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## Risk factors influencing global businesses in services industries in a world of overlapping crises

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### Abstract:

This paper highlights the implications of multiple crisis that manifest themselves in 2022 materialized in severe risks for businesses, individuals and governments related with their role as partners in international services businesses. At the level of many international institutions and companies, there is a main concern in identifying global risks affecting the business environment after the pandemic and in the context of the Ukrainian conflict and its consequences. Every business decision maker is concerned more than ever with building the best strategy in a strong relationship with global threats. In this paper, we try to bring together the main categories of risks with strong impact on global businesses in service industries identified by specialized institutions. Over the last decades, service businesses have seen a spectacular evolution and today cover all aspects of economic, social and technological areas. The interest of the analysis in this paper is to capture to what extent the risks identified as critical for economies, companies and society as a whole impact the businesses in the service industries, given their particular sensitivity to global risk factors, considering that the service sector covers a very wide area of segments from tourism, transport to businesses focused on digitization..

**Keywords:** global risks, international service business, pandemic crisis, Russian-Ukrainian conflict

**JEL classification:** F23, F51, L84, O14

### 1. Introduction

Since 2020, the coronavirus has represented an extraordinary threat to global health and its impact would be felt for years to come. In this context, the world has adjusted radically to the new challenges derived from this. Countries plunged in and out of lockdown, and restrictions became regular parts of daily life (Duncan, 2022). After two difficult years marked by the COVID-19 pandemic, the world is deeply concerned about Ukraine in the context of the unjustifiable and illegitimate war of aggression of Russian Federation. So far, the war has caused a deeply distressing humanitarian disaster and thrown the global economic recovery into uncertainty (OECD, 2022). The Economist Intelligence Unit said several days after the Russian invasion of Ukraine that the outcome of the war was unlikely to conform to Russia's original game plan of a swift toppling of the government, and so it has proved (EIU, 2022a).

On the whole, in 2022, the world faces a range of complex and difficult challenges. *Russia's aggression* against the Ukraine has raised geopolitical threats to their highest levels in decades and in the same time, in many parts of the world, the democratic principles are under threat. The COVID-19 *pandemic* has stunted economic growth and harmed living standards. *Trade protectionism* persists in too many regions of the world and is on the rise in others and the use of economic pressure is expanding. And over all, the *climate change* threat is existential (OECD, 2022).

The economic consequences with a strong impact on service businesses from the pandemic are compounding with protectionism, labour market imbalances, and broadening digital, education and skills gaps

that risk splitting the world into divergent directions. In some countries, successful digital transformations, rapid vaccine access, and new growth opportunities could create the chances to rapid return to pre-pandemic trends in the short term and the possibility of a more resilient outlook over a longer horizon. However many other countries will be held back by continued acute stress on health systems, digital divides and stagnant job markets. These divergences will complicate the international collaboration needed to address the worsening impacts of climate change, manage migration flows and combat dangerous cyber-risks (WEF, 2022).

The potential secondary economic risks that are being seen and manifested now are clear and present dangers. *Supply chain disruptions, inflation, debt, labour market gaps, protectionism and educational disparities* are moving the world economy into shifting ways that both rapidly and slowly recovering countries alike will need to navigate to restore social cohesion, boost employment and thrive. These difficulties are impeding the visibility of emerging challenges, which include *climate transition disorder, increased cyber vulnerabilities, greater barriers to international mobility*, as well as *crowding and competition in space*. Restoring trust and fostering cooperation within and between countries will be crucial to addressing these challenges and preventing the world from drifting further apart (WEF, 2022).

Considering all these elements of a very complicated global environment, businesses in international services are very affected. In the main parts of this paper, we are trying to present the highest risks with relevant impact on businesses in international services which requires special attention for the decision-makers in this field and around which the development strategies of companies in the service sector will be designed.

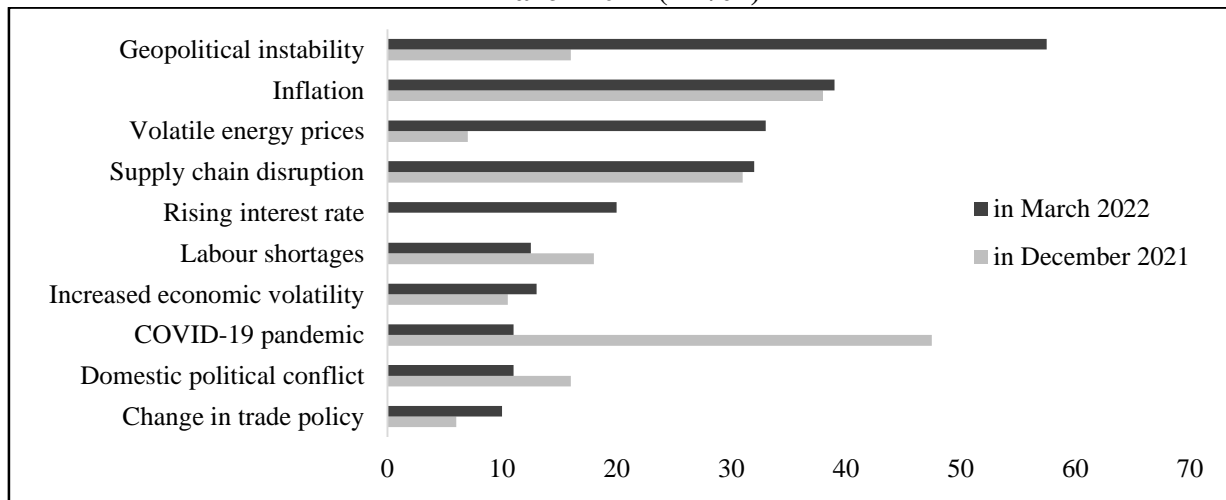
## **2. Reconsidering global risks affecting international business in service industries, in time of war**

According to a McKinsey Global Survey made at the level of executive management of the most representative companies around the world, the *war in Ukraine has introduced a considerable volatility* in the risks that business leaders see to economic growth. In the analysis made in the first month after the outbreak of the war, the *geopolitical risk displaced the pandemic and inflation* as the biggest threat to growth.

The markets have reacted differently to the war than to the COVID-19 outbreak, a reminder that this crisis requires a particular set of resilience capabilities. Companies need to think through the various aspects of geopolitical risk and their potential effects - on financing operations, organization, technology, reputation, and the business model itself - and build resilience on all these dimensions (McKinsey, 2022).

Figure 1 illustrates the modification of the place of main factors between two important moments: December 2021, when the pandemic crisis was considered to head towards the end moment, and March 2022, after the outbreak of the conflict in Ukraine.

**Figure 1: Repositioning the main potential risks impacting the business world between December 2021 – March 2022 (in %\*)**



Source: McKinsey & Company. (2022). *War in Ukraine: Twelve disruptions changing the world*. <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/war-in-ukraine-twelve-disruptions-changing-the-world>. 9 May

\*Note: The share of responses obtained in a survey on a representative panel of thousands of directors and managers conducted by McKinsey Global Publishing.

According to the data revealed in figure 1, considering the evolution of risks in the new context of war, it is obvious that, over the first months of 2022, the pandemic is situated on the eighth position with an important fall from the previous months. The war has introduced considerable volatility in the risks that business leaders perceive to economic growth. In the March 2022 poll, geopolitical risk displaced the pandemic and inflation as the biggest threat to growth. The markets have reacted differently to the war than to the COVID-19 outbreak, a reminder that this crisis requires a particular set of resilience capabilities. Companies need to think through the various aspects of geopolitical risk and their potential effects—on financing operations, organization, technology, reputation, and the business model itself—and build resilience on all these dimensions (McKinsey, 2022).

This perspective is completed by that of the World Economic Forum, released after the war outbreak. The table 1 illustrate a very complex image of the five main categories of global risks with a strong impact on international services businesses.

**Table 1: The global risks in 2022 impacting the businesses in service industries \***

<b>1. Geopolitical</b>	Collapse of a multilateral institution; Fracture of interstate relations; Geo-economic confrontations; Geopolitical contestation of strategic resources; Interstate conflict; State collapse; Terrorist attacks; Weapons of mass destruction
<b>2. Economic</b>	Asset bubble bursts in large economies; Collapse of a systemically important industry; Debt crises in large economies; Failure to stabilize price trajectories; Proliferation of illicit economic activity; Prolonged economic stagnation; Severe commodity shocks
<b>3. Technological</b>	Adverse outcomes of technological advances; Breakdown of critical information infrastructure; Digital power concentration; Failure of cybersecurity measures; Failure of technology governance

<b>4. Societal</b>	Collapse or lack of social security systems; Employment and livelihood crises; Erosion of social cohesion; Failure of public infrastructure; Infectious diseases; Large-scale involuntary migration; Pervasive backlash against science; Pollution-driven harms to human health; Severe mental health deterioration; Widespread youth disillusionment
<b>5. Environmental</b>	Biodiversity loss and ecosystem collapse; Climate action failure; Extreme weather events; Human-made environmental damage; Major geophysical disasters; Natural resource crises

Source: World Economic Forum. (2022). *The Global Risks Report 2022, 17th Edition*. <https://www.guycarp.com/insights/2022/01/the-global-risks-report-2022.html>

\*Note: The factors presented are placed by the author in the order considered relevant for business in the field of international services.

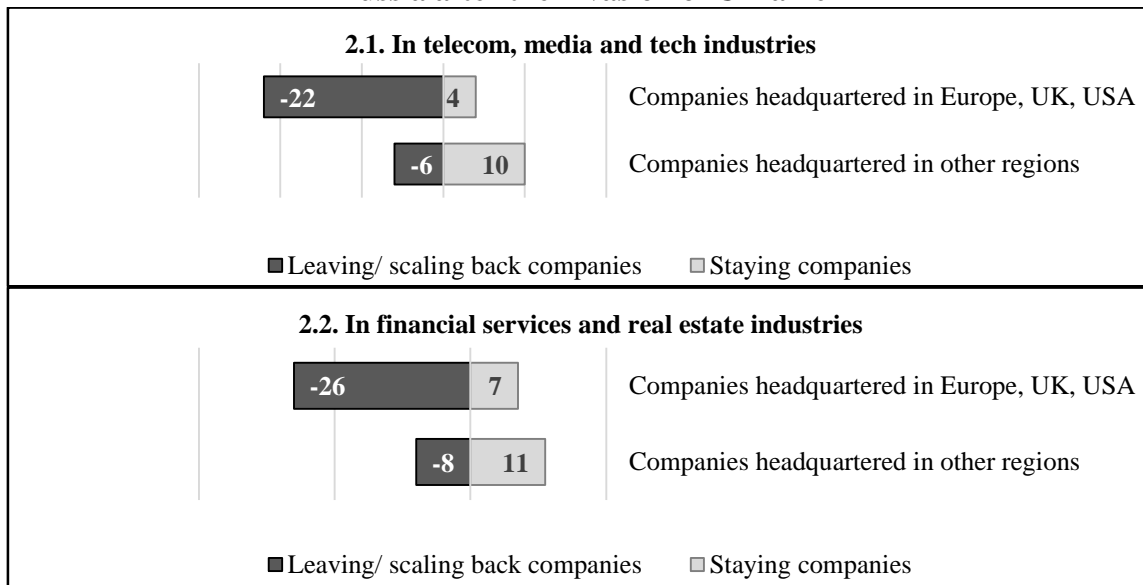
### 3. Risks arising from global technological standards in business in service industries

Nowadays, countries around the world participate in a broadly shared system of information, especially in service businesses. In recent years, the main risk has been seen in several countries isolating and limiting a wide range of content services. They had also taken steps to promote the technology standards they favoured, as seen in recent battles over hardware standards and proposals to replace internet protocols. Similar frictions have long been present in other corners of technology, notably telecommunications.

The war in Ukraine may have widened these divisions. The West’s new limits on finance and some technologies, and a broad-based departure from Russia by many leading Western companies, mean that *Russia has essentially been excluded from a significant portion of the global high-tech value chain*. About 80 percent of Western tech companies have exited Russia or are scaling back. Meantime more than 60 percent of big tech companies from other parts of the world are staying the course.

In the long run, a fragmented set of tech standards and policies means more expensive services for consumers and lower productivity growth globally (McKinsey, 2022).

**Figure 2: The balance between companies operating in services industries deciding to leave or stay in Russia after the invasion of Ukraine**



Source: McKinsey & Company. (2022). *War in Ukraine: Twelve disruptions changing the world*. <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/war-in-ukraine-twelve-disruptions-changing-the-world>. 9 May

Of the 281 Fortune 500 companies that were present in Russia before the war, close to 70 percent have either scaled back or exited their Russian operations since the start of the war. Almost 85 percent of companies headquartered in Europe, the United Kingdom, or the United States have left or scaled back, against only 40 percent of those based in other regions. The exodus is not confined to any one sector.

The corporate reaction came swiftly. Some decisions were announced within days of the invasion and the first round of sanctions. More than ever, core management choices are being shaped by a broad set of stakeholders beyond investors, including employees and customers (McKinsey, 2022).

#### **4. The intensification of cyberthreats in the context of increasing digital dependence in the international business of service industries**

The expansion of business in the service sector in recent decades has been based on the support of the development of information technology.

Under current conditions, this is an area of risk, with service businesses once again suffering from these risks in addition to those related to the pandemic, such as mobility restrictions.

The pandemic and its aftermath have accelerated the digital transformation of services businesses and the change will not stop here. Looking ahead, service industries are converging and even reinventing – resulting in brand new business models with different workforce requirements.

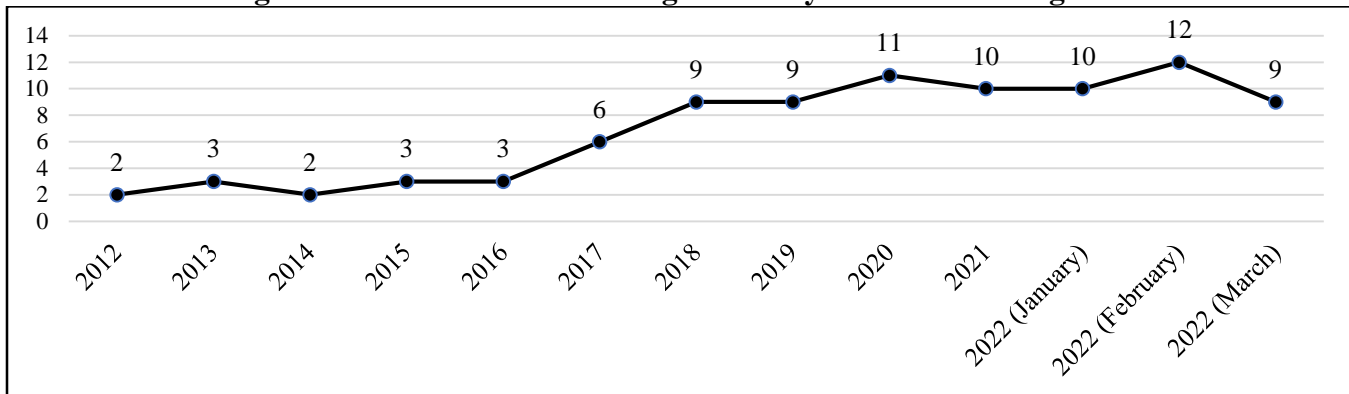
Growing dependency on digital systems—intensified by COVID-19—has altered societies. Over the last two years, industries have undergone rapid digitalization, workers have shifted to remote working where possible,

and platforms and devices facilitating this change have proliferated. At the same time, cybersecurity threats are growing—in 2020, malware and ransomware attacks increased by 358% and 435% respectively—and are outpacing societies’ ability to effectively prevent or respond to them. Lower barriers to entry for cyberthreat actors, more aggressive attack methods, a dearth of cybersecurity professionals and patchwork governance mechanisms are all aggravating the risk.

*Cyber is a stage for conflict.* Cyberattacks continually disrupt societies globally by targeting critical infrastructure. On average, ten significant cyberattacks are recorded every month by the Center for Strategic and International Studies. On February 24, 2022—the day of the invasion—ViaSat’s internet service was disrupted across Europe for several hours, affecting 30,000 customers—including Ukrainian military communications. Since then, Ukrainian power systems and telecom networks have been taken offline for several hours and other Ukrainian government organizations have been hacked. Attackers have also targeted the public websites of several Russian government ministries.

Some attacks may have spillover effects far beyond their original targets, as the malware spreads. Depending on the trajectory of the war, one could expect the cyberthreat to continue. Companies and governments are staying vigilant about their exposure to cyberattacks, in particular to ransomware attacks and misinformation campaigns (McKinsey, 2022).

**Figure 3: The evolution of the significant cyberattacks during 2012-2022\***



Source: McKinsey & Company. (2022). *War in Ukraine: Twelve disruptions changing the world*. <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/war-in-ukraine-twelve-disruptions-changing-the-world>. 9 May

Note: 2012-2021 – average per month; 2022 – total per month.

As can be seen in Figure 3, the number of attacks has increased since 2017. Significant cyberattacks are defined as cyberattacks on government agencies, defense, and high-tech companies, or economic crimes with losses of more than \$1 million (McKinsey, 2022).

### 5. European economies are the most exposed to the fallout from war in Ukraine.

The negative effects of the continuation of the war in Ukraine with the considerable rise in global commodity prices (not only for hydrocarbons but also for metals and grains) will add to already high inflation and supply chain disruptions, affecting the post- coronavirus.



The Economist Intelligence Unit (EIU) has revised its forecast for growth in the euro zone sharply downwards for 2022, to about 3.3% (from 4% previously). This revision stems from its expectation that the supply and energy shock stemming from the war in Ukraine will shave nearly 1 percentage point from growth in Germany (0.8 percentage points), France (0.7 percentage points) and Italy (1 percentage point). By contrast, the EIU had already factored in a cost-of-living slowdown for the UK economy, and it now expects a minimal further hit to growth (0.1 percentage points), given the limited trade ties between Britain and Russia (EIU, 2022c).

**Table 2: Forecast real GDP growth rates for the representative European countries (%)**

Economies \ Year	2022 before war	2022 revised	2022/ Q2 (q-o-q)	2022/ Q3 (q-o-q)	2022/ Q4 (q-o-q)
Germany	3.3	2.5	0.5	0.6	0.8
France	4.1	3.4	0.3	0.8	0.6
Italy	4.4	3.4	0.4	0.6	0.5
UK	4	3.9	0.3	0.3	0.5
Russia	2.6	-10.1	-9.4	-6.9	-3
Ukraine	3.3	-46.5	-	-	-

Source: Economist Intelligence Unit. (2022d). *Global economic outlook 2022. Assessing the impact of war on G7 economies, Russia and Ukraine*. <https://www.eiu.com/n/webinars/global-economic-outlook-july-2022/>

## 6. Case study: The risks impacting the Romanian’s businesses in 2022

Table 2 presents the top five risks for Romanian’s economy identified in a surveyed made by the World Economic Forum at the level of executives between May and September 2021, related with the following question: “What five risks will pose a critical threat to your country in the next two years?”.

“Risk 1” indicates the most frequently selected risk in each economy. For Romania, two risks (“debt crises in large economies” and “geopolitization of strategic resources”) are tied for third place and there is therefore no risk in fourth place.

**Table 3: Top five risks identified at the level of business decision-makers in Romania**

Risk level	Risk details
1	• Human-made environmental damage
2	• Employment and livelihood crises
3	• Debt crises in large economies • Geopolitization of strategic resources*
4	•
5	• Large-scale involuntary migration

Source: World Economic Forum. (2022). *The Global Risks Report 2022, 17th Edition*. <https://www.guycarp.com/insights/2022/01/the-global-risks-report-2022.html>

\*Note: There were two risks identified on the third position

Risks identified at the level of business decision-makers in Romania can be judged from the perspective of the insurance market at this level. Cyber-risk insurance is starting to have more and more followers in Romania as well. Demand is growing rapidly because the market is still in its infancy, dominated by international brokers,

who sell the products of foreign insurers. Local players are waiting because they do not have all the necessary data to be able to enter the cyber insurance niche.

Romanian companies are most afraid of the pandemic, the cyber incidents and the risks that can lead to the interruption of activities.

The hierarchy of organizational "fears" was created by Allianz Global Corporate & Specialty, and the local ranking differs from the global one, where the podium is presented as follows:

1. cyber risk – according to 44% of the 2,650 experts from 89 countries interviewed;
2. risk of business interruption – 42%;
3. the risk generated by natural disasters – 25%.

According to the Allianz Risk Barometer, in 2022, the pandemic left the international ranking not because it was completely eliminated, but because, at present, companies believe that they are better prepared to face challenges of this type (Ghițulescu, 2022).

## 7. Conclusions

The war in Ukraine is not just a regional conflict: it has become a much larger confrontation between the western countries and Russia. The longer the war drags on, the greater the risk of the western countries being pulled in, either as a result of a military miscalculation by either side or of the war accidentally spilling over into a NATO member state. Such an unplanned event would pose the risk of a much more serious global conflict (EIU, 2022a).

Even if such a scenario is avoided, the war marks a geopolitical watershed. Impacts of the Russia-Ukraine war include Russia's exclusion from the Western economic and political order. Sanctions will remain in place indefinitely, and Russia will become a no-go area for Western businesses. The Kremlin will come to rely increasingly on China and the developing world. The West will have to reorganize its global supply chains, including for commodities supplied by Russia. Ukraine and the wider region will remain a zone of instability for many years to come (EIU, 2022a).

Navigating the current economic and geopolitical landscape has become a challenge for foreign investors. With globalisation in retreat, they are walking a fine line between success and failure. Mounting barriers and red tape have put regulatory compliance in the spotlight as one of the pivotal factors that can tilt the balance either way ([www.fdiintelligence.com](http://www.fdiintelligence.com), 2022).

The global business environment is likely to be very different in five years. A major event like the war in Ukraine is likely to accelerate many pre-existing trends. As a result, the global business environment will likely look very different in five years (Maselli & Panitsas, 2022). This means governments face tougher constraints, and realism is essential if good decisions are to be made (Miles, 2022).

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