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## Corporate Response To The War In Ukraine: Stakeholder Governance Or Stakeholder Pressure?

Anete Pajuste

*Stockholm School of Economics in Riga*, [apajuste@law.harvard.edu](mailto:apajuste@law.harvard.edu)

Anna Toniolo

*Harvard Law School*, [atoniolo@law.harvard.edu](mailto:atoniolo@law.harvard.edu)

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## **CORPORATE RESPONSE TO THE WAR IN UKRAINE: STAKEHOLDER GOVERNANCE OR STAKEHOLDER PRESSURE?**

*Anete Pajuste*\*

*Anna Toniolo*\*\*

### ABSTRACT

*This Article empirically investigates the corporate response to the Russian invasion of Ukraine in the framework of the stakeholder capitalism debate. Some describe corporate leaders' decision to withdraw from Russia as an example of stakeholder governance, maintaining that they placed social responsibility over profits. Others question the authenticity of corporate support for Ukraine and argue that companies left Russia mainly driven by operational and reputational concerns.*

*Against this backdrop, we conduct an empirical study of reactions to the outbreak of the war from companies in the S&P500 and STOXX600 indices. We explore whether managers effectively decided mostly on ethical and moral grounds, or whether perhaps there was another possible channel. In particular, we focus on assessing the role played by stakeholder pressure exercised on companies to leave Russia.*

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\* Professor of Finance at the Stockholm School of Economics in Riga; Visiting Senior Fellow at the Program on Corporate Governance, Harvard Law School; Research Member, ECGI. E-mail: apajuste@law.harvard.edu.

\*\* Postdoctoral Fellow at the Program on Corporate Governance, Harvard Law School. E-mail: atoniolo@law.harvard.edu.

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*First, we examine whether revenue exposure to Russia was associated with the corporate decision to withdraw or suspend Russian activities, and the speed of the decision's announcement. The findings indicate that firms which quickly announced their withdrawal from Russia actually had little revenue exposure to the country. Furthermore, we conduct a Twitter-based test of the virality of boycott campaigns and examine their relationship with managers' decision to take positive action in supporting Ukraine and exiting Russia. Our analysis shows that the decision to withdraw from Russia is significantly positively associated with boycott campaigns. Finally, our research underscores important differences across market sizes. The smallest companies in our sample (mid-cap companies) are on average the most exposed to the Russian economy, whereas the Twitter boycott campaigns concentrated markedly on bigger firms (large and mega-cap firms).*

*Overall, the evidence presented in this paper suggests that corporate leaders tend to promote stakeholder interests when they face potential reputational damage that could affect shareholder wealth, or when it represents a good marketing move, so called "woke-washing". The analysis also supports and reinforces the view that pressure from stakeholders – magnified by the use of social media – can successfully influence the corporate decision to pursue certain social goals and not only profits. However, our results highlight how size matters in the stakeholder capitalism debate. Stakeholder pressure on management can be an important and effective factor in achieving a socially desirable outcome, but it tends to focus on large, high-profile companies, while other market participants are left free to operate without this meaningful managerial constraint.*

#### TABLE OF CONTENTS

INTRODUCTION .....	3
I. STAKEHOLDER GOVERNANCE .....	9
A. <i>Evolution of the Debate</i> .....	9
B. <i>Current Status of the Debate</i> .....	12
C. <i>A New Test of Stakeholder Governance</i> .....	15
II. CORPORATE RESPONSE TO THE RUSSIAN INVASION .....	16
A. <i>Impact of the Sanctions</i> .....	16
1. <i>Sanctions Imposed by the USA</i> .....	17
2. <i>Sanctions Imposed by the EU</i> .....	19
3. <i>Russian Retaliation</i> .....	21
4. <i>Impact on Western Businesses</i> .....	22
B. <i>Public Pressure</i> .....	22

1. <i>Political Pressure</i> .....	22
2. <i>Boycott Campaigns</i> .....	24
3. <i>Yale School of Management (SOM) List</i> .....	25
4. <i>Stock Prices</i> .....	26
C. <i>Corporate Reactions</i> .....	27
1. <i>Different Responses</i> .....	27
2. <i>Different “Justifications”</i> .....	29
III. <i>EMPIRICAL ANALYSIS</i> .....	31
A. <i>Sample Descriptive Statistics</i> .....	32
B. <i>Boycott Campaigns on Twitter</i> .....	35
C. <i>Speed of Announcement</i> .....	36
D. <i>Boycott Campaign Virality and Withdrawal from Russia</i> .....	42
IV. <i>CONTRIBUTIONS AND IMPLICATIONS</i> .....	49
A. <i>Risks of “Woke-Washing”</i> .....	49
B. <i>Stakeholder Pressure</i> .....	51
C. <i>“Stakeholder Governance Gap”</i> .....	52
CONCLUSIONS .....	53

## INTRODUCTION

Since the Russian invasion of Ukraine on February 24, 2022, hundreds of Western companies have taken the unprecedented step of withdrawing from Russia. Some have suggested that corporate reaction to the war represents “a dramatic example of stakeholder capitalism in action.”<sup>1</sup>

Currently, a heated debate revolves around “stakeholderism” and the need for companies to be managed for the benefit of a broader set of stakeholders and not solely with the goal of maximizing profits. Advocates of stakeholder governance view the political process as incapable of addressing corporate externalities; hence they rely on the discretion of managers to make business decisions that increase stakeholder welfare. Among stakeholderism supporters, different views are expressed on how to advance stakeholder interests. Some posit that addressing social and environmental concerns is not detrimental to shareholder value, but to the contrary, it is essential for maximizing long-term shareholder wealth. Others believe that stakeholder interests should be

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<sup>1</sup> Jamie Gamble, *Putting ESG in Action Starts with the G*, FORTUNE MAG (Apr. 20, 2022, 5:45 AM), <https://fortune.com/2022/04/20/esg-sec-cyber-environment-leadership-corporate-governance-investing-jamie-gamble/>.

considered, regardless of the effect on shareholder value, and they entrust corporate leaders with weighing and balancing the constituencies involved.<sup>2</sup> Critics of stakeholderism argue that stakeholder interests present many trade-offs that are hard to resolve, and that leaving corporate leaders without a standard for choosing among competing interests simply insulates them from accountability. They also claim that corporate leaders lack incentives to serve stakeholders beyond what would serve shareholder value, and that negative externalities should be left to governments.<sup>3</sup> According to a different approach, the shareholder primacy/stakeholder governance frame does not fully account for the important and widespread shift that has recently occurred in the economic and social preferences of stakeholders, which are now demanding to see their social and political values accommodated in the marketplace. In this view, managers' choice and protection of stakeholder interests is the result of increasing pressure on companies from several stakeholder groups to act in a more socially responsible manner.<sup>4</sup>

Considering the corporate reaction to the war in Ukraine within this conceptual framework, supporters of stakeholder governance claim that top executives decided to divest Russian assets and partnerships to sever ties with the aggressor's regime, placing social responsibility over profits.<sup>5</sup> However, other factors might have played a role in the decisive corporate response to the invasion of Ukraine. The severe economic sanctions imposed on Russia have created a hostile environment for businesses to operate in, and Russian retaliation has specifically targeted foreign companies, threatening to nationalize their assets.<sup>6</sup> Additionally, employees, customers and politicians have put companies under enormous pressure to exit Russia.<sup>7</sup> Public campaigns have proved particularly effective after the publication by Yale University management professor Jeffrey Sonnenfeld of a list tracking corporate activity in the aftermath of the invasion of Ukraine. The goal of the list is to push every corporation to publicly commit to leaving Russia, encouraging boycotts of those companies that defy pressure to do so.<sup>8</sup> Finally, research based on the list shows

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<sup>2</sup> See *infra* sources cited notes 18-19, 36.

<sup>3</sup> See *infra* sources cited notes 37-39.

<sup>4</sup> See *infra* sources cited note 40.

<sup>5</sup> Peter Essele, *The Russian Invasion of Ukraine: A Lesson in Stakeholder Capitalism?*, HARV. L. SCH. F. ON CORP. GOVERNANCE (Mar. 16, 2022), <https://corpgov.law.harvard.edu/2022/03/16/the-russian-invasion-of-ukraine-a-lesson-in-stakeholder-capitalism/>.

<sup>6</sup> See *infra* Section III.A.

<sup>7</sup> See *infra* Section III.B.

<sup>8</sup> Jeffrey Sonnenfeld & Steven Tian, *Some of the Biggest Brands Are Leaving Russia. Others Just Can't Quit Putin. Here's a List.*, N.Y. TIMES (Apr. 7, 2022), <https://www.nytimes.com/interactive/2022/04/07/opinion/companies-ukraine-boycott.html> (“ Our goal is

that financial markets are also punishing companies identified as remaining in Russia, while rewarding those that withdraw.<sup>9</sup> Therefore, the authenticity of corporate support for Ukraine has been questioned, with some seeing the announcement to exit Russia either as a marketing decision to attract positive attention from customers and investors, or as a response to acute pressure from multiple stakeholders.<sup>10</sup>

This article examines the corporate response to the Russian invasion of Ukraine through the lens of the stakeholder governance debate. We empirically investigate whether corporate leaders' decision to withdraw business from Russia was adopted according to a stakeholder approach. Under the stakeholder governance hypothesis, company executives were mainly driven by their ethical judgements, wanting to condemn Putin's assault and to promote peace in Ukraine, even at the cost of deviating from shareholder interests. The alternative hypothesis posits the existence of a different possible channel, such as firms' exposure to Russia or operational and reputational risks. Our focus is particularly on the role of stakeholder pressure – exercised through social media boycott campaigns – in influencing firms' decisions.

To test the two hypotheses, we begin by conducting a detailed analysis of the different corporate reactions to the outbreak of the war, to see if it suggests a pattern of stakeholder governance.

First, we review the different channels that impacted Western businesses operating in Russia. The array of sanctions imposed on Russia, while allowing most Western firms to continue their business in Russia, created certain operational difficulties. Additionally, companies that decided to stay in Russia started to face mounting pressure from multiple stakeholders. Both the USA and the EU have witnessed an extraordinary public consensus over supporting Ukraine and sanctioning Russia with severe economic measures. This public support has translated into political pressure on Western companies to leave Russia in order to avoid benefitting the Russian economy. People worldwide have also used social media to monitor and punish companies that kept doing business with Russia. Finally, the stock market also seemed to reward companies that left Russia while penalizing those that stayed.

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absolute, and some might even say extreme: Every corporation with a presence in Russia must publicly commit to a total cessation of business there . . . Americans who are sickened by businesses' indifference to the bloodshed can make their voices heard: If the companies won't boycott Russia, boycott the companies.”)

<sup>9</sup> Jeffrey Sonnenfeld et. al., It Pays for Companies to Leave Russia (May 18, 2022) (unpublished manuscript) (on file with SSRN), <https://dx.doi.org/10.2139/ssrn.4112885>.

<sup>10</sup> See *infra* sources cited note 52.

Second, we document the different measures taken by Western corporations in response to the assault on Ukraine: some companies promptly made a clean break, some only suspended a significant or a minor portion of their business in Russia, while others largely continued to operate as before. Furthermore, we report the range of different public statements that corporate leaders released to explain the reasons behind their response. Interestingly, we notice that they referred to the interests of stakeholders both whether announcing their decision to leave Russia or whether making the opposite decision to stay.

Then, we proceed with our empirical analysis.

First, we present the descriptive statistics of our sample, which consists of the companies included in the S&P 500 and STOXX 600 indices as of February 23, 2022. We use FactSet's Geographic Revenue Exposure (GeoRev) as a proxy for companies' exposure to Russia. We collect all tweets (including retweets) related to boycott campaigns against our sample companies during the 60-day period after the Russian invasion of Ukraine. With respect to the speed of company announcements, we extract the announcement dates from the designated project page at the Yale School of Management. Finally, we split the companies by size, distinguishing between mega-cap firms, large-cap firms, and mid-cap firms.

Second, we discuss the relationship between company revenue exposure to Russia and the speed of the announcement to withdraw or suspend Russian operations. The findings show that the average exposure to Russia of early announcers is smaller than that of the non-early movers.

Next, we design a Twitter-based estimate of boycott campaign virality and relate this estimate to the potential impact on company actions with respect to leaving or staying in Russia. The results show a significant positive association between firm-specific boycott campaign virality and the decision to withdraw from Russia.

Finally, we find that the smallest companies from our sample (mid-cap companies) are on average the most exposed to the Russian economy, while Twitter boycott campaigns concentrated mainly on bigger firms (large and mega-cap firms).

The implications of our results for the stakeholder governance debate are threefold.

First, the empirical evidence showing that corporations quickly took a stance in leaving Russia when they had little financial exposure suggests an attempt by

some corporate leaders to engage in so-called “woke-washing”, which is defined as “appropriating the language of social activism into marketing materials.”<sup>11</sup> These “marketing” moves likely pushed other firms with larger exposure and higher shareholder value at stake to make an announcement perhaps earlier than they would have wished, given the complexity of the situation. The empirical intuition is confirmed by our review of the corporate response to the military assault. Despite exceptional public consensus over supporting Ukraine by sanctioning Russia, references to the interests of stakeholders were made by managers to justify not only the decision to leave Russia – consistent with public opinion and the rationale of the sanctions, namely to thwart Russian abilities to finance the war – but also the opposite decision: to stay in Russia. For instance, some companies chose to continue operations in Russia – disregarding the risk of undermining the premises of their governments’ sanctions – claiming the need to supply essential goods to the population, but then labeled as “essential” products that clearly could not serve that function. Other corporate behaviors cast doubt on the authenticity of concern for stakeholders, such as the example of JPMorgan Chase and Goldman Sachs, which continued to trade Russian debt after they announced their withdrawal from Russia.<sup>12</sup> Overall, evidence from the corporate reaction to the invasion of Ukraine supports the view that corporate leaders tend to prioritize social objectives not for the purpose of attaining those social objectives, but when they believe it maximizes returns.

Second, Twitter-based “virality” measures reveal the essential role that the boycott campaigns played in convincing companies to cut ties with Russia. The findings contribute to the literature on corporate boycotting, highlighting their effectiveness in pushing companies to pursue social goals in terms of communicating about people’s social preferences. Moreover, the empirical evidence supports and reinforces the hypothesis that stakeholder pressure on managers to respond to their social preferences can orient business decision-making. It also shows that academic work such as the Yale SOM list can amplify the effectiveness of stakeholder pressure. However, we underscore the exceptionality of the extraordinary public and bipartisan consensus that we witnessed in the context of the war in Ukraine. When conflicts arise between competing social values, the risk is that corporate leaders will resolve them not to maximize social welfare, but in favor of stakeholders that have more leverage

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<sup>11</sup> Erin Dowell & Marlette Jackson, “Woke-Washing” *Your Company Won’t Cut It*, HARV. BUS. REV. (Jul. 27, 2020), <https://hbr.org/2020/07/woke-washing-your-company-wont-cut-it>. See also A. J. Chen et. al., *Beyond Shareholder Value? Why Firms Voluntarily Disclose Support for Black Lives Matter* 1-65 (Rsch. Collection Sch. Acct., Working Paper, Identifier 10.2139/ssrn.3921985, 2021), [https://ink.library.smu.edu.sg/soa\\_research/1952..](https://ink.library.smu.edu.sg/soa_research/1952..)

<sup>12</sup> See *infra* Section III.C.2.



in a particular situation. Therefore, we argue that stakeholder pressure is an effective instrument to promote more responsible management, but it can only complement and not substitute stakeholder-protecting regulation.

Third, our empirical analysis sheds light on the importance of market size in the stakeholderism debate. On the one hand, the Twitter-based measure of boycott campaign virality shows that stakeholders concentrated significantly less on smaller companies. On the other hand, the sample descriptive statistics report that revenue exposure to Russia is significantly higher among smaller firms. In the framework of the sanctions – aimed at weakening the Russian government’s ability to finance the war – companies with larger exposure that continue to operate in Russia are those potentially more helpful for the Russian economy and, in turn, more harmful for Western governments’ strategy to stop the war. We argue that significant differences across market sizes highlighted by our research might reflect the existence of a “Stakeholder Governance Gap.”<sup>13</sup> Stakeholders are most focused and willing to pressure large and high-profile firms, while smaller public companies are less scrutinized. Therefore, corporate leaders of smaller cap companies are left free to operate without this important managerial constraint, even when they can be as harmful for society as bigger companies.

The remainder of the Article is structured as follows.

Part II surveys the debate on stakeholder capitalism. We begin by summarizing how the dispute about for whom a corporation should be managed has evolved over the years, distinguishing between shareholder primacy and the stakeholder approach. We then proceed to discuss the current focus of the debate on managers’ role in protecting stakeholders, and increasing stakeholder pressure on companies to act responsibly. Finally, we explain why analyzing the corporate response to the Russian invasion could inform the debate on stakeholder governance.

Part III provides a descriptive account of companies’ reaction to the war in Ukraine. We first investigate all the factors that might have impacted corporate leaders’ decision-making: sanctions inflicted on the Russian economy, Russian retaliation against businesses, public pressure, and the stock market reaction. We then document the different corporate responses – with different levels, timing,

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<sup>13</sup> See generally Kobi Kastiel & Yaron Nili, *The Corporate Governance Gap*, 131 Yale L. J. (forthcoming 2022) (terming “Corporate Governance Gap” as the stark corporate governance gap found between large and small corporations, with the latter adopting governance arrangements less systematically and often significantly departing from norms set by the former).

and strategies for withdrawal from Russia – and the different explanations that corporate leaders gave to justify their decisions.

Part IV contains our empirical analysis of the companies included in the S&P500 and STOXX600 indices. We examined both revenue exposure to Russia and external pressure from stakeholder networks to assess whether they are associated with companies' response to the military assault. Our findings show that the companies which first announced they were to leave Russia were less exposed to the aggressor country; and that a correlation existed between boycott campaigns against businesses and their announcements to exit Russia. Our study also shows significant differences based on firm size. The smallest size category (mid-cap companies) presents on average the largest revenue exposure to Russia, but at the same time received the least attention from Twitter boycott campaigns.

Part V discusses the implications of our results for the stakeholder governance debate. Taken together, our results, on the one side, suggest that the discretion of corporate leaders in taking into account ethical concerns poses risks of “woke-washing,” that is, using social activism as a marketing tool to obtain positive returns. On the other side, the findings confirm that pressure from stakeholders can influence the corporate decision to act in a responsible way and not only for maximization of shareholder profits. However, our research also sheds light on the importance of company size, suggesting a “Stakeholder Governance Gap.” The smaller companies in our sample were significantly less scrutinized by the Twitter boycott campaigns, despite being the most exposed to Russia and hence potentially the most beneficial for the Russian economy, which is the target of Western strategy to stop the war.

Part VI briefly presents our conclusions.

## I. STAKEHOLDER GOVERNANCE

### A. *Evolution of the Debate*

In the last few years, the hottest debate in corporate governance has been whether corporations should be managed not solely for shareholders' profits, but also in the interests of other stakeholders.

The question “For whom is the corporation managed?” is one of the oldest in corporate law.<sup>14</sup> In the 1930s, Professors Berle and Dodd discussed this question in the *Harvard Law Review*,<sup>15</sup> the first arguing that management powers are exercisable only for the benefit of shareholders,<sup>16</sup> the second asserting that corporations should also serve a social purpose.<sup>17</sup> In the post-war era, the traditional and prevailing position has been that the purpose of the corporation is to maximize shareholder wealth (so-called “shareholder primacy”).<sup>18</sup> Yet, at the same time, a number of prominent authors have continued to express their support for the opposing theory, the so-called “stakeholder theory,” according to which the corporation must balance the interest of all its stakeholders.<sup>19</sup>

Recently, however, the long-simmering debate on corporate purpose has become mainstream in both academic and practical discourse, reaching a turning point. In addition to law and business academics,<sup>20</sup> high profile business leaders, lawyers, judges and politicians have all weighed in. In 2018, Larry Fink – CEO of BlackRock, the world’s largest asset manager – issued a letter to all CEOs exhorting them to pursue a social purpose, benefiting all of their stakeholders.<sup>21</sup>

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<sup>14</sup> Edward B. Rock, *For Whom Is the Corporation Managed in 2020? The Debate over Corporate Purpose*, 76 *BUS. LAW.* 363, 363 (2021).

<sup>15</sup> See Adolf A. Berle, Jr., *Corporate Powers as Powers in Trust*, 44 *Harv. L. Rev.* 1049 (1931); E. Merrick Dodd, Jr., *For Whom Are Corporate Managers Trustees?*, 45 *Harv. L. Rev.* 1145 (1932).

<sup>16</sup> See Berle, *supra* note 14, at 1049 (“All powers granted to a corporation or to the management of the corporation . . . are . . . at all times exercisable only for the ratable benefit of the shareholders.”).

<sup>17</sup> See Dodd, *supra* note 14, at 1147-1148 (“Public opinion, which ultimately makes law, has made and is today making substantial strides in the direction of a view of the business corporation as an economic institution which has a social service as well as a profit-making function.”).

<sup>18</sup> See Milton Friedman, *A Friedman doctrine-- The Social Responsibility Of Business Is to Increase Its Profits*, *N.Y. TIMES*, September 13, 1970, at SM17 (“There is one and only one social responsibility of business – to . . . increase its profits.”); MILTON FRIEDMAN & ROSE D. FRIEDMAN, *CAPITALISM AND FREEDOM* (1962); See also FRANK H. EASTERBROOK & DANIEL R. FISCHEL, *THE ECONOMIC STRUCTURE OF CORPORATE LAW* 36-37 (1991); Michael C. Jensen & William H. Meckling, *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure* 3 *J. OF FIN. ECON.* 305 (1976).

<sup>19</sup> Margaret M. Blair & Lynn A. Stout, *A Team Production Theory of Corporate Law*, 85 *Va. L. Rev.* 247 (1999); Einer Elhauge, *Sacrificing Corporate Profits in the Public Interest*, 80 *N.Y.U. L. Rev.* 733 (2005); R. Edward Freeman, *Strategic Management: A Stakeholder Approach* (2nd ed. 2010); Lynn A. Stout, *The Shareholder Value Myth*, *Cornell Law Faculty Publications*, Apr. 19, 2013, Paper No. 771; Simon Deakin, *The Corporation as Commons: Rethinking Property Rights, Governance and Sustainability in the Business Enterprise*, 37 *Queen’s L.J.* 339 (2012).

<sup>20</sup> See, e.g., COLIN MAYER, *PROSPERITY: BETTER BUSINESS MAKES THE GREATER GOOD* (2018); ALEX EDMANS, *GROW THE PIE: CREATING PROFIT FOR INVESTORS AND VALUE FOR SOCIETY* (2020); REBECCA HENDERSON, *REIMAGINING CAPITALISM IN A WORLD OF FIRE* (2020); Leo E. Strine Jr., *Restoration: The Role Stakeholder Governance Must Play in Recreating a Fair and Sustainable American Economy: A Reply to Professor Rock*, 76 *BUS. LAW.* 397 (2021).

<sup>21</sup> See Larry Fink, *Larry Fink’s 2018 Letter to CEOs: A Sense of Purpose*, *BLACKROCK CORPORATE WEBSITE* (2018), <https://www.blackrock.com/corporate/investor-relations/2018-larry-fink-ceo-letter> (“Society

In August 2019, the Business Roundtable (the “BRT”) – an influential organization of CEOs of major companies – issued a new “Statement on the Purpose of a Corporation”, signed by 181 CEO members.<sup>22</sup> The new statement committed to deliver value not just to shareholders, but to all stakeholders,<sup>23</sup> in sharp contrast with the previous long-standing BRT statement that explicitly embraced shareholder primacy.<sup>24</sup> Despite being mostly aspirational, the BRT statement was largely viewed as a major shift for corporate America.<sup>25</sup> Following the BRT, in December 2019 the World Economic Forum published the “Davos Manifesto 2020: The Universal Purpose of a Company in the Fourth Industrial Revolution”, seeking to mandate that all corporations have the purpose of creating value for the benefit of all their stakeholders.<sup>26</sup> In the corporate community, Martin Lipton – a distinguished corporate lawyer, founding partner of the law firm Wachtell, Lipton, Rosen & Katz – in a series of

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is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.”).

<sup>22</sup> Business Roundtable, *Statement on the Purpose of a Corporation* (Aug. 19, 2019), <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>.

<sup>23</sup> *Id.* (“Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country.”).

<sup>24</sup> See Business Roundtable, *Statement on Corporate Governance* (September 1997), <http://www.ralphgomory.com/wp-content/uploads/2018/05/Business-Roundtable-1997.pdf>. (“In The Business Roundtable’s view, the paramount duty of management and of boards of directors is to the corporation’s stockholders; the interests of other stakeholders are relevant as a derivative of the duty to stockholders. The notion that the board must somehow balance the interests of stockholders against the interests of other stakeholders fundamentally misconstrues the role of directors.”).

<sup>25</sup> See Lucian A. Bebchuk & Roberto Tallarita, *The Illusory Promise of Stakeholder Governance*, 124 CORNELL L. REV. 91 (2020) (describing how the new BRT statement was portrayed by media observers “as a major milestone and a significant turning point.” The Authors instead argue, “the BRT statement should be viewed as mostly for show rather than the harbinger of a major change.”); See e.g. Luigi Zingales, *Don’t Trust CEOs Who Say They Don’t Care About Shareholder Value Anymore*, WASH. POST (Aug., 20, 2019), <https://www.washingtonpost.com/opinions/2019/08/20/dont-trust-ceos-who-say-they-dont-care-about-shareholder-value-anymore/>; Jesse Fried, *The Roundtable’s Stakeholderism Rhetoric Is Empty, Thankfully*, HARV. L. SCH. F. ON CORP. GOVERNANCE (Nov. 22, 2019), <https://corpgov.law.harvard.edu/2019/11/22/the-roundtables-stakeholderism-rhetoric-is-emptythankfully/>; Luca Enriques, *The Business Roundtable CEOs’ Statement: Same Old, Same Old*, PROMARKET (Sept. 2019), <https://promarket.org/the-business-roundtable-ceos-statement-same-old-same-old/>; Luca Enriques, *The Business Roundtable CEOs’ Statement: Same Old, Same Old*, PROMARKET (Sept. 2019), <https://promarket.org/the-business-roundtable-ceos-statement-same-old-same-old/>.

<sup>26</sup> World Economic Forum Davos Manifesto 2020, *The Universal Purpose of a Company in the Fourth Industrial Revolution* (Dec. 2, 2019), <https://www.weforum.org/agenda/2019/12/davos-manifesto-2020-the-universal-purpose-of-a-company-in-the-fourth-industrial-revolution/>: (“The purpose of a company is to engage all its stakeholders in shared and sustained value creation. In creating such value, a company serves not only its shareholders, but all its stakeholders – employees, customers, suppliers, local communities and society at large.”).

memos and articles attacked “shareholder primacy” and declared “the advent of stakeholder governance.”<sup>27</sup> The questions of “corporate purpose” and “shareholder primacy” have also become prominent among politicians and policymakers both in the USA and in the EU, resulting in various policy proposals that somehow require directors to make decisions in the best interests of all corporate stakeholders, not only of shareholders.<sup>28</sup>

### B. *Current Status of the Debate*

Behind the growing support for stakeholderism, serious and widespread concerns undoubtedly lurk about the adverse effects that corporations impose on stakeholders, such as employees, customers, local communities and the environment.<sup>29</sup> Large companies are powerful social and political institutions.<sup>30</sup> They employ the majority of the workforce, produce goods and services that consumers depend on, affect the environment we live in,<sup>31</sup> and considerably

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<sup>27</sup> See Martin Lipton, Steven A. Rosenblum & Karessa L. Cain, *Thoughts for Boards of Directors in 2020*, HARV. L. SCH. F. ON CORP. GOVERNANCE (Dec. 10, 2019), <https://corpgov.law.harvard.edu/2019/12/10/thoughts-for-boards-of-directors-in-2020/>. See also Martin Lipton, *The American Corporation in Crisis—Let’s Rethink It*, Oct. 2, 2019; Martin Lipton, Wachtell, Lipton, Rosen & Katz, *Further on the Purpose of the Corporation*, HARV. L. SCH. F. ON CORP. GOVERNANCE (July 20, 2021), <https://corpgov.law.harvard.edu/2021/07/20/further-on-the-purpose-of-the-corporation/>.

<sup>28</sup> See: Elizabeth Warren, *Accountable Capitalism Act*, 115th Congress (2017-2018) S. 3348; See Elizabeth Warren, *Companies Shouldn’t Be Accountable Only to Shareholders*, WALL ST. J. (Aug. 14, 2018), <https://www.wsj.com/articles/companies-shouldnt-be-accountable-onlyto-shareholders-1534287687>; Bernie Sanders *Corporate Accountability and Democracy Plan*, ; and Marco Rubio, *American Investment in the 21st Century* (May 15, 2019), <https://senatormarcorubio.medium.com/american-investment-in-the-21st-century-c915bf48c860>. At the EU level, see European Commission, *Sustainable Corporate Governance*, Inception Impact Assessment, Initiative, July 30, 2020. <https://berniesanders.com/issues/corporate-accountability-and-democracy/>; See Marco Rubio, *American Investment in the 21st Century* (May 15, 2019), <https://senatormarcorubio.medium.com/american-investment-in-the-21st-century-c915bf48c860>. (Describing the EU level); See European Commission, *Sustainable Corporate Governance*, Inception Impact Assessment, Initiative, July 30, 2020. . (Describing the EU level); See European Commission, *Sustainable Corporate Governance*, Inception Impact Assessment, Initiative, July 30, 2020.

<sup>29</sup> See Larry Kramer, *Beyond Neoliberalism The Problem and Possibilities for Rethinking Political Economy* (April 26, 2018), <https://www.law.nyu.edu/sites/default/files/Beyond%20Neoliberalism%20by%20Larry%20Kramer.pdf>; See *A New Deal for this New Century: Making Our Economy Work for All*, NYU LAW (October 3–4, 2019), <https://www.law.nyu.edu/centers/icgf/events/new-deal-new-century..>

<sup>30</sup> Kelly Y. Testy, *Linking Progressive Corporate Law with Progressive Social Movements*, 76 TUL. L. REV. 1227 (2002) (identifying the Church, the State and the Corporation as the only structures able to assure that power is deployed in the service of individual and societal flourishing. The Author states that corporations are rivaling (“the state, and certainly the church, in institutional power and influence.”).

<sup>31</sup> Leo E. Strine, Jr., *Toward Fair and Sustainable Capitalism: A Comprehensive Proposal to Help American Workers, Restore Fair Gainsharing between Employees and Shareholders, and Increase American Competitiveness by Reorienting Our Corporate Governance System toward Sustainable Long-Term Growth and Encouraging Investments in America’s Future*, 19-39 UNIV. OF PA. INST. FOR L. & ECON., RSCH. PAPER SERIES (2019), <https://ssrn.com/abstract=3462454>.

influence the political process and public policy discourse.<sup>32</sup> In a time of climate change, racial injustice, and unprecedented economic inequality, a large consensus maintains that corporations contribute to these societal problems, imposing significant negative externalities on employees, communities, consumers, and the environment.

Despite recognition of the need for corporations to internalize the cost of the externalities that threaten the environment and society, the *how* question unveils significant differences of opinion.<sup>33</sup> Currently, in the corporate governance domain, the main focus of the debate is on the role of managerial power in protecting stakeholders.

Stakeholderism encompasses different versions.<sup>34</sup> Some regard stakeholders' welfare as an end in itself, independently of its effect on the welfare of shareholders.<sup>35</sup> Others consider stakeholder interests in the belief that doing so would advance the goal of maximizing long-term shareholder profit.<sup>36</sup> Despite the differences, the common denominator is the idea that, in making business decisions, corporate leaders should take into account the well-being of stakeholders, rather than just shareholders.<sup>37</sup>

Critics of stakeholderism respond that inevitable and pervasive trade-offs exist between and among stakeholders, and having the directors deciding which interests to prioritize would suffer from the problem of political "legitimacy."<sup>38</sup> They add that managers have no incentives to promote stakeholder interests beyond what would serve shareholder value, so that stakeholder governance would hardly produce significant benefits for stakeholders.<sup>39</sup> To the contrary,

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<sup>32</sup> Roberto Tallarita, *Stockholder Politics*, 73 HASTINGS LAW JOURNAL 1617, 1630, 1660 (2021).

<sup>33</sup> Ruggie, John Gerard, Caroline Rees, & Rachel Davis, *Making 'Stakeholder Capitalism' Work: Contributions from Business and Human Rights* (HKS Faculty Research Working Paper Series RWP20-034, November 2020).

<sup>34</sup> See Bebchuk & Tallarita, *The Illusory Promise of Stakeholder Governance*; *supra* note 24, at 108. (Describing an analysis of the different approaches).

<sup>35</sup> See, e.g., Mayer; *supra* note 19.

<sup>36</sup> See, e.g., Alex Edmans, *Grow the Pie: Creating Profit for Investors and Value for Society*; *supra* note 19.

<sup>37</sup> See Einer R. Elhauge, Essay, *The Inevitability and Desirability of the Corporate Discretion to Advance Stakeholder Interests*, 106 CORNELL L. REV. 1819 (2022); Martin Lipton et. al., *Stakeholder Governance and the Fiduciary Duties of Directors*, HARVARD L. SCHOOL FORUM ON CORP. GOV. (August 24, 2019), <https://corpgov.law.harvard.edu/2019/08/24/stakeholder-governance-and-the-fiduciary-duties-of-directors/>; Martin Lipton et. al., *It's Time To Adopt The New Paradigm*, WACHTELL, LIPTON, ROSEN & KATZ (Feb. 11, 2019), <https://www.wlrk.com/webdocs/wlrknew/ClientMemos/WLRK/WLRK.26357.19.pdf>.

<sup>38</sup> See Rock; *supra* note 13.

<sup>39</sup> See Bebchuk & Tallarita, *The Illusory Promise of Stakeholder Governance*; *supra* note 24; Jill E. Fisch & Steven Davidoff Solomon, *Should Corporations Have a Purpose?*, 99 TEX. L. REV. 1309 (2021).

critics claim it could end up being harmful, since it would lead to further management entrenchment and would preempt legislative and regulatory reforms that would truly protect stakeholders.<sup>40</sup>

There is also a third view suggesting that the shareholder-stakeholder frame does not fully account for rising bottom-up stakeholder pressure on firms to act responsibly.<sup>41</sup> According to this view, managers' ESG governance is the response to acute social pressures from stakeholders with real leverage – these might be consumers, employees, shareholders – whose primary concern is not the stock price of the company.<sup>42</sup> Stakeholders can push firms to act in a socially responsible manner either by exercising their exit option (divestment and boycott), or by using their voice (vote or engagement with management).<sup>43</sup> Voice is normally the preferable strategy to pressure companies to pursue social goals, but exit campaigns are considered the most effective instrument in terms of informing and changing people's social preferences.<sup>44</sup> The reason is that corporate boycotts succeed by affecting companies' reputation in the media rather than demand for their products.<sup>45</sup> In recent years, several stakeholder initiatives have been able to impact on corporate governance. For instance, one of the authors of this paper found that strong multichannel pressure from investors, consumers, employees and regulators after the 2020 Black Lives Matter protests boosted the racial diversity of US corporate boardrooms.<sup>46</sup> Also

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<sup>40</sup> See Bebchuk & Tallarita, *The Illusory Promise of Stakeholder Governance*, *supra* note 24; See also Matteo Gatti & Chrystin D. Ondersma, *Can a Broader Corporate Purpose Redress Inequality? The Stakeholder Approach* *Chimera* 46 J. CORP. L. 102 (2020).

<sup>41</sup> See Michal Barzuza, et. al., *The Millennial Corporation: Strong Stakeholders, Weak Managers* (September 6, 2021), <https://ssrn.com/abstract=3918443>; Eleonora Broccardo, et. al., *Exit vs. Voice* (European Corp. Governance Inst., Finance Working Paper, Paper No. 694/2020 n. 3), [http://ssrn.com/abstract\\_id=3671918](http://ssrn.com/abstract_id=3671918) (“Our approach should not be confused with what Bebchuk and Tallarita (2020) call ‘stakeholderism’. Stakeholderism refers to a situation where, in making business decisions, corporate leaders take into account the well-being of stakeholders (rather than just shareholders). In contrast, we are interested in analyzing how various stakeholders (including shareholders) can persuade companies to act in a more socially responsible manner.”). (“Our approach should not be confused with what Bebchuk and Tallarita (2020) call ‘stakeholderism’. Stakeholderism refers to a situation where, in making business decisions, corporate leaders take into account the well-being of stakeholders (rather than just shareholders). In contrast, we are interested in analyzing how various stakeholders (including shareholders) can persuade companies to act in a more socially responsible manner.”).

<sup>42</sup> Barzuza, et.al., *supra* note 40.

<sup>43</sup> See Eleonora Broccardo, Oliver Hart & Luigi Zingales, *supra* note 40.

<sup>44</sup> *Id.*

<sup>45</sup> *Id.*; See also Liaukonyte et al., *Spilling the Beans on Political Consumerism: Do Social Media Boycotts and Buycotts Translate to Real Sales Impact?* (Jan. 11, 2022), <https://ssrn.com/abstract=4006546> (underscoring boycott's limited effectiveness at generating changes in actual sales outcomes).

<sup>46</sup> See Dzabarovs et al., *Boardroom Racial Diversity: Evidence from the Black Lives Matter Protests* (European Corporate Governance Institute, Finance Working Paper No. 789, 2021), <https://ssrn.com/abstract=3931332>.

significant was a climate-focused activist campaign conducted by a small, newly launched hedge fund that managed to gain three seats on ExxonMobil's board.<sup>47</sup>

### C. *A New Test of Stakeholder Governance*

Recently, the Covid-19 pandemic has been considered as a good setting to test stakeholder governance by both its supporters<sup>48</sup> and its critics.<sup>49</sup> We argue that the corporate reaction to the invasion of Ukraine can also inform and contribute to the debate.

On the one hand, the corporate response has been widely read as “a clear signal that the world is pivoting toward a stakeholder capitalism model”<sup>50</sup> and as “a dramatic example of stakeholder capitalism in action,”<sup>51</sup> with corporations placing “compassion and value for all stakeholders before profit.”<sup>52</sup> The reason is that many companies took action against the military assault quickly, going beyond compliance with regulations and sanctions, and even despite their economic exposure to Russia. On the other hand, the authenticity of corporate support for Ukraine has been questioned. Some see corporate leaders' decision to exit Russia as mainly driven by operational risks deriving from sanctions or by enormous public pressure to leave the country, rather than by their moral views.<sup>53</sup> Furthermore, corporate leaders have been pressured to cut ties with Russia from different stakeholder channels, including several boycott campaigns.

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<sup>47</sup> *The Little Engine that Could: ExxonMobil Loses a Proxy Fight with Green Investors*, THE ECONOMIST (May 29, 2021), <https://www.economist.com/taxonomy/term/76972?page=2410&page%5Cu003d2058=>.

<sup>48</sup> See Stavros Gadinis & Amelia Miazad, *A Test of Stakeholder Capitalism*, 47 J. CORP. L. 50 (2021).

<sup>49</sup> See Bebchuk et al., *Stakeholder Capitalism in the Time of COVID*, 40 YALE J. ON REGUL. (Forthcoming 2023).

<sup>50</sup> See Essele, *supra* note 5.

<sup>51</sup> See Gamble, *supra* note 1.

<sup>52</sup> Phil Rubin, *Putting ESG in Action Starts with the G*, WISE MARKETER (April 6, 2022), <https://thewisemarketer.com/loyalty-strategy/stakeholder-capitalism-is-finally-having-its-moment-stakeholder-loyalty-is-next/>.

<sup>53</sup> Alan Beattie, *Sanctions More Than Ethics Have Spurred Corporate Flight from Russia*, *Financial Times* (Mar. 9, 2022), <https://www.ft.com/e97d-424f-a313-2bb0d1cb8181>; Elizabeth Braw, *How Corporate Boycotts Could Backfire*, FP (Mar. 28, 2022), <https://foreignpolicy.com/2022/03/28/russia-sanctions-ukraine-corporate-boycotts-could-backfire/>; See Fangzhou Lu & Lei Huang, *Sanctions and Social Capital: Evidence from the Russian Invasion of Ukraine* (Mar. 24, 2022), <https://ssrn.com/abstract=4108129>; See Daniyal Ahmed, Elizabeth Demers, Jurian Hendrikse, Philip Joos & Baruch Itamar Lev, *Are ESG Ratings Informative About Companies' Socially Responsible Behaviors Abroad? Evidence from the Russian Invasion of Ukraine* (June 30, 2022), <https://ssrn.com/abstract=4151996>; See Fangzhou Lu & Lei Huang, *Sanctions and Social Capital: Evidence from the Russian Invasion of Ukraine* (Mar. 24, 2022), <https://ssrn.com/abstract=4108129>; See Daniyal Ahmed, Elizabeth Demers, Jurian Hendrikse, Philip Joos & Baruch Itamar Lev, *Are ESG Ratings Informative About Companies' Socially Responsible Behaviors Abroad? Evidence from the Russian Invasion of Ukraine* (June 30, 2022), <https://ssrn.com/abstract=4151996>.



## II. CORPORATE RESPONSE TO THE RUSSIAN INVASION

On February 24, 2022 Russian armed forces invaded Ukraine.<sup>54</sup> The largest war in Europe since 1945 not only had a far-reaching impact on world geopolitics, but also represented an exogenous shock for international firms with Russian operations.<sup>55</sup> The response from the private sector has been decisive and unprecedented, with hundreds of companies voluntarily curtailing or halting their business in Russia.<sup>56</sup> The businesses that remained soon started to face significant challenges, having to operate in the framework of worldwide sanctions imposed on the Russian economy and under pressure of large-scale corporate boycotts.

### A. *Impact of the Sanctions*

After the invasion of Ukraine, governments around the world – including the United States, many European countries, and the European Union – rolled out increasingly severe sanctions against Russia that were likely to generate a far-reaching effect on the global economy. These sanctions include banning imports of Russian key strategic products, setting embargoes on certain Russian exports, closing airspace to Russian airlines, removing several banks from the SWIFT system, and freezing assets owned by the Russian state and by individuals closely affiliated with it.

The objective of these economic sanctions is clear. The measures are conceived as means to restore peace in Ukraine and to uphold “human dignity, freedom, democracy, the rule of law and human rights,”<sup>57</sup> without deploying military forces. To this purpose, the aim is to impose on the Russian economy consequences so severe that they would effectively thwart Russia’s ability to

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<sup>54</sup> Charles Michel, President, European Council, Remarks at the Joint Press Conference with Commission President Von der Loeven and NATO Secretary-General Stoltenberg (Feb. 24, 2022) (“Last night a cataclysm shook Europe. Brutal aggression triggered by Vladimir Putin and the Kremlin against human beings. A large-scale military attack on the Ukrainian people. This unprovoked and unjustified attack is unlike anything on European soil since the end of the Second World War.”)

<sup>55</sup> Marc Berninger, et. al, *Should I Stay or Should I Go? Stock Market Reactions to Companies’ Decisions in the Wake of the Russia-Ukraine Conflict* (Apr. 20, 2022), <https://ssrn.com/abstract=4088159>.

<sup>56</sup> Alex Kalman, et. al, *No Longer in Russia*, The New York Times (Mar. 8, 2022), <https://www.nytimes.com/2022/03/24/business/companies-products-russia.html> (“More than 400 companies have withdrawn, at least temporarily, from Russia since it invaded Ukraine. Some have been there since the fall of communism — symbols of the enduring power of Western culture and commerce.”).

<sup>57</sup> Eur. Comm’n, *General Questions Concerning Sanctions Adopted Following Russia’s Military Aggression Against Ukraine*, (June 30, 2022), [https://ec.europa.eu/info/sites/default/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/faqs-sanctions-russia-general\\_en.pdf](https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/faqs-sanctions-russia-general_en.pdf).

wage war.<sup>58</sup> This means that, despite attempts to minimize negative consequences for the Russian population,<sup>59</sup> in order to be effective, sanctions need to profoundly affect the economy and welfare of the entire country, with an inevitable adverse humanitarian impact.<sup>60</sup>

### 1. *Sanctions Imposed by the USA*

On February 21, 2022, Putin recognized the independence and sovereignty of the so-called Donetsk People's Republic (DNR) and Luhansk People's Republic (LNR) regions of Ukraine and sent Russian troops to these separatist territories.<sup>61</sup> In response to Putin's decrees, the White House issued an executive order stopping new US investment in, US exports to, or US imports from these regions.<sup>62</sup> The following day, the US Government issued additional sanctions against Russia, including blocking by the US Treasury of two major Russian state-owned banks and their affiliates critical to financing the Russian defense industry.<sup>63</sup>

On February 24, in response to the invasion of Ukraine, the US Department of the Treasury's Office of Foreign Assets Control (OFAC) imposed extensive economic measures to further bar Russia from the global financial system. The OFAC required all US financial institutions to close Sberbank accounts and to reject any future transactions; it froze the assets of Russian banks VTB Bank,

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<sup>58</sup> Eur. Comm'n, *EU Sanctions Against Russia Following the Invasion of Ukraine*, [https://ec.europa.eu/info/strategy/priorities-2019-2024/stronger-europe-world/eu-solidarity-ukraine/eu-sanctions-against-russia-following-invasion-ukraine\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/stronger-europe-world/eu-solidarity-ukraine/eu-sanctions-against-russia-following-invasion-ukraine_en); See also Joe Biden, President, Remarks at the State of the Union as Prepared for Delivery in White House, Briefing Room (Mar. 1, 2022) ("We are inflicting pain on Russia and supporting the people of Ukraine. Putin is now isolated from the world more than ever.").

<sup>59</sup> Eur. Comm'n, *General Questions Concerning Sanctions Adopted Following Russia's Military Aggression Against Ukraine*, *supra*, note 57 ("Sanctions are targeted at the Kremlin and its accomplices. They aim at weakening the Russian government's ability to finance its war of aggression against Ukraine and are calibrated in order to minimise the negative consequences on the Russian population.").

<sup>60</sup> See *id.* (For instance, among the sanctions imposed by Western governments, the freezing of Russian Central Bank assets and depreciation of the currency will of necessity hurt the Russian people.).

<sup>61</sup> See Chad P. Bown, *Russia's war on Ukraine: A sanctions timeline*, Peterson Institute for International Economics, (Jul. 1, 2022), <https://www.piie.com/blogs/realtime-economic-issues-watch/russias-war-ukraine-sanctions-timeline>.

<sup>62</sup> President Joseph R. Biden, *Announcing Executive Order on Blocking Property of Certain Persons and Prohibiting Certain Transactions with Respect to Continued Russian Efforts to Undermine the Sovereignty and Territorial Integrity of Ukraine* (Feb. 21, 2022) (transcript available at <https://www.whitehouse.gov/briefing-room/presidential-actions/2022/02/21/executive-order-on-blocking-property-of-certain-persons-and-prohibiting-certain-transactions-with-respect-to-continued-russian-efforts-to-undermine-the-sovereignty-and-territorial-i>).

<sup>63</sup> Press Release, U.S. Dep't of the Treasury, *U.S. Treasury Imposes Immediate Economic Costs in response to Actions in the Donetsk and Luhansk Regions* (Feb. 22, 2022), <https://home.treasury.gov/news/press-releases/jy0602>.

Otkritie, Novikom, and Sovcom; and it sanctioned thirteen major Russian state-owned and private entities as well as other Russian oligarchs.<sup>64</sup>

On February 26, the USA, the EU, France, Germany, Italy, the UK, and Canada, announced joint action to remove selected Russian banks from the SWIFT messaging system; to prevent the Russian Central Bank from deploying reserves to undermine sanctions; to limit “golden passports” used by Russian oligarchs; and to launch a transatlantic task force.<sup>65</sup>

On March 2, the US Department of Transportation and its Federal Aviation Administration blocked Russian aircraft and airlines from entering all domestic US airspace.<sup>66</sup>

On March 8, President Biden announced a ban on imports of Russian oil, liquefied natural gas, and coal.<sup>67</sup>

On March 11, the USA, the EU, France, Germany, Italy, the UK, Japan and Canada, imposed new restrictions, including increasing import tariffs to eliminate World Trade Organization (WTO) membership benefits, denying to Russia borrowing privileges at the World Bank and IMF, and other trade and financial sanctions.<sup>68</sup>

On April 6, the OFAC added two of Russia’s largest banks – Sberbank and Alfa Bank – to the Specially Designated Nationals and Blocked Persons List

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<sup>64</sup> Press Release, U.S. Dep’t of the Treasury, U.S. Treasury Announces Unprecedented & Expansive Sanctions Against Russia, Imposing Swift and Severe Economic Costs (Feb. 24, 2022), <https://home.treasury.gov/news/press-releases/jy0608>.

<sup>65</sup> Leaders of the Eur. Comm’n, France, Germany, Italy, the United Kingdom, Canada, and the United States, Joint Statement on Further Restrictive Economic Measures (Feb. 26, 2022) (transcript available at <https://www.whitehouse.gov/briefing-room/statements-releases/2022/02/26/joint-statement-on-further-restrictive-economic-measures/>).

<sup>66</sup> Fed. Aviation Admin., U.S. Will Block Russian Aircraft from Using All Domestic Airspace (2022), <https://www.faa.gov/newsroom/us-will-block-russian-aircraft-using-all-domestic-airspace>.

<sup>67</sup> President Joseph R. Biden, Remarks by President Biden Announcing U.S. Ban on Imports of Russian Oil, Liquefied Natural Gas, and Coal (Mar. 8, 2022) (transcript available at <https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/03/08/remarks-by-president-biden-announcing-u-s-ban-on-imports-of-russian-oil-liquefied-natural-gas-and-coal/>).

<sup>68</sup> Press Release, White House Briefing Room, FACT SHEET: United States, European Union, and G7 to Announce Further Economic Costs on Russia (Mar. 11, 2022), <https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/11/fact-sheet-united-states-european-union-and-g7-to-announce-further-economic-costs-on-russia/>.

(“SDN List”). The same day, President Biden also issued a new executive order, prohibiting “new investment” in Russia by any US person, wherever located.<sup>69</sup>

On May 8, the OFAC announced new sanctions, including a ban on exports of accounting, trust, and corporate formation, and management consulting services.<sup>70</sup>

After the G7 statement of support for Ukraine, on June 28 the OFAC implemented new measures, including financial sanctions on an additional 70 Russian entities and 29 Russian individuals.<sup>71</sup>

## 2. *Sanctions Imposed by the EU*

The EU responded to the aggression against Ukraine by imposing six packages of sanctions against Russia, including targeted restrictive measures (individual sanctions), economic sanctions, and diplomatic measures.<sup>72</sup>

The first major package of sanctions included an import ban on goods from the areas of DNR and LNR, restrictions on trade and investments, an export ban on selected goods and technologies, restricted Russian access to the EU’s capital and financial markets and services, and travel bans and asset freezes on a number of Russian individuals.<sup>73</sup>

The second package of sanctions included financial sanctions on Putin, Minister of Foreign Affairs Sergei Lavrov, other individual Russians and Russian banks, a travel ban on certain individuals from entering the EU, wide-ranging restrictions on trade in goods and associated services such as

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<sup>69</sup> Press Release, White House Briefing Room, FACT SHEET: United States, G7 and EU Impose Severe and Immediate Costs on Russia (Apr. 6, 2022), <https://www.whitehouse.gov/briefing-room/statements-releases/2022/04/06/fact-sheet-united-states-g7-and-eu-impose-severe-and-immediate-costs-on-russia/>.

<sup>70</sup> Press Release, U.S. Dep’t of the Treasury, U.S. Treasury Takes Sweeping Action Against Russia’s War Efforts (May 8, 2022), <https://home.treasury.gov/news/press-releases/jy0771>.

<sup>71</sup> Press Release, U.S. Dep’t of the Treasury, U.S. Treasury Sanctions Nearly 100 Targets in Putin’s War Machine, Prohibits Russian Gold Imports (June 28, 2022), <https://home.treasury.gov/news/press-releases/jy0838>.

<sup>72</sup> European Council, EU Sanctions Against Russia Explained, <https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/sanctions-against-russia-explained/> (Sept. 15, 2022).

<sup>73</sup> European Council Press Release, *EU Adopts Package of Sanctions in Response to Russian Recognition of The Non-government-controlled Areas of The Donetsk and Luhansk Oblasts of Ukraine and Sending of Troops into The Region*, (Feb. 23, 2022), <https://www.consilium.europa.eu/en/press/press-releases/2022/02/23/russian-recognition-of-the-non-government-controlled-areas-of-the-donetsk-and-luhansk-oblasts-of-ukraine-as-independent-entities-eu-adopts-package-of-sanctions/>.

semiconductors and other dual-use goods, technology exports, and high-tech exports.<sup>74</sup>

The third package banned transactions with the Russian Central Bank, and overflight of EU airspace and access to EU airports by Russian carriers of all kinds. It also added 26 individuals and 1 entity to the list of sanctioned persons and entities.<sup>75</sup>

The fourth package prohibited imports of iron and steel products and the export of luxury goods. It also banned new investments in the Russian energy sector, transactions with certain Russian state-owned enterprises and provision of credit-rating services.<sup>76</sup>

The fifth package contained a ban on Russian freight road operators and an import ban on all forms of Russian coal, and on other products such as cement, wood, spirits (including vodka), and high-end seafood (including caviar). It expanded export bans to include jet fuel, quantum computers, semiconductors, and other technology products and services. It extended the transaction ban and asset freeze on four additional Russian banks, and banned Russian companies from EU public procurement projects.<sup>77</sup>

The last package banned imports of Russian crude oil and petroleum products with limited exceptions, SWIFT for three Russian banks and one Belarusian bank, suspended broadcasting in the EU for three Russian media outlets, and sanctioned an additional 65 individuals and 18 entities.<sup>78</sup>

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<sup>74</sup> Eur. Council Press Release, *Russia's Military Aggression Against Ukraine: EU Imposes Sanctions Against President Putin and Foreign Minister Lavrov and Adopts Wide Ranging Individual and Economic Sanctions*, (Feb. 25, 2022), <https://www.consilium.europa.eu/en/press/press-releases/2022/02/25/russia-s-military-aggression-against-ukraine-eu-imposes-sanctions-against-president-putin-and-foreign-minister-lavrov-and-adopts-wide-ranging-individual-and-economic-sanctions/>.

<sup>75</sup> European Council Press Release, *EU Adopts New Set Of Measures To Respond To Russia's Military Aggression Against Ukraine*, (Feb. 28, 2022), <https://www.consilium.europa.eu/en/press/press-releases/2022/02/28/eu-adopts-new-set-of-measures-to-respond-to-russia-s-military-aggression-against-ukraine/>.

<sup>76</sup> European Council Press Release, *Russia's Military Aggression Against Ukraine: Fourth EU Package Of Sectoral and Individual Measures*, (Mar. 15, 2022), <https://www.consilium.europa.eu/en/press/press-releases/2022/03/15/russia-s-military-aggression-against-ukraine-fourth-eu-package-of-sectoral-and-individual-measures/>.

<sup>77</sup> European Council Press Release, *EU Adopts Fifth Round Of Sanctions Against Russia Over Its Military Aggression Against Ukraine*, (Apr. 8, 2022), <https://www.consilium.europa.eu/en/press/press-releases/2022/04/08/eu-adopts-fifth-round-of-sanctions-against-russia-over-its-military-aggression-against-ukraine/>.

<sup>78</sup> European Council Press Release, *Russia's Aggression Against Ukraine: EU Adopts Sixth Package Of Sanctions*, (June 3, 2022), <https://www.consilium.europa.eu/en/press/press-releases/2022/06/03/russia-s-aggression-against-ukraine-eu-adopts-sixth-package-of-sanctions/>.

### 3. *Russian Retaliation*

As retaliation against the sanctions, Russia closed its airspace to airlines from 36 countries (including the USA and all 27 members of the EU),<sup>79</sup> banned the export of more than 200 products, and announced a list of 59 “unfriendly countries”, which Putin demanded use rubles to buy Russian oil and gas still flowing.<sup>80</sup>

Importantly for American and European companies, on March 6 the Russian government issued a decree that provided the country with the ability to use foreign patents without the consent of the patent holders and without paying royalties.<sup>81</sup> The decree expressly states that companies from “unfriendly states” will not receive compensation and will be compelled to issue licenses to Russian entities.<sup>82</sup> Additionally, Russia has been advancing legislation – supported by the Russian President – on nationalizing assets of foreign companies that leave the country over its invasion of Ukraine.<sup>83</sup> After Putin’s endorsement of the bill, Russian prosecutors reportedly issued warnings to several Western companies in Russia, including Coca-Cola, McDonald’s, Apple, IKEA, Microsoft, IBM and Porsche, threatening to arrest corporate leaders there who criticize the government or to seize assets of companies that withdraw from the country.<sup>84</sup>

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<sup>79</sup> REUTERS, *Russian Flights Bans Hit Airlines From 36 Countries - Aviation Authority*, (Feb. 28, 2022, 11:10 AM), <https://www.reuters.com/business/aerospace-defense/russia-imposes-sweeping-flight-bans-airlines-36-countries-2022-02-28/>.

<sup>80</sup> Patricia Cohen, *Putin Says ‘Unfriendly Countries’ Must Buy Russian Oil And Gas In Rubles*, *The New York Times* (Mar. 23, 2022), <https://www.nytimes.com/2022/03/23/business/putin-russian-oil-gas-rubles.html>.

<sup>81</sup> See *Postanovleniye Pravitel’stva Rossiyskoy Federatsii* [Decree of the Government of the Russian Federation] June 3, 2022, No. 299, <http://publication.pravo.gov.ru/Document/View/0001202203070005?index=0&rangeSize=1>.

<sup>82</sup> Bruce Love, *Russian Patents Grab Deemed ‘Act Of War’*, *FINANCIAL TIMES* (June 15, 2022), <https://www.ft.com/content/1ee7a359-8561-4679-bc84-59f55157e9bd>.

<sup>83</sup> Evan Gershkovich, *Russia Advances Law on Nationalizing Assets of Foreign Companies*, *THE WALL STREET JOURNAL* (Apr. 12, 2022, 9:37 AM), <https://www.wsj.com/livecoverage/russia-ukraine-latest-news-2022-04-12/card/russia-advances-law-on-nationalizing-assets-of-foreign-companies-XT2HMh3ljjvy0magt318>; See also Evan Gershkovich, *Russia Moves Ahead With Bill on Nationalizing Assets of Foreign Companies*, *THE WALL STREET JOURNAL* (May 24, 2022, 12:19 PM), <https://www.wsj.com/livecoverage/russia-ukraine-latest-news-2022-05-24/card/russia-moves-ahead-with-bill-on-nationalizing-assets-of-foreign-companies-OQ8d2B8n2MIAdNKwQRKf>.

<sup>84</sup> Jennifer Maloney et. al., *Russian Prosecutors Warn Western Companies of Arrests, Asset Seizures*, *THE WALL STREET JOURNAL* (March 14, 2022), <https://www.wsj.com/articles/russian-prosecutors-warn-western-companies-of-arrests-asset-seizures-11647206193>; See also Russian Embassy in USA (@RusEmbUSA), *TWITTER* (Mar. 13. 2013, 9:38 PM), <https://twitter.com/RusEmbUSA/status/1503183720664158208> (The same day, the Russian embassy in Washington labeled the news as fake and tweeted that: “The decision whether to continue entrepreneurial activity in our country is entirely up to the Americans. As well as the right to ignore the russophobic hysteria that encourages foreign businesses to suffer huge losses in order to hit @Russia.”).

#### 4. *Impact on Western Businesses*

After the imposition of sanctions, most Western corporations – aside from those whose business directly relates to sanctioned activities such as military production – have remained free to conduct business in Russia.<sup>85</sup> Most of the companies that left Russia were not directly affected by the measures. Nonetheless, the array of sanctions has created an environment of legal and financial hostility that has made compliance complicated and has often impaired the ability of firms to continue their Russian operations as before.<sup>86</sup>

As for Russian retaliation, this affects firms very differently. For some companies it entails a relatively light financial burden, such as losing leases on stores or offices. In contrast, for businesses that involve expensive manufacturing equipment or logistics assets, such as warehouses and fleets of trucks, the impact is heavier. An example is represented by the auto industry, which has featured among the biggest western investments in Russia over the past 20 years, and has been hit severely.<sup>87</sup> The effect of losing patent protection or intellectual property in a nationalization will vary by company as well, depending on the value of the patent or intellectual property in Russia.<sup>88</sup>

#### B. *Public Pressure*

With the war in Ukraine dragging on, pressure for Western companies in Russia to leave started to mount from several channels.

##### 1. *Political Pressure*

Both in the USA and across Europe, the public overwhelmingly support isolating Russia economically to end its invasion and occupation of Ukraine.<sup>89</sup>

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<sup>85</sup> Tetyana Balyuk & Anastassia Fedyk, *Divesting Under Pressure: U.S. Firms' Exit in Response to Russia's War Against Ukraine* (May 23, 2022), <https://ssrn.com/abstract=4097225>.

<sup>86</sup> Alan Beattie, *Sanctions More Than Ethics Have Spurred Corporate Flight From Russia*, FINANCIAL TIMES (Mar. 9, 2022), <https://www.ft.com/content/fed1ebb5-e97d-424f-a313-2bb0d1cb8181>.

<sup>87</sup> Evan Gershkovich et. al., *Pressure Mounts for Western Companies Leaving Russia*, THE WALL STREET JOURNAL (Mar. 11, 2022, 2:35 PM), <https://www.wsj.com/articles/pressure-mounts-for-western-companies-leaving-russia-11647006723>.

<sup>88</sup> Hannah Knowles & Zina Pozen, *Russia Says Its Businesses Can Steal Patents From Anyone In 'Unfriendly' Countries*, THE WASHINGTON POST (Mar. 9, 2022, 8:19 PM), <https://www.washingtonpost.com/business/2022/03/09/russia-allows-patent-theft/>.

<sup>89</sup> Jura Liaukonyte, *Foreign Companies Continue To Prop Up The Kremlin*, THE WASHINGTON POST (April 8, 2022, 6:00 AM), <https://www.washingtonpost.com/politics/2022/04/08/russia-boycott-companies-ukraine/>.

In a strongly polarized and divided America, polls since the assault show that people across the political spectrum agree on the nature of the threat and on who is responsible for the war. There is strong bipartisan consensus on the need to support Ukraine and to respond to Putin's invasion.<sup>90</sup>

Europe as well is experiencing an exceptionally strong consensus in supporting Ukraine and condemning Russia, with 79% of Europeans interviewed supporting economic and financial sanctions against Russia (of these 57% say they 'strongly approve') and 67% supporting the delivery of military equipment to Ukraine.<sup>91</sup>

This broad public support has unsurprisingly resulted in political statements, some of them related to businesses.<sup>92</sup>

The most relevant political pressure for Western firms has been intervention by Ukrainian President Volodymyr Zelensky, who explicitly called out global companies, urging them to exit Russia. On March 16, when addressing the US Congress, Zelensky asked lawmakers to press US companies from their home states to stop doing business in Russia, saying the Russian market is "flooded with our blood."<sup>93</sup> In a separate address on the previous day, the President of Ukraine took aim at specific companies still operating in Russia. He named food companies Nestlé and Mondelez, consumer goods makers Unilever and Johnson & Johnson, European banks Raiffeisen and Société Générale, electronics giants Samsung and LG, chemicals maker BASF, and pharmaceuticals companies Bayer and Sanofi, saying they and "dozens of other companies" had not left the

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<sup>90</sup> See Public Expresses Mixed Views of U.S. Response to Russia's Invasion of Ukraine, PEW RESEARCH CENTER, (Mar. 15, 2022), <https://www.pewresearch.org/politics/2022/03/15/public-expresses-mixed-views-of-u-s-response-to-russias-invasion-of-ukraine/>; See generally THE ECONOMIST & YOUNG, THE ECONOMIST/YOUNG POLL: FEBRUARY 26 – MARCH 1, 2022 – 1500 U.S. ADULT CITIZENS (2022), [HTTPS://DOCS.CDN.YOUGOV.COM/AA581G9D3B/ECONTABREPORT.PDF](https://docs.cdn.yougov.com/aa581g9d3b/econTABREPORT.PDF)

<sup>91</sup> See Giles Finchelstein et al., EUROPEAN PEOPLES BEHIND UKRAINE, THE UKRAINIAN WAR SEEN FROM FRANCE, GERMANY, ITALY, AND POLAND, (Mar. 16, 2022), <https://www.jean-jaures.org/wp-content/uploads/2022/03/UkraineEN.pdf>.

<sup>92</sup> See Paulina Firozi et al., *Russian Vodka Boycotts Show Solidarity With Ukraine — But Will Have Little Financial Impact, Experts Say*, THE WASHINGTON POST (Mar. 5, 2022), <https://www.washingtonpost.com/business/2022/03/01/russian-made-vodka-boycotts/> (stating in the USA, several republican and democrat governors have restricted the sale of Russian vodkas in their states).

<sup>93</sup> See Saabira Chaudhuri & Denise Roland, *Ukraine's Zelensky Urges Global Businesses to Exit Russia in Speech to Congress*, THE WALL STREET JOURNAL (Mar. 16, 2022), [https://www.wsj.com/articles/ukraines-zelensky-urges-businesses-to-leave-russia-in-speech-to-congress-11647448370?mod=article\\_inline](https://www.wsj.com/articles/ukraines-zelensky-urges-businesses-to-leave-russia-in-speech-to-congress-11647448370?mod=article_inline). (President Zelensky said: "If you have companies in your districts who financed the Russian military machine . . . You should put pressure . . . I am asking to make sure that the Russians do not receive a single penny that they use to destroy people in Ukraine").



Russian market.<sup>94</sup> On March 23, in a speech to the French parliament, the Ukrainian President pressed French companies still operating in Russia to exit, arguing that continuing to do business in the country would have made them “sponsors” of war.<sup>95</sup>

## 2. *Boycott Campaigns*

Western companies that continued to operate in Russia faced strong criticism from consumers and their own employees. In support of Ukraine, people worldwide started to call out big firms that had not left Russia or had not taken a strong enough stance against the invading country.

The favorite venue for these campaigns has been Twitter. After the Russian assault, countless tweets pressured companies that maintained operations with Russia to cut their ties. Boycott hashtags targeting big multinationals quickly gained attention and support.<sup>96</sup>

The boycott campaigns seemed to be effective, since some of the biggest brands – such as Coca-Cola, PepsiCo and McDonald’s – were not in the first exodus from Russia, but they left only after being targeted by internet activists.<sup>97</sup> For instance, Nestlé SA initially vowed to stay, but they then reversed the decision after undergoing a pressuring Twitter campaign inviting people to boycott their products.<sup>98</sup>

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<sup>94</sup> *Pressure Mounts for Multinationals in Russia to Leave*, U.S. NEWS (Mar. 17, 2022), <https://www.usnews.com/news/business/articles/2022-03-17/pressure-mounts-for-multinationals-in-russia-to-leave>.

<sup>95</sup> Volodymyr Zelenskyy, President of Ukraine, Speech At A Joint Meeting of The Senate, the National Assembly of the French Republic and the Council of Paris, (MAR. 23, 2022), <https://www.president.gov.ua/en/news/promova-prezidenta-ukrayini-na-spilnomu-zibranni-senatu-naci-73773> (“French companies must leave the Russian market. Renault, Auchan, Leroy Merlin and others. They must cease to be sponsors of Russia’s military machine, sponsors of the killing of children and women, sponsors of rape, robbery and looting by the Russian army. All companies must remember once and for all that values are worth more than profit. Especially profit on blood”).

<sup>96</sup> *See infra*, Section IV.D.

<sup>97</sup> Andrew Hill, *Companies’ Flight From Moscow Sets Some Hard Precedents*, FINANCIAL TIMES (Mar. 14, 2022), <https://www.ft.com/content/8d946204-6c74-4bfb-a649-c0335557b4ed>.

<sup>98</sup> *See* Nestle (@nestle), TWITTER (Mar. 2, 2022, 6:01 AM), <https://twitter.com/Nestle/status/1498976828530253829> (stating “At Nestlé, we are prioritizing safety and support for our employees in the region”).

### 3. Yale School of Management (SOM) List

Public pressure on corporations has been amplified by the publication of a list tracking corporate responses to the Russia's invasion of Ukraine by Professor Jeffrey Sonnenfeld and the Yale School of Management (SOM).<sup>99</sup>

The list was first published in the week of February 28, when only several dozen companies had announced their departure from Russia. It initially focused on large US companies with substantial exposure to Russia, but then expanded over time to include firms from across the world, as well as public and private companies of varying size and varying presence in Russia.<sup>100</sup>

They now cover more than 1,200 public and private companies from across the globe, and they place firms in one of five categories based on their level of withdrawal from Russia.<sup>101</sup> This starts with an A rating for those that made a clean break or permanently exited Russia, and it ends with an F grade for those that are “digging in” and refusing to reduce their activities in the country.<sup>102</sup>

The goal of the list was to push every corporation to publicly commit to leaving Russia, encouraging boycotts of companies that defy pressure to do so.<sup>103</sup> They were able to garner significant attention with widespread media coverage and circulation.<sup>104</sup>

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<sup>99</sup> *Over 1,000 Companies Have Curtailed Operations in Russia—But Some Remain*, Chief Executive Leadership Institute, YALE SCHOOL OF MANAGEMENT (Oct. 19, 2022), <https://som.yale.edu/story/2022/almost-1000-companies-have-curtailed-operations-russia-some-remain>.

<sup>100</sup> Sonnenfeld, et al., *supra* note 9.

<sup>101</sup> Jeffrey Sonnenfeld et al., *Businesses That Refuse to Leave Russia Are Experiencing The Greatest Costs*, THE WASHINGTON POST (Apr. 26, 2022), <https://www.washingtonpost.com/opinions/2022/04/26/businesses-that-left-russia-not-hurting-better-off/>.

<sup>102</sup> *Id.*

<sup>103</sup> Jeffrey Sonnenfeld & Steven Tian, *Some of the Biggest Brands Are Leaving Russia. Others Just Can't Quit Putin. Here's a List*, THE NEW YORK TIMES (Apr. 7, 2022), <https://www.nytimes.com/interactive/2022/04/07/opinion/companies-ukraine-boycott.html>.

<sup>104</sup> Sonnenfeld et.al *supra* note 9 (“In the two months since, this list of companies staying/leaving Russia has already garnered significant attention for its role in helping catalyze the mass corporate exodus from Russia, with widespread media coverage and circulation across company boardrooms, policymaker circles, and other communities of concerned citizens around the world.” The authors have also written short editorials for The New York Times, The Washington Post, Fortune, amongst others; each of which were the most-read articles in their respective outlets for at least 36 hours upon publication.); *See also* Jeffrey Sonnenfeld & Steven Tian, *A Widely Shared List Of U.S. Companies Leaving And Staying In Russia Is Holding Business Leaders Accountable*, FORTUNE (Mar. 16, 2022), <https://fortune.com/2022/03/16/companies-leaving-russia-list-accountability/> (“[O]ur list provided a much cited “hall of shame” that guided the voices of employees, customers, and investors seeking to show their disapproval. In fact, the first day our list appeared on CNBC, many of the companies we identified as remaining in Russia saw their stocks drop 15% to 30%, on a day where the key market indexes fell only two to three percent.”).

#### 4. *Stock Prices*

Scholars so far have focused on stock market reactions to companies' decisions to leave or stay in Russia.

Research conducted by Professor Sonnenfeld and other members of the SOM team shows that companies that curtailed operations in Russia have generally outperformed companies that did not.<sup>105</sup> The firms graded with an “F” according to the Yale list, consistently underperformed all other categories to a statistically significant degree. They add that for those companies that have withdrawn from Russia, the wealth creation driven by gains to shareholder equity far outweighs the costs of Russian asset write-downs.<sup>106</sup>

Another paper finds that firms which left Russia experienced large negative returns before announcing their exit decisions, while the damage to stock returns stopped immediately after the exit announcements. According to the authors, their findings suggest that the decision to withdraw from Russia was mainly driven by negative pressure from the public and shareholders to cease operations in the country.<sup>107</sup>

However, the results are not unequivocal. In contrast with the Yale SOM research, one paper found that companies deciding to leave Russia had considerably lower returns than those that continued their operations or that had not yet made a final decision. They also noticed that the negative market reaction was more pronounced for European manufacturers that announced plans to leave Russia and European service firms that decided to stay, suggesting that the industry category played an important role.<sup>108</sup> Some media outlets also reported negative effects from exiting Russia.<sup>109</sup> Finally, other articles underscore that factors such as regulatory climate risks<sup>110</sup> and geography<sup>111</sup> mattered for the stock market response to the onset of war in Ukraine.

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<sup>105</sup> Sonnenfeld, et. al., *supra* note 9.\_

<sup>106</sup> *Id.*

<sup>107</sup> See Balyuk & Fedyk, *supra* note 84.

<sup>108</sup> See Berninger, Kiesel, & Kolaric, *supra* note 54.

<sup>109</sup> See, e.g., Jean Eaglesham & Thomas Gryta, *Companies Size Up Their Losses on Russian Operations*, WALL STREET JOURNAL: BUS. (Apr. 14, 2022), <https://www.wsj.com/articles/companies-size-up-their-losses-on-russian-operations-11649928600>.

<sup>110</sup> Ming Deng, et. al., *The Russia-Ukraine War and Climate Policy Expectations: Evidence from the Stock Market*, SWISS FINANCE INST.: RESEARCH PAPER SERIES NO. 22-29 (July 12, 2022), <https://ssrn.com/abstract=4080181>. (Finding that firms with greater exposure to climate transition risk performed better, particularly in the U.S., while companies for which a textual measure suggests strong exposure to inflation risks performed worse.)

<sup>111</sup> Jonathan Federle, André Meier, Gernot Müller, & Victor Sehn, *Proximity to War: The Stock Market Response to the Russian Invasion of Ukraine*, CENTRE FOR ECONOMIC POLICY RESEARCH: DISCUSSION PAPER

### C. Corporate Reactions

The corporate response to the Russian assault was decisive and widespread, but varied greatly in concrete measures taken, in timing, and in public statements released.

#### 1. Different Responses

Some companies promptly made a clean break from Russia, permanently exiting the country and leaving behind essentially no operational footprint. BP, for instance, quickly announced on February 27 its plan to completely exit Russia.<sup>112</sup> Others did not permanently exit or divest, but suspended all or almost all Russian operations. In these cases, companies often ceased operating in Russia while still paying their Russian employees, thereby keeping open the option to return.<sup>113</sup> Some companies suspended only a significant portion of their business in Russia. An example is PepsiCo, which stated: “given the horrific events occurring in Ukraine we are announcing the suspension of the sale of Pepsi-Cola, and our global beverage brands in Russia, including 7Up and Mirinda. We will also be suspending capital investments and all advertising and promotional activities in Russia.”<sup>114</sup> Other companies publicly announced a pause in new investment or suspension of minor operations, but they continued substantive business in Russia. Mondelez and Philip Morris fall into this category.<sup>115</sup> JPMorgan Chase & Co and Goldman Sachs Group Inc were the first

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No. DP17185 (Apr. 2022), <https://ssrn.com/abstract=4121360>. (Emphasizing that countries geographically close to the war, on average, incurred an abnormal decline in equity indices, while countries farther away fared much better in comparison.)

<sup>112</sup> See Press Release, BP, BP to Exit Rosneft Shareholding (Feb. 27, 2022), <https://www.bp.com/en/global/corporate/news-and-insights/press-releases/bp-to-exit-rosneft-shareholding.html>. Accord Press Release, Shell, Shell Intends to Exit Equity Partnerships Held with Gazprom Entities, (Feb. 28, 2022) <https://www.shell.com/media/news-and-media-releases/2022/shell-intends-to-exit-equity-partnerships-held-with-gazprom-entities.html> (statement of Shell CEO Ben van Beurden) (“Our decision to exit is one we take with conviction... We cannot – and we will not – stand by.”).

<sup>113</sup> See Georgi Kantchev, *Adidas Closes Its Stores in Russia*, WALL ST. J. (Mar. 8, 2022), <https://www.wsj.com/livecoverage/russia-ukraine-latest-news-2022-03-08/card/adidas-closes-its-stores-in-russia-RdpeOsI4W0n7Q72skdQf> (describing how it would suspend operations in Russia until further notice, but continue to pay its employees there); Statement, Disney, *Statement from the Walt Disney Company in Response to the Ongoing Crisis in Ukraine*, (Mar. 10, 2022), <https://thewaltdisneycompany.com/statement-from-the-walt-disney-company-in-response-to-the-ongoing-crisis-in-ukraine/> (“Even as we pause these businesses, we remain committed to our dedicated colleagues in Russia, who will remain employed.”).

<sup>114</sup> See PepsiCo, *PepsiCo Suspends Production and Sale of Pepsi-Cola and Other Global Beverage Brands in Russia*, (Mar. 8, 2022) (quoting email from PepsiCo CEO Roman Laguarta) <https://www.pepsico.com/our-stories/press-release/pepsico-suspends-production-and-sale-of-pepsi-cola-and-other-global-beverage-brands-in-russia>.

<sup>115</sup> See Press Release, Mondelez, *Our Statement on the War in Ukraine* <https://www.mondelezinternational.com/News/Statement-on-War-in-Ukraine>: (quoting an internal memo from

major US banks to announce their withdrawal from Russia.<sup>116</sup> Yet they continued to trade company bonds tied to Russia until the OFAC – after being pressed by US Senator Elizabeth Warren and Representative Katie Porter<sup>117</sup> – clarified that sanctions prohibit US market participants from purchasing new and existing debt and equity securities issued by an entity in the Russian Federation.<sup>118</sup> Some of the companies that announced their intention to leave Russia sold their Russian assets to a local buyer. For example, this decision was taken by McDonald’s, Renault, Shell, and Société Générale.<sup>119</sup> Finally, several companies, such as Unicredit and Zimmer Biomet, did not announce any kind of exit or reduction of either their operations or their investments in the country, largely operating in the country as they did before.<sup>120</sup>

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Mondelez CEO to employees) (“As a food company, we are scaling back all non-essential activities in Russia while helping maintain continuity of the food supply during the challenging times ahead.”); Philip Morris International, *Phillip Morris International Inc. (PMI) Suspends Investment and Activates Plans to Scale Down Manufacturing Operations in Russia*, (Mar. 9, 2022), <https://www.pmi.com/media-center/press-releases/press-details?newsId=24966>: (“Philip Morris International Inc. (NYSE: PM) today announces the suspension of its planned investments in the Russian Federation, including all new product launches and commercial, innovation, and manufacturing investments. PMI has also activated plans to scale down its manufacturing operations in Russia amid ongoing supply chain disruptions and the evolving regulatory environment”).

<sup>116</sup> See Matt Scuffham, et. al., Goldman Sachs, *JPMorgan unwinding Russia businesses*, REUTERS (Mar. 10, 2022), <https://www.reuters.com/business/finance/goldman-sachs-exit-russia-bloomberg-news-2022-03-10/>.

<sup>117</sup> Laura Benitez & Sridhar Natarajan, JPMorgan, *Goldman Halt Russia Debt Trade as US Tightens Ban*, BLOOMBERG (June 14, 2022), [https://www.bloomberglaw.com/bloomberglawnews/bankruptcy-law/XCLHAD6S000000?bna\\_news\\_filter=bankruptcy-law#cite](https://www.bloomberglaw.com/bloomberglawnews/bankruptcy-law/XCLHAD6S000000?bna_news_filter=bankruptcy-law#cite).

<sup>118</sup> FAQ, US Department of the Treasury, *Do the New Investment Prohibitions of Executive Order (E.O.) 14066, E.O. 14068, or E.O. 14071 (Collectively, “the Respective E.O.s”) Prohibit U.S. Persons from Purchasing Debt or Equity Securities Issued by an Entity in the Russian Federation*, (Jun. 6, 2022), <https://home.treasury.gov/policy-issues/financial-sanctions/faqs/1054>.

<sup>119</sup> See Michael Dabaie, *McDonald’s to Sell Russian Business to Licensee*, WALL STREET JOURNAL (May 19, 2022), <https://www.wsj.com/articles/mcdonalds-to-sell-russian-business-to-licensee-11652963542>; Nick Kostov, *Renault Sells Russia Business to State-Backed Entity for One Ruble*, WALL STREET JOURNAL (May 16, 2022), [https://www.wsj.com/articles/renault-sells-russia-business-to-state-backed-entity-for-one-ruble-11652692431?mod=article\\_inline](https://www.wsj.com/articles/renault-sells-russia-business-to-state-backed-entity-for-one-ruble-11652692431?mod=article_inline); Jenny Strasburg, *Shell to Sell Russian Retail Stations, Lubricant Business to Lukoil*, WALL STREET JOURNAL (May 12, 2022), [https://www.wsj.com/articles/shell-to-sell-russian-retail-stations-lubricant-business-to-lukoil-11652354439?mod=article\\_inline](https://www.wsj.com/articles/shell-to-sell-russian-retail-stations-lubricant-business-to-lukoil-11652354439?mod=article_inline); Patricia Kowsmann, *Société Générale Sells Russian Bank to Oligarch Vladimir Potanin*, WALL STREET JOURNAL (April 11, 2022), [https://www.wsj.com/articles/societe-generale-sells-russian-bank-to-oligarch-vladimir-potanin-11649670434?mod=article\\_inline](https://www.wsj.com/articles/societe-generale-sells-russian-bank-to-oligarch-vladimir-potanin-11649670434?mod=article_inline); ; See Jenny Strasburg, *Shell to Sell Russian Retail Stations, Lubricant Business to Lukoil*, WALL STREET JOURNAL (May 12, 2022), [https://www.wsj.com/articles/shell-to-sell-russian-retail-stations-lubricant-business-to-lukoil-11652354439?mod=article\\_inline](https://www.wsj.com/articles/shell-to-sell-russian-retail-stations-lubricant-business-to-lukoil-11652354439?mod=article_inline); Patricia Kowsmann, *Société Générale Sells Russian Bank to Oligarch Vladimir Potanin*, WALL STREET JOURNAL (Apr. 11, 2022), [https://www.wsj.com/articles/societe-generale-sells-russian-bank-to-oligarch-vladimir-potanin-11649670434?mod=article\\_inline](https://www.wsj.com/articles/societe-generale-sells-russian-bank-to-oligarch-vladimir-potanin-11649670434?mod=article_inline).

<sup>120</sup> Press Release, UniCredit S.p.A., (Mar. 8, 2022) <https://www.unicreditgroup.eu/en/press-media/press-releases-price-sensitive/2022/u.html> (“UniCredit has been present in Russia since 2005 and has experience in adapting to, and fully complying with, sanctions. We are closely monitoring the developments in the country, in full cooperation with regulators, and with dedicated cross expert teams which defined robust and tested contingency plans to protect our people on the ground, our clients in all Europe and our shareholders.”);

## 2. Different “Justifications”

Companies presented a range of different public statements explaining the reasons behind their response.

The companies that left or suspended all operations in Russia usually justified their decision on moral/ethical grounds, but they also added that it was in the long-term interest of their shareholders. For instance, Bernard Looney, BP’s CEO, about the decision to exit Russia declared: “I am convinced that the decisions we as a Board have taken are not only the right things to do, they are also in the long-term interests of bp and our shareholders.”<sup>121</sup> Significantly, New York State Comptroller Thomas P. DiNapoli sent letters to many big companies, such as McDonald’s, PepsiCo, Mondelez, and Estee Lauder, urging them to review their business in Russia. DiNapoli explained that suspending or ending business in Russia not only “would address various investment risks associated with the Russian market”, but it would also play a key role in “condemning Russia’s role in fundamentally undermining the international order.”<sup>122</sup>

Yet, more surprisingly, the companies who decided to stay in Russia also often mentioned the interests of stakeholders, such as Russian employees or the Russian population.

Antoine de Saint-Affrique, chief executive of the food company Danone, claimed a “responsibility” to keep doing business in Russia for “the tens of thousands of people who depend on us.”<sup>123</sup> Koch Industries Inc. defended its decision to remain in Russia in order to protect the interests of its employees in Russia.<sup>124</sup> Uniqlo’s CEO indicated that while he is against the war, all Uniqlo

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Statement, Zimmer Biomet, Zimmer Biomet Statement on Ukraine (Mar. 2022) <https://www.zimmerbiomet.com/en/zb-statement.html#:~:text=March%202022&text=The%20Zimmer%20Biomet%20Foundation%20is,them%20to%20hospitals%20in%20Ukraine> (“We continue to monitor the situation in Ukraine and Russia. We have customers, distributors and team members or their loved ones in both countries, and our focus is on maintaining contact with them and offering our support”).

<sup>121</sup> Statement, BP, *A Message to all BP Staff on our Relationship with Rosneft*, (Feb. 27, 2022) <https://www.bp.com/en/global/corporate/news-and-insights/reimagining-energy/a-message-to-all-bp-staff-on-our-relationship-with-rosneft.html>.

<sup>122</sup> Hilary Russ, *MCDONALD’S, Pepsi, Others Should Consider Pausing Russia Operations -NY Pension Fund*, REUTERS (Mar. 4, 2022), <https://www.reuters.com/business/retail-consumer/mcdonalds-pepsi-others-should-consider-pausing-russia-operations-ny-pension-fund-2022-03-04/>.

<sup>123</sup> Leila Abboud, *Danone Chief Defends Staying in Russia as He Sets Out Global Strategy*, FINANCIAL TIMES (Mar. 8, 2022), <https://www.ft.com/content/a812ec18-058c-49b2-8a70-e8791ea1e43a> (“We have a responsibility to the people we feed, the farmers who provide us with milk, and the tens of thousands of people who depend on us”).

<sup>124</sup> See Dave Robertson, Pres. & COO, Koch Industries, *Statement from Dave Robertson: The Crisis in Ukraine*, KOCH NEWSROOM (Mar. 16, 2022), <https://news.kochind.com/news/2022/statement-crisis-in-ukraine>

stores would continue to operate in Russia, because “clothing is a necessity of life. The people of Russia have the same right to live as we do.”<sup>125</sup> Only three days later, after much criticism and a #boycottUNIQLO campaign, the company reversed its decision and closed shops in Russia blaming “operational challenges.”<sup>126</sup>

Within the companies that only partially suspended their operations in Russia, some consumer-product firms vowed to stop selling all but essentials for the Russian population. Yet they drew criticism for what they counted as “essential.” For instance, PepsiCo CEO Ramon Laguarta stated: “As a food and beverage company, now more than ever we must stay true to the humanitarian aspect of our business. That means we have a responsibility to continue to offer our other products in Russia, including daily essentials such as milk and other dairy offerings, baby formula and baby food.”<sup>127</sup> The company, though, also kept selling potato chips. Similarly, Unilever pledged to continue to supply only “everyday essential food and hygiene products”,<sup>128</sup> yet the products sold by Unilever included ice-cream brands such as Inmarko; cosmetics brand Black Pearl; cleansing brand Pure Line; hand-cream brand Silky Hands; and children’s cosmetics brand Little Fairy.<sup>129</sup>

Some of the companies that sold their local assets to a Russian buyer did not disclose the financial terms of the deal, but they remarked how the agreements were expected to preserve their employees’ jobs in Russia.<sup>130</sup>

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(“While Guardian’s business in Russia is a very small part of Koch, we will not walk away from our employees there or hand over these manufacturing facilities to the Russian government so it can operate and benefit from them (which is what The Wall Street Journal has reported they would do). Doing so would only put our employees there at greater risk and do more harm than good”).

<sup>125</sup> Kanoko Matsuyama, ‘*Clothing Is a Necessity of Life: Uniqlo Owner Defends Choice to Stay in Russia as Other Retailers Flee*’, FORTUNE (Mar. 7, 2022), <https://fortune.com/2022/03/07/uniqlo-owner-fast-retailing-defends-choice-stay-russia-retailers-flee-ukraine-invasion/>.

<sup>126</sup> Kanoko Matsuyama, *Uniqlo Shuttters Shops in Russia Days After CEO Said Chain Would Stay Because ‘Clothing Is a Necessity of Life’*, FORTUNE (Mar. 10, 2022), <https://fortune.com/2022/03/10/uniqlo-fast-retailing-shuttters-shops-russia-ceo-said-chain-would-stay-open/>.

<sup>127</sup> See Ramon Laguarta, CEO, PepsiCo, *PepsiCo. Suspends production & sale of Pepsi in Russia. Continues to provide essential foods.*, PEPSICO, <https://contact.pepsico.com/pepsico/article/pepsico-suspends-production-sale-of-pepsi-in-russia-continues-to>.

<sup>128</sup> See Statement, Alan Jope, CEO, Unilever, *Updated Unilever Statement on The War in Ukraine*, UNILEVER (July 3, 2022), <https://www.unilever.com/news/news-search/2022/updated-unilever-statement-on-the-war-in-ukraine/>.

<sup>129</sup> Saabira Chaudhuri & Sharon Terlep, *Lip Gloss, Potato Chips, Air Fresheners Are Among the ‘Essentials’ Still Sold in Russia*, THE WALL STREET JOURNAL (Mar. 22, 2022), <https://www.wsj.com/articles/for-companies-still-selling-in-russia-essential-is-a-loose-term-11647946800>.

<sup>130</sup> See Nick Kostov, *Renault Sells Russia Business to State-Backed Entity for One Ruble*, WALL STREET JOURNAL (May 16, 2022), [https://www.wsj.com/articles/renault-sells-russia-business-to-state-backed-entity-for-one-ruble-11652692431?mod=article\\_inline](https://www.wsj.com/articles/renault-sells-russia-business-to-state-backed-entity-for-one-ruble-11652692431?mod=article_inline). (For instance, Renault’s CEO Luca de Meo said: “Today, we

The corporate choice to continue to operate in Russia claiming the need to help Russian employees or to supply essential goods to the Russian population has been labeled as window-washing in order to mitigate reputational losses.<sup>131</sup> Another critique is that sanctions are a form of economic warfare used to oppose military warfare, so they are designed to have a profound, deleterious effect on the economy and welfare of Russia.<sup>132</sup> Therefore, companies that keep on doing business in Russia contribute tax dollars to the Russian government, and support value chains linked to the Russian military, undermining the premises of sanctions inflicted on the regime. For example, US Senator Elizabeth Warren explicitly said that JPMorgan and Goldman Sachs continuing to purchase company bonds tied to Russia meant “capitalizing on Russia’s invasion of Ukraine and undermining sanctions placed on Russian businesses.”<sup>133</sup>

### III. EMPIRICAL ANALYSIS

This Part describes the findings of our empirical analysis of companies’ response to the Russian invasion of Ukraine, using a sample of companies included in the S&P 500 and STOXX Europe 600 (also called STOXX 600) indices.

Below we first present sample descriptive statistics (Section IV.A). Next, we discuss the boycott campaigns on Twitter against companies refusing to withdraw from Russia (Section IV.B). Then we report our findings with respect to the relationship between company revenue exposure to Russia and the speed of the announcement to withdraw or suspend Russian operations (Section IV.C). Finally, we present our findings regarding the association between the Twitter-based measures of boycott campaign virality and companies’ decision to leave Russia (Section IV.D).

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have taken a difficult but necessary decision; and we are making a responsible choice towards our 45,000 employees in Russia.”)

<sup>131</sup> Saabira Chaudhuri & Sharon Terlep, *Lip Gloss, Potato Chips, Air Fresheners Are Among the ‘Essentials’ Still Sold in Russia*, THE WALL STREET JOURNAL (Mar. 22, 2022), <https://www.wsj.com/articles/for-companies-still-selling-in-russia-essential-is-a-loose-term-11647946800>.

<sup>132</sup> See Paolo Pasquariello, *Russia-Ukraine war: What To Know About Sanctions—Their Effects and Effectiveness*, University of Michigan News, (May 3, 2022), <https://news.umich.edu/russia-ukraine-war-what-to-know-about-sanctions-their-effects-and-effectiveness/>.

<sup>133</sup> Hannah Levitt, Elizabeth Warren Says Wall Street ‘Undermining’ Russia Sanctions, BLOOMBERG (Mar. 4, 2022), <https://www.bloomberglaw.com/product/blaw/document/R892GCT0AFB4>.



### A. *Sample Descriptive Statistics*

To investigate companies' responses to the Russian invasion, we collected data on companies included in the S&P 500 and STOXX 600 indices, which are the most popular indices with a large number of mega, large and mid-capitalization companies in the USA and Europe, respectively.<sup>134</sup> Our initial sample consists of 1,090 companies—500 from the S&P 500 and 590 from STOXX 600 (excluding secondary listings)—extracted from the FactSet database on April 4, 2022.

We use FactSet's Geographic Revenue Exposure (GeoRev) as a proxy for companies' exposure to Russia. More specifically, we extract the variable *GeoRev Country Pct – Russian Federation* (further, *GeoRev%-Russia*), which captures the percentage of revenue exposure to Russia.<sup>135</sup> Although a company's complete exposure to Russia can include assets, suppliers, employees and other factors, we do not have a reliable broader measure for a large sample of companies.<sup>136</sup> The sample of companies with available *GeoRev%-Russia* data consists of 718 companies (66% of the initial sample). Although many of the companies with missing data most likely do not have any sales exposure to Russia (e.g., utility companies in the USA), we do not want to make a judgment call about all the companies; hence, we do not replace the missing data with zeros. The companies with available *GeoRev%-Russia* data are larger in size: the average market capitalization of our sample companies is \$57 billion compared to \$49 billion for companies with missing *GeoRev* data. And a higher

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<sup>134</sup> *Id.* (Mega-cap companies are those with a market capitalization of \$200 billion or higher, large-cap companies - from \$10 billion and \$200 billion, and mid-cap companies - from \$2 billion to \$10 billion. As of February 23, 2022, there were no small-cap companies (with a market cap between \$300 million and \$2 billion) in S&P 500 and STOXX 600.)

<sup>135</sup> See *GeoRevenue Portfolio Exposure*, FIDELITY INSTITUTIONAL (Jun. 2022), <https://institutional.fidelity.com/app/proxy/content?literatureURL=/9886336.PDF>. (According to FactSet, "conventional geographic revenue data are difficult to interpret and compare between companies because they are not normalized. Furthermore, these non-normalized geographic revenue data do not provide any exposure estimates on countries and regions that are not explicitly disclosed by the companies. GeoRev answers these two challenges by first mapping companies' revenues to a normalized geographic taxonomy, and then applying a proprietary algorithm to estimate % revenue exposure to countries and regions that are not explicitly disclosed. Estimates are accompanied by a Confidence Factor, which offers an easy way to distinguish them from actual disclosed values as well as ranks their trustworthiness." The FactSet's GeoRev Confidence Factor ranges from the lowest 0.5 to the highest 1.0. "A confidence factor of 1.000 indicates that the revenue is an actual, reported, or declared value." All *GeoRev-Russia* variables in our sample have the confidence factor of 1, i.e. they are the actual, reported, or declared values.)

<sup>136</sup> See, e.g., Daniyal Ahmed, et. al., *supra* note 52. (An alternative method of estimating a company's exposure to Russia is to search for Russia-related keywords in company filings and earnings calls. Such an approach would 'hit' a larger number of companies but fail to generate a comparable numerical value.)

proportion of companies with missing data are in the Real Estate, Utilities, and Financial sectors.

Economic sanctions against Russia (discussed in Section III.A) affected all Western companies with operations in Russia, but some industries – for example, airlines – were more affected than others. For this reason, any analysis of company responses to the Russian invasion should control for industry-specific effects. We use the Global Industry Classification Standard (GICS) for our empirical analysis.<sup>137</sup> GICS is an industry taxonomy developed by MSCI and S&P and used by the global financial community. We use GICS sector-level classification for all eleven sectors, except Industrials (Code 20), which is further split into three sub-groups (Industry group level)—Capital Goods, Commercial & Professional Services, and Transportation—due to a higher number of companies and over-diverse sub-categories.

Table 1 reports the number of sample companies by industry and index. The largest number of companies are within the Capital Goods industry group, which includes, for example, the following industries (at the GICS 6-digit level): Aerospace & Defense, Building Products, and Construction & Engineering. Another two highly populated industry sectors are Health Care and Information Technology.

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<sup>137</sup> See *The Global Industry Classification Standard*, MSCI, <https://www.msci.com/our-solutions/indexes/gics>.

**Table 1: Number of Sample Companies by Industry and Index**

Industry name	Industry code	S&P500	STOXX600	Total
Capital Goods	GICS Group 2010	43	78	121
Commercial & Professional Services	2020	6	17	23
Transportation	2030	7	12	19
Energy	GICS Sector 10	7	10	17
Materials	15	25	44	69
Consumer Cyclical	25	31	41	72
Consumer Staples	30	23	35	58
Health Care	35	50	48	98
Financials	40	29	43	72
Information Technology	45	68	30	98
Communication Services	50	18	26	44
Utilities	55	0	15	15
Real Estate	60	5	7	12
Total		312	406	718

Next, we split the sample by company size and estimate the revenue exposure to Russia in each size category. Table 2 shows that the average *GeoRev%-Russia* is significantly higher among smaller firms. The difference between Large and Mid-cap firms, as well as between Mega & Large vs. Mid-cap firms is statistically significant. It is important to note that company size is based on the market capitalization of sample firms as of February 23, 2022, i.e. a day before the Russian invasion. The results are similar if we use the market capitalization data from earlier dates, such as February 17 (a week before) or January 24 (a month before).

**Table 2: Revenue Exposure to Russia<sup>138</sup>**

Company size	Average GeoRev%-Russia	Number of firms	Difference Large vs. Mid (p-value)	Difference Mega & Large vs. Mid (p- value)
Mega	1.28	35		
Large	1.47	510		
Mid	1.87	173	<i>0.009***</i>	<i>0.006***</i>
Total	1.56	718		

### B. Boycott Campaigns on Twitter

In addition to the need to adapt to economic sanctions against Russia, companies with Russian operations almost instantly felt public pressure from consumers, employees, and activists to leave Russia. As discussed in Section III.B.2, people worldwide started boycott campaigns via Twitter, targeting multinational companies that stayed in Russia. To estimate the power or virality of these campaigns and evaluate their potential impact on companies' actions, we collected tweets related to boycott campaigns against our sample companies.

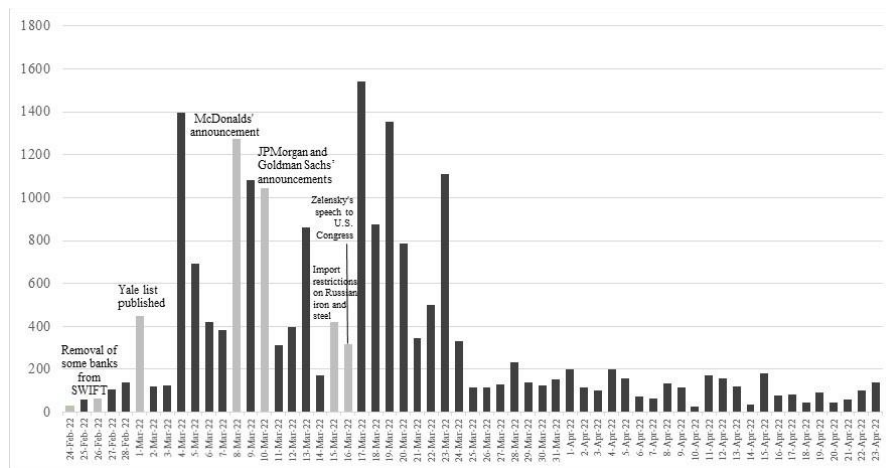
First, we searched for the company Twitter handles and manually checked that those are the official company accounts. For example, The Coca-Cola Company uses the handle @CocaColaCo, which was created in March 2009, and which has 1.1 million followers, and had posted 22.5 thousand tweets (including retweets) by July 2022. After excluding 52 companies without handles and Twitter Inc. itself, our final sample consists of 665 companies. The largest company without an official company Twitter account is Berkshire Hathaway. Although Warren Buffett, the chairman and CEO of Berkshire Hathaway, has an account (@WarrenBuffett) created on April 2013 with 1.7 million followers, by July 2022 he had posted only ten tweets, the latest being from April 2016.

Next, we collected all tweets (including retweets) related to boycott campaigns during the 60-day period after the Russian invasion of Ukraine. To retrieve all the relevant tweets, we employed the Twitter Academic Research

<sup>138</sup> The table reports average revenue exposure (in %) to Russia by company size category. All variables are defined in Table 4. The last two columns report the p-values of a two-sided mean difference test.

application programming interface (API) v2.<sup>139</sup> Using Twarc2 for Python,<sup>140</sup> we ran a query that included (a company handle) AND (Russia or Ukraine) AND (boycott) to extract tweets referring to a boycott campaign against a company in our sample. This process resulted in 20,316 valid tweets (including retweets) from February 24 to April 24. Figure 1 shows the number of daily tweets and adds a timeline with some important announcements or events. The median daily number of boycott tweets during the 60-day period is 147 and the first day with the above median number of tweets is March 1 when the first version of the Yale SOM list (described in Section III.B.3 and in the following Section) was published.

**Figure 1: Number of Boycott Tweets by Day<sup>141</sup>**



### C. Speed of Announcement

As discussed in Section III.B.3, the Yale SOM list contributed to public pressure and reinforced the boycott campaigns against companies that did not leave Russia. Although the Yale SOM list classification includes five categories (from A to F), only Grades A (Withdrawal) and B (Suspension) can be

<sup>139</sup> See *Developer Platform, Manage Tweets*, TWITTER, <https://developer.twitter.com/en/docs/twitter-api/tweets/manage-tweets/introduction>.

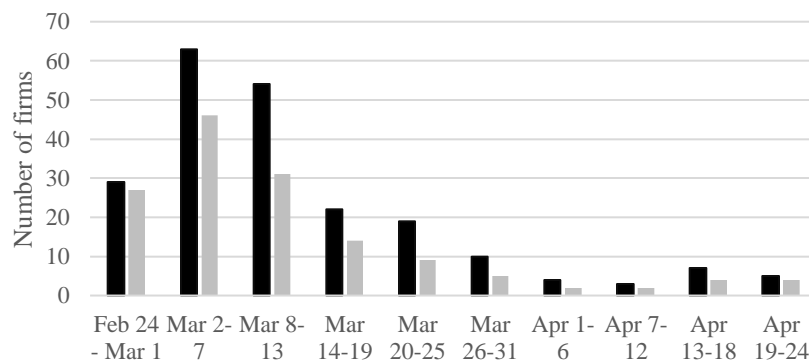
<sup>140</sup> See *twarc2*, TWARC, [https://twarc-project.readthedocs.io/en/latest/twarc2\\_en\\_us/](https://twarc-project.readthedocs.io/en/latest/twarc2_en_us/).

<sup>141</sup> This Figure reports the daily number of tweets (including retweets) that include a sample company handle AND the words Russia OR Ukraine AND the word boycott. Grey bars represent days with some important announcements or events.

convincingly associated with the concept of *leaving Russia*.<sup>142</sup> Grade C (Scaling Back) marks some action, but continuing operations, while Grades D (Buying Time) and Grade F (Digging In) are no-action categories. Companies made the announcements related to their Russian operations at different times, so our first empirical question concerns the relationship between the speed of the announcement and actual exposure to Russia.

The announcement dates were extracted from a designated project page at the Yale School of Management.<sup>143</sup> The list is continuously updated by Professor Jeffrey Sonnenfeld and a Yale Research Team of 28 researchers. We use the list available as of July 1, 2022. Figure 2 reports the number of our 718 sample firms (with GeoRev data described in Section IV.A) that made an announcement in the 60-day period after the start of the war. Altogether 216 firms (30% of the total) made some statements about their operations in Russia, while 144 of them (2/3 of all announcement firms) can be classified as *leaving Russia* (Grades A and B). The peak of announcement activity was between March 2 and March 13, with a median announcement speed of 14 and 12 days after the start of the war for all announcement-issuing firms and *leaving Russia* firms, respectively.

**Figure 2: Number of Firms Making Announcements (Yale SOM List)<sup>144</sup>**



<sup>142</sup> See Sonnenfeld et. al., *supra* note 9, at 1.

<sup>143</sup> See Yale CELI List of Companies Leaving and Staying in Russia, YALE SCHOOL OF MANAGEMENT (Sept. 22, 2022).

<sup>144</sup> This figure reports the number of firms making announcements related to their operations in Russia (according to the Yale SOM list) during a 60-day period after the start of the war (February 24 - April 24). The time period is split into 10 equal (6-day long) bins. The total number of sample firms (with GeoRev data described in Section IV.A) that made an announcement during this time period is 216, including 144 firms with the strongest *leaving Russia* actions (Grade A or B). Black bars represent all announcing firms, while grey bars represent *leaving Russia* (Grades A and B) firms.

Table 3 below lists sample companies with the largest revenue exposure to Russia. Mondi plc, a multinational packaging and paper company, has the largest exposure with *GeoRev%-Rus* of 16.7% and it was assigned Grade F rating as of March 10 when it issued a press release stating: “Syktyvkar [a paper mill located in the Komi Republic] is currently operating, but the mill is starting to see a number of operational constraints,” and further explaining that “Recognising its corporate values and broader stakeholder responsibilities, the Board is assessing all options for the Group’s interests in Russia, including any form of legal separation.”<sup>145</sup> Although on May 4 Mondi announced that “the board has decided to divest the group’s Russian assets”<sup>146</sup> and was upgraded to Grade A in the Yale SOM list, we keep the grade category assigned during our sample period that ends on April 24. The same approach is used for other companies, e.g. Renault, which was upgraded outside the sample period.

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<sup>145</sup> See *MONDI PLC: Update on Russian Business Activities*, BLOOMBERG (Mar. 10, 2022, 10:59 AM), <https://www.bloomberg.com/press-releases/2022-03-10/mondi-plc-update-on-russian-business-activities>.

<sup>146</sup> See *UK Packaging Firm Mondi to Sell Russian Assets*, REUTERS (May 4, 2022, 1:36 PM), <https://www.reuters.com/business/uk-packaging-firm-mondi-sell-russian-assets-2022-05-04/>.

**Table 3: Top-15 Companies by Revenue Exposure to Russia<sup>147</sup>**

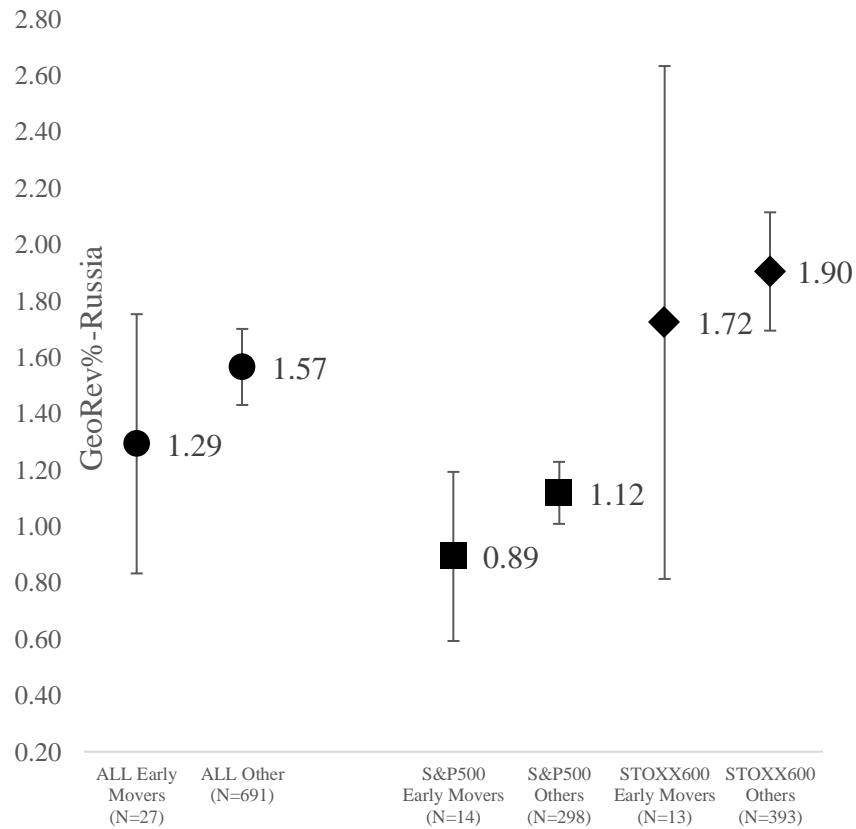
Company	GeoRev%- Rus	Size	Index	Grade	Announcement date
Mondi plc	16.7	Large	STOXX600	F	10-Mar
Raiffeisen Bank International AG	16.4	Mid	STOXX600	F	17-Mar
Rockwool International A/S	15.2	Mid	STOXX600	D	04-Mar
Inchcape plc	11.2	Mid	STOXX600	-	-
Carlsberg AS Class B	9.8	Large	STOXX600	A	28-Mar
Renault SA	9.0	Large	STOXX600	B	23-Mar
UniCredit S.p.A.	7.7	Large	STOXX600	F	15-Mar
Philip Morris International Inc.	7.3	Large	S&P500	C	24-Mar
easyJet plc	6.7	Mid	STOXX600	-	-
Epiroc AB Class A	6.1	Large	STOXX600	B	24-Mar
Danone SA	6.0	Large	STOXX600	D	06-Mar
Henkel AG & Co. KGaA Pref	5.8	Large	STOXX600	A	19-Apr
Allianz SE	5.4	Large	STOXX600	C	25-Feb
Neste Corporation	5.2	Large	STOXX600	B	01-Mar
Eurofins Scientific Société Européenne	5.1	Large	STOXX600	-	-

In this Section, we are particularly interested in the revenue exposure to Russia of the *early movers* (or *early announcers*), i.e. the firms that announced they were leaving Russia even before the boycott campaign spiked and the first version of the Yale SOM list was published. We define as *early movers* twenty-seven companies that announced they were leaving Russia (Grade A or B) on or before March 1 (the first bin in Figure 2) and compare their *GeoRev%-Russia* with all other companies in the GeoRev sample of 718 companies. Unsurprisingly, only one company (Neste) out of the top 15 companies by their exposure to Russia (listed in Table 3) appears among the early movers. Figure 3 presents the difference in revenue exposure to Russia of early movers (1.29) and all other companies (1.57). Although the difference is statistically insignificant

<sup>147</sup> Grade is from the Yale SOM list as of April 24 and includes five categories of company actions with respect to their Russian operations: A (Withdrawal), B (Suspension), C (Scaling Back), D (Buying Time) and F (Digging In). Companies highlighted in grey are classified as *leaving Russia* (Grades A and B).



due to the small sample size of early movers, the average exposure to Russia of early movers is smaller than the lower bound of the non-early movers' 95 percent confidence interval. This result is confined to US companies (S&P 500): the average exposure to Russia of US early movers (0.89) is smaller than that of non-early movers (1.12) and even smaller than the lower bound of the 95 percent confidence interval of non-early movers.

**Figure 3: Exposure to Russia for Early Movers<sup>148</sup>**

Our analysis confirms the intuition that only corporations with very limited financial exposure to Russia could quickly take a bold stance and announce their withdrawal from Russian operations. These actions, which in certain cases could be classified as woke-washing, put pressure on other market players with larger

<sup>148</sup> This figure shows the average values and 95 percent confidence intervals of revenue exposure to Russia (*GeoRev%-Russia*) for *early movers*—the firms that announced they were leaving Russia (Yale SOM list Grade A or B) on or before March 1, 2022—and other companies. The first two bars show the results for the full GeoRev Sample (718), while the remaining bars show the respective results split by S&P 500 and STOXX 600 companies.

exposure and higher shareholder value at stake. The more exposed companies were forced to make an announcement perhaps earlier than they would have wished, given the complexity of the situation.

#### *D. Boycott Campaign Virality and Withdrawal from Russia*

In this Section, we turn to analysis of the boycott campaigns on Twitter and attempt to measure their “virality” and relationship to the decision to withdraw from Russia. Viral marketing is a concept developed in the late 1990s and refers to a marketing technique where users help spread the advertiser’s message to other users.<sup>149</sup> More recently, virality as a concept is applied to the spread of information among social media users.<sup>150</sup> We focus on Twitter, instead of other social media platforms such as Facebook or Instagram, due to Twitter’s popularity in the corporate sector, as well as access to extensive historical data through the Twitter API for Academic Research.<sup>151</sup>

As described in Section IV.B, we use the sample with official Twitter accounts, which we call the Twitter Sample, that includes 665 companies. We design two firm-specific measures of boycott campaign virality *prior to* company announcements about leaving Russia. The first measure is a combination of the number of tweets (including retweets)<sup>152</sup> (*#tweets*) and the number of followers for users that tweeted (*#followers*), i.e. the potential number of users who view the tweets.<sup>153</sup> For each day and sample company, we collect the total number of tweets and retweets that include the company’s Twitter handle (e.g. @CocaColaCo) AND the words Russia OR Ukraine AND the word

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<sup>149</sup> See, e.g., Estela Viñarás, What Is Viral Marketing? Examples and Advantages, CYBERCLICK BLOG (Jan. 26, 2022), <https://www.cyberclick.net/numericalblogen/what-is-viral-marketing-advantages-and-examples>.

<sup>150</sup> See Brett Campbell et. al., *Earnings Virality*, J. OF ACCT. & ECON. (JAE), Vol. 74, No. 1 (2022), at 7 (“Social media platforms are particularly well suited to facilitate rapid diffusion because they tether users together into networks, which enables information to spread almost instantaneously from user to user, both within and across user networks. This spread of information is characterized by an element of speed, which social media facilitates by pushing information to users’ feeds . . . virality results in content being consumed by a large and broad audience.”).

<sup>151</sup> *Id.* at 14: (“specific features on Twitter . . . are highly amenable to virality . . . allows us to measure extreme information dissemination . . . is frequently either the source of virality or plays a role in a piece of information going viral . . . often assists information posted on other social media platforms . . . is an important venue for social investing.”).

<sup>152</sup> *Id.* at 15 (“the concept of retweeting, or resharing in general, is part of what fuels the speed and depth of dissemination on social media.”).

<sup>153</sup> *Id.* (The authors use the labels *#tweet* and *#feeds*, respectively, for their measure of earnings virality.).

boycott (with or without a hashtag).<sup>154</sup> Likewise, we collect the total number of followers for users that tweeted the above mentioned keywords.

Arguably, a company's announcement about leaving Russia could go viral *after* the announcement, and the query would pick up a (made up) tweet like "Today @CompanyA suspended its operations in Russia. Well done! #Boycott companies that are still financing Putin's war: @CompanyB, @CompanyC, . . . !" To avoid capturing social media activity after the announcement, we design a firm-specific measure that estimates the virality of a boycott campaign *prior* to the announcement. This measure is based on the cumulative number of tweets per company ( $i$ ) from the first day of the war (February 24) up to one day before the announcement ( $\#cumtweets_{i,t-1}$ ), i.e. for a company ( $i$ ) that announced its intention to leave Russia on March 5 ( $t$ ), we sum up all boycott campaign-related tweets (that include the company's  $i$  handle) from February 24 to March 4 ( $\#cumtweets_{i,Mar4}$ ). Similarly, we calculate the cumulative number of followers for users that tweeted about the boycott campaign ( $\#cumfollowers_{i,t-1}$ ).

We assign an *implied* Grade F rating to Twitter Sample companies that had not made any announcement by April 24, 2022, and create an additional Modified Twitter Sample that excludes companies that did not make any announcement about their Russian operations and that had revenue exposure to Russia below 0.2%. The Modified Twitter Sample contains 620 (out of 665) companies and assures that we are not assigning an implied Grade F rating to companies that have no or minimal Russian operations. Note that some companies that did announce their withdrawal from Russia had 0.2% or lower *GeoRev%-Russia* values. For companies with an implied Grade F rating, we calculate the boycott campaign virality as of April 24 using  $\#cumtweets_{i,Apr24}$  and  $\#cumfollowers_{i,Apr24}$  that measure a firm-specific boycott campaign virality *prior* to the announcement, in this case, after April 24 (if ever).

Next, we set a *Virality Dummy* $_i$  equal to one for companies that are in the top decile of both variables before the announcement ( $\#cumtweets_{i,t-1}$  and  $\#cumfollowers_{i,t-1}$ ), and equal to zero otherwise.<sup>155</sup> The second measure of boycott campaign virality,  $LnTweets_i$ , is a continuous variable calculated as the

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<sup>154</sup> See, e.g., Patrick Curl, (@patrickcurl), TWITTER (Mar. 5, 2022, 2:27 PM), <https://twitter.com/patrickcurl/status/1500191234756775936> (We manually check several randomly selected tweets to ensure that the message is indeed about boycotting companies due to their refusal (or inaction) to leave Russia.) ("@3M is still in *Russia*, huge company. impossible to *boycott*. . . they make ingredients in many things we don't realize. but we can still give them hell. . . anyone want to start convoys outside 3m factories across America? #UkraineRussianWar." 3M announced its suspension of operations in Russia on March 10 (Grade B)).

<sup>155</sup> See Campbell et al., *supra* note 147 (using a similar approach for their *Viral Earnings* variable.).

natural logarithm of one plus  $\#cumtweets_{i,t-1}$ .<sup>156</sup> For example, Puma SE (Grade B) and Moody's Corp (Grade A) both made *leaving Russia* announcements on March 5, while Tesla Inc. has not made an announcement and, as of July 2022, is not included in the Yale SOM list. *Viral Dummy* is 1 for Puma and 0 for Moody's and Tesla.<sup>157</sup> *LnTweets* variable is 1.386 for Puma, 0 for Moody's, and 2.944 for Tesla.<sup>158</sup> All variables that we use for our empirical analysis are summarized in Table 4.

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<sup>156</sup> *Id.* (We report the results using *LnTweets*, but we have also calculated a similar continuous variable based on the cumulative number of followers, i.e. *LnFollowers* that is equal to the natural logarithm of one plus  $\#cumfollowers_{i,t-1}$ . The *LnFollowers* is highly correlated with *LnTweets* and all the results are largely identical if we use this variable in our analysis.)

<sup>157</sup> *Id.* (Puma had in total 3 tweets ( $\#cumtweets_{Puma,Mar4}$ ) and 494 tweet followers ( $\#cumfollowers_{Puma,Mar4}$ ) prior to the announcement, which are both in the top decile of 665 Twitter Sample companies. Moody's had zero boycott campaign tweets and followers before the announcement, while Tesla had 18 boycott tweets ( $\#cumtweets_{Tesla,Apr24}$ ) and 6824 boycott campaign followers ( $\#cumfollowers_{Tesla,Apr24}$ ) that did not make it to the top decile of all sample companies during the sample period.)

<sup>158</sup> *Id.* (Puma had 3 tweets, so  $\ln(1+3)=1.386$ ; Moody's had 0 tweets,  $\ln(1+0)=0$ ; and Tesla had 18 tweets,  $\ln(1+18)=2.944$ .)

**Table 4: Variable Definitions**

Variable Name	Variable Definition
<i>CumFollowers<sub>i,t-1</sub></i>	Calculated similarly as <i>CumTweets<sub>i,t-1</sub></i> , using the cumulative number of followers for users that tweeted about the boycott campaign.
<i>CumTweets<sub>i,t-1</sub></i>	Calculated as the cumulative number of tweets per company ( <i>i</i> )—that include company <i>i</i> 's Twitter handle AND the words Russia OR Ukraine AND the word boycott (with or without a hashtag)—from the first day of the war (February 24) up to one day before the announcement ( <i>t</i> ). For companies without any announcement as of April 24, the variable is measured on April 24.
<i>GeoRev%-Russia</i>	A firm-specific variable measuring the percentage of revenue exposure to Russia. Source: FactSet's Geographic Revenue Exposure (GeoRev), the variable <i>GeoRev Country Pct – Russian Federation</i> (extracted on April 4).
<i>Industry</i>	Thirteen industry groups, using Global Industry Classification Standard (GICS). The two-digit sector level classification is used for all (eleven) sectors except Industrials (Code 20) which is further split into three industry group categories (Codes 2010, 2020, 2030) due to a higher number of companies and over-diverse sub-categories.
<i>Leaving Russia Dummy</i>	Equals one for companies with Grade A and B in the Yale SOM List, and zero otherwise.
<i>LnTweets</i>	A continuous variable calculated as the natural logarithm of one plus <i>CumTweets<sub>i,t-1</sub></i> .
<i>Size</i>	Natural logarithm of market capitalization (in millions USD) as of February 23 (before the start of the Russian invasion of Ukraine).
<i>Size Category</i>	Mega-cap includes companies with a market capitalization above \$200 billion, Large-cap – between \$10 billion and \$200 billion, and Mid-cap – between \$2 billion and \$10 billion.

<i>S&amp;P500 Dummy</i>	Equals one for companies included in the S&P 500 Index, and zero otherwise.
<i>Virality Dummy</i>	A firm-specific boycott campaign virality measure that equals one for companies that are in the top decile of both— <i>CumTweets<sub>i,t-1</sub></i> and <i>CumFollowers<sub>i,t-1</sub></i> — prior to making a statement about their Russian operations.
<i>Yale SOM List</i>	A list of companies leaving and staying in Russia, continuously updated by Professor Jeffrey Sonnenfeld and a Yale Research Team of 28 researchers at the Yale School of Management (SOM) Chief Executive Leadership Institute (CELI). The list classifies companies into five categories/grades: A (Withdrawal), B (Suspension), C (Scaling Back), D (Buying Time), and F (Digging In).

Next, Table 5 reports the average values of *Virality Dummy* and *LnTweets* by size category. Not surprisingly, boycott campaign virality is substantially higher among larger companies. More than half (0.529) of mega-cap companies were experiencing a viral boycott campaign before making a statement about their Russian operations. The same proportion is about five times smaller for large-cap (0.114) and twenty times smaller for mid-cap companies (0.027).

**Table 5: Boycott Campaign Virality Measures by Size<sup>159</sup>**

Company size	Virality Dummy	LnTweets	Number of companies
Mega	0.529	2.339	34
Large	0.114	0.614	482
Mid	0.027	0.160	149
Total	0.116	0.600	665

Finally, to examine the association between boycott campaign virality and companies' decision to withdraw from Russia, we use a cross-sectional ordinary least squares (OLS) regression model in which the dependent variable is *Leaving Russia Dummy* that equals one for companies *leaving Russia* (Grade A and B),

<sup>159</sup> *Virality Dummy* and *LnTweets* are firm-specific boycott campaign virality measures calculated prior to the company's announcement about leaving or staying in Russia. Variable definitions are provided in Table 4.

and zero otherwise.<sup>160</sup> As explanatory variables, we include our two firm-specific boycott campaign virality measures (*Virality Dummy* and *LnTweets*), one by one, and a set of control variables that may be associated with the decision to leave Russia. In particular, we control for companies' revenue exposure to Russia, firm size, region (S&P 500 or STOXX Europe 600 index), and industry effects. As discussed in Section IV.A, we use thirteen GICS industry classification groups, with Energy being the base category in the regressions. Arguably, sanctions imposed against Russia was a strong factor influencing Western companies' actions, and we attempt to control for this factor by adding industry fixed effects, as sanctions typically had a similar effect on companies within the same industry.

We present the model estimation results in Table 6. The results provide strong evidence that firm-specific boycott campaign virality is positively related to the leaving Russia decision, after controlling for firm size, industry, region, and revenue exposure to Russia. We test for multicollinearity using the variance inflation factor (VIF) and do not find any excessive correlation between regression variables. In columns (1) and (2) we report the results using the Twitter Sample (665 firms) and in columns (3) and (4)—using the Modified Twitter Sample (620 firms) that excludes companies that did not make a statement about their Russian operations and had revenue exposure to Russia below 0.2%. The coefficients on our key variables of interest—*Virality Dummy* and *LnTweets*—are both positive and significant at the one percent level. We also find a positive and significant association between firm size and the leaving Russia decision, which suggests that larger companies faced stronger pressure to take a stance, irrespective of their exposure to Russia (the coefficient on *GeoRev%-Russia* variable is close to zero and insignificant). Only one industry sector (Transportation) exhibits a strong positive association with the leaving Russia decision, which is not surprising given the fact that Airlines (a sub-category under Transportation) were among the most affected by sanctions.

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<sup>160</sup> *Id.* (The results are qualitatively similar if we use a prohibit model or if we use a dependent variable that equals one for companies with Grade A, B, and C ratings. For brevity, we do not report these regressions, but they are available upon request.)



**Table 6: Boycott Campaign Virality and Leaving Russia Decision<sup>161</sup>**

VARIABLES	(1)	(2)	(3)	(4)
Virality Dummy	0.336*** (5.383)		0.328*** (5.235)	
LnTweets		0.045*** (2.864)		0.042*** (2.645)
GeoRev%-Russia	0.001 (0.143)	0.004 (0.423)	-0.005 (-0.577)	-0.002 (-0.236)
Size	0.033** (2.364)	0.044*** (2.881)	0.031** (2.052)	0.042*** (2.613)
SP500 dummy	-0.022 (-0.651)	-0.019 (-0.544)	-0.028 (-0.789)	-0.025 (-0.681)
<i>Industry dummies:</i>				
Materials	0.036 (0.324)	0.001 (0.009)	0.019 (0.153)	-0.019 (-0.149)
Capital Goods	-0.010 (-0.093)	-0.034 (-0.310)	-0.031 (-0.263)	-0.058 (-0.476)
Comm&Prof Services	-0.098 (-0.874)	-0.120 (-1.036)	-0.129 (-1.021)	-0.154 (-1.189)
Transportation	0.442*** (2.930)	0.410*** (2.627)	0.417*** (2.615)	0.382*** (2.319)
Consumer Cyclical	0.182 (1.611)	0.204* (1.720)	0.171 (1.364)	0.191 (1.456)
Consumer Staples	-0.029 (-0.248)	-0.031 (-0.253)	-0.039 (-0.298)	-0.040 (-0.299)
Health Care	-0.155 (-1.549)	-0.191* (-1.829)	-0.180 (-1.578)	-0.219* (-1.855)

<sup>161</sup> This table reports the results of a cross-sectional OLS regression. The dependent variable is Leaving Russia Dummy which equals one for companies leaving Russia (Grade A and B), and zero otherwise. Virality Dummy and LnTweets are firm-specific boycott campaign virality measures calculated prior to the company's announcement about leaving or staying in Russia. Variable definitions are provided in Table 4. T-statistics are based on robust standard errors and reported in parentheses. \*\*\*, \*\*, and \* indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Financials	0.021 (0.193)	-0.009 (-0.081)	0.019 (0.153)	-0.016 (-0.121)
Information Technology	0.075 (0.692)	0.055 (0.485)	0.062 (0.511)	0.039 (0.307)
Communication Services	0.120 (1.022)	0.108 (0.876)	0.142 (1.059)	0.127 (0.907)
Utilities	-0.107 (-0.840)	-0.140 (-1.071)	-0.113 (-0.685)	-0.154 (-0.915)
Real Estate	-0.004 (-0.022)	-0.034 (-0.203)	0.018 (0.084)	-0.021 (-0.098)
Constant	-0.177 (-1.092)	-0.261 (-1.488)	-0.110 (-0.612)	-0.198 (-1.027)
Observations	665	665	620	620
Adjusted R-squared	0.172	0.134	0.169	0.131

Our analysis supports the hypothesis that stakeholder pressure via social media campaigns can effectively signal people's social preferences and affect managerial decision making through their potential harm to corporate reputation. It is not new that academic work can guide policy making and public opinion on what companies should or should not do. However, in this case the virality of the Yale SOM list and the speed at which it fueled the boycott campaigns against large companies refusing to withdraw from Russia is unparalleled. Our results offer reassurance that stakeholder pressure can be an effective instrument promoting more socially responsible management.

#### IV. CONTRIBUTIONS AND IMPLICATIONS

Our analysis has three important implications for the current debate on stakeholder governance.

##### A. *Risks of "Woke-Washing"*

In Section IV.C we investigate the relationship between company revenue exposure to Russia and the speed of the announcement to withdraw or suspend Russian operations. The findings show that the average exposure to Russia of early announcers is smaller than that of the non-early movers.

The results suggest that a decisive corporate withdrawal from Russia might not have been just an expression of moral outrage or the result of corporate leaders' ethical judgements. Looking at the timing and at revenue exposure, firms seemed more driven by reputational risk concerns and by an attempt to

engage in “woke-washing.” In other words, for companies with insignificant exposure to Russia the announcement to exit the country could represent a marketing decision to attract positive attention from customers and investors, rather than a genuine concern for the war in Ukraine. These “marketing” actions likely put pressure on other firms with larger exposure and higher shareholder value at stake, which felt forced to make an announcement perhaps earlier than they would have done in the absence of such pressure.

The descriptive account in Section III of firms’ reactions to the military assault seems to confirm management’s attempts at woke-washing. First, we highlight how, despite exceptional public consensus over supporting Ukraine by sanctioning the Russian economy, pledges claiming the interest of stakeholders were made by executives to justify not only the decision to leave Russia – consistent with public opinion and the rationale of governments’ sanctions – but also the opposite decision, namely to stay in Russia. For instance, some companies chose to continue to operate in Russia – disregarding the risk of undermining the premises of governments’ sanctions – claiming the need to supply essential goods to the population, but then labeled as “essential” products that clearly could not serve that function (e.g., potato chips and children’s cosmetics). Additional corporate behaviors documented in our analysis cast doubt on the authenticity of corporate leaders’ concern for stakeholders. JPMorgan Chase and Goldman Sachs were praised as the first major banks to announce their withdrawal from Russia. However, after their announcements, they continued to trade company bonds tied to Russia until the OFAC forced them to stop. Significantly, US Senator Elizabeth Warren accused them of “capitalizing on Russia’s invasion of Ukraine and undermining sanctions imposed on Russian businesses.”<sup>162</sup>

Our hypothesis is also consistent with some recent literature on the topic. In particular, one paper presents empirical evidence suggesting that firms’ decisions to withdraw from Russia were determined mainly by reputational concerns rather than by purely altruistic motives.<sup>163</sup> Another study found that highly rated ESG firms were not more likely to exhibit genuine socially responsible behavior in response to atrocities committed in Ukraine, claiming that inferring social responsibility from ESG ratings is “illusory.”<sup>164</sup>

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<sup>162</sup> Elizabeth Warren Says Wall Street ‘Undermining’ Russia Sanctions, BLOOMBERG LAW (Mar. 4, 2022), <https://www.bloomberglaw.com/product/blaw/document/R892GCT0AFB4>.

<sup>163</sup> See Lu & Huang, *supra* note 55.

<sup>164</sup> See Ahmed et al., *supra* note 55.

Overall, the evidence from the corporate reaction to the invasion of Ukraine supports the view that firms' proclamations of stakeholder-centric behavior do not necessarily result in actual improvements in treatment of stakeholders. Instead, many corporate leaders seem to prioritize social objectives not for the purpose of attaining those social objectives, but because they believe this action would maximize returns.

### *B. Stakeholder Pressure*

As discussed in Section IV.D, the Twitter-based virality measures reveal a strong association between boycott campaigns against businesses and their decision to withdraw from Russia, highlighting the important role that boycott campaigns played in pressuring companies to exit Russia.

A boycott – together with divestment, vote and engagement with management – is one of the strategies that stakeholders can adopt to push firms to act responsibly. Despite increasing calls for action on social media to boycott companies for social or political reasons, literature and empirical evidence is limited in terms of corporate boycotting.<sup>165</sup> A prominent article finds that exit campaigns are the most effective instrument to pressure companies to pursue environmental and social goals in terms of informing and changing people's social preferences.<sup>166</sup> The reason is that corporate boycotts succeed by affecting companies' reputation in the media rather than demand for their products.<sup>167</sup> Our results related to the Twitter campaigns conducted against businesses that continued to operate in Russia provide empirical evidence in support of this hypothesis, making an important contribution to the study of corporate boycotts.

Furthermore, the “virality test” has broader implications for the stakeholder governance debate. It indicates that managers actually face acute pressure from multiple stakeholders to respond to their social preferences, and that this pressure can effectively orient business decision-making.<sup>168</sup> In addition, it shows that the list published by Professor Jeffrey Sonnenfeld and the Yale SOM reinforced boycott campaigns against companies that did not leave Russia, revealing how academic work can also contribute to the effectiveness of stakeholder pressure.

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<sup>165</sup> See Jura Liaukonyte, et al., *Spilling the Beans on Political Consumerism: Do Social Media Boycotts and Buycotts Translate to Real Sales Impact?* (Jan. 11, 2022), <https://ssrn.com/abstract=4006546> (claiming that boycott and buycott movements have limited effects on sales).

<sup>166</sup> See Broccardo, et al., *supra* note 43.

<sup>167</sup> See also Liaukonyte, et al., *supra* note 157 (underlining boycott's limited effectiveness at generating changes in actual sales outcomes).

<sup>168</sup> See Barzuza, et al., *supra* note 43.

Finally, it is important to underline that the context we analyzed (i.e., the war in Ukraine) presents an exceptional public and bipartisan consensus over the “right thing to do.” This determined a strong convergence of interests across stakeholder groups which is often not the case, given for instance the political polarization of our society. Hence, the risk is that when conflicts arise between competing social values, corporate leaders would resolve them not to maximize social welfare, but in favor of those stakeholders with more leverage in a particular situation. Therefore, we believe that stakeholder pressure on management might be an efficient tool for promoting more responsible corporations; however, it can only complement – but not substitute – stakeholder-protecting regulation.

### C. “Stakeholder Governance Gap”

Finally, our empirical results draw attention to an issue that is hardly investigated within the stakeholder governance debate: the difference across market sizes.

In a recent study, Kobi Kastiel and Yaron Nili find that between small and large cap companies exists a stark corporate governance gap (which they term “The Corporate Governance Gap”).<sup>169</sup> While many large, more observable corporations tend to serve as role models of “good” governance, by contrast in smaller and less-scrutinized companies, adoption of governance arrangements is less systematic and often significantly departs from the norms set by larger firms. Nonetheless, small and mid-sized corporations can still create significant harm for shareholders, other stakeholders, and society at large.<sup>170</sup>

Our research indicates that differences between size categories might also be overlooked in the stakeholder governance debate.

As described in Section IV.A, our sample consists of S&P 500 and STOXX 600 companies, that include mega-cap (those with a market capitalization of \$200 billion or higher); large-cap (from \$10 billion and \$200 billion); and mid-cap companies (from \$2 billion to \$10 billion).

On the one hand, the results using the Twitter-based boycott campaigns virality measure, discussed in Section IV.D, show that stakeholders devoted significantly less attention to smaller companies. On the other hand, the sample

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<sup>169</sup> See Kobi Kastiel & Yaron Nili, *The Corporate Governance Gap*, 131 Yale L. J. (forthcoming 2022), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3824857](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3824857).

<sup>170</sup> *Id.*

descriptive statistics show that revenue exposure to Russia is significantly higher among smaller firms (see Table 2 in Section IV.A). In the framework of the sanctions imposed on Russia – designed to weaken the Russian government’s ability to finance the war – companies with larger exposure that continue to operate in the country are those potentially more helpful for the Russian economy and, in turn, more harmful for Western countries’ strategy to stop the war.

The combination of our results suggests the existence of what – inspired by the above-mentioned paper – we term a “Stakeholder Governance Gap.” We argue that stakeholder pressure on management can be an effective factor in achieving a socially desirable outcome, but it tends to focus on large and high-profile companies. Smaller companies, instead – even when they can create substantial harm to the social interests that stakeholder campaigns aim to protect – are markedly less scrutinized; hence their corporate leaders are left free to operate without this meaningful managerial constraint.

#### CONCLUSIONS

The corporate response to the Russian invasion of Ukraine offers a unique setting for informing the stakeholder governance debate.

Our empirical analysis shows how – even in the presence of public consensus around a particular socially responsible action – the risk is that managers could engage in woke-washing and protect stakeholders only to the extent beneficial for shareholder value maximization.

The paper also presents the first evidence of the impact of Twitter-based boycott campaigns to push business leaders to withdraw from Russia, making an important contribution to the literature on the importance of stakeholder pressure on firms’ decision to pursue a broader agenda than profit maximization.

Finally, our findings suggest a “Stakeholder Governance Gap.” We show that stakeholder pressure can effectively orient business decision making towards responsible governance. However, it markedly focuses on bigger companies, exempting corporate leaders of smaller companies from this managerial constraint.

Taken together, the evidence presented in this paper supports the view that even though private ordering can contribute to more socially responsible management, external intervention such as legislation, regulation, and policy design are often critical to protecting stakeholder interests.