

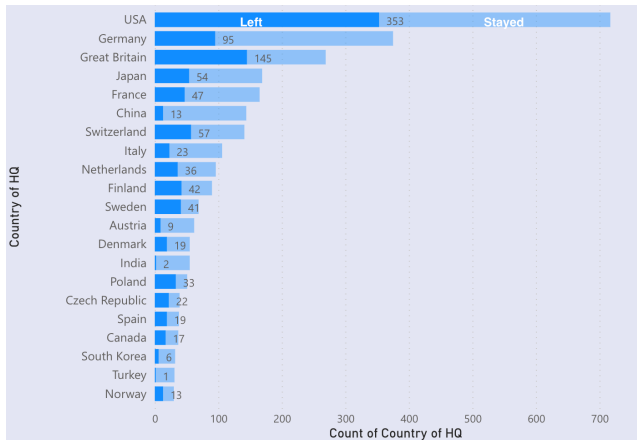
Peer Conformity and Competition: How Business Managers Evaluate Firm Withdrawals from Russia

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Foreign firms leaving and staying in Russia



Source: KSE Institute, 2023.02.12

► By industry

► By time

In the wake of the Ukraine crisis, why did some private firms voluntarily stop their business in Russia while others stayed?

Overview

Why do private firms voluntarily withdraw amidst international crises?

- Argument: Strategic interaction among firms shapes firm reactions
 - Conformity pressure to follow leading firms
 - Competition incentive as a restraint against withdrawal
- Evidence: Survey experiment targeting business managers after the Russian invasion of Ukraine
 - Japanese firm managers (April-May 2022)
 - Randomize information about withdrawal by other firms
- Main findings:
 - Information about peer withdrawal increases support for withdrawal, while information about competitors continued business decreases support
 - Motivated by factors other than reputation
 - deterring Russia, business risks, secondary sanctions, etc.

Theory: Conformity and competition among peers

- Firms face high uncertainty in the wake of geopolitical crises
 - Need information about risks, costs, and appropriate behavior
 - Interaction among firms shapes norms and market costs (Malesky and Mosley 2018, Wellhausen 2015, etc.)



- Peer conformity
 - Look to other firms for information about norms and risks
 - Conform to prevailing trends
- Peer competition
 - Economic cost of withdrawal grows when competing firms stay

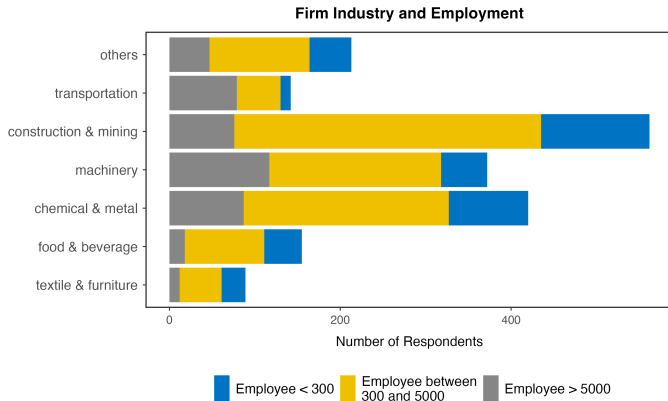
Main hypotheses to explain support for withdrawal

- H1: Peer conformity
 - **Withdrawal by US firms** increases support
 - **Withdrawal by firms of multiple nationalities** leads to higher support
- H2: Peer competition
 - **Chinese firms staying** decreases support for withdrawal
- H3: Market exposure mechanism
 - Having business in the foreign market magnifies the effects
- H4: Reputation mechanism
 - Information that reputation motivates other firms to withdraw increases support

Survey design

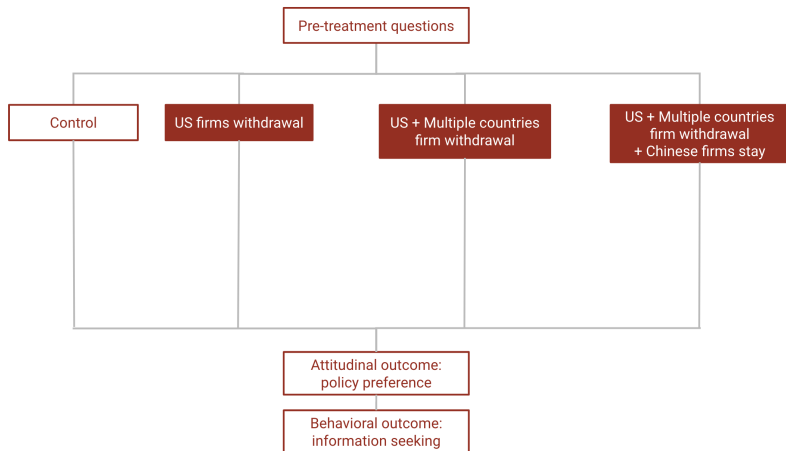
- Survey on firm managers in Japan (N = 2100) ▶ Data
 - Industry: manufacturing, construction, mining, or utility
 - Medium and large firms with > 100 employees
 - Manager level or above
- Block/stratified randomization by industry groups ▶ Balance check
- Outcome measures ▶ Outcome wording ▶ Covariate balance
 - Support for withdrawal
 - Reasons given for supporting withdrawal
 - Information-seeking behavior

Sample includes managers from wide range of firms



- Business with Russia: 16.5% [▶ Russia](#)
- Business with China or US: 60.6% [▶ China/US](#)
- Positions: 34% in business headquarters class or above [▶ position](#)
- High baseline support for sanctions [▶ baseline](#) [▶ impacted](#)

Survey flow: main effect



Withdrawal information treatment prompts

Treatment 1: US firms withdraw

Treatment 2: Firms of multiple nationalities withdraw

Treatment 3: Chinese firms stay

Some US firms like General Motors, Microsoft, Nike, and Starbucks have stopped selling their products in Russia.

In addition, firms from other countries like Samsung (South Korea), BP (UK), H&M Hennes Mauritz (Sweden), Toyota (Japan), and BMW (Germany) are also withdrawing their business from Russia.

Yet, many Chinese firms like Alibaba, China Mobile, Shanghai Fosun Pharmaceutical, and Great Wall Motor are still keeping their sales and production activities in Russia.

▶ Survey intro

▶ Survey flow

Evaluating reputation mechanism

Additional prompt randomized across branches

Some US firms like General Motors, Microsoft, Nike, and Starbucks have stopped selling their products in Russia.

In addition, firms from other countries like Samsung (South Korea), BP (UK), H&M Hennes Mauritz (Sweden), Toyota (Japan), and BMW (Germany) are also withdrawing their business from Russia.

Yet, many Chinese firms like Alibaba, China Mobile, Shanghai Fosun Pharmaceutical, and Great Wall Motor are still keeping their sales and production activities in Russia.

Some analysts say that firms in global markets were concerned that continuing their business with Russia would harm their reputations among both domestic and international consumers, investors, and client firms.

▶ Survey intro

▶ Survey flow

▶ Design

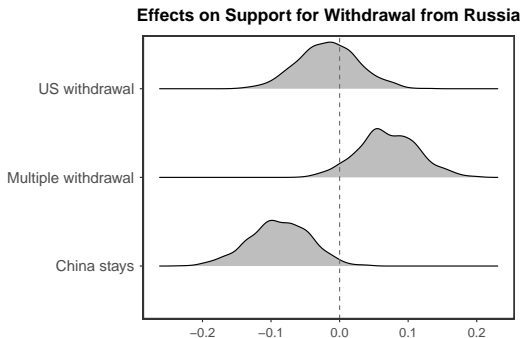
Empirical strategy

$$\text{logit}(P(Y_i \leq k)) = \alpha_k + \beta_1 T_i + \beta_2^\top \mathbf{X}_i + \epsilon_i$$

- Estimation with ordered logit
 - Y_i : the ordinal 3-level outcome
 - T_i : binary treatment indicator
 - \mathbf{X}_i : firm-level and individual-level controls
 - All models include block-level industry fixed effects

▶ list of covariates

Main results: peer conformity and competition



H1 (peer conformity): Information of firms from multiple nationalities withdrawing increases support for withdrawal.

H2 (peer competition): Information of Chinese firms staying reduces support.

▶ Russia business

▶ Higher manager

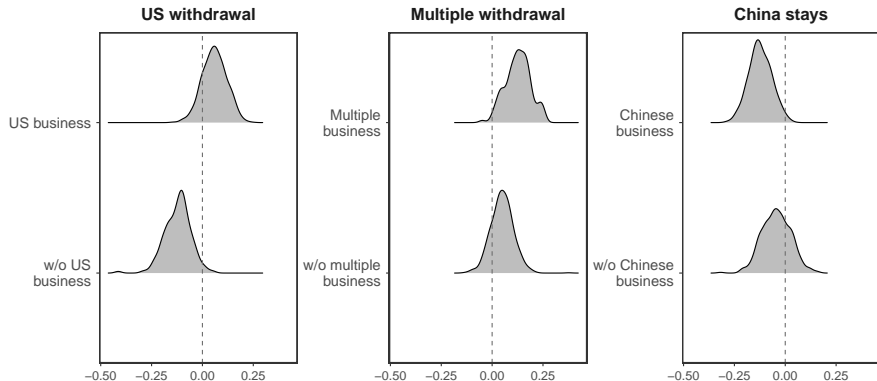
▶ War impact

▶ Industry heterogeneity

▶ Firm Size

▶ Impor/Export

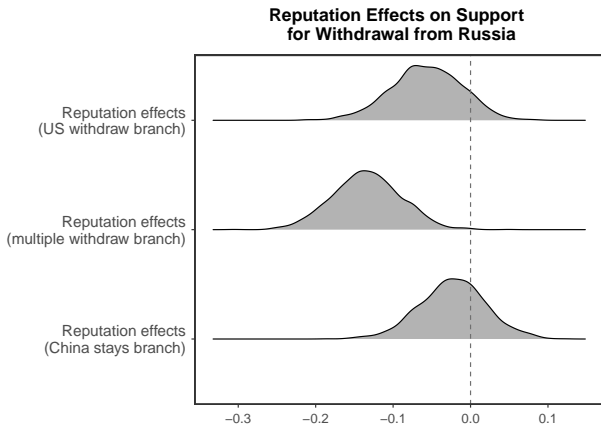
Market stakes moderate responses



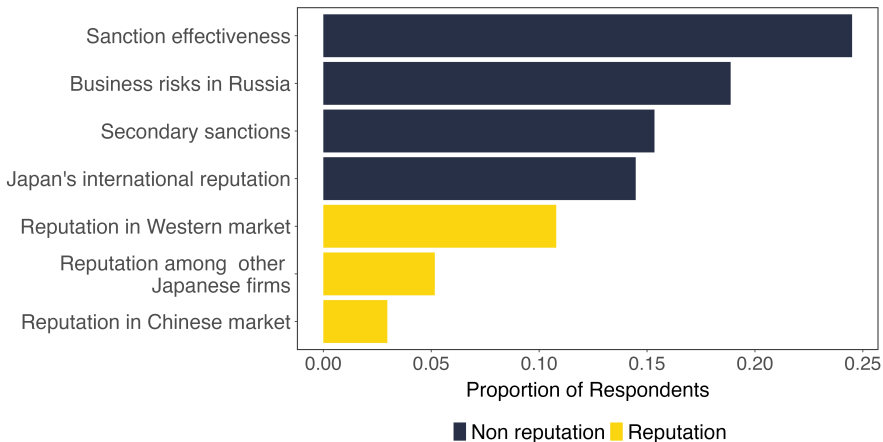
H3: Stronger effects for those whose firm invested in respective markets

Reputation mechanism not supported

Prompting with reputation concerns, if anything, reduces support for withdrawal



Other motivations



Effectiveness in deterrence, business risks, secondary sanctions as major concerns

Conclusion

- Main findings
 - **Peer conformity** creates incentives to follow the lead of others
 - But *not* driven by following U.S. firms or reputation concerns
 - **Peer competition** makes firms cautious against withdrawal
 - **Market exposure** moderates these effects
 - Sanction effectiveness and business risk form major reasons to support withdrawal
- Implications
 - Firm engagement with corporate social responsibility goals includes international crises
 - Sanctions require broad coalition for private-sector actions
 - Managers look to other firms for guidance

We look forward to your comments

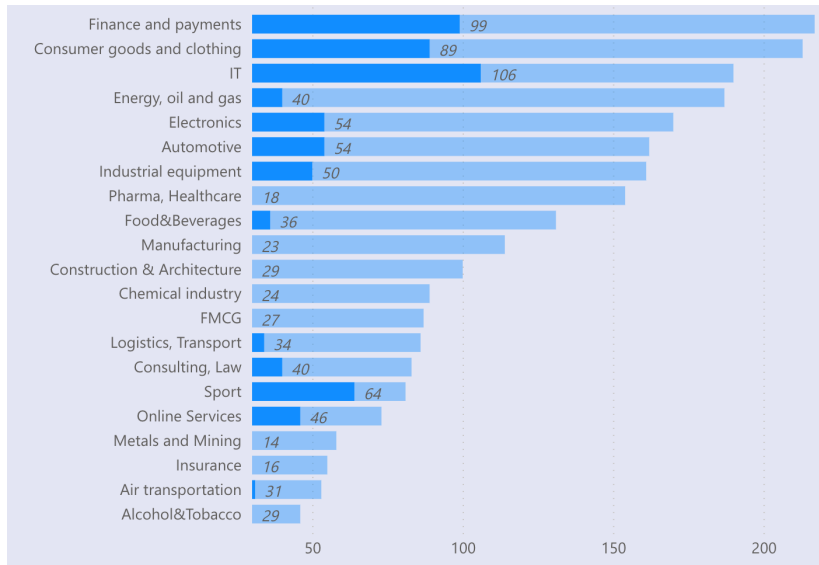
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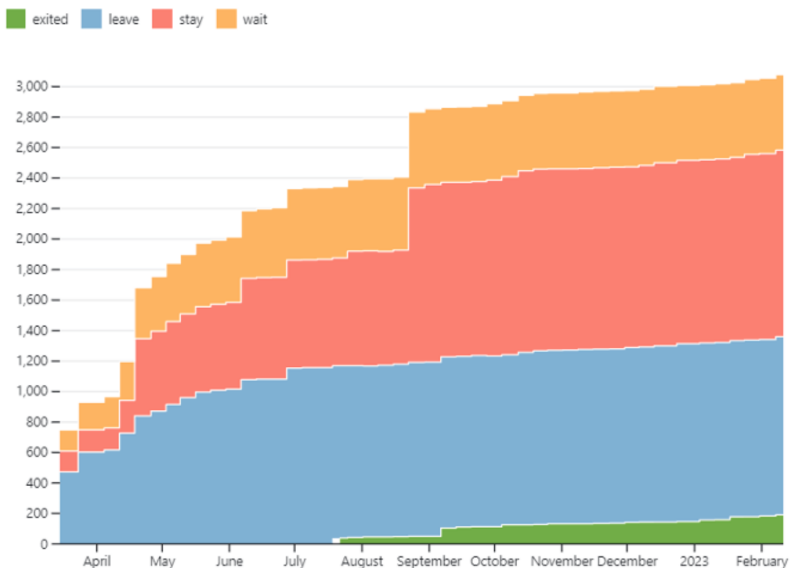
Additional Slides

Foreign Firm Leaving and Staying in Russia (by Industry)



Source: KSE Institute, 2023.02.12

Foreign Firm Leaving and Staying in Russia (Cumulative)



Pre-treatment background information

Russia's invasion of Ukraine violates international law and has led to thousands of civilian deaths and millions of refugees fleeing the country. The governments of Japan, the United States, and the EU are imposing sanctions such as restrictions on trade and financial transactions.

ロシアのウクライナ侵攻は国際法に違反しており、数千人の民間人が死亡し、数百万人の難民が国を逃れる事態に発展しています。日本・米国・EUの政府は、ロシアに対し貿易や金融取引の制限などの経済制裁を課しています。

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Outcome measurement

- Do you think Japanese firms should withdraw their business with Russian firms/market?
- 日本の企業は、ロシア市場や企業との取引をやめるべきだと思いますか。
- What is the main factor you consider when choosing your stance on what the Japanese firms should do?
- 上記で日本企業がロシア市場/企業との取引を停止すべきかどうか判断するにあたって、あなたが特に重要だと思う要因は何ですか。当てはまるものを全てお選びください。
- Would you or someone in charge of your firm's foreign business activities be interested in getting more information regarding the situation in Ukraine? Please choose all that apply. (We will provide links to information at the end of the survey so that you can check after finishing the survey.)
- あなたまたは貴社の海外事業担当者は、ウクライナ情勢に関する以下のオンライン情報に興味があるでしょうか。当てはまるものを全てお選びください。（調査の最終ページに実際のリンクを表示しますので、よろしければ調査終了後にご確認ください。）

Balance check

	Textile & Furniture (N=89)		Food & Beverage (N=155)		Chemical & Metal (N=420)		Machinery (N=374)		Construction & Mining (N=562)		Transportation (N=142)		Others (N=213)	
	N	Pct.	N	Pct.	N	Pct.	N	Pct.	N	Pct.	N	Pct.	N	Pct.
Control	12	13.5	23	14.8	61	14.5	54	14.4	84	14.9	21	14.8	31	14.6
US firms withdrawal	14	15.7	23	14.8	60	14.3	53	14.2	79	14.1	19	13.4	31	14.6
US firms withdrawal + reputation	13	14.6	22	14.2	63	15.0	54	14.4	83	14.8	21	14.8	31	14.6
Multiple countries firms withdrawal	12	13.5	21	13.5	61	14.5	54	14.4	81	14.4	19	13.4	31	14.6
Multiple countries firms withdrawal + reputation	13	14.6	23	14.8	60	14.3	54	14.4	83	14.8	21	14.8	29	13.6
Chinese firms stay	13	14.6	22	14.2	55	13.1	51	13.6	74	13.2	21	14.8	30	14.1
Chinese firms stay + reputation	12	13.5	21	13.5	60	14.3	54	14.4	78	13.9	20	14.1	30	14.1

Covariate balance

	Control (N=286)		US firms withdrawal (N=279)		US firms withdrawal reputation(N=287)		Multiple firms withdrawal (N=279)		Multiple firms withdrawal + reputation (N=283)		Chinese firms stay (N=266)		Chinese firms stay + reputation (N=275)	
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
Support sanction	1.0	0.2	0.9	0.3	1.0	0.2	0.9	0.3	0.9	0.3	0.9	0.2	0.9	0.3
Sanction impact	0.6	0.5	0.6	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5
Sanction second	0.8	0.4	0.8	0.4	0.8	0.4	0.8	0.4	0.8	0.4	0.8	0.4	0.8	0.4

		Control (N=286)		US firms withdrawal (N=279)		US firms withdrawal reputation(N=287)		Multiple firms withdrawal (N=279)		Multiple firms withdrawal + reputation (N=283)		Chinese firms stay (N=266)		Chinese firms stay + reputation (N=275)	
		N	Pct.	N	Pct.	N	Pct.	N	Pct.	N	Pct.	N	Pct.	N	Pct.
Employee	1	55	19.2	57	20.4	56	19.5	64	22.9	65	23.0	48	18.0	62	22.5
	2	167	58.4	158	56.6	155	54.0	166	59.5	164	58.0	149	56.0	151	54.9
	3	64	22.4	63	22.6	76	26.5	49	17.6	54	19.1	68	25.6	62	22.5
Tokyo and Osaka	0	114	39.9	121	43.4	131	45.6	135	48.4	131	46.3	108	40.6	124	45.1
	1	172	60.1	158	56.6	156	54.4	144	51.6	152	53.7	158	59.4	151	54.9
Manufacturing	0	84	29.4	79	28.3	83	28.9	81	29.0	83	29.3	74	27.8	78	28.4
	1	202	70.6	200	71.7	204	71.1	198	71.0	200	70.7	192	72.2	197	71.6
Established year	0	137	47.9	129	46.2	134	46.7	143	51.3	135	47.7	130	48.9	131	47.6
	1	139	48.6	140	50.2	139	48.4	126	45.2	135	47.7	125	47.0	130	47.3
Japanese ownership	0	48	16.8	50	17.9	51	17.8	46	16.5	49	17.3	52	19.5	49	17.8
	1	215	75.2	214	76.7	220	76.7	217	77.8	230	81.3	199	74.8	206	74.9
Capital	1	44	15.4	49	17.6	52	18.1	55	19.7	48	17.0	50	18.8	54	19.6
	2	109	38.1	107	38.4	103	35.9	116	41.6	118	41.7	69	25.9	103	37.5
	3	114	39.9	98	35.1	107	37.3	85	30.5	94	33.2	115	43.2	91	33.1
Sales	1	50	17.5	58	20.8	56	19.5	69	24.7	64	22.6	50	18.8	63	22.9
	2	83	29.0	86	30.8	92	32.1	99	35.5	90	31.8	63	23.7	85	30.9
	3	139	48.6	121	43.4	121	42.2	97	34.8	116	41.0	130	48.9	117	42.5
Position	1	108	37.8	102	36.6	93	32.4	96	34.4	102	36.0	88	33.1	78	28.4
	2	102	35.7	99	35.5	106	36.9	99	35.5	106	37.5	90	33.8	111	40.4
	3	76	26.6	78	28.0	88	30.7	84	30.1	75	26.5	88	33.1	86	31.3
Years employed	0	178	62.2	181	64.9	194	67.6	179	64.2	173	61.1	176	66.2	184	66.9
	1	106	37.1	98	35.1	93	32.4	100	35.8	110	38.9	89	33.5	91	33.1
Age	1	30	10.5	23	8.2	29	10.1	30	10.8	33	11.7	31	11.7	27	9.8
	2	191	66.8	202	72.4	197	68.6	187	67.0	192	67.8	179	67.3	186	67.6
	3	65	22.7	54	19.4	61	21.3	62	22.2	58	20.5	56	21.1	62	22.5
Income	0	152	53.1	140	50.2	176	61.3	158	56.6	152	53.7	130	48.9	150	54.5
	1	105	36.7	107	38.4	88	30.7	97	34.8	107	37.8	116	43.6	100	36.4
College degree	0	42	14.7	41	14.7	57	19.9	61	21.9	42	14.8	44	16.5	50	18.2
	1	244	85.3	238	85.3	230	80.1	218	78.1	241	85.2	222	83.5	225	81.8

Firm- and individual-level covariates

- Covariates include
 - Firm-level controls: industry, employment size, location, production activities, foreign ownership
 - Individual-level controls: position, education, income, seniority
 - Pre-treatment baseline support for sanction on Russia and impact of Ukraine crisis

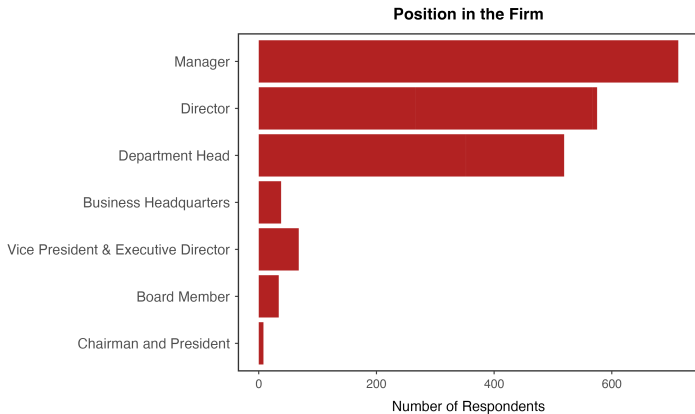
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Business with US and China

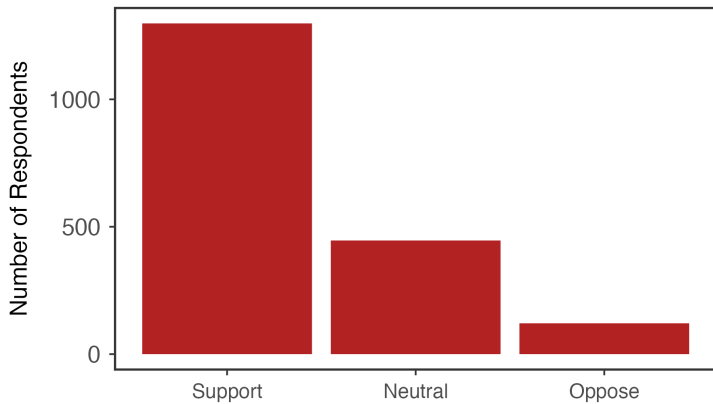
	Trade with US	No	Yes	Total
Trade with China				
No		770	106	876 (44.8%)
Yes		215	864	1079 (55.2%)
Total		985 (50.4%)	970 (49.6%)	1955

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Positions in the Firm

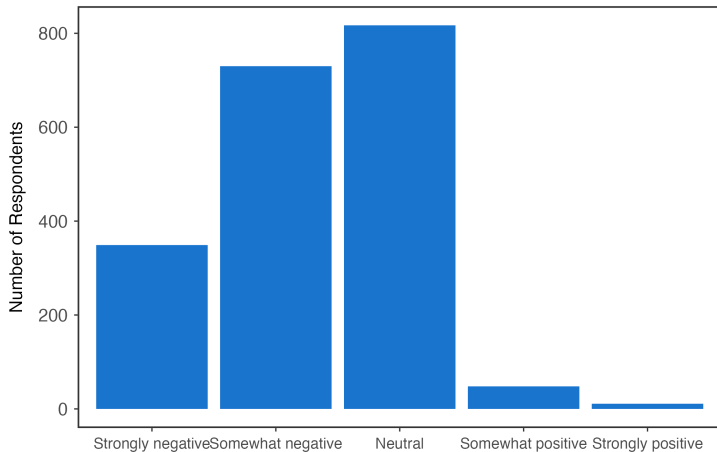


Baseline Support for Sanction

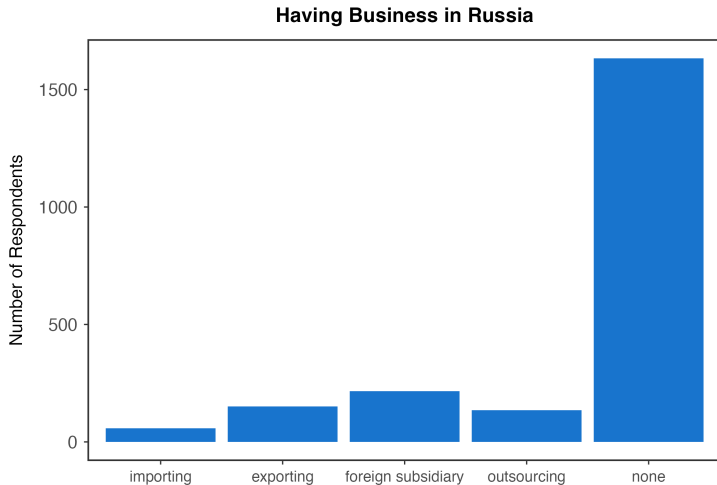


Impact by Ukraine Crisis

Support for Japan's Sanction on Russia

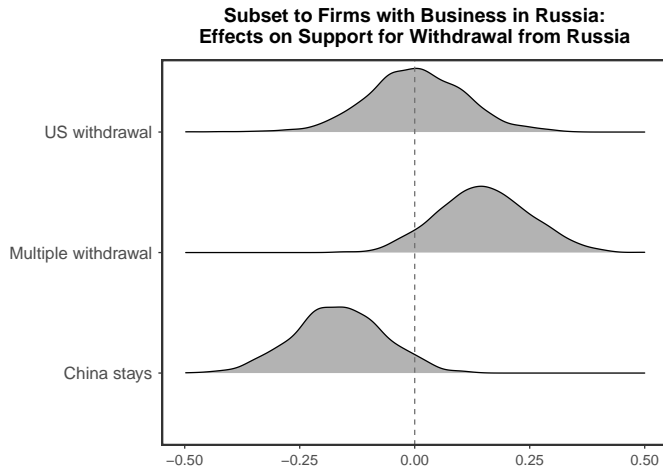


Business in Russia

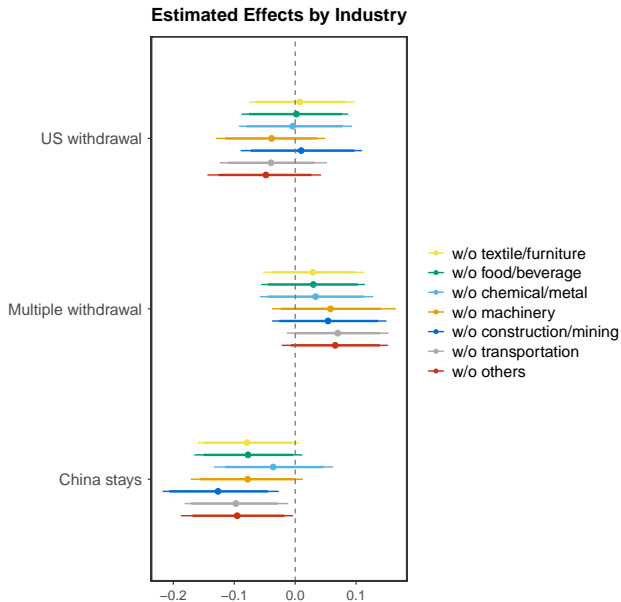


Business with Russia

Subset to firms that have business with Russia (import and export activities, outsourcing, or local subsidiaries, N = 322)

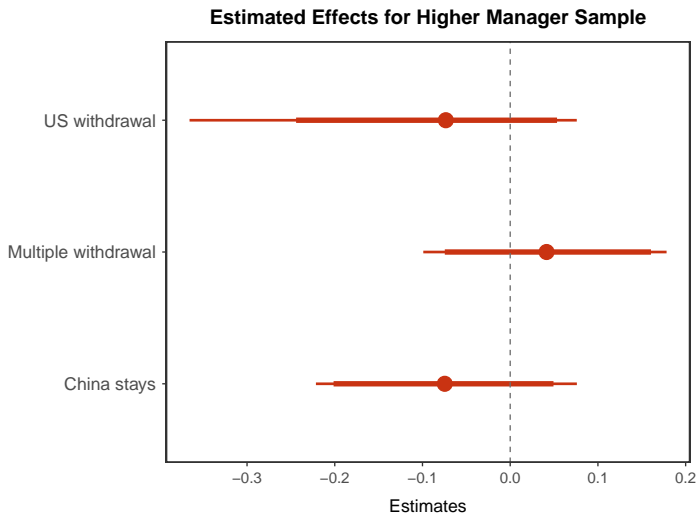


Heterogeneous Effects by Industry



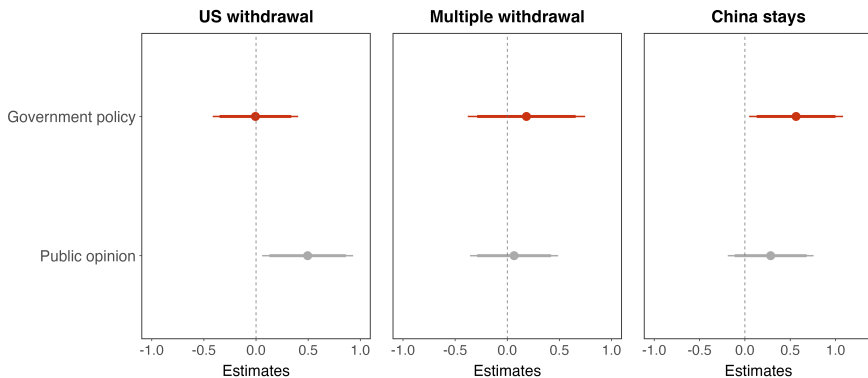
Higher Manager Sample

Subset to respondents that belong to the business headquarters class or above

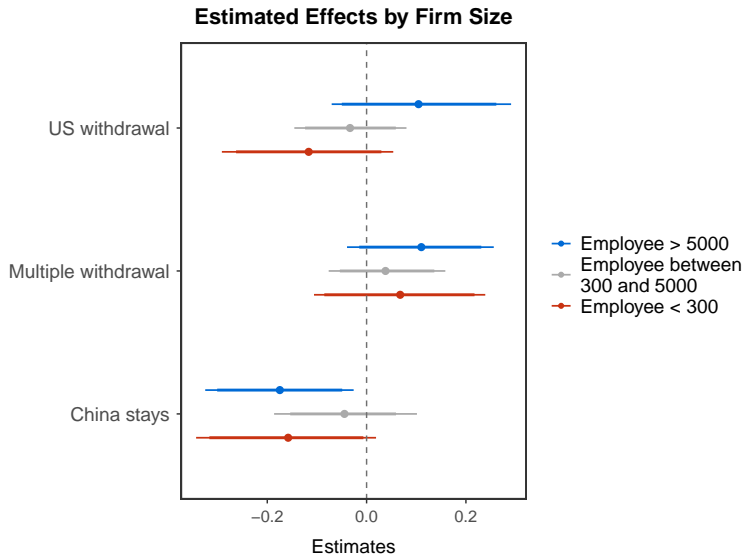


Behavioral outcomes: seeking information

- Vignettes lead respondents to seek more information
- US firm withdrawal → interest in US public opinion
- Chinese firms staying → interest in Chinese government policy

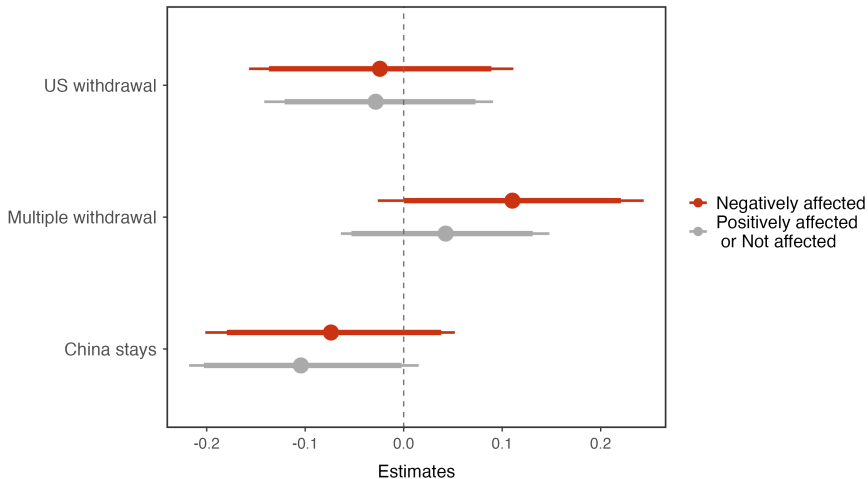


Heterogeneous Effects by Firm Size



Heterogeneous Effects by the Impact of Ukraine War

Business Impact of War and Support for Withdrawal



Heterogeneous effects by firm activities

