

Economic and Business Review

Thematic issue

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

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Background

In recent years, global uncertainties have been steadily increasing. We are witnessing rising geopolitical and sociopolitical risks, environmental challenges, currency volatilities, technological uncertainties and the erosion of the already weak foundations of the post-war multilateral Bretton Woods system (UNCTAD, 2023).

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 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 internationalised European companies (Braito, Ceccanti & Huynh-Olesen, 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, Chen & Cheng, 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).

The global economic and financial crisis of 2008/2009 reminded us that most corporate failures are the result of poor risk management (Rutledge, 2009). It was a painful lesson to understand that none of the tasks of corporate governance is more critical than 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 (RMS) depending on their needs and choices. We currently know that risk indicators have to be linked to a strategy to help managers monitor and evaluate organisational progress towards strategic goals (Arena & Arnaboldi,

2014). Also, the recent revision of the well-known COSO framework (COSO, 2017) highlights the importance of integrating enterprise risk management (ERM) with the company's strategy and performance (Dvorski Lacković et al., 2022). However, studies show that RMS is 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 RMS with strategy, leading to the risk based (strategic) performance management (Smart & Creelman, 2013).

The US-China trade war and rising protectionism, the COVID-19 pandemic, geopolitical tensions and the energy crisis following Russian aggression in Ukraine have further exposed vulnerability to global supply chain disruptions and intensified backshoring, friendshoring (i.e., shifting supply chains to "trusted countries") and decoupling of European companies' value chains (Eppinger et al., 2021). Given current global developments, geopolitical risks are becoming a critical aspect of supply chain risk management. In addition to the general increase in political risk exposure, 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 practises applied differ from market to market. However, in most companies, political risk management is reactive and not linked to ERM (Jones & McCaffrey, 2021). Important questions are how to be proactive, take a cross-functional approach to political risk management and integrate it into ERM.

Given the ambitious goal of making Europe the first climate-neutral continent by 2050, as set out in the European Green Deal, managing climate-related and environmental (C&E) risk becomes central to the adjustment process toward a lower-carbon and more environmentally sustainable economy and to the medium- to long-term resilience of a companies' business model (ECB, 2020). On the one hand, companies need to address exposure to physical risks related to climate change - both extreme weather events and gradual climate changes - as well as environmental degradation, while on the other hand, the adaptation process toward a lower-carbon and more environmentally sustainable economy gives rise to transition risks, e.g., from relatively abrupt adoption of climate and environmental policies, technological advances, or changes in market sentiment and preferences. The latter aspect is a particular challenge for internationalised companies operating in multiple countries, as climate and environmental policies change rapidly and approaches differ between countries.

With multilateralism weakening, companies are increasingly relying 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, and about the benefits and pitfalls of friendshoring and backshoring strategies. These increasing global uncertainties also exacerbate key questions in the VUCA environment: How to manage the trade-offs between risks and opportunities when entering or remaining in foreign markets; how to make decisions about which risks to accept, mitigate, transfer, or reduce; how to measure the success of risk management; how to raise SMEs' awareness of the importance of risk management without discouraging them from entering new markets (Fridgeirsson, Kristjansdottir & Ingason, 2021).

Illustrative Topics

This thematic issue will give preference to papers on risk management approaches and cases of European companies trying to enter or maintain their presence in foreign markets. The scope of this thematic issue includes, but is not limited to, the following aspects of risk management:

- Supply chain risk management
- Challenges of integrating SMEs into global value chains in the age of Industry 4.0.
- Geopolitical risk management and political risk insurance
- Managing economic and financial risks
- Managing C&E (climate-related and environmental), ESG (environmental, social and governance), technological and cultural risks
- Resilience to global systemic risks
- Enterprise risk management (ERM)
- Risk management system and strategy
- The role of regional integration processes in risk management

Submissions of case studies with clear practical implications for balancing risks and opportunities and relating them to strategic decision making are particularly encouraged. Statistical analyses, surveys, mathematical/econometric models, concept papers or literature reviews are also welcome.

Important dates

Submission of proposals: August 31, 2023

Conditional decision on proposals: September 30, 2023

Submission of full papers: February 29, 2024

Revision period: March 2024 to August 2024

Notification of acceptance: October 2024

Expected publication: December 2024

Submission process

Submission of proposals

Proposals (extended abstracts) should be up to 1500 words long and include objectives and research questions, methodological approach, (expected) findings, and contributions.

Proposals should be submitted to Katja Zajc Kejžar (katja.zajc@ef.uni-lj.si) by **August 31, 2023**. The conditional decision on the proposals will be communicated to the authors no later than September 30, 2023.

Submission of full papers

Submissions of full papers must be made via EBR online submission system (Editorial Manager (EM) platform) by **February 29, 2024**. Please indicate that the paper is intended for this thematic issue (select “**Risk management practices Thematic issue**” in the EM: <https://www.editorialmanager.com/ebr/>)

All submissions should be prepared for blind review according to the EBR author guidelines (https://www.ebrjournal.net/home/author_guidelines.html).

Submissions will be subject to the standard journal's double-blind peer-review process.

For questions about the special issue, please contact the guest editors:

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