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Robert Blanning
Vanderbilt University

Bruce Reinig
Hong Kong University of Science and Technology

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Robert W. Blanning
Owen Graduate School of Management
Vanderbilt University

Bruce A. Reinig
Department of Information and Systems Management
Hong Kong University of Science and Technology

Abstract

We have developed a methodology for using GDSS to analyze the business risk of political events, to construct and analyze scenarios, and to perform cross-impact analysis, all in politically restrictive environments where specialists must be consulted but anonymity is essential. We briefly describe our approach and then report its implementation in the context of the business future of Hong Kong.

Political Risk and Scenarios

Multinational managers wishing to make investments or other commitments (e.g., establishing a regional headquarters) in politically risky environments often perform analyses and construct scenarios in an attempt to understand the risk. Specifically, they engage in such tasks as: Political Event Analysis, which attempts to determine the business risk of political events, such as expropriation, currency controls, and targeted taxation (Brewer 1993), Scenario Development and Analysis, in which several possible futures are constructed and evaluated (Schwartz 1991), and Cross-Impact Analysis, in which interdependencies among political events are estimated, often in the form of conditional probabilities (Stover and Gordon 1978).

In order to perform these tasks it is usually necessary to consult with specialists knowledgeable about the country and region in question. In addition, it is often desirable to allow the specialists to discuss sensitive issues among themselves. However, they may be reluctant to discuss some of these issues openly. Group Decision Support Systems (GDSS) have been used to facilitate anonymous discussions in other strategic contexts (Dennis et al. 1997), and we have used GDSS in the context of political risk and scenario analysis. Our approach is summarized in Table 1 and is illustrated below.

An Application to Hong Kong

On July 1, 1997 the British Dependent Territory of Hong Kong, one of the most aggressive free-market economies in the world, became a Special Administrative Region of the People's Republic of China, one of the few remaining communist nations in the world. This has given rise to substantial uncertainty concerning Hong Kong's future (Chan 1997).

To analyze this uncertainty, we applied our methodology using GroupSystems by Ventana Corporation, which contains discussion tools for anonymous discussion and voting tools for entering data. Each of the following four tasks was accomplished in separate one-hour sessions with different groups of twenty Hong Kong business executives, each having five to ten years of experience in a multinational firm.

In Political Event Analysis (Blanning and Reinig 1997a), we presented the executives with a list of five events -- for example, that the independence of Hong Kong judges and courts might decrease during the next five years. They used a discussion tool to discuss the likelihood of the event and its importance to multinational firms, and we summarized their comments into Viewpoints, four of them concerning likelihood and four of them concerning importance. They then used a voting tool to estimate likelihood and importance on a scale from one to ten. The most likely but least important event was censorship of political commentary, and the event of greatest concern was the declining use of English in Hong Kong.

In Scenario Development (Blanning and Reinig 1997b) we asked the executives to discuss events that might affect Hong Kong businesses. We monitored their discussion and used it to prepare a list of fifty events -- for example, that China becomes politically unstable. We asked them to vote on the probability of each event and on the degree to which the event would be favorable or unfavorable for Hong Kong business. We then prepared three scenarios: optimistic (high probability, highly favorable events), pessimistic (high probability, highly unfavorable events), and realistic (very high probability events). There were between ten and fifteen events in each scenario, with little overlap.

In Scenario Analysis (Blanning and Reinig 1997c), we presented the executives with brief descriptions of Hong Kong in ten years as a leading city in China, as a major city, and as a minor city, each in comparison with Shanghai and Guangzhou (Canton). We asked them to discuss the likelihood that each of these scenarios would occur, and we summarized their

discussions to develop arguments pro and con. We then asked them to vote on the probabilities that the scenarios would occur. The leading city scenario was considered seven times as likely as the minor city scenario, but all of the estimates had large standard deviations.

In Cross-Impact Analysis (Blanning and Reinig 1998), we presented the executives with a list of five very pessimistic events– for example, that China would lose MFN status and that there would be a substantial increase in corruption in Hong Kong. We asked them to discuss and vote on these events, from which we prepared an Interdependence Graph displaying the most important relationships. For example, the executives argued that a loss of MFN status would substantially increase the likelihood of corruption.

Conclusion

Since the end of the cold war, there have been an increasing number of situations in which economic opportunities, political risks, and reluctance to speak openly about certain political events coincide. We have outlined a methodology for analyzing these situations. Although we have presented our approach in the Hong Kong context, it appears promising in other contexts as well.

Table 1. Event and Scenario Methodology

	Subjects presented with…	Deliverables
Political Event Analysis	List of events	Viewpoints, likelihood and importance measures
Scenario Development	None	Scenarios: optimistic, pessimistic, realistic
Scenario Analysis	Brief descriptions of a few scenarios	Arguments: pro and con, probabilities
Cross-Impact Analysis	List of events	Interdependence Graph, probabilities

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