


## Article

# Assessing Geopolitical Risk: A Multi-Level Approach for Top Managers of Multinationals

Maria A. De Villa<sup>1</sup> <sup>a</sup><sup>1</sup> Universidad EAFIT, Colombia

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Geopolitical risk is a major concern for top managers of multinationals around the globe. However, top managers often find it challenging to assess how geopolitical risk can impact their multinational's operations. Hence, this article offers top managers a multi-level approach for the holistic assessment of geopolitical risk that can help them identify their multinational's degree of exposure. This multi-level approach integrates insights of over one hundred top managers of multinationals, and involves conducting a tailored examination at the supranational, international, national, industry, and firm levels of analysis to factor geopolitical risk more effectively into strategic decision making.

### INTRODUCTION

The Russia-NATO conflict and U.S.-China strategic competition highlight the importance of geopolitics in international business. This is because geopolitical issues, such as these, tend to create disruptions to international relations, trade, and supply chains, which impact multinationals' operations. Geopolitical issues are expected to rise as the world shifts from a unilateral order to a multipolar system (BlackRock, 2022; Grosse, Gamso, & Nelson, 2022; Kobrin, 2015, 2017). According to the U.S. National Intelligence Council's report *Global Trends 2040: A More Contested World*, "no single state is likely to be positioned to dominate across all regions or domains, and...[states] will compete to advance their ideologies, goals, and interests" (U.S. National Intelligence Council, 2021: 92). Thus, geopolitical risk – the threat, realization, and escalation of adverse events associated with wars, terrorism, and any tensions among states and political actors that affect the peaceful course of international relations (Caldara & Iacoviello, 2022: 1195) – is likely to increase in the next two decades. This setting makes geopolitical risk a major concern for top managers of multinationals around the globe. However, top managers often find it challenging to assess how geopolitical risk can impact their multinational's operations. One reason is that routine assessments of risk exposure tend to focus on local political conditions. Another reason is that geopolitical risk is complex, as it often entails different impacts across industries and firms. For example, geopolitical risk can lead some industries to suffer a decline in investment that is larger than the aggregate

effect, and some firms to lower their investments (Caldara & Iacoviello, 2022). Hence, this article goes beyond local politics and tackles geopolitical complexity by offering top managers a multi-level approach for the holistic assessment of geopolitical risk that can help them identify their multinational's degree of exposure.

This multi-level approach integrates insights of over one hundred top managers of multinationals, holding the position of CEO or VP of International Business, specifically, 63 top managers of multinationals from emerging countries and 41 top managers of multinationals from developed countries. These top managers shared that their multinationals had been and continue to be challenged by geopolitical risk, and this encouraged them to collaborate in co-creation workshops for advancing the assessment of geopolitical risk. Through the workshops, there was no significant variance across the two sets of top managers, however, top managers of multinationals from emerging countries were more active in their participation. They explained this was most likely because their location in emerging countries had provided them with more experience in dealing with political uncertainty, as discussed by Cuervo-Cazurra (2016). During the workshops, both sets of top managers jointly highlighted that geopolitical risk involves not only the realization but also the threat of adverse geopolitical events, as suggested by Caldara & Iacoviello (2022). As the top managers shared their insights, they identified relevant factors to assess geopolitical risk. Then, they grouped these factors into different levels of analysis, and, in turn, structured a multi-level approach for assessing geopolitical risk.

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a Contact author: [mdevilla@eafit.edu.co](mailto:mdevilla@eafit.edu.co)

## WHY A MULTI-LEVEL APPROACH FOR ASSESSING GEOPOLITICAL RISK?

A multi-level approach for assessing geopolitical risk is pertinent, as it enables the consideration of unique characteristics of a multinational's operations to provide a tailored analysis of its exposure (De Villa, Rajwani, & Lawton, 2015). As top managers explained, "through a multi-level approach, we can overcome general assessments of geopolitical risk designed to serve all by developing a customized assessment that best serves the case of our particular multinational." This is key as all multinationals are not exposed to the same degree of geopolitical risk, since their unique characteristics can either increase or decrease their degree of exposure (Kobrin, 1982, 2017). In other words, while a geopolitical issue can generate a high level of risk for some multinationals, and be portrayed as posing a threat, other multinationals may experience a low level of risk or even encounter opportunities.

One example within the U.S.-China strategic competition is the ban installed in 2019 by the U.S. government over Huawei. The U.S. government accused Huawei of using its products to spy on other countries, generating possible security threats due to its deep ties with the Chinese government. As a result of the ban, Huawei smartphones were suddenly unable to offer Google apps. Despite the fact that by 2018 Huawei had conquered the second position in the world's smartphone market ahead of Apple, the ban disrupted Huawei's success, causing at least USD 30 billion in annual losses to its smartphone business (Pan, 2021). In contrast, other multinationals benefited from the ban. Samsung's operating profit for 2020 rose nearly 60% to its highest level in two years (Song, 2020), and Apple became the top-selling smartphone brand in China in 2021, reaching the world's largest smartphone market leadership for the first time since 2015 (Bloomberg, 2022).

## A MULTI-LEVEL APPROACH FOR ASSESSING GEOPOLITICAL RISK

As the case of the Huawei ban illustrates, assessing the degree of exposure of a multinational to geopolitical risk is crucial to identify challenges and opportunities. The top managers that participated in the workshops suggested that this can be achieved by applying a multi-level approach that involves the examination of the supranational, international, national, industry, and firm levels of analysis, as summarized in [Figure 1](#). To assess each of the factors included at the different levels of analysis, examples of practical questions and potential sources of information are provided in [Table 1](#).

At the supranational level, top managers agreed that "a critical factor is the ability of supranational organizations to mediate and resolve political tensions between countries, as this affects the likelihood of escalation of geopolitical risk." For instance, the United Nations (UN) is committed to maintaining international peace and developing friendly relations among nations. However, the extent to

which this organization is able to effectively mediate and resolve political tensions between countries has been different in each case. For example, in Iraq's occupation of Kuwait in 1990, the UN used resolutions and armed forces and achieved the liberation of Kuwait. However, in Russia's assault on Ukraine in 2022, Russia used its UN veto to defend its assault. This weakened the UN's ability to counter Russia's aggression.

At the international level, top managers explained that "political relations between countries play an important role in augmenting or mitigating the effects of political tensions on multinationals." For instance, upon the threat of China's invasion of Taiwan and its cutting of the supply of Taiwan's Semiconductor Manufacturing Corporation (TSMC), political ties between Taiwan, the U.S., and Japan enabled this multinational to open plants in the U.S. and Japan. This shows how cooperative political relations between countries can mitigate potential geopolitical risk, in this case, for TSMC and semiconductor-reliant multinationals. At the international level, top managers also highlighted that "dependence between countries on natural resources, food supplies, technologies, and others can pose challenges for multinationals." For example, Germany's dependence on Russian gas enabled the Russian government to use Gazprom, the Russian majority state-owned energy multinational, to affect Germany by reducing its gas supply in retaliation to sanctions imposed on Russia for its assault on Ukraine. This challenged multinationals operating in Germany, such as Mercedes-Benz and BASF, to implement measures to reduce and replace gas consumption.

At the national level, top managers suggested that "tracking how the development by countries of technologies, weapons, or others can redefine their power and influence is important." For instance, Russia and the U.S. possess over 90% of all nuclear weapons. Yet, China is confirmed by the Federation of American Scientists to be in a substantial expansion of its nuclear weapons arsenal. This developing change in the balance of power and influence among countries may have implications for multinationals around the globe. At the national level, top managers also pointed out that "the political orientations and agendas of governments play a critical role in the intensification or weakening of political tensions between countries." For example, in Russia, political power is concentrated in the authoritarian government of President Vladimir Putin. He leads an expansionist agenda, which caused political tensions between Russia and Ukraine to escalate into Russia's assault on Ukraine. This affected businesses in both countries and had consequences for multinationals worldwide. At the national level, top managers also recognized that "understanding business-government relations and their effects on multinationals is useful." For instance, in response to foreign firms massively leaving Russia after its assault on Ukraine, the Russian government reacted with a plan to nationalize foreign firms that intend to close their operations in Russian territory. Nationalization increased the immediate costs for foreign multinationals considering leaving Russia.

1. Ability of supranational organizations to mediate and resolve political tensions between countries	<b>Supranational level</b>
2. Political relations between countries	<b>International level</b>
3. Dependence between countries on natural resources, food supplies, technologies, and others	
4. Development by countries of technologies, weapons, or others that can redefine their power and influence	<b>National level</b>
5. Political orientations and agendas of governments	
6. Business-government relations	
7. Effects throughout the value chain	<b>Industry level</b>
8. Stakeholders	
9. Types of operations	<b>Firm level</b>
10. Political capabilities	

**Figure 1. Multi-level Approach for Assessing Geopolitical Risk**

At the industry level, top managers highlighted that “it is key to identify how political tensions between countries affect the value chains of multinationals.” For example, Russia’s assault on Ukraine has led to shortages on the availability of fertilizers, affecting the food industry. This has driven many multinationals to actively search for alternative suppliers, while others – like Dangote Fertilizer – have seized this business opportunity. At the industry level, top managers also suggested that “identifying stakeholders’ concerns and expectations in multinationals’ responses to political tensions between countries is useful to inform choices.” Indeed, in various industries, strong pressures from investors and consumers after Russia’s assault on Ukraine influenced many Western multinationals’ choice to pause sales or take out their investments in Russia.

At the firm level, top managers explained that “identifying how multinationals’ different types of operations can be affected by political tensions between countries is necessary.” For example, political tensions between Venezuela and Colombia, due to divergent political ideologies between former Presidents Hugo Chavez and Alvaro Uribe, confronted Colombian multinationals in Venezuela with the post-market entry risk of expropriation (Benischke, Guldiken, Doh, Martin, & Zhang, 2022; De Villa, Rajwani, Lawton, & Mellahi, 2019). Nonetheless, this risk was higher

for production plants than for distribution offices. This was because production plants owned more assets, and, in turn, their expropriation implied higher costs. At the firm level, top managers also considered that “identifying the development of multinationals’ political capabilities is important to determine the extent to which they can be useful to mitigate threats or exploit opportunities derived from the geopolitical context.” For example, through its well-developed political capabilities, during the establishment of sanctions on Russia for its assault on Ukraine, Airbus managed to have the EU avoid sanctioning Russian titanium while it accelerated searching for other suppliers.

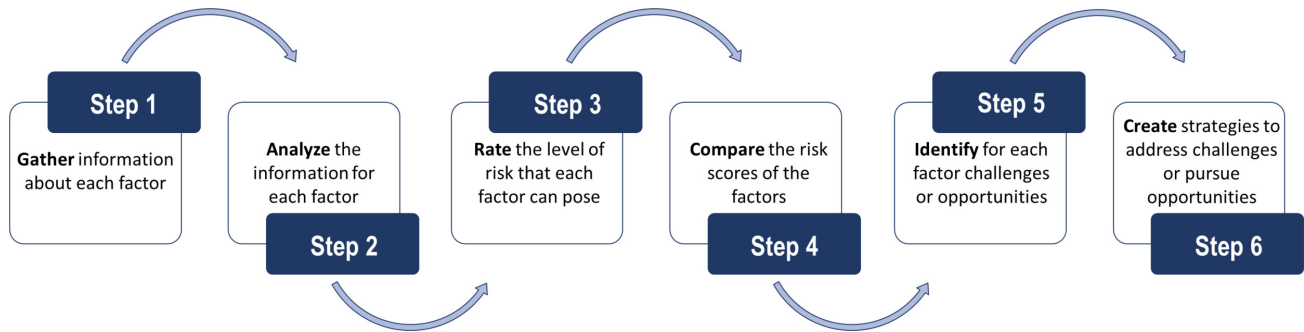
#### APPLYING A MULTI-LEVEL APPROACH FOR ASSESSING GEOPOLITICAL RISK

Top managers and their teams can apply a multi-level approach for assessing geopolitical risk by following the six steps in [Figure 2](#). The first step involves gathering information about each factor at the different levels of analysis, building on the practical questions and potential sources of information in [Table 1](#), and other available sources. The second step is analyzing the information for each factor to determine the level of risk it can pose to the multinational’s operations. The third step implies rating the level of risk

**Table 1. Examples of Practical Questions and Potential Sources of Information**

Levels of Analysis	Factors	Practical Questions	Potential Sources of Information
Supranational level	1. Ability of supranational organizations to mediate and resolve political tensions between countries	To what extent are the countries and actors involved in political tensions willing to have mediation, comply with terms of settlement, and resolutions from the United Nations or other supranational organizations?	Countries' membership status and past commitment to supranational organizations Government representatives in supranational organizations who can provide access to information and vote in resolutions or decisions
International level	2. Political relations between countries	What is the distance in relations between the governments of the countries where the multinational has operations and the governments of the countries experiencing political tensions? To what extent does the level of distance in political relations augment or mitigate the effects of geopolitical issues on the multinational's operations?	Media coverage on political relations between countries (useful to check media outlets from the different countries involved to contrast perspectives) Assessments from internal staff
	3. Dependence between countries on natural resources, food supplies, technologies, and others	To what degree are the multinational's countries of operations dependent on the resources, food supplies, or technologies of other countries? What are the implications of such dependencies?	International trade data from national statistics agencies, trade promotion or industry associations, chambers of commerce, Trade Map Assessments from external experts and internal staff
National level	4. Development by countries of technologies, weapons, or others that can redefine their power and influence	Are the countries involved in political tensions, or are other countries, developing technologies, weapons, or others that can redefine their power and influence? How can this affect the geopolitical context, and, in turn, the multinational's operations?	Technical Intelligence, Federation of American Scientists, Intelligence Resource Program, peace and security organizations, external experts
	5. Political orientations and agendas of governments	What are the political orientations and agendas of the governments of the countries involved in political tensions and of the governments of the countries where the multinational has operations? How can their political orientations and agendas impact the geopolitical context and the multinational's operations?	The World Fact Book, media coverage, political programs and discourses, political analysis
	6. Business-government relations	How are the relations between government and the business sector in the countries involved in political tensions? Are foreign firms or firms from a specific home country or industry likely to be targeted by any of the governments involved in political tensions?	Media coverage on the enforcement of contracts and public policies or the use of discriminatory policies and expropriation
Industry level	7. Effects throughout the value chain	How can political tensions between countries affect the value chain of the multinational's operations? What alternatives can be identified to overcome potential disruptions in the multinational's operations?	Assessments from external experts and internal staff
	8. Stakeholders	What are the major concerns of shareholders regarding political tensions between countries? What are the expectations of stakeholders regarding the multinational's responses to political tensions between countries?	Shareholder focus groups or meetings Stakeholder focus groups, established communication channels, social media
Firm level	9. Types of operations	How can the multinational's different types of operations be affected by political tensions between countries? What types of operations are vulnerable and how can they be made more resilient?	Assessments from internal staff

Levels of Analysis	Factors	Practical Questions	Potential Sources of Information
	10. Political capabilities	What political capabilities have been developed by the multinational? How can these be useful to mitigate threats or exploit opportunities derived from the geopolitical context?	Assessments from internal staff



**Figure 2. Six Steps to Apply a Multi-level Approach for Assessing Geopolitical Risk**

that each factor can pose, using the Assessment Sheet in [Table 2](#) to assign each factor a risk score between 0 and 100, where risk scores between 0-20 indicate very low risk, 21-40 low risk, 41-60 moderate risk, 61-80 high risk, and 81-100 very high risk.

The fourth step consists of comparing the risk scores of the factors in [Table 2](#) to identify which specific factors and levels of analysis can pose the highest and lowest levels of risk. The fifth step involves identifying for each factor the potential challenges it may generate (at least for the factors having the highest risk scores) or the opportunities that may arise (at least for the factors having the lowest risk scores), and describing these in the column titled “Challenges/Opportunities” in [Table 2](#). The sixth step calls upon creating strategies to address each of the challenges or pursue the opportunities that have been identified (strategies can be recorded in the column titled “Strategies” in [Table 2](#)). By following these six steps, top managers can conduct a tailored analysis of their multinational’s exposure to geopolitical risk, overcoming potentially misleading general assessments. This way top managers can factor geopolitical risk more effectively into strategic decision making,

to better address the challenges or pursue the opportunities they encounter.

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**ABOUT THE AUTHOR**

**Maria A. De Villa** ([mdevilla@eafit.edu.co](mailto:mdevilla@eafit.edu.co)) is Professor of Strategy at the School of Management of Universidad EAFIT. She is on the Editorial Boards of *Global Strategy Journal*, *Long Range Planning*, *Strategic Organization*, and *Multinational Business Review*. She studies the internationalization of firms, particularly emerging market multinationals, and how firms manage socio-political risks and relations through nonmarket strategies (corporate political strategies and corporate social responsibility) and strategize to address grand challenges. She holds a PhD from Cranfield University in the UK.

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**Table 2. Assessment Sheet**

Levels of Analysis	Factors	Levels of Risk					Challenges/ Opportunities	Strategies
		Very Low 0-20	Low 21-40	Moderate 41-60	High 61-80	Very High 81-100		
Supranational level	1. Ability of supranational organizations to mediate and resolve political tensions between countries							
International level	2. Political relations between countries							
	3. Dependence between countries on natural resources, food supplies, technologies, and others							
National level	4. Development by countries of technologies, weapons, or others that can redefine their power and influence							
	5. Political orientations and agendas of governments							
	6. Business-government relations							
Industry level	7. Effects throughout the value chain							
	8. Stakeholders							
Firm level	9. Types of operations							
	10. Political capabilities							



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