INTERNATIONAL BUSINESS UNDER SANCTIONS

ABSTRACT

Sanctions are a tool used by political actors to induce foreign countries, firms or individuals to alter their behavior. As nonmilitary coercive measure, they have the potential to disrupt the international business environment, often on short notice, and change the rules of the game. Synthesizing the available evidence on the economic and political impacts of sanctions, we explore how sanctions disrupt the institutional framework for international business and how firms respond to sanctions. Based on a review of available scholarly evidence, we discuss how theories of international business, such as institution-based view, resource- and knowledge-based view, resource dependency theory, and behavioral theories of the firm, can contribute to explaining the impact of sanctions. At the same time, we discuss how sanctions, as politically motivated disruptions, challenge some assumptions underlying these theories. Going forward, a research agenda on sanctions is likely to help firms and governments to strategize in a geopolitically sensitive world.
1. Introduction

Sanctions are a common instrument of government policy. Yet, in recent years, the scale, scope, and frequency with which sanctions are imposed have increased, and this trend is predicted to continue (Economist 2021; van Bergeijk, 2021). Rising geopolitical tensions suggest a possible further increase in government interventions that constrain international business (IB) activities (Meyer & Li, 2022; Witt, Lewin, Li, & Gaur, 2023). Sanctions are used by a sanctioning government (the sender) to induce, persuade, intimidate, or force a sanctioned government (the target) and/or its representatives and stakeholders to stop activities opposed by the sender (Felbermayr et al., 2021).

The political objectives of sanctions typically relate to penalizing the target country for violating international law or generally accepted norms such as human rights. While sanctions are not new, the Russian invasion of Ukraine in 2022 and the simmering tensions between the U.S. and China have brought the topic of sanctions to the forefront of strategic planning worldwide.

From the perspective of firms operating internationally, sanctions represent institutional changes in both host and home markets that affect many aspects of their activities. Despite a general trend in the recent decades towards pro-market institutional change, pro-market reforms have not been unidimensional (Cuervo-Cazurra, Gaur, & Singh, 2019). International sanctions often result in reversals in the development of market-supporting institutions and create barriers for cross-border economic activities. Yet, despite the increasing frequency and scope of sanctions, there has been a lack of systematic analysis of sanctions and their impact from the vantage point of IB scholarship.

When faced with sanctions, multinational enterprises (MNEs) as well as domestic firms have to make critical strategic decisions regarding their operations: Should they exit a country, partially divest an operation, exploit loopholes in the sanctions regime, and/or relocate some of their operations to third countries? These and other decisions have both short-term and long-term consequences for the operations and organization of MNEs.

This paper provides a framework and agenda for the study of firms facing sanctions. We review
the empirical evidence on the impact of sanctions, and note evidence of short-term negative effects on key country-level economic variables such as imports or GDP. Yet, we note substantial gaps in this literature with respect to long-term impacts, impacts on third countries, and firm-level strategic and operational responses. We thus outline how IB scholarship drawing on existing and new theories can help fill these gaps. Moreover, we suggest that studies of firms facing sanctions help testing and advancing theory in IB by forcing scholars to reassess some of the assumptions underlying the prevailing theoretical models.

We proceed as follows: In Section 2 we define the concept of sanctions in IB and develop typologies to structure the limited and scattered literature. Section 3 provides an overview of recent scholarly evidence on sanctions, drawing on literature in economics and political science. In Section 4, we examine how established theoretical perspectives in IB may contribute to our understanding of sanctions and their impact: the institution-based view, the resource- and knowledge-based views, resource dependency theory, and behavioral theories of the firm. In section 5, we argue that historical studies can provide important evidence on strategies and behaviors under sanctions. Section 6 concludes with contemporary challenges from the perspective of IB practitioners.

2. What are sanctions?

Traditionally, sanctions are used as a political tool to weaken the government of a specific country in times of conflict or war, and to act as an alternative to a military conflict to induce a change in the policies of the targeted government. Sanctions have mostly been imposed by economically powerful countries or coalitions of countries, often led by the US or the EU, but in recent years also by China. Historically, sanctions normally targeted national economies, but in recent years, sanctions policies have shifted toward targeting specific individuals, firms, and industries, while attempting to reduce the impact of sanctions on ordinary citizens (Hufbauer & Jung, 2020; van Bergeijk, 2021).

Scholarship on sanctions has been dominated by political scientists and economists (Felbermayr et al. 2021a; van Bergeijk, 2021), with relatively limited attention given by the IB scholars. Meyer
and Thein (2014: 157) observe that “to date no studies explored the reactions of firms on a more micro-level using the theoretical perspectives of international business research.” However, businesses are the immediate targets of sanctions, even though sanctions ultimately aim to alter the actions of governments (Figure 1). Consequently, the effectiveness of sanctions depends critically on the decisions and strategic choices of the impacted firms and individuals (Crozet, Hinz, Stammann & Wanner, 2021; Weber & Stępień, 2020), making sanctions an important topic for IB scholars.

*** Insert Figure 1 here ***

Why are sanctions imposed and enforced? Felbermayr et al. (2021a) conceptualize sanctions as instruments of coercive diplomacy used by a sanctioning country in view of a conflict or war to persuade the sanctioned country to take certain political actions. The ultimate political objectives vary, and may include:

- To delegitimatize or weaken the political leadership of the target country to ultimately induce its reform or replacement,
- To weaken the target country’s military force in cases of actual or potential war,
- To convince the target country to change certain practices, such as human rights,
- To persuade a country to stop its sanctions (such sanctions are known as countersanctions).

Sanctions usually result from political processes in which many constituents, including non-governmental organizations (NGOs) such as exiled citizens of the target country, are involved. In addition to the stated objectives, governments may introduce sanctions to please influential stakeholders in their own country. This can, in some situations, lead to sanctions being introduced – and maintained – even though the expectation of successful outcome in terms of the target government changing its policies is low (such as US sanctions against Cuba since the 1960s).

For the purposes of our analysis, we define sanctions as nonmilitary coercive measures imposed by a country or a group of countries against another country, organization, or individuals. Sanctions come in various forms, ranging from comprehensive technological, economic, financial, and trade
sanctions to more targeted measures such as arms embargoes, travel restrictions, and digital platform blocking. Sanctions may be directed against a variety of targets, for example:

- Political entities such as governments, parliaments, and their respective members and stakeholders,
- Specific individuals or groups of people associated with the government or other political entities,
- Specific firms deemed close to key political decision makers (such as firms owned by the military of Myanmar),
- Selected sectors or industries (such as the US ban on China’s space industry, the EU ban on exports of extraction equipment to Russia, or China’s ban on Taiwanese citrus fruit imports),
- Sanctions against all economic transactions with a particular country with very limited exceptions (such as US sanctions on Cuba, Iran, or North Korea).

Sanctions may also be extended to businesses or individuals in third countries viewed by the sanctioning country as undermining a sanctions regime. We refer to such measures as *secondary sanctions* defined as “penalties imposed on third parties for failing to comply with the sanctions regime” (Svetlicinii, 2022).¹

In recent years, some sanctions have been designed as “smart sanctions” that focus on specific individuals and their interests while trying to avoid “collateral damage” to ordinary citizens (Ahn & Ludema, 2020; Drezner, 2011). Yet, empirical evidence suggests that smart sanctions are less likely to achieve their stated aims because they can easily be circumvented and influenced by lobbying interest in the sender country (Weber & Stępień, 2020; Whang & McLean, 2014). In the target country, the economic impact of smart sanctions is likely deflected as strategic firms are protected by the government (Ahn & Ludema, 2020; Gaur et al., 2022; Haidar, 2017).

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¹ For example, the arrest of Huawei’s CFO Meng Wanzhou in Canada on an US warrant in 2018 was based on the allegation that she misled US investors regarding Huawei’s business activity with Iran, which at the time was under US sanctions.
Sanctions also vary in terms of business activities that are prohibited or constrained. In Table 1, we list different activities that could be subjected to international sanctions.

*** Insert Table 1 here ***

Understanding the nature and scope of sanctions is critical for firms to design and implement effective responses. While broad-based sanctions may force firms to fully disengage, more narrowly specified sanctions allow for a range of different strategic choices. Sanctions impact not only firms in the sanctioned country, but also their business partners and consumers in the country that imposes the sanctions. Moreover, the sanctioned country may launch counteractions to penalize firms related to the sanctioning country, create incentives for firms to bypass the sanctions (Weber & Stepień, 2020), or inhibit firms in their own country from implementing foreign sanctions. For example, China introduced a blocking statute (Huang, 2020; Svetlicinii, 2022) described in the China Daily as “empowering the State to prevent Chinese entities from being preyed upon by the enforcement of rules or laws in a foreign country if it deems it improper” (Yang, 2021). The net effect of sanctions, thus, depends on the complex interplay of different actors including national governments, firms and other stakeholders.

3. Trends in sanctions

Sanctions have been important instruments of foreign policy for decades (Lenway, 1988; Selden, 1999). Table 2 summarizes some important cases of sanctions in the recent half century. Over time, the number of sanctions has been increasing, affecting a broader range of businesses in both sender and target countries. The global sanctions database compiled by Felbermayr and his collaborators (2021a, 2021b) shows that the number of sanctions increased moderately since the 1960s. For example, Cuba has been under US sanctions of varying intensity since the end of the 1950s. South Africa faced comprehensive sanctions from the 1960s to the 1990s that have widely been credited with contributing to the end of its apartheid regime. Due to its military dictatorship, Myanmar faced sanctions that were phased out around 2014, but partially reintroduced after the coup of 2021.
The frequency of sanctions increased after the fall of the Berlin Wall in 1989, as the US coordinated multilateral sanctions on deviant countries, such as Iraq after the invasion of Kuwait. Similarly, sanctions to avert the threat of development of nuclear power by nontraditional nuclear powers (Iran and North Korea) were broadly (but not uniformly) supported. At the time, the respect for the US as the leading hegemonial power facilitated the coordination of sanctions efforts, which enhanced their effectiveness (van Bergeijk, 1995).

Sanctions sharply increased between 2008 and 2014, when “smart sanctions” targeting specific organizations or individuals became more popular (Felbermayr 2021a), while multilateral support became less common due to rising geopolitical tensions (van Bergeijk 2021). In 2014, the Russian annexation of Crimea along with the occupation of parts of eastern Ukraine triggered strong political responses by many Western governments. In response, the EU introduced bans on the export of extraction equipment for the mining industry and personal sanctions on a small number of political leaders. Russia responded by banning the import of certain product categories—especially food products—from the EU (Bélin & Hanousek, 2021; Nguyen & So, 2021). These sanctions remained in place but have been increasingly circumvented (Gaur et al., 2022), until in 2022 the Russian invasion (defined as “special military operation” by the Russian government) of Ukraine triggered an acceleration and widening of sanctions against Russia.

The geopolitical tensions between the United States and China led both countries to introduce targeted sanctions on specific individuals and firms (Li, van Assche, Li, & Qian, 2022; Witt, 2019; Witte, Burger, & Pennings, 2020). Under the Trump administration (2017-2021), the US increased its policy interventions aimed at tackling its trade imbalance, often muddling the distinction between sanctions aimed at political ends (such as human rights or national security) and restrictions created to manage the pattern of international trade and investment (Hufbauer & Jung, 2020). The Biden
administration broadened the scope of restrictions, notably on technology exports in the semiconductor industry (Witt et al., 2023).

Sanctions have also been used by non-Western countries. For example, Arab countries have been boycotting Israel since 1948, with gradual relaxation since the 1990s (Feiler, 1999; Fershtman & Gandal, 1998). China used sanctions primarily to inhibit policies by other countries that would affect what the Chinese government interpreted as its internal affairs, such as its human rights practices and its territorial boundaries. Thus, China has repeatedly used sanctions – often labelled boycotts rather than sanctions – on countries and individuals engaging in political relations with Taiwan (regarded as a province by China) and on Taiwan itself (Fuchs & Klann, 2013; Lai, 2021; Lin, Hu & Fuchs, 2019). In 2021, China broadened its use of sanctions by imposing bans on several industries in Australia in response to criticisms by the Australian government of Beijing blocking investigations into the origin of the COVID-19 virus (Zhou & Laurenceson, 2022).

4. Reactions to sanctions

4.1. Economic consequences of sanctions

Sanctions have economic consequences for both the sanctioning and the sanctioned countries that are very broad, hard to predict, and often include many unintended side effects. The economics literature provides some indications of the magnitude and contingencies of such effects. The direct effects usually pertain to the trade in goods and services between the two countries as international trade between the countries declines. For example, Fuchs and Klann (2013) find that government officials meeting with the Dalai Lama triggered on average a decrease of exports from that country to China by 12.5% in the following year. Heilmann (2016) reports negative effects of consumer boycotts on trade with the boycotted country. In the case of the Arab boycott of Danish products after the controversy over the caricature of Muhammad in the Danish media, the impact was as large as 18.8% of the trade volume. Belin and Hanousek (2021) estimate that the 2014 EU ban of export of extractive and other machinery to Russia reduced exports by about US$1.5 billion per year, whereas
the counteractions imposed by Russia primarily on imported food products reduced trade by US$12.6 billion per year (see Nguyen & Do, 2021, for similar evidence). Early estimates from the 2022 sanctions regime suggest a drop of exports to Russia from sanctioning countries by as much as 55%. Exports from non-sanctioning countries also dropped sharply in the first months, but rebounded – especially from Turkey – by August 2022 (Borin, Conteduca & Mancini, 2022).

Wider economic consequences typically include a negative impact on economic growth in both the sanctioning and the sanctioned country. Conversely, an end of sanctions is likely to enable faster economic growth (Fershtman & Gandal, 1998). Econometric analyses by Mahlstein, McDaniel, Schropp, and Tsigas (2022) estimate that the allied trade embargo imposed on Russia in 2022 not only reduced Russian GDP by about 14%, but also impacted the GDP of sanctioning countries with a decrease of between 0.1% and 1.6%. Sonnenfeld et al. (2022) suggest even bigger effects on the Russian economy in 2022 due to more than 1,000 global companies leaving Russia, thus weakening its access to international supply chains and western technology and know-how.

The scale of the negative economic impact of sanctions on the target country increases with the dependence of the target country on the sending country. For example, Whang et al. (2013) find that the sanctioning country’s ability to exploit economic dependence of the target country is a driver of the effectiveness of sanctions. Thus, sanctions by a country commanding global hegemony is likely more effective (Lektzian & Biglaser, 2013) as are sanctions supported by a coalition of countries rather than singular countries (Chowdhry, Hinz, Kamin, & Wanner, 2022).

However, sanctions trigger structural changes in the integration of a country in the global economy, through market reorientation, reconfiguration of global value chains, and localization of production (Özdamar & Shanin, 2021; Selden, 1999). These restructuring processes tend to soften the macroeconomic impact of the sanctions. Specifically, the impact of sanctions weakens over time as the target country becomes less dependent on the sanctioning country or countries. Past exposure to sanctions may enhance national resilience by localizing supply chains and diversifying trade.
patterns. In consequence, the longer sanctions are in force, the less economically disruptive they are as economic actors develop alternative ways of doing business (Oxenstierna, 2021).

Sanctions also have negative economic impact on the countries imposing them. For example, Crozet, Hinz, Stammann, and Wanner (2021) examine the impact of sanctions on exporters to a sanctioned country for the cases of Iran and Russia. They find the numbers of exporters in the specified industries dropping by 39% and 23%, respectively, which are substantial changes. Such effects can have long term effects. For example, Demarais (2022) highlight that the U.S. share of the global space market was 75% in 1998 when the U.S. introduced its International Traffic in Arms Regulation (ITAR), a set of export controls meant to protect American aerospace companies’ know-how. Yet, ten years later, “America’s global market share for space equipment, such as satellites, had dropped to less than 50%” because the ITAR regulation were “very successful in creating a global network of companies making competing products while ensuring U.S. companies cannot compete” (Demarais, 2022; Chapter 11).

4.2. Political consequences of sanctions

Political consequences arise from the economic costs experienced by the target country. Some sanctions have arguably contributed to substantive political change in the target country. South Africa’s apartheid regime is an oft-cited example, where broad global support for sanctions and corresponding domestic political processes complemented each other (Manby, 1992). van Bergeijk (2009) argues that sanctions with specific objectives have been successful in some cases.

However, overall the effectiveness of sanctions remains weak. Very few sanctions led to regime change (Oechslin, 2011). Hufbauer, Schott. Elliott and Oegg (2007) estimate that only about 30% of sanctions achieved objectives stated by the sender at the outset. Felbermayr et al. (2021b) report that only 35% of sanctions in their database have achieved at least some of their stated political aims.

The limited political impact may be because political elites are able to shelter their interests from sanctions by circumventing rules and channelling the impact to less influential groups in
society. Theoretical arguments suggest that sanctions would motivate the target country’s elites to unite to defend their wealth by aligning themselves with the country’s political powers (Siegel 2022). Ample empirical evidence supports this view. For example, in North Korea, the analysis of nighttime data suggests that rural areas have been more affected than urban areas by sanctions imposed by foreign powers aimed at dissuading the country from pursuing its nuclear ambitions (Lee, 2018). In Iran, Ghomi (2022) finds that the young, illiterate, rural and religious minority populations were most negatively affected by sanctions. After the 2014 sanctions on Russia, Huynh et al. (2022) find that energy and oligarch-related firms did not suffer a reduction of their return on assets (ROA), while firms in their full sample saw ROA drop by 3.4%. More generally, multicountry studies suggest that sanctions are associated with an increase in poverty (Neuenkirch & Neumeier, 2016) and inequality (Afesorgbor, 2019) and a reduction in life expectancy (Gutmann, Neuenkirch, & Neumeier, 2021). Overall, various economic and political processes work to weaken the economic impact on the elites of a country that would have political influence to change government policies, while ordinary citizens who have little political influence shoulder the brunt of sanctions.

4.3. Firm-level responses to sanctions

Most available studies analyze sanctions at highly aggregate levels. Yet, for firms, sanctions increase uncertainty in operations, disrupt supply chains, increase transaction costs, and ultimately negatively influence profits from international operations (Panibratov & Gaur, 2022). However, empirical evidence on firm-level responses is rather thin. The direct effects on firms trading between the two countries can be substantive (Crozet & Hinz, 2020; Gullstrand, 2020). Moreover, new FDI is likely to decline because of sanctions.

For foreign firms already invested in a sanctioned country, the introduction of sanctions raises complex legal and ethical questions. Two studies on Myanmar before 2014 shed light on firms’ responses. Soule, Swaminathan, and Tihanyi (2014) find that the home country and its centrality in the network of supranational organizations is key for firms’ divestment decisions. Meyer and Thein
observe that the reactions of MNEs operating in the country is contingent on characteristics of
the firm, industry, and country of origin. In addition to the polar options of ignoring the sanction or
leaving the country completely, they identified several intermediate strategies they name “low
profile,” “relationship management in host country,” and “stakeholder engagement outside the
country.”

In the target country, firms often find ways to substitute their trading partners. For example, in
sanctioned countries such as Iraq, South Africa, and former Yugoslavia, domestic products emerged
to replace imports under sanctions (Selden, 1999). A study of Iranian exporters finds that they
reoriented themselves towards countries not imposing sanctions, and their export volumes actually
increased, albeit at the expense of lower profit margins (Haidar, 2017). Similarly, after the
introduction of sanction in 2014, Russian consumers shifted to locally-made products the non-
Western imports (Pond, 2017), while firms actively adapted to the sanction regime and, in doing so,
mitigated the economic impact of these targeted sanctions (Gaur, et al., 2022). This localization of
business activities since 2014 potentially weakened the economic impact of the new sanctions
introduced on Russia in 2022.

Firms in third countries may be affected positively or negatively. In some incidences, they may
be able to identify opportunities arising from the withdrawal of their competitors. Examples include
Ericsson and Nokia enjoying the US market share vacated by Huawei thanks to US sanctions,
Chinese mining firms entering Myanmar while the country was under Western sanctions, and Indian
firms increasing purchases of Russian oil after the imposition of sanctions on Russia in 2022 (Hiruta
& Hama, 2022; Kasturi, 2022). Thus, some third-country firms may accept some loss of reputation in
the sanctioning country to avoid losing past investments and/or to build early-mover advantages in
the sanctioned economy.

In other incidences, third-country firms may perceive increased political and economic risks in
the sanctioned country (and possibly the sanctioning country as well). Such risks include possible
secondary sanctions resulting from extraterritorial jurisdiction by sanctioning countries as shown in the example of US sanctions on Huawei for breaking the US sanctions against Iran. Other examples include Japanese car makers that abstained from investing in Israel before the relaxation of the Arab boycott of Israel in 1995 because they feared negative consequences for their operations throughout the Arab world (Fershtman & Gandal, 1998). In 2022, large Chinese firms with strong engagement in the US or the EU have not been taking advantage of acquisition opportunities created by Western firms’ exit from Russia, whereas some smaller Chinese firms with little exposure to Western markets picked up Russian mining assets at sharply discounted prices (Dempsey & Yu, 2022; Jack et al., 2022). Overall, the impact of sanctions often go beyond the original targets.

In summary, given the heterogeneity of firms, the same sanctions are likely to trigger different strategic responses from firms in the sanctioning, sanctioned, and third countries—the nature of which calls for further research from IB scholars.

4.4. Firms anticipating sanctions

Firms do not wait for sanctions to be imposed. Firms continuously monitor their external environment, including the social and political processes that may eventually lead to sanctions. Such monitoring informs risk management practices such as (1) pre-emptive corporate political activity (CPA), (2) evasive actions, and (3) restructuring of operations.

First, firms actively engage in CPA as part of their nonmarket activities (Sun, Doh, Rajwani & Siegel, 2021). During intensifying political tensions, firms can try to influence political processes to prevent being negatively affected by sanctions. As part of traditional lobbying of their own government, when sanctions appear likely, firms can advocate their particular industry or sphere of interest to be exempt from sanctions, or to be compensated for possible losses. Firms can also engage in CPA at a higher level to try and influence intergovernmental relationships by engaging in “corporate foreign policy” with both home-country and host-country governments (Chipman, 2016). Li, Shapiro, Peng, and Ufimtseva (2022) firms need to strategically and diplomatically maneuver
between home country, host country, and third countries by engaging in “corporate diplomacy”.

However, Meyer and Li (2022) argue that such nonmarket strategies are only feasible in a world of liberalist international relations, where economic ties facilitate shared values, stability, and peace. If, however, governments commit to “realist” international relations where economics is subordinate to countries’ pursuit of power, then the MNEs’ ability to protect their interests via nonmarket strategies may be diminished.

Second, firms can take a range of evasive actions when they anticipate sanctions, or when sanctioned are announced with a delayed start date. They may for example increase their inventories of imported products when political tensions increase. For example, Huynh et al. (2020) observe that Russian firms increased imports to stockpile their inventories in 2013. This appears to have helped them when sanctions were introduced in 2014. Similarly, Afesorgbor (2019) finds an increase in trade when sanctions are threatened, which is reversed when sanctions are actually implemented.

Alternatively, firm owners may sell their businesses to other (more legitimate) owners, replace “toxic” board members and CEOs with more neutral figures, or otherwise disguise ties they maintain with entities of the government. For example, in face of US sanctions, Huawei sold in November 2020 its Honor smartphone business to a consortium jointly founded by state-owned Shenzhen Smart City Technology Development Group Co and some 30 Huawei’s previous agents and dealers. All the employees of this new spin-off came from Huawei. The chief executive of Huawei's (former) Honor smartphone business, Zhao Ming, became CEO. Because Huawei was prevented from doing business with Western tech companies such Google’s Android, the new spin-off was intending to help Honor and its channel sellers and suppliers to survive and further develop the business. However, whether this strategy to avoid sanctions would be accepted by the US government remained unclear (Shen & Chen, 2020).

Third, firms may restructure their international operations through, changes in the geographic footprint of supply chains, divestments, relocation of headquarters, or subsidiary autonomy. Thus,
for example, suppliers in countries with potential political tensions may be replaced by suppliers in friendly country, or the home country—, a phenomenon recently discussed as “‘friend-shoring’” (Hsu, Li & Wu, 2022).

In a rare case of relocating headquarters, in 2019, the semiconductor open source foundation RISC-V left the United States for Switzerland, a relatively neutral land, to base its headquarters, due to its members’ “concern[ed] about possible geopolitical disruption” with “If the incorporation was not in the U.S., we would be a lot more comfortable” (Nellis & Alper, 2019). In 2021/2022, several major Chinese firms including ByteDance (the owner of TikTok), Tencent, and Alibaba have announced plans to make Singapore their global, regional, or business unit headquarters. The accelerating US-China conflicts is believed to be the most decisive motivation for the move.

Relatedly, overseas subsidiaries may be given more autonomy than in traditional MNEs, thus extending the ‘light touch’ approach developed by Chinese MNEs in their recent global acquisition spree (Liu & Meyer, 2020; Wang, Luo, Lu, Sun & Maksimov, 2014). For example, despite 100 percent Chinese ownership, Volvo Cars has remained headquartered in Gothenburg, Sweden, and its business models have remained highly autonomous (Fang & Chimenson, 2017). The success of Geely’s acquisition of Volvo Cars since 2010 meant that there were no protests when the two companies made the in 2019 to incorporate Volvo Cars into the parent Zhejiang Geely Holding Group (Fang & Alvstam, 2020). However, the increasing geopolitical pressure including the US sanctions on China as well as China’s countersanctions is arguably one of the reasons explaining why Geely announced in the spring of 2020 that it abandoned the merger plan, thereby allowing Volvo Cars to continuously keep its corporate autonomy. The Geely-Volvo Cars case shows that under the risks of sanctions the intended merger has not been achieved through acquisition.

Overall, the empirical evidence shows that firms respond to sanctions, creating significant changes in the structure of national economies. Case evidence shows a wide variety of specific actions that firms may undertake that may lead to the intended economic impact, but may also enable
firms to bypass or even undermine the intentions of the sanctions. Thus, we need more research on firm level responses to sanctions; and this is an area where IB scholars would be particularly well positioned to contribute to broader societal debates.

5. **Theoretical perspectives useful for future research**

We propose that firms’ reactions to sanctions can be analyzed through the lenses of leading theories in the IB field – institutions-based view, resource-based and knowledge-based view, resource dependence theory and behavioral theory of firm. Table 3 lists these theoretical perspectives with brief description about how these theories can help us better understand the impact of sanctions on firms, and how the study of sanctions can help advance these theories.

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5.1. **An institution-based view of sanctions**

The institution-based view suggests that firm behavior and performance are driven by institutional frameworks and their transitions (Meyer & Peng, 2016; Peng, Wang, & Jiang, 2008). Until recently, most IB research has taken place in a global institutional framework governed by a large set of rules that are pro-globalization, pro-trade, and pro-investment. However, an increasing number of scholars acknowledge that the institutional framework may be changing in ways that create more restrictions for IB, mainly due to geopolitical tensions (Casson, 2021; Hartwell & Devinney, 2021; Meyer & Li, 2022; Li et al., 2022; Witt, 2019; Witt et al., 2023). Sanctions represent major institutional transitions – “fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players” (Peng, 2003: 275).

The literature on institutions in IB suggests exploring different aspects of these institutional transitions. Thus, we here discuss sanctions with respect to (1) interactions between formal and informal institutions (Estrin & Prevezer, 2011; Peng, 2003), (2) interactions of national and supra-national institutions (Hartmann, Lindner, Muellner & Puck, 2022; Ramamurti, 2001), and (3) interactions between home- and host-country institutions (Li et al., 2018; Meyer & Thein, 2014).
First, sanctions are formal institutions that are backed up by legal enforcement mechanisms in the sanctioning country. However, the impact of formal institutions depends on their interplay with informal institutions. Most sanctions are formalized in national law or government regulations that cannot fully reflect the complexity of IB operations and supply chains, and thus are difficult to enforce (Andrews, Fainshmidt, Schotter, & Gaur, 2022). Like incomplete contracts, they depend on supplementary enforcement mechanisms. That is where informal institutions come in (Boddewyn & Peng, 2021). If sanctions are highly legitimate in the sender country, then informal pressures will induce firms to comply with the spirit of the sanctions, and even to disengage when they are not legally required to do so. Weber and Stępień (2020: p. 3010) describe this interplay of formal-yet-hard-to-enforce sanctions and firms’ responses: “When the legal enforcement is limited, sanctions’ conformance can be increased through a public consensus on the imposition of punitive measures against the respective government. Sanctions, socially approved, gain the status of an informal institution for which breaking can also lead to social condemnation.”

On the other hand, when societal support for sanctions is weak, firms are likely to pursue loopholes in the sanctions regime without fear of penalty. Weber and Stępień (2020) illustrate this concern with the example of Mercedes opening a new assembly line in Russia in 2019 with presence of high-level government officials from both countries. Similarly, Volkswagen has kept its factory in Xinjiang operating, despite substantial pressures in the German media to disengage (Cheng, 2022). Thus, firms’ reaction to sanctions depends not only on the legal text of the sanctions, but also on the extent of social support for these sanctions.

Formal and informal institutions also interact in time. Meyer and Thein (2014) observe that many formal sanctions on Myanmar were preceded by activism of various NGOs with informal pressures on MNEs to disengage. Some firms stopped new FDI or even relocated some production lines before being legally required to do so. In 2020, some Western brands, with the Swedish H&M taking the lead, announced that they would not use cotton from Xinjiang, well ahead of formal
sanctions on cotton imports from that province of China coming into effect. Thus, firms appear to perceive informal pressures in similar ways as formal pressures, especially when firms are sensitive to consumer expectations regarding their social responsibility. Future research may investigate how different firms strategically respond to anticipation of sanctions, considering their lobbying efforts (such as obtaining exemptions from the general rules), operational adjustments (such as increasing inventories before the deadline), and strategic changes (such as reorganizing supply chains).

Second, sanctions that are imposed unilaterally by a national government create an institutional framework only for firms from that country. Other sanctions are created or endorsed by coalitions of likeminded countries, or by supranational organizations such as the United Nations. For example, sanctions aimed at preventing Iran and North Korea from developing nuclear weapons have been supported by the United Nations (Brzoska, 2015). The more countries partake in the sanctions, the more challenging it would be for firms to avoid or bypass them. Yet, even unilateral sanctions can have extraterritorial effects on firms in third countries through indirect disruptions or secondary sanctions. Future research may examine the differential impact of sanctions dependent on which countries and supranational institutions support and enforce the sanctions.

Third, home-country and host-country institutions interact, creating complex legal and ethical webs. In particular, sanctions may trigger countersanctions on firms in the original sending country. For example, when the EU imposed sanctions on selected Russian industries and individuals in 2014, Russia responded by banning import of food products from the EU. When the US and EU imposed sanctions against Chinese officials in Xinjiang as well as Xinjiang Public Security Bureau due to alleged human rights abuses in the province, Chinese authorities imposed sanctions on certain individuals and organizations in the US and the EU. This raises questions on how firms prepare for and respond to countersanctions that may entrap firms in seemingly unrelated lines of business.

Beyond formal barriers, sanctions may increase the liability of foreignness of all firms associated with the sanctioning country and operating in the sanctioned country or vice versa due to
decreasing trust between business partners. Recent studies show that political affinity and quality of intergovernmental diplomatic relationships facilitate business relationships (Hasija, Liou, & Ellstrand, 2019; Li et al., 2018). Sanctions represent a deterioration of political relationships that is likely to affect not only the specifically targeted firms and industries, but all firms associated with either country (Li et al., 2022). Future research may explore how sanctions change the attitudes to foreign investors in the affected countries.

Overall, research on the interactions between different sets of institutions in the cases of threatened or actual sanctions is likely to lead to a reassessment of the institution-based view in IB (Peng et al., 2023). In particular, conventional ways of theorizing about institutions may not suffice when institutions are deliberately disrupted by political actors pursuing geopolitical rather than economic objectives (Meyer & Li, 2022). Political interventions may cause conflicts between different layers of formal and informal institutions even within the same country. As a result, firms may start exploiting the institutions that serve their purpose, leading to legal and social conflicts (Andrews et al., 2022) and reshaping of institutions. This suggests that economic institutions may have to be treated as endogenous in wider political systems.

5.2. Resource- and knowledge-based views of sanctions

Resource- and knowledge-based views complement the institution-based view in analyzing the internal aspects of internationally operating firms aiming to adapt to, and innovate within a given institutional environment (Meyer, Estrin, Bhaumik, & Peng, 2009). The exploitation and acquisition of internationally transferable resources is at the core of many theories of the MNE (Dunning, 1980). When sanctions become part of the institutional framework, how does that affect firm strategies of exploiting and developing (exploring) resources? We suggest that (at least) four aspects of resource management are affected by sanctions: (1) transfer of resources to affiliates in the sanctioned country; (2) innovation in the sanctioned country; (3) resources and capabilities enabling organizational and strategic change; and (4) development and application of political capabilities.
First, sanctions often inhibit the exploitation of resources in market-seeking strategies by blocking intrafirm trade in intermediate goods, knowledge transfers, or financial investment. Important questions thus relate to how firms continue to exploit their resources abroad, especially if they are embedded in local subsidiaries and cannot be easily moved to other locations.

Second, sanctions can be particularly disruptive for firms pursuing technological innovation by combining imported and domestic knowledge. Theoretically, bans on technology transfer should thus slow technological catch-up in host societies. For example, R&D subsidiaries that develop innovations for local or global applications typically depend on technology sharing between foreign subsidiaries and headquarters. Sanctions often focus on knowledge transfer and/or exports of technology-intensive goods that are not only of commercial value, but may also be used by the military. Thus, such sanctions can inhibit innovation in both domestic firms and foreign MNE subsidiaries, and disrupt in particular geographically dispersed R&D in MNEs.

However, sanctions can also stimulate innovation by focusing national efforts on indigenous innovation. Specifically, the lack of access to foreign technologies creates incentives to localize technologies, and to develop national innovation systems to develop local knowledge base and become independent of patents or knowledge exchange held abroad. For example, despite sanction from the U.S. and the EU, China’s aerospace industry achieved first-to-the-world innovations such as landing on the far side of the moon in 2019. Similarly, the US-China trade conflicts since 2018 has triggered accelerated policy support for indigenous technologies in China to enhance resilience in view of possible bans on technology transfers. Thus, it would be interesting for IB scholars to examine the circumstances under which sanctions could generate local technological breakthroughs and disruptive innovations?

A special case of innovation is strategic asset-seeking investment by emerging economy firms that aim to leverage technologies acquired abroad to strengthen their international competitiveness. In particular, the springboard view suggests that certain firms aspire an upward spiral process of
internationalization—meaning the acquisition and transfer of foreign capabilities to the home market in order to become stronger global competitors (Luo & Tung, 2018). Sanctions that include bans on technology transfer or constraints on acquisitions by firms from the sanctioned country may undermine springboard strategies. This raises interesting questions regarding (1) how EM MNEs can acquire foreign technologies despite obstacles created by sanctions, and (2) how EM MNEs can accelerate domestic technology development to fill gaps caused by sanctions.

Third, when firms want to adjust their operations and strategies, they need people to lead and implement strategic change. In particular, operations in a volatile and/or disrupted environment requires strategic agility, which in turns depends on internal organizational structures and people in the organization (Ahlstrom et al., 2020; Tarba et al., 2023). Arguably, dynamic capabilities help firms to maneuver in a constantly and unpredictably changing environment such as Russia (Dixon, Meyer, & Day, 2010). This strategic agility to respond to sanctions-induced disruptions depends critically on the human capital and firms’ abilities to mobilize such resources. Foreign MNEs may evacuate their expatriate staff, and even transfer some of their host-country (in this case Russian) talents abroad. However, local firms (including remaining MNE subsidiaries) in the sanctioned country may face talent retention challenges in view of a national brain drain (Latukha et al., 2021). We have a limited understanding of these human resource management (HRM) challenges that firms experience in the face of external disruptions. For example, how can MNEs select host-country staff to retain and to transfer abroad? How can MNEs in the sanctioned country recruit and retain global talents under sanctions?

Fourth, political capabilities enable firms to engage with political decision makers to advance the firm’s interests in both their home and host countries (Cui, Hu, Li, & Meyer, 2019; Sun et al., 2021). Such capabilities are often based on individual-level ties rather than organization-level ties, especially in emerging economies (Sawant, Nachum, & Panibratov, 2021). Certain politically savvy firms in the sanctioning country may be able to utilize political ties to their home government to
influence the specific regulations that would exempt them from sanctions, a concern raised especially in the debate on “smart” sanctions (Weber & Stępień, 2020). Such political ties are particularly valuable when investing in countries where the home-country government enjoys strong diplomatic relationships (Li et al., 2018, 2022). By design, sanctions disrupt such diplomatic ties, and thus are likely to weaken or even reverse firms’ ability to leverage their political capabilities. More generally, political ties—and state ownership in particular—are often viewed with distrust in host countries, and this distrust is likely to increase when countries engage in sanctions and countersanctions. However, some political ties in the sanctioned country may help prevent being targeted by countersanctions. Future research may help disentangling the complex web of political ties by MNEs with multiple political entities in both home and host countries (Stevens, Xie, & Peng, 2016).

Local firms in the sanctioned country face similar challenges, but are less likely to have political capabilities reaching beyond their own country. Political ties may help convince their own government to provide economic support, or to end the policies and practices that triggered the sanctions in the first place. However, firms from the sanctioned country rarely have political resources in the sanctioning country. Yet, there seem to be exceptions. After 2014, Russian energy supplier Gazprom tried such a strategy by appointing German ex-chancellor Gerhard Schroeder to its board, and cooperating closely with the state government of Mecklenburg-West Pomerania. Yet, this strategy collapsed with the tightening of sanctions in 2022, making its erstwhile partners political outcasts (Solomon, 2022). There is a need to develop more nuanced understanding of “international business diplomacy” (Li et al., 2022) in contexts of international sanctions and countersanctions.

Overall, a research agenda on the development and exploitation of firm resources under sanctions is likely to lead to a reassessment of how firms interact with the external environment in developing, retaining and redeploying their resources and knowledge base across geographies and organizational subunits.
5.3. Resource dependency theory and obsolescing bargain

Resource dependency theory emphasizes that strategies depend on the strength of firms’ control over critical resources, including natural resources, technologies, and political resources (Pfeffer & Salancik, 1978). If such control is disrupted by sanctions, there is a shift in firms’ bargaining power and access to external resources.

In the event of sanctions, critical dependencies relate to firms’ exposure to the sanctioned and sanctioning countries. On the one hand, the volume of their sales and investments in a country is likely to increase their determination to maintain or even increase their business relationships. Weber and Stepiń (2010) report that firms’ responses to newly imposed sanctions are constrained by the firm’s economic dependence on its (pre-sanction) operations in the sanctioned country. On the other hand, operational flexibility in the geographic footprint, especially “reshorability” (Witt et al., 2023), reduces such dependencies.

In the sanctioned country, foreign MNEs may experience a shift in their bargaining power vis-a-vis local stakeholders—in particular, the host-country government. Sanctions shift the relative bargaining power as compliance to sanctions leads to some firms losing access to certain resources. The direction and impact of such shifts however are unclear and merit further research. For example, sanctions may increase bargaining power of MNEs if their continued operations require them to challenge their own (home-country) governments’ position, or if other competitors withdraw. But the bargaining power may weaken and accelerate “obsolescing bargain” (Eden, Lenway, & Schuler, 2005) if they lose support from their own governments. Anecdotal evidence provides ample evidence of MNE–host country bargaining, such as Huawei vs. the US, BP vs. Russia, and Gazprom vs. Germany. These and similar cases demonstrate the importance of bargaining power of all parties in both economic and political dimensions. Yet, we lack a clear understanding of the direction and impact of shifts in power due to sanctions and other political disruptions.
Local firms in the sanctioned country may become more dependent on their local political ties when international relationships break down. The evidence is inconclusive on whether government ties help or hinder firms in a sanctioned country. A study in Iran finds that the negative effect of the new sanctions is stronger for politically connected firms (Aflatooni, Ghaderi, & Mansouri, 2022). The authors attribute this to the weakened financial position of the government, which limits its ability to support politically connected firms. In contrast, in the case of Russia, research shows that firms deemed strategically important actually fared better during the sanctions (Ahn & Ludema, 2020; Gaur et al., 2023; Huynh et al., 2022).

Analyzing shifts in power resulting from sanctions also provides opportunities to further develop resource dependency theory. In particular, studies of firms facing sanctions can provide new insights on how external disruptions of resource dependencies influence firms’ economic and political activities to pre-empt or exploit new dependencies. Two competing hypotheses can be tested. The first is that foreign MNEs from the sanctioning country will reduce their dependence on the sanctioned country as evidenced by scores of MNCs announcing withdrawals from Russia during 2022. A second hypothesis is foreign MNEs from third countries may enhance their dependence on the sanctioned country. Firms from several economies (e.g. Turkey, India and China) have increased their exports to Russia and even acquired local assets during 2022. In summary, sanctions do not always reduce dependencies regarding the sanctioned country.

5.4. Behavioral theory of the firm

Behavioral theory of the firm (Cyert & March, 1963) suggests that decision makers are not fully-rational individuals who possess all the information, but they are influenced by their personal experiences, cognitions, and perceptions. Their strategic decisions depend on individual activities such as problemistic search and personal learning processes. Firms’ responses to sanctions are important strategic decisions that are influenced by the key decision makers in organizations. The behavioral perspective recently added new insights to the study of MNEs and their subsidiaries.
A popular branch of the behavioral theory research focuses on how managers react when their firms experience performance shortfall. In search for solutions to improve a performance shortfall, some firms engage in risky strategies such as acquiring firms in unrelated industries and markets, whereas others engage in risk averse search behavior such as organic growth (Elia et al., 2019; Surdu, Greve & Benito, 2021). Along these lines, a recent study by Dai, Eden and Beamish (2022) finds that firms’ decisions on exit timing and mode (partial versus full) are interdependent, in part determined by the past performance not only of the firm itself also by that of its peers. In the case of sanctions – which are caused by events external to the firm – the benchmarking against own past performance is in particular likely to trigger strategic initiatives.

Another view within behavioral theory, the attention-based view, has recently become popular to analyze strategies and actions of MNEs (Bouquet & Birkinshaw, 2008; Monteiro, 2015). This perspective focuses on managerial cognition resulting from the attention managers give to different sources of information, and its impact on strategic decisions. Applying this line of thought to sanctions may predict that top managers personally exposed to a sanctioned country would align their strategies with the political powers in the country, whereas managers personally exposed to conflicts such as human rights abuses or war would advocate strategies of disengagement from countries where there is a risk of such conflicts.

Thus, personal characteristics such as the regulatory focus and risk tolerance of the senior managers, may result in biases that may influence, for example, political risk assessments, and actions taken in response to political risk information received. This constellation raises interesting questions regarding the influence of personal experiences in particular countries, exposure to political events and political affinities on corporate strategies in situations of political disruptions. For example, German oil and gas importers have been accused of naïveté with respect to their risk assessment of operations in Russia. Uniper, a German utility company that needed a €15 billion bailout in 2022, reported in its 2021 annual report that it only anticipated a “moderate” political and
regulatory risk that would put €100 million at risk in its worst-case scenario (Uniper, 2022: 64-69). Such underestimation of the risk associated with dependency on imported gas may be a result of cognitive biases caused by insufficiently broad scanning for political risk knowledge.

The study of sanctions also provides opportunities to extend and develop the behavioral theory of firm in the context of MNEs by broadening our understanding of individual behaviors and biases that affect strategic decision making when faced with major disruptions. Such new advances ought to integrate the social and political sphere in which managers are engaged – in addition to their own business – and consider both political and economic actions they may take to react to a perceived or actual threat from sanctions.

6. Historical perspectives

To enhance our understanding of the impact of sanctions on business, we suggest that historical studies may be particularly valuable. This is for two reasons. First, decision making in complex political environments is highly sensitive, and actors (individuals in both firms and governments) are unlikely to openly discuss their actions and motivations. In fact, they may have strong incentives to disguise critical aspects of their actions. As time passes, the sensitivity is eased, and historians may have access to, for example, originally confidential data (such as board minutes) that shed deeper insights into the actual decision-making processes, and actions hidden from public eyes.

Second, the implications of sanctions are often long-term. For example, some evidence suggests that even after formal sanctions have been lifted, distortions in trade and investment patterns may persistent for a long time. Theoretical insights such as hysteresis effects in international investment (Dixit, 1992) support this view. Thus, studies from a historical perspective can help us understand the long-term theoretical and practical implications on IB strategies (Peng, Ahlstrom, Carraher, & Shi, 2017). While scholars are understandably interested in contemporary sanctions such as those between the EU and Russia, we suggest that deeper theoretical insights may be gained by analyzing historical incidences for which better data are available.
Consumer boycotts have been used in many countries since the late 19th century to target domestic or foreign producers in pursuit of political objectives (Hawkins, 2010). Governments have used sanctions primarily to anticipate or complement military actions, such as the Chinese empire, for example, imposed numerous trade sanctions on neighboring kingdoms, tribes, and peoples. The British empire blockaded trade France during Napoleonic Wars and Germany during World War I. The US imposed severe trade sanctions on Japan prior to Japan’s Pearl Harbor attack.

While we know the existence of such sanctions from history books, we lack research on the impact of such historical sanctions on firms and their specific strategic responses—at least we have failed to identify many studies. For example, German MNEs operating in the United States used extensive camouflage strategies to disguise their origin before and during World War II (Wilkins, 2004). As Kobrak and Wüstenhagen (2006) show in great detail, these camouflage strategies were also aiming to avoid the scrutiny by German authorities, and often involved quite complex ownership structures with entities in neutral countries.

Therefore, we suggest that firm-level studies of historical sanctions may advance our understanding of contemporary challenges confronting IB. Clearly, many firms perished due to sanctions. But some survived. Still others prospered. Yet others shifted into the “gray economy” to bypass sanctions by relying on informal connections and ties established during presanctions days. While history does not exactly repeat itself, it often rhymes. Insights from research on contemporary sanctions will be limited if we do not know much about historical sanctions.

7. Conclusion

The study of sanctions is important for both IB practitioners and scholars. If IB scholarship aims to be valuable and relevant, we need to strive to not only interpret IB behavior, but also advise managers and policy makers on appropriate action going forward. Unfortunately, IB scholarship has to date little to offer in terms of managerial guidance on how to handle challenges arising from the
imposition of sanctions. As a result of rising ideological and geopolitical tensions, managers face increasingly complex economic and ethical decisions when sanctions are introduced.

Consider managers of Western MNEs in Russia. Since February 2022, their strategic choices include: (1) withdrawing and thus risking to upset host-country stakeholders, giving up hard-won markets, and suffering write-off of assets, but retaining reputation with stakeholders in the home country [and Ukraine], while avoiding supply chain disruptions in Russia; (2) maintaining course, which risks upsetting home-country government and other stakeholders, but protecting hard-won markets and consumers in the second largest market in Europe; or (3) trying to satisfy stakeholders in all countries of operations, for example though a wait and see approach or gradual reduction of investment, personnel, and sales, yet risking to get drawn into even deeper political conflicts.

Similarly, managers of U.S. MNEs in China face the risk of sanctions being introduced at some stage due to rising geopolitical tensions. In managing this risk, they have a number of strategic choices: (1) withdraw from China to avoid conflicts with their own government and home country stakeholders, yet with the understanding that such action would likely (a) upset host-country stakeholders, (b) wipe out hard-won market shares and writing off valuable assets, and (c) give up attractive profit potential in the largest consumer market in the world); (2) maintain course or even increase FDI (as Tesla is doing in Shanghai by launching its largest megafactory); or (3) wait and see (as Apple “plays ball” in China and endeavors to calm down US government demands to “decouple” from China while moving some iPhone production to Vietnam and India).

As leader of a Russian business facing potential sanctions from Western governments, your choices may be: (1) withdraw, which means losing a strategic market, probably without having chance to return but retaining strong ties at home; (2) distance yourself from Russian government policy, which may reduce exposure to sanctions, but risks retaliation from the home government (as appears to have happened to Oleg Deripaska (Seddon & Ivanova, 2022); (3) maintain course while retaining strong ties to Russia, which likely results in challenges to the legitimacy of the firm in, say,
Germany with hard-to-predict consequences in terms of consumer responses and legal actions introduced by sanctions; (4) transfer the business to a friendly partner not targeted by sanctions, which creates opportunities to reduce the cost of exit, as in the case of the Russian Sberbank’s sale of its subsidiary Sberbank Srbija to Serbian bank AIK Banka.

Managers of Chinese MNE in the US and EU may (1) respond to new restrictions on US-China business by withdrawing, and hence upsetting host-country stakeholders such as laid-off employees, giving up hard-won markets and consumers, and incurring significant financial loss; (2) maintain course (as Huawei—despite scaling down in the US—maintains its service a sole provider of networking equipment to many rural American internet providers); or (3) fight sanctions through lobbying and other political activities, as TikTok has done (so far successfully) to push back on threatened sanctions in the US.

These critical strategic decisions are driven by an interplay between institution-based and resource-based considerations, with significant financial and ethical ramifications. They are constrained by both rapidly changing legal constraints and risk assessment regarding future restrictions. At present, we as IB scholars neither know enough about how these important strategic decisions are made, nor are we in a position to advise MNE managers regarding the nontrivial costs and benefits associated with each of these strategic choices. As we elaborated earlier, a study of IB under sanctions also has potential to advance the key theoretical frameworks that have been used to understand different aspects of MNC behavior when the external environment is relatively stable and predictable. In conclusion, significant new research on IB under sanctions is urgently needed.
Figure 1: Sanctions: Political motivations and economic impact
<table>
<thead>
<tr>
<th>Type of sanction</th>
<th>Target</th>
<th>Indirect target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ban of exports</td>
<td>Importers in target country, especially those using military-usable technologies and/or politically connected firms</td>
<td>Exporters in sanctioning country</td>
</tr>
<tr>
<td>Ban of imports</td>
<td>Exporters in target country, often specifically politically connected firms</td>
<td>Importers in sanctioning country</td>
</tr>
<tr>
<td>Restrictions on FDI and foreign owned operations</td>
<td>Subsidiaries of sanctioning country MNEs in host country</td>
<td>Global operations and supply chains of the MNE</td>
</tr>
<tr>
<td>Ban on investments</td>
<td>Firms in target country receiving financial resources from sanctioning country</td>
<td>Financial institutions in sanctioning country</td>
</tr>
<tr>
<td>Ban on financial transaction</td>
<td>All businesses and individuals engaged in cross-border activities</td>
<td>All businesses and engaged in activities with target country</td>
</tr>
<tr>
<td>Restrictions on technology transfer</td>
<td>Users of technology received from abroad (often targeted at specific sectors of national security concern).</td>
<td>Firms selling technology or products embedding technology to the target country.</td>
</tr>
<tr>
<td>Ban on travel</td>
<td>Specific individuals</td>
<td>Business networks of these individuals</td>
</tr>
</tbody>
</table>
Table 2: Selected cases of sanctions

<table>
<thead>
<tr>
<th>Sanctioning country (sender)</th>
<th>Sanctioned country (target)</th>
<th>Time period</th>
<th>Primary motive</th>
<th>Literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>US and allies</td>
<td>Iran</td>
<td>2006-present</td>
<td>Nuclear power development</td>
<td>Haidar 2017; Torbat 2005</td>
</tr>
<tr>
<td>US and allies</td>
<td>North Korea</td>
<td>2006-present</td>
<td>Nuclear power development</td>
<td>Bechtol 2017; Lee 2018</td>
</tr>
<tr>
<td>US, EU, and others</td>
<td>Russia</td>
<td>2014-present</td>
<td>Invasion and annexation of Crimea; intensified after invasion of Ukraine</td>
<td>Abramova &amp; Garanina 2018; Weber &amp; Stępień 2020</td>
</tr>
<tr>
<td>China</td>
<td>Individuals, organizations and countries</td>
<td>Intermittently since the 1970s</td>
<td>Supporting views inconsistent with those of the Chinese government</td>
<td>Fuchs &amp; Klann 2013; Li 2017; Zhou &amp; Laurenceson 2022</td>
</tr>
<tr>
<td>Theory Applications and Extensions</td>
<td>Applications to explain the impact of sanctions</td>
<td>Advancing theory though studies of sanctions</td>
<td></td>
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<tr>
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</tbody>
</table>
| **Institution-based view** | • Interactions between formal sanctions and informal institutions  
• Interactions between national and supra-national institutions  
• Interactions between home and host country institutions. | • Conceptualizing institutions, and sets of institutions, when some institutions are deliberately disrupted by political actors |
| **Resource- and knowledge-based view** | • Transfers of resources to a sanctioned country  
• Innovation when access to knowledge resources is disrupted  
• Resources enabling strategic change when facing institutional disruption  
• Development and application of political resources to anticipate and manage under sanctions | • Conceptualizing exploration and exploitation processes when the external environment is disrupted in unanticipated ways. |
| **Resource dependency theory** | • Dependency of MNEs on activities in the sanctioned country  
• Dependency of local firms in the sanctioned country on political resources | • Modelling the impact of disruptions in resource dependencies on economic and political actions of firms. |
| **Behavioral theory of the firm** | • Cognitive biases in the assessment of political events that may trigger sanctions.  
• Personal characteristics influencing firms’ compliance versus subversion strategies | • Theorizing on personal characteristics of top management shaping firms’ reactions to political events. |
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