Emilia Garcia-Appendini discussion of: Private sanctions

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In this paper, Oliver Hart, David Thesmar and Luigi Zingales investigate the role of private corporations in imposing sanctions on belligerent nations – a novel phenomenon observed following Russia's invasion of Ukraine in February 2022. For their analysis, the authors survey the views of a representative sample of the US population, randomly assigned as hypothetical firm stakeholders (respectively, shareholders, employees or customers) on whether they would continue to do business with a firm that refuses to cut its ties with the aggressor. The survey is set up to examine the willingness of these stakeholders to impose private sanctions through boycotts and other measures and to investigate the factors influencing their decisions.

To guide the empirical analysis, the authors develop a model designed to frame the decision-making process of the firm stakeholders when considering imposing sanctions, acknowledging that firm decisions are influenced by the preferences and pressures of the various stakeholders. The model posits that stakeholders weigh the personal costs against the moral and reputational benefits of imposing sanctions. The model also accounts for a potential impact of sanctions on the firm's market position and financial performance. These features are incorporated into the survey by randomizing hypothetical costs of exiting the firm and beliefs about the impact on the firm, allowing the authors to distinguish between 'deontological' (i.e. exit the firm irrespective of the consequences) and impact-related motives for exiting.

The analysis reveals that the decision to impose sanctions incorporates both moral and economic dimensions. All stakeholders, including customers, employees and shareholders, weigh moral values against their individual costs of disassociating from a company. Notably, the finding that moral considerations matter stands in contrast with Milton Friedman's premise that 'the business of business is business'. Among the different stakeholders, shareholders show the least inclination to endorse sanctions against firms, reflecting their transactional interaction with the company, as opposed to the

Economic Policy January 2024 pp. 269–270 Printed in Great Britain

more personal or value-driven connections seen with customers and employees. However, employees, and especially customers, can impose significant costs on a firm if they choose to sanction it, as they can exert market pressure prompting firms to take responsive actions. Such costs can be especially steep for companies with low-profit margins.

This paper is rich in many ways. It provides valuable and timely new insights into the dynamics of private sector participation in geopolitical issues and assesses the impact of ethical considerations on stakeholder behaviour in an international business context. It is methodologically clean. Through the random assignment of the surveyed individuals into each of the three stakeholder categories and partial randomization of the cost levels they face when considering sanctions, the authors can credibly assess how different hypothetical stakeholders would deal with the trade-offs of imposing sanctions. This paper thus provides guidance to understand the variation in firms' decisions to exit Russia, highlighting the complex interplay of economic factors, sensitivity to the cost of imposing sanctions, moral and deontological preferences of the stakeholders and institutional features (such as placing different weights to aggregate the stakeholders' preferences). From an academic perspective, the paper contributes to several academic streams of literature, such as the role of moral preferences on firm decisions, Environmental, social, and corporate governance (ESG) investing, boycotts and war; topics that carry high relevance in today's increasingly polarized geopolitical environment.

From a policy perspective, this paper highlights the role of ethical considerations in corporate strategies and thus the potential for private sanctions to complement – or diverge from – governmental actions. There are several other policy implications of the paper's findings in terms of, for example, corporate risk-taking, polarization and segmentation. Sanctions (and similar politically sensitive issues) can increase the reputational and financial risk of the corporations by affecting the perceptions of their customers and investors. Divergent views on sanctions across different stakeholder groups can lead to an increase in polarization in terms of corporate governance and public opinion. Firms may adapt their strategies to appeal to specific stakeholder groups based on their views towards sanctions, leading to an increase in market segmentation. All in all, this paper provides valuable insights into the intersection of moral values, stakeholder theory and strategic decision-making in a complex geopolitical environment.