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# **Pulling out of a market in times of crisis. Case examples from Russia's invasion of Ukraine and its implications on brands**

*Lisa Alm, Kevin Blomkvist & Herman Vähäkangas*

## **Abstract**

**Purpose:** The purpose of this paper was to analyse and generate a greater understanding of strategic choices made in relation to exiting a market in times of external crisis. A specific emphasis was placed on firms exiting the Russian market due to the ongoing war between Russia and Ukraine.

**Design/methodology/approach:** This paper adopts a qualitative research approach, conducting four case studies on international brands operating in Russia. The data was collected through organizational documents and publicly available material.

**Findings:** Defining and uncovering the crucial aspects of consideration when bigger firms strategize to exit a market during crisis. Further, a framework was developed in an attempt to visualize and conceptualize the potential choices of strategy in relation to the circumstantial external factors.

**Research limitations/implications:** This paper is the first of its kind, as the Russo-Ukrainian War is still ongoing. Due to the scope of this paper, it was limited to four case studies. For future research, it is recommended to add more case studies and interviews with relevant managers.

**Practical implications:** The framework conceptualised in this research paper can act as a tool for brand managers when deciding upon exit-strategies from a market. With the findings from this paper as a guide, managers can understand what aspects are important when determining a strategy.

**Originality/value:** The paper is amongst the first of its kind to analyse the strategic decisions made in relation to firms exiting the Russian market due to the ongoing war between Russia and Ukraine.

**Keywords:** Strategic brand management, PESTLE, brand equity, crisis management, Russo-Ukraine war

**Paper type:** Research Paper

## Introduction

Risks are often determined by a business' unique characteristics and companies have structures in place to identify potential industry related ones (Harvard Business School, 2004). But what happens when a crisis, deemed unlikely to occur, actually occurs?

The Russian war against Ukraine, commonly known as the "Russo-Ukrainian War", began officially on February 24th 2022 when Russia launched military actions on Ukrainian soil. Statements from EU-leaders expressed Russia's violations of international laws, thus undermining European and global stability. Sanctions were put in place to control finances, in- and exports from and to Russia (European Council, 2022). The US government also placed sanctions on Russian businesses with US relations (International Trade Administration, 2022). The unlikely event of a war shocked the world, and the circumstances surrounding this situation forced western businesses with operations in Russia to act, which they did, choosing several different strategies according to a Yale article that compiled a list of companies and their choice of action (Sonnenfeld et al, 2022).

This research paper aims to explain how major, multinational, brands acted in this time of crisis, their reasoning, and what aspects are important to consider in times of potentially exiting a market. Due to the lack of previous research within this area, this research papers' purpose is to uncover the different exit strategies that can be implemented, and create a helpful framework for brand managers to consider when faced with difficult external situations.

## Method

### *Research design*

This research paper will be taking a qualitative approach of data collection and analysis. The data collected will be of primary and secondary nature. This strategy was chosen as it places an emphasis on literature and words, in contrast to a quantitative approach that focuses mainly on numerical data (Bryman & Bell, 2011).

Given the papers' purpose to identify feasible strategies when exiting a market in times of crises, specifically focusing on the ongoing war by Russia, the reasoning behind a qualitative approach is twofold. Firstly the war in Ukraine is currently undergoing, and several brands are still shaping their strategic response to the situation. This implies that there is no definite or reliable hard data regarding different business choices and their effect on financial and reputational equity. Secondly, this paper is of an explanatory nature, focusing on identifying and explaining different exit strategies of four brands. Therefore, thorough observation of brand activity and actions is relevant to help derive an explanatory framework.

Furthermore, the research paper will be designed around a set of case studies of brands that were active in Russia prior to the invasion of Ukraine, and who later on decided to exit the market utilising different strategies affecting their business in the region to different extents.

Bryman & Bell (2011) states that "Most qualitative researchers, when writing about their craft, emphasise a preference for treating theory as something that emerges out of the collection and analysis of data." Therefore, we argue that a qualitative approach is the most appropriate to provide the reader with a conceptualization of the different approaches in relation to exiting a market during a crisis.

### *Data collection*

Four separate case studies were conducted, in an attempt to identify the strategies of their actions on the Russian market post invasion. The primary data was collected through observing and analysing the different brands' organisational documents, in the form of financial statements and press-releases. This was to grasp the organisational standpoint and timeframe relating to the decisions made when exiting the Russian market.

Bryman & Bell (2011) argues that "... in case study research, documents can be used to build up a description of the organisation...". This statement is well aligned with the aim of this paper. Bryman & Bell (2011) further states that "[organisational documents] can also be useful in building up a 'timeline', particularly in processual studies of organisational change", which will prove beneficial to the explanatory aspect of this paper.

Secondary data was collected by observing websites, including content surrounding the brands, in an attempt to grasp further information about the brands desired image and their reputation post-invasion. Through analysis from a consumer perspective, the data will provide context for the formulation of the conceptualised framework and provide an insight into the effect on brand image derived from different exit strategies.

To structure the data collection and source relevant information, the research paper focuses on five aspects derived from selected theories. Timeline, how long did it take to pull out? To what extent did they exit the market? Execution, how did they exit the market? Reasoning, why did they exit the market? And lastly, the impact on the business, focusing on the economic and brand image related implications. This

decision was made with the ambition to keep the research relevant and cohesive.

### *Brand selection*

For research and analysis purposes, four brands were chosen from an article published by Yale University, that tracked and categorised brands based on their decision relating to their business conduct in Russia (Sonnenfeld et al, 2022). The categories were defined as follows; Digging in, Buying Time, Scaling back, Suspension and Withdrawal. The first category was excluded in this essay due to the focus on brands exiting the market. The brands chosen were retail brands who have, or previously had, a physical presence in Russia and the four brands each belonged to a different category representing a different action strategy. Given the restrictions of this essay, we narrowed down the choice of brands through an emphasis on top of mind recognition and minimum revenue of one billion US dollars. The brands chosen were: Ecco, Gap, H&M and Nike.

## **Theory**

### *PESTLE*

The PESTLE theory was chosen as it is a strategic planning tool which is mainly utilised in order to analyse the external influences and its impact on a firm, facilitating an understanding of the wider business environment (Rastogi & Trivedi, 2016). The acronym is derived from the first letters of the six aspects making up the theory, namely political, economic, social, technological, legal, and environmental. These factors have been identified and placed in focus due to their potential to significantly affect the strategic development of a firm, both in the present as well as in the future (Worthington & Britton, 2006). Prior to the PESTLE

acronym, it consisted solely of PEST, whereas as time has passed, it has been expanded to include the legal and environmental aspects seen today as well (Law, J, 2009).

#### *Political:*

The political aspect takes into account and serves to analyse the external political environmental factors that could have an impact on a business (Perera, 2017). These factors include the political and governmental stability or instability, the potential political consequences, changes in governmental constitutions, policies and actions as well as the support towards the industry and the organisation by the country specific governments (Perera, 2017).

This aspect is of particular importance from a business perspective when the internationalisation or globalisation of a company or an organisation has become a central and necessary focal point (Worthington & Britton, 2006). It is crucial for organisations to obtain knowledge about the political climate as well as about the country's political agenda and how these findings might interact with the objective of the organisation (Campbell & Craig, 2005).

#### *Economic:*

The economical aspect of the PESTLE analysis encompasses the economical environment within a specific country or region (Perera, 2017). The previously mentioned political aspect of the analysis, can manifest in economic repercussions for an organisation (Campbell & Craig, 2005). This aspect is broadly defined as the relation between fiscal or governmental policies and the effect of these on an organisation (Campbell & Craig, 2005). Impactful factors to an economy include but are not limited to inflation rates, tax rates, income levels, disposable income and exchange rates, which will consequently

impact an organisation in the short term and long term (Rastogi & Trivedi, 2016).

#### *Sociological:*

The sociological aspect considers changes in relation to demographic factors (Campbell & Craig, 2005). In essence, this aspect places a focus on every type of event that has the potential to affect the market or the community on a social level (Rastogi & Trivedi, 2016). Types of events could be, but are not limited to, declining birth rates, an ageing population, the gender distribution within the working population, as well as the general cultural aspects of the country defining the populations values and norms (Worthington & Britton, 2006).

This aspect connects the business to a specific context that is made up from factual demographics, cultural and traditional values (Perera, 2017). In summary, changes to the symbiosis between the organisation and a population, can bring forth positive or negative implications, (Rastogi & Trivedi, 2016).

#### *Technological:*

The Technological aspect discusses issues related to technological advancements and developments, such as innovations, technological transformation, R&D initiatives, and technological awareness (Perera, 2017). These elements can have an effect on new product launches or development of finance equipment in markets. The factor is controllable by stakeholders through assessing cost versus benefit of introducing new technology (Sansa et al., 2021).

The technological aspect is an increasingly relevant and vital part of every business due to the accessibility of the internet and general technology used globally (Perera, 2017). Faster communication and reports renders a company able to react precisely

and timely to internal and external concerns. Enabling, for example, marketing to be more effective (Perera, 2017). Furthermore, Campbell & Craig (2005) claims that investments in technology help businesses reduce costs.

#### *Legal:*

The legal aspect complements the political one, although more detailed in laws and regulations (Worthington & Britton, 2006). Laws may entail customer protection, copyrights, employee health and safety and employment. For operations to be effective, companies must comply with applicable laws.

The legal aspect heavily depends on industry, meaning, retail companies' laws and regulations will vary significantly from industrial companies (Perera, 2017). Potential legislative changes also have the ability to shape the marketplace of the industry, leading to a derivative of what is deemed acceptable business behaviour (Worthington & Britton, 2006). This could present a challenge for conglomerates conducting business throughout several countries and regions at once (Tan & Wang, 2010).

#### *Environmental:*

The environmental aspect has gained more importance over recent years due to the growing negative effect of business, linked to rising pollution rates and a declining availability of natural resources (Perera, 2017). Companies are accountable for monitoring and reporting their actions; most also engage heavily in Corporate Social Responsibility (Sansa et al., 2021). The main focus is on accountability and responsibility in relation to issues such as carbon rates, emissions and waste disposal, although not limited to these (Perera, 2017).

Moreover, Perera (2017, pp. 15–16) stated that environmental analysis is a tool that can strengthen the brands' role in society. Consequently, it also reviews the negative impacts of not applying standards and regulations through different types of fines and termination of operations.

#### *Brand Equity*

Brand equity is divided into two perspectives, namely a consumer perspective, and a financial perspective, but both act as a blueprint for a strong brand. The former, accounts for the consumers point-of-view within the theory (Kapferer, 2012). Based on relevance, this research paper will place focus on the aspect of the theory that relates to the consumer-based brand equity, established by Keller (2001), as this will provide a better understanding of the perceived brand image from a consumer standpoint.

Keller (2001) states that the brand is a collection of memory associations that generate different reactions to the brand. These associations can be positive and negative. The Keller Brand Equity Model (given the shape of a pyramid), consists of four steps to building a strong brand. These four steps contain six stepping stones; *salience, performance, imagery, judgements, feelings, and lastly, resonance.*

#### *Step 1: Salience:*

As the foundation of the pyramid, it is also the foundation of a strong brand, namely a strong internal brand identity. The emphasis is placed on defining who the brand is. With no core sense of identity, the brand will have difficulties communicating and establishing their image in the minds of a consumer in a positive way. Low salience entails a low level of spontaneous recall and top-of-mind share in the consumer base (Kapferer, 2012).

### *Step 2: Performance & Imagery:*

The second step in the pyramid aims for the brand to provide answers to the question of what they are. Imagining this part as the two different sides of the human brain, where on the left there is the logic-dominated side, where facts and function is central. This side aims to aid the brand and consumer in their understanding of the sought and experienced performance of a given product. Does it fulfil the consumers' needs? Keller (2001) identified five categories of performance: *primary characteristics and secondary features; reliability, durability and serviceability; service effectiveness, efficiency, and empathy; style and design; price*. When these five aspects have been processed, the consumer gains a logical understanding of what the brand is.

On the right side, imagery is dominant and focuses on the softer aspects of consumer needs. Targeting the psychological and emotional facets of needs, the brands have an opportunity to show what they are through a different lens (Keller, 2001). The main categories in the imagery aspect are: *user profiles; purchase and usage situations; personality and values; history, heritage and experiences*. (Keller, 2001).

### *Step 3: Judgements & Feelings:*

Judgement focuses on the consumers opinions of the brand. Four necessary aspects that need to be positive have been identified in relation to building a strong brand. These are brand quality; brand credibility; brand consideration; and brand superiority. The first aspect captures the value and satisfaction a consumer feels in relation to a brand. The second aspect, brand credibility, encapsulates how consumers judge the brand on perceived expertise, worthiness and likeability. Brand consideration relates to the consumer's decision-making, and the consumer's willingness to experience the brand. Lastly, brand superiority focuses on how consumers view the brand in terms of

uniqueness and value (Keller, 2001). When higher, the brand seems to be superior in comparison to competitors.

Feelings relate to the consumers emotional status towards the brand. Keller (2001) provides that it can be *warmth, fun, excitement, security, social approval and self-respect* in relation to consumption of the brand.

### *Step 4: Resonance:*

Lastly, brand resonance is found at the top of the pyramid, capturing the relationship between the brand and the consumer. This step can be condensed into two main dimensions: *intensity* and *activity*. (Keller, 2001) Intensity relates to the consumers attachment and sense of loyalty towards the brand, whilst activity relates to purchase frequency and external activities outside of the purchasing phase (Keller, 2001).

## **Data collection**

### *BUYING TIME – ECCO*

#### *Introduction:*

Ecco is a Danish footwear brand, founded in 1967, conducting business on a global scale (Ecco (1), 2022). The business had a revenue of 1,218 million euro in the year 2021 (Ecco (2), 2022). Their values focus on heritage, innovation, care and passion, and positive relationships with all stakeholders within the communities where they live and work, placing a particular emphasis on their respect for diversity.

#### *Timeline:*

On the 1st of March 2022, Ecco group released their first statement in regards to the invasion of Ukraine by Russia (Ecco (3), 2022). This statement communicated that they would not expand the business in Russia and that all investments in the country had been put on hold.

### *Extent, Execution and Reasoning:*

In relation to their press release on the 1st of March, Ecco stated that they were deeply saddened by the developments in Ukraine and that they condemn any use of violence. They continue on explaining how they conduct sales in Russia through a distributor and emphasising the number of employees they are responsible for. They inform their stakeholders that they will be monitoring the situation and its development (Ecco (1), 2022). The reasoning for their actions heavily focus on their responsibility towards their employees in Russia going through a difficult time and that the care for these employees will always be first priority. As well as on the economical insignificance and minimal contribution of Ecco in the Russian economy. In a statement made by their chief executive Panos Mytaros, he states that "A core value of our culture is that we take good care of our employees. That is key for us, and the reason why we are staying in Russia" and that "We have to be realistic and say that ECCO plays a very small role in the Russian economy. Oil and gas, for example, is far more important. We are losing money on our Russian business and will therefore not pay any corporate tax" (Reuters (1) 2022). The press release also states that further expansion into the Russian market will not continue and any planned investments will be placed on hold, with their current points of sale remaining open (Reuters (1) 2022). Additionally they claim that they will act in accordance with any directives being brought forward by the Danish government and that they will assist Ukrainian refugees arriving in the locations where Ecco is active. As of today, Ecco is still operating in Russia (Reuters (1) 2022).

### *Impact on business:*

Ecco has not faced any significant economic losses since they are still operating their businesses in Russia. However, due to their decision to remain in Russia, Ecco has received significant backlash from stakeholders such as retailers

who have discontinued and refused to renew existing partnerships (Skydsgaard & Gronholt-Pedersen 2022). These retailers include big e-commerce actors such as Boozt, Intersport and five additional Danish retailers. Additionally the Danish Royal family have also taken a historical stance against the brand and ceased their long-term cooperation with Ecco as their royal court supplier, a collaboration that has been in place since 1991 (Mengel 2022). In terms of effect on brand image, one of Ecco's shops in Denmark was covered with red paint to signify the blood on its hands (Bisgaard Winther & Ritzau 2022). Additionally, there has been significant backlash on Ecco's social media pages with consumers commenting "No one in my family will ever buy from Ecco again" and mocking one of their captions with "dress up, dress down, from now on everyone sees your company supporting war. Shame on you, ecco" (Ecco (4) 2022). Even as late as in August, negative and reprimanding comments in relation to their decision can still be found on Ecco's social media (Ecco (5) 2022).

### *SCALING BACK – GAP*

#### *Introduction:*

Gap is an American company founded in 1969 with the original purpose of creating "a retail experience that fits for all" (Gap Inc. (5) (2022)). Nowadays, the company functions as a house of brands with four subsidiaries; Gap, Athleta, Banana Republic, and Old Navy, with net sales of 16.7 billion US dollars in the year 2021 (Gap Inc. (1) (2021)). Gap's core values are based upon equality and belonging, gender equality and empowerment as well as sustainability (Gap Inc, (4) 2022).

#### *Timeline:*

Gap stated in their financial report that they have "a small franchise and distribution business in Russia and Ukraine." (Gap Inc. (1) (2021)). A decision to suspend shipments to franchises in Russia, but



uphold online sales was initiated in March 2022 (Chua, 2022). On June 15th, Gap made an official statement relating to their incentive to donate 1,5 million US dollars worth of clothing to Ukrainian refugees (Gap Inc. (2) 2022). As of October 7th 2022, Gap remains in Russia through online sales, with shipments to franchises in Russia still suspended (Sonnenfeld et al, 2022).

#### *Extent, Execution and Reasoning:*

Gap executed its exit from the Russian market discreetly, complying with the current information and rulings, i.e., targeted economic sanctions set by the United States and other North Atlantic Treaty Organisation member states (Gap Inc. (6) (2021). Gap saw the potential negative impact that the Russo-Ukrainian War could have on logistics, supply chain, interest rates, cyber security, etc., and was the reason for stopping their export to Russian subsidiaries (Gap Inc. (1) (2021). Gap further communicated that its values would not let them continue operations in a market of conflict; the Leadership Team stated, "We stand in solidarity with the people of Ukraine"(Gap Inc (2) 2022). No further commentary from consumers on Gap's decisions was found at later and more recent dates in relation to the crisis. Strategically Gap chose a scaling back execution for their exit, leaving online sales open but distribution suspended.

#### *Impact on business:*

Gap's second-quarter report of fiscal results for the year 2022 shows the latest distribution of business regionally (Gap Inc. (7) (2021). The report calculates both Asian and European markets, of which Russia is a part of, to be 213 million USD, approximately 6.6 percent of the total value (Gap Inc (1) 2022). Additionally, social media analysis portrayed some negative statements both on Instagram and Facebook, communicating update requests and urgency to exit the Russian market (Gap Inc (3) 2022) and (Gap Inc (8) 2022).

## *SUSPENSION - H&M:*

#### *Introduction:*

H&M is a Swedish owned company, founded in 1947 and based in Stockholm Sweden. H&M is the mother company for several other brands, such as Weekday, & other stories, COS and Arket, that together make up H&M group (H&M (1) 2022). The company identifies as a global fashion and design company, active within the fashion retail segment of the retail market (H&M (2) 2022). H&M groups core values focus on subject matters such as human rights, inclusion, diversity and sustainability work, which shape the brand's identity. Furthermore they claim to take accountability and they are aware that as a global company with a foundation made up from strong values, they have the power to have a positive impact on the international stage (H&M (3) 2022).

The first venture into the Russian market happened in 2009, when H&M group opened their first stores within the country (Statista (1) 2021). Since then they have seen continuously increasing sales, with a result of 867,62 million US dollars in the year of 2021 (Statista (2) 2022).

#### *Timeline:*

On the 2nd of March 2022, H&M group published a press release stating that they would cease all sales in Russia and Belarus, whilst also closing the stores in Ukraine due to safety reasons (H&M (4) 2022). On the 18th of July 2022, H&M group published an additional press release stating that due to the continued invasion of Ukraine by Russia, H&M group had decided to initiate the process of winding down their businesses completely (H&M (5) 2022). In August 2022, H&M temporarily reopened their stores in order to sell and clear existing stock before closing completely (H&M (5) 2022).

### *Extent, Execution and Reasoning:*

In relation to the first press release by H&M group, they temporarily ceased all sales throughout the entire brand group within Russia, Belarus and Ukraine. In addition to this action the company also supported incentives to help the victims of war through donating clothes and necessities as well as monetary donations to organisations such as UNHCR (H&M (4) 2022). In relation to their second press release they informed the public and their stakeholders that there would be a gradual wind down of business in Russia due to the continued invasion of Ukraine by Russia. The reasoning behind this decision was focused on the instability and uncertainty that the war in Ukraine brought forth, making it impossible for the H&M group to continue (H&M (5) 2022). In addition to this, the H&M group decided to temporarily reopen the stores in Russia during the month of August 2022 to clear out their existing stock before closing down permanently and leaving the country.

### *Impact on business:*

As a consequence of H&M group's decision to leave Russia, the company has registered and experienced losses of 190 million USD (Statista (2) 2022). As of June 2022 there was a 6 percent expected decrease for H&M group in local currencies compared to the same month last year, and 5 percentage points of this decrease was due to the paused sales in Russia, Belarus and Ukraine (H&M (6) 2022). In relation to their brand image, there were a lot of critiques of H&M in their Swedish community tab on Facebook leading up to, as well as after the first press release (H&M (7) 2022). Consumers were claiming that H&M was a disgrace to the Swedish image and that they were complicit in the war crimes being committed. The main critique was in relation to their decision to not fully close all stores from the beginning, but instead only choosing to suspend their sales temporarily. A majority of the consumers called on H&M to simply close down their

stores and stand up for the values that they claim is part of their core identity. Worth noting is the fact that no significant amount of positive commentary from consumers could be found in relation to H&M's decision to finally withdraw completely and thereby complying with their consumers' desired outcome.

### *WITHDRAWAL - NIKE:*

#### *Introduction:*

Nike is a company whose principal business activity is the design, development, worldwide marketing and selling of athletic footwear, apparel, equipment, accessories and services (Nike (1), 2022). The company is based in the United States and was founded in 1964 (Britannica, 2022). Their annual revenue during the year of 2021 was 44,538 million US dollars (Statista (3) 2022). Nike's core values are represented by their focus on equality, environmental and social issues, striving to create positive change (Nike (2), 2022). Furthermore, their mission is to bring inspiration and innovation to every athlete, claiming that if you have a body, then you are an athlete (Nike, (3), 2022).

#### *Timeline:*

On March 1st, Nike made online purchases unavailable in Russia (Reuters (2), 2022). On March 3rd 2022, Nike made a comment in regards to the war in Ukraine stating that they would suspend all points of sale within their owned and operated stores in Russia (Reuters (3) 2022). In May, three months later, Nike announced that they would withdraw completely from Russia and would not renew any business agreements (Ray, 2022).

#### *Extent, Execution and Reasoning:*

Nike did at first decide to suspend their online sales in Russia, reasoning that they could not guarantee the delivery of the purchased goods to their customers in the country (Reuters (2) 2022). Nike then decided to suspend their business due to the

situation being uncertain, with the reasoning that their main focus was on their teammates and their communities being safe, whilst also stating that they were hopeful in relation to the possibility for a peaceful resolution to the invasion of Ukraine (Nike (4), 2022). However, due to continuation of the war in Ukraine and the economic sanctions imposed on Russia, Nike decided to deconsolidate their Russian legal entities completely (Nike (1), 2022). Additionally they claimed that their owned stores and their e-commerce operations in Ukraine will remain paused due to the focus being mainly placed on the safety and wellbeing of their coworkers and the communities they are part of.

#### *Impact on business:*

The economic impact of Nike's decision to consolidate their Russian legal entities led to a one-time pre-tax charge of 96 million US dollars (Nike (5), 2022). Nike's Russian business entities were estimated to less than one percent of their total company revenue, resulting in minor economic loss for the company (Nike (5), 2022). In relation to the company's brand image and feedback from media and social media, they received backlash due to their initial decision to only suspend their business. On their corporate Instagram platform consumers left comments stating "Russia is waging a terrible war. You continue to finance the crime!" and "Our women are hiding in basements while you invest millions in marketing in Russia" as well as "Our children are perishable! Russia is annihilating us (Nike (5) 2022). Later on, when announcing their decision to exit Russia, they received extensive media coverage by sources such as Forbes, BBC and Reuters (Ray, 2022)(BBC, 2022)(Reuters (2) 2022). No extensive reaction from consumers on social media was noticeable during the time of the statement regarding the withdrawal.

## **Analysis of data**

Due to the nature of this external crisis, aspects such as the political, technological and environmental can be deemed similar for most western companies, due to the nature of the international sanctions against Russia and the threat in relation to cyber security (CISA, 2022) in the country. In support of a deeper and more thorough analysis, a focus will be placed upon the aspects of the theories that have greater potential to differ between the cases given the circumstance being researched, such as social, economical, legal and brand equity.

#### *Buying time - ECCO*

##### *Social:*

Ecco has been very clear about its employee's safety and health, which has been the driving factor of not closing the stores in Russia. This articulates a strong employer engagement, as the decision has been doomed as a reputational loss for the company; for example, The Danish Royal family cutting ties to Ecco.

##### *Economic:*

The economic aspect of Ecco's business in Russia has been minimally affected due to its decision to remain in the market. Although further expansions and investments would be suspended, which could potentially affect Ecco's business plans long-term, this does not incur a direct cost. However, the backlash, the withdrawal of partnerships, and the decreasing willingness to buy from consumers will most likely have a significant long-term impact on the brand. The choice of remaining has proven to be potentially more costly than the revenue gained from remaining.

##### *Legal:*

Due to the choice of remaining, no legal implications in Russia have been reported from the brand. However, a potential risk lies in further international sanctions

affecting Ecco's ability to fulfil contractual obligations in Russia. No data was available to determine the extent of legal implications in their home country, but it is reasonable to imply that the loss of partnerships and contracts due to force majeure might be significant in terms of their impact on the business long term.

#### *Brand equity:*

Due to their decision to stay, Ecco has received extensive negative media coverage and backlash within business and consumer contexts. This has most likely affected their brand equity negatively. Ecco has been the subject of negative judgments and feelings that have damaged all four perceptions that make up a strong brand. Also, their ongoing interaction with the local stores has largely altered the brand image from a Danish staple to a Danish company associated with Russia. However, Ecco has been transparent in its exit communication and timeline, which shows transparency for the company and could potentially aid in their attempts to rebuild a positive consumer sentiment on a greater perspective.

#### *Scaling back - GAP*

#### *Social:*

Gap has displayed a dual social concern for the crises. The made donation sends a subliminal message of solidarity with the Ukrainian population. Controversially, Gap's decision to not fully exit Russia communicates an understanding and concern for Gap Russia's employees. This decision sends a mixed message that may affect Gap's core values. Furthermore, as Gap is a multinational company, it possesses the power to impact markets through communication and help shape values and norms. The choice of Gap to remain in a market where values don't align with their own or their consumer's values can be considered a risk.

#### *Economic:*

Gap reported total net sales of 16.7 billion USD in 2021. The European and Asian market's share is almost 7 percent, equaling approximately 1.2 billion. This is relevant since Russia entails both continents, and an assumption can be made that the scaling back of business operations in this market had a negative monetary impact on the company, thus having high economic importance. However, the choice to remain might also carry significant risk due to the instability of the Russian economy as well as potential boycotting by consumers in countries condemning the war. This is in alignment with the PESTLE analysis highlighting the need to evaluate both long term and short term repercussions that political conflicts can have on a company.

#### *Legal:*

Gap states in their communication that the legal aspect has potential to become a significant issue, due to potential sanctions in their home country, but is not able to give a statement in relation to how crucial it will finally become in the end. PESTLE's theory claims that a company is somewhat restricted by the origin market's and the international legislative system, which aligns with Gap Inc stating that they are acting within their legal rights given by their home country to continue on their online sales in Russia.

#### *Brand equity:*

Gap is an American company with a solid connection to the US culture and displays its brand image significantly. As the company exited the Russian market promptly, aligning with the US sanctions, it has received minimal impact on general brand attitudes. Furthermore, the data collection shows some negative feedback from consumers on social media, however, these comments are not extensive enough to render the definition of backlash. Thus, it could be argued that the scaling back business, whilst still remaining in some

capacity, was a strategic move to maintain their brand image.

### *Suspension - H&M*

#### *Social:*

H&M is a big conglomerate within the fashion industry, attempting to position themselves as forerunners in relation to sustainability and human rights within the industry. This can open up a brand to scrutiny due to expectations of their morals being greater. In this case, H&M had to consider the social aspect of both Russia and the western world and weigh the importance of these two against each other. The social aspect of employee rights in Russia, versus the social aspect of the human rights issues due to the war in the west. The consensus in the west about the war was that there should be no support for the Russian economy, directly or indirectly, thus affecting H&M to act quickly and exit in order to comply with the values being upheld in the rest of their markets.

#### *Legal:*

The legal aspect in relation to the decision to exit Russia is not one that H&M stresses in their external communication. However, although most legal obligations would be considered force majeure in cases of war, an assumption can be made that there were indeed great implications in the form of contract negotiations in areas such as lease contracts, supply chain and employee rights. It is feasible to suggest that this aspect did have an impact on the decision making process within H&M and that it could have affected their choice of exit strategy.

#### *Economic:*

The economic impact that the crisis had on H&M as an organisation is highly communicated across several channels such as in their financial statements and in the media. The economic consequence of their decision to exit led to reported losses of \$190 million, equating roughly to 20% of

total sales in 2021. Given the nature of business, this loss can be deemed a significant factor in the decision to only suspend their business as a first step. However, when faced with the potential of significant backlash in other markets due to this decision, potentially affecting revenue, their decision to finally exit completely is understandable. The economic aspect was of great significance to H&M's strategy.

#### *Brand equity:*

In H&M's case, their decision to only suspend at first was suitable from an economical viewpoint, but it was less understandable in relation to their brand image. Given the organisation's core values and the values of the country in which they are based, a dissonance between actions and words was indicated by the data collected from consumers. H&M's actions to only suspend were deemed lacking in the eyes of the consumer and the criticism and backlash they faced on social media reflected this. This dissonance between words and actions can have a serious impact on a brand's image, which is why we suggest that H&M's decision to eventually exit the Russian market completely was influenced by their consumers and the importance they place on their brand image. Furthermore, the fact that no significant positive commentary could be detected after their decision to withdraw completely. This is interesting due to its implication that brands do not get praised or applauded by their consumers for finally doing "the right thing", or what the consumers would deem to be the correct course of action from the beginning.

### *Withdrawal – NIKE*

#### *Social:*

Nike decided rather rapidly to withdraw their entire operation in Russia after their initial suspension approach. They emphasised the importance of their co-workers in the affected regions and the priority of their safety. However, as the

situation grows more severe, and the international sanctions are put in place, highlighting the value of western nations, Nike chooses to align themselves with the values within these markets and makes the decision to exit the Russian market fully. It is reasonable to suggest that issues relating to social aspects had a great impact both on their decision to suspend, as well as their decision to withdraw.

#### *Economic:*

The deconsolidation of Nike's Russian subsidiaries, incurred a loss of \$96 million. This equated to less than 1% of their total revenue and was communicated by Nike as negligible and likely had no significant impact on their choice of strategy. Arguably Nike viewed the potential of damage to their brand image, due to their decision to suspend affecting their revenue on other markets, as a greater risk, thereby choosing to withdraw completely. It is reasonable to suggest that the economic impact of leaving the market held little importance in their choice to withdraw.

#### *Legal:*

Due to the decision to withdraw, Nike had to deconsolidate their Russian entities. Although no explicit external information was communicated, it is reasonable to assume that the deconsolidation elicited contractual negotiations within the legal sphere that could've affected Nike's choice of strategy. However, since it is not heavily communicated to their stakeholders in the media or in financial statements, it is reasonable to assume that the legal aspect did not play a significant role in their choice of strategy.

#### *Brand equity:*

Given Nike's core values, focusing on social issues and striving to contribute to positive change, to remain in Russia would've caused incongruencies in the mind of the consumer. This is evident when viewing consumers' negative feedback to their decision of suspension in social

media. This negative feedback ceased after the brand decided to withdraw completely, aligning their actions with their core values once more. The brand was also covered extensively in a positive light in the media when the decision to withdraw was announced. Given Nike's core values and the alignment of their actions with them, it is reasonable to state that brand image, and acting in accordance to their beliefs, was of utmost importance to them.

## **Framework**

#### *Introduction to framework:*

Through analysis of the data a framework can be derived. The framework will be presented through a 2x2 matrix structure consisting of a x-axis and a y-axis that together create an explanatory grid. Throughout the data analysis, the economical perspective was a significant aspect in relation to the strategic decisions made by firms, which is the reasoning behind economical importance becoming a stand alone perimeter of the x-axis within the framework. Additionally, the PESTLE analysis and the brand equity analysis constitute aspects that all have an impact on the urgency experienced by firms when exiting a market, leading to the y-axis representing the urgency of the firm evaluated through the above mentioned theories. The scale on both axes stretch from low to high.

The naming convention of the strategy categories will be grounded in the categorisation previously presented in the essay, that is based on the Yale article on the subject (Sonnenfeld et al, 2022). These include buying time, scaling back, withdrawal and suspension. The categories will be placed out in the framework in accordance with their relation to the axis variables; economical importance and urgency.

*Buying time:*

The buying time category entails low urgency and lower economic importance. In the case of Ecco, the economic implications of their decision seemed to not affect the brand's decision-making to a considerable extent. Their emphasis was placed upon their employees in Russia, supporting their decision to stay. The negative feedback from retailers and consumers have had no impact on their strategy as it has remained the same to this day, arguing for a low urgency in relation to the situation. Brands utilising this strategy should evaluate what they stand to lose in brand perception and economical impact of decisions in stark contrast with the rest of their markets.

*Scaling back:*

The scaling back strategy entails a low urgency combined with high economical implications in regards to the decision to exit the market. In the case of Gap, the potential loss in terms of sales was high, whilst the backlash from stakeholders and consumers was less severe. The brand therefore chose a strategy allowing them to uphold sales and revenue through local actors, whilst suspending parts of their business from the market. Brands that are involved in the market through local actors, not as main distributors themselves, with a high economic involvement can utilise this strategy.

*Withdrawal:*

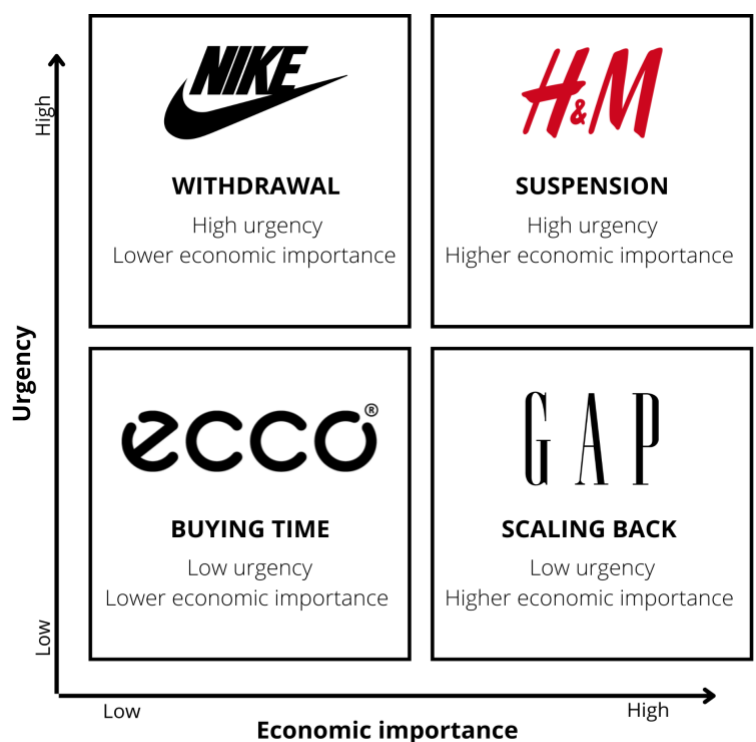
Withdrawal entails high urgency, and low economical implications in regards to the decision to exit the market. In the case of Nike, there was a high urgency to exit due to the public backlash received from their choice to solely suspend business operations in the beginning. However, since the Russian market held little economical importance to Nike, whilst their brand image and the consumer attitudes in other markets increased urgency for the brand, Nike chose to withdraw completely. This is a suitable strategy for firms acting in

markets where their economical share is not significant.

*Suspension:*

Suspension entails high urgency and deems the situation as one of economic importance. In the case of H&M, the Russian market was of great economical importance, while simultaneously the social issue and impact on brand image created a high urgency for the brand to act. Due to the urgency to act and the high economic importance, H&M decided to suspend their operations in Russia, meaning they could take a stance whilst also making their decision less permanent in nature. H&M did finally decide to withdraw entirely from the Russian market, due to longevity of the war and backlash from consumers, moving them into the withdrawal category through increased urgency. This strategy is suitable for firms with a significant presence in the specific market, allowing them to act whilst also assessing the full scope of the situation before making extensive economic decisions.

Figure 1: Framework



## Discussion & Conclusion

This paper aimed to investigate the different options available to a firm when exiting a market due to an external crisis, the war between Russia and Ukraine, through a case study of four firms. Our findings suggest that a firm may adopt one of four strategies; buying time, scaling back, suspension and withdrawal. The ground for this categorization was gathered from an article published by Yale in relation to the war in Russia and Ukraine (Sonnenfeld et al. 2022). The strategies are viable to differing extent depending on the circumstance the firm finds themselves in. The crucial aspects behind the choice of strategy was found to depend on the scale of economic implications as well as on the urgency experienced by the firm. The economical factor was derived from the general notion of economic importance within the business sphere. The urgency factor was derived through the aspects within the PESTLE analysis as well as from a brand equity model. The urgency factor and the different levels of importance it was given by the case firms in this paper, was narrowed down to the social, legal and brand equity aspects. These aspects, together with the economical implications, were found to have the greatest impact on a firm's decision in relation to the strategy chosen to implement.

From the findings, a framework was built, where the strategy options were placed within a 2x2 matrix. This framework conceptualises the different ways a brand can choose to act, depending on the urgency and economic importance of a situation. However, as the framework is fluid, brands affected by situations in different ways may move from one category to the other given changes in the urgency or economic implications. Additionally, since this paper covers a severe crisis, a war, it is reasonable to state that the moral and social aspects within the urgency factor are of significant

importance, and given a different external crisis the urgency factor might include other aspects. The framework is therefore widely applicable and allows for adaptation to differing circumstances.

An additional observation was made in regards to the brands that did not act in accordance with their core values from the beginning. The backlash towards these brands from consumers was extensive at first, however as with the case of H&M once they decided to withdraw completely, no overwhelming outpour of positive sentiment from their consumers was detected. A suggested explanation posed in relation to this phenomena, is that brands can not expect their consumers to praise them for acting in accordance with their core values, especially not after they have contributed to prior dissonance through previous choices and actions that were not aligned.

Therefore, depending on the business, the timing of the situation and the current status of the brand, a manager can assess their firm's situation and choose an exit strategy in the framework that matches their perceived levels of economic implications and urgency.

### *Academic implications*

This research paper is first of its kind given that the researched situation is recent and on-going at the time of writing. The research paper provides a conceptualised framework, based on previous theories, that adds to the knowledge about market exit strategies for brands in times of crisis. Additionally, the framework has the potential to be useful for further research and analysis of business decisions relating to market exits in times of crisis. Given the focus on social, when exiting markets, made in business settings. The paper and the framework also provide an opportunity to add on dimensions to the model, given the volatile and ever changing nature of aspects affecting external crises.



The framework presented in this paper is especially relevant due to its potential for wide application across industries and different areas of business operations. This might include separate areas within the retail industry, but also within a setting that relates to business-to-business operations. It is reasonable to make an assumption that externalities such as legal, political and environmental factors will have a greater impact on organisations that are acting within an industrial setting. Due to the nature of legalities in relation to partnerships, the impact in business from political interventions and the environmental impact of industry and manufacturing. The academic implications derived from this paper could act as a base for further research within the field.

#### *Managerial implications:*

This study provides insight into a few main factors which should be considered by a brand manager when entering a time of unexpected, external crisis. It is important to thoroughly assess your surroundings, for example through the theories presented in this essay, extracting knowledge about the importance and impact that each of these may have on your brand. Remember to choose a strategy that aligns both with the economical incentives as well as the urgency aspects and weigh these against one another to find the approach with the right balance. Do not act solely on economic incentives although it might be tempting in a business setting, since this might sway the choice of strategy to one that will harm the brand in the long-term. An emphasis is placed upon that this framework can act as a guide throughout the crisis, providing a reasonable roadmap for reassessment and change of strategy as crisis circumstances develop and evolve.

#### *Limitations and further research*

The limitations faced when writing this paper were; lack of available data due to the timewise proximity to the researched phenomena, the small selection of cases

researched and access being limited to solely public information. In regards to future research we recommend that focus should be placed upon increasing the number of cases studied, performing interviews with managerial figures within the firms researched and including surveys from a consumers perspective to better understand the impact of strategy decisions on brand equity after a crisis. It is also relevant to direct focus towards how a firm's actions can affect attitudes in relation to internal branding and what impact the strategies described in this paper would have on the sentiment amongst employees.

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