

# EU-EEU Relations and the Ukraine War

## Political Risks, Changing Perceptions, and Management Responses of MNEs

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# Political Risk

- **Political Risk:**
- “Any occurrence in the international business context where public actions or non-state actors that are active in the host country of the international activities interfere with private international businesses and adversely impact the performance of the international operation.” (Leitner 2017: 29)

# Political Risk Factors

## Geopolitical Risk Factors (MIGA 2015)

### Macropolitical Risk Factors (Robock, 1971; Alon & Martin, 1998)

#### **Internal** (de la Torre et al 1988)

##### **State Capture:**

**Systemic Corruption**  
(Meissner 2017)

**Systemic Favouritism**  
(Meissner 2017)

**Institutional Ambiguity**  
(Meissner 2017)

#### **External** (de la Torre et al 1988)

**Regional, Bilateral  
Conflicts and Diplomatic  
Ties** (Alon & Martin 1998)

**Host country's attitude  
towards international  
companies** (Kobrin 1980)

### Micropolitical Risk Factors (Robock 1971, Alon & Martin 1998)

# Political Risks in Ukraine: Internal vs. External Risks

- **Field Research in Ukraine in 2017:**
- **Internal:**
- Soviet Legacy: Systemic corruption, weak separation of power, dominant bureaucracy, corrupt and non-democratic elites
- State capture/oligarchy: Institutional ambiguity, clientelism and corruption, low guarantee of property rights, dysfunctional judiciary
- **External:**
- Conflict with Russia (Autumn 2021)
- **Focus on Macropolitical Risk and External Risk**

1. EUCON Field Research

Kiev, October 2021

2. Business Monitoring, 2022/2023

# Research Questions, Kiev

Oct. 21

- In what ways are companies confronted with political risks related to competition and conflict in the course of EU-EEU relations?
- How do they perceive the conflict in general?
- How do they manage the risks? How do they evaluate the potential for cooperation?
- Additionally, we were interested in the managers' perceptions of the root causes of the conflict between Russia and the EU as well as their ideas on future cooperation and convergence between EU and the EEU.

# Methodology

- qualitative-interpretive research methodology
- 10 qualitative interviews in Kiev.
- All interview were done anonymously in Kiev in October 2022.
- (1) the manager of a consulting group, (2) the manager of an insurance company, (3) the country representative of an international business association, (4) the manager of a US multinational company, (5) the manager of an Austrian based industry company, (6) the manager of an Austrian agricultural company, (7) the manager of a technology company, (8) the manager of a high-tech company, (9) the executive from a consumer electronics company, (10) the manager of a water-technology company.



# Findings

# Strong Impact of Competition and Conflict on Enterprises

- Due to the fact that all had business both in Ukraine/Russia
- Two biggest risks in case of further conflict escalation: sanctions and reputation risks (Austrian industry company)
- Companies with US relation most prone
- Austrian company from agricultural sector particularly prone to risk constellation, since they just recently closed a huge investment in Russia together with a US joint venture partner
- supply risks that might emerge in a case of further escalation of the conflict between Russia and Ukraine

# Vast Majority did not expect Full-Scale War in October 2021

- Companies were cautious and sceptical, but did not expect any full-scale war
- War as worst-case scenario with devastating effects: must not happen
- Ukraine prone to aggression: „Russia would invade from the North via Chernobyl and reach Kiev in short-time“ (Representative of a business association)
- „For companies that do not want to take the risk, Ukraine is no country for investment“

# Some Companies with some Preparations For War Scenario

- “if there will be war in Ukraine, we will organize our business from Western Ukraine, if the whole country will be conquered, we will manage from Poland” (Austrian insurance company)
- Manager of consumer electronics company said they adapted their organizational structures years ago by separating Russia from other markets in the region to be more independent from the developments in Russia
- manager of a water-technology company said they would focus on Central Asia
- In case of war: “highest priority in such a situation would be to protect our employees, but also to enable production as long as possible” (...) “the Ukrainian workforce is highly committed to continue production under any circumstances”

# External Political Risks gained importance in relation to internal political risks

- In 2017: internal political risks (state capture, legal uncertainty, etc.) most important
- In narratives, internal factors lost significance, despite of failed reforms
- interviewees with a closer personal attachment to the country focused on the positive developments and achievements of Ukraine
- Ukrainian manager of international consulting company praised recent achievements of Ukraine: Russia would be extremely afraid of a successful Ukraine because it will lead Putin into the trap of needing to explain why “people do live wealthier in democracies than under his rule”.

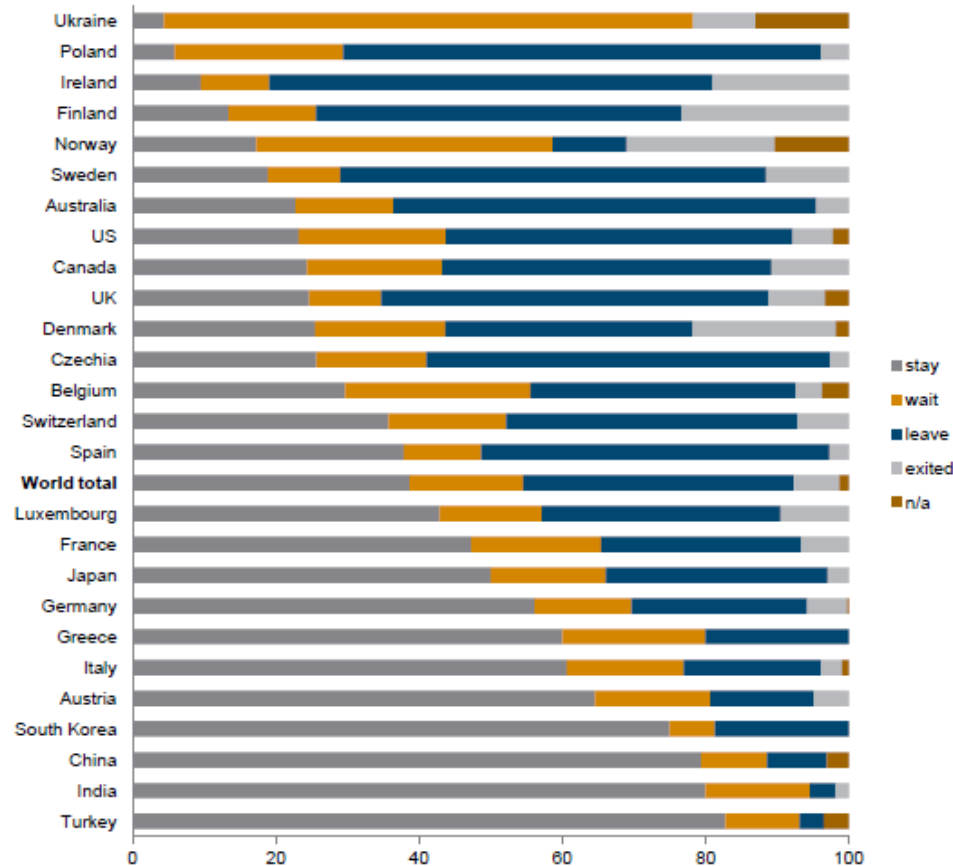
# Root Causes of conflict: Two Competing Narratives

- NATO expansion vs. internal factors of Russia
- Representative of a business association: Putin needs to create an enemy in the West to keep the country from breaking apart. Russia's elite, according to him, is increasingly leaving the country and seeks a brighter future abroad. This is why Putin has been creating the threat of NATO wanting to destroy Russia.

# Business Monitoring 22/23

Figure 1 / Current status of foreign firms in Russia, by country of origin\*

% of total



# Reasons for Staying in Russia

1. **Misperception** of conflict consequences: dimension and length of conflict
  - Wait and see strategy
  - In pole position after war
2. **Companies do not breach sanctions**
3. **Reputation risks low in Austria:** low pressure from public and politics
4. The ones who stayed **face growing difficulties and risks** of expropriation and high losses



- Thank you