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Geopolitical conflicts and European MNE strategy: The outcomes of staying or leaving Russia

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Abstract

Geopolitical conflicts force multinational enterprises to make difficult choices between protecting their operations in a host country and preserving their standing among stakeholders at home, even when formal sanctions do not require firms to exit. Whether to remain in a conflict-affected market is also often an ethical decision. Using panel data on more than 8,000 listed European firms from 2010 to 2024, we compare corporate outcomes following Russia's 2014 annexation of Crimea and its 2022 full-scale invasion of Ukraine. We find that the 2014 shock produced little change in operating performance and modest deleveraging among firms with a Russian market presence, compared to those without. After 2022, firms that remained in Russia experienced stronger sales and employment growth than firms that completed their exit, without corresponding improvements in profitability or changes in leverage. Stayers experienced a larger post-2022 increase in media-based ethical scrutiny, whereas firms that completed their exit experienced a larger increase in idiosyncratic volatility. These findings suggest that corporate decisions to withdraw from an aggressor state are not necessarily associated with a consolidated profitability penalty, while decisions to stay may entail greater ethical scrutiny.

Keywords: Business strategy, Self-sanctions, Reputational risk, European firms, Russia

JEL: D22, F51, L2, M14

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Non-technical summary

Focus

International conflicts can create significant ethical dilemmas for multinational corporations. Should a company continue operations in a conflict state to protect its investment, or should it exit the market and salvage its reputation while possibly incurring large economic losses? Our paper looks at how corporate business strategies shaped the performance of European multinationals dealing with the fallout from Russia's annexation of Crimea in 2014 and the full-scale invasion of Ukraine in 2022, including the sanctions imposed in the wake of these events.

Contribution

This study contributes to two strands of literature. First, we add to the literature on business ethics and violent conflicts by exploring the role of ethical scrutiny as a mechanism that enforces moral standards, complementing formal sanctions and disciplining corporate behaviour during major geopolitical shocks. Second, we contribute to the literature on the effects of economic sanctions by shifting the focus from sanction targets to exposed multinationals based in countries that impose the sanctions. By considering two distinct sanction episodes in Russia (the 2014 Crimea annexation and the full-scale 2022 invasion), we provide evidence consistent with the moralization threshold view, showing that not all sanction episodes generate similar corporate outcomes for sender-country firms.

Findings

Using panel data on over 8,000 listed European corporations between 2010 and 2024, we test various hypotheses on firm outcomes. We show that the performance of firms that maintained a market presence in Russia following the 2014 sanctions did not differ from their peers. In 2022–2024, however, firms with a continued presence in Russia experienced positive gains in their operating performance without improvements in financial performance and a distinct increase in their reputational risk. In short, we show that staying in the market of a country facing sanctions can lead to greater ethical scrutiny and operational expansions without a commensurate increase in profits.

1. Introduction

International conflicts, such as territorial annexation, sanctions, trade restrictions, and military invasions, pose a significant ethical dilemma for multinational corporations: whether to continue operations in a contested country to protect overseas assets, employees, and market positions, or to withdraw to avoid being perceived as supporting the situation and to maintain moral legitimacy in the eyes of domestic stakeholders? Such decisions are rarely easy, and blind calls for universal withdrawals of all foreign firms are rarely morally justifiable (Brühl, 2025). Although a swift exit from a country may seem a reasonable solution to the ethical dilemma, it, too, might have unintended consequences. For example, the company's assets could be seized by the sanctioned regime or the withdrawal could impose high costs for local workers and customers (see e.g. Thein et al., 2024). On the other hand, even if staying is justified by the need to protect company property or fulfil commitments as a provider of essential goods or services (e.g. Slim, 2012), such behaviour could be interpreted as opportunism or tacit support for the bad actor. Moreover, firm choices can also be influenced by increased pressure from investors, employees, consumers, and the media (e.g. Oetzel and Getz, 2012), but very little is known about what actually happens to companies that stay or leave and how these decisions affect business outcomes.

The annexation of Ukrainian Crimea by Russia in 2014 and the full-scale military invasion of other Ukrainian territories in 2022 provide a suitable setting for studying how ethical concerns affect the operational outcomes of multinational companies operating in an aggressor state. Both events triggered multiple rounds of Western sanctions that increased the costs of doing business across borders and forced multinationals to reassess the risks and moral salience of maintaining a business presence in Russia. After 2014, many countries imposed targeted and sectoral sanctions on Russian companies, mainly in the financial and technological sectors. Following Russia's invasion of Ukraine in 2022, these restrictions expanded substantially, making Russia the most heavily sanctioned country in the world. This period also saw many stakeholders take action, leading many foreign companies operating in Russia to "self-sanction" by voluntarily withdrawing from the Russian

market. A sizable cohort of foreign companies, however, decided to remain in Russia and deal with the onslaught of new challenges such as capital controls and the risk of retaliatory seizures and nationalization. The ethical and strategic stakes of staying versus leaving thus became unavoidable, especially for European multinationals whose subsidiaries had been integrated into Russia's pre-war consumer, services, and manufacturing sectors (Davydov et al., 2022).

Empirical studies partially shed some light on this issue. In particular, the rapidly growing body of research dominated by event studies shows that equity markets reacted sharply and negatively to the outbreak of the 2022 invasion (e.g. Ahmed et al., 2023). The effect was strongest for firms with close trade or ownership ties to Russia. Studies on market responses to company withdrawal plan announcements show mixed results. US companies that left Russia had lower abnormal returns around their exit decisions, presumably because of anticipated losses and asset write-offs (French et al., 2023), while a larger sample of international companies, on average, saw positive short-term abnormal returns after their announcements of withdrawal from Russia (Kiesel and Kolaric, 2023). Event studies, however, are limited in what they can say about *(i)* how operational and financial outcomes evolve over subsequent years, and *(ii)* how a firm's exposure to ethical scrutiny changes, particularly for firms that continue operating in a morally challenged environment.

Moreover, much of the existing literature on sanctions and firm outcomes focuses on sanction targets such as Russian state-connected firms (Gaur et al., 2023) and companies in the Russian energy and defence sectors (Huynh et al., 2025). Far less is known about foreign companies with subsidiaries in Russia that are not directly targeted by sanctions but still face heightened uncertainty and reputational consequences in deciding whether to continue operations there. Recent strategy research shows that multinational firms may respond to geopolitical tension through nonmarket strategies. Kim et al. (2025), for example, find that MNEs strengthen their ESG activities as interstate tensions increase, although this response weakens during ongoing conflict. When such tensions escalate into war, firms may therefore need to consider a more fundamental strategic response: whether to retain or relinquish their foreign-market presence. Patel and Richter (2025) consider how quickly foreign companies left Russia after the 2022 invasion, using speed of withdrawal to

capture the conflict between self-interest and ethics. Holtbrügge et al. (2026) similarly find that MNC exits from Russia were driven by institutional friction resulting from political ties and military threats, with sanctions mainly intensifying these pressures rather than directly prompting withdrawal. However, while these studies explain the drivers and timing of decisions to leave, the long-term economic and ethical implications of staying or leaving remain unaddressed. This gap reflects a broader limitation in international business research, which has focused mainly on the antecedents of foreign divestment while paying considerably less attention to its implementation and subsequent outcomes (Sethuram and Gaur, 2024). We address this gap by analysing a large longitudinal dataset of European companies and examining how these strategic choices affect firm performance and ethical scrutiny.

To interpret these multidimensional outcomes, we draw on the idea that geopolitical conflicts vary in their moral salience. Home-country stakeholders may initially view host-country operations mainly as exposure to political, operational, and compliance risk. As a conflict becomes more morally salient, however, continued market presence may also be interpreted as a visible ethical position, even when formal sanctions do not require firms to exit. The contrast between the 2014 and 2022 shocks therefore allows us to examine how differences in the moral salience of geopolitical conflict are associated with operating and financial performance, media-based ethical scrutiny, and capital market outcomes. Specifically, we address four research questions. First, we revisit the 2014 sanctions wave to determine whether the initial change in risk sentiment and the Crimea-related sanctions measures were relevant to operational and financial outcomes of listed European firms with Russian subsidiaries. Second, we exploit Russia's 2022 full-scale invasion of Ukraine to assess how European firms that remained active in Russia performed relative to those that left. In particular, we analyse how different groups of firms performed in terms of sales, employment growth, debt management, and profitability during 2022–2024. Third, we look at effects that go beyond financial metrics and examine whether these strategic choices alter the reputation of firms and the ethical attention they receive. While metrics such as sales, employment, leverage, and profitability reflect the tangible economic outcomes of corporate decisions, they often do not provide insight into ethical perceptions. Given that a firm's reputation plays a

significant role in its ability to raise money and keep stakeholders loyal (see e.g. Cao et al., 2015), especially in times of conflict, reputational damage can lead to increased financing costs, credit rating downgrades, or consumer boycotts long before the reputational injury shows up in financial reports. To capture this intangible yet powerful channel, we utilize the RepRisk Index (RRI) and examine whether a firm's strategic decision to continue doing business in Russia is associated with reputational harm. Finally, we examine whether firms' stay-or-exit response to geopolitical conflict is associated with changes in idiosyncratic return volatility.

To answer these research questions, we compile an unbalanced firm-year panel of all available non-financial firms headquartered in 27 EU member countries, the UK, and Switzerland using the Compustat Global database from 2010 to 2024. We then merge these data with the Kyiv School of Economics Institute (KSEI) database on foreign companies operating in Russia and their post-2022 decisions to withdraw or continue activities. We supplement accounting data with the RepRisk index, which measures the severity of negative environmental, social, and governance (ESG) factors and business conduct incidents reported daily from more than 150,000 media and stakeholder sources. We use this incident-based measure as a proxy for observable ethical scrutiny. Our empirical assessment starts with a comparison of firms that had a presence in Russia against those that did not during the 2014 sanctions wave. Next, we focus on the sample of European firms operating in Russia and use a difference-in-differences approach to distinguish between those that stayed and those that left after 2022.

Our findings reveal a persisting tension between economic benefits and moral legitimacy during times of geopolitical shocks. Following the annexation of Crimea and the 2014 sanctions, we find little evidence that European firms in Russia materially reduced turnover or employment. Instead, their balance sheets showed only modest decreases in leverage levels. These patterns suggest rapid financial adaptation consistent with the shielding mechanism documented for Russian firms by Gaur et al. (2023). We also find no corresponding shift in ethical scrutiny around the 2014 sanctions wave, although firms with a presence in Russia have

consistently higher Peak RRI values throughout the 2010–2024 sample period, implying that even without major geopolitical shocks and the 2014 sanctions, corporate activity with a Russia presence attracts greater ESG-related media attention.

European firms that stayed in Russia after 2022 experienced higher sales and employment growth than those that exited. However, we find no evidence that these gains led to higher consolidated profits, implying a pattern of rents without returns. These local gains may have been cancelled out by currency depreciation, increased compliance costs, or reputational risks of working within a sanctioned regime. In any case, the decision of a company to stay or leave after the full-scale invasion was not associated with a significant impact on its group-level leverage or profitability.

Companies that stayed after 2022 faced a significant increase in ethical scrutiny, supporting the view that doing business in a morally sensitive conflict raises expectations from domestic stakeholders and draws negative attention (Scott, 1987). Finally, the capital market channel suggests that firms that stayed in Russia had consistently higher idiosyncratic return volatility compared to those that withdrew completely. However, the results indicate that post-2022 idiosyncratic return volatility was lower for stayers than leavers, consistent with the view that the exit process itself may be perceived by investors as a deviation from industry norms, thereby increasing firm-level uncertainty (Hasan and Chen, 2023).

This study contributes to the literature in three ways. First, it connects research on geopolitical conflict with work on legitimacy and stakeholder evaluation by showing how the moral salience of a conflict can help interpret firms' strategic choices. The comparison of the 2014 and 2022 shocks suggests that continued host-country presence may attract stronger ethical scrutiny when it is viewed not only as exposure to political and compliance risk, but also as a visible moral position. Second, we extend foreign-divestment research beyond the antecedents, timing, and mode of exit by examining the subsequent operating, financial, reputational, and capital market outcomes associated with staying or leaving a contested market. Third, we document a divergence across these outcomes. Firms classified as stayers expanded turnover and employment without corresponding improvements in consolidated profitability, while also experiencing greater ethical scrutiny. Firms that

completed exit avoided this increase in scrutiny but experienced greater post-2022 idiosyncratic volatility. These findings show that MNEs facing geopolitical conflicts may have to weigh high reputational costs against minor or nonexistent profitability gains.

The remainder of the paper proceeds as follows. Section 2 outlines the background in the context of sanctions and corporate responses and develops hypotheses. Section 3 describes the data, measures, and empirical strategy, while Section 4 presents the results. Section 5 concludes with a discussion of implications for managerial decision-making, governance, and the ethics of multinational strategy under geopolitical shocks.

2. Background and hypotheses development

2.1. European firms in Russia 2010–2022

For most European firms, Russia remained a relatively minor destination during the early 2000s, as only a few listed companies held assets there. During the first two decades of this millennium, however, Russia became a relatively stable investment destination and part of the growing host market for several large European companies. For some firms, operations in Russia eventually constituted a large share of their total sales and profits. Some of the major European foreign direct investments (FDI) included Renault-owned car manufacturer Avtovaz and Raiffeisen Bank, which ranked among the top 10 banks in Russia.¹ Foreign companies operating in Russia were typically rather large multinational firms in terms of total assets. As documented by Antràs et al. (2026), multinationals are significantly more likely to trade with countries in which they operate an affiliate, a relation that also influenced trade flows with Russia. Increasing FDI flows of European companies into Russia grew the stock of FDI from EU countries from \$89 billion in 2008 to \$283 billion in 2021.² Flows from EU member states accounted for over half of all FDI

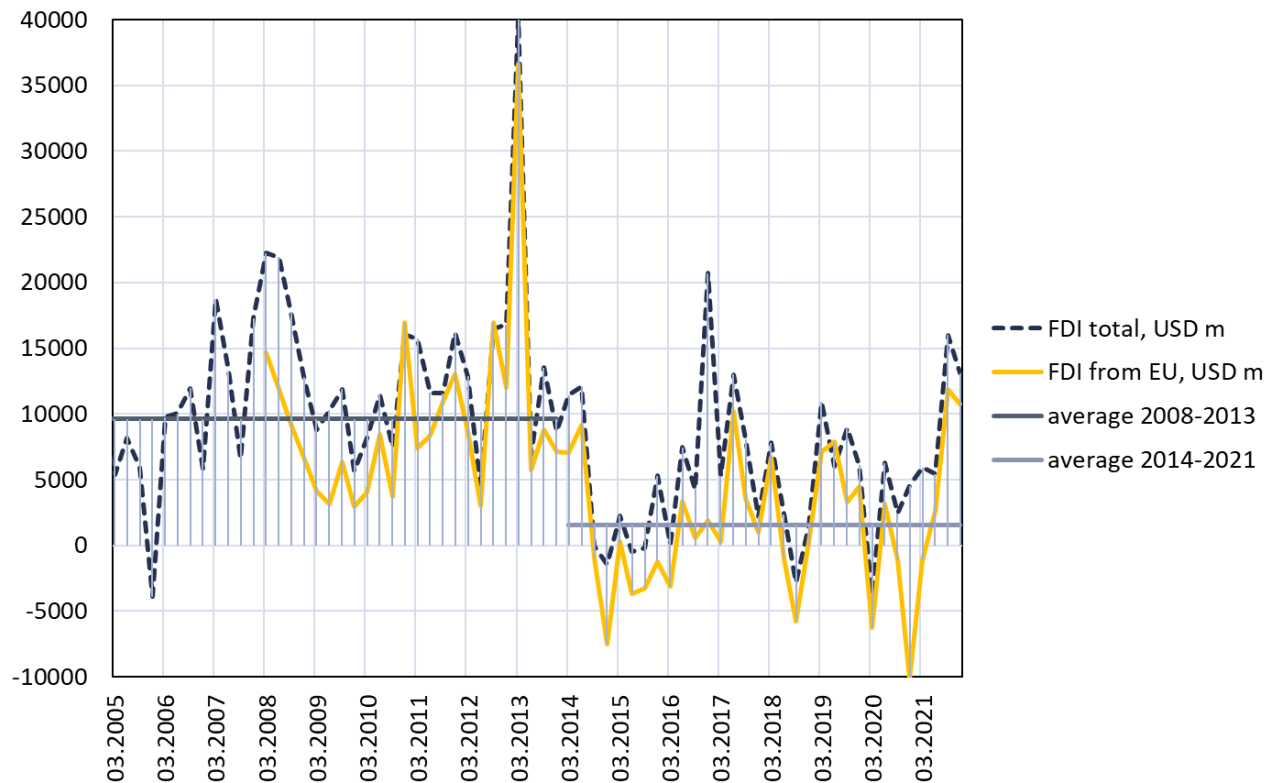
¹ For the Russian institutional setting and overview of the Russian banking sector, see Davydov et al. (2014), Davydov (2018), Fungáčová et al. (2023a and 2023b).

² Eurostat data.

into Russia, highlighting the importance to Russia of encouraging the local presence of European companies.

Russia's annexation of Crimea and interference in eastern Ukraine during 2014 led to a series of diplomatic, sectoral, and personal sanctions against Russian entities and individuals. Western sanctions restricted exports of military and dual-use goods to Russia, as well as high-technology items used in oil and gas exploration and production. Sanctions also limited Russia's access to international capital markets and reduced FDI flows to Russia. While these actions caused some damage to targeted Russian companies at first, the effects appeared to be only temporary, allowing for a quick recovery due primarily to political ties and governmental support (Gaur et al., 2023).

Trade sanctions, quite predictably, led to some European firms being hurt by lower exports (see e.g. Crozet and Hinz, 2020). The business opportunities for foreign firms were also hit by the 2014 oil price collapse and subsequent depreciation of the ruble. Sanctions on Russian banks and an expanding list of sanctioned Russian entities and individuals increased compliance requirements for all transactions with Russian counterparts and further heightened scrutiny of European companies active in Russia. Various event studies document negative effects on firms' cumulative abnormal returns around sanctions announcements (e.g. Boubaker et al., 2022; Ahmed et al., 2023).

Figure 1. Inward Foreign Direct Investment (FDI) to Russia.

Note: This figure plots total global FDI inflows to Russia (dashed line) as reported by the Central Bank of Russia and FDI inflows from the European Union (solid orange line). The horizontal lines denote the average annual FDI inflow over the years 2005–2013 and over the post-2014 period (2014–2021). FDI inflows to Russia comprise a non-resident (foreign) entity’s lasting interest and significant influence (at least 10% of voting power) in an enterprise resident in Russia, including equity capital, reinvested earnings, and intra-company debt.

Since the illegal annexation of Crimea, Russia has been a clearly less attractive investment destination. As seen in Figure 1, total FDI flows from Europe declined, but remained positive. Economic sanctions, rising uncertainty, and geopolitical tensions with Russia began to influence business expectations. Around 10% of all listed European corporations mentioned Russia-related sanctions in their annual reports during 2014–2017. These mentions were overwhelmingly negative (Davydov et al., 2022).

The annexation of Crimea and the beginning of the Russo-Ukrainian war clearly changed risk perceptions in Russia. As shown by Bondarenko et al. (2024), there was a clear and persistent upward shift in the level of geopolitical risk portrayed by the Russian press. Despite increased uncertainty, the 2014 sanctions

were narrowly targeted and largely sectoral. Indeed, there were no major withdrawals from the Russian market by established foreign subsidiaries amidst the 2014 wave of sanctions. As a result, the expected direction of post-2014 firm operating performance adjustments for Russia-present European firms is theoretically ambiguous. On the one hand, the 2014 sanctions likely hurt operating and financial performance by complicating transactions and compliance, increasing risk, and raising overall operating costs during a low-intensity conflict. On the other hand, companies can try to reduce these negative effects by changing their governance and operating configurations, reorganising their supply chains, and developing counterstrategies to avoid long-term declines in performance (e.g. Gaur et al., 2023).

Furthermore, the 2014 sanctions made it harder to raise capital from international capital markets by raising Russia-related risk perceptions, limiting funding options, and consequently increasing costs of external financing. While some firms may lower their leverage, others may instead pre-emptively take on more debt to replace disrupted funding channels, cover adaptation costs, or maintain liquidity buffers for doing business in a volatile environment (e.g. Sun et al., 2021). Legitimacy theory also suggests that operating in other countries during a conflict can change stakeholders' perception of a company, thereby affecting its access to resources (Suchman, 1995). Firms could therefore respond to geopolitical uncertainty through several competing forms of operational and financial adaptation. Because these mechanisms provide no unambiguous directional prediction, our first hypothesis is:

***H1:** Relative to European firms without a market presence in Russia, those with a market presence in Russia experience a significant change in operating and financial performance in the post-2014 period.*

2.2. Corporate exits from Russia since 2022

Russia's full-scale invasion of Ukraine in February 2022 led immediately to a coordinated set of economic sanctions from Western countries. The new sanction measures were far-reaching and more severe than those imposed following the 2014

annexation of Crimea.³ The Russian market reaction to these measures was intense, with a sharp ruble depreciation and a near-meltdown of Russian financial markets that forced Russian authorities to impose large-scale restrictions on foreign currency and cross-border transactions, as well as temporary closures of the main stock exchanges. Egorov et al. (2025) identify persistent economic challenges faced by Russian firms, particularly in response to more comprehensive sanctions imposed after 2021.

The immediate reaction of global markets was also significant. The outbreak of full-scale war resulted in increased asset volatility, credit spreads, and default probabilities for large European firms, especially those with greater exposure to the Russian market (Bougias et al., 2022). Russia's invasion of Ukraine on February 24, 2022, led to declines in the cumulative abnormal returns (CAR) of global firms with strong trade linkages to Russia as measured by their placement in the top decile of trade dependence on Russia (Bierman and Leromain, 2025).

Official sanctions imposed on Russia did not directly limit the operations of most Western firms already present in Russia. Only new investments in certain industrial sectors were banned in 2022. Within just a few months of the full-scale invasion, however, more than 1,000 listed and non-listed foreign-owned companies announced plans to leave the Russian market (Sonnenfeld et al., 2022). The announcements were not dictated by any formal or official public sanctions but instead reflected strategic corporate decisions. These “self-imposed” private sanctions likely reflected both risks to company reputation and shareholder values, as well as Russia's rapidly deteriorating country risk. As Hart et al. (2024) note, massive private sanctions (strategic decisions by private companies to withdraw from the Russian market) are a rather new phenomenon in the history of sanctions. They include both corporate exits from Russia and voluntary cessation of trade relationships with Russian customers and suppliers.⁴

³ For an overview of the evolution of sanctions measures targeting Russia after February 2022, see Yalcin et al. (2025).

⁴ Some of the recent business ethics studies (e.g., Bamiatzi et al., 2025) refer to this shift in relations as “partisan CSR.”

Not all exit announcements led to full closures of Russian subsidiaries. Evenett and Pisani (2023) document that during the first nine months of the war, 5–13% of EU and G7 firms divested at least some of their assets in Russia. Onoprienko et al. (2023) report that, as of November 2023, about 300 foreign companies out of a total of 1,500 in the Kyiv School of Economics Institute database had successfully exited the Russian market. During 2024, another 160 companies listed in the KSEI Leave Russia database exited the Russian market. Most of the companies leaving Russia were headquartered in the EU countries. Despite sizable withdrawals, the majority of Western companies, however, decided to stay and continue operations in Russia.⁵ Cross-country variation in corporate responses is also significant, consistent with existing evidence on international business responses to violent conflicts. This finding bolsters the view that foreign subsidiaries do not respond uniformly, with exit decisions depending on operational exposure to conflict (Lee and Chung, 2022). Beyond the binary stay-or-exit decision, Dai et al. (2023) show that exit timing and mode are interdependent strategic choices influenced by firms' own performance shortfalls and the exit behaviour of peer firms. According to the KSEI listing, countries with the most companies still active in Russia are the US and Germany.

The reasons for foreign companies remaining in Russia vary. In some cases, the Russian authorities have made selling ownership stakes and repatriating the proceeds expensive and cumbersome.⁶ For others, maintaining sales in the Russian market is viewed as good business, with reputational risks considered manageable.

Overall, developments following February 2022 imply theoretically ambiguous predictions about how the strategic choice to remain or withdraw should relate to subsequent operating and financial outcomes among European firms with pre-

⁵ A group of investigative journalists at *The Insider* found that at the end of 2024 over 11,000 Russian firms still had links to Western owners (“Making a killing: The Western companies that gained the most by staying in Russia after the invasion of Ukraine,” available at <https://theins.ru/en/economics/279460>).

⁶ The law, which was passed in late 2022, essentially requires all foreign companies in Russia seeking to withdraw to obtain permission from a government agency and sell their assets at a considerable discount.

war Russian operations. On the one hand, the 2022 shock produced severe macroeconomic disruption that could depress the operating performance and profitability of firms that remained active, while also tightening appropriation and repatriation of earnings. On the other hand, firms that decide to stay could potentially expand local operations by capturing the market shares of exiting competitors and benefiting from generally reduced competition. While an exit might worsen financial outcomes in the short run due to potential write-offs and transactional losses, it could reduce losses in the long run by lowering political and reputational risks. Companies that decide to stay, in contrast, might avoid immediate losses from divestment but face bigger financial and operational problems that lower profits or affect capital structure decisions. These competing mechanisms imply that staying may preserve operations and market share while restricting the realization of financial returns, whereas exit may impose immediate transaction costs but reduce longer-term exposure. Therefore, our second hypothesis is:

***H2:** Among European firms with pre-2022 operations in Russia, those remaining active in Russia experience a significant change in post-2022 financial and operating performance relative to those that exited.*

2.3. Ethical scrutiny, reputational risk, and capital market uncertainty

Stakeholders typically evaluate corporate actions according to their moral legitimacy and adherence to established norms (Suchman, 1995; Bitektine, 2011). Geopolitical shocks may alter these norms and affect companies by prompting a reassessment of ethical standards that were previously seen as routine. Many studies show that firms linked to controversial or harmful actions face intensified ethical scrutiny and attract negative attention from the media, investors, employees, and consumers. For example, Kölbel et al. (2017) suggest that media coverage of corporate social irresponsibility heightens firms' exposure to stakeholder sanctions and increased financial risk. Kim et al. (2025) show that media-reported geopolitical tension increases stakeholder pressure on multinational firms, but that ongoing conflict limits firms' reliance on ESG responses. More broadly, Luo et al. (2026) concep-

tualize media as a nonmarket influencer that constructs legitimacy, propagates geopolitical narratives, and accelerates public sentiment, thereby intensifying reputational pressures on multinational firms. This suggests that, during active war, continued market presence may itself become a visible strategic position subject to moral evaluation. Sawant et al. (2026) argue that continued association with a geopolitically stigmatized host country creates cross-border stigma translation risk, prompting MNEs to divest, freeze, or reconfigure local operations to protect their network resources and firm-specific advantages. Related research also shows that the actions of consumers and employees can have a sizable effect on corporate policies and public responses to social issues (Briscoe and Gupta, 2016; Valor et al., 2022). Under such stakeholder pressure, controversial firm strategies become more costly even in the absence of legal barriers, leading firms to impose their own “private sanctions” voluntarily (Hart et al., 2024).

The ethical scrutiny perspective implies that firm reputational risk may change when a firm has exposure to a country involved in a war of aggression and when its post-shock strategy becomes the object of public moral evaluation. The 2014 annexation of Crimea and the 2022 full-scale invasion of Ukraine provide useful settings for empirically testing these implications. Moreover, reputational consequences may differ across shocks depending on how strongly the episode is moralized. Hence, our third hypothesis:

H3: Following extreme geopolitical shocks, among European firms with a market presence in Russia, those classified as stayers experience a greater increase in ethical scrutiny than firms recorded as having completed an exit.

Strategic responses to geopolitical shocks may also have capital market consequences. For example, protest activity and public criticism can trigger investor reactions observable in stock returns (King and Soule, 2007). The existing literature shows that firms face pressure to conform to peer strategies to be seen as legitimate and that deviations from industry norms send a strong message to external stakeholders (Deephouse, 1999). Given that only about 30% of foreign firms exited the Russian market since the onset of the war (Onopriienko et al., 2023), the withdrawal decision is a relatively visible strategic deviation from industry norms. Observing

this deviation in corporate responses to geopolitical shock, investors may expect higher uncertainty about the magnitude and timing of exit costs, write-downs, restructuring, and future competitiveness. As a result, idiosyncratic risk may increase, making returns more volatile (Hasan and Chen, 2023). Hence, our fourth hypothesis:

***H4:** Following extreme geopolitical shocks, among European firms with a market presence in Russia, those that have completed an exit experience a greater increase in idiosyncratic return volatility than firms classified as stayers.*

3. Data and methodology

3.1. Data

We start by collecting financial and stock market data for all available non-financial firms in the Compustat Global database headquartered in 27 EU member countries, the UK, and Switzerland, covering the period from 2010 to 2024. The firm-level information used in our estimations constitutes an unbalanced panel on over 8,000 listed European corporations.

We use these panel data for empirically testing Hypotheses 1 and 2. As dependent variables, we use four alternative performance measures that characterize both operational and financial performance. The operating performance-related dependent variables, *turnover* and *employment growth*, are measured as the annual logarithmic change in firm turnover and the number of employees, respectively. The financial performance-related dependent variables are *leverage*, measured as the ratio of firm debt to assets, and *ROA*, calculated as earnings before interest and taxes divided by total assets.

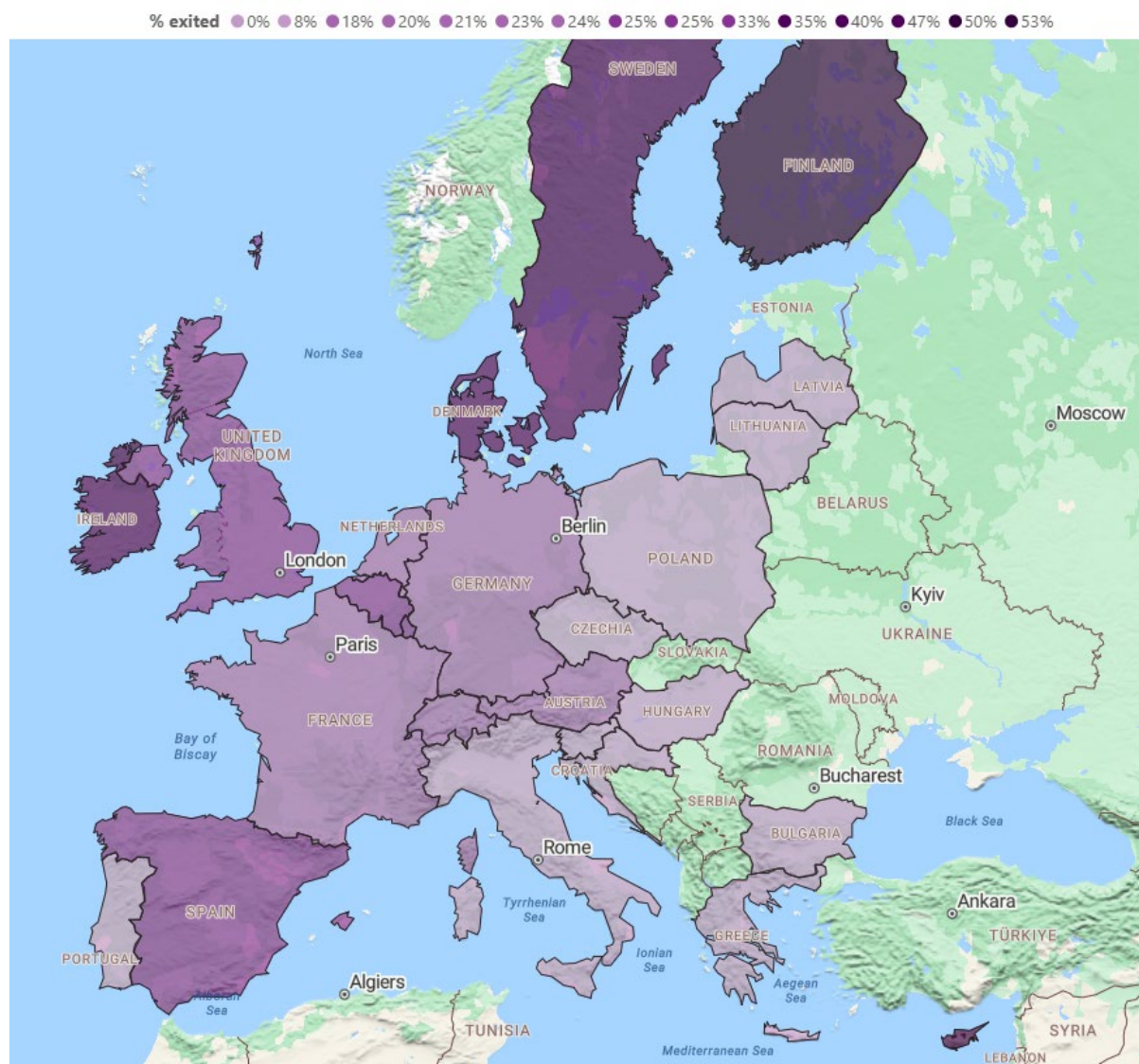
In empirical tests of Hypothesis 3, our main dependent variable is firm-level reputational risk. We use the RRI index provided by RepRisk Inc. The RRI measures the severity of negative ESG (Environmental, Social, and Governance) factors and business conduct incidents reported across more than 150,000 media and stakeholder sources daily. The RRI ranges from zero (lowest) to 100 (highest). The higher the value, the higher the risk exposure. As RepRisk data is based on daily news

flows, the absence of negative news brings the index to mean values, making annual averages uninformative. We therefore use Peak RRI, the maximum value of the index within a calendar year, which captures any exposure to negative news during the year.

To address Hypothesis 4, we use daily stock returns to derive *Idiosyncratic Return Volatility (IRV)*. The IRV is calculated as the standard deviation (in percent) of the residuals from the market model over the 12 months following the current fiscal year-end, calculated using daily returns. Market model parameters are estimated over the 36 months ending at the current fiscal year-end.

Our two key explanatory variables are indicator variables characterising active corporate presence in Russia. These are sourced from the Kyiv School of Economics Institute Leave Russia database on foreign companies operating in Russia. The database has information on 2,039 companies headquartered in the EU, the UK, and Switzerland. Of these, 499 are publicly listed and included in the Compustat database. First, we define *Presence in Russia* as a dummy variable equal to one for firms with business activities in Russia according to the KSEI Leave Russia database.⁷ A firm is listed as having activity in Russia if it has a subsidiary or a sales company in Russia, or it owns shares in a Russian legal entity. Second, *Stayed* is a dummy variable equal to one for firms that continued business activities in Russia after Russia's invasion of Ukraine in 2022, and zero otherwise. Figure 2 plots a heatmap showing the percentage of listed firms with a presence in Russia that exited the Russian market by late 2023. As seen from the figure, there is substantial heterogeneity in business responses to the Russian invasion of Ukraine across countries.

⁷ A firm is classified as having a presence in Russia if it appears in the KSEI Leave Russia database with a status of *leave*, *stay*, or *exit*.

Figure 2. Firm exit rate from the Russian market by country of origin.

Note: The heatmap shows the percentage of firms headquartered in our sample countries that had a presence in Russia and had exited Russia by late 2023. Headquarters information is obtained from the Compustat Global database. Firm exit status is from the KSEI Leave Russia database. Darker shading indicates a higher exit rate among companies headquartered in the respective country.

We use a standard set of firm-level control variables that have been shown to matter for firm performance. These are firm *Size*, measured by the log of total assets, and firm *Tangibility*, measured as property, plant, and equipment (PPE) to total assets, taken from Compustat. We also account for macroeconomic fluctuations in the corporates' home country by including *Domestic GDP* growth from the IMF's International Financial Statistics (IFS) database. Additionally, in some specifications, we control for *Sales Exposure*, which is the percentage of consolidated sales generated by the Russian branch of a firm at the end of 2021 and sourced from KSEI.

Depending on the specification, firm, time, country, or industry fixed effects are included.

Summary statistics are presented in Table 1 below. Panel A describes the whole sample, whereas Panel B reports summary statistics for the sub-sample of firms that were present in Russia (*Presence=1*). Panel C provides a comparison between firms that decided to stay in Russia and those that left the market after February 2022.

Table 1. Descriptive statistics

This table presents descriptive statistics for the full sample in Panel A and for firms with a presence in Russia in Panel B. Panel C presents the differences between firms that stayed in and exited Russia among firms with a presence in Russia. The variables *turnover* and *employment growth* are measured as the annual logarithmic changes in firm turnover and the number of employees, respectively. *Leverage* is the ratio of a firm's debt to its assets. *ROA* is calculated as earnings before interest and taxes divided by total assets. *Size* is the logarithm of total assets. *Tangibility* is the ratio of property, plant, and equipment (PPE) to total assets. *Domestic GDP Growth* is the annual GDP growth rate of the country in which the firm is headquartered. *Presence in RU* is a dummy variable equal to one for firms with business activities in Russia according to the KSEI Leave Russia database, and zero otherwise. Reputational risk is measured as the Peak RRI, defined as the highest RRI value within a given year, with higher values indicating greater firm-level reputational risk. The firm-level *idiosyncratic risk* is defined as the annualized standard deviation of residuals from the market model, estimated using daily returns over the 12 months following the current fiscal year-end. *Stayed* is a dummy variable equal to one for firms continuing their business activities in Russia as of late 2023 according to the KSEI Leave Russia database, and zero otherwise. *RU 2021 revenue share* is the percentage of consolidated sales generated by the Russian branch of a firm at the end of 2021. *RU Sales Exposure* is an indicator variable that takes the value of one when the RU 2021 revenue share is at least 10%.

Panel A: Full sample

	N	Mean	p50	Min	Max	SD
Turnover (log change)	72,068	0.045	0.035	-1.861	2.043	0.365
Employment (log change)	51,912	0.030	0.016	-1.012	0.987	0.199
Leverage (Total debt/assets)	86,920	0.229	0.177	0.000	1.474	0.247
ROA (EBIT/assets)	86,632	-0.040	0.034	-1.724	0.356	0.288
Total assets (log)	87,168	4.542	4.438	-7.644	13.405	2.717
Tangibility (PPE/assets)	87,076	0.231	0.146	0.000	0.917	0.240
Domestic GDP growth (%)	87,674	1.767	1.879	-11.167	24.475	3.211
Presence in RU	87,674	0.071	0.000	0.000	1.000	0.258
Peak RRI	25,294	12.762	0.000	0.000	77.000	15.516
Idiosyncratic risk (IRV) (%)	52,104	16.985	15.011	7.165	36.030	5.744

Panel B: Firms with presence in Russia

	N	Mean	p50	Min	Max	SD
Stayed	6,806	0.760	1.000	0.000	1.000	0.427
Turnover (log change)	6,215	0.031	0.027	-1.653	2.010	0.199
Employment (log change)	5,728	0.020	0.015	-0.999	0.956	0.126
Leverage (Total debt/assets)	6,779	0.240	0.233	0.000	1.474	0.154

ROA (EBIT/assets)	6,777	0.079	0.072	-1.273	0.356	0.075
Total assets (log)	6,786	8.331	8.360	-6.099	13.405	1.984
Tangibility (PPE/assets)	6,782	0.242	0.210	0.000	0.901	0.174
Domestic GDP growth (%)	6,806	1.516	1.668	-11.167	24.475	2.918
Peak RRI	5,250	21.739	24.000	0.000	72.000	17.710
RU 2021 revenue share	3,722	0.038	0.011	0.000	0.956	0.095
RU sales exposure (revenue share ≥10%)	3,722	0.077	0.000	0.000	1.000	0.266
Idiosyncratic risk (IRV) (%)	5,919	15.629	14.110	7.223	34.863	5.000

Panel C: Stay vs leave firms

	Stayed		Exited		Diff. (Stayed-Exited)
	N	Mean	N	Mean	
Turnover (log change)	4,714	0.033	1,501	0.023	0.010*
Employment (log change)	4,320	0.021	1,408	0.017	0.004
Leverage (Total debt/assets)	5,153	0.235	1,626	0.255	-0.020***
ROA (EBIT/assets)	5,151	0.079	1,626	0.080	-0.001
Total assets (log)	5,158	8.217	1,628	8.690	-0.473***
Tangibility (PPE/assets)	5,156	0.248	1,626	0.223	0.025***
Domestic GDP growth (%)	5,174	1.523	1,632	1.495	0.028
Peak RRI	3,968	21.038	1,282	23.910	-2.872***
Idiosyncratic risk (IRV) (%)	4,481	15.756	1,438	15.234	0.522***

3.2. The empirical setup

To test Hypothesis 1, we compare the operating and financial performance of listed European firms with a presence in Russia to that of those without a presence in the Russian market during the full sample period of 2010–2024. We then examine whether the years following the annexation of Crimea, the outbreak of war in Eastern Ukraine, and the ensuing Western sanctions in 2014–2019 led to differing outcomes for European firms with and without a Russian presence.

We investigate the change in a firm's operating and financial performance by estimating the following fixed-effects panel regression:

$$Y_{i,t} = \alpha + \beta \times \text{Presence in RU}_i + \gamma \times (\text{Presence in RU}_i \times \text{Post2014}) + \delta \times X_{i,t-1} + \varphi \times \Delta GDP_{c,t-1} + \omega_i + \tau_t + \sigma_c + \theta_s + \varepsilon_{i,t}, \quad (1)$$

where Y_{it} is the performance metric in question. We have four alternative measures: log change in turnover, log change in total employment, leverage (total debt to total assets), and profitability (ROA, EBIT-to-assets ratio). Our main variable of interest

is *Presence in RU*, which takes the value of one if the firm has direct presence in the Russian market. The indicator variable *Post2014* takes the value of one for years 2014–2019, and zero otherwise. The coefficient on the interaction term *Presence in RU*×*Post2014* directly tests Hypothesis 1, namely, whether presence on the Russian market had a significant effect on firm performance in the post-2014 period.

We control for fundamental firm-specific variables X_i (firm size and firm tangibility). We also account for macroeconomic fluctuations in the corporates' home country by including annual GDP growth. Time fixed effects are always included. Depending on the specification, firm, country, or industry fixed effects are included. Standard errors are clustered at the firm level in all specifications.

To address Hypothesis 2, we restrict our analysis to the sub-sample of European firms with a presence in Russia and use a difference-in-differences approach to examine whether the decision to stay or leave is associated with firm performance. Equation (1) is redefined as:

$$Y_{i,t} = \alpha + \beta \times Stayed_i + \gamma \times (Stayed_i \times Post2022) + \delta \times X_{i,t-1} + \varphi \times \Delta GDP_{c,t-1} + \omega_i + \tau_t + \sigma_c + \theta_s + \varepsilon_{i,t}, \quad (2)$$

where Y_{it} is the performance metric in question, X_i stands for firm-level controls, and GDP for the macroeconomic control. The variable *Post2022* takes the value of one for the years 2022–2024. Our focus shifts here to the coefficients of the key variable *Stayed*, which takes the value of one if the firm has not made a successful exit from the Russian market in 2022–2024. As we are asking whether the performance of European firms that remained in Russia is significantly different from that of firms leaving the market, the coefficient on the interaction term $Stayed_i \times Post2022$ should directly test if firms that remained experienced statistically significant changes in post-2022 performance relative to exiting firms.

To examine whether a firm's decision to divest from the Russian market affects its reputational risk or stock market volatility, we modify Equations (1) and (2) accordingly:

$$W_{i,t} = \alpha + \vartheta \times Presence\ in\ RU_i + \varpi \times (Presence\ in\ RU_i \times Post2014) + \delta \times X_{i,t-1} + \varphi \times \Delta GDP_{c,t-1} + \omega_i + \tau_t + \sigma_c + \theta_s + \varepsilon_{i,t} \quad (3)$$

$$W_{i,t} = \alpha + \beta \times Stayed_i + \gamma \times (Stayed_i \times Post2022) + \delta \times X_{i,t-1} + \varphi \times \Delta GDP_{c,t-1} + \omega_i + \tau_t + \sigma_c + \theta_s + \varepsilon_{i,t}, \quad (4)$$

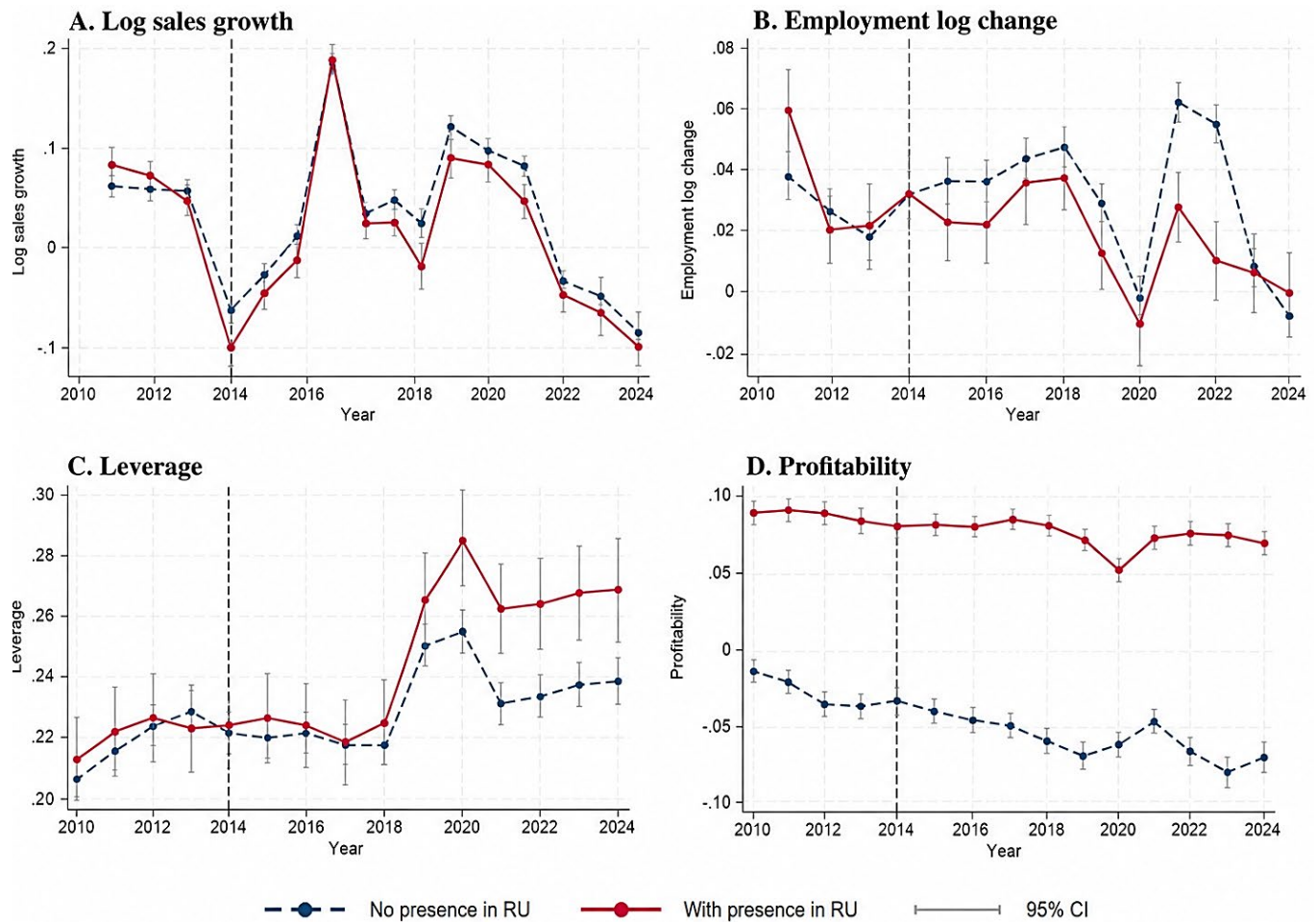
where W_{it} is the dependent variable (*Peak RRI* or *IRV*) in question, and key explanatory variables *Presence in RU*, *Stayed*, *Post2014*, and *Post2022* are defined as before. Control variables and fixed effects remain unchanged. Standard errors are still clustered at the firm level. The coefficient on the interaction term $Stayed_i \times Post2022$ in Equation (4) now guides us in examining the validity of Hypotheses 3 and 4.

4. Empirical Results

4.1. Presence in Russia and the 2014 shock

This section presents our regression results on the effects of market presence in Russia on corporate performance. Figure 3 shows timelines of our four alternative firm performance indicators, separately for firms with and without a direct presence in the Russian market. These visuals indicate that these two groups of firms did not differ markedly in terms of sales and employment growth, either before or after 2014. The only discernible difference seems to occur after 2021, when firms with a presence in Russia on average experienced distinctly weaker employment growth. In terms of leverage and profitability, however, the differences look consistent. Firms with a presence in Russia tend to have higher leverage, with the difference increasing especially after 2019. In terms of ROA, firms with a presence in Russia tend to have significantly higher profitability.

Figure 3. Performance of firms with and without a presence in Russia and the 2014 shock.



Note: This figure plots annual averages of four operating and financial performance metrics for firms with and without a presence in Russia. Panels A and B report operating performance, measured by the logarithmic change in annual sales and employment, respectively. Panels C and D present financial performance indicators, leverage, and profitability. Leverage is measured as the ratio of debt to assets, while the profitability proxy, ROA, is calculated as earnings before interest and taxes divided by total assets. A firm is classified as having a presence in Russia if it appears in the KSEI Leave Russia database with a status of leave, stay, or exit as of late 2023. The 95% confidence intervals around the yearly averages are shown by the vertical grey bars.

Our main estimations based on Equation (1) are reported in Tables 2 and 3. Specifications without firm fixed effects reported in Columns (1) and (3) of Table 2 show that, when controlling for everything else, European firms with a presence in Russia experienced faster turnover growth but slower, albeit insignificant, employment growth compared to their peers without a presence in Russia. Our key finding reported in columns (2) and (4) is that the interaction term of *Presence in RU* and *Post2014* is statistically insignificant. The operating performance of European firms

directly present on the Russian market did not significantly differ from their European peers without such a presence in the post-2014 period. The estimated coefficients of the control variables are almost all significant and imply that larger firms and firms with a higher share of tangible assets experienced slower growth in turnover and employment. The coefficients on domestic GDP have the expected sign.

Table 2. Operating performance and presence in Russia post-2014

This table presents the effects of presence in Russia on firm operating performance. The dependent variables, *turnover change* and *employment growth*, are measured as the annual logarithmic change in firm turnover and the number of employees, respectively. The independent variables are defined as follows: (1) *Presence in RU* is a dummy variable equal to one for firms with business activities in Russia according to the KSEI Leave Russia database, and zero otherwise; (2) *Post2014* is a dummy variable equal to one for years from 2014 to 2019; (3) *Size* is the logarithm of total assets; (4) *Tangibility* is the ratio of property, plant, and equipment (PPE) to total assets; and (5) *Domestic GDP Growth* is the annual GDP growth rate of the country in which the firm is headquartered. All variables other than the dummy variables are winsorized at the 1% level. Robust standard errors in parentheses are clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels.

Dependent variable:	Turnover change		Employment change	
	(1)	(2)	(3)	(4)
Presence in RU	0.0224*** (0.0043)		-0.0044 (0.0034)	
Presence in RU×Post2014	-0.0050 (0.0051)	-0.0074 (0.0052)	-0.0000 (0.0039)	-0.0051 (0.0039)
Size _(t-1)	-0.0088*** (0.0008)	-0.0695*** (0.0044)	-0.0015*** (0.0005)	-0.0198*** (0.0030)
Tangibility _(t-1)	-0.0136* (0.0077)	-0.0263 (0.0257)	-0.0232*** (0.0056)	-0.0706*** (0.0193)
Domestic GDP growth _(t-1)	0.0036*** (0.0008)	0.0022*** (0.0008)	0.0031*** (0.0005)	0.0029*** (0.0005)
Constant	0.1223*** (0.0211)	0.4247*** (0.0221)	0.0682*** (0.0144)	0.1709*** (0.0163)
Firm FE	No	Yes	No	Yes
Industry FE	Yes	No	Yes	No
Country FE	Yes	No	Yes	No
Time FE	Yes	Yes	Yes	Yes
Adj. R-sqrd.	0.0435	0.0513	0.0216	0.0217
N. of obs.	71,803	71,803	51,866	51,866
N. of firms	7,698	7,698	7,005	7,005

Table 3 reports the estimation results for firm financial performance. Our results, as reported in Columns (2) and (4), indicate that after the 2014 sanctions shock, firms with presence in Russia experienced modest de-leveraging (~ -1.0 pp) but no change in return on assets.

Table 3. Financial performance and presence in Russia post-2014

This table presents the effects of firm presence in Russia on firm financial performance. The dependent variables are *leverage*, measured as the ratio of firm debt to assets, and *ROA*, calculated as earnings before interest and taxes divided by total assets. The independent variables are defined as follows: (1) *Presence in RU* is a dummy variable equal to one for firms with business activities in Russia according to the KSEI Leave Russia database, and zero otherwise; (2) *Post2014* is a dummy variable equal to one for years from 2014 to 2019; (3) *Size* is the logarithm of total assets; (4) *Tangibility* is the ratio of property, plant, and equipment (PPE) to total assets; and (5) *Domestic GDP Growth* is the annual GDP growth rate of the country in which the firm is headquartered. All variables other than the dummy variables are winsorized at the 1% level. Robust standard errors in parentheses are clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels.

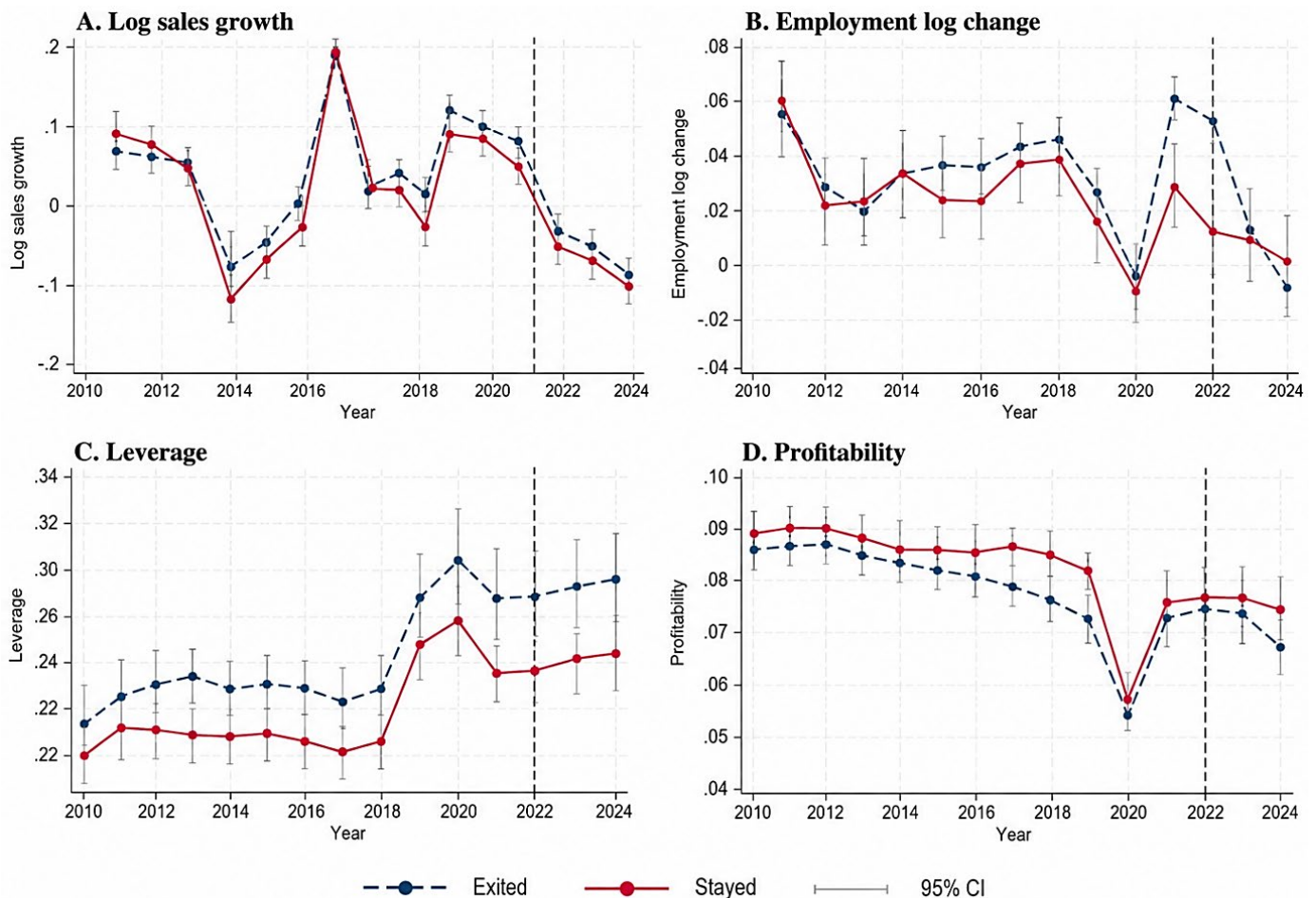
Dependent variable:	Leverage		ROA	
	(1)	(2)	(3)	(4)
Presence in RU	-0.0056 (0.0076)		-0.0460*** (0.0066)	
Presence in RU×Post2014	-0.0121*** (0.0040)	-0.0103*** (0.0037)	0.0024 (0.0029)	0.0004 (0.0026)
Size _(t-1)	0.0026** (0.0013)	-0.0108*** (0.0028)	0.0470*** (0.0012)	0.0257*** (0.0029)
Tangibility _(t-1)	0.2117*** (0.0112)	0.1996*** (0.0159)	0.0519*** (0.0075)	-0.0063 (0.0142)
Domestic GDP growth _(t-1)	-0.0022*** (0.0005)	-0.0009** (0.0004)	0.0030*** (0.0004)	0.0012*** (0.0004)
Constant	0.1434*** (0.0289)	0.2020*** (0.0126)	-0.1908*** (0.0198)	-0.1357*** (0.0132)
Firm FE	No	Yes	No	Yes
Industry FE	Yes	No	Yes	No
Country FE	Yes	No	Yes	No
Time FE	Yes	Yes	Yes	Yes
Adj. R-sqrd.	0.1016	0.0296	0.2172	0.0120
N. of obs.	78,118	78,118	77,876	77,876
N. of firms	8,029	8,029	8,031	8,031

Taken together, these results indicate that, contrary to common expectations, presence in Russia was not associated with materially different changes in corporate turnover, employment, or profitability in 2014-2019. This period of increasing economic and political sanctions on Russia was associated only with modest deleveraging among European firms with a presence in Russia. Hence, we find little empirical support for Hypothesis 1.

4.2. Corporate decisions to exit from Russia

We then move to the subset of European firms that had business operations in Russia prior to the full-scale invasion. Figure 4 shows the evolution of firm performance indicators for these firms, grouped into those that have remained in Russia (*Stayed*) and those that have exited the market (*Exited*) since February 2022.

Figure 4. Performance indicators of firms active in the Russian market and decision of firms to stay or exit the Russian market.



Note: This figure plots annual averages of four operating and financial performance metrics for firms that stayed in and exited Russia within the subsample of firms with a presence in Russia. Panels A and B report operating performance, measured by the logarithmic change in annual sales and employment, respectively. Panels C and D present financial performance indicators, leverage and profitability. Leverage is measured as the ratio of debt to assets, while the profitability proxy, ROA, is calculated as earnings before interest and taxes divided by total assets. A firm is classified as stayed if it appears in the KSEI's Leave Russia database with a status of leave or stay by late 2023. The 95% confidence intervals around the yearly averages are shown by the vertical grey bars.

The first observation is that the operational and financial performance of these two groups was broadly similar before 2022. As also shown in Panel C of Table 1, firms that stayed tended to be smaller, more tangible, and to have lower leverage than exited firms. The regression results based on Equation (2) are reported in Tables 4 and 5. The positive and significant coefficient on the *Stayed*×*Post2022* interaction in Columns (1)-(4) of Table 4 suggests that firms that remained in the Russian market had significantly higher turnover growth (+2.0 pp) and employment growth (+1.9 pp) in 2022-2024. The firm-level control variables have expected signs, but somewhat surprisingly, the coefficient on domestic GDP growth turns insignificant. This may reflect the highly uneven macroeconomic effects of the full-scale invasion on European economies.

In Table 5, however, the coefficient on *Stayed*×*Post2022* is always insignificant. Given that the process of divesting Russian assets was often costly and sometimes outright confiscatory, this is a surprising finding. If exiting incurred financial losses, those losses were offset by relatively strong performance elsewhere. We therefore conclude that firm financial performance was not significantly associated with the decision to stay or leave the Russian market.

Taken together, the evidence supporting our Hypothesis 2 is mixed. Among European firms with pre-2022 operations in Russia, firms that remained active experienced stronger post-2022 turnover and employment growth than firms that had completed their exit. These two groups did not, however, differ significantly in leverage or profitability. The operating expansion associated with continued presence therefore did not translate into improved consolidated financial performance.

Table 4. Firm decision to continue operations in Russia and operating performance

This table presents the effects of firms' self-sanctioning decisions on operating performance. The dependent variables, *turnover change* and *employment growth*, are measured as the annual logarithmic change in firm turnover and the number of employees, respectively. The independent variables are defined as follows: (1) *Stayed* is a dummy variable equal to one for firms that continued business activities in Russia as of late 2023 according to the KSEI Leave Russia database, and zero otherwise; (2) *Post2022* is a dummy variable equal to one for years from 2022 to 2024; (3) *Size* is the logarithm of total assets; (4) *Tangibility* is the ratio of property, plant, and equipment (PPE) to total assets; and (5) *Domestic GDP Growth* is the annual GDP growth rate of the country in which the firm is headquartered. All variables other than the dummy variables are winsorized at the 1% level. Robust standard errors in parentheses are clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels.

Dependent variable:	Turnover change		Employment change	
	(1)	(2)	(3)	(4)
Stayed	0.0017 (0.0060)		-0.0027 (0.0050)	
Stayed×Post2022	0.0198* (0.0120)	0.0217* (0.0116)	0.0191** (0.0091)	0.0189* (0.0099)
Size _(t-1)	-0.0093*** (0.0022)	-0.0801*** (0.0130)	-0.0073*** (0.0015)	-0.0632*** (0.0089)
Tangibility _(t-1)	-0.0620*** (0.0207)	0.0532 (0.1138)	-0.0571*** (0.0149)	-0.0750 (0.0649)
Domestic GDP growth _(t-1)	0.0010 (0.0016)	0.0002 (0.0016)	0.0007 (0.0009)	0.0005 (0.0010)
Constant	0.1564*** (0.0259)	0.7168*** (0.1126)	0.1263*** (0.0159)	0.5980*** (0.0743)
Firm FE	No	Yes	No	Yes
Industry FE	Yes	No	Yes	No
Country FE	Yes	No	Yes	No
Time FE	Yes	Yes	Yes	Yes
Adj. R-sqrd.	0.1502	0.1611	0.0392	0.0441
N. of obs.	6,209	6,209	5,726	5,726
N. of firms	497	497	493	493

Table 5. Firm decision to continue operations in Russia and financial performance

This table presents the effects of firms' self-sanctioning decisions on financial performance. The dependent variables are *leverage*, measured as the ratio of firm debt to assets, and *ROA*, calculated as earnings before interest and taxes divided by total assets. The independent variables are defined as follows: (1) *Stayed* is a dummy variable equal to one for firms that continued business activities in Russia as of late 2023 according to the KSEI Leave Russia database, and zero otherwise; (2) *Post2022* is a dummy variable equal to one for years from 2022 to 2024; (3) *Size* is the logarithm of total assets; (4) *Tangibility* is the ratio of property, plant, and equipment (PPE) to total assets; and (5) *Domestic GDP Growth* is the annual GDP growth rate of the country in which the firm is headquartered. All variables other than the dummy variables are winsorized at the 1% level. Robust standard errors in parentheses are clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels.

Dependent variable:	Leverage		ROA	
	(1)	(2)	(3)	(4)
Stayed	-0.0243*		0.0007	
	(0.0133)		(0.0060)	
Stayed×Post2022	-0.0097	-0.0146	0.0031	0.0028
	(0.0107)	(0.0099)	(0.0049)	(0.0046)
Size _(t-1)	0.0110***	0.0391***	0.0003	-0.0177***
	(0.0030)	(0.0072)	(0.0022)	(0.0062)
Tangibility _(t-1)	0.1575***	0.2878***	-0.0118	-0.0141
	(0.0330)	(0.0563)	(0.0150)	(0.0237)
Domestic GDP growth _(t-1)	-0.0015**	-0.0016**	0.0016***	0.0013***
	(0.0008)	(0.0007)	(0.0005)	(0.0004)
Constant	0.2183***	-0.1571***	0.0510*	0.2335***
	(0.0605)	(0.0597)	(0.0268)	(0.0506)
Firm FE	No	Yes	No	Yes
Industry FE	Yes	No	Yes	No
Country FE	Yes	No	Yes	No
Time FE	Yes	Yes	Yes	Yes
Adj. R-sqrd.	0.1861	0.1301	0.0827	0.0572
N. of obs.	6,263	6,263	6,261	6,261
N. of firms	498	498	499	499

As a further robustness check, we complement the analysis by controlling for the share of Russian operations in corporate total sales. This is measured as an indicator variable *Sales exposure*, taking a value of one if over 10% of the company's

sales originated from its Russian subsidiaries. Data availability in these tests restricts the sample to 260 firms. Results are reported in Table 6.⁸ Consistent with results in Tables 4 and 5, we find that the triple interaction of *Stayed*×*Post2022*×*Sales exposure* is significant and positive for firm turnover and positive but insignificant for employment. The effect is nonsignificant for leverage and profitability.

Table 6. Firm performance and sales exposure to Russia

This table presents the effects of self-sanctioning decisions on firm performance, controlling for the firm's sales exposure to Russia. The operating performance-related dependent variables, *turnover change* and *employment growth*, are measured as the annual logarithmic change in firm turnover and the number of employees, respectively. The financial performance-related dependent variables are *leverage*, measured as the ratio of firm debt to assets, and *ROA*, calculated as earnings before interest and taxes divided by total assets. The independent variables are defined as follows: (1) *Stayed* is a dummy variable equal to one for firms that continued business activities in Russia as of late 2023 according to the KSEI Leave Russia database, and zero otherwise; (2) *Post2022* is a dummy variable equal to one for years from 2022 to 2024; (3) *RU Sales Exposure* is an indicator variable that takes the value of one when the RU 2021 revenue share is at least 10%; (4) *Size* is the logarithm of total assets; (5) *Tangibility* is the ratio of property, plant, and equipment (PPE) to total assets; and (6) *Domestic GDP Growth* is the annual GDP growth rate of the country in which the firm is headquartered. All variables other than the dummy variables are winsorized at the 1% level. Robust standard errors in parentheses are clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels.

Dependent variables:	Turnover change	Employment change	Leverage	ROA
	(1)	(2)	(3)	(4)
Stayed	0.0013 (0.0065)	0.0020 (0.0052)	-0.0135 (0.0160)	0.0104 (0.0081)
Stayed×Post2022	-0.0050 (0.0125)	0.0006 (0.0114)	-0.0157 (0.0113)	-0.0024 (0.0058)
RU sales exposure	-0.0102 (0.0120)	-0.0126 (0.0114)	0.0191 (0.0295)	0.0071 (0.0154)
Stayed×Post2022×RU sales exposure	0.0803*** (0.0246)	0.0186 (0.0251)	-0.0715 (0.0639)	0.0044 (0.0212)
Size _(t-1)	-0.0086*** (0.0028)	-0.0060*** (0.0016)	0.0125*** (0.0044)	-0.0003 (0.0026)
Tangibility _(t-1)	-0.0779*** (0.0221)	-0.0616*** (0.0181)	0.1880*** (0.0459)	0.0009 (0.0211)
Domestic GDP growth _(t-1)	0.0033** (0.0017)	0.0020 (0.0015)	-0.0015 (0.0009)	0.0020*** (0.0007)

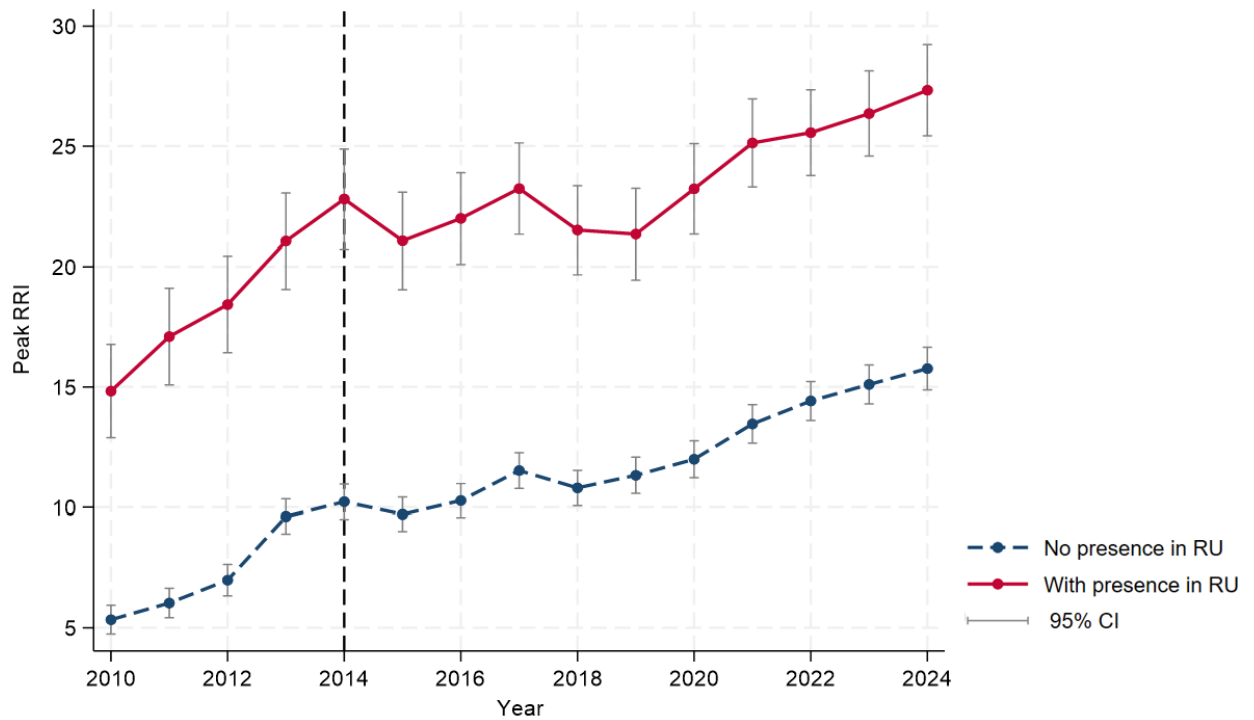
⁸ As a further robustness check, we used sales exposure as a continuous variable. The results remained qualitatively unchanged and are available upon request.

Constant	0.1495*** (0.0291)	0.1349*** (0.0208)	0.1580** (0.0651)	0.0472* (0.0267)
Firm FE	No	No	No	No
Industry FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes
Adj. R-sqrd.	0.1820	0.0530	0.2238	0.1033
N. of obs.	3,444	3,222	3,458	3,457
N. of firms	260	260	260	260

Overall, among firms with substantial Russian sales exposure, the estimates indicate that stayers experienced approximately 7.5 percentage points higher turnover growth than exiters after 2022. The corresponding point estimate for employment growth is approximately 1.9 percentage points, although this difference is not statistically distinguishable from zero based on the reported estimates. Nevertheless, this growth was not associated with increased profitability or changes in leverage. In other words, our results show that staying or leaving did not have a significant effect on firm financial performance. Difficulties in repatriation of profits, ruble depreciation, internal transfer-pricing buffers, or the large scale of global operations may have weakened local gains.

4.3. Continued presence in Russia and reputational risk

Next, we examine the relation between the presence in the Russian market and firm reputational risk. As seen in Figure 5, ESG-related media attention toward large corporates has increased over time period, and firms active in Russia consistently face higher scrutiny. The median Peak RRI for firms with a presence in Russia is 24, compared to zero for the entire universe of listed European firms. Firms present in Russia clearly face higher risk exposure and are, on average, more often the subject of negative news related to ESG and business conduct.

Figure 5. Firm reputational risk and presence in Russia.*Panel A: Full sample**Panel B: Firms active in Russia*

Note. Figure 5 presents plots of the annual average of firm-level peak RRI for firms with and without a presence in Russia in the full sample (Panel A) and for firms that stayed in or exited Russia within the subsample of firms with a presence in Russia (Panel B). Peak RRI is defined as the highest RRI value within a given year, with higher values indicating greater firm-level reputational risk. The 95% confidence intervals around the yearly averages are shown by the vertical grey bars.

Table 7 reports the regression results for Equations 3 and 4, with PeakRRI as the dependent variable. Our findings confirm that firms with Russian operations carry, on average, an 11-point higher peak RRI than peers with no such presence. This implies that European multinationals operating in Russia face higher reputational risks even in the absence of dramatic geopolitical shocks. We also find weak evidence that firms with a higher share of tangible assets and higher leverage face higher reputational risk. Somewhat surprisingly, Russia's invasion of Crimea, the initial phase of war in Eastern Ukraine, and the ensuing sanctions in 2014 did not significantly alter the reputational risk of European firms with Russian exposure.

However, drilling down into the subgroup of European firms active in Russia yields more nuanced results. Firms that eventually decided to stay in Russia after 2021 are slightly different from the leavers. The results reported in column (3) of Table 7 show that firms that chose to remain had a lower peak RRI during the pre-war period, as evidenced by the negative and significant coefficient on *Stayed*. These firms with relatively cleaner reputations may have felt more capable of absorbing the ensuing war-related reputational penalty. Indeed, after the outbreak of the full-scale war in 2022, the peak RRI for stayers was 1.8 points greater than for firms that completed exit. With firm fixed effects included, the relative post-2022 increase was 1.4 points greater for stayers. Tangibility is positively associated with Peak RRI in the specification without firm fixed effects, but this association is not statistically significant once firm fixed effects are included.

Table 7. The 2014 sanctions, firm decision to continue operations in Russia post-2022, and reputational risk

This table presents the effects of the first wave of sanctions in 2014 and firms' self-sanctioning decisions on firm reputational risk. Reputational risk is measured as the Peak RRI, defined as the highest RRI value within a given year, with higher values indicating greater firm-level reputational risk. The independent variables are defined as follows: (1) *Presence in RU* is a dummy variable equal to one for firms with business activities in Russia according to the KSEI Leave Russia database, and zero otherwise; (2) *Post2014* is a dummy variable equal to one for years from 2014 to 2019; (3) *Stayed* is a dummy variable equal to one for firms that continued business activities in Russia as of late 2023, according to the KSEI Leave Russia database, and zero otherwise; (4) *Post2022* is a dummy variable equal to one for years from 2022 to 2024; (5) *Size* is the logarithm of total assets; (6) *Tangibility* is the ratio of property, plant, and equipment (PPE) to total assets; (7) *leverage* is the ratio of firm debt to assets, (8) *ROA* is calculated as earnings before interest and taxes divided by total assets, and (9) *Domestic GDP Growth* is the annual GDP growth rate of the country in which the firm is headquartered. All variables other than the dummy variables are winsorized at the 1% level. Robust standard errors in parentheses are clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels.

Dependent variable:	Peak RRI			
	(1)	(2)	(3)	(4)
Presence in RU	11.6265*** (0.8191)			
Presence in RU × Post2014	0.0134 (0.4602)	-0.0918 (0.4432)		
Stayed			-3.3374* (1.7057)	
Stayed × Post2022			1.7921** (0.7694)	1.3920* (0.7721)
Tangibility _(t-1)	4.6954*** (1.0966)	1.5365 (1.1953)	12.0151** (4.8562)	1.1228 (3.7390)
Leverage _(t-1)	1.8672* (0.9723)	0.3189 (0.7705)	1.9540 (4.4065)	-5.5779** (2.6879)
ROA _(t-1)	3.7614*** (0.8622)	-1.6106* (0.8336)	-2.7505 (7.9776)	3.5813 (4.1805)
Domestic GDP growth _(t-1)	-0.0182 (0.0459)	-0.0148 (0.0458)	0.2188** (0.0898)	0.1883** (0.0901)
Constant	-4.3556* (2.2538)	7.6531*** (0.4265)	-1.0031 (4.1528)	23.8996*** (1.2508)
Firm FE	No	Yes	No	Yes
Industry FE	Yes	No	Yes	No
Country FE	Yes	No	Yes	No
Time FE	Yes	Yes	Yes	Yes
Adj. R-sqrd.	0.1555	0.0552	0.1480	0.0611
N. of obs.	23,102	23,102	4,850	4,850
N. of firms	2,168	2,168	386	386

Continued presence may violate the strengthened normative expectations of home-country stakeholders even when it supports local operating activity. Firms classified as stayers experienced a greater post-2022 increase in Peak RRI than firms that had completed the exit. The results therefore support Hypothesis 3 and are consistent with the argument that continued presence became a more visible moral position after the full-scale invasion.

4.4. Corporate exit and return volatility

Beyond media-based ethical scrutiny, firms' responses to geopolitical conflict may be associated with capital-market uncertainty. We therefore examine whether stay-or-exit responses to geopolitical conflict are associated with idiosyncratic return volatility.

Table 8 reports the estimates based on Equations (3) and (4), with idiosyncratic risk as the dependent variable. Columns (1) and (2) examine the 2014 sanctions period. In the pooled specification, firms with a presence in Russia had idiosyncratic volatility that was approximately 1.69 percentage points lower than that of firms without a Russian presence. During 2014-2019, however, their volatility increased by approximately 0.90 percentage points more relative to firms without a Russian presence.

Columns (3) and (4) examine differences between firms classified as stayers and firms that completed exit. Before 2022, stayers had approximately 0.57 percentage points higher idiosyncratic volatility than their leaving peers. After 2022, however, firms classified as stayers experienced lower idiosyncratic volatility than firms that had completed an exit from the Russian market. The negative coefficient on Stayed×Post2022 indicates that the post-2022 change in volatility was approximately 0.27 percentage points smaller for stayers than for completed exiters; the corresponding estimate is 0.26 percentage points when firm fixed effects are included. This pattern is consistent with the argument that completed exit may have created uncertainty concerning write-downs, restructuring, and future competitiveness. Hence, our findings provide empirical support for Hypothesis 4: European firms that had completed exit from the Russian market experienced greater post-2022 idiosyncratic volatility than firms classified as stayers.

Table 8. The 2014 sanctions wave, firm decision to continue operations in Russia post-2022, and idiosyncratic risk

This table presents the effects of the first wave of sanctions in 2014 and of firms' self-sanctioning decisions on firm-specific *idiosyncratic risk*, defined as the annualized standard deviation of residuals from the market model, estimated using daily returns over the 12 months following the current fiscal year-end. The independent variables are defined as follows: (1) *Presence in RU* is a dummy variable equal to one for firms with business activities in Russia according to the KSEI Leave Russia database, and zero otherwise; (2) *Post2014* is a dummy variable equal to one for years from 2014 to 2019; (3) *Stayed* is a dummy variable equal to one for firms that continued business activities in Russia as of late 2023 according to the KSEI Leave Russia database, and zero otherwise; (4) *Post2022* is a dummy variable equal to one for years from 2022 to 2024; (5) *Size* is the logarithm of total assets; (6) *Tangibility* is the ratio of property, plant, and equipment (PPE) to total assets; (7) *leverage* is the ratio of firm debt to assets, (8) *ROA* is calculated as earnings before interest and taxes divided by total assets, and (9) *Domestic GDP Growth* is the annual GDP growth rate of the country in which the firm is headquartered. All variables other than the dummy variables are winsorized at the 1% level. Robust standard errors in parentheses are clustered at the firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels.

Dependent variable:	Idiosyncratic risk			
	(1)	(2)	(3)	(4)
Presence in RU	-1.6922*** (0.0819)			
Presence in RU × Post2014	0.9007*** (0.0595)	0.8656*** (0.0607)		
Stayed			0.5708*** (0.1493)	
Stayed × Post2022			-0.2694** (0.1223)	-0.2594** (0.1247)
Tangibility _(t-1)	-0.1896*** (0.0636)	-0.1099 (0.1069)	-0.5937 (0.3754)	-0.5932 (0.5712)
Leverage _(t-1)	-0.2955*** (0.0519)	-0.1833*** (0.0639)	-1.0647*** (0.3573)	-0.8511** (0.3728)
ROA _(t-1)	-0.7236*** (0.0348)	-0.2882*** (0.0495)	-1.2418** (0.6008)	-0.8808 (0.5603)
Domestic GDP growth _(t-1)	-0.0461*** (0.0044)	-0.0512*** (0.0046)	-0.0514*** (0.0148)	-0.0513*** (0.0147)
Constant	27.8292*** (0.1644)	26.7792*** (0.0569)	26.0375*** (0.5020)	24.0272*** (0.2276)
Firm FE	No	Yes	No	Yes
Industry FE	Yes	No	Yes	No
Country FE	Yes	No	Yes	No
Time FE	Yes	Yes	Yes	Yes
Adj. R-sqrd.	0.8998	0.9136	0.8303	0.8734
N. of obs.	48,454	48,454	5,539	5,539
N. of firms	6,436	6,436	477	477

Taken together, our results imply that a firm's decision to stay in Russia amid increasingly tight economic sanctions and rupture of political relations can be seen as a strategic decision balancing the likelihood of increased sales against increased risks. As many of the international peers of European multinationals did not leave their Russian operations, markets may have interpreted leaving as a strategic deviation from their industry peers. Even if deviating from peers may improve operational or financial performance, such strategies may be associated with increased volatility. As shown by Hasan and Chen (2023), strategically deviating from industry peers is associated with higher IRV and higher earnings volatility. As the Russian authorities made leaving the Russian market excessively difficult and expensive, investors may also have viewed the exit process as inherently risky and uncertain, thereby increasing stock market volatility. In many cases, exits involved sizable write-downs of corporate assets in Russia.

5. Conclusions

International conflicts force multinational enterprises to balance the preservation of host-country operations against legitimacy among home-country stakeholders. We examine this tension using a panel of listed European firms around two shocks in the same host-country setting: Russia's 2014 annexation of Crimea and its 2022 full-scale invasion of Ukraine. The results show that the two episodes were associated with different combinations of corporate outcomes. Following the 2014 shock, firms with Russian operations did not experience materially different changes in turnover, employment, or profitability relative to firms without such operations, although they underwent modest deleveraging. Media-based ethical scrutiny also did not increase significantly following the 2014 episode. This pattern is consistent with a geopolitical shock that increased political, compliance, and financing pressures without making continued presence an equally visible ethical position.

Following the 2022 invasion, firms classified as stayers experienced higher turnover and employment growth than firms recorded as having completed exit from Russia. These operating differences were not accompanied by significant differences in consolidated profitability or leverage. Firms classified as stayers also

experienced a larger post-2022 increase in Peak RRI than those that completed their exit. Firms that completed exit, in turn, experienced a larger post-2022 increase in idiosyncratic volatility. Operational, financial, reputational, and capital market outcomes therefore did not move together.

These findings connect research on geopolitical conflicts with work on legitimacy and stakeholder evaluation. The contrast between the 2014 and 2022 shocks suggests that foreign operations may be viewed primarily as a source of political, operational, and compliance risk in some conflicts, whereas in more morally salient conflicts continued presence may also become a visible ethical position. This distinction helps explain why formally related sanctions episodes can generate different patterns of stakeholder scrutiny and why stronger operating growth may coexist with limited consolidated financial gains and greater media-based ethical scrutiny.

The findings also extend foreign-divestment research from the causes and timing of exit to the subsequent outcomes associated with different strategic responses. They show that staying and leaving cannot be ranked along a single dimension. Continued presence may preserve or expand operating activity while being associated with a greater increase in ethical scrutiny. Completed exit, by contrast, is associated with a smaller relative increase in scrutiny but a greater increase in idiosyncratic return volatility, consistent with uncertainty surrounding restructuring and asset disposal. Importantly, completed exit was not associated with lower consolidated profitability. For policymakers, these findings suggest that corporate withdrawals from an aggressor state are not necessarily associated with a profitability penalty. For managers, the principal implication is that geopolitical strategy requires the simultaneous evaluation of consolidated financial performance, stakeholder legitimacy, and capital market uncertainty.

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