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Stakeholder activism and foreign firm exit from Russia in 2022

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Abstract

We study foreign firm exit from Russia following the 2022 offensive in Ukraine. Using administrative data on the universe of equity ownership in Russia we find that Western-owned firms that exited Russia in 2022 accounted for 1.5%, 3.1%, and 3.6% of capital stock, revenues, and wage bill in 2021, respectively. Exiting firms comprised almost 1/4 of total Western firm output in Russia. In a triple difference design we show that stakeholder activism contributed to firm exit. Inclusion of a Western company on the Yale School of Management list of companies with exposure to Russia increased the probability of its exit by 12.7 p.p. (+106.7% in relation to pre-conflict exit rate).

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Section 1. Introduction

Many Western companies withdrew from Russia in reaction to its offensive in Ukraine in 2022. Interest groups pressuring companies to leave was dubbed as "a dramatic example of stakeholder capitalism in action" (Fortune, 2022). However, some international companies decided to remain in the country, citing responsibility to their consumers and employees. Is the withdrawal driven by public campaigns urging businesses to leave Russia?

Firms may have left Russia for profit- or sanctions-related reasons or on moral grounds, conflating the effect of stakeholder activism and public campaigns on firm exit (Pajuste and Toniolo, 2022). To identify such an effect, we leverage administrative data to construct a list of all directly or indirectly foreign-owned limited liability companies in Russia and compare the 2022 exit rates in relation to the pre-conflict period for firms on and not on the Yale School of Management list of companies with exposure to Russia.[1] This public list was a part of a coordinated effort to persuade corporate executives to leave Russia through building public awareness of their exposure. Our identifying variation comes from Western- and non-Western firms missing from the Yale list. Researchers gathering this list focused on the largest multinational firms, possibly omitting smaller assets owned by Western and non-Western entities or individuals. To estimate the effect of of a public campaign targeting Western firms included on the Yale list, we employ triple difference estimator (Olden and Møen, Olden and Møen), a difference between two difference-in-differences (DiD) estimators, which allows us to relax the DiD assumptions and compare exit rates across three dimensions: before and after the start of the offensive, Western-owned versus non-Western-owned corporate entities, and included or not included in the Yale list.

We find that the pre-conflict share of exiting Western firms in total output of Russian firms was small. Western firms that exited in 2022 accounted for 3.1% of 2021 revenues of all firms. However, all Western firms accounted for 13.1% of total revenue, suggesting divestment worth almost one fourth of total Western output. The Yale list was effective in persuading foreign firms to leave Russia, increasing probability of their exit by 12.7 p.p. (+106.7% in relation to 2019–2022 average exit rates of Western firms). This effect is not driven by Russian firms domiciled abroad for tax or secrecy reasons, parallel pre-trends, and is robust to a placebo treatment of a list without the accompanying public campaign.

Section 2. Data

Identifying Foreign Firms in Russia The Federal Tax Service of Russia maintains the Uniform State Register of Legal Entities (EGRUL). It contains official and legally binding information on equity ownership in every limited liability company (LLC) in the country.[2]

[1] One week after the start of the conflict, Jeffrey Sonnenfeld, the founder of Yale CELI (Chief Executive Leadership Institute) and his research team compiled a list of foreign companies trading in Russia. Two features of the recently created Yale list are important to us. First, it is one of the most-cited sources for monitoring companies operating in Russia so far. The working paper (Sonnenfeld et al., 2022) has been downloaded more than 100,000 times from SSRN and ranks 11th among all-time downloaded preprints as of March 2024. Second, Yale CELI team is acknowledged by the Ukrainian authorities due to their public impact: in June 2022, Yale CELI hosted the CEO Summit with Ukrainian President Zelenskyy. According to the Washington Post article, Sonnenfeld and his team "…have a history of seeing the value of business leaders affirming the truth and taking a stand."

[2] EGRUL does not contain information on shareholder capital ownership, meaning that we fail to observe owners of stock companies. When equity is publicly or privately traded no register could store up-to-date information coming from market or private transactions. Our focus on LLCs may therefore seem as a limitation, since major listed companies such as Gazprom or Rosneft are outside the scope. However, if any stock

We purchased annual snapshots of the register for 2019–2023 from the Federal Tax Service and constructed a yearly panel of every LLC name, region, industry, taxpayer identifier (INN), and organization-participant relationships to list equity shares directly owned by every participant in the country's LLCs. EGRUL requires LLCs to report the taxpayer identifiers, names, and countries of origin of individuals or organizations with direct interest in equity.[3] While it is trivial to determine LLCs with direct foreign ownership, to account for indirect (LCCs owned by other LLCs) and cyclic ownership (LCCs mutually owning one another, with ownership structures resembling rings where it is unclear who the ultimate owner is) we applied a network science algorithm (Polovnikov et al., 2022) to uncover equity shares of ultimate (incl. indirect) owners. As a result, we defined 3 groups of Russian LLCs: with any foreign ultimate equity interest, with majority (49%+) ultimate foreign interest, and with majority ultimate Western interest.[4]

Firm Financials Russian non-financial firms are required to report their accounts to the Federal Tax Service. Revenues and assets are reported by all firms but only state-, foreign-owned, or medium and large private firms are required to report wage bill and materials. We purchased this data from the Federal Tax Service for 2021.[5] All negative values are set to nil, and we removed 33 outlier firms in terms of revenue or total assets.

Relation to Other Lists Since the onset of the Russia-Ukraine conflict several efforts to identify firms with exposure to Russia have emerged. The first — and arguably most consequential — initiative is from the researchers at the Yale School of Management (Yale SOM henceforth) who have been manually gathering a list of such companies since early 2022 (Sonnenfeld et al., 2023). Evenett and Pisani (2022, 2023) (EP henceforth) instead relied on a commercial data provider, using Moody's Orbis data base to automatically identify Russian firms ultimately owned by the European Union/Group of Seven companies with over $1M in revenues in 2017–2021. Our approach to identifying foreign firms in Russia is closest to Mylovanov et al. (2023) from the Kyiv School of Economics (KSE list) who also used the EGRUL to find foreign firms. They, however, focused on even larger companies (with revenue of over $5M in 2021) and engaged in semi-manual coding to identify the ultimate owners. As a placebo list we also consider a simple extract from Orbis of all Russian entities with global ultimate owner outside Russia and over $1M in revenues in 2017–2021.[6]

In our list we consider all firms regardless of their size, including those owned by foreign individuals. The benefit of universal coverage is evidenced in Table 1 where we compare the number of foreign companies on each list in 2021.[7] Even though our list features more

company had an LLC as a subsidiary the latter would appear in the data as being owned by this stock company and remain in the data.

[3]Since we procured the information at the beginning of each year since 2019, the pre-conflict snapshots used here were not subject to any possible post-publication revisions or omissions by the data provider.

[4]A firm is considered Western-owned when the ultimate owner is an individual or an entity from the European Single Market (the European Union, Iceland, Liechtenstein, Norway, Switzerland) or Group of Seven countries.

[5]Following the convention, we define Property, plant, and equipment from the balance sheet as Capital, Wage bill and Cash paid to suppliers from the cash flow statement as Labor and Materials, respectively.

[6]This extract was made on April 21, 2023 and followed Evenett and Pisani (2022) in scope. We, however, have kept non-Western-owned companies in the data.

[7]To match with the Yale list we manually identified all Russian companies ultimately owned by foreign companies on the April 3, 2023 version of the list. To match with the EP list we obtained taxpayer identifiers

Table 1: Coverage of Lists of Russian Firms with 49%+ Foreign Interest

	Yale SOM	EP	KSE	Orbis	Our list
# Foreign-owned firms	1,069	1,822	1,796	4,842	58,094
# Non-tax haven-owned	841	1,331	1,444	3,483	43,566
% total revenue in 2021	4.53%	7.34%	6.32%	8.70%	15.13%
% total capital in 2021	1.59%	2.79%	2.41%	3.86%	8.92%
% total labor in 2021	3.81%	7.67%	5.47%	8.92%	17.44%
% total materials in 2021	5.14%	9.14%	7.29%	10.91%	18.20%

Number of firms is different from source KSE/EP lists due to selection of all Russian firms that were 49% ultimately owned by owners of firms on the respective lists in 2021.

companies in relation to any other list, two caveats are due. Our focus on LLCs comes at a price of excluding foreign-owned stock companies from consideration. This turns out not to be a major concern since firms on our list combined still report the larger share of revenues than on any other list due to improved coverage. Second concern is due to Russian companies incorporated overseas for tax or secrecy reasons. Third concern is that the Russian administrative data that we use reports the country of the direct foreign owner while it may be yet another foreign intermediary of a Western corporation ultimately located in another country.[8] To circumvent the second and third concerns, in a robustness check we excluded companies owned from tax havens (listed in Table S1b) from consideration.

Defining Firm Exit Researchers have relied on company statements, mass media, official registers, and tips to identify firm exit. Here we consider only official registers to identify firms' actions. Foreign companies are deemed in bankruptcy/liquidation if they are marked as in liquidation or in bankruptcy in the EGRUL. If a Russian LLCs is still operational but the foreign interest in equity is removed by year end we view this as divestment. Company statuses are actual as of January 1, 2023.

Section 3. Model

We consider a triple difference model, a popular extension of the difference-in-differences design that adds a third comparison group to rule out the simultaneous effects of unobserved causes potentially biasing both underlying difference-in-differences estimates (Olden and

using the Russian firm names provided by the authors. The KSE list is matched on taxpayer identifiers available at `https://github.com/KSE-CEP/detection-of-foreign-companies-in-the-RF` (January 28, 2023 version).

[8]We compared the countries of the Global ultimate owners (GUOs) in Orbis list of all Russian LLCs with foreign GUOs (and over $1M in revenues in 2017–2022) with countries of the majority direct of indirect equity owner of those entities using our administrative data. For 4842 such Orbis-listed LLCs active in 2021, in 3344 (69%) of firms country of Orbis GUO matched with the country of the majority equity shareholder inferred by us using the administrative data. The majority, or 851, of non-matching firms were owned from tax havens or the Netherlands. Orbis' GUO is built on data from many jurisdictions (as well as manual labor) and knows tax haven-based intermediaries of Western corporations. Therefore, GUOs partially pierce the veil of tax haven ownership returning the genuine ultimate owner outside of tax haven. We view this additional check as (a) validating our data since for the majority of firms the countries of GUOs and majority owners in administrative data matched; and (b) highlighting limitations of administrative data since it includes only information on direct foreign owner.

Møen, Olden and Møen). This allows us to credibly estimate the average treatment effect on the treated (ATT) of stakeholder activism on exit of Western firms from Russia:

$$\begin{aligned} Foreign\ firm\ exit_{i,t} = \beta_0 &+ \beta_1 Post\text{-}conflict_t + \beta_2 Yale\ list_i + \beta_3 Post\text{-}conflict_t \times Yale\ list_i \\ &+ \beta_4 Western_i + \beta_5 Post\text{-}conflict_t \times Western_i + \beta_6 Western_i \times Yale\ list_i \\ &+ \beta_7 Post\text{-}conflict_t \times Yale\ list_i \times Western_i + \boldsymbol{\gamma}_i + \boldsymbol{\delta}_t + \varepsilon_{i,t}, \end{aligned} \tag{1}$$

where i indexes entities, t — years in 2019–2022, $Post\text{-}conflict_t$ is a dummy equal to unity in 2022, $Western_i$ is a dummy equal to unity for firms with 49%+ foreign interest in the European Single Market & G7 countries, $Yale\ list_i$ indicates whether the ultimate owner of a firm is on the Yale School of Management list of companies with exposure to Russia, and $\boldsymbol{\gamma}_i$, $\boldsymbol{\delta}_t$ are firm and year fixed effects, respectively. $Firm\ exit_{i,t}$ is equal to unity for firm-years with equity divestment or liquidation of foreign firms.

Our key identifying assumption is that stakeholder activism did not change differentially for the Western versus non-Western firms, in 2022 versus 2019–2021. Triple difference design requires the assumption of a single parallel trend in ratios of outcomes in the affected and non-affected groups. In other words, we assume that the relative exit of Western entities and non-Western foreign firms on the Yale list trended in the same way as the relative exit of Western and non-Western firms not on the Yale list, in the absence of the Yale list. The motivation behind taking the third difference is that the difference between two biased difference-in-difference estimators is unbiased when the bias is in the same direction (Olden and Møen, Olden and Møen).

β_3 is the effect of being on the Yale list for non-Western firms while β_7 is the effect for Western firms. We hypothesize that $\beta_7 > \beta_3$, i.e. the stakeholder activism was effective in prompting exit of Western firms. Model (1) reduces to a standard difference-in-difference if we assume $\beta_{4,5,6,7} = 0$. However, in that case we require more restrictive parallel trends and SUTVA assumptions to identify the stakeholder activism effect.

All models are estimated with OLS on a yearly panel of 63,045 firms with 49%+ ultimate foreign interest in 2019–2022, excluding firms ultimately owned by tax havens to account for effectively Russian firms domiciled abroad. Since we include firm and year fixed effects in all models, firm- and year-invariant variables are subsumed. Inference comes from Huber-Eicker-White standard errors clustered at 2-digit SIC industry and firm's owner country of origin levels.

Section 4. Results

We start by reporting the share of foreign and Western interest in total inputs and outputs of Russian for-profit firms in Table 2. In 2021 Western-owned firms enjoyed the lion's share of firm inputs among all foreign firms while the majority remained in the country in 2022. The share of the remaining Western firms may, however, be biased upward by effectively Russian firms domiciled in the Netherlands, Cyprus, Switzerland, or other European Single Market/G7 country for tax or secrecy reasons.

Next we turn to the results from triple difference model eq. (1) in Table 3 where we report $\hat{\beta}_7$. In column (1) we find a 0.127 positive effect of inclusion of a Western firm on the Yale SOM list on its exit propensity in 2022. This effect is statistically and economically significant ($0.127/0.119 = 106.7\%$ in relation to 2019–2021 mean exit rate of Western firms). In columns (2) and (3) we consider the alternative lists of foreign firms from the

Table 2: Foreign Interest in Russian Firm 2021 Outputs and Inputs by 2022 Exit Status

	Firms, N	Revenue	Capital	Labor	Materials
All non-financial firms	2,973,388	100%	100%	100%	100%
Limited liability companies:	2,901,324	74.78%	43.24%	65.33%	74.07%
w. any foreign interest:	66,645	16.64%	12.36%	19.25%	19.71%
w. 49%+ foreign interest:	58,094	15.13%	8.92%	17.44%	18.20%
w. Western 49%+ interest:	22,733	13.14%	7.61%	15.48%	15.87%
By 2022 exit status:					
Bankrupt/liquidated	3,483	0.38%	0.15%	0.43%	0.32%
Divested	2,440	2.77%	1.41%	3.23%	3.55%
Remained	16,981	10.06%	6.12%	11.86%	12.00%

This table reports contribution of foreign firms to total firm output and inputs. Only firms that were not dissolved in 2021. 2022 Exit status is doubly counted due to firms in liquidation.

Kyiv School of Economics or a list of all foreign-owned entities from Orbis. The effects are weaker for the KSE list and are not significant for Orbis. This is in line with expectations since the KSE list expands the Yale list, while the Orbis list is simply an account of Russian firms with foreign interest, with no accompanying stakeholder activism, effectively a placebo treatment. In columns (4) and (5) we explore the effect heterogeneity by firm size, considering only large (over $5M in 2021 revenue) or small (<$1M) firms. The effect of stakeholder activism is more pronounced for smaller firms. Finally, in column (6) we include firms owned by individuals or entities from tax havens. There the effect of Yale list becomes insignificant, confirming that our baseline estimates are not driven by effectively Russian firms domiciled abroad and continuing their operations in Russia.

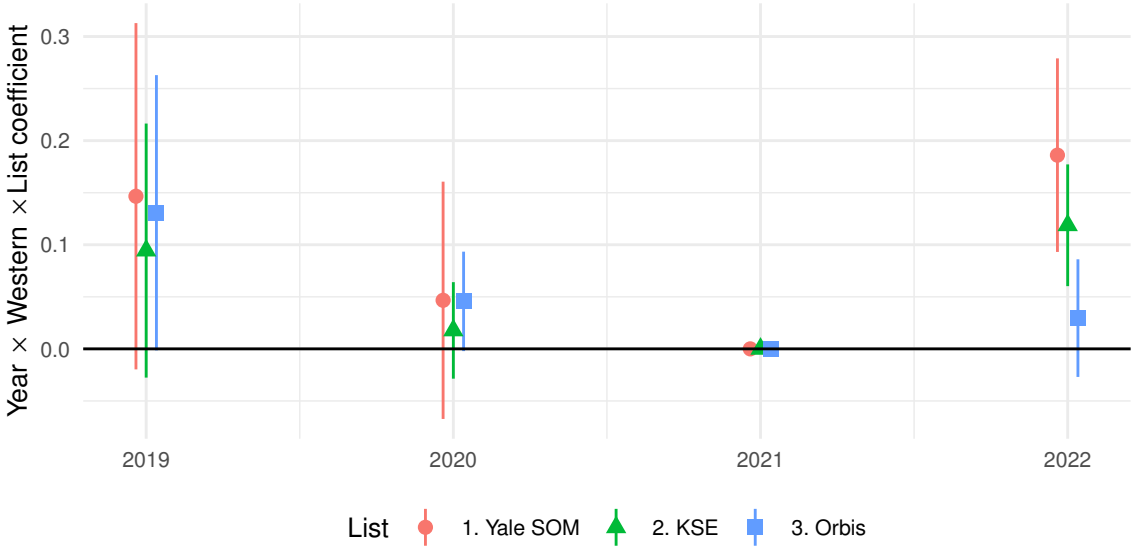
Are our results credible? Although the assumption of parallel trends is inherently untestable, in Figure 1 we report the results from an event study, interacting Western$\times$List variable with year indicators. There we uncover significant effects only in 2022, giving credence to our identification strategy. Additionally, in Table S3 we report the tests indicating no linear pre-trends. Turning to other identifying assumptions, we should note that the 2022 conflict shock was unforeseen and it is prohibitively costly to re-domicile the company. Therefore we expect little anticipation effects or SUTVA violations, respectively, to render our results invalid.

Table 3: Triple Difference Estimates of the Effects of Stakeholder Activism on Foreign Firm Exit in 2019–2022

	(1)	(2)	(3)	(4)	(5)	(6)
	Foreign Firm Exit					
Post-conflict×Western×List	0.127***	0.086**	-0.024	0.096***	0.127***	0.040
	(0.038)	(0.044)	(0.041)	(0.016)	(0.035)	(0.074)
Summary statistics						
Pre-conflict exit rate of Western firms	0.119	0.119	0.119	0.012	0.024	0.130
N (firm-years)	200,281	200,281	200,281	15,134	73,222	295,704
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Sample	Excluding firms ultimately owned by tax havens					With tax havens
Firms	All	All	All	Large	Small	All
R^2	0.457	0.458	0.459	0.287	0.306	0.482
List	Yale SOM	KSE	Orbis	Yale SOM	Yale SOM	Yale SOM

Huber-Eicker-White SEs clustered at 2-digit SIC industry and firm's ultimate owner country of origin in parentheses.

Figure 1: Triple Difference Event Study Estimates of the Effects of Stakeholder Activism on Foreign Firm Exit in 2019–2022



Shapes shows estimated coefficients for a triple interaction Western×List×Year dummy (with 2021 as reference year) from regressions of exit of foreign non-tax haven owned firms on presence in the respective list dummy with firm and year fixed effects. Lines are 95% CIs from Huber-Eicker-White SEs clustered at 2-digit SIC industry and firm's ultimate owner country of origin.

Section 5. Discussion and Conclusion

We relate to previous efforts to quantify foreign firm exposure to Russia (Sonnenfeld et al., 2023; Mylovanov et al., 2023; Evenett and Pisani, 2022) by building the most comprehensive list of foreign firm ownership in Russia from administrative data. We improve on Evenett and Pisani (2022)'s finding that only a minority of Western firms formally divested from Russia. Our results show that almost 1/4 of pre-conflict Western firm output formally divested from Russia. We also find considerable effects of stakeholder activism on decision-making, confirming previous findings on the effectiveness of public awareness campaigns (Pajuste and Toniolo, 2022).

Major limitation of this work is due to firms that may have failed to divest from Russia after capital restrictions imposed on companies from "unfriendly countries" by the Russian government in 2022 that forced Western companies to maintain their equity interest (Financial Times, 2023). Here we focus on de jure divestment and ignore any de facto scaled down operations, relegating investigation of the latter to future work. However, knowing the total Western firm output in Russia in 2021 (13%) and assuming that all such firms scaled down their operations after the conflict, we can establish the upper bound on the total firm output that may have left Russia after the conflict.

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Supplementary Materials

Table S1: "Unfriendly", Western, and Tax Haven Countries

(a) ISO Codes of Countries Designated as "Unfriendly" by Russian Government in 2022

AIA	**CAN**	**FIN**	**HUN**	**LIE**	**NLD**	**SVK**
ALB	**CYP**	**FRA**	IMN	**LTU**	**NOR**	**SVN**
AND	**CZE**	FSM	**IRL**	**LUX**	NZL	**SWE**
AUS	**CHE**	**GBR**	**ISL**	**LVA**	**POL**	TWN
AUT	**DEU**	GGY	**ITA**	MCO	**PRT**	UKR
BEL	**DNK**	GIB	JEY	MKD	**ROU**	**USA**
BGR	**ESP**	**GRC**	**JPN**	**MLT**	SGP	VGB
BHS	**EST**	**HRV**	KOR	MNE	SMR	VIR

Coded from Russian Government Executive Order No 430-p (ed. October 29, 2022). Western countries (European Single Market and Group of Seven countries) are bolded.

(b) ISO Codes of Tax Havens

OECD (2000)		Hines (2010)			Tørsløv-Wier-Zucman (2023)		
AND	MDV	AND	GGY	NRU	AND	IRL	TCA
AIA	MHL	AIA	HKG	ANT	AIA	IMN	VGB
ATG	MCO	ATG	IRL	NIU	ATG	LBN	
ABW	MSR	ABW	IMN	PAN	ABW	LBR	
BHS	NRU	BHS	JEY	WSM	BHS	LIE	
BHR	ANT	BHR	JOR	SMR	BHR	MAC	
BRB	NIU	BRB	LBN	SYC	BES	MLT	
BLZ	PAN	BLZ	LBR	SGP	BRB	MHL	
BVI	WSM	BMU	LIE	LCA	BLZ	MCO	
COK	SYC	BVI	LUX	KNA	BMU	MUS	
DMA	LCA	CYM	MAC	MAF	BVI	PAN	
GIB	KNA	COK	MLT	VCT	CYM	SYC	
GRD	VCT	CRI	MDV	CHE	CYP	SGP	
GGY	TON	CYP	MHL	TON	CUW	LCA	
IMN	TCA	DJI	MUS	TCA	GIB	KNA	
JEY	VIR	DMA	FSM	VUT	GRD	MAF	
LBR	VUT	GIB	MCO	VGB	GGY	VCT	
LIE	VGB	GRD	MSR		HKG	CHE	

OECD (2000) is from `https://www.oecd.org/ctp/harmful/2090192.pdf`, Hines (2010) is from `http://dx.doi.org/10.1257/jep.24.4.103`, Tørsløv-Wier-Zucman (2023) is from `https://doi.org/10.1093/restud/rdac049`.

Table S2: Summary Statistics for Non-Tax Haven Firms with 49%+ Foreign Interest in 2021 and 2022

	Control Firms (Not On Yale List), 2021			*Treated Firms (On Yale List), 2021*		
	Mean	Median	N	Mean	Median	N
Is small	0.391	0	50,967	0.103	0	896
Is large	0.063	0	50,967	0.689	1	896
Is Western	0.317	0	50,967	0.977	1	896
On KSE list	0.016	0	50,967	0.791	1	896
On EP list	0.018	0	50,967	0.483	0	896
On Orbis list	0.060	0	50,967	0.597	1	896
Bankrupt/liquidated	0.058	0	50,967	0.027	0	896
Divested	0.008	0	50,967	0.002	0	896
Remained	0.935	1	50,967	0.971	1	896
	Control Firms (Not on Yale List), 2022			*Treated Firms (On Yale List), 2022*		
Is small	0.368	0	54,048	0.103	0	886
Is large	0.059	0	54,048	0.695	1	886
Is Western	0.273	0	54,048	0.973	1	886
On KSE list	0.015	0	54,048	0.789	1	886
On EP list	0.017	0	54,048	0.488	0	886
On Orbis list	0.056	0	54,048	0.603	1	886
Bankrupt/liquidated	0.155	0	54,048	0.058	0	886
Divested	0.019	0	54,048	0.095	0	886
Remained	0.828	1	54,048	0.850	1	886

This table includes firms that were dissolved in 2021.

Table S3: Testing Parallel Pre-trends in Foreign Firm Exit in 2019–2021

	(2)	(3)	(4)	(5)	(6)	(7)
	Foreign Firm Exit					
Year (coded as 1-3)×List	0.0063	-0.0263***	-0.0326***	-0.0022**	-0.0014***	-0.0420*
	(0.0310)	(0.0067)	(0.0058)	(0.0011)	(0.0004)	(0.0239)
Year×Western	0.0531*	0.0559*	0.0669**	-0.0024	-0.0014	-0.0030
	(0.0304)	(0.0310)	(0.0332)	(0.0018)	(0.0033)	(0.0350)
Year×Western×List	-0.0717*	-0.0453	-0.0651*	0.0024	0.0136*	-0.0164
	(0.0421)	(0.0311)	(0.0338)	(0.0016)	(0.0074)	(0.0294)
N (firm-years)	145,403	145,403	145,403	11,310	53,230	222,924
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Firms	All	All	All	Large	Small	All
Sample	Excluding firms ultimately owned by tax havens					With tax havens
R^2	0.578	0.578	0.582	0.330	0.339	0.588
List	Yale SOM	KSE	Orbis	Yale SOM	Yale SOM	Yale SOM

Huber-Eicker-White SEs clustered at 2-digit SIC industry and firm's majority owner country of origin in parentheses.