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**INTER-STATE WAR, INSTITUTIONS AND MULTINATIONALS:
INSIGHTS FROM THE RUSSIAN-UKRAINE WAR**

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INTRODUCTION

In the early morning of 24th February 2022, the Russian military launched a major scale invasion of Ukraine, a nation of 44 million people. The ongoing war has killed and wounded thousands of people and driven millions of people from their homes. For MNEs and their stakeholders, the Russian-Ukrainian war represents one of the severest geo-political shocks in this century, with many viewing it as the most transformational event in Europe since World War II (Pereira *et al.*, 2022).

Inter-state wars present a significant problem for multinational enterprises (MNEs) as wars, especially when they involve major economic and political powers, typically shock the highly interdependent national and supra-national economic and political system (Casson and da Silva Lopes, 2013; Jamali and Mirshak, 2010; Darendeli *et al.*, 2021, Witte *et al.*, 2021; Lubinski and Wadhwani, 2017; White *et al.*, 2021). MNEs have historically developed strategies to operate in such volatile settings (Delios and Heinsz 2000; Getz and Oetzel, 2010; Casson and Lopes, 2013; Darendeli *et al.*, 2021; Jamali and Mirsak, 2010; White *et al.*, 2021), and so we witnessed considerable corporate action, inaction and sometimes reversed decisions in response to the Russian-Ukrainian war. For example, British Petroleum (BP) exited from its \$14 billion stake in Russian oil giant Rosneft, while Uniqlo remained in the market to date (Financial Times, 10th March 2022).

To understand the impact of inter-state war on MNEs, a useful starting point involves examining the institutional context of the war-MNE relationship. Institutional environments significantly shape MNE strategy and behaviour (Kostova *et al.*, 2008; Doh *et al.*, 2012). In

addition to deaths and material damage wars extol on societies and industries, wars cause enormous disruption to MNEs' institutional environments (Bellows and Miguel, 2006; Witt *et al.*, 2020; White *et al.*, 2021). They lead to new regulation either as an instrument of war or to curtail the impacts of war for society (Casson and da Silva Lopes, 2013; Thoradeniya *et al.*, 2022). They also lead to non-government actors imposing new expectations on business actors (Casson and da Silva Lopes, 2013). MNEs must respond accordingly to reduce risks to legitimacy (Oetzel *et al.*, 2007; Witt *et al.*, 2020; Darendeli *et al.*, 2021; White *et al.*, 2021).

While there are a few studies on the impact of war on international business (IB) (Li, 2008; Dai, 2009; Dai *et al.*, 2013; Li and Vashchilko, 2010; Driffield *et al.*, 2013; Skovoroda *et al.*, 2019; Witt, 2022; Owens, 2022), they offer limited insight into the war related institutional pressures of war on MNEs (Witt *et al.*, 2020). Instead, they explore such topics as the impact of war on FDI (Li and Vashchilko, 2010; Driffield *et al.*, 2013; Dai *et al.*, 2013; Witt *et al.*, 2017). Given the recognised influence of institutional environments for MNEs in volatile contexts (Witt *et al.*, 2020; Alaydi *et al.*, 2021), this is an important oversight.

Another relevant research stream, not specific to inter-state war, examines corporate responses to politically violent markets (Oetzel *et al.*, 2007; Westermann-Behaylo, 2010; Getz and Oetzel, 2010; Jamali and Mirshak, 2010; Alzola, 2011; Oetzel and Getz, 2012; Oh and Oetzel, 2017; Darendeli *et al.*, 2021). While these studies to some extent describe how MNEs benefit by attaining legitimacy in politically violent markets, the links between MNEs and institutions in politically violent markets are not their primary focus. The in-depth examination of how MNEs experience and respond to the institutional pressures in politically violent situations is still outstanding.

Against this background, the objective of this conceptual study is twofold: (1) to understand the source and nature of institutional pressures facing MNEs in war contexts, and (2) to examine how MNEs respond and navigate these institutional pressures. Towards these

goals, the paper adopts the theoretical lens of institutional theory. This paper specifically adopts a synthesis of new institutional economics and organisational institutional theory (North, 1991; Scott, 1995; Peng, 2003). Following Peng (2003) and Peng and Chen (2011), I assume that formal and informal institutions comprise the rules of the game that MNEs need to follow to retain legitimacy. Wars generate significant economic, social and political upheaval, which can create significant changes in both the formal and informal institutional landscape (Lamberg and Pajunen, 2010; Witt *et al.*, 2020; Alaydi *et al.*, 2021). Moreover, MNEs in war may be confronted with competing new institutional pressures across multiple jurisdictions (Kostova *et al.*, 2008). Thus, institutional theory allows us to understand the sources of, impacts of and how MNEs respond to the war-related institutional pressures.

This paper examines the war-related institutional pressures and MNE responses in the context of the current Russian-Ukrainian war and from the perspective of Western MNEs. Most importantly, this paper focuses on MNE institutional pressures and responses concerning MNE activity within one warring state only, notably Russia, and not the actual zone of conflict, Ukraine. Given the diverse contextual conditions between the two warring states (Russian and Ukraine), focusing on Western MNE involvement in Russia should enhance the conceptual clarity of the paper. Moreover, hundreds of Western companies with operations in Russia have responded in diverse ways to the institutional pressures created by the Western-led economic sanctions against Russia (Pereira *et al.*, 2022) and the social pressure on MNEs across Europe and North America to terminate their Russian business (Financial Times, 10th March 2022; The Economist, 19th March 2022). This created an immediate and rich context for understanding the institutional impact of war on MNEs.

This study contributes to the IB literature by extending the research streams on MNEs and inter-state wars (Dai, 2009; Dai *et al.*, 2013; Li and Vashchilko, 2010; Witte *et al.*, 2017, 2020; Owens, 2022) and MNEs within politically violent markets (Westermann-Behaylo,

2010; Getz and Oetzel, 2010; Jamali and Mirshak, 2010; Oetzel and Getz, 2012; Oh and Oetzel, 2017; Darendeli *et al.*, 2021) by focusing on the institutional context of war zones for MNEs. This study shows the powerful impact of formal and informal institutions on MNEs in an inter-state war context and explains how institutions influence corporate responses in war. Moreover, the paper uniquely examines the MNEs strategic responses to institutional pressures in a war context and provides insight into the contextual factors determining MNE responses.

The paper is structured as follows: First is a brief outline of the meaning of war and a brief overview of the Russo-Ukrainian war context. Second, the theoretical foundations of the arguments are presented. Third, the conceptual framework is detailed, and finally, a discussion of the analysis and potential avenues for future research is provided.

BRIEF BACKGROUND TO THE RUSSIAN-UKRAINIAN WAR

On the 24th February 2022, Vladimir Putin, the president of the Russian Federation, ordered a large-scale invasion of Ukraine. His claimed objectives were to “demilitarize” and “de-nazify” Ukraine, implying an overthrow of the current Ukrainian government. Russia’s attack on Ukraine was widely (but not uniformly) condemned across the world. Western countries provided military, humanitarian, and financial support for the Ukrainian government, as well as economic and social sanctions against Russia and many of its elites (Steffen and Patt, 2022).

THE NATURE OF WAR

This paper defines “war” as prolonged armed conflict between nations or within nations. War does not only involve armed conflict but further includes economic warfare that is often integrated within the wider armed conflict (Centeno and Enriquez, 2016). In the context

of Russian-Ukrainian war, there is a significant economic war waged by Western states, NATO and the European Union against Russia, and by Russia against the West.

Sarkees *et al.*, (2003) identifies three types of wars: inter-state war, intra-state war and extra-state war. Inter-state war is fought between two or more nation states. Intra-state wars (or civil wars) are fought within a nation state – e.g. an insurgent group resisting state oppression; and extra-state wars occur between nation states and a territorial and political entities not recognised as such. The Russian-Ukrainian conflict is an inter-state war. Yet wars are rarely fought solely between two opposing sides. International organizations, governments, militias, factionalized rebel groups, and many other actors often participate and can influence war outcomes (Salehyan *et al.*, 2011).

War also requires co-operation and coordination, not only between soldiers on the battlefield, but between organizations and groups across the political, social and economic systems (Centeno and Enriquez, 2016). This includes building coalitions and alliances within and between states, including the mobilisation of public and industry support. As part of this activity, states and the public may use MNE political and/or economic power to steer a conflict in a particular direction. The state may view large business an important in warfare simply because economic sanctions and blockades are common instruments of war (Heuser, 2022). In turn, MNEs may collaborate with government during war to help the war effort, and/or to avoid potential government scrutiny, intervention, and punishment (Xiang *et al.*, 2022).

Institutional Theory

This study draws on institutional theory to explain how inter-state wars impact MNEs and how MNEs respond to war. Institutions significantly shape and constrain the strategies, behaviours and actions of MNEs (Kostova and Zaheer, 1999; Peng, 2003; Regner and Edman, 2014). Formal, or regulative, institutions refer to laws and regulation (North, 1991; Scott,

1995). Informal institutions are the dominant practices or norms prevailing in a particular society (Scott, 2014).

MNE respond to institutional demands to protect their organisational legitimacy (DiMaggio and Powell, 1983; Kostova and Zaheer, 1999; Scott, 1995). Legitimacy is “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, p.574). Legitimacy is a major concern for MNEs because without it MNEs struggle to survive, grow and acquire resources (Suchman, 1995).

IB scholars have applied institutional theory to understand how MNEs respond to MNE experiences in politically unstable environments (Witt *et al.*, 2020; Alaydi *et al.*, 2021) and inter-state wars in particular (Lamberg and Pajunen, 2010; Witt *et al.*, 2020; Alaydi *et al.*, 2021). Witte *et al.*, (2020) suggest that with full scale wars, there is a large probability of shock to the current institutional structure of involved market the potential for institutional transition and regime change grows. They found how war-induced institutional transition decreased the value of the MNEs host-home government ties. But inter-state wars may cause broader institutional changes (McSorley, 2014). As MacLeish (2003, pp.10-11) writes “war makes the social, the rules, and the people, rather than simply corrupting, undermining or destroying those things”. As war is embedded in a broader body of rules or an institutional frame (Korf, 2007), it can disrupt the functioning of markets and institutions (Thoradeniya *et al.*, 2022) and cause regulatory change for MNEs via change to countries’ legal systems (Voors and Bulte, 2004). According to O’Reilly and Powell (2015), wars tend to increase the scope of warring governments economic regulation and decrease economic freedom. Moreover, wars can mobilise or change the preferences of the MNE’s institutional stakeholders (Bellows and Miguel, 2006; O’Reilly and Powell, 2015), which in turn requires organizational responses or strategies to remain legitimate and competitive (Oliver, 1991; Peng, 2003).

MNEs have some degree of agency in choosing how to manage institutional pressures (Oliver, 1991; Kostova and Zaheer, 1999; Pache and Santos, 2010). Although early institutional theory stressed MNEs conforming to institutional demands (DiMaggio and Powell, 1983), conformity is sometimes difficult because satisfying some demands means defying others (Kostova *et al.*, 2008; Pache and Santos, 2010). MNEs operate within multiple institutional environments, facing conflicting pressures (Kostova *et al.*, 2008; Regner and Edman, 2014). Institutional tensions and conflict for the MNE should be especially acute within inter-state wars, as inter-state violence typically creates division and friction within the public and political spheres, while also aligning values and agendas of different institutional actors. MNEs must manage local institutional stakeholders such as employees and host governments, while also coping with international stakeholders, such as home government and customers (Getz and Oetzel, 2009). Sometimes these pressures conflict. Due to such conflicting institutional demands (Oliver, 1991; Kostova and Zaheer, 1999; Kostova *et al.*, 2008), MNEs adopt purposive actions to shape their institutional environment through conforming, avoidance, compromise, defiance and manipulation strategies (Oliver, 1991; Regner and Edman, 2014; Saka-Helmhout, 2020).

HOME AND HOST MARKET INSTITUTIONAL PRESSURES IN WAR

This first section explains the formal and informal institutional pressures of war within both the home and host markets. In this paper, the home market refers to the home country of Western MNEs that have an interest in the war's outcomes. Again, the host market refers to the warring state, Russia, and not the actual conflict zone in Ukraine. Fig 1. below summarises the theoretical discussion in the form of an analytical framework which is now detailed in the proceeding sections.

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Home market Formal/regulative institutional pressures in War: Home market formal institutional pressures are laws, rules, and monitoring and sanctioning mechanisms that promote certain types of MNE organisational behaviour and restrict others (North, 1990; Scott, 1995). Such pressures are typically exerted by home governments that ultimately have the power to recognize or deny organizations' existence in their jurisdiction (Berrone *et al.*, 2013). Regulatory factors such as investment rules, intellectual property protections, transparency requirements, and competition control can directly influence the viability of a business (Meyer *et al.*, 2009; Holmes *et al.*, 2013).

During an inter-state war, the MNEs home regulatory environment can change when states use economic regulation as a means of war (Casson and da Silva Lopes, 2013). Wars and other political conflicts can invite home government regulatory change by *design* if it changes the preferences or constraints of decisionmakers (Voors and Buulte, 2014). States, coalitions of states and supra-national governmental organisations create the regulatory instrument of economic sanctions in inter-state wars to cause economic damage to their rivals/enemies and coerce them into changing their behaviour (Haley, 2001; Meyer and Thein, 2014; Escriba-Folch, 2010). In the Russian-Ukraine war, Western states such as Germany, the UK and the US initiated an extensive and unprecedented sanctions programme against Russia, reaching across the corporate spectrum (The Economist, 19th March 2022). The US banned American imports of Russian oil, natural gas and fuel products. US companies were also banned from making new investments in the Russian energy sector. This sought to ensure US companies were not underwriting Russia's efforts to expand energy production (Financial Times, 10th March 2022). Moreover, the US and 33 partner countries introduced export controls which restricted the sale of technology, industrial components and whole goods to Russia (The Economist 19th March, 2022).

Home market Informal/Normative institutional pressures in War: Home market informal or normative institutions influences typically come from focal social actors who define appropriate behaviour for organisations (North, 1991; Di Maggio and Powell, 1983; Scott, 2014). War impacts focal social actors in the MNE's home institutional environment because it impinges on every facet of life: economic, social, and cultural (Summerfield, 1997). An intense military confrontation, such as a military invasion of a country, often generates major human displacements, human right violations and a humanitarian crisis (Bachleitner, 2021; Hotho and Girschik, 2019). By the second week of the Russo-Ukrainian war, there were 750 civilian casualties and 1.5m Ukrainian refugees fleeing to neighbouring countries and millions displaced internally (Guardian, 8th March 2022). Consequently, social actors within the MNE's home institutional environment - society, customers and employees – develop perceptions, express demands and opinions of the conflict through various mechanisms such as social media, public protest, and may boycott perceived actors implicated in the conflict (Gerber and Mendelson, 2008; Smith, 2016; Darendeli *et al.*, 2021).

In the context of an inter-state war, a warring state's motivations, aims or mechanisms may be consistent or diametrically opposed to the MNEs and their home market stakeholders' principles and expectations. If opposite, the warring government's political legitimacy may decline and even collapse. In this situation, home market society may turn against MNEs associated with the warring government or with its market (Darendeli *et al.*, 2021). This can make it impossible for MNEs to continue as business as usual and create an imperative for exiting the host market (Hotho and Girschik, 2019; Westerman-Behaylo, 2009). Smith (2016, p. 31) documents how soon after the outbreak of World War I British public opinion settled on the view that it would be illegitimate, indeed immoral for a British company to continue trading with German firms. In the Russian-Ukrainian war, most Western social actors condemned

Russia's decision to invade Ukraine, de-legitimising the Russian state and business elite in most Western countries (Braw, 2022; Steffan and Patt, 2022).

Moral legitimacy reflects a positive normative evaluation of the MNC and its activities among its stakeholders. It rests on judgements about whether the activity (e.g withdrawing from Russia) is the right thing to do (Suchman, 1995). However, MNEs continued operations in Russia risks funding the war effort through taxes and implicated in human rights violations (Hotho and Girschik, 2019), and potentially lead to their (MNE) moral illegitimacy. As Prasad *et al.*, (2016, p.229) argue, this threatens to cast the organization as an irresponsible social deviant capable of harm. In war, moral legitimacy pressures may involve three main sources: government, customers and a collective social protest movement against the war. Each pressure is now briefly discussed.

Home government: Although several home governments of Western MNEs have applied moral pressure to MNEs to disengage from Russia, the strength of this pressure has varied between home governments. For example, the British government exerted significant moral pressure on British companies to "isolate" Russia. In response, large MNEs such as British Petroleum (BP) divested their Russian business. BP abandoned its 19.75% stake in Russian oil giant Rosneft following three decades of operating in Russia (Reuters, 27th February 2022). The divestment resulted in losses of up to \$25 billion. On the other hand, the French government did not tell French businesses to suspend their activities in Russia, stating they had to respect corporate decisions and their property rights on assets in Russia (The Times, 23rd March 2022).

Home governments of MNEs, often governments not directly engaged in the armed conflict, can sustain a vested interest in shaping the war's outcomes (Salehyan *et al.*, 2011). In the Russian-Ukraine conflict, several Western governments such as UK, Germany and US, while not directly participating in the war, have provided substantial economic, political and

moral support for Ukraine. This paper refers to this as *strong home government commitment to one side in the conflict*. Such home government commitment can underpin government moral pressure on MNEs to act accordingly, as well as the enforcement of economic sanctions.

Home social movement: Social movements can create powerful normative pressures on business (Soule, 2012; Tian *et al.*, 2021). Wars and other political conflicts are common events to trigger the emergence of social movements (Tian *et al.*, 2021). Wars are often legitimised and de-legitimised through social or protest movements as was evident in the US's pending invasion of Iraq in 2000. In the context of the Russian-Ukrainian war, a vibrant and widespread public movement in support of Ukraine emerged in several Western home markets such as the UK, Germany and US. This involved large public protests in major cities and unrelenting support for the Ukraine in the media.

In the context of inter-state war, social movements are often driven by animosity against one of countries involved in the war (Tian *et al.*, 2021). MNEs with continued business in that country can face strong isomorphic pressures and social stigmatization (Scheniber and Lousby, 2018; Tian *et al.*, 2021). Social movements exert informal pressure for MNEs to scale down or terminate business activity with a targeted country (Tian *et al.*, 2021, p.1211). To achieve this, social movements seek leverage over corporate targets by making negative claims about them to destabilize their reputations, often through social media (McDonnell and King, 2013; Brammer *et al.*, 2021; Tian *et al.*, 2021). For example, the group "Anonymous", an online activist group, called for a boycott of Nestle brands, labelling them "sponsors of tyranny" (Financial Times, 22nd March 2022).

Home customers: Consumers can pressurise MNEs to withdraw from war situations. Consumers, even those who are physically distanced from the war, can become affected and disturbed by war (Wight 2019; Oetzel and Getz, 2012). Some Western consumers may fear that Russia's invasion of Ukraine may spill to wider Europe. Arguably, the unequivocal support

for Ukraine from Western media powerfully shaped the public narrative on the war, including consumer opinion on corporate action. And consumers have substantial power over contemporary MNEs as consumption is increasingly ethically orientated (Stanaland *et al.*, 2011; Shaw *et al.*, 2016). Consumers can and do hold MNEs to account for negligence, often through powerful social media mechanisms (Brammer *et al.*, 2021). In sum, home market informal institutional demands from home governments, social movements and customers demand appropriate corporate behaviour in war markets. Consequently, MNEs will feel the pressure to respond to protect their legitimacy. The paper now discusses the host market institutional pressures in war.

Host Market Formal Institutional Pressures in War: Host market formal institutions significantly influence MNE behaviour in foreign markets (Arslan, 2012; Regner, 2014). Host governments exert regulative power to control and guide MNE behaviour (Grewal and Dharwadkar, 2002).

Witte *et al.*, (2020) suggest that during political conflict, the host government is more likely to change existing regulations or unexpectedly impose new ones. For instance, host governments can introduce new regulation that legalises expropriation of MNE assets uncertain conditions (Casson and da Silva Lopes, 2013). Expropriation risk is defined as the deficiencies of a country's protection of private property rights, especially their protection against government expropriation (Duanmu, 2014). Casson and da Silva Lopes (2013, p.383) argued that expropriation of enemy property and the freezing of enemy financial assets are both key elements in economic warfare. For example, during World War I, Britain and France instigated a programme of German FDI confiscations and export bans. At the same time, they faced similar economic retaliation from Germany (Caglioti, 2014). In the context of the Russian-Ukrainian conflict, Russia threatened to seize assets of foreign companies that decided to close their operations over Moscow's decision to invade Ukraine (Financial Times, 11th March

2022), and even to arrest corporate leaders who criticised the government (Morris and Walker, 2022). For example, Heineken beer in Russia reported it received official warnings from Russian prosecutors that a decision to suspend or close its Russian subsidiary would result in nationalisation (New York Times, 2nd March 2023).

Host Market Informal Institutional Pressures: Institutional theory has longed argued that MNEs depends much on the legitimacy of informal or social actors within host markets (Dacin, 1997; Oliver, 1991). Host market social acceptance of foreign firms is considered crucial for survival and growth in foreign markets (Suchmann, 1995; Gillford and Kestler, 2008; Alayadi *et al.*, 2021), and viewed as much more demanding than the host market formal institutional environment (Kostova and Zaheer, 1999). As with the informal home institutional environment, wars disrupt host market society (Darendeli and Hill, 2016). Scholarship on MNEs and political violence identifies costs and hardship of violence experienced by host market local customers, employees and local communities (Getz and Oetzel, 2012; Oh and Oetzel, 2017; Owens, 2002). Such local actors can impose legitimate expectations upon foreign firms to be socially responsible, such as continuing operations, paying salaries and generally protecting their wellbeing.

During political upheaval, however, foreign firms can be subjected to diverse, sceptical and possibly hostile local institutional actors (Darendli and Hill, 2006). For instance, home market formal institutional changes, such as home government sanctions, may increase the liability of foreignness of all firms associated with the sanctioning country and operating in the sanctioned country (Meyer *et al.*, 2023). Thus, MNEs face legitimacy pressures in the host market informal host environment within warring markets.

Although prior IB analysis largely relates to social actors within the actual war zone, wars can also impact social actors domiciled within the warring state (e.g, Russia), especially when warring states can suffer as a result of serious international economic warfare. One major

problem with international sanctions is their propensity to reduce the socio-economic wellbeing of innocent civilians within the targeted state (Allen and Lektzian, 2013). Since the beginning of the Russian-Ukraine conflict, the economic prosperity of the Russian people was severely damaged. Economic sanctions imposed by the EU, United States, United Kingdom, and other Western countries pushed the Russian economy into recession and threaten longer-term impacts, including on the country's critical energy sector. In this climate, many Russian citizens, customers and employees may legitimately expect ongoing foreign firm commitment, and possibly regard Western MNE exit as a politically and economically hostile action, believing foreign firms are seeking to limit their development.

In sum, this section has argued that wars lead to multiple and varied institutional pressures within both the MNE's home and host market institutional domains (Kostova *et al.*, 2008; Regner and Edman, 2014). Building on this analysis, the paper now proceeds to discuss how MNEs will respond to institutional pressures in war.

MNE RESPONSES TO INSTITUTIONAL PRESSURES IN WAR

This second section develops propositions that focus on MNE responses to formal and informal institutional pressures in the context of war. I draw on Oliver's (1991) established institutional response framework to show three response strategies: conformity, avoiding and balancing. Moreover, as MNE responses to institutional demands cannot be isolated from contextual conditions (Dacin, 1997; Oliver, 1991), I propose several factors that shape the MNE responses to institutional pressures during war. These are: strong home government commitment to one side in the conflict, subsidiary size, perceived high divestment costs and organisational experience. Figure 1 provides an overview of propositions 1-4, and related conceptual relationships.

Conforming Response

Some MNEs will intend to conform to home market formal institutional pressures in war. Conforming with home government laws, rules, mandatory standards and government orders can help MNEs better survive and grow (Oliver, 1991). In war, MNEs will likely conform to home market formal economic sanctions as non-compliance leads to adverse consequences for MNEs (Meyer and Thein, 2014; Meyer *et al.*, 2023). Failure to comply with government sanctions and export controls, for example, leads to home market government punitive action, undermining legitimacy and reducing future government support (North, 1991). Although MNEs may evade sanctions when enforcement is weak (North, 1990; Weber and Stepien 2020), a major war can encourage home governments to strengthen enforcement, especially when they are supported by influential informal institutions. Sanctions with social approval gain the status of informal institutions. MNEs violating them risk social condemnation (Weber and Stepien, 2020).

Interaction between formal and informal institutions will vary per war. Societal support for sanctions against a warring state may be weak. In this situation, Meyer *et al.*, (2023: 6) argue that firms are likely to pursue loopholes in the sanction regime without fear of penalty. Even so, the home governments can be strongly committed to supporting one of the states fighting the conflict, such as providing political, economic and moral support. In this situation, home governments will likely practice strong enforcement on economic sanctions against the other warring state, causing MNEs to conform to sanction pressure. Strong home government support for one side further motivates the MNE to avoid host market institutional pressures. This leads to the following proposition:

P.1 Strong home government commitment to one side in the conflict will likely cause MNEs to conform to home market institutional sanctions (and avoid host market institutional pressures) in war.

MNEs may also conform to home market informal institutional pressures during war. However, the dilemma facing MNEs in war environments relates to conflicting demands

between host and home informal institutional domains. For instance, home customers expected MNEs to withdraw from Russia while host customers expected MNEs to remain in Russia. Institutional scholarship identifies that multiple institutional responses are typically required to reconcile institutional conflict (Oliver, 1991; Pache and Santos, 2010). MNEs seeking conformity to home market institutional changes can involve avoiding host market institutional demands. MNE conformity to home market informal market institutions will be influenced by the size of the MNE's host market subsidiary. According to Hillman and Wan (2005), host market subsidiary size affects how MNEs respond to institutional pressures and political risks. Subsidiary size is defined as the number of MNE subsidiary employees (Aragon-Correa, 1998; Peng and Beamish, 2014). Size represents the subsidiary's resources and capabilities within the local market, as well as the strength of its presence in the market and its commitment to a host country (Johnston and Menguc, 2007).

Subsidiaries of a certain size are of higher relevance to the parent firm (Schmidt and Morschett, 2020). Small subsidiaries usually involve MNEs dealing with small number employees, customers and suppliers, and generally, lower levels of integration with the local institutional environment (Reimann *et al.*, 2015). Thus, small host market subsidiaries provide MNEs less local institutional resistance when seeking to comply with home government or social movement demands for market exit from the warring state. On the other hand, MNEs operating large subsidiaries in the host market may reject home market informal institutional demands to prioritise the rights and welfare of host market institutional actors over home market institutional demands (Jamali and Mirshak, 2010; Darendeli and Hill 2016). Despite social pressures from home customers and social movements for MNEs to "do the right thing", some MNEs may explicitly reject home market informal institutional demands (Pache and Santos, 2010) through the strategic response of avoidance or non-compliance (Oliver, 1991, p.154).

MNEs with a large subsidiary size in Russia, with large employee and client bases, and strong embeddedness in the Russian institutional environment could rationally argue that remaining in Russia is morally acceptable. As reported in the Financial Times, a chief operating officer of Koch Industries justified the decision to stay in Russia, in part, citing the responsibility to their employees:

“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” (Financial Times, 20th March 2022.

The French MNE, Danone, further rationalised the company’s decision to stay by its responsibility to Russian consumers and local supply chains, with the CEO, stating “we have a responsibility to the people we feed, the farmers who provide us with milk” (Financial Times, 8th March 2022). As Darendeli and Hill (2016) argued, focusing a firm’s efforts on goods or services that benefit the society at large, rather than the ruling elite, goes a long way to establishing and maintaining pragmatic and moral firm legitimacy that can survive political and institutional turmoil. MNEs divesting from Russia possibly means reneging on economic and moral commitments to Russian customers, suppliers, partners and investors. It may, moreover, lead to host market product shortages, unemployment and reduced standard of living (Braw, 2022). In sum, some MNEs with large subsidiaries in the host market will prioritise host market institutional demands over home market institutional demands:

P.2. Large subsidiaries in host markets during war will likely cause MNEs to conform to host market institutional pressures (and avoiding home market institutional pressures) in war.

Avoiding/non-compliance

Despite the home market normative pressures facing MNEs to exit warring states, some MNEs will exercise an avoiding response to remain in the warring state. For these MNEs, remaining in the warring state may avoid host government retaliation towards divestment,

while further seeking to secure the survival of the MNE in the host market (Alaydi *et al.*, 2021; Oetzel and Getz, 2012). In the Russian-Ukraine conflict, the French retailer Auchan reported how the financial costs/risks of government expropriation of their business in Russia justified their decision to remain in Russia:

“Closing our activities in Russia would be considered as a premeditated bankruptcy leading to an expropriation that would strengthen the Russian economic and financial ecosystem” (Auchan Retail Statement, 27th March 2022).

Thus, these remaining MNEs may wish to avoid home market institutional demands in the context of war due to perceived high costs of divestment (Oliver, 1991; Pache and Santos, 2010; Getz and Oetzel, 2010; Dai *et al.*, 2017). Costs of divestment are understood here as costs associated with selling an individual subsidiary (Nargundkar *et al.*, 1996). This includes sunk costs, which can refer to sizable prior investments in tangible and/or intangible assets (Caves and Porter, 1976). Other divestment costs include the costs of asset depreciation, searching for potential buyers, compensation costs for employees, and host government appropriation of assets (Nargundkar *et al.*, 1996).

MNEs may believe that conforming to home market institutional demands for market exit from a warring state does not justify high exit costs (Clemens and Douglas, 2005; Weber and Stepien, 2020; Boddewyn and Brewer, 1994). In particular, MNEs in capital intensive industries in particular (e.g. energy sectors) may avoid the high costs of market exit (Getz and Oetzel, 2010; Donze and Kurosawa, 2013). MNEs in politically violent environments may perceive high divestment costs due to various market-level constraints in the divestment process (Meyer and Tian, 2014; Oh and Oetzel, 2017; Owens, 2022). Market-level constraints to divestment are understood here as host market barriers that increase the costs of divestment. Divestment scholars typically identify market barriers such as lack of available buyers and depressed asset values (Haley, 2001; Schmid and Morschett, 2020). Within the warring state (e.g. Russia), market barriers to foreign firm divestment will be a significant problem as

economic sanctions and general uncertainty can dramatically reduce buyer confidence in the corporate asset market. As Russia experienced a litany of economic sanctions by Western countries and disconnected from the global financial system, divestment has been challenging for some MNEs. Similarly, Meyer and Thein (2014, p.169), in their study of foreign business responses to international sanctions in Myanmar, found how sanctions, which prohibited transactions in Myanmar, worked to turn away potential buyers of foreign operations and depressed asset values. These exit problems are evident in the Russian-Ukraine war. For example, US banking MNE Citigroup divestment from Russia has been curtailed by a lack of potential buyers (Morris and Walker, 2022). Given that such market barriers raise perceived divestment costs for MNEs in war, MNEs may potentially choose to remain in the warring state. This avoidance response further allows the MNE to conform to host market institutional pressures. This leads to the following proposition:

P.3. Perceived high divestment costs will likely cause MNEs to avoid home market institutional pressures (and conform to host market institutional pressures) in war.

Balancing

MNEs can also seek to balance, pacify or bargain with institutional demands (Oliver, 1991; Pache and Santos, 2010). This somewhat partial compliance to institutional pressures in war may allow MNEs to attain legitimacy by accommodating multiple demands across home and host market institutional domains. In the Russian-Ukrainian war, some MNEs have adopted this tactic. They maintained market involvement but with reduced capacity (postponing new investments and suspending some activities) and paying existing Russian staff salaries. For example, the Global snacks Giant, Mondelez International, adopted a compromising strategy through partial business contraction in Russia and assurances of support for local colleagues in Russia:

“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.....We will also continue to support our colleagues in the market who are facing great uncertainty. We will focus our operation on basic offerings, discontinue all new capital investments and suspend our advertising media spending.” (Just Food.com, March 11th 2002).

Organisational experience can motivate the decision to compromise with institutional pressures in war situations (Oh and Oetzel, 2017). Following Oh and Oetzel (2017, p.717), organisational experience is defined here as a MNEs experience across any of its wholly owned subsidiaries. This specifically refers to organisational experience of violent conflict allowing MNEs to develop capabilities in political risk management (Oh and Oetzel, 2017), including managing related multiple institutional pressures as a result of the war. These experienced MNEs are likely to have gained expertise and political capabilities from previously operating in violent environments to effectively manage potential institutional resistance within both home and host markets (Oh and Oetzel, 2017) and to facilitate institutional negotiation if necessary (Saka-Helmhout *et al.*, 2016; Greenwood *et al.*, 2011). Experience further allows MNEs to manage operational disruptions when working in volatile political situations, further facilitating the decision to stay (Jamali and Mirshak, 2010; Oh and Oetzel, 2017). Finally, experienced MNEs may realise how selling off local assets could be transferring valuable assets to the state, resourcing the warring state’s war effort and undermining their own government’s sanction programmes. This leads to the following proposition:

P.4 Organisational experience will likely cause MNEs to balance home and host market institutional pressures in war.

DISCUSSION AND FUTURE RESEARCH

By considering how inter-state wars impact MNEs through institutional pressures in the context of the Russo-Ukrainian war, this conceptual study contributes to the understudied question of how inter-state wars impact MNEs (Dai, 2009; Dai *et al.*, 2017; Li and Vashckilko, 2010; Witte *et al.*, 2017; Witte *et al.*, 2020; Owens, 2022). Previous research has largely addressed how war affects inward FDI (Li, 2008; Dai, 2009; Dai *et al.*, 2013; Witte *et al.*, 2017;

Li and Vashchilko, 2010). Thus far, few studies have examined the social and political impact of inter-state war on MNEs. Adding to the literature, this study's propositions illustrate the importance of the institutional environment for MNEs during war. Future research may test these propositions.

Witte *et al.*, (2020) empirically found that inter-state wars can yield significant institutional change and instability for MNEs. While they focused on host market formal institutional changes (i.e change in regime), this study illustrates a wider set of institutional pressures confronting MNEs during war emanating from home market and host market formal and informal institutions. In addition to economic sanctions, powerful informal institutional actors such as customers, employees and international interest groups can exert sustained moral pressure on MNE management to act accordingly. MNEs seek to manage such demands to avoid the loss of legitimacy. Thus, this study supports prior research on the importance of MNE legitimacy within politically violent environments (Meyer and Thein, 2014; Darandeli and Hill, 2016; Smith, 2016; Witt *et al.*, 2020; Darendeli *et al.*, 2021; White *et al.*, 2021). However, this study builds on this literature through showing the response strategies to manage legitimacy pressures within war.

Whilst conforming to institutional demands during war likely involves substantial organizational and economic costs, MNEs will benefit through legitimacy and enhanced reputation. But MNEs are not averse to pursuing non-conforming responses to legitimacy pressures in the context of war. For some MNEs, economic considerations such as high exit costs (Oh and Oetzel, 2017) and/or future strategic position are given priority, leading some MNEs to avoid home market institutional demands in order to remain in the warring market. These MNEs, not oblivious to risks of non-compliance to home market institutional pressures, may disguise this non-conformity behind a façade of conformity (Oliver 1991). This concealment tactic may involve corporate communication extolling sympathy for the victims

of war, reviewing existing operations within the host market and promises to postpone new investment that may not have existed in the first instance. Alternatively, MNEs can deliberately remain silent to avoid adverse stakeholder reaction to their communications. There is an obvious counter argument, however, that such MNEs are making a huge mistake, underestimating the institutional pressures and related reputational risks (Ahamadajian, 2016). But the greater problem may pertain to how MNEs are seeking to avoid institutional conformity. Instead of avoiding the institutional pressures through unconvincing concealment or widow-dressing, the same MNEs could exercise proactive and aggressive responses to social movements, for example by carefully challenging or co-opting their demands. However, such responses are risky, costly, and require high political capital (Pache and Santos, 2016, p.464).

Building on the literature examining MNE responses to political violence in host markets (Oetzel *et al.*, 2007; Getz and Oetzel, 2009; Oh and Oetzel, 2011, 2017; Darendeli *et al.*, 2021), this paper argues how formal and informal institutions underpin corporate responses to political violence. For example, while home institutional pressures can potentially push MNEs towards exit in war situations, the threat of host government expropriation and other host market exit barriers can frustrate or deter exit. Unfortunately, there is little empirical research on firm divestment in the context of war, either within inter-state or civil wars. Thus, future studies should be sensitive to both home and host market institutional pressures on the divestment decision. Given the possible devastating disruption of war on the local business environment (Darendeli and Hill, 2016), institutional pressures for business closure or sell-off may not work in isolation of economic and market level conditions. Future studies should investigate the interrelationship between institutional conditions and market conditions shaping divestment in war zones. Case studies can provide deep insights into the drivers and constraints for divestment in war zones.

MNEs responses to local stakeholders in war - such as customers and employees - can be based on local legitimacy and responsibility concerns (Oetzel and Getz, 2012). Unlike the argument that MNEs will directly facilitate conflict resolution in politically violent markets (Getz and Oetzel, 2009; Oetzel *et al.*, 2010; Oetzel and Getz, 2012; Oetzel and Miklian, 2017), this research suggests MNEs either have minimal power to directly interfere in an inter-state war or, as Jamali and Mirshak (2010, p.458) find, MNEs may adopt an explicit non-interference policy. Rather, MNEs indirectly support, manage or contest the war effort at a distance from government decision-making, while being conflict sensitive, ensuring their continued involvement with a warring state does not exacerbate the conflict or contribute to human rights violations.

Several studies examining MNE behaviour in politically violent markets stress the influence of local stakeholders on corporate responses (Oetzel *et al.*, 2007; Darendeli and Hill, 2016; Darendeli *et al.*, 2021). Focusing on an inter-state war context, this study depicts powerful home government stakeholders exerting substantial pressure on MNEs. Home governments' strategic, moral and economic commitment to the war (e.g, US and UK in the Russian-Ukrainian war) explain the coercive and normative pressure on MNEs.

Furthermore, and akin to Tian *et al.*, (2021), this paper further captured the powerful influence of social movements on MNEs. In war, social movements exert significant social pressure on MNEs to scale down or terminate business with the targeted country. Social movements further expose MNEs inferior or symbolic responses to the war-related institutional pressures (Vachani *et al.*, 2009). Despite this, it is possible some MNEs might proactively collaborate with social movements during war (Davies *et al.*, 2008). MNEs with agendas of political activism can set the standard of action for other companies to follow during wars while further legitimating the social movement.

This research invites future studies to give a closer look at the institutional and *political* context of social movement-MNE linkages within war situations. The power of social movements over MNEs, in the context of war, however, may partly reflect an alignment of interests with other institutional stakeholders, such as governments and customers, and the political system supporting the social activism. As Soule *et al.*, (2014, p.1037) argues, normative pressures may be especially strong in politically free and open countries as citizens have can have a voice in how governments regulate firms. But in non-democratic countries, activist groups and local communities are unlikely to speak out against MNEs unless powerful political actors have previously done so (Dorobantu *et al.*, 2017, p.590).

Future research may deepen our understanding into the contextual drivers of institutional response strategies in war markets. While this study identified several organisational factors driving responses to institutions in war, future research should examine other organisational factors. For example, the MNEs' networks may shape strategic responses to war environments (Darandeli and Hill, 2016). Although the network connections may sometimes hinder companies in politically violent markets (see Darandeli and Hill 2016), well-connected MNEs may benefit from access to home and host market actors (e.g, government, local partners) knowledge to understand the war's impact and how to respond. Indeed, highly networked MNEs may have the information and political influence to manipulate or negotiate institutional demands in war (Iankova and Katz, 2003).

The specific biases of the paper raise additional avenues for future research. Although this paper focused on the early period of the war, future longitudinal studies should examine the evolution of institutional pressures for MNEs throughout the war's trajectory. This will capture the holistic and dynamic nature of the institutional conditions constraining and enabling MNEs in war situations. Alternatively, future empirical studies could focus on a singular phase of war for more in-depth insights. For example, research is needed on post-conflict war zones

(Owens, 2022). When the Russian-Ukrainian war eventually ends, some MNEs will seek to contribute to the post-conflict restoration of Ukraine. While post-conflict markets are not without risks (Nielson and Riddle, 2009), they may yield substantial market opportunities for foreign firms as governments rely on FDI for restoration and economic development (Owens, 2022). How do home and host market institutions determine MNE entry and development in post-conflict zones?

Furthermore, as I have drawn on insights from Western MNE reaction to the Russian-Ukraine conflict, future empirical studies should examine the perspective of Russian and Ukrainian MNEs. Ukrainian MNEs, for example, have shown significant resilience and adaptation to the war so far. Informal institutions may partly explain this success. Ukrainian MNEs may be relying on home market informal institutions such as social capital and resilience to protect assets, relocate activities or to secure new business (Dau *et al.*, 2022). In addition, given that political violence can entrench or create new informal norms at the local level (Bellows and Miguel, 2006), future studies should understand how host market informal institutions evolve as a result of political violence, the impact for MNEs, and how MNEs may influence such change. For example, local informal norms and expectations may work to socialise host market subsidiary managers, employees and partner firms into responses that may conflict with the expectations of home market managers and stakeholders. Perhaps, this explains Auchan's Russian subsidiary's alleged donations of food to the Russian military and the resulting criticism in the Western media (New York Times, 2nd March 2023). The links between IB and informal institutions within the context of politically violent markets is a rich area for future research.

Finally, this study calls for more research on foreign firms in civil wars which has been viewed as the most prevalent form of political violence in the 21st century. There is limited knowledge on the intentions, strategies and outcomes of MNE behaviour in civil wars

(Darendeli *et al.*, 2021; Owens, 2022). Some research argues MNEs can intend to contribute to conflict resolution and peace building within politically violent markets (Oetzel *et al.*, 2007; Oh and Oetzel, 2017). Yet some MNEs contribute to or seek to benefit from the instability and chaos in the conflict to the detriment of stakeholders and local communities (Witte, 2022). Thus, IB researchers should explore how MNEs may intentionally or unintentionally contribute to adverse outcomes within civil wars.

MANAGERIAL IMPLICATIONS

This study has implications for managers involved in international business. Managers should realise that major inter-state wars trigger responses from a range of institutional actors such as media, competitors, governments, customers and social movements. These actors can suppress, amplify and redirect the impact of the war on the MNE. MNE managers should devote sufficient attention to understanding the evolving situation and the expectations of such stakeholders. This requires regular outreach and consultation with employees, local and national government officials and business partners. Regular contact with local stakeholders provides managers with invaluable knowledge of the evolving regulatory and social environment within the war zone. This interaction and learning allow managers to prepare the subsidiary for potential major changes, and further allows managers to adopt measures that reduce the harm of the conflict to employees and communities.

CONCLUSION

This study aimed to develop an understanding of the institutional pressures confronting MNEs during an inter-state war. Through the theoretical lens of institutional theory and drawing on insights from Russia's invasion of Ukraine, I provide a framework that explains the nature of institutional pressures impacting MNEs in a major war and how MNEs respond

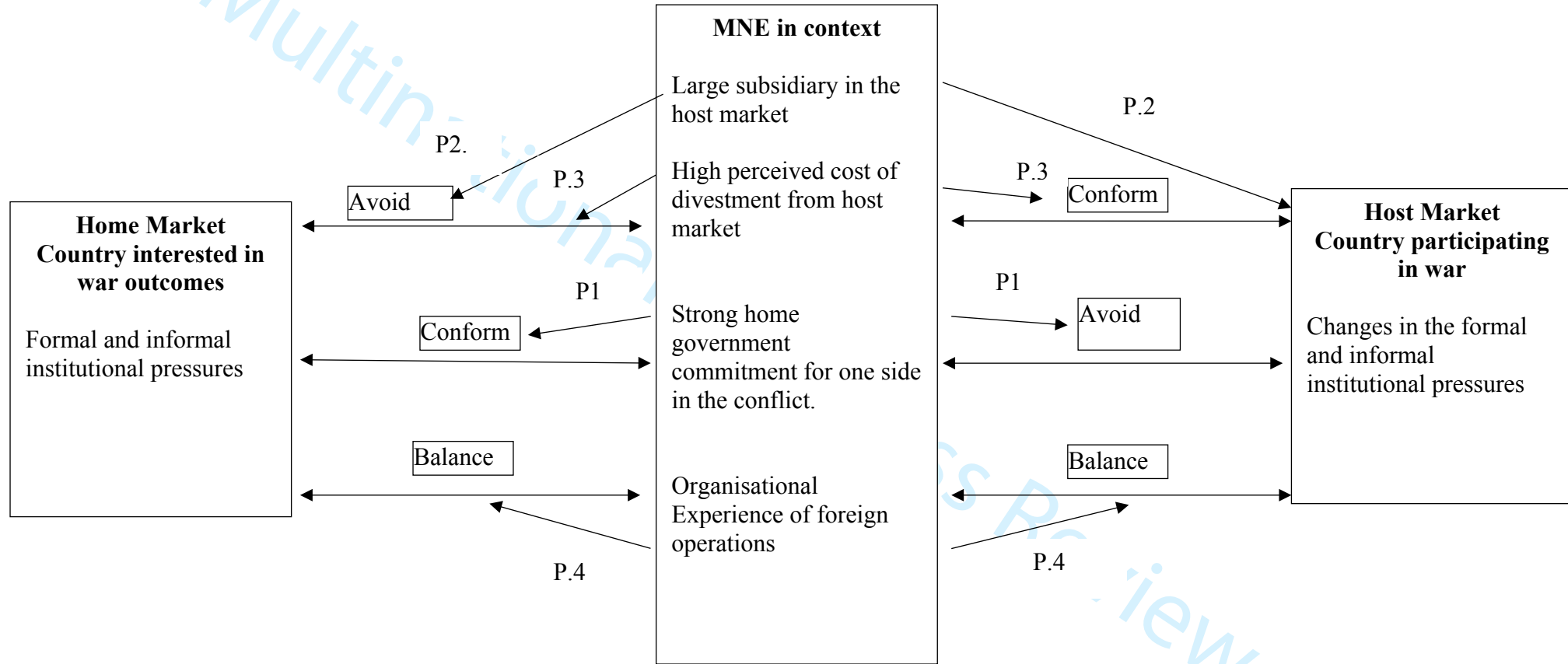
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to these pressures. As war typically collides with the agendas of multiple transnational, national and local entities and involves new regulation and moral pressure as instruments of warfare, MNEs face demanding and sometimes conflicting institutional pressures.

Although the study’s framework neither fully captures the extent of the institutional conditions impacting MNEs in a major inter-state war nor fully explains why and how MNEs cope with war related institutional demands, IB scholars can build on this work to produce a more rigours analysis of the institutional conditions affecting MNEs during war. More generally, the staggering geo-political turbulence of the 21st century to date (White *et al.*, 2021), such as the devastating Ukraine war, increasing geo-political tensions between the West and the East, including China’s aggressive posturing over Taiwan, heightens the need to better understand the implications and complexities of war for MNEs. The nature and pace of MNE adjustment to war (or lack of) not only affects their corporate legitimacy and moral integrity but the lives and welfare of employees, customers and local communities. Thus, understanding why, how and when MNEs cope with war has value for corporate managers, government and society. It is hoped this paper inspires scholars to pursue this agenda through new theoretical and empirical research.

Figure 1: Theoretical Framework

Figure by author



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