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J. MARK MUNOZ

Tabor School of Business
Millikin University Decatur, IL, USA
jmunoz@millikin.edu

Executive Viewpoint on Geopolitics: Paris Watts-Stanfield, Chief Audit Executive of Alcoa

Summary

The contemporary geopolitical environment has posed new challenges and opportunities for business organizations worldwide. With increasing international economic alignments and political conflict, organizations need to manage innovative methodologies. These operational changes have an impact on the practice business and politics worldwide. With the intent of highlighting a real world case in geopolitical management, Professor Mark Munoz of Millikin University and undergraduate student Malcolm J. Branch interviewed Paris Watts-Stanfield, Chief Audit Executive of Alcoa. Alcoa is a global leader in lightweight metals technology, engineering and manufacturing. Based in Pennsylvania, USA, the company has been in operation for over 125 years and has been a pioneer in the aluminium industry. The firm has over 60,000 employees in 30 countries. The interview captures the geopolitical mindset of one of the firm's key executives.

KEYWORDS

Geopolitics, International Management,
Geopolitical Management

MENEDŻERSKI POGLĄD NA GEOPOLITYKĘ: PARIS WATTS-STANFIELD, GŁÓWNY AUDYTOR Z FIRMY ALCOA

Streszczenie

Współczesne otoczenie geopolityczne tworzy nowe wyzwania i możliwości dla organizacji biznesowych na całym świecie. Wraz ze wzrostem gospodarczym i międzynarodowych wyzwań oraz konfliktów politycznych, organizacje muszą zarządzać, bazując na innowacyjnych metodach. Te zmiany operacyjne mają wpływ na praktykę i politykę gospodarczą na całym świecie. W celu ukazania rzeczywistego wpływu geopolityki na współczesne zarządzanie, profesor Mark Munoz z Uniwersytetu Millikin w USA wraz ze studentem Malcolmem J. Brachem przeprowadził wywiad z Parisem Watts-Stanfieldem, głównym autorem wykonawczym z firmy Alcoa. Alcoa jest światowym liderem w technologii metali, lekkiej konstrukcji i produkcji. Firma ma swoją siedzibę w Pensylwanii, USA, a działa od ponad 125 lat i jest pionierem w branży aluminiowej. Firma posiada ponad 60 000 pracowników w 30 krajach. Wywiad oddaje geopolityczne myślenie jednego z najważniejszych menedżerów firmy.

SŁOWA KLUCZOWE

geopolityka, zarządzanie międzynarodowe, zarządzanie geopolityczne

INTRODUCTION

Geopolitics is defined as the convergence of geography, economics and politics and its influences on events. It is shaped by geographic location, resources (natural and man-made), demographics and people factors, and relationships with other countries [Bronstein 2011].

Early thinking on geopolitics was advanced by Mackinder [1904] who suggested that social occurrences in one part of the world will impact upon other locations and shape political and economic activities.

Companies and executives need to be cognizant of geopolitical occurrences. The global environment is threatened by: 1) financial challenges, 2) ecological threats, 3) global instability due to power shifts and resource limitations [Foster 2009]. A keen understanding

of geopolitical dynamics and the management of risk is an essential skills set of the contemporary CEO [Financial Executive 2011].

This article highlights an interview with Paris Watts-Stanfield, the Chief Audit Executive of Alcoa. Alcoa is a global leader in lightweight metals technology, engineering, and manufacturing. With sales of approximately \$23 billion per year, the firm's technologies enhance industries such as transport, industrial and consumer electronics [Alcoa 2014]. The firm has been a recipient of numerous awards such as the 2014 Most Admired Metals Company (Fortune Magazine), 2014 Corporate Equality Award (Human Rights Campaign), and 2014 100 Best Corporate Citizens (Corporate Responsibility Magazine).

The interview was conducted by Professor Mark Munoz, with the assistance of student Malcolm J. Branch. The interview was conducted with the goal of gaining a real life corporate perspective on how an international corporate executive manages geopolitics.

INTERVIEWER: From your experience, to what extent do companies track and monitor geopolitical events around the world?

WATTS-STANFIELD: Quite extensively. I have worked for three global companies and geopolitical intelligence gathering is an essential aid in making business decisions, from expanding into emerging markets, to introducing new products, to serving the local consumer to assessing potential anti-corruption risks.

INTERVIEWER: How do companies gather geopolitical information and conduct research in international locations?

WATTS-STANFIELD: Some companies have in-house organizations that evaluate new business opportunities; others leverage external firms to conduct research. In addition, many CEO's are members of geopolitical organizations such as the World Economic Forum.

INTERVIEWER: In your view, what are the key challenges in the geopolitical environment and how does it impact upon the contemporary corporation?

WATTS-STANFIELD: Among the many challenges include political instability such as what we are seeing in Russia and Ukraine. The US

sanctions have already started to impact my company's ability to do business in Russia and have created an isolated existence for our employees based in Russia. Other challenges include environmental sustainability, corruption, and economic stability.

INTERVIEWER: *Are there business opportunities resulting from geopolitics? What might these be?*

WATTS-STANFIELD: There are still some countries with barriers to entry limiting foreign investment and/or foreign ownership; India, the Philippines, and China come to mind. While China has opened their borders for trade over the last few decades, the practice of granting government subsidies to local companies creates a de-facto barrier for non-Chinese companies. The removal of such policies would be a significant opportunity for US companies.

INTERVIEWER: *Who is responsible for geopolitical planning in companies you've worked with? Is responsibility placed on a single person, department, or entire organization?*

WATTS-STANFIELD: This responsibility is integrated throughout the company. The business units consider geopolitical factors in their long range strategic planning. Legal, Compliance and Audit professionals research geopolitical factors to determine anti-corruption risks and to develop programs to mitigate these risks. Environmental, Health and Safety professionals utilize geopolitical factors to determine regulatory risks. Treasury professionals need a solid understanding of geopolitical factors to determine investment, hedging and insurance strategies.

INTERVIEWER: *How does geopolitics impact upon the management function of planning?*

WATTS-STANFIELD: A company may make a decision to avoid entering a new market based on geopolitical factors. For example, I worked in a company that drastically reduced their investment to support growth in an emerging market based on the high corruption risk and the practice of using intermediaries to extract bribes. I worked for

another company that operated a factory that emitted high levels of mercury. While the country where the factory was located lacked the environmental regulations that govern mercury emissions levels, the company decided to use a common standard and reduced emissions regardless of the lack of a government mandate to do so.

INTERVIEWER: How does geopolitics impact the management function of leading?

WATTS-STANFIELD: The person selected to lead an organization could be determined based on geopolitical factors. I remember reading an article about Carlos Ghosn, the CEO of Nissan/Renault (of French, Lebanese and Brazilian heritage) in Japan who felt that his ability to make change was aided by his “foreigner” status. I also worked in Japan and can identify with his experience. While the Japanese would have preferred to have one of their own as a leader, I was able to be successful for three reasons: 1) I was qualified for the job, 2) I respected the local culture and norms and 3) I was not bound by the unwritten code that requires a Japanese manager to maintain harmony.

INTERVIEWER: How does geopolitics impact upon the management function of organizing?

WATTS-STANFIELD: I worked for Walmart when the company entered the market in India. Because of the Indian law (at the time) that precluded foreign companies from assuming 100% ownership of a business based on India, Walmart entered into a joint venture to launch a series of cash-in-carry outlets. Alcoa, for different reasons, has joint ventures with the governments in Jamaica, Suriname and Saudi Arabia.

INTERVIEWER: How does geopolitics impact upon the management function of controlling?

WATTS-STANFIELD: I am the head of Internal Audit for a multi-national company. In this capacity, I am charged with assessing the company’s risk profile throughout the world. The risk assessment ultimately determines the frequency and method of audit activity required.

Geopolitical factors such as corruption index, proximity to headquarters, and prior fraud allegations are considered along with a series of financial performance indicators.

INTERVIEWER: *In your view, does geopolitics impact upon the company's financial bottom line? Why or why not?*

WATTS-STANFIELD: There are several instances where geopolitics can impact the bottom line. The Foreign Corrupt Practices Act (FCPA) has led to significant fines over the years that have impacted upon a company's bottom line. Companies such as Siemens (\$800M fine), Halliburton (\$579M), and BAE (\$400 M) are among the top three companies penalized for FCPA violations.

Other geopolitical risks that can result in a hit to the bottom line include; a political collapse that results in lower revenue, terrorism or cyber security attacks, and (illegal) secondary markets such as counterfeiting. The mere decision to set up operations outside of the corporation's home country brings additional costs and complexity; including setting up a new office, hiring new talent, exporting expatriate talent, creating supply chain complexity, etc.

INTERVIEWER: *How can the practice of geopolitical management be improved?*

WATTS-STANFIELD: Perhaps including it in a holistic Enterprise Risk Management (ERM) platform where all key stakeholders are equipped with the same information when making strategic decisions.

INTERVIEWER: *What resources are needed by organizations in order for them to best manage the complexities of geopolitics?*

WATTS-STANFIELD: Risk management professionals (Internal Audit, Compliance and Legal), macroeconomic thought leaders and individuals with global, in-market experience.

INTERVIEWER: *What are the best practices you have observed in the management of global geopolitics?*

WATTS-STANFIELD: All of the companies where I have worked (Alcoa, Walmart and Procter & Gamble) have approached the management

of geopolitics a bit differently. The common theme and best practice has been a strong relationship with the governments of the countries in which the company has operations. In addition, many of the CEO's take on a leadership role in organizations that are established to promote healthy geopolitical relations.

INTERVIEWER: *What is your vision of geopolitics in the future? Do you see it growing or declining in importance?*

WATTS-STANFIELD: I see geopolitics being a critical component of any company's strategy as more and more companies across all industries become increasing multi-national.

INTERVIEWER: *What role will geopolitics play in a company's success?*

WATTS-STANFIELD: Any company that successfully navigates the risks and opportunities associated with a dynamic geopolitical environment should be positioned well in a global economy.

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