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Article

Should I Stay or Should I Go? How Danish MNEs in Russia Respond to a Geopolitical Shift

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Geopolitical shifts are having an increased impact on multinational enterprises. We propose a framework that illustrates how corporate responses to geopolitical shifts vary with operational and reputational considerations. We build our framework from evidence of how five Danish multinationals with operations in Russia responded to the Russian invasion of Ukraine. The selected cases highlight several drivers of operational and reputational considerations that offer reasons for MNEs' heterogeneity in strategic responses. Based on our framework, we derive recommendations for managers in terms of increased preparedness and awareness. We also recommend that policymakers reconsider their strategies for using corporations as geopolitical instruments.

INTRODUCTION

It is rare for the CEO of a major multinational enterprise (MNE) to publicly come out and criticize another large MNE. Yet this is precisely what Søren Skou, CEO of the Danish shipping giant Maersk, did in May 2022 when he said that 'some companies risk having to pay a very high price for staying in Russia' (Berlingske, 2022). To local observers, it was immediately obvious that the company mostly in question was the shoe company Ecco, another Danish firm. Whilst Maersk had decided to close down its business in Russia following the Russian invasion of Ukraine, Ecco had publicly stated that it would stay in the country. This produced a big outcry in Denmark, where Ecco's decision was broadly seen as being irresponsible.

These different strategic reactions to a major geopolitical shift case beg the question of *how MNEs should respond to geopolitical shifts*. To answer this question, we propose a framework that illustrates corporate strategic responses based on management's assessment of operational and reputational costs caused by geopolitical shifts. We exploit the Danish context to develop our framework. First, economic considerations are major drivers of the internationalization of Danish MNEs, given the limited size of the domestic market. Second, Danish MNEs face strong societal pressure for responsible and sustainable business conduct at home.

Based on our framework, we discuss recommendations that international business scholarship can offer to MNEs and policymakers on how to deal with geopolitical changes. Specifically, we recommend that MNEs should be better prepared and more aware to deal with the new geopolitical landscape effectively. We also suggest that policymakers weigh the implications of using companies as instruments in geopolitics.

TRADE-OFF BETWEEN OPERATIONAL AND REPUTATIONAL CONSIDERATIONS

The objectives and responsibilities of firms toward society have generated a lively and continuously evolving conversation revamped in the last decade with the establishment of the 17 Sustainable Development Goals (SDGs). In response to these developments, many corporations have voluntarily committed to universal sustainability principles and supported the United Nations (UN) SDGs through initiatives like the UN Global Compact. However, news reports abound on MNEs that leverage their ability to arbitrage across institutional contexts where they run their own activities and/or establish supply relationships with local firms. MNEs can engage in a competitive downward spiral of standards targeting low-standard locations based on operational considerations that value efficiency and profit maximization (Javorcik & Spatareanu, 2005).

This strategy may come with reputational costs because an increasing variety of stakeholders expect MNEs to run sustainable and responsible operations and supply chains across borders (Wettstein, Giuliani, Santangelo, & Stahl, 2019). Failing to live up to these expectations, MNEs are exposed to NGOs and activists' campaigns with detrimental effects on their corporate reputation, which spill over across countries and turn into reputational costs (Maggioni, Santangelo, & Koymen-Ozer, 2019; Rabbiosi & Santangelo, 2019). These costs can be severe because a reputation is hard to build and repair once damaged (Harvey,

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Figure 1. Trade-off between operational and reputational costs

		Reputational costs of staying	
		Low	*High*
Operational costs of exit	*Low*	No trade-off	Reputational considerations prevail
	High	Operational considerations prevail	Specific contingencies will guide MNE's strategic response

2021; Rhee & Valdez, 2009). Therefore, reputational risk and the associated legitimacy deficit increasingly motivate MNEs to act as corporate citizens and lift local standards in the countries where they operate directly or through partnerships (Rodrik, 1996; Scherer & Palazzo, 2011).

The escalation of geopolitical shifts has amplified the complexity of the conversation. MNEs have become geopolitical instruments of countries and their political strategies. The Russian invasion of Ukraine, with its extensive impact on the Russian and global economies (Markus, 2022) is a clear example of this. Companies headquartered in Western democracies with affiliates or suppliers in Russia must respond to requests of civil society to reconsider their presence in the country while assessing the operational feasibility of these demands and their economic consequences. Thus, changes in geopolitics make even more pressing the question of whether business goals can be secondary to social considerations and how MNEs should strategize in this new global landscape.

The trade-off between the reputational costs of staying and the operational costs of exit are summarized in Figure 1. MNEs often find that one type of cost prevails over the other, with those higher costs likely informing MNEs' strategic decisions (top-right and bottom-left boxes). Sometimes there are situations where both costs are low (top-left box). MNEs may also confront a less straightforward situation when both costs are high (bottom-right box). In this scenario, the trade-off between operational and reputational considerations that MNEs face is significant, and the ultimate strategy of the MNEs will depend on specific contingencies (Maggioni et al., 2019).

CORPORATE RESPONSES TO GEOPOLITICAL SHIFTS: THE CASE OF DANISH MNES IN RUSSIA

There was a strong sentiment in domestic media, politics and increasingly in the business world for Danish firms to pull out of Russia after the invasion. But not all firms complied with this. In terms of this outcome, we observe that Danish firms are not exceptional. The leave-russia.org website, which tracks the decisions of thousands of firms, shows that among Danish firms, 47.8% have either pulled out of Russia, are in the process of doing so, or have suspended operations, as compared to a global average of 48.1% (Leave-russia.org, 2022), although we note that other evidence suggests that only 8.5% of firms had in fact completed their exit in late 2022 (Evenett & Pisani, 2023).

We present five short cases of how Danish MNEs have responded to the Russian invasion of Ukraine based on public sources – one for each quadrant of Figure 1, but for quadrant four for which two cases exemplify the role of specific contingencies. The five examples are Novo Nordisk (pharmaceutical), Carlsberg (brewing), Rockwool (mineral wool), Ecco (shoes), and Maersk (shipping). All these companies had economic interests in Russia prior to the invasion, and their decisions regarding their Russian operations were under the spotlight of Danish media. We are particularly interested in what decisions they took regarding their presence in Russia, how they motivated these decisions, and how stakeholders in the home country responded. Table 1 illustrates each of these dimensions.

The five cases testify to the tension between operational and reputational considerations that the geopolitical shift triggered by the Ukrainian crisis has exacerbated. Novo Nordisk halted its clinical trials in Russia as well as its marketing investments but continued to produce insulin and other products for the Russian market in Russia. In the absence of a strong trade-off between operational and reputational costs, the final decision of Novo Nordisk to stay in Russia is best explained by medical-ethical considerations. At the outbreak of the war in Ukraine, Rockwool canceled a EUR 200 million-expansion investment in a new factory. However, it has chosen to continue operating in Russia because operational considerations prevailed. Yet, the company was mindful of reputational costs and donated money to Ukraine. Operational considerations were less pressing possibly because the company can easily re-enter the Russian market. Instead, Carlsberg's immediate decision was to stop new investments and exports and to donate EUR 10 million to humanitarian efforts. Carlsberg continued running Baltika Breweries because of the relevance of the Russian market for its business. In March 2022, this decision attracted increasing negative stakeholder attention and media coverage leading to high reputational costs. At the end of the same month, Carlsberg announced that it would seek full disposal of its Russian business and leave the country. Thus, reputational considerations prevailed over operational ones. Shortly after the invasion, Maersk announced it would review its operations in Russia as it might not be able to deliver to customers as promised. A few days later, in parallel with two of its competitors, it announced that it intended to withdraw completely from Russia. Ecco also faced both high reputational and operational costs. However, despite the negative media coverage and a partial product boycott in Denmark, Ecco's strategic response was to stay in Russia. The different decisions of the

Table 1. Five cases of Danish MNEs operating in Ukraine at the time of the crisis breakout

	Novo Nordisk	Rockwool	Carlsberg	Ecco	Maersk
Company profile	Largest Danish firm by market capitalization with 48,000 employees.	Family-owned company with about 12,000 employees and present in 39 countries across five continents.	Employs around 41,000 people, is present in more than 100 countries, and has more than 140 brands in its beer portfolio.	Family-owned company with 21,000 employees, and has factories in 6 locations across the globe.	One of Denmark's largest firms, with sales of 62 Billion USD and 83,000 employees.
Presence in Russia prior to the Ukrainian crisis	• Production, clinical trials and marketing activities. • Ukraine and Russia combined amounted to 1% of global sales.	• 2010: acquisition of a local factory. • 2012: opening of a greenfield factory. • As of March 2022, Rockwool had four factories and 1,200 employees (about 10% of the entire workforce) in Russia. • The products produced in Russia are for the Russian market. • Russian sales grew by double-digits in 2021.	• In 2021, Carlsberg's market share in Russia was about 27%, the second largest after AB In-Bev – the world's biggest brewery.	• The company has significant financial interests in Russia, which accounts for 17.3% of its sales of EUR 1.1 Billion and 2,000 of its 21,000 employees.	• Maersk owned stakes in ports in Russia and also sailed its ships there. • About 1% of sales came from Russia.
Strategic decision	• Novo Nordisk provided help to Ukraine, among others by gifting its medicines at the start of the war. • In March 2022, it suspended investments in marketing promotion and clinical research and new clinical trials. • It continues to provide medicines to patients in Russia from its plant there	• At the outbreak of the war in Ukraine, Rockwool canceled a EUR 200 million expansion investment in a new factory. However, it has chosen to continue to operate in Russia. • Company's donations helped relieve the humanitarian situation in Ukraine. Commitment to contribute actively to the reconstruction of Ukraine with about 20 million EUR.	• Immediate decision of Carlsberg was to stop new investments and exports. • Carlsberg was continuing running Baltika Breweries in Russia. • Donation of EUR 10 million to humanitarian efforts in Ukraine. • End of March 2022: Carlsberg announced that it would seek full disposal of its Russian business and leave the country.	• Ecco announced that it would not pull out of Russia.	• Shortly after the invasion, Maersk announced it would review its operations in Russia as it might not be able to deliver to customers as promised. • A few days later, in parallel with two of its competitors, it announced that it intended to withdraw completely from Russia. • Maersk started looking for potential buyers for its ports.
Motivations for strategic decision	• "As a pharmaceutical company, we have a responsibility to provide all the necessary medicines to patients with chronic diseases, and therefore we try to do everything we can to support patients' access to life-saving medicines."	• Stay in Russia to take care of the Russian employees and their families. • Rockwool top management has argued that "exit would mean a billion-dollar gift to Russia" and	• Initial decision to stay justified with the reason of sustaining the Russian employees and their families. • End of March 2022: The decision to exit came after a similar	• Stay in Russia to protect the livelihood of Ecco's employees working across 250 shops. • Ecco's management pointed to the limited	• The company motivated its decision by citing its desire to be a responsible firm and to align its approach with society.

	Novo Nordisk	Rockwool	Carlsberg	Ecco	Maersk
		to hand over important technological knowledge that is unique. • End of May 2022: the chairperson of the Rockwool Foundation, Thomas Kähler, stated that all the competitors also were continuing their activities in the country.	one taken by the competitor Heineken and later followed by the world's largest brewer Anheuser-Busch InBev.	economic impact of the company's operations in comparison to the oil and gas sector.	
Stakeholder reaction at home	• There was no apparent criticism. In November 2022 a newspaper article reported about the 'ongoing moral dilemma'.	• Negative media attention and exposure to stakeholder pressure in Denmark	• End of March 2022: increasing stakeholder pressure and negative media coverage triggered a strategic review of the situation by the top management.	• In Denmark, Ecco was perhaps the most heavily criticized firm for the decision to stay. • Danish retailers stopped selling Ecco shoes and the company lost its 'royal supplier' label.	• The company acted rapidly and there were no clear signs of disagreement with Maersk's approach from stakeholders.

Figure 2. Danish MNEs' strategic responses to geopolitical shift

		Reputational costs of staying	
		Low	*High*
Operational costs of exit	*Low*	STAY Novo Nordisk	EXIT Maersk
	High	STAY Rockwool	EXIT/STAY Carlsberg/Ecco

two companies could perhaps be related to the relatively low importance of the Danish home market for Ecco, or to the fact that it had only recently vertically integrated operations in the Russian market by becoming the owner of its stores. Moreover, a global player with a single brand like Ecco is more likely to suffer in its long-term earnings and its ability to survive by exiting.

Figure 2 replicates the two-by-two matrix in Figure 1 and boxes in the strategic responses of the five Danish MNEs.

DRIVERS OF OPERATIONAL AND REPUTATIONAL COSTS

Despite the rising weight of societal expectations in global strategy, MNEs are heterogeneous in their sensitivity to operational and reputational considerations. Building on our five cases, we identify a number of drivers of operational and reputational costs deterring or easing exit decisions in response to geopolitical shifts. The list of drivers is not exhaustive but aims to illustrate reasons for heterogeneity in strategic responses.

One of the most common drivers of reputational costs is negative media coverage. Such negative attention can be exacerbated by stakeholders' direct protests and calls for boycotts. Other drivers may affect reputational costs in ways that are more indirect. For instance, companies may use tactics to neutralize or mitigate anticipated negative media reactions. Several Danish companies used the concerns of their local employees as a reason for staying in Russia. However, a justification of this type will backfire to the extent that it collides with stakeholders' condemnation of the troubled country. Moreover, the greater and more diffuse such disapproval in public opinion, the more likely the risk of threatening the organizational identity of home and third country employees. They will face contrasting identities due to their own values, the outside world's view and the company's position. Exposure to contrasting identities is even more dangerous when alternative ways to support local employees are available. For instance, in the case of Russia, McDonald's decided to exit but also to pay salaries for an additional six months. This exacerbated the perception that some companies were using the 'caring for local employees' argument as an excuse. Indirectly, the behavior of other companies can also trigger reputational costs. The decision of more and more companies to cease their activities in Russia may prompt a knock-on effect. MNEs that leave send a strong signal to the public indicating that an exit is a real option. This contributes to reinforcing stakeholder expectations, which place additional demands on companies to demonstrate social responsibility. The reputational burden will become even more pressing when competitors decide to exit.

Considering operational costs, a key driver is the relative importance of the local market. The larger the market share in the troubled country and its importance to sales, the costlier the decision to exit. Operational costs also depend on the number of brands. Although companies with few brands may be resourceful, the deployment of dismissed resources in alternative brands may not be possible or easy to achieve in the short run. This is probably one of the main differences between Carlsberg and Ecco. The reversibility of the strategic response also matters for operational costs. That is, if a firm can easily re-enter a market, as is the case for Maersk, this will mitigate operational cost considerations. Finally, under high geopolitical risk the choice of leaving a country will depend on the degree of technological appropriability associated with such a decision. For example, the technological appropriability risk will differ largely if we compare a possible nationalization of Carlsberg breweries with that of Rockwool factories. "If I wanted to start a beer production today, I can find the technology for it. But our technology is completely unique, it is not found anywhere else outside of Rockwool. … We are the best in the world at producing stone wool. You cannot buy our factories. They can only be built by us.", stated Jens Birgersson – CEO of Rockwool (Finans, 2022a). Thus, selling a business when it is locally rooted and involves valuable intellectual property rights and know-how can create long-term damage in the form of technology loss and the creation/development of global competitors. For instance, the Russian competitor Technonicol – an obvious buyer of Rockwool's Russian activities – would strengthen its technological position and international presence if Rockwool were to leave Russia.

HOW SHOULD MNES RESPOND TO GEOPOLITICAL SHIFTS?

Two main recommendations for MNEs can be derived from our framework: They should increase preparedness for geopolitical risk and awareness of the constraints imposed on their responses to this risk.

"No one has prepared to deal with management in a war situation. It's brand new for all of us" said the CEO of Sportsmaster Denmark, Andreas Holm (Finans, 2022b). It is clear that Russia's invasion of Ukraine took many firms by surprise – and along with them, many other observers in, among others, the political, media and academic landscapes. But there are other simmering situations, such as the China-Taiwan standoff and relations between India and Pakistan. So sudden geopolitical shifts appear to become more common again, in contrast to the relatively benign decade or two that followed the fall of the iron curtain. These shifts are also likely to be more impactful because of economic globalization and the increased foreign investment and cross-border ties this has produced. This implies that *MNEs must become more responsive in dealing with such shifts and avoid incident-based action*. In other words, the new global landscape requires greater preparedness and, thus, a carefully designed upfront strategy.

In making such preparations, our cases and framework suggest there is a great deal of heterogeneity that defines the leeway of MNEs. This heterogeneity stems from a range of country, industry and firm-level factors that influence the trade-off between operational and reputational considerations. For instance, within a home context characterized by strong societal pressure for responsible and sustainable business conduct, such as Denmark, reputational considerations tend to have a substantial weight and translate into pressure to exit and/or engage in accommodating actions like abandoning expansion investments, stop exporting, and commit donations to the harmed society. Our case-based evidence also suggests that the strength of these considerations varies across industries. Pharmaceutical companies, for instance, can apply arguments about life-saving products that require a continued presence in Russia. In contrast, the exact opposite is true for oil and gas companies that are seen to support the Russian regime most directly. And, at the firm level, factors like the economic importance of a given market for the MNE, the interconnection of markets in the MNE's business, the company's corporate ownership (i.e., private versus public versus state ownership), and its visibility in terms of size and brand matter. Therefore, *when firms respond, they must realize that they are constrained by country, industry, and firm factors that influence the trade-off between operational and reputational considerations*.

But how can this change of corporate mindset best be operationalized? First, firms must build more expertise and undertake more analysis. This may involve hiring staff with knowledge of international politics or accessing such knowledge. It will also mean improving the understanding of risks associated with existing and new investments. The current situation should act as a wake-up call that the typical risk analyses firms undertake when investing abroad may have become overly optimistic about downside risks stemming from geopolitics. One specific tool we can suggest in this regard is scenario planning. With a scenario planning approach, firms can understand the implications of a variety of possible developments. These insights should then be integrated into decision-making about foreign entry and exit, as well as the day-to-day running of regional and national subsidiaries.

Finally, our recommendation for policymakers is that the emerging reality is that MNEs are increasingly becoming instruments in geopolitical shifts but are often left alone to deal with the consequences. This is clear from the invasion of Ukraine, but also in cases such as the US position vis-à-vis Chinese tech firms and European banks in London after Brexit. This implies that *policymakers should think through how they want to strategize around those instruments in connection to geopolitics and economic welfare*. Are MNEs expected to always align with their home country political system and wishes, for instance? In the case of Ecco, the firm said it would have followed directives from the Danish government, but these have thus far not appeared. This also shows a dilemma most policymakers face, namely that they hesitate to intervene too much and too directly in the free market.

CONCLUSIONS

Drawing on case-based evidence of the strategic response of five Danish firms to the invasion of Ukraine, our work develops a framework to guide MNEs in a world characterized by the rising importance of geopolitics. Our framework indicates that reputational and operational cost considerations drive MNE responses to geopolitical risks. We derive two recommendations from our framework in terms of increased preparedness and awareness. We also recommend that policymakers reconsider the extent and manner in which they are willing to use firms as geopolitical instruments.

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Larissa Rabbiosi is a Professor in Strategy and International Business. Her research concerns the relationship between the organization of firms and their strategic choices with a particular focus on innovation, and international business. Her more recent work includes the study of MNEs' strategic choices in relation to immigration and firm misconduct. She has published in leading academic journals and received a number of international awards and research grants.

Grazia D. Santangelo is a Professor of Strategic and International Management. She has researched the evolution of firms' internationalization process and how firms strategize on their intangibles, such as knowledge and reputation, across borders. More recently, she has studied MNEs and Grand Challenges. Her research has been published in leading academic journals and recognized by a number of

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