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Political drivers of international divestments of Russian MNEs[1]

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Abstract

This paper discusses the impact of political factors on MNEs' strategic choices to divest their foreign operations with a focus on Russian MNEs. The rising anti-globalization sentiments forced many firms to rethink their global strategy. We argue that Russian MNEs operating in countries that did not join the economic sanctions against Russia may be less inclined to divest their subsidiaries than those in countries that supported sanctions. We also suggest that Russian MNEs, located in a host country with similar institutions and political stability as Russia would be less likely to divest. We contribute to the divestment literature by emphasizing the political dimension of the foreign market exit.

Keywords

Foreign divestments, institutional distance, political factors, economic sanctions, Russian MNEs.

JEL: F21, F23, F51.

[1] This article was written before the events of 2022 involving Russia, Ukraine and the associated sanctions from the US, the EU and many other countries on Russia. The divestment issues that we discuss in this paper would be vastly different if they were analyzed in the light of the recent global sanctions on Russia. However, the theoretical issues concerning the process of divestment remain relevant for firms from other emerging economies in view of the anti-globalization sentiments.

Introduction

Firms routinely balance their portfolio of activities depending on their strategic priorities and the external environment. When there is a greater level of turbulence in the external environment, firms face greater pressure to adjust their strategic priorities. The pressures from the external environment could be particularly high for firms operating in international markets because of geopolitical factors over which firms may have little or no control (Cuervo-Cazurra et al., 2020). When faced with such pressures, firms withdraw their operations either partially or even fully, thus rebalancing their portfolios and adapting strategies to new realities (Kafouros et al., 2021; Aupperle et al., 2014). This process is known as divestment that implies business structure reduction. As part of the divestment process, firms may get rid of specific subsidiaries, units or reduce their equity participation. Several terms have been used to describe the divestment process: "divestiture," "exit," "closure," "liquidation," "sell-off," "disposal" (Panibratov & Brown, 2018). Broadly, there are two types of investments and correspondingly divestments: portfolio and foreign direct investments (FDI). Portfolio divestment implies disposal of a passively held financial asset such as stocks or bonds without a significant controlling stake in the hands of a retail investor driven mostly by short-term benefits, while FDI divestment relates to a reduction in investments in real producing operation facilities set up abroad with an ownership stake and voting power of at least 10% pursuing a lasting long-term interest (World Bank, 2020). In this study, we focus on the international divestment decisions of Russian MNEs.

The divestment decision is particularly important for emerging economy firms as they experience high levels of uncertainty in host market environments due to the rising skepticism against globalization (Cuervo-Cazurra et al., 2020), populism (Casson, 2021; Hartwell & Devinney, 2021), and the challenges associated with the post-Covid environment (Fainshmidt et al., 2021; Mukherjee & Mukherjee, 2021). According to the "2020 Global Corporate Divestment Study" conducted by Ernst & Young (2020a), 78% of companies plan to reshape their asset portfolios in the next 12 months implying divestments. While this decision is undoubtedly affected by COVID-19, the preceding year (2019) also showed a large number of firms — 63% — looking to divest (Ernst & Young, 2020b). Historically, a large number of these divestments are driven by poor economic performance at a subsidiary or parent-level. For example, Sachdev (1976) in his study of the foreign divestment experience of the British MNEs concludes that financial factors, especially low profitability, commercial difficulties, and fund transfer restrictions, play critical roles in explaining the divestment decisions. Torneden (1975) and Boddewyn (1979) listed the importance of poor performance of international subsidiaries as a condition pushing the companies to abandon some of their foreign-based units thus optimizing their portfolios and business operations. Some of the more cenet studies also identified poor economic results of foreign subsidiaries as the major driving factor for divestment decision (Berry, 2010; Sousa & Tan, 2015).

However, other non-economic factors are also emerging as important determinants of the divestment decisions. There is a growing interest in the political and institutional factors affecting foreign divestments (FD), especially concerning those that cover the institutional differences between the home and host markets (Gaur & Lu, 2007; Kostova et al., 2020; Popli et al., 2016). Our understanding of the role of home-host country differences in the divestment decisions is limited as much of the previous literature focused on internal firm-level factors (Borga et al., 2020). The focus on country level factors is limited to the general macroeconomic level factors, rather than narrowing down to the specific institutional and political determinants of the FD decision (Boddewyn, 1979; Benito, 1997; Henisz & Delios, 2004; Moschieri & Mair, 2008; McDermott, 2011; Berry, 2013).

The more recent research on FD has explored more nuanced ways to measure political risk and institutional uncertainty, such as cultural friction (Popli et al., 2016; Singh et al., 2019), conflicts with the host government (Blake & Moschieri, 2017), changes in the home country, political features such as democratic protests, political freedom, level of transparency in public transactions (Soule et al., 2014) or political capabilities that companies develop over time (Schnyder & Sallai, 2020). Nevertheless, most of the studies yielded ambiguous results with regards to the impact of political and institutional factors on the divestment phenomena.

Prior work is also concentrated primarily on the divesting experience of MNEs from the developed home countries, such as the USA, Japan, Korea and some European countries, with limited focus on the MNEs from emerging markets (Arte & Larimo, 2019). That is understandable since the companies from the developed economies started the internationalization process much earlier than the emerging economies. The internationalization of emerging economy firms in an aggressive manner is a relatively newer phenomenon (Kumar et al., 2020; Gaur et al., 2014; Mukherjee et al., 2021). While the Western MNEs as well as those from Japan and South Korea were internationalization aggressively in the 2nd half of the 20th century, firms from emerging economies were just starting to establish their international presence. There has been a significant growth of internationalization of EM firms in recent years such that we now observe EM firms experiencing similar type of challenges as their developed market counterparts.

In this study, we rely on the institutional perspective to explain the challenges that Russian MNEs face in their international expansion trajectory, leading to the divestment decision. Russian MNEs faced international sanctions since 2014, which had a significant negative effect on the growth potential of the Russian firms in particular, and the Russian economy in general.

The 2014 economic sanctions were a watershed moment and a distinguishing feature for the Russian firms as compared to many other emerging markets (Liuhto, 2015; Andreff, 2016). As such, there is limited work on Russian MNEs divesting their foreign subsidiaries as compared to those from other emerging economies such as China (Bai et al., 2013) and India (Popli et al., 2016).

As a result of the sanctions, leading major Russian MNEs have had to either fully sell or partially reduce stakes in their assets located abroad due to increased uncertainty and decreased access to the international capital markets, thus losing strongholds and production facilities in some key markets such as Ukraine, European Union and the USA (Brown et al., 2017). However, the relationship between sanctions and divestment is not a simple one as there are many other factors affecting the decision to exit the market. Anecdotal evidence shows that while some firms decided to divest their foreign operations from certain host locations, they continued to operate in other host markets (Zagashvili, 2017). This leads us to investigate the institutional and political drivers for the decision to divest foreign units or subsidiaries by Russian MNEs. We discuss these issues in next sections.

1. Foreign divestment phenomenon in the academic literature

Foreign divestment (FD) is a complex multi-faceted process that is opposite to FDI. Instead of being a buying side in cross-border M&A deals or setting up a brand-new greenfield project abroad from scratch, a company, involved in FD, reduces its ownership stake or disposes its subsidiaries, affiliates, units or parts of its international-based business. There are many ways to carry out the FD. The most common ones include sell-off, liquidation, closure and carve-out which is a partial equity reduction (Feldman & McGrath, 2016). Such organizational modifications may significantly reshape the business' structure, serving company's strategic objectives by exiting some assets that are either exposed to certain risks or cannot be maintained at the operational level any longer due to the prolonged unfavorable market conjuncture (Benito, 1997; Berry, 2013). What is more, the divestment can bring about greater efficiency and increase the overall value for the faithful shareholders by disposing of some inappropriately related or unmatching units (Ezekoye & Luu, 2020). However, there are certain impediments on the way of a divestment option fulfillment. According to the recent McKinsey survey it was found that among the most cited and thus deemed to be significant deterring factors for implementing, let alone initiating the divestment process, are the inadequate market prices for an asset, time-consuming procedures, possible infliction of damage on the whole company if something goes wrong, emotional attachment of stakeholders and unrecoverable sunk costs (Finck et al., 2020).

The phenomenon of FD is attracting an increasing attention nowadays, since the frequency of divestments has only been growing over the recent years both in absolute numbers and volume (Borga et al., 2020). In some years, the FD number was even slightly higher than the number of acquisitions, which is the case for the world economic crisis that erupted in 2008 with its drastic recessionary slump consequences in the following years. Thus, the most intensive years for FD activity were 2008, 2011 and 2013, which is in line with the yearly volumes showing that 30–50% of all deals were divested. Empirical studies show more modest results at the national level with regards to the FD magnitude, asserting that approximately every fifth internationally located subsidiary is divested on average, as confirmed by samples from the US and Swedish MNEs (Berry, 2013; Norbäck et al., 2015).

The existing literature base on FDs started to appear in the 1970s and has been steadily growing ever since. However, it still lacks an explicit universal theoretical framework, even though Boddewyn (1983) attempted to suggest one reversing the Dunning's OLI model of FDI for foreign divestment framework. But its viability still needs to be proven by further empirical research, since we cannot claim that the same variables used in the OLI model are as much explanatory in the case of FD without proper studies. So far, scholars studying the FD phenomenon have accumulated much of the knowledge over the recent decades and have tried to analyze this complex trend from different perspectives. There are six major theoretical frameworks that academicians have applied in their studies explaining the reasons for FD. They are listed below in accordance with their historical appearance in the related literature (Arte & Larimo, 2019; Schmid & Morschett, 2020): knowledge-based theory of the firm; transaction cost theory; cultural dimensions approach; reversed eclectic paradigm; institution based view; real options theory.

2. Political determinants of foreign divestments

This study is mainly premised on an institutional perspective which has been widely used in explaining both foreign direct investments (FDI) and foreign divestments (FD). Since emerging markets have historically been associated with institutional uncertainty and vulnerability (Bahl et al., 2021; Mukherjee et al., 2018), the institutional distance with such countries increases for MNEs from developed countries, bringing more risks and opacity for doing business abroad (Gaur et al., 2022; Liu et al., 2021; Singh & Gaur, 2021).

MNEs from emerging markets progressively expand across borders, but on the most competitive developed markets they had to operate under fundamentally different rules and adjust to new institutional realities. With the advent of the new millennium, a stock of literature began to grow related to the active internationalization process of MNEs from developing markets and how institutional distances impact their decisions to enter foreign markets (Michailova & Ang, 2008). Institutional distance and cultural differences were studied with regard to OFDI by MNEs from the largest developing countries including Chinese (Mohsin et al., 2021), Brazilian (Chueke & Borini, 2014), Indian (Popli et al., 2016) and Russian MNEs (Dikova et al., 2019). All the studies come to the same conclusion that the role of institutional distance is significant, however, there are some distinct surprising peculiarities. For example, Chinese and Russian firms are negatively affected by cultural distance, while institutional distance contributes to OFDI expansion (Mohsin et al., 2021; Dikova et al., 2019). Besides, we must point out that host countries tend to treat MNEs of the same origin differently because governments apply various policy approaches to them, favoring some firms while discriminating others (Blake & Moschieri, 2017). Thus, we can make an inference that even though Russian MNEs can be treated differently by the regulatory institutions of host countries, especially in the developed markets with a higher institutional distance compared to Russia, they are nevertheless attracted by institutionally strong and politically transparent countries, while the cultural aspect does not have a significant impact on the internationalization strategy.

Faced with increased institutional pressure and lack of political proximity on the part of the governments of the recipient host countries, some MNEs partially or completely exited the markets, divesting some of their foreign based affiliates, while scholars paid more attention to the relatively new topic of FD and elaborated on the institutional distance concept through different operationalizations. The few existing studies on FD exploited the same institutional variables used in the FDI research aimed at understanding the factors of investment attraction and its retention, since the institutional strand of FD research is still insufficiently studied and FD in general does not have a comprehensive and commonly recognized theoretical framework to refer to (Borga et al., 2020). Using institutional distance as one of the independent variables influencing the FD outcome, scholars observed some mediating factors of the likelihood of survival. Gaur and Lu in their paper (2007) studying Japanese affiliates conclude that a foreign subsidiary's survival in institutionally distant host countries depends on the ownership mode and the international experience of the company in the host country. It turns out that the more companies have ownership in their foreign units and the more foreign experience they have in the host market, the less prone they are to be divested and, thus, cease their activities (Gaur & Lu, 2007; Dhanaraj & Beamish 2009). The same results were observed in a couple of research related to the case of Korean MNEs divesting their subsidiaries from host countries that have significant institutional or cross-national distance, with one exception for the role of previous international experience in the host country that was found to have a significant positive effect on the chances of survival (Pattnaik & Lee, 2014; Kang et al., 2017).

We should note that practically all institutional and political variables were borrowed from the studies of their effect on FDI attractiveness of a host country, which is in line with Boddewyn's logic of the reversed eclectic paradigm, and that is why it is justified to use the same variables in order to check the extant and future assumptions (Bailey, 2018). Among the most common institutional variables employed in the related studies to explain the FD phenomenon are different types of institutional distance, such as political stability (Dai et al., 2013; Getachew & Beamish, 2017; Singh & Gaur, 2012), economic freedom (Demirbag et al., 2011; Getachew & Beamish, 2017) and political freedom (Dhanaraj & Beamish, 2004; Soule et al., 2014), as well as cultural remoteness (Pattnaik & Lee, 2014; Kang et al., 2017). However, most of the studies on institutional and political factors driving FD have not yielded conclusive results, varying from study to study, since obviously there is a plurality of circumstantial factors at play that cannot be easily systemized (Arte & Larimo, 2019; Schmid & Morschett, 2020). Hence, the key question to be addressed is what exactly stands behind the pervasive concept of institutional distance. Thus, we are about to consider the most influential political factors affecting FDs which are derived from the findings in the previous literature.

2.1. Political uncertainty

The unstable political environment and abrupt changes in the political landscape shoo away foreign investors and, thus, do not contribute to the FDI inflows into the country. Political instability existent in the host countries is perceived as a threat to MNEs and their OFDI into the country emanating from the instability of local governments that may lose their power in favor of opposition parties, rebels, and even terrorists (Kaufmann et al., 2010). Among the most extreme displays of political instability are coup d'etat, military violence, civil wars, terrorist attacks, expropriation, and nationalization (Kobrin, 1979; Henisz, 2000). Besides, the incumbent authorities, with their radically changing policies and opportunistic behavior in relation, above all, to proprietary rights, especially in developing economies with weak institutions, bring about lesser business and economic confidence with a subsequent retreat of MNEs and dire depression in the country (Buthe & Milner, 2008; Biglaiser et al., 2016). This unstable and unfair environment discourages investors from staying in the country because of volatile increasing transaction costs, inability to efficiently communicate and transfer knowledge to other organizational units and headquarters, negatively influencing business margins (Zhao et al., 2020). Continuity of policy direction brings stability, whereas political uncertainty leads to constant changes in economic policies in relation to tariffs, quotas and even outright ban on import, thus affecting business profitability (Evenett, 2019). However, some companies opt for risk-taking incurring additional expenses and decide to stay in an unclear political environment circumstances due to greater exit barriers or lack of alternative options (Damaraju et al., 2015).

Given the political risks and the associated additional costs, MNEs prefer to allocate their investments in countries with stable institutions and a predictable trustworthy government that has a good track record in the past (Globerman & Shapiro, 2002; Scalera et al., 2020). Strong and credible institutions boost the country's legitimacy for foreign investors (Trevino et al., 2008), since the government is suppopsed to be a guarantor of the properly functioning market relations, intervening occasionally to prevent socially dangerous disbalances, such as monopolization and illegal hostile takeovers of business by competitors or non-systemic actors (UNCTAD, 1999). On the contrary, weak institutions and poor governance quality are conducive to inefficiencies on the domestic market due to unstable environment, which do not allow MNEs to establish production facilities and effectively ensure supply chains in the long run, forcing them to subsequently conform to local chaotic rules and unfair practices (Bénassy-Quéré et al., 2007; Ascani et al., 2016).

Political stability rests upon governance factors, since without a strong and viable government there can be no predictable economic and political environment. That is why the unsatisfactorily low economic growth pattern in a country is intertwined with improperly guaranteed proprietary rights, rampant corruption, arbitrariness of local government and regulative bodies, as well as complexity of the bureaucratic system that hinder the prosperity of business (Kaufmann et al., 2018). There are four major governance indicators derived from the World Bank dataset designed to measure a country's overall institutional development and integrity. The first of them is government effectiveness that captures the extent of bureaucratic complexity in the country and how accessible and well guaranteed public goods are (Contractor et al., 2020). The second indicator is regulatory quality that assesses how regulated and open the domestic market is in terms of trade relations and capital movements (Zhao et al., 2020). The third one is rule of law that measures the level of proprietary rights protection and how contracts are honored (Gutmann & Voigt, 2018). The fourth one is corruption control that checks whether the authorities abuse their plenary power and exploit it for the personal benefit, receiving and giving bribes, thus undermining the level playing field conditions and increasing expenses for the companies (Spencer & Gomez, 2011; Cavusgil et al., 2020).

The home country's perspective also matters since unstable domestic institutions may force companies to seek greater stability in internationalization overseas, forcing them out of the country (Feinberg & Gupta, 2009). Nevertheless, MNEs' experience with home institutions can help to overcome challenges overseas (Holburn & Zelner, 2010). Companies from countries with fragile and vulnerable institutions have understanding and experience on how to manage political uncertainty and acquire bargaining power with local governments (Kedia et al., 2006). Companies originating from countries with strong institutions, in turn, can go abroad more easily due to favoring policies, looking for better opportunities to allocate capital with higher returns and improve business operational efficiency. However, MNEs can reduce their exposure to institutional risks, regardless of their origin, by an appropriate entry mode, for example acquiring a minority stake in a JV with a local partner who already has the proper political capabilities and competences and can facilitate transfer of this operational knowledge in an unstable environment (King et al., 2021).

One of the first researchers to point out the importance of institutional and political factors as drivers for FDs by the US MNEs was Roger Torneden (1975). His contemporaries Boddewyn (1979) and Sachdev (1976) also referred to a significant role of adverse environmental conditions and political uncertainty affecting the UK and US firms' decision to exit a foreign market. Besides, Stephen Cobrin (1980), in his study with a sample of 67 developing countries covering the period 1960–1976, pointed to the risk of forced divestments in the form of nationalization, confiscation, socialization or expropriation under hostile measures taken by local authorities that did not let the foreign business to take hold. However, the magnitude of forced divestitures is relatively small, making only about 4–8% of all foreign divestments, which was proved in another study (Chopra et al., 1978). And with arrival of improved institutions in the emerging markets intended to entice more foreign capital inflows through trade liberalization, privatization policies and economic deregulation, as well as greater experience of MNEs, the number of involuntary divestitures may be even lower (Globerman & Shapiro, 2002).

Later, works studying the impact of political risk and instability on MNEs' FD experience appeared. A research conducted by Benito (1997) on Norwegian firms divesting their foreign manufacturing units from European markets did not show a strong correlation effect of the level of political risk in a host country on the probability of a firm's foreign divestment due to a low institutional distance between countries. Even the government's post-crisis reform efforts aimed at FDI retention may not soften the uncertain political environment, thus causing FD growth and investment contraction, but the entry mode chosen by MNEs could mitigate the survival rate since it was found that wholly-owned subsidiaries were more resilient than JVs in a politically unstable situation (Chung & Beamish, 2005). Berry (2013) came to almost the same conclusion as Benito, but she found a mediating effect of a unit's relatedness on the divestment likelihood in the politically unstable countries, claiming that unrelated subsidiaries would be divested first. Other works proved a strong positive link between political instability in a host country that is engulfed in conflict and the survivability of foreign subsidiaries. It was found that political openness of a host country, which characterizes environmental predictability, facilitates the activities of MNEs due to a higher policy transparency and lesser government interference with the self-regulating market forces, showing a statistically mild negative effect on foreign subsidiaries exit and a strong effect on an IJV breakup (Dhanaraj & Beamish, 2009). The divestment probability increases especially if there are no other firms in the host country that share the same origin and industry, implying that national peers either could not cope with the environmental externalities in the past or did not enter the market at all (Dai et al., 2013).

Besides, political developments in the home country are important factors influencing the FD decision, as a response to political instability in the host country. Among the factors that were found to be significantly positive to the FD probability are protests taking place at home against offenses in the host country and the level of institutional transparency that drives FDs, while the political openness of the country was not detected to play a statistically significant role (Soule et al., 2014).

Nevertheless, according to a recent meta-analysis research on the FD antecedents (Schmid & Morschett, 2020) based on the aggregated results for 45 related articles, the authors found that the effect of the host country risk is positively associated with FD and negatively associated with subsidiary's longevity. The most recent relevant findings shed light on the causal relationship, since only the medium level of political instability can provoke a significant wave of FDs, while both extremes of the political situation in the country — stability and chaos — yield negligible impact on the affiliate's divestment (Lupton et al., 2021). MNEs tend to develop a reference point for political risk measurement, considering a moderately low risk as a business opportunity of staying in the host country, while leaving the market if the value goes above a certain threshold (Yasuda & Kotabe, 2020).

Russian mining MNEs provide anecdotal evidence behind the above literature. Nordgold is a fast-growing Russian gold mining company with operations in Eurasia and West Africa. As of 2021, Nordgold owns nine mines in Russia, Kazakhstan, Guinea and Burkina Faso. On August 5, 2021, Nordgold began mining ore at the Lefa mine in the Republic of Guinea. In the same year, on September 5, a military coup took place in Guinea, which led to the resignation of President Condé.

In 2008, another Russian mining company Rusal, the world's leading aluminium producer, faced a huge risk of collapse as a result of the military coup in Guinea that demanded the expropriation of Rusal's production. The attack failed thanks to the intervention of Condé. Nowadays, after Conde's resignation, the situation seems more uncertain. On January 2, 2022, Vsevolod Tkachenko, Director of the Africa Department of the Ministry of Foreign Affairs of the Russian Federation, said that the transitional authorities of Guinea had promised to ensure the uninterrupted operation of the companies Rusal and Nordgold.[2] However, the situation remains highly uncertain and risky for both Russian MNEs.

That is why, in line with the previous literature and with the support of MNEs' evidence, we suggest that foreign subsidiaries of Russian MNEs located in host countries that have a higher political stability distance with Russia are more likely to be divested. This may have implications for other countries, such as Kazakhstan, where unrest occurred in January 2022. The Nordgold company owns the Suzdal mine near Semipalatinsk. According to a Nordgold representative, the unrest did not affect the company's operations.

By coincidence, in the same month, on January 24, 2022, a military coup took place in Burkina Faso, where Nordgold operates the Taparco, Bissa and Buli mines. The future of the company's assets remains uncertain.

2.2. Economic sanctions

There has been observed a contagion effect of the FDs that can break out in politically and economically similar countries if a company once resorted to FD in such host countries because of some disputes with the local government or increased institutional distance (Blake & Moschieri, 2017). A similar effect can be clearly observed in the Russian MNEs' recent divesting experience of foreign subsidiaries triggered by the economic sanctions imposed on Russia and companies affiliated with the government since 2014 (Brown et al., 2017). In the aftermath, there was a wave of exits of Russian companies from host countries that are politically and economically close to each other, mostly from the EU and the USA, as well as form neighboring Ukraine, which had joined the anti-Russian sanctions. It is not surprising that some of the foreign subsidiaries were divested, since sanctions disrupt the established political and trade relations, minimizing business confidence and leading to MNEs' withdrawals from places that are characterized by environmental uncertainty (Panibratov, 2021). As a result of sanctions, the policy regulations may be dramatically altered, thus leading to extra costs for doing business abroad and undermining normal business operations at the subsidiary level, forcing a MNE to temporarily suspend or even permanently close the unit incurring losses for the firm (Weber & Stępień, 2020). Besides, Russian MNEs found themselves in a financially constrained position, since the most liquid international capital and

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2 https://1prime.ru/business/20220104/835683544.html

credit markets for refinancing debt, fueling and maintaining the company's growth were almost completely cut off (Abramova & Garanina, 2017; Panibratov, 2021), thus forcing MNEs to quickly optimize their international operations and supply chains disposing of some foreign assets deemed to be inefficient, distant or no longer relevant for their strategic purposes.

Nevertheless, the sanctions negatively affect FDI only in the short term, while it is insignificant in the long run due to the restoration of trust and arrival of new actors over time (Mirkina, 2018). As time goes by, Russian MNEs become less inclined to divest from the host countries due to acquired experience and the elimination of ambiguity. Besides, even though economic sanctions are considered to increase political uncertainty, they can yield alternative economic scenarious (Panibratov, 2021), which is especially the case for some Russian companies that have embarked on a new corporate strategy of reshoring, moving their production assets more closely to the national borders, trying to build up vertical integration advantages either at home or in neighboring politically close countries, such as Kazakhstan (Stepanyan, 2018).

As for the Russian MNEs divesting their foreign units from host countries that supported the sanctions regime, we can cite here some valuable observations of the domino effect. One of the most telling cases happens to be Lukoil, the largest Russian private company in the oil and gas sector, which disposed of its refinery networks stations in the Eastern European countries after the imposition of sanctions. Firstly, Lukoil divested from Hungary in 2014, then from Ukraine, the USA and Estonia in 2015, followed by Poland in 2016, and Ukraine and Bulgaria in 2017.[3]

The Russian gas giant Gazprom sold its foreign assets located in the Eastern European countries — Lietuvos Dujos and Amber Grid (Lithuania) in 2014, Vorguteenus Valdus (Estonia) and Verbundnetz Gas (Germany) in 2015, as well as Finnish Gasum in 2016,[4] thus proving the point that contagion effect of sanctions takes place in the Russian MNEs' foreign subsidiaries.

It is interesting that most of the divestment initiatives were launched immediately after the sanctions were applied. The Gazprom Germania report recalls that at the end of 2014, an asset swap deal between Gazprom and Wintershall failed, as a result of which Gazprom was supposed to gain full control over large gas marketing companies in Germany. In addition, in autumn of 2014, Gazprom Germania decided to stop the project to build the Saltfleetby underground gas storage facility in the UK, and in February 2015, Gazprom decided to transfer the office of the global trader Gazprom Marketing & Trading (GM&T) from London to St. Petersburg. Yet, Gazprom claims that the point is not the sanctions, but that GM&T should merge into the new company, Gazprom Exchange, which will sell gas, including to Western markets.

3 https://www.rbc.ru/newspaper/2016/06/17/57626c549a7947f1bbf483a2

4 https://www.forbes.ru/news/295905-gazprom-prodal-svoyu-dolyu-v-1052-v-germanskoi-verbundnetz-gas

The case of another Russian MNE — Sberbank, the largest bank in the Central and Eastern Europe[5] — is even more illustrative. Sberbank announced its plans to exit the Ukrainian market in 2017,[6] and sold its leasing unit the same year.[7] Due to the sanctions introduced by the President of Ukraine in 2017, Sberbank Ukraine and VS Bank (Sberbank Europe AG) faced a transaction ban on asset-related transactions, dividend and interest payments, profit distribution and allocation of capital.[8] In March 2017, the bank signed a legally binding contract to sell Sberbank Ukraine to Norvik bank (Latvia).[9] But the deal was blocked by the National Bank of Ukraine (NBU). In December 2017, Sberbank Europe AG managed to complete the sale of its 99,9230% stake in VS Bank to TAS Group.[10]

On March 15, 2018, the sanctions were extended.[11] In March 2018, the NBU denied its acquisition of the Paritet bank because of the "legal compliance failure."[12] In May 2018, Sberbank announced a new attempt to sell its unit. In September 2018, the NBU blocked the attempt on the same grounds.[13]

In March 2021, the sanctions were extended for another three years. In August 2021, the Ukrainian Court prohibited the use of the brand Sberbank. In November 2021, CEO Herman Gref admitted that the bank was still looking for exit opportunities. In the third quarter of 2021, Sberbank pointed the Ukrainian asset as "blocked" and allocated capital for depreciation in the amount of ₽33 bln.[14] In December 2021, the bank was renamed the International Reserve Bank (IR Bank).

Nevertheless, at the same time, Sberbank managed to close several deals. In 2019, Sberbank sold DenizBank to Emirates NBD. In 2022, Sberbank is to close the sale deal of its subsidiary banks in Bosnia and Herzegovina, Croatia, Hungary, Serbia and Slovenia.[15] The buyers are AIK Banka a.d. Beograd, Gorenjska banka d.d. (part of AIK Banka), and Kranj and Agri Europe Cyprus Limited — all companies are part of Serbia's MK Group.

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5 https://www.sberbank.ru/en/press_center/all/article?newsID=f2039b96-7bee-44f5-8436-fe0b6740757b&blockID=1539&regionID=77&lang=en&type=NEWS

6 https://www.kommersant.ru/doc/3266581

7 https://www.rbc.ru/rbcfreenews/58e7e6be9a79470747647acf

8 https://bank.gov.ua/en/news/all/natsionalniy-bank-zaproponuvav-uvedennya-sanktsiy-schodo-bankiv

9 https://www.sberbank.com/news-and-media/press-releases/article?newsID=cc6b482b-b263-4210-9111-c06a0cba88ce&blockID=7&regionID=78&lang=en&type=NEWS

10 https://bank.gov.ua/en/news/all/natsionalniy-bank-prodovjiv-diyu-sanktsiy-schodo-deyakih-bankiv

11 https://www.sberbank.com/news-and-media/press-releases/article?newsID=f2391ba0-8736-4ef4-941a-877a8752c58c&blockID=7&regionID=78&lang=en&type=NEWS

12 https://bank.gov.ua/en/news/all/natsionalniy-bank-vidmoviv-u-pogodjenni-nabuttya-istotnoyi-uchasti-v-pat-sberbank

13 https://bank.gov.ua/en/news/all/natsionalniy-bank-vidmoviv-u-pogodjenni-nabuttya-istotnoyi-uchasti-v-at-sberbank

14 https://www.interfax.ru/business/809045

15 https://www.sberbank.com/news-and-media/press-releases/article?newsID=c6baf8de-2e6f-48fb-8d16-402283e1639f&blockID=7&regionID=78&lang=en&type=NEWS

Given the real examples how Russian MNEs divested their foreign affiliates under sanctions effect and previous empirical findings in the relevant academic literature, we clearly see that foreign subsidiaries of Russian MNEs located in host countries that support the sanctions against Russia are more likely to be divested.

As for the effect of sanctions, it causes political strife, the rupture of diplomatic ties, uncertainty in business operations disrupting supply chains and increasing transaction costs for companies, undermining its operations, and thus negatively influencing profits. Companies that are affected by sanctions face increasing transaction costs, restricted access to capital and limited growth opportunities (Gurvich & Prilepskiy, 2015). Countries that impose sanctions on companies may also restrict their relations with partners, suppliers and customers, thus significantly impacting their financial performance in a negative way (Panibratov, 2021), otherwise they will have to pay a premium to deal with companies that go beyond the law and are considered risky (Jonas, 2017). The decision to divest a subsidiary under sanctions is reactive since, being caught off guard, companies have to come up with an immediate solution whether to divest or stay and incur extra expenses (Damaraju et al., 2015). Besides, finding a buying side requires a lot of time and negotiations, otherwise the assets will be sporadically sold off in a hurry at a price much lower than the purchase or market price, thus leading to negative post-divestment financial performance as a result of lost investments (Brauer et al., 2017; Weber & Stępień, 2020).

The divestment move by Gazprom illustrates this well. In April 2015, Gazprom Germany announced the sale of its 10.52% stake in Verbundnetz Gas (VNG),[16] which formally was a shift in the company's strategy in response to the requirements of the European Union's Third Energy Package. Earlier, in June 2014, Gazprom sold 37.1% of the stake in Lietuvos dujos and Amber Grid (Lithuania) to the state for $163 million. On June 19, the Estonian company Elering announced the purchase of 37% stake in Vorguteenus Valdus. This illustrates the speed at which large Russian MNEs decide to exit even from the neighboring Baltic countries (the former part of the Soviet Union) to secure assets and retain capital.

Another largest Russia telecommunications MNE — Rostelecom — which started its operations in Armenia in December 2012[17] and invested $22.5 mln in 74.98% of stake of its daughter company GNC Alfa, paid the remaining $7,94 mln in August 2019 for 25.02% of the company's stake and consolidated 100% of the stake.[18] In November 2017, VEON Armenia tried to purchase GNC Alfa and launched due diligence.[19] But the deal was not executed. In 2018, Rostelecom CEO Michael Oseevsky announced plans to sell the only foreign subsidiary due to a lack of synergy.[20]

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16 https://www.kommersant.ru/doc/2703037

17 https://www.rbc.ru/rbcfreenews/5a7c305b9a79475ae7296aff

18 https://mfd.ru/news/view/?id=2312072

19 https://www.rbc.ru/rbcfreenews/5a7c305b9a79475ae7296aff

20 https://www.rbc.ru/rbcfreenews/5a7c305b9a79475ae7296aff

On October 29, 2020, Rostelecom sold its Armenian unit to Team LLC (founded in 2020 by the Ucom founders).[21] On January 19, 2022, the Public Service Regulatory Commission approved the sale of GNC Alfa (Rostelecom) for $25 million to Molitro Holdings Limited (Cyprus), which is the 40/60[22] joint venture of Electrical Grid of Armenia (Tashir Holding) and Arman Unanyan.[23]

This supports the finding that the imposition of sanctions by the host country does negatively affect the parent-level financial performance of Russian MNEs, even in countries that do not apply sanctions.

3. Discussion and conclusions

This paper discusses the effect of political stability / uncertainty and economic sanctions on the divestment decisions of Russian MNEs.

Since both political and institutional factors are closely intertwined with economic growth prospects and business opportunities in the country, they greatly influence a company's decision-making process with regards to investing, staying or leaving a foreign market under unpredictably perilous conditions. This effect is accentuated with the return of mutually defensive protectionist policies and other hostile measures, such as imposition of sanctions, which is especially relevant for Russian MNEs (Cuervo-Cazurra et al., 2020).

Economic sanctions seem to be an important predictor of the likelihood of a foreign subsidiary's survivability. Subsidiaries located in host countries that have not joined the economic sanctions against Russia may be less inclined to be divested than in those countries that have supported the sanctions. In addition to worsening negative attitudes towards businesses with Russian origin on the part of foreign partners, suppliers and clients, Russian businesses faced restricted access to Western technologies and international capital markets to refinance their debts and drive economic growth, thus decreasing their business potential, experiencing declined revenues and plunging into a stagnation phase (Panibratov, 2021; Gould-Davies, 2018). In general, the consequences of sanctions exacerbated the already existent political tensions and concerns, increasing liability of foreignness and transaction costs to an intolerably high level for some foreign subsidiaries owned by Russian companies, forcing them to be subsequently divested.

With regards to political stability, we may suggest that subsidiaries of Russian MNEs located in host countries with the same level of political stability as in Russia are less likely to divest, which is in line with Yasuda and Kotabe (2020) claim that a country's risk is perceived by companies not as an absolute measure but rather as a

21 https://www.veon.com/media/media-releases/2020/veon-announces-sale-of-armenian-operations/

22 https://www.cnews.ru/news/top/2022-01-18_rostelekom_prodaet_svoj

23 https://newsarmenia.am/news/armenia/elektroseti-armenii-i-grazhdanin-rf-priobreli-armyanskuyu-dochku-rostelekoma-za-25-mln/

relative ratio. Moreover, sometimes it is very difficult (if not impossible) to determine the sequence of reactions of MNEs and governments to each other's sanctions-driven actions, for which we offer the last example.

The largest Russian car manufacturer GAZ Group cooperates with German Elektrofahrzeuge Stuttgart (EFA-S) since 2019 on a key project aimed at the development of hydrogen e-autos.[24] In 2021, GAZ Group started selling its GAZelle NN Euro 6 in Bulgaria (together with Avto Union, the largest Bulgarian automotive holding company),[25] in Australia (together with AAV 4×4),[26] and in Turkey.[27] In the same year, GAZ Group extended the product line in Azerbaijan by introducing new ecologic projects together with Azermash for the production of buses. A few months later, on January 24, 2022, the US Treasury Department shortened the validity of two general licenses for GAZ Group. The licensees authorized transactions necessary to divest or transfer debt, equity or other holdings in GAZ. The US official said: "These authorizations were extended for a shorter time period given the current situation with Russia; further extension will be informed by Russia's behavior." Therefore, it is unclear whether the continuous international activity of GAZ led to the US Treasury bans, or the US sanctions re-directed the company to new and friendlier markets.

Summing up, we contribute to the field of research on foreign divestment, enriching the ongoing study of the FD phenomenon through the lens of institutional perspective, providing the academic world with new up-to-date background and illustrations of the effect of the most powerful political factors, namely political stability and economic sanctions, on the FD decision of Russian MNEs. For future work, we encourage a systematic study of a large sample of firms to assess the effect of sanctions on long-term performance of Russian firms.

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[24] https://gazgroup.ru/news/v-germanii-budet-zapushchen-v-ekspluatatsiyu-vodorodnyy-elektromobil-na-baze-gazeli-next/

[25] https://gazgroup.ru/news/gruppa-gaz-vyshla-na-rynok-bolgarii-/

[26] https://gazgroup.ru/news/gruppa-gaz-vyshla-na-rynok-avstralii/

[27] https://gazgroup.ru/news/gruppa-gaz-nachala-proizvodstvo-v-turtsii-avtomobilya-gazel-nn-standarta-evro-6-/

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