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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 crises 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 nowadays it covers 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 invasion of Ukraine by Russian Federation came as a shock with a devastating effect on the whole world. In the first months, the war caused major humanitarian disasters with deeply worrying effects, all of which generating a huge wave of uncertainty over the global economic recovery process following the pandemic (OECD, 2022).

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 digital expansion, skills and education gaps that can develop sources of global divergence. There are countries where digital developments already implemented

are proving their effectiveness, and the emergence of new growth opportunities increase the chances of rapid recovery and even exceeding the results recorded before the pandemic with long-term sustainable perspectives. Nevertheless, many countries around the world face continued shortcomings of their health and education systems, underdeveloped labour and technological markets. These considerable differences make difficult the international collaboration that is mandatory to be met in order to address the negative effects of climate change, manage migration movements and combating other risks such as cyber-attacks (WEF, 2022).

The potential secondary economic risks revealed at this historical moment (post-pandemic and in the midst of a military aggression against a country) are now perceived as important dangers to future prosperity. All countries of the world are facing problems at the level of rising *inflation* and *debt*, the persistence of gaps in the *labour* market, major differences in the *educational* systems, finding solutions for the disruptions of foreign supply chains during the pandemic, including *protectionist* tendencies. Therefore, identifying solutions is a priority for all countries to restore social cohesion, boost employment and secure sources of prosperity. All these issues make difficult to find solutions to the major challenges related to the difficult processes regarding the *transition to achieving the climate goals, growing cyber exposures, raising new obstacles to international mobility, as well as congestion and rivalry in space*. Addressing all these challenges and preventing looming disasters require building trust and encouraging cooperation at the national and international levels (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.

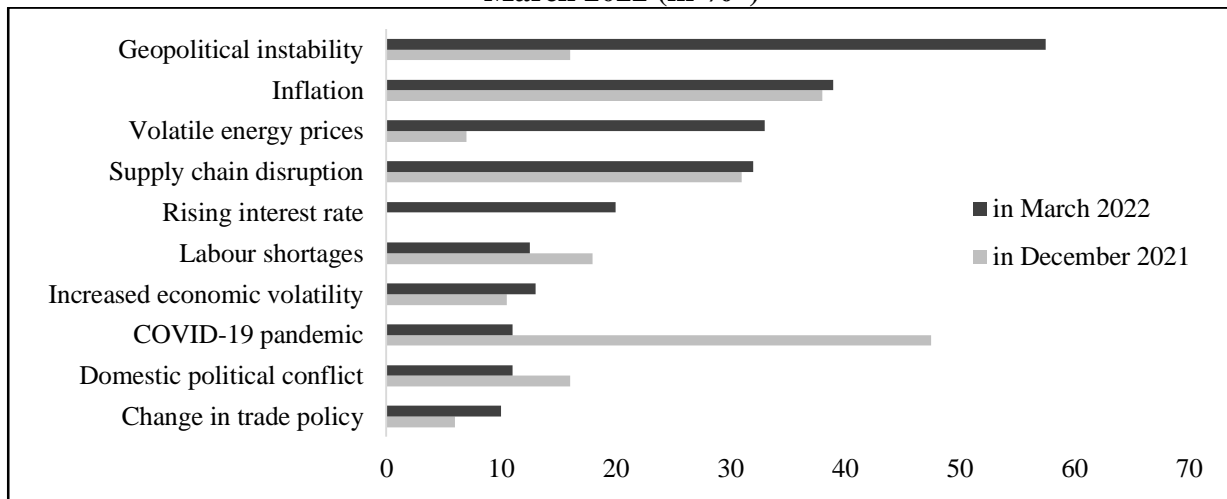
## **2. Reconsidering global risks affecting international business in service industries, in time of war**

According to a McKinsey global survey conducted on the executive management of leading companies worldwide, the invasion of Ukraine generated considerable volatility in the business environment and an intensification of the risks to economic growth. In the study done immediately after the outbreak of the war, the pandemic and inflation were overtaken by geopolitical risk, the latter becoming the biggest threat to growth.

Also, the markets responded in a different way to the armed aggression of the Russian Federation compared to the pandemic, which makes it clear that the crisis in Ukraine requires a set of measures to strengthen resistance. Therefore, companies must adopt different strategies to this type of geopolitical risk, considering its potential impact on business models, organization, financing methods, technology used and even reputation, allocating resources to increase resilience on all of these components of their business (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 conflict in Ukraine has had the effect of increasing the volatility of risks to business and economic growth. Therefore, in the survey carried out in March 2022, geopolitical risk rose to the first position in the ranking of risks, surpassing the pandemic and inflation, with war becoming the most serious threat to economic growth (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>	breaking of relations between states; geopolitical and economic hostilities; geopolitical disputation of strategic resources; interstate conflicts; state failure; terrorist attacks; weapons of mass destruction
<b>2. Economic</b>	the bursting of asset bubbles in major economies; the collapse of a systemically important industry; debt crises in major economies; the instability of the price evolution forecast; the expansion of illicit economic activities; prolonged economic stagnation; severe shocks at the level of production and trade of goods
<b>3. Technological</b>	contrary results of technological developments; failure of critical information substructure; concentration of digital influence; failure of cyber security procedures; the failure of technological governance
<b>4. Societal</b>	the failure or absence of social security systems; employment and living crises; loss of social cohesion; failure of public infrastructure; infectious viruses; large scale migration involuntary

	reasons; widespread backlash against science; pollution damage to human health; severe impairment of mental health; general youth discouragement
<b>5. Environmental</b>	biodiversity drops and ecosystem ruin; failure of actions on climate targets; dangerous weather events; human-caused damage to the environment; key geophysical catastrophes; natural resource crises

Source: World Economic Forum. (2022). *The Global Risks Report 2022, 17th Edition*. <https://www.guyecarp.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.

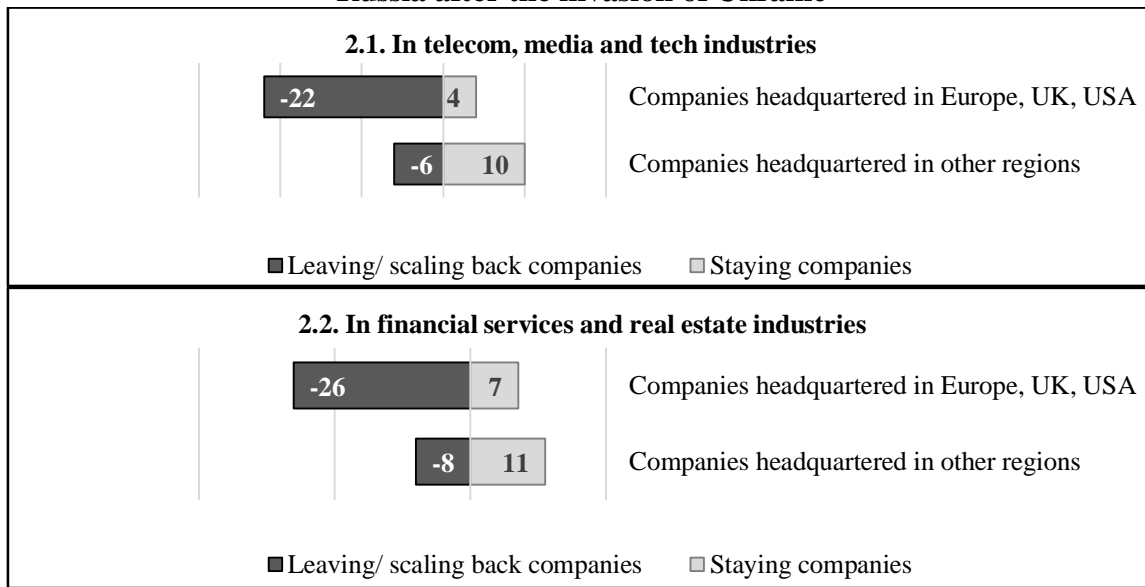
### **3. Risks arising from global technological standards in business in service industries**

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 large variety of services. They had also taken steps to encourage the technological standards they favoured (this is the case of confrontations in the field of hardware standards and proposals to substitute Internet protocols). Comparable confrontations have taken place in other subfields of technology, one example being that of telecommunications.

Russia's aggression is seen as broadening the horizons of these types of manifestations. The most recent restrictions of Western countries on finance and some technologies, as well as the massive exit from the Russian market of many leading Western companies, are facts that demonstrate that Russia has been excluded from a significant part of the high global value chain of high technology. Around 80% of Western technology companies have decided to leave the Russian market or reduce their activity in this market.

In the long term, it will generate a fragmentation of technological standards as well as technological policies with a negative effect on consumers who will find more expensive services on the market and on producers who will experience decreases in productivity (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

Before the invasion of Ukraine, the Russian market was home to 281 companies from the top 500 included in the ranking of the famous publication Fortune. The immediate effects of Ukraine's aggression took shape in the abandonment or considerable reduction of the presence on the Russian market of 70 percent of them. In comparison, around 85% of companies based in Europe, the UK or the US have left or downsized, compared to just 40% of those based in other regions, and all sectors were targeted.

The reaction of the corporations was extremely fast. Consequently, some decisions were announced days after the invasion and the first round of sanctions. In this case, the management's decisions to exit the Russian market occurred under signals received from all stakeholders, not just investors, employees or customers (McKinsey, 2022).

**4. The intensification of cyber-threats due to the increasing dependence of global businesses in the field of services on digital developments**

The extension of business and trade in the service sector in recent decades has been due to the extraordinary progress 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.

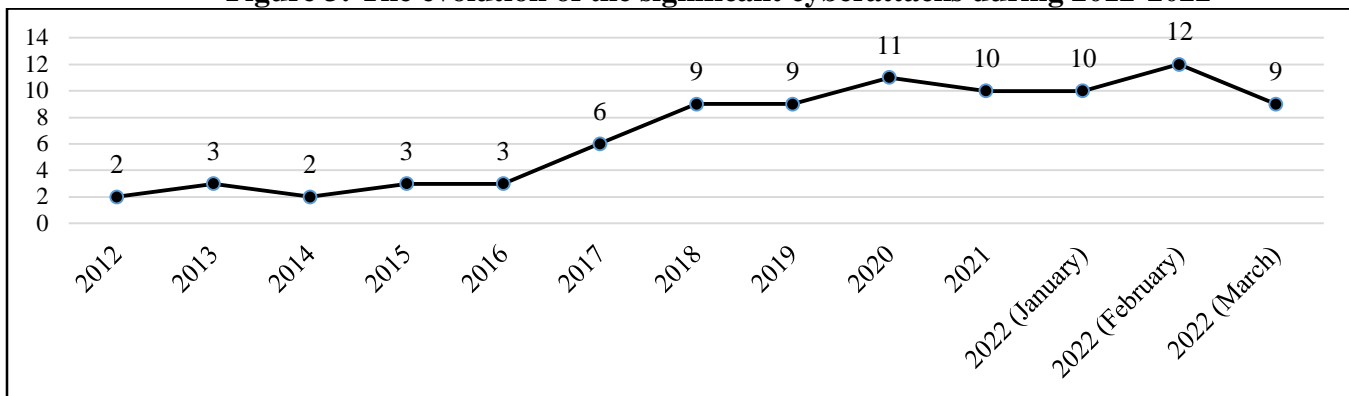
The pandemic and its aftermath have accelerated the digital transformation of services businesses and the change will not stop here. Looking ahead, service industries are converging and even reinventing – resulting in brand new business models with different workforce requirements.

The growing dependence on digital systems intensified by the pandemic is producing considerable changes at the societal level. In the last two years, marked by the mobility restrictions imposed by the pandemic, industries have intensified their digitization processes, by developing work-from-home models where possible, and the platforms and devices that facilitate this model have multiplied massively. Of course, this development has fostered a number of other threats, including those of cyber security. For example, in 2020, “malware and ransomware” attacks increased by 358% and 435%, respectively, with their level of sophistication exceeding the ability to effectively prevent or respond (McKinsey, 2022). The risks are aggravated by the lowering of entry barriers for actors who can be sources of cyber threats, the increase in the aggressiveness of attack methods, the shortage of specialized personnel in cyber security and the weak mechanisms of governance of these risks.

Considering the cyber-attacks as a form of manifestation of conflicts, generating disruptive effect on societies, targeting critical infrastructure globally. In statistical terms, every month, an average of ten significant cyber-attacks are recorded by the Center for Strategic and International Studies. On the day of the invasion of Ukraine (February 24, 2022), ViaSat’s Internet service was disrupted across Europe for several hours, affecting not only its 30,000 customers but also Ukrainian military communications. Ukrainian power systems and telecommunications networks were offline for several hours, and other Ukrainian government organizations were breached. The attackers also targeted the public websites of several Russian government ministries.

Some attacks can have ripple effects far beyond their original targets as the malware spreads. The prospect of an ongoing war means that cyber threats will continue, prompting companies and governments to be vigilant about their exposure to cyber-attacks, mostly ransomware attacks and the spread of disinformation 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 the conflict in Ukraine.**

The damaging impact of the prolongation of the conflict in Ukraine on the significant increase in commodity prices globally (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 negatively revised its forecast for growth in the euro zone for 2022 to approximately 3.3% (from 4% as previously published). This revision come under the impact of the energy and supply shock from the conflict in Ukraine is going to 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 conducted by the World Economic Forum with executive-level representatives of large companies in the period May - September 2021, regarding the 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 received on the cyber insurance segment.

According to this report, Romanian companies ranked the risks they fear the most: the pandemic, followed by cyber incidents and risks that 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 aggression against Ukraine, apparently a regional event/factor, in terms of the problems generated, turned into a confrontation between Western allied countries and the Russian Federation with its allies. At the level of 2022, EIU experts (2022,a) pointed out that the prolongation of the conflict increases the risks for the Western countries of the accidental spread of the war in a NATO member state, which would present the risk of a global conflict, with much more serious effects.

Apart from such a bleak scenario (which has been somewhat speculated as an extreme potential risk), the war marks an important geopolitical turning point. Following the conflict, the first large-scale effect was the exclusion of the Russian Federation from economic relations with Western countries. The sanctions of Western countries are constantly being added in new waves whose duration will be prolonged for a long time, so that the aggressor country will be excluded from the affairs of Western partners. The alternative that Russia relies on from China and developing countries will not be able to replace what Western countries were offering, mainly in technology. Western countries will have to reorganize their global supply chains already affected by the pandemic, including for goods supplied by Russia. The region involved in the conflict will remain an area of high instability for a long time (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 experience considerable change in the medium term. An event such as the aggression of the Russian Federation is likely to accelerate the rate of evolution of many trends already started previously (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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