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EDITORIAL

Risk Management Practices of European Companies in Times of High Global Uncertainty☆

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Introduction

In recent years, global uncertainties have steadily increased. Rising geopolitical rivalry, coupled with global technological, climate, and security risks, along with growing concerns over the social and environmental costs of free trade, are undermining the already weak foundations of the postwar multilateral Bretton Woods system (United Nations Conference on Trade and Development, 2023). These challenges increasingly cast doubt on the core principles of the global trade system that has long supported international economic stability. Without a credible global institutional framework to combat climate change, regulatory discrepancies between countries and varying levels of commitment to a climate-neutral world are creating an uneven playing field. The private sector faces a range of challenges, including regulatory hurdles, market and economic uncertainties, legal complexities, and rising administrative and compliance costs (World Economic Forum, 2024). These challenges are particularly acute for internationalized companies operating in multiple countries, as policies change rapidly, and approaches differ between countries.

Businesses are increasingly compelled to operate amid disruptive geopolitical pressures. When operating across borders, they encounter incentives created by policy intervention and existing international norms that push and pull them in different directions (Evenett & Pisani, 2023). Given current global developments, geopolitical risks are becoming a critical aspect of supply chain risk reliance as well. The US–China trade and technology war, the COVID-19 pandemic, and the wars in Ukraine and the Middle East have exposed vulnerability to global supply chain disruptions and intensified backshoring, friendshoring (i.e., shifting supply chains to "trusted countries"), and decoupling of global value chains, even though the economic fragmentation processes have been estimated to be costly (Eppinger et al., 2021; Felbermayr et al., 2023; Javorcik et al., 2024). With multilateralism weakening, companies increasingly rely on regional economic integration processes. As Alday (2022) warned, multinationals that regionalize to take advantage of the lower risk that regional economic integration initiatives offer may, on the other hand, increase their regional risk by deepening their commitment and embeddedness in regional business networks. Such a regional risk paradox raises questions about the balance between regional value chains and global diversification, as well as about the benefits and pitfalls of friendshoring and backsourcing strategies.

European companies are far from immune to these global geopolitical developments. The EU member states are highly open economies that are intensively integrated into European and global value chains. The domestic markets of most Member States are relatively small, and companies are forced to enter

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other markets, either within the EU or at the global level. Therefore, risk management in global markets emerges as one of the most important success factors for internationalized European companies (Braito et al., 2021). Small and medium-sized enterprises (SMEs) are particularly vulnerable and disadvantaged in such situations, due to limited options to diversify their business activities and tougher financial conditions to manage risks (Hsu et al., 2013). Resource constraints may also limit SMEs' ability to engage heavily in a foreign market, and they are often less willing to share control with a partner, especially if they are family-owned and/or owner-managed (Laufs & Schwens, 2014).

Past crises have taught the harsh lesson that most corporate failures result from poor risk management (Rutledge, 2009), underscoring that no aspect of corporate governance is more critical than effective risk oversight (Zhivitskaya & Power, 2016). However, it seems that companies have not properly responded with the implementation of suitable risk management practices (Gennaro & Nietlispach, 2021). Companies implement risk management systems depending on their needs and choices. It is now known that risk indicators have to be linked to a strategy to help managers monitor and evaluate organizational progress towards strategic goals (Arena & Arnaboldi, 2014). Also, the recent revision of the well-known framework by the Committee of Sponsoring Organizations of the Treadway Commission (2017) highlights the importance of integrating enterprise risk management with the company's strategy and performance (Dvorski Lacković et al., 2022). However, studies show that risk management systems are still mainly implemented to meet regulatory requirements (Lundqvist, 2015) and not strategic alignment (Peljhan et al., 2018); therefore, the potential effect of strategy remains insufficiently researched and offers avenues for further research (Peljhan & Marc, 2021). Future studies should inform risk managers especially on how they can achieve integration of risk management systems with strategy, leading to risk-based (strategic) performance management (Smart & Creelman, 2013).

When it comes to international business operations, the nature of political risk differs significantly among emerging markets (Ali et al., 2021). Furthermore, cultural risk can increase the liability of foreignness or adversity that the investing company must overcome when expanding abroad (López-Duarte & Vidal-Suárez, 2010). Consequently, the risk management practices applied differ from market to market. However, in most companies, political risk management is reactive and not linked to enterprise risk management (Jones & McCaffrey, 2021). While managers increasingly regard geopolitics as relevant to their activities, for many companies this insight has not yet resulted in changes to their behaviour. How to be proactive, take a cross-functional approach to political risk management, and integrate it into enterprise risk management are important questions.

This thematic issue aims to present fresh perspectives and actionable insights on balancing risks and opportunities, linking them to strategic decision making in international business. It is part of an ERASMUS Jean Monnet Module, *EUglobe*, which is dedicated to generating and disseminating knowledge and best practices to enhance the competitiveness of EU firms in turbulent global markets, with a particular emphasis on enhancing firms' capacities for effective risk management in international operations. The articles in this issue draw from both empirical and theoretical research, covering various facets of the complex process of managing risks within the VUCA (volatile, uncertain, complex, and ambiguous) environment. The findings and examples provided offer valuable, evidence-based recommendations for risk management practices, as well as implications for supporting institutions, policies, and instruments. Additionally, this issue might serve as a springboard for inspiring practical and innovative tools that contribute to a robust risk management toolkit for international business.

The papers in this issue

The first article, titled "Change Is in the Minds of the Beholders: A Sociocognitive Comparison of Crisis Perceptions and Change Predictions: Insights from China, New Zealand, and Slovenia," by **Ding** and **Rašković** explores how social cognition influences crisis perceptions and economic change predictions in the context of the COVID-19 pandemic across China, New Zealand, and Slovenia—three countries with distinct sociocultural and institutional backgrounds. The study, which surveyed Generation Z's perception of economic change across various scenarios (accelerated growth, decelerated growth, accelerated decline, and decelerated decline), highlights that while the East–West demarcation in terms of cultural boundaries provides useful insights, it is insufficient for fully understanding culturally driven economic trend predictions. During economic downturns, such as the COVID-19 crisis, there appears to be a universal tendency towards pessimism. However, Chinese respondents displayed the least negative outlook in decline scenarios, suggesting a more dialectical thinking approach to adverse conditions. In contrast, significant differences in terms of "geography of thought" emerge during economic expansion. While

New Zealanders exhibit more caution in decelerated growth scenarios, hesitating to assume continued economic expansion, Slovenian and Chinese respondents display optimism regarding economic expansion in both accelerated and decelerated growth scenarios. The paper offers valuable implications for developing culture-specific crisis management strategies and promoting economic resilience.

In the second article, titled "Risk Management in MNEs during Global Crises: Subsidiary Control or Autonomy?," **Jaklič, Koleša, Mavri**, and **Burger** explore the balance between central control and autonomy within multinational enterprises (MNEs) and how this impacts their subsidiaries' resilience and risk management during global crises, specifically focusing on Slovenia as a case study. The authors investigate how the autonomy of foreign subsidiaries in Central and Eastern Europe affects their performance during the COVID-19 pandemic and the war in Ukraine. Their findings highlight that greater subsidiary autonomy, especially in risky markets, enhances resilience and allows for more flexible and proactive risk management. Autonomy enables subsidiaries to adapt better to local challenges; it does not guarantee success, however, and must be complemented by other strategic measures. The study emphasizes that MNEs facing global uncertainties prioritize empowering their subsidiaries in emerging markets by granting them increased autonomy, which can lead to both survival and growth in turbulent times.

The third article, titled "Engaging with Geopolitical Uncertainty: Discursive Riskwork and Western MNEs' Divestment Announcements at the Onset of the Ukraine War," by **Mavretić** and **Vangeli** examines geopolitical risk management practices through a thematic analysis of public statements by Western MNEs that announced intentions to divest in response to the Russian invasion of Ukraine. Adopting a discursive riskwork framework, the paper demonstrates how Western MNEs justify and frame their divestment decisions within a novel geopolitical context, highlighting a sense of responsibility, motivations for divestment, divestment modalities, and the anticipated impact. The findings reveal that Western MNEs align their actions with emerging liberal geopolitical norms and values, positioning themselves rhetorically as responsible geopolitical actors. The article proposes a geopolitical riskwork framework that seeks to expand corporate capacities for geopolitical responsibility, moving beyond mere compliance with sanctions and reputation management.

In the fourth article, titled "An Integrative Framework for Coopetition-Based Scenarios," **Budler** develops an integrative framework to help supply chain actors strategically manage coopetition—relationships that involve simultaneous cooperation and competition. Drawing on the resource-based view and game-theoretic approaches, the article identifies various coopetition scenarios based on different levels of resource complementarity and the duration (lastingness) of coopetitive relationships among supply chain actors. This framework deepens the understanding of coopetition dynamics, enabling supply chain actors to sustain mutually beneficial exchanges, engage in effective contingency planning, and enhance resilience across different stages of supply chain networks.

Conclusions and acknowledgments

The four articles in this thematic issue underscore the need for risk management practices to evolve in response to a complex and rapidly changing global environment. Moving away from traditional, rigid models, organizations must adopt more flexible, decentralized, and socially, culturally, and geopolitically responsive strategies. These papers offer valuable insights into achieving this through empowering local decision making, cultural sensitivity, values-driven geopolitical considerations, and strategic coopetition within networks.

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We hope this issue will serve as a valuable resource for scholars, practitioners, and policymakers as they navigate the complexities of the global risk landscape in the years ahead.

Guest Editors

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