GEOPOLITICS

Navigating the Rapidly Changing Global Order

Insights and Guidance for You and Your Company

Cutting Ties With Russia: Part 1

A Guide to Decision-Making Now and in the Future

We are seeing an unprecedented avalanche of announcements by US and European companies that they are cutting ties with the Russian market. Companies should expect these decisions to be closely scrutinized by stockholders and other stakeholders in the coming weeks and months. It's therefore critical to employ a disciplined decision-making process that goes beyond what US companies have typically used to take a stand on domestic social and political issues.

The invasion of Ukraine should serve as a catalyst to assess your company's exposure to weaknesses in the rule of law and respect for human and civil rights in jurisdictions around the world, and to incorporate that assessment into risk management, strategic planning, and capital allocation processes.

This report offers an overview of the myriad ways companies are acting to sever ties with Russia; provides a framework for making near-term withdrawal decisions in a clear and consistent manner; and offers key insights for preparing for geopolitical crises in the future.

How are companies responding?

The corporate withdrawal from Russia has no recent equivalent in its scope and speed. Investors and corporations widely backed away from South Africa in the mid-1980s, but that was the culmination of decades of anti-apartheid activism and legislation. Since then, US companies have sporadically cut back on business in states or with foreign governments in response to actions taken on civil and human rights, but those boycotts have not come close to what we're seeing today.

Many companies are now suspending some or all their operations, sales, partnerships,

investments, and sourcing in Russia.

- **Operations.** Accenture, Oracle, FedEx, UPS, Nike, Daimler, GM, Volvo, and Volkswagen, among others, have suspended business operations in Russia; Ford has suspended its joint venture operations; and Mastercard and Visa have blocked Russian banks from their networks.
- **Sales.** Apple, H&M, and SAP have paused sales; Disney, Warner Bros, and other Hollywood studios have postponed all theatrical releases in Russia; Netflix has suspended its service in Russia; Harley Davidson has stopped sales and shipments of bikes; Airbus and Boeing have halted supply of aircraft parts to Russian airlines; and the Boston Consulting Group and McKinsey are suspending work with Russian clients.
- **Sourcing.** Facebook and Google's YouTube are blocking Russian state media from running ads on their platforms; Twitter has suspended all advertising in Russia; IKEA is pausing all sourcing.
- **Investments and Partnerships.** BP and Shell are offloading their stakes in Russian assets; ExxonMobil is ending its involvement in a large oil and natural gas project; TJX is selling its stake in Russian apparel retailer Familia; Delta is severing ties with Russia's flag carrier Aeroflot; and Equinor is stopping new investments into Russia and exiting from its Russian joint ventures

Deciding whether and how to respond: developing a consistent decision-making framework

While the scope and nature of the withdrawals vary, companies are making decisions in a compressed time frame with limited information. It's therefore critical that they have a clear and consistent a process for deciding *whether* and *how* to respond. Consistency in process—if not outcome—is key because companies will need to explain not just their current decisions, but whether they plan to cut business ties with other countries that, if not engaged in a war with other nations, do not abide by established international norms of behavior within their own borders.

As a start, executives can adapt the playbook that many companies, especially in the US, have developed in the past two years for responding to domestic social and political issues. That playbook is only a starting point because the issues here are different and the stakes, for many companies, may be much higher and more lasting.

- In deciding *whether* to respond, we have previously suggested considering the issue's alignment with company's core values, the requirements and expectations of internal and stakeholders, the connection between issue and business, the significance of issue to

society, and the incremental impact company can have. While operating within this general framework, companies should give extra weight to certain factors in responding to this crisis. First, cutting ties with Russia may have significantly greater business and financial implications than taking a stand on a social issue, which means the interests of stockholders should factor in more prominently in the analysis. In addition, there may be significant regulatory and legal dimensions to the decision, whether complying with international sanctions or abiding by the company's existing contractual commitments. Further, while companies often take stands on social issues only when there is a meaningful connection with their business, in this case companies may act even when they may have little business with Russia, given the significance of the invasion of Ukraine for global stability and democracy. Finally, companies should consider not just the incremental impact they can have as an individual firm, but the potential impact of collective corporate action.

- In considering *how* to respond, companies should choose how prominent a leadership role they wish to play—from acting through third parties to taking a public role on their own. They also have several economic tools at their disposal from sourcing, to sales, to operations, and investments. As with addressing domestic social issues, before announcing a stand it is important for companies to consider how they plan to follow through—including under what circumstances they would resume business. In contrast to taking a stand on a domestic social issue, however, companies need to be prepared not just for a negative reaction from some stakeholders who do not like the company's position on a particular topic, but for sustained retaliation by a nation state in cybersecurity or other arenas.
- Companies should also have a clear process for making the decision, including consulting with all key functions such as business unit leaders, finance, legal, government affairs, investor relations, corporate communications, marketing, risk management, and human capital. It's also critical that the board is not caught by surprise. Companies should be transparent with stakeholders about the criteria and process they employed in deciding whether and how to respond. This will enable them to explain why they did, or did not, sever business ties with Russia, and why they may not go as far, or may go farther, in other situations. While employees and the public are often the main audiences for US companies when they take a stand on social issues, in this situation companies particularly need to focus on explaining to investors what they are doing and why.

What can companies do next?

Consider these three steps to prepare for situations involving violations of international law and human rights:

1. Conduct an analysis of all the countries where your company has significant operations, revenues, or expenditures exclusively related to the rule of law and respect for human

rights and civil rights. While the Russian invasion involves violations of all three areas *across* international boundaries, it's equally important to be aware of the risks *within* national borders as well.

2. Ensure that these risks are factored not just into an enterprise risk management report that is given to the audit committee, but also into the company's strategy and capital allocation plans for the full board. It's especially important to consider these risks when it comes to M&A, which can involve the entry or expansion in a potentially troubled market.
3. While the decision to suspend operations often is presented as a trade-off between reputation and revenue, in this multistakeholder, interconnected world, it's increasingly likely that harm to reputation will lead to an impact on revenue. While some companies—particularly those in consumer-packaged goods—have a good sense of how their stances on social and political issues can affect consumer decisions and therefore revenue, other types of firms have a lot more work to do in developing models to quantify the impact of reputation on the bottom line.

The Russian invasion of Ukraine has highlighted the intersection of risk, reputation, and revenue. For many companies, the decision to suspend ties may be a relatively easy one. Given the size of the Russian economy, little revenue may be involved. And the reputational harm of continuing business—and the benefit of announcing a withdrawal—may be significant. But even if this is an easy case, companies should follow a consistent playbook for deciding whether and how to sever business ties, which can serve as a precedent for difficult cases in the future. And they should use this crisis as a catalyst to revisit their risk management and business planning processes to ensure that they are carefully considering the potential for governmental violations of law, human rights, and civil rights, both within and across borders.

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