

## Правовые и политические аспекты управления

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### Политические сети как новый источник политического риска

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#### **Аннотация**

Политические сети часто представляются наиболее адекватным инструментом для рекламирования централизованного, вертикального процесса принятия решений. Чаще всего политические сети ассоциируются в литературе с либеральными демократиями. В настоящей статье мы придерживаемся мнения, что данный феномен характерен сегодня для всех режимов, вне зависимости от степени их демократизации. Политические сети оказывают колоссальное влияние на процесс принятия решений и используют для этой цели как открытые, так и неформальные, теневые каналы воздействия на правительство. Мы предлагаем использовать термины *открытых* и *латентных* политических сетей, соответствующих тому или иному характеру их взаимодействия с официальной властью в стране. Оба вида сетей представляют собой существенный источник политического риска для частных инвесторов. В статье особое внимание уделяется вопросам отсутствия законодательного и административного закрепления принципов и процедур гражданского контроля над деятельностью сетей и опасности, которую их деятельность представляет для свободных экономических акторов. В то время, как открытые сети трансформируют саму природу политического риска, становясь мультипликатором его первоисточников, а также причиной возникновения все новых видов политических рисков, латентные сети опасны своей непрозрачностью и стохастическим характером продуцируемых ими опасностей. Развитие латентных сетей делает политический риск все более непредсказуемым и в связи с этим существенным образом ограничивает эффективность традиционных методов корпоративного риск-менеджмента.

#### **Ключевые слова**

Политические сети, политические риски, принятие политических решений, теневое государство.

#### ***Introduction***

Over the last two decades policy network has probably become one of the most popular concepts in political science. A high number of scholars think it is the best alternative to the hierarchical form of government, which they denounce as being an archaic, authoritarian and ineffective way of dealing with policy issues. Networks, on the other hand, intrinsically democratic according to their supporters, are deemed to be “the almost inevitable

response to a number of developing characteristics of the contemporary public process”<sup>1</sup>. It is usually understood that higher horizontal interdependence contributes to strengthening democracy insofar as it gives more political weight to civil society and helps to counterbalance the government. Accordingly, it reduces the overall risk the government generates for various groups of business and non-business interests.

Within this framework, the network model is believed to be an adequate remedy against political risks which international business faces in host countries. Joining a policy network enables corporations to influence the decision making process and thus to reduce its risk exposure. But this assumption can be easily challenged and for a number of reasons.

Firstly, only a short number of powerful companies get direct access to a given policy network. The others have to rely on specialised associations representing business interests as a whole. However, the position of such associations often differs from those of individual members, and mainly serves the interests of their management bodies or of some of their biggest members. In reality, getting a place with real influence in open or shadow policy network represents a difficult task for majority of commercial players.

Secondly, de-centralisation and allocation of power resources from the state to other politically motivated actors does not positively influence the general level of political risk. It can indeed temporarily lower the risk exposure of individual projects in cases when the investor managed to find a suitable agreement with the network, but it does not improve the overall investment climate in the country. On the contrary, it can even worsen the overall political environment. The greater the number of actors involved in policy making process the lower is their coordination and efficiency. Political decision making process becomes slow, which is recognised as a major risk factor for investment and trade. The other problem is that business and non-business actors are not sharing the same goals. Their interests are much more diverse than those of public players within a vertical policy making model. In the same time the conflict of interests is one of the main conditions for political risk forthcoming. Accordingly, when the members of policy network pursue a number of different, often contradictory, goals, the number and variety of political risk manifestations can increase. Recent decline in investment and deterioration of political risk perception in some of the most developed democratic countries, where the open policy networks are particularly active, supports this supposition. In France, for instance, foreign direct investment declined for

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<sup>1</sup> *Jordan G., Schubert K. A Preliminary Ordering of Policy Network Labels // European Journal of Political Research. 1992. No 21 (1-2). P. 11.*

several years in a row: by 35% in 2012 and by 80% in 2013<sup>2</sup>. Unstable policy function, drastic changes in legislation, mass protests organised by syndicates and non-profit organisations resulted in growing political risk perception in several European countries<sup>3</sup>.

Considering this evident side-effect that policy networks may produce, we decided to take on a less common stance and examine the dark side of policy networks from the angle of their potential negative impact on business environment and on political risks. In addition to analyzing the undesirable effect of publicly active networks, to which we refer as *open policy networks*, we also examine the misuse of the concept by institutions entering into covert interrelations in order to elaborate given policy without any public control and without abiding by the legal framework for political decision-making. In this article these links and interdependencies are referred to as *shadow policy networks*.

There are several consecutive goals we pursue in this article:

1) to expand the theoretical understanding of policy networks by introducing the concepts of open and shadow policy networks corresponding respectively to overt and covert ways of their participation in the policy making process;

2) to show that shadow policy networks are not a distinctive feature of authoritarian regimes but a common political phenomenon in all countries, including liberal democracies;

3) to demonstrate how open and shadow policy networks become an additional source of political risk in liberal and authoritarian democracies;

4) to emphasize the necessity of a legislative framework for policy networks participation in the public management process in order to overcome the side-effects of their activity.

In the first part of the paper we give a fairly complete overview of most recognized theoretical approaches to this phenomena, cite different definitions, which can be found in the literature, and particularly focus on policy networks typology and composition. In the second part we aim to demonstrate how policy networks may become a real source of political risk in both liberal and authoritarian democracies. We finally consider several manifestations of political risk generated through policy networks in both above-mentioned regimes.

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<sup>2</sup> World Investment Report 2014. Investing in the SDGs: An Action Plan / UNCTAD — United Nations Conference on Trade and Development. New York; Geneva: United Nations, 2014. P. 78. URL: [http://unctad.org/en/PublicationsLibrary/wir2014\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf) (11.06.2015).

<sup>3</sup> Бордовских А.Н., Бусье Р. Европейская интеграция как новый источник политического риска // Вестник Московского университета. Сер. 21. Управление (государство и общество). 2013. № 2. С. 60–88.

## **1. The concept of policy networks**

### *1.1. Origins and definitions*

Policy network concept has emerged in connection with philosophical reconsideration of government's role in modern society in the early 1980s. Gradual waning of determinism concept and the revival of the *laissez faire* principle in public management has entailed the transfer of a considerable number of tasks and related responsibilities from the state to private actors<sup>4</sup>. As a result, these private actors enhanced their influence on the policy making process, and it became increasingly difficult for the governments to continue with their holistic welfare politics and to maintain the state, which Beck calls "the Eldorado... a place of wealth and caution"<sup>5</sup>. This process gave way to a new type of social regulation where the public sector did not keep its monopoly. In 1990s political science experienced a real boom of theories trying to "reinvent the government"<sup>6</sup>, and policy networks concept quickly gained popularity.

First definitions of policy networks appeared in the 1970s and describe interactions between government and various groups of interest regarding particular issues of social development<sup>7</sup>. Policy network is understood as a set of relations and interactions between various actors sharing "an interest in a policy area"<sup>8</sup>. Since the responsibility for social development is closely linked by the mainstream theory of political science to the control of power resources, policy networks were seen as the most suitable instrument for their re-allocation. By gaining direct access to power resources private actors are able to share the burden of facing the challenges of modern societies and bring about real, practical solutions.

The composition of policy networks is never given and always depends on the field of their interest and goals they pursue. Nevertheless, the scholars specialised in the subject prefer to split all policy members into two or more groups according to some particular criteria. Kingdon, for instance, identifies two clusters of actors in American policy making

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<sup>4</sup> *Luhmann N.* Soziologie des Risikos. Berlin; New York: Walter de Gruyter, 1991; *Lowi T.J.* Risks and Rights in the History of American Governments // Risk / Ed.: E.J. Burger, Jr. Ann Arbor: The University of Michigan Press, 1993. P. 17–40; *Beck U.* From Industrial Society to the Risk Society // Theory, Culture and Society. 1992. No 9 (1). P. 97–123.

<sup>5</sup> *Ibid.* P. 97.

<sup>6</sup> *Cashore B., Vertinsky I.* Policy Networks and Firm Behaviors: Governance Systems and Firm Responses to External Demands for Sustainable Forest Management // Policy Sciences. 2000. No 33 (1). P. 1.

<sup>7</sup> *Walker J.* The Diffusion of Knowledge and Policy Change: Toward a Theory of Agenda Setting // Policy Studies Journal. 1974. No 3. P. 112–116; *Katzenstein P.* Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States. Madison, Wisc.: University of Wisconsin Press, 1978; *Richardson J., Jordan G.* Governing Under Pressure: The Policy Process in a Post-Parliamentary Democracy. Oxford: Martin Robertson, 1979.

<sup>8</sup> *Comparative Government-Industry Relations: Western Europe, the United States and Japan / Eds.: S. Wilks, M. Wright.* Oxford: Clarendon Press, 1987. P. 299.

process: those who evidently have an interest in a given agenda (the President and his staff, members of the Congress, mass media and political parties) and those who do not have direct implication in the politics, but still possess resources to exert some influence on it (bureaucrats, analysts, academics)<sup>9</sup>. This approach seems to be the most clear and simple attempt to describe the structure of policy networks. Though, in the context of globalisation characterised by the strong influence of the markets over politics it may become more appropriate to classify policy networks actors in three, instead of two, major groups — state, business and societal non-business interests.

The level of activity of policy networks' members is another criteria for their classification. Two approaches can be specified in this matter. The first one is very general split of actors by micro, macro and mega levels, which correspondingly describes networks focused on local, whole-nation or international issues<sup>10</sup>. The second approach complies with multi-level method developed by transition management school. It divides sociotechnical system in three major layers: meso-level, the regimes, which consists of general policy regime practises, micro-level, the niches represented by government activity and macro-level, the landscape, formed by social values, policy beliefs, worldviews, political coalitions etc.<sup>11</sup> Accordingly, at each of these layers there are actors responsible to conduct the transformation of social landscape through their work in policy networks.

### *1.2. Policy networks as public policy theory, public administration reform or description of a process*

According to Rhodes, one of the most prominent scholars on the subject, the concept of political networks is interpreted in three different and partially overlapping ways: a description of government at work, a theory for analysing government policymaking and as a reform of public management<sup>12</sup>. *Descriptive insight* is given in literature establishing the fact of power resources' reallocation. They mainly give an account of different ways and forms of this change in particular countries and political regimes, bring attention to the question of policy networks typology. Scholars working in the field of *theoretical research* give an account of policy networks expansion in modern societies and bring out particular models of

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<sup>9</sup> Kingdon J. Agenda, Alternatives and Public Policies. 2<sup>nd</sup> ed. New York: Happer Collins, 1995. P. 200–201.

<sup>10</sup> Keohane R.O., Nye J.S. Interdependence in World Politics // The Theoretical Evolution of International Political Economy: A Reader / Ed.: G.T. Crane, A. Amawi. New York: Oxford University Press, 1997. P. 122–132.

<sup>11</sup> Kemp R., Loorbach D. Governance for Sustainability Through Transition Management / Working paper for Open Meeting of the Human Dimensions of Global Environmental Change Research Community. 2003 Oct 16–19. Montreal, Canada. P. 9. URL: <http://sedac.ciesin.columbia.edu/openmtg/docs/kemp.pdf> (11.06.2015).

<sup>12</sup> Rhodes R.A.W. Policy Network Analysis // The Oxford Handbook of Public Policy / Eds.: M. Moran, M. Rein, R.E. Goodin. Oxford: Oxford University Press, 2008. P. 425–446.

their development. Power-dependence approach focuses on the interference of various not necessarily interconnected actors participating in policy making process. This point of view is especially supported by the literature analysing policy networks functioning on inter-government global level<sup>13</sup>. The rational choice school is based on neo-institutional theory and explains the policy networks as informal, but constant and well-organised interactions between public and private actors<sup>14</sup>. Finally, Rhodes puts a particular emphasis on research dedicated to the questions of proper management of the policy networks, which he identifies as policy network *reform* literature. It deals with the practical questions of how their activity may be administratively integrated into policy-making process.

Even though the adherents of liberal democracy believe that the co-operation of different political, social and economic actors constitute a more effective governance than traditional vertical policy making<sup>15</sup>, in practice these inter-relations may cause a number of inverse effects. The least negative outcome will consist in excessively long and costly policy making process when the difficulty of bringing all political actors to consensus takes so much time and effort that it considerably lowers government effectiveness. A good example is European policy making process on financial, ecological and other issues requiring an immediate solution. Despite the urgency of aforementioned problems, the respective decision making process takes so long that the final settlement arrives at the moment, when the problem has already worsened and demands new measures. That was namely the case of the sovereign crisis in Greece, when the first decisions on European level arrived only 6 months after the Greek government and European commission officially admitted the country was in critical financial situation<sup>16</sup>.

The absence of clear legal or formal framework of cooperation between public and private actors in some cases may have even more dangerous outcome. In the absence of any definite legal and administrative framework the interrelations between government, business and non-business actors may gradually take form of a hidden cooperation. With time it may result in the development of latent networks, which will operate beyond all public control and

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<sup>13</sup> Lee K., Goodman H. Global Policy Networks: The Propagation of Health Care Financing Reform Since the 1980s // *Health Policy in a Globalizing World* / Ed.: K. Lee, K. Buse, S. Fustukian. Cambridge: Cambridge University Press, 2000. P. 97–119; *Montbrial de, T. L'action et le système du monde*. Paris: PUF, 2002.

<sup>14</sup> *Cashore B., Vertinsky I.* Op. cit. P. 6.

<sup>15</sup> *Simon H.* The Structure of Ill-Structured Problems // *Artificial Intelligence*. 1973. No 4. P. 181–201; *Rittel H.W.J., Webber M.M.* Dilemmas in a General Theory of Planning // *Policy Sciences*. 1973. No 4 (2). P. 155–169.

<sup>16</sup> Бусье П. Принятие решений западными демократиями в условиях глобализации // *Вестник Московского университета. Сер. 21. Управление (государство и общество)*. 2012. № 2. С. 56–57.

represent a real threat to democracy<sup>17</sup>. Therefore, the issue of policy networks management, or policy network reform, seems particularly important. Lascoumes, in particular, claims the necessity for public administration disciplines to develop a proper applied theory to help put this new policy concepts in practice<sup>18</sup>. As a result, the term “governance” has emerged in new public management literature. Public administration reforms of the 1990s, which predominantly had neoliberal character, aimed at supplying the public management with a proper framework for policy networks activity on municipal and national levels<sup>19</sup>. These works are of great importance as they bring the real question of practical state re-organisation and evoke legal and technical bureaucratic problems of networks’ formal integration into policy making processes.

Another interesting view of policy network literature may be found in Tanja Borzel 's research. She distinguishes policy networks as a kind of interest intermediation, which she defines as mostly an Anglo-Saxon approach, and policy networks as a new type of governance — a “predominantly German understating”<sup>20</sup>. *Interest intermediation* refers to all kinds of interactions between the government and various groups of interest<sup>21</sup>. *Governance* is a much narrower concept and is focused on a new type of non-hierarchical process of public policy-making, based on co-operation between public and private actors. This change is mainly conditioned by resource dispersion between public and private actors<sup>22</sup> and thus is seen by many as an adequate tool to level up the policy making efficiency<sup>23</sup>.

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<sup>17</sup> Соловьев А.И. Латентные структуры управления государством или игра теней на лице власти // Полис. Политические исследования. 2011. № 5. С. 70–98.

<sup>18</sup> Lascoumes P. Rendre gouvernable: de la “traduction” au “transcodage” — L’analyse des processus de changement dans les réseaux d’action publique // La gouvernabilité / Ed.: J. Chevallier. Paris: PUF, 1996. P. 324–338.

<sup>19</sup> Le Gales P. Du gouvernement des villes a la gouvernance urbaine // Revue Francaise de Science Politique. 1995. No 45 (1). P. 57–95; Pierre J. Debating Governance. Oxford; Toronto: Oxford University Press, 2000; Kjær A.M. Governance. Cambridge: Polity Press, 2004; Eliassen K.A., Sitter N., et al. Understanding Public Management. London: SAGE, 2008.

<sup>20</sup> Börzel T.A. Organizing Babylon — On the Different Conceptions of Policy Networks // Public Administration. 1998. No 76 (2). P. 254.

<sup>21</sup> It should be noted, however, that other scholars, namely Rhodes, give a narrower definition of interest intermediation as being composed only of individuals. The interactions between significant policy actors (government as a whole, its central and local bodies, labour unions, business and professional associations, multilateral organizations etc.) will represent the inter-organizational analysis (Knoke D. Political Networks. The Structures Perspective. Cambridge: Cambridge University Press, 1990).

<sup>22</sup> Kenis P., Schneider V. Policy Networks and Policy Analysis: Scrutinizing a New Analytical Toolbox // B. Marin and Policy Networks: Empirical Evidence and Theoretical Considerations / Ed.: R. Mayntz. Frankfurt am Main: Campus Verlag, 1991. P. 25–59; Modern Governance. New Government — Society Interactions / Ed.: J. Kooiman. London: Sage, 1993.

<sup>23</sup> O’Toole L.J., Jr. Treating Networks Seriously: Practical and Research-Based Agendas in Public Administration // Public Administration Review. 1997. No 57 (1). P. 45–52.

### 1.3. Classification of policy networks

Generally the classification of policy networks is based on the type of resources and power distribution among the public and private actors. The two main types of relationship between the state and private interests are *competition* and *cooperation*, and within the limits of such approach the two main types of policy networks have pluralism and corporatism features<sup>24</sup>. The state's capacity, its strength and ability to formulate and implement public policy, on the one hand, and the degree of business and non-business interests' implication in policy making, on the other, would represent two central criteria to identify the corresponding type of policy network. Based on these characteristics Cashore and Vertinsky specify five general types of policy networks: pressure-pluralist, clientele-pluralism, corporatist, concentration, and state-directed<sup>25</sup>.

*Pressure-pluralist* networks are characterised by high autonomy of the state and no predominance of business interest over social non-business problematic. In *clientele-pluralist* networks the government has little or no autonomy from important groups of interest. The business usually has a major impact over policy elaboration and implementation while the government relies on its opinion for every important policy change. *Corporatist* networks are characterised by much more balance in state-business relations. All groups of interest — business, societal, environmental and labour — take their part in policy deliberation on meso-level, but the final choice and decision making remain with the government. In *concentration* networks there is just one interest group apart from the government (usually expressing economic players' interests) which participates in policy making. It is important, however, to mention that in contrast to clientele network the state keeps its autonomy from the business and their interaction is mostly about finding a compromise rather than translating business request into public policy. *State-directed* networks reflect hierarchical relations between the government and societal interests. Their main distinctive feature, compared to pressure-pluralist networks where the state is also autonomous from other actors, is that it does not even need to balance the requests of different groups of interest and takes all decisions on its own discretion.

An alternative to Cashore and Vertinsky approach will be the method used by Rhodes and Marsh<sup>26</sup>, and Bressers and O'Toole<sup>27</sup>. It is based on three criteria. First two are the

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<sup>24</sup> Jordan G., Schubert K. Op. cit.

<sup>25</sup> Cashore B., Vertinsky I. Op. cit. P. 5.

<sup>26</sup> Policy Network in British Politics / Eds.: R.A.W. Rhodes, D. Marsh. Oxford: Clarendon Press, 1992.

<sup>27</sup> Bressers H.Th.A., O'Toole Jr. L.J. The Selection of Policy Instruments // Journal of Public Policy. 1998. No 18 (3). P. 213–239.

same as in previously described classification: the degree of members' integration into policy making and the distribution of resources between them. The third variable is new and refers to the kind of members which are active within the network. A multitude of different types of policy networks may be identified using this classification. Even though it is the most widely referenced one, it seems less suitable for applied research. As will be further closely examined, the type of actors participating in policy network remains more or less the same in all political regimes. In that way, the main distinctive features are the resources and the influence of the network over the government's decisions and actions. This aspect, however, is better presented by the above-mentioned Cashore and Vertinsky approach, bringing the main focus to the nature of government and interests' inter-relations.

## ***2. Political risk origins and new sources***

Political risk represents the biggest measurable negative outcome of policymaking process. It affects business environment and the volume of international investment, which, in its turn, represents an essential factor for social prosperity. Yet political science and public administration theories often understand political risk as a purely economic notion and pay little attention to its analysis. Speaking about the concepts of policy networks and the transition from "government" to "governance" it should be noted that all these processes have an important impact on the political risk phenomena since they are transforming its very nature and primary sources. In that way, it seems important to investigate how political risk would change with policy networks proliferation in the future and to ascertain if this proliferation would have a positive or negative effect on economic environment.

### ***2.1. Defining political risk***

The most general definition of political risk may be found in political analysis literature where this term is often used to describe a sudden change of political situation. There is no specification neither in what actors are affected by this change, nor in the reasons for it, nor in the outcomes it may have. The risk emerges when relative order gives way to confusion and when politics become unpredictable and law no longer guarantees a justice. Thus, political risk can manifest itself in various forms of insurrection, international blockades, civil war, or some softer occurrences like partial power illegitimacy, corruption, and excessive state interference in the free market.

The term “political risk” is also used in political science to reflect the insufficient quality of policy making process and low government efficiency<sup>28</sup>. It is described through the notions of political instability or political uncertainty. Nevertheless, in contrast to uncertainty risk represents a measurable category. In other words, it means, that there must be a possibility to assess the probability of its occurrence and to quantify the potential loss. Consequently, we can measure *the risk* only when it aims at a well-definite object, while *the uncertainty* remains a general condition with no measurable outcome<sup>29</sup>. For that reason in management disciplines a narrower definition of political risk is used. Political risk is understood here as a negative effect of the political process or a decision on a particular commercial activity or the business climate in general. Foreign affairs and international business scholars go even further and analyse political risk primarily as a threat to business in emerging markets.

The term itself appears in the 1960s in connection with the losses the big multinationals have incurred in Cuba. Consecutive events in Chile, Nicaragua and Iran helped to consolidate the understanding of political risk as political hostility to business resulting in violation of property rights in emerging markets. Even though the expropriation remains the most extreme risk, business community may suffer from a large number of less evident political actions having restrictive regulatory nature. These less evident risks, much more difficult to predict, are occurring today routinely almost everywhere. Regrettably, while in developing third world economies the business is very careful about the threats having political origins, it is less prepared to deal with their negative outcome in highly industrialised democratic countries.

Since usually political interests come along with the interest of the national business it became common to consider political risk as something which can harm only foreign companies in a given country<sup>30</sup>. Nevertheless, from the modern economic perspective, at a time when the majority of medium and big companies have international shareholders, it may become difficult to define which companies are foreign and which are not.

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<sup>28</sup> *Jarvis D.S.L.* Conceptualizing, Analyzing and Measuring Political Risk: The Evolution of Theory and Method / Lee Kuan School of Public Policy Research. Paper No LKYSPP08-004. 2008. P. 7. URL: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1162541](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1162541) (11.06.2015).

<sup>29</sup> *Robock S.H.* Political Risk: Identification and Assessment // Columbia Journal of World Business. 1971. No 6 (4). P. 6–20.

<sup>30</sup> *Sionneau B.* Risque politique, risque-pays et risque-projet / Cahiers du LIPS. No 7. Paris: CNAM. Novembre 1996. URL: [http://documents.irevues.inist.fr/bitstream/handle/2042/30485/XX\\_CNE-LIPSOR\\_001399.pdf?sequence=1&origin=publication\\_detail](http://documents.irevues.inist.fr/bitstream/handle/2042/30485/XX_CNE-LIPSOR_001399.pdf?sequence=1&origin=publication_detail) (10.08.2015).

## 2.2. Government and policy networks as political risk “emitters”

The former belief that political risk is an inessential factor for foreign investment in western democracies loses a lot of its foundation. A number of international companies operating in European countries, which are usually ranked with lowest level of political risk, confront more and more conflicts with public entities. The most frequent risks in these markets are the undue government interference in the private sector and the breach of contract by public buyers<sup>31</sup>. Some scholars start to doubt the established opinion about democracy being the panacea from political risk. Quan Li’s research brings some evidence to this argument. He analyses 520 cases of expropriation between 1960 and 1990 and finds that the frequency of expropriation in democratic countries (once in 3,3 years) is only 25% lower than in authoritarian regimes (once in 4,5 years)<sup>32</sup>. Other political risk may have even higher frequency in developed countries, and democratic standards have nothing to do with it. MNE’s recent experience confirms the thesis. More than 16% of international companies in the USA and 10% in Western Europe say they have suffered from government blockage of M&A deals, while in developing countries this figure is twice as low<sup>33</sup>.

Political risk is changing its face along with the evolution of policy making, business-government relations and global economic interdependence, but political power remains its primary source<sup>34</sup>. Therefore, considering its changing nature with regard to the policy networks’ development, it becomes crucial to re-evaluate political threat to commercial trade and investors in this new environment. The evolution of national government becomes a key element of the debate. Will the government keep its monopoly on policy making process or will it cede its prerogatives to other players and other forms of social regulation? Government’s ability to regulate the external environment and its efficiency in dealing with internal problems so far represented main factors for assessing its successful performance. Hence, national government is often considered being the primary institution through which political risk is generated<sup>35</sup>. Considering the change in public management caused by greater

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<sup>31</sup> Бордовских А.Н., Бусье Р. Указ. соч. С. 78.

<sup>32</sup> Li Q. Democracy, Autocracy, and Expropriation of Foreign Direct Investment / Working paper presented for International Studies Association Annual Meeting, the Conference on The Political Economy of Multinational Corporations and Foreign Direct Investment at Washington University, St. Louis, MO. 2005, June 3–4. P. 6. URL: [https://ncgg.princeton.edu/IPES/2006/papers/li\\_S1100\\_2.pdf](https://ncgg.princeton.edu/IPES/2006/papers/li_S1100_2.pdf) (12.06.2015).

<sup>33</sup> Shinkman M. The Investors’ View: Economic Opportunities versus Political Risk in 2007–2011 // World Investment Prospects to 2011. Foreign Direct Investment and the Challenge of Political Risk. New York: Economist Intelligence Unit, 2007. P. 90.

<sup>34</sup> Бордовских А.Н. Политические риски международного бизнеса в условиях глобализации. М.: Аспект Пресс, 2015. С. 141–143.

<sup>35</sup> Boddewyn J., Cracco E.F. The Political Game in World Business // Columbia Journal of World Business. 1972. No 7 (1). P. 45–56; Knudsen H. Explaining the National Propensity to Expropriate: An Ecological Approach // Journal of International Business Studies. 1974. No 5 (1). P. 51–70; Green R. Political Structure as a

involvement of policy networks in government decision-making it is crucial to focus on how this change impacts political risk phenomena.

Political liberalisation together with globalisation and growing dependence on the external economic and political conditions grant other actors some important power instruments. This puts a lot of pressure on the national government to share its regulative functions with other players. The government can react to this pressure in two possible ways: to cede and delegate some credentials to other actors by replacing central government with the concepts of *governance* and broader involvement of *open policy networks* in decision making process; or to resist and find an opaque agreement with other players, resulting in the development of *shadow policy networks* phenomena, in which the government officials often play the predominant role.

While the concept of open policy network, or collaborative networks, was developed by a great number of studies (see part 1 of this article), the shadow networks represent “a holistic view of this phenomena”<sup>36</sup>. In this paper we will not consider the dark networks in illegal drugs, arms, and money laundering activity, but will mostly refer to shadow networks, which may well enough operate in totally legal issues, but in the same time do not conform to the normal procedure of policy making and public administration processes. Government officials will usually play an important role if not being the leading element in these interconnections. Some of its goals simply cannot be publicly declared or attained using public ways of negotiation with other actors, and shadow networking presents a quick and effective solution to this problem.

Politico-administrative dichotomy of the government is seen by some scholars as the primary cause of shadow policy-making<sup>37</sup>. The cluster of public actors consists of politicians, negotiating with the society and elected by the latter on the basis of a declared political program, and administrators, executing this program under legal social control. These two sub-systems co-exist — power-related and management-related. The administrative role of the government reflects its mission in regulating the social relations, while its political role is described through the efforts to support and promote itself in a given political context. Regrettably, this political function sometime clashes with its administrative mission and prevails over its original role as a legitimate representative of the entire nation. When the

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Predictor of Radical Political Change // Columbia Journal of World Business. 1974. No 9 (1). P. 28–36;  
Kobrin S.J. Political Risk: A Review and Reconsideration // Journal of International Business Studies. 1979. No 10 (1). P. 67–80.

<sup>36</sup> Raab J., Milward B.H. Dark Networks as Problems // Journal of Public Administration Research and Theory. 2003. No 13 (4). P. 413.

<sup>37</sup> Соловьев А.И. Указ. соч. С. 71–72.

legal and social control over the functioning of these sub-systems is poor (which is often the case in less democratic countries), they can deviate from the limits of their activity initially set by the society and form shadow networks.

A normal democratic process is based on a particular understanding (by means of elections) between the politicians and the society. The policy making process is thus just an administration of this agreement. In theory, open policy networks appear as a solution for a more effective implementation of this agreement between the state and the society. The multiplication of political actors quite naturally limits the government's capacity to realise its political goals using administrative resources, since the latter are now allocated within the policy network and are subject to its permanent control. The problem arises when the government is not willing to share its administrative resources with other members of the network. In order to keep control over public management and still give an impression that it acts in compliance with these democratic standards, the government tends to create latent connections with other political actors. This cooperation is hidden from public control and serves the interests of the most powerful actors — political leaders, high-level officials, big businessmen and third sector key figures. This way, while the open policy networks are developing in public sphere, hidden interactions between various politically motivated actors represent a concealed layer of decision making process, and it is exactly this layer that we identify in this article as the shadow networking.

### ***3. Cases of political risk in liberal and authoritarian democracies***

In this article we question two general theoretical assumptions. The first one refers to the opinion that open policy networks are active only in liberal democracies when shadow policy networks mostly develop in less transparent regimes with authoritarian attributes. The second statement deals with the evaluation of policy networks' social impact. Most theoretical works describes open policy networks' activity in a positive way while the negative outcome is mostly associated with the social impact of shadow networks.

For the purposes of this article it is crucial to either confirm or to disprove the above mentioned assumptions and, more specifically:

- to verify whether there really is a strong correlation between network's type and political regime in which it operates (task 1);
- to ascertain whether both types of policy networks are capable of causing political risk to commercial actors (task 2).

To obtain the relevant information we analyzed several cases of political risks. The selection of cases was based on the need to find manifestations of political risk both in liberal and authoritarian democracies (in accordance with task 1) and to have examples of political risks generated through both open and shadow networks (in accordance with task 2). The term *liberal democracy* is used in this paper to describe a political regime based on free elections, active presence of several political parties respecting the system of checks and balances and the principle of the rule of law. *Authoritarian democracy* (or semi-authoritarian regime) refers to a political hybrid with relatively open economy, regular elections, but little or no power competition.

We have chosen France and Russia as examples of respectively liberal and authoritarian democracies, and selected cases of political risks generated through open and shadow policy networks in both countries. Examples of political risk in connection with shadow networks activity were successfully determined in France and in Russia as a well as a representative case of threats caused by open policy networks in France. However, we were unable to determine a clear illustration of political risk emerging from an independent open policy network in Russia. As a matter of fact, the concept is largely used by Russian government which deliberately promotes the forming of a policy networks operating publicly, but in the same time remaining under almost total control of the government. The independent open policy networks do exist as well, but have little or no influence on significant decisions. We, therefore, consider such misuse of the principle of open policy networks, which normally should contribute to balance the political process and not to reinforce the central government, as a source of political risk in itself.

### *3.1. Open policy networks: the Sivens Dam project in France and false horizontal policy making in Russia*

In open policy networks the risk origin is disembodied — more political actors generate more risk sources and cause more negative effect to commercial actors. Overall this could result in the multiplication of political risk manifestations and, thus, complicate its anticipation and management. The issue is particularly dangerous for businesses operating in highly democratic countries, where the political threat is deemed to be at the lowest level and where no full-scale prevention programs are developed. While, in theory, the power competition between various members of policy networks should limit political abuse and reduce risk exposure, in practice it creates a lot of ambiguity and instability in the political process, and often causes a negative impact on investors. Practically, there are no political decisions which would be definite and incontestable: every government action can be called

in question by other actors of policy network and put at risk any kind of investment project. The recent development around the project of Sivens Dam construction in France is a good example to these new sources of political risk.

The construction of Sivens Dam was approved by the government in 2007 after more than 15 years of preliminary studies. It was finally deemed to be feasible and to constitute an adequate answer to the needs of local agriculture. Five more years were needed to prepare the necessary surveys and get the required construction permits and agreements. All this process was held in accordance with the law, approved on the municipal level and under public control, and yet there is no certainty that the dam will be ever built. In 2013–2014 several local NGOs, syndicates and some political figures formed a policy network with a primary goal was to secure the cancellation of the project. After ascertained media campaign a group of social activists decided to boycott the works and illegally occupied the construction site. Following several weeks of stand-off. The growing tensions between police and protesters caused the death of one of the activists. The affair was made public, the government was forced to change its views on the situation, and even the European Commission yielded to the pressure, finally giving a negative appraisal of the project, which is now doomed to be abandoned notwithstanding the sizable amount of public money already invested. Sivens Dam construction was guaranteed by public funds and there is no available information relative to the amount of investor's and contractor's financial loss. Even though a lot of similar infrastructure projects are financed by private companies and their exposure to this kind of risk must not be neglected. In France, in particular, there are several undertakings threatened or already affected by the same type of risk. Among them such famous infrastructure projects as Airport in Notre-Dame-des-Landes, the Farm of 1 000 cows, Lyon-Turin and Tours-Bordeaux-Spain train connections, Europa City in Paris, new stadium in Lyon, etc. In each of these examples policy networks become an organised channel through which political risk is generated and finally causes losses to business entities.

The legal regulation of networks' activity is an issue of great importance. The growing influence of policy networks without any formal or legal base for their participation in public management represents a key factor of political disorder and political risk. The members of powerful networks do not necessarily use legal instruments to influence the policy making process, nevertheless their actions are almost never judged in courts. Sivens Dam represents a good example of such non-conformity. In terms of the law the activists' behaviour violated property rights, but so far they were not forced to vacate it. On the contrary, it is the government who is being criticized for having sent the police squads. When

government's decisions and actions are conducted within the boundaries of the law, but nonetheless are not respected by its subjects, it means the government itself starts to be exposed to political risk and it may result in losses for the taxpayer. The policy making process may quickly become chaotic, in conflict with the fundamentals of the public-private interrelations, and in consequence the business environment will quickly worsen, bringing the decline of investments, general economic activity and social welfare.

The governments' actions are far from being the prime source of political risk as it was back in the 1960s when the first theories were developed. There is no doubt that non-government institutions caused political threats to business at all times, but their activity was uncoordinated and incomplete. Policy networks, on the contrary, allow different actors to pull the resources together and that is how they become able to efficiently compete with the government and limit its power-holding monopoly. While governments have very rigid structures, networks benefit from their flexibility and fact that they have to comply with few formal regulations. They easily change the number and type of their members, split in several structures or, on the contrary, merge with other networks.

Such unsteadiness of policy networks' composition causes more obstacles for political risk preventing measures in day-to-day management. Sometimes it becomes practically impossible to define all institutional sources of political risk. Consequently, it reduces the efficiency of communication strategy set (lobbying, PR and GR) and other risk-management tools. The number of networks is unlimited as is the number of their members. Coming back to the Sivens Dam project, we can see in action the evolution which the network's structure has undergone, both horizontally and vertically. It has emerged as a set of local interconnections between several small groups of ecological activists and gradually has grown into a real cobweb covering national and European politicians, scientific councils, European institutions, the media, some significant NGOs, the intellectual elite etc. Moreover, different policy networks can easily merge if they share a slightest common interest. Thus, an investor (especially a foreigner having little expertise on internal political processes) can quickly feel lost in the multitude of political actors co-operating in his environment. The problem will just accrue if he cannot rely on the government to guarantee his rights and to protect him from these new sources of political risk, and the Sivens Dam affair is just one of many cases demonstrating this modern political paradox.

Despite the evident problem posed by the regulation of policy network's activity, they are an essential feature of modern democracy. Governments claiming to respect and maintain democratic principles simply cannot avoid the close and often formalised

cooperation with other social, business and non-business actors. Even countries with strong authoritarian attributes felt the need to develop horizontal policy making to show their openness and flexibility. They artificially developed open policy networks and use them as a false argument to prove the transparency and accountability standards. In reality, however, these rapidly growing non-government associations mainly serve as a cover to shadow networks, where various political, administrative and corporate elites interact to serve their true interests. In Russia, for instance, the creation and development of a whole range of organisations representing both business and non-business interests was actively encouraged by the state. Among these institutions some are directly set up by the government: Council for Human Rights and Development of Civil Society, the Civil Chamber. Others were incorporated independently, but in reality maintain close ties with the state: Russian Union of Industrialists and Entrepreneurs — RSPP, Trade Unions of Russia — SPR, business association Delovaya Rossiya. Dozens of other organisations, social movements and professional associations are registered and officially involved in the policy making process, but in reality have very little influence over its outcome. In other words, the state artificially constructs a network which does not serve to counterbalance the policy making, but on the contrary helps to centralize and reinforce the decision-making and implementation processes.

### *3.2. Shadow policy networks: the Yahoo-Daily Motion merger in France and the Yukos affair in Russia*

In regimes with shadow policy networks some risks will be generated far beneath the visible decision-making process. At the same time the political process may maintain all the appearances of a secure business environment: de-jure existing legal guaranties, moderate political dialogue (but never concerning the issues of great importance), some veto players' activity and even the presence of open networks as it is, for example, the case in Russia. Nevertheless, all these features will not reflect the real policy making process which would remain in the shadow of the official cooperation between the state and the societal interests. Without any evident signs of political threats, risk analysis becomes more of an art than a predetermined management process. Business cannot really rely on standard mechanism of political risk appraisal, which is primary based on a formalised approach and open data analysis. Even if on the surface all factors would tend to indicate a moderate level of political risk, the real situation is that the threat which is shaping underneath the apparent policy making may be quite different. It should be noted that investors are used to work in these conditions in emerging market where the political transparency is traditionally lower than in developed countries. Still, they often remain unprepared to face the phenomena in countries

considered liberal democracies where the shadow networks do exist, though on a much smaller scale.

Shadow networks in liberal democracies develop primarily due to the limited ability of the government to make quick political decisions without a permanent consultation with other politically active entities. We have already mentioned above the lack of legal and administrative framework for open networks' activity. Their flexibility gives them so much power that they technically can block any step undertaken by the government. Quite naturally it turns to be much more efficient for the government to resort to latent negotiations and trade-off decisions in order to keep the smallest number of actors involved in the decision-making process. For international business that means more political uncertainty in each individual project. In other words, the common macro-risk may remain at a low level, judging by the usual factors taken into consideration: general political stability, economic performance, legal guaranties etc., while the micro-risk of each individually taken project would be very difficult to predict due to the unknown pressure the government may secretly exert on the interests involved in the deal.

A good example is provided by the recent intervention of the French government into the merger between Yahoo and Daily Motion back in 2013. Daily Motion's main shareholder is the former state owned company Orange. Keeping only 27% of shares the government cannot influence all strategy choices of Orange (it still keeps the right to name the CEO) and those of Daily Motion, but in practice it continues to put latent pressure on those who officially shape the future of the companies. When Yahoo offered to buy 75% of the French video-sharing web-site the government steps in and uses its informal power to introduce new specifications of the deal which would be more in compliance with "patriotic economic policy" launched by Mr. Arnaud Montebourg, at the time the Minister of Industrial Renewal. The pressure on Yahoo and Daily motion was so severe that they finally decided to stop all the negotiations. As a result, Yahoo lost an opportunity to enlarge its presence on European market, while Daily Motion had to renounce € 300 000 in investment. Government interference in specific investment projects becomes a regular case not only in France, but in other European countries as well. In more or less the same way in 2012 the merger between EADS and British BAE was blocked by outstanding requirements of German officials. At the time, both companies admitted they were under such political pressure that they simply preferred to drop the deal.

Even if shadow networks do exist in liberal democracies and generate political risk for commercial entities, their activity remains casual and fragmented. In authoritarian

democracies, they operate on continuing basis and constitute the centre of the political process. In this configuration official public policy represents just a result of non-formal negotiations and ulterior search of a compromise between power-possessing actors. Shadow networks would include not only political leaders, high-ranking officials and prominent business figures, but the representatives of clerical hierarchy and intellectual and cultural elite as well. It is important to outline that the same actors can be the members of the open and shadow networks, but the roles they play in each of them might be very different. In open networks they keep their official statuses and are representatives of their group interests, while in shadow ones they can obtain another role in accordance with an informal hierarchy specific to the network. They would indeed use their power and influence not to serve the publicly declared goals, but the latent interests of the network they belong to. In that manner “a finance minister in public life can become a simple «cashier» in a shadow network” without any significant power resources<sup>38</sup>.

If open policy networks produce political risk indirectly, as a collateral damage of their activity, the shadow networks can generate it in both direct and indirect ways. Political risk may represent some kind of weapon that shadow networks use against their competitors or opponents. In other words they deliberately undertake actions which would harm the person or entity in question. The most effective risk-protection measure would be quick resolution of all possible conflicts, collaboration or even joining the network’s membership. Nonetheless, it is important to bear in mind that it is extremely difficult to put an end to this kind of union. The unilateral exit may cause even greater threat than former discordance before the affiliation. The actors which previously formed part of the shadow network but for some reason decided to withdraw and publicly demonstrate their new independence would be exposed to the highest level of political risk.

Russia gives a number of interesting examples of political risk deriving from the aforementioned sources. The most recent is the Basneft affair, when the previously close to the Kremlin owner of the company was jailed and his assets seized by the government. Apparently the political pressure proved to be an effective tool as six months later Yevtushenkov was back by Putin’s side during the annual meeting of the president with the business community. Another notorious case is this of Sergei Pugachev, former senator and big businessmen known as “cashier to the Kremlin”, who is now in exile in London. Over the last decades a dozen of similar cases occurred in Russia, but the Yukos affair remains the most well-known.

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<sup>38</sup> *Соловьев А.И.* Указ. соч. С. 87.

Following Boris Yeltsin resignation in 2000 Russia endured a lot of change; new forces came in and step by step got access to nearly all power resources. Former regime's policy networks were converted in accordance with new guidance and strategy. Yukos and its main shareholders were undeniably important figures in covert policy making process of the 1990s. No doubt it was their affiliation to most powerful actors at this time which helped to get control over the company during public privatization in 1993. Ten years later, when Putin came to power, Yukos was the biggest privately owned company in Russia, quickly developing internationally and preaching for transparency, liberal economy, and democratization. When the new regime launched the diatribe against "oligarchs", Khodorkovsky had two main choices: he could reach an agreement with the new leaders and have his place in the reformed *shadow network* with a role of an "important businessman"; or leave all latent interrelations he used to have with the power and build an independent *open policy network* to attempt to bring the country to true democracy and make Khodorkovsky the symbol of the future liberal Russia. The second choice, however, entailed a huge risk of confrontation with the regime, which would ended up to treat him as the "fraudster" and "illegally enriched oligarch".

There were a lot of explanations for the organized attack which took place against Yukos, its shareholders, and managers, but undeniably the main reasons were purely political. The regime feared the growing popularity of Khodorkovsky and apprehended the opposition he could present to Putin<sup>39</sup>. Once being part of the most powerful shadow network in the country Khodorkovsky and his company did not only decide to exit it, but were able to set up quite a competitive alternative hub of influence. Naturally one could have doubted its ability to easily get the support of the various groups of interests both inside the country and abroad. Follow-up events present a perfect demonstration of political risk generated through various branches of a shadow policy network. A large-scale campaign against Yukos was launch in which all types of politically motivated actors were involved: key ministers and other government officials, control authorities, justice institutions, commercial companies and even parts of cultural elite. Somehow the Yukos affair became a turning-point in the transition from shadow policy-network formed in Yeltsin era to a new one, which has been in place for more than 10 years now.

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<sup>39</sup> Goriav A., Sonin K. Is Political Risk Company-Specific? The Market Side of the Yukos Affair / William Davidson Institute Working Paper Number 772. 2005. P. 8. URL: <http://pages.nes.ru/agoriaev/Goriaev-Sonin.pdf> (02.05.2015).

### ***Discussion and conclusions***

Policy networks are often viewed by researcher and scholars in political science as the best alternative to traditional Weberian hierarchy, the most adequate instrument of bringing together political, social and economic interests. And it has to be acknowledged that in recent occurred a substantial development, often encouraged by states, of networks within the context of the so called transition from government to governance. However, the conducted analysis shows there are grounds to doubt the common enthusiasm about the positive influence of this concept on political fairness and equity.

This paper confirms that the policy network concept may refer to open negotiations between various politically motivated actors which are not hidden from “the public eye” as well as to covert interconnections which would influence the political process without any respect for the normal legal decision-making. In such a way, the principle of policy networks may be used to balance the policy making, but in the same time misused in form of latent interactions between various actors, which employ their power resources for lucrative purposes. In accordance with the goals of our research we tried to demonstrate that both the use and the misuse of policy networks concept exist both in liberal and authoritarian democracies and can pose concrete threats to business interests, such threats being extremely difficult to assess and tackle given the very nature of policy networks.

The analysis of the selected cases shows that the most evident negative aspect is the misuse of the concept. It is important to stress that even if it largely prevails in authoritarian democracies, several cases in European countries confirm the existence of shadow policy networks in liberal democracies as well. By bypassing the established legal framework and pursuing the exclusive vested interests of their members these networks wreak havoc not only on the overall investment climate in a given country but also on the specific business interests that might compete with them. This form of network is all the more pernicious because it is difficult to identify and even more difficult to deal with. For companies all too often the only way to mitigate the risks is to join them.

While the negative effects of shadow networking are quite evident, the open networks also appear to be problematic. Nevertheless, the case-studies confirm our thesis, that the diffusion of decision power within policy networks can be a huge source of political risk in all its forms, from the milder to the most extreme. The new political actors forming the networks may be seen not only as veto players protecting the business, or other interests, from government abuse, but also as producers of political risk, expressing and defending their interests along with the central government and its administration. The very multitude of these

actors, their interdependence and opposition together with the inevitable reallocation of political resources results in a drastic change in the nature of political risk which becomes more diffuse and unpredictable.

It should be stated that it is beyond any doubt that a number of functions and procedures undertaken by the government today involve non-government actors at micro-macro- and mega- levels, but this process does not necessarily represent the best solution to increase the policy efficiency. Even speaking about health care, environment and international finance, where the positive influence of networks is probably the most evident, we may see some considerable shortcomings. Policy networks claim to be a truly democratic way of governance in the era of globalisation. Yet the democracy is based on delegation and responsibility vis-à-vis those who have delegated. Among all members of the policy networks only the government has the legal right to exercise political power using resources which it received for this particular purpose, and what is even more important only the government legally responds for its actions to its subjects.

Fluid, multiform, non-transparent, and above all unaccountable, policy networks may end up causing more problems than they solve unless suitable legal instruments and organisational framework to regulate their participation in policy-making are found. It is neither possible nor desirable to stop the development of policy networks, nevertheless it seems crucial to face their shortcomings. They may indeed become an efficient alternative to vertical decision making, but only when their activity is strictly regulated by the legislation and relevant administrative procedures. However, right now policy networks do not represent an actor with a formal structure and a code of conduct. Conceptualizing a legal framework for policy networks activity and finding ways to institutionalize their participation in the political processes is a challenging field of work for scholars in policy analysis and public administration. For the time being networks' activity does not fall under a lot of regulations and legal requirements. It certainly gives them the needed flexibility to be very effective policy actors, but, on the other hand, it reduces the guaranties of a fair and balanced political decision-making process and, therefore, impacts social and business interests in a very uncertain way.

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### Policy Networks as a New Source of Political Risk

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#### Annotation

Policy networks are often seen as the most adequate instrument for the reformation of centralised vertical policy-making process. Even though the concept is usually associated with liberal democracies, we challenge this position by demonstrating that policy networks also exist in less democratic regimes. In both liberal and authoritarian democracies they influence public decision-making process either through direct interactions with the government or through the use of informal, hidden means of pressure. Correspondingly, these forms of activity refer to open and shadow policy networking, and both represent a substantial source of political risk for commercial entities. This paper aims to demonstrate the legal and procedural insufficiencies of public control over policy networks and warns about the risks they bring to private investors. While open policy networks change the nature of risk by diversifying and multiplying its sources, shadow networks are all the more dangerous since their activity is generally non-transparent. With shadow policy networks the risk becomes almost unpredictable and therefore greatly limits the efficiency of traditional enterprise risk-management tools.

#### Keywords

Governance, policy networks, political risk, policy making, political decision making, shadow government.

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