political risk. Their analysis examines PR assessment strategies of multinational corporations based in Malaysia.

The main result of Noordin, Harjito and Hazir (2006) is the identification of main elements in developed countries, which are: (1) political unrest, (2) social unrest,

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and (3) expropriations of assets without proper compensation. For developing countries they found, that the results change to: (1) restrictions on profit, dividend and interest remittances, (2) expropriation of assets without proper compensation, and (3) input restriction, ownership restriction and the host government subsidizing local competitors.

A short comparison of these two indices is shown in table 7.

Characteristic	BERI Index	CRG Index
Research focus	socio-political conditions	country risk
Research basis	expert questionnaires	subjective staff analysis
Number of factors	32	24
Measured frequency	Quarterly	Monthly
Scale	0.00 – 1.00	0 – 200

**Table 7: risk indices comparison (based on Weber, 2008; Erb, Harvey and Viskanta, 1996)**

Although there are only two indices presented, table 7 indicates that there can be some differences between political risk indices. The type of data collection, the number of measured factors, the scales used and the measured frequency vary from index to index.

### 3.5 Conclusion

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This chapter has introduced three main categories of concept on political risk. It has been shown that there is not one single, perfect approach to analyse political risk, but that the research problem defines the category of political risk models that can be used. The application of political risk analysis into the real world does not depend on the chosen model; it is derived from the questions to be answered. In addition, this chapter also analysed that the data set determines the output quality. Regardless the way of analysis, the data must be relevant to the research focus and must fit the model characteristics.

Following the review of expert literature, the approaches of Althaus and Brink deliver both high relevancy for this project and outstanding quality. The combination of both approaches as a framing groundwork is therefore chosen.

For investment analysis in a large country, an index can be less suitable than a qualitative model. Indices usually analyse data on a high aggregate level, while investments take place in a certain region. Hence, a focused qualitative analysis can be more target-aimed than a country risk guide.

The characteristics of examples are that they can be found to support both sides of an argumentation; however, this chapter has defined the three main types of political risk models, pointed out the advantages and disadvantages and set recommendations for practical usage.

The following chapter (4) provides a detailed methodological development for the empirical part of this research. Based on the identified gap in the literature, it demonstrates the methods and techniques most appropriate for this study. The

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next chapter offers the rationale for the chosen research method and describes in detail the analysis procedure.

Chapter Summary	
Content	Result
Types of political risk models	Political risk models have been categorised into qualitative and quantitative models and risk indices.
Qualitative models	Main qualitative model (Althaus) has been described and analysed.
Quantitative models	Main quantitative models (Bremmer, Keat; Brink) have been described and analysed.
Risk indices	The main risk indices (BERI; GPRI; PRS; ICRG) have been described and analysed.

**Figure 21: summary of chapter 3**



**“In politics the middle way is none at all.”**

John Adams

### **4 Research methodology**

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#### **4.1 Introduction**

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While the literature review in chapter 2 and the model analysis in chapter 3 are considered as the foundation for this study, the research methodology sets the cornerstones. The forming of this foundation determines the field for the research. This chapter develops this basement using sections on research strategy (section 4.2), methodology (section 4.3) and on the chosen approach for this study (sections 4.4 – 4.8). This chapter closes with ethical considerations.

This chapter aims to demonstrate the development of the most appropriate research method in order to answer the research questions, based on the strategy and methodological considerations for this study. The analysis used shows that a two-sided interview series with politicians and energy managers is the best method to answer the research questions. This chapter will further describe the process of data processing and outline methodological strength and limitations.

## 4. RESEARCH METHODOLOGY

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### 4.2 Research Strategy

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This study used the research strategy of Althaus (2004) and adopted it to the German energy sector. Althaus had interviewed politicians in Australia to investigate a conceptual model of political risk. Her approach was transferred to the German energy industry and extended by an outside-in perspective. While Althaus had looked for political risk assessment within the political organizations themselves, this study was focused on political risk in the energy industry.

This special research focus led to the adoption of several Althaus approaches. For the political part, it was important to analyse the insights of politicians who are linked to the energy sector and/or its main topics.

Althaus had adapted the research method of Lewes (1992, which is based on the idea of construction of theory. The literature review in chapter 2 has established the limited amount of specific political risk analysis, which led simultaneously to opportunities and threats. While the academic foundation of political risk is, to a limited degree, weak, the research focus of this study is both research based but maybe to an even greater degree, research developing. With this in mind, the specific approach for the German energy sector offered a great opportunity to research a nearly unsearched area. However, it demanded thorough research procedures.

The strategy for this section was derived from Zhang and Wildemuth (2009). Their approach is illustrated in figure 22. The research strategy consists of eight different steps:

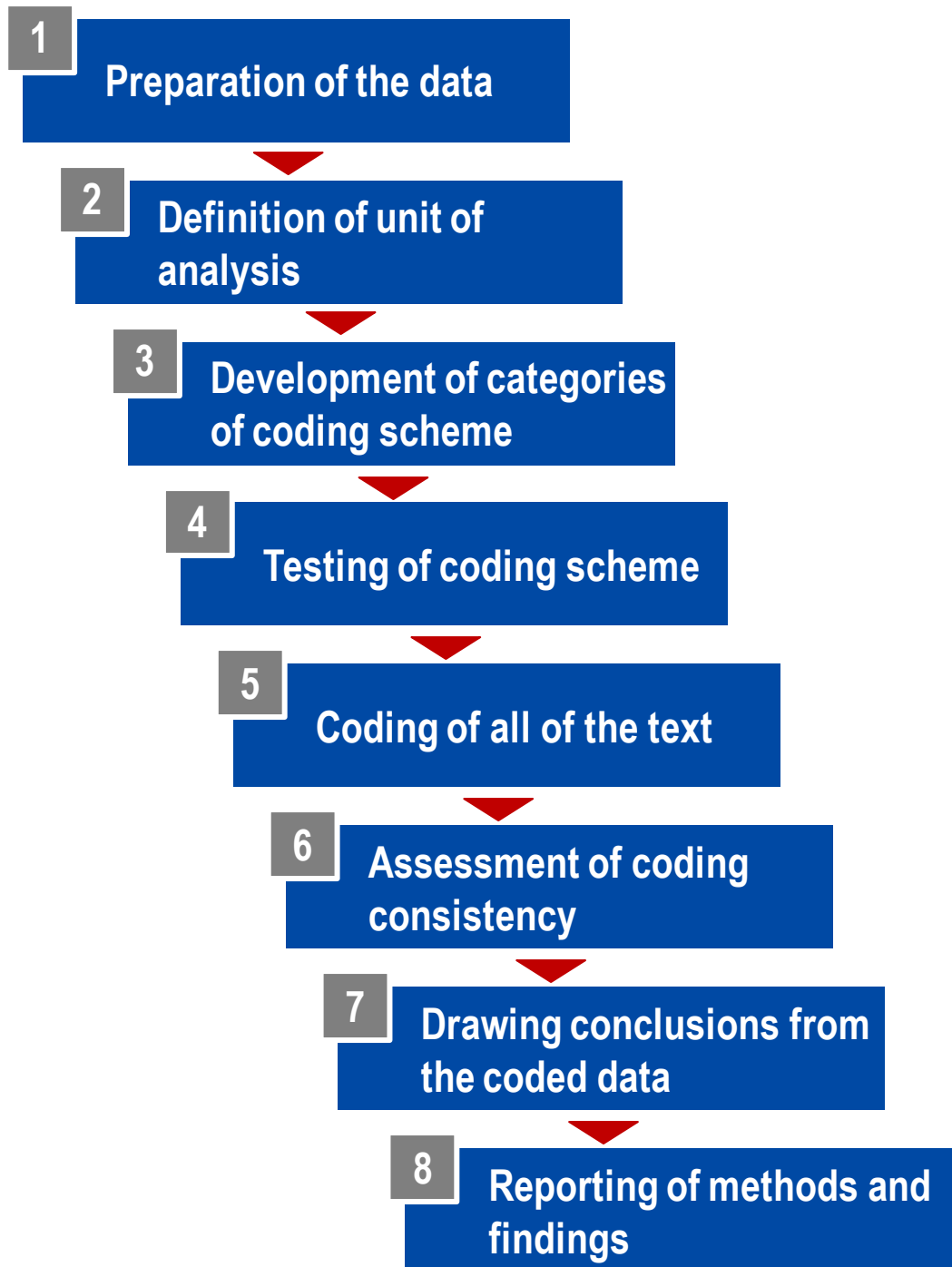


Figure 22: research strategy (own illustration based on Zhang & Wildemuth, 2009)

### 4.3 Methodological Framework

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The researcher's position within the research philosophy determined the way that phenomena are explained. While often researchers take a rational, positivist

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perspective for several reasons, it seemed appropriate to ask for another option. Among others, one main position is the perspective of critical realism. From this point of view, issues often stem from different phenomena but there is an interrelation between them (Archer, 1998; Jeppeson, 2005). Hence, the social world there are different methods of analysis and theory building to use as in the world of natural object. For the transfer to the social world, it needs to be thought over (Schostak, 2008).

The emphasis on empirical research is one issue which might be characterized by a lack of methodological considerations throughout. In addition, there is also the lack of a continuous theoretical framework. Furthermore, a third critique is the problem of explanation, especially generalization. This might be difficult due to lack of methodological and theoretical considerations (Morton, 2006; Mingers, 2004).

“Ontologically, the basic understanding of critical realism is that reality exists and that it is possible to conceptualize it and make theories in order to describe it” (Jeppeson, 2005, p. 4).

Critical realism itself does not claim to deliver an absolute comprehensive understanding or explanation of a certain problem. With critical realism, the discovered results do not necessarily deliver an overall perspective. As far as the constancy of knowledge is concerned, the perspective of critical realism states that all knowledge as fallible. In detail, a specific phenomenon is characterized by certain aspects, a specific perspective and due to change. (Sims-Schouten, Riley & Willing, 2007; Wikgren, 2005).

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“Epistemologically, the aim of critical realism is to explain the relationship between experiences, events and mechanisms. The perspective emphasizes questions of ‘how and why’ a particular phenomenon came into being, got its specific character and so on” (Jeppeson, 2005, p. 5).

The aim of critical realism epistemologically is to explain a specific empirical phenomenon and not to make predictions.

The philosophical position of critical realism leads to an establishment of issues in the philosophy of science. Challenges are the linkage of a “concrete nature” and “abstract dimensions”. The critical realist perspective, therefore, provides some kind of framework which needs to be extended for empirical fieldwork. Different thoughts on the perspective of critical realists have been analysed and Sayer’s work (Sayer, 1992) needs to be pointed out, as it introduces the critical realist approach.

Sayer concentrates on scientific/methodological coherence and stresses the importance of usage of different methods for specific research project:

“He advances four types of research: intensive or concrete; abstract; generalisation; and synthesis. The intensive/concrete involves theoretical and empirical analysis; the abstract only theoretical; the generalisation only empirical while the synthesis is interdisciplinary analysis covering different perspectives and fields.” (Jeppeson, 2005, p. 5).

Sayer highlighted two different research designs, relevant for fieldwork. He names intensive and extensive research design which can be used. Both are linked to theoretical (“abstract”) and empirical (“concrete”) approaches. When a research objective requires the acquiring of in-depth knowledge for a specific issue, the “intensive research design” is used in research. In most cases, intensive research is

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realized by using qualitative methods and analyses and this approach was used for this research project.

In contrast to this method, extensive research typically uses more quantitative methods and analysis. Sayer sets its preference with intensive research design, in which qualitative methods seem to be preferable to quantitative methods.

For this research project, the critical realist perspective, with a qualitative approach, was the preferable method of analysis. A double-sided in-depth interview series formed the multi-dimensional approach of qualitative research for this project.

### 4.4 Research Approach

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Before the chosen research methods are described, it is purposeful to describe the overall research approach which is the foundation of this thesis. The political environment is driven by individuals who act in a specific way, based on a portfolio of their understanding, experience and thoughts. Personal behaviour is combined with party and/or economic affiliation, and it is the relationship between business and politics that is the focus of this research. While relationships often depend on individuals, a qualitative approach was used to conduct this research in the belief that the knowledge for this research could be gained from analysing individuals.

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### 4.5 Qualitative Research

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The following section explains the research paradigms of qualitative research. It is important to understand the characteristics of qualitative approaches as these will determine the path of further research. There are important implications of the chosen methodology based on the research approach and this therefore influenced the data collection methods (Collin & Hussey, 2003).

#### 4.5.1 Snapshot of Qualitative Research

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As previously described, qualitative research is one main type of research approach. Despite being a quantitative approach, this type is less “numbers-driven”. It has a high degree of subjective knowledge and subjective perspectives (Collins & Hussey, 2003). However, the gathered data can be highly important as qualitative data is able to encompass the richness of details and nuances of the studied phenomena (Collins & Hussey, 2003). In addition, it often utilizes or originates small samples within the study (Varevisser et al., 2003).

According to Denzin and Lincoln (2000), qualitative research combines several items, “it crosscuts disciplines, fields, and subject matter” (Denzin & Lincoln, 2000, p. 2). Qualitative research has gone through an enormous evolvement in the last decades. The researcher is both blessed and cursed at the same time to be able to conduct research, where personal experience and interactions (such as observations or interviews) play an important role.

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Qualitative research is, for many authors, a preferred method for deriving insights into human beings and their actions and behaviour. For political risk, the approach of qualitative research helps to obtain deeper insights. The literature review in chapter 2 has demonstrated that political risk is a phenomenon (Fitzpatrick, 1983). Phenomena are often not directly calculable and therefore difficult to access. Political risks are created by human beings and human beings (those in charge within enterprises) are also faced with political risks or their outcome. Political risk is therefore characterized by a high degree of personal involvement and personal involvement is best accessed by qualitative analysis (Creswell & Miller, 2000; Creswell, 2003).

The relationship between theory and research is presented by an inductive view within qualitative research. The gathered data sets the foundation within qualitative research, from which theory is derived (Brymann & Bell, 2007). The epistemological position within the qualitative research environment can be described as interpretive. The understanding of the world's phenomena is achieved by the examination of the analysis of the human beings involved. In addition, constructionism is the ontological qualitative research perception. This leads to a perception that social properties are outcomes of the interactions between individuals and separate from those involved in the construction (Bryman & Bell, 2007). The main methods within qualitative research are qualitative interviews, focus groups and approaches, which are language based for the data collection and analysis (Bryman & Bell, 2007). These can be summarized as non-participant and participant observations (Carter & Cathryn, 1997).



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Human beings tend to act, driven by a number of factors, one of which is often rationality, which can be measured easily. But in addition, there are factors like personal relationships, thoughts, feelings and many more. The tension of political risk lies within the relationship of two groups: politicians and managers. The degree and quality of their involvement might determine political risk and its impact.

To analyse these personal engagements, thoughts, relationships and actions, a qualitative approach was chosen.

### **4.5.2 Chosen Method: interviews**

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The overall idea of conducting interviews is the belief that certain information can only be gained from personal conversations. Interviews are defined as:

“a data collection encounter in which one person (an interviewer) asks questions of another (a respondent). Interviews can be conducted face-to-face or by telephone” (Babbie, 2008, p. 518).

The aim is to collect insights that would not be assessable to the public in general. Even though there are a couple of appropriate qualitative methods that might lead to insight information on political risk, interviews are the most preferred method. One needs to create an environment that is most likely to lead to the discovery of experts' knowledge. The question is: to what degree are politicians and senior managers driven, by soft characteristics, to work together or against one another?

### 4.6 Interviews

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The characteristics of the research questions combined with a qualitative approach as the overall perspective led to in-depth interviews as the chosen research method.

“In-depth interviewing is a qualitative research technique that involves conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea, program, or situation” (Boyce & Neale 2006, p. 3).

In-depth interviews are therefore characterized by the depth of the conversation and the limited number of interview partners. The main idea behind this research method is to focus more on depth than on width. In-depth interviews are often not structured in detail to allow variations during the interview. Hence, the focus of the content cannot be defined beforehand, as the conversation itself might generate interesting insights that the researcher is likely to follow (King & Christine, 2010).

The main advantage of in-depth interviews, compared to any other method of data collection, is the high degree to which detailed information is provided. The results of surveys are limited to the pre-written questions and answer sheets. In-depth interviews might make the interviewee feel more comfortable and therefore more likely to talk about difficult or critical issues. Two main disadvantages come along with in-depth interviews: this research method is time intensive and it requires appropriate training of the interviewer (Patton, 1987; Miles & Huberman, 1994; Patton, 2002).

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Training can be provided in different styles. However, a printed training guide sets the foundation for further development. For this project, the work of Rubin and Rubin *Qualitative interviewing: the art of hearing data* sets the basic training for the interviewer. The training consists of five different chapters which produce recommendations for the planning process:

- Basics
- Expectations of the interviewee and the interviewer
- Listening, understanding and asking
- Interaction in the interview; dynamic and creation
- Interview planning and organization (Rubin & Rubin, 2005)

Another key factor for successful interviews is test-interviews, as part of the interviewer training. Test-interviews allow the interviewer to test not only the questions, but the whole research activity. These provide the opportunity to check the confidentiality hand-out, the equipment, the flow within the conversation and the possibilities of processing and analysing the data (Rubin & Rubin, 2005).

The author was aware of the importance of interviewer training. Training was realized in both ways, theoretically and practically. The practical training supported the continued learning process of the author, however, the interviews were conducted over a nine-month period and therefore each interview can be

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considered as additional training, offering the possibility of learning by doing (Rubin & Rubin, 2005).

The interviews were planned to be limited to one hour. This represented a realistic estimation of the time slots available, and the time that participants, especially CEOs, could offer this project. It was possible to compact the interview process by selecting specific events in politics and energy business, e.g. trade fairs, to conduct several interviews on one day, as all experts emphasized that a private or confidential environment would be required for the interviews.

##### *Interview guide*

An interview guide lists the issues which should be addressed during an interview. It offers a free conversation, focused on a specific topic. The main advantage is that several interviews, an interview series, is, to a high degree, systematically comparable.

The interview guide consists of a set of framing questions, which were derived from literature and used to guide the process of interviewing.

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Interview Guide	Derived / Adopted from Source
<b>I Background</b>	
Please describe	
1 how and when you came into politics	Althaus (2004; Appendix One) // Rubin & Rubin (2005)
2 how and when you came into your current position	Althaus (2004; Appendix One) // King & Christine (2010) // Rubin & Rubin (2005)
3 your typical work in your current position	King & Christine (2010) // Rubin & Rubin (2005)
<b>II PR Understanding</b>	
Please describe	
4 how political views of local, state, and federal level do impact your work	Althaus (2004; Appendix One) // Brink (2004)
5 the role of lobbyists with the development and implementations of laws	Althaus (2004; Appendix One) // Bremmer & Keat (2009) // Harris (1999)
6 the role of economics and businesses in your current position	Althaus (2004; Appendix One) // Brink (2004) // Gao (2009)
7 from your point of view the influence of politics on the utility industry	Archer & Heymann (2012) // Bundesregierung (2011) // BDEW (2012)
8 How would you define political risk?	Althaus (2004; Appendix One) // Brink (2004) // Fitzpatrick (1983)
9 What are the consequences of your definition for your daily work?	Althaus (2004; Appendix One) // Gipsy (2009) // Hoppe & Peterse (1993)
10 Are specific industry sectors higher or lower impacted by politics?	Althaus (2004; Appendix One) // Gao (2009) // Jensen (2005) // Melzer (2006)
11 the role of parliament members and the government within political risks	Althaus (2004; Appendix One) // Brewer (1993) // Brink (2004) // Jensen (2008)
12 are there any, and if so, how are election terms linked with political risks	Bachmann (1992) // Bundesregierung (2011) // Jensen (2008) // Vickers (2004)
13 the impact of political risk on politics itself	Althaus (2004; Appendix One) // Vickers (2004) // Wessels (2008)
<b>III PR Mangement</b>	
Please describe	
14 how you handle political risks and the impact on economics and businesses	Althaus (2004; Appendix One) // Brink (2004) // Hill (1998) // Howell & Chaddik (1994)
15 the impact of political risks on management decisions of utility companies	Heller & McCubbins (1996) // Luethi & Wuestenhagen (2012) // Saunders et al (2009)
16 Imagine you where the CEO of a utility company. How would you handle political risks?	Archer & Heymann (2012) The World Bank (2010) // Weiner (1992) // Wilkin (2004)
<b>IV PR Outlook: Industry Outlook</b>	
Please describe	
17 Where do you see the industry sector going over the next 5 and or 10 years?	Archer & Heymann (2012) // Roland Berger Strategy Consultants (2013)
18 What policy strategy issues do you see as being important alongside these trends?	Archer & Heymann (2012) // Roland Berger S.C. (2013) // RWE (2013b) // T uempen (1987)

**Table 8: interview guide development**

Once interviews were conducted and recorded, each interview needed to be typewritten, cross-checked for quality reasons and sent to the interview partner for approval. Typewriting was important as the written word was the basis for further analysis. Typewriting took place on an individual basis and not at the end of the interview phase. The typewriting was done within seven days after the actual interview by the author himself. Choosing this procedure enabled the author to get a deeper insight into each single interview. Although this was a huge additional and monotonous workload, it turned out to be a beneficial decision regarding the further reflection, consideration and analysis of the statements made in the interviews, which it afforded.

### **4.6.1 Sampling Size**

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Sampling refers to the action of selecting examples. In this research project, the term refers to the population of interview candidates. The characteristics of the process determine the outcome quality. The results are mainly driven by the sampling size and the sampling method. It can be assumed that the bigger the size, the higher the representativeness. However, the selection process presents major difficulties and requires a logical realization to ensure the quality of the results.

The sampling for this research project has combined the aspect of a high sampling size and the number of available interview partners. There are approx. 800 energy suppliers in Germany and given an assumption that there are two managing directors per company, there are therefore 1,600 possible interviewees.

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A limiting factor was accessibility, however, the author remained confident that contacts via his work environment and via consulting companies could provide a sufficient number of possible interview candidates. In addition, the issue of confidentiality created another reason for candidates not to participate in this project. As mentioned above, it has therefore been the responsibility of the author to eliminate any doubts about confidentiality.

The sampling size for this research project was 20, 10 from each group. It is important to represent the industry structure with the sampling size. This is in line with Lo-Biondo-Wood and Haber (1998) who state that 10 interviews will obtain meaningful data.

##### *Politicians*

It is useful to define the term politicians in respect to this study. Politicians in this project are all those who are members of a recognized party. As this study is focused on Germany, all foreign parties are excluded. In addition, it will differentiate between active and passive politicians, as retired politicians might have a limited knowledge of present issues. However, retired politicians might be able to add additional knowledge based on their experience.

To generate a broad mind-set of political risk, it is appropriate to look for a mix of interviewees. The selected sample had to be representative of the population of politicians. Therefore, members of all large parties, those of different age groups, of both genders, and from all level of activities (local, state and national) were invited to participate.

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### *Energy managers*

Energy managers, in terms of this research project, are all those working in an executive position at a German energy company. The progress of the research process showed whether a sufficient part of this exposed group was willing to participate in this study. As a backup option, the group of risk managers could have been able to demonstrate the influence of politics on energy companies as well. But as the direct interaction mostly happens between the politicians and the board of managers, those were the most interesting group of people to talk to.

With both groups, the locality became an issue as the author was bound to remain at the office in western Germany, with less travelling. The selection of participants has therefore been influenced by accessibility in terms of proximity.

In any case, it worked as a little incentive to offer the interviewee an extract of the thesis, in the form of a management summary of the results, in return for their participation.

### **4.6.2 Experts' Selection Process**

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A thorough selection of the interview experts is reasonable to ensure the quality level of the output. "Finding interviewees with the relevant, first-hand experience is critical in making your results convincing" (Rubin & Rubin, 2007, p. 65). As the information was conducted using two interview series, there were different criteria for each of the groups. It had been demonstrated by Rubin and Rubin (2007) how useful an organized selection process can be.



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Interview series can generate relevant important information if the selection process meets the need derived from the research questions. Hence, it can be appropriate to select randomly, e.g. to investigate consumer experience in a shopping centre. In other cases, a more selective approach may be reasonable.

The main difference in this thesis was that the research approach consisted of two interview series: one analysed the perception of politicians towards political risk and a second, that of senior managers in the German energy industry. Due to the different expert groups, the selection criteria could not be identical, although the process itself was.

##### *Unique criteria*

This thesis aimed to illuminate the phenomenon of political risk in the German energy industry. It has been demonstrated that the construct of political risk often evolves from actions of the people involved (Arbor, 1997). It consists therefore more of “soft” rather than “hard” characteristics.

The first main criterion was the relation to the industry of the experts. Although it seemed obvious, a connection to the energy industry field in Germany was necessary for this study.

Another main selection criterion was the experience at a senior level. While senior experience is variously defined in the literature, e.g. Huettner (2010) details it as over three years, and Fischer (2007) states that it is over 20 years, the definition adopted for the context of this thesis was 10 years or more of relevant experience.

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This is appropriate as on the one hand, within the last decade the German utility industry has gone through enormous changes, and on the other hand, the legislative periods in Germany range from four years in the federal parliament to five years in the state parliaments.

A politician who has been or is active over two election periods was therefore considered, in the context of this study, as senior-experienced and his or her knowledge and experience was considered as sufficient for the focus of this study.

A manager who had worked in the industry for 10 years or more was, in the same way, considered as senior-experienced.

In both cases, there was a differentiation made between current and past experience. This was relevant for the different topics which were discussed during the interviews.

Senior management level in both cases was, in addition, understood in the way that the experts had or have the power within their position to make relevant decisions. This was considered to be important as it was much more relevant for the aim of the study to analyse the behaviour of somebody in charge, than of somebody who is just interested in the area. During this research, this variable became significant, as the group of senior managers within ministries of economics were one of the first to be contacted. While there were different responses to interview enquiries, one point became clear: senior managers and ministries in Germany do not decide on strategic issues. This group of managers execute the strategy set by the minister.

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“I would be willing to talk about my work, but you must know that we do not make decisions about politics, we only execute what the minister decides”

(Potential expert from the ministry of economics of the state of Niedersachsen; phone call on 11 November 2010).

While these three criteria (industry relation, senior experience and decision-maker) matched many experts in Germany, there were more issues arising during the selection process. Using publicly available information such as company websites, party websites, official government websites and the business network, Xing, a long list was generated. A comprehensive list from the business environment enabled the collection of available information on interesting targets. In this study, all researched names fitting the three criteria were added.

In a second step, additional information, containing details about work location, email or phone contact details and/or party affiliation, was added to the list. As a next step, 65 potential experts were contacted via mail. After approximately two weeks, all experts were phoned and additional information on the study and data processing were offered and an interview date was requested.

The reasons for not participating were multifarious. Experts mainly denied their participation with the answer “too busy/no time”. As mentioned above, none of the contacted managers from the ministry of economics participated. Their answers mainly derived from the concept “no decider; not able to add useful information to the study”. Other reasons for not participating were “illness”, “not the right one” or “no answer” at all.

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An interview guide (appendix 1) was mailed, in a summarized version, to the experts upon request. The group of politicians in particular were interested in details of the topics to be discussed and questions to be asked.

There are six political parties that are represented in the federal parliament: CDU (Christian Democratic Union of Germany), CSU (Christian Social Union of Germany) [Note: CDU and CSU act as sister parties; any further reference to CDU means both parties], SPD (Social Democratic Party), FDP (Free Democratic Party), GRUENE (Alliance '90/The Greens) and LINKE (The Left). [Note: at recent state elections in 2011 and 2012 a new party, "The Pirates" was elected in four state parliaments. At the time of writing up the thesis, no one in the Pirate party was in charge of governmental action. Therefore, no member of The Pirates is represented in this thesis.] Members of all other parties participated in this study.

According to the researcher's understanding of ethical research, all experts were comprehensively informed about data processing and confidentiality issues prior to the interview. Experts were advised that (1) the interviews are recorded with their permission, (2) interviews are transcribed, (3) transcripts will be mailed back to experts for approval, (4) interview texts will not be published, (5) quotes are added after explicit approval, (6) interview analysis will be published on an aggregated level.

This information was crucially important, as the experts had to be sure that their insights are kept confidential. An open and transparent communication on the data

handling process supported this. Insight information was considered a key issue in this study and the assessment of experts' knowledge is a critical success factor.

In the end, this led to a more open discussion about the relationship between politicians and businesses.

### **4.6.3 Techniques**

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A set of interview techniques is used to derive the information from the research data (see for example Rubin & Rubin, 2005).

At the beginning, it is important for the researcher to undertake interview training to ensure fundamental knowledge on interviews as a research technique. In this study, the interview training consisted of three steps: (1) undertaking a critical literature review on interview techniques, (2) discussion on interview as a research method with experts in this field, (3) testing the interview guide in a test-interview.

The literature review of interview techniques revealed that interviews are the appropriate way to discover insights into the human beings involved.

Rubin and Rubin (2005) suggest the following procedure for interviews:

1. Structuring the interview
2. Designing main questions and probes
3. Preparing follow-up questions

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4. Preparing transcripts and coding data
5. Analysing coded data.

### 4.6.4 Framework

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The interview guidelines are nearly identical for politicians and managers and consist of three main parts, conducted as described below:

- I. Background
- II. Political risk understanding
- III. Political risk management

This separation is useful, as there is no strict linkage from research question to questions asked within the interview. The main idea of these guidelines is to use semi-structured interviews, which means that all main topics are covered in a structured order but leaving room for individual topics and input beyond the guidelines.

Due to the different backgrounds, the questions in section I had to be slightly amended. For section II, the chosen topics were identical and section III offered insights into the management of political risks. Hence, questions had to be specific to each group.

It has been demonstrated that political risk as a phenomenon is difficult to access. It is highly influenced by the human beings involved and therefore a ‘soft’ topic that needs to be accessed via individuals. Information that becomes available

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beyond the guidelines was also analysed and categorized in preparation for a detailed analysis.

Therefore, the interview guidelines reflect the results of the literature review and are derived as follows:

- (1) Personal background
- (2) Political risk understanding
- (3) Political risk management

(1) It is useful to learn about the background of the experts. Senior experience is mandatory to participate, but in addition, personal motivation can be an interesting factor. Information about party affiliation, former or current positions in parties, organizations and companies also improve the experts' individual perspective.

(2) Section 2 is about the understanding of political risk. As political risk is not a popular term, the approach is to use surrounding questions, rather than direct questions on political risk. The expert is then probably more willing to answer questions directly on political risk.

As far as the term political risk is concerned, it is understandable that out of the two interview series for this thesis, the politicians tended to be more distanced. Energy managers were more open in talking about political risk directly as risk

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management. This has been identified by the literature review and is very common in most of the companies, regardless of their size.

The aim was to generate information of how political risk is understood from both perspectives: that of politicians and senior managers. What do the experts think of the other group and how do they see themselves? This section will generate answers on the perception of political risk, as well as on the acting of both expert groups.

(3) Political risk management aims to identify the actions undertaken to manage political risk in practice. How is political risk managed in companies and how is it managed in politics? The experts were asked about their perception of the potential impact of political risk. In addition, interview participants were asked to notionally switch sides, and describe how they, as a CEO of a utility company (if they are a politician in real life) would handle political risk and vice versa.

It is useful for this chapter to focus on the management issue. This will be one of the main outcomes of the thesis, to deliver a concept for German utility companies, regarding how political risk can be managed more effectively. The input of the experts on management issues was therefore of high value.

Risk management can be a status quo analysis, but becomes much more useful when offering a look into the future. This section also asks for the experts' opinion on future industry development. The industry snapshot has shown that within the last decade the German utility market has gone through major changes



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and the future will be no less exciting. The European Commission's energy target 20/20/20 (to name one) sets the guideline for the amendments until 2020. Experts were asked to forecast the main developments. Cooperation with politics can doubtlessly support any development – the experts should state which exactly and to what degree.

### 4.6.5 Transcription Strategy

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There is one main challenge of transcription that lies within cross-language research projects: translation. Not only that the wording is different, intonations, metaphors, jokes but many more lingual characteristics may influence research results. Although the researcher is confident with British English, conducting the interviews in the experts' mother tongue has been chosen to guarantee a high level of authenticity (Dresing & Pehl, 2011).

Hence, all of the correspondence with the experts was undertaken in German. This included the invitation letter, phone calls, and of course, the interviews themselves.

While the first part of this research study is written in English, the interview guide has been developed carefully and translated into German. The interview guide is taken from the research questions and the research objectives. It enables the gathering of the required information and leaves space for potential additional information, which, in this case, is understood as data that was not especially asked for, but offered by the expert for several reasons.

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The idea of semi-structured interviews follows these thoughts on additional information. The listed topics and questions determined a framework for the interviews but not the interview in its entirety.

A failure analysis was run to determine the level of transcription quality (see Althaus, 2004 for the approach). For this purpose, ten sentences were randomly selected from cross-checked transcripts and their transcript double-checked with the original tape. These ten sentences included 146 words in total. Out of these words, two (1.4 per cent) were not correctly transcribed. For all transcripts, with a sum of 89,647 words, this would result in 1,255 words that might not be correctly transcribed.

While an error rate of 1.4 per cent indicates a high level of quality within the stage of transcription, a second analysis was run to determine whether the identified errors might lead to a misinterpretation of the output. In this case, the analysis of the errors showed that these were typographical errors only and there was no indication of any misinterpretation. Hence, a high level of quality within the transcription process was proven.

The following table 9 summarizes the results:

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Item	Test indicator	Result	Interpretation
Analysis for mistakes	146 words from 10 randomly selected sentences	2 errors	Error rate of 1.4 per cent
Analysis for misinterpretation within the identified mistakes	Identified errors from the test 'analysis for mistakes'	No error	Errors do not lead to misinterpretation

**Table 9: results of error analysis**

### 4.6.6 Data Analysis

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Qualitative analysis in this study follows the ideas of Zhang and Wildemuth (2009) and the approach of Althaus (2004) on analysis of politicians' behaviour (see section 4.3). The process of qualitative content analysis by Zhang and Wildemuth consists of eight steps. Although this study covers two interview series and not just one, the comparable analysis of the perception of politicians and energy managers basically follows these steps.

Step 1: Data preparation

Step 2: Unit of analysis definition

Step 3: Categories and coding scheme development

Step 4: Sample testing of coding scheme

Step 5: Coding of all interviews

Step 6: Assessing consistency of coding

Step 7: Drawing conclusions from coded data

Step 8: Reporting of methods and findings

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### *Process of analysis*

The interviews were recorded and transcribed. Transcriptions are cross-checked for missing information. The transcripts were then analysed using MAXDQA software for qualitative analysis. The questions and answers were coded, sub-coded and analysed.

Research data was coded on several levels. While the questions asked in interviews were derived from the research questions, the coding system reflected the questions and individual answers. As the experts were not limited in their number of answers, meaning that multiple answers were possible for a single question, the number of codes and sub-codes exceeds the number of questions. Increasing the number of codes resulted in the fact that the sum of answers occasionally exceeded 100 per cent. This was intended as this study looks for the insights of the experts in the relation of politicians and the energy industry on the subject of political risk.

For analysis purposes, codes were compared on the basis of the two groups of interview experts. This study searched for common and different perceptions on political relation issues.

### **4.6.7 Critical Review of chosen Method**

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Interviews can be the most promising research method for the exploration of insights. However, to develop an optimal outcome, there are some rules to adopt and the limitations should be known.

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It is the research topic that mainly determines the research method. Political risk – this has been demonstrated in chapter 2 – is the intersection of political science and risk management. While political science can be considered as a topic where “soft” factors, like behaviour, are important, risk management generally follows “hard” thoughts, like statistical models. Political risk is the combination of both, different, maybe even opposing, research areas. Hence, it is difficult to assign political risk to a single research area. By defining the research area of political risk as the intersection of political science and risk management, it becomes quite clear that qualitative as well as quantitative approaches can be appropriate within this field.

The process of conducting expert selection and interview consisted of eight steps and is illustrated in figure 23:

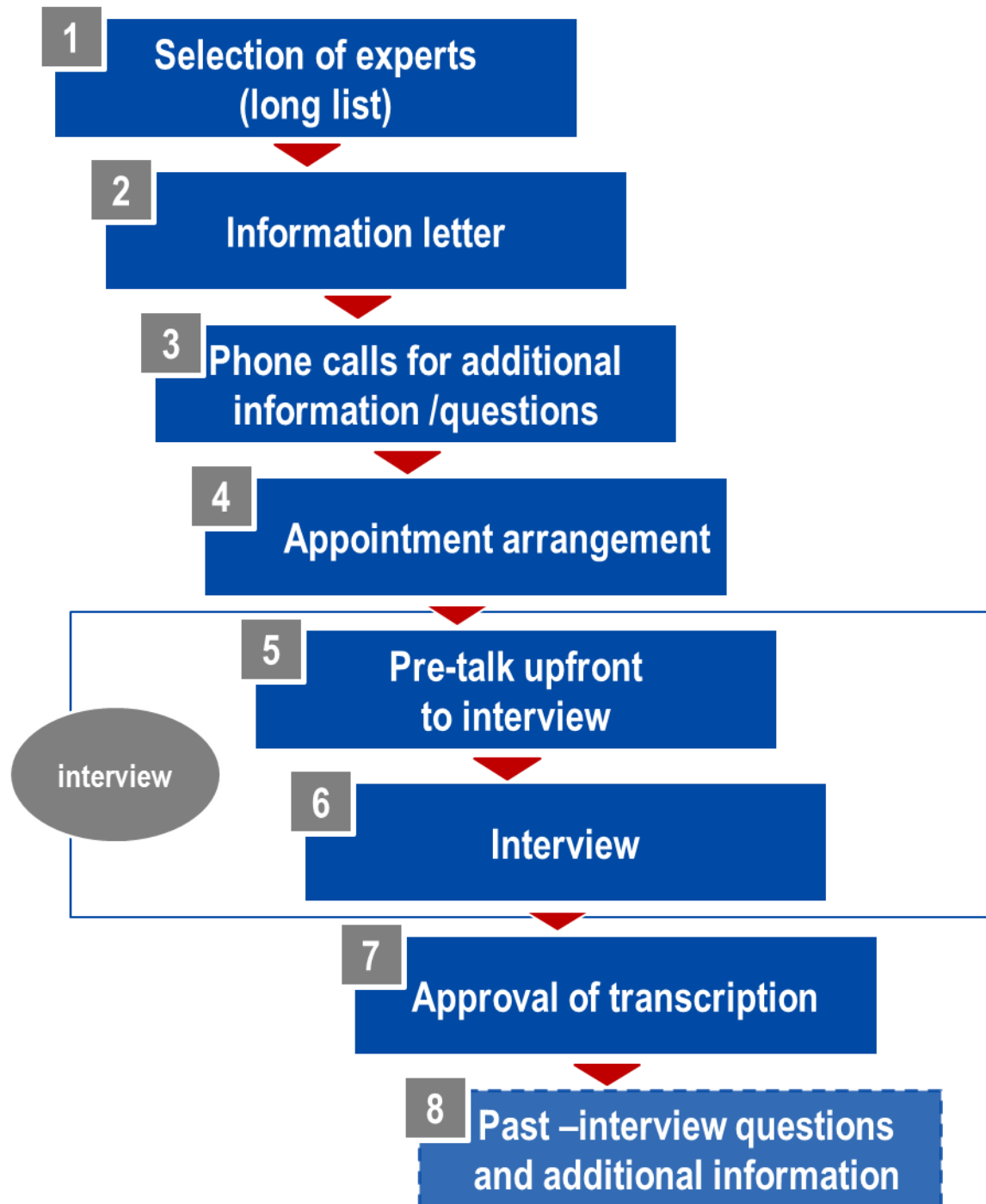


Figure 23: interview process and interactions with experts (own illustration)

Within the field of political risk analysis, research is often conducted on the relationship between political risk and foreign direct investments. The analysis is often undertaken with quantitative approaches. Political risk is therefore measured

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by means of risk indices and quantitative data of foreign direct investments are publicly available in most countries.

When asking for the phenomenon of political risk and the rationale for a particular behaviour in a particular event, a qualitative approach can be more appropriate. Qualitative analysis is not limited by “numbers”; it asks for the “why” or “why not”. It can be stated, that qualitative analysis is the preferred research method whenever insights of human beings are sought.

##### 4.7 Rationale for Qualitative Research and Interviews

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The interviews themselves offer a different perspective – they will deliver an insight perspective. The relevance of an inside perspective lies within the topic. Whenever it comes to personal behaviour, human beings tend to be less willing to talk. Political risks can be of enormous impact, and can therefore be described as a crucial topic.

The interview guideline was used to offer a structure with main topics. This ensured that no topic was left out. The experts at any time were free to illuminate their answers and add additional knowledge to the research. This made the studies and its descriptive context valuable as well as significant for qualitative research (Morse & Field, 1995). Currie (2005) identifies the possibility for clarification and explanations as a main advantage of interviews. The method of interviews can be used when the researcher is unable to predict the responses of the experts’. Although he might be knowing the questions in detail (Morse & Field, 1995). For

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this study this matches the specific area of political risk as described in literature analysis in chapter 2.

An insight perspective is of high value and this research will deliver two insight perspectives. The analysis of the industry-connected political decisions and the existing literature has led to the hypothesis that there are differing perceptions of political risks and their management. Two interview series, with opposing experts, ensure the provision of information about two insides-out perspectives. Within the analysis chapter, these two perspectives will be merged to point out conformities and differences.

### 4.8 Strength and Limitations

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The main advantage of interviews is the ability to create a private atmosphere where insights can be discovered. The literature review and the industry snapshot have offered a public perspective on political risk in the German energy industry. Within these chapters, the gap in political risk literature has been identified and it has been demonstrated, that this public analysis – as an outside perspective – is not sufficient.

Hence, the data has to be generated from an inside view of political risk. As soon as insiders are involved in this process, the question of confidentiality is raised. While there are many possible research methods to generate information for a research project, interviews are the favourite choice for inside information.



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Interviews have several advantages that separate them from all other methods:

1. Enable researcher to understand experiences and reconstruct events
2. Enable researcher to describe political processes
3. Enable researcher to gain insights into personal issues
4. Enable researcher to understand work lives

(Rubin & Rubin, 2005, pp. 3-4).

Limitations of interviews are:

1. Missing objectivity in the way that the researcher can be too close and start to repeat what he hears as own thoughts
2. Negative reactions of possible unpleasant research questions and research results
3. Open-endedness: while in depth interviews do not have a strict format to follow, the researcher might tend to 'force' the expert to summarise insights that can not be fit to a consensus

(Whorton, 2010)

#### *Confidentiality*

The topic of political risk is difficult to assess. There are many challenges which researchers in this field need to overcome. Politicians as a group tend to be very likely to talk, but when it comes to insights, they are sometimes the opposite and such information can be hard to generate. Therefore, with this knowledge as a background, confidentiality is maybe the key issue for the success of this project.

The issue of confidentiality is also relevant for executives. They are probably not afraid of their voters' reaction but in many cases, politicians are members of their

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supervisory board. Hence, sensitive information about executives' views on politicians' actions need to be anonymous, secured and under no circumstances traceable to the interviewee.

The process of data security needs to be defined, developed and the outcome appropriately prepared. All interviewees, politicians and executives, will feel comfortable in agreeing to be interviewed and it is the author's responsibility to inform them in detail about the confidentiality procedures. The rules for data treatment and the security procedures must be developed according to the regulations of the university. In addition, company-specific security rules might also be important. The aim is to develop a confidentiality guideline, fitting into fixed rules of the university and German law, as well as meeting the expectations of the participants.

Besides a thoroughly developed interview design, the development of a confidentiality concept is highly important. As the University of Gloucestershire offered full freedom of choice on confidentiality issues and due to the high personal involvement of those acting in this area, the level of confidentiality was secured by various means. The author developed a confidentiality handout with detailed information about the handling procedures for information of this research project. This hand-out demonstrated each step in the treatment of information.

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To allow a high level of confidentiality, the author ensured that the information was coded from the very earliest point and that the only connection from the list of interview candidates to the coding is a single, printed and locked document.

Hence, only the coding on this document enabled the drawing of any connection between the interviewee and the generated data.

It was useful to demonstrate this secure data handling from the first contact with the interviewee. This increased the chance of a result in terms of a higher response rate to invitations for participation.

#### 4.9 Ethical considerations

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This study analyses experts' opinions, perceptions and their individual experience in the area of tension between politics and business. It has been demonstrated that the field of political risk is largely determined by the human beings involved. This project tries to filter and illuminate insights on the phenomenon of political risk.

Hence, a sensitive way of research needs to be chosen.

This research study is conducted using the university's ethic guideline *Research Ethics: A Handbook of Principles and Procedures* (URDC, 2010). These principles include, but are not limited to, a comprehensive information policy for all experts taking part in the study. For this research study the information is provided depending on the research steps. First, when experts were asked for their willingness to participate (usually letters were sent), contact information was provided, as well as the fact that this study is conducted as part of the DBA

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programme at the University of Gloucestershire. In addition, an anonymous data processing trail is guaranteed to all participants.

### 4.10 Reliability and Validity

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The factors of reliability and validity should be considered within a qualitative research study.

Reliability within the research context is understood as a fact, whether any researcher can develop the same results when repeating the study. While single method approaches tend to be less reliable than multi-method approaches, this research study is slightly different.

As far as the content is concerned, the field of political risk undergoes constant change. It is difficult to define a level of reliability in the knowledge that while analysing the gathered information, the market is already one step ahead. An analysis of political risk can therefore always describe the status on a cut-off date only.

While a traditional multi-method approach is not run within this study, a single method approach is extended to generate a high level of reliability. With semi-structured interviews as a basic strategy, this research project has a solid foundation. In addition, a second interview series was conducted to generate a second perspective on the same phenomenon. Even though it can be discussed, if this amounts to a multi-method approach, it is believed that the second perspective adds a huge contribution to this study.

### 4.11 Conclusion

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This section has demonstrated the development of the methodology and the method for this research project. It is based on the results of the literature review, the author's position and development, but mostly, it is driven by the characteristics of the research topic.

As far as the project quality is concerned, confidentiality seems to be the main challenge. This is addressed within the research purpose and design section.

This thesis offers a two-sided analysis of political risk. This literature review has identified the existing gap and in-depth interviews are used to generate new information on political risk. While interviewing one group of experts offers deep insights (Althaus, 2004), this approach is limited in terms of its breadth. The information generated is usually focused on one perspective and does not offer an in-depth view. Adding a second perspective, in this thesis, the opposite perspective, to the analysis procedure, increases the results. A second perspective from a second interview series therefore completes the approach. The two perceptions are finally linked with each other.

In reflection of this analysis concept, the topics are identical and the questions only slightly modified to serve the different perspectives.

The literature review has identified the common understanding of political risk from the perspectives of political science literature and risk management. While

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there is not a sector of political risk literature, the topic itself can be highly relevant for businesses. In fact, the literature review showed that within sectors of high investment, a risk management strategy, including political risk, is common.

The chapter on the industry characteristics has demonstrated that German utility companies are constantly impacted by politics. Their impact can occur on different levels with different intensities.

Therefore, four research questions are derived from these chapters, which build the cornerstones of the thesis:

1. Are there definitional tensions in the way in which political risk is understood and defined as (a) an academic concept and (b) in practice, by German politicians and energy managers?
2. What political risks face the German energy industry and its companies?
3. What is the potential impact of these political risks on the German energy industry and its companies?
4. How might a unified concept of political risk enable German energy companies to manage political risks more effectively in the future?

By this stage of the research process, it had been demonstrated that political risk is an issue in the German energy industry and of the actors engaged in this industry (chapters 2 and 3). In addition, it has been made clear that this broad topic is not sufficiently covered by risk management or political science literature (chapter 2).

The identified gap needed to be filled to allow a deeper understanding of the

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processes themselves and both the motivation and behaviour of the actors involved.

Industry analysis has delivered special characteristics that identify the thought of German politics as being highly involved in the German energy industry. Boards of directors are often engaged with active politicians and labour union representatives. These have a powerful influence, and the relationships between managers and politicians can be seen critical.

The analysis of the generated data will proceed as follows:

In a first step, all of the text documents, consisting of the answers and statements of the participants are clustered and coded. This process will be supported by the software for qualitative data analysis, MAXQDA, which is a suitable and effective tool (Saillard, 2011; Sozialforschung, 2011; Tesch, 1990).

The analysis was done on an interview-to-interview basis and the coding identified similarities and opposites. The coding referred to key words which allowed the researcher to draw connections between independent interview partners.

Following the coding, results were consolidated and the proportion in relation to each other calculated. This partial analysis showed key aspects of the research results. What are the main issues, and which aspects are less important? Are there

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specific companies which are more likely to be confronted with political risk? Is there a specific party which seems to create more political risk than others?

A second step showed similarities and differences within the different groups. Information was compiled up for the group of politicians and for the group of energy managers. This step provided information as to whether there is constancy within a group. In addition, group level analysis describes differences and similarities between managers of larger and smaller companies and between politicians in a city, or at state or country level. All this is linked to the overall aim of developing a concept of political risk.

The third step in this analysis was then contrasting the compacted results of both groups, resulting in conceptual ideas about political risk: Is there a common understanding of the term political risk? Do the interviewees of both groups have similar or contrasting ideas regarding the origin of political risk? How do they handle it?

Answers to such questions enable the author to develop a framework of common understanding, identify strengths and weaknesses when political risk occurs, and provide recommended procedures for the energy industry to mitigate political risk to a high degree.

After the analysis had been conducted, the results needed to be translated from German into English as the whole interview and analysis process had been



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conducted in German. Appropriate results are illustrated in tables, graphs and diagrams to offer a deeper understanding of the findings.

The ethical guidelines of the university were used and respected during the whole project. This included a communication of the main aspects of the code of ethics towards the interviewees.

##### *Timetable*

In-depth interviews require the whole research project and the DBA programme itself to have a strict timetable to fulfil all the requirements on time.

The key work of this project was done in the period from August 2011 up to January 2013. Within the whole research phase, this was where the actual research would be realized. However, the analysis of political risk by a two-sided series of in-depth interviews demanded specific actions as preparation and of course required a detailed timescale to carry out the analysis of the interviews.

The timetable in figure 24 indicates a challenging but realistic project course.

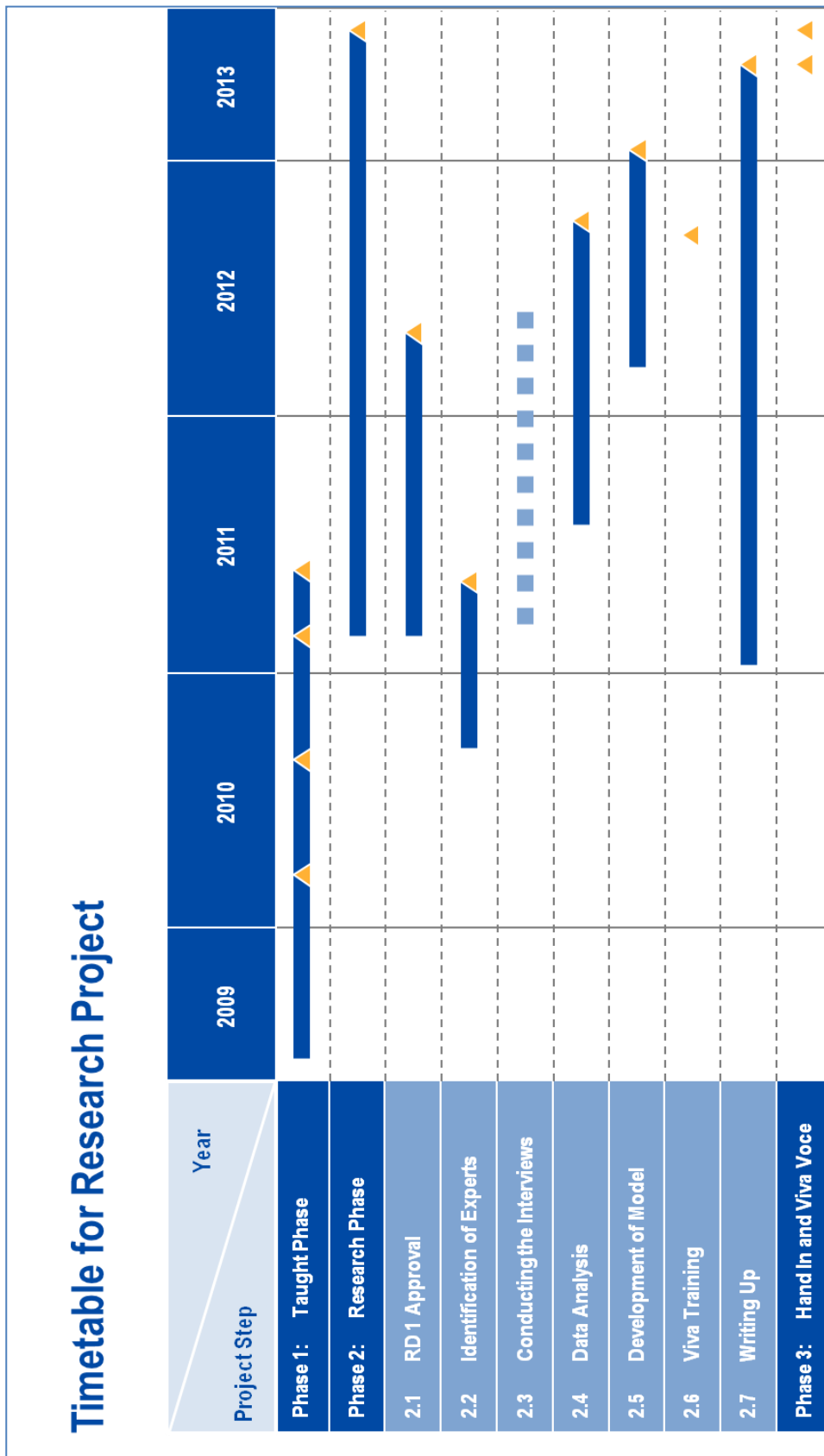


Figure 24: timetable for research project (own illustration)

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The next chapter analyses the findings from the interviews. It presents the results individually for each research questions. Figures are used to illustrate the enormous amount of insights in a comprehensive way. During this analysis, a conceptual approach for political risk management is developed, based on all insights gained.

Chapter Summary	
Content	Result
Research strategy	The research strategy has been outlined and the different steps of the process were described.
Research approach	The chosen research approach has been identified, described and its rational demonstrated.
Research method: interviews	Two interview series are the preferred method for this study. Insights from the political perspective and from the industry are combined for rich and useful results.
Research challenges	The main challenges along the predicted research strategy are identified and evaluated. It is mainly the issue of confidentiality that impacts the research.

**Figure 25: summary of chapter 4**

**“Politics have no relation to morals.”**

Niccolo Machiavelli

### **5 Findings and Analysis**

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The previous chapter has identified the main characteristics of relevant research methodology and a qualitative approach has been chosen. It has further been demonstrated that interviews are the preferred method of generating data for the research questions.

This chapter delivers a step-by-step content analysis, which individually focuses on the research questions. The conducted expert interviews are analysed in respect of the experts' knowledge and their insights relevant to the field of political risk. By conducting a comparative analysis with two interview groups (politicians and industry managers) the perceptions of each group can be reflected in the other and vice versa. This will generate a very specific view on political risk, its origination, its impact and possible ways of mitigation. This chapter closes with a conceptual approach to political risk management in the German energy industry. The developed model will represent the essence of all generated data.

### 5.1 Introduction

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This chapter can be considered as the heart of this study. While chapters 1–4 are important for introduction purposes and to develop necessary cornerstones for this research study, the research is developed one step further in chapters 5 and 6. Chapter 5 consolidates the analysis procedure as well as the results in detail. Chapter 6 will later consider those findings in relation to the results of the introductory chapters.

The analysis of the content and the development of research results in chapter 5 are split into five different sections. Each section is structured identically in order to approach the course of analysis. Each section begins with an introduction to determine that section's content and aims, followed by a presentation of the findings. A conclusion summarizes and evaluates the main results and closes each section.

The content of chapter 5 is derived from the research questions, described and rationalized in chapter 1. For introductory purposes, a background analysis is undertaken in section 5.2, which analyses the different careers of the experts as well as their history and current activities in politics and/or industry. The focus lies in the development of characteristics that describe the perspective of the two interview groups. The reason behind this way of proceeding is the belief that knowing and understanding the perspective of the two different groups is important and necessary to be able to extract the most out of this study.




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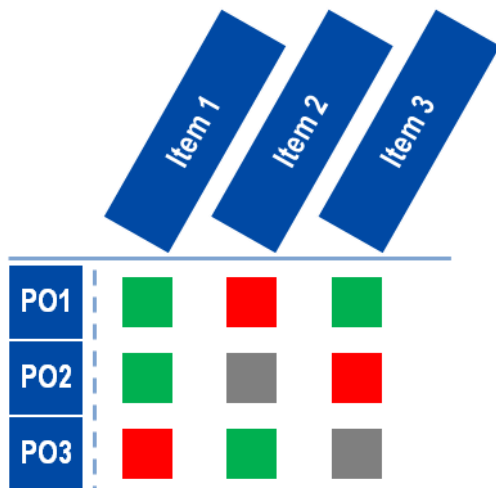
Sections 5.3 to 5.6 extract answers to the research questions and the findings are described and visualized. The main thought that drives this analysis chapter is the research into possible different perceptions of political risk and the development of a concept to handle political risk more effectively.

For each of the four research questions, the analysis is presented in individual sections, with a constant structure. This is followed by an introduction that describes the context of, and rationale behind, the research question, while the findings sections present the relevant results of analysis of the two conducted interview series. Each section closes with an individual conclusion. This structure is useful as it reflects the demand of the four research questions for results in an appropriate manner.

The individual interview results are presented in a matrix – one for each research question – showing the experts' perception towards a set of statements within the field of the research question. The response of the experts is marked as follows:

-  agreed
-  disagreed
-  no answer

The matrices are constructed as follows:



**Figure 26: sample matrix (own illustration)**

This example shows that the positions or statements are arranged on the horizontal axis (e.g. item 1) and strongly linked to the research question. The experts are in a coded form, listed on the vertical axis. The coding for the experts reflects the two groups: political experts (coded as PO), numbered from 1 to 10 and the managers, as experts from the industry (coded as MA), numbered also from 1 to 10. Additional information on the experts is stated along with their quotes: age (A), experience (E), and company or party affiliation. The matrices are useful to understand the comparison between the individual perceptions of the experts. Each chapter closes with a summary of the analysis of the individual research question.

The four research questions that drive this thesis are:

**RQ 1:** *Are there definitional tensions in the way in which political risk is understood and defined as (a) an academic concept and (b) in practice, by German politicians and energy managers?*

**RQ 2:** *What political risks face the German energy industry and its companies?*



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**RQ 3:** *What is the potential impact of these political risks on the German energy industry and its companies?*

**RQ 4:** *How might a unified concept of political risk enable German energy companies to manage political risks more effectively in the future?*

### 5.2 Analysis of Experts' Background

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It has become clear that political risk and its management are strongly related to the actors engaged. A detailed view of the experts and their experience is therefore useful. Althaus (2004) delivers a detailed analysis of the participants who were interviewed for her study. Her focused approach is the foundation for the experts' analysis in this study.

#### 5.2.1 Introduction

---

This section is a background analysis and provides insights into the experts' curriculum vitae. A differentiation by selected factors demonstrates similarities and differences and offers interconnections between the two expert groups and between the experts.

##### *Non-participation*

Before the analysis concentrates on the results, it is appropriate to focus on those experts who were asked, but did not participate in this study. Besides the 20 experts, who were interviewed for this study, there were 54 experts contacted and an interview requested. The following table 10 lists the multiple reasons for not

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participating in the interviews, ranked in descending order of frequency of occurrence.

Rank	Reason for Non-Participation	#
1	No time for interview / too busy	24
2	Not able to contribute input to the thesis	7
3	Not interested	6
4	Data sensitivity issue	6
5	Interested in topic but not the research	5
6	No answer	2
7	Work not related to political risk	2
8	Interview agreed, but did not take place for some reason	2

**Table 10: numbers of and reasons for not participating**

The question that derives from the high non-participating rate is whether this has an impact on the results of the study. Prior to responding to this question, it is useful to categorize the answers, based on their proximate content.

The listed reasons can be grouped into two categories: reasons not relating to the research area, and reasons relating to the research area. For the first category (rank (1, 3, 5, 6, 8), it can be stated that there is no impact on the study as non-participation for reasons like “no response”, “too busy/no time” do not influence the study. In any case, other relevant experts were found. However, it can be

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stated that politicians and senior level managers are quite hard to gain access to in order to arrange an interview.

Within the second category (rank 2, 4, 7) – reasons that do relate to the study content – it appears more difficult to evaluate the impact of non-participation. The reasons within this category are limited to “data sensitivity issue”, “not able to contribute input to the thesis” and “work not related with political risk”. Although contacted experts were informed in detail about the data processing measures in place, in some cases, data issues led to non-participation. Nevertheless, this did not affect the output of the study as additional relevant experts were found.

The contacted experts, who refused to participate due to confidentiality issues, actually helped by doing so to improve data integrity. Their concerns on how the research is conducted and data procedures led to more sensitive data handling by the researcher. Every potential expert, who did not participate due to possibly limited insight knowledge, was replaced by experts expressively offering such a matching.

### *Experts' background*

The following provides an overview about experts' age, relevant work experience and occupation on the day of the interview. Relevant work experience for this study is understood as (a) work experience after graduation and/or (b) work experience in the industry and/or (c) work experience in a leading function in a political party, parliament or government that has a strong relationship with economics.

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The relevant attributes were categorized as follows:

- A. Age and gender
- B. Work experience
- C. Industry experience
- D. Party affiliation (for politicians only)
- E. Employer affiliation (for managers only)

Analysis on experts' background is considered to be important as it sets the foundation for further interpretation. The understanding of the experts' gender, age, business and industry experience can be helpful for further analysis. Additional details about the experts point to the context in which they make their statements and facilitate a clearer understanding of where the "how" and "why" of the individual perspective stem from.

The output of each analysis is determined by the individual experience and knowledge. This section starts with a broad overview of different characteristics and describes the main similarities and differences of the two expert groups.

### **5.2.2 Analysis Results**

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The analysis of the experts' backgrounds starts with age and gender. The group of politicians has an average age of 54.8 years and can therefore be considered as senior. Three experts are between 31 and 50, five experts between 51 and 64 and two experts are 65 or above.

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The second expert group, the managers of the German energy industry, is significantly younger, with an average age of 46.1 years. However, with the assumption that university studies are completed at around 26 years, each of the managers has an approximated work experience of 20 years. The majority of industry experts are between 31 and 50 years old. Only two experts are aged between 51 and 65 years. For these reasons, the group of managers is therefore also considered as senior. The age ranges for politicians and managers is illustrated in the following tables 11 and 12.

Age Range	Politicians #
18-30	0
31-50	3
51-65	5
65+	2
Age on average: 54.8 years	

**Table 11: age range of interview experts, politicians**

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Age Range	Manager #
18–30	0
31–50	8
51–65	2
65+	0
Age on average: 46.1 years	

**Table 12: age range of interview experts, managers**

### *Gender*

Each of the ten interviewed experts from the energy industry is male. The group of political experts included one female. This corresponds to an overall ratio of male:female, of 19:1 in absolute figures or 95 per cent to 5 per cent in relative terms. This is illustrated in table 13.

This allocation closely matches the overall proportion of women in management functions in Germany, Where 8.3 per cent of management positions in companies with more than 500 employees are held by women (Buerger, 2013).

Rank	Gender	#
1	Male (Managers: 10; Politicians: 9)	19
2	Female (Politicians: 1)	1

**Table 13: gender of experts**

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### *Politicians: Party affiliation*

The political party system in Germany is, to a high degree, constant. At the start of this research project in 2009, there were five parties represented in the German federal parliament (*Bundestag*). This was set as the framework for the political experts. The last federal election was won by the conservatives (CDU/CSU), who formed a coalition with the liberals (FDP). The parties in the government (CDU, CSU; FDP) were therefore confirmed in their governmental actions as they were also in government from 2005 to 2009.

The official results (secondary votes) of the 2009 election were as illustrated in the following table 14:

Rank	Federal Election Results 2009	%
1	CDU / CSU	33.8
2	SPD	23.0
3	FDP	14.6
4	LINKE	11.9
5	GRUENE	10.7
6	OTHER	6.0

**Table 14: federal election results 2009 (based on official data from the Federal Head of the Election (Bundeswahlleiter), 2009)**

The researcher tried to reflect the election results, in terms of the expert politicians chosen, to a high degree. However, it has been shown earlier that the expert

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selection process was challenging and it was difficult to convince experienced political experts to join the study. It was important to have at least one member of each party joining the study. In addition, the researcher took care that the two main parties (SPD and CDU) were represented with at least two experts. The liberals were ranked third; they participated with two experts. The Greens (GRUENE) and the Left (LINKE) took part with one interview partner each.

The party affiliation for political experts is illustrated in the following table 15. The only expert without a present party membership is a former federal minister of economics and labour, and a former prime minister of the state of North Rhine–Westphalia who has resigned his party membership.

Rank	Party Affiliation: Political Experts	#
1	SPD	3
2	CDU	2
3	FDP	2
4	GRUENE	1
5	LINKE	1
6	No party affiliation at present	1

**Table 15: party affiliation of political experts**

The present or former action level of the political experts is at least as important as their party affiliation. The literature review has demonstrated that political risk



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can depend on the politicians involved. It is therefore useful to gain insights from experts who are highly ranked within the political structure.

The German system includes several levels of political responsibility. It can be divided into geographical areas and themes. The political experts selected for this study are all strongly related to the energy industry. The political decisions that interviewees made had a strong influence on the development of the German energy market. Many of them are members of the commission on energy in their parliament. When an expert worked in more than one level, the highest level is shown here.

Table 16 illustrates the affiliation of the politicians at different levels. Most of the experts belonged to the state level. Germany is divided into 16 states, with each state having its own parliament. It is therefore quite logical that half of the experts belonged to the state level.

Ranked second is the group at the federal level. These two experts had major roles in energy politics. One was the federal minister of economics and labour and involved in many high-value decisions regarding the energy industry. The other expert was the speaker for energy politics for a main party in the German Bundestag.

Rank	Level of Political Experts	#
1	State Level	5
2	Federal Level	2
3	Regional or Local Level	2
4	EU Level	1

**Table 16: level of political experts**

**Managers: company affiliation**

While it is useful for the political experts to analyse their party affiliation, figure 16 illustrates the company affiliation of the industry experts. The literature review in chapter 2 demonstrated that the structure of the German energy industry is very diverse. The industry is dominated by four big companies, representing a market share of over 85 per cent (as of 12.2011; VKU, 2012). On the other side, there are the many municipal utility companies, mostly owned by the cities. To add an independent perspective to the study, two senior managers from the consulting business participated.

Table 17 illustrates the company affiliation of managers who represent the industry experts:

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Rank	Company Affiliation: Managers	#
1	Municipal Utility	3
2	BIG 4	3
3	Consulting	2
4	Other	2

**Table 17: company affiliation of managers**

### **Relevant experience of the experts**

While the experts' age can be an indicator of their expertise, it is useful to look at their relevant experience too. The following figures illustrate the experience of the political experts and are split into four sections: 0–5 years, 6–10 years, 11–20 years, and more than 20 years. The same analysis is run for the experts from the energy industry.

Table 18 illustrates the relevant experience of political experts: one expert is assigned to the first group, two have between 6 and 10 years' experience, four experts between 11 and 20 years' experience. Three experts have more than 20 years of relevant experience. On average, the experience of the political experts corresponds to 15.9 years.

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Experience	Political Experts
0–5	1
6–10	2
11–20	4
20+	3
Experience on average: 15.9 years	

**Table 18: relevant experience in years of political experts**

The industry experts are affiliated to identical clusters. Their average experience is 17.1 years, marginally higher than the average experience of the political experts. The majority of the experts have 11 to 20 years of relevant experience and three experts have more than 20 years. This proves that the age of experts is not positively correlated with the relevant experience.

Experience	Industry Experts
0–5	0
6–10	1
11–20	6
20+	3
Experience on average: 17.1 years	

**Table 19: relevant experience in years of managers/industry experts**

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Each of the experts is or was for a significant period in a responsible position in politics or industry, or in a few cases, both. Their relationship with the industry is substantial. The experts have long-term experience in their special field and a deep knowledge of the German energy industry. They are linked within the industry and have experienced many challenging topics for years. Each of them is an expert in their individual field. This might be membership of a committee on business or energy, a speaker position in a party or any position with similar responsibility.

From the energy industry, experts are CEOs or heads of business units of local utility companies as well as from the big four companies. The actual positions held by the industry experts cover all steps of the value added chain. However, there is a focus on the energy distribution and sales sectors as these are the most common tasks of utilities in Germany.

### 5.2.3 Conclusion

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The analysis of the experts' background has demonstrated that the interview experts represented in this study reflect a wide range of political players. Each party, from far left to far right, is represented. This supports an unfiltered view of the topic.

In addition, political experts have been selected from all levels of political involvement in Germany. On the city level, this includes mayors and on the state level, it includes members of the parliament of the state of North Rhine–

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Westphalia, members and speakers of the committee of economics. On the federal level, members of the German Bundestag were involved, and the European level is represented by a member of the European parliament and the chairman of the committee of energy.

The business perspective is represented by senior managers of the energy industry. It has been demonstrated that the German energy industry has special characteristics that make the industry very individual. The German energy industry is dominated by the big four (E.ON, RWE, Vattenfall, ENBW), that together account for a market share of around 87 per cent (VKU, 2012). In addition, there are around 1100 local companies operating public service utilities (DENA, 2012). On the horizontal perspective, the chain of economic value added is split into fuel primary production, power generation, energy trading, transportation and sales.

The industry experts reflect the market structure by including experts from some of the big four and from the municipal utilities. The chain of economic value is also represented sufficiently, either with experts in current positions or those having earlier relevant experience.

Experts and their background potentially influence this study to a high degree. Hence, the background of the experts determines the output. Understanding this leads to the necessity for a sensitive analysis of their individual career.

This study seeks inside information to generate a comprehensive view of political risk in the German energy industry. The value of this inside information depends

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on the experts selected. It has been demonstrated that the interviewed experts reflect the specific characteristics of the industry. Due to the individual experts, both interview groups are designed to represent almost comprehensively the two different perspectives on political risk.

While the background analysis of the group of managers shows a structure with strong focus on the industry, the politicians' backgrounds show that they have less relevant experience in the industry. This could be due to the election periods and the knowledge of the pre-defined action period. This natural change process within politics results in a constant job rotation of the people involved. Hence, the political experts naturally often have less industry experience.

### **5.3** Research Question 1: Are there definitional tensions in the way in which political risk is understood and defined as (a) an academic concept and (b) in practice, by German politicians and energy managers?

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This section 5.3 presents the analysis of the first research question. The introduction shows that the differentiation in perspective between politics and energy managers is of high value. This offers an outside-in as well as an inside-out perspective on political risk.

Section 5.3.2 presents the relevant findings from the literature review and develops a connection to the perception of the experts. This is done using the results of the qualitative interview analysis and the selected answers with relevant information.

### 5.3.1 Introduction

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Research question 1 aims to connect the academic research with the perception of the experts from politics and business. This is derived from the main gap that has been identified within the literature review. It has been stated that there are concepts on risk management, and even more detailed (single) concepts on political risk, but there has not been an analysis on the linkage between political risk and the utility industry. The critical issues lie within changes of perceptions (Beck, 1992; Beck, 1998).

This research question looks for tensions within the understanding of political risk of the two groups of experts. The aim is to analyse the individual understanding and identify potential challenges within their perceptions. It asks for the definition of political risk as it is understood in the academic and business worlds, by politicians as well as energy managers.

The analysis of different perspectives on political risk definitions helps to explain how the field of political risk occurs in practice. The individual understanding of political risk is important as it determines the experts' access to political risk.

### 5.3.2 Findings

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#### *Academic definition*

As the literature review established, there exists limited academic work done on political risk only. This under-representation in the academic field leads to the fact



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that only a few definitions are available. The academic definitions of political risk show a politically focused perspective. The industry perspective is not at the centre of the argumentation.

Althaus (2004) delivered a political risk definition that demonstrated an understanding as “negative electoral impact and/or loss of government” (p. 144) (74.8 per cent) and “avoiding, pursuing or not achieving certain politics” (p. 144) (48.8 per cent). Her results provide insights from the political perspective. The politicians’ assessment of political risk is focused on these two definitions. The third ranking, with 20.7 per cent, is an understanding towards a minimizing of community unpopularity.

Brink (2004) defines political risk as “the probability that factors caused or influenced by the (in) action or reactions of stakeholders within a political system to events outside or within the country”. Her quantitative approach towards a calculation of political risk delivers a method of achieving a detailed evaluation of political risk.

Jensen (2010) sees political risk from the perspective of multinational firms and their investment activities. He understands political risk as “the threat of nationalization, expropriation, or renegeing on contracts that threaten firms”. Jensen has identified a strong relation with the increase of political risk and natural resources. This is in line with the finding of Winer and Click (2009) on resource nationalism of petroleum.

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The definitions demonstrate that political risk has not been widely assessed. In general, political risk is academically understood as political influence. This can occur either directly in single companies (e.g. risk of currency transfer) or indirectly by changing the economic framework conditions. However, political risk is, academically, mainly related to developing or less developed countries.

### *Practice definition*

The analysis of the two interview series delivered diverse results. While energy managers are mostly familiar with the ideas of risk management and able to define the term political risk, for politicians, it tends to be much more difficult to discuss the term. Some politicians, mostly those with a business background, and/or those who belong to either the CDU or the FDP, which are considered to be more closely connected to the business world, seem to be willing to consider that political action might create risks to enterprises. The question raised within those interviews was: *if politics create risks to enterprises, to what degree are those risks predictable?*

The bottom line, which was usually the result of those interviews, was that the constitution of Germany (*Grundgesetz*), although not naming a single economic order, sets, within its articles, several guidelines for a social market economy. Within these guidelines, enterprises must act to the best of their knowledge. This can include handling risks, even those which might be unpredictable.

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This research question looks for tensions in the way that political risk is understood academically, by politicians and by managers. The individual perceptions of political risk are analysed by clustering the main statements.

### *Definitional understanding*

The main aim of this research question is to elaborate definitional tensions in the way that political risk is understood by the academic and the practical world. While political risk is discussed to some degree in the existing literature, some of the experts were not familiar with the term “political risk”. Therefore, the direct quotes on political risk definitions were limited and the understanding of political risk had to be constructed by framing questions.

The following separation allows a specific view on the different perspectives on aspects of political risk. For each of the research questions, there are sub-sections presenting the separate findings. However, there are certain topics where a strict differentiation is not used as it would to an unclear view on the topic (e.g. “*What would you do as a politician?*”?)

### **5.3.2.1 Management Results**

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Expert M7 described the main political risk as follows:

“Political decisions are getting more and more short-term focused, more hectic, more unpredictable. We are nearly unable to adapt to the decisions just made.” (M7: Male / Age 49 / Company: Municipal / Exp. 22)

Political risk occurrence is also set in relation to the terms of election:

“I would define political risk out of the perspective of the politics. Maybe, I am a bit cynical there that politicians are not re-elected anymore because

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national will does not correspond with their decisions. So, what also leads to it, from my view, which is relatively limited of course, is that due to Fukushima, the sudden exit from the nuclear energy has occurred. From my point of view, this was a politically motivated decision where the re-election was endangered. So ad hoc political decisions, driven by fear are absolutely a political risk.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

This aspect was also found in the literature, as there is evidence that investment risk and returns on investments predict election outcomes (Bertelli & John, 2011).

They also state that “uncertainty in public signals influences the prioritisation of policies” (Bertelli & John, 2011, p. 2).

The political influence was mentioned by several experts. Political risk is often combined with the latest development within the German energy industry.

“I want to differentiate, who increases political risks. And these are soft factors. We observe that with the transformation of the energy system (*Energiewende*) the public opposition against certain nuclear power plants has decreased.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

“When you think about political influence, it is always a question whether politics interfere directly or indirectly. This can be difficult, when you have a restructuring project and need to cut the labour costs. In this case, you will surely have a participation of politics, because it will be discussed in the supervisory board, whether this step will be beneficial or not. And I think that we had such cases several times.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

Roland Berger (2013) supports these statements as his study emphasizes that all German utility companies are faced with the challenges derived from political changes.

The industry experts often mentioned that political decisions need to be expectable. Companies need to be able to plan their activities based on the

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anticipated political decisions. However, even if there is calculability, political risk can occur. Bremmer and Keat understand it as “probability that political action will produce changes in economic outcomes” (Bremmer & Keat, 2009, p. 5) which is in line with the understanding of most of the experts from the industry.

“Political risks are from the point of view of the persons involved. So these risks are partly missing calculability, missing planning, that means missing security, and have different foundations for communications and discussion, meaning consensus versus fact-based arguments. This is hard to anticipate for companies, as they are managed by fact-based arguments but the decisions need to be made over a consensus or political discussion. This is a bumpy road to go when it comes to decision-making.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

The managers of the German utility industry summarized political risk as the risks based on political decisions. Whenever politics change their guidelines unexpectedly or omit to set guidelines, this can create political risk.

“Political risk, I would define as all the risks that a company is faced with due to political decisions. On the one hand, there are the shareholders, and then there is all the local political involvement and on the other hand, there are political risks evolving from the politics on the federal level. There are laws initiated, decisions made, where we always have the question of reliability, of consistency – these are the risks that take place in the energy industry. We have this in other industries as well, but much more in the energy industry.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

“I would define political risks as [...]: the politics must set the guidelines and within these guidelines, there are assumptions and along these assumptions, you have to focus yourself. CO2 reduction? Decommissioning of power plants? And so on. This is a parameter I should receive from politics. If all set parameters are realized, it will be a success. However, there is the political risk that I do set something with a parameter that leads to an absolutely wrong result.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

These definitions from the industry perspective are slightly different to the findings of Althaus (2004) as the experts cited above mentioned the company perspective only. Althaus (2004) had her study limited to politicians.

The expectations on political decisions reach beyond a legislation period. Managers ask for a constancy of more than four years. Party programmes need to be reliable as companies may take these into account in making their investment decisions.

“It is neither acceptable to agree staidly in a governmental coalition, nor is it acceptable to disagree constantly if one is part of the opposition. The simplest citizen will figure that out and say ‘they are all crazy’.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

This expert can be seen as an example of sincerity as the expert follows his individual beliefs rather than the programme of his party. However, this is a single statement only. Usually the party programme follows the individual opinion or vice versa. This was the only expert who admitted that this type of conflict might occur.

“I am supporting nuclear energy as I would not be able to work in this complex area otherwise. However, it is not the case that I analyse public opinion on nuclear power on a daily basis – this is more a basic understanding.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

### *Politicians as human beings*

Politicians are, after all, human beings and many experts from the energy industry admit the existence of the human factor within political work. The individual characteristics that make a good politician are also mentioned by some of the experts.

“I think that a politician, especially those in top positions and at decision-making levels, need to filter out so much information which is relevant and logical. I think that no politician can be an expert in detail in every field. He just needs to understand the big thing at the end.” (M2: Male / Age 37 / Company: Big 4 / Exp. 12)

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“I believe that politicians are able, to an extremely high degree, to filter out personal interests and receive the crucial information that leads to common welfare in the end.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

The industry expert (M10: Male / Age 48 / Company: Municipal / Exp. 20) characterizes the politicians very positively. He described the politicians he knows as trustful and intelligent. However, the expert was unsure whether the politicians are willing to use their intelligence. Off the record, another expert questioned how strong politicians are forced to follow party politics.

“I have a huge trust in politicians and their ability to handle these topics. All politicians I stay in contact with are extremely savvy and smart. There are a small number of exceptions, but basically they are capable. The question is, are they willing?” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

### *Political system*

Another potential factor that might determine a specific perspective on political risk is the political system of the country. For foreign direct investments, it is the system of the host country that is critically evaluated, and within this study, it is the German political system and its relation to the EU that is evaluated.

While the German constitution (*Grundgesetz*) assigns the main topics either to the federal level or to the state level, the responsibilities for the energy industry are assigned to both systems. Article 75 of the constitution assigns the energy policy to the federal level. However, the states do also have a major role. They are, for example, responsible for the permission of power plant construction plans. Expert M1 sees the different perspectives as critical for political risk:

“And I wanted to answer the question in such a way that I could well imagine it in the role of the manager on the one hand but also in my private life that these cycles will be prolonged. I believe it is only human if

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measures are announced which make sense in the long run, but which lead to limitations in a short election cycle, maybe it would be a good idea – and I am very careful here – to postpone or delay them. From my point of view, I would wish to have longer cycles – and now I am coming back to the point – in order to have a long-term clear line. And through these short four-year cycles, there is always the pressure of re-election.” (M1: Male / Age 41 / Company: Other / Exp. 10)

Expert M4 argues quite clearly for the framework responsibility of politics.

“Politics have a frame-giving responsibility. Without political framework and we act in a highly political sphere in the energy industry, no energy company will decide anything. No one will be willing to change structures; no one will be willing to invest in infrastructure.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

The literature review in chapter 2 has emphasized that this perception of politics is a common understanding (see for example Perotti & Oijen, 2001; Bremmer & Keat, 2009).

The future expectations regarding the political structure were mentioned as follows. Both experts see the predictability of politics as critical to the performance of the industry.

“I wish for stringency in decisions and not in cycles. I wish for our sector a clear, long-term security of legislation.” (M1: Male / Age 41 / Company: Other / Exp. 10)

“So, politics has a dominating frame-giving role in the future. This is my point of view. Politics must also adapt this role at the very beginning. I wish that politics perceived its role in a dimension tolerable for everybody. But it’s the citizen that decides. This is absolutely my wish and this basic condition must be fulfilled by politics alone.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

A differentiation between the levels of politics is also mentioned as one key factor. The political risk occurrence can differ from local politics to federal politics.



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“I have different views on political risks. On a higher political level, it looks more rational, where on a regional or local level, politics can be more emotional. And it can sometimes get difficult. It must be clearly addressed: I do have an expectation in the region, in the community, where is the advantage if such investments are realized there?” (M2: Male / Age 37 / Company: Big 4 / Exp. 12)

The detailed view of the political framework has identified political reliability as a key factor for political risk understanding. Companies need a trustful partner who does not change the rules “during the game”. This is even more true for investments (Lu, Verheyen & Perera, 2009).

“I would say that there are two things. Of course politics set overall basic economic conditions. I have stated just now the subject ‘power production’ after the energy turn. This is an essential basic condition which has overall economic effects or consequences. So, if the basic conditions are not right e.g. for investments, no investment in the production arrangements will be made. This has of course economical or overall economic effects. Of course, on the other side, there is also influence on the efficiency if one remembers the subject ‘network unbundling’. This has two aspects: the framework and concrete political action.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

Again, this is in line with the findings of Roland Berger (2013) as they state that politics and regulation are the dominating challenges for UC this year.

### *Lobbying*

Expert M3 agrees with the main perceptions of politicians on lobbying:

“The question with lobbyists is, would the energy companies have survived without lobbying and its influence? And I am quite sure about this: they [the companies] could live without them. They move with a faster, more dramatic liberalization, just think about network charges. This would have come much earlier without lobbyists.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

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Some interviewed experts admitted that lobbyists can make a positive contribution to the process of knowledge transfer. Their input to a fact-based discussion can support the politics.

“As long as lobbying leads to a more fact-based discussion by providing data and facts and not by providing coloured views of motivated interest groups, it is legitimate. Of course, there are no negative aspects put in front, such as those which might compromise the interests of the client. Therefore, it is always a coloured view and one needs to make sure of knowing its position.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

“I can imagine that they [the lobbyists] can help to get back to an objectification of the discussion and lead to a more open discussion on data and facts. I think that they have an important role within the process, as politics have their experts at that point.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

Lobbying has a difficult standing in the German political system. Its usefulness is often hard to transfer when it is affiliated with such a negative image.

“Lobbying is a swear word in Germany.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

One expert sees lobbying differently. It is difficult to represent one’s own interests in the face of the interests of other companies. This competition in lobbying has not been stated by any other expert.

“I think there are two sides of the coin when it comes to lobbying. On the one side, there is of course the idea of ensuring that your interests are represented in the way you desire. The point is, and that is the other side of the coin, how deep do you want your interest to be represented and how tolerant are you towards each other?” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

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However, some politicians even vote for a clear separation between knowledge transfer and lobbying. While a topic-driven discussion is useful, an influence by lobbyists is evaluated as too intensive.

“This [separation] is important that we do not constrain each other. Both sides, politics and management have their own area of responsibility and this is how it is operated here.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

### *Political risk in the energy industry*

Many political experts were involved in committees for energy or economics within the parliament. They were, to a large degree, discordant on the potential role they might play within the political risk process.

“In this respect, the influence of the committee is limited, of course. Particularly, as we still haven’t got a majority for our position. Although very many sympathize with the Greens, they have to stick to the coalition’s regime and its position. Sometimes I say ‘It’s choking back the anger and keeping your fist in your pocket’. The committee will not be able to make a lot if the government, before anything, SPD and the CDU agreed on the whole that they want to go down the coal line. However, from our point of view, this is not the decisive word. The determining factor will be the mood in the population, the deciding one will be, if the construction of new coal-fired power stations is politically enforceable.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

Politicians are challenged with decision-making processes in several industries. They need to understand the main topics and parameters that drive the individual industry. A politician is therefore expected to know the industry well enough to be able to decide adequately.

“This is such a typical statement: I as a politician know best how a market works. Is this how it’s supposed to be? I would doubt that. I think that a little more diversity and freedom would be much healthier for everybody, even new market participants.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

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### *Level of political risk*

Besides the legislative structure of local, state and federal levels, there is a special federal organization which influences companies directly. The regulation by the federal network agency is therefore a topic that often arose during the interviews.

“The question is always: what is politics, where is politics and what are political decisions? To me, politics start with the federal network agency, with the EU Commission, with other governmental organizations. So these are, in the end, a requirement for us, and we work in a regulated environment, those who tell us how it works. They define the market for us.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

### *Tasks of politics*

The experts interviewed on political risk definitions, often mentioned their expectations regarding the future role of politics. Most of the industry experts agreed on the role as guideline definer. However, politicians were not able to follow that role completely as they see themselves in a more detailed role.

“Political trends answer economic trends. There is a strong connection. The enterprise needs to analyse economic trends first and will find out, that those [trends] will transform politically again in a certain way.” (M7: Male / Age 49 / Company: Municipal / Exp. 22)

“To me, political risks are ground settings that hit us from the superior level. And those can, depending on the configuration and the focus of our sector at that time, support us or block us. The energy sector in Germany has been strongly exposed to the public forming of opinion, and still will be in the near future.” (M7: Male / Age 49 / Company: Municipal / Exp. 22)

Politics need to be at the head of the process. By defining the right aims, politics are able to create public welfare. The industry needs politicians to consider the following:

“We need someone pushing the topic and willing to walk with tears for three years through the town hall. And if we are in the year of the election, the question arises: how strongly will he defend the project? Is this beneficial for the community? Are there alternatives for the region? And

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do I need to join an offshore wind park as a local utility company with 0.005 per cent? These are all topics that are not even understood by the companies themselves, and the local politicians are even further away.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

“I believe that political actions should be dedicated to public welfare. Hence, I do not see any example at the moment where I would say that this is clearly different to my personal political view. I am not sure whether there is a topic right now or not. Of course, you can always come up with something like nuclear energy, but this is something I am not professionally involved in.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

The energy industry is characterized by long-term investments. This demands a long period for the project calculations. This is an expectation to the politics directly stated by one of the experts.

“Of course, on the other side, one also sees, from the point of view of the energy industry, political risks, in particular. Since – I have explained it just now – basic conditions must be created which lead to the fact that enterprises can invest. These investments are of big money, and run more than 20, 30 or 40 years.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

### *Dialogue*

When asked for political risk and their way of understanding the topics, the experts shared their approaches on how the contacts between industry and politics can be used best. The majority of the interview experts have a common understanding of a knowledge transfer and a way of dialogue.

“We have the main contacts within the area of energy efficiency: there is no topic where one has to say that politics has a relatively low involvement. This is valid for areas from the question of energy usage, e-mobility, heating, industry, all the way to households. This is a huge topic.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

“There is always a project-based knowledge transfer with politics as well as a constant exchange of information. And we use any possible opportunity to inform the people about our activities, to transport our messages. [...] I also think that there is a big difference between the

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thinking of a politician and the expectations of the people. There is a big gap in the perception and this is due to press articles and media.” (M8: Male / Age 62 / Company: Other / Exp. 25)

### *Recommendation for political risk management*

The understanding of political risk is often associated with possible ways of mitigation. Some of the experts shared their insights on possible recommendations:

“The direct side is that, when governmental acting, acting on governmental order, a political player is seen as important for the success of the company, and then you obviously try to influence political decisions via information. That is for me the case in questions of funding. Of course, we do talk to ministries on their support for special projects. One is the offshore wind park [X] that we have built. Another one which we are after right now is a pump storage power plant, in which the funding is in a prophase. So, basically and always where such support seems to be possible, you go directly to the politics. And that happens with ministries on a state and federal level, on the level of permanent secretaries, but also on the level of department heads.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

One request that kept coming up is the need for a set of framework conditions:

“Politics need to set the framework conditions: if I take a look on the reconstruction of renewable energy, then this is linked with additional costs. Apart from what is written in the media, there are real additional costs. And there must be a clear political foundation.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

“One [politics] cannot ignore the influence on prices and costs; first, the costs and in the end, the prices. First of all, this is an intervention and has an impact on our economy. This is a topic where politics must restart its thinking. And the whole debate about energy development, real costs and so on has just started.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

Among the industry experts, there is a general understanding of the difficult work of politics. Some experts were therefore reluctant to share their thoughts on recommendations for politicians.

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“It is easy to say: ‘I would do it different!’ I suppose, when you look at politics, you can be confronted with the same forces and framework conditions. But the good thing is that you cannot only use the professional topic. You have to offer package solutions that lead to an optimum for the economy as a whole and not only for the energy industry.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

“From my point of view, it does not make sense to discuss what could have been done better. We are now in the situation: ‘water under the bridge’. And now we have to see what comes next and have to handle the situation. In my view, politics are nowadays required even more for a clear setting of framework conditions and a handling of the whole topic. I think, if you just let it go, it will go wrong.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

### *Politicians’ view of themselves*

Politicians do have a difficult job. They see their task as challenging but are aware that they cannot make everybody happy.

“On the other side, I have to admit: it does not work to decide democratically within so many positions of interest and with so many lobbyists’ activities. Therefore, I can understand the mechanism a little bit. But when we look at the results, a part of this is lost. Therefore, you can never realize your tasks in detail as you wished for. That means we are always partly walking on thin ice, at least a little bit.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

Many of the politicians feel a great responsibility to their local community, even when the local objectives are contrary to federal or party programmes.

“As a politician, you must take care, whether it is about securing jobs in the region, or who knows – something totally different. There are several topics where the expert would say, that must not have any influence at all. However, in real life, it does.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

### **5.3.2.2 Political Results**

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#### *Definitional understanding*

The political perspectives offers a different understanding of political risk:

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“For me a political risk, how can I describe it, [...] the non-understanding of municipal connections such as: for example, how does a town council work, why does it decide, according to which criteria, this way or the other?” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

### *Party politics*

The party affiliation can determine the individual approach of the experts to their work. The question is how party politics influence the daily work, the decisions the experts take. One expert argues that there is a strong relation:

“Party affiliation plays a partial role in political decisions. A political party does have a certain programme within which we are acting and of which we are convinced.” (P1: Male / Age 42 / CDU / Level: State / Exp. 9)

On the other hand, party affiliation can create problems, if party politics are contrary to personal opinion. Althaus (2004) identified differences in the understanding of political risk within the same party.

“For me, the question on energy recently became more and more a conflict as I do not share the position of my German party and my German chancellor. I think that the energy transition and how it is done is wrong.” (P2: Male / Age 60 / CDU / Level: EU / Exp. 28)

While there is an individual understanding in favour of nuclear power plants, this has become contrary to the party programme or employer strategy. However, the ignorance of public opinion as a major stakeholder is a threat to the company’s strategy (Bremmer & Keat, 2009). Nuclear power is still seen as a main technology for future use (Victor, 2011).

### *Politicians as human beings*

The statements of managers on *politicians as human beings* in section 5.3.2.1 illustrate the appreciation of the politicians by the senior managers. During the



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whole interview series, there was not a single negative statement on the individual intelligence of politicians. However, it was questioned whether this know-how can be transferred into objective decisions. This is supported by expert P9:

“At this point politics are often judged wrongly. I do not want to deny that for single cases. I also do not want to deny that some discuss certain awkward issues prior to elections only for situational effects, and then say to the public: ‘this decision will not be made until the new city council is in power after the next elections’.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

Some of the politicians also asked for a more realistic view of themselves. They do need the exchange with the industry to be able to realize the knowledge transfer necessary for the opinion-building process.

“The exchange with the business world plays a role within the opinion-building process and the legislative process, as we need topic-specific support by experts. We are the politicians, not the scientists.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

### *Lobbying*

The perception of political risk is strongly related to lobbying. The knowledge transfer from the industry to politics and vice versa is an intensively discussed issue. Some experts see lobbying as helpful.

“The roles of companies which bring in their own interests are useful and necessary for the opinion-building process. But this does not mean that positions are just transferred on a one to one basis. But you do need to get along with the basic topics.” (P1: Male / Age 42 / CDU / Level: State / Exp. 9)

Another expert mentioned the limits of lobbying and its influence on politics. His message is that each individual politician needs to define his limits for the cooperation with the industry independently.

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“Lobbying starts to become questionable, if it is connected with a definite expectation, e.g. with the individual positioning of a parliament member. Lobbying always becomes illegitimate if it is connected with improper service in return.” (P1: Male / Age 42 / CDU / Level: State / Exp. 9)

The politicians demonstrate with their statements that they are aware of the potential influence. Reflection is mentioned as an important way to manage this relationship. The aim of the companies therefore is never questioned. Politicians know what the companies expect from lobbyists.

“Sure, the enterprises try to influence via their organizations. My expectation is – and I think we will accomplish that – on the other side, that politics is aware of this aim and able to reflect it during the dialogue. The interests of an enterprise sector are not the interests of this country. Green business politics will not confuse these issues.” (P4: Female / Age 52 / SPD / Level: State / Exp. 15)

### *Lobbying*

The explicit need for a knowledge transfer is mentioned by expert P5. Even though lobbying might be seen negatively by politics, it can still be a useful approach. His views on lobbying are summarized in the following quote:

“Lobbying is not a bad word for me; it is a necessary condition to get to fact-based decisions.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

“Lobbying is always described as something negative. I think that transparency is necessary at this point. Does it make sense that laws are written by someone else, by companies or law firms? Yes, but this could only be a possible approach, as long as the competence stays within the ministry, to double-check this and evaluate it reliably.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

Most of the politicians characterize themselves as resistant to an intensive impact by companies and their lobbyists. Nevertheless, they are able to take the usefulness of industry into account.

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“I might be wrong, but I see myself as relatively resistant [against lobbying]. I have an honest interest in the view of the industry on these topics, but I reserve the right to evaluate these topics on my own. There are certain parts of industries that try to do this on some, I don’t want to say aggressive, but certainly very pushy, way. In such cases, you experience quite the contrary: I do not get involved in the topic at all.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)

Contrary to the active lobbyists, it has been stated that the opinion-building process can also be realized independently within the parliament.

“Opinion-building in the parliament works like this: you organize it and you don’t organize it. You know each other and when topics arise, you just make a call, talk to each other and listen and exchange the different positions. That works by getting involved in the whole topic, you visit places, listen to explanations, you keep asking and asking and try to put this all together. It is rare that this is organized by the committee [of economics and energy] but this can happen.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)

### *Political risk in the energy industry*

This section identifies political risk understanding in the energy industry. The different perceptions are illustrated by selected quotes. The individual understanding is determined by the unique view and experience of the experts.

“Many theoretical political risks do not exist in this country [Germany]. You can act pretty freely. That means: we do not have many political risks here in Germany or in the parliament, or in NRW, or in the cities. So this is a pretty manageable set of political risks.” (P1: Male / Age 42 / CDU / Level: State / Exp. 9)

Political risk is created by politicians. They decide via several laws and regulations. Politically initiated changes are the main challenge to German UC (Roland Berger, 2013).

“The overall influence of politics on the energy industry is at minimum extent. Influence by laws is at maximum.” (P2: Male / Age 60 / CDU / Level: EU / Exp. 28)

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The German energy industry has been exposed very intensively to political decisions in the last years that changed the course of action. Politics intervened in several major incidents and has influenced the performance of many companies.

“To intervene – this trend of politics has increased and increases on and on. [...] From my point of view, all areas which have responsibility for the economy are affected. [...] And there is also no respect towards it. So, the trend of politics increases in general to intervene in the economy. And also there is little exchange from the economy on the other side. Every now and then there is only criticism, but no basic discussion.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

One of the major utilities is faced with a political risk situation created by changing politics.

“[From a company’s perspective], there are topics that arise only from the political conflict situation, and you will get in trouble if you decide to position yourself outside of the social consensus. If you think about the question of nuclear power plants – does [X] have a strategy, or none, or did they start working on it way too late. Of course there are things, where you must say: if you keep going this way, this is a political risk for you. Not only from a company point of view, but a social political risk.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)

### *Impact of political risk*

However, the overall impact of political risk has been evaluated differently. Some experts evaluate it as low, but allow for the existence of special circumstances where it might have a significant occurrence. These experts did not deliver a more specific analysis, how a catastrophe like the accident at the nuclear power plants in Fukushima affects the political risk in Germany.

“In democracies, which are real democracies, the [political] risk is low, because everything is transparent. Big surprises can only occur based on significant incidents like Fukushima.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

“I would see a political risk from the point of view of the politics. Maybe, I am a bit cynical there, that politicians are not re-elected anymore because national will does not correspond with the decisions. So, from my

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relatively limited point of view, Fukushima led to the sudden exit from the nuclear energy. From my point of view, this was a politically motivated decision where the re-election was endangered. So ad hoc political decisions, driven by fear, are definitely a political risk.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

### *Level of political risk*

The federal level is seen as responsible for political risk creation, as is the European legislative.

“We just experienced the big influence [on the energy industry by politics] of course this year with the legislative process of EU and federal government.” (P1: Male / Age 42 / CDU / Level: State / Exp. 9)

“Political influences on different branches depend on the specific topic.” (P1: Male / Age 42 / CDU / Level: State / Exp. 9)

### *Perspectives on political risk*

It is useful to take different perspectives into account that were mentioned during the interviews. Some of the experts show deep understanding of political risk. However, their perspectives deliver different understandings, depending on the experts group.

“I have a huge understanding of political risks, as I was in charge of those analyses in an earlier job, by analysing enterprises and branches. Political risks for the energy industry in Germany: we have set the rules. We have amended the law on energy; we have amended the law on renewable energies. We know that the law on renewable energies needs to be amended on a regular basis due to the duty to check governmental funding.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

“Political risk is a very important topic. If you think about locations and if you think about investment in power plants, this adds up to billions of very fast investment. Political framework assessment plays a very big role.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

There is also an understanding of the need for information exchange with politics.

Companies are required to estimate the consequences of political changes.

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“And it is natural that a company informs themselves about the trends and tendencies for the next election. One can try to estimate what happens if the majority changes in the German Bundestag. You can get this from the party programmes.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

Within the group of political experts, there were some statements questioning the whole idea of political risk. The need for political risk concepts was doubted.

“I would not use the term [political risk] in this way. Politics does not understand itself as a risk for companies. Politics is, first of all, a dialogue partner for companies, but also in a legislative function.” (P4: Female / Age 52 / SPD / Level: State / Exp. 15)

Their view on politics is focused on the positive contribution politics can make to the public welfare. They are not used to the idea of politicians as risk creators.

“Our common interest is to have jobs here for the following generations, to keep them and to develop them. Derived from this common interest, politics need to be in the driver’s seat.” (P4: Female / Age 52 / SPD / Level: State / Exp. 15)

“As a politician, I would do it like this: politicians have a mandate and an order and that is: to fulfil a service for the citizen. To be the mayor means to be there for the development of the region and for the citizen. I will take care to create jobs, to ensure that there is a basic supply of electricity, gas and water; that there is a public water park and so on...” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

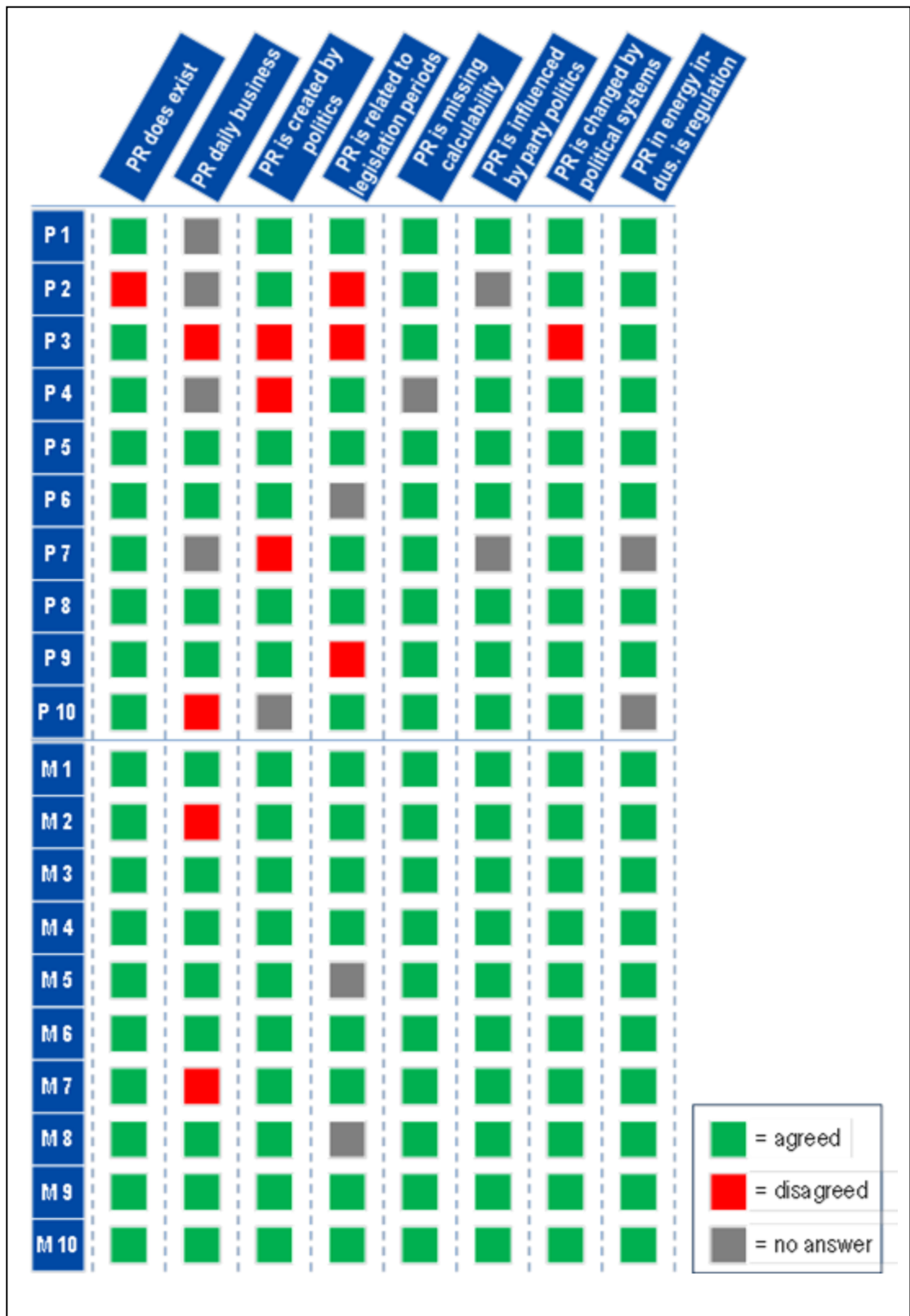


Figure 27: result matrix for RQ 1 (own illustration)

### 5.3.3 Conclusion

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The analysis for research question 1 shows that, even though there are significant intersections, the academic world is not fully linked with politics and/or the energy industry. Models of political risk are developed from a certain point of view, with limited transfer to the outside world.

Academically, the term ‘political risk’ has a variety of definitions. There is a time component, a geographical component and many more. It has to be taken into account that analysis within research question 1 has demonstrated that political risk is simply not relevant for managers in the first place, nor for politicians.

The practice definition is more focused on the industry view: experts have a concentrated understanding of the relevant aspects of the German utility industry and its relations to German and EU politics. They therefore define political risk on less of a global scale but consider it to be more relevant at a regional level, focusing on the characteristics of the German industry. From the author’s perspective, this is understandable because: 1) political risk is not a popular academic topic; and 2) experts—both politicians and managers—deal only with specific problems within the German industry within their daily business. Under these circumstances, it is understandable that they prefer a micro-perspective.

Most of the companies in the German utility sector are municipals that act within Germany only. The relation of FDI in political risk is therefore simply not relevant to the majority of companies. In addition, Germany can easily be



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considered a stable country that is not directly affected by crises or war. Hence, political risk that might occur out of this field does not exist either. Germany is also a wealthy nation, where economic stability and growth sets a strong foundation for the economy. This does not eliminate all political risk, but surely leads to the assumption that much of the political risk that might occur in a third world country does not arise in Germany. Whether these assumptions are true, or if there are exclusions, needs to be proven within the next chapters.

In addition, the analysis in the previous chapter has demonstrated that there is a wide spread between the understandings of the different interview groups:

Managers need to put their company's interests first. From a company's perspective, it is the local focus that is most important. For example, does this affect my company, and if so, how exactly? What can we do to prevent an impact on the performance of our company?

This is in line with the author's perception on political risk management. It is most important for managers to manage the company according to their best knowledge. They naturally focus on risks that have a high probability of entry and that are within their relevant market environment. They do not consider risks that occur in areas outside their relevant market, nor do they take the risks of foreign government into account. In general, the author is able to assume that managers do know political risks, but not specifically.

Academic concepts are of less importance in this context. Managers do not use academic definitions for their daily work. It is more important for them to rely on

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a practical definition, as each company has a unique exposure to risk. However, as there is no clear differentiation between political risk being an academic or a practical topic, both perceptions show gaps in political risk understanding.

From a political perspective, it is not a surprise to the author that politicians tend to feel uncomfortable talking about political actions in relation to risk creation. The experts interviewed are aware of their influence on the energy markets. Some took the position that reactions to political decisions are a daily business for companies and, therefore, never a real risk. But some admitted that political decisions can place companies in difficulty.

However, it is in line with the perception of the author that politicians from CDU and FDP, which are ‘industry-friendly’ parties, did show a broader understanding of political risk. These experts were also more open-minded towards the academic definitions and willing to discuss them. Both parties favour for a free-market economy and therefore tend to prefer a reduced amount of political actions. Many political experts shared their insights on incidents in which political influence took place, both in an appropriate way and in an inappropriate way.

This section, therefore, demonstrates that, within the practice world, there are huge differentiations of the understanding of political risk. The author did expect some agreement within the business world, but was surprised by the disparity of political risk understanding within the group of politicians. The next sections will continue to look for different perspectives.

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### 5.4 Research Question 2: What political risks face the German energy industry and its companies?

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#### 5.4.1 Introduction

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Risk identification is considered as a main part of the area of risk management. The process of risk management generally has three steps: risk identification, risk evaluation and risk mitigation. For this purpose, it is important to identify the risks that energy companies in Germany are facing. It has been shown earlier that the German energy industry overall has a strong relationship with politics.

For the research outcome of this study, the identification of the political risks in the German energy industry is a key issue.

#### 5.4.2 Findings

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The interview series delivered several results on the different types of political risk. Political risks were identified by the experts as follows:

##### 5.4.2.1 Management Results

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#### 1. Inside view

The inside view reflects political risks that arise from company-specific actions and characteristics.

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### *Risks due to company activities*

One main part of the inside view is related to specific company activity. This can be investment activity or any other activity that determines a company's image.

Political risks are often driven by a specific technology that is used by companies.

One expert sees a main political risk in activities involved in nuclear energy.

“I think this is a good example to focus the perspective on Germany, how strong the influence of politics on the energy industry is: You see that a certain technology and in Germany, this is nuclear power, can be influenced very, very heavily by political decisions.” (M2: Male / Age 37 / Company: Big 4 / Exp. 12)

In addition, political risk can also occur in the renewable energy sector.

“I believe it [the overall impact] is immense. (...) But if we think of the generation and also of concrete things like the end-customer settlement, if we think of topics EEG-reallocation charge etc.: there, a direct access to energy economy is given by the lawmaker. (...) Now I am using this word intentionally: ‘this back and forth’ is a huge challenge for us as an energy company, this makes us face huge problems.” (M1: Male / Age 41 / Company: Other / Exp. 10)

However, even the promotion of renewable energies can create political risks for other activities. The support of a single type of power plants leads to a negative impact on other types of power plant.

“It seems that the trends lead to a more illiquid market. So the renewables are the most promoted energy, therefore not exposed to the market and not necessarily market building. On the other side – price building, yes. Due to this, we do have a high volatility in the market, which makes investing in large power plants for base load more complicated. If we force these general conditions by politics, investing in power plants might not be reasonable” (M2: Male / Age 37 / Company: Big 4 / Exp. 12)

Investment risks are also a type of political risk which German utility companies are facing. Chermak (1992) argues that foreign investors in general should be concerned about political risk. The experts M8 and M10 argue for a fair and reliable political agenda.

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“We balance investment risks that are essential for political risks today. As we talk about amortization periods of at least 20 years, we can also talk about longer periods; political risks are extremely crucial.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

“Who wants to invest here? Today, we have spoken about the return of investment in wind energy. And the figures here are not of an amount that I would have seen dollar signs in the faces of one of the present managers.” (M8: Male / Age 62 / Company: Other / Exp. 25)

Other types of power plant are also under political risk. The construction of pumped storage power plants is usually a big blot on the landscape and therefore under critical public attention. The experts again ask for clear political guidelines for future energy generation.

“Of course, the protest of the local population and the NABU is for sure, if we queue up to build a pumped storage power station. But one must consider what one wants. I think, there is definitely not enough clarification. We must receive more information from politics.” (M8: Male / Age 62 / Company: Other / Exp. 25)

Another expert argues on the need for combined-cycle power plants.

“So, I think that we have combined-cycle power plants for the foreseeable future and some more will be built. We will have normal gas power stations for the sprinter companies. As long as it is not possible to generate a real population-wide consensus that permits us many possibilities. We also need pumped storage power stations.” (M8: Male / Age 62 / Company: Other / Exp. 25)

### *Risks due to the shareholder structure*

Political risks can also be differentiated by the influence of the shareholder and the shareholder structure might determine the degree of political risk. Many experts see public ownership as difficult.

“I do not see any industry which is as strongly connected with politics via its shareholder structure than the energy industry. Energy, water and all related supplies. [...] Other political decisions might hit other branches as well.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

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Public shareholders expect a dividend like any other investor. Due to the fact that many cities in Germany are deeply in debt, the payment of dividends is crucial.

“If I think about a strategy, dividends for public institutions and for shareholders are always a framework condition. It is really hard to explain, that, for example, dividends decrease due to changing market conditions.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

The experts also mentioned shareholder intervention as a political risk. These engagements can be on several levels. It could have a strategic character which was mentioned as a welcome engagement, but it can also be a direct order, without any economic background.

“There is no specific method or tool to anticipate changes in the political environment. It may happen that every shareholder, no matter if it is a public or institutional shareholder, makes special requests and demands of the company. But this is their right, the right to make the management take the owners’ influence and intentions into account. In my view, public investors are no different from institutional investors.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

When a shareholder decides on a bid against economic facts, then a critical type of political risk occurs. The relation to shareholder is usually in the mid- or long-term perspective. It is therefore difficult to act in a field of tension between shareholder and company interests.

“I advised the sale of a regional utility company and in the end, the politicians decided, whose bid was accepted. From my point of view, this was not only a fact-based decision. But besides this, we were not involved in the actual process.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

The special demands of public shareholders are named by another expert, who sees a focus on the added value in the region, beyond the payment of a dividend.

“The focus of municipal, of public shareholders, lies in their own community, their region. It is not just about the rate of return, it is also about the question of what added value stays in the region. When you think about relocations, about mergers, about a new strategic focus, what

will stay in the community? This has monetary effects, in respect of the tax payers but also in respect of the topic of labour: will the company still be an important employer or not? And third: it is about the power and influence and presence in the region.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

### **2. Outside view**

The outside view illustrates these risk-creating facts with which the company is faced from their environment. The experts named several factors that might determine political risk.

#### *Risk of regulation*

The risk of regulation was mentioned by many experts, especially from the energy industry, as the major factor for political risk from the outside view. Roland Berger (2013) supports this statement with his findings.

“The federal network agency [is] an instrument of the regulation. What leads to the fact that the enterprises become more efficient, in particular in respect of the energy grid? This is a positive aspect of the political influence on the branch. [...] the overall economic aspects as well as positive or negative effects on the efficiency of energy supply enterprise.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

The risk of regulation is named as a major risk among the market and counterparty risk. This is in line with the literature of Heller and McCubbins (1996), who identified the risk of regulation as a major item.

“I see political risk exposure with many positions. On the one hand, I consider the risk of regulation as the most important risk for a company like ours, despite the fact that we have big market risks and big counterparty risks. This is because these decisions might have the biggest influence on the main parts of our business; especially construction projects, so everything that has to do with power plants, but also other topics: commercialization of wind energy, which has been established recently, and is now doubted again. These are huge profit margins, which we have compared to our business. And that is therefore one important perspective.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

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The effect of regulation is directly linked with the performance of public utilities.

“The other perspective is that the regulation and the situation connected with this in the energy industry, of course, intensively affects the public service utilities. And because we are a service provider for public service utilities and that therefore the necessity for consulting evolves all the way through all value added steps. That is the indirect side.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

Enterprises which operate networks only depend completely on regulation. It is the federal network agency which decides on their earnings. Costs must then be adjusted to the fees approved. Changes in the fee system or the fees themselves lead to an increase in political risk and have a direct impact on company performance.

“To emphasize that in particular: we receive a fee from the federal network agency based on our costs and we need to work with this fee. We have to orientate our costs to this fee and the corresponding path of efficiency. Of course, that directly hits my division, as the cost structures push into my division as well as the decisions of the federal network agency.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

On the question of whether the effect of regulation as an influencing factor on political risk developed recently, one expert said:

“There, one needs to look only at the net agency and the situation which changed recently has led to many smaller public utilities facing big problems.” (M8: Male / Age 62 / Company: Other / Exp. 25)

### *Risk exposure due to company size*

The size of a company generates different expectations in the stakeholders. The big four are often seen as too big, in respect of their market power, by some politicians. However, it has to be considered that two of the big four companies have a significant proportion of public shareholders. Some experts expect that the size of the company will be a main factor in the near future. Roland Berger (2013) states that challenges for the UCs differ markedly according to their size.



“What will it be? Well, local utility companies will be in trouble. The smaller will be acquired by the bigger ones. There will be a process of centralization on all levels. [...] But I think that there will be more activity in decentralization, in the way that communities and municipalities will be more active. We will see.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

Politics can bring about, by means of a political risk occurrence in a special situation, a positive or negative development for a company.

“[Political] decisions always have positive and negative perspectives. Of course, the decisions of politics and the framework laws are not always positive for companies. Especially within a competition, the position of single market participants can be strengthened or debilitated. Therefore, there are of course risks at that point.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

### *Risk exposure due to industry sub-sector*

As has been mentioned before, the experts see differences in political risk along the steps at the value added chain. These industry sub-sectors are not equally exposed to political influence and therefore to political risk. This is in line with Gao (2009), Wang et al. (2000), and Dinar et al. (1998). However, it was not possible to analyse the degree of difference of political risk between the sub-sectors.

“The infrastructure sector is more strongly impacted by politics and that means not only energy. There are logistics, transportation and telecommunication. These are more exposed, just because they have a fixed linked to a location.” (M2: Male / Age 37 / Company: Big 4 / Exp. 12)

“Where politics have a natural influence, they create fundamental changes in the general infrastructural framework. But I think, economically, this is the perspective which politics should adapt and see: where are the most advantages for my country’s growth? In which direction do we want to navigate?” (M2: Male / Age 37 / Company: Big 4 / Exp. 12)

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Different sub-sectors have different needs for political decisions. Politicians were asked by managers for a more reliable framework for long-term investments. However, these investments do not take place in all steps of the value added chain.

“All members of the sector agree on the main issues: after politics decided on a postulate, a concept of realization is needed. Everybody agrees on that. At the highest level, I think we all agree on the matter of grid development and incentives for investments. But the sector agrees on the need for planning reliability and that the decisions made in the last five or eight years did not lead to planning reliability for the required 30 or 35 years.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

One expert named bureaucracy as a critical factor in comparison to other sectors. This statement is in line with the findings of Yartey (2008), who saw bureaucracy as a main determinant.

“It is always difficult to compare sectors. In the energy industry, there is always somebody proclaiming: ‘We are the most regulated industry’. I remember when the [X] CEO started in the industry – he switched from the banking sector where he thought that there was a high degree of bureaucracy. But then he went on to the energy industry, which he found was worse.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

### *Risk of (unpredictable) changes in politics*

Along with the risk of regulation, there is the risk of change in the political course. This was named by many experts as another critical factor for political risk occurrence and is in line with Roland Berger (2013).

“If you intend to build a power station today, depending on the production capacity, you need to invest 400 to 800 million euros, sometimes even more. To raise these huge amounts of money, you crucially need to have stable, political, basic conditions, otherwise, nobody, especially no entrepreneur, is willing to invest. To reflect the current situation: Yes, nowadays, a huge political risk impacts on the energy supply.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

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On the recent development in the German energy industry of abandoning nuclear power plants, the following comment was made:

“Of course, this is a huge political risk that rules the energy supply industry at the moment. First of all, there is the risk of the fickleness. This is the biggest problem regarding what we currently have. The fact that politicians are heavily dependent on the voters’ choice often makes them behave like fish in a shoal. They go in the direction which is most comfortable. As voter attitudes change very quickly nowadays, politicians swing between a variety of political directions even when it comes to basic decisions. And this is a huge politically caused risk that enterprises face.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

To make these unpredictable changes predictable, another expert suggested the calculation of different scenarios. By doing so, one cannot reduce the impact but one can be better prepared.

“There can be a golden way to anticipate political risks for companies. Of course, one does not know how decisions are made, but one can prepare for different scenarios. If I take a look at the current situation, then there are several risks that might pop up in the energy industry.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

The energy turnaround has already been analysed as a major event in the recent history of German energy politics (Bundesregierung, 2013a). It was also stated that apart from the effects on the companies, no one considered the job losses that came along with it.

“...as politicians lose credibility if they decide today in one direction and tomorrow in the other. In addition: what happens to the 5000 jobs in the solar industry which we have recently built up? This has cost a lot of money, too. Do we want to produce industrial fallow again?” (M8: Male / Age 62 / Company: Other / Exp. 25)

### *Political risk dimensions (local, regional, state, federal, EU)*

This expert sees a risk regarding the location and the network fees in relation to the local economy. The regulation of network fees is regarded as the second most

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important challenge for regional UCs and municipal utilities (Roland Berger, 2013).

“At the right place, it cannot be bad to have somebody explain advantages and disadvantages for a region in respect to investments in renewables, e.g. compared to large cities. This is a disadvantage of the location, because we must add higher investments to the grid fees in our region. This is a political topic only. But try to find politicians who know the topic. I personally talked to four and none of them had even heard of the topic.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

The local economy is also on the mind of this expert. Political risk affecting local and regional areas is named as an important issue by Heaney and Hooper (1999).

Political risk mainly occurs locally when there is a question of the location for power plants.

“The fact that one considers, e.g. in this town, to what extent an investment is not economically viable. It must fit also economically, it must be financeable, it must fit into the political scenery. To set up with a wind park either independently, or to join a venture.” (M8: Male / Age 62 / Company: Other / Exp. 25)

The overall focus of political risk on the local level is, in this case, strategic. The question arises whether a differentiation between operational topics (here: pricing) may turn into a strategic topic.

“The influence of political risk on our behaviour is mainly focused on strategic decisions. The question would be: How do I define a strategic decision? Is a price change a strategic decision? I would say: not necessarily. But a price decision can be a strategic one. Basically, I would see the municipal influence as being more of a strategic issue. However, you can be knee-deep in operative issues and it hits you, for example, with the construction of a headquarters building. This is where politics can have enormous influence, and they do.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

The town council can also be involved in the process of political risk creation.

This study has identified a lot of experts confirming that local politics can play a major role.

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“If you consider the current run on green policy and industries, you may see a basic attitude. I observe how excited quite a lot of city governments and city councils behave when it comes to these issues. Now every municipality suddenly wants to have a green flagship project because it is simply smart.” (M8: Male / Age 62 / Company: Other / Exp. 25)

Another expert accuses the city administration as well as the town council for using inappropriate political influence. This influence was also identified within host countries when faced with FDI (Jensen, 2008; Holmen & Pramborg, 2009; Dutta & Roy, 2011).

“There, I see a lot more desire from the city administration or from the town council. This corresponds with the attitude that the whole thing is only about money-making and skimming the icing from the top of the cake. In the politically influenced supervisory boards of public service companies, you’ll find the desire to provide, e.g. social rates for energy supply. This will not work.” (M8: Male / Age 62 / Company: Other / Exp. 25)

The way political actions determine political risk does not only depend on the topic. The type and impact of political risk is related to the political party.

“I believe in the recoverability of parties and that the main direction of parties therefore manages political actions. The problem is the question of sustainability: sustainability is a mega trend. And we see that the FDP handles this topic. You find a basically different situation with the Greens or the Left Party. Here, the underlying values are more likely to determine the party direction and do not depend on legislation terms.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

“For me the biggest risk is the insecure legislation. You can adapt to everything and if desired by the lawmaker also go into one direction, no matter what it looks like, but you can adapt to it as a company. (...) And I believe insecurity is the biggest factor there.” (M1: Male / Age 41 / Company: Other / Exp. 10)

Political risk may also occur if – due to an election – there is a change in government and other parties are then in charge. This can be expected by the published party programmes, however, the detailed impact is difficult to forecast.

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The effect of change of regime as risk creator is in line with the findings of Jensen (2008).

“If there is a change in government, this is a problem. [...] If we imagine a change in government here in Berlin, I would expect that the speed of regulation will increase at first, and turn in different directions. You have to expect that.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

Political risks at the federal level result, in Germany, in an extremely heavy influence on electricity prices, which are, to a large degree, predetermined by laws and regulations.

“It [the influence of politics] is extremely high as far as the electricity prices are concerned: 44 per cent of the electricity prices are driven by the state. It is high as far as the business of subvention is concerned. It is high as far as the gateway between government and the federal regulation agency is concerned. One seeks development [of grids], the other seeks cost reduction. And it’s high as far as investment activities are concerned – at the moment.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

The responsibility of federal politics is also interpreted as a decider for investments. It is expected that politics set the goals for industry development since it decides which types of power plant need to be built.

“One needs to be clear that politics are – at the moment – the only ones, that clear the way for billion-euro investments in conventional power plants, in renewable or offshore wind parks – however, this is just not profitable.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

The federal level of politics has to decide on the main aims of the energy strategy. It needs to link the different areas of the industry to one overall strategy. The German energy strategy has been developed by the German government (Bundesregierung, 2011; Bundesregierung, 2013a) but is not fully accepted by the industry (DIHK, 2011).

“This would necessarily have to accompany the energy turn. If one tells the people, the federal government plans to improve energy efficiency by 20 per cent until 2020 and up to 50 per cent until 2050, you have to clear

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up what this will mean for the population. On the other side, you also have to show that there will be a huge cost connected with it, which the consumer must pay. Even if you consider releasing energy-intensive enterprises from the net compensation fee, this is also charged on the consumers' bill." (M8: Male / Age 62 / Company: Other / Exp. 25)

"I think the big frame (we just had it with the law on the fuel and electricity industries) is absolutely the limitation of the field. But occasionally, politics act by critical thinking, like a referee, rather than leading. Often, they stand by their colleagues from the local or regional politics. [...] And, as with football, there are players who just follow the referee's decision and others who start arguing with the referee." (M8: Male / Age 62 / Company: Other / Exp. 25)

### *EU*

The relationship between Berlin and Brussels is important for the future development of the energy industry.

"Sometimes projects are planned and processed without any underlying sensible strategy, reliable finance plan or any idea how they will turn out. It is like the construction of a new traffic roundabout despite the fact that the old crossing would still have worked very well. The crucial argument is the subsidy you get from Berlin or Brussels, not the actual improvement. And now we just make a green flagship project because this is smart." (M8: Male / Age 62 / Company: Other / Exp. 25)

### *Time perspective in political risk*

The impact of political risk may also differ over time. It depends on the perspective whether the political risk impact is more on a short-term or a mid-term perspective. This perspective is mainly determined by the company's size and activities.

"I would see the influence of politics more in the short- to mid-term perspective, as they are of course always guided by short- or mid-term thoughts – until the next election. Once the legislation period has started, politicians are often a bit more brave and decide on and push topics that might take effect even after their legislation period." (M3: Male / Age 43 / Company: Consulting / Exp. 13)

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### *Risk due to influence by supervisory board*

Political risk can also occur as a result of the human beings on the supervisory board. Their individual perspective can have an influence on the management:

“You cannot deny that there are people, who are driven by very individual, very specific interests. [...] Secondly, I think that laws are not generated by members of parliament but by administration, the ministry administration.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

Members of the supervisory board can be influenced by party politics and local political issues. However, expert M9 denies the linkage. This might be due to the fact that he is CEO of a small municipal company which is wholly owned by the city. Hence, discussions in the supervisory board should always be focused on the wealth of the city only.

“Within our daily work, here at the local utility company, we are in our ‘new world’, and we do not have any politics in our supervisory board. There are of course councillor members of the supervisory board, but politics are not discussed. Also prices are not discussed; prices are suggested by the local utility company, argued over and that is it. We do sometimes have politics within bathing and public parking spaces; this is where discussions take place.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

The main task of the supervisory board is to act as advisors to the management board. They are therefore responsible for strategic topics.

“The supervisory board is responsible for strategic topics, and these are often filled with local politicians. And they are therefore asked for advice on the way that they set framework conditions and assumptions.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

“When I think about strategy, the topic of dividend is important for public institutions; for shareholders, this is always an important framework condition. It is hard to sell, for example, if you want to cut the dividend due to changed market conditions. Against the background of small and cash-strapped public expenses, you would want to avoid that.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)



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The overall impact is partly seen as a massive influence. However, the expert was not willing to provide examples.

“I have also seen the supervisory board heavily influence the management board of a public utility. [...] Yes. But as I said, I do not want to mention names or places.” (M8: Male / Age 62 / Company: Other / Exp. 25)

There is a special situation when members of the supervisory board are also acting in the local city council. They are responsible for the local politics as a whole and for the development of the local energy company.

“The city administration can give an order, within the scope of their normal supervisory board activity, but should largely exclude itself from the daily business and should see. I think, also with a certain foresight, what makes our town work with the money. And whether one is now absolutely in this or that equipment deficit is quite another question. Maybe one must cut the bus route sometimes because it is not worthwhile any more, maybe lock a swimming pool.” (M8: Male / Age 62 / Company: Other / Exp. 25)

They can be caught in difficult decision-making processes where the full support of the municipal energy company can be questioned.

### *Risk due to public attention*

This expert extends the meaning of the public opinion as he argues that the development of the society can be a main impact factor for political risk creation in Germany. He does not see the main theoretical political risk arising in Germany.

“These are things like war, possibilities of transferring money, and so on. These are all topics that I think, if you focus on Europe and Germany especially, are not of relevant size. I think that in Germany, political risk lies in the question of how society should develop.” (M2: Male / Age 37 / Company: Big 4 / Exp. 12)

However, public opinion is not always fact based. It can also be driven by emotions and ignorance. One major issue that was stated by this expert is that the

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energy turnaround towards green energy does have its costs. These costs can only be covered when they are socialized. Many people in Germany only want green energy but not increasing costs.

“Someone must pay this. Many people do not know this at all. Then the public utilities or the energy provider get the blame for it themselves then, they raise the prices again.” (M8: Male / Age 62 / Company: Other / Exp. 25)

### *Risk due to low political involvement*

The action or non-action of politicians can also determine the level of political risk. Politicians are under the pressure of re-elections and legislation periods can therefore impact the level of political risk.

“Politicians must be re-elected; the management board must be re-elected. I cannot form a concept of the energy industry this way as, on average, they need more time than four or five years. That will not work. One needs to eliminate the short-term perspective.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

The larger utilities handle political involvement through their corporate strategy department. A professional political lobbying organization is recommended by Koepl (2003).

“Corporate strategy watches political influences on all time perspectives, and this is of similar importance. The intensity, I think, is more in the short- and mid-term, as things are more certain there. [...] For the long-term perspective, it is given that the basic political direction, for example, now into the direction of a period of renewables, is supported by all parties. A year ago, this included nuclear power, now nuclear power is excluded, which is the common consensus of all parties.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

### *Future energy strategy*

For development of the German energy industry, the experts identified several factors that have an influence on the political system and therefore on political

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risks. Roland Berger (2013) lists the main challenges lying ahead of the German energy industry.

“The logical politics must be that we develop the renewable, before any other thing here in this country. If you ask me, this is a matter of cost. There I am not for one or other power station, or against it. But I say that this may not be the big strategy. E.ON has completely missed this development and what they do now is continue with large-scale projects with the disastrous consequences which this has.” (P7: Male / Age 50 / LINKE / Level: State / Exp. 8)

One expert demands a change in the energy industry from nuclear to renewables.

“The global topic of nuclear energy is now gone. Hard coal- and lignite-fired power plants will also be gone in the near future. One will be much more focused on topics like water, solar and wind power, combined with a period of transition for gas-fired power plants. For the network area, we will make the same mistakes like in the UK, for example: one day one realizes that if the investment conditions for the network are not improved, no one will keep investing.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

However, there is still the need for a constant decision, which lasts longer than a legislative period.

“Not all options can be wrong. This is what I don’t understand. No one will. And we must work on that. That it will lead to the consensus of energy. We need a solution and one everybody can work with and everybody can put effort into.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

### *On the things one would do as an important politician*

Managers were asked to imagine what they would do differently, if they were responsible for political decisions. This was done to develop another perspective: to identify additional types of political risk.

“Yes, there are too many dimensions of influence. Now I can say just idealistic: I would try not to make it right for everybody. As this will not work out. But I say it sometimes the other way round: To limit the damage.” (M8: Male / Age 62 / Company: Other / Exp. 25)

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Besides the understanding of the difficult job that a politician might have, there is the need for knowledge transfer and regular meetings.

“So if I had to decide on these matters, I would try to make it in such a way that I say: even if there are different areas to cover, with different issues, we do need a common understanding of our strategy. I would keep explaining this. I would bet a lot on the fact that one can explain it to the people, if one takes the time to do so.” (M8: Male / Age 62 / Company: Other / Exp. 25)

One step after another is the recommendation of this expert. Although additionally, he points out that town councils are usually not an intensive replacement of members.

“And I believe, one may not overestimate this. The mechanisms are too complicated that one can reduce this, ‘nevertheless, oh the town politicians think only of the next choice’. In truth, the people who sit on town councils, mostly have been doing that for a very long time or do they still have another career in front of them? They do not think in such categories.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

### 5.4.2.2 Political Results

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#### 1. Inside view

The inside view reflects political risks that arise from company-specific actions and characteristics.

##### *Risks due to company activities*

Another expert shares his evaluation of the exit from nuclear power plants as an intensive intervention in companies’ activities which generated massive losses.

“Whether all this leads to a restructuring of the industry, e.g. M&A activities or joint ventures, is difficult to foresee. With [X] this is closer connection, as with [X] because it has one complicated stockholder structure. But we have intentionally castrated two leading German enterprises. So, they have protested of course, only this was too late, and their voice has not been heard at this stage.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

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The consequences for companies which operated nuclear power plants are multifarious. No one can estimate as of today what the costs for the sudden exit from nuclear power plants are and how this will affect the companies in the near future.

“They must reorganize their enterprises completely, with huge consequences, the closure of business units and layoffs et cetera. Of course, this is tricky. On the one hand, you have got a variety of specific perspectives on an issue and on the other hand, it’s necessary to realize at least one solution out of one perspective. In any case, whether nuclear energy is the right way and how it should be continued will be decided in a society-wide discussion. Right now, this is a question about how BDI and affected trade unions act. My opinion is that this is more a task for European policy.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

This field is also filled with a lot of lobbying activities, especially the promotion of wind and solar generation – topics which are in the focus of the lobbyists.

“I mean, the solar and wind promoters do not travel through Germany for nothing. They impact politics a lot to make a lot of money for their business.” (P2: Male / Age 60 / CDU / Level: EU / Exp. 28)

The challenge for the German utility companies lies within adapting to the new political environment. The decision against nuclear power plants has started a new era of energy politics. The experts see the adapting to these changes as a main challenge for future activities.

“The enterprises must virtually react on account of the political compromise which has been agreed on. This is a huge challenge because in the aftermath of the nuclear power ban we don’t have basic conditions, which lead to the fact that the enterprises have the security of investing in the conventional production installations which we will obviously still need in future.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

“The question of determining political risk depends on the perspective from which one defines it. If I define it from the point of view of my state party chapter, it only considers the consequences for mankind [...] of large-scale projects; these are coal-fired power stations, these are the

nuclear power stations, which cause disastrous results for the future of the next generations. I think this is the main political risk for me.” (P7: Male / Age 50 / LINKE / Level: State / Exp. 8)

### 2. Outside view

The outside view illustrates these risk-creating facts with which the company is faced from their environment. The experts named several factors that might determine political risk.

#### *Risk exposure due to company size*

The size of a company generates different expectations in the stakeholders. The big four are often seen as too big, in respect of their market power, by some politicians. However, it has to be considered that two of the big four companies have a significant proportion of public shareholders. Some experts expect that the size of the company will be a main factor in the near future. Roland Berger (2013) states that challenges for the UCs differ markedly according to their size.

“So I want to say: such occasions keep coming up, where single enterprises, I think, try to flex their muscles a little bit. But I believe, then one always returns relatively fast to the objective dialogue and then this has been laid down, up to now anyway.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

#### *Political risk dimensions (local, regional, state, federal, EU)*

Political risk can also be differentiated by the political level of its origin. The experts were, to a large extent, united in their view that any level of politics creates political risk. One expert argues about the relation of state and federal level:

“The German energy industry is very exposed to political risks in a special way, because several levels are engaged. It starts with local authorities, because you need to get the concessions. The same is valid for the states,

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which have additional competences. This is about matters of planning, grid extension and similar topics. Then, there is the federal level; this is about approvals, tax questions and many more basic principle questions.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

However, this mayor sees himself working independently from party politics, while Althaus (2004) has identified a relation between party politics and the decisions of politics.

“So, as a mayor, I do not work according to party politics. Instead, the mayor has to represent the interests of the town and also has to represent the interests of all the different groups in the town. At least, this is my understanding of my job. Thus, this is the course of my work and I think it is quite successful. Therefore, I am guided by this attitude and goals, which were developed in dialogue with my partners, and framed by common aims.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

One major problem occurs when the shareholder is the local community and there are strong relations within the town council (see Althaus, 2004 for challenges within the decision-making process within politics).

“One must understand this [the municipal connections] to get the economic strategy realized accordingly. If one does not understand this, if one does not know how such a town council functions politically and how it generates its decisions, then the danger exists that one says: ‘Nevertheless, we as an economy will develop, it is completely clear that nobody can deny it’. And in the end, the people are surprised that some are against it.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

### *State*

The political system in Germany places a large political responsibility with the states. Even though the main political responsibility for energy politics lies at the federal level, state politics can play an important role in risk creation.

“There is a certain scheme on what is realized within the first years after an election. During the ruling term, this scheme is often complemented by other projects, which are agreed on during the legislation period.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

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One politician argues that the state came first in his order. So he insisted on pushing the sector for lignite mining to secure jobs, even though he knew that this would end someday. However, evidence from literature shows that economic crisis with political risk influence elections (Vickers, 2004; Li, Balding & Lee, 2013).

“I was there to secure jobs. And I feel reconfirmed on this today. I think nowadays, we make a mistake with all the changes in politics. It was always about what we, as the state of North Rhine–Westphalia did not discuss with the government, i.e. the possibility of the reduction of lignite mining. We did not discuss the ‘if’, only the ‘how’. (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

State politics can also affect federal politics by being the first mover on critical issues like the exit from the use of nuclear power plants.

“At that time, I was still a speaker of [X], but I have accompanied him in the whole election campaign up to the end. We have decided very hesitantly about the nuclear power exit and Mr [X] waited till the last second, because at that time, he hesitated to run for chancellor. He has only decided, like me, for the nuclear exit with the expectation of setting a new frontier regarding energy policy. At first for the environment and secondly, this is necessary regarding the hazard of abuse of nuclear energy, the propaganda of the nuclear energy industry and finally the danger of its use by the military, terrorists or others.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

The way that the former minister of economics used to communicate with the players involved and with critical issues in his state is summarized in this quote:

“I am a minister for economic affairs, with employees who were exceedingly good, followed up every insolvency announcement or menacing insolvency or problems which we received from newspapers or somewhere else. This was a real action principle in the economics ministry here in North Rhine–Westphalia that our departments followed up every announcement about a problem in an enterprise.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)



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### *Federal*

As mentioned above, the responsibility for energy politics is allocated to the federal level by the German constitution. This is a major responsibility for the political actors involved. Federal actions have influenced the German energy industry enormously within the last years (Bundesregierung, 2011; DIHK, 2011; Bundesregierung, 2013b) and this is in line with the experts' perceptions.

“Political risk can be understood in several ways. The risk of politically wrong decisions or the risk that politics influence things, e.g. energy companies, which lead to a burden for economic activity.” (P1: Male / Age 42 / CDU / Level: State / Exp. 9)

### *EU*

EU politics have increased their power over the last decade. While the EU member states still have the right to legislate, it is the EU that sets the framework. EU politics are therefore identified as a key aspect of political risk engagement. The thoughts on country risk analysis are in line with the findings from literature review (see for example Kosmidu, Doumpos & Zopounidis, 2008).

“If you have a swinging, unstable majority situation in parliament, or you have a weak personality at the top, it may be a political risk. Example Greece: there, we do have high political risks that are not linked with politics in the first place, but with the question: is the country politically capable and is the country able to reach certain decisions!?” (P1: Male / Age 42 / CDU / Level: State / Exp. 9)

“Earnings that I cannot realize anymore, because the legislative framework has changed, cannot be collected via courts.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

### *Time perspective in political risk*

One expert sees the time perspective more in relation to the topic itself and not to the company.

“I would not link the level of involvement of politics in industries with elections. Of course, one has to deal with it if there is an election coming up. However, this all depends on the intensity of the decision period. There are topics that need a longer time period as you might need to add certain know-how. There are also topics where the decision-making process is quite fast. In addition, new topics may come up that you didn't have on your list on the day of the election. All this influences your position towards the election.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)

### *Risk due to public attention*

The public attention towards the company has been identified as a crucial factor for political risk. The perception of a company depends on the perception by individuals. Public action can turn into a campaign.

“There was also an intensive discussion, difficult discussions and meetings with the citizens involved. They had to be relocated due to the lignite mining. There was a growing resistance from all directions. But that was, much more than it is today, locally and regionally influenced and – let me say – less like a campaign.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

For single incidents, these public actions can have a huge impact. It can be stated that people may act emotionally when their own job is at stake. One main topic that was in public discussions for years was the question of continuing with lignite mining.

“We have had large demonstrations; on the one hand, with the affected people, against the project, as well as employees for the project. At RWE at that time, there were certainly more than 10,000 people employed within the lignite sector: and that was the conflict that ran through the families. So that was a difficult decision. [...] You are allowed to keep mining lignite, but you must invest in the region and you must do that in up-to-date power plants, with reduced CO<sub>2</sub> emissions.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

This expert argues for the need for public relations but is aware of the unique characteristics of the products of the energy industry.

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“An enterprise, also a big enterprise, must ensure that somehow an exchange with the citizens takes place. This is of course much easier for a car enterprise; you produce cars, put them in a shop window, and the people are highly interested etc.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

The need to participate in local activities is mentioned by this expert. The earlier a dialogue starts, the better emerging problems can be handled.

“Today, enterprises must be represented in society and also represent themselves and their interests. Also, details of projects should be communicated as early as possible so that dialogue can start. This applies to infrastructure projects and others. Up to now, the position of the enterprises and the energy supply enterprises has been to the fore and has had to be defended. When the conflict is there, one takes a position and defends oneself.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

### *Political communication*

The political communication has been identified as another main impact factor for political risk in the German energy industry.

“But in particular, there is no guaranteed basic condition for an investment, so there is no political condition guaranteed. Everything depends on the individual political perception, and therefore it depends very much on the contact between politics and the energy industry.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

The regular communication between the industry and politics is considered as useful for both sides. This is in accordance with the findings of Rieksmeier (2007) who recommends regular access to the policy development process as necessary for the public opinion building process. One very experienced political expert described his experience and his approach with a constant knowledge transfer. Political communication, in his point of view, included exchanges with the employees as well.

“I have incessantly led discussions and talks, but this also applies to the trade unions. However, with the trade unions, this has changed for me due to the job market reform. Also there, I had the advantage that I knew them all and could carry on very reasonable conversations with them. Then,

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however, the reforms put an end to such dialogue. But otherwise, I have constantly had an exchange with those who bear the most important responsibility for the economy – namely with the employees, and also with the employers.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

Political conversation can also include conversation with working unions.

“[Chancellor] Gerhard Schroeder had the most intensive exchange with the persons responsible – always under inclusion of the trade unionists, one must say this. In particular, was [X], who presided in the IG BCE – of the energy trade union –, his constant companion and [X] was the technical companion.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

As a recommendation for the degree of political communication, this political expert asks for a proactive conversation tactic. Managers should avail themselves of constant exchange. Koeppel (2003) sees a constant monitoring of policy initiatives as a key aspect for the success of political lobbying as it enables to secure and increase company’s success.

“The enterprises and the managers involved usually only become active when they are already on the defensive. And this shows me that we in industrial politics, as in infrastructure politics, also in certain parts of the science politics, research politics, must be on the offensive. One must look for dialogue and not wait, until it is demanded.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

This partial analysis of political communication has demonstrated that it is useful to try to establish a high frequency of political communication and to use these contacts for a dialogue with all stakeholders.

### *Risk due to low political involvement*

The politicians also see the use in a permanent exchange, not only with the board of directors but also with other managers of the companies. This political expert also experienced training in moderating critical discussions. However, Harris (1999, p. 325) recommends trying “to win the intellectual argument in each case”.

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“The knowledge transfer is a permanent exchange, with all people involved in very different ways. There is an exchange and permanent talks with all companies involved. There were meetings with the managers of RWE. There were meetings with the labour union, the employees and the work council. I was well trained as I had to moderate at closing-down discussions.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

This experienced expert also points out that there has been a tradition of frequent conversation between politics and the German utility industry. For the main decisions, this cooperation with the industry was part of German economic policy.

“This is the end of the tradition of participatory German industrial politics and in particular, the energy policy. Schroeder has done this with the exit from nuclear power. Mrs Merkel has this by the lengthening of the exit from nuclear power – or the exit from the exit – but, at least, an extension to the exit process was achieved. However, this absolute about-turn has been carried out against this industry and without the participation of the industry. I assume from this fact that in the future, more talks will take place again.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

However, there was a change in the method of political communication by the organizations, such as the BDI, the federation of German industries (*Bundesverband der Deutschen Industrie*) visible for this expert. He misses their voice during the discussions on the exit from nuclear power.

“What I have missed, however, is that, for example, of the BDI at the right time would also have opened its mouth and other economic organizations. We have the problem in Germany that the representatives of the social market economy have become damn quiet.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

As a result, the decision on the limitation of operating periods for nuclear power plants was made solely by the chancellor. The outcome, the energy turnaround is therefore a challenge to most of the utility companies in Germany (Auer & Heymann, 2012).

“That is a decision that has been managed by Gerhard Schroeder [chancellor] only.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

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On the overall risk, or in this case, the positive result, of political communication, this expert votes for the fruitful way of cooperation that he experienced.

“In the enterprises and organizations where this [the trustful foundation] exists, the cooperation is fruitful. Cooperation in the sense of: I need to do my job, they need to do their job and I need to care for a balanced legislative process.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

### *Lobbying*

The item of lobbying and its evaluation has delivered some interesting insights.

The need for lobbyists is seen differently among the experts. The overall impact is seen as important by the majority of the experts.

“Lobbyists have, not only in America but also in Germany, a very, very big role, especially in the energy industry. Ehm, the EU, I start again in the EU because there everything begins, anyway, it all begins with the commissioners of energy or economics. They have, actually, a very strong opinion on the whole subject of liberalization, on the subject of competition [...] The EU said, for example, that one must separate enterprise completely.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

“Therefore, I am quite confident that lobbyists do have a huge influence on politics. They are the supplier of information, the supplier of ideas and are therefore able to lead the discussion in the right direction. [...] I think their influence is necessary and – if we focus on the energy industry – of advantage for the energy industry.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

There is also an understanding of the job function of lobbyists. Their role can be understood from an objective perspective.

“Of course, you try to influence with innovations, changes, and studies, to take care of the interests. That is the job of the lobbyists. They have to try to – in this case for the energy industry, but also for every other industry – take care of their interests. They do this by – I would not say this negatively – putting data and facts on the table that might support their interests better.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

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Lobbyists are armed with weighty influence in general which is based on the special knowledge in each field.

“So, from my point of view, the lobbyists do have a big influence on political decisions, as on the one side, politics have lined up their experts by divisions. There are energy politics, there are environmental topics, and there are other, different topics. They have their specialists in these topics.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

This is contrary to the tasks of politicians. They have to decide across many fields, of which they are not expected to have a deep knowledge and this is where lobbyists can be useful.

“Politicians cannot be experts in any field and of course do not have the resources to conduct their own research to get an overview, to order customized studies. This is what lobbyists do, at least partially. But the question always is to what extent is this a coloured opinion?” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

The question arises at what point the knowledge transfer of politics and industry becomes questionable.

“There is nothing wrong with an exchange of information with the industry, with utility companies or their lobbyists. The question is: is this the position of the company or of its lobbyists? Both can be legitimate, so an exchange needs to happen. This is what I said earlier: one needs to make sure that one’s opinion is not affected by something. And if you know that, you can deal with the information.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

### *Positive lobbying*

While the previous section has delivered some insights into the perception of lobbying in general, the following summarizes positive and negative positions:

“I cannot say this [that there was too much lobbying]. I have really carried on a lot of conversations – of quite different kinds. It is a self-evident fact that we are with all enterprise leaders ... individually with those of the big ones, this has not been the case with many small and medium-sized enterprises, but with the big ones, it has been. And I knew everybody and I also know today, actually, the responsible managers and leaders of the enterprises. I also know of course the important family enterprises in North Rhine–Westphalia and I have also always thought highly of them, I go to all industry chambers, to all chambers of trade; I am on the move incessantly.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

In addition, this expert confirms that lobbying can be useful for politics and that there can be close relationships with CEOs of utility companies. It is the responsibility of the individual politician to define when contacts become too close.

“I have an understanding of the practical use of economic policy; I do not know at all whether this is the case today. But this was the case. I have never felt that this association was too close or too intimate. I am not over-friendly with anyone, I know several and some I also say 'hello' to – trade unionists anyway. Because I am simply also a social democrat and a trade unionist. But I also say 'hello' to some enterprise managers and I have never had the need to have to say to myself: ‘There you are too close, there you are shy, or anything like that’”. (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

### *Negative lobbying*

The same expert states a negative perspective on political risk as there is also a view on lobbying as a crucial factor in negotiations between politics and industry.

“And in this respect, this proximity is not unproblematic between politics and the economic leaders, but from quite another view than I mostly read it. There, it is mostly about the image, there everything is corrupt or otherwise. I have had no advantage from these things nor have any of my colleagues, but we have struggled and tried to do something together. I am completely relaxed therefore, because with these energy–economic processes, both sides always had the trade unions present. There has been generally no step, in which the employer, employee and politics did not work together. [...] on the energy policy and up to the time of this big turnaround, this process had balance.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

### *Not involved in political risk*

There was one political expert who was not able to answer questions about political risks. He is in a commission on energy and therefore in contact with the industries. This expert was the only one who admitted to never having thought about political risk.



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“[Political risks] you see that I am quite unsure what to answer. I have never really thought about this. Therefore this is a question, I do not ask myself.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)

Although it was only one expert, this statement is in line with the results of the literature review in chapter 2: political risk is not fully covered by the literature.

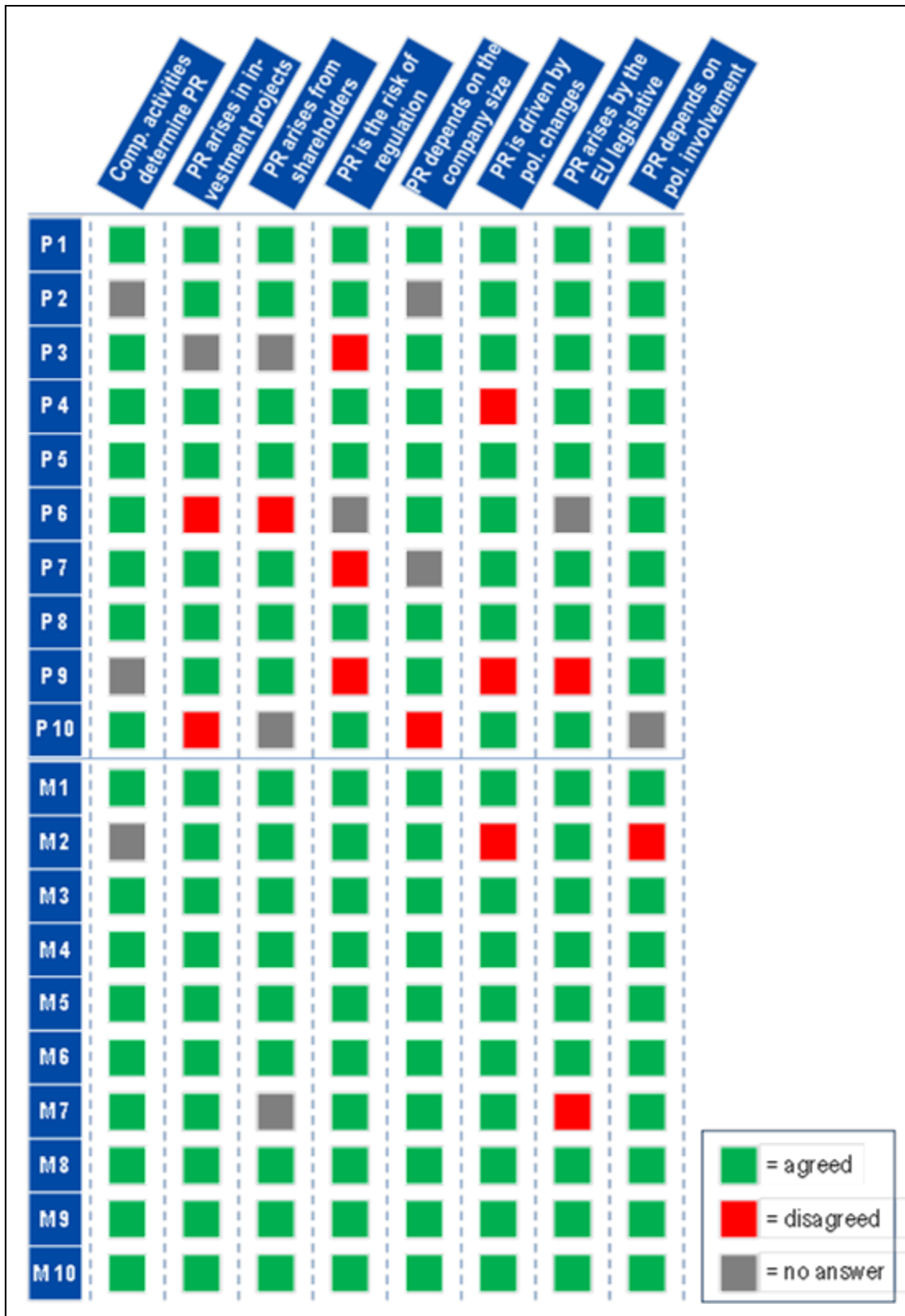


Figure 28: result matrix for RQ 2 (own illustration)

### 5.4.3 Conclusion

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This section has demonstrated that there are different types of political risk in the German energy industry. The aspects that drive political risk are identified, based on the individual insights that were offered by the experts. It is their individual experience that determines the perception of political risk and its characteristics.

The frequency of the different political risks mentioned is spread widely. This may be due to the individual experts' backgrounds. Whenever experts did a ranking of individual types of political risk, the risk of regulation was ranked highest. Hence, it can be stated that the risk of regulation is not related to the stage of the value-added chain in the German energy industry; it affects all areas within the industry.

The politician's perspective is different from that of the manager. First, it has to be stated that political risk in general is not a common topic for politicians. Their identification with themselves as risk creators is difficult. The interviews demonstrated that it is not a common understanding that political decisions might turn out as risks to companies and their performances.

The majority of the experts confirmed that the individual activities of the companies are a main characteristic of political risk. This is in line with the findings of Howell and Chaddick (1994), who defined micro risk as a risk category within the direct environment of the company. This perception is unanimous among both expert groups. The author is in agreement with this

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perception, as the literature review as well as business experience have demonstrated the individuality of political risk exposures depending on individual companies.

The linkage between political risk and investment projects was intensively discussed within the literature, with a focus on foreign direct investment (for example, Butler & Joaquin, 1998; Kim, 2007; Poulsen, 2010). In practice, investment projects are evaluated up front by a set of criteria, with risk exposure usually being one of them. 19 out of 20 experts agreed to the influence of political risk on investment projects. Only one political expert did not agree on this linkage. The author has identified many projects in recent history in the German utility industry that support this linkage.

Most of the political risk characteristics in the German energy industry are related to regulation. The Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway does have a major impact, direct and indirect, within the whole industry. This impact is confirmed by all experts from the industry and by seven out of ten political experts. The political experts who were not able to confirm this connection stated that decisions by politics or their agencies cannot be seen as risk but as part of the business environment. This may influence the single activities of the utility companies as well as the companies' performances in general. This linkage is important for political risk management as there can be the opportunity to discuss certain issues directly with the Federal Network Agency. The author is familiar with several incidents in which this negotiation took place.

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Many experts also mention the legislative factor as a major input factor for political risk. This is valid for both German and EU laws. This is in line with the findings in the literature review (Busse & Hefeker, 2007; Yartey, 2008) and reflects the real business world. There has been less agreement on this item than on prior characteristics. The legislative process in Germany is in many cases transparent, but major decisions can be realised by individuals only (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32). This is in line with the author's perception of and experience within the industry; usually the process is public and transparent but it might be the case that major decisions are taken behind closed doors.

Another aspect that has been discussed is the degree of political involvement that might reduce the level of political risk. The term 'political involvement' leads quickly to the idea of lobbying, which was mainly supported by the industry experts. The political experts preferred an intensive knowledge transfer with the industry, as well as talks on a regular basis to enable an informed decision to be reached.

Again, this section demonstrated that political experts do have difficulties with linking political decisions to political risk. This is natural to some degree, and was expected by the author. Nevertheless, most of the political experts were open minded and willing to discuss different perspectives.

### 5.5 Research Question 3: What is the potential impact of these political risks on the German energy industry and its companies?

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#### 5.5.1 Introduction

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This question is derived from Althaus (2004) and transferred to the specific subject of this study. Althaus asked for operationalization of political risk and what the consequences are.

Managers of enterprises have several responsibilities. One main objective is to work with someone else's money to the best possible degree, to increase shareholder value (Gabler, 2013). Within many companies, risk management is an important division. The literature review has demonstrated that risk management nowadays is intensively represented in the academic world (see chapter 2.9). Recent studies have shown how risk management became a growing topic within the last decades for nearly any enterprise (PWC, 2012). There is an individual industry sector that has evolved, offering risk management services (see for example AON, Institute of Risk Management).

The design of risk management, meaning how it is operationalized, differs from region to region and from sector to sector. The focus of research question 3 is how the German energy sector is faced with a specific risk, the political risk.

The experts' knowledge is intensively analysed for this specific aspect. The better this research question can be answered within this study, the higher the quality of

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the potential output, i.e. recommendations for mitigating political risk in the German energy sector.

### 5.5.2 Findings

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This question seeks to analyse the potential impact of political risks to the German energy industry and its companies. As the identification of different types of political risk has been challenging, it can be assumed that this is also valid for the analysis of the impact.

#### 5.5.2.1 Management Results

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The impact on the performance of single companies can be intensive. By deciding on decommissioning nuclear power plants, the big four, as owners of these plants, were negatively influenced (Verivox, 2012). On the other hand, many of the other utility companies received a positive influence.

“Political influence can absolutely impact single companies’ performances, but the industry is anything but homogeneous. And of course, every single one of these decisions has a direct impact on companies, and these [impacts] are not evenly distributed, that is for sure. The decommissioning of nuclear power plants hits exactly four companies and not the other 700 in this sector. And if these are affected, then it is in a positive way.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

However, the experts also see a clear increase of political risk occurrence in the last years in Germany (see for example Bundesregierung, 2011).

“Last year, we experienced how strong the influence of politics is on the energy industry: stronger than we imagined. Absolutely neutral, no matter if you think this was right or wrong, this is a different discussion. But I think the influence of politics on the sector is extremely high.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

The regulation is influencing the industry via the federal level. This influence is executed via the federal network agency. Experts see a demand for a rethinking on future development (Zimmermann, 2011).

“When you put this all together, I would say that the influence of politics is very big at the moment. When we start thinking about capacity markets, we also need to start thinking if we move into the direction of a monopoly, more likely into a federal system, as the grid is regulated and the power production would be regulated as well. The electricity prices minus the delivery costs, which are directly influenced as the power production is regulated. That means that from a pure free market economy, there is 10 per cent of a kilowatt hour left unregulated.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

Other experts state that the influence is not focused. The industry as a whole is exposed to political influence and politics are not providing the big picture:

“The influence of politics on the energy industry is intensive, but not target-oriented. That is not the way you would expect the politics to be, to define clear tasks on how to handle certain topics. For example, the question of nuclear energy: do I need nuclear energy at all? And if not, how do I handle the topic in the future? Ok? I am missing...or let me put it this way: there are selective statements but I am missing the big picture of the topic. And that is guidelines by politics.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

“And there are many public utilities, I think, pushed to their limits. This makes relations with the federal network agency less than friendly.” (M8: Male / Age 62 / Company: Other / Exp. 25)

### *Size/structure of company*

Other experts see a difference in the potential impact in relation to the size of the company. As it was analysed in chapter 2, the German energy industry is dominated by the big four companies. On the other side, there are over 100 small and medium-sized utility companies that can also be affected by political risk. The studies of Geyer (2013) and Roland Berger (2013) demonstrated the different characteristics, depending on a company's size.



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“Maybe they (the smaller companies) are quicker in the reaction time than big ones and part of the implementation. (...) But for small companies like we are, it is a huge challenge to operate this investment in order to come to the attention of the market.” (M1: Male / Age 41 / Company: Other / Exp. 10)

As already identified, the structure of the company can impact the political risk exposure. The experts are aware that the degree of political risk differs in relation to the types of shareholder. Subsidiaries of the big four can, and must, act differently from municipal utilities. This is supported by the findings of Bremmer and Keat (2009) who identify individual company factors as important for consideration.

“If we look at a municipal enterprise, is there absolutely also always a look at what the local politics are or the municipal politics that I want as a manager? If it is an enterprise in which municipal and industrial shares remain at a reasonable level or perhaps also shifted a little bit, then it is also natural and important to look at the industrial companion. But municipal participation certainly still always remains. If it is, we say sometimes, a pure subsidiary of the former big four, then the managers or board of directors will be interested in the politics.” (M8: Male / Age 62 / Company: Other / Exp. 25)

### *Direct vs. indirect*

The impact of political risk is also differentiated by a direct influence vs. an indirect influence.

“Political decisions hit the companies that have invested in the branch and of course in a second round, indirectly, it hits the shareholders, who are involved. The question is: how large is the influence and how large is the leverage of political decisions in the energy industry? – very large.” (M2: Male / Age 37 / Company: Big 4 / Exp. 12)

“All of the rest is without direct political influence. I never experienced polemic discussions. There is a clear separation between the job in the supervisory board and the job as councillor.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

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This expert sees a relationship between the big four companies and the political parties of CDU (“blacks”) and FDP (“yellow”).

“The exit from the exit was decided in the first place. Then politics has extended it further. This has undoubtedly led to the fact that the big four big felt encouraged in their world: We continue thus. With this government and as long as it is black or black-yellow, we will go on like this. Even if we can afford to turn totally to green energy, we must not necessarily make that move.” (M8: Male / Age 62 / Company: Other / Exp. 25)

There is a direct impact as the immediate result of a political decision and an indirect impact as it influences the long-term method of cooperation between the big four and the parties (DIHK, 2012).

### *Communication*

It was often mentioned that a potential impact might be influenced by the degree of communication and relationships.

“We need to get into a dialogue with politics, so that our arguments will be heard, and our worries eased, we have every day. And I am not sure whether this is always present with the political decision processes at the superior level.” (M7: Male / Age 49 / Company: Municipal / Exp. 22)

The insights of this expert demonstrate that there is no perfect way of communication.

“I personally refrain from politics and do not participate in single political events. I also do not jump from one parliamentary group to the next. This is not what they hired me for. They deliberately decided to hire someone from outside of the industry.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

The way the big four handled the exit from nuclear power in their communication strategy is seen quite critically by this expert. He argues that political changes are, to some degree, predictable. (Political) communication is necessary to anticipate changes of politics and their potential impact.

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“Since the big four place themselves and cry, ‘yes, everything came too unexpectedly and too fast’. Admittedly, it did come fast, but it also shows that, on the other hand, developments were pursued only tentatively. These were fig leaves. And now the energy industry is faced with big problems, on account of the massive exit. And we are very lucky; I think sometimes, that the winter has gone like this and that it did not come to a breakdown in supply.” (M8: Male / Age 62 / Company: Other / Exp. 25)

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### *Impact on economy and/or individual company*

In addition, the potential impact is also evaluated in respect of its influence on the single company and on the whole economy. Even though the experts are focused on the German energy industry, they were often willing to share their evaluation of the German economy. This might be due to the fact that some experts see the energy industry as a major part of the German economy.

“Of course there are direct interests that in the first place are not in opposition to the common welfare but they obviously could be. And therefore, you orientate yourself along those two topics, certainly on the common welfare, but also on the individual interest of the company.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

Expert M3 identifies tensions between shareholder, in the role of a local politician, and as an advisor to the board of directors.

“I would say that political decisions can influence a company’s performance. That is for sure. As – if we stay with that example – the question of pricing is immediately an adjusting lever for the result of the company. If I have a shareholder who says ‘my citizens should have cheap electricity’ that does have direct consequences on the contribution margin and therefore on the results.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

As the literature review in chapter 2 established, there is no common understanding of political risk. Additionally, neither is there a common perception of the effects of political risk. However, the potential effect of political risk on the economy and therefore on the common welfare can also depend on party politics. The risk lies within different perceptions of, and approaches to, the identical topic. Party politics can make a difference.

“I willingly believe a green head politician when he says that he is focused on the common welfare when arriving at a decision, A and another politician from the liberals also thinks about common welfare by deciding

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for option B. This is a question of weighting values and is often not realizable.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

On the idea that politicians should increase common welfare, this expert replies:

“The question is if such a complex evaluation of common welfare is even possible. I would say defiantly no. And therefore, I think this discussion, as long as it is transparent, lobbyists with politicians and vice versa, is ethically uncritical.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

The role of the federal network agency is mentioned as a frame-setting role. They are therefore seen as an impact factor for political risk on the whole industry.

“So I think that this is simply in the case of the frames in which the whole energy industry moves. And we have as a regulating dimension; I say sometimes, the federal network agency. In this frame, they move. And speak today with public utilities bosses or with executives from the public utilities, which have to fight daily then with the difficulties resulting from it. Then it becomes clear that this is not necessarily a relief for the business.” (M8: Male / Age 62 / Company: Other / Exp. 25)

The process of de-privatisation is also impacting the development of the whole industry. This is a process which started more than a decade ago and is still on-going. A change in the industry structure, demanded by politics, can create political risk.

“Well, I think that a de-privatization certainly makes sense because competition animates the business. The point is that companies need to allocate their resources: well, we sell not only in our region, but we really go as a player to the market. There are some completely successful. [...], However, I think that de-privatization is a chance also for the local authority districts to procure additional funds, if it permits a high degree of economic freedom to the public utilities people. And not only has the cash cow seen whom one must diligently milk, so that one can serve it to other units in deficit.” (M8: Male / Age 62 / Company: Other / Exp. 25)

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Companies need planning security for their investments. As long as investment conditions are not predictable for the investment period, this creates political risk and is therefore harming possible investments.

“At the moment, there is no visible trend for security of planning. There is only the political will that the energy generation should become more renewable and greener. The way to this is, in my view, not quite clear.”  
(M2: Male / Age 37 / Company: Big 4 / Exp. 12)

The future development of the industry is unclear to this expert. He is not able to anticipate the degree and the effects of the de-privatisation. This might be related to the high number of different challenges that the industry is facing (Roland Berger, 2013).

“All in all, I would say, we live in a relatively unsafe world what concerns the care what begins structures in particular. The question is whether the segmentation which we have today is preserved. The de-privatization trend progresses, leading to a growth in the number of small public utilities. However, on the other side, I need big units to be able to realize generally the whole investments. So, it will still become a very exciting situation.”  
(M4: Male / Age 48 / Company: Consulting / Exp. 20)

The main approach of the industries and their companies are the use of lobbyists.

The interviewed experts have different perceptions of lobbying.

“[Lobbying] is an important point for us now. The topic has two perspectives, two directions: one is the question of effectiveness and there is the efficiency of lobbying on the other side. The other one is, when you talk about the press, there is a question of an ethical component. I think that the conversation with politics, besides being of direct interest, is important and useful. Because the energy industry in Germany is so complex, that even after ten years, I still have questions that I cannot answer myself. Within ministries, that cannot be different. That means that we can support them.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

This expert votes for aiming on intensive influence on politics. The most possible impact can be created by lobbyists only; the single company is too small for such actions.

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“One must try to be able to take, from an external view, possibly a lot of influence. One must just try this. One cannot do this of course, as a rule, as a single enterprise; therefore also the subject of lobbying arises. However, on a small basis, I think that the influence of politics is possible. This would definitely be a possibility and I would also perceive that personally. What I would try is to place employees in the suitable committees of the associations and also to act as lobbyists somewhere maybe or to steer accordingly also.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

The use of lobbying is seen as a potential critical approach. From the political perspective, it must be analysed on a case-by-case basis whether the input of lobbyists leads to an increase in common welfare or supports a single company only.

“It is ethically questionable, if it cannot be pointed out clearly where the differentiation between common welfare and individual interests are.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

### *Influence of regulation*

The experts also shared their perspective on the impact of regulation.

“In five to ten years, I expect the main topic to be between the regulative and non-regulative sector, between EEG and EEX. There will be significant impulses.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

With a comparison to the UK, this industry expert sees a problem arising when there is too much regulation in the market. The UK utility market is split up among six companies and they have established high market entry barriers.

“I think that one can see pretty well in England what happens when there is a lot of regulation: where politicians define the CO<sub>2</sub>-reduction activities and the energy consumption reduction activities in a very detailed way. There is a defined list of activities and everybody focuses on the cheapest one. There is no diversity in the market, but the big six utility companies have divided the market among themselves, dominate it and prevent the market entry of others.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

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The future development of the German energy industry is associated with decentralization by this expert. When he mentioned “cost efficiency”, he implicitly related to the federal network agency, which regulates the German energy market. This is quite contrary to the findings of Auer and Heymann (2012) who see the investment decisions as the central item.

“I think that now we have the decade of decentralization. I am quite excited to find out if there will be a trend at the end of the decade towards cost efficiency. This type of discussion has been going on for, I think, about a couple of years. I would say since 2010. I believe that another important trend is simply the increasing connection with information and communication technology and therefore with totally new competitors in this area.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

However, the federal network agency, with the main goal of creating competition in the market, has a major role. Roland Berger (2013) names regulation on network fees as the fourth most pressing issue for the big four and the second most important issue for regional utilities and local municipals.

“It was aimed to create competition and that has been realized via several activities, e.g. the unbundling, the separation of grid and sales. And that is increasing, especially through the ambitions of the EU in liberalization.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

The influence of laws, either those of the EU or the member states, are seen as a part of regulation by this expert. Therefore he states that regulation is created by politics.

“So first, one must say that the whole subject of the energy industry is largely marked by political decisions. I would even say that it is marked predominantly by political decisions. Before the liberalization, enterprises had to submit approval requests regarding their rates to the relevant authorities. Then, after the liberalization, which has been pursued of course by the EU, so also from a political direction, a national law has been passed. The whole subject is done of course politically. And all changes which have been made following this have also been done by everybody politically. Mostly this came from the EU, so the European Union has played its part as the forerunner for subjects in other countries too.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)



The overall impact of regulation is considered as high by this expert. The regulation again sets the framework of the market in which the companies have to act. Hence, politics impact the market design by regulation. This is in line with the results of Roland Berger (2013), naming regulation as one of the main issues today.

“I believe that we have a regulation in the energy industry nowadays that goes pretty far. You can always argue about this, but I do not want to evaluate this. This is first of all a fact that one must acknowledge. What you can do is you can move within this regulation, although this is not always of advantage, I would like to add.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

### *Impact on future industry development*

The experts were asked to share their perception of the potential impact on future industry development. The future development does highly depend on the topics of the energy turnaround (Auer & Heymann, 2012). The future for conventional power generation is unpredictable for this expert.

“In particular the future of conventional power stations is very open and cannot be predicted in my view. Market models must be created to be able to realize investments. Or to create just a European group which then leads, I believe, to the fact that we have no more conventional power stations in Germany, but cover the shortfall from abroad, if necessary.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

The future use of nuclear power plants in Germany is no longer questioned, since Chancellor Merkel announced the exit from nuclear power production in Germany, in 2011. This led to high levels of volatility within the industry and affected single companies significantly (Verivox, 2012).

“Nuclear energy is a positive example where I would say that politics had a significant impact on the performance of the four companies producing energy by using nuclear power plants. However, this will be discussed in court. This is another topic. I generally think that besides nuclear energy

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that politics does much more than setting the framework conditions. It goes much deeper into technical details; it goes deep into things that would not be allowed in a pure free market economy.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

### *Impact by supervisory boards*

The relationship between the company and the members of the supervisory board and the relationship between the board of directors and the supervisory board were popular topics during the interviews. Due to the unique industry structure, with a majority of locally owned small and medium-sized companies, there is a natural tension as mostly local politicians are members of the supervisory boards.

“The overall impact of politics on the energy industry here in Germany is strong. It is very strong and compared to other industries, the energy industry is highly impacted due to many communal members of supervisory boards. The supervisory board influences the board of directors, no matter what size they are. There is a strong influence, not on the daily business but on strategic decisions.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

This expert shares his experience with local politicians influencing the company’s activities. In this case, the mayor tried to impact pricing policy.

“Supervisory boards can influence the areas where our sales persons are active; there is always a mayor with an opinion on this. Or on the way prices are set. This is also a topic a mayor will have an opinion on. Therefore they always intervene in strategic decisions. This plays an important role.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

In opposition, this expert points out that even as a political human being he is not influenced by politics. The promotion to a CEO by the supervisory board in the German energy industry no longer depends on party affiliation.

“Personal political standpoints do not affect my daily work in any way. I am a very political human being and I never limit myself in political thinking. And this is, honestly, really far away. I would say it is a cliché that you can become the CEO of a local utility with your party membership and your local church community. I would say this was a long time ago.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

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The advantage of being a publicly owned company is mentioned by this expert. When companies are subsidiaries of the big four, and therefore without politicians on the supervisory board, this does not necessarily lead to a better performance. The different challenges of the big four, regional utility companies and local municipals are identified by Roland Berger (2013). He demonstrated that there is a similarity between regional and municipal utilities, while the issues that the big four are facing are quite different.

“I think the construct ‘100 per cent local and public company of the city’ is right, because I am convinced that this is economically right and supports the structure of the region. All of the other systems have not identified that they are better, not RWE, its subsidiaries or any other model. That means that I believe in the construct with local thoughts, but with the freedom to act in the market.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

This manager tries not to get involved in local politics at all. His focus lies in the separation between politics and business, even in terms of the cooperation within the supervisory board.

“I personally refrain from politics and do not participate in single political events. I also do not jump from one parliamentary group to the next. This is not what they hired me for. They quite knowingly decided to hire someone from outside, from the industry.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

### *Reduction of impact by management*

The experts were asked to share their view on actual and possible approaches to reduce the impact of political risk. The approaches used are different, however, the common understanding is that an intensive “monitoring” strategy is most useful.

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This expert states that there is a significant period of time before EU initiatives are transferred into national law. However, the EU impact is an important issue for the big four (Roland Berger, 2013).

“We try to identify short-term surprises and try to figure out how to deal with this in the long run. I come from an energy trading company, and there, one has a very different view on short-, middle- and long-term perspectives than normal. I would say that now we have been dealing with political risks for a time period of about five years. So, things that are predictable take about three or four years until they are transferred to national law. Therefore this is the time period we are engage with.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

The prior identification of political risk is realized within the company of this expert as part of their enterprise risk management system.

“We do this [the anticipation of political risk] way upfront. Obviously not in a way that some would wish for. As there can still be risks, which you might not come cross. This is due to our size. With 250 employees, this is not totally possible, but of course we go into these topics at an early stage and discuss them – otherwise lobbying would not make sense.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

For the development and caring of political relationships, this company have opened up an office in Berlin. They have identified an increasing process in the way of using resources for political contacts.

“We have set up an office in Berlin, and we try to stay in contact with politicians from the member level and the ministry level, really on every level, on a regular basis. We do have our own power, but it is clear: the handling of this power is in the hands of the CEO of the company. And therefore this is an extremely multifarious topic and the resources we are using for this have increased over the last years.” (M10: Male / Age 48 / Company: Municipal / Exp. 20)

### *Manage impact on or by associations*

Many smaller companies do not have the financial and/or human resources to establish their own lobbying offices. The membership in one of the big German

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associations of the energy industry is a preferred way of handling the potential impact of political decisions.

“Association work is a huge topic for us. For my division, lobbying and association work start at the very top. We are active in the BDEW, in the BMWI and in parliament. That happens to enable us to represent our interests. To be able to say that fits or that doesn’t fit.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

The allocation of CO<sub>2</sub> certificates is a topic which is still present in the energy turnaround (Auer & Heymann, 2012). There is also a high-level linkage between some associations and politicians. This expert points out the fact that the current head of the largest energy association in Germany (BDEW) previously reported direct to Chancellor Merkel in her administration.

“So, I would wish the knowledge transfer to happen at all levels. We have lobbying in the energy industry; this is the VKU and the BDEW. And they are very active. And if I think of Mrs Mueller, who was once Mrs Merkel’s office boss, then still today there is this close connection. But this only happens at a high level of politics. It would be nice if it was possible for interested politicians to meet the energy persons responsible here in the municipal or in the governmental district, and sometimes take part in a supervisory board meeting.” (M8: Male / Age 62 / Company: Other / Exp. 25)

The findings of Dinar, Balakrshnan and Wambi (1998) are in line with this: the actions of politicians and institutions are an important consideration for investment projects. Relationships are therefore of high value.

Political relationships can also be used outside of the energy-specific associations. This expert mentions clubs such as the Rotary and the Lions as a potential way to build up relationships and therefore be increasingly enabled to handle political risk more effectively.

“Or there are personal affinities; one may never also underestimate this of course. This also happens in the various clubs such as the Rotary and the

Lions. It is not only the industrial representatives, but people from management who attend these clubs. Their influence is beyond question. But I think that one can already differentiate this, at least at this surgical level with municipal participation always also a part of it. ‘What do they want?’ Because they also sit on the supervisory board and can make life for me as a manager easy or complicated. If it is, as said, a mixed enterprise, then I have often had such an experience: even if industry is the junior partner, it has the most influence – mostly it has the industrial guidance.” (M8: Male / Age 62 / Company: Other / Exp. 25)

### *Manage impact by lobbying*

Whenever there is a discussion about business and politics the term “lobbying” arises. The experts were asked to point out their perception of lobbying as a way of managing the impact of political risk. This expert quite clearly identifies a significant impact of lobbyists in Berlin.

“Yes, absolutely. Just take the subject like now, for example, energy-intensive industries. They have their lobbyists in Berlin, one sees this now because they are released from the stream tax and in future, also from the net compensation fee. And this has definitely created a suitable interaction.” (M8: Male / Age 62 / Company: Other / Exp. 25)

The business of lobbying is critically discussed. Besides the fact of the high number of active lobbyists in Berlin, this expert shares his insights: he has heard about problematic working environments in this area, making lobbying a tough business.

“I believe, there is a five-figure number of lobbyists who hold numerous political meetings at set locations in Berlin. In addition, there are still programmes of single governments where officials are put in place as in industrial experts. And one from the industry – I know a concrete case – an industrial manager, not necessarily the manager, who is probably there for the next six months, but sometimes a sales manager, a technical leader, in a ministry is able to see what happens on site. From one concrete case, I know that the affected person has said: he would not like to remain there long.” (M8: Male / Age 62 / Company: Other / Exp. 25)

According to Harris (1999), political lobbying can be a major factor within the policy decision-making process but the “knowledge and understanding of the

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political and policy-making process are prerequisites for effective political lobbying” (Harris, 1999, p. 324). Koepl (2003) has identified professional lobbying as a way to secure and increase company’s success.

### 5.5.2.2 Political Results

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The experts have different views on the potential impact of political risk. Political risk and its impact are seen very clearly by some experts:

“Political influence does not reach all the way through to companies’ performances. If you do not want something, a company can be annulled by planning law. I am not sure whether this does really link with companies’ performances; I would not go so far because companies’ performances depend on many other criteria. In the end, it needs to be said, that what influences energy companies’ performances the most, is all the grants in the field of renewables and the enhancement of their performance.” (P1: Male / Age 42 / CDU / Level: State / Exp. 9)

One manager defined the potential impact of political decisions succinctly:

“Sometimes everything, sometimes nothing.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)

The impact of a federal political decision can differ between states. Energy production in Germany is not equally spread between the sixteen states. It is therefore important to consider individual state politics.

“It is challenging to include the specific characteristic of energy politics of the state of North Rhine–Westphalia into the federal party programme of the social democrats. However, we have here [in North Rhine–Westphalia] the highest proportion of energy generation as well as energy consumption, at least in the producing sectors and therefore a very specific view of our federal programme. And that is correct and important even if that leads to discussions within our party.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)

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The diverse perception of impact by political risk is in line with the findings of the literature review in chapter 2, where it is stated that there is no common understanding of political risk.

### *Size/structure of company*

In addition to size, there can be more company individual factors that create a different type of political risk. This is in line with the findings of Roland Berger (2013) who analysed differences in political challenges, depending on the company size.

“So, I want to admit self-critically that we have not succeeded up to now, but mainly due to temporal reasons, which are not in the way I wish they were. That is we are a small group and it is in such a way that I and a colleague who is active in the environmental area, unfortunately, only have a restricted number of working hours each day. I cannot lead the conversations which I want to carry on with pleasure, so this is often shot from the hip, so to speak. What we make, we analyse of course the interest situation, right now I say what does Trianel do? What does RWE do? What do other providers do?” (P7: Male / Age 50 / LINKE / Level: State / Exp. 8)

“This one sees clearly, very strongly, and completely. RWE or E.ON today, the deep-red figures with E.ON. This is also co-caused of course largely by federal-political decisions, quite clearly. So, in this respect, there is a big influence from primarily federal-political decisions on the strategies and on the results of the enterprises. One must see that this is quite clearly so.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

### *Impact on economy and/or individual company*

There is a perception of political risk that it affects the whole economy.

“Political actions impact the whole economy and also the individual company. It is via the framework laws, and that is right. I think that lobbying is absolutely OK, as long as it is about exchanging information and evaluations.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)



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“The decisions on energy politics have a dramatic impact on the economy. Wealth depends on an economic society and economic society depends on the energy supply.” (P2: Male / Age 60 / CDU / Level: EU / Exp. 28)

This expert identifies a massive impact of political decisions on companies.

However, he does not see a differentiation between strategic and operative effects.

“I don’t think that you can categorize political impact on companies; neither strategic nor operative, nor on the time perspective. I believe that there are decisions of politics that can have a massive impact on companies. Have a look at the aluminium industry and the prices for energy. What you can create there by decisions on network stability with aluminium production sites as a heavy back-up consumer. This will have a concrete effect.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)

For a better position in the future competition, it is necessary to anticipate social development. A positive image of the company can make a difference.

“If I think about the energy industry, then I think the winner would be someone who no longer questions the political consensus on the energy turnaround – that was fixed many years ago. This would have created a USP and I am sure this would have created a positive image with a main locational advantage. [...] Therefore, one of the most important things you must be able to do is to anticipate the social development, especially within the energy industry.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)

### *Recommendation for future work*

When asked for potential impact, some of the experts also shared their knowledge as a wish for the future and a recommendation for future work together.

“The impact of politics should never strike through to companies’ performances.” (P4: Female / Age 52 / SPD / Level: State / Exp. 15)

### *Expectations of politics*

The experts were also asked to share their opinion on the expectations of politics.

The main expectation towards the political system and its actors is to define framework conditions that enable the utility companies to plan their activities.

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“Politics must span, based on negotiated basic principles, a reliable and calculable frame for one election period. But not with the goal of influencing the enterprise politics of a single company in any way.” (P4: Female / Age 52 / SPD / Level: State / Exp. 15)

The politically motivated energy turnaround needs to be realized by the companies but it is the politics that start this process.

“Politics must enable the utility companies to realize the energy turnaround for power network development, renewables, but also for alternatives to nuclear electricity; I am talking about combined-cycle plant and their approval procedure. That is also valid for the approval procedures for wind farms, for solar power plants and they need to support the energy industry if whole regions – I am talking about southern Germany – block renewables.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

The expectations are also focused on several political levels. European politics were identified as a key political aspect. As it is the EU that sets the impulse for changing laws and regulations, this expert asks for a European energy policy.

“If Europe needs a common currency, Europe also needs a common energy policy, because without energy – one says in the Ruhr area – nothing runs. [...] Therefore, it is my hope that we come now very quickly to a Europeanization of the energy policy...” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

“So, in this respect, I believe the economy thinks itself there already. Whether this is true, I sometimes go from the construction branches to the chemicals companies, which I also have in my town, which have 500 employees. They think to themselves too and are also interested in good cooperation with me, with the economic support if it is about approving things. But, in the end, urban influence is not given there.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

This is in accordance with Roland Berger (2013) who identified EU guidelines and targets as a major issue.

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### *Impact on future industry development*

However, the uncertainty of the development of conventional power plants does not make for clear and certain development strategy for renewables. The identification of uncertainty as a major issue is in line with the findings of Cioffi-Revilla (1998). This expert P6 sees the main issues as network development and questions of power storage. However, the detailed strategy is still undefined (Auer & Heymann, 2012).

“And I think there is a serious change in the way of thinking right now. [...] Well, so there is a direction towards renewable energy. That is an open secret. I think the winners are those who take this seriously and do not simply pretend. I think there are two main questions: how do I get the right volume at the right time to the right place? It is network development and [energy] storage technologies.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)

### *Manage impact on or by associations*

From the political perspective, the perception of companies and their activities is determined by public opinion. The companies and the associations were partly unwilling to accept these changes.

“There has been a decade of narrow-mindedness. What caused that? – I don’t know. Well, you can see that the companies were not willing to accept the social consensus [of the energy industry] and kept questioning it due to their individual company-specific interests. And you can measure that by having a look at the dividend that is paid to the shareholders. If I look at the proportion of this dividend that is filled by the free allocation of CO<sub>2</sub> certificates – that hits them hard today.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)

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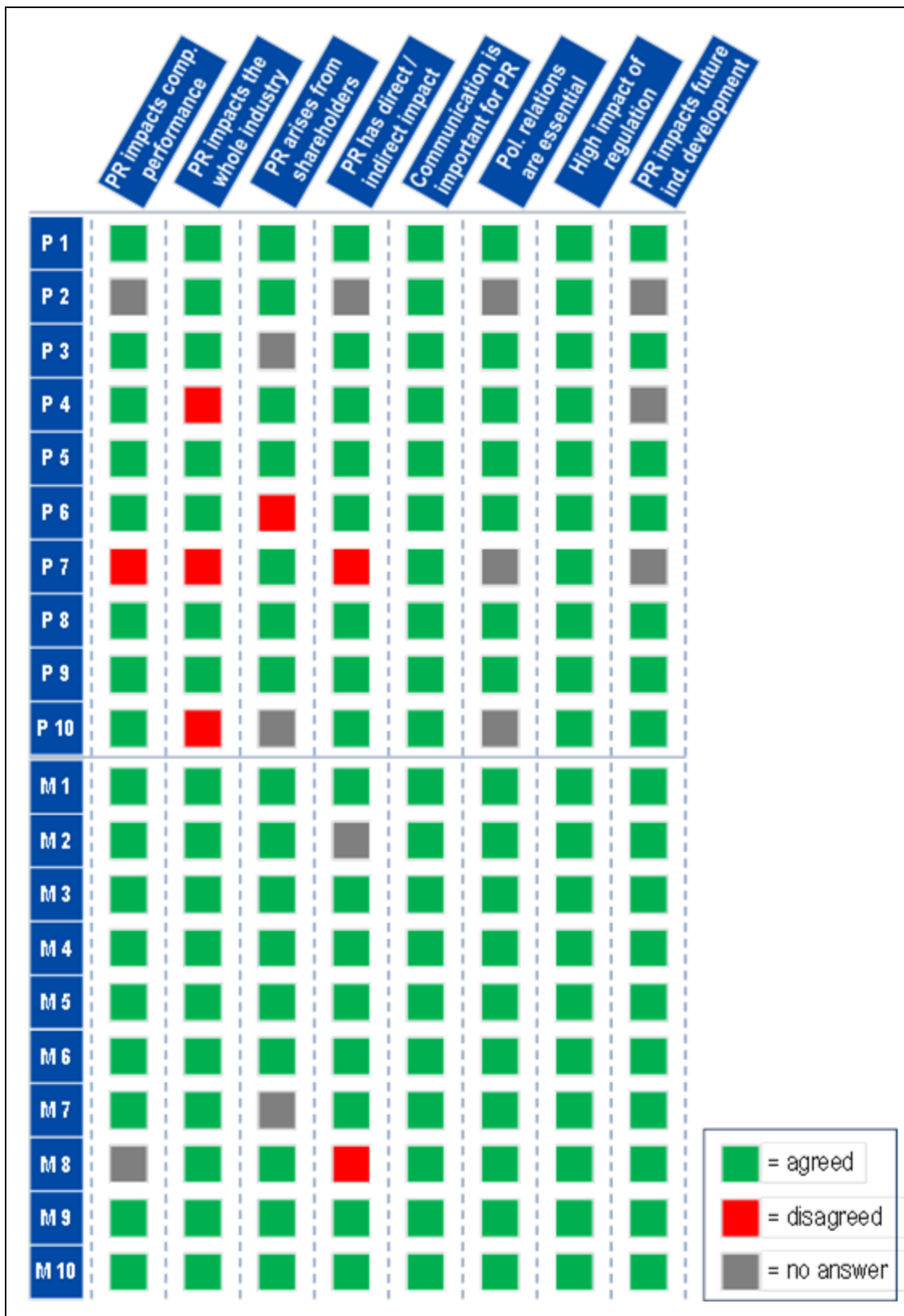


Figure 29: result matrix for RQ 3 (own illustration)

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The mentioned impact needs to be analysed in respect to the individual expert and their background. Due to the diverse structure of the industry, it can be assumed that the impact of political risk differs from the big four to the small utility companies. Based on the literature review and the industry snapshot, it is also reasonable to assume that the impact of political risks differs depending on the section of the value added chain in which the individual company is active.

As a third point, there might be a relation between the shareholder structure and the potential impact of political risk. A few German utility companies are public limited companies; fewer have listed their shares on a stock exchange. But most of the German utility companies are limited companies, with their shares owned by cities and local authorities.

Energy managers are quite united in their view on the potential impact of political risk on the German energy industry. It has to be stated that the recent events of the last years have influenced the industry in a diverse way. Due to the different structure of the industry, the political orders to shut down nuclear power plants has impacted the big four companies only. Another differentiation can be identified along the value added chain. In Germany, there is a strong regulation on the network sector yet there is no regulation on water.

Impact can also differ depending on the individual shareholder structure and the individual characters on the supervisory board. In municipal utility companies, the mayor is often the head of the supervisory board. This might create some tension,

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but in the end managers and local politicians need to work together and most of the experts see this as a key aspect in minimizing political risk.

The actual and potential impact is also clearly differentiated depending on the position: as a politician, one does not see political influence as potentially risky; as a manager of a German energy company, one usually does.

### 5.5.3 Conclusion

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This section has identified the main types of political risk as they were mentioned by the experts. It has been shown that there are similarities in the perceptions of politicians and managers, but also differences. Political risk is, to some degree, still understood differently by the two groups of experts. In the political area, the experts with strong links to the business world mostly admit that politics can create risks to enterprises. However, members of parties with less economic knowledge tend to see political decisions more as part of the game than as political risk.

Different perceptions are in accordance with the findings of the literature review; while some work identified an impact at company level (see, for example, Bracken, 2004; O'Brien, 2008) as well as at a country level (see, for example, Hill, 1998; Clark & Tunaru, 2005).

Within the opinions of the industry experts there is a common understanding of political risk as a threat to companies. Nine out of ten experts agreed that political

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risk impacts a company's performance. Even within the group of politicians, there was a strong agreement on this position; but, in addition, one expert disagreed with the linkage. From the author's perspective, it is absolutely clear that political decisions impact companies' performances. It might not be a strong effect in all instances, but the relationship does exist. The literature review supports this position (see, for example, Bremmer & Keat, 2009).

Political regulation is another major topic in the industry. Roland Berger (2013) sees politically initiated drastic changes as the major challenge for all German utilities. Within this study there is a linkage between regulation and the impact of company performance and/or industry development. The Federal Network Agency might change industry characteristics and/or decide on proposals for individual companies. This is in line with the author's personal experience: at his company, ENERVIE, performance in 2014 is highly dependent on decisions by the Federal Network Agency regarding compensation (Radio Hagen, 2014).

Industry experts also commonly identified political risk as a main impact for the future development of enterprises. They see relations to politics as a key aspect for the effective management of political risk. One interview expert is the managing director of an e-mobility company: this emerging business field does depend strongly on political decisions regarding financial or technical promotion (Roland Berger, 2013; Herrmann et al., 2012).

However, the political perspective on the relationship between industry and politicians is slightly different. The politicians of the Conservative and Liberal parties are aware of the benefit of these relationships. Other politicians, especially

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those associated with the left wing, did not always admit that positive aspects exist. These politicians tend to see this knowledge transfer as linked with the danger of lobbying (P7: Male / Age 50 / LINKE / Level: State / Exp. 8). This is in line with the author's perception of the public behaviour of the German parties. In particular, the CDU, the CSU and the Liberals can be considered as 'business-friendly', while some parts of the Social Democrats, the Green party and the left do prefer a strongly regulated market with less room for individual company decisions.

This different perception of the two interview groups, and differences by party within the group of politicians, is also true for the perception of other types of political risk impact. The demonstrated differences are in line with the author's perception of the relationship between the political parties as well as with the managers of the industry. The willingness for an objective knowledge transfer decreases from the right wing to the left wing. However, the industry is aware of the potential win-win relationship with politics and sees knowledge transfer as a major tool for business success (M3: Male / Age 43 / Company: Consulting / Exp. 13). This is even truer for the last years, where drastic—politically initiated—changes led to the energy turnaround, which did affect all companies.

The next section, 5.6, analyses in detail what the key aspects of an effective political risk management system are. It demonstrates the major items which a company must consider in order to mitigate political risk. Section 5.6 links these insights to one model of political risk management in the German utility industry.



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**5.6** Research Question 4: How might a unified concept of political risk enable German energy companies to manage political risks more effectively in the future?

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### **5.6.1 Introduction**

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This section is about the construction of a unified model of political risk which is personalized for the German energy industry. Based on the analysed question, the gained insights into this topic and approaches directly communicated by senior managers of the industry, this section identifies elements that lead to the model of political risk for the German energy industry.

After the identification of elements for this model, these elements are analysed and evaluated for their impact. The evaluated elements are put into relation to each other, and based on the prior research, combined into a model. This model will contain elements of both experts' interview groups and reflect the essence of all of the experts' knowledge.

In a second part of this section, the model of political risk for the German energy industry is constructed and described with the different stages of evaluation.

### **5.6.2 Findings**

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The analysis in the previous sections has shown that political risk in the German energy industry is unique. Hence, the model which describes the synthesis of political risk needs to be unique as well. In the end, the model is expected to

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enable energy managers to handle political risk more effectively. This demands a clear and easy-to-follow structure for the model. The output perspective of this model needs to be logical and simple to adapt to the individual company situation.

This model is split into three different sections: with regard to the input perspective, there are factors included that might lead to political risk. The second section describes an individual company perspective: this is divided into structure (e.g. shareholders) and activities (e.g. nuclear power plants). In a third perspective, the level of political risk results in the company's degree of political involvement.

### 5.6.2.1 Management Results

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#### *Inside view*

The inside view on political risk is determined by various factors and depends on personal experience and issues involved. This political expert recommends a strategy of watching and dialogue to handle political risk for their own activities. This is in accordance to the recommendation of Kleinfeld (2007) for a proactive handling of political lobbying.

“If I were on the other side, I would of course try to create predictability. That means: watching politics, dialogue with politicians.” (M7: Male / Age 49 / Company: Municipal / Exp. 22)

For an internal estimation of our own activities, the analysis can be split into two sections: first, a strategic component and second, a controlling component. This leads to a risk management assessment.

“If then I see the internal view, I would leave of course everything at first strategically and of course also, I say sometimes, operative controlling and

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control instruments and before all things, introduce a risk management assessment. And to me of course the things which are essential, which are intensive according to a thorough analysis and assessment also need to be sanctioned by my committees.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

The energy turnaround is a major topic that affects all companies’ activities (Roland Berger, 2013). Despite the fact that this was a political decision (Bundesregierung, 2011), it is the individual set of companies’ activities that determine the impact on political risk.

“I have indicated it just now, the basic conditions are not clear. I would like to try to differentiate this. So, first sometimes we start with the production. We have the situation, we have initiated the energy turn. We will invest massively in the regenerative energy production, passed currently. Ehm, ehm. It means, the future will be that we will produce at least a big share of our energy from renewable power stations.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

Activities on gas can also determine political risk. While gas sales and delivery is today not intensively discussed, the mining of gas is; especially the method of fracking is a matter of public discussion.

“I think we will get the situation that we can agree in the medium term at least, relatively favourably natural gas. There is currently a mad – on account of the prize situation of course – support for natural gas, in particular in the USA, but also in Europe, by methods that one just takes the natural gas from the slate rock. Or just by fracking in Germany or also in other countries. Where one tried to extract natural gas from areas which would not have been worthwhile earlier, today, one does it.” (M4: Male / Age 48 / Company: Consulting / Exp. 20)

This expert shared his opinion on the discussions with the shareholders on his company’s activities. The literature review in chapter 2 did not identify a special shareholder focus in political risk. This is related to the expectation of shareholders to receive a return on their invested capital.

“I think that the level of professionalization of companies will increase, which results in a continuous focus on issues concerning the value added

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chain. This will lead to discussions with shareholders and might lead to a reduction of dividends. But we do everything that we can to prevent this. This is nothing unique for the energy industry; as a matter of course, everybody bothers about their invested capital.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

Other activities focus on more flexible types of power plant and the challenges of power networks. Both are areas of potentially high political impact. Future activities in power plants and power networks are therefore a determinant of political risk for the individual company.

We will need flexible sprinters in addition if it becomes scarce sometimes at one or other place. And we will have to consider how we can a) distribute the energy generated by renewable energy and b) store it, so that we can use it whenever necessary. (M8: Male / Age 62 / Company: Other / Exp. 25)

### *Outside view*

Company size can also be an important factor for political risk evaluation. This expert shares the view that larger companies have an easier access to politics. Smaller enterprises or even start-ups have no standing with politics; it is sometimes even difficult within organizations.

“I do think that it is more difficult for smaller companies. This may have two causes: for one thing the capacities a small company has, that is the resources a small company has. (...) And in the energy economy, we have two strong associations, the VKU and the BDEW where our partners are strongly represented as well. But for us as a small company, it is really difficult to work profitably and to hold such a position constantly.” (M1: Male / Age 41 / Company: Other / Exp. 10)

The reliability on political decisions is a key issue. Changes in political decisions can lead to problems for companies’ activities. The development of politics can therefore be considered as an important factor. The findings of Roland Berger (2013) are in line with this statement, as he sees political change as a major challenge.

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“If I were in politics, there is a quite clear energy business triangle, which consists of environmental compatibility, security of supply and economic effectiveness (...). From this point of view, you should not make any radical changes in the course of direction (...) instead of that, you should plan in a more considered and thoughtful way.” (M2: Male / Age 37 / Company: Big 4 / Exp. 12)

By referring to the development of the previous years, this expert considers the impact of the federal network agency as a major factor for the future development of the industry. The level of political risk does therefore also depend on the level of regulation: present and expected level of regulation.

“I am sure that the developments of the last two years will continue: the intensive competition, the pressure on margins and costs to fulfil the dividend expectations – either of communal or institutional investors. I am sure that the present market situation will dramatically increase in the future. That means utility companies need to continue with professionalization and find adjusting levels, to deliver a good performance.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

The governmental action or non-action can also influence companies’ political risk level. Even though there is a reference to federal politics, it was a common understanding among the experts that political initiatives by the EU had increased.

“For the future development of the energy industry, I would expect that the government will play an important role. If one has a look at the different steps along the value added chain in the energy industry, there is the topic of sales where I do not see an issue. But the politically motivated energy turnaround (*Energiewende*) is enormously challenging for the utility companies and politics must make a contribution here.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

The education of the public, in respect to a knowledge transfer on the industry’s issues is argued here. It is necessary to lift the public to a level of knowledge where a discussion about the industry development will be fruitful.

“We need stronger couplings; finally, we need a reasonable, clear word in the direction of energy data or information highways. We must talk about the fact that it is necessary to feed the won green stream, all the same where he comes now, into the net. If I even speak with public utilities

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people, with the simple folk, they have not understood yet that it is a problem if we suddenly, at a certain time X, feed in an amount of stream which is not used subsequently. The consequences of changes in the net are not clear to the customers at all. They are looking surprised and say, ‘why, nevertheless, this is not a problem, for they can feed the stream into the net’.” (M8: Male / Age 62 / Company: Other / Exp. 25)

### *Political communication*

Political communication is a major factor for the assessment of changes in politics (Koepl, 2003). This section is about the summary of the insights of the experts on their perceptions towards political communication or political involvement as a highly important factor in political risk assessment.

“But exactly this is probably the function in a democracy, in politics, to filter the topics and figure out the big picture and not promote single interests. And I think that the knowledge transfer is simply necessary and hopefully already there.” (M2: Male / Age 37 / Company: Big 4 / Exp. 12)

The aims of politics are described by this expert. He asks for politics as a key player in political framework conditions. Political communication can therefore support the process of anticipation of political risk.

“Politics should focus on how the goals can be achieved and of course do their best to ensure that the general conditions are not standing in the way.” (M2: Male / Age 37 / Company: Big 4 / Exp. 12)

From the industry perspective, political involvement can also happen on a project basis. However, literature has identified that problems might occur if political communication is limited to projects only (Wang et al., 2000; Bremmer & Keat, 2009). The partner within these conversations can also be the politicians who are members of the supervisory board in the first place.

“The direct contact to politics depends on the individual project shape. Usually it is the customer, the utility, which is in the focus and our a) direct client or b) our project partner. But this depends on the topic and the question, what ways of communication, what types of inquiries are necessary. It can happen that you have preliminary talks with members of

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the supervisory board.” (M3: Male / Age 43 / Company: Consulting / Exp. 13)

This industry expert said that he has no personal contacts with politicians at all. This needs to be evaluated as critical as Althaus (2004), Rieksmeier (2007), and Kleinfeld (2007) have pointed out the importance of communication.

“I do not have personal contacts with politicians.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

This expert misses clear statements towards the public. Regarding the exit from nuclear energy, he points out that the advantages have been highlighted, and possible consequences or disadvantages put aside. This might be due to the enormous public attention linked with this topic (Auer & Heymann, 2012).

“And I think, there it simply has up to now, and I reproach politics for this,, been absent in clarification work. The fact that one makes clear to the people: On the one hand, the decision of the nuclear energy phase-out and the development of renewables shall be shared by the public. But then it is also necessary to consider how this energy is brought to the customers and what will be done with energy that is generated but not immediately consumed by the customers?” (M8: Male / Age 62 / Company: Other / Exp. 25)

Within certain topics, there is a more intensive exchange than with others. The subject-based exchange is the basis for a knowledge transfer and if there is, in addition, a personal sympathy, this is even more helpful.

“The exchange of knowledge should happen regularly and with highly complicated matters, such exchanges should occur more frequently. And if the two parties still get on, then that makes progress easier.” (M8: Male / Age 62 / Company: Other / Exp. 25)

Communication is important when it comes to turning political decisions into reality. An open discussion can support the implementation.

“If one includes the stakeholders and integrates them from their positions, it is useful to take them along during the discussions. It is important to talk with each other and not about. And in the end, even opponents will shake hands and say: Now we have dismissed a new order again and you will

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already see what you can get out of it.” (M8: Male / Age 62 / Company: Other / Exp. 25)

### *Recommendation for political risk management*

Lobbying is becoming more and more used as a method for knowledge transfer and a way to handle political risk more effectively. This is in line with the findings of Weiner (1992), Hoppe and Peterse (1993), Althaus (2004), Kleinfeld (2007) and Gibsy (2009).

“Lobbying is a topic that has been allocated to the big four and by now, it is more a representation of organizations and renewable energies. I think it is important at this point that experts’ knowledge is included and this is what we need a dialogue for. To ensure that there is experts’ knowledge on both sides, to be able to evaluate different suggestions. It is not acceptable that this is outsourced.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

This industry expert shares his insights on the company’s risk management. Within their company, they operate a risk management system which also monitors political risk. This early analysis enables the company to anticipate the potential impact of political risks.

“We operate in our company a risk management system called ‘contract’. This is what we are required to do. We of course list political risks as well. And we intensively analyse different scenarios when we go into the process of strategy definition. Which political framework conditions are our main input parameters? What do we have to do? What type of position do we need to adapt to avoid those risks?” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

This expert predicts the main future political changes within the field of renewable energy. Companies which include this recommendation in their strategy will have a lower political risk exposure.

“And I think that we will undertake a change under the headline protecting resources within this decade towards renewables energy. However, this might be less driven by the topic of CO<sub>2</sub>.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)



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This expert asks for a more respectful method of communication. As mentioned by others, the basis for this is a common understanding of the needs and challenges of the other party.

“I would wish for, and that is the important point, [...] one works with each other more honestly and more fairly than before. On the one hand, the big energy companies are not focused on zero earnings as, like public administrations, they must earn money. Therefore, one has to be clear on that issue. On the other side, I cannot try to receive everything from politics. So, a more cooperative and a fairer way of working with each other would help both sides to keep the emotions outside and get to real solutions.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

In addition, he votes for a consistency of decisions. Once decisions are made as a consensus, these should not be discussed any further.

“Bottom line: to work together like partners and to work together more honestly. And on the other side, to share the view that solutions – but that is true for all political areas – that solutions, which are agreed will be accepted and represent the basis to work with. (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

This expert does not know at all, how the knowledge exchange within politics works. This can be considered as an aspect for improvement.

“I want to subordinate sometimes, but as said, this is only one way to handle it. It depends on how to equip yourself with the right information, so that they can also make reasonable decisions. But I can tell you, I do not know it. So what happens there in politics, at the levels to which you have just alluded, as there the exchange of information is, I do not know.” (M8: Male / Age 62 / Company: Other / Exp. 25)

The development of the economy is mentioned by this expert in respect of potential recommendations. A financial crisis always influences the politics as well as the enterprises. For political risk management, it is therefore useful to analyse political developments that are driven by economic crises. While there is empirical evidence in expert M8's statements, Choi, Gulati and Posner (2011) identified a relation between political risk and sovereign debt contracts.

“Sometime I could imagine, also if one considers that we have an economic crisis and a financial crisis which could absolutely account for

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inflationary trends in two or three years: there can be one more gigantic noise that the consumers do not join in with and say: ‘It makes no difference what is there. Other removal is not possible and the like. As long as the stream still comes from the outlet, this is all we are concerned about. But we do not want any more economic cuts.’ (M8: Male / Age 62 / Company: Other / Exp. 25)

### *Danger of political risk*

The danger of political risk was a consistent topic within the interviews. In recent history, German politics have demonstrated how big utility companies can be influenced by political decisions.

“The business of politics and the industry sector is somewhat new to me. I can imagine that the influence of lobbyists must be large. It is therefore strong (remarkable?), as there is so much misunderstanding on the real topics. On the consequences of decisions that are made, and there is a strong misunderstanding as politics try to determine the plausibility of their decisions with the support of the lobbyists.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

This expert sees a danger in the increasing complexity of the decisions within the industry. Political decisions made by politicians that do not have the necessary knowledge can increase political risk. Althaus (2004) has delivered insights in the policy decision-making process. However, her work is focused on Australia. Recent decisions from the German government have demonstrated that decisions can be made without any industry involvement (Bundesregierung, 2011, 2013a, 2013b). The input from lobbyists can therefore be supportive in anticipating political changes and minimizing the danger of political risk.

“Nowadays, I think that the need for lobbyists, as well as their relevance, is increasing. No matter if this is related to an administrator or on the other end, to an executive representative. I think that this increases because the complexity of decisions is so high. For example, all the topics related to the energy turnaround are really challenging for a politician who is responsible for a region, maybe even with regard to a socio-political issue.” (M9: Male / Age 38 / Company: Municipal / Exp. 12)

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A dialogue is necessary to minimize the danger of political risk. An open exchange of opinions can support the decision-making process by enabling each participant to know the necessary facts.

“Instead, the solution must be that interest groups get the chance, and there are quite a number for each topic, to bring in their position and to discuss it. And this is where the dialogue comes into play. And you may call this lobbying but it would also be legitimate to call this, forming of opinion or knowledge transfer, and not only legitimate, but absolutely essential.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

Another type of change within politics is main elections. The next federal election will have a major impact on the German energy industry. The parties’ positions towards the energy policy are too different to continue the status quo of energy policy.

“I can also imagine that after the next federal election there will be the obligation to reduce the energy consumption by 1.5 per cent per year. One can anticipate that – you can prepare and consider what you do if this becomes reality.” (M6: Male / Age 53 / Company: Big 4 / Exp. 23)

The recommendation by this expert is to watch lobbying carefully as there is a risk that lobbyists are too focused on their own interests. The danger of egoism can lead to a danger of political risk.

“I can’t ask for a fair relationship and know that you pull a fast one on him. And that is always the danger of lobbying; that you are focused too much on your own interests and you do not realize that you have lost the other side. As he or she can no longer live with the results. And that is the problem with our society today. Everybody puts themselves first, and only in retrospect do you realize that you might have pushed too far.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

The danger of political risk in the German energy industry is the complexity of the industry. This expert sees the difficulty as a main challenge.

“Our energy industry is a very complex model of very different products with very different steps in the value added chain. Therefore, it is difficult to say, how I would deal with it as a politician. [...] However, I would focus myself on certain things within certain parameters. I would try to work on these as the big picture is endlessly difficult to handle.” (M5: Male / Age 42 / Company: Big 4 / Exp. 14)

The changes of resources used for power production in Germany will determine the future development of the industry in the next years. The mining of coal will end in 2018 and mark a change in the industry.

“I have read a few times that at least to the east of Germany the countries say quite clearly, ‘we will not be able to renounce brown coal as an energy source in the next years’. Coal will probably run out, at the latest in 2018. Until then, one will still burn it. What we must guarantee is, of course, our basic supply. This shall not be made with renewable energy, at least not during the next 15 years.” (M8: Male / Age 62 / Company: Other / Exp. 25)

### 5.6.2.2 Political Results

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#### *Inside view*

The inside view on political risk is determined by various factors. This expert mentioned the case of the City of Datteln, where a huge power plant project was stopped by local political administration during the construction phase. This resulted in massive losses for E.ON. While 80 per cent of the power plant was finished in 2012, the permission for further construction is still questioned and depends on court decisions (Der Westen, 2013). This expert has identified communication regarding the company’s activities as a key factor.

“With the subject of Datteln and the cooperation between E.ON and the town... I believe that quite a lot also went wrong. Such a big group and such a small town are hardly able to find the same language in complicated proceedings relating to permission, so that everybody has been surprised afterwards and has thought: ‘Oh this will work out anyhow, this proceeding relating to permission.’ And having realized in the end: ‘Oh, does not work.’ They now have come up with consultant groups and teams of advisers from all possible directions ..., now they try to fix this again. And I believe, this is a nice example. Yes, how can it happen that politics and economy do not speak the same language and talk at cross-purposes with each other, work in parallel worlds and this is also how the

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danger of bad investment originates.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

The decisions on future activities can also determine political risk. A company’s activities need to join into these developments to minimize political tensions. One main future topic, as predicted by this expert, is renewable energies (Luethi & Wuestenhagen, 2012).

“[Future development of the German energy industry] is given for the next ten years; decommissioning of nuclear energy and the need for support of the other types of energy, the types of prime energy. When we think about energy generation, this will depend on a type of path, a path on which this can be developed. So when I look ahead to the year 2050: the final aim is that we have 80 per cent of our power generation on the basis of renewables. This is divided into – basically – 20 per cent wind onshore, 17 per cent wind offshore, 10 per cent photovoltaic, then I think biogas and so on. If we add some 5 to 10 per cent of water, that gives us about 80 per cent. And we need to see year by year from now on, where we stand, and after three years, we need to have a full review.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

The impact of politics on companies’ activities does also determine their investment strategy. This is in line with the findings of Altug, Demers and Demers (2007) and Gao (2009). However, it has to be accepted that the big four concentrate the main investment volume of the industry.

“So, first sometimes what concerns the fossil groups – RWE, E.ON – the influence is too powerful, dramatically powerful. One notices this in the fact that there is still a common understanding, an underlying support, by the social democracy and such big groups. In detail, it would also not have been explicable that they build other power stations just like that. This influence must be forced back.” (P7: Male / Age 50 / LINKE / Level: State / Exp. 8)

### *Outside view*

The outside perspective represents the main environmental factors that determine political risk. Public attention is mentioned by this expert:

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“The municipal utilities traditionally of course take care of the contact with local authorities and by doing so naturally with the state politics as well. That works in any case.” (P1: Male / Age 42 / CDU / Level: State / Exp. 9)

This expert considers an ongoing level of communication between politics and businesses as important. A personal basis is important to be able to work together in difficult times. This is in line with the findings of Teuber (2001).

“There is a constant intercommunication with different dialogue partners. Not only related to a specific issue – this is too narrow. If you seek talks only on the basis of a certain problem, your acceptance will decrease dramatically. A constant intercommunication about views, interests and positions and so on is important.” (P1: Male / Age 42 / CDU / Level: State / Exp. 9)

This political expert shares his insights by confirming that he has been in an ongoing communication circle with the members of the board of supervisors of the large companies. Hence, company size did make a difference.

“It is a self-evident fact with all enterprise leaders ... individually with those from major companies, this is not the case with many small and medium-sized enterprises, but with the large ones this has been true. And I knew everybody and I also know today, actually, the responsible managers and leaders of the enterprises. I also know of course the important family enterprises in North Rhine–Westphalia and I have also always thought highly of them, I am familiar with all industrial chambers, with all chambers of trade, I am on the move incessantly.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

The supervisory board controls the board of directors. Their quality of advice can determine the future development of a company. This expert shares his insights on how he was confronted by a lobbyist when he joined the supervisory board. The knowledge and experience of these members are important for political risk accession. This is quite unsupported by the literature review results in chapter 2, as the review was unable to identify an important linkage between supervisory boards and political risk.

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“I am a neutral member of the board of advisors. Elected by both the company and the trade unions. [...] But I am maltreated as a lobbyist and I do not know what else. And this, as I said, is what has affected me. So, rather it has caused my defiance and not ... intensively hurt me – just partially. Of course that feeling disappears after years and quite a lot of activities from SPD, from my own party, are quite astonishing. But anyway, I have overcome this and abandoned from this issue.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

The main challenge is to connect the different political developments to one political strategy. An overall (European) energy strategy, developed by politics, is expected by the industry. This is in line with the practice-focused literature (DIHK, 2011).

“These are processes which are terribly complicated, depending on each other and on the surrounding states and the national economies there. So, this part, the knowledge about the industrial politics, which is also not realizable without an absolutely dependable energy policy – this knowledge and this consciousness, the feeling for it, does not exist. With individuals, I am willing to overlook this. But the fact that we have gone here with the energy policy into the heart of the German economic policy.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

This expert shares his view on integrating the public opinion in the process of exit from nuclear power. Public attention, in his view, plays an important role in the realization of investment projects. The discussion of the increasing of lignite mining was undertaken as a public debate. Political risk can therefore be limited by an early inclusion of the public.

“And to divulge one’s inclinations, one’s knowledge, with the public, is also not particularly prevalent. In any case, it has come too briefly. So, today there I am sure, today the reactions to the enterprises would be different if they had known about the situation earlier. With Rhine brown and with the lignite, this was different [...] these discussions of course on site have taken place, in such a way. And this is a level which is missing today: as well as RWE or E.ON today only energy distribution – predominantly, is in the perception of the people.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

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Lobbying is seen as a type of knowledge transfer by this expert. It is aimed to minimize the impact of political interventions either as a direct initiative or via regulation.

“Lobbying has the image of something unlawful, mysterious, with us. Lobbying is an exchange of interests in truth. And without good, healthy, open, clear lobbying, you get no law – in any case, in our complicated societies. I would know no law that is written without any advice, not only from experts, but also from those involved.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

The public attention towards risk is mentioned by this expert. He argues that risk of any type has a negative perception by the public. Thus, this would be an argument for more intensive discussions with the public on critical issues.

“My perception is like this: In Germany, the vast majority of people are afraid of any risk and with that, the worry of risk sometimes; in the meantime – I cannot say of course so inclusively – the public accept hysterical trains of thought. And also partly, irresponsible characteristic traits.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

### *Political communication*

This political expert shares his insights on how they try to stay connected with the enterprises. This perception is quite useful for companies, however, not all politicians act like this.

“We look for a pretty close dialogue with enterprises, depending on the duties in the parliament. There are of course direct contacts with enterprises but also with organizations. I think the exchange of opinions and dialogue is important.” (P4: Female / Age 52 / SPD / Level: State / Exp. 15)

The political perspective is amended by these views. There is an understanding for knowledge exchange and a constant dialogue, but politics point out their independence.

“Exchange is important and happens on a regular basis. Of course we separate our function from the business world. That is for sure. But we get a consultant service and ask actively for advice, for tips; we receive critics



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but in the end, we need to decide.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

“This is a constant dialogue, which is more intense and frequent with some compared to others – this is clear. But this is a constant dialogue. This happens partly on the CEO level with people I was involved with earlier.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

The political expert voted for an open conversation, a partnership that is not only asked for when problems arise but a reliable cooperation.

“At first, I would behave in such a way that my political conversation partner, my partner in politics, always has the feeling, that I am reliable in representing my company’s interests. In addition, I would preserve a certain level of neutrality on the factual level. By doing this, there will be no feeling that I will deceive my conversation partner. This is very important for me as a question of trust. I would work for a trustful foundation.” (P5: Male / Age 67 / FDP / Level: Federal / Exp. 11)

The different levels of politics have been identified as a main challenge within political communication. There are at least three relevant levels: local, state and federal. This expert’s statement leads to the conclusion that the communication across these levels can be challenging despite any party politics.

“I have said at the very beginning that we here in North Rhine–Westphalia have to bring in our special interests at the federal level. That includes our own party, that includes the federal–state coordination, and of course, our interest towards the government. And there are, of course, certain interests of our industrialized state, energy intensive industries with a high CO2 emission. Therefore, we do have a high potential of CO2 reduction that needs to be accompanied and supported. We always need to point out our special demands.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)

Political involvement does also concern the consideration of public opinion within certain projects.

“Yes well, one does not live on gratitude. But one must firmly embrace the processes of the new construction and in this, we have also not been good. Today, I would also know substantially more and substantially better still what would be inevitable – possibly in the educational area. We have seen very strongly the classical social area, very little the education, the educational area.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

This expert has intensive contacts with the enterprises of the industry.

“I keep a very intensive contact and a close collaboration to the economy. [...] And in addition, quite a new quality of the cooperation between economy and town is beneficial. I am engaged with it very strongly.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

The vote for a fair and open relationship is mentioned by this expert. Each group needs to understand their position and borders within the relationship.

“I think that we organize here in a very fair relationship. My conversation partners on the other side are also absolutely aware about the power distribution between town politics and the economy. For this reason, I have no doubt that common objectives can be realized with ease.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5).

### *Recommendation for political risk management*

Finally, the experts were asked to share their insights on recommendations for political risk management. While this is a very subjective topic, the perceptions are useful to supplement the conceptual approach for political risk in the German energy industry.

“And on the other side, I absolutely selfishly wish that the influence of those groups on politics grows; those that deal in the area of renewables and that want to develop this part further. I would absolutely wish that ‘lobbying’ in this area increases. Political pressure must be built up in this regard, so that we cut organizations, like RWE and E.ON, down to size, as I regard their behaviour as criminal.” (P7: Male / Age 50 / LINKE / Level: State / Exp. 8)

The overall aim for politicians is to increase common welfare. They need to act as a service for common interest. The development of laws and regulations that support this are therefore, to some degree, predictable. These changes should be monitored by the companies.

“The role of politics within this construct is the service of general interest. Therefore, the need for direction is huge. We need to create the conditions

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in which this can happen – we need a legal foundation [...] to support financially, to set incentives, as all investments within the energy industry are financially stricken at the moment. That is a problem where we must push the industry a little bit. The other topic is to create acceptance. This applies to both directions: companies as well as politics.” (P6: Male / Age 42 / SPD / Level: State / Exp. 11)

The personal relationship is mentioned by this expert as another factor for the management of political risk. It must be a relationship as equals. This cooperation is essential for the industry development.

“This is my experience and one must moderate a little bit there. You must leave some space for the topic of course. But if both are ready for it, and I have experienced people’s readiness everywhere up to now, then this also works very well and it then gives no dominance to the economy and also no dominance to politics, but is for me a nice cooperation. All-important: I find this cooperation also essential, around the big aims of the economic location of Germany.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

Another recommendation for political risk management is to watch and analyse the process and outcome of the energy turnaround. The exit from the usage of nuclear power has changed the whole industry and will determine the development in the coming years. According to Roland Berger (2013), it is this change in the industry structure which is a major issue for the companies’ strategies.

“Think about the subject of the energy turnaround. The federal government’s change in energy policy will only succeed in a new form if there is cooperation between public authorities and private enterprises, in the economy.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

The observation of politics, especially on the local level, is another recommendation by this expert. It is necessary to include the relevant politicians into the decision-making process.

“We need to find the right language for the town councils. While one gives them not only the feeling, but also takes them seriously in the assessment of decisions, in the assessment of alternatives. And their integration in such decision-making processes is the key to get something like that done

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and to turn something into reality.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

From the political perspective, it is important to accept the challenges of renewable energy. An open-minded attitude is psychologically important for the future development of the industry.

“My strategy as a mayor of the town is to give a new perspective to this old coal town. I would like to show a new way to the population and tell them: ‘Well, the city became big with coal, but now coal has come to an end. However, now you must not put your head in the sand, but look over here, where there is a new perspective. You, the city, know a lot about energy. Here you have to invest in energy efficiency, in climate protection, in new energy to look and to exert yourself there’. It was psychologically quite an important factor that I could indicate this new perspective to the town.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

This is in line with the findings of Hill (1998), who states the importance of psychological factors for political risk reaction. However, she also found that psychology can lead to both overconfidence and underestimation.

### *Danger of political risk*

The danger for the small and medium-sized companies is the big four companies and their intensive contacts to important politicians. However, Roland Berger (2013) identified different challenges for the big four companies. The competitiveness can therefore be expected to decrease. The direct access to high level politicians is still a disadvantage, a risk to these companies.

“Two such big enterprises like this, have relied very heavily on the direct contacts with politics in their good times, less with the decision-makers, – if I see the structure with RWE and with E.ON, this is hardly different – this is absolutely the case with the chancellor and the responsible ministers, above all with the chancellor, direct access to the chancellor, with the prime ministers, with the ministers at the national level, and with the minister for economic affairs at the national level, even with the mayors on site, but there is little contact with the public.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

The monitoring of economic changes is important in handling political risk.

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“Because I think that we are here on a slippery slope, which can endanger the economic location and the industrial location, therefore, one must be very watchful.” (P8: Male / Age 72 / n.a. / Level: Federal / Exp. 32)

The competition within the industry between the big four and the many other utilities is the major challenge for the development of the industry.

“But it just belonged to the rules of the game of the competition; that to me was clear – who wins the competition, can also count on the support of the industry. The industry does not operate out of self-interest, but it is essential because it generates market access for companies.” (P9: Male / Age 53 / SPD / Level: Regional / Exp. 5)

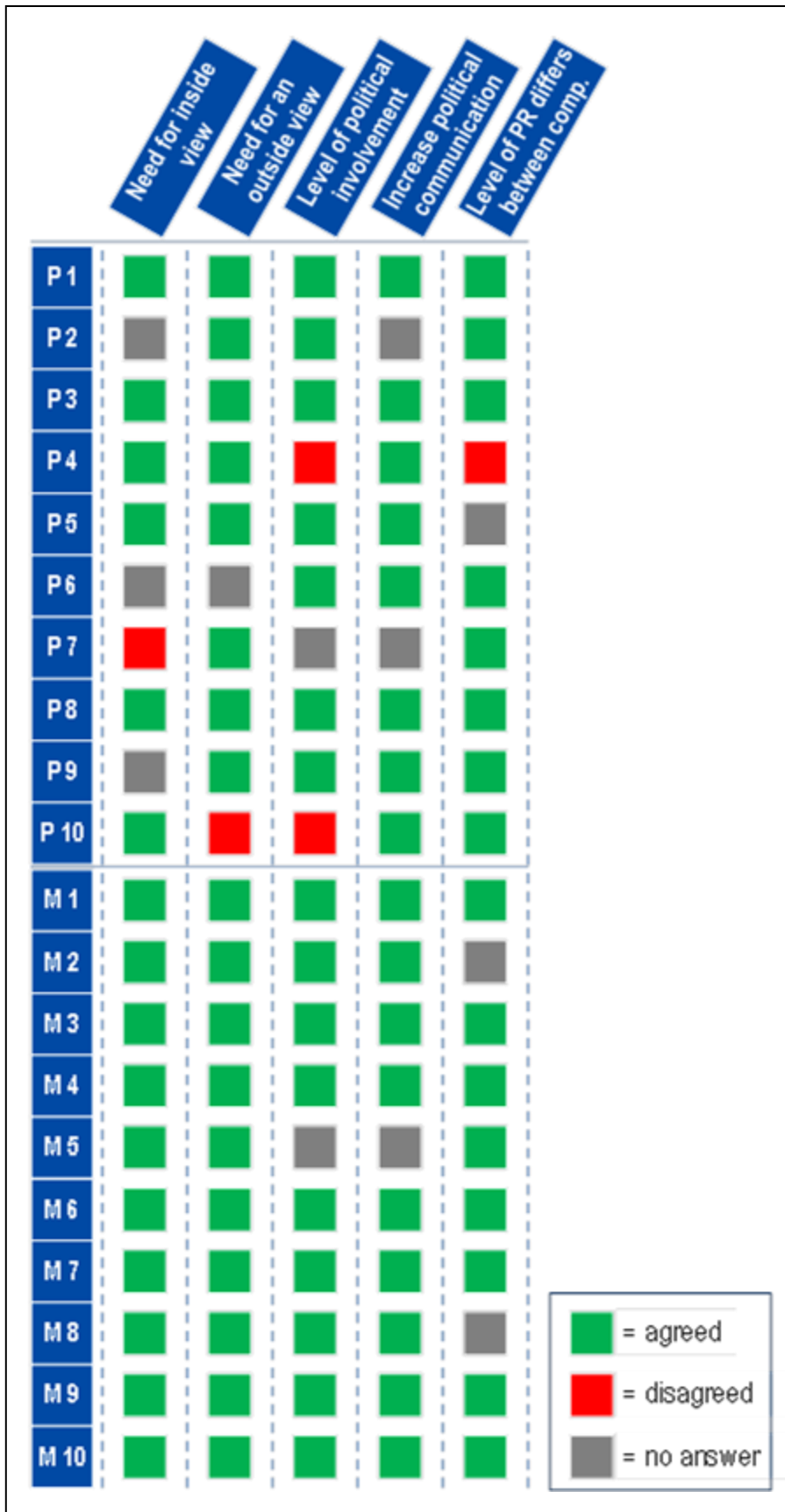


Figure 30: result matrix for RQ 4 (own illustration)

### 5.6.3 Conclusion

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This section looks for a guideline for energy managers to enable them to handle political risk more effectively. The analysis has demonstrated that the political side feels more comfortable having relationships with the industry on a regular basis. It is difficult for politicians to be asked at the time when the problem arises; and not prior an incident. The relationship that many politicians look for is a mutually beneficial connection; politicians need business contacts to stay informed on technological issues and are therefore often thankful for information.

In detail, both groups vote for an inside view as well as an outside view to determine the individual political risk exposure of a company. While all of the managers agreed on this, the political side was divided. Only six political experts—still a majority—agreed with the managers' perception. This is in line with the author's view, as a differentiation between an internal and an external view is essential for the correct assessment.

Nine out of ten managers defined the degree of political involvement as a main opportunity to reduce political risk. They named it as a tool for prior assessment as well as a method to reduce political risk after an incident occurred. From the political perspective, only six out of ten did agree to this way of understanding political involvement. The author has experienced political involvement as being very useful. However, in some cases, although political involvement is useful to reduce political risk, it cannot eliminate it. The author has experienced many incidents wherein a conversation was the best way to handle a critical situation.

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The influence of politics on the industry does exist. This was confirmed by all experts interviewed. The levels at which political risk differs between individual companies was analysed. Based on the results gained so far, it could be expected that this statement of different levels is agreed to by all experts, but only eight out of ten actually did support this perception. The reason for this can be found in a deeply divided market structure (Geyer, 2013). Many companies act within a small part of the market; they are therefore all exposed to the same degree of identical political risk factors from the outside environment. In addition, it has been previously demonstrated that many of the companies are municipals and are strongly integrated within local politics. Hence, the internal environment of these companies is, to a high degree, also identical.

The author is assured that the level of political risk is individual for individual companies. Each company of the industry is in a unique situation that comprises an individual set of political risk factors. However, the author can agree that, on a high-level perspective, this differentiation might not be visible and it can therefore be argued that, at some point, political risk level does not differ between companies.

Managers need to understand the roles and responsibilities of politicians in order to develop a relationship that is topic focused. Lobbying works best within relationships (Gammelin & Hamann, 2005), and not only in single cases. Companies must develop a professional understanding of politics and the policy decision process in order to try to ensure that their needs are met.



### 5.7 Political risk model: conceptual approach for German utility industry

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This chapter presents the political risk model, which is derived from the analysis of the experts' interviews. Section 5.7.1 shows the development from the insights gained to the content of the model. The analysis of the previous sections is used to demonstrate how the findings become part of the model. Section 5.7.2 introduces the model and describes it in detail.

#### 5.7.1 Derivation of model

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It has been demonstrated in the previous sections that the 20 expert interviews generated an intensive amount of highly valuable results. The insights gained offered a new perspective on political risk in the German energy industry. The thoughts and hidden actions in critical situations were revealed and delivered a different view on the cooperation of politics and managers.

The analysis of the findings leads to a conceptual approach for political risk management for the German utility industry. The model is presented in section 5.7.2 and this section is used to illustrate the linkage between the analysis and the model.

While the model for a conceptual approach for political risk in the German energy industry is the result of this research project as a whole, there were certain insights that led directly to a specific element of the constructed model. The following

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matrix illustrates the linkages of the individual responses to the model. Therefore the elements of the model are coded, as follows:

Within the model there are three main groups of factors that determine the level of political risk of an individual company: A) ‘inside view’ company; B) ‘outside view’ environment; and C) political communication/involvement. Each of these factors is influenced by several sub-factors. The recommendations, however, are derived from all interviews, but especially from the understanding of political risk and the insights offered for RQ 1.

coding	factor
A	"inside view" company
A.1	activities
A.2	shareholder structure
B	"outside view" environment
B.1	present level of regulation
B.2	expected level of regulation
B.3	company size
B.4	industry sub-sector
B.5	development of EU politics
B.6	knowledge of supervisory board
B.7	public attention
C	political communication / involvement
C.1	high degree
C.2	low degree

This coding is transferred to the matrix, illustrating the linkages:



### 5.7.2 Introduction and description of model

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The conceptualized approach for political risk management (figure 31) is an essence of the conducted interviews with 20 senior experts, who hold important positions in politics or the German utility industry. It reflects, in a very consolidated but comprehensive way, the key steps which are necessary to handle political risk in Germany more effectively.

The model consists of five main stages. First, there is the evaluation of the inside view, which means the company's perspective on their activities and their shareholder structure. Second, there is the evaluation of the outside view. Here, it is important to add an evaluation of the key aspects from the company's environment. As a third set of criteria, the intensity of the political communication/involvement in daily business practice needs to be evaluated.

These three steps are added together to determine the individual level of political risk of the German utility company (stage four). Within this model, each level of political risk is linked to a unique set of recommendations – this is stage five of the model.

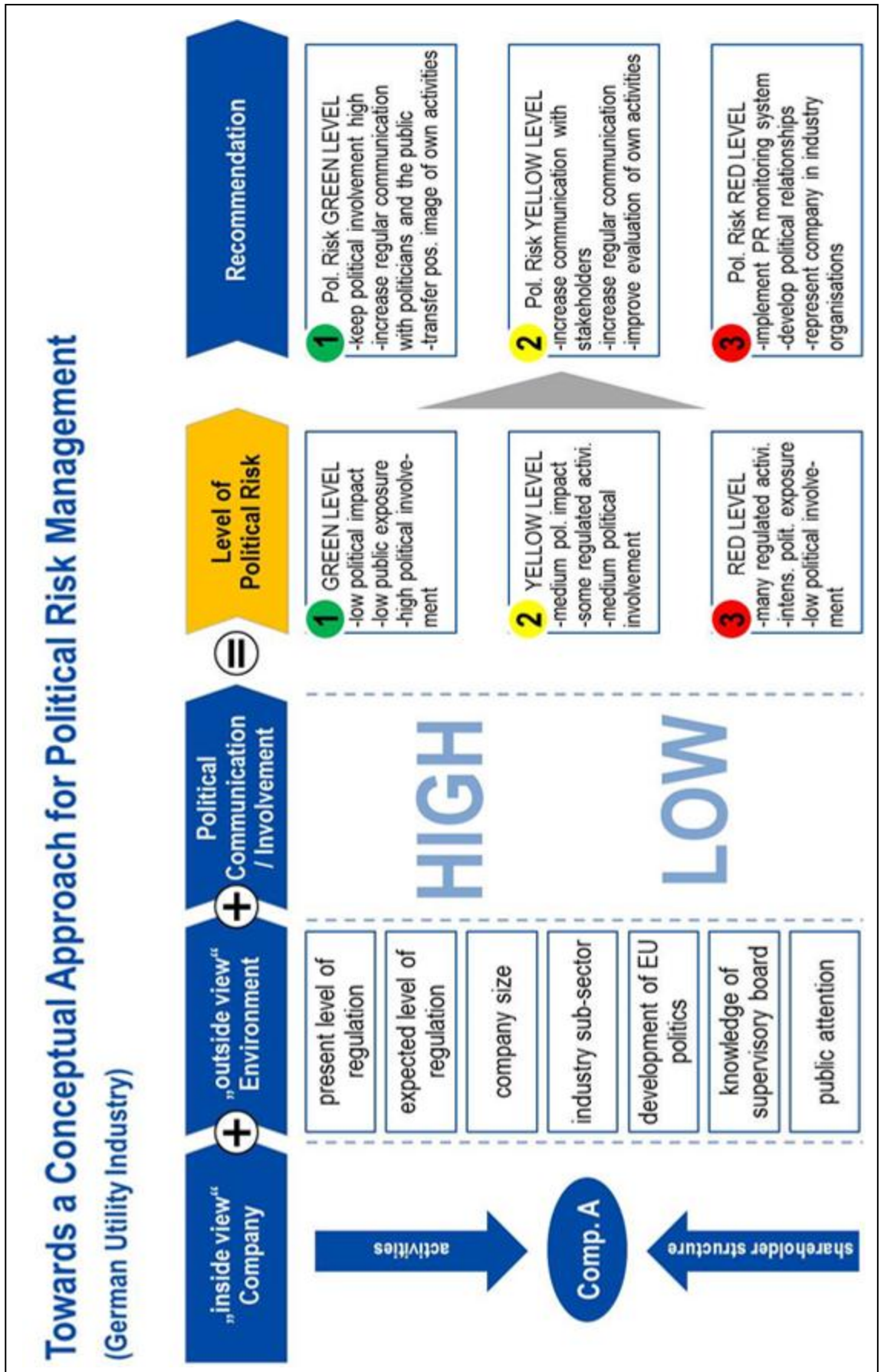


Figure 31: towards a conceptual approach for political risk management (own illustration)

The stages of the model are described in detail in the following:

### **1. “Inside view” company**

The inside view represents the individual perception of the company, based on their own perspective towards the two characteristics: “activities” and “shareholder structure”. Activities summarizes all energy-specific activities, which the company has realized in the past, is realising at present and those which are planned. Due to the variety of characteristics, the evaluation can best be done by the company itself. Only the company can evaluate which activities might be critical and which not. This can include investment plans for new power plants but it can also include divestments. A company might also evaluate their activities in their role as a main local employer. It can include or exclude negotiations on potential cooperation.

The shareholder structure is included in this model as the second factor for the evaluation of the “inside view”. While the shareholder structures of German companies are usually publicly available, the interviews have demonstrated the need for an internal evaluation. The difference between an internal and an external evaluation of the shareholder structure lies strictly within the highly important soft factors.

An external view of the shareholder structure is limited to the shares, their proportion and their splitting. There are also news tickers available for the big four and their company environment. However, it has been demonstrated that the German utility industry is characterized by many small and medium-sized utilities, often municipally owned. One is not able to gain insights into the

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individual communication between the municipal shareholder and their company. Meetings where the company's situation is discussed, cannot usually be attended by the public and external persons or institutions are only, to a certain degree, able to evaluate the pressure a CEO might be facing from a shareholder. Hence, for most of the German utility companies, there is no relevant information available on shareholder activity. It is therefore necessary to add an inside evaluation of the shareholder structure and their relationship with the company.

### **2. "Outside view" environment**

The outside view reflects the main factors which determine the political risk level of the environmental perspective. This was considered important by nearly every expert interviewed. The company must be aware of the individual environment in which they operate. The listed seven factors need to be critically checked to establish whether they might lead to a higher level of political risk.

The first two factors are on regulation. Due to the fact that the industry in Germany used to have monopoly characteristics until the late 1990s, the industry is now in a situation where market access is guaranteed by the federal network agency. As the networks itself are still owned by private enterprises, this led to a high level of regulation in the network area. Regulation therefore has a direct impact on political risk.

Tendencies for future development of regulatory activities need to be monitored as well, since regulation can always be a key factor in performance. As of today, only the electricity and gas networks are regulated. Some interviewed experts

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considered the regulation of the water network as a major event of political risk, which might arise. This would affect nearly any local utility company.

Company size is considered to be important as there are several sub-factors related to this. First, it was mentioned by some experts that the big four are very well linked to politics. It is rumoured that the CEOs have the mobile phone number of the chancellor. Second, it was mentioned that a large company attracts more stakeholder attention than smaller companies. While this was generally considered as useful by some experts, it was also mentioned that it has become much more difficult to manage the increasing number of stakeholders and their, sometimes contrary, expectations. Third, one expert listed small company size as a positive factor in respect of its relationship to its shareholders and supervisory board. The understanding of the individual company is much easier to deliver to politics, when the business of the (small) company is easier to understand.

Another important factor is the sub-sector affiliation within the German utility industry. Along the value added chain, the industry can be roughly divided into mining, energy production, energy trading, transport and distribution of energy, as well as energy sales. These are the six main sub-sectors within the German utility industry. Each of the sub-sectors has a unique structure and unique exposure to political activities. While in the 1990s the exit from coal mining was a very emotionally discussed topic, it is recently the question of the different types of power plants that is being discussed. The energy turnaround is the programme which has been developed by the German government that will determine the structure of power plants in the next decades.



These topics demonstrate the need for the individual evaluation of the sub-sectors and their potential impact.

The empirical analysis of the experts' experiences has also identified the political development as one of the major environmental impact factors. All of the industry experts, and even the majority of the political experts, have acknowledged that there is an intense relationship between the development within politics and the performance of companies. However, the development of politics takes place on several levels: locally there is a development on the positions of mayor and city council. Regionally, there can be a relevant development within the state parliaments. The development on the federal level is visible as the federal government also changes, as far as parties and as far as ministers are concerned. These experts who were able to share their experiences of political influence mostly admitted that beside the impact within Germany, it is mainly EU politics that drive all the subordinate levels. The development of EU politics is therefore an important factor for political risk measurement in the German utility industry.

While the shareholder structure is considered a factor of the inside view in this model, it is the experience of the supervisory board that was identified as important by the experts. The influence of the supervisory board was mentioned regularly. The influence of members of the supervisory board on the company and its managers cannot be linked to a single incident. The possibilities for interventions are quite diverse. Whenever an exercise of influence was mentioned or assumed by the experts, it was put in terms of the relationship to the individual

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member. As a result, the experience of the supervisory board is therefore analysed as a critical factor in the political risk process. A supervisory board can be extremely helpful for high-level discussions with the management board. Specific industry knowledge and year-long experience can support the top management in the strategy-building process of their company. However, a weak supervisory board, which might, in addition, be influenced by party programmes, can lead to a negative impact. The individual evaluation of the experience, knowledge and independence of the supervisory board is important to determine the environmental aspects, the outside view.

The public attention on the company was identified as the seventh main and last factor for the outside influence on the company. It is known that a company acts within a field of expectations by many stakeholders (Springer Gabler, 2013). The experts identified public attention towards a company as an important factor. It is useful to identify the source of the public attention and analyse the individual tendencies. Public attention can be linked to a single activity of the company or can also be related to the whole company. Public attention can occur on several levels with individual players. It can influence politicians and their decisions (Schauer, 2012). It can also occur positively and negatively at the same time: when a company invests in renewable energy, this is considered as a positive development.

However, the individual, in whose direct neighbourhood the wind engine is built, might not view it so positively. Another important field of public attention is the dialogue with non-governmental organisations (NGO). While NGOs often have

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their own programme of the development of a certain industry sector, they use their power for demonstrations against individual companies and their activities. The analysis of the company's individual public attention is therefore important to develop a comprehensive outside view of the political risk model.

### **3. Political communication/involvement**

The third main stage of the conceptual approach for political risk management is the analysis and evaluation of the quantity and quality of the existing relationships of political communication.

Communication was identified by many experts as a key success factor for the cooperative work with politicians. All industry experts confirmed that their individual company is exchanging information with politics. A different perspective was identified when the quantity and quality of these relationships was evaluated in a more detailed view. It has been mentioned that the big four might have a much easier access to high-level politicians. This was considered as a very positive relationship for the big four. However, this does not guarantee a political action in their interest; the decision on the decommission of all nuclear power plants was not in the interest of the big four, and indeed will generate costs of some billions of euros.

The political involvement of the small and medium-sized companies is, in a different way, also difficult to evaluate. Their access to top-level politicians is not generally given. Some experts mentioned that the communication with local politicians is more useful. Small and medium-sized utility companies have

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improved their organizational cooperation. The two main energy-related associations: the BDEW and the VKU, were often mentioned. While the BDEW used to be dominated by the big four and their strategies, the influence of the smaller utilities has increased in the last years. In addition, the VKU united the small and medium-sized companies that are municipally owned.

From the political perspective, a regular communication with the industry was usually considered as very useful and necessary. Only one expert (P07) said that he does not have any contacts with politicians and did not consider it as necessary.

Political experts demanded a regular knowledge transfer for several reasons. One, politicians know that they have only limited knowledge of particular issues. They therefore need substantial input from the industries. Two, politicians often need information from different perspectives to be able to evaluate and balance the different views. They demand information from outside. Three, politicians are human beings. By regular communication, one can build up a serious relationship in “good times”, and they are more willing to help in “bad times”. They do not want to be used only as problem solvers.

For the political risk model, it is therefore important to determine the company’s individual degree of political communication and political involvement.

### **4. Levels of political risk**

The evaluation of the three previous stages aggregates to an individual level of political risk. The model identifies three different levels of political risk. Level

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one, the green level, represents the level with the lowest political risk exposure. The yellow level, level two, is the medium political risk level. The level with the highest political risk exposure is named level three.

### *4.1. Green level*

This level is characterized by low political impact. The company has a low public exposure. If there is any public exposure, it is not negative. The company might be able to generate a positive image by attracting public attention.

The green level represents companies which have a high political involvement, either by individuals involved in high-value contacts or these companies operate a professional political communication system. They have a deep understanding of the relationship to politics and are aware of political risk.

### *4.2. Yellow level*

The yellow level represents a medium political risk exposure. The companies that are at this level have some awareness of political risk. Their performance is to a medium degree impacted by political decisions. The regulation of the industry affects, to a medium degree, the activities of the company. A medium political involvement indicates that the company has, partly but not fully, understood the need for a constant communication with politics. The existing political communication might not be of a sufficient quantity and/or quality.

### *4.3. Red level*

The highest political risk level in this model is represented by the red level. Companies placed here have significant regulated activities, which are considered

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as factors of intensive political impact. These companies are characterized by a high political focus. Their individual activities, as well as their public relations perception, are monitored sensitively by the stakeholders. Contrary to the expectations of the outside world, these companies of the red level do not manage sufficient political relationships. There is little understanding of the need for regular communication with the decision-maker in politics.

### **5. Recommendations**

#### *5.1. Green level*

The recommendations for level one are related to the gaps identified within the political risk analysis. Overall, the green level indicates that managers' and company's action is not immediately required.

It is recommended by the experts to ensure that the level of political involvement is kept high. Whenever possible, the regular communication with politicians, public and other stakeholders should be increased.

The image of the company is usually positive and it is suggested that this positive image is transferred into every single company activity.

#### *5.2. Yellow level*

The yellow level indicates a medium level of political risk. There might be some activities which are urgent and some with a long-term perspective.

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One main recommendation is to increase the communication with the stakeholders. There are a lot of influences that hit the company via its stakeholders. With an increased communication, these impacts can be predicted more easily. The increase in communication is also recommended for the overall political involvement. While the general stakeholder increase has a project character for companies at this risk level, it is the constant political communication which is the key success factor for political risk management.

This demands an improvement in the evaluation of their own activities. Companies exposed to the yellow political risk level often ignore the potential impact of political risk from their own activities.

### *5.3. Red level*

Companies which are exposed to level 3 – the red level of political risk – are faced with intensive political risks. Their activities are under constant surveillance by the stakeholders. As political risk can have its highest impact on companies in this category, it is mandatory to implement a political risk system. All relevant political risks must be identified and analysed. This enables the company to evaluate their overall political risk.

The development of political contacts is the second recommendation. Only by regular communication and knowledge transfer with politicians will such companies be able to anticipate political changes.

The third recommendation for companies with a red level of political risk is the representation in organizations, active with a focus on the industry such as BDEW

or VKU. A lot of informal decisions are discussed in such organization before evolving into law.

### **Time perspective**

While this model does not offer an explicit time perspective, it is useful to state that the effect of political risk on the individual company may differ over time. The mitigation of political risk is also time crucial.

When the German government decided to (temporarily) shut down nuclear power plants on 14 May 2011 (Bundesregierung, 2011), this had an immediate impact on the earnings of the big four utility companies in Germany. EnBW only was faced with a decrease of 450 million euros (Verivox, 2012). In the midterm perspective, this influenced the municipal utilities as these companies started offering new products to try to make up the shortfall (News Aktuell, 2011). In the long-term perspective, this political decision had a major impact on the market prices of power and emissions in Germany (Traber & Kemfert, 2012).

The example of the mandatory shutdown of nuclear power plants demonstrates that the impact of political decisions can differ over time, between the individual companies and may also have positive and negative effects. This aspect needs to be evaluated on an individual basis and is not primarily relevant to the model.



### 5.8 Conclusion

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This chapter has delivered a comprehensive analysis on political risk in the German energy industry. The two conducted interview series analysed experiences, knowledge and opinions from 20 experts. These experts are deeply involved in the industry, strongly connected within politics and have all gained a significant track record of their actions in the field of political risks.

The model was derived from the gained insights on political risk via several steps: First, the experts' backgrounds were analysed in section 5.2 and it was demonstrated that the selected interviewees were highly experienced in their particular fields and had been active for a number of year in the interface of politics and the German utility industry. The experts were chosen in respect of the active parties in Germany and in respect of the industry structure of the energy sector.

Research question 1 in section 5.3 looked for definitional tensions in the way in which political risk is understood and defined as an academic concept and in practice. The analysis found that there is a gap in the academic perspective, as political risk is not covered widely by academic literature. A unanimous definition does not exist. A second gap was identified in the terms of the way in which political risk is understood by the experts: while managers were mostly able to define political risk, the interviewed politicians had difficulties in linking political actions or non-actions with the term 'risk'. In addition, within the group of politicians there was a wide range of perspectives on political risk, depending on party affiliation.

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Research question 2 in section 5.4 identified and analysed the political risks that the German energy industry is facing. It was made clear that the major impact occurred via regulation; namely, via the Federal Network Agency and major political decisions. Research question 3 in section 5.5 analysed the potential impact that political risk activities might have. The German energy turnaround was initiated and decided by the chancellor and all nuclear power plants were forced to shut down. This was a major intervention in the industry, leading to billions of losses for individual companies, and will determine the industry's development for the next decades. To the author, the German energy turnaround is a masterpiece for political influence on an industry and individual companies.

Research question 4 in section 5.6 asked for the characteristics of a unified concept to enable managers to manage political risk more effectively. Within the interviews, there were high numbers of thoughts, ideas, statements and insights analysed and taken into account for the model development process.

Based on the conducted interviews and the insights gained, the individual perceptions led to a conceptual approach for political risk management. The model identified three main aspects that drive political risk: 1 "inside view" of the company, 2 "outside view" of the environment, and 3 political communication/involvement. These three aspects determine the company's individual level of political risk (red, yellow, green) and with each of the levels is assigned a specific set of recommendations. This model can be used by industry managers as a first approach to analyse and evaluate the political risks facing their company.

The next chapter (6) presents the conclusion of this thesis. It links the research questions with the research procedure and with the results. The following chapter summarises the results and demonstrated the contribution to theory and the contribution to practice. It also offers possible future research opportunities on the field of political risk.

The main outcomes of chapter 5 are presented in the following:

Chapter 5 Summary	
Content	Result
Political risk understanding	The different perceptions of political risk by managers of the industry and politics were identified.
Political risk characteristics	The individual characteristics that drive political risk and its development were analysed.
Mitigation of political risk	Possible approaches for the mitigation of political risk were identified and included in the model.
Development of political risk model	A model for the understanding of political risk in the German energy industry has been developed based on the results of the study.

**Figure 32: summary of chapter 5**

**“Politics is not a game. It is an earnest business.”**

Winston Churchill

## **6 Conclusion**

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### **6.1 Introduction**

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The previous chapter used the insights of the experts to answer the research questions and develop a conceptual approach for political risk management in the German energy industry. It emphasised the main drivers of political risk and its actors and offered a set of recommendation for the mitigation of political risk for the companies engaged.

This chapter reflects on the achieved results. It is a comparative analysis on the output in respect of what it was aimed to do. This reflective chapter is the logical continuation of the thoughts and ideas developed in chapter 5. Reflection is considered important in this study, as a relatively new research area is analysed. With regard to Germany, this is one of the first studies on political risks in the energy industry.

## 6. CONCLUSION

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Reflection can be a useful tool to look for the effectiveness of a research approach. The term “strategic” indicates that it is not aimed to reflect on a detailed level, but from a higher perspective.

This chapter is separated into different sections, as the reflection is conducted on a topic basis. Hence, it is suitable to begin with a reflection on political risk and its coverage in the literature. This is followed by the evaluation of its impact on the industry. Section 6.4 considers the research aims vs. the research outcomes.

The different perception of political risk by the two expert groups is reflected on in sections 6.5 and 6.6. This chapter then closes with a conclusion of all sections on strategic reflection.

### 6.2 Political Risk in the Literature

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The literature review in chapter 2 has established that political risk in Germany is an underdeveloped field. While there were early approaches to political risk assessment in the late 1970s/early 1980s (Rummel & Heenan, 1978; Shapiro, 1981) there is an insufficient coverage of political risk in the academic literature. The development of political risk in the academic field can be linked to the earlier development of political risk in the industry.

The field of political risk in the German energy industry offers some work on political impact but no comprehensive work on the political risk level as a whole.

### 6.3 Research Questions vs. Research Outcomes

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The research questions developed for this study are mentioned in chapter 1 as follows:

1. Are there definitional tensions in the way in which political risk is understood and defined as (a) an academic concept and (b) in practice, by German politicians and energy managers?
2. What political risks face the German energy industry and its companies?
3. What is the potential impact of these political risks on the German energy industry and its companies?
4. How might a unified concept of political risk enable German energy companies to manage political risks more effectively in the future?

While the research has delivered many insights into political risk and its assessment by politicians and energy managers, the following figure summarizes the results on each question. The study was able to answer each of the four questions, however, the quality of the analysis might differ. While the study builds the framework for the results, the main outcomes are presented in chapter 5.

Research questions vs. Research outcome		
Research questions		Results presented in...
1	Are there definitional tensions in the way in which political risk is understood and defined as (a) an academic concept and (b) in practice, by German politicians and energy managers?	Chapter 5.3
2	What political risks face the German energy industry and its companies?	Chapter 5.4
3	What is the potential impact of these political risks on the German energy industry and its companies?	Chapter 5.5
4	How might a unified concept of political risk enable German energy companies to manage political risks more effectively in the future?	Chapter 5.6

Figure 33: Research questions vs. Research outcomes

#### 6.4 Perception of Political Risk by Politicians

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This study searched for the perception of politicians on political risk, focused on, but not limited to, the German energy industry.

The perception of politicians on political risk is difficult to access. This could be due to several certain ideas: (1) self-characterization: it is in human nature, that we are more comfortable criticizing others than ourselves. Politicians tend to be less open in talking about themselves as risk creators. (2) survival-impulse: politicians are elected for a defined period only. It could be harmful to be connected with risk creation. (3) German political system: the six main parties in Germany represent a broad range of opinions – from conservative to far left.

While conservative politicians tend to be more open to discussions on business, it is an enormous ideological distance that the left party has developed towards the



## 6. CONCLUSION

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industries. The left, as well as the social democrats, tend more and more to follow ideological thoughts only. The conservatives therefore, tend to treat their relationships to businesses well. In essence, the broad variety of political parties in Germany makes it more difficult to extract one definition of political risk. However, the highest degree of agreement can be represented by defining political risk from the political perspective as risk due to political decisions.

### 6.5 Perception of Political Risk by Energy Managers

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The perception of managers from the energy industry was also a key element of this study. During this research, it became quite clear that energy managers are very committed to talk about political influence in their industry. This could be due to their senior experience, combined with the dramatic changes brought by the market liberalization in 1996 and the following years. All of the experts are directly or indirectly confronted with the impact of the liberalization. They are therefore quite comfortable in their relationship with politicians and the industry. In addition, many utility companies are local action municipal utilities, with politicians on the supervisory boards.

The energy managers handle political risk as a part of their daily business. Risk management in general is an essential tool for their business operations. Their perception of political risk is quite homogeneous in the way that it is understood as political impact on the industry, the companies and its activities by laws, regulations or single activities. The impact can increase, up to a massive influence, all the way to bankruptcy.

## 6. CONCLUSION

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The management of political risk for companies active in the German energy industry is therefore highly relevant and a crucial success factor.

### 6.6 Contribution to Theory

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Academically, this study offers, for the first time, a conceptualization of political risk in the German utility industry. The existing models have been identified and analysed for possible application in the unique situation in Germany.

This study combines, for the first time, an outside-in with an inside-out perspective on political risk. While there have been some approaches (Althaus, 2004) offering insights on political risk, the application of a two-sided analysis is new. By comparing insights with an outside perspective, the analysis of political risk develops a new perspective on political risk in Germany. The application of this approach to the German energy industry has not been realized before and is the main contribution to theory.

This study has demonstrated the usage of the combination of an outside-in and an inside-out perspective as a research approach. Certain sensible research areas such as political risk are hard to access. There is often a perspective of how these fields are viewed by the outside world and there are often inside experts, who have specific knowledge in this field. An analysis of phenomena like political risk has been conducted many times, however, an analysis with a double-sided approach (outside-in/inside-out) with an industry focus has not been realized before.

## 6. CONCLUSION

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As far as political science is concerned, this study has demonstrated that including more than one perspective can be very useful.

### 6.7 Contribution to Practice

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This study offers a guideline for managers of German utility companies to decrease the negative impact of political risk. It offers an overview of the main threats and insights from politicians regarding their perceptions. This supports the development of a better understanding of each other within this quickly changing world.

The two-sided approach, with a combination of insights from the political as well as management perspectives, enables managers to understand the construct of political risk. The political perspective in this case can be considered as very useful, as the political decision-making process often happens as a locked-box out of public view. This research delivers insights into politicians' decision processes and insights on their thoughts regarding their relationship with businesses. The developed approach identifies key issues that are relevant for political risk access.

The insights identified several activities that can be crucial for a company. With this information, the managers will be able to rethink their organisation, their communication strategy and their products.

Practitioners are enabled to identify the main challenges of their business and define – based on this risk assessment – an individual approach for mitigation.

## 6. CONCLUSION

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### 6.8 Future research opportunities on Political Risk

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This research study delivered a status quo analysis with a broad range of experts from politics and the industry itself. This study could not analyse the overall political risk in Germany, nor a political risk analysis for the energy industry over time. It will be very valuable in exploring the political risk development in Germany for the energy industry.

A second issue for political risk management in Germany is the role of the European Union. There have been several acts which affect the energy industry in Germany and therefore the influence from Brussels is an interesting research field.

As a third area for further research, risk management for energy companies in Germany should be analysed more deeply. It has been demonstrated that political risks are a real threat to German energy companies, but there are many more existing risks.

Fourth, as there is a European energy strategy 20/20/20, it needs to be analysed from the perspective of how this strategy influences the utility companies in other member states. The political system and the industry structure are diverse in the EU and how the political risk exposure occurs in other member states should be analysed.

## 6. CONCLUSION

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Chapter Summary	
Content	Result
Perception of political risk	The different perceptions of political risk by politicians and energy managers were analysed and compared.
Contribution to theory	The thesis has delivered an analysis of political risk concepts and generated an individual model of political risk in the German energy industry.
Contribution to practice	The generated model of political risk has been used to develop a concept for German energy companies to manage political risk more effectively.
Future research opportunities	Interesting and challenging fields for future research related to this study are identified as an overall political risk analysis for Germany, an analysis of EU impact (exemplary).

**Figure 34: summary of chapter 6**



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## APPENDIX



**Appendix 1: Interview Guide**

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**Interview Guide**

**I BACKGROUND**

Please describe

- 1 how and when you came into politics
- 2 how and when you came into your current position
- 3 your typical work in your current position

**II PR UNDERSTANDING**

Please describe

- 4 how political views of local, state and federal level impact your work
- 5 the role of lobbyists with the development and implementations of laws
- 6 the role of economics and businesses in your current position
- 7 from your point of view the influence of politics on the utility industry
- 8 How would you define political risk?
- 9 What are the consequences of your definition for your daily work?
- 10 Are specific industry sectors more or less impacted by politics?

Please describe

- 11 the role of parliament members and the government within political risks
- 12 are there any, and if so, how are election terms linked with political risks
- 13 the impact of political risk on politics itself

**III PR Management**

Please describe

- 14 how you handle political risks and the impact on economics and businesses
- 15 the impact of political risks on management decisions of utility companies
- 16 Imagine you were the CEO of a utility company. How would you handle political risks?

**IV PR Outlook: Industry outlook**

Please describe

- 17 Where do you see the industry sector going over the next 5 and/or 10 years?
- 18 What policy strategy issues do you see as being important alongside these trends?

## Appendix 2: Information letter for interview candidates

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This letter was sent out to candidates with background information on the research project and detailed information about data procedure.

**DANIEL DIERICH**

Doctoral Research Student at the University of Gloucestershire (UK)

Diplom-Kaufmann (FH), Bachelor of Business Administration (NL)

**Mitgliedschaften: World Policy Institute (US), Deutsche Gesellschaft fuer auswaertige Politik (Berlin)**

**PERSOENLICH**

NAME

POSITION

COMPANY

STREET

CITY

Dinslaken, 14. September 2011

**Forschungsstudie: Anfrage fuer ein Experteninterview im Rahmen meiner Dissertation**

Sehr geehrter Herr XXX,

in Ihrer derzeitigen Aufgabe als XXX der XXX arbeiten Sie an der spannenden Schnittstelle zwischen Energiewirtschaft und Politik. Gerne moechte ich Ihre Expertise in meine Dissertation einbinden.

Kurz zu meiner Person: Ich habe internationale BWL in Deutschland, den Niederlanden und den USA studiert. Mein Branchenwissen baute ich bei RWE (Konzernstrategie), im Consulting und der ENERVIE-Gruppe (Vorstandsreferent) auf.

Ich promoviere berufsbegleitend an der britischen University of Gloucestershire zum Thema „Investigating Political Risk in the German Energy Industry“ und wuerde gerne Ihre Sicht auf das Zusammenspiel von Politik und Wirtschaft im deutschen Energiesektor kennen lernen.

Erstmals wird dieses Themenfeld in dieser Form im Rahmen einer Studie beleuchtet. Mein Forschungsprojekt umfasst zwei Interviewreihen, mit Energieexperten aus der Politik und mit erfahrenen Managern aus der Energiewirtschaft. Die Interviews werden auf Deutsch durchgefuehrt und dauern etwa 30-40 Minuten. Betreut wird meine Dissertation von Prof. Dr. Phil Harris, Herausgeber des Journal of Public Affairs.

Fuer diese Studie konnte ich bereits einen Bundeswirtschaftsminister a.D. / Ministerpraesident a.D., sowie aktive Politiker aus dem Europaparlament, dem Bundestag und Landesparlamenten gewinnen. Ich wuerde mich freuen, wenn auch Sie die Zeit fuer dieses spannende Forschungsprojekt finden wuerden.

Ihr Einverstaendnis voraus gesetzt, werde ich Ihr Buero in den naechsten Tagen kontaktieren, um Sie persoendlich mit meinem Anliegen vertraut zu machen und nach Moeglichkeit einen Termin fuer ein Interview zu vereinbaren.

**Hinweis zur Datenverarbeitung: Neben den gesetzlichen Vorschriften wende ich die Vorgaben des University of Gloucestershire's Handbook of Research Ethics an. Die Interviews werden aufgezeichnet, anonymisiert und codiert, transkribiert und Ihnen zur Freigabe gesendet. Erst nach erteilter Freigabe erfolgt die Weiterverarbeitung.**

**Alle Rohdaten sowie die Codierungsliste werden gesichert gelagert und nach bestandener Pruefung vernichtet. In keinem Fall wird eine Zuordnung der Experten zu den Interviews moeglich sein.**

Mit freundlichen Gruessen

Daniel Dierich



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**Appendix 3: Sample frame for coding structure**


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Main coding	Item	Sub coding
	Research question 1:	
1.1	PR does exist	1.1.1, 1.1.2, ...
1.2	PR daily business	1.2.1, 1.2.2, ...
1.3	PR is created by politics	1.3.1, 1.3.2, ...
1.4	PR is related to legislation periods	1.4.1, 1.4.2, ...
1.5	PR is missing calculability	1.5.1, 1.5.2, ...
1.6	PR is influenced by party politics	1.6.1, 1.6.2, ...
1.7	PR is changed by political system	1.7.1, 1.7.2, ...
1.8	PR in energy industry is regulation	1.8.1, 1.8.2, ...
	Research question 2:	
2.1	Company activities determine PR	2.1.1, 2.1.2, ...
2.2	PR arises in investment projects	2.2.1, 2.2.2, ...
2.3	PR arises from shareholders	2.3.1, 2.3.2, ..
2.4	PR is the risk of regulation	2.4.1, 2.4.2, ...
2.5	PR depends on company size	2.5.1, 2.5.2, ...
2.6	PR is driven by political changes	2.6.1, 2.6.2, ...
2.7	PR arises from EU legislation	2.7.1, 2.7.2, ...
2.8	PR depends on political involvement	2.8.1, 2.8.2, ...
	Research question 3:	
3.1	PR impacts company performance	3.1.1, 3.1.2, ...
3.2	PR impacts the whole industry	3.2.1, 3.2.2, ...
3.3	PR has direct/indirect impact	3.3.1, 3.3.2, ...
3.4	Communication is important for PR	3.4.1, 3.4.2, ...
3.5	Political relations are essential	3.5.1, 3.5.2, ...
3.6	PR impacts future industry development	3.6.1, 3.6.2, ...
	Research question 4:	
4.1	Need for inside view	4.1.1, 4.1.2, ...
4.1.A	-activities	4.1.A1, 4.1.A2, ...
4.1.B	-shareholder structure	4.1.B.1, 4.1.B.2, ...
4.2	Need for outside view	4.2.1, 4.2.2, ...
4.2.A	-present level of regulation	4.2.A1, 4.2.A2, ...
4.2.B	-expected level of regulation	4.2.B.1, 4.2.B.2, ...
4.2.C	-company size	4.2.C.1, 4.2.C.2, ...
4.2.D	-industry sub-sector	4.2.D.1, 4.2.D.2, ...
4.2.E	-development of EU politics	4.2.E.1, 4.2.E.2, ...
4.2.F	-knowledge of supervisory board	4.2.F.1, 4.2.F.2, ...
4.2.G	-public attention	4.2.G.1, 4.2.G.2, ...
4.3	Political communication/involvement	4.3.1, 4.3.2, ...
4.3.A	-low	4.3.A1, 4.3.A2, ...
4.3.B	-high	4.3.B.1, 4.3.B.2, ...

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**Appendix 4: Interview translation sample**


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This selected expert interview demonstrates the results of the transcription and translation process.

Interview transcript in German	Translation
<p><b>I:</b> So. Dann beschreibe doch mal bitte einleitend, wie Du denn zur Energiewirtschaft gekommen bist.</p>	<p><b>I:</b> Well, as an introduction, please describe how you've come to energy economy.</p>
<p><b>B:</b> Oh. Da gibt es eine schöne Geschichte dazu. Mein Berufsstart – wie Du weißt – war bei der X und da gab es immer schon Kontakte zur X. Ich habe dort bei der X im Vertrieb gearbeitet und da war das Thema CRM. Und wir haben dann zusammen – X und X – so ein erstes Projekt zur Etablierung von CRM-Systemen gemacht. Und da bin ich halt auf die Energiewirtschaft gekommen, habe die so ein bisschen kennengelernt und habe mich da eigentlich dann entschieden, den Bankensektor zu verlassen und in Richtung Energiewirtschaft zu gehen. Aufgrund der Tatsachen, dass das Themenspektrum da viel größer war. Auch direkter Kundenkontakt war mir immer wichtig – den hat man halt bei uns. Und dann habe ich über Aachen in einer Zeit von sieben Jahren das Geschäft kennengelernt.</p>	<p><b>B:</b> Well, there is a nice story about it. As you know already, I started my career at X and there we have always had contacts to X. I have worked in the sales department at X and there was the topic CRM. And then we –X and X have made a first project for the establishment of CRM systems together. And that's where I came to energy economy, learnt a little bit about it and then I decided to leave the bank sector and go in the direction of energy economy. Due to the fact that the range of topics was much bigger there. Also direct customer contact has always been important to me – and you have that with us. And then I became acquainted with the business via Aachen in a period of seven years.</p>
<p><b>I:</b> Jetzt bist Du ja in einem ganz speziellen Themenfeld – Elektromobilität –, da eben als Geschäftsführer tätig. Wie ist es denn zu der Aufgabe gekommen, wie bist Du denn dazu gekommen?</p>	<p><b>I:</b> Now you work in a very special topic area – electromobility – as a manager. How did you get down to this task, how did that happen?</p>
<p><b>B:</b> Ja, aufgrund meiner Qualifikation natürlich und auch meiner Vorgeschichte bei der X. Ich habe bei der X in Aachen mehrere</p>	<p><b>B:</b> Because of my qualification of course and because of my background at X. I have run several promotion projects at X in Aachen and have been</p>

<p>Förderprojekte geleitet und war an dem Thema Elektromobilität schon ein Stück weit zuhause. Und durch die Aktivitäten der NRW-Gruppe, sich dort am Markt zu platzieren, ist es wichtig, auch in der Rolle eines Geschäftsführers den Markteintritt zu begleiten.</p> <p><b>I:</b> Jetzt ist E-Mobility – Elektromobilität – ja ein relativ neues Themenfeld, was in Deutschland auch noch nicht allzu lange besetzt ist. Wie würdest Du denn da die Berührungspunkte mit der Politik beschreiben? Auch zum Einen im Themenfeld Elektromobilität und zum Zweiten insbesondere auch in der Rolle als, äh, in Deiner Aufgabe als Geschäftsführer.</p> <p><b>B:</b> Mhm (bejahend). Also, ehm, erster Teil der Frage: Es ist ein absolut neues Geschäftsfeld für die Energiewirtschaft. Ehm, merken wir auch an den Themen des Entwicklungspfades. Also es geht wirklich da rauf und mal auch wieder runter. Wir stellen fest, dass in dem Markt noch sehr viel Unsicherheit herrscht. Es gab zwei, drei Player, die sich dort sehr frühzeitig engagiert haben und jetzt sukzessive immer mehr nachziehen. Der Markt ist unheimlich in Bewegung.</p> <p>Sicherlich auch für die Energiewirtschaft – für unsere Branche – eine Herausforderung. Und das Gleiche würde ich auch für die politischen Rahmenbedingungen nennen. Wir haben ja eine nationale Plattform für Elektromobilität, die sehr viel Grundlagenarbeit macht, ehm, die gute Arbeit macht. Sicherlich ist da wichtig, die Vorgaben, die Vorschläge, die aus dieser Plattform kommen, auch umzusetzen. Und so umzusetzen, dass sie aus unserer Sicht nicht nur in</p>	<p>quite familiar with the topic electromobility. And due to the activities of the NRW-group, to place yourself at the market there, it is important to accompany the market entry also in the role of a manager.</p> <p><b>I:</b> Now E-Mobility – electromobility – is a relatively new topic area, which has not been occupied for too long in Germany. How would you describe the points of contact with politics? For one thing also in the topic area electromobility and secondly particularly in the role of your responsibility as a manager.</p> <p><b>B:</b> Well (affirmative). The first part of the question: it is an absolutely new business field for the energy economy. Well, we also see that concerning the topics of the development path. So it really is a kind of up and down. We notice that there is still a lot of insecurity in the market. There were two, three players who have committed themselves very early there and who are now gradually following. The market is incredibly in motion.</p> <p>Of course also for the energy economy – for our sector – a challenge. And I would mention the same for the political framework conditions. After all, we have a national platform for electromobility, which does a lot of fundamental work, good work. Of course it is important to also implement the standards and suggestions coming from this platform. And to implement them in such a way that they do not only go in single projects, model regions or shop window regions in the</p>
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<p>einzelne Projekte, Modellregionen oder dann zukünftig in Schaufensterregionen gehen, sondern schon in die breite Fläche, sodass wir das Ziel wie die Bundesregierung – was wir auch verfolgen –, eine Million Fahrzeuge 2020 dann auch in Deutschland auf der Straße zu haben.</p>	<p>future but also in the broad area so that we have the same aim as the federal government - which we are actually also pursuing - to have one million vehicles in the streets in Germany in 2020.</p>
<p><b>I:</b> Diese Vorgabe, das Ziel, was da ausgerufen wurde von der Bundesregierung, ist ja vor allen Dingen sicherlich auch ein strategisches Ziel. Im operativen Geschäft, wo gibt es da Berührungspunkte, Einflüsse von der Politik?</p>	<p><b>I:</b> This target, the aim, which has been called out by the federal government, surely is a strategic aim above all. In the operative business, where are there points of contact, impacts by politics?</p>
<p><b>B:</b> Ja.</p>	<p><b>B:</b> Yes.</p>
<p><b>I:</b> In der ...</p>	<p><b>I:</b> In ...</p>
<p><b>B:</b> Mhm (bejahend). Also konkret erleben wir folgende Situation in Deutschland: und zwar die intensive Förderung von Forschung und Entwicklung der Elektromobilität, die wir übrigens auch sehr begrüßen. Hier ist natürlich auf der einen Seite die Forschung und Entwicklung, um halt der Leitmarkt Elektromobilität zu werden, sicherlich sinnvoll. Was wir uns aber wünschen würden, sind konkretere Maßnahmen. Wie zum Beispiel die viel diskutierten Kaufanreize für Elektroautos. Jetzt kann man darüber streiten, ob das bei der jetzigen Situation sinnvoll ist. Es gibt aber auch andere Maßnahmen, die man durchaus machen kann. Beispielsweise ist, was wir in Großbritannien erleben. Dass Privilegien für Elektromobilität – wie zum Beispiel bevorzugtes Parken, äh, Nutzungsrechte für den Stadtverkehr oder konkretes Beispiel Mitbenutzung von Bus- und Taxispuren – schon eine Wirkung hat und sicherlich das Thema Elektromobilität noch konkret dann</p>	<p><b>B:</b> Well (affirmative). In practice, we are experiencing the following situation in Germany: the intensive support of research and development of electromobility, which we also welcome by the way. On the one hand, research and development makes sense in order to become the leading market electromobility. However, what we really wish for are more concrete measures. Such as the much-discussed purchase stimulations for electric cars. Now we have a discussion about whether that would make sense in the current situation. There are, however, also other measures you can practice. For example, what we are experiencing in Great Britain. That privileges for electromobility – such as preferred parking, right of use for city traffic or a concrete example co-usage of bus and taxi lanes - have an effect and surely continue to promote and support the topic of electromobility. Of course, if we are looking around in Europe, which is not always completely united in terms of energy-politics, the</p>

weiter fördert und unterstützt. Sicherlich, wenn wir uns in Europa umschaun und das ist ja auch energiepolitisch nicht ganz immer vereint, aber der große Teil unserer Nachbarländer fördern halt auch den Kauf von Elektrofahrzeugen oder das Leasing von Elektrofahrzeugen. Vielleicht sollte man da noch mal einen kleinen neuen Maßnahmenkatalog seitens der Gesetzgebung initiieren.

**I:** Du hast Maßnahmen, Vorgaben der Bundesregierung angesprochen. Gibt es auf den unteren Ebenen – nachgeordneten Ebenen, wenn man so will, oder parallelen Ebenen – in der Landesregierung oder auch im kommunalen Bereich Schnittmengen, Berührungspunkte, Beeinflussungen, vielleicht Zusammenarbeit mit Politik, die da das Themenfeld Elektromobilität betrifft?

**B:** So auf Landesebene oder Kommunalebene sogar (...) ist es derzeit so, dass – das ist halt bei unserem föderalistischen System – man immer unterschiedliche Standpunkte hat und jeder für sich auch unterschiedliche Maßnahmen daraus ableitet. Für uns bedeutet das konkret, dass wir eher der Treiber sind und die Städte mitziehen. Es gibt natürlich die anderen Aktivitäten wie den Luftreinhalteplan oder die Umweltzonen – die spielen uns natürlich sehr gut in die Karten. Dennoch ist es zurzeit – das sage ich ganz ehrlich – zu wenig und zu auch wenig koordiniert. Es gibt einige Aktionen, die sehr gut sind, wo wir auch gute Unterstützung erfahren, aber wenn man einen Strich drunter zieht, glaube ich, könnte man auf dieser Ebene durchaus mehr machen.

**I:** Die Automobilindustrie in Deutschland war ja schon immer ein wesentliches Element unserer

majority of our neighbouring countries does however also promote the purchase of electric vehicles or the leasing of electro vehicles. Maybe it would be good idea to initiate a small new measure catalogue on part of the legislation again.

**I:** You've addressed measures, standards of the federal government. On the lower levels – subordinate levels, so to speak or parallel levels - are there any overlaps, points of contact, impacts, maybe cooperation with politics concerning the topic area electromobility in the federal government or also in the communal area?

**B:** Even on the national or communal level (...), which is the case of our federalist system - it is currently the case that there are always different standpoints, and everyone derives different measures for himself/herself from it. For us this means in practice that we are rather drivers pulling the cities along. Of course there are other activities like the air pollution control plan or the environmental zones – they do play very well into our hands. Nevertheless – and I am very honest here – it is too little coordinated. There are some actions, which are very good where we also get good support, but at the bottom line I believe that you could do much more on this level.

**I:** The automotive industry in Germany has always been an essential element of our industrial landscape. Now

<p>Industrielandchaft. Jetzt ist die Elektromobilität davon nur ein Teilaspekt. Wie siehst Du da die Rolle von Lobbyisten in diesem Themenfeld und eben dann in letzter Konsequenz auch bei der Entwicklung und Umsetzung von Gesetzen?</p>	<p>electromobility is only a partial aspect of it. How do you see the role of lobbyists in this topic area and then in the last consequence also with the development and implementation of laws?</p>
<p><b>B:</b> Mhm (bejahend). Also Lobbyismus gerade im Bereich der Elektromobilität, würde ich am jüngsten Beispiel der IAA festmachen. Ehm, dort haben wir ja durchaus gemerkt, dass aufgrund einer eigenen Halle, einer eigenen Positionierung von Elektromobilität, auch unsere deutsche Automobilindustrie ehm, sich stark platziert hat. Ich glaube, auch da ist der Druck von den Gesetzgebern genau richtig gewesen, dass jetzt diese neuen Entwicklungen, neue Modelle, etc., was ja auf der IAA auch vorgestellt worden ist und neue Konzepte, durchaus aufgrund der Tatsache der Lobbyarbeit und der Vorgaben und der Erwartungshaltung auch vom Gesetzgeber ist. Also, das war auch für uns ein sehr gutes Zeichen. Sicherlich ist es so, dass man jetzt noch ein bisschen Geduld haben muss – das ist immer bei einem neuen Markt, bei neuen Geschäftsfeldern –, bis jetzt die fertigen Konzepte auch so weit sind, dass wir – da wollen wir ja unbedingt hin – an die Masse gehen können. Das wird noch etwas dauern, das ist aber nichts Ungewöhnliches. Das ist normal, das ist bei jeder technischen Entwicklung so und wir – und ich glaube, auch mittlerweile die namenhaften deutschen Automobilhersteller – glauben an das Thema.</p>	<p><b>B:</b> Um (affirmative). Well, I would link lobbyism particularly in the area of electromobility to the recent example of IAA. There we have felt that also our German automotive industry has strongly placed itself due to a hall of its own, a positioning of electromobility of its own. I believe that also there the pressure of legislators has been just right that now these new developments, new models, etc., which was also introduced on the IAA and new concepts, is also from the legislator due to the fact of lobby work and the standards and expectations. Well, this has also been a very good sign for us. Of course it is a fact that you will have to have a little patience - this is always the case with a new market, with new business fields – until the finished concepts are ready so that we - and that is what we are aiming at – can go to the masses. This will however take a little longer, is however nothing unusual. This is normal, this is the case for each technical development and we – and I believe even the well-known German car manufacturers meanwhile – believe in the topic.</p>
<p><b>I:</b> Inwieweit kann sich denn und muss im Zweifel vielleicht auch die Politik bei einem so innovativen Thema mitentwickeln?</p>	<p><b>I:</b> In case of doubt, to what extent does politics have to co-develop with reference to such an innovative topic?</p>

**B:** Ganz wichtig. Da habe ich auch ein Beispiel. Ich versuche, das immer an Beispielen deutlich zu machen. Es gibt in Deutschland ein Eichrecht, das kenne ich noch aus den (unklar 00:09:13-2) – Thematiken. Was sicherlich im tiefen Sinn einen Grund hat. Und zwar die ordnungsgemäße Abrechnung von kWh. Aber diese Abrechnungssysteme haben sich über die Jahre – man muss schon fast sagen Jahrzehnte – dermaßen geändert, dass man halt jetzt nicht mehr über magnetbetriebene Zähler spricht, sondern das sind digitale Zähler. Und diese digitale Technik ermöglicht vieles und da muss einfach die Gesetzgebung, an dem konkreten Beispiel, diesen Schritt in die moderne Welt mitmachen. Ehm, es gibt immer Ausnahmeregelungen, auch in dem Fall gibt es Ausnahmeregelungen, aber grundsätzlich ist vielleicht ein Gesetz aus dem Jahre 1950 vielleicht nicht mehr ganz tauglich. Oder sollte mal überarbeitet werden, novelliert werden, für unsere Bedürfnisse heute.

**I:** An einigen Stellen hast Du es schon angesprochen, dass es Berührungspunkte von Politik und insbesondere auch der Energiewirtschaft gibt. Wenn man das weiterdenkt und diesen Einfluss auf Ebenen projizieren würde – sei es Volkswirtschaft, sei es damit auch verbunden, wirtschaftliche Rahmendaten und dann im Detail, vielleicht in letzter Konsequenz, die Performance des einzelnen Unternehmen selbst –, wie würdest Du den gesamtheitlichen Einfluss von Politik auf die Energiewirtschaft beschreiben?

**B:** (...) Ich glaube, der ist immens groß. Also, ehm (...) Wir erleben das ja in den verschiedenen Sparten. Jetzt verlassen wir mal Elektromobilität, weil das ist ja wirklich nur ein kleines

**B:** Very important. I also have an example here. I always try to link that to some examples. There is a calibration law in Germany; I still know that from the (unclear) topics. Which might surely have a reason in the deep sense. Namely the proper accounting of kWh. But these accounting systems have changed to such an extent over the past years – and that's to say even over centuries – that we no longer speak of magnet-driven meters but they are digital meters. And this digital technology enables a lot of things and there the legislative will have to make this step into the modern world – at this concrete example. There are always exemptions, also in this case there are exemptions, but principally a law from 1950 might possibly not be very suitable. Or it should be revised or amended for our needs today.

**I:** At some points you have already addressed that there are contact points of politics and particularly also of the energy economy. If you keep thinking and projected this impact on levels – for example economy, it is also connected with it, economic frame data and then in detail maybe in the last consequence the performance of the individual companies itself – how would you describe the impact of politics on the energy economy as a whole?

**B:** I believe it is immense. Well, we experience that in different sectors. Let's leave the electromobility since that is only a small new business area. But if we think of the generation and

<p>neues Geschäftsfeld. Aber wenn wir überlegen, wenn wir an die Erzeugung denken, wenn wir aber auch an konkrete Dinge wie Endkundenabrechnung denken, wenn wir an die Themen denken EEG-Umlage und so weiter: Da ist also quasi ein direkter Zugriff auf die Energiewirtschaft durch den Gesetzgeber gegeben. Und der hat das Problem, dass er halt das immer an den Kunden weitertransportieren muss, dass er die Systeme, die er braucht, um abrechnen zu können, um handeln zu können, diesen Anforderungen immer anpassen muss. Wir haben das ja jüngst an dem Beispiel Energiewende erlebt. Jetzt benutze ich das Wort extra: dieses "hin und her" ist für uns als Energieunternehmen eine Riesenherausforderung, das stellt uns vor große Probleme. Wir planen langfristig: Also wenn wir über Renditen sprechen, wenn wir über Strategien reden, da sind 10, 20 Jahre eher im Fokus. Und wenn wir immer wieder auf aktuelle Änderungen reagieren müssen, hat das natürlich direkten Einfluss auf unsere Strategien und machen uns das Leben an der Stelle auch nicht einfach.</p>	<p>also of concrete things like the end customer settlement, if we think of topics EEG-reallocation charge etc: there a direct access to energy economy is given by the lawmaker. And it has the problem that it always has to adapt the systems it needs to make the settlement, to be able to act. We have actually experienced that recently at the example of energy transition. Now I am using this word intentionally: "this back and forth" is a huge challenge for us as an energy company, this makes us face huge problems. We are planning over the long run: if we talk about returns, if we talk about strategies, 10, 20 years are rather in the focus. And if we always have to react again and again to current changes, it also has a direct influence on our strategies making our life at this point not really easy.</p>
<p><b>I:</b> Wir haben jetzt bei der Energiewende ja gesehen, dass insbesondere die Energieversorger, die Kernkraftwerke besitzen, dort sich ja deutlich umstellen müssten. An dem Beispiel: Würdest Du dann auch sagen, dass in letzter Konsequenz die Politik als Ganzes – in welcher Ausprägung auch immer – einen direkten Durchgriff im Einfluss dann auch auf die Performance und das Ergebnis letztendlich der einzelnen Unternehmen haben kann?</p>	<p><b>I:</b> Concerning the energy transition we have seen that particularly the energy suppliers that possess nuclear power plants, would have to adjust themselves notably. For example: would you also say that politics as a whole as a last consequence – in whatever form – might also have a direct access in the impact on the performance and the result of individual companies?</p>
<p><b>B:</b> Ja. Ein ganz klares, kurzes Ja. Ehm, weil die Vorgaben müssen erfüllt werden und hinter einer</p>	<p><b>B:</b> Yes. A very clear, short yes. Because these standards have to be fulfilled and behind an amendment of a</p>



<p>Gesetzesnovellierung hängen halt unheimlich viele Prozesse, Prozessschritte und da gerade, wenn man Erzeugungskapazitäten hat, ist man direkt beeinflussbar.</p> <p><b>I:</b> Okay. Jetzt haben wir uns ja da inhaltlich schon so ein bisschen der Themenstellung, der Dissertation, der Studie genähert. Wenn Du müsstest, wie würdest Du den Term, den Begriff "politische Risiken" definieren? Was würdest Du da sagen, was ist das für Dich?</p> <p><b>B:</b> Ich würde versuchen, es so zu klassifizieren: Für mich ist das größte Risiko die unsichere Gesetzgebung. Man kann sich auf alles einstellen und, wenn vom Gesetzgeber gewünscht, auch in eine Richtung laufen, jetzt mal egal, wie die aussieht, aber man kann sich darauf einstellen als Unternehmen. Aber wo man sich nicht darauf einstellen kann, und was unheimlich Ressourcen und Kapazitäten frisst, ist auf eine unsichere Basis das zu fußen. Das heißt, dort immer wieder einen Wechsel zu erfahren. Das stellt Unternehmen wie uns mit Eigenerzeugung vor große Herausforderungen. Und ich glaube, die Unsicherheit ist da der größte Faktor.</p> <p><b>I:</b> Wie hängt das mit den Planungshorizonten, Planungszeiträumen zusammen, die Du angesprochen hast? Würdest Du da Abstufungen machen, dass politische Risiken kurz-, mittel-, langfristig unterschiedliche Einflusstärken haben, haben können?</p> <p><b>B:</b> Ja sicherlich, ja. Ehm, diese Abstufung – wobei man dann darüber nachdenken muss: Relativ kurzfristig ist bei uns auf dieser Erzeugungsseite wenig zu machen, sondern da gehen</p>	<p>law, there are a whole lot of processes, process steps and especially if you have generation capacities, you are directly open to influence.</p> <p><b>I:</b> Okay. Now we have already approached the topic, the thesis, the study a little. If you had to, how would you define the term "political risks? What would you say, what is that for you?</p> <p><b>B:</b> I would try to classify it in the following way: for me the biggest risk is the insecure legislation. You can adapt to everything and if desired by the lawmaker also go into one direction, no matter what it looks like but you can adapt to it as a company. But what you cannot adjust to and what eats up resources and capacities incredibly is based on an insecure basis. That means experiencing changes again and again. That challenges companies like us with their own production. And I believe insecurity is the biggest factor there.</p> <p><b>I:</b> How is it connected with the planning horizons, planning periods you have addressed? Would you make graduations there that political risks might have different impact levels in the short, medium and long run?</p> <p><b>B:</b> Yes, of course. This graduation – you will have to think about it: relatively short-term little can be done on this generation side, here the strategies really go in the medium up to</p>
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<p>die Strategien wirklich in die Mittel- bis Langfristigkeit. Also von daher macht so eine Unterscheidung Sinn: Ich würde den Fokus aber auf mittel- bis langfristig sehen.</p>	<p>long-term frame. For this reason, such a differentiation makes sense: I would however see the focus in the middle up to long run.</p>
<p><b>I:</b> Das war so der zeitliche Aspekt.</p>	<p><b>I:</b> This has been the temporal aspect.</p>
<p><b>B:</b> Ja.</p>	<p><b>B:</b> Yes.</p>
<p><b>I:</b> Wenn wir uns die unterschiedlichen politischen Ebenen anschauen. Wir haben das Europaparlament, die EU, die sich Gedanken über Richtlinien, Verordnungen macht. Der Bund, beziehungsweise die einzelnen Mitgliedsstaaten, die das dann in Gesetze umsetzen. Dann haben wir noch die Landesebene und insbesondere auch die Kommunalebene, wo ja auch gerade die deutsche Energiewirtschaft eine starke kommunale Prägung und Verwurzelung hat. Würdest Du das auch da unterschiedlich beurteilen, den Einfluss politischer Risiken oder Dein Verständnis von politischen Risiken? Wenn man diese unterschiedlichen politischen Ebenen betrachtet?</p>	<p><b>I:</b> If we have a look at the different political levels. We have the Europe parliament, the EU that is concerned about guidelines and regulations. The Federation or the individual member states that transpose it into laws. Then there is also the national level and particularly also the communal level where especially the German energy economy has a strong communal impact and entrenchment. Would you also evaluate it differently there, the impact of political risks or your understanding of political risks if you consider these different political levels?</p>
<p><b>B:</b> Mhm (bejahend). Ja, ich würde es unterschiedlich betrachten und auch bewerten wollen. Ich sehe sie jetzt immer so als Pyramide, und zwar als umgekehrte Pyramide. Am Ende stehen wir als derjenige, der die Vorgaben umsetzen muss. Und wenn wir das jetzt so sehen, wie Du gerade gesagt hast – es gibt ein europäisches Recht, das wird dann kaskadiert auf Länderebene und dann geht das immer so weiter. Jetzt haben wir die besondere Situation, dass wir auch kommunales Unternehmen sind und wir uns eigentlich immer auf allen Ebenen auskennen müssen, um am Ende zu verstehen, was wir umsetzen müssen. Und um so größer – wenn man sich das wieder an dieser Pyramide vorstellt –</p>	<p><b>B:</b> Well (affirmative). Yes, I would consider and evaluate it differently. I always see it as a pyramid, namely as reverse pyramid. At the end there we are as those who have to implement the guidelines. And if we see it that way – as you have just said – there is a European law, which is then cascaded on the national level and then it continues and continues. Now we have the special situation that we are also a communal company and have to be well-versed in all levels in order to understand at the end what we have to implement exactly. And the bigger – if you take the pyramid as an example here as well – the effort for us of course. Particularly with reference to the European law I have already</p>

<p>ist natürlich auch der Aufwand für uns. Und gerade beim Europarecht habe ich auch schon erlebt, dass es Dinge gibt, die vielleicht von Land zu Land sehr unterschiedlich sind. Ich habe da ein Beispiel im Kopf, da geht es um das Zählerwesen: Die dann aufgrund der Tatsache, dass das Land sich ganz anders aufgestellt hat – man kann Italien vielleicht in dem Bereich gar nicht mit Deutschland vergleichen, aber alle müssen das Gleiche machen –, heißt es natürlich für jedes Land, wieder andere Maßnahmen abzuleiten. Dann runtergebrochen auf Städte, auf Kommunen ist es dann wieder so, dass es bei uns in Deutschland dann in jeder Stadt, in jeder Kommune wieder anders gehandhabt wird. Das ist eine große Herausforderung und jede dieser Ebenen – für uns wäre es besser, es wären weniger Ebenen – hat da ihre eigene Herausforderung, ihre eigene Welt auch.</p>	<p>experienced that there are things, which might be very different from country to country. I have an example in mind, it is about the metering system: due to the fact that the country has placed itself very differently – you can possibly not compare Italy with Germany in this area – it is about deriving other measures for each country. Broken down to cities, municipalities it is done differently in Germany, in every city and in each municipality. This is a big challenge and each of these levels – for us it would be better there were fewer levels – has its own challenge, their own world as well.</p>
<p><b>I:</b> Ja. Die politischen Risiken selbst: Würdest Du die aus den beiden Perspektiven – wenn man sich die zwei Blickwinkel anschaut – Energiewirtschaft, Manager, die dort aktiv in Verantwortung sind und Politik selbst, eine unterschiedliche Definition ansetzen wollen? Wenn man diese beiden Risiken betrachtet?</p>	<p><b>I:</b> Yes. The political risks themselves: looking at the two perspectives, would you want to set a different definition from the two perspectives energy economy, manager that are actively responsibility there and politics itself?</p>
<p><b>B:</b> Würde ich eigentlich nicht. Ich würde es fast einheitlich sehen, weil eine Differenzierung würde mir da schwerfallen. Das müsste man im Grunde – das kommt auch immer auf den Fall drauf an. Nicht?</p>	<p><b>B:</b> Actually, I wouldn't. I would see it almost coherent since a differentiation would be difficult for me. That always depends on the case, doesn't it?</p>
<p><b>I:</b> Ja, okay.</p>	<p><b>I:</b> Yes, okay.</p>
<p><b>B:</b> Ja.</p>	<p><b>B:</b> Yes.</p>
<p><b>I:</b> Die Einflussnahme der Politik und die Durchgriffsmöglichkeit, die Du angesprochen hast: Siehst Du da, dass</p>	<p><b>I:</b> The influence of politics and the possibility for transparency you have addressed: do you see there that some</p>

<p>einige Branchen stärker davon beeinflusst werden als andere, oder wie würdest Du das beschreiben?</p> <p><b>B:</b> Ja. Ehm. Ich glaube, da muss man auch ein Stück zurück gucken – wo kommen wir eigentlich her? Das Thema gerade bei den Energieversorgern und auch bei der Telekommunikation ist ja, dass wir von einem (unklar 00:18:53-8), geregelten Markt kommen und in einem Wettbewerb jetzt stehen. Dennoch erleben wir immer wieder Eingriffe in diese Wettbewerbsfähigkeit durch die Gesetzgebung. Ehm, um halt alte Regularien aufzubrechen, um den Wettbewerb anzukurbeln – das ist die Intention. Das ist auch gut, aber dennoch, wenn man an so Netzentgelte denken, die sind vorgegeben, da ist im Grunde kein Wettbewerb. Und hier sind aufgrund dieser Historie – bleibe ich noch mal dabei – eine hohe Einflussnahme der Politik und auch ein hohes Risiko, was man auch bewerten muss.</p> <p><b>I:</b> Ja. Jetzt bist Du Geschäftsführer eines am Umsatz gemessen eher kleineren Unternehmens. Siehst Du unterschiedliche Möglichkeiten des Umgangs mit politischen Risiken in Abhängigkeit von der Größe des jeweiligen Unternehmens?</p> <p><b>B:</b> Ja. Ehm. Gut, dass Du es ansprichst, ehm, klar. Man kann uns auch als Start-up-Unternehmen sehen. Natürlich mit dem Background und den Gesellschaftern großer Konzerne. Wir haben im Grunde – weil wir klein, schlank und ganz neu aufgestellt sind – viele Möglichkeiten, kurzfristig zu reagieren. Aber auch wir – und die Businesspläne schreiben das vor – brauchen eine langfristige Perspektive und da auch eine Sicherheit. Die Durchgriffskraft der Gesetzgebung</p>	<p>sectors are more strongly affected by it than others or how would you describe it?</p> <p><b>B:</b> Yes, I believe you will also have to consider a little where we actually come from. The topic for energy suppliers and especially also for the telecommunication is that we come from a regulated market and are in a competition now. However, we are always experiencing interactions in this competitiveness through the legislation. It is the intention to break up old regulations and to speed up competition. That is also good but nevertheless if you think about network charges, they are given already, there is no competition in principle. And there is also a high influencing of politics and a high risk you have to evaluate as well.</p> <p><b>I:</b> Yes. Now you are the manager of a rather small company when it comes to turnover. Do you see any different possibilities in dealing with political risks dependent on the size of the respective company?</p> <p><b>B:</b> Yes. Great that you are addressing this. You might also see us as a start-up company. Of course with the background and the societies of large companies. In principle, we have lots of possibilities to react in the short term because we are small, slim and completely newly placed. But we too – and that's what business plans prescribe – need a long-term perspective and there also a security. The power of transparency might hit in another form, but it also concerns small</p>
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<p>trifft vielleicht in einer anderen Form, aber sie trifft auch kleine Unternehmen. Und ehm, stellt auch kleine Unternehmen gerade ... Vielleicht in der Reaktionszeit sind die schneller als Große und in der Umsetzung dabei. Aber bei so langfristigen Entscheidungen wie eine Systemscheidung, wie kann man denn Daten hin und her – ich spreche da auf diese Marktkommunikation an – da gibt es die Gesetzgebung, die das klar vorgibt. Aber für kleine Unternehmen, wie wir es sind, ist das eine Riesenherausforderung, diese Investition zu betreiben, um halt an dem Markt mitspielen zu können.</p> <p><b>I:</b> Ja.</p> <p><b>B:</b> Das ist natürlich ein großes Risiko und auch so ein bisschen eine Eintrittsbarriere.</p> <p><b>I:</b> Der Zugang zu der Politik, zu den Politikern selbst: fällt der kleineren Unternehmen leichter / schwerer, aus Deiner Sicht, als größeren oder wie würdest Du das differenzieren?</p> <p><b>B:</b> Ich denke schon, dass es den kleineren Unternehmen schwerer fällt. Das hat vielleicht zwei Ursachen: einmal die Kapazitäten, die ein kleines Unternehmen haben, also die Ressourcen, die ein kleines Unternehmen hat. Man kann sich halt nicht leisten als Unternehmen, wie wir es jetzt sind und aufgestellt sind, jemanden abzustellen, der ehm Thema Lobbyismus oder Verbandsarbeit macht. Und in der Energiewirtschaft haben wir ja zwei starke Verbände, den VKU und den BDEW, wo natürlich unsere Gesellschafter auch vertreten sind, auch stark vertreten sind. Aber für uns als kleines Unternehmen ist es dann wirklich schwierig auch wirtschaftlich zu arbeiten und dann so</p>	<p>companies. Maybe they are quicker in the reaction time than big ones and part of the implementation. But concerning long-term decisions, such as a system decision, how is it possible to (...) data back and forth – I am addressing this market communication – there is the legislation, which clearly predetermines that. But for small companies like we are, it is a huge challenge to operate this investment in order to come into the picture of the market.</p> <p><b>I:</b> Yes.</p> <p><b>B:</b> That's a big risk of course and also a little bit of an entry barrier.</p> <p><b>I:</b> The access to politics, to politicians themselves: is that easier/more difficult for smaller companies than for bigger ones from your perspective and how would you differentiate that?</p> <p><b>B:</b> I do think that it is more difficult for smaller companies. This may have two causes: for one thing the capacities a small company has, that is the resources a small company has. As a company – the way we are now organised - you are not able to afford to detach someone who makes the topic lobbyism or association work. And in the energy economy we have two strong associations, the VKU and the BDEW where our partners are strongly represented as well. But for us as a small company it is really difficult to work profitably and to accompany such a position constantly.</p>
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<p>eine Position ständig zu begleiten.</p> <p><b>I:</b> Ja. Und die Politik selbst: die Politiker, die dort in Verantwortung sind, in welcher Funktion auch immer, unterliegen per Gesetz, ja, gewissen Wahlzyklen. Siehst Du da einen Zusammenhang zwischen den Wahlzyklen – in welcher Form auch immer – und den politischen Risiken, beziehungsweise dem Umgang mit der Energiewirtschaft auch?</p> <p><b>B:</b> Ja. Ehm, da bin ich ja von meiner Ausbildung her immer auf Effizienz und Erreichen von Deckungsbeiträgen, von Margen, von Zielen getrimmt worden. Und das ist natürlich auch ein Ziel unserer kleinen Gesellschaft, die wir hier haben. Ehm (...) Und deshalb, äh (...) Jetzt habe ich die Frage vergessen.</p> <p><b>I:</b> Ehm. Wir sprachen über den möglichen Einfluss von Wahlzyklen ...</p> <p><b>B:</b> Ja, okay, Entschuldigung.</p> <p><b>I:</b> ... auf politische Risiken ...</p> <p><b>B:</b> Ja, ja.</p> <p><b>I:</b> ... beziehungsweise die Energiewirtschaft.</p> <p><b>B:</b> Ja, absolut. Und ich wollte die Frage so beantworten, dass ich mir persönlich in der Rolle des Geschäftsführers auf der einen Seite, aber auch privat, gut vorstellen könnte, dass man diese Zyklen verlängert. Ehm, es ist glaube ich nur menschlich, wenn man Maßnahmen verkündet, die vielleicht langfristig sinnvoll sind, aber in einem kurzen Wahlzyklus zu Einschränkungen führt, dass man die vielleicht – jetzt bin ich ganz vorsichtig – zurückstellt oder vielleicht auch</p>	<p><b>I:</b> Yes. And politics itself: the politicians who are responsible there – in whatever function – are subject to certain election cycles by law. Do you see any link between the election circles – no matter in what form – and the political risks or the dealing with the energy economy?</p> <p><b>B:</b> Yes. Well, in my training I have always been trimmed to efficiency and the attainment of profit contributions, of margins, of aims. And that's of course also an aim of our small society we have here and that's why... Now I have forgotten the question.</p> <p><b>I:</b> Well, we were talking about the possible influence of election cycles...</p> <p><b>B:</b> Yes, OK, sorry.</p> <p><b>I:</b> ... on political risks...</p> <p><b>B:</b> Yes, yeah.</p> <p><b>I:</b> ... or the energy economy.</p> <p><b>B:</b> Yes, absolutely. And I wanted to answer the question in such a way that I could well imagine it in the role of the manager on the one hand but also in my private life that these cycles will be prolonged. I believe it is only human if measures are announced which make sense in the long run, but which lead to limitations in a short election cycle, maybe it would be a good idea – and I am very careful here - to postpone or delay them. From my point of view, I would wish to have longer cycles – and now I am coming back to the point - in</p>
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verzögert. Das natürlich von mir, aus meinem Blickwinkel, nur so zu betrachten, würde ich mir durchaus wünschen, da längere Zyklen zu haben, um halt auch wieder – und da komme ich auf den Punkt zurück – eine langfristige, klare Linie zu haben. Und durch diese kurzen Vier-Jahre-Zyklen ist halt immer wieder dieser Druck dieses Wiederwählens da. Und da gibt es ja immer eine Masse, die man irgendwo auch ein Stück für sich selbst dann begeistern muss, um wiedergewählt zu werden und da werden halt dann in der Natur der Sache Entscheidungen getroffen, die vielleicht für das Langfristige nicht gut sind.

**I:** In der täglichen Arbeit: Wie gehst Du da selbst mit politischen Risiken und dem Einfluss auch auf Dein Unternehmen um? Wie setzt Du Dich damit auseinander mit politischen Veränderungen?

**B:** Die nehmen schon ein Stück von meiner Arbeitszeit in Beschlag, weil wir uns einfach darauf vorbereiten müssen. Ich glaube, für ein Unternehmen und gerade in der Geschäftsleitung, mag man den Auftrag des Unternehmens auch langfristig und nachhaltig zu etablieren und es wäre fahrlässig, sich da nicht zu informieren. Ich gebe aber dennoch zu, es fällt schwer, weil es gibt viele Themen. Es gibt auch Tagesgeschäft, was erledigt werden muss. Es gibt auch sicherlich ... ehm ... unser Fokusgeschäft nahe an den Kunden heranzugehen, was auch viel Zeit frisst. Aber dennoch es muss sein, dass man sich darum kümmert, dass man bescheid weiß, dass man auch sich und sein Unternehmen – so weit es geht – darauf vorbereitet.

**I:** Geht die Vorbereitung auch so weit,

order to have a long-term clear line. And through these short four-year cycles there is always the pressure of re-election. And there is always a mass you will have to get interested in yourself in order to become re-elected and there decisions are made which might not be good for the long-term.

**I:** In day-to-day business: how do you personally deal with political risks and the influence on your company? How do you deal with political changes?

**B:** They actually monopolize a little bit of my working time because we simply have to prepare for it. I believe for a company and particularly in the management it is important to establish the mission of the company on the long run and sustainably, and it would be negligent not to inform yourself. However, I must admit that it's difficult because there are lots of topics. There is also the daily business, which has to be done. Our focus business also is to closely approach the customer, which also consumes a lot of time. But nevertheless it is necessary to care for it so that you and your company prepare for it as far as is possible.

**I:** Does the preparation also go to the length that the personal contact to

<p>dass der persönliche Kontakt zur Politik gewollt ist und gesucht wird?</p> <p><b>B:</b> Ja. Absolut. Man hat ja, wenn man Beziehungen zu den Entscheidern oder zu den Beeinflussern der Politik hat, immer ein größeres Verständnis dafür, was da eigentlich passiert. Und dieses Verständnis ist halt dann wichtig und deshalb suchen wir den Kontakt. Wir haben auch Kontakt zu Politikern und würden den auch gerne intensivieren, bloß das ist dann auch wirklich wieder eine Zeitfrage und eine Frage der Priorisierung.</p> <p><b>I:</b> Würde der Kontakt, die Beziehungspflege in irgendeiner Form auch immer, themenspezifisch gesucht werden oder ist das etwas Grundsätzliches?</p> <p><b>B:</b> Nein, Themenbe ... also. Mal ein Beispiel, vielleicht für uns jetzt im Bereich Elektromobilität wieder, ist natürlich das Bundeswirtschaftsministerium mit ihren Fördergeldern und ihren Möglichkeiten ein Ansprechpartner. Und da suchen wir dann gezielt Kontakt hin und versuchen uns dort gezielt zu informieren und halt auch in der Verbindung mit den neuen Maßnahmen für uns dann eventuell ein Geschäftsfeld zu entwickeln oder nicht.</p> <p><b>I:</b> Abschließend vielleicht noch die Bitte Dir vorzustellen, Du wärst in verantwortungsvoller Aufgabe in der Politik.</p> <p><b>B:</b> Au ja.</p> <p><b>I:</b> Rollenwechsel, Seitenwechsel: Du wärst in verantwortungsvoller Aufgabe in der Politik. Wie würdest Du da mit politischen Risiken, mit dem Zusammenspiel auch der</p>	<p>politics is desired and wanted?</p> <p><b>B:</b> Yes, absolutely. Having relationships to the decision-makers or to the influencers of politics you always have a bigger understanding for what's actually happening there. And this understanding is very important and that's why we are looking for the contact. We also have contact to politicians and would like to invest but this is also a matter of time and prioritization again.</p> <p><b>I:</b> Would the contact, the relationship management in any form whatsoever, be searched topic-specifically or is that something fundamental?</p> <p><b>B:</b> No, ....An example, for us in the sector of electromobility, the federal economy ministry is contact person with their grants and possibilities. And there we are specifically looking for contact and try to inform us specifically there, and also in connection with new measures for us and possibly developing a business area or not.</p> <p><b>I:</b> Finally, maybe the request to imagine you would be in a responsible position in politics.</p> <p><b>B:</b> Ooh yes.</p> <p><b>I:</b> Role change, side change: you would be in a responsible position in politics. How would you deal with political risks, with the interplay of energy economy? How would you describe</p>
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<p>Energiewirtschaft, umgehen? Wie würdest Du das beschreiben? Was wären da Deine Vorstellungen?</p> <p><b>B:</b> Eine sehr gute Frage. Ich versuche mal, diesen Seitenwechsel hinzukriegen. Wenn ich auf der anderen Seite – ich nenne sie mal andere Seite – stehen würde, ich würde mehr den Kontakt zu den Unternehmen suchen. Ich würde versuchen, Entscheidungen mehr zu detaillieren, Entscheidungen und Gesetzesentwürfe ehm, mehr auf eine umsetzbare Ebene zu bringen und das ist, glaube ich, dass was man da mehr machen könnte. Also wenn ich in der Rolle wäre, die Möglichkeiten hätte, ich glaube, an den grundsätzlichen Ausrichtungen der politischen Vorgaben kann man gar nicht dran rütteln, die sind gut, ich sage es mal einfach. Sie sind auch richtig gemeint. Was ich hier empfinde und was ich da noch anders machen würde, wäre die Kaskadierung nach unten, dass man einfach das Praktikabler umsetzen kann. Also manchmal fehlt uns auch als kleines Unternehmen so ein bisschen das "pack an", ja, wo setzen wir jetzt an? Also wo ist jetzt genau die Richtung? Sicherlich bei ein, zwei Dingen kann man das nicht, das ist auch vielleicht zu viel verlangt, das ist auch eine Wunschvorstellung von mir. Dennoch wenn ich in der Rolle wäre, und das ist ja das Spiel, ich würde versuchen, es mehr handbar und praxisnäher umzusetzen.</p> <p><b>I:</b> Also in der Folge dann auch eine Intensivierung gerade des Austausches ...</p> <p><b>B:</b> Ja.</p> <p><b>I:</b> ... mit der Wirtschaft?</p>	<p>that? What would your suggestions be?</p> <p><b>B:</b> A very good question. I am trying to manage this paging. If I stood on the other side – I am calling it the other side –I would look for more contact to the companies. I would try to detail decisions more and that's what you could do more of, I believe. So if I was in this position, had the possibilities, I believe there is no doubt about the principal alignments of political standards, they are good. They are meant correctly. What I feel here and what I would do differently, would be the cascading downwards. Sometimes the "coming to grips with" is missing for us small companies. So where is the direction? Of course, there are one or two things where you cannot do it, that's probably also asking too much, that's a dream of mine. However, if I was in the role and that's the game, I would try to implement it in a handier and more practical manner.</p> <p><b>I:</b> So subsequently also an investment particularly of exchange...</p> <p><b>B:</b> Yes.</p> <p><b>I:</b> ... with economy?</p>
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<p><b>B:</b> Ja.</p> <p><b>I:</b> Okay. Damit sind wir mit meinen Fragen durch. Gibt es noch was, was Du ergänzen möchtest? Was Du noch besonders hervorheben möchtest zu dem Spannungsfeld Politik – Energiewirtschaft?</p> <p><b>B:</b> Ja. Also, ich glaube, einmal vielleicht so ein Blick auch zurück ehm. Ich glaube, die letzten zehn, elf Jahre haben wirklich viel bewegt. Man hat auch von beiden Seiten viel gelernt. Es gibt viele Dinge, die auf der Arbeitsebene und auf der Umsetzungsebene neu entstanden sind. Das finde ich gut, das finde ich sehr positiv. Ich denke, das wird sich auch noch weiterentwickeln. Und was ich mir wünsche – und das ist auch so der Abschluss –, ist eine sichere Basis. Ich wünsche mir Stringenz in der Entscheidung und nicht in Zyklen. Ich wünsche mir für unsere Branche eine klare, langfristige Sicherheit der Gesetzgebung.</p>	<p><b>B:</b> Yes.</p> <p><b>I:</b> Okay. Now I am finished with my questions. Is there anything you would like to add? What you would like to emphasize on the conflicting priorities politics – energy economy?</p> <p><b>B:</b> Yes. Well, I believe maybe a look back. I believe the last ten, eleven years have really moved a lot. But we have also learnt a lot from both sides. There are lots of things, which have newly emerged on the work and implementation level. I like that, I find that very positive. I think this is also going to continue to develop. And what I wish for – and this will be the end – is a secure basis. I wish for stringency in decisions and not in cycles. I wish for our sector a clear, long-term security of legislation.</p>
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