

**MULTINATIONAL CORPORATIONS' RESPONSE TO THE RUSSIAN
INVASION OF UKRAINE: THE CASE OF THE UNITED KINGDOM AND
AUSTRIA**

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ABSTRACT

Since the beginning of the Russian full-scale invasion of Ukraine in February 2022, over a thousand multinational corporations (MNCs) have left or are in the process of withdrawing from the Russian market, while a significant number of companies remains. Although existing literature has analyzed this phenomenon of private sanctions using the concepts of investor and consumer pressure, reputation, and corporate social responsibility, it has not paid enough attention to the distinct patterns of MNCs' responses across different countries. By conducting a comparative case study of companies from the UK and Austria, the thesis aims to answer the question of why MNCs' response regarding the Russian market varies even across seemingly comparable European states. The thesis examines the politico-economic characteristics of the UK and Austria, as well as their relationship with Russia pre and post-February 2022, that could influence MNCs' decision-making. It argues that instead of seeing investors, customers and governments as separate drivers behind MNCs' decisions, governments' stances and country-specific characteristics have a more complex relationship with investors and customers. As states create a specific environment that can influence the perception of the criticality of the war and the value of cooperation with Russia and governments can urge companies to leave or help to stay and minimize the losses of remaining, the country of origin of an MNC can significantly influence its decision regarding the Russian market.

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INTRODUCTION

Since the beginning of the Russian invasion of Ukraine in February 2022, several hundred multinational corporations (MNCs) have left the Russian market and over a thousand are in the process of withdrawing. These actions constitute companies' voluntary curtailment of business to a degree beyond the minimum set by international sanctions with some scholars calling them "private sanctions". While state sanctions serve as a commonly used foreign policy tool, such a response from private entities represents an underexplored phenomenon for international relations.

However, in addition to MNCs that left the Russian market, a significant number of companies remain conducting their business as usual or continuing its substantive part. The driving factors of MNCs' decisions regarding the Russian market or lack thereof have mostly been analyzed by corporate literature which focused on the concepts of investor and consumer pressure, reputation, and corporate social responsibility. These concepts can be useful when analyzing individual MNCs' decisions and identifying the drivers behind specific cases. However, the proportion of companies that left or stayed in the Russian market varies significantly across different countries of origin of MNCs, resulting in several distinct patterns. The patterns include distributions where most MNCs have stayed in the Russian market, most MNCs have left or are in the process of withdrawing, or cases with more uniform distributions. Such differences exist not only among radical cases, such as between Chinese and American companies but even among companies from seemingly similar European countries.

As current literature on the topic of MNCs' response to the Russian invasion of Ukraine has not paid attention to the varying patterns across different countries, the existing explanations cannot account for these broader dynamics. Therefore, the thesis aims to answer the question of why companies' responses to the Russian invasion vary across different countries. It attempts to

do so by introducing a political economy perspective into the topic by looking at the cases of UK and Austrian companies and arguing that the politico-economic characteristics of companies' countries of origin influence the response of MNCs to the Russian invasion. The cases of the UK and Austria are chosen as the two most similar cases that are comparable to each other but differ significantly in their outcomes. Although both the UK and Austria are European countries with strong economies, established democracies, high standards of living and commitment to the liberal international order, UK and Austrian MNCs' responses to the Russian war on Ukraine differ substantially.

Within the comparative case study, the thesis examines the politico-economic characteristics of the UK and Austria that could influence MNCs' decision-making. The focus is specifically on the relationship of the country of origin with the Russian Federation across several domains before and after the beginning of the invasion. The degree of entanglement between the UK and Russia and Austria and Russia is traced through their economic, diplomatic, energy, and social relations and cooperation. Moreover, the analysis includes the stance of Austria and the UK regarding Russia's war on Ukraine into the consideration. The thesis explores that based on the different levels of intertwining with Russia, the UK and Austria represented a different environment for MNCs' responses. Therefore, the thesis is empirically driven and attempts to explain a puzzle in practice rather than theory, but it does not attempt to evaluate the effectiveness or cost of companies' withdrawal.

I argue that instead of seeing investors, customers and governments as separate drivers behind MNCs' decisions, governments' stance and country-specific characteristics have a more complex relationship to investors and customers. By acting as a climate in which investors and customers make decisions, the state can influence their considerations, as well as trump their

demands. In different cases, MNCs have been either urged to leave or helped to stay and minimize the losses of remaining. The thesis finds that the Austrian and the UK-specific environments could influence the decisions of their respective MNCs by impacting the perception of the criticality of the war and the value of cooperation with Russia, which influenced the cost-benefit calculations for MNCs.

Through the exploration of private sanctions as a response to the Russian invasion of Ukraine, the thesis aims to contribute to several literature strands. First, by analyzing the way the politics and economy of states influence the decision-making of companies and looking at MNCs' response to a geopolitical crisis, the thesis adds to the broader literature on state-company relations and MNCs' involvement in international affairs. More specifically, the research contributes to the analysis of MNCs concerning the Russian invasion of Ukraine and whether MNC's actions strengthen or go against the official stance of countries. Due to its complexity and practical implications, the topic has drawn the attention of academia, policymakers, businessmen, as well as informed citizens who take part in social media campaigns and boycotts against companies that continue business in Russia.

The thesis is organized as follows: in the Chapter 1, I will review the existing literature focusing on MNCs in international relations, private sanctions, the effects on companies and reasons behind the response of MNCs to the Russian invasion of Ukraine. Further, in Chapter 2, I discuss my methodology, sources and case selection. Then, in Chapter 3, I analyze the empirics by examining the economic, diplomatic, energy, and social relations and cooperation between Austria and the UK and Russia pre- and post-Russian invasion, in addition to their response to it. In Chapter 4, I analyze how these differences impacted the MNCs' response, with a conclusion following afterward.

1. LITERATURE REVIEW

1.1 MNCs and Geopolitical Crises

Scholars analyzing the characteristics and functions of MNCs point out that in addition to being important economic entities, corporations today also serve as distinct political actors (Léonard et al. 2014). However, companies' influence on politics has been largely perceived as their power to alter the conditions in which they conduct business, specifically employment regulations, industrial relations, and labor law (Bélanger and Edwards 2006). At the same time, other areas of MNCs' political influence have been under-analyzed with Oetzel, Getz, and Laddek (2007, 331) noting that “[t]he potential contribution of business in responding to violent conflict has largely been overlooked.” Thus, the possible actions, responsibilities and opportunities for MNCs in times of geopolitical crises and other political conflicts remain unclear, with some arguing on a broader scale that the study of international relations has not adequately addressed corporations as an object of analysis (Babic, Fichtner, and Heemskerk 2017).

Focusing on the actions of firms in times of conflict, several works address the possible MNCs actions that remain in conflict zones, such as contributing to conflict resolution process or encouraging regional stability through the cooperation with the government (Bennett 2002; Oetzel, Getz, and Laddek 2007), although these scenarios have not been materialized in the case of MNCs in Russia. An important point was made by Burakovsky and Yukhymenko (2023, 188) about the business sector and the state cooperation aimed at increasing the effectiveness of sanctions against Russia, however the statement was limited to Ukrainian companies and the state.

The strand of literature that represents the most significance for the given research is work on MNCs' exits from markets due to political reasons. Back in 1993, Akhter and Choudhry observed that literature largely paid attention to market-determined withdrawals, such as those that

result from the lack of economic incentives, a declining market share, and product phase-out. A more recent review of divestment literature over the past three decades confirms the lack of understanding and a high degree of ambiguity that is attributed to the decisions of MNCs to withdraw from foreign markets with unstable political environments (Arte and Larimo 2019).

While state sanctions constitute a common foreign policy tool and have been widely studied (see Kirkham 2023), cases of politically driven exits by MNCs called “private sanctions” are uncommon, especially involving a large number of MNCs. The response of MNCs to apartheid in South Africa represents the most analyzed example (Rodman 1994; Haley 2001; Hunt, Weber, and Dordi 2017; Bond 1988; Puaschunder 2012; P. Arnold and Hammond 1994; Teoh, Welch, and Wazzan 1999). Similarly to the companies leaving the Russian market, the campaign of foreign firms exiting South Africa had a strong normative argument and raised the questions of morality of conducting business, the social responsibility of corporations, but also the financial explanations behind the corporate decisions and the effectiveness of corporate exodus. The anti-apartheid campaign was a far-reaching movement that included boycotting and sanctioning institutions and banks, and, for example, in the case of the anti-apartheid corporate exits by the US firms, there was a stronger legal basis that prohibited firms from owning physical capital in South Africa (Hunt, Weber, and Dordi 2017, 70). Similarly to the findings of analyses on MNCs exiting the Russian market, scholars studying the anti-apartheid corporate decisions also identified various pressures from stockholders, governments and consumers (Haley 2001).

Although the literature on the topic of MNCs responding to political challenges and especially geopolitical crises is scattered, the authors agree that there is a need to account for not just the actions of nation-states and intergovernmental organizations, but also private actors. Therefore, the way MNCs navigate such situations, what determines their decisions and whether

private actions play a substantial role in international relations represent an engaging topic to study. The following section will focus specifically on the recent body of work regarding MNCs after the beginning of the Russian full-scale invasion of Ukraine in 2022.

1.2 MNCs' response to the Russian invasion

In the two years since the beginning of the full-scale Russian invasion of Ukraine, scholars have analyzed the phenomenon of MNCs leaving or staying in the Russian market focusing on its different aspects. The more examined, although not in any way agreed-upon, topics include the effects of withdrawal or remaining in the market on the companies, and the reasons behind these decisions. These broader areas include such issues as shareholder governance, stakeholder pressure, reputation concerns, corporate social responsibility (CSR), the role of social media campaigns, humanitarian and logistical reasons, as well as the role of the size of companies and their exposure to the Russian market.

Several authors have engaged in the complex task of evaluating the effects of withdrawing or remaining in the Russian market on MNCs. One of the pioneers on the subject, Jeffrey Sonnenfeld and his team of experts, who founded the Yale Chief Executive Leadership Institute (CELI) List of Companies, argue that it pays for companies to leave Russia (Sonnenfeld et al. 2022). They analyze the effects of companies' decisions on financial markets across asset classes, geography and time periods finding that investors attribute significant importance to the companies' withdrawal. Using different methods, the authors show that the bigger the extent of curtailment, the higher the stock performance which applies not only to public equity markets but also to credit and derivative markets (Sonnenfeld et al. 2022).

Tosun and Eshraghi (2022) demonstrate similar findings, examining the financial market reaction to different MNCs' decision announcements. Focusing on companies that stayed in Russia

in the first two weeks of the invasion, the article finds that the portfolio of the firms that stayed underperforms that of the firms that left the Russian market. Therefore, Tosun and Eshraghi (2022) similarly argue that investors impose a substantive market penalty on the MNCs that have not taken action to curtail their operations in the Russian market.

However, Kiesel and Kolaric (2023) argue that while there are positive cumulative abnormal returns (CARs) for those that announce withdrawal, they do not find significant reactions from the market to decisions to stay or wait to make/announce decision. Contrary to these findings that the market rewards those companies that leave and/or punishes those companies that stay, French, Gurdgiev, and Shin (2023) observe that firms that left the Russian market have experienced a downward trend in CARs. Moreover, opposite to the findings of Sonnenfeld et al (2022), French, Gurdgiev, and Shin (2023) argue that the higher the curtailment degree, the more negative the average CARs. Some engage in more detailed analyses and find that geographical proximity to the war and regulatory climate risks mattered for the stock market response (Deng et al. 2023; Federle et al. 2022). While the thesis does not attempt to evaluate companies' market performance, this issue represents the lack of agreement in the literature on the topic and varying complex stances.

The more specific literature on MNCs exiting the Russian market has attributed the decisions of firms to different explanations. Mol, Rabbiosi, and Santangelo (2023) attempt to explain the decisions of MNCs by presenting them as a trade-off between the operations costs of leaving the Russian market and the reputational costs of staying, although when both considerations are high, the decisions of MNCs "...depend on specific contingencies" (2). Similarly working on a broader way to think about the decisions of MNCs regarding the Russian invasion, Parella (2022) develops a market framework for explaining companies' actions whereas the demand factors (pressure from consumers, investors and governments) interact with the supply

factors (the organizational, contractual and regulatory specificities of companies). The remaining literature review will attempt to categorize existing findings by first presenting the reasons for staying and then leaving, although the separation is not clear cut, and the factors do not play out independently from each other.

The first and most expected reason for staying in the Russian market is the financial consideration of **preservation of customers and maintaining access to the Russian economy** for continuing stable and long-term cashflow (Kiesel and Kolaric 2023; Mol, Rabbiosi, and Santangelo 2023). Based on this premise, the assumption would be that the revenue exposure of a company in the Russian market would matter for the withdrawal decision. However, scholars have not achieved consensus on the role of market revenue exposure, as Sonnenfeld et al. (2022, 20) find that pre-existing exposure to Russia and the size of companies did not influence their decisions regarding Russia's war on Ukraine, while Pajuste and Toniolo (2022, 8) argue that companies with little revenue exposure were quicker in their decisions to leave the Russian market and bigger companies were subject to more public scrutiny. Along similar lines, Balyuk and Fedyk (2023) find that more operational exposure in Russia meant a slightly lesser chance of withdrawing and a preference for milder actions, such as scaling the operations back rather than a full exit from the Russian market.

Other scholars have analyzed the companies' use of **humanitarian justifications** for explaining their decision to stay in the Russian market drawing on the need to supply essential goods and provide people with jobs (Pajuste and Toniolo 2022, 29). Such claims were often met with criticism because they were not followed through or because of what companies deemed to be "essential". For example, French (2023, 2) notes that PepsiCo, Inc. claimed to retain the sales of milk, dairy products and baby food in the Russian market while suspending the sales of soft

drinks and other products. However, the company continued to produce soft drinks under different brands and distribute other products, such as chips and snacks (National Agency on Corruption Prevention 2023b). Another backlash was directed at Unilever which stated that it would continue supplying essential goods to the population in Russia, although the company continued selling such items, as cosmetics (Pajuste and Toniolo 2022, 30). Overall, compared to 2021, the company generated practically the same volume of local revenue in 2022 (KSE Institute 2023). To sum up, companies' justifications for staying in Russia that rely on the need to help employees or supply necessary items have been seen as attempts of dealing with potential reputation risks which could undermine state sanctions (Chaudhuri and Terlep 2022).

An important factor that limited the possibility of certain firms leaving is represented by the **complex asset ownership, registry and management** (French 2023, 2; Parella 2022, 2009-2017). Parella (2022) includes these elements among the supply factors in her market framework for understanding the decisions of MNCs, which include the differences in business models, contract designs, political risk insurance, international investment dispute resolution, and organizational crisis response capabilities. These factors could limit the possibility of MNCs to withdraw from the Russian market due to the inability to influence franchise partners, not having favorable investment agreements or not being able to exit without legal liability (Parella 2022, 2011).

The reasons for exiting the Russian market represent a combination of plausible explanations which interplay with each other and are difficult to analyze separately. However, it is possible to dissect the following groups of factors from the literature: the interests of corporate leaders and shareholders, as actors that make decisions or can strongly influence the corporate course of action; the actions of consumers, employees, non-governmental organizations that do not have the power to make decisions regarding MNCs' exit but presumably can impact them;

changes in the Russian market environment that complicated the conduct of business there; and governments which most frequently feature in the literature as the setters of legal environments.

Statements from companies that decided to leave the Russian market usually involved some sort of **ethical/moral reasoning** to condemn the attack and the undermining of the international order (Pajuste and Toniolo 2022; Parella 2022, 1993). However, in addition to this, companies' leaders often state that this is also in the interest of shareholders, as investors attribute significant importance to withdrawing from the Russian market based on global capital flows (Pajuste and Toniolo 2022, 29; Sonnenfeld et al. 2022, 20). From this perspective, it is argued that investors believe that remaining in Russia represents more risks than the costs companies will have to bear upon leaving. This sort of explanation can be attributed to the desire to **maximize shareholder value**, although there are also explanations that focus on stakeholder capitalism. Because shareholder primacy focuses solely on increasing profits and stakeholder capitalism seeks to account for the (ethical) interests of customers, employees, communities, and other parties even at a material cost, the two could be seen as the opposite sides of a debate.

However, shareholder value maximization and **stakeholder capitalism** are not mutually exclusive results (Essele 2022). Pajuste and Toniolo (2022) provide more details on the stakeholder debate by analyzing the companies' desire to minimize losses through the prism of stakeholder interests and arguing that corporate leaders will choose to promote customer interests when they face potential reputational risks or when it can come across as a good marketing move. They argue that MNCs tend to follow social objectives not necessarily for the sake of achieving these social goals but because such an engagement in “woke-washing” can maximize their returns (Pajuste and Toniolo 2022, 49-50).

Thus, the discussion around investors, corporate leaders, consumers, employees and media often revolves around the notions of **reputation, CSR and environmental, social and governance (ESG)**, with the findings that the latter two did not play a genuinely significant role (Rohov et al. 2024; Zapotichna 2022; Kiesel and Kolaric 2023, 20; Reshetnikova and Sanak-Kosmowska 2023; Lu, Huang, and Li 2022; Ahmed et al. 2023; Carstens et al. 2024; Asemah-Ibrahim, Nwaoboli, and Asemah 2022). Moreover, regarding stakeholder pressures, scholars have analyzed the role of boycotts, finding that there is a positive relationship between boycott campaigns and corporate decisions to leave the Russian market to support Ukraine (Pajuste and Toniolo 2022). French, Gurdgiev, and Shin (2023, 1) note that the pressure from media, think tanks and non-governmental organizations was especially directed to publicly listed companies. These topics demonstrate that the discussion regarding MNCs' decisions predominantly has occurred in business literature.

Several scholars have noted the increasingly **hostile market environment in Russia** for businesses to operate in. As Russia became the most sanctioned country, the continuation of conducting business could entail the difficulty of banking transactions, currency exchange, increased supply costs, legal uncertainty, as well as the loss of value of the Russian currency and decrease in the value of local currency cashflows (Kiesel and Kolaric 2023; Tosun and Eshraghi 2022, 1; Pajuste and Toniolo 2022, 22; Parella 2022, 1995). Similarly, Zapotichna (2022) reflects on logistical and production difficulties experienced by foreign firms in Russia.

The last channel of pressure on MNCs to exit the Russian market is **political pressure from government actors**, which represents the focus of the thesis. Political pressure has attracted less attention in the literature than other business explanations and its effects on companies have not been analyzed in detail. For example, Pajuste (2022, 22-23) limits the discussion to the presence

of strong public opinion regarding helping Ukraine in the West and several statements from politicians related to business activities. Similarly, Parella (2022, 2003) notes the use of X by Ukrainian governmental officials to shame MNCs remaining in Russia. Additionally, she describes the influence of government actors as the setters of sanctions that made the business environment in Russia more difficult and created legal uncertainty regarding the scope of sanctions, which led to some MNCs' exits (Parella 2022, 2001-2005).

Even the works that are focused specifically on companies coming from one country do not pay significant attention to analyzing the specific context that is created by the country's relationship with Russia and its position regarding the Russian invasion. For instance, the study on German corporations developing their stance regarding the war only briefly mentions that mass media of different countries represent the war differently which challenges companies to "communicate adequately" and that stakeholder expectations vary (Carstens et al. 2024, 56, 62-63). Similarly, analyzing the response of the US firms, Balyuk and Fedyk (2023, 1254) only shortly state that 75% of the American population was in favor of companies cutting ties with Russia and withdrawing from the market. While in the study on Danish MNCs' responses, the societal pressure and the need to respond to civil society are acknowledged, the study focuses on the heterogeneity of companies' responses, rather than seeing distinct patterns across different states (Mol, Rabbiosi, and Santangelo 2023).

One research addressed the underexplored issue of the way Chinese MNCs react to a geopolitical risk based on the example of the Russian invasion of Ukraine (Yan, Yao, and Ma 2022). The work argues the main considerations for the companies have been the sanctions by Western companies, possible worsening of China-EU-US relations and the war itself. While the research provides important insights which demonstrate the importance of the country of origin of

MNCs and briefly mentions the “...need to consider the influence of public opinion in [MNCs’] home countries” (Yan, Yao, and Ma 2022, 379), it analyzes an extreme case of a country where there is no domestic pressure on companies to leave the Russian market.

The thesis does not analyze which of the reasons had the most determinate effect on corporate decisions, assuming that none of the factors alone can explain MNCs' decisions and highlighting that their interplay played a crucial role. However, the various reasons discussed in the literature do not explain the different distinct patterns of MNC reactions even across relatively similar countries. Moreover, most of the literature has been produced with a business focus, not paying considerable attention to the political economy factors. Therefore, this thesis attempts to examine how these different reasons and factors were influenced by the politico-economic conditions in their country of origin, which in turn were largely related to the relationship between the country of origin and Russia. Therefore, it argues that the government’s stance should not be perceived as just one out of the factors that pressured MNCs to leave, but it had a more significant impact influencing the conditions in MNCs’ countries of origin and therefore, the perceptions and actions of corporate leaders, investors and customers.

2. METHODOLOGY AND SOURCES

2.1 The timeline of the research

Import to note, that the war between Russia and Ukraine began in 2014 with the occupation of Crimea in February-March 2014 and the beginning of the war in the east of Ukraine in April 2014. The actions were met with sanctions from the European Union (EU), the United States, Canada and other states, however, the response was significantly lower in scale. Compared to the period from February 2022 to February 2024, when there were 16,587 new sanctions enacted, before February 22, 2022, there were only 2,695 sanctions against Russian entities and individuals (Castellum.AI 2024). Moreover, after the initial response, the West continued to cooperate with Russia in different sectors despite the aggression. Back in 2014, MNCs did not impose private sanctions on Russia halting operations only on the occupied territories as was required by the international sanctions. However, some companies still circumvented the minimum set by the sanctions by operating and investing in Crimea (Zakurdaeva and Maglov 2019). Thus, a significant exodus of MNCs from the Russian market only began after the beginning of the full-scale invasion in February 2022 as the topic rose to prominence in everyday life, academia and policy-making, thus the thesis will analyze the timeline from February 2022 to April 2024.

2.2 Kyiv School of Economics Institute Database

As one of the main sources for the research, the thesis uses the Kyiv School of Economics (KSE) Institute project “SelfSanctions” which has tracked the decisions of MNCs regarding the Russian market (Kyiv School of Economics, n.d.). The project was started by the KSE Institute at the beginning of the full-scale invasion and later was merged with a website "Leave Russia" created by a group of IT volunteers resulting in a comprehensive database of corporate responses

that uses open sources and official registers (Mylovanov et al. 2023). The project aims to provide complete information about MNCs' engagement with the Russian market, to attract attention to firms that continue their business as usual and influence them to leave.

The thesis uses the mentioned source since compared to other similar databases, it contains data on the biggest number of firms and includes more detailed information. As of April 29, 2024, the KSE Institute database has analyzed over 3785 entities from across industries and regions assigning them one of the six categories. As the set also includes the responses of associations, NGOs, educational and certification entities, these will be excluded from the analysis to keep the focus on companies only. Besides assigning statuses to the companies, the database provides information regarding companies' revenue, assets, capital, plants, staff, and paid taxes in the Russian Federation. It also records the statements made by the firms and archives the news releases about MNCs' work in Russia. Besides the database, the thesis will use companies' statements, speeches of politicians, and media sources.

2.3 Patterns in MNCs' decisions regarding the Russian Market

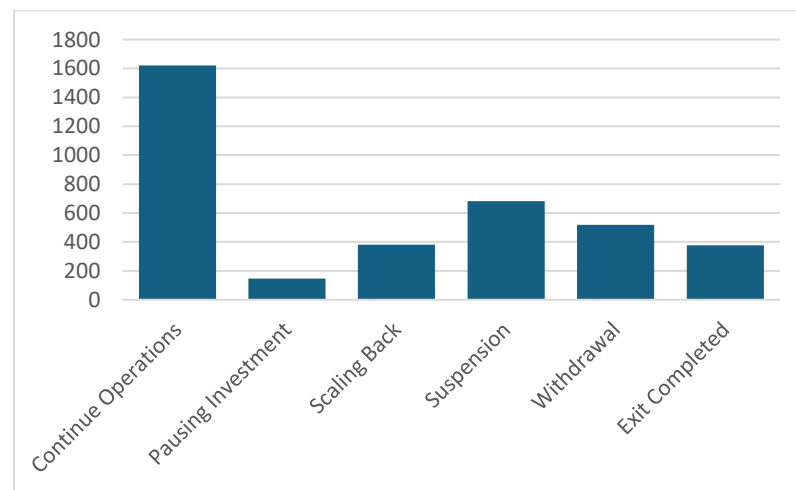


Figure 1: Distribution of companies' responses regarding the Russian market (6 statuses).

The database allows us to observe several significant trends regarding MNCs' decisions after the invasion. Figure 1 shows the distribution of categories of MNCs' responses across all recorded companies. The largest category is "Continue operations" which describes companies that did not reduce operations in Russia, including those that either did not issue any statement or promised to scale operations down but did not follow it through, as shown by revenues, for instance. The database also differentiates between "Pausing investments" and "Scaling back" with the former meaning not carrying out future investment, development or marketing but continuing other operations and the latter scaling back some operations while continuing other parts of the business, although it is difficult to draw the line between the two categories. Companies that temporarily curtailed their operations but kept the option to return open fall under the second largest category defined as "Suspension". Moreover, the given dataset makes a distinction between "Withdrawal" and "Exit completed" based on the degree of completeness of halting their operations in the Russian market.

For the sake of straightforwardness, the database combines the categories under three larger groups of "Stay", "Leave" and "Exited", whereas "Stay" incorporates companies that are continuing operations, pausing investments and scaling back, "Leave" consists of "Suspension" and "Withdrawal" and "Exited" represents companies that completed exited the market. The distribution of the three categories across all companies is represented in Figure 2.

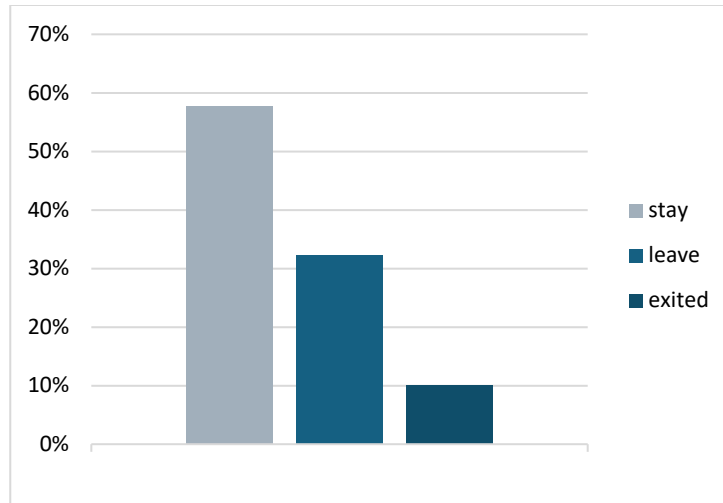


Figure 2: Distribution of companies' responses regarding the Russian market (3 statuses).

The dataset allows us to observe broader tendencies regarding the relationship between the responses of MNCs and their country of origin. The patterns include the distributions where most MNCs have stayed in the Russian market, most MNCs are in the process of withdrawal, or where the distribution is more uniform. States that are not perceived as part of the West typically have significantly higher percentages of companies staying in the Russian market, and although for companies from Western states “Stay” is also the biggest category, its proportion compared to “Leave” and “Exited” is lower (Figure 3).

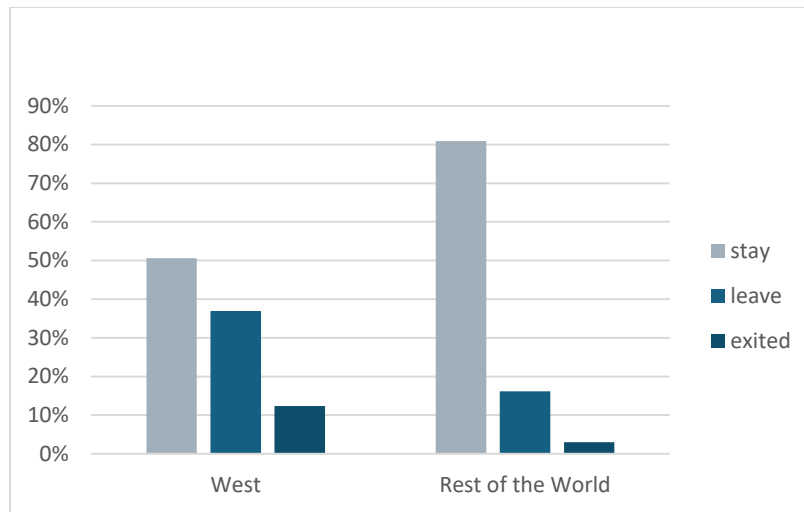


Figure 3: Distribution of companies' responses across regions.

Several extreme patterns can be observed, for instance in the cases of China, India, and UAE, where over 90% of companies have stayed in the Russian market (Figure 4). Importantly, however, there are also significant differences within the Western countries. The examples of Finland, Poland, the United Kingdom and the United States represent companies' responses with the majority under the Leave category (Figure 5). In the cases of MNCs from Switzerland, the Netherlands and the Czech Republic, MNCs' responses are almost equally distributed between "Stay" and "Leave" together with "Exit" (Figure 6). Lastly, such states as Austria, Italy, and Greece represent another group of states where the number of companies that stayed significantly exceeds the number of companies that exited or are in the process of leaving (Figure 7). Reasons for MNCs' exits from the Russian market explored in the literature focused more on explaining individual cases and have not addressed such trends across the MNCs from the same country.

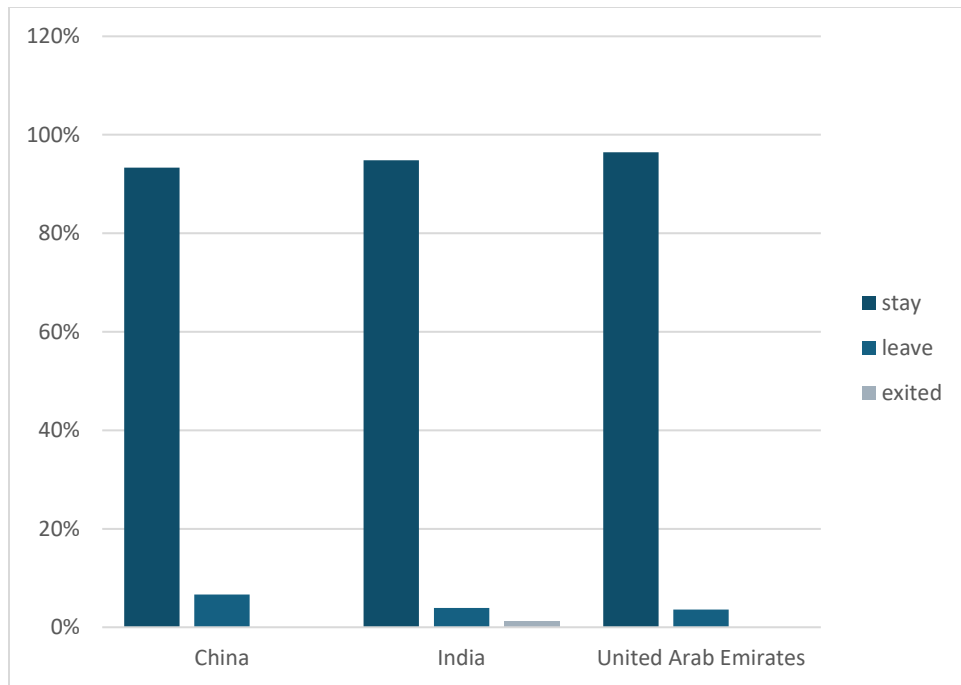


Figure 4: Distribution of responses of companies from China, India and the United Arab Emirates.

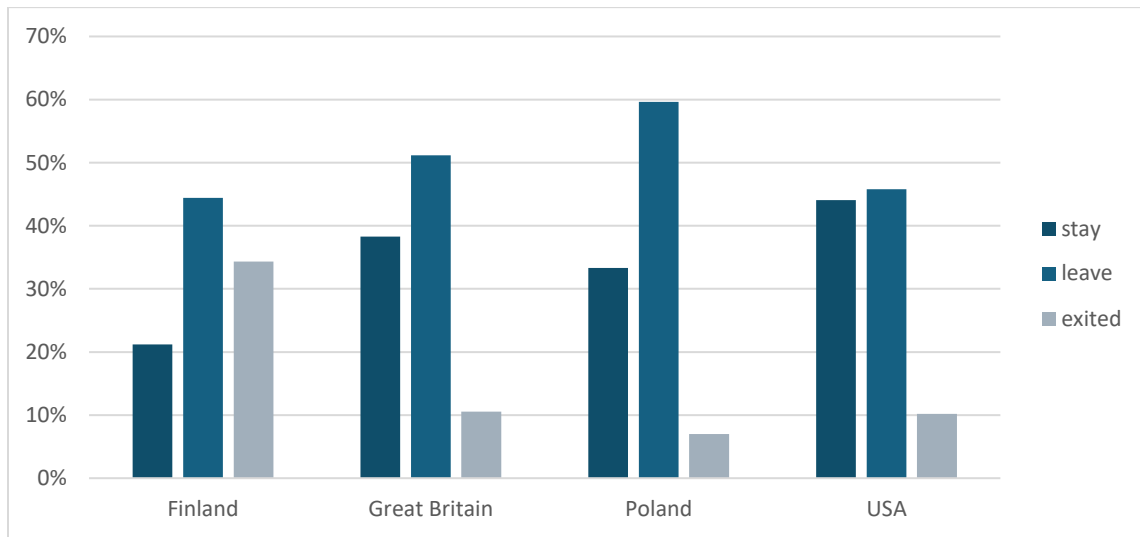


Figure 5: Distribution of responses of companies from Finland, Great Britain, Poland and the United States.

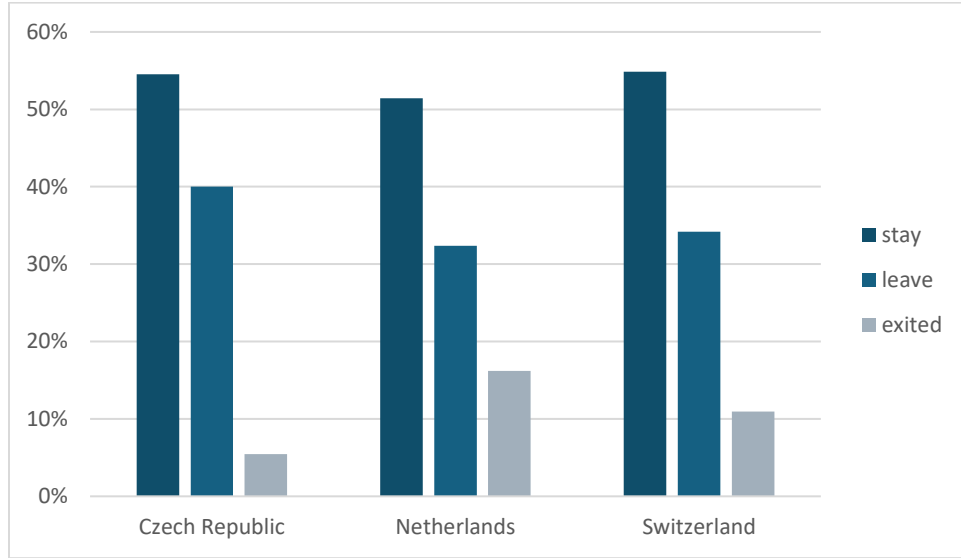


Figure 6: Distribution of responses of companies from the Czech Republic, Netherlands and Switzerland.

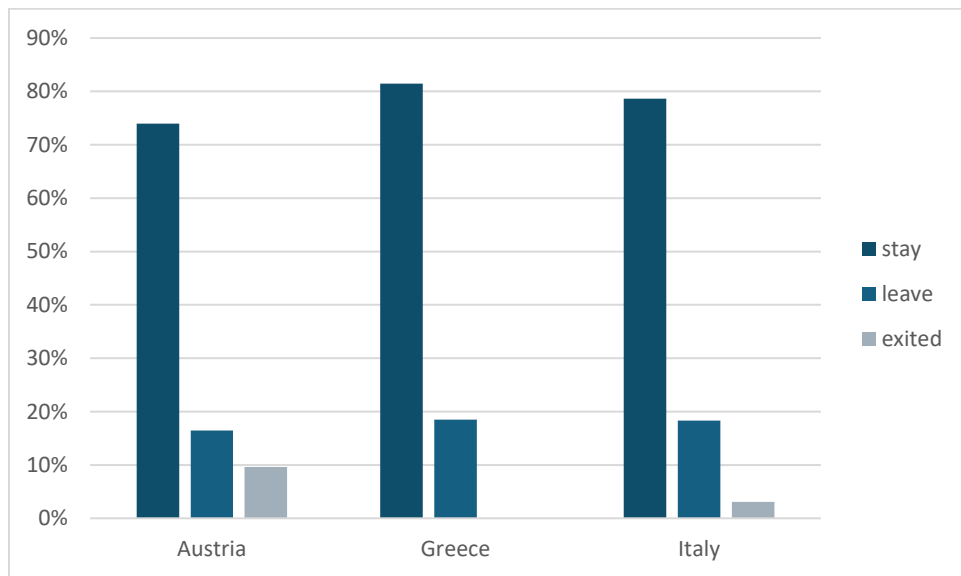


Figure 7: Distribution of responses of companies from Austria, Greece and Italy.

2.4 Methodology and case selection justification

The thesis will use a comparative case study to analyze the impact of the country of origin on the decisions of MNCs from the given country. The two cases examined in the thesis are MNCs from Austria and the UK. The most similar systems design drives the choice of these states, as opposed to, for instance, choosing MNCs from the USA and China, where there are rather few similarities and expectedly diverging outcomes. The cases of the UK and Austria are comparable to each other but differ significantly in their outcomes which allows us to examine the causes that lead to different outcomes. Both states are European countries with strong economies, established democracies, high standards of living and commitment to the liberal international order. In 2022, the GDP per capita of Austria and the UK was USD 52,084 and USD 46,125 respectively (World Bank 2024a), while the share of services' value added accounted for 62.1% and 72.2% of GDP (World Bank 2024b). Moreover, according to the V-Dem ranking, Austria and the UK have the same score of 0.77 in the liberal democracy index (LDI) ranking them 18-19 in the world (V-Dem Institute 2024).

Since the beginning of Russia's full-scale war on Ukraine, both states publicly condemned the military aggression. Chancellor of Austria Karl Nehammer declared that despite Austria's military neutrality, it stands in solidarity with Ukraine (Der Standart 2022), while former Prime Minister of the UK Boris Johnson stated that the state would respond decisively to the Russian invasion (Sharma 2022). Expectedly, both states have consistently voted in support of Ukraine in the United Nations General Assembly and the United Nations Security Council (United Nations Digital Library 2024). In the two years since February 2022, both Austria as part of the EU and the UK enacted over 2,000 sanctions in an aligned approach (Mills 2024; Pinsent Masons 2024). Moreover, Austria has committed to providing 0.8% of its GDP in bilateral aid and as a share of

EU aid, while the UK has committed to providing 0.5% of its GDP as bilateral aid (Kiel Institute 2024). As a result, both states made it to Russia's list of "unfriendly" countries with the UK being added individually and Austria as part of the EU (Batyrov 2022). Therefore, based on the above-mentioned basic measurements, the general response to the Russian invasion of Ukraine from the two countries has been comparable.

However, Austrian and UK MNCs' responses to the Russian war on Ukraine represent significantly different cases, as in the case of Austria 74% of MNCs have remained in the Russian market, which is one of the highest percentages among European states, and in the case of the UK it is 38%, which is one of the lowest rates in Europe (Figure 8). Moreover, both countries have a large enough number of MNCs that had/have business in Russia which allows for a more representative analysis. For instance, the rate of companies from Finland that left the Russian market is higher than that of the UK and the rate of companies from Greece that stayed is higher than that of Austria, however, the number of MNCs is lower which could negatively impact the analysis.

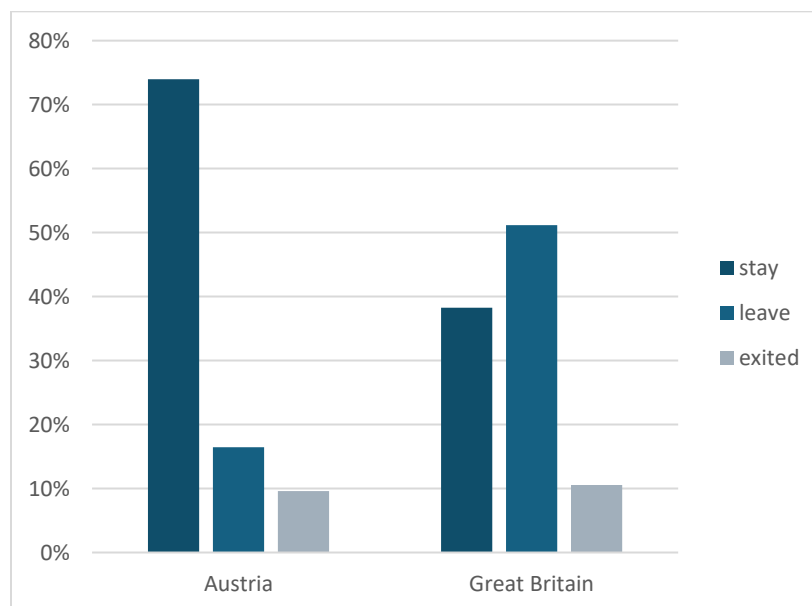


Figure 8: Distribution of responses of companies from Austria and Great Britain.

The thesis will analyze how the politico-economic characteristics of Austria and the UK could influence MNCs' decision-making regarding the Russian market. The focus is specifically on the relationship of the country of MNCs' origin with the Russian Federation across several domains before and after the beginning of the invasion. The degree of entanglement between Austria and Russia and the UK and Russia is traced through their economic, diplomatic, energy, and social relations and cooperation. Moreover, the analysis includes the stance of Austria and the UK regarding Russia's war on Ukraine into the consideration. The thesis explores that based on the different levels of intertwining with Russia, Austria and the UK represented a different environment for MNCs' decision-making regarding the Russian market. Therefore, the research will first compare the relations of the UK and Austria with Russia before and after the invasion focusing on economic, diplomacy, energy and social aspects. Then, it will analyze how these specific policies and characteristics impacted the decision-making and views of MNCs by creating distinct environments based on the actions of governments and statements of MNCs.

3. UK'S AND AUSTRIA'S RELATIONS WITH RUSSIA BEFORE AND SINCE 2022

3.1 The relations between the UK and Russia before February 2022

The relationship between the UK and Russia has been complex, with some claiming back in January 2022 that the bilateral relationship was broken (Duncan and Bond 2022, 6). According to some scholars, in the time frame from 1992 to 2011, UK-Russia relations have been through periods of engagement and accommodation, disappointment and disapprobation, and wary cooperation and pragmatic engagement (David 2011), while after 2014 and even more so 2018 the relationship nosedived again. Even before the beginning of the full-scale Russian invasion of Ukraine, the UK stated that Russia was "...the most acute threat to [the state's] security" (Cabinet Office 2021, 18), and Russia similarly considered the UK hostile (Duncan and Bond 2022, 6).

Despite the growing economic relations between the two states after the end of the Cold War, the political sphere has been disrupted by several significant issues and "lingering distrust" (Bacon 2007, 1). After the first successful developments in the early 2000s (David 2011, 3), the bilateral relations initially soured in the aftermath of the UK's refusal to extradite Putin's critic Boris Berezovsky to Russia in 2003 (Gill 2006); UK's dissatisfaction with the authoritarian trends in Russia (Duncan and Bond 2022, 3); the 2006 murder of Alexander Litvinenko in London, a prominent critic of Putin who according to the US diplomats coined the term "mafia state"¹

¹ Later the term was also popularized by Bálint Magyar (2016) in relation to the government of Orbán in Hungary.

(Harding 2016) and the subsequent failed attempts to extradite the main suspect for the murder; an intimidation campaign against British ambassador in Moscow, Tony Brenton (Harding 2007) and the Russo-Georgian War of 2008, which prompted UK's strong criticism (Monaghan 2011, 2).

While the relations rather tensely stabilized in the period leading up to 2014, with the Russian annexation of Crimea and the beginning of the war in Donbas, the UK-Russia relations experienced another breakdown. It was further exacerbated by the Russian involvement in the Syrian conflict in 2015, although later in the post-Brexit years the question of Russia went down on the priority list (Duncan and Bond 2022, 5). However, in 2018 the UK-Russia relationship shattered as Sergey Skripal, a former Russian military intelligence officer, and his daughter Yulia Skripal were poisoned with the nerve agent Novichok in Salisbury (Dodd, Harding, and MacAskill 2018). The attack was followed by the expulsion of Russian diplomats not only from the UK but also from other allies (David 2018, 2). Since the poisoning, political meetings of Russian and UK officials have been limited, although confidential communication remains in place and the economic, cultural, sports and educational partnerships remained largely preserved (Duncan and Bond 2022, 5–6).

Throughout the years after the Cold War, there have been periods of more prospects for trade and investment between the two countries. For instance, major business opportunities were fulfilled in the 1990s (David 2011, 203) and later in 2003 BP and the Tyumen Oil Company created a joint company that was among the largest private oil companies in the world but soon ran into trouble (Kishkovsky 2003; David 2011, 204). Trade also grew in the 2000s, however could not reach the pre-rouble crisis numbers (David 2011, 207) and the UK has for years been among the largest foreign investors in Russia (Bacon 2007, 6; Monaghan 2011, 4). Moreover, the post-2008

economic conditions also contributed to the more cooperative economic relations between the UK and Russia (Monaghan 2011, 4; Duncan and Bond 2022, 3).

A prominent topic regarding Russia-UK financial relations has been the so-called Londongrad, a nickname depicting the role of London as a hub for Russian “dirty” money after the dissolution of the Soviet Union which was described as a place, a process and a paradox (Morgan and Kinossian 2024). Its rise has been connected with the prevalence of neoliberal policies in the UK, such as favorable laws on taxes, libel and property, and the convenient golden visa scheme that granted residency rights to over 2500 Russian nationals for investment in 2008-2021 (UK Home Office 2019), as well as an efficient court system and secure property rights (Morgan and Kinossian 2024, 175-176). As Russian money flooded the property market, private schools and luxury vehicles market over the years (Usborne 2022), Transparency International UK investigated that in 2016-2022 the amount invested in UK property by Russian citizens connected to the Kremlin and suspected of financial crimes was at least £1.5 billion (Transparency International UK 2022). Back in 2018, the UK set out steps to prevent the use of the City of London as the site for money laundering, noting that it is “...clearly linked to a wider Russian strategy and has implications for our national security”, thus seeing it in a broader, security and international system light and declaring it “... a major UK foreign policy priority” (UK Parliament 2018).

Despite the infamous presence of Russian money in the UK, economic cooperation between the UK and Russia before the Russian invasion of Ukraine was not of exceptional importance to the UK. In 2021, Russian investment in the UK amounted to £2.3 billion on an ultimate investment basis which put it below the top 20 investors in the UK (Office for National Statistics 2022a). The UK’s net outward FDI flows to Russia accounted for £1.9 billion which put Russia below the top 10 UK’s FDI recipients, whereas the outward stock of FDI from the UK in Russia accounted for

0.8% of the total UK outward stock (Office for National Statistics 2023). In terms of trade, in 2021, the UK's imports of goods from Russia accounted for 2.2% of all goods imports, while the UK exported 0.9% of all goods exports to Russia (Office for National Statistics 2022b). Regarding energy relations, which proved to be crucial in affairs with Russia after its invasion, in 2021 the UK imported 4% of gas, 9% of oil and 27% of coal used in the UK from Russia (Bolton 2023). Therefore, it can be seen that Russia did not present the UK's top trade and investment interests, and even before 2022, the UK and Russia had a fragile and volatile relationship due to several high-profile issues, the lack of shared values (Bacon 2007, 10) and few common interest with "...adversarial relations [being] the historical norm" (Duncan and Bond 2022, 1).

3.2 The relations between the UK and Russia after February 2022

Since February 2022, the UK has become one of the main supporters of Ukraine and, hence, one of the biggest adversaries to Russia which affected the political, security, energy and economic relationship between the states. Despite the turnover in prime ministers in 2022, the UK has provided a range of economic, humanitarian and military assistance to Ukraine. From Jan 2022 to January 2024, in total, the UK has committed €15.6 billion in bilateral aid to Ukraine which constituted 0.5% of its GDP (Kiel Institute 2024). In terms of military aid, the UK represents the third biggest donor country with €9.1 billion committed in the same period (Kiel Institute 2024). The UK has supplied a wide range of military equipment and armament, including main battle tanks, rocket systems and cruise missiles with long-range strike capability (UK Government 2024b), as well as trained around 35,000 Ukrainian soldiers (Nuspliger 2024). Throughout the war, the UK has led several initiatives such as the "Drone Coalition" which intends to increase the number of drones provided to Ukraine (Martin 2024), or concluding a bilateral agreement on

security cooperation with Ukraine (UK Government 2024c), a step which was later followed by several other states (Fornusek and Denisova 2024).

In a coordinated move, the UK with other allies has imposed sanctions on 1701 individuals and 298 entities under the Russian regime (Mills 2024) which the Russian embassy in the UK called “illegitimate unilateral restrictions against Russia [imposed] using false allegations of “Russian aggression” (The Embassy of the Russian Federation to the United Kingdom of Great Britain and Northern Ireland 2024). Importantly to the topic of the thesis, the UK introduced a ban on new investment in Russia in July 2022, which prohibits acquiring any ownership interest, establishing a joint venture, opening a branch or providing investment services that are connected with Russia (UK Government 2024a). Moreover, in February 2024 the UK enacted sanctions against a Netherlands national Niels Troost, an oil trader, for his ties to the Russian oil trade becoming the first non-Russian individual in energy trade to be under Western sanctions (Wilson and Sheppard 2024). As the “golden scheme” visa for investors was shut down shortly before the beginning of the invasion, the question of Londongrad was once again brought to the fore. The UK set out the goal of introducing a package of legislation to tackle illicit finance starting with the Economic Crime (Transparency and Enforcement) with Home Secretary Priti Patel's speech focusing on “...strengthen[ing] our response to Putin’s cronies and ensure[ing] that corrupt elites have nowhere to hide their dirty money in the UK” (UK Government 2022).

In the economy realm, between September 2022 and September 2023, Russia dropped down to be the 66th largest trading partner of the UK and represented only 0.1% of total trade, decreasing total UK exports to Russia by 51.3% and total UK imports from Russia by 93.5% (Office for National Statistics 2024). As of May 2024, there are no statistics on the UK's foreign direct investment with Russia for the year 2022, therefore the thesis cannot analyze the changes in

investment. In terms of energy relations, the government of the UK issued bans on Russian coal and oil in August and December 2022 respectively, while the ban on liquefied natural gas from Russia was enacted in January 2023 (Bolton 2023), although it has been criticized for using the “refinement loophole” whereas Russian crude oil is imported by countries that did not impose sanctions, refined there and then exported as originated in the intermediary country (Raghunandan 2024).

Without getting into a discussion on the interrelationship between public opinion and government policies, it is worth noting that the 2023 Annual Survey of UK Public Opinion on Foreign Policy and Global Britain stated that the majority of Britons supported the continuation of providing aid to Ukraine for as long as need (53%), although the degree of support differed depending on the kind of assistance in question. For instance, while 85% supported humanitarian assistance and 75% deemed economic sanctions an appropriate policy, 68% supported providing military aid. However, only 6% preferred the immediate withdrawal of assistance (Aspinall and Keogh 2023). Moreover, with the revival of the topic of security in Europe, the majority of Britons also supported increased defense spending and NATO membership (Aspinall and Keogh 2023). The public opinion data, as well as the UK's actions in terms of assistance to Ukraine and a decrease in trade with Russia, confirm the overall adversarial relationship between Russia and the UK.

3.3 The relations between Austria and Russia before February 2022

The most important element that has determined the relationship between Austria and Russia since the 1950s has been Austrian neutrality demanded by the Soviet Union, which put the country in a beneficial position for developing relations with the USSR, while also being part of

Western Europe. For instance, back in 1968, the then Austria-owned ÖMV was the first Western European company to sign a natural gas contract with the USSR (Malek and Luif 2013, 212) which paved the way for Austria to become an important gas hub in Europe. However, the close energy partnership is not the only characteristic of their relationship, as Russian political and economic infiltration in Austria has taken place for years.

Historical accounts highlight Austria's policy of active neutrality, opening and normalization towards the Soviet Union, which determined the country's responses to the USSR and Russia that greatly diverged from the rest of the West, such as the lack of strong response to the crackdown of the Prague Spring (Malek and Luif 2013, 210) or the participation in the Moscow Olympics in 1980 despite the wide boycott from the Western states (Kanin 1980). Austrian policy of non-involvement in the measures to isolate Russia carried on further in the 21st century, as Austria continued to be similarly classified as a "friendly pragmatist" concerning its relationship with Russia (Leonard and Popescu 2007, 2). For instance, in response to the above-discussed Novichok case, contrary to many European states, Austria declined to expel diplomats stressing the importance of “keep[ing] the communication channels to Russia open” (Die Presse 2018). Until the beginning of Russian aggression, the frequent official meetings of the Austrian and Russian political elite (former Chancellor Kurz paid three visits to Russia in 2018 (Lendvai 2023)) stressed the “trouble-free”, “cordial” relations, while reports and statements by the Austrian side usually described any affair regarding Russia with cautiousness (Malek and Luif 2013, 219). Some experts even argued that Austrian politicians, media and the public are more critical of Washington than Moscow, based on their statements, coverage and rallies with few significant disagreements such as the independence of Kosovo and the preference for Eurofighter Typhoon instead of Russian MiG-29 (Malek and Luif 2013, 219). In some instances, Austria has advocated for Russian

interests within the EU, such as through its criticism of installing the US missile shield in Eastern Europe in 2007 (NBC News 2007).

Famously, the extent of the Russian secret services activities in Austria led to Vienna being named the spy capital, a name that comes with frequent espionage scandals, such as the diplomatic scandal regarding Vozhzhov (Stark 2007) or the more recent Ott case (Faiola and Mekhennet 2022). On several occasions when arrests by the Austrian side took place, the detainees were shortly released after Moscow asserted pressure (Malek and Luif 2013, 218). Moreover, the connections between senior political leaders from Austria with the Kremlin and Russian companies are numerous, including the infamous wedding of the former Foreign Minister Kneissl with Putin as a guest and her later move to Russia (The Guardian 2023). Other instances include the former chancellor Schüssel being on the board of first Russia's largest mobile phone company MTS and then oil company Lukoil (Faiola and Mekhennet 2022) as well as the former chancellor Kern's position on the board of the Russian railways. Moreover, when participating at the Saint Petersburg Economic Forum in 2017, Kern joined the ranks of Austrian leaders that criticized the EU sanctions regime against Russia, and two days prior to the Russian invasion in 2022, he called for understanding towards Russia and during an hour-long TV conversation did not express any criticism towards Russia (Lendvai 2023). Besides, in 2022 chats were revealed between then Chancellor Kurz and entrepreneur Wolf where the latter asked Kurz to help with the US sanctions against a Russian oligarch Deripaska (Nikbakhsh and Stefan 2022). Additionally, the connections extend politics and business, as the case of former chancellor Gusenbauer demonstrates, whereas he served as a lobbyist for post-Soviet regimes and led the Renner Institute, a think tank in Vienna, as well as was on the board of "Dialogue of Civilizations", a Russian backed think tank (Lendvai 2023).

A telling example of Russian-Austrian relations was the official visit of Putin to Austria in June 2014, only several months after the annexation of Crimea and the beginning of war in the east of Ukraine. During the visit, the Russian president met with the President of the Republic of Austria Fischer, as well as Austrian Federal Chancellor Faymann and Austrian business community leaders highlighting the growing bilateral economic cooperation, including trade, investment, and successful business projects in various sectors (Presidential Executive Office 2014a; 2014b). Putin also stressed the significance of energy relations, noting that the South Stream gas pipeline project is not “...aimed against anyone ... we never work against anyone”, while noting that “Austrian colleagues understand better than many the groundless nature of fears of excessive dependence” and that expressing the hope that more Austrian companies will cooperate with Russia (Presidential Executive Office 2014a; 2014b).

On the topic of Crimea, the right-wing Freedom Party of Austria (FPÖ) strongly sided with Russia supporting the annexation of Crimea, served as observers at the sham referendum and visited Crimea after the annexation (Fritzl 2014), followed by a party cooperation agreement between United Russia and FPÖ in 2016 (Wiederwald 2019). Later, the 2019 Ibiza affair involving FPÖ Chairman and Vice-Chancellor Strache receptive to offers made by a woman who presented herself as a niece of a Russian oligarch led to his resignation and the collapse of the coalition government (Shekhovtsov 2022). Overall, it has been highlighted that except for a small liberal party, the NEOS, there was a lack of critical views towards the Russian regime both government parties and opposition parties of Austria, whose positions ranged from ambivalence and opportunism to outright support (Lendvai 2023).

Before the beginning of the war, Russia held the position of the second biggest investor in Austria since 2014, only after Germany, with Russian direct investment into the country amounting

to more than €19 billion in 2021 (Oesterreichische Nationalbank 2024). Meanwhile, Austrian outward investment into Russia in 2021 came to over €7 billion, making Russia Austria's 9th largest FDI recipient (Oesterreichische Nationalbank 2024). Regarding trade between the two countries, in 2021 Austrian exports to Russia amounted to €2 billion, which constituted 1.2% of the total exports from Austria. Among the importers to Austria, in 2021 Russia was responsible for 2.6% of the total imports, with the value of €4.67 billion (Statistics Austria 2023).

A big part of the relationship between Russia and Austria has been dictated by their energy partnership which took root in the 1950s and it has been noted that the dependency of Austria on Russian gas, higher than of any other European country, was “the result of a deliberate policy” (Lendvai 2023). Several cases highlight the extent of dependency and close partnership. For instance, the leading Austrian gas company OMV was the head of the Nabucco pipeline project which attempted to diversify European energy supplies and decrease European reliance on unstable Russian gas in the 2000s. As Moscow planned the South Stream, which would practically duplicate the Nabucco's route in the EU and was seen as a Nabucco-stopper (Socor 2011), Austria “did not take long to be persuaded” (Malek and Luif 2013, 214) and soon joined Moscow's South Stream project too. Although neither of the projects came into being, such a counterintuitive policy of Austria is explained by the desire of Austria to not alienate Moscow, although the support of the South Stream directly undermined the aims of the Nabucco project. Moreover, OMV was one of the investors in Gazprom's Nord Stream 2 gas pipeline which was a contentious energy project throughout its whole unsuccessful history (de Jong 2023).

In 2018, after several years of importing record amounts of gas from Gazprom, OMV and Gazprom extended the gas supply contract until 2040 with increases beyond the contractual amount (OMV 2018), although the previous contract would still be in place until 2028. In February

2022, Austria imported 79% of its gas from Russia (Bundesministerium für Klimaschutz, Umwelt, Energie, Mobilität, Innovation und Technologie 2024b). Regarding coal, in 2021 imports from Russia constituted 28% (Meyrath 2022) making Russia the second largest coal importer, and in terms of oil imports, Russia was the fourth largest importer in Austria, although accounting for just 7.8% of the total imports (VCÖ 2022).

Therefore, since the second half of the 20th century, Austria's position could be described as finding a compromise between the two important sides and softening potential conflicts with Russia. Analyses showcase that the Austrian government rarely criticized Russian policies to not deteriorate the bilateral relations and Russia could pressure Austria in the right direction without a strong response from the mass media or public opinion (Malek and Luif 2013, 219). Lendvai (2023) stresses that the numerous personal and business connections between Austrian politicians, managers, entrepreneurs and journalists with Russia have represented both political danger and economic disadvantage.

3.4 The relations between Austria and Russia after February 2022

After the beginning of the invasion, Austria immediately condemned the act of aggression and stated that despite the country's military neutrality, it is not neutral politically and value-wise and therefore, stands with Ukraine. As a result, it has provided €0.75 billion in bilateral assistance and €0.86 billion as part of the EU aid including through the macro-financial assistance (MFA) and the European Investment Bank (EIB) (Kiel Institute 2024). Being an EU member, Austria implemented the EU sanctions packages against Russia and the Temporary Protection Directive, hosting over 73,000 Ukrainian refugees (UNHCR 2024).

Importantly, Austrian Chancellor Nehammer was the first and one of the few European leaders to visit Putin after the beginning of the full-scale invasion. The one-on-one visit without a press conference took place in April 2022, after he visited Ukraine, with Nehammer saying that it was “not a friendly visit” as he “confront[ed] [Putin] with what [he] saw [in Ukraine]” (Dallison and Liechtenstein 2022; Anderson, Pourahmadi, and Woodyatt 2022). Russian sources also noted that although Ukraine would be the main topic of the discussion, it was not excluded that the gas question would be discussed, as “this topic is very, very relevant for the Austrian side” (Mishutin and Nikolskiy 2022). The visit was criticized by several Austrian and European politicians casting doubt on the effectiveness of negotiations (Ernst-Dziedzic 2022; Heinisch 2022; Schmidt, Robertson, and Picheta 2022).

Since the beginning of the invasion, Austria has expelled 6 Russian diplomats due to “actions ... incompatible with their diplomatic status” (Federal Ministry for European and International Affairs 2024), a number that demonstrates the reluctance to such measures, compared with other European states that have expelled dozens of Russian diplomats. Meanwhile, FPÖ has demonstrated its stance by walking out of the Parliament during the speech of Zelenskyi (Radford 2023), arguing that it violates the country’s neutrality, although according to the research of the Social Democratic Party of Austria (SPÖ), FPÖ has submitted 30 Russia-friendly motions since February 2022 (Der Standard 2023a). Importantly, according to 2024 polls, FPÖ has become the leading party in 2024 with around 30% of electorate support ahead of the 2024 fall elections (Kurier 2024).

Moreover, links to Russia remain in other spheres of life in Austria. For instance, Vienna hosts a law firm that regularly provides services for EU-sanctioned Russian oligarchs. “Lansky, Ganzger, Goeth + partner” has represented Russian businessmen in nine cases at the Court of

Justice of the European Union, including Andrey Melnichenko and Dmitry Pumpyansky (Delcheva and Thalhammer 2023a). Criticism has also been directed at the Vienna police due to organizing an event on Ukrainian nationalism with Russian activists from "The Coordination Council of the Organization of Russian Compatriots" in summer 2022 (Der Standard 2022). Moreover, the number of visa applications from Russian citizens in Austria increased over the first year of Russia's war on Ukraine and Russians came to be the third largest group that received the Austrian work visa (Delcheva 2023). Regarding the relationship between politics and culture, the performance of an opera singer with ties to Putin at the Vienna State Opera caused mixed reactions, as several other opera houses around the world canceled her performances (Walker 2022).

In the year 2022, Russia did not step down from its second place of the largest investors in Austria, and its foreign direct investment even increased from over €19 billion in 2021 to over €22 billion both in 2022 and 2023 (Oesterreichische Nationalbank 2024). Austria's outward FDI in Russia decreased from the 2021 and 2022 numbers of €7 billion to €4.2 billion in 2023, moving Russia from 9th to 16th largest recipient of Austria's FDI (Oesterreichische Nationalbank 2024). In terms of trade, in 2022 Austrian exports to Russia amounted to €1.84 billion, an 8% decrease from 2021. Meanwhile, Russian imports to Austria increased to €8.25 billion, signifying a 76.7% increase from 2021 and constituting 3.8% of the total Austrian imports. This put Russia in the sixth place among the largest importers in Austria (Statistics Austria 2023).

Being part of the EU, Austria implemented the EU's ban on coal, seaborne crude oil and refined petroleum imports from Russia (Riegert 2022). However, the imports of Russian gas remained high, reaching up to 70-90% of total gas imports in Austria in two years since the beginning of the invasion (Bundesministerium für Klimaschutz, Umwelt, Energie, Mobilität, Innovation und Technologie 2024b). Although, OMV has completed its exit from the Russian

market with Putin signing a decree according to which OMV assets in Russia will be transferred to Russian companies (OMV 2023), the gas supply contract until 2040 is in place. The Austrian Federal Ministry for Climate Action, the Environment, Energy, Mobility, Innovation and Technology stated that the extension of the contract was “a wrong decision” and it is to examine and implement all options for the contract termination (Bundesministerium für Klimaschutz, Umwelt, Energie, Mobilität, Innovation und Technologie 2024a), but it has been pointed out that Austria stands out in its slow pace regarding the shift in energy supplies.

Therefore, it can be observed that the diplomatic and political relationship between Russia and Austria has cooled down compared to the pre-war levels, however, the economic relationship remains less affected by the war. Although the official rhetoric of mainstream Austrian politicians toward Russia has changed, the policy has yet to follow through in many instances.² Overall, it has been noted that while Vienna sides with the rest of the West in supporting Ukraine, it has been more careful in its relations with Russia, than the UK, for example, as businessmen and politicians are wary of hurting the lucrative relationship hoping that it can go back to normal.

² However, Austria is not the only European state with such a stance towards Russia and in terms of diplomatic, political, economic and energy aspects, a parallel to Hungary stands out.

4. THE STATE AND MNCs' RESPONSE TO THE RUSSIAN INVASION OF UKRAINE

4.1 UK MNCs' Response

After setting out the general picture of the differences in the political and economic environments in the UK and Austria and their relationship with the Russian Federation, the thesis turns to analyze how these partnerships of the states in question created particular climates that have influenced the decisions of MNCs by constructing distinct operational environments.

An important development for describing the environment for MNCs in the UK was the strong governmental support for companies to leave Russia. Shortly after the beginning of the invasion, then Chancellor Sunak and City Minister Glen met with the leaders in the financial sector to discuss the topic of investment in the Russian economy and the possible course of action "...to inflict maximum economic pain" (Sunak 2022). Meeting the executives from such companies as Aviva, Fidelity, Phoenix and Schroders, the public officials demanded a stronger stance from the industry (Kollewe 2022). Shortly after the meeting, Sunak expressed the government's strong support for companies' decisions to leave the Russian market pointing out several of those that already did it and saying that "...there is no argument for new investment in the Russian economy" (HM Treasury [@hmtreasury] 2022). Moreover, he urged companies to "think very carefully" about international firms' possible actions and investments that would fuel the Russian economy (HM Treasury [@hmtreasury] 2022). Similarly, in March 2022 the then Finance and Economy Secretary of the Scottish Government urged companies to take economic action and noted that "...any price paid here is significantly less than that being paid by the people of Ukraine" (Scottish Government 2022). Through such meetings and declarations, the government of the UK clearly

expressed its stance regarding the Russian invasion of Ukraine and the preferred course of action for MNCs that have business in Russia, therefore possibly affecting the views of companies on the prospects of working in the Russian market.

Demonstrating the importance of the question of continued business by UK companies to the state, the House of Commons held a debate on the topic in December 2022 (UK Parliament 2022). As the Exchequer Secretary to the Treasury James Cartlidge was invited to make a statement on the UK companies with continued presence in Russia, he emphasized even though the Government has expressed its support for divestment of Russian assets, it does not comment on private decisions by companies regarding divestment (UK Parliament 2022). The statement was met with criticism by MPs noting that if the government talks about taking control, then it should take control by ensuring “that no British company invests in Russia” and pointing out that it is “utterly shameful” when large, publicly listed companies continue funding Russia’s war (UK Parliament 2022). Calling the then BP’s reasoning for not leaving Russia due to being a shareholder “laughable and easily solved”, MPs proposed, however unfeasible, ideas to commit MNCs’ “money ... raised in this unacceptable way” for the reconstruction of Ukraine and helping the victims. Expressing the desire to find a way for the state to prevent companies from “drilling a hole in the bottom of the bucket..., while we are pouring in water at the top” and referring to companies “damaging Britain’s national interest” by continuing business in Russia and undermining UK’s efforts, the officials presented the issue as a one of high-importance, condemned the actions that go against the goals of UK’s aid to Ukraine and attributed lower value to profit interests than following the official stance of the state of imposing further economic restrictions on Russia.

Moreover, the All-party Parliamentary Group on Ukraine in the UK Parliament, which was founded in 1992 to foster the interparliamentary dialogue between the states, has expressed a strong stance regarding business in Russia. In addition to exerting pressure on British companies, UK officials have also been vocal about MNCs from other states. For instance, British Member of Parliament and co-chair of the All-party Ukraine group, Alex Sobel, addressed the concern regarding the continued business in Russia of US's Mondelez by writing to the company's chief executive (Hawkins 2024). Mondelez, which also owns British confectionary brand Cadbury, has increased its revenue in Russia earning \$1.343bn in 2022 compared to \$928mn in 2021 despite the initial promise to scale back non-essential activities (Mondelez International 2022; Leave Russia | KSE Institute 2024). While the CEO of Mondelez, Dirk Van de Put, stated that investors do not "morally care" that the company continues to make profit in Russia (CITE), the British MP urged him to "reassess [his] stance on this matter" emphasizing social justice and human rights (Hawkins 2024). Moreover, the Chair of the All-party Parliamentary Group on Ukraine, Bob Seely added that MNCs that continue working in Russia should suffer reputational damage (Hawkins 2024).

Besides, another significant development, which describes the specific environment in which MNCs operate in the UK, was the creation of the Office of Trade Sanctions Implementation (OTSI), a unit that aims at strengthening sanctions compliance and tracking down companies that are evading them (UK Government 2023). Besides the assistance with sanctions compliance, the unit issues civil penalties and in more severe circumstances can refer cases for criminal enforcement (UK Government 2023). While private sanctions by MNCs analyzed in the thesis are those that go beyond the legal minimum requirement set by sanctions, the creation of such a unit not only further demonstrates government's position, but creates a more strict environment in which companies might choose to "overcomply" to manage possible risks and costs (Breen 2021).

Therefore, MNCs from the UK faced an environment in which the topic of inflicting economic damage to Russia was of high importance and urgency, and the support of Ukraine was put above the economic interests of companies by public officials.

4.2 Austrian MNCs' response

In stark contrast to the statements of the UK officials urging companies to leave the Russian market, Austrian officials did not follow this narrative and did not attribute urgency to the issue of corporate involvement in Russia. During the visit of Austrian President van der Bellen to Ukraine in February 2023, Ukraine's President Zelenskyi called for Austrian officials to make an effort to influence Austrian companies regarding their presence in the Russian market (Office of the President of Ukraine 2023). However, van der Bellen in communication with journalists after the meeting called the issue only a "marginal topic", stating that he does not see how it could be solved quickly (Kurier 2023). Moreover, the representation of the topic in the media significantly differs, demonstrating a contrasting perspective on the issue compared to the UK, as the subtitle of an article about the topic of Austrian MNCs not leaving the Russian market is named "Zelenskyi shows no understanding" (Kurier 2023).

Similar patterns run through in the interview of the Austrian Foreign Minister Schallenberg conducted in March 2023. Responding to the criticism regarding the continued business of Raiffeisen Bank International in Russia, Schallenberg noted that according to one study, only ten percent of international companies had left the Russian market at that point (Szigetvari 2023), however, not mentioning that the proportion of the Austrian companies that left the Russian market is significantly lower than from other European states. Saying that "People always act as if only one bank or one Austrian company remained there", Schallenberg expressed the opinion that he believes the bank is acting sensibly by waiting out how the situation develops (Szigetvari 2023).

In the broader sense, the Minister argued against a complete decoupling from Russia, stating that “we must not cut off every bridge” (Szigetvari 2023).

Another characteristic case took place in January 2023, when the Austrian Chamber of Commerce published an invitation for Austrian companies to participate in a networking event in a sports and recreational park close to Moscow (Faast 2023). The event was organized by The Moscow Foreign Trade Center which is the Russian branch of the Austrian Chamber of Commerce. After the backlash in social media, the Austrian Chamber of Commerce deleted the invitation and stated that the event was canceled, apologizing “for the unfortunate choice of setting” (Der Standard 2023b). Although the event did not take place due to a wave of criticism, an invitation for such an event shared by a governmental entity demonstrates the lack of strong criticism of companies further operating in Russia.

Since the beginning of Russia's full-scale war, one of the most controversial topics regarding corporate withdrawal from Russia has been the lack of action from Austrian Raiffeisen Bank International (RBI), which was one of the Western banks to enter the Russian market in 1996 and had the advantage to expand significantly. Back in March 2022, RBI released a statement with RBI-CEO Strobl declaring that the bank was considering all strategic options regarding the future of Raiffeisenbank Russia, not excluding “a carefully managed” withdrawal from the Russian market (Raiffeisen Bank 2022). A statement dated March 2023, still drew on the same phrasing of examination of all strategic options, although noting that because of the complexity of the situation, the process was continuing (Raiffeisen Bank International 2023b). The statement also noted that in the year since the beginning of the war, Raiffeisenbank Russia reduced its lending volume by 30% and following international sanctions, has no presence on the territories of Crimea, Donetsk and Luhansk regions (Raiffeisen Bank International 2023b). Furthermore, the preliminary results

of 2023 declare that since the second quarter of 2022, the bank has reduced its loan volume in Russia by 56% and continues to work on “deconsolidating [the] Russian business” (Raiffeisen Bank International 2024).

Nevertheless, the case of RBI created a bigger stir in the political and social realm, as the bank substantially increased profits from €1.4 billion in 2021 to €3.6 billion in 2022, and its business in Russia and Belarus accounted for more than 60% of that, a four-time increase in proportion from 2021 (Jones, Walker, and Stognei 2023). The significant increase in profit resulted in the fact that over the year 2022, Raiffeisenbank paid €559 million to the budget of the Russian Federation (National Agency on Corruption Prevention 2023a). It has also been claimed in 2023 that Raiffeisen manages up to half of all financial transactions between Russia and the rest of the world (Jones, Walker, and Stognei 2023). Despite the sheer volume of profit and taxes paid to the Russian government, RBI was also criticized for its Russian branch providing loan payment holidays for Russian soldiers fighting against Ukraine, and using the Russian government's wording in the document, such as “the special military operation”, “Donetsk People’s Republic” and “Luhansk People’s Republic” (Vinokurov 2023). In response to the wave of criticism, the Russian branch briefly replied on X that “[t]he Bank operates on the basis of the laws in force in the country in which it is located”, a post which later was deleted (Райффайзен Банк [Raiffaisen Bank] (@Raiffeisen_Ru) 2023).

The factors described above led to RBI being added to Ukraine’s list of international sponsors of the war, which was a tool of the Ukrainian government for creating reputational pressures on MNCs (Prasad 2023). However, as the list had underlying legal issues and was criticized by several foreign governments, the instrument in its previous form was shut down (Pavlysh 2024). Nevertheless, during the list’s functioning, Austria is commonly believed to have

attempted to influence the RBI's position in the list by using political means. As the EU's twelfth package of sanctions against Russia was to be adopted in December 2023 after a deal was reached, Austrian representatives created a hold-up (Gijs, Barigazzi, and Moens 2023). Only after Ukraine removed RBI from the war sponsors list by changing the status to "The status is SUSPENDED for the period of bilateral consultations with the involvement of representatives of the European Commission", Austria approved the EU sanctions package (Financial Club 2023).

Besides the pressure from the sponsors of the war list and in addition to the regular protests of the Ukrainian diaspora in Austria and social media campaigns, several foreign governments have directed their attention to the continued presence of RBI in Russia. For instance, the Office for Financial Assets Control (OFAC), a branch of the US Department of Treasury with the responsibilities to administer and enforce sanctions, launched an inquiry and requested the bank to clarify their payments and processes "in light of the recent developments related to Russia and Ukraine" in January 2023 (Raiffeisen Bank International 2023a). Later, department of Treasury Acting Assistant Secretary Anna Morris traveled to Vienna in March 2024 to meet with Austrian officials, financial sector representatives and separately with RBI representatives to discuss the Russian branch. The trip aimed at incentivizing the banks to evaluate their exposure to Russia and specifically their military-industrial base (Rettman 2024).

In addition to the direction attracted from the US side, the Czech Republic launched a probe against RBI after a complaint was filed by the Czech Association for the Rights of Citizens and Entrepreneurs (Fornusek 2023). Moreover, due to the size of RBI, the European Central Bank directly supervises RBI as a significant entity and the media has been reporting growing pressures from the EU institution to exit the Russian market (Arnold 2023; O'Donnell and Schwarz-Goerlich 2023). Additionally, MEPs have addressed a letter to Nehammer and Schallenberg urging him to

encourage RBI to not hire more staff in Russia (Rettman 2024). However, despite the diverse pressures from other foreign governments, the public, and an international institution, RBI has continued to operate in Russia with the Austrian government mitigating the pressures.

Although RBI has been the most discussed case in the political and public sphere, multiple other Austrian companies continue to conduct business in Russia and their comments on the involvement in the Russian market represent several distinct patterns. For instance, wood-product manufacturer Egger drew on the importance of taking care of their Russian employees, justifying it along the lines that “... they and their families are not to blame for this conflict” (Delcheva and Thalhammer 2023b). Similarly, packaging producer Greiner and container manufacturer emphasized the responsibility for Russian employees, while the food company Agrana noted that leaving the Russian market is “an enormously difficult ethical question” and later criticized the duty-free sugar imports from Ukraine, as they “massively affected” companies sales in Romania, Bulgarian and Hungary (Delcheva and Thalhammer 2023b; APA 2024). These statements represent the difference in the perceptions of the issue of operating in the Russian market between MNCs from Austria and the UK. Austrian officials and consequently MNCs took a different stance of preferring to wait out and not cutting all the ties, creating an environment in which MNCs' engagement in Russia did not constitute a topic of top importance and where, for instance, an idea of a networking business event in Russia was not outright rejected.

CONCLUSION

Russia's full-scale invasion of Ukraine in 2022 caused the phenomenon of MNCs withdrawing from the Russian market in large numbers. Two years into the full-scale war, more than 380 companies have fully exited Russia, while more than 1200 are in the process of withdrawing or have exited keeping the option of return open. The topic gained prominence within policy circles, as well as the everyday life of informed citizens, and literature has attempted to explain this example of businesses involved in a traditional state-centered area of responding to an interstate war.

The reasons behind MNCs' decisions regarding the Russian market have been one of the most ambiguous questions, and several explanations have arisen that drew on the profit, reputation, value, or market factors. Most research came from finance and business sources and the explanations of MNCs' behavior overlooked the underlying role of the state in these discussions as well as missed the patterns of MNCs' responses across countries. The thesis identified distinct patterns in MNCs' responses from different groups of countries and by conducting a case study of companies from the UK and Austria, examined the role of the state when it came to MNCs responding to the war and how the state's position towards Russia impacted companies' responses.

The difference in historical, political, economic and even social relations of the UK and Austria with Russia could have implications for various explanations of MNCs' responses invoked previously. For instance, although it is disputable whether the amount of profit made in Russia influenced the decisions of MNCs, companies could have higher market exposure to Russia and more long-standing relations which they value more if Russia was traditionally a partner with a given country. Moreover, in the case of the UK officials, the issue of withdrawing from Russia was presented as an urgent topic with a clear state preference, as politicians argued for no further

investments, the need to inflict economic pain and conducted meetings with representatives of business on the topic. This created a climate in which a bigger value was assigned to divesting from Russia and companies that remain could face more reputational concerns. In contrast, the Austrian government did not attribute the same level of urgency and importance to the issue, demonstrating a preference to not cutting all the ties, but rather waiting out and in some cases defending long-standing economic partnerships, a position in line with overall relations of Austria and Russia. Therefore, the historical relations of states with Russia across several areas, as well as the specific actions of governments after the beginning of the war led to the creation of distinct operational environments in which companies made decisions about their involvement in the Russian market. The state serves as an underlying climate which has the possibility of influencing diverse factors, such as the level of market exposure and value attributed to preserving business relations, the value and urgency of not contributing to the Russian economy, the probability of facing reputational damages, concerns from the public or being able to advance the argument for remaining due to “ethical reasons”.

These findings have important implications, as they demonstrate that the response of MNCs to geopolitical crises is more likely to follow and amplify the response on the official state level, such as diplomatic actions or sanctions. MNCs’ involvement in state sanctions goes in line with conclusions in the literature that more actors now serve not only as targets of sanctions but also as their initiators and senders (Okusako 2023, 43). However, it is important to remember that in certain cases there are significant limitations for businesses to act in a certain way due to complex legal, ownership and investment issues. As the war continues, the future direction of corporate response to geopolitical conflicts and the role of the state in it should be further analyzed.

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