

Consulting group 2:

The importance of geopolitics for Italian companies

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INTRODUCTION

In the current interconnected global business environment, Italian companies face a multifaceted array of risks, encompassing political, economic, and social uncertainties that can deeply impact their operations both at home and abroad. While traditional focus areas for corporations and business schools have been financial, operational, market, compliance, and strategic risks, the importance of cyber risks has gained increasing recognition in recent times. However, the realm of corporate risks tied to geopolitical tensions rising worldwide extends well beyond these traditional and emerging categories, presenting intricacies that demand a refined and adept strategic management.

Competition and conflicts over natural resources such as oil, gas, and minerals can impact supply chain management for Italian companies in sectors like energy and manufacturing. For example, Italy's dependence on natural gas imports from Russia emphasizes the importance of understanding resource geopolitics to ensure energy security and stable operations. Geopolitical trade dynamics have a direct impact on international trade policies, tariffs, and regulations. The ongoing trade tensions between major economies, such as the U.S - China trade war or Brexit implications, have global repercussions. Italian companies exporting or importing goods must navigate these complex trade dynamics to maintain market access and competitiveness home and abroad. The growing geopolitical importance of resource scarcity underscores the necessity for companies to engage in strategic planning and international collaboration to thrive in this ever-changing global landscape.

Geopolitical risk is a subset of the broader category of political risk, which encompasses the uncertainties surrounding entrepreneurial and corporate activities resulting from actions taken by political agents and social instabilities triggered by such actions. To grasp the impact of geopolitics on companies, it is pertinent to examine the detrimental effects on businesses caused by the ongoing conflicts such as those between Russia and Ukraine, the dynamics of France-Africa relations, Brexit, and the escalating tensions between the US and China in the South China Sea. The migration dilemma confronting Italy in the Mediterranean Sea warrants attention as it poses significant challenges and risks for businesses operating in the region. Political risks can affect both domestic companies and those operating internationally, although in different ways and to varying degrees.

For companies operating solely within their domestic market, political risks typically manifest in two primary categories. These risks originate from actions initiated by domestic political actors who may adopt a hostile attitude towards domestic businesses for a variety of reasons. These can range from concerns related to internal security such as suspicion towards companies handling sensitive data or dual-use technologies, to political objectives aimed at favoring state-owned enterprises or preserving internal political stability. Geopolitical tensions can generate cascading effects, indirectly impacting domestic businesses. An illustrative case can be observed in the trade tensions between the United States and China and subsequent semiconductor sanctions (Diwakar, 2021). Governments might apply pressure on domestic businesses, implementing regulations that restrict their ability to participate in specific international transactions or trade with particular countries. Loss of access to a market can occur when trade with allied nations is disrupted by natural or artificial disasters, civil unrest, labor disputes, or critical infrastructure damage (Butts, 2015). Protectionist measures endorsed by populist administrations can also disrupt markets and value chains, consequently influencing domestic corporate operations.

Second, international or multinational companies face a more complex landscape of political risks. They are subject to at least four levels of political risk: risks in their home market, risks arising from their foreign activities, risks in the host country due to local political actors or geopolitical threats, and risks in the home country due to geopolitical threats from outside. Following the UK's 2016 referendum, the country officially exited the EU in 2020, leaving many companies in both the UK and the EU in a state of uncertainty. Many continue to grapple with the repercussions of Brexit to this day (Scott, 2023). Geopolitical tensions often lead to restrictions on doing business with sanctioned entities, as sanctions imposed by or on the home country can impact companies' operations abroad.

To better understand these geopolitical risks, they can be classified into a four-dimensional matrix based on the company's area of activity (domestic/foreign) and the source of political risk (domestic/foreign). This classification includes domestic political risks, risks at home when operating abroad, risks in the host country from local political actors or geopolitical threats, and risks at home due to geopolitical threats from abroad.

Understanding and managing geopolitical risks is paramount for Italian companies operating in the global marketplace. Whether they are domestic companies facing political uncertainties at home or international companies navigating complex geopolitical landscapes, a comprehensive understanding of geopolitical risk is essential for effective risk management, strategic planning, and sustainable growth. Embracing geopolitics as a fundamental aspect of corporate strategy would ensure that Italian companies are well-equipped to navigate the challenges and seize the opportunities presented by the ever-changing global political landscape. The increasing geopolitical significance of resource scarcity will continue to emphasize the need for strategic planning and international collaboration for a company to survive in this complex global outlook.

This paper delves into the critical role of geopolitics for Italian companies, drawing insights from two prominent case studies: Ente Nazionale Idrocarburi (Eni) and the Mediterranean Sea. Our analysis is enriched by data from company surveys and interviews, providing a comprehensive understanding of the challenges and opportunities Italian firms face in navigating geopolitical dynamics. The paper concludes with actionable advice for Italian companies to enhance their resilience and strategic alignment, supporting successful operations both domestically and internationally.

TOPIC ANALYSIS

I. Geopolitical challenges at national level

A- Geopolitics of the Mediterranean Sea

The Mediterranean Sea is today considered a “geopolitical paradox”: it has become more fragmented and, at the same time, more interconnected (Farnesina, 2017).

Often labeled as a fairly small sea, it has always been a theater of many challenges to overcome. Migration, which could be seen as the most important issue, is just the tip of the iceberg; severe crisis, hegemonic competition, and ideological clashes are some of the other obstacles that companies need to face.

On the other hand, the Mediterranean Sea can be seen as a source of opportunities such as energy exploitation, trade flows and infrastructure investments connecting Europe, Africa and Asia.

During the last decades, the concept of “Mediterranean” has evolved. It expanded taking into consideration a larger part of land since the scope of the common challenges, which are terrorism and migration, now go beyond the shores. They also include territories of the Middle East, Western Africa, the Persian Gulf, the Balkans and the Sahel region (Farnesina, 2017).

The Mediterranean expansion was accompanied by a fragmentation of the region into areas of new political influence and, as a consequence, the possibility of new civil wars (Dentice & Talbot, 2020). Within a very fragmented region, non-state players as militias, jihadist groups, or criminal organizations are gaining more power filling the institutional gaps.

Nevertheless, the Mediterranean is acquiring a new global centrality and strategic relevance for international connection in this century, and Italy plays a crucial role in it.

Despite all the issues, the Mediterranean represents for Italy a big source of opportunities. That’s the reason why the Italian government is insisting on implementing an agenda for improving the relationships in the region (Chicoli, 2024). Exports to the countries in the Mediterranean area already accounted for more than 10% of all Italian exports in 2017. Including also the Gulf countries, the Italian total trade with the region was worth about €70 billion in the same year (Farnesina, 2017).

As a consequence, Italian companies must adopt proper policies in order to avoid navigating dangerous waters. This starts with a deep sense of economic collaboration that would surely limit tensions and favor dialogues between the actors of this multipolar region. From an industrial standpoint, it is essential to develop efficient global value chains enhanced by the mechanism of “friend shoring”, counting on allies and partners to build long lasting connections, mitigating migration and fostering growth. Furthermore, another parallel and important point is the enhancement of innovative technologies towards the green transition addressing climate risk particularly vivid in the Mediterranean region (Colombo & Palm, 2018).

The Mediterranean sea is acquiring new strategic importance as a platform for connection. Due to the overcrowded Suez Canal, the discovery of new energy sources in western waters, the “Silk road initiative”, the Mediterranean will become a crucial position for the intersection of logistics, transport and infrastructures (Patergnani, 2023).

The strategic relevance of the Mediterranean area also derives from the fact that it is the field where a lot of the contemporary dilemmas take place. Some examples are the relationship between State and society, politics and religion, security and democracy. In addition to these regional problems, also some global issues with very important geopolitical implications take place such as water scarcity, demographic pressure, desertification, urbanization, food insecurity.

After the Russo-Ukrainian conflict, Italy started to expand its presence in the Mediterranean in order to find alternative sources of hydrocarbons and manage the flows of migrants. With the aim of reducing its dependence on Russia’s energy supply, the Italian government shifted its foreign policy towards the MENA region (Atty, 2024). However, the intensification of Italian diplomatic involvement within the enlarged Mediterranean region is only in the short term

aimed at securing an alternative for hydrocarbons, in the long run this is thought to have a positive impact on Italian security and economic interests in the region (ISPI, 2023).

After years of a more in-ward looking perspective, the Italian government is now looking more at re-establishing a geopolitical and strategic position for Italy in the Mediterranean. The ambitious “Mattei Plan” is part of this perspective. It is thought to give new centrality to the region enhancing the cooperation between the European Union and African nations. The Plan is thought to be mutually beneficial for both parties but its contents and instruments have not been disclosed yet (Chicoli, 2024).

A.1. The Impact of regional conflicts

Italian companies contribute to security in the Mediterranean facing challenges and aligning themselves with a strategy for the region's sustainable development. This plan is centered around political intervention, social aid and economic development. Even though Italian companies continuously collaborate with international institutions such as the UN and the EU in initiatives and programs, the current situations that must be kept closely under observation are several.

A.2. What do the rise of Daesh, the syrian conflict and the Israel-Palestine conflict mean for Italian companies wanting to expand in the mediterranean sea?

For Italian companies eager to expand in the Mediterranean Sea region, the Daesh, the Syrian conflict and the Israel-Palestine war represent significant obstacles as they are fueling increased insecurity. Consequently, regional political weaknesses add layers of complexity, demanding Italian companies to navigate insidious regulatory landscapes and potential diplomatic frictions that could impede their expansion ambitions. Moreover, the economic volatility wrought by these conflicts introduces uncertainties into market conditions, affecting consumer behavior and investment patterns. Operating in conflict-affected regions also exposes Italian companies to reputational risks, as they must contend with perceptions of complicity or ethical dilemmas arising from their presence in troubled areas. In parallel, there's a moral vow for Italian companies to consider the ethical and social impact of their expansion with respect to the interested populations. Ultimately, expanding into the Mediterranean Sea region requires a delicate balance between ambition and prudence, as companies weigh the potential rewards against the formidable array of challenges posed by the crisis-ridden environment.

A.3. Migration

The migration crisis is a representation of trend that it is defining the MENA region and requires a proper strategy to face it. It is true that the actual conflicts and tensions characterizing the region are surely a determinant of these phenomenon, however economic and socio-political dynamics of the MENA and Sub-Saharan African regions play another pivotal role in the context. Social inequality, human exploitation, corruption and limited social mobility constantly push individuals to look for a future far away from their own motherland. Beyond the social sphere, terrorism and its impact on the population cast another prominent shadow.

Italy as a nation can do little to mitigate these challenges as the serious situation requires efforts from the international community, emphasizing cooperation over competition (Colombo & Palm, 2018).

A.4. Energy

Italian companies aiming to extend their operations into the Mediterranean Sea area within the energy sector encounter a delicate and complex arena. The Mediterranean, besides being a vital maritime route, holds ingent amount of energy resources like oil, natural gas, and promising renewable energy prospects such as offshore wind and solar power (Atty, 2024).

Therefore, Italian energy firms see the Mediterranean as a shining investment and development opportunity exploiting its proximity to Italy and its predominance in the global energy market. Thanks to its geographic position, Italy can be considered a connector between Europe, North Africa, and the Middle East, providing strategic opportunities for companies which are trying to establish in the region.

For Italian companies one subsector that must be carefully considered is natural gas. Several Mediterranean countries have substantial natural gas reserves, representing possible partnerships to be exploited to create shared projects such as liquefied natural gas (LNG) facilities.

Moreover, considering the attention on renewable energy and decarbonization, the Mediterranean region enables Italian companies to leverage their expertise in renewable technologies. The abundant solar radiation and favorable wind conditions make it conducive for investments in solar and wind energy projects, including offshore wind farms along the coastlines of countries (Farnesina, 2017).

However, as previously stated, also for the energy sector operating in the Mediterranean has its set of challenges and intricacies. Geopolitical tensions, regulatory frameworks, environmental considerations, and social dynamics have a direct impact on the business itself. Therefore, a suggested practice for Italian companies is lobbying for creating partnerships with local bodies and especially stakeholders, to ensure sustainable and mutually beneficial operations, always implementing a solid risk assessment procedure.

B- Geopolitics of Africa

If the Mediterranean Sea represents such a hotspot in terms of geopolitical stake for Italian companies it is primarily attributable to its proximity to Africa. The African continent emerges as a region rich in strategic resources, presenting myriad business prospects within a fast-growing emerging continent.

We have decided to undertake an in-depth analysis of Ente Nazionale Idrocarburi (Eni) strategy and corporate activity in Africa. The burgeoning involvement of Eni in Africa especially in the realm of exploration and production of oil and gas serves as the principal impetus for conducting this case study. Moreover, as a public-listed company with 30% of the capital owned by the Italian public institutions, strategic investment decisions made by Eni are swayed by the Government's geopolitical vision and policy¹. Hence, Eni has to take into account the geopolitical strategy for Africa of the Italian government and has to assess the geopolitical risk in politically volatile nations. Lastly, the landscape of oil and gas operations is now heavily influenced by new risk and geopolitics assessment especially in Europe with the need for a

¹ MarketScreener, as of 18/04/2024, the Italian Government through CDP owns 32.40% of Eni, the rest (67.60%) is owned by institutional shareholders

green transition and the required diversification of gas resources with the conflict launched by Russia in Ukraine.

B.1. A major oil & gas company benefiting from Italy foreign affairs strategy

In 2014, The Italian President of the Council of Ministers, Matteo Renzi, traveled to Mozambique with representatives of Eni to inaugurate new partnerships in the gas sector. At this moment, Italy was actively seeking secured investments to safeguard its gas supply. Subsequent to Eni's discovery of the largest gas reserve in the world in Mozambique, Renzi adopted a neo-realist approach that proved advantageous to Eni². Indeed, with the new resources, an international competition between gas majors will occur, characterized by a zero-sum game leading to only one winner. This early travel to Mozambique made by Renzi allowed Eni to benefit from an energy supply partnership with access to the gas reserve. Additionally, the Italian government issued between 2016 and 2021 €1.6bn of guarantees for this project through its state-owned export credit agency SACE and Cassa Depositi e Prestiti (Ogno, 2022).

The Italian government considers Eni as a strategic asset with a 30% stake in the company. It is therefore rational that international relations and geoeconomic vision of the Council of Ministers had an impact for the group. Energy supply relies on the global economy leading the Italian Government to support Eni's strategic investment in Africa.

More recently, Mario Draghi government signed an agreement with Algeria regarding TransMed gas pipeline volume delivery. With gas scarcity exacerbated by the conflict in Ukraine and the destruction of Nord Stream, gas supply diversification has become the new credo of European countries (Mcquillan, 2022). Consequently, Eni strengthened its relationship with African countries with strategic reserves. Countries, such as China and India, are looking for more gas and oil resources in a context of a globalization slowdown. Tensions over these "traditional energy resources" are eventually reinforced nowadays.

In this sense, in September 2022, Eni acquired the British Petroleum subsidiary in Algeria (Reuters, 2022). Later in January 2023, during the official visit of Giorgia Meloni to Algier to formalize a strategic economic partnership with President Abdelmajid Tebboune (Governo Italiano, 2023), Eni and the Algerian state-owned Sonatrach entered into a long-term joint-venture for gas exploitation (Landini & Armellini, 2023).

Geoeconomics and the new "quest for resources" of European countries underscore the heightened significance of geopolitics for Eni. The Italian company now prioritizes gas as its main domain of activity alongside renewables energies. With the new policy carried out by the Italian government to secure its gas supply, the business activity of the group has evolved accordingly. Moreover, Meloni's African policy has strengthened the position of Eni in Africa.

The unveiling of the Mattei Plan for Africa during the January 2024 Italy-Africa Summit, epitomizes the close relationship between politics, corporate endeavors and geopolitics. With a commitment to invest €5bn in Africa through loans, credit insurance and export finance facilities, the Italian government stressed out its willingness to increase its activity in Africa. As a consequence, Eni is stressing out the new importance of Africa for its strategy in all its corporate publications (Mattia, 2023).

Examining the developments of 2023, in January, the Group launched a natural gas production project in Libya (A&E Structures) after the official visit of Giorgia Meloni in Tripoli (Governo Italiano, 2024). In April, Congo LNG was ignited for gas liquefaction. The start-up Baleine PH.2 and PH.3 were launched in Ivory Coast.

B.2. Geopolitical events and crisis impact on Eni

Eni's strategic plan was impacted by the recent Russia-Ukrainian war. By the end of 2023, Eni found itself compelled to seek alternative gas sources to supplant the 29 billion cubic meters (bcm) of Russian gas previously in its supply chain (Shawamreh, 2023). The imposition of European sanctions and the Italian Government's stance in solidarity with Ukraine prompted a reassessment of the group's supply dynamics. From 30 bcm in 2021, Eni managed to reduce its Russian supply to 6.2 bcm in 2023 and the Group targets an exit of Russia as part of its 2024-2027 strategic plan (Eni Annual Report, 2023). Eni argues that its long-term LNG partnership with Congo notably will allow the production of 6.8 bcm to pounce on the Russian loss.

While the European Union espouses a neoliberal approach emphasizing cooperation and shared values in resource supply and distribution, the current Italian administration adopts a neorealist stance. In this sense, Eni has the obligation to find new resources in a highly-competitive market. Bilateral agreements signed by Rome since 2023 permits Eni to diversify its supply chain without any cooperation with other European majors. The Mattei Plan for Africa underscores the government's resolve to break free from the status quo and champion energy independence (Fattibene & Manservigi, 2024).

In its 2023 Annual Report, Eni allocates an important section to Russia but also to the Middle East tensions as part of a geopolitical risk affecting the Group. With the resurgence of the Israeli-Palestinian conflict, Eni articulates its intent to steer clear of partnerships with nations potentially entangled in the region's affairs. The prospect of pricing volatility stemming from an escalated Middle Eastern conflict prompts the group to hedge its current position on regional assets and reevaluate its engagements with Egypt, Iraq or Qatar to strengthen its supply chain.

Therefore, we can observe how political tensions, wars and sanctions have a serious impact on the Group performance and international market strategy with a greater interest for Africa.

B.3. How does Eni deal with geopolitical tensions within African countries?

Political risk stands as a paramount concern for corporations operating in Africa. After the Arab Spring, failed states emerged such as Libya in 2011 with two opposite factions: the Government of National Unity in Tripoli and the National Stability Government in the East. Turmoil, civil war, conflicts and riots occurred in Libya. These upheavals disrupted Eni's gas operations in the region.

Eni presently engages in a meticulous assessment of the geopolitical risks inherent in its activities. Regarding the situation in Libya, the group explains that: *"Its management believes that Libya's geopolitical situation will continue to represent a source of risk and uncertainty to Eni's operation in the country and to the Group's results of operations and cash flows"*.²

² Ente Nazionale Idrocarburi (Eni), "Milestones of the Year", Eni annual report 2023, p.133, published on April 5, (2024)

The ultimate conclusion of this statement is the assessment of the financial impact on the income statement of Eni of geopolitical tensions. Therefore, considering the impact of geopolitics on the company profitability and business, Eni has no other choice than hedging its position in Libya and other countries (such as Venezuela) where political tensions might negatively impact its activity. Through insurances, guarantees or partnerships with local players, Eni adopts a novel approach to internationalization, affording it the flexibility and agility to swiftly exit countries amid instability and uncertainty.

II. Survey analysis

A- Rationale

The analysis of the importance of geopolitics for Italian companies needed to be complemented by a quantitative approach to aggregate data on companies' responses to geopolitical risks. We opted to conduct a survey following an interview with a top level employee in Kinder Eggs & Seasonal Categories at Ferrero in Russia.

During the interview, the manager elaborated on how Kinder's operations were affected by the Russia-Ukraine conflict. He highlighted that the onset of the conflict took large companies in Russia by surprise, leading to substantial uncertainty post-February 2022 in determining the appropriate strategy to adopt.

Driven by moral principles and reputational concerns, some companies, such as McDonald's and Coca-Cola, chose to completely or partially withdraw from Russia. However, several Italian companies, including UniCredit and Ferrero, opted to maintain their presence in Russia while refraining from publicizing their activities in the country to safeguard their reputation.

Despite the crisis, Ferrero's operations remained relatively unaffected. The Kinder business relies on a supply chain encompassing raw materials such as milk, chocolate, nuts, additives, aluminum, and cardboard for packaging. Ferrero Russia managed to secure alternative supply sources from neighboring countries and forge partnerships locally. While delivery times for certain European materials increased, overall activity levels remained unscathed. Consequently, the primary adjustment for the company amidst the geopolitical tensions was to seek out local partners, thereby avoiding any financial losses.

Kinder's manager identified three new challenges arising from the geopolitical tensions:

- In response to sanctions on IT systems providers like SAT and Microsoft, Ferrero Russia had to seek out new partners. Interestingly, local IT providers proved technologically proficient, enabling Ferrero to adapt its IT solutions accordingly.
- European sanctions on aluminum exports to Russia, a vital material for Kinder's packaging, prompted Ferrero to establish new partnerships for this raw material within Russia and China.
- The most significant challenge stemmed from international financial sanctions. With Russia's exclusion from the SWIFT system, Ferrero Russia faced hurdles in transferring funds from Russian accounts to European banks, necessitating that Russian revenues remain within the country.

The interview underscores Russia's self-reliance as a market with the capacity to sustain local activity, mitigating the impact of sanctions on Italian companies. Nevertheless, challenges emerged primarily in areas related to neo-techno nationalism, particularly concerning IT systems and international financial transactions, prompting Ferrero to adapt its local strategies.

These hypotheses derived from the conflict require empirical validation. Hence, the survey serves as a relevant tool to confirm, complement, or contradict these assertions. We envisage the initial section of the survey to focus on analyzing the key geopolitical tensions faced by Italian companies and the corresponding solutions implemented. This will facilitate the identification of common threats and strategies adopted by Italian corporations. Additionally, as Ferrero appears to operate independently of the global economy in its Russian activities, further examination is warranted to ascertain if this trend extends to other Italian firms. Moreover, we aim to gather insights into the financial implications and business models affected by escalating international tensions.

Lastly, the survey aims to provide a proxy estimate of the number of Italian companies affected by regional conflicts (e.g., Russia, Taiwan, Israel, Ukraine) and analyze their responses to such tensions.

B- Analysis of survey results

In order to operate, Italian companies rely on the global economy, which is increasingly shaped and influenced by interstate relations. These groups face a wider array of risks compared to purely domestic companies. Global firms are indeed dramatically exposed to geopolitical risks here defined as the probability that Italian companies' performance will be negatively affected, in a tangible way, by the outcomes of interstate strained relations in multiple spheres. The key topics to be considered are various when analyzing the importance of geopolitics for Italian companies, therefore we have undertaken a survey to gauge the significance of geopolitics by querying the largest Italian companies. The scope of our analysis encompasses companies with revenues ranging from €500m to €2bn. A diverse array of companies from various sectors participated in the survey, including: DeCecco, Ferrero, Acciaierie Venete S.p.A., Lactalis Italia or Bottega Veneta. With 31 answers collected, we managed to get comprehensive insights into the challenges confronting Italian companies and how geopolitics impacts these entities today.

The respondents primarily operate in the following sectors: Manufacturing (52%), Food & Retail (23%), Technology & Industrials (10%), Healthcare (6%), Energy (6%) and Logistics (1%). In terms of geographic presence, 31% of the respondents have operations in Europe, 21% in APAC, 18% in North America, 15% in Africa & Middle East, 15% in LATAM.

The survey will be structured into four main sections: the approach towards geopolitics by the Italian companies, the impact of geopolitics on Italian companies, how Italian companies deal with geopolitical risks, and how geopolitical risks have evolved for the last 10 years.

B.1. The approach towards geopolitics by the Italian companies

The survey findings indicate a notable awareness among top management of Italian companies regarding geopolitics. Indeed, all the respondents demonstrate a clear understanding of geopolitics and geopolitical risks, accompanied by concise definitions. Consequently, it is apparent that leadership and corporate strategy are now intricately linked with geopolitical

concerns. This statement is further bolstered by the fact that 87.1% of the companies declare to assess geopolitical risks within their company.

While companies conventionally deal with financial, industrial, economic, social and environmental risks, the high level of responses regarding risk assessment came as a surprise. The growing apprehensions surrounding globalization and the proliferation of crisis and conflicts worldwide pose significant threats to the global value chains of those companies. Therefore, they have reinforced their will to identify potential geopolitical risks to cover them. Adaptation and flexibility have emerged as indispensable competencies that companies must cultivate to mitigate potential geopolitical risks effectively.

Indeed, the geopolitical impact on a business could have drastic outcome for its existence. Stock performance is a consequence. For example, if investors expect lower profits for a company because of geopolitical events, its perceived valuation will be lower. In such a context, another point that must be mentioned is that companies' financial profile might significantly worsen also due to local foreign currency volatility and exchange rate risks. Indeed, the results of our panel are in line with what was previously stated, considering that 41.9% of the surveyed Italian companies experienced direct financial losses due to geopolitical events since the Covid-19 outbreak. Our analysis and consideration are therefore based on companies which have experienced the importance of geopolitics to their financial performance.

B.2. The impact of geopolitics and geopolitical risk on Italian companies

The conducted survey also emphasizes the pivotal role of geopolitics in the decision-making process of Italian companies. 90.3% of the respondents affirm that geopolitical tensions had an impact on their decision-making process. In fact, managers need to be aware of the fact that geopolitical shocks can lead to severe impacts on the supply chain. This could result in the disruption of the supply chain itself with shortages of raw materials or other important inputs for production, but also in delays at the border, in relocation and reshoring decisions for de-risking and decreasing the level of uncertainty, and in the difficulty for transporting goods. Indeed, looking at the answers of the conducted survey, nearly 68% of the respondents encountered disruptions in their supply chains. Impact was noticeable for food companies facing restrictions on grains and wheat imports from Russia, and for energy corporations grappling with sanctions affecting gas supplies amid the Russia-Ukraine conflict.

It is also evident that geopolitical risk is not only related to conflict and tensions but also on the political philosophy of the leaders. Due to the increasing tendency of governments to set up protectionism policies, Italian companies operating abroad could have to face several issues. Governments are becoming always more careful about those sectors which are considered important for national security and vital for the economic growth of a country, often limiting foreign takeovers. In addition, States can also decide to set bans and tariffs, or to undertake direct interventions in order to damage multinationals headquartered in hostile countries.

For instance, the inclination of the Trump administration towards imposing tariffs on agricultural products to shield American producers from perceived unfair competition is a factor explaining that 60.7% of the respondents consider that trade tariffs had an impact on their activity. We should also mention that currency volatility, especially in a post-Covid-19 recovery period with heightened inflation had affected 43% of the surveyed respondents.

The decision-making process is thus influenced not only by international conflicts but also by the approach of leading global players such as the United States, the world's largest market, and the financial disturbances that could disrupt groups strategies.

Geopolitical risks have a direct effect on the initiatives carried out in companies wanting to expand abroad. High degree of political, social and regulatory uncertainty disincentivize the willingness of completing mergers or acquisitions of potential targets or even just isolated investments. Worsening of relationships between local and foreign government might result in a loss of legitimacy for the firm. For example, after the burst of Russian-Ukrainian conflict, the Kremlin introduced the concept of “unfriendly countries” directed to those that cut the relationship with Russia. Clearly this label had a generally negative effect on companies coming from these countries, those already operating in Russia and those who were intended to.

Nonetheless, it is surprising to note that 54.8% of the companies surveyed do not intend to expand or to relocate their operations due to geopolitical concerns. This defies expectations, as it was anticipated that companies would prioritize risk avoidance in anticipation of actual or potential crisis. Based on the survey findings, it appears that companies ponder risks differently, considering the costs of relocation or expansion against potential disruption to their business, particularly in the event of supply chain collapse due to excessive changes.

One of the main challenges that Italian companies, as all the other companies operating abroad face, is the so called “liability of foreigner”. This results in extra costs for doing business abroad and may lower the marginality for the companies. The disadvantage that a foreign operator can encounter cross boundaries may be related to:

- unfamiliarity with the host environment: companies need to acquire knowledge and sensitiveness
- relational hazard: foreign firms need to set up their own new network of suppliers, clients, employees, establishing a good relationship of trust with all the key stakeholders along the entire value chain
- discrimination: local authorities may advantage local players introducing some limitations for the foreign companies.

This is reflected in 29% of the survey's respondents who reported that their relationship with stakeholders, peers and partners changed due to the increase of geopolitical tensions. According to their answers, Italian companies had to face increasing bureaucratic aspects and greater difficulty in communicating, higher difficulties in operating in China due to political support discrimination in favor or major support towards local players, changes in trade and geopolitical relationship which sometimes forced companies to relocate, reduce or stop their activities.

Nevertheless, 67.7% of companies had their relationships not affected by the occurrence of geopolitical shocks. This could be related to the long-lasting relationship that some companies have with their network in the countries where they operate. The high level of trust established throughout decades emerges as a critical driver that could undermine group strategy if compromised.

Geopolitical risk not only affects the operations of Italian companies abroad, but also their reputation. Reputational risks related to geopolitical events may be generated both in the home country by the domestic public opinion about the activities of Italian companies in a particular foreign market, and in the host country due to the local aversion towards Italian operators.

They both have strong impacts on how the company's activities are perceived by consumers and can lead damages of the firms' image which take very long time to be recovered.

B.3. How Italian companies deal with geopolitical risks

In response to geopolitical risks, more than 1/3 of the companies have opted to implement in-house geopolitical intelligence demonstrating a significant shift in internal organizational structures to address these risks. External consultancies remain an alternative for 15% of the companies. Additionally, 46% of respondents will assess geopolitical risk through reports (made by governments or political risks analysis experts).

The resilience of companies is also a crucial factor in mitigating geopolitical risk. To strengthen their preparedness for geopolitical events, 62.1% of the respondents implement scenario planning. This approach underscores the importance of prior analysis and aligns with the adoption of in-house geopolitical intelligence, reflecting the evolving organizational structure. 31% of Italian companies also have also decided to increase their investments in risk management indicating a substantial commitment to strengthening business resilience. It shows how geopolitics has led to a reallocation of investment resources to fortify the risk department of businesses. However, with less than 7% of companies training their employees on geopolitics matters, it seems that geopolitics remains a top-management issue and has not yet necessitated broader investment to raise awareness among all employees.

B.4. The evolution of geopolitical risk over the last 10 years

The importance of geopolitics over the past decade is indisputable. Indeed, as part of their internationalization strategy, 87.1% of Italian businesses acknowledge that geopolitics holds greater importance today compared to 10 years ago. Factors such as supply chain management, conflicts and political tensions, resources war, protectionist tariffs have become prominent considerations for companies going abroad. While traditional concerns like profit, growth and market size remain essential issues, new geopolitics issues cannot be overlooked. In this sense, 97% of respondents recognize the impact of geopolitical issues on their supply chain more important today than 10 years ago.

Geographic regions serve as an effective lens for assessing the evolution of the importance of geopolitics over the last 10 years. While 17 Italian companies were active in Russia a decade ago, only 6 remain today. For Ukraine, 9 out of 12 companies have maintained their business operations. Only 1 company of the panel has opted to exit Israel over the last 10 years. Conversely, all respondents have decided to keep their activities in Taiwan despite the looming threat of Chinese intervention.

Therefore, the perception of regional risk varies significantly. While sanctions and conflicts have exerted a noticeable impact on regions like Russia and Ukraine, the risk of regional conflict in the Middle East is not deemed as high. Israel is viewed as a resilient and secure business destination. This point is mainly attributed to shifting in power dynamics in the region since 2018, exemplified by the Abraham Accords, improving relations with neighboring countries such as the United Arab Emirates, Bahrein. The decrease in tensions between Israel and Egypt, Jordan and even Saudi Arabia has also reinforced the perceived secured area represented by Israel even though terrorism and tensions with Iran remain.

In the case of Taiwan, companies have decided to remain despite the specter of a Chinese intervention, buoyed by the island's strategic importance in the semiconductor industry and the unwavering support of successive American administrations (both Democrats and Republicans) in safeguarding its independence. This assurance, coupled with geopolitical considerations, underscores companies' confidence in the short-term stability of Taiwan.

SOLUTIONS

One set of solutions centers around supply chain management:

- The initial step entails conducting an in-depth analysis of the supply chain and business operations of the company. With the assistance of a dedicated geopolitics department, companies can assess whether their operations can be effectively managed locally, as exemplified by Ferrero Kinder's activities in Russia.
- Additionally, during periods of crisis, national governments can serve as facilitators for companies seeking new partnerships. Where the supply chain is disrupted by sanctions or geopolitical turmoil, governments must seek alternative partnership sources, particularly in critical sectors like energy and raw materials, to sustain economic activity and revenue generation for the nation. Notably, part of the solution lies in lobbying for Italian government intervention to anticipate and address potential tensions proactively.

Subsequently, companies must adopt a long-term perspective to mitigate potential financial losses:

- It has been observed that short-term thinking predominates within the top management of many companies. The ongoing business engagements in Taiwan illustrate the absence of a long-term strategy among Italian corporations to address potential conflicts between China and Taiwan.
- While in-house intelligence efforts focus on identifying imminent crises and conducting exhaustive analyses of current regional dynamics, internal consulting often falls short in providing long-term solutions and advice for adapting the company's strategy or integrating the "geopolitical dimension" into internationalization efforts.

Finally, it was surprising to note that issues related to 5G, artificial intelligence, software systems, and semiconductor scarcity were not addressed by the largest Italian companies in the survey or interview. Given that geoeconomic competition is increasingly intertwined with technology, it is our contention that rules, investments, and regulations pertaining to new technologies will pose significant geopolitical challenges for companies in this century. Taking into account these emerging challenges, along with the neo-techno nationalism strategies adopted by the world's most powerful countries, will enable the identification of companies that can adapt most effectively to specific scenarios.

CONCLUSION

Over time, geopolitics has gained primary relevance within Italian companies, impacting not only those operating abroad but domestic firms as well. The report has demonstrated that geopolitical risks, once peripheral concerns, are now central, affecting every aspect of business operations from supply chains to strategic decision-making. Initially, our analysis focused on the Mediterranean Sea region, an area rife with both serious challenges and unparalleled opportunities, such as ideological clashes, relationships with local authorities, and migration, contrasted against energy exploitation, trade flows, and geographic proximity.

To substantiate our theoretical analysis, we conducted a case study on Ente Nazionale Idrocarburi (ENI), which serves as a perfect bridge to understand the status quo of both the Mediterranean Sea region and Africa. Moreover, an interview with a top-level employee at Kinder Eggs & Seasonal categories at Ferrero in Russia provided insights into the company's operational adaptations in response to the conflict that escalated in 2022, highlighting the profound impact of geopolitical events on business strategies.

Reflecting on these case studies and the results from a survey directed at a selection of Italian companies operating internationally, it is clear that the evolving landscape of global geopolitics represents both a profound challenge and a pivotal opportunity. The complexity of the global market, exacerbated by geopolitical shifts, underscores the critical need for continuous adaptation and innovation. The survey revealed a range of responses to geopolitical risks and demonstrated the necessity of diversification, resilience, and flexibility in business models, which can mitigate the impacts of geopolitical tensions. For decision-makers, cultivating a diverse and adaptable approach is essential for navigating today's global environment's complexities.

In conclusion, Italian companies must embrace a more holistic view of risk management, integrating geopolitical understanding as a critical component of their strategic arsenal. This proactive approach, including the development of dedicated geopolitical intelligence units within corporations, will be essential for sustaining growth and competitiveness in an increasingly complex and interconnected world.

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APPENDIX

APPENDIX A: Interview of the Manager of Kinder Eggs & Seasonal Categories at Ferrero in Russia (wanted to remain anonymous)

All companies have encountered problems: money transfers are still not happening from Russia to Europe, profits in Russia are not being sent to Europe.

Public relations problems: for moral reasons, companies have left Russia -> McDonald's, Coca-Cola has been replaced by local brands, especially American ones; European companies either stayed (Calzedonia, Ferrero, Unicredit) or operated as before but more quietly, Nestlé stayed but changed its name, they detached themselves from the headquarters at a managerial level, underwent rebranding -> similar/same products but with a local brand.

Phase 2: companies launch new products with new local brands, consumer goods derived from previous ones with different brands, heavily pushed in advertising and distribution -> they grow quickly.

Group of companies that remain with business as usual (Ferrero/Calzedonia): they do not invest in advertising and business (company statement that I can send). Ferrero is very conservative, for the first year they did not offer discounts in stores; now they continue business and promotion in stores (including e-commerce) which are used as an active touchpoint with the final consumer; no advertising in media/innovations/new activities -> global collaborations are not made (e.g., Disney), they stick to generic trinkets. People are not hired, situation frozen, personnel strategy much more local.

They have divided Russia from all neighboring countries, previously with the Russian region they controlled 13 other countries of the former USSR, now Russia is separate -> other countries are managed in many companies from Europe.

Logistics: no changes, goods always arrive the same from Poland via customs but many companies have tried to limit the risk of importing products due to possible new sanctions from other countries (China) -> for some products, where possible.

Milka has stopped importing some products from Europe, some are produced there, others are imported from Asia -> logistic changes more for future prevention.

World IT sanctions: systemic IT providers cannot operate with Russia anymore since November (SAP, Microsoft), software can be maintained but many companies are asking not to apply these sanctions until next March -> many local IT systems are technologically very advanced for the digital world, e-commerce, IT services, very valid solutions, difficulties in integrating the two systems.

In Russia, production is limited to 3/4 products, others are still imported, Ferrero's raw material suppliers are local where possible, NO impact on raw materials but they try to localize as much as possible.

Cardboard suppliers: if previously imported, now they are made locally.

Calzedonia: they don't do anything in Russia, they import everything from Verona, they try to keep a low profile, they are not sanctioned goods.

The only problem encountered was with aluminum. They localized decisions (Kinder Surprise, packaging).

Many companies continue to work from home as during COVID. At the beginning, with the police's call to arms, they went where you were registered, people started living with friends, sending letters to companies + with COVID many people had moved away from cities. Many people have employees outside of Russia (media, IT, creative agencies).

Opportunities are few, the only sector company that has not launched and bought local brands to invest in them. They think less about business and more about value consistency. Calzedonia instead has opened more stores since the beginning of the war, brands have left, locals are not very developed -> market share increase.

Geopolitical risk mitigation from afterward, no one expected this scenario, they thought it was fake news. There was a lot of uncertainty about the measures to be taken afterward. For months, no emails were sent with the headquarters, not worrying about business results (plan to halve it for the next year), months of assessment done centrally with external agencies to understand what could and could not be done. In the meantime, only managed complexity without new measures. Now there is a new reality: those who had to leave have left, those who stayed have found a way to stay, problem of money transfer + IT systems.

Legal and public relations teams constantly ensure that sanction measures are understood and applied, for the rest, Russia has been erased from group plans, as if it were a world unto itself, until a more favorable situation.

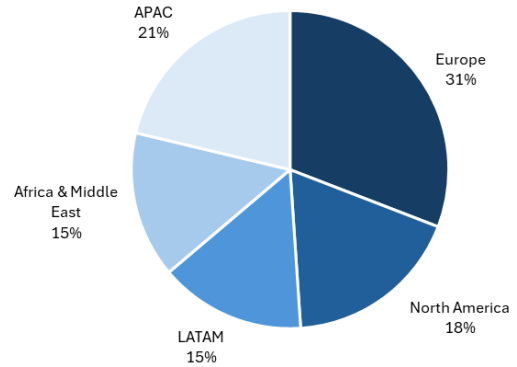
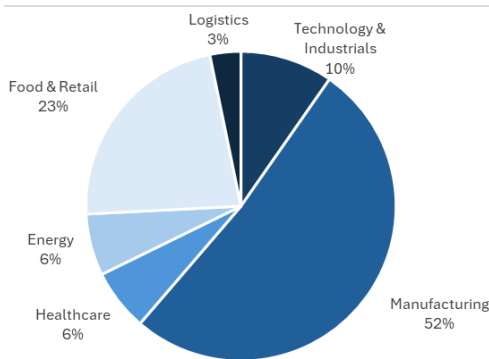
Consumer mood towards products: from the beginning there has never been a significant index of adverse mood towards brands. KFC has a different name; Burger King remained as it was; McDonald's. General mood of regret that some brands are no longer there. Also, iPhone.

The Russian market is much more accustomed to crises than us, they manage to adapt better, almost expect it + when there is a trend it arrives very strongly (truffle, buffalo mozzarella, Chinese cars). For this reason, it is easy for companies to then change their business plans, consumers much more open. Until the late 90s, they did not have a real market for products, there is no historical and well-rooted consumer goods market.

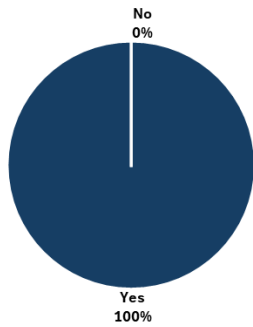
Inflation 7%, salaries increase, unemployment rate at a minimum -> push from the state 5% GDP annually is put on the market by the state -> very liquid market, cars cost a lot -> local products launch not only low-cost but also at other price levels.

APPENDIX B: Results of the conducted survey

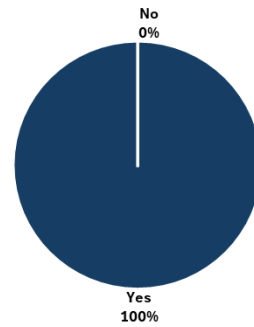
1.1. Split by industry and geographical presence



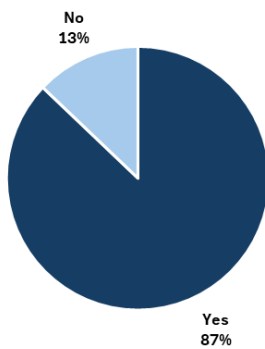
1.2. Do you know what geopolitics is?



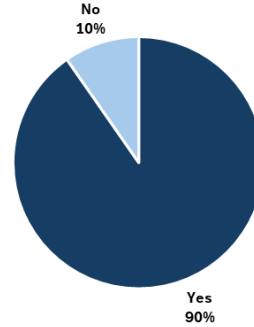
1.3. Do you know what geopolitical risk is?



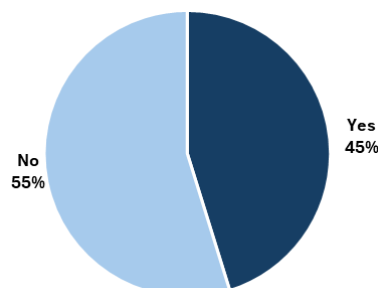
1.4 If you know what geopolitical risk is, do you assess it?



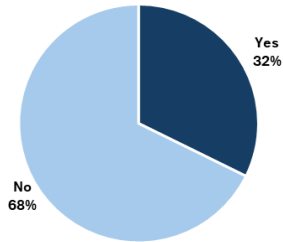
1.5 In the past years, have geopolitical tensions influenced your company's decision-making process?



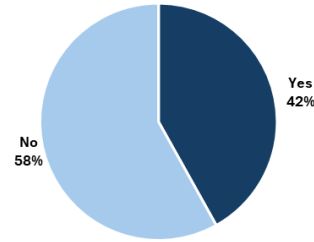
1.6. Has your company taken into consideration the idea of expanding or relocating operations as a result of geopolitical tensions?



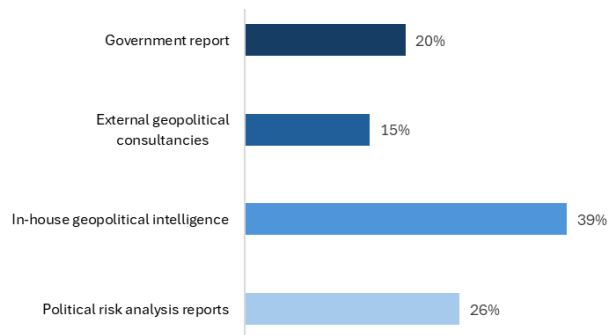
1.7. Do you believe geopolitical tensions have affected the company’s international collaboration with partners, peers and stakeholders?



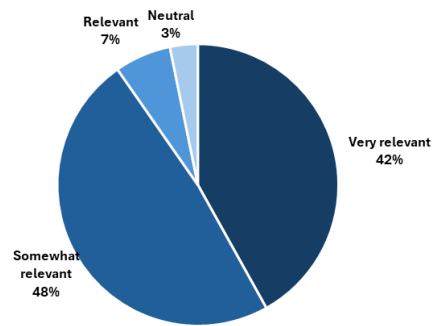
1.8 Has your company experienced any direct financial losses due to geopolitical events since the Covid outbreak



1.9. Which methods/tools do you currently use to assess geopolitical risk?



1.10. How would you rate the importance of geopolitical risks to your company international operations?



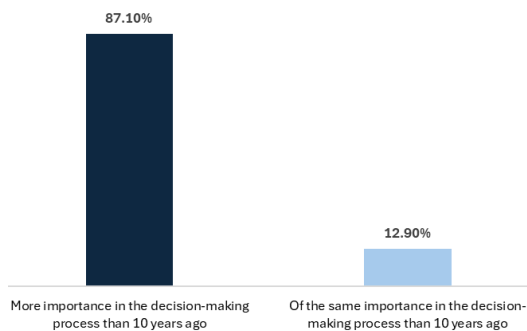
1.11. How geopolitical tensions influenced your company’s decision-making process?



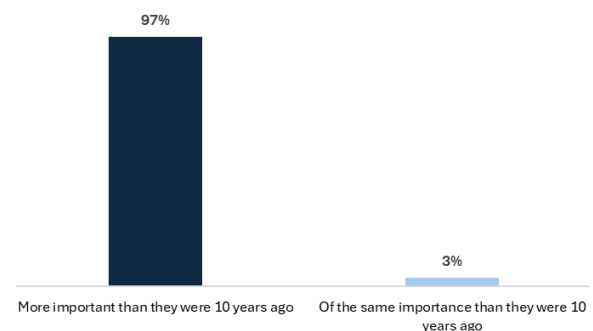
1.12. What measures are you planning to implement or to enhance to strengthen your company’s resilience to geopolitical risk?



1.13. Geopolitics is:



1.14 Risks impacting your global supply are:



1.15 Where does your company operate?

