

Module 2. Mapping political risk in wealth management

Unit 2.1 The purposes of mapping: orientation and route selection

This reading introduces the notion of political risk mapping. Over the course of the reading, I will argue that undertaking a political risk mapping exercise is a necessary step for developing a wealth management strategy that allows for political risks to be factored in, as well as enabling the identification of potential political opportunities.

In this opening section, I discuss the nature of mapping exercises, with a particular focus on their practical purpose. I argue that this purpose is twofold:

1. **orientation.** The systematic unpacking and investigation of where a sport investment opportunity or organisation is located within the political sphere.
2. **Route selection:** with orientation established, mapping can be used to identify a direction of travel that will lead to a desired destination while avoiding or mitigating pitfalls that lie along our preferred route.

Let us unpack these ideas a little further, beginning with the concept of orientation. Many of us (at least those who grew up without GPS mapping software embedded in our mobile phones) will have experienced being lost in an unfamiliar city and the relief of finding a map that includes the phrase 'you are here'. Even with the advances made through mobile phone technology, it is not uncommon to spend a couple of minutes walking hesitantly in different directions with an eye on your phone as you seek to get a more precise fix on your orientation. In short, we use physical maps in many ways, but a necessary first step is their capacity to allow us to understand where we are ['maps locate'] (Kurgan, 2013).

Of course, a map representing physical reality is not identical to a mapping of more abstract aspects of the social and political world. However, the core function of orientation is common to both enterprises. As you will now already know, exercises in wealth management typically require a process of inventory; this is done with a view to establishing where an investor, organisation, or individual find themselves financially. Businesses have a well-established set of accountancy principles that record cashflow, profit and loss, and an overall balance sheet, and many financial consultants advise individuals to produce a similar analysis of their own finances at the beginning of a planning process (Butler, 2014).



In both physical and financial mapping, the achievement of orientation is a necessary prerequisite to developing a strategy and putting it into action. This makes intuitive sense, and calls to mind a widespread joke, which in my own native country of Ireland runs thusly: a tourist finds herself lost in a rural area and comes across a local, from whom she asks directions. The local tries to give her directions, then gives up and says: 'If I wanted to get there, I wouldn't start from here'.

Like many jokes, it operates at several levels; at a surface level, it paints the local as foolish: how could the tourist start from anywhere else? But at a deeper level, it plays on a 'wise fool' trope, emphasising the importance of knowing one's starting point for planning the journey ahead [for a deeper discussion, see Lowthorp (2014)].

When it comes to mapping political risk, orientation is all the more important because the political world neither comes with the observable physical reference points of a geographical map, nor with the established numerical data of a financial one. However, the absence of easily observable or verifiable reference points is not a reason to assume that political risks cannot be better understood through a mapping process. Creating a map of political risk to orienting sports investment opportunities and organisations relies on a structured process of identifying and understanding the key actors to be considered and the types of power they can exercise, systemic and substantive forces of stability and change, and estimating the likelihood of their future courses of action.

The second function of mapping, once orientation has been achieved, is to select a route towards a desired destination. Here, again, the literature on wealth management emphasises the multiplicity of destinations that can be selected. A fundamental step in this process involved identifying the underlying purpose of values that drive one's approach to wealth management and their relative importance, as well as understanding the relevant time horizon and desired financial risk profile (Butler, 2014). Depending on these factors, as we shall see, a wealth management strategy may seek a variety of destinations regarding political risk and opportunities.

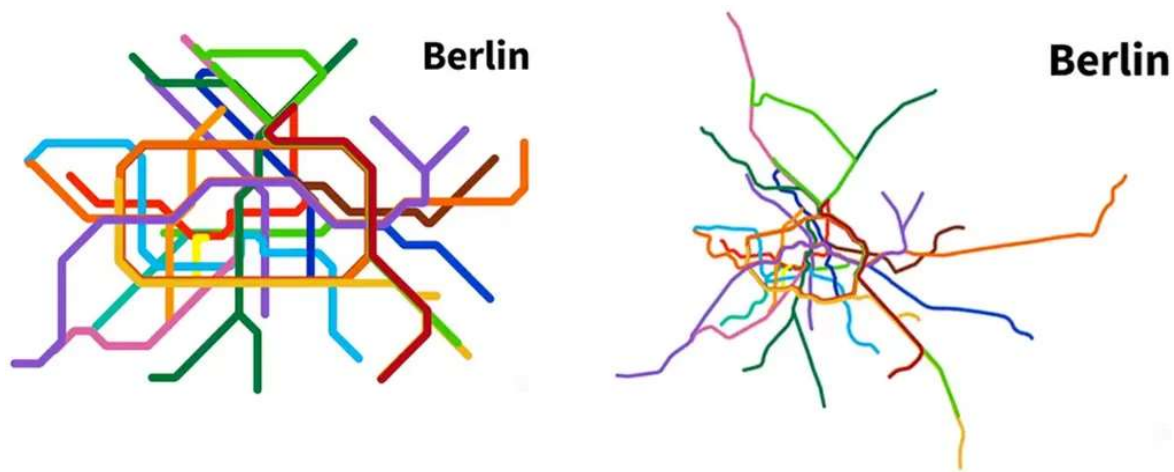
Regardless of the desired destination, political risk mapping enters the equation in the process of route selection. Although the optimal routes between two points may be a straight line, there are often obstacles and perils along the way that need to be factored in. It can also be used as a means of identifying proactive steps towards developing political opportunities over time. In short, political risk mapping is a way of developing a strategy of approaching your desired wealth management destination, while being cognisant of how political factors can influence your progress.

Unit 2.2 The pragmatic approach to political risk mapping developed in this reading



Like any abstract representation of a complex reality, mapping is a fundamentally reductive enterprise. It seeks to compress an array of complexities, idiosyncrasies, and interdependencies into a digestible format. When reducing reality in this way, it is vital that we are sensitive to the impact of the choices that we make, and bear in mind at all times the purpose of the exercise. For instance, look at the two below maps of the Berlin metro network. The map on the left is used by commuters to plan their travel routes around the city, while the map on the right provides a more accurate representation of the physical length and curvature of the various metro lines.

Figure 1. Two maps of the Berlin metro network



Source: Galka, 2017, <https://bit.ly/3vOckcz>.

Neither map is, fundamentally, more 'correct' than the other. The conventional metro map is designed from the point of view of a user of the metro system, selecting the appropriate line and direction. The more physically accurate map on the right would be of greater use for understanding how a new piece of infrastructure would interact with the metro system, or for planning a journey on foot that involved catching a metro at some point.

In the following sections, we will develop and apply an approach to political risk mapping tailored to orientation and route planning for wealth management in sport. Ultimately, the approach developed in this reading is a flexible one, and it is designed to allow you to adapt it to the wealth management scenarios that you are involved in. The necessity of fit between purpose and mapping approach is the key insight that you should retain from this opening section.

In the first reading for this course, we adopted a definition of politics from Harold Lasswell as being concerned with 'who gets what, when, and how' (Laswell, 2018). A key

implication of this is that we can analyse politics as a process whereby **actors** with a variety of **interests** and differing degrees and types of **power** intersect to affect the manner in which wealth is distributed.

In this second reading, we translate our conceptual approach into a practical one, with a view to creating the necessary building blocks to undertake political risk mapping for wealth management in sport. Fundamentally, this involves identifying relevant actors, assessing the type and amount of power they possess to influence outcomes germane to wealth management in sport, developing an understanding of their interests. Establishing these parameters then allow us to assess different types of political risk and opportunity, including those at the systemic level and those at the substantive level. Conducting and regularly updating political mapping are vital first steps in developing a strategy that allows for political risk mitigation (reading 3) and the development and utilisation of political opportunities (reading 4). As such, it is necessary to develop an approach that allows us to select those actors who are most relevant for understanding political risk and integrating this understanding into a wealth management strategy in sport. Crucial to this section process is identifying the central actor, relative to which the mapping takes place.

Unit 2.3 The elements of political risk mapping

1: Understanding the central actors and the nature of the political regimes within which they are embedded

Throughout this course, I develop a framework of political risk mapping for wealth management in sports from the perspective of the sporting organisation. This approach is developed because I judge that it has the widest applicability to the scenarios that are central to wealth management in sport. Placing the sporting organisation as the central actor allows the mapping procedure set out in this reading to be used both by potential investors in sports organisations and by individuals involved in the management of sports organisations. This approach allows us to assess its political situation in relationship to other powerful actors, understanding the power networks within which sports organisations are embedded allows for the identification of the actors, powers, and interests that may affect their viability as investment opportunities. Such an assessment is also useful for those within sports organisations, as it allows them to identify the political actors that can potentially impinge on the activities that comprise their wealth management strategy.

Of course, it is also possible that scenarios arise within political risk analysis for wealth management in sport, where the central actor is not a sport organisation; for instance, one might be focused on an individual athlete, or a non-sporting organisation, an investment or a consortium attached to a project. As such, the key takeaway message is that you need to begin the exercise with a clear sense of the central actor from the perspective of which political risk mapping proceeds.

Having established the central actor for your mapping exercise, the next step involves analysing the nature of the political regime(s) within which they are embedded. As Jensen (2008) notes: "There are a number of mechanisms through which political regimes could affect investors, from political risk, to tax policy, to government policies affecting macroeconomic performance" (p. 1041). The key distinction that we will outline in this sector separates democratic and autocratic political regimes because this distinction has the most important bearing on the extent and nature of political risk [for a detailed discussion of the underlying evidence base for this assertion, see Acemoglu and Johnson (2005)].

While there are considerable disputes about the 'true' meaning of the term democracy [see, for a great overview, Held (2006)], the aspect of democratic systems that has the strongest bearing on their relevance for wealth management is their accountability structure.

The idea of accountability captures the intuition that a person or group with political power is **constrained** by other actors. Examples of political accountability include the obligation of a government ministry to report and justify its activities to the legislature, processes of judicial review to establish the legality of new laws or administrative decisions, and, ultimately, the use of elections as a means of empowering (and removing) political office holders. Formally, "A is accountable to B when A is obliged to inform B about A's [...] actions and decisions, to justify them, and to suffer punishment in the case of eventual misconduct" (Schedler *et al.*, 1999, p. 17).

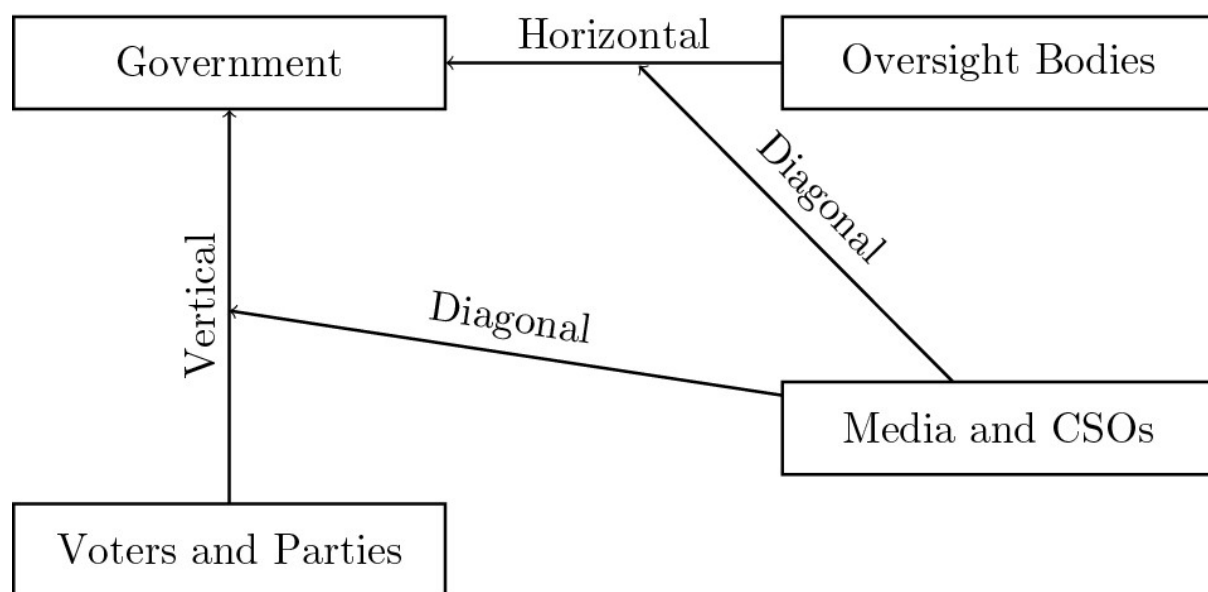
A regime's accountability structure characterises whether and how political office holders are affected by other actors in society. In separating democratic from autocratic regimes (and in placing regimes on a range of intermediate positions), we can look at the following three dimensions of accountability:

1. **vertical accountability** captures the ability of a population to hold its government to account through the means of elections. However, the mere act of holding regular elections is not sufficient to ensure democratic vertical accountability. Instead, elections must be held in a free and fair manner; the franchise cannot be restricted to a subcategory of the population, and the elections must be consequential in the sense that their results cannot be arbitrarily ignored or overturned.

2. **Horizontal accountability** captures to which the executive (i.e., governments and administrative agencies) are held accountable by other political institutions. Here we are assessing the capacity of the other 'branches' of government (including the legislature, the judiciary, and designated oversight agencies) to constrain the executive.
3. **Diagonal accountability** centres our attention on non-state actors, such as media and civil society organisations, to contribute to and re-enforce both vertical and horizontal accountability.

These dimensions are represented graphically in figure 2.

Figure 2. Vertical, horizontal and diagonal accountability flows



Source: Lührmann *et al.*, 2020, p. 813.

Accountability structure has been central to the study of political risk exposure for international investment because it affects the ability of political actors to either appropriate or unilaterally renegotiate the conditions of an agreement with a commercial entity (Stevens *et al.*, 2016). It has also been argued that accountability structure can affect the temporal stability of policy as well as the range and nature of interests that are represented in policy-making (Jensen, 2008).

Fully autocratic regimes are characterised by weak accountability structures on all three dimensions. In fully autocratic regimes, the holders of political power are therefore minimally constrained by opposing institutions and political forces. Fully democratic regimes, on the other hand, are characterised by strong accountability relationships on all three dimensions. Mixed regimes are characterised by different combinations of strong and weak accountability dimensions. The literature on foreign direct investment largely favours a position that investments are less heavily exposed to expropriation risks in

democratic systems. The key dynamics that underlie this finding are the relatively increased difficulty of making a decision to expropriate in democracies (relative to autocracies) due to the enhanced constraints on government action that they face, as well as greater transparency in the policymaking process and the more open systems through which firms can lobby and seek to influence policy (Jensen, 2008).

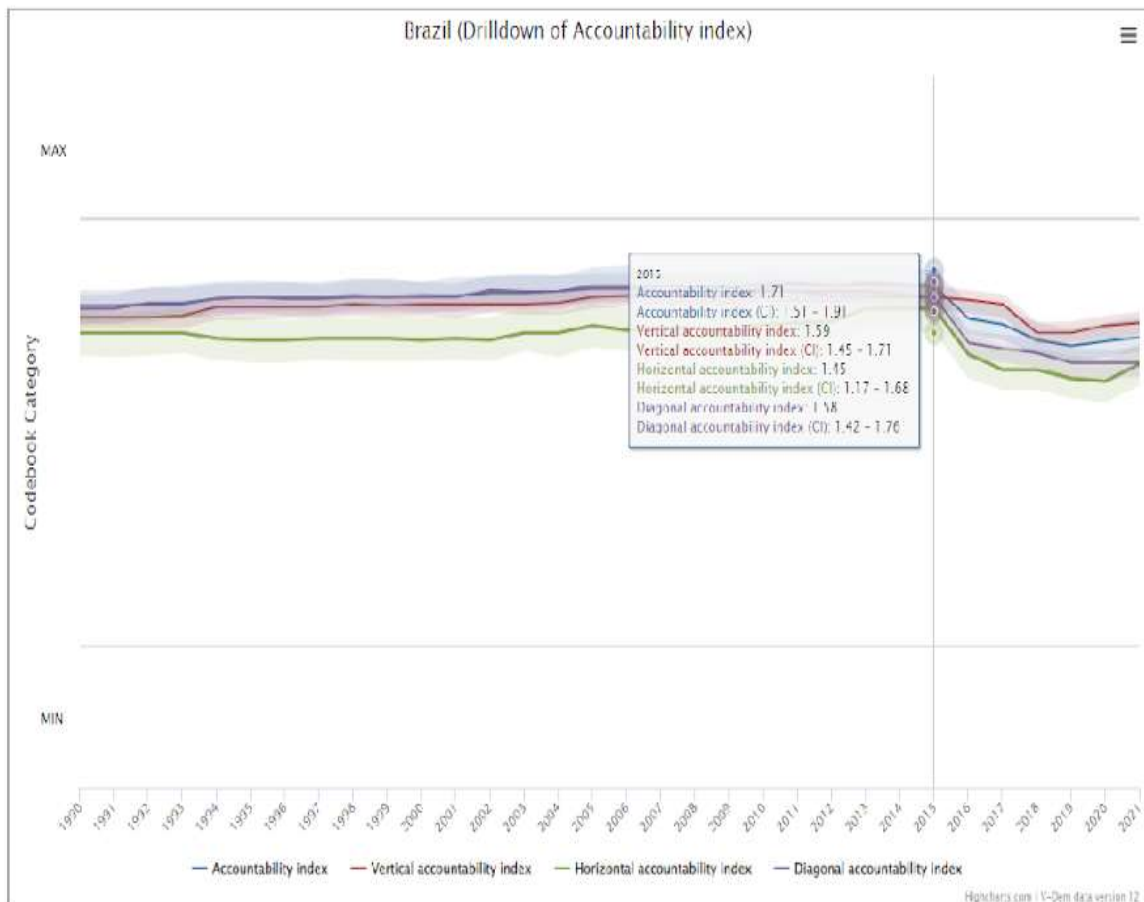
However, autocratic regimes are not without advantages from a wealth management perspective. Governments or rulers that are not subject to being overturned via election are able to plan with a longer time horizon, as well as being potentially more resistant to domestic and economic pressure. Furthermore, to the extent that a firm has political influence or support, this is less likely to be disrupted by the demands of new entrants into the policymaking process.

Finally, it is important to note that a given sports organisation or investment opportunity may span across a range of different political regimes. For example, a sports club based in a democratic political system may be an investment target for an autocratic political regime. In these instances, it is all the more important to analyse the regimes, as their intersection may itself prove a point of political risk.

Fortunately, there exists a wide range of openly available and up-to-date sources for analysing political regimes and their accountability structure. The current market leader, and the source that is best aligned to the focus outlined in this reading, is the 'Varieties of Democracy' project (available at <https://www.v-dem.net/>).

This project has a highly robust methodology, and global coverage over a significant time period. They also adopt a measurement approach that permits for shades of grey to be seen – so that regimes can be seen as moving within the categories of democracy and autocracy as well as between these categories. In figure 3, I show an example of their data's coverage of Brazil's changing accountability structure, which allows for a sense of trajectory (in Brazil's case, an overall shift towards a more authoritarian accountability structure), and a sense of the key drivers (in Brazil's case, a particularly pronounced decline in horizontal and diagonal accountability).

Figure 3. Using publicly available data to perform regime analysis



Source: [online image of using publicly available data to perform regime analysis], (n. d.), <https://bit.ly/3bCcYmD>.

In summary, this first part of political risk mapping involves the following aspects:

- selecting the central actor for which you wish to map political risks and opportunities.
- Identify the political regime (or collection of regimes) within which your central actor is embedded.
- Uncover the accountability structure of the regime(s) by drawing on publicly available, well-research analysis.
- Consider both the current nature of the regime, but also factor in the wider regime trajectory: is the regime in transition (if so, in which direction) or is it stable?

Unit 2.4 The elements of political risk mapping

2: Identifying and classifying governance actors

Having identified the central actor, in our case a sports organisation, and developed an understanding of the types of political regime(s) within which they are embedded, the next step involves identifying the governance actors with respect to which the central actor can be mapped.

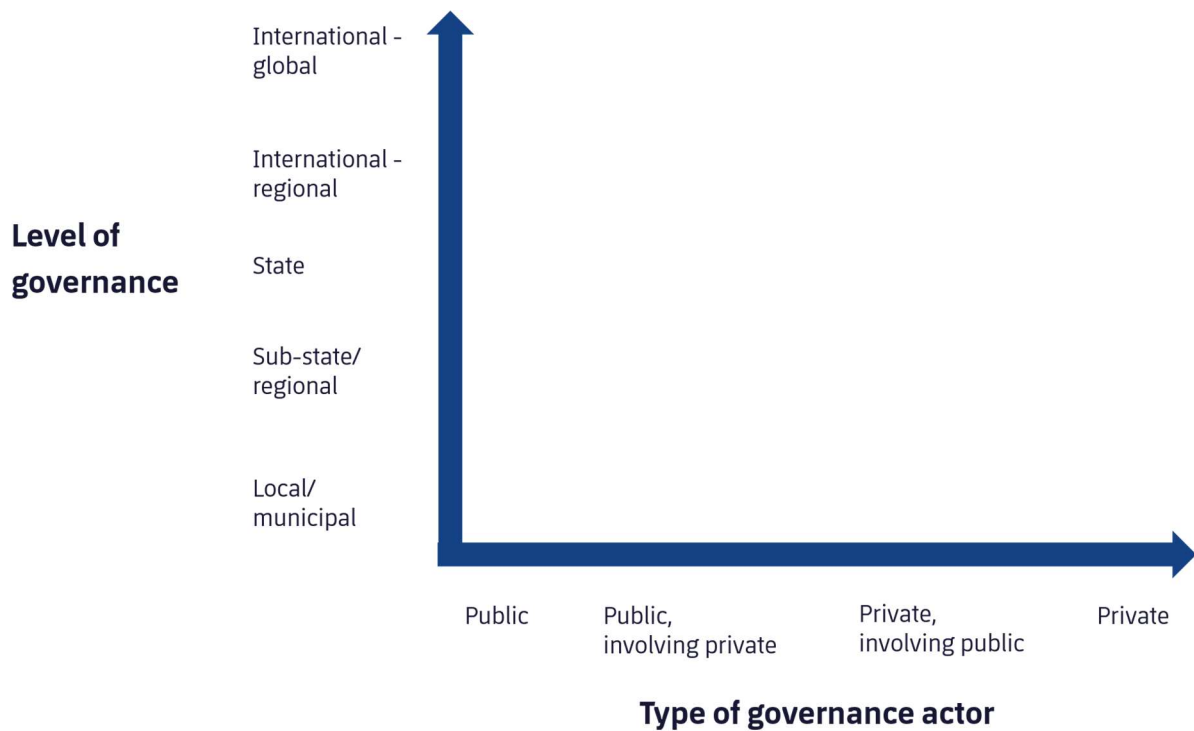
Governance actors are those that are empowered to make political decisions that affect a sports organisation.

Our choice of the term 'governance actors' rather than 'government actors' is a deliberate one and reflects a broad shift in the focus of studies of public administration beyond the sovereign state and its government that goes back to the 1990s (Rhodes, 1994). As a concept, governance embraces the contemporary reality that the day-to-day operation of politics is undertaken by **governance networks**, and that such networks are characterised by "the production of public policy through political interaction between public and private actors" (Josselin and Wallace, 2001, p. 10).

Our approach also acknowledges that sports organisations can be situated relative to a range of governance actors operating at different **levels**. Again, this approach reflects development both in how governance is conducted and how it is studied in the 21st century. Substantively, many states are conferring increasing power both downwards, to subnational governments (for example, consider the process of devolution in the United Kingdom, which has seen the establishment of regional assemblies in Wales and Scotland, both of which have grown in terms of financial and political power over the last 20 years), and upwards to regional and international organisations. This shift in power has been accommodated by political scientists through a growing emphasis on seeing governance as a **multilevel** phenomenon, capturing "the idea that authority on a broad swathe of issues has come to be shared across global institutions, regional organisations such as the EU, national governments, and subnational governments" (Schakel *et al.*, 2015, p. 270).

Bringing these ideas together, we will map the relevant governance actors for a sports organisation as ranging across two dimensions: a **horizontal** dimension reflecting the range of public and private actors involved in their governance network, and a **vertical** dimension capturing the different levels of governance actors with which they interact. This mapping framework is presented in figure 4.

Figure 4. The horizontal and vertical dimensions that can be used to classify governance actors



Source: own source.

A full mapping of the relevant governance actors is likely to reveal the complexity of the governing network within which a given sports organisation is likely to be embedded. In order to make sense of this network, there are two further elements to be unfolded: power and risk.

Unit 2.5 The elements of political risk mapping

4: Hard power, soft power, and smart power

“In the 21st century, culture is power” (former South Korean President Park Geun-hye).

The nature and limits of power are central to the study of politics, and thus it is unsurprising that they are the subject of sustained academic debate [see, for an overview, Baldwin (2021)]. Nye (2008) sets out some key parameters, stating that “power is the ability to affect others to obtain the outcomes you want. One can affect others’ behaviour in three main ways: threats of coercion (‘sticks’), inducements and payments (‘carrots’), and attraction that makes others want what you want” (p. 94).

For our purposes, the distinction made by Nye (2004) between hard and soft power is extremely useful because it best captures the interplay between sports organisations and governance actors.



The key point of differentiation between hard and soft power is the nature in which a desired effect can be achieved. Hard power is a **direct** production of a wanted outcome, in the sense that it involves exercising some form of physical or economic force. State governance actors, by their very nature, possess (and some would argue, monopolise) hard power within their respective jurisdictions. While hard state power is, in the normal run of events, exercised through administrative, juridical, and economical means, it is always underwritten by states' monopoly on violence [see, for an in-depth discussion, Anter (2020)]. Mao Zedong's aphorism that 'political power grows out of the barrel of a gun' captures the heart of hard power. An actor's degree of hard power is usually understood in terms of the coercive and inducive resources that they can bring to bear to a particular interaction, relative to those of another actor.

Soft power, on the other hand, is an **indirect** mechanism through which desired outcomes can be obtained. Unlike hard power, it relies not on the use of force (or the underlying threat of force) or inducement. Instead, soft power operates at the level of the perceptions and sentiments of others. When an actor be it a state, an international organisation, or a sports organisation, is able to achieve its desired outcomes by using its ability to attract and persuade others, it has exercised soft power. Nye (2004) characterises such use of power as 'seduction'. The degree of soft power that an actor enjoys is more difficult to measure than hard power, as it exists at a less tangible level, and this allows for multiple approaches, none of which are universally accepted (Ji, 2016).

The reason that this approach is useful for wealth management in sport is because of the mismatch of hard and soft power between governance actors and sports organisations. Governance actors, especially public actors at the state level (for instance, national governments, relevant ministries, and financial authorities), enjoy a substantial hard power advantage relative to sports organisations. When push comes to shove, their potential scope for manoeuvre relative to sports organisation is near complete. Sports organisations, in certain contexts, may enjoy some hard power resources of their own – most notably to the extent that they bring investment resources into a state/community and can withdraw such investment; but these hard power resources can, at best, induce a governance actor to bargain or hold off on deploying their hard power.

The relationship inverts, however, when it comes to soft power. Sports organisations, by their nature, are endowed with significant soft power. In the first place, to the extent that they are well-known (both within and beyond a state), they occupy a place within popular culture. As a resident of Swansea in the United Kingdom, I became particularly aware of this dynamic – many of the people I speak to about living here know about Swansea because of its football team (which enjoyed a sustained run in the Premier League from 2011 to 2018). This dynamic of sports as being a source of wide attention has been argued to be central to understanding why states compete to host sporting 'mega events' like the Olympics and World Cup, with Grix and Lee (2013) concluding that "the hosting of sports



mega-events as the practice of public diplomacy by states to both demonstrate existing soft power capability and pursue its further enhancement” (p. 521).

As well as being a locus of attention, sports organisations also thrive on the positive sentiments of their supporters and wider cultural attraction that comes with sporting prowess and achievement at the elite level. This combination of attention and popularity helps to explain why sports organisations are able to develop lucrative sponsorship deals, and political actors have been increasingly assertive in entering this space. For instance, Chadwick *et al.* (2002) note the following:

Over the past decade, an apparent shift in sponsorship spending has seen a growing number of sponsorships in which a state entity has acquired the right of association with a sponsorship property. Sponsorships undertaken by state-owned airlines, energy companies, as well as through sovereign-wealth fund brands, have thus become increasingly commonplace, suggesting a new era of sponsorship marketing and soft power exertion. (p. 196).

This approach makes the case for alignment between political actors and sporting organisations; political actors can draw on the soft power resources of sporting organisations, while sporting organisations can benefit from the provision of hard power outputs (such as funding, security, protection from expropriation etc.) offered by political actors. Such an approach reflects a more recent update to the hard/soft power dichotomy in the study of international relations, captured in the concept of ‘smart power’, defined by Wilson (2008) as “the capacity of an actor to combine elements of hard power and soft power in ways that are mutually reinforcing such that the actor’s purposes are advanced effectively and efficiently” (p. 110).

Unit 2.6 The elements of political risk mapping

5: Systemic and substantive stability and volatility

In the first reading for this module, we separated politics into **systemic** elements which capture the wider political infrastructure within which political decisions are made and enforced, and **substantive** elements, which foreground the policies and priorities within a political system. In this section, we will turn our attention to the mapping of systemic political risks that may impact on wealth management in sport.

Let us begin by reviewing the analytical framework for this course introduced in reading 1 in the light of the ideas developed so far in this reading, which are reproduced in table 1.

Table 1. Analytical framework for this course

	Political stability	Political/policy uncertainty within a stable system	Generalized systemic volatility	Particularized systemic volatility
Political opportunities	Financial and reputational benefits of alignment with established power structures and actors.	Getting ahead of emerging issues to improve reputation; Reaching out to new support bases.	Investment (especially in liquid capital) can generate returns that are impossible in normal circumstances.	Favoured actors can benefit as new commercial arrangements are developed.
Political risks	Being 'frozen out' of established power structures; facing entrenched opposition from established actors.	Previously acceptable practices become liabilities; fans, athletes, and journalists shift narratives and information flows.	Underlying pillars that stabilise asset value can become unstable.	Assets of targeted organizations can be frozen, seized, or rendered worthless.

Source: own source.

This approach focuses on the various combinations of systemic and substantive volatility that can characterise a political system as it intersects with a sports organisation. In terms of systemic risk, we can abstract three potential states:

1. **systemic stability.** Political structures are established and unlikely to alter substantially in the near, medium, or long term. For stable systems, the nature of the accountability regime is clear and well-established. Governance actors are clearly identifiable and have stable power bases, as well as norms and institutions that govern their interaction.
2. **Generalised systemic volatility:** political structures are unstable or fragile. In instances of systemic volatility, the accountability regime is difficult to characterise and subject to sudden and dramatic change. Governance actors can emerge or be disbanded rapidly. The interplay of hard and soft power is destabilised, and there is an increased likelihood of hard power interventions in the form of appropriation.
3. **Particularised systemic volatility:** instances in which sectors or subgroups of actors within a political system are exposed to an effective systemic collapse, while, at the same time, other sectors and actors are able to continue to operate within a relatively stable environment. In these instances, the authority regime and governance actors may remain relatively stable, but the underlying power dynamics can shift radically. In these instances, the predictability of the behaviours of governance actors decreases.

In assessing the relative systemic stability of a state, a particularly useful resource is the Fragile States Index (FSI). This is another publicly available, high-quality data set that



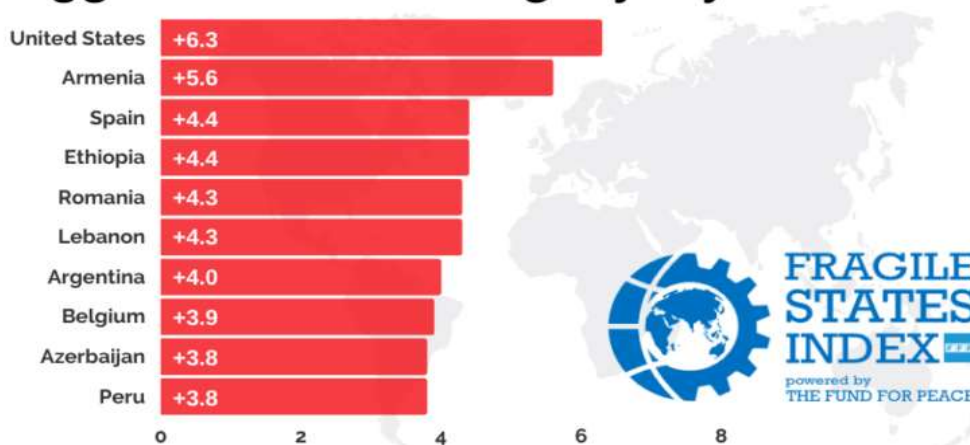
provide significant insight into the systemic stability of a political regime. It focuses on the following aspects of state instability:

- The loss of physical control of its territory or a monopoly on the legitimate use of force.
- The erosion of legitimate authority to make collective decisions.
- An inability to provide reasonable public services.
- The inability to interact with other states as a full member of the international community. (Fragile States Index, 2022, para. 2).

Not only does this data source provide a snapshot of the relative systemic stability of states, it also allows for over-time mapping, to establish a sense of trajectory of systemic stability; so, for instance, 2021 analysis showed the below states with the greatest single year increase in instability. Engaging with sources such as the FSI is a vital jumping off point for establishing the degree of systemic stability in a given state, which, as we will explore in the next reading, is crucial for identifying and developing a strategic response to political risks and opportunities.

Figure 5. Analysis from the 2021 Fragile States Index

Biggest increase in fragility (1 year)



Source: [online image of analysis from the 2021 Fragile States Index], (n. d.), <https://bit.ly/3SyY3Kp>

Substantive political stability and volatility are the elements to which we tend to pay the most attention when thinking about the day-to-day operation of politics. They capture the ongoing interplay of the *status quo* and dynamics that can lead it to shift. There is a range of factors that can destabilise substantive politics in a given system.



Within democratic regimes, the strong vertical accountability dimension means that replacement of governing parties at election time is a well-established source of political volatility; when evaluating political risks in a given system, understanding the election cycle and the policy platforms of the leading candidates/parties is, therefore, an essential step to take. However, because elected politicians must anticipate future elections, media coverage and issues of public concern (i.e., diagonal accountability) can also destabilise the substantive/policy scenario; here, scandals or perceived crises can change the emphasis and (sometimes) the direction of public policy. Horizontal accountability is also key to the basis of politics – especially in circumstances where a given policy is required to be changed due to judicial review or an intervention in the legislature.

Within autocratic regimes, few of these lines of accountability operate, meaning that longer periods of substantive stability may be anticipated. However, in such regimes, the lack of constraint on those in power means that substantive volatility may arise more rapidly, and with more profound consequences.

Unit 2.7 The elements of political risk mapping

6: The probabilistic nature of risk

“It is difficult to make predictions, particularly about the future” (Mark Twain).

Our approach centres on an understanding of systemic and substantive political stability and volatility as key drivers of the types of political risks and opportunities that can affect wealth management in sports. In this section, we discuss the future-oriented nature of political risk, arguing that an understanding of basic probability and forecasting skills is vital for useful political risk mapping.

An understanding of the fact that assessing political risk requires engaging with assessing the likelihood of future events is a useful starting point here. What we have established so far is that political risk mapping entails identifying the relevant governance actors that can affect a sports organisation, and understanding the hard, soft, and smart power dynamics that govern the nature of their interaction. However, in order to move beyond a temporally static characterisation and identify both risks and opportunities, we are required to look at the probabilities of different **future** intersections of sports organisations and governance actors.

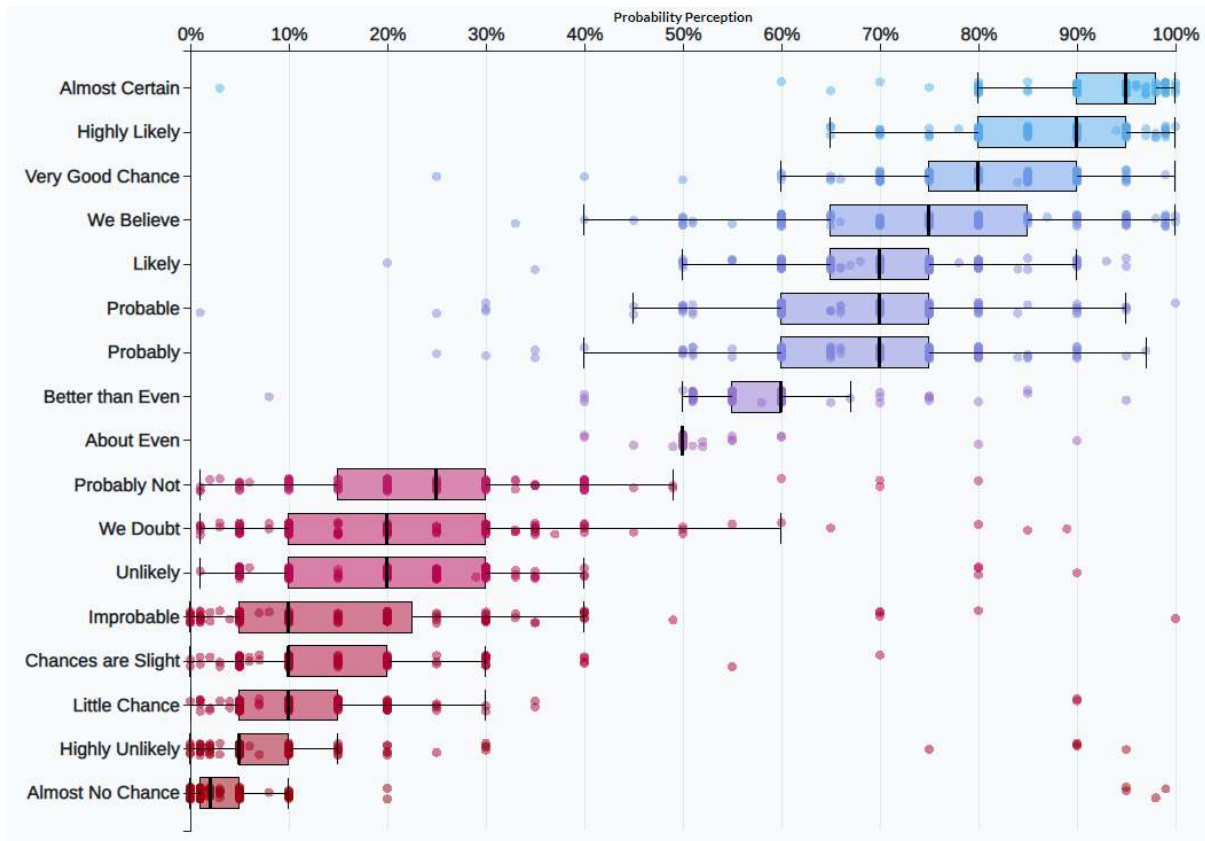
Doing this requires that we draw upon structured approaches to characterising future events derived from the political forecasting literature. Forecasting plays an important role in my own teaching and research, and I have convened an especial topic module on political forecasting for the last five years.

One of the first things I do with students on this module is discussing the proper format of a political forecast. In day-to-day life, many of us use language as a means of expressing the likelihood of a future event. One might say: “I think that Boris Johnson has



a good chance of still being the UK Prime Minister by the end of 2022". Such informal forecasts are, in practice, amenable to a wide range of interpretations. CIA Officer Sherman Kent (1964) noted this issue in the interpretation of intelligence reports, arguing that "considerable difficulty attends both the fitting of a phrase to the estimators' meaning and the extracting of that meaning by the consumer" (p. 4). Wade Fagen-Ulmschneider created the below visualisation based on Kent's work of how respondents to an online survey perceived the probability associated with various phrases of this sort.

Figure 6. The range of probabilities people associate with verbal predictions



Source: [online image of the range of probabilities people associate with verbal predictions], (n. d.), <https://bit.ly/3wdxgtN>.

To avoid the confusion created by linguistic ambiguity, it is therefore important to clearly specify the probability that you associate to a given political outcome. Furthermore, the use of vague language makes evaluation difficult; it is easy to downplay our confidence in a failed forecast after the fact, meaning that we do not take that opportunity to self-correct. Finally, there is substantial evidence that more precisely specified forecasts (i.e., specified in terms of % probability rather than through language) result in better forecast performance, with Friedman *et al.* (2018) reporting that, based on an analysis of over 800,000 geopolitical forecasts, "rounding off these (probability) forecasts into qualitative expressions [...] systematically sacrifices predictive accuracy" (p. 421).

So, a political risk evaluations format of “I estimate an 80 % probability of Boris Johnson still being UK Prime Minister by the end of 2022” is superior for communicating clearly with others, for evaluating your prediction accuracy, and for making more accurate predictions.

The second component of risk analysis relates to the degree of exposure or potential upside that would accrue to a sports organisation in the event of a given political outcome. For instance, let us consider an example. A forecast political scenario may be of consequence for two different sporting organisations. For instance, as I write this, there is considerable uncertainty in the United Kingdom over whether the government will enact a ban on betting companies as the primary shirt sponsors for Premier League football teams. Whether this will happen or not is unknown, and thus a matter to be estimated probabilistically as outlined above. I might make the following estimate: “I believe that it is 40 % likely that the UK government will institute and enforce a ban on gambling companies as main shirt sponsors from the 22/23 season onward”.

However, the relative **risk** depends on the extent to which this will affect individual sports organisations. For instance, Everton Football Club, having just signed a club record sponsorship deal with Stake.com, are particularly exposed to political risk here; they would need to find a new sponsor at short notice and would likely see a reduction in their income. Other clubs might have less direct exposure in terms of their existing sponsorship arrangement, but risk a generally reduced market for shirt sponsorship in the medium term. Clubs in other leagues or non-football sports organisations, on the other hand, may enjoy a benefit – as gambling companies seek alternative sponsorship opportunities.

Unit 2.8 Putting it all together: Political risk mapping for orientation and route selection

When it comes to political mapping, as Benoit and Laver (2006) state:

Adding ever finer-grained detail does necessarily not make for evermore useful descriptions of the world. When we set sail across the Atlantic, for example, we would get lost if our only charts were so detailed that they show the position of every single grain of sand on every single beach we might pass. (p. 17).

As such, our mapping exercise is not designed to capture all aspects of the intersection of politics and sport. Instead, it serves a heuristic and strategic purpose, enabling strategic wealth management in the light of a suitable appreciation of political risks and opportunities.

As such, the goal of this reading is to give you the conceptual and practical tools that you will need to conduct political risk mapping for a sports investment, organisation, or other venture that is relevant to wealth management. We have introduced the sequence of steps that such a mapping entails, and, in your first activity on this course, you will have the opportunity to see how these elements work together in practice.

In summary, the steps that we have outlined in this reading are as follows:

1. identify the central actor from the perspective of which the political risk mapping exercise is to be conducted.
2. Identify the regime(s) within which this central actor is embedded and characterise their authority structure.
3. Identify and classify the various governance actors with which the central actor must interact.
4. Analyse the relative hard and soft power resources enjoyed by each governance actor and how they intersect with the central actor.
5. Evaluate the overall systemic stability of the regimes within which the central actor is embedded.
6. Evaluate the substantive/political stability of the regimes within which the central actor is embedded.
7. Estimate the likelihood of high-consequence systemic and substantive political scenarios for the central actor.

As we will explore in our first activity, following these steps allows for increased clarity in outlining political risks and opportunities currently facing a sport organisation. It also allows you to select and chart the best route to a desired future arrangement of political risk and opportunity.

References

- Acemoglu, D. & Johnson, S.** (2005). Unbundling Institutions. *Journal of Political Economy*, 113 (5), 949–95.
- Anter, A.** (2019). *The modern state and its monopoly on violence*. In *The Oxford Handbook of Max Weber*.
- Baldwin, D. A.** (2021). The faces of power revisited. *Journal of Political Power*, 14(1), 85–96.
- Benoit, K. & Laver, M.** (2006). *Party policy in modern democracies*. Routledge.
- Butler, J.** (2014). *The Financial Times Guide to Wealth Management: How to plan, invest and protect your financial assets*. Pearson UK.



- Chadwick, S., Widdop, P. & Burton, N.** (2020). Soft power sports sponsorship: A social network analysis of a new sponsorship form. *Journal of Political Marketing*, 1-22.
- Friedman, J. A., Baker, J. D., Mellers, B. A., Tetlock, P. E. & Zeckhauser, R.** (2018). The value of precision in probability assessment: Evidence from a large-scale geopolitical forecasting tournament. *International Studies Quarterly*, 62(2), 410-422.
- Galka, M.** (2017). Twisted tracks: watch metro maps transform to real-life geography. *The Guardian*. <https://www.theguardian.com/cities/2017/jun/27/twisted-tracks-metro-maps-real-life-geography-visualised>.
- Grix, J. & Lee, D.** (2013). Soft power, sports mega-events and emerging states: The lure of the politics of attraction. *Global Society*, 27(4), 521-536.
- Held, D.** (2006). *Models of democracy*. Polity.
- Jensen, N.** (2008). Political risk, democratic institutions, and foreign direct investment. *The Journal of Politics*, 70(4), 1040-1052.
- Ji, L.** (2016). Measuring soft power (section overview). In *The Routledge handbook of soft power* (pp. 95-112). Routledge.
- Josselin, D. & Wallace, W.** (2001). Non-state actors in world politics: a framework. In *Non-state actors in world politics* (pp. 1-20). Palgrave Macmillan.
- Kent, S.** (1964). Words of estimative probability. *Studies in Intelligence*, 8(4), 49-65.
- Kurgan, L.** (2013). *Close up at a distance: Mapping, technology, and politics*. MIT Press.
- Lasswell, H. D.** (2018). *Politics: Who gets what, when, how*. Pickle Partners Publishing.
- Lowthorp, L.** (2014). The Irish Kerryman Joke: Culchies, Cute Hoors, and the Emergence of a Late Modern Fool Region Joke. *Western Folklore*, 297-322.
- Lührmann, A., Marquardt, K. L. & Mechkova, V.** (2020). Constraining governments: New indices of vertical, horizontal, and diagonal accountability. *American Political Science Review*, 114(3), 811-820.
- Nye Jr, J. S.** (2004). Soft power and American foreign policy. *Political Science Quarterly*, 119(2), 255-270.
- Nye Jr, J. S.** (2008). Public diplomacy and soft power. *The Annals of the American Academy of Political and Social Science*, 616(1), 94-109.
- [Online image of analysis from the 2021 Fragile States Index]**. (n. d.). <https://fragilestatesindex.org/>.
- [Online image of the range of probabilities people associate with verbal predictions]**. (n. d.). <https://waf.cs.illinois.edu/visualizations/Perception-of-Probability-Words/>.



[Online image of using publicly available data to perform regime analysis]. (n. d).
https://v-dem.net/data_analysis/VariableGraph/.

Rhodes, R. A. (1994). The hollowing out of the state: The changing nature of the public service in Britain. *The Political Quarterly*, 65(2), 138-151.

Schakel, A. H., Hooghe, L. & Marks, G. (2015). Multilevel governance and the state. *The Oxford Handbook of Transformations of the State*, 269-285.

Schedler, A., Diamond, L. J. & Plattner, M. F. (Eds.). (1999). *The self-restraining state: power and accountability in new democracies*. Lynne Rienner Publishers.

Stevens, C. E., Xie, E. & Peng, M. W. (2016). Toward a legitimacy-based view of political risk: The case of Google and Yahoo in China. *Strategic Management Journal*, 37(5), 945-963.

What Does State Fragility Mean? (2022). *Fragile States Index*.
<https://fragilestatesindex.org/frequently-asked-questions/what-does-state-fragility-mean/>.

Wilson III, E. J. (2008). Hard power, soft power, smart power. *The Annals of the American Academy of Political and Social Science*, 616(1), 110-124.

