CHAPTER 8

PASSIVE, AGGRESSIVE OR CREATIVE? ADJUSTMENT STRATEGIES OF COMPANIES AFFECTED BY SANCTIONS*

Beata Stępień and Patrick M. Weber

ABSTRACT

The probability of sanctions’ effectiveness increases not only due to their severity for the target country’s economy but is also a function of adherence to their principles by enterprises from senders’ countries. Sanctions avoidance and increasing investments in the target country (the observed behavior of many companies facing the European Union (EU) sanctions against Russia which were imposed in 2014) mitigate the impact of these restrictive measures. In this chapter we show (by analyzing adaptation strategies of EU enterprises affected by sanctions imposed on Russia by EU) how particular types of strategies affect the effectiveness of sanctions and what factors determine the choice of their respective behavior. We draw our conclusions from the online survey of more than 1,000 responses from British, French, German, Italian, and Polish enterprises. We find that while administrative burdens make conformance to sanctions more likely, market dependency and non-tangible assets in the target country induce strategies that challenge sanction policies. We conclude that the EU–Russian sanctions dispute incentivizes European companies to increase their engagement in Russia. These so-called defiance strategies diminish the

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real economic effect of the sanctions and generate a new equilibrium which outlasts the lifting of these restrictive measures and has negative long-term political implications.

**Keywords:** EU sanctions; sanctions compliance; sanctions avoidance; defiance strategies; business strategies under sanctions; sanctions effectiveness

**INTRODUCTION**

On February 21, 2017, in the midst of the sanctions dispute between the European Union (EU) and Russia, the German car manufacturer Daimler AG released plans for building a production plant for Mercedes-Benz cars in At Esipovo Industrial Park near Moscow (Daimler AG, 2017). The planned size of the new investment in Russia is more than 250 million EUR and the plant will start operating already in 2019, offering jobs for more than 1,000 workers. The investment seems beneficial not only for Daimler AG but also to the Russian authorities, as it serves as a proof of the attractiveness and stability of the Russian market as the FDI location. Daimler AG is just one of many companies which increased their engagement in Russia in the past few years, and it makes us wonder whether this move is a common strategy of companies that carry the economic burden of a recent political dispute between EU and Russia accompanied by a mutual sanctions’ imposition. This in turn raises another, wider question about how companies react to sanctions and what factors (both internal and environmental, but not related to the sanctions themselves) affect the choice of specific adaptation strategies. In spite of the fact that enterprises serve as executive instruments of economic sanctions and the political success of those sanctions depends on companies’ behavior, the analysis of companies’ adjustment strategies (and factors determining them) is largely neglected in the political economy literature.

The aim of this chapter is twofold. Blending here political, economic, and managerial perspectives, we firstly analyze which adjustment strategies companies undertake while operating in a sanctions regime and what drives their decisions. Secondly, we evaluate the impact of these adjustment strategies on the effectiveness of economic sanctions.

In our theoretical framework, we refer to economic theories to explain the strategic choices of enterprises. We disentangle companies’ compliance vs. non-compliance to sanctions into more nuanced strategic responses. We show theoretically and empirically that enterprises’ reactions to sanctions depend on companies’ resources, international experience and trade relations with companies in the target states. Following the evaluation of companies’ adjustment strategies, we discuss the political implications of these more nuanced strategies of coping with economic sanctions. We argue that the decision to increase trade linkages and move the production to Russia has negative long-term implications on the choice set of policymakers. By defying sanctions, companies foster a new equilibrium which limits the possibility of further sanctioning efforts and which will eventually even outlast the lifting of the sanctions.
Our considerations and recommendations (included in the last part of the chapter) are based on research results in a form of an international, anonymous e-survey (CAWI method, with usage of back–to-back translated questionnaire) conducted among companies in France, Germany, Italy, Poland, and the United Kingdom. More than 1,000 company representatives participated in our survey examining the impact of EU sanctions against Russia and Russian countersanctions as well as the firms’ adjustment strategies. The data show that companies adjust to sanctions – irrespective of the political agenda and hidden goals behind the sanctions – and that their respective strategies are driven by administrative burdens and market dependency.

**FACTUAL BACKGROUND: EU SANCTIONS AGAINST RUSSIA AND RUSSIAN COUNTERSANCTIONS**

Pro-Russian unrest in Eastern Ukraine and the annexation of Crimea by the Russian Federation followed the Ukrainian revolution of February 2014. The turmoil in the Donbass region escalated into an armed conflict between Russian-back ed rebel groups and Ukrainian government forces. As reaction to this Russian violation, in March 2014 the EU imposed travel bans and asset freezes against individuals threatening the territorial integrity of Ukraine. As there was no Russian reaction to this first political warning and the conflict between Russia and Ukraine continued, in July and then September 2014, the EU further imposed financial sanctions (limiting the access of Russian banks and companies to EU primary and secondary capital markets), an arms embargo (banning trade in arms and exports of dual-use goods for military use or military end users in Russia), and trade restrictions for technologies and services used for oil production. New financing of the European Investment Bank and the European Bank for Reconstruction and Development in the Russian Federation has also been suspended and some EU bilateral and regional cooperation programs have been held up.

As retaliatory countersanctions, in August 2014, Russia prohibited the import of agricultural products from countries which have imposed or joined sanctions against Russia. The restrictions cover, inter alia, meat and meat products, fish, seafood, milk and dairy products, fruits, and vegetables.

Over the past years, there has been a gradual tightening and extension of these sanctions and all restrictive measures, both from EU and Russia, are still ongoing.

**COMPANIES’ BEHAVIOR IN A SANCTIONS REGIME**

Economic sanctions hardly ever, if at all, serve solely economic purposes. Their aim is to raise the costs of the target’s transactions and, through this magnified burden, promote and cause a change in behavior. The EU sanctions against Russia are a prime example of measures which aim to induce a policy change. However, sanctions also create economic costs for the sender because sender governments have to restrict the activities of their own domestic actors in the target country. Despite the costs for imposing sanctions, policymakers often value the
future goal, focused around political and social benefits of sanctions, higher than possible economic losses. But even though the sender government:

believes that sanctions on the target are in its interest, sanctions are not necessarily in the interest of the sender’s domestic actors. In many instances, the interests of the sender’s domestic actors and the sender government may in fact conflict. (Morgan & Bapat, 2003, p. 66)

So sender governments need to deter their domestic actors from doing business with the target by enforcing sanction laws and penalizing misconduct. Still, policymakers can enact laws and regulations, but they cannot control business decisions. The way how companies in the sender countries do and should react to these restrictions in order to enforce a desired policy shift in the target country remains a largely unexplored area of investigation in the political economy literature. However, the way in which companies operate in a sanctions regime crucially affects the impact of these restrictive measures. When sanctioned trade occurs despite the restrictions, these measures can barely have an effect. Thus, both from an economic and political point of view, it is crucial to understand what adjustment strategies companies deploy, once being affected by sanctions and what are the antecedents of such strategic choices.

Morgan and Bapat (2003) and Bapat and Kwon (2015) claim that the effectiveness of sanctions depends on whether sanctioning states can deter their domestic actors from trading with the target. When the economic exchange with the target is important for firms in the sender countries, they are more likely to evade the restrictive measures. It implies that sanctions are most likely to be effective when trade links are moderately important for both economies. Once the economic interdependence is too high, sanctions are unlikely to be enforced, and when too low, the target’s incentive to acquiesce is negligible. Still, at the micro-level, it is not clear what makes a target “important” for a specific company and which actual strategy the firm chooses.

The study of Meyer and Thein (2014) explores how local companies reacted to sanctions against Myanmar. They identify three major strategic responses: “business as usual/entry,” “low profile strategies,” and “disengagement (exit or non-entry),” depending on “reputation risk,” the “size of the business opportunity,” and “non-recoverable investments in the sanctioned country.” The major contribution is their analysis of “low profile strategies,” i.e., firms’ reactions “that reduce visibility and commitment without complete discontinuation of operations” (Meyer & Thein, 2014, p. 167). However, regarding companies’ behavior in the sanctions regime linked to the Ukraine crisis, it is stunning that many firms increase their engagement in non-sanctioned areas – a strategy which has not been considered much. Since these are the only studies which are directly related to companies’ behavior in a sanctions regime, we draw on more general insights from the business literature to analyze companies’ adjustment strategies. In particular, we focus on why companies legally increase their engagement with the target country despite uncertainties and restrictions.

For our analysis, we regard the behavior of companies which have been affected by EU or Russian sanctions. Christie (2016) argues that the narrow scope of the measures was purposely designed to have a limited real effect on the
Russian economy to avoid a further escalation of the dispute with Moscow and to protect business interests in European countries. Still, sanctions create frictions in the market: cause uncertainty, with its reception being subjective to entities and only partly dependent on whether the companies are directly or indirectly affected. Even when companies are not directly targeted by the sanction laws, they can still be either indirectly affected or perceive to be affected – and adopt according adjustment strategies. The behavior of these non-targeted companies is equally relevant for the real economic effect of sanctions.

The uncertainty, that sanctions imposition creates, regards both the nature and scope of the sanctions’ impact on the company’s performance as well as the duration and development of the sanctions dispute – and affects all companies maintaining (or planning) business relations with the target country. Uncertainty perception and respective strategic choices can still vary among companies. Multinational enterprises might be, for example, more involved in the sanctioning process (and in closer contact to policymakers) such that they are better able to anticipate whether they will eventually be targeted and how they should respond to sanctions. In contrast, small and medium-sized companies are less able to correctly interpret the political situation and thus prone to react as if they were targeted.

Companies can also be indirectly affected by sanctions if another company in the supply chain, a trading partner, or their financing institutions are targeted by the sanctions. Moreover, all companies can face higher administrative burdens: extra transaction costs in order to prove that they comply with sanctions and do not trade with targeted persons or entities. In sum, all companies which operate in a sanctions regime have to pay a “risk premium on economic interaction […] even with respect to activities not directly covered by sanctions” (Noland, 2008, p. 2).

THEORETICAL FRAMEWORK

Conceptual Framework of Corporate Sanctions’ Adjustment Strategies

In our conceptual framework, we firstly differentiate between conforming with and challenging sanctions. This distinction corresponds to the traditional classification of compliance and illegal evasion of sanction laws. However, since we are not only interested in companies targeted by the sanctions but generally affected by the sanctions dispute, we use Conformance and Challenge as non-legal versions of compliance and illegal evasion. When non-targeted companies operating in the sanctioned market reduce their engagement, it is not a matter of legal compliance. Still, these companies also face the decision whether to reduce their activities on the target market, do business as usual, or increase their engagement.

Conformance includes reducing activities on the Russian market, freezing of investments, hibernating as well as establishing new markets. Challenge accounts for both increasing activities in Russia as well as avoiding sanctions through legal loopholes.

In the next step we disentangle both strategies. Oliver (1991) analyzes general strategies how companies cope with institutional processes: acquiesce,
compromise, avoid, defy, and manipulate. Following Oliver, we differentiate between *Defiance* (i.e. increasing investments in Russia and localizing production there) and *Avoidance* (i.e. evading sanction laws by exporting to Russia via third-party states). Finally, we split *Conformance* into *Proactive Conformance* (i.e. establishing new markets and relocating activities) and *Passive Conformance* (i.e. reducing activities on the Russian market and using cash reserves to hibernate).

Figs. 1 and 2 display the hierarchy of the different adjustment strategies as well as the specific underlying measures which companies undertake and which we associate with certain strategies.

How do companies choose a specific strategy? Both sender country institutions (i.e. sanctions) and target country institutions shape the economic environment which has a direct impact on how companies operate. In addition to the institutional frame, individual company characteristics determine how to operate in an economic environment. Enterprises exist to maximize their value in the long run – and this goal is achieved thanks to a suitably selected strategy which is the use of internal resources and external relations to ensure a long-term competitive advantage on the market (e.g., Barney, 1991; Godfrey & Hill, 1995; Oliver, 1991; Porter, 1980). The nature of the solutions used so far in similar conditions determine the strategies for coping with changes in the economic environment. This resource-based view (RBV) of companies focuses on their existing experience in operating on markets with diverse institutional settings and the length of the cooperation with business partners, including those from target countries.

Finally, business strategies will also depend on the strength of the company’s links to the sanctioned market (resource dependence theory (RDT)). The scale of mutual business relationships measured, for example, by the scale of FDI, revenues from the target’s market, or the strategic importance of purchases will boost the determination of enterprises to maintain business relationships at a similar level or even increase them. The determination, however, can be constrained by the level and nature of the firm’s resources. Fig. 3 illustrates these determining factors of companies’ adjustment strategies.

*Fig. 1.* Adjustment Strategies of Companies in a Sanctions Regime.
1. Conformance

- We established new export markets
- We relocated activities to non-embargoed countries
- We left the Russian market
- We wound down some of our activities
- We sold off parts of our infrastructure
- We withdrew from investments
- We reduced our workforce
- We used cash reserves to hibernate during the sanctions
- We froze investments for the sanction period

3. Proactive Conformance

4. Passive Conformance

2. Challenge

- We increased investments in Russia
- We moved our production to Russia
- We shifted the production to subsidiaries in Russia
- We exported to Russia through third non-embargoed countries
- We re-exported products to Russia after processing them in third countries

5. Defiance

6. Avoidance

Fig. 2. Specific Measures Linked to General Strategies.

Fig. 3. Determinants for Companies to Comply or Challenge Sanctions.
Institutional Theory

Institutions are rules of the game in the economic environment and shape the behavior of individuals and organizations (North, 1990; Scott, 2014). Their role is to order and structure economic interactions by delineating the limits of permissible and unacceptable behaviors. One can distinguish three types of institutions, depending on the strength of their impact on actors in a given environment: (1) a system of formal institutions (hard law) with organized, state (or international) enforcement apparatus and specific penalties for breaking the rules, (2) normative regulation systems (soft law), being guidelines of desirable practices in a specific area, and (3) informal institutions, rooted in the moral and cultural foundations of a community which can be described as “the ways we do here” (e.g., Donaldson & Preston, 1995; Hoffman, 1999; Kostova, 1999; Kostova, Roth, & Dacin, 2008; Scott, 2014). These three types of institutions differ in: the way they are created, the way they encourage individuals and organizations to conform, as well as their durability and change resistance.

While formal rules can be changed overnight, informal institutions, stemming from moral and normative beliefs, arise and embed within a given community over a long time and are change resistant (DiMaggio & Powell, 1983; Scott, 2014). The soft law rule system is a hybrid here. The content of soft law is usually quite unambiguous, similar to hard law and in contrast to informal institutions. On the other hand, the system of execution is rather a set of rewards than punishment, similar to informal institutions and unlike hard law. Social ostracism is the form of punishment for mismatching to the normative guidelines, while social acceptance is a reward for conforming to the desired forms of behavior. In contrary, the formal rules system rarely provides rewards for compliance. Its effectiveness is based on repression and depends on the explicitness of a given rule, the amount of penalties for violating it, and the quality of the enforcement apparatus (Louka, 2006; Shaffer & Pollack, 2010).

Institutional theory defines sanctions as formal rules that aim to raise transaction costs of companies in the target country, even at the expense of domestic economic actors. However, sender governments have only a limited, mostly legal impact on their companies’ behavior – so their effectiveness depends heavily on the content and enforcement. Sanctions narrow the spectrum of possible operations within the restricted area – but often leave several options for companies. The limited scope of the EU sanctions against Russia is a prime example. Which strategy a company will pursue, in turn, also depends on additional factors.

As sanctions are formal institutions, their effectiveness will depend on the precision and explicitness of their content and the inevitability of punishment. But the formal execution can only refer to the area where sanctions apply. All activities of players that aim at continuing business with companies from target countries – and which might hamper sanctions effectiveness but are not strictly forbidden – are outside the scope of legal control. Moreover, if sanctions leave the room for using legislative loopholes, some companies may use them, especially when the costs of avoidance are not too high. In this regard, companies also take target country institutions into account which can either facilitate adjustment strategies or generate high transaction costs on their own and set administrative burdens. However, the conformance with sanctions can be raised (even if its legal
enforcement is limited), once there is a public consensus on the punitive assessment of the actions of the governments against which sanctions were imposed. Sanctions, socially approved, gain the status of an informal institution, for which breaking can lead to social condemnation.

Our first set of hypotheses refers to institutions which shape the economic environment:

**Hypothesis 1.** Institutional pressure makes companies more likely to reduce their activities in the target country and to conform with sanction laws:

- **H1a.** the larger their scope and the greater the inevitability of the new institutional order;
- **H1b.** the greater the costs of sanctions avoidance;
- **H1c.** the greater the public pressure toward sanctions conformance;
- **H1d.** the more instable and thus costly the institutional settings in the target country.

**RBV of the Firm**

According to the RBV, firms consist of resources which determine their competitive advantage and their long-term performance. Sustained competitive advantage of the firm derives from resources (that the firm either possesses and/or controls) that are valuable, rare, imperfectly imitable, and not substitutable. Resources are both assets and capabilities (including a firm’s management skills, its organizational processes and routines, as well as the information and knowledge available and useful in detecting and responding to market opportunities or threats (e.g., Christensen & Overdorf, 2000; Sanchez & Mahoney, 1996; Wade & Hulland, 2004). Taking into account the turbulent nature of an economic environment, companies have to develop so-called dynamic resources⁴ which serve as a long-term source of competitive advantage that can be applied “sooner, more astutely, or more fortuitously” in comparison to other companies’ response to environmental changes (Eisenhardt & Martin, 2000, p. 1117). The ability to apply dynamic capabilities “sooner or more astutely” is itself a capability.

Previous research shows that size, international scope of operations (and therefore acquired knowledge to react accordingly to changing environmental conditions), as well as the cooperation experience are good ways to accumulate such an agile capability to operate in a turbulent economic environment. This capability serves as a basis to be able to adopt proactive strategies when the environment changes (e.g., Hillman, Withers, & Collins, 2009; Lei, Slocum, & Pitts, 1999; Piercy, Kaleka, & Katsikeas, 1998; Rouse & Daellenbach, 1999). Sanctions are such a sudden change: they impact the institutional framework of future business and constitute a sudden legal constraint. However, large companies which have been operating in turbulent environments for a longer time – and were thus more often exposed to such disruptions – have usually developed an internal ability to survive (Khanna, Palepu, & Bullock, 2010; Oliver, 1991).
Based on the RBV, we derive our second set of hypotheses:

**Hypothesis 2.** A company’s internal ability to adjust and then make a beneficial use of the new institutional framework is more likely:

- **H2a.** the larger the size of the company;
- **H2b.** the more international experience.

**Resource Dependence Theory**

RDT considers a company as an open system that strives to reduce the environmental uncertainty (Pfeffer & Salancik, 1978). The central concept for RDT is power perceived through the lenses of control over resources. Organizations attempt to reduce others’ power and increase their own power over others (Hillman et al., 2009; Ulrich & Barney, 1984). However, the least body of empirical research is provided in the field of companies’ reactions to political shifts (Hillman et al., 2009). While companies can benefit from exerting power within their supply chain or within the networks they operate due to their competitive, mostly resource and knowledge-based importance in such relationships (e.g., Baker, 1990; Collins & Burt, 2003), they have a limited influence on reducing uncertainty regarding government policies. Some research reports that multinational companies actively seek to “create” new institutional rules that produce a more favorable environment by lobbying host country governments (e.g., Hillman & Wan, 2005; Kwok & Tadesse, 2006; Nebus & Rufin, 2010). While large corporations try to influence the design of sanctions through lobbying efforts, once the sanctions are in force, even the biggest players simply cannot neglect formal restrictions for which violations can be punished. The strategic adjustments companies undertake in response to this sudden institutional change (including losses compensation by using alternative business opportunities) is a derivative of the impact that sanctions have on their survival and development.

Sanctions pose a greater threat to enterprise existence, the more dedicated assets invested in the sanctioned market and the greater the percentage of revenues generated there which cannot be quickly compensated by the redirection of sales or increasing revenues from other operations. Hence, eliminating the negative effects of sanctions with all available and not prohibited methods becomes the common goal of the whole business network.

Our final set of hypotheses refers to the implications of RDT on companies’ adjustment strategies when operating in a sanctions regime:

**Hypothesis 3.** Regarding their dependency on the market, companies are less likely to reduce their activities in a sanctioned country and conform to sanction laws:

- **H3a.** the greater FDI investment in the form of dedicated assets;
- **H3b.** the larger the share of the revenue from the sanctioned market;
- **H3c.** the smaller the cash reserves which can be used to compensate short-term losses.
EMPIRICAL ANALYSIS

In 2017, an anonymous online company survey was conducted with a specific focus on the sanctions regimes in the context of the Ukraine crisis. A back-to-back translated local language e-questionnaire was distributed in France, Germany, Italy, the United Kingdom (the “big four” EU member states), and Poland (the strongest voice of new EU members). The online survey consists of 25 questions on the companies’ metrics, the impact of the EU sanctions against Russia, and the impact of the Russian countersanctions. The questions refer to the situation of the company prior to the imposition of sanctions, the impact of both types of sanctions, as well as the adjustment strategies which the companies have undertaken. In this chapter, we focus on the impact of the EU sanctions and according adjustment strategies.

The Amadeus company database was used to obtain e-mail addresses from enterprises in a broad range of industries: 59,000 e-mail addresses from companies in the United Kingdom, 40,000 for Germany, 33,000 for France, 27,000 for Poland, and 17,000 for Italy. A local language cover letter announcing an academic survey on trade relations with Russia with a link to the online survey was sent twice to each company between April 27, 2017, and June 8, 2017. The survey dataset contains 1,028 valid company responses (510 from Germany, 175 from Poland, 152 from the United Kingdom, 97 from France, and 94 from Italy), reaching a response rate of more than one percent – which is fair given that around 20% of e-mail addresses were invalid, the topic of survey is quite a sensitive issue, and no incentives were offered (see Baruch & Holtom, 2008; Cook, Heath, & Thompson, 2000).

Sample Characteristics

Nearly half of all responses come from German companies, but the shares of companies from France, Italy, Poland, and the United Kingdom are rather similar. Fig. 4 displays the distribution of the countries of origin and the share of companies which indicate to be affected by either type of sanctions for each country. The share of companies affected by the two types of sanctions is rather similar for Germany, France, and Italy: on the one hand, around 25 percent of the respondents indicate that they have been affected by the EU sanctions against Russia – thus, carrying sender sanctions costs. On the other hand, around 10 percent indicated that they were affected by Russian countersanctions. The shares differ for Polish companies which indicate that they are much more often affected by EU and Russian sanctions and British companies which seem to be affected less often.

We do not claim that the share of companies affected by either type of sanctions is representative for the universe of enterprises in Europe. The smaller share of affected companies in the United Kingdom is, for example, likely to be misleading because we did not send the survey to companies in the financial industry (most likely to be affected there) because our adjustment strategies are related to production industries. On the other hand, the relatively high share of companies affected by sanctions in Poland may be a result of the strong public awareness
of the negative impact of the Russian countersanctions on the Polish agricultural sector. We consider, however, this selection not as a major problem since we do not study the overall impact of sanctions on European companies but the grounds and varieties of companies’ adjustment strategies when operating in a sanctions regime, irrespective of whether they belong to a certain industry or are located in a certain country. Our sample is large enough to obtain explanations for how companies adjust because of the sanctions – and we find that their strategies are in line with our theoretical framework.

Besides categorizing respondents by country, we can differentiate them by sectors – see Fig. 5. The survey was sent to general production industries
(cars, car components, production of machinery, etc.), the chemical and pharmaceutical industry, the food and agricultural industry, as well as non-food consumer goods because these are the industries with the strongest links to Russia and thus most likely to be affected by the sanctions. Most companies belong to the machinery industry (311 responses). Additionally, there are 189 and 86 respondents who belong to other production industries and the car industry, respectively. Around one third of the respondents in this group indicate that they have been affected by the sanctions against Russia. In comparison, only 4 of the 38 respondents from the pharmaceutical industry indicate that they have been affected by the EU sanctions. Finally, the survey dataset contains 92 respondents from the agri-food industry as well as other food and non-food consumer goods industries (together 176 responses). The sum of all sectors exceeds the number of total responses because respondents were allowed to select several branches.

**Methods**

The survey did not mention any of the broader adjustment strategies which we consider in this chapter. Instead, companies which indicated to be affected by the sanctions saw specific measures which they could have potentially undertaken in response to the sanctions (see Fig. 1). For each activity, the respondents could tick whether they have adopted the respective measure. We use several descriptive and inductive methods to analyze the survey data and to test our hypotheses.

**Dependent Variables**

As dependent variables, we employ the adoption of certain measures related to the strategies that we consider. We have six dependent variables accounting for the two main strategies (*Conformance* and *Challenge*) and the four sub-strategies (*Proactive conformance*, *Passive conformance*, *Defiance*, and *Avoidance*). Each dependent variable is a dummy which becomes one when the respondents ticked that their company has undertaken at least one of the measures which belong to the respective strategy.

Based on descriptive statistics of the two main strategies, we find first insights into the adjusting behavior of firms. Table 1 displays the number of companies for both the *Conformance* and *Challenge* strategy. There are 264 respondents who indicate to be affected by the EU sanctions against Russia. Around one third of these companies (72 respondents) do not disclose which adjustment strategies they have undertaken. However, over 40 percent of the

<table>
<thead>
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<th>Conformance</th>
<th>Challenge 0</th>
<th>1</th>
<th>Total</th>
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<tbody>
<tr>
<td>0</td>
<td>22</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>1</td>
<td>111</td>
<td>58</td>
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<tr>
<td>Total</td>
<td>133</td>
<td>59</td>
<td>192</td>
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respondents indicate to have adopted only Conformance measures and about 20 percent of the affected companies declare to have undertaken measures related to both the Conformance and Challenge strategy (58 respondents). There is only one respondent who has only ticked Challenge strategies. Of all companies which have adopted a Challenge strategy, 31 companies indicate to have either re-exported products to Russia after processing them in third countries or exported them through third non-embargoed countries (Avoidance), 13 companies shifted their production to Russia or increased their investments otherwise (Defiance), and 15 companies did both. So even though most companies in our sample conform with the sanctions, a considerable number of firms also challenge them in some way. In the next step, we aim to explain when companies choose which strategy.

Independent Variables
We include seven independent variables which capture the main aspects of our theoretical framework: firm size, international experience, expectations (for the dynamic development of the Russian economy), administrative burdens (for activities in Russia), market dependency, cash reserves, and own entities in Russia.

Firm size is an ordinal variable: respondents had to select the interval which contains the number of employees in their firm (less than 25; 25–100; 101–250; 251–500; more than 500). We code the answers from 1 to 5, respectively. International experience is the product of two ordinal variables: respondents, firstly, had to select the number of foreign markets in which they operate (1; 2–4; 5–9; 10 or more) and, secondly, the number of years they have operated in these foreign markets (less than 1 year; 1 up to 3 years; 3 up to 10 years; more than 10 years). For both variables, we code the answers from 1 to 4, such that our independent variable international experience ranges from 1 to 16. Firm size and international experience capture a company’s internal ability to adjust derived from the RBV (Hypothesis 2).

Expectations, administrative burdens, market dependency, and cash reserves are ordinal variables based on Likert scales where respondents had to indicate whether expectations for the dynamic development of the Russian economy (i.e., more business with Russian partners in the near future), administrative burdens for activities in Russia (i.e., new certificates, documents, procedures change, etc.), the dependency on the Russian market (i.e., sales and revenue as well as general business strategies depend mostly on the demand from Russia), and internal cash reserves (i.e., sufficient money or highly liquid investments to cover short-term and emergency funding needs) were either very low, low, normal, high, or very high. We also code these variables from 1 to 5. Own entities in Russia is a binary variable which becomes one when the respondents ticked that they have own factories or farms in Russia. Expectations for Russian economy and administrative burdens capture the economic environment and target country institutions (Hypothesis 1) – market dependency, cash reserves, and own entities in Russia capture the implications of the RDT (Hypothesis 3).
Regression Models
For the inductive statistics, we run multinomial logistic survey regression models with linearized variance estimation which is robust for complex survey data. We do not have a stratified design because the e-mails were sent to all companies of the chosen sectors in the five EU countries which are listed in the Amadeus database.

Results
In our first model, we contrast the decision to conform with the decision to challenge sanctions. Since there is only one respondent who indicate to have adopted exclusively measures related to the Challenge strategy, we regard companies which have only undertaken Conformance strategies in comparison to companies which have adopted measures from both the Conformance and the Challenge strategy. In this model, Conformance is the base outcome. We present the results in Table 2.

We find that administrative burdens for activities in Russia make companies less likely to challenge sanctions: the coefficient for adopting a mixed Conformance and Challenge strategy is negative and significant at the five percent level. This finding provides evidence for our first hypothesis that costly institutional settings in the target country make companies more likely to reduce their activities there. In contrast, market dependency as well as own entities in Russia increase the likelihood for a mixed Conformance and Challenge strategy (at the level of 1 and 5 percent, respectively). Both independent variables provide evidence for our third hypothesis that a company’s dependency on the sanctioned market as well

<table>
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<th>Variables</th>
<th>Conformance (base outcome)</th>
<th>Conformance and challenge</th>
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<tbody>
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<td>Firm size</td>
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<td></td>
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<td>International experience</td>
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<td></td>
<td>(0.0778)</td>
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<td>Expectations for Russian economy</td>
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</tr>
<tr>
<td></td>
<td>(0.183)</td>
<td></td>
</tr>
<tr>
<td>Administrative burdens</td>
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</tr>
<tr>
<td></td>
<td>(0.249)</td>
<td></td>
</tr>
<tr>
<td>Market dependency</td>
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<td></td>
<td>(0.203)</td>
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<td>Cash reserves</td>
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<tr>
<td></td>
<td>(0.223)</td>
<td></td>
</tr>
<tr>
<td>Own entities in Russia</td>
<td>2.184**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.904)</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>−0.875</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1.591)</td>
<td></td>
</tr>
</tbody>
</table>

Table 2. The Decision to Challenge.

Standard errors in parentheses.
***p<0.01; **p<0.05; *p<0.1.
as dedicated, non-fungible assets make companies less likely to reduce their activities in the sanctioned country and conform to sanction laws. The coefficients are jointly significant at the 10-percent level.

In the next step, we disentangle Conformance strategies. We set Passive conformance as the base outcome and check which determinants make companies more likely to adopt any other combination of Conformance strategies than simply reducing activities on the Russian market without trying to make a beneficial use of the new institutional framework. Table 3 displays the results of this model. Own entities in Russia have a significant positive effect (at the level of 1 percent) on any alternative strategy. In line with RDT (which is the basis for our third hypothesis), non-fungible assets make companies less likely to reduce their activities on the sanctioned market: the coefficient for market dependency is positive for any combination of strategies which include the Challenge strategy. The coefficient is significant for the combination of Passive conformance and Challenge as well as Proactive conformance and Challenge – at the level of 1 and 5 percent, respectively.

In contrast to own entities in Russia, administrative burdens have a negative impact on all combinations of strategies in comparison to the base outcome (Passive conformance). In line with our first hypothesis and the finding in the first model, costly target country institutions make it less likely to challenge sanctions: the effect is significant for the combination of Passive conformance and Challenge (at the five percent level) – as well as for both Passive and proactive conformance and Challenge (at the 10-percent level).

Our second hypothesis (based on the RBV) focuses on the company’s internal ability to adjust which depends on firm size and international experience. Even though we do not find any significant explanatory power for the number of employees, we find that the coefficient of international experience is positive for any combination of strategies including Proactive conformance. A company is thus more able to establish new export markets and relocate activities if it operates for a longer time on more foreign markets. The effect is significant at the level of 10 percent for Proactive conformance – and at the 5-percent level for both Proactive and Passive conformance together with measures of the Challenge strategy.

We expected cash reserves to make companies less dependent on the sanctioned market and allow them to hibernate and wait until the sanctions are lifted without undertaking any other measure. In fact, in comparison to the base outcome of Passive conformance, the coefficient of cash reserves is negative for all other combinations of strategies. However, the effect is only significant for the combination of Passive conformance and Challenge. So even though companies which have more cash reserves are more likely to be able to hibernate, they tend to pursue other strategies determined by other factors if they have the chance. Moreover, we do not find any significant effect of companies’ expectations for the dynamic development of the Russian economy. Still, the whole model is significant at the level of 1 percent.

In our final model, we disentangle Challenge strategies into Defiance and Avoidance. Since there is only one respondent who only ticked Challenge strategies,
**Table 3.** Disentangling Conformance Strategies.

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm size</td>
<td>−0.200</td>
<td>0.265</td>
<td>−0.147</td>
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<td>−0.0440</td>
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</tr>
<tr>
<td>(0.302)</td>
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<td>(0.356)</td>
<td>(0.369)</td>
<td>(0.460)</td>
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</tr>
<tr>
<td>International experience</td>
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<td>0.283**</td>
<td>0.479*</td>
<td>0.407</td>
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<td>(0.124)</td>
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<td>(0.246)</td>
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</tr>
<tr>
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<td>(0.258)</td>
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<td>(0.385)</td>
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<td>Administrative burdens</td>
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<td>−1.237**</td>
<td>−0.717*</td>
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<td>−0.815</td>
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<tr>
<td>(0.323)</td>
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<td>(0.413)</td>
<td>(0.696)</td>
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<td>(0.446)</td>
<td>(0.685)</td>
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<td>Cash reserves</td>
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<td>(0.422)</td>
<td>(0.368)</td>
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<tr>
<td>Own entities in Russia</td>
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<td>18.80***</td>
<td>16.94***</td>
<td>16.23***</td>
<td>20.60***</td>
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<td>(1.183)</td>
<td>(1.370)</td>
<td>(0.897)</td>
<td>(1.439)</td>
<td>(1.839)</td>
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<td></td>
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<tr>
<td>Constant</td>
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<td>−1.351</td>
<td>−5.467</td>
<td>−18.11**</td>
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<tr>
<td>(2.637)</td>
<td>(3.886)</td>
<td>(2.842)</td>
<td>(4.635)</td>
<td>(8.310)</td>
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</tbody>
</table>

Standard errors in parentheses.  
***p<0.01; **p<0.05; *p<0.1.
we set *Conformance* as the base outcome. We compare this baseline strategy to any combination of this strategy with the two different *Challenge* strategies and present the results of this model in Table 4.

When differentiating between the two forms of challenging sanctions, we find that, on the one hand, *market dependency* makes it always more likely to adopt any combination of *Challenge* strategies. On the other hand, *administrative burdens* make it always less likely to adopt such a strategy (the coefficient is marginally significant for combinations of strategies including *Avoidance*). In line with our first hypothesis, both increasing exchanges with Russian partners and using the grey area of sanctions evasion are strategies which are based on uncomplicated and unbureaucratic transactions (i.e., target country institutions). In this model, it is most interesting to regard the effect of *own entities in Russia* which have a significant negative effect at the level of 1 percent on the combination of *Conformance* and *Avoidance* – but a positive and significant effect (also at the 1-percent level) for the combination of *Conformance* and *Defiance*. The coefficient is insignificant for the combination of both kinds of *Challenge* strategies.

This result shows that companies which are directly engaged in Russia and have non-fungible assets there oppose sanctions but are not likely to engage in any potential illegal behavior as they do not want to jeopardize their whole business by getting caught for illegal business transactions. So in line with RDT, our previous models showed that companies which have *own entities in Russia*

**Table 4.** Disentangling Challenge Strategies.

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1) Conformance (base outcome)</th>
<th>(2) Conformance and avoidance</th>
<th>(3) Conformance and defiance</th>
<th>(4) Conformance and defiance and avoidance</th>
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<td>(0.335)</td>
<td>(0.373)</td>
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<tr>
<td>International experience</td>
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<td>(0.0995)</td>
<td>(0.106)</td>
<td>(0.120)</td>
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<tr>
<td>Expectations for Russian economy</td>
<td>0.124</td>
<td>-0.123</td>
<td>0.0261</td>
<td></td>
</tr>
<tr>
<td>(0.221)</td>
<td>(0.344)</td>
<td>(0.295)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative burdens</td>
<td>-0.460*</td>
<td>-0.357</td>
<td>-0.890*</td>
<td></td>
</tr>
<tr>
<td>(0.267)</td>
<td>(0.363)</td>
<td>(0.499)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market dependency</td>
<td>0.494*</td>
<td>0.567**</td>
<td>0.656*</td>
<td></td>
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<tr>
<td>(0.291)</td>
<td>(0.260)</td>
<td>(0.344)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash reserves</td>
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<td>(0.301)</td>
<td>(0.250)</td>
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<td>(0.948)</td>
<td>(1.116)</td>
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<td>Constant</td>
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<td></td>
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<tr>
<td>(2.005)</td>
<td>(2.326)</td>
<td>(2.482)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Standard errors in parentheses
***p<0.01; **p<0.05; *p<0.1.
(i.e., dedicated, non-fungible assets) tend to challenge sanctions or at least adopt a Proactive conformance strategy. However, when we disentangle Challenge strategies, we find that these companies do not avoid sanction laws but increase their activities in non-sanctioned areas (i.e., adopt a Defiance strategy). While being dependent on the Russian market, they do not want to jeopardize their general engagement by any action in the grey area of sanctions evasion. In line with our first hypothesis, sanctions avoidance is too costly for these firms.

In sum, while institutional factors (Hypothesis 1) in the form of administrative burdens for activities in Russia make Conformance more likely and Challenge less likely, dependency on the Russian market and own entities in Russia (Hypothesis 3) have the opposite effect. Since the adoption of a strategy is drawn with respect to alternative strategies, we think that multinomial models are the appropriate choice. As a robustness check, we run survey logit models with linearized variance on every individual adjustment strategy. The results in Table A1 in the appendix are robust to this alternative model specification.

Discussion and Limitations

There are three main caveats in our empirical analysis. One drawback of our survey dataset is that we do not exactly know which companies participated in our survey and, thus, we cannot control for the potential selection of respondents. So we do not claim that we are able to provide a representative analysis of the impact of sanctions on European companies. However, we collect information on companies which operate in the Russian market despite the EU sanctions and we have important variation in our variables of interest. Since we are interested in determining factors which drive the business strategies of these companies after the imposition of sanctions, this variation is most important. In addition, we do not see an incentive why certain companies should participate in our survey and other companies should not. One could equally argue that affected companies should participate to make suffering public or that they should not participate in order to not disclose their economic difficulties. Similarly, we are aware that respondents potentially refrain from saying everything they do if some actions might have legal consequences – and given that Avoidance measures potentially constitute an illegal behavior. However, companies can also find ways to bypass sanctions regulations within a grey area of legislative loopholes. So companies can easily tick every measure without admitting any violation of the law. Still, it is justified to assume that we capture only a share of all companies which engaged in such a behavior. But this bias runs counter to our effect – so whatever we find regarding companies avoiding sanctions, we assume that these are conservative estimates and firms do much more in reality than what they have indicated in our survey.

Secondly, many respondents did not answer all questions such that we have to cope with missing data. Since there are only 264 respondents who indicate that their company has been affected by EU sanctions, the number of observations for our regression models cannot exceed this number of respondents (we only asked affected companies which kind of adjustment strategies they have undertaken). By including seven explanatory variables, the number of observations drops quite
quickly to less than 100 because of missing values. However, our analysis of missing values clearly shows that these data are missing at random. There is a clear trend over time: respondents stop participating in the course of the survey – but, importantly, there is no item in any set of questions which is an outlier due to a disproportionate number of missing values in comparison to other questions in this set. So we do not think that items are missing due to strategic considerations of respondents. Still, even though the number of observations gets smaller because of the listwise deletion of missing values (which is a hard test for our hypotheses since we have to find effects in a smaller sample), we find support for our claims.

A third drawback is that the responses are assessments and perceptions from company representatives – so we do not have hard data to quantify the impact of sanctions on the companies. So it could be the case that adjustment strategies are driven by macroeconomic factors rather than sanctions. Still, in contrast to studies which use macroeconomic data to analyze the impact of sanctions and which have to control for confounding factors in their models, we directly ask company representatives for the impact of sanctions and for adjustment strategies which they have undertaken because of the sanctions – not because of the decline of the oil price, the Russian ruble, or other macroeconomic factors. We have producers of dual-use goods that are directly targeted by the EU sanctions against Russia in our sample. However, there are also companies which are not directly targeted by sanctions. We could speculate that some respondents might not be sure whether they have been indirectly affected by sanctions or not. But we cannot treat them as not being able to assess how they incorporate sanctions into their decisions. Business people are used to macroeconomic fluctuations which constitute their daily risk factor – but sanctions suddenly disrupt the institutional order and cause additional uncertainty which is different from regular fluctuations. While risks can be estimated, uncertainty cannot and, thus, causes different business reactions (Knight, 2012).

THE POLITICS OF CHALLENGING SANCTIONS

Since the literature on economic sanctions usually models sanctions as disputes between states, scholars often focus on third-party states to explain the failure of sanctions. The idea that sanctioned trade can be compensated by increasing trade with third parties can be found in the earliest literature on sanctions (Galtung, 1967). Powerful third states, “black knights” (Hufbauer, Schott, & Elliott, 2007), have an incentive to fill commercial opportunities (Early, 2015). However, the problem of sanctions busting starts much earlier: the incentive to hold up profitable trade and fill the vacuum of lost trade also exists for domestic firms in sender states.

With regard to the Western sanctions against Russia, the UK Treasury’s Office of Financial Sanctions Implementation (OFSI) declared that 133 suspected breach cases, worth £1.4 billion (USD1.82 billion), were reported in 2017 (HM Treasury, 2018). The US Office of Foreign Assets Control (OFAC) fined ExxonMobil, a US multinational oil and gas enterprise, USD2 million for conducting business with individuals on the US sanctions list, involving “the signing of legal documents
related to oil and gas projects in Russia with Igor Sechin, the head of Rosneft, the Russian state oil company, and another person” (Rappeport, 2017).

Sanctions avoidance also plays an important role for the Russian counter-sanctions. In 2014, Russia investigated the smuggling of fruits and vegetables from the EU through Bosnia which is not targeted by the Russian sanctions. “In the first nine months of the year Bosnian exports of fruit and vegetables amounted to 3,123 tonnes compared with 1,014 tonnes in the same period last year” (Agence France Presse, 2014). It belongs to the ironies of this sanctions dispute that Belarus, a landlocked country, increased its fish exports to Russia by nearly 100 percent (RBC Daily, 2014). Norwegian fish found its way to Russia via Belarus: “supplies of fresh salmon from Norway to Belarus soared threefold” (The Moscow Times, 2014).

The negative impact of the evasion of sanctions on their effectiveness is well established in the literature. We shift the attention to the political implications of the Defiance strategy. By focusing on one particular sanctions regime for our empirical analysis, we hold contextual factors constant to analyze how far certain company characteristics determine their adjustment strategies. We were thus able to test our hypotheses based on the RBV, RDT, and differing perceptions of the target’s institutions. In this section, we analyze qualitatively how the given institutional setup incentivizes companies to adopt the Defiance strategy – and what kind of political implications are linked to this strategy.

Sanctions avoidance can be both the use of legislative loopholes and a potential illegal action to evade sanction laws. However, when companies legally increase their engagement in non-sanctioned areas despite an established sanctions regime, they do not violate any regulation. We regard Defiance as de jure complying with but de facto challenging sanctions because these actions do not isolate the target and impose costs by reducing mutually beneficial trade. The strategy of legally increasing the engagement in Russia runs counter to the idea of changing the political elite’s behavior via hurting the Russian economy.

With regard to the EU sanctions against Russia, one can observe that many companies chose the strategy of the Defiance and moved their production to Russia. One can disentangle the strategy of Defiance into moving the own production or shifting the production to partners in Russia. Besides Daimler, the pharmaceutical company Bionorica announced in August 2017 to invest EUR40 (USD45) million to build an own production site in the Russian city Voronezh (Bionorica, 2017). In contrast, the German multinational pharmaceutical and chemical company Merck KGaA established partnerships with Russian enterprises Pharmastandard and Nanolek, a Russian drug company, to localize its production at the Russian firm’s facilities in the Kirov region. Still, according to news reports, “Merck is set to invest a total of EUR10 [USD11.4] million […]” (IHS Global Insight, 2015).

Why is the Defiance strategy useful for many companies given the institutional setting of this sanctions dispute? Firstly, it is a strategy which aims to generate a competitive advantage. On July 16, 2015, the regulation of the Russian federation Government No. 708: “On special investment contracts for certain industries” was adopted to attract investors. Foreign companies of certain industrial sectors
which invest at least RUB750 million (around EUR10 million) and commit themselves to stay in the market for up to 10 years can sign the special investment contract and thereby become part of the Russian public procurement system and be eligible for additional incentives (e.g. tax incentives and subsidies) – which gives them a competitive advantage over firms which reduce their activities on the Russian market. So Russia itself incentives EU companies to publicly oppose a reduction of economic exchange. These long-term contracts contrast with isolating Russia and reducing the activities of European companies on the Russian market. The German manufacturer of agricultural machinery, Claas KGaA, on June 17, 2016, was the first company to sign the special investment contract and therefore received the status of a “Russian manufacturer” (Claas Group, 2016).

Russia follows a carrot-and-stick approach: it bans certain imports from countries which have imposed sanctions against the Russian Federation, but at the same time incentives firms from these countries to invest and localize their production in Russia. Companies follow this incentive and increase their engagement in Russia.

Secondly, by applying the strategy of localizing production in Russia, companies can also avoid sanctions. This consideration is more relevant for the Russian countersanctions which do not allow companies in the EU to export agricultural products to Russia. However, once a company decided to localize its production in Russia, the trade restrictions do not apply anymore. The German dairy producer Deutsche Milchkontor invested in 2016 in several Russian cheese companies:

the Bobrovsky cheese-making factory, RichArt Group, the FlamanFrakht cheese producers and the Dart lease company in the Voronezh region, as well as a number of companies in Moscow and the Moscow region which sell cheese. (The Moscow Times, 2016)

Without producing in Russia, Deutsche Milchkontor would not be able to sell its products in Russia because of the import ban of dairy and dairy products. Even though this decision to legally increase the engagement in an area not targeted by EU sanctions was driven by the Russian countersanctions, it has a real economic effect and political consequences which should not be neglected.

CONCLUSION

There are three important contributions of our chapter. Firstly, we differentiate between a broad set of adjustment strategies which companies undertake when they have to operate on a market that is subject to restrictive measures. These strategies were derived from institutional theory, the RBV of the firm, and RDT. We show that strategic options which conform to or challenge sanctions are far more nuanced than a mere compliance with or violation of sanction laws. We find that companies are more likely to challenge sanctions when they are dependent on the Russian market, their non-fungible assets are in danger, and administrative burdens are low. In particular, we show that several companies choose a Defiance strategy and increase their engagement in non-sanctioned areas or move their
production to Russia. The indirect impact of sanctions in the form of a risk premium which companies have to pay when they keep operating on a sanctioned market does not seem to play a role for firms which choose to adopt measures related to the Defiance strategy.

Secondly, we provide micro-level foundations and empirical evidence from sanction-affected EU companies for existing macro-level claims on sanctions effectiveness. Therefore, we introduce a survey data set which contains more than 1,000 genuine responses from representatives of companies in France, Germany, Italy, Poland, and the United Kingdom who have received our back-to-back translated local language e-questionnaire. To the best of our knowledge, this is the first scholarly company survey which focuses on the impact of sanctions and respective adjustment strategies.

Thirdly, we discuss the political implications of the Defiance strategy which is incentivized by the institutional setting of the EU–Russian sanctions dispute. This strategy is a promising way for companies to avoid the direct and indirect effects of sanctions without engaging in any illegal behavior. When companies legally invest in non-sanctioned areas, they do not violate any law but generate a competitive advantage. However, at the same time, they reduce the target’s costs of the sanctions and, thus, its incentive to change a perceived political misbehavior in order to have the sanctions lifted. If governments want their sanctions to have a real economic effect, they must take this behavior into account. Moreover, after companies have paid the adjustment costs, they will not revoke their investment – even when the sanctions are eventually lifted. The economic effect of the adjustment strategies and the new equilibrium will thus outlast the sanctions regime.

When scholars regard firms in sender countries, the key strategy which they usually identify as a reason for the lack of sanctions effectiveness is the avoidance of sanctions. However, in times when sanctions are not generally comprehensive economic embargoes but rather specifically designed measures, the institutional setup can induce unexpected incentives for companies which react to them, irrespective of what policymakers want to induce. There is an additional long-term impact on the choice set of policymakers when firms follow the incentive to adopt a Defiance strategy: a tightening of the sanctions in the future becomes costlier. So both scholars and policymakers should have these incentives in mind.

NOTE

1. Dynamic resources can take a form of flexible procedures, allowing to quickly react to changing environment. Prerequisite for creating and effective execution of such procedures is a broad and diverse experience stemming from working in different institutional settings.

REFERENCES


## APPENDIX

**Table A1:** Logit Models for Individual Adjustment Strategies

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full conformance</td>
<td>Proactive conformance</td>
<td>Challenge</td>
<td>Defiance</td>
<td>Avoidance</td>
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<td>(0.212)</td>
<td>(0.237)</td>
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<td>International experience</td>
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<td>Administrative burdens</td>
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<td>−0.528**</td>
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<td>−0.559**</td>
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<td>(0.236)</td>
<td>(0.311)</td>
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<td>0.559**</td>
<td>0.487**</td>
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<td>(0.173)</td>
<td>(0.191)</td>
<td>(0.222)</td>
<td>(0.211)</td>
</tr>
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<td>Cash reserves</td>
<td>0.126</td>
<td>0.0116</td>
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<td>(0.201)</td>
<td>(0.201)</td>
<td>(0.203)</td>
<td>(0.223)</td>
</tr>
<tr>
<td>Own entities in Russia</td>
<td>−2.184**</td>
<td>0.483</td>
<td>2.313**</td>
<td>3.188***</td>
<td>−0.420</td>
</tr>
<tr>
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<td>(0.904)</td>
<td>(0.813)</td>
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Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1