

“Factors influencing the multinational banks’ decisions to curtail operations in russia: Does ESG matter?”

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FACTORS INFLUENCING THE MULTINATIONAL BANKS' DECISIONS TO CURTAIL OPERATIONS IN RUSSIA: DOES ESG MATTER?

Abstract

The paper is devoted to an under-researched topic of the international business community's reaction to Russia's armed aggression against Ukraine. It aims to evaluate how G7 and EU financial sanctions, institutional pressure, ESG ratings, and asset value of multinational banks in Russia influence their decisions to reduce activities in the invading country. The study used the Yale CELI database of companies leaving and staying in Russia for the classification tree method. The results show that none of the banks headquartered in G7 and EU member states that had no or relatively little assets in Russia before the invasion are doing business there on a pre-war scale. Unlike banks headquartered in other countries, most either curtailed their presence in that market or exited the market. This indicates that financial sanctions imposed by G7 and EU member states and institutional pressure on banks in these countries to withdraw from the Russian market have proven effective to a certain extent. However, these factors do not meaningfully influence the business of multinational banks with significant assets in Russia. The study has not confirmed the hypothesis that a bank with higher ESG ratings is more likely to curtail its operations in the market of an aggressor country and withdraw. However, nearly all banks that scaled back significant activities or even pulled out of Russia have better ESG indicators than the industry average. The results suggest the feasibility of improving the methodologies of ESG rating providers for accurately measuring business reactions to aggression and war crimes.

Keywords

banks, asset value, war and business, sanctions, market exit, ESG, SDG impact rating

JEL Classification

G24, G41

INTRODUCTION

Russia's full-scale armed aggression against Ukraine has led to catastrophic humanitarian, economic, and environmental consequences. Massive civilian casualties, forced deportation of children, and targeted destruction of infrastructure and the natural environment have been unprecedented since the Second World War. Global implications of the military invasion include threats of a food crisis in the poorest countries of Africa and Asia, radiation pollution, and worsening near-term economic prospects (Guénette et al., 2022). Immediately after the outbreak of aggression, the United Nations strongly condemned it as a violation of Article 2 (4) of the Charter (United Nations, 2022). The UN demanded that Russia withdraw its military forces immediately and respect the sovereignty and territorial integrity of Ukraine. To put an end to the war, the G7 and EU member-states are constantly strengthening trade, financial, and personal sanctions against the aggressor state. Thus, it would be reasonable to anticipate a strong response from the global business community, especially taking into ac-

count that the majority of multinational companies operating in the Russian market declare their commitment to the principles of corporate social responsibility and Environmental, Social, and Corporate Governance (ESG). However, many companies have not yet scaled down their presence in the aggressor state (Yale CELI, 2023; KSE Institute, n.d.). Their subsidiaries pay taxes to the Russian budget, indirectly financing the war. A significant role in supporting the financial system of the invading country belongs to multinational banks that continue to do business in Russia.

Considerable differences in war responses of multinational banks and other business entities determine the relevance of studying their motivation to change the strategies of presence in the Russian market. At the same time, the problem of identifying the factors influencing the choice between curtailing operations in the aggressor state and doing business as usual has not been fully resolved. Studying this problem in the banking sector requires considering the essential specifics of the functioning of multinational banks in the Russian financial market in modern conditions. First, financial sanctions imposed by G7 and EU member-states directly target some basic banking operations in the invading country. For instance, the European Union has limited the total value of deposits from Russian citizens or legal entities, and the United States introduced a ban on new investments in Russia and loans for commercial purposes (Hood et al., 2024). Banks are responsible for compliance with financial sanctions, including by their clients, which creates new risks that must be addressed. The evasion of sanctions has a very high price. In case of US sanctions, the bank that violates them may even be excluded from accessing all dollar payments.

Besides, the banks' activities are under the tightening control of regulators (Vnukova et al., 2019) and are affected by their financial policy. When deciding on a strategy for operating in the Russian market, Eurozone banks have to take into account the explicit call of the European Central Bank to leave (Comfort, 2023). Banks are also at the forefront of public attention and at high risk of being listed as International Sponsors of War. This list is regularly updated by the Ukrainian National Agency on Corruption Prevention and monitored by the London Stock Exchange Group plc (NAZK, n.d.). On the other hand, the Russian authorities, concerned about the vulnerability of their financial system, are very reluctant to permit the sale of assets to banks from "unfriendly" countries. In addition, obligations to large clients complicate the procedure for banks to exit the market and affect its duration (Girardone, 2022). In the context of studying the impact of banks' ESG scores on shaping their war response, it is crucial to note that a bank's reputation is its main asset. Therefore, multinational banks pay special attention to the sustainable banking concept and ESG ratings.

1. LITERATURE REVIEW

The reaction of the business community to Russia's unprovoked large-scale armed aggression against a sovereign state has become the subject of a growing number of economic studies. The results of these studies are inconsistent largely, even concerning the number of companies that exited the Russian market. Evenett and Pisani (2022) concluded that only 8.5% of companies headquartered in G7 or EU member states have pulled out of the aggressor country. Sonnenfeld et al. (2023) argue that this percentage is significantly underestimated due to an incorrectly constructed data set. Recently, Yale Chief Executive Leadership Institute (Yale CELI, 2023) and KSE Institute

(n.d.) researched this issue using systematic, continuously updated databases that significantly reduced the likelihood of sampling bias.

Most publications in this field focus on factors affecting foreign companies' strategies in the Russian market. Kulikov et al. (2023) identified the countries where the companies that mostly prefer to withdraw from Russia are headquartered and the countries where companies defy demands for exit. Having analyzed the KSE database, they found that Chinese companies show the highest share of those doing business in Russia as usual (84%). Finnish, British, American, and Dutch firms have shown the highest propensity to divest. For example, only 20% of Finnish compa-

nies chose to remain or delay their decisions. However, it does not follow from this that sanctions policy is the sole determining factor in the decision-making process of companies from G7 or EU member states regarding whether or not to maintain a presence in the market of an aggressor country since the majority of Italian, German, and Japanese corporations still avoid the withdrawal strategy. Kulikov et al. (2023) also highlighted the impact of belonging to a specific type of economic activity. It turned out that the pharmaceutical and healthcare industry is least interested in curtailing operations in Russia. Firms in the IT sector are the most active in leaving that market.

Some studies examine the factor of the scale of a company's business, including in Russia. The results obtained vary significantly. Sonnenfeld et al. (2022) found that this does not affect a firm's response to the war. Onopriienko et al. (2023b) argue that the time needed to prepare for withdrawal is directly related to the company's size. According to Pajuste and Toniolo (2022), companies that responded first to armed aggression had little revenue exposure to Russia. Ahmed et al. (2023) state that large corporations are both faster and more likely to announce withdrawal than small firms. This can be partly explained by pressure from stakeholders, especially Twitter boycott campaigns. Kolodiziev et al. (2018), Pajuste and Toniolo (2022) note that these campaigns target large, high-profile corporations.

The interdependence between the corporate financial performance and response to the war is considered in two aspects: the influence of the level of liquidity and profitability on the firm's strategy in the market of the aggressor state and the impact of its decision to leave or stay on the financial results. Ahmed et al. (2023) show that liquid and profitable companies are quicker to announce leaving. In addition, as the firm's liquidity increases, the probability of withdrawal announcement also increases. The results of empirical studies regarding the second aspect of the problem are far from clear. Onopriienko et al. (2023a), investigating the financial performance of multinational corporations in the Russian market in 2022, found an increase in profits for those who decided to stay or wait. At the same time, the companies that declared their plan to withdraw experienced a reduction of nearly fifty

percent in their revenues. Besides, Glamboosky and Peterburgsky (2022) stressed a stock price decline for two weeks in the aftermath of the withdrawal announcement. In contrast, Kiesel and Kolaric (2023) argue that the decision to exit leads to growth in stock returns, and Tosun and Eshraghi (2022) assert that the financial market tends to penalize the companies preferring to stay.

Martins et al. (2023) and Ahmed et al. (2023) also pay attention to the adverse financial market response to exposure to Russia, particularly of the large European listed banks, at the beginning of the invasion. Sonnenfeld et al. (2022) comprehensively analyzed the financial implications of different approaches taken by international corporations regarding whether or not to continue operations in the invading country. The authors examined the reaction of public equity markets, credit, and derivative markets and concluded that the risks of staying outweigh the costs of leaving.

Serious attention in research is paid to the influence of such factors as Environmental, Social, and Governance (ESG) ratings. Using a multivariate regression analysis and ESG data from Refinitiv Eikon, Basnet et al. (2022) found that companies with high ESG and human rights scores are likelier to leave than remain. Ahmed et al. (2023), based on data from seven rating agencies, provide no empirical evidence confirming this conclusion. This study adheres to the point of view that a company's ratings currently do not influence the war response. It is also debatable whether high ESG scores ensure a positive reaction from the stock market in the event of a complete cessation of operations in the invading country, as Basnet et al. (2022) claim, or not (Ahmed et al., 2023).

It is logical to assume that a socially responsible reaction from companies to the Russian invasion is much more likely if it leads to higher ESG and Social ratings. However, Dincă et al. (2023) examined how the choice between the withdrawal strategy and continuing business-as-usual affects Morningstar Sustainability ESG Risk Rating and found no significant difference. These findings align with previous publications questioning the methodology of influential ESG rating providers in terms of the timeliness and completeness of assessing the risks of companies with doubtful

social performance. The examples are the state-owned russian Sberbank just before the invasion (Kerber & Wilkes, 2022) or companies involved in violating the rights of the Uyghur minority in China (Rydzak, 2023).

Pajuste and Toniolo (2022) and Kulikov et al. (2023) state that companies continuing business as usual in russia justify their choice by citing principles of social responsibility, such as ensuring the supply of essential goods to consumers and showing concern for the welfare of their staff. The authors conclude that these explanations can be characterized in terms of “woke-washing” or “bluewashing” in many cases. Obviously, this practice, to a certain extent, increases the uncertainty of the relationship between ESG ratings and companies’ response to the military assault.

Summing up the literature review, researchers discovered that it is advisable to study the influence of factors such as ESG and exposure to the invading country, but the empirical research findings are inconsistent. Industry specifics usually remain out of sight. Some exceptions, such as Martins et al. (2023), concern only certain aspects of the general problem. Meanwhile, the specifics of financial activity and the institutional environment for the functioning of multinational banks influence their strategic decisions regarding the feasibility and possibility of curtailing operations in the invading country. Firstly, many banks are under pressure from the European Central Bank and the U.S. Treasury. Secondly, they face higher barriers put up by the russian authorities and consequently have many excuses for engaging in so-called bluewashing. At last, deterioration in ESG ratings is crucial for the banking sector because reputational risks can directly affect the bank’s financial performance. The multinational banks declare their commitment to sustainable banking principles and actively use non-financial reporting and ESG assessment in competition.

In addition, the empirical studies mentioned above were based on samples of companies and banks from a limited geographical area. For instance, Ahmed et al. (2023) focus on European countries. Martins et al. (2023) analyze the sample of the largest European listed banks. Evenett and Pisani (2022) examine information regard-

ing EU member states and G7 nations. However, exploring the influence of sanctions policies and institutional mechanisms on the strategies of multinational banks in the russian financial market during the war requires a comparative analysis based on grouping them according to the location of their head offices, that is, headquartered in the EU or G7 member-states and countries that have not joined international sanctions. The policy of financial regulators and public opinion in G7 and EU member-states are factors that multinational banks have to take into account when making a strategic decision regarding the advisability of further presence in the russian market. At the same time, exiting the invading country is significantly complicated for them by restrictions on the sale of banking assets that are in force in russia. Banks from countries that have not joined the sanctions operate in a different institutional environment that does not stimulate a strong war response. Besides, for political reasons, it is easier for them to obtain permission to sell their assets in russia.

Therefore, the purpose of this study is to explore the influence of such factors as G7 and EU financial sanctions, institutional pressure, ESG ratings, and asset value of multinational banks in russia on their decision to divest from the russian financial market as a result of unprovoked full-scale armed aggression against Ukraine. For this, based on the review of related empirical studies, the following hypotheses were proposed:

- H1: *Banks from the G7 and EU member-states having no russian-based subsidiaries (assets subject to sales restrictions) do not do business in the aggressor country on a pre-war scale, curtailing operations or even exiting that market.*
- H2: *The decisions of banks headquartered in states that are not members of the G7 and the EU to curtail operations in the russian banking market are not significantly affected by the assets of their branches in russia.*
- H3: *The higher the ESG rating and Sustainable Development Goals (SDG) impact rating, the more likely the bank’s decision to cease operations in the market of the aggressor country.*

2. METHODS

To test the hypotheses, the tree classification method was chosen based on the Chi-squared Automatic Interaction Detector (CHAID) and Exhaustive CHAID algorithms (Lumivvero, n.d.). The choice of this particular method is due to the following reasons. First, CHAID and Exhaustive CHAID belong to the class of nonparametric statistical methods. This is important because the type of distribution of the factors affecting a bank's decision whether to leave the russian financial market or not is unknown a priori. CHAID and Exhaustive CHAID techniques make it possible to identify subgroups of banks (end nodes in Decision Tree Analysis terminology) with characteristics that are highly likely to determine these banks' response to a russian invasion. It is also of great importance that the tree classification method applies to qualitative and quantitative variables. Another advantage of the method is that the categorical dependent variable is non-binary but can be represented in more than two categories. The combined application of two algorithms in research is because the Exhaustive CHAID, as CHAID modification, carries out merging and testing of the predictor variables until each predictor has only two categories left, but on the other hand, it sometimes leads to forming redundant and illogical nodes of the classification tree.

This study's sample consists of 54 banks from the list of companies leaving and staying in russia, updated continuously by Yale Chief Executive Leadership Institute (Yale CELI, 2023). The dependent qualitative variable reflects the bank's decision on whether to curtail operations in the russian financial market and, if so, to what extent. In the Yale CELI list, all companies are divided into five categories depending on the completeness of withdrawal: businesses that are operating as usual in russia, those holding off new investments, companies that are scaling back only some significant activities, legal entities curtailing most or nearly all operations, and those completely exiting invading country. Taking into account the small sample size and the restrictions imposed in russia on the sale of banking assets, the last three categories were combined into one, defining banks leaving the market of the aggressor country (the value of the dependent variable is "Yes"). The dependent

variable takes the values "No" and "Time" for the first two categories, respectively.

The quantitative explanatory variable is the asset value of a bank's branch in russia as of January 1, 2022 (rubles, bn.). The data were collected from the Yale CELI database (Yale CELI, 2023), S&P Global (Fojcik, 2022), and banks' websites. The qualitative explanatory country-specific variable takes two values: "Yes" if a foreign bank doing business in russia is from the G7 and EU member-states and "No" if it is not the case. Considering Switzerland has joined the sanctions of the European Union, its banks are conditionally equated to the G7 and EU groups.

As explanatory variables, ESG and SDG indicators of seven leading rating agencies were also used in the study. They have a quantitative interpretation, except for MSCI ESG Controversies indicators (MSCI, n.d.), analyzed as qualitative variables, taking four values depending on the extent of the bank's involvement in the controversies. The following ESG performance indicators are examined as quantitative independent variables: S&P Global ESG Score, its Social component (S&P Global, 2023), Moody's Investors Service ESG Credit Impact Score (CIS), Social CIS (Moody's, 2023), MSCI ESG Rating (MSCI, n.d.), Sustainalytics ESG Risk Rating (Sustainalytics, 2023), ISS ESG Corporate Rating, ISS SDG Impact Rating (ISS, n.d.), Refinitiv ESG Score, its Human Rights component (LSEG Data & Analytics, n.d.), and CSRHUB ESG Ranking.

3. RESULTS

In the first stage of the study, to test hypothesis 1, the influence of two factors on the independent variable was examined using the tree classification method: the asset value of a multinational bank branch in russia and the location of the bank's head office in one of the G7 or EU member-states (the country-specific explanatory variable). The resulting classification tree is shown in Figure 1, which visualizes splitting the sample of banks into the dependent variable categories (Yes, No, and Time) described above to determine the values of explanatory variables at which the bank's war response turns out to be predictable.

It is evident from Figure 1 that the classification tree has only two nodes, which contain banks with the same or nearly the same values of the qualitative dependent variable (Node 3 and Node 6). Among banks headquartered in G7 and EU member-states and having no russian-based subsidiaries (Node 6), not a single bank has carried out business as usual in russia after the beginning of the full-scale military aggression against Ukraine. Two banks in this node held off new investments and development, although continuing substantive business, while all the others curtailed significant banking operations or completely exited the russian financial market. Such a strong war response is not typical, on the whole, neither for multinational banks without russian subsidiaries headquartered in countries outside the G7 and the European Union (Node 7) nor for banks with significant assets in the aggressor state (Node 4 and Node 5). Banks with assets in russia of up to 64.95 billion rubles (Node 3), equivalent to approximately \$1 billion as of the January 2022 exchange rate, are from G7 and EU member-states like banks in Node 6. All of them are also curtailing operations or have already left the russian market. The above indicates that Hypothesis 1 is supported. Moreover, the probability of multinational banks headquartered in G7 and EU member-states withdrawing from the russian market depends not only on the presence of subsidiaries there but also on the volume of investment in their assets.

In other classification tree nodes, there is a significant scatter in the values of the dependent variable. Some banks headquartered in G7 and EU member-states with essential russian engagements curtail and even end operations there despite the sale restrictions. An eloquent example is the exit of Societe Generale from the russian market, regardless of a net loss of around 3.2 billion euros (Societe Generale, 2022). Hence, the reasons for such banks to withdraw from business in russia go beyond the two-factor model.

The classification tree shows no correlation between the size of russian assets held by banks headquartered in non-G7 or EU states and the dependent variable. Even among those having no subsidiaries in russia (Node 7), more than a third are doing business as usual there. Hence, the decision of banks from these countries to curtail operations in the russian market is not significantly affected by the assets of their branches in the invading country. Thus, Hypothesis 2 is confirmed.

At each subsequent stage, the study examined the influence of three independent variables. An ESG or SDG impact assessment from a rating agency was added to the two variables mentioned previously. An exception was made for variables MSCI ESG Rating and MSCI Social Controversies because they refer to different dimensions of corporate sustainability and are not correlated. The

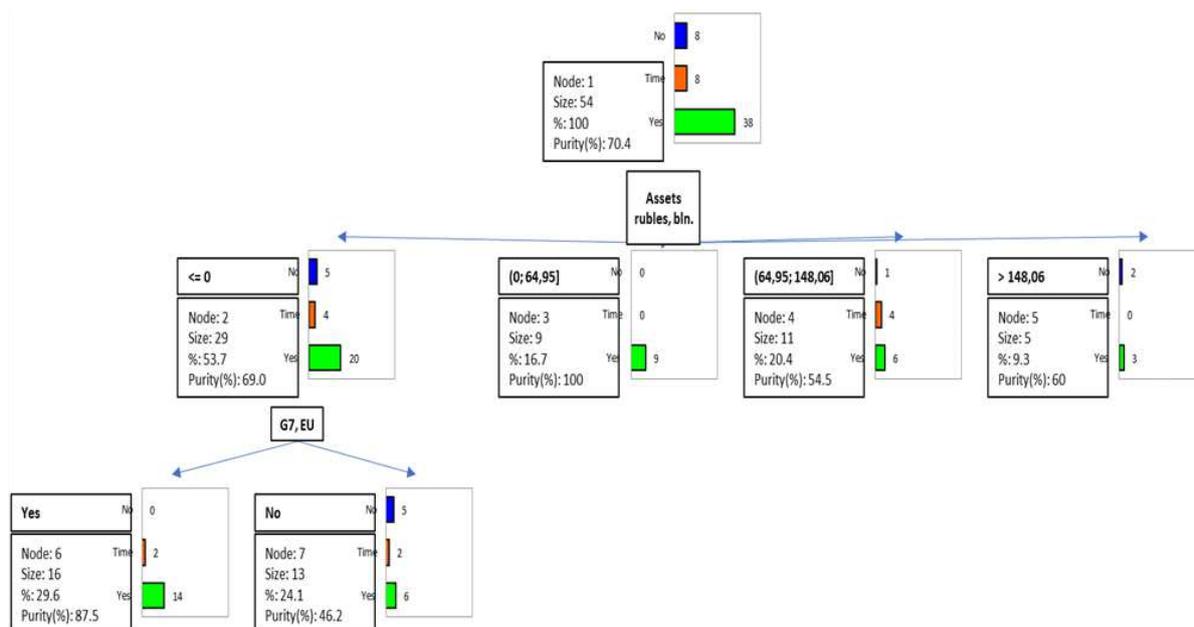


Figure 1. The classification tree built on two classification features

influence of these variables was examined within the same model. The lack of influence of the MSCI Human Rights & Community Controversy on the dependent variable was established before constructing the classification tree since, for all banks in the sample, this indicator had only one value.

Separate testing of Hypothesis 3 regarding the influence of ESG and SDG impact ratings is explained by some differences in the concepts of ESG and sustainability. The latter characterizes the company's impact on society and the environment. ESG metrics show how environmental, social, and governance performance affects a company's risk exposure and resilience.

Adding variables such as Moody's Investors Service ESG CIS, Sustainalytics ESG Risk Rating, ISS ESG Corporate Rating, ISS SDG Impact Rating, Refinitiv ESG Score, and Refinitiv Human Rights leads to the construction of the same classification tree. Figure 2 shows this classification tree built using the CHAID algorithm.

Trees constructed when the independent variables S&P Global Social Score, MSCI ESG Rating, and MSCI Social Controversies are included in the calculations have a similar structure, differing only in slightly greater detail (more nodes). Minor discrepancies in the number of nodes and threshold

asset volume in classification trees (Figures 1 and 2) are due to differences in sample sizes. This is because the client bases of rating agencies are not completely identical.

As can be seen from Figure 2, not a single ESG and SDG assessment affects the distribution of banks into classification groups, which contradicts hypothesis 3. As in the two-factor model obtained at the first stage of the study (Figure 1), the distribution criteria are the asset value and a country-specific explanatory variable. Three-factor models also indicate that banks from G7 and EU countries, with a limited volume of their russian assets, are leaving the russian financial market or, at least, significantly reducing business operations there. At the same time, the amount of assets is not essential for banks from other countries to decide whether to withdraw or defy demands for exit. Consequently, the three-factor model provides additional evidence in favor of hypotheses 1 and 2.

A slightly different classification tree structure was generated by including the S&P Global ESG Score as an independent variable (Table 1). However, this factor leads to forming additional nodes that only add unnecessary and uncertain details to the classification of banks from G7 and EU countries with limited assets in russia. These details do not alter the results obtained from the other three-

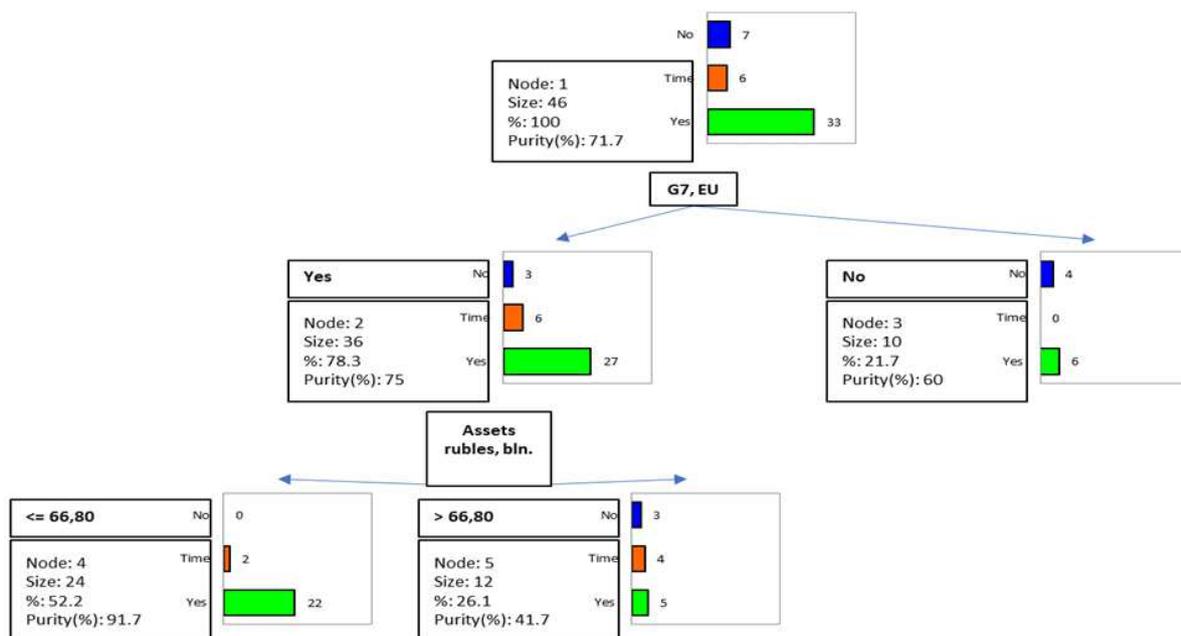


Figure 2. The classification tree after analyzing the influence of ESG and SDG ratings

Table 1. Classification tree structure (the S&P Global ESG Score variable is added)

Nodes	Objects	%	Test statistic	p-value	Purity	DF	Spirit variable	Values	Parent node	Sons	Predicted values
Node 1	38	100.00%	29.676	< 0.0001	65.73%	4	–	–	–	2;3;4	Yes
Node 2	27	71.05%	8.850	0.012	74.07%	2	Assets rubles, bln.	≤ 87.47	1	5; 6	Yes
Node 3	4	10.53%	–	–	100.00%	–	Assets rubles, bln.	7.47; 109.6	1	–	Time
Node 4	7	18.42%	3.733	0.053	71.43%	–	Assets rubles, bln.	> 109.63	1	–	Yes
Nodes	18	47.37%	18.469	0.028	33.39%	4	G7, EU	Yes	2	7; 8; 9	Yes
Node 6	9	23.68%	3.214	0.073	55.56%	–	G7, EU	No	2	–	No
Node 7	12	31.58%	–	–	91.67%	–	S&P ESG	≤ 60	5	–	Yes
Nodes	1	2.63%	–	–	100.00%	–	S&P ESG	(60; 62]	5	–	No
Node 9	5	13.16%	–	–	100.00%	–	S&P ESG	> 62	5	–	Yes

factor models. Table 1 indicates that for 88.89 % of banks headquartered in G7 and EU member-states, with assets in Russia up to 87.47 billion rubles (Node 5), the dependent variable takes the value Yes. In other words, such banks tend to leave the Russian financial market, unlike those headquartered outside G7 and EU (Node 6). Additional splitting Node 5 based on ESG Scores (nodes 6–8) is ineffective since it shows no correlation between them and the dependent variable.

Thus, the study's sample analysis using the tree classification method does not support hypothesis 3 as to the influence of ESG and SDG impact ratings on banks' decisions to cease operations in the market of the aggressor country.

4. DISCUSSION

The results, obtained from a sample of banks from the Yale CELI list of companies leaving and staying in Russia, fully support Hypothesis 1. All banks headquartered in the G7 and EU member-states, with no subsidiaries or assets exceeding \$1 billion in Russia, essentially changed their business strategies in the aggressor country. Most of them curtailed operations in the Russian financial market or have already left it, and two banks held off new investments. Considering that multinational banks headquartered in other countries do not show such a relatively strong war response, financial sanctions and institutional pressure on banks in the G7 and EU member-states to leave the Russian market have proven effective to a certain extent. This conclusion should be viewed in the broad context of a multinational banks' operations reduction in the aggressor country rather than only their complete cessation.

The influence of these factors on the processes of curtailing banks' activities in the Russian market depends on the number of assets and sell restrictions imposed by Russia. However, this only applies to banks headquartered in G7 and EU member-states, as the study results confirmed Hypothesis 2. The size of assets and sale restrictions become a factor in deciding whether to exit the market of the aggressor country, usually where the banking sector is encouraged to make such a decision by the institutional environment. In this context, the results obtained from testing Hypothesis 1 and Hypothesis 2 are logically interrelated.

The choice between reputational risks and financial losses varies depending on the degree of the bank's involvement in operations on the Russian market. Divesting is much easier for banks focusing on serving corporate clients globally than banks with subsidiaries in Russia. It is particularly challenging for multinational banks heavily relying on their Russian subsidiaries to generate income. However, neither sales restrictions nor the high profitability of the Russian subsidiaries are an objective justification for the "digging in" strategy on the market of the aggressor-state. The options to sell the business to buyers, who are not subject to restrictions, or to off-load portfolios and gradually curtail banking operations are available (Fojcik, 2022).

The study does not provide empirical evidence in favor of Hypothesis 3. Thus, the results do not support the conclusion that "firms with lower ESG and human rights scores are more likely to stay" (Basnet et al., 2022) but are consistent with the previous findings as "ESG scores do not appear to be informative about firms' socially responsible behaviors abroad" (Ahmed et al., 2023). Does this

mean that remaining in the market of the aggressor country does not carry the risk of reducing ESG Scores and SDG impact rating and vice versa, and such a decision will not affect the attraction of sustainable investments? If this were indeed the case, then given the scale of the ongoing humanitarian and environmental catastrophe caused by Russia's unprovoked armed aggression, this study would add to the growing body of literature questioning the practical value of ESG (Damodaran, 2023; Kauffman & Robinson, 2022; Keeley, 2022; Pucker & King, 2022).

However, this simplified explanation of the empirical evidence may not accurately reflect reality for several reasons. First, methodological approaches to ESG risks and SDG impact assessment suggest the possibility of estimating exposure to this kind of business ethics issue. For example, the cross-sector rating methodology used by Moody's Investors Service (Moody's Methodology, 2021) includes the corresponding risk subcategory, Social Responsibility, within the category of Demographic & Societal Trends. The MSCI SDG Alignment Methodology (MSCI Methodology, 2021) evaluates the degree of alignment across a bank's operations with such a sustainable development goal as peace, justice, and strong institutions. To achieve this goal, banks must contribute to the reduction of violence and related deaths globally (target 16.1). A similar methodology underlies measuring the ISS SDG impact rating (ISS, n.d.).

Of course, the fact that the methodology allows for changes in the ESG score and SDG impact assessment depending on the bank's decision to leave the market of the aggressor state or to remain does not mean that rating agencies are already using this opportunity. Furthermore, if this were already standard practice, the results of the empirical research would differ. At the same time, certain progress in practical implementation cannot be denied. In particular, Sustainalytics incorporated an assessment of business resilience risk due to the war in Ukraine and the fallout/repercussions of this war into the ESG Risk Ratings methodology. In addition, this rating agency identifies the sanctions controversies. As a result, ESG risk rating scores were increased for 12 international banks by an average of 5% (Batoudaki & Pizza, 2022). It is also noteworthy that Societe Generale's

ESG profile components assessment report by S&P Global credits "the bank's responsiveness to the Ukrainian conflict in its exit from Russia" (S&P Global, 2023).

The examples provided contain important details that should be taken into consideration. Changes in the practice of assessing ESG ratings by Sustainalytics so far concern only a separate category of risks of some multinational banks in Russia – a higher probability of sanctions evasion compared to peers. S&P Global appreciates the sale of multinational banks' subsidiaries in Russia but does not reduce the ESG score of competitors occupying the vacated market niche.

Based on the preceding, the influence of ESG score and SDG impact assessment on a bank's decision to exit the market of the aggressor state can be explained indirectly by the nonlinear relationship between corporate social performance and firm value. The fact that strategic decisions are grounded primarily on financial criteria, while ESG scores and SDG impact assessments depend on corporate social performance, is obvious. The inverted U-shaped relationship between social performance and firm value suggests that its maximum is achieved when social performance aligns with applicable laws, business rules, and customs (Rogov, 2009). To the left of this point, the values of financial indicators may worsen due to sanctions and negative reactions from stakeholders. To the right of the optimum point, the impact on financial performance beyond the requirements of current legislation and business rules and customs is displayed. Practice shows that leaders' initiatives do not always and do not immediately receive a positive assessment from the market.

Currently, at the legislative level, there is no direct prohibition on the activities of multinational banks in the Russian financial market if this activity does not fall under current sanctions. The optimum point described above in the context of the response to armed aggression against a sovereign state is influenced by the G7 and EU sanctions policy, recommendations of the European Central Bank (Comfort, 2023), sell restrictions, and public pressure. According to the results, not a single bank from the G7 and EU countries without or with relatively small assets in Russia, even be-

ing subject to the sell restrictions, has carried out business as usual in that financial market (node 4 in Figure 2). In other words, none of these banks had social performance poorer than that required by current legislation, business rules, and customs. Thus, all these banks adhere to a social performance strategy that does not provide grounds for lowering their ESG scores and ratings. The same applies to banks subject to sell restrictions, as they have valid reasons for buying time.

Corporate social performance beyond the requirements of current legislation, business rules, and customs is typical primarily for leaders, companies with high ESG scores and SDG impact assessments. This is because the public's reaction to a company's social initiatives is mainly influenced by how they perceive the company's level of social responsibility (Barnett, 2007). The perception of a company as socially responsible increases the likelihood of a favorable assessment.

This explains the strategies of multinational banks affected by sale restrictions in the Russian market after the outbreak of war. Despite the objective difficulties and financial losses associated with the sale of assets, some of these banks completely exited the invading country or at least curtailed significant activities (the right branch of the inverted U-shaped relationship between social and financial performance). According to rating agencies, nearly all of them have better ESG scores and rankings than the industry average: S&P Global ESG Score – 92.8% of the banks; S&P Global Social Score – 100%; Refinitiv ESG Score – 100%; ISS ESG Corporate Rating – 73.3%; MSCI ESG Rating – 100%; CSRHUB ESG Ranking – 100%

(out of the total, 80% are classified under the highest category). In addition, 80% of these banks contribute positively to achieving the SDGs in line with the ISS scale. At the same time, many banks that are leaders in the ratings did not work in the Russian financial market even before the full-scale invasion, which also indirectly confirms the interpretation of the research results.

In an environment where G7 and EU sanctions do not include a direct ban on the activities of international banks in Russia, the effectiveness of the European Central Bank's calls to accelerate exit plans depends on whether and how much the banks' response will affect their ESG ratings. Based on the above, the issue of taking into account the strategies of international banks in the market of the aggressor state in ESG and SDG impact assessment methods is already developing into the plane of social responsibility of rating agencies. An unambiguous definition of companies' socially responsible reaction to aggression and war crimes in ESG providers' methodologies would significantly reduce the management's attempts at bluewashing (woke-washing) studied by Kolodiziev and Gontar (2014), Pajuste and Toniolo (2022) and Kulikov et al. (2023). According to John Campbell's Institutional Theory of Corporate Social Responsibility (Campbell, 2007), the following conditions are also crucial for motivating banks: enshrining the principle of the inadmissibility of activity in an aggressor state into the industry standard for sustainable banking, popularizing it in publications, business school curricula, conferences, and business forums, the active influence of public organizations, institutional investors, and the press.

CONCLUSION

This study aimed to examine the influence of such factors as G7 and EU financial sanctions, institutional pressure, ESG ratings, and asset value of multinational banks operating in Russia on their choice to withdraw from its market in response to the armed aggression against Ukraine. The results of the study, conducted on the Yale CELI dataset using the CHAID and Exhaustive CHAID algorithms, prove the effectiveness of sanctions policies and institutional pressure on companies to curtail their operations in the Russian market for banks headquartered in G7 and EU member states that were not affected by Russian sell restrictions or had relatively small assets in that country. The overwhelming majority of such banks have reduced their activities in the market of the aggressor state to one degree or another. However, these factors do not influence banks from countries that did not support these anti-war sanctions, and they maintain their presence in the Russian financial market by and large. This underlines the

need for increased financial sanctions, concerted action by central banks, and public pressure on the banking sector to stop financing the war.

The paper provides no evidence in favor of the hypothesis that the higher the ESG rating, its social and human rights components, and the SDG impact rating of a bank, the more likely it will curtail operations in the market of the invading country and leave. At the same time, the findings do not give grounds to completely deny the influence of ESG and sustainability ratings on the bank's war response. This influence, to a great extent, reflects the nonlinear (inverted U-shaped) relationship between corporate social performance and firm value. The optimum point is reached when social performance is conducted in full compliance with applicable laws, business rules, and customs. In today's realities, the bank's work on the Russian market, subject to compliance with the imposed sanctions, does not contradict them. An unambiguous definition and proper measurement of a socially responsible business reaction to armed aggression and war crimes in the methodologies of ESG providers will increase the financial attractiveness of the strategy of withdrawing from markets in invading countries.

The prospect for further research is to study the impact on banks' war-response strategies of future changes in the regulatory policies of central banks, new trends in the perception of reputational risks by stock markets, and improved methodological approaches to assessing the ESG scores.

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