



SCHOOL OF
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ESG Scores as Social Ethicality Motivators

A Statistical Analysis of the Responsiveness of ESG Scores in Light
of Russian Divestments by MNCs

by

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Abstract

Relating to the ongoing discussion surrounding criticism and support for ESG scores, the purpose of this paper anchors itself in providing comprehensive, empirical evidence regarding the responsiveness of ESG scores to firm actions. The different strategic choices of multinational firms, resulting from political and stakeholder pressure, were to either fully withdraw, suspend or continue operations in Russia in light of the Russia-Ukraine war. These actions were statistically analyzed in relation to changes in the firms' social and governance ESG scores. The achieved aim and contribution of this thesis was therefore to empirically explore the appropriateness, validity and responsiveness of these scores in terms of being a measure for how well firms' corporate actions address social- and governance-related issues in the social context of their operations. In this way, currently lacking statistically-backed criticism or support could be added to the current ESG debate.

To answer the research question of how responsive ESG scores are to the social- and governance-related actions of firms, the research took a quantitative approach. This was done by analyzing the statistical relationship between the costs of the aforementioned divestment strategies as well as the categorical degree of divestment, and changes in event-relevant ESG scores. Multiple simple linear regressions and a contingency table were operationalized, respectively, in order to do so. Strong statistical evidence is citable towards clear criticism for the continued use of ESG scores as social ethicality motivators. A statistically significant, negative relationship was found between costs of full withdrawal and changes in social and governance scores. No relationship at all was found between the costs of withdrawal and changes in the community, human rights, and stakeholder engagement scores. ESG was also completely unresponsive in all score pillars and categories to firm decisions to suspend their operations or continue business as usual. In other words, firms were punished via ESG for acting in a way that adhered to stakeholder demands for full divestment, while those that did the bare minimum or nothing at all were not punished or responded to at all. These results therefore provide strong criticisms against the responsiveness and validity of ESG scores as accurate measures of CSR and thereby their ability to be social ethicality motivators. The key empirical contribution that this thesis therefore makes is to provide a geographically and industrially comprehensive statistical analysis of how and what ESG scores reward and respond to, whose results add robust, non-theoretical criticism for the use and appropriateness of the scores that has yet been lacking in the field.

Keywords: ESG Responsiveness, Russia-Ukraine War, Divestment Strategy, Brand Management, MNCs

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1 Introduction

1.1 Background

Corporate Social Responsibility (CSR) has undoubtedly become increasingly important throughout recent decades. Legislation and social pressure for transparency and disclosure, as well as the benefit maximization potential of CSR investments, are all reasons for this (Du, Bhattacharya & Sen, 2010). Environmental, Social, and Governance (ESG) scores have been used as a multi-pronged measure to track CSR activities and evaluate risks and opportunities of corporate policies in terms of ESG-related factors (Gillan, Koch & Starks, 2021). ESG and CSR have therefore become incentives for firms in terms of understanding the social and financial externalities associated with their operations. Some assert that these scores have become imperative for firms to pay attention to in order to maintain a “social license” to operate (Pérez, Hunt, Samandari, Nuttall & Biniek, 2022).

In the news and media, a focus is most often placed on the environmental ESG pillar in relation to corporate policies, most often regarding wide-spread concerns for climate change, as well as legislative actions such as carbon taxes, emissions caps and the Paris Agreement (2015) on global warming. However, the social and governance pillars are equally important, as they relate to a company’s attention to the social impact it has on its stakeholders, including employees, customers and suppliers (Clément, Robinot & Trespeuch, 2023). They also relate to how well the company is governed in terms of anti-corruption and anti-fraud efforts, reporting transparency, and its ethics and values (Clément, Robinot & Trespeuch, 2023). These pillars are arguably less publicized, and less empirically researched on a multi-industry scale than the environmental pillar. This is likely because they are not usually connected to a wide-reaching issue such as climate change, but usually come to light with events like labor scandals or fraud involving one or few firms.

Government acts and multilateral treaties like the Corporate Sustainability Reporting Directive (CSRD) by the European Council (2022) and the OECD’s (2018) Corporate Responsibility Due Diligence Guidance only enforce minimum levels of CSR adoption. This means that CSR is not yet the status quo of doing business and firms are only adopting it to varying degrees due largely to consumers and stakeholders increasingly exerting power based on brand perception (Briscoe & Gupta, 2016; Hond & De Bakker, 2007; Puriwat &

Tripopsakul, 2022). In addition, it has been shown that social stakeholders, like consumers, employees, and communities, partly base their brand perceptions on the ESG scores of firms (Duan, Li & Michaely, 2022; Li et al., 2021). This undoubtedly shifts substantial power towards the ESG rating agencies in terms of accurately reflecting the actions of firms and continuing to effectively incentivize them to take on CSR and ESG initiatives that go beyond legal requirements (Pérez et al., 2022; Duan, Li & Michaely, 2022; Li, Wang, Sueyoshi & Wang, 2021).

Besides stakeholders, ESG has also shown to be of interest for investors, as research points to a positive relationship between ESG and long-term financial performance (Cardillo, Torluccio & Bendinelli, 2023; Freeman, 2010; Taliento, Favino & Netti, 2019; van Linh, Hung & Binh, 2022). Other studies have pointed to the positive effects on market value, return on assets (ROA) and risk reduction for firms having high quality ESG disclosure (Shakil, 2022; Wen, Ho, Gao & Yu, 2022). ESG has therefore become a key facet of consideration for certain investors in where they decide to invest their capital (Gillan, Koch & Starks, 2021; Pérez et al., 2022). An exponentially growing amount of financial securities are now niched toward ESG-investing, where ESG-related assets are expected to grow from USD 18.4 trillion in 2021 to USD 33.9 trillion in 2026 (PWC, 2022). These empirical findings exemplify the importance and trust that ESG scores have gained in reflecting the nature of corporate policies. Not only for firms themselves, but also their social stakeholders, given that ESG scores can sway investment and purchasing behavior to benefit firms who perform well in this regard.

1.1.1 ESG Criticisms

While being praised and pushed for by many, critics of ESG point out multifaceted aspects to be aware of. The definitions behind the ESG acronym are argued to be too flexible and not uniform in what is included in the terminology, making it difficult to compare and assess firms on equal basis (Pollman, 2022). ESG is therefore dependent on the definitions of each individual or ESG rating agency respectively. An example to this problem is the event of the S&P 500 sustainable investment list dropping Tesla but keeping Exxon Mobil, begging the question of how representative and responsive ESG scores are to firm actions (Lyon, 2022). A key issue is the ESG rating methodology, where the ESG score of a firm is only benchmarked within its own industry, and not across industries (Berg, Kolbel & Rigobon, 2022; Bloomberg, 2021; Refinitiv, 2022; Morgan Stanley Capital International, n.d.). This means that the

emissions from an oil producer are “compensated” for as they are only compared to other high emitters, which reflects the issue of a flexible definition of ESG. However, others believe that a more stringent definition of ESG could limit both investors’ and firms’ ESG investments (Gensler, 2022; Peirce, 2020; Roisman, 2020). Others assert that ESG scores, despite their broad definition, fulfill their purpose of holding firms accountable for the negative, and reward them for the positive externalities they drive (Pérez et al., 2022).

ESG scores have also been criticized for partly relying on firms’ voluntary reporting, thus being biased toward what the firms want the scores to reflect (Bapat, Kothari & Bansai, 2022). The methodology on calculating ESG scores is also based on a subjective, qualitative approach, which jeopardizes the reliability of the scores (Bapat, Kothari & Bansai, 2022). The result of this has been that the same company has been scored differently by different rating agencies (Liu, 2022; Berg, Kolbel & Rigobon, 2022; Chatterji, Durand, Levine & Touboul, 2016; Christensen, Serafeim & Sikochi, 2022). This disagreement across rating agencies calls for a questioning of the validity and responsiveness of the ESG scores themselves, meaning questioning why one rating agency would provide a more legitimate score than the other. It is also emphasized by Liu (2022) that this proved inconsistency and lack of responsiveness in scoring can be disincentivizing for firms to even initiate ESG- and CSR investments and reporting. In other words, it is difficult for firms to know which behaviors and policies are rewarded when rating agencies respond differently to their actions.

As mentioned prior, ESG investing is growing tremendously in net worth. On one hand, this is welcomed by research findings that standards and sustainability indices improve companies and their sustainability work (Reid & Toffel, 2009; Slager, Gond & Moon, 2012). On the other hand, contradictory evidence has shown that the actual environmental performance is negatively affected by such indices, as it is a mere symbolic action of management (Cho, Guidry, Hageman & Patten, 2012). Some therefore say that a narrow ESG focus crowds out more valuable solutions and ESG itself creates unrealistic expectations for both companies, society and investors (King & Pucker, 2022; Serafeim, 2021). Relating to this is the argument that ESG has become a proxy for specific value-laden actions or ideology, rather than being a proxy for scientifically backed ESG actions (Barzusa, Curtis & Webber, 2020; Kell, 2018; Pollman, 2022). This also begs the question whether rating agencies are ideologically driven by a status-quo of values, or if they respond objectively and scientifically.

Therefore, while several studies point to both firm- and investor specific benefits from ESG investments, critics reference several inconclusive aspects regarding the definition and use of ESG, which problematizes the practical implications of the empirical findings on ESG benefits. Though many criticisms seem to allude to a key issue at hand, namely whether ESG scores are indeed reliably and accurately responsive to firm actions, there are very few studies on the matter. Most studies in this regard focus on the converse side of this question, namely how responsive firms themselves are to ESG scoring and societal and legislative changes that factor into the way they are scored via ESG (Hovatter, 2022; Lindqvist, Rachev, Hu & Shirvani, 2022; Sirsly, 2015; Tarmuji, Maelah & Tarmuji, 2016). This leaves an empirical gap in the research regarding ESG scoring mechanisms and responsiveness, given the aforementioned criticisms and support.

While ESG and CSR have had proven positive effects on firms, there is yet criticism to respond to, one being the responsiveness of rating agencies. To study the responsiveness of ESG scores to firms' social- and governance-related actions in particular, this thesis will have its empirical ground in the ESG score responsiveness to the 2022 Russia-Ukraine war. Given the recent economic, political, and particularly societal effects stemming from the war, ESG importance has peaked (Pérez et al., 2022). This is exemplified by western governments' enactment of heavy sanctions on firms operating in Russia to urge firms to take action and responsibility, while western stakeholders also demanded firm actions in the form of suspension or complete exit from the country (Graff & Bendeich, 2022; Parella, 2022; Pajuste & Toniolo, 2022). As a result, many multinational firms across all industries and geographic areas did take varying degrees of action, ranging from complete divestment, to suspension, or simply doing business as usual (Sonnenfeldt, Tian, Zaslavsky, Bhansli & Vakil, 2022). Thus, this event represents a unique empirical opportunity to study how the social and governance ESG pillar scores responded to these actions or lack of action. As will be detailed later, the war therefore denotes the empirical setting for this thesis.

1.1.3 Problematization

The above reflects a twofold problematization. First, the question of whether the termination, either temporary or permanently, of operations was deemed responsible by ESG rating agencies should be asked. Government-issued sanctions for operating in Russia, accompanied by western stakeholder outcries against Russian actions, drove companies to divest operations in the country, taking on the corresponding costs to do so (Sonnenfeldt et al., 2022). The

reasoning behind the political sanctions and western stakeholders' outcries was grounded in considerations for human rights and the important role firms had in helping stem against Russia's actions. The matter thereby arguably relates to social and governance aspects that would be reflected in ESG scoring. In other words, firms that divested their operations in response to the political and social condemnations of Russia should arguably have been rewarded by way of ESG scores over the hundreds across all geographies that decided to stay regardless (Sonnenfeldt, 2023).

Puriwat and Tripopsakul (2022) assert, ESG scores affect and shape stakeholder brand perception. If companies act and govern themselves in accordance with what is deemed socially responsible, this should ameliorate their ESG score, given that the scores are accurately responsive. This responsiveness is therefore important, given that stakeholders' and shareholders' perceptions and behavior towards firms is shaped in part by ESG scores. In other words, they may buy or invest, respectively, according to which firms perform positively in terms of ESG. If ESG scores are not responsive to firm actions, they nullify the positive impact that ESG is intended to have on the importance of CSR considerations for firms. Firms voluntarily acting and governing themselves in a socially positive way are then not effectively rewarded via ESG and consequently also not by consumers and investors via increased sales and investments.

Second, companies may have chosen not to divest from Russia simply due to the divestment costs outweighing the sanctions. This could be rationalized in the perspective of protecting their shareholders' interests by not wanting to transfer divestment costs, and thereby potentially negative market reactions, over to them and reduce their returns. However, this argument is somewhat lacking as market reactions turned out to be net neutral for divesting firms (Glambosky & Peterburgsky, 2022). Regardless, given that the action to stay was punished by politicians and social stakeholders, companies who decided to continue their operations should not have seen a positive ESG response (Parella, 2022; Pajuste & Toniolo, 2022).

The indications are therefore that the second problematization, alongside heavy financial considerations, is contextualized by a shareholder-stakeholder priority dilemma for firm decisions and actions in responding to the war. Nonetheless, the broadly supported correct decision was for firms to halt or end their Russian operations to stem against human rights and social violations, deduced from the heavy sanctions and social disdain for continuing

operations (Parella, 2022; Pajuste & Toniolo, 2022). Firms who did so accordingly should have seen positive responses in their social and governance ESG-pillar scores. In the case that they did not, this finding would add to criticism for the operationalization and adequacy of mechanisms behind ESG scores.

1.2 Aim and Objectives

The aim of this paper is therefore to take an empirically-based look at the validity and appropriateness of ESG scores as a meaningful and responsive measure of how well corporate policies address social and governance issues in their operational context. This is done in light of the aforementioned long-standing argument between critics and supporters of the measure. The importance of such a study is derived from the fact that it has been shown that stakeholders and consumers consider ESG in their brand perception, creating a necessity for rating agencies to accurately respond to firm actions. The study also furthers its overarching aim by filling a key empirical gap in the debate in terms of contextualizing the study with a globally impactful event. This allows the research to obtain a more empirical basis for addressing the criticism on the responsiveness of ESG scores, in terms of how and what they reward.

A prior problematization in the CSR research has been that there is a disparity between corporations knowing how to effectively act in a socially responsible manner and society effectively influencing corporations to act in such a manner (Schreck, van Aaken & Donaldson, 2013). In the context of the war, this is exemplified by the different degrees of divestment strategies. While it was politically enforced to take action, it was clear that the degree of action was individual to each firm, resulting in firms taking on varying divestment costs. The goal is therefore to address this disparity between society and firms while adding statistically-backed criticism or support, depending on the results of the study, to the validity and response-based effectiveness of ESG scores as social ethicality motivators for firms. The objective is therefore to study changes in ESG scores and divestment costs in relation to divestment strategy to see how different actions were rewarded by ESG. Another key objective is therefore to develop a robust statistical model that reflects the relationship between divestment costs and changes in ESG scores for multinational companies (MNC) in light of the Russia-Ukraine war.

1.3 Research Purpose

The overarching purpose of the study is to statistically explore whether companies are indeed effectively rewarded via ESG scores for their operational choices. There are many theoretical and case-specific argumentations for, and criticisms against, the validity, comprehensiveness, and efficacy of ESG scores. Though, there are relatively few empirically-based, large-scale studies that provide convincing evidence one way or the other. In this way, the study will empirically address the use of ESG scores as a valid, appropriately responsive measure and basis for stakeholders to formulate their perceptions of brands and thereby the effectiveness of ESG scores as continued social ethicality motivators for firms. This will be achieved through the use of an industrially and geographically comprehensive empirical study of multinational firm responses to the Russia-Ukraine war. Divestment costs are analyzed in relation to ESG scores to determine if firms were indeed rewarded via ESG, as research has shown benefits for socially and environmentally sustainable investments, or in this case, divestments.

Given the expressed aims, objectives, and purpose of this study, the central research question is formulated as follows:

RQ: How responsive are ESG scores to social- and governance-related actions of firms?

The purpose of the research question is multifaceted, with the goal to reach several practical implications. First, the paper will contribute to the literature on corporate strategies to strengthen the existing knowledge on how financials and ESG relate to one another, as well as the effects from divestments during uncertain times. Second, the paper looks to fill the empirical research gap relating to current disparities and criticism of how corporations believe they should act responsibly, and how society influences them to act socially responsible, in the sense of how and what ESG rewards. Third, insight is provided to companies on whether taking on divestment costs to demonstrate socially ethical behavior, rather than doing the bare minimum to not incur sanctions, actually rewards them with increased ESG scores.

1.4 Delimitations

This empirical study explores and analyzes the changes, or lack thereof, of the ESG social and governance pillar scores specifically, in relation to the actions of multinational firms in light of the Russia-Ukraine war. This means that the scope of the research is limited to these two

pillars only, and it deliberately leaves out the environmental pillar due to its irrelevance to the nature of the event contextualizing the study and the aims and purpose of the study itself. Therefore, the results of the research are only relevant in explaining behaviors in social and governance pillar scores, and they should therefore not be extrapolated to explain those in environmental pillar scores. Furthermore, in making estimations of the financial costs incurred by companies divesting from and suspending operations in Russia, relevant figures were taken directly from the financial reports of companies included in the study, and, though these first-hand estimations are deemed valid due to being extracted directly from primary sources, there are limitations to making completely accurate cost estimations as, particularly in the war's starting year, costs and cost estimations fluctuated greatly. Thus, the scope of the study in terms of empirical data is limited to the year 2022, meaning cost estimations include and pertain only to costs reported and incurred by the study's included firms and their ESG scores in the 2022 fiscal year.

1.5 Outline of the Thesis

The following sections will contextualize the research question by including a theoretical review on brand management, the stakeholder theory and the shareholder theory, as well as their relation to ESG. This is followed by a delineation of divestment, succeeded by relevant empirical research on historical divestments and studies on the Russia-Ukraine war. The theoretical and empirical review is then synthesized to formulate hypotheses. Chapter three introduces the setting from which the study takes its empirical perspective. Chapter four sets the methodology by defining the approach and design, as well as the sampling criteria, data collection and the regression and contingency analyses. The data results are presented in chapter five. Chapter six includes a data analysis which is contextualized and discussed in relation to the presented material in the theoretical- and empirical review. Lastly, a final conclusion is drawn as well as suggestions for future research and a reiteration of practical implications.

2 Literature & Theoretical Review

This section first establishes a theoretical basis for explaining and contextualizing CSR- and therefore ESG-driven behavior amongst firms. To do so, it includes a theoretical review of brand management and the RBV, as well as the shareholder- and stakeholder theory. Relevant connections to research on ESG is also presented. This is followed by a delineation of divestment strategies and otherwise relevant empirical studies, particularly those relating to ESG research and context. With support from theoretical and empirical assertions, hypotheses are formulated.

2.1 Governance Theories

The following subsections work to establish the governance-centered theoretical foundation that guides the hypotheses and analysis of this paper's research. Brand management of ESG is introduced, thereafter followed by a discussion on the stakeholder- and shareholder theories.

2.1.1 Brand Management and ESG

A key firm governance theorist, Jay Barney (1991), defined the resource-based view (RBV) which focuses on the relation between firms' internal resources and the creation of a sustained competitive advantage (SCA), or a competitive advantage withstanding competition throughout time. He later developed the VRIN-O framework, defining a SCA-related resource as valuable, rare, inimitable and non-substitutable or organizational. In this vein, brands have been argued to be one of few assets that can bring a company an SCA (Kapferer, 2012). Ehrenberg (1972 in Kapferer, 2012) asserts that large brands have both higher product penetration and higher purchase frequency.

Brands also entail reputations which are collectively held perceptions (Etter, Ravasi & Colleoni, 2019). However, a more academic definition of "brand" is hard to find if looking for a consensus in the literature. Though, common ground seems to have been found in brands being an intangible asset driving cash flows from consumer loyalty. Brands are described to promote loyalty, quality and evoke emotions, among others, while being attached to, for example, logos, designs and names (Aaker, 1992; Aguilera, Rupp, Williams & Ganapathi, 2007; ISO 20671:2019; Kapferer, 2012; Roberts & Dowling, 2002). Notably, Kapferer (2012)

argues that the problem is not the spread of definitions itself, but the problem comes to the surface when it comes to measurement and comparison.

Conceptually, brands can be seen from three different perspectives (Swaminathan, Sorescu, Steenkamp, O'Guinn, & Schmitt, 2020). A firm perspective focuses on a brand's ability to distinguish itself from similar brands (Melo & Galan, 2011). Meanwhile the social and consumer perspective have their respective focus on brand community (Muniz & O'Guinn, 2001) and brand experience, trust and emotional attachment (Rajavi, Kushwaha, & Steenkamp, 2019). Relating to the latter is the recent and growing inclusion of ESG initiatives by firms which create value and predominantly focus on marketing (Lee, Raschke & Krishen, 2022). This has primarily sprung from an increasing share of consumers being willing to pay for, and expect, firms to act as corporate citizens (Landrum, 2017). This creates a social brand valuation (Naidoo & Abratt, 2018) which reduces consumer's price sensitivity to products (Sierra, Iglesias, Markovic & Singh, 2017). Because of this, studies have shown that sustainability, the economic perspective and brand value creation are positively related (Aguilera et al., 2007; Baalbaki & Guzmán, 2016; Liu, Wong, Shi, Chu & Brock, 2014; Rettab, Brik, & Mellahi, 2009; Wang, Chen, Yu & Hsiao, 2015). While much research studies brand value and not brand perception, it has been shown that the two are positively related (Luo & Bhattacharaya, 2006; Mackey, Mackey & Barney, 2007) and will therefore be used interchangeably.

ESG commitment by firms can thereby be the source of unique competencies and a valuable relationship with their stakeholders, and as a result, generate competitive advantages (Donaldson & Preston, 1995; Hull & Rothenberg, 2008; Melo & Galan, 2011), or in the words of Pérez et al. (2022), provide a social license to operate. Perceptions of the performance of a firm in the social and governance pillars of ESG also have a direct positive effect on brand credibility and image (Koh, Burnasheva & Suh, 2022). However, not all ESG practices have shown to yield such effects, perhaps due to discrepancies in the responsiveness of ESG scores which this paper explores.

There has been a tendency among firms to react with ESG practices once involved in a controversy, thus resulting in an even lower brand perception by its stakeholders (Becker-Olsen & Hill, 2005; Livesey & Kearins, 2002). In parity with the RBV, ESG practices that sincerely involve developing internal capabilities are performance improving

(Hart & Milstein, 2003 in Nirino, Santoro, Miglietta & Quaglia, 2021). In addition, CSR can serve as an insurance and a social capital reserve during uncertain global economic times (Borghesi, Chang & Li, 2019). Additionally, many ongoing controversies can lead to a decrease in financial performance, and for listed companies, there is a likelihood for the market to initially overreact to these controversies (Nirino et al., 2021).

That being said, the relevance of ESG has been argued to be the normative base underlying stakeholder theory, which consequently leads to a prioritization among stakeholders (Donaldson & Preston, 1995). Ultimately, social capital in terms of trust and loyalty is gained from these stakeholders, which has shown to be a competitive resource (Chang, Kim, & Li 2014; El Ghouli, Guedhami, & Kim, 2017). Therefore, as the basis for this thesis, brand perception, as created from the stakeholder perspective, will be defined in terms of ESG. However, as problematized in this study, the ability of ESG scores to be a trusted source of SCA, is contingent upon their accuracy, validity and responsiveness.

2.1.2 Stakeholder Theory

The underlying proxy for ESG and sustainability is evidently concerned with stakeholders and going beyond the financial context of a firm, which connects this study to stakeholder theory. Commonly associated with Freeman (Freeman, 2010; Freeman & Reed, 1983), this theory asserts a social responsibility of firms reaching beyond profit maximization to shareholders (Abrams, 1951; Ackoff & Warfield, 1977; Ansoff, 1965). Its responsibilities are to those who have a stake in the actions of the company, a stake denoting having the power to affect the business, or to be dependent on it (Freeman & Reed, 1983).

Recent effects of this aforementioned stakeholder power can be seen from the fact that, in many countries, ESG reporting has been mandated as a result of governmental regulators and politicians looking to advance a socially positive agenda (Pérez et al., 2022). Relating to this is also corporate social irresponsibility (CSI), which is not only discouraged by government-enforced regulations, but also significantly from stakeholder pressures (Aguilera, Desender, Bednar & Lee, 2015; Nardella, Bremmer & Surdu, 2020). Because, as stated priorly, neglecting stakeholders can lead to severe damage to firm-specific resources outlining a competitive advantage (Sweetin, Knowles, Summey & McQueen, 2013). Most notably, CSI in foreign markets can result in the MNE divesting its operations or assets there to satisfy stakeholders in the home country (Surdu, Greve & Benito, 2021; Wang & Li, 2019).

In this regard, firms prioritize stakeholders differently based on three stakeholder orientations (customer, competitor and interfunctional coordination), where the chosen orientation impacts the overall strategic course of the CSR activities (Brower & Rowe, 2017). Ultimately, this prioritization is determined by the stakeholder power, which in turn is determined by the firm's reliance on that particular stakeholder (Werther & Chandler, 2005). Thus, a firm needs to determine the importance of addressing a particular stakeholder before another one (Neville, Bell & Whitwell, 2011). Notably, it is this balancing act regarding the collective perception of brands that MNCs are sensitive to (Etter, Ravasi & Colleoni, 2019).

2.1.2.1 ESG Impacts on Stakeholder Perceptions and Behavior

Empirical studies have related ESG commitments by firms to stakeholder power as well as brand perception. One study found that foot-traffic decreased to the stores of firms that had recently had negative ESG incidents or performances (Duan, Li & Michaely, 2022). This was especially evident in highly educated and democratic countries, indicating a higher ESG influence on stakeholders in such countries (Duan, Li & Michaely, 2022). Another study found a relationship between employees and high performance in the social and governance dimensions of ESG (Li et al., 2021). Namely, ESG can work as a governance tool to motivate them, improve retention rates and improve their workplace behavior, as employees show an overarching preference for meaningful and ethical work (Li et al., 2021). Moreover, investors, but employees in particular, have significant influence on shaping the social responsibility of the firms they invest in or work for, making them a key force in the various socially beneficial efforts of firms (Li et al., 2021).

Companies engaging in CSR tend to experience greater trust from its stakeholders, however, when these are only symbolic acts, the positive effects are only short-term (Nirino et al., 2021). On the other hand, when the CSR investments are sincere, they tend to be a temporary cost with long-term positive effects on financial performance (Nirino et al., 2021). The short-term horizon on CSR has shown to be a common way for firms to restore brand reputation after being involved in controversies relating to its stakeholders (Becker-Olsen & Hill, 2005). However, when this fails or is non-existent, stakeholders tend to react, for example by consumers stop purchasing the product or suppliers stop supplying (Nirino et al., 2021).

In direct relation to the Russia-Ukraine war, a survey showed that 61% thought firms should leave the country irrespective of the consequences (Hart, Thesmar & Zingales, 2022). 66% would boycott or punish firms that did not conform with their desires for exit on the basis that operating in Russia is unethical as it makes the firms accomplices to the war (Hart, Thesmar & Zingales, 2022). However, it was found that punishment actions in the shape of selling stocks, boycotting products or resigning, were sensitive to the personal costs involved for the stakeholder (Hart, Thesmar & Zingales, 2022). If the personal cost of punishment was zero, 66% of stakeholders would take the respective action offered to them, but if there was a personal cost of \$100 or \$500, the respective percentage would be 53 and 43 (Hart, Thesmar & Zingales, 2022). While exiting could be costly in terms of wind-down costs and revenue losses, it was likely even more costly to lose 66% of a firm's customers as well as incurring financial penalties for continued operations (Hart, Thesmar & Zingales, 2022).

2.1.4 Shareholder Theory

It has been found that stakeholder rights have decreased disproportionately compared to shareholder rights (Borghesi, Chang, & Li, 2019). Therefore, attention should also be paid to shareholder theory. The theory claimed the purpose of the firm was to maximize the wealth of the shareholders by increasing profits and maximizing returns (Friedman, 1970). Many economists and researchers have since argued for this perspective (Duque-Grisales & Aguilera-Caracuel, 2019; Shahbaz, Karaman, Kilic & Uyar, 2020). The shareholder orientation even remains the basis on which firms operate (Alves, 2022), rationalizing engagement in CSR only when the shareholders benefit, for example by satisfying customers to affect purchasing behavior (Fama, 2021). Any ESG commitment beyond the customers' baseline is therefore ineffective from the shareholder's viewpoint. With the shareholder theory as the underlying proxy for firm actions, the divestment costs were only rightworthy if they benefited the shareholder, for example, in terms of increased or maintained brand perception.

Increased shareholder power leads to a prioritization of short-term profits before long-term investments to withstand times of crises (Borghesi, Chang, & Li, 2019). Notably, firms investing long-term in ESG and CSR report improved financial performance, experienced less idiosyncratic risk and reported higher stock returns (Cornett, Erhemjamts & Tehranian, 2016; Curtis, Fisch & Robertson, 2021; Friede, Busch & Bassen, 2015; Giakoumelou, Salvi, Bertinetti & Micheli, 2022; Kotsantonis, Pinney & Serafeim, 2016; Lins, Servaes & Tamayo,

2017; Pérez et al., 2022). On the other hand, shareholders do not perceive this argument to hold once a firm is involved in a controversy (Nirino et al., 2021). Additionally, firms with high customer awareness would recognize a higher firm value from CSR investments, while a firm with a poor reputation would not recognize such positive effects (Servaes & Tamayo, 2013). Therefore, the benefits of CSR to shareholders vary depending on customer awareness of the respective firm. On an opposing note, shareholders have been empirically shown to value ESG commitments, especially during uncertain times (Albuquerque, Koskinen, Yang & Zhang, 2020; Singh, Patel & Singh, 2022). There has also been a shift in shareholder pressure from a predominant focus on environmental issues, to an increased interest in social issues (Vanderford, 2022).

In summary, given the empirical research on ESG importance for stake- and shareholders, both share a concern for the actions and operational externalities of corporations on a global scale. They are also aware of ESG scores and their meaning as measures of the adequacy and sustainability of corporate policies, particularly in highly educated and democratic countries (Duan, Li & Michaely, 2022). This speaks to the power of ESG scores in shaping stakeholder brand perceptions not only in a general sense, but also more specifically in the context of this paper. It is therefore important to statistically test the responsiveness of ESG scores to firm actions, as stakeholder groups have the power to influence firms to act in accordance with their respective policies and demands. Relating this to the study at hand, these policies and demands were largely aligned with regard to the Russia-Ukraine war in desiring firms to make the socially responsible and ethical choice to stop business in Russia. Firms reacting to these desires by divesting should therefore have seen positive responses in social and governance ESG scores.

2.2 Delineation of Foreign Divestment

For the purpose of definitional clarity, a brief description of the meaning of divestment in the context of this paper will be given through respective academic works. In defining the term foreign divestment, this paper utilizes the definition presented by Panibratov and Brown (2018a) as it encompasses an empirical review of definitions. Foreign divestment is defined as firm decisions to dispose of a part of their business (Panibratov & Brown, 2018a). This may include withdrawing from or exiting a market, closing, spinning-off, or selling a portion of business in the form of a major operational division, business unit, or product line (Panibratov

& Brown, 2018a). In other words, foreign divestment results in a reduction of a firm's foreign assets. It should be noted that withdrawal is the more frequently used term to denote divestment in this paper.

The antecedent to foreign divestments are broadly accepted to include both internal and external aspects. For example, lacking performance, external pressures, adverse conditions in the business environment, and poor fit with the corporate strategy (Benito & Welch, 1997). Other studies point to a firm's will to preserve its organizational image or experience through divesting and investing, as well as uncertainty in the operational environment and divestment (Wan, Chen & Yiu, 2015; Panibratov & Brown, 2018a; Damaraju, 2017). In addition, both political and social stakeholders can shape the actions of firms, including decisions to divest (Benito & Welch, 1997; Wright & Ferris, 1998). Consequently, firm executives often adopt corporate strategies that cater to the demands of political stakeholders, irrespective of their impact or cost for shareholders (Wright & Ferris, 1998). This also connects to findings and assertions by Wan, Chen and Yiu (2015) and, Panibratov and Brown (2018b). They find that foreign divestment decisions were based on the desires of firms' political and social stakeholders, in order to protect their brand reputation and image. This aspect thereby also relates to the prior assertions of brand being a VRIN-O resource.

The described research on foreign divestments therefore provides insight into what may have motivated firms to divest from Russia in response to the Russia-Ukraine war. For one, there was external pressure from financial, political and social stakeholders for firms to stem against Russia's actions which constitutes an antecedent for divestment. An additional strong antecedent for firm divestment decisions was the uncertainty that the war instigated, both in terms of the state of operations in Russia and the severe financial and social penalties for continuing to operate in the country. These aspects can thus be theoretically utilized to both explain and support such Russian divestment decisions. They will therefore be more closely examined in the following section, particularly the antecedents of external financial and social pressure and the internal reputation preservation.

2.3 Relevant Empirical Studies

Upon a systematic and comprehensive search for prior empirical studies that analyze how social and governance pillar ESG scores respond to particular company decisions there is

little credible research that seems to have done so. While there is no precedent for this paper's specific research and aim, there are some empirical studies that are valuable to include in contextualizing the study. They provide relevant data-based conclusions that will help support the arguments made throughout this paper, guide some of its methodological considerations, and aid in the development of its hypotheses. These prior empirical studies include historical foreign divestment studies with the focal contexts of Apartheid in South Africa and the Russian annexation of Crimea, as well as more recent studies on market reactions to, and ESG implications for, firm decisions relating to the Russia-Ukraine War.

2.3.1 Major Divestments in the 1980's and 2010's

Though research studying the costs of divestment in relation to changes in ESG scores in any context is currently missing in the academic field, some parallels can be drawn to studies on firm divestments in reaction to historic events. Minefee and Bucheli (2021) and van Bergeijk (2022) explore the political, social, and therefore corporate reactions to the institutionalization of Apartheid in South Africa in the 1980's. Others explore the driving forces of divestments made by firms in light of the Russian annexation of Crimea in 2014 (Lander & Kuns, 2022; Panibratov & Brown, 2018a; van Bergeijk, 2022). Firms arguably experienced the same financial and social pressure to discontinue operations in South Africa and Russia in response to the violations of human rights as firms have during the 2022 Russian invasion of Ukraine (van Bergeijk, 2022; Minefee & Bucheli, 2021). MNCs operating in the respective countries faced sanctions from the UN and multiple OECD countries' governments, as well as pressure from anti-apartheid movements, boycotts, and coalitions by social stakeholders (Arnold & Hammond, 1994; van Bergeijk, 2022; Minefee & Bucheli, 2021; Panibratov & Brown, 2018a; Lander & Kuns, 2022).

As a result, most firms engaged in an exodus out of the respective countries. Banks and MNCs divested their capital and operations from South Africa as they saw the financial and social risks with Apartheid regime as far too large (van Bergeijk, 2022; Minefee & Bucheli, 2021). Few, like Shell, interestingly decided that staying allowed them to engage in more direct social activism (van Bergeijk, 2022; Minefee & Bucheli, 2021). Most, however, decided to divest, the first-movers being those that had less assets tied to South Africa, meaning less divestment costs (Minefee & Bucheli, 2021). Similarly, Russian divestment decisions were mostly based on financial factors such as reduced profits, currency

depreciation and high uncertainty (van Bergeijk, 2022; Panibratov & Brown, 2018a; Lander & Kuns, 2022).

Notably, while financial factors were key motivators regarding firm divestment decisions, stakeholder motivations were a supporting force alongside them. Firms who faced substantial pressure from consumers and high media attention in their home countries were more likely to divest (Minefee & Bucheli, 2021). As well there were multiple NGO's and individual protestors demanding political, legal, and corporate action in light of the Crimean annexation and occupation (OHCHR, 2017). However, empirical research done on stakeholders' specific impact on political and corporate actions is lacking. Perhaps this is because the impact of stakeholder demands on firm divestment decisions were difficult to measure as there is often a lot of secrecy involved in such decisions (McDermott & Luethge, 2013; Panibratov & Brown, 2018a).

This speaks to the importance of stakeholder demands and brand image in swaying corporate decision-making already in the 1980's, and again in the 2010's (Minefee & Bucheli, 2021). It also exemplifies that organizational perception and image remain consistently related to divestment decisions (Wan, Chen & Yiu, 2015; Brown, 2016; Panibratov & Brown, 2018b), meaning that firms do, to some extent, expect to receive a brand-related reward for adhering to what is deemed socially and morally right, especially if they go above and beyond social and legal expectations to act in an exceedingly socially responsible manner. Many did this historically, and currently in response to the Russia-Ukraine war. Moreover, social media coverage, stakeholder activism, and legislative and political corporate scrutiny has undoubtedly increased from 1980 to now, so it is assumed that firms faced far more pressure to divest from Russia than they would have in 1980, and likely also more than in the 2010's. This supports the importance of the responsiveness of social and governance ESG pillar scores towards divestment and suspension decisions, as they can play a key role in helping stakeholders accurately shape their consumption behavior and brand perceptions to support firms that curtailed or halted operations in Russia in 2022. They thereby provide another way to incentivize firms, besides legislatively through heavy financial repercussions by way of sanctions, to continue governing themselves in a socially positive way in light of the war.

2.3.3 Empirical Studies of the 2022 Russia-Ukraine War

As described in the introductory section of this paper, MNCs operating in Russia in 2022 faced strong politically-driven financial and social pressure towards their operations in the country. These pressures were observable mainly through sanctions, as well as demands from various stakeholders to withdraw, or divest, from the country (Graff & Bendeich, 2022; Parella, 2022; Pajuste & Toniolo, 2022; European Council, 2023). However, there are no empirical studies like the one at hand which explore the responsiveness of social and governance ESG pillar scores to firm decisions to see whether they accurately represent social stakeholder interests. But, there is one study of interest that examines the role of ESG in relation to firm reactions to the Russia-Ukraine war. As well, there are a few noteworthy studies that explore stock market reactions to firm divestments made as a result of the war.

2.3.3.1 ESG Relevance to Firm Reactions in Light of the Russia-Ukraine War

Basnet, Blomkvist, and Galariotis' (2022) study examines the specific relation that ESG may have with firm decisions to leave Russia. The authors developed two statistical models, the first analyzing how the ESG and corresponding human rights policy of a firm affects its likelihood of maintaining business as usual in Russia, in other words not exiting. The second analyzed how the relation between a firm's ESG policy and its complete withdrawal from Russia, impacts the cumulative abnormal return (CAR) upon the firm's announcement of its exit (Basnet, Blomkvist & Galariotis, 2022).

The human rights score and overall ESG score were the only variables with explanatory power towards firm decisions to stay or leave Russia (Basnet, Blomkvist & Galariotis, 2022). Financial factors did not indicate any explanatory power towards divestment decisions (Basnet, Blomkvist & Galariotis, 2022). The secondary finding of the study was that the firms, with higher ESG and human rights scores, who completely withdrew from the Russian market, experienced less negative market reactions or impacts on their CAR than firms with low ESG and human rights scores (Basnet, Blomkvist & Galariotis, 2022). The study also finds that those firms with high ESG-related scores only benefited in terms of stock market reactions if they decided to completely end their operations in Russia (Basnet, Blomkvist & Galariotis, 2022). In other words, these companies had less negative CARs as they faced far less exposure to Russia than those partially leaving or not leaving at all, causing the market to react favorably even after their announcements of their exit decisions, considering the

unfavorable cash flow impacts that the decisions could have (Basnet, Blomkvist & Galariotis, 2022). This finding is interesting for this thesis as it seems that high-ESG firms received more positive reactions via the stock market for divesting completely rather than suspending operations or otherwise. It is fair to claim that they should also have been rewarded more via social and governance ESG score responses than those who did not go beyond what the financial sanctions essentially forced them to do.

This second finding has an interesting implication for the research at hand as it seems that though firms can and do incur substantial costs for divesting from Russia, these costs are not necessarily reacted to negatively by the stock market, given that the firm is then less exposed to the Russian market. So, firms using costs and poor returns for their shareholders as an excuse to continue business as usual in Russia may not be valid, especially if they are also rewarded for leaving via social and governance pillar ESG scores, as this paper explores. Although, Basnet, Blomkvist, and Galariotis' (2022) study is not able to distinguish whether the market reacts positively to the firms' decision to completely exit Russia due to them being able to a) avoid financial risks of staying in terms of increased sanctions and supply chain and demand issues, or b) avoid risks of damage to their brand and brand reputation, or both.

2.3.3.2 Stock Market Reactions to Firm Divestments from Russia

There are also a few studies that examined stock market reactions to divestment decision and execution by firms. A study by Glamboosky and Peterburgsky (2022) sought to understand the results of corporate activism in response to the war. They found so-called first-movers in divestment experiencing more dramatic share price drops in relation to their exit announcements compared to firms exiting Russia later on. The drops in share price were also found to be most pronounced for firms that opted to withdraw fully from Russia rather than partially (Glamboosky & Peterburgsky, 2022). Firms that were late exiters, or so-called followers, experienced little to no decreases in their stock price (Glamboosky & Peterburgsky, 2022). However, the stock market losses experienced by firms that exited early were recovered within two weeks of the announcement (Glamboosky & Peterburgsky, 2022).

The study by Sonnenfeldt et al. (2022) also looked to examine relations between firm decisions to divest or not and stock price fluctuations. They utilized a linear regression to analyze the relationship between stock performance, or total shareholder returns, for the companies in different divestment strategy groups. These performances were subsequently

compared and they found clear statistically-backed evidence that, across all regions, timeframes and methodologies that they had tested, including controlling for market capitalization impacts, stock markets consistently rewarded firms that withdrew from Russia. Those firms who withdrew, also vastly outperformed, in terms of total shareholder returns, those that continued business as usual in the country (Sonnenfeldt et al., 2022).

It is clear that though divestments from Russia undoubtedly involve substantial costs, stock markets largely rewarded firms who decided to fully withdraw or divest from Russia over those that did business as usual, or even those that partially divested. Though first-movers in divestment experienced drops in their stock prices, the prices jumped back to reflect their pre-divestment values within just two weeks, indicating that losses from divestment are vastly outweighed by their subsequent financial gains (Glambosky & Peterburgsky, 2022; Sonnenfeldt et al., 2022). Equity markets appear to reward firm decisions to divest firms with higher ESG scores were more likely to fully withdraw or divest and therefore also be financially rewarded via equity markets than those who had low ESG scores (Basnet, Blomkvist & Galariotis, 2022).

These findings thereby add valuable context to the research conducted by this thesis as one can discover whether ESG scores were as responsive in rewarding firms for divesting as stock markets seemed to have been. This is especially supported by assertions in the background section of this paper that high ESG scores are positively related to financial performance, and that they also have positive impacts on ROA and risk reduction for firms (Cardillo, Torluccio & Bendinelli, 2023; Taliento, Favino & Netti, 2019; Van Linh, Hung & Binh, 2022; Shakil, 2022; Wen et al., 2022). This would mean that, given this empirically demonstrated positive relationship, firms that financially performed better due to divestment should have also performed better in terms of ESG scoring.

2.4 Hypothesis Development

In terms of utilizing the theoretical and empirical review in developing hypotheses for the study at hand, there are a few key empirical findings and theoretical assertions to consider. There is a chance of no statistically significant relationship between divestment costs incurred by firms and changes in ESG scores, given the ESG criticisms, claiming the scores to be

inadequately responsive. This would be shown in no significant ESG score changes in response to firm divestment, suspension, or continuation actions in light of the war.

On the other hand, there may be a statistically verifiable, positive relationship between these variables. Societal expectations were on firms to divest, which they did to varying degrees and firms fully withdrawing would then have higher reported costs. Higher costs would then mean the firm acted beyond the legal and financial incentives, which can be expected to be rewarded via positive ESG score changes. Additionally, firms with higher ESG scores were more likely to fully divest from Russia and had less negative stock market reactions compared to other firms (Basnet, Blomkvist & Galariotis, 2022; Glamboosky & Peterburgsky, 2022; Sonnenfeldt et al, 2022). Given this, ESG scores should have been responsive to firm actions in the form of taking on substantial costs to fully divest, especially considering the clear social, ethical, and firm and brand governance implications such decisions had.

ESG scores, which impact brand perceptions (Borghesi, Chang & Li, 2019; Chang, Kim & Li, 2014; Donaldson & Preston, 1995; El Ghouli, Guedhami & Kim, 2017; Hull & Rothenberg, 2008), denote key antecedents for foreign divestments (Damaraju, 2017; Panibratov & Brown, 2018a; Wan, Chen & Yiu, 2015). Companies going beyond the halting of operations motivated by harsh sanctions to fully divest, could therefore be doing so to protect or improve their organizational, brand image. Given that ESG scores provide a basis for stakeholders' brand perceptions (Duan, Li, & Michaely, 2022; Koh, Burnasheva & Suh, 2022), illustrated in stakeholder boycotts (Hart, Thesmar & Zingales, 2022) it should be the case to see a positive response in their ESG scores after divesting.

There is also some rationale for a negative relationship between the variables. Companies with less assets tied to South Africa were first to divest at the hands of legislative sanctions and stakeholder pressures (Minefee & Bucheli, 2021). This argues for firms withdrawing having smaller divestment costs-to-revenue ratios, while acknowledging an increase in the ESG score. If firms are indeed rewarded for divesting, a low to no cost of divestment would relate to a positive change in ESG scores. A high cost of divestment could have driven firms not to divest as the costs of divestment could equal incurring the sanctions and financial losses from stakeholder boycotts. Though, this argument may not have much hold since a vast amount of firms did incur billions of dollars in costs from their divestments from Russia in 2022 (Lewis, Fenton & Nissi, 2022). However, speaking for a negative relationship between

the variables is the fact that in times of high uncertainty, ESG commitment stops being a priority (Hamdi, Guenich & Saada, 2022). Meaning that the financial and operational risks of staying in Russia outweighed responsible ESG commitment by staying.

Based on the prior argumentation, the following hypotheses are formulated for statistical testing:

H_{A0}: There is no relationship between divestment costs and changes in ESG pillar scores.

H_{A1}: There is a positive relationship between divestment costs and increases in ESG pillar scores.

H_{A2}: There is a negative relationship between divestment costs and increases in ESG pillar scores.

The assumptions made in the argumentation leading to the hypotheses above also develop additional hypotheses for statistically testing whether the categorical action of divesting from Russia was deemed as socially responsible in the first place, and therefore rewarded through increased ESG scores. The following hypotheses will therefore also be tested:

H_{B0}: There is no relationship between changes in ESG scores and the categorical degree of divestment.

H_{B1}: There is a positive relationship between changes in ESG scores and the categorical degree of divestment.

H_{B2}: There is a negative relationship between changes in ESG scores and the categorical degree of divestment.

2.5 Chapter Summary

This chapter laid the basis for the hypotheses development, which was grounded in both theoretical literature on governance theories, as well as empirical research on topics of ESG, divestments and other relevant geopolitical events. It was established that brands have shown to be strengthened by ESG investments. This was further addressed in the review of the stakeholder- and shareholder theories, both in regard to the prioritization problem and the potential value of ESG to both stakeholders and shareholders. The conclusion was that both

shareholders and stakeholders have an interest in ESG scores. These findings strengthened the argument surrounding the importance of the accuracy and responsiveness of ESG scores for both firms and their share- and stakeholders alike.

The chapter has also defined divestment and illustrated its antecedents through studies on divestments in response to South African Apartheid and the annexation of Crimea. A main conclusion was that all divestments entail stakeholder considerations, but both current and historical divestments are greatly swayed by political sanctions and financial and risk analyses. In addition, other empirical studies on the Russia-Ukraine war were explored. Firms with higher ESG scores prior to the war were found to be more likely to divest or suspend operations. As well, those that completely divested and had high ESG scores experienced less negative market reactions to this decision. Collectively, these aspects laid the foundation for the hypothesis development.

3 Setting

As stated in the introduction chapter, the Russia-Ukraine war denotes the empirical setting for this thesis and therefore deserves a comprehensive contextualization and explanation. It was the mass-scale and time-unified responses that made this event an ideal context for an empirical study. This allowed for an opportunity to study the changes of ESG scores within a short period of time, thus limiting the risks of other factors affecting the ESG scores.

Russia claimed its actions, culminating in a violation of Ukraine's sovereignty and a humanitarian crisis, related to preventing the further expansion of NATO and denationalizing Ukraine (Graff & Bendeich, 2022). Western nations condemned Russia's actions and have continued to support Ukraine with military equipment, as well as financial- and humanitarian aid (Graff & Bendeich, 2022). The West punished Russia by economically cutting ties with the country, leading to an European energy crisis as 40% of the EU's gas and 25% of its oil came from Russia (Graff & Bendeich, 2022). Russian banks and companies were also banned from accessing the highly secure SWIFT global financial transaction system (European Council, 2023; Swift, 2023). These sanctions deeply affected both Russian and western firms' ability to operate and included import and export restrictions for certain goods and services.

The political and cost-driven motivations to leave Russia resulted in over 1,000 multinational companies suspending Russian operations. Some even went beyond the minimum desired behavior and chose to withdraw, taking on costs to do so (Sonnenfeld, 2023). Adidas, Alfa Laval, and McDonald's estimated costs of €250 billion, SEK 602 million and \$1.2-1.4 billion respectively, (Adidas, 2022; Alfa Laval, 2022; McDonald's, 2022). In addition, western stakeholders considered Russian operations unethical, irresponsible, and accomplices to the war, which further strengthened the motivation for firms to halt operations or exit the market entirely (Parella, 2022; Pajuste & Toniolo, 2022). This suggests a connection to both the social- and governance pillars of ESG, as these actions were both a humanitarian act and responsible governance by the firms.

However, it was also argued that firms divesting profited from being "woke" and sanctioned the Russian citizens and not the regime (Matten, 2022). ESG investors had been criticized for divesting from unethical companies rather than staying invested and demanding socially ethical behavior (Dawkins, 2018). Interestingly, many ESG-funds were criticized for investing

in Russian operations and that such investments were not fully complying with responsible investing behavior (Dwyer, 2022; Quinson, 2022; Schwartzkopff, 2022). ESG investors had not practiced what they had preached. This points to a gap in the sentiment of what is morally and ethically right in regards to ESG, making the war an interesting event to study to operationalize the research question. In other words, analyzing whether the rating agencies responded to the divestments and if they deemed those actions to be responsible.

4 Methodology

This chapter worked to assure replicability of the study by detailing and explaining the methodological approach that laid the basis for the conducted research. It first discusses the quantitative and deductive approach taken to the study at hand and subsequently explains its cross-sectionally comparative nature. Thereafter, data sourcing, variable identification and quantification methods, and data analytics are discussed. Rounding off this chapter is a reflection upon the validity and reliability of the research, as well as its respective limitations. To ensure the clear and objective presentation of the data results, this chapter will be followed by a separate section presenting an interpretation for the collected data itself.

4.1 Research Approach

The study worked deductively, using previous literary findings as a framework to contextualize the research question and develop hypotheses to be statistically tested for significance (Bell, Bryman & Harley, 2019; Creswell & Creswell, 2017). A deductive approach was more suitable than an inductive approach as the hypotheses were backed by extensive research (Bryman & Bell, 2015). More specifically, the theory on brand management, stakeholder theory and shareholder theory were combined with an empirical domain on ESG, divestment strategies and other relevant studies.

The hypotheses and research question also embodied a quantitative method as the aim was to objectively test theories in relation to empirical findings (Creswell & Creswell, 2017). More specifically, to examine the statistical relationship between the independent variable, represented by categorized divestment costs, and five ESG-related dependent variables. Therefore, a quantitative approach was of relevance rather than a qualitative approach which is dominant when aiming to construct theories (Roni, Mega & Morris, 2020).

4.2 Research Design

As Kapferer (2012) asserts, the problem with brands is not the spread of definition, but the measurement and comparison problem. This study therefore used ESG scores to define brand perception to be able to compare and measure across firms, as studies show ESG scores positively affect brand image. It was therefore of interest to assess whether the costs taken on

by firms were rewarded by ESG, and therefore a better brand perception. The former represented the independent variable's categories, namely the costs taken on to respectively suspend or divest operations. The latter was represented by the dependent variables, more specifically, the absolute change in the social and governance ESG pillars and their respective relevant categories. While companies were forced to abide by political sanctions to avoid being penalized, they did divest to different degrees. Because of this, the study embodied a comparison between the degrees of divestments, which is what ultimately signifies a comparative study (Bell, Bryman & Harley, 2019). This study was also of a cross-sectional comparative design, meaning it was based on several observations of ESG scores from a single point in time (Bell, Bryman & Harley, 2019). Because of an imperfect control environment, an experimental design was not possible as the variables were non-manipulable (Bell, Bryman & Harley, 2019).

The operationalized categories were complete withdrawal from Russia, suspension of Russian operations or business as usual. The latter functioned similarly to a control group, while not fulfilling the criteria for being one per se (Roni, Mega & Morris, 2020). One reason for it not being a perfect control group was the geographical dependency factor in divestment strategies. Namely, western countries overwhelmingly showed more divestments, and reporting of those divestments, than eastern countries. The study controlled for firm size by quantifying the independent variable as a percentage of the sampled firms' revenue for 2021. This normalized the costs as it allowed for the magnitude of the costs to be quantified as they related to each specific firm. Otherwise, costs would be taken as absolute values, in which case the amount of costs taken on would have been misrepresented, since exceptionally large firms would more likely have taken on much larger costs of divestment than smaller firms.

4.3 Data Collection

4.3.1 Data Sources

The research was based on Russian divestments of MNCs as a response to the Russia-Ukraine war. The sample was extracted from the Yale CELI list (Sonnenfeld, 2023), based on a convenience sampling methodology (Roni, Merga & Morris, 2020) which was justified by the limited timeline and resources of this research. The Yale CELI list was considered to have unmatched credibility and extensiveness. Its credibility stems from it being developed by a research team at the top tenth ranked US business school (Sonnenfeldt et al., 2023; Charles &

Nooyi, 2022;), as well as prior use in other research (Basnet, Blomkvist & Galariotis, 2022; Glamboosky & Peterburgsky, 2022; Sonnenfeldt et al., 2022). Its extensiveness provided a methodological match with the requirements of a large sample size in quantitative research (Roni, Merga & Morris, 2020).

Credibility was essential, so retrieving data from reputable, trusted sources and from first-hand accounts was emphasized (Creswell & Creswell, 2017). Financial costs of divestment and suspension were retrieved directly from 2022 company reports and direct statements. The basis for company reports was to include those made after the 24th of February. For the retrieval of ESG pillar scores and 2021 annual revenues (in USD), the Refinitiv Eikon database was used. This database was one of the more academically trusted and regularly audited platforms (Christensen, Serafeim & Sikochi, 2022; Deloitte, n.d.; Saleem, 2022), and was also commonly used in prior research (Basnet, Blomkvist & Galariotis, 2022; Gatzert & Reichel, 2022; Pozzoli, Pagani & Poalone, 2022; Shakil, Munim, Zamore & Tasnia, 2022).

4.3.2 ESG Data Variables

It was the humanitarian crisis and governance of firms in regard to shareholders and divestment costs denoting the focal points of the statistical analysis. Therefore, no emphasis was placed on the environmental pillar, as this was not the primary focal point in the debate on firms divesting Russian operations. Instead, the focus was on the social- and governance pillars to study if the action was deemed socially responsible to the stakeholders and to the shareholders respectively. Each pillar score also consists of more specific underlying categories (Refinitiv, 2022). Relevant ESG categories were therefore extracted, including the community, human rights and stakeholder engagement category scores. These were similar to the variables in the study by Basnet, Blomkvist and Galariotis (2022), enhancing the comparability of results with the study at hand.

The community score was argued to be of relevance as it measured the firm's commitments to the community in terms of being an ethical corporate citizen (Reuters, 2017). The human rights score was added due to its measurement of how well a company respected fundamental human rights conventions (Reuters, 2017), which was relevant given the vast political human right discrimination charges against Russia. The stakeholder engagement score measured the firm's engagement with its stakeholders (Reuters, 2017), which contributed to displaying

whether ESG scoring of the firms rewarded their support for Ukrainian stakeholder and the demands of western stakeholders.

4.3.3 Divestment Cost Estimations

The divestment cost estimations were based on both company reported costs, such as asset impairments and write-downs, and revenue losses. Both revenues and costs were included as both have an effect on the reported net income (Porter & Norton, 2017). Using lost revenues only to estimate costs of leaving Russia is argued to be incomplete (Sonnenfeldt et al., 2022). Moreover, financial performance has been shown to be associated with brand perception (Baalbaki & Guzmán, 2016; Cowan & Guzmán, 2020), which made both reported costs and revenue losses relevant.

The retrieval of divestment costs was based on the costs being distinctively attributable to the divestment of Russian operations and reported by the companies latest the 10th of February 2023. Firms who did not directly specify which costs were attributable to the Russian divestments were not included in the study. Moreover, when the reporting currency was in another currency than USD, the costs and/or losses were converted by taking the 2022 average exchange rate from International Revenue Service (IRS, 2023). The total divestment cost was then taken as the percentage of total 2021 revenues for each firm, respectively, to illustrate the magnitude of the divestment.

4.3.4 Sampling Approach

In terms of the collection of data, the base year of 2021 was applied as this represented pre-war ESG scores, and was to be compared to ESG scores of 2022. All companies on the Yale CELI list (Sonnenfeld, 2023), as of the 31st of January, which were labeled as “Business as usual”, “withdrawal” and “suspension” were extracted based on a stratified sampling method (Creswell & Creswell, 2017). This method was suitable with respect to the research question and its methodological considerations, given the quantitative- and categorical nature of the independent variables (Creswell & Creswell, 2017). The list by Sonnenfeld (2013) included a classification system for firm actions: business as usual, buying time by remaining operations but postponing planned future investments and development, substantially scaling back while continuing a portion of Russian operations, temporary suspension of operations with the option to return, and full withdrawal of operations.

Based on the definition of divestment in section 2.2, both companies that withdrew and suspended Russian operations were included in the sample. Meanwhile scaling back is defined as “to reduce something in size, amount, or production” (Cambridge Dictionary, n.d.b), and could in practice be demonstrated by the actions of Allianz which scaled back as long as Allianz could ensure continuity for its clients and employees (Allianz, 2022), or by Microsoft (2022) which suspended all new sales of services and products in Russia. Such scaling back actions were not considered to be a full stop of operations, and firms from this category were therefore not included in the sample. To be able to compare to companies not taking any actions, companies classified as doing business as usual were also included in the sampling.

Firms were then sampled to only include those listed on stock exchanges, in order to access lawfully disclosed information on revenue losses and costs associated with their respective degrees of divestment. Listed companies tend to be more common targets for social pressure, which made it more homogeneous and therefore more comparable (Rehbein, Waddock & Graves, 2004). Companies that did not report any divestment costs as according to the criteria in 4.3.3 were cut from the sample. Firms were also cut from the sample when the 2022 ESG score had yet not been released as of 2022-05-16. The final sample sizes by category were therefore 44 firms in the withdrawal category, 37 in the suspension category, and 42 in the business as usual category, totaling 123 firms.

4.4 Data Analysis

4.4.1 Data Manipulation

The starting sample, as downloaded from the Yale CELI list was filtered for in Microsoft Excel. Official stock exchange lists of all listed companies were imported in order to retrieve the tickers for each respective company. When a company was not matched as a listed company, it was removed from the sample. The final data output was then grouped based on divestment classification. Filters for industry and country of origin were added to compare across divestment groups. Once the data set was complete, changes in ESG-pillar scores were calculated using formulas. As well were the divestment costs as a percentage of 2021 revenue. The dependent variables were also transformed into categorical order consisting of the change being an “increase”, “decrease” or “none”. The final output consisted of one independent

variable, with underlying conditions of divestment strategy, five dependent numerical and categorical, respectively, variables and two filters for country of origin and industry.

4.4.2 Statistical Testing

The data analysis was done statistically, using a linear regression for testing each independent variable and respective dependent variable in hypothesis group A separately. A contingency table analysis was the primary analytical frame for testing hypothesis group B. Both statistical approaches were justified by the comparative approach of the research design, as they enabled a comparison of the results between the different degrees of divestments. The companies who performed business as usual could only be included in the contingency table but not in the regression analysis. Their so-called costs would actually need to be estimated in the form of revenues from continued business in Russia, and firms do not specify or report this publicly and it is not findable in any accessible financial database. The estimated cost of their actions would simply be zero, but using this value renders the use of a regression impossible, since all the data points for this independent variable would simply be zero. The use of the contingency table rectifies this as it is able to analyze the relationship between the categorical degree of divestment, including business as usual, and changes in ESG scores for all firms included in the study.

4.4.2.1 Linear Regression

Linear, or ordinary least squares (OLS) regressions by way of SPSS were used to test the relationship between the independent variable and the five dependent variables (Moore & McCabe, 2020). The reason multiple simple regressions instead of fewer multiple regressions were used was due to the desire for clearly displayed results, and SPSS' multiple regression results were more difficult to utilize due to the desire to categorically compare the costs of different actions companies took, denoted in the nature of the categorized independent variable. Therefore, though it took more effort to individually run the regression for each independent variable category and respective dependent variable, it was decided that this would provide the best and most clearly comparable results.

Each regression provided an R-value and a p-value at a 95% confidence level, with its respective $\alpha = 0.05$ significance level, which is the most commonly used level in academic empirical studies (Moore & McCabe, 2020). An R-value of 0.5 or more indicates a

medium-to-strong correlation between the variables, and a p-value of less than 0.05 ($p < 0.05$) indicates that this correlation was statistically significant (Moore & McCabe, 2020). Before making any conclusions based on the regression results, there were assumptions that needed to be tested for through residual analyses. These tests, detailed in section 4.4.2.2, would ensure the validity and robustness of the linear models developed through the regressions, as well as the respective conclusions that were drawn from the models' corresponding statistical indications.

4.4.2.2 Residual Analysis Approach

The analysis of residuals allowed for an assessment of the predictive accuracy of the regression model, and was therefore an integral aspect in assuring the validity and accuracy of this study's results (NIST, n.d.; Caroni, 1987; Berenson, Levine & Szabat, 2015). Residuals can be defined as a measure for the difference between the observed dependent variable (y) and the dependent variable's value predicted by the model (Caroni, 1987). Residual histograms and residual plots, including the Q-Q plot, were used to examine the randomness of the residuals, and the normality of the residuals, respectively (Caroni, 1987; NIST, n.d.). The residual histograms indicated normal distribution of the residuals when they displayed normal bell curves (Caroni, 1987; NIST, n.d.). When examining the residual plot, a random distribution around the value zero was desirable with no detectable patterns, and the Q-Q plot should show values close to the line-of-best-fit to indicate a normal distribution (Caroni, 1987; NIST, n.d.).

The Durbin-Watson statistic was also used as part of the residual analysis as it provided a way to check for autocorrelation (Kanji, 2006). The presence of autocorrelation would indicate that the model may falsely display a statistically significant relationship between the variables (Kanji, 2006). The measure ranges from zero to four, with a value of two indicating that no autocorrelation is present, but a value above 2.5 and a value below 1.5 indicate the presence of negative and positive autocorrelation, respectively (Kanji, 2006).

The Shapiro-Wilk Test was another method used in this analysis as a goodness-of-fit test for the assumption that the residuals for all variables were normally distributed (Mishra, Pandey, Singh, Gupta, Sahu & Keshire, 2019). If after running the Shapiro-Wilk Test its p-value is less than 0.05 ($p < 0.05$), the assumption that the data is from a normal distribution is rejected. Though, this test is known for issues with false positives, as it often renders even small

deviations from normality significant, making it important to look at its W statistic to observe how severe the deviation from normality actually is, as well as a Q-Q plot. However, nonnormality of the residual distribution is more of concern for sample sizes under or equal to twenty (Mishra et al., 2019, González-Estrada, Villaseñor & Acosta-Pech, 2022). For sample sizes equal to or greater than thirty, the central limit theorem holds in this study's case which asserts that the sampling distribution is approximately normal, irrespective of an abnormal population distribution (Mishra et al., 2019, González-Estrada, Villaseñor & Acosta-Pech, 2022). Linear models are fairly robust to this assumption and even strong distribution abnormality does not impact the likelihood of Type 1 error, as shown by multiple studies (Knief & Forstmeier, 2021; Box & Watson, 1962).

A final, key aspect to test was the most critical assumption for linear models, namely homoscedasticity, where it is assumed that the variance of residuals, otherwise known as error terms, is constant or for the dependent variable values (Berenson, Levine & Szabat, 2015). Meaning, ensuring the sample would not result in skewed or biased results (Berenson, Levine & Szabat, 2015). That being said, to ensure homoscedasticity, its respective SPSS function was utilized for assessment.

4.4.4.3 Contingency Table Analysis

The variables for testing hypothesis group B were of a categorical nature, namely the change in the dependent variables was either positive, negative or none. The independent variable was categorized as either withdrawal, suspension or business as usual. The categorical nature and the aim to cross-compare make up the arguments for testing hypothesis group B using a contingency table, which is suitable for detecting potential patterns between variables (Berenson, Levine & Szabat, 2015). The values of each respective categorical variable, i.e. joint response, were presented in cells, followed by tallies presented in both absolute numbers and share in percentage. A contingency table analysis was constructed for each ESG pillar or underlying category respectively.

Whether the contingency tables showed a significant pattern between the variables was tested for with the Pearson's Chi-square distribution, X^2 , by testing the significance of the frequency in each cell in relation to the total number of observations (Berenson, Levine & Szabat, 2015). Fisher's Exact test was applied when a contingency table had a cell with a count less than five (Kanji, 2006). The results are presented in Appendix D. The basis for the null hypothesis was

that there was no relationship between the variables (Berenson, Levine & Szabat, 2015). The null hypothesis was rejected if the two-tailed p-value was < 0.05 , and the reason for choosing a two-tailed p-value was that it is flexible for both an increase and a decrease in the dependent variable (Berenson, Levine & Szabat, 2015).

4.5 Validity and Reliability

In terms of the operationalization of the Refinitiv Eikon database, the choice to use this particular database is validated in the trust that journalists and academic institutions place in it as a result of its superior trustworthiness, comprehensiveness, and accuracy when compared with other rating agencies or ESG databases. It thereby provides a reliable and uniform source for ESG scores to avoid discrepancies in different rating protocols that would arise if the scores were taken from multiple and/or less accredited rating agencies or databases.

Addressing the critique that ESG scores are too broadly defined, this paper deliberately excluded environmental scores from consideration as they held no bearing on the context at hand. It also looked into more specific parts of the social and governance ESG pillars that particularly related to the contextual event, namely the human rights, community, and stakeholder engagement categories. This made the analysis more targeted in understanding how ESG rewards. The breaking down of the ESG scores to examine the specific responsiveness of these categories and pillars separately provided the study with a valid representation and measure of firms' social- and governance-related reactions, while minimizing the interference of other potentially influential factors. ESG scores are also the only comprehensive and reliable way to quantify and compare the CSR policies and practices of companies which adds to both their reliability and validity as this study's measure of choice. These aspects therefore speak to the validity of the particular pillars and categories of ESG scores utilized as measures of firms' social and governance policies in light of the war.

The estimation and use of reported costs to represent the degree of firm actions in response to the war were deemed valid. Full divestment costs, as argued throughout this paper, were substantially higher than temporarily suspending operations, and certainly higher than simply continuing business as usual. This means that cost estimations arguably accurately depicted the progression and difference in the degree of firm reactions. Therefore, the operationalization of costs as a measure denoting the reaction levels of firms was deemed fair

and valid, and there also happens to be no other good proxy for denoting such a decision in a quantitative sense. It should be mentioned that the study also included an analysis of the categorical (unquantified) degree of firm response and its relation to changes in ESG through the use of a contingency table, in order to complement the statistical findings of the relation between the quantified variable groups.

With regard to the study's reliability, the selection and use of the measures operationalized to represent firm actions in response to the war and how this impacts their public image certainly allow the results of the study to be replicated under the same conditions. These choices and uses thereby provide a basis for future or similar studies. Companies are always obligated to report their financials and all the aspects that impact them, which is how the costs attributed to divestment and suspension, denoting the magnitude of firm actions, were quantified in this research, making both their historic and future reports accessible to reproduce research like this study's. Similarly, ESG scores, in the case of the Refinitiv Eikon database, are also updated annually, and thereby can allow one to continuously and reliably gauge and assess how and if companies are rewarded for their policies, as well as comparing historical and current data on these scores. The use of standard statistical analysis procedures, both in developing a linear regression model for the data and its according descriptive statistics are also easily replicated using a plethora of statistical programs besides SPSS which was used for this study.

4.5.1 Data Management

The Yale CELI database does not discriminate based on industry or geographic location in terms of the firms it includes, and neither does the sampling approach used for this study. The main reason for including firms across all industries and countries is to uphold the aim of providing a highly comprehensive analysis of the relationship between divestment costs from Russia and changes in ESG scores that spans global industries and geographies in its applicability and relevance. A limitation for this research is that social and governance ESG scores obviously relate to more than just Russian divestment decisions. Focusing on only one or two industries risks finding and overemphasizing changes in ESG scores that perhaps were impacted by an industry-specific event, scandal, development in legislation, or otherwise within the year of 2022 could have skewed results. It was therefore better to use a sampling

strategy inclusive towards a vast array of industries and geographies, as this worked to effectively minimize this risk.

4.6 Limitations

A limiting factor mentioned previously was the timely access to ESG data via the Refinitiv Eikon database. Unfortunately, though many scores tend to be released annually on December 31st of each year, score releases can lag until the early middle of the next year which was the case with a significant amount of ESG scores for 2022. Not all companies that had been found to have cost estimations for divestments or suspension were able to be included as they lacked the necessary released ESG data for 2022, thereby limiting the sample size for the study. Though, given statistical rules of thumb, the sample sizes for each category being well above thirty was considered sufficient to gain meaningful results in terms of a statistical model, as well as statistical significance (Moore & McCabe, 2020).

Relating to limitations of the ESG data used, this research is limited to studying the responsiveness of social and governance ESG pillar scores only, given the nature of its contextualizing event. This means that the paper's results and according conclusions should not be assumed to be true for the environmental pillar, as it was intentionally left out due to its irrelevance to this study.

The choice to study the Russia-Ukraine war as a focal event to examine the responsiveness of ESG scores, though it provided a geographically broad and impactful context ideal for this empirical research, has its own limitations. Given the unforeseeable and globally shocking nature of the war and the human rights atrocities it entails, it is possible that ESG scores are more sensitive to firm actions and policies in response to such an event than they would be to events that are limited to a small number of firms in a particular country or industry. However, it can be argued that the use of such an event to guide the context of the study is a good empirical starting point. Because, if it is found that ESG scores are not responsive to firm actions in light of an event of such global magnitude, it can be inferred that it is then less likely that they are responsive enough to events with far less geographic reach.

A final limitation is that to estimate the costs of divestment and suspension of operations, the study relied on financial reports published by the companies included in the study themselves. Yet, this method was considered the most reliable and consistent way to access this data, as

there is no findable and trustworthy database that has done such estimations. Given this limitation, though a key criteria for the inclusion of each company in the study was based on the clear and comprehensive statement of costs associated with Russian exits or suspensions from a first-hand report, it is possible that these costs under- or overestimate the costs incurred. Since these official financial publications are subject to extensive legal accounting standards, the validity of the estimations made by the companies are still considered honest and valid. Both the company reports and this study still indicate these cost totals as estimations, not exact sums. Though, the general magnitude of the costs taken on by firms to divest or suspend their operations, in relation to their revenues under normal circumstances, is more of interest than the exact sum, so this limitation is considered to have negligible impacts on the research, given that the cost magnitude can still be estimated accurately.

4.7 Chapter Summary

To summarize, the method chapter provided a comprehensive overview of the design and approach taken to the research, as well as a detailed look into how the relevant variables utilized in the statistical analysis were rationalized and quantified, including a discussion surrounding the validity of their sourcing. Following these aspects was an in-depth explanation and rationalization for the use of a multivariate regression to develop the statistical models, as well as the various, relevant descriptive statistics that were used to validate and assess the models, both in terms of data normality and residual analyses. As well, the use of the contingency table and its respective validation test, the Pearson's Chi-square distribution, to analyze the categorical hypotheses of the study was discussed. Concluding the chapter was a detailed discussion of aspects concerning the study's validity and reliability, as well as the natural limitations faced within the study.

5 Data Results

This chapter summarizes the results of the linear regression analyses, as well as the contingency table, and interprets and describes the meaning and statistical significance of their respective outcomes. In addition, the descriptive statistics utilized to analyze the residuals and assess the validity of the developed statistical models are discussed. Observable trends in the collected data are also identified and addressed.

5.1 Residual Analysis

The residuals of the linear models developed for both degrees of divestment, withdrawal and suspension, are analyzed separately. For both withdrawal and suspension, the Shapiro-Wilk (S-W) Tests and the Durbin-Watson (D-W) statistics are displayed. As well, the residual plots, Q-Q plots, histograms, and tests for homoscedasticity, findable in Appendices A and B, are discussed. The analytical tests for the residuals reflect the validity of the individual linear models developed for the relationship between withdrawal and suspension costs and changes in the social pillar, governance pillar, human rights, community, and stakeholder engagement scores, respectively.

5.1.1 Residual Analysis for Withdrawal

Table 5.1: Durbin-Watson and Shapiro-Wilk Test Results (Withdrawal).

Dependent Variable	N	D-W	S-W Significance	W-Statistic
Social Pillar	44	1.968	< .001	0.876
Governance Pillar	44	2.309	0.134	0.960
Community Category	44	2.059	0.001	0.900
Human Rights Category	44	2.379	0.077	0.954
Stakeholder Engagement Category	44	2.088	0.005	0.922

All values for the D-W test statistics fall in the acceptable range, rejecting the presence of autocorrelation (Table 5.1). This outcome can also be verified in the random distribution of the residuals visible in the residual plots (Appendix A). Though the result of the Shapiro-Wilk test indicated significant results for all dependent variables except the social and human rights score changes, their W-statistics are still well above 0.85 which indicates that the departure from normality for these variables is not severe (Table 5.1). In support of this, one can also see via the Q-Q plots in Appendix A, that the residuals have approximately normal distributions. As well, as discussed in the methodology chapter, slight residual abnormality is less of an issue for sample sizes over thirty, as is the case for the variables of this study, because this sample size allows the central limit theorem to apply (Mishra et al., 2019; González-Estrada, Villaseñor & Acosta-Pech, 2022). All residuals also fulfill the most important assumption for the linear regression, that the variance of the residuals is constant for the dependent variable values. This is shown in the homoscedastic nature of the data shown in the respective plots in Appendix A. Therefore, all aspects of residual analysis can be argued to support the validity of the developed regression models.

5.1.2 Residual Analysis for Suspension

Table 5.2: Durbin-Watson and Shapiro-Wilk Test Results (Suspension).

Dependent Variable	N	D-W	S-W Significance	W-Statistic
Social Pillar	37	1.456	0.432	0.971
Governance Pillar	37	2.156	0.269	0.964
Community Category	37	2.159	0.146	0.956
Human Rights Category	37	1.401	0.060	0.944
Stakeholder Engagement Category	37	2.005	< .001	0.888

Most Durbin-Watson statistics fall in the acceptable range, except for the social and human rights score changes (Table 5.2), and most are accompanied by the random distribution of residuals (Appendix B). This means that there was some level of autocorrelation amongst the residuals for the social and human rights score changes, also visible in the slight non-random

distributions of their residuals (Appendix B). However, since the autocorrelation was positive which would raise the risk of committing Type 1 error (Petit-Bois et al., 2015), namely rejecting the null hypothesis when it should be accepted, this is not deemed to be of concern since the null was not rejected for these scores anyway. This will be visible in the actual regression results. The residuals for all dependent variables are also normally distributed (Appendix B), and the Shapiro-Wilk test showed non-significant results for all except the stakeholder engagement score change, though it had a high W-statistic (Table 5.2). This result also has the same negligible effect on the validity of the model for this variable for the same reasons discussed in the residual analysis for withdrawal. Lastly, the critical assumption of homoscedasticity was also fulfilled for the suspension-related data which is visible in the respective plots in Appendix B.

5.2 Linear Regression Results

This section summarizes the linear regression results for the relationship between the costs of withdrawal and suspension, denoting the categories of the independent variable, and the dependent variables of ESG social pillar, governance pillar, community category, human rights category, and stakeholder engagement category score changes. Visuals of how the comprehensive results looked in SPSS are findable in Appendices C1 through C10.

5.2.1 Regression Results for Withdrawal

Table 5.3: ANOVA Results (Withdrawal).

Dependent Variable	N	Intercept	Slope	p-value	R	R²
Social Pillar	44	-1.783	-0.002	0.046	-0.302	0.091
Governance Pillar	44	2.894	-0.015	0.017	-0.357	0.128
Community Category	44	-1.342	-0.002	0.121	-0.237	0.056
Human Rights Category	44	-0.422	-4.791E-5	0.882	-0.023	0.001
Stakeholder Engagement Category	44	0.930	0.000	0.237	0.182	0.033

The regression results, displayed in Table 5.3, show the linear regressions for each dependent variable in relation to withdrawal costs. The social and governance pillars have p-values

below the $\alpha = 0.05$ significance level, and their regression models have a negative slope, indicating a negative relationship. All other dependent variables have p-values above the $\alpha = 0.05$ significance level, each also having a negative slope except the stakeholder engagement score. The dependent variables of social, governance, community, and stakeholder engagement score changes show weak to medium negative correlations to the independent variable of withdrawal costs, as indicated by the respective R values of 0.302, 0.357, 0.237, and 0.182, respectively. The human rights score change showed no correlation, denoted in the R-value of 0.023. The variation in all dependent variables was fairly weakly explained by the independent variable, denoted in the low R² values. Though, the independent variable showed better but still fairly weak explanatory power towards changes in social and governance score changes, noted in the R² values of 0.091 and 0.128, respectively.

5.2.2 Regression Results for Suspension

Table 5.4: ANOVA Results (Suspension).

Dependent Variable	N	Intercept	Slope	p-value	R	R ²
Social Pillar	37	-3.760	-2.501	0.145	-0.244	0.060
Governance Pillar	37	-11.036	1.078	0.546	0.102	0.010
Community Category	37	0.047	-1.632	0.471	-0.122	0.015
Human Rights Category	37	-10.077	-0.693	0.743	-0.056	0.003
Stakeholder Engagement Category	37	0.050	-2.493	0.062	-0.310	0.096

Regression results for suspension costs, as shown in Table 5.4, are quite different to those of withdrawal costs, with all p-values being greater than the $\alpha = 0.05$ significance level for all potential relationships with the dependent variables. All linear models, except the one for the governance score changes, also had a negative slope. Weak to medium negative correlations are observable for the social, governance, community, and stakeholder engagement score changes in their R values of -0.244, -0.102, -0.122, and -0.310, respectively. Though, the variation in dependent variables can not be explained well by the independent variable, noted in the low R² values, except for the stakeholder engagement score change, for which the independent variable showed an explanatory power of nearly ten percent. This makes sense as

this variable also came the closest to showing a result significant at the $\alpha = 0.05$ significance level with its p-value of 0.062.

5.2.3 Interpretation of Regression Results

It is clear from the regression results in Tables 5.3 and 5.4 that at the 95% confidence level there was only a statistically significant, albeit negative, relationship between the independent variable of withdrawal costs and the respective dependent variables of changes in social and governance pillar scores, indicated by their p-values being below the $\alpha = 0.05$ significance level. This indicates a rejection of the null hypothesis H_{A0} that there is no relationship between these dependent variables and the independent variable, respectively. However, no relationship was findable between withdrawal costs and the remaining dependent variables of community, human rights, and stakeholder engagement score changes, indicated by their p-values being above the $\alpha = 0.05$ significance level. For these dependent variables, the null H_{A0} should thus not be rejected. Table 5.5 indicates there is no statistically significant relationship between suspension costs and any of the dependent variables, noted in all p-values being greater than the $\alpha = 0.05$ significance level. For the suspension category, these results indicate that the null H_{A0} should not be rejected.

In this vein, only low-to-medium strength correlations were findable between the independent variable and dependent variables for both withdrawal and suspension, but they differed in which variables were most correlated. Withdrawal costs had the strongest correlation with changes in social and governance scores, shown in the R-values of -0.302 and -0.357, respectively (Table 5.3). This is expected as these variables showed a statistically significant relationship with the independent variable. Suspension costs had the strongest correlation with changes in social and stakeholder engagement scores, denoted in the R-values of -0.244 and -0.310, respectively (Table 5.4). Even so, the explanatory power of both independent variable cost categories towards the variation in all respective dependent variables was fairly low, with a maximum explanatory power of 12.8 percent for withdrawal costs towards changes in social pillar score changes (Table 5.3), and 9.6 percent for suspension costs towards changes in stakeholder engagement scores (Table 5.4). From these results, one can conclude that there is a statistically significant, negative relationship between withdrawal costs and social and governance score changes, but no such significant relationship to all other dependent variables for this category. For the suspension category, though the dependent variables show

a weak-to-medium correlation to suspension costs, their relationship is neither statistically significant, nor are the independent variables able to explain much of the variation in the dependent variables.

5.3 Contingency Table Results

The contingency table analyses were run in SPSS together with significance tests, as detailed in Appendix D. The conclusion was that there was not enough significance in the identified relationships to reject the null hypothesis for all categories but one, namely the stakeholder engagement category score. The following sections discuss the data results of each contingency table analysis.

Table 5.5: Contingency Table (Social- and Governance Pillars).

Change in Social Pillar Scores			
Divestment Strategy Group	Decrease	Increase	Total
Business as Usual	30	12	42 – 71% / 29%
Suspension	25	12	37 – 68% / 32%
Withdrawal	22	22	44 – 50% / 50%
<i>Total</i>	77 (62%) – 39% / 32% / 29%	46 (38%) – 26% / 26% / 48%	123
Change in Governance Pillar Scores			
Business as Usual	21	21	42 – 50% / 50%
Suspension	24	13	37 – 65% / 35%
Withdrawal	23	21	44 – 52% / 48%
<i>Total</i>	68 (55%) – 31% / 35% / 34%	55 (45%) – 38% / 24% / 38%	123

62% of firms experienced a decrease and 38% an increase in the social pillar score. As the magnitude of divestment increased, so did the number of firms experiencing an increase in

this score. Around 30% of firms that did business as usual and suspended operations, and 50% of firms withdrawing, faced a score increase. In addition, the p-value (0.090, in Appendix D) was close to the cut-off value of 0.050, indicating the results were relatively close to being significant.

The split among the different divestment strategies was relatively even for both firms that saw a decrease and for firms that saw an increase in the governance pillar score. When analyzing each divestment strategy separately, the split remained relatively even with a small exception for firms that suspended operations. Of these, 57% got a decrease in the score, while the other 43% got an increase.

Table 5.6: Contingency Table (Community-, Human Rights-, and Stakeholder Engagement Category).

Change in Community Category Scores			
Divestment Strategy Group	Decrease	Increase	Total
Business as Usual	20	22	42 – 48% / 52%
Suspension	19	18	37 – 51% / 49%
Withdrawal	25	19	44 – 57% / 43%
<i>Total</i>	64 (52%) – 31% / 30% / 39%	59 (48%) – 37% / 31% / 32%	123
Change in Human Rights Category Scores			
Business as Usual	25	17	42 – 60% / 40%
Suspension	25	12	37 – 68% / 32%
Withdrawal*	26	16	44 – 59% / 36%
<i>Total</i>	76 (62%) – 33% / 33% / 34%	45 (38%) – 38% / 27% / 36%	123
Change in Stakeholder Engagement Category Scores			
Business as Usual	14	28	42 – 33% / 67%

Suspension	20	17	37 – 54% / 46%
Withdrawal**	1	39	44 – 2% / 89%
<i>Total</i>	35 (28%) – 40% / 57% / 3%	84 (68%) – 33% / 20% / 46%	123

**Two firms did not experience a change in the score, and were excluded from the table. This is why the presented percentages may not equal 100.*

***Four firms did not experience a change in the score, and were excluded from the table. This is why the presented percentages may not equal 100.*

Concerning the community score, regardless of divestment strategy, about half of the firms experienced an increase in the score and half experienced a decrease. The split was also even when looking at firms continuing and suspending operations respectively. Instead, for firms withdrawing operations, 57% faced a decrease while 43% faced an increase. As for the human rights score, 62% and 38% firms experienced a decrease and an increase, respectively. Both firms that withdrew and continued operations saw about 60% of the firms getting a decrease in the score. Meanwhile, firms that only suspended operations saw that 70% of the firms got a decrease in their respective human rights score.

As for the stakeholder engagement score, 68% of the firms faced an increase in the score, whereas 46% of these firms withdrew their operations from Russia. 33% and 20% did business as usual and suspended operations respectively. For firms suspending operations, the split between firms getting an increase and a decrease was relatively even. Most interestingly was the group of firms that withdrew, where 89% got an increase in the stakeholder engagement score. These findings were also found to be significant (Appendix D).

That being said, the null hypothesis stating that there is no relationship between the variables could not be rejected for all dependent variables but the stakeholder engagement category. As for the latter, the hypothesis of there being a positive relationship with full divestment was accepted.

5.4 Trends in Collected Data

Additional analysis was done on country of origin and industry to detect trends in the findings. There was a significant relation when studying divestment strategy and country of origin, as seen in Figure 5.1 and Appendix E. 91% of all Asian firms continued their operations in Russia, and out of all firms doing business as usual, Asian firms made up 76% of those. Meanwhile, 94% of European firms and 62% of North American firms either suspended or withdrew their operations in Russia. This indicates a clear pattern among western firms divesting, though European firms were overrepresented as compared to North American firms. This makes sense, as western governments and stakeholders applied the most pressure towards firms doing business in Russia.

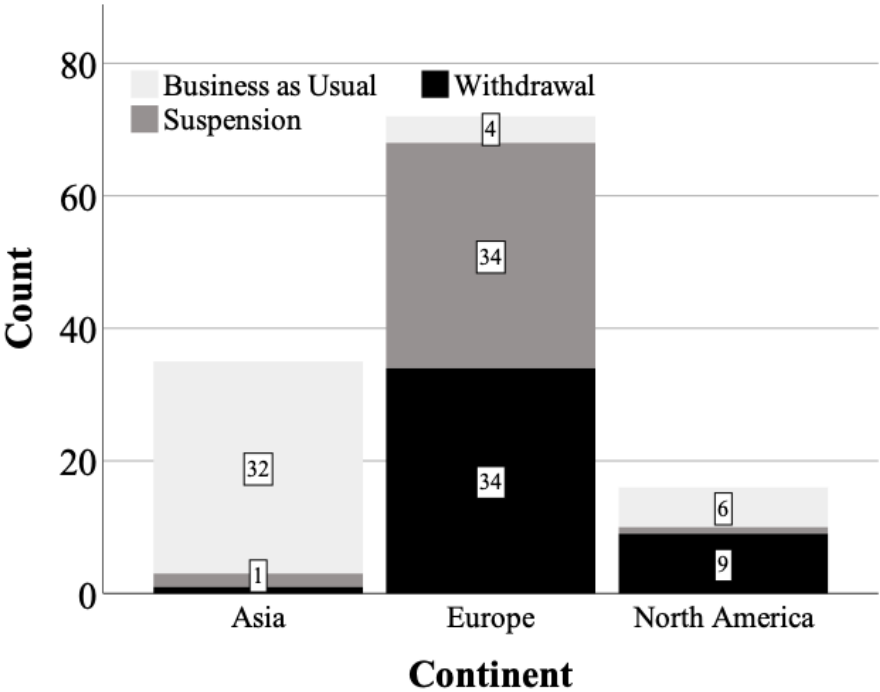


Figure 5.1: Stacked bar chart of sample firms categorized by continent.

As seen in Figure 5.2, three economic sectors dominated the sample, namely consumer cyclicals, industries and technology. As for both industries and technology, there seemed to be an even distribution of divestment strategies. Interestingly, for consumer cyclicals, firms that suspended and withdrew operations dominated. On a contrary note, sampled firms in healthcare were only represented by the strategy of continuing operations. However, as with the other economic sectors, the sample was too small to draw any broader conclusions. In

addition, it could have been that an economic sector was dominated on one continent, making it more or less prone to divest. Additional analysis as seen in Appendix E shows that 26 out of 33 firms in the consumer cyclicals sectors were in fact either European or North American. Another possible explanation could be that different sectors are under different scrutiny on ESG by the media and other stakeholders, making them more sensitive to not acting on controversies. While these trends were not the main basis for analysis, they were interesting findings of patterns among firms' divestment strategies.

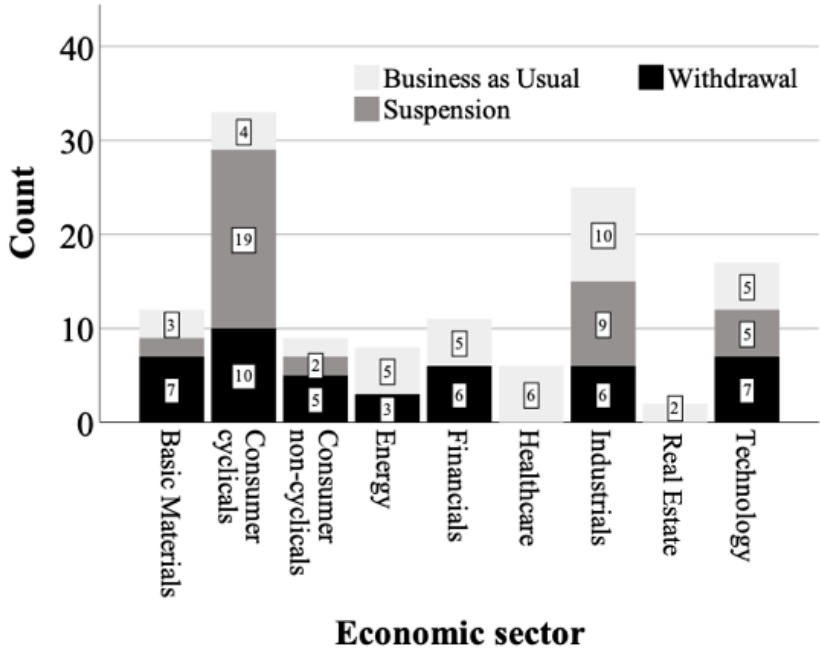


Figure 5.2: Stacked bar chart of sample firms categorized by economic sector.

6 Discussion

This chapter provides an in-depth analysis and discussion of the results of the regression analysis and contingency tables contained in the previous chapter. In particular, the implications that the results have in terms of rejecting and accepting hypotheses in both hypothesis groups will be addressed. In this vein, there is a discussion surrounding whether the results indicate an acceptance of the null hypotheses, H_{A0} and H_{B0} , namely that there is no relationship between ESG score changes and divestment costs or categorical degree of divestment, or a rejection of the null(s) through the indication that there is a statistically significant relationship between the variables as denoted in the alternative hypotheses H_{A1} , H_{A2} , H_{B1} , and H_{B2} . In addition, the statistical results are discussed alongside, and connected to, the most relevant theoretical and empirical conclusions from the literature and theoretical review chapter. In particular, the connection and implications of the results to studies identifying brand and ESG as VRIN-O resources are addressed. These implications are also connected to the empirical results of studies regarding ESG's importance in shaping brand perception and consumer behavior. Moreover, the indications that the results have with regard to stakeholder and shareholder theory and prioritization are discussed. In this vein, the disparity between ESG and stock market responsiveness to the Russia-Ukraine war is also detailed.

6.1 Results Analysis

6.1.1 Regression Results

It is clear, based on the results displayed in Table 5.4 that there is a statistically significant, negative relationship between withdrawal costs and changes in social and governance scores. This means that as the costs of withdrawal increase, social and governance scores decrease and vice versa. This indicates a rejection of the null H_{A0} and an acceptance of the alternative hypothesis H_{A2} that there exists a negative relationship between these dependent variables and the independent variable withdrawal cost category. With regard to the community, human rights and stakeholder engagement scores, the null hypothesis H_{A0} that no significant relationship exists between these dependent variables and withdrawal costs could not be rejected.

One can also deduce from Table 5.5 that there is no findable, statistically significant relationship between the costs of suspension and changes in ESG pillar and category scores for all dependent variables. This is evident in that the p-values for all dependent variables are above 0.05. That being said, the null hypothesis H_{A0} is not rejected and the alternative hypotheses H_{A1} and H_{A2} are thereby rejected for this cost category. What this means is that ESG social and governance scores were only, albeit negatively, responsive to firms withdrawing from Russia. However, the social and governance scores were not responsive towards firms who suspended their operations. The more specific subcategories of social and governance scores, namely the community, human rights, and stakeholder engagement scores, were also not responsive to firm actions to divest from Russia, neither when they did the bare minimum to avoid sanctions by suspending operations, nor when they went beyond this to completely divest. These results are stark. They indicate that firms who went beyond what they were essentially sanctioned to do, likely to adhere to stakeholder demands and maintain or ameliorate their brand reputation, were actually punished for doing so via decreased social and governance scores.

It should also be mentioned that there seem to only be weak to medium strength correlations between all of the ESG pillar and category score changes and firms' different divestment actions. This is even the case for the statistically significant results of the relationship between withdrawal costs and changes in social and governance scores, which had R values of -0.302 and -0.357, respectively. Thus, their respective correlations to withdrawal costs are only of medium strength. This indicates that other factors may have had more of an impact on ESG scores than divestment or suspension costs. This is also displayed in the fairly low explanatory power of the withdrawal costs for changes in the social and governance scores, noted in the respective R^2 values of 9.1% and 12.8%.

6.1.2 Discussion of Model Validity

As described in the results chapter, all linear models fulfilled the most critical assumption of homoscedasticity which adds strong support to the validity of the models. As well, there was no autocorrelation amongst residuals, besides a small departure from this assumption for the social and human rights score. This means that for these particular dependent variables the results may be slightly skewed. However, since they show positive autocorrelation which can increase false positives, or Type 1 error, this is deemed to have had no effect on their model

validity since the regressions showed no significant results anyway (Table 5.4). The Shapiro-Wilk test also validated the normal distribution of residuals for all linear models except for the relationship between withdrawal costs and social and stakeholder engagement score changes, as well as the one for suspension costs and stakeholder engagement score changes. Therefore, these statistically significant results could be treated with slight caution. But, given the applicability of the central limit theorem due to the sample size being over thirty, as well as the insignificant impact of residual abnormality on the models (Knie & Forstmeier, 2021), this negligibly impacts Type 1 error in this study. Thereby, the credence given to the statistically significant result is supported. The same logic applies to the stakeholder engagement score change in relation to both withdrawal and suspension costs.

6.1.3 Contingency Table Results

There is a clear association between choosing to withdraw and facing an increase in the stakeholder engagement score. While only half of firms suspending got an increase in this score, almost all withdrawing got an increase, and 67% doing business as usual got an increase. This could stipulate that divesting in fact was considered to prioritize the right stakeholders as this category entails how and which stakeholders the firm engages and interacts with. However, as a large share of the firms doing business as usual also got an increase, the results are ambiguous. This relationship is also reflected in the regression analysis for stakeholder engagement given its slope is zero, meaning as divestment costs increased, no change to the stakeholder engagement score occurred.

Notably, the independent variables for the contingency analysis and the regressions were different, denoted by divestment strategy and divestment costs, respectively. In other words, while the contingency table shows that firms were rewarded in the stakeholder engagement score, there was no proven relationship to the divestment cost. However, the regression intercepts could in fact be compared to the contingency table, as the intercept suggests zero costs indicate a decrease in the score. With the intercept being 0.930, together with the slope of zero, it would be reasonable to conclude that most firms did in fact face an increase to the score, but this may be more explained by the divestment strategy of withdrawing, and not the divestment costs. This also applies to firms suspending operations, as the linear regression indicates a negative relationship with both the intercept and slope being negative. What was even more interesting, was that the p-value for this linear regression was close to the

significance cut-off, and its R-value indicates a relationship of medium strength to suspension costs. This indicates that the stakeholder engagement score was to some extent related, albeit not statistically significantly, to these divestment costs as well as the categorical divestment strategy.

The contingency analysis on the social pillar did not indicate any significant relationships between the variables. Yet, the number of firms experiencing a lower social pillar score after the war was almost double those getting a higher score. This potentially indicates an overall trend from 2021 to 2022 indifferent to the divestment strategy. However, as the level of divestment increased, so did the number of firms who showed an increase in the social pillar score. Namely, firms withdrawing showed more firms with an increased social score as compared with those suspending or continuing business as usual. This would be similar to both linear regressions, as both the slopes and intercepts displayed negative values. At zero divestment costs, there was a decrease in the score, and as costs increased, the change decreased further.

A similar discussion applies to the human rights and governance scores. For the human rights score, both intercepts and slopes were negative. This indicates that more firms would be prone to a negative change in the score, as the starting point for divestment costs being zero was -10.077 and -0.422, respectively, with firms suspending and withdrawing operations. For the governance score of firms suspending operations, the negative intercept and slope could explain the larger share of firms experiencing a decrease. However, the split was more even for firms withdrawing (Table 5.5), which could instead be explained by the positive intercept. Thus, at zero divestment costs, more firms faced an increase in their score, therefore rationalizing firms withdrawing also facing an increase in the score. In practice, this stipulates that regardless of the firms' choice of divesting or not, their human rights score and governance score did in fact decrease. However, whether the decreases in the scores were attributable to the Russia-Ukraine war or not is left undetermined as other external factors could not be isolated. This again could mean that the divestment strategy was not the main factor affecting the score.

The community score, on the other hand, had a relatively even distribution among the rows and columns. The insignificant results mean there was no clear relationship between the variables. In other words, if firms were rewarded for divesting, the analysis could not tell.

Perhaps other factors came into play, and the Russia-related actions were not isolated in the score. In relation to the regressions, the slope for both divestment strategies suggest that as firms took on divestment costs, the score decreased further. In practice, this stipulates that divesting and taking on costs was not rewarded. This is supported by the contingency table showing a slightly larger share of firms facing a decrease in the score, and that this share increased as firms divested more.

6.2 Theoretical and Empirical Reflections

Given the previously discussed results and their meanings and interpretations, there are some parallels that can be drawn between them and prior theoretical assertions and empirical studies explored in the literature review chapter. For one, the results allow one to take a statistically-backed stance in the long-standing argument surrounding the adequacy and responsiveness of ESG scores, as well as what this may mean for stakeholders and shareholders. From this stance, one can also then go on to discuss whether ESG is truly an effective source of SCA and a VRIN-O resource as prior studies were found to claim.

6.2.1 Statistical Criticism for ESG

As problematized in the introduction and literature chapters, there is an extensive debate surrounding the validity, appropriateness, and responsiveness of ESG scores. Critics point to the disparities in scoring methodologies and lack of comparability between different ESG rating agencies, an aspect that can disincentivize firms to engage in ESG and CSR investments due to the subjective and inconsistent rewarding of the scores according to Liu (2022). Others claim that the subjective nature of scoring stems from ESG's heavy reliance on firms' voluntary reporting which can sway results to reflect what firms specifically want them to (Bapat, Kothari & Bansai, 2022).

This thesis therefore worked to provide comprehensive empirical evidence on whether ESG scores are statistically responsive to firm actions by examining if they responded to MNCs' strategic decisions regarding discontinuing, suspending, or continuing operations in Russia in light of an event with immense social magnitude. Methodologically, it capitalized on the criticism that ESG scores are heavily based on firms' own reports by only analyzing firms that made clear public statements regarding their decisions and actions in light of the war and the respective financial cost implications of these actions. In this way, one could argue that

this improved the likelihood of scores being positively responsive. Even so, the finding from the regression analysis was that there was a negative, statistically significant relationship between firm withdrawal costs and changes in social and governance scores. As well, there was no relationship between withdrawal costs and community, human rights, and stakeholder engagement score changes, and similarly, no relationship between suspension costs and all ESG dependent variables. One can thereby conclude that the scores were negatively responsive, or punished firms who made an effort to go beyond what was required of them by financial sanctions, but only in terms of social and governance scores. The scores were not responsive at all to firms suspending their operations, and the more specific community, human rights, and stakeholder engagement scores were also not responsive to firms who took on costs to withdraw. Meanwhile, the contingency table analysis suggests that the scores were in fact responsive to firms' actions in regards to the stakeholder engagement score. However, while it was clear that firms withdrawing entirely were rewarded in the stakeholder engagement score, it was less clear why more firms suspending got an increase in the score as compared to those doing business as usual. This would add to the claims by Schreck, van Aaken and Donaldson (2013) stating that firms do not know how to effectively act responsibly, and stakeholders do not know how to effectively influence corporations to act in such a manner.

This finding therefore adds clear empirical evidence to the criticism of ESG scores by verifying that, even when contextualized by an event of such globally spread social importance, the scores failed to appropriately reward, and in the case of firms suspending operations, respond to firm actions. This discovery is surprising given that there was a clear stance, at least among western governments, that the war is an egregious violation of human rights and the sovereignty of a nation, and that firms should play a role in stemming against it, reflected in the heavy financial sanctions to sway firms to suspend their Russian operations. Therefore, given the clear political stance to denounce Russia, one would think that the scoring should have been positively responsive by rewarding firms whose reported actions reflected a condemnation of the country's war of aggression by way of withdrawal or suspension of operations. Adding the results from the contingency table, there was an overall trend for all dependent variables, except the stakeholder engagement score, that firms experienced a decrease in their respective scores. This would be a perplexing finding when comparing the opinions of western stakeholders and the ESG rating agencies. Because, the

findings of most scores decreasing would contradict the mandated actions by governments and stakeholders. This spurs the question of who is right in valuing the social actions of firms, western and claimed democratic politicians, or ESG rating agencies. Interestingly, most firms doing business as usual were from countries seen as less democratic. Yet, the ESG methodology was not punishing them, stipulating that pronounced western best practices for firms could have been questioned by rating agencies. This would add to the criticism of ESG being a proxy for value-laden actions (Barzuza, Curtis & Webber, 2020; Kell, 2018; Pollman, 2022), as well as strengthen views on divesting being a way of profiting from being woke (Matten, 2022). It could also strengthen the argument made by Shell during the Apartheid regime in South Africa, who chose to do good by staying in the country (Minefee & Bucheli, 2021).

An important distinction is that the decision to suspend operations was likely less of a decision and more of a sanction-motivated necessity for firms. Meanwhile, the decision to completely withdraw or divest was voluntary, likely driven, in addition to the threat of financial sanctions, by the desire to maintain brand reputation and take stakeholder support for divestment to heart. This assertion has its grounding in the discussion around both the empirical antecedents for divestments analyzed in the studies of South African as well as Russian divestments after the Crimea annexation (van Bergeijk, 2022; Minefee & Bucheli, 2021; Panibratov & Brown, 2018a; Lander & Kuns, 2022) and the antecedents discussed by Wan, Chen and Yiu (2015) and Panibratov and Brown (2018b). All studies indicate key antecedents for divestment being the protection of brand reputation and valuing stakeholder demands. Moreover, Wang and Li (2019) conclude that MNCs tend to prioritize the institutionalized perception of what is responsible in their home country, and therefore tend to divest from the host country when controversies are present. Given that western firms were overwhelmingly the ones completely divesting, this assertion likely also played a role in firm actions towards their Russian operations.

Based on the analyses of these studies, it is therefore very likely that those aspects were also antecedents for firm decisions to completely withdraw, alongside sanctions, in light of the Russia-Ukraine war. Given ESG scores have a close connection to brand image and reputation as found by many studies including Duan, Li and Michaely's (2022) and Aguilera et al.'s (2007), it is fair to say that one way firms likely would expect to be rewarded for choosing to completely withdraw is in terms of higher ESG scores which translate to improved brand

perception. This was also confirmed in Basnet, Blomkvist and Galariotis' (2022) study showing firms who had higher ESG scores before the war, making the decision to fully withdraw to protect their brand image. Clearly, this was not the case according to the results of this study. Firms who actually made an effort to clearly stem against the war, listen to their stakeholders and maintain or better their brand reputation by fully divesting were actually punished for doing so. In other words, their brand image, when considered in terms of ESG scores, was actually damaged by doing what they believed was ethical and desired of them. Moreover, clearly event-relevant sub-category scores, like the human rights and community were unresponsive regardless of which action firms chose to take. As for the stakeholder engagement score, it was only ambiguously responsive. In addition, as the contingency analysis showed, the non-responsiveness of ESG scores did not indicate any clear patterns between divesting and changes in scores (Table 5.7-5.8). As well, almost all slopes on the regression analyses were negative (table 5.5-5.6), indicating that as costs rose, the scores decreased further. This would stipulate that, in terms of ESG, firms choosing to divest were worse off than those doing business as usual, as they did not take on the same significant divestment costs. The results of this paper and their implications thereby add further, empirically-backed criticisms for ESG adequacy, responsiveness, and thereby effectiveness, particularly in assessing and further motivating firms to act in a socially responsible manner.

6.2.2 Prioritization of Stake- or Shareholders

In this vein, it is also relevant to discuss the relation of these results and their interpretations to both stake- and shareholder theory and, by extension, stake- versus shareholder prioritization. As discussed, the magnitude of the political sanctions on Russian operations can be seen as the key foundation to the decision to divest, however, the societal engagement in terms of boycotts etc. cannot be neglected. Consumers do in fact expect firms to act as corporate citizens (Landrum, 2017), and one may conclude that the magnitude of media attention did affect the firms' decisions to divest (Sierra et al. 2017). This rationalizes the evident prioritization of home country stakeholder by western firms which aligns with the idea of varying distributions of stakeholder power by Werther and Chandler (2005), and Neville, Bell and Whitwell (2011). The contingency analysis' significant result for the stakeholder engagement scores is therefore interesting as its indication is that a prioritization of stakeholders did in fact take place, and firms were rewarded for it. However, as priorly

discussed, the relationship was ambiguous as significantly more firms doing business as usual than suspending got an increase, while almost all firms withdrawing got an increase.

That being said, companies that completely withdrew appeared to prioritize their direct stakeholders, in line with the rationale behind ESG scores, rather than suspending operations for the sake of avoiding sanctions. They also simultaneously risked a negative short-term impact for shareholders through potentially substantial costs of divestments. Those that stayed and continued business as usual can be argued to have been short-sighted in prioritizing shareholders, as they chose to simply incur sanctions because it may have been the best option for short-term profits. Simultaneously, it seems they were not prioritizing stakeholders' perceptions of their brand, particularly in the long-term, something that could be quite detrimental considering most western stakeholders equated continuing business in Russia to being an accomplice to the war (Parella, 2022; Pajuste & Toniolo, 2022). They might also overlook the connection to brand creating firm value, which ultimately translates into shareholder value (Aaker, 1992; ISO 20671:2019; Kapferer, 2012). On the other hand, firms doing business as usual could also have been argued to prioritize Russian stakeholders in terms of making a difference in the host market, rather than leaving. However, this would only hold if they did in fact take action in Russia, as argued by Matten (2022), and Shell during the Apartheid regime in South Africa (Minefee & Bucheli, 2021).

Therefore, an interesting finding was that firms prioritizing stakeholders in their responses to this event actually ended up not compromising on pleasing their shareholders, as the studies by Sonnenfeldt et al. (2022) and Glambosky and Peterburgsky (2022) show stock markets clearly rewarding firms who fully divested and punishing those who did not. Even first movers in divestment who initially saw negative stock price impacts faced net neutral impacts from their decisions, since stock prices were back up to their pre-decision value or higher within a two-week time-frame (Glambosky & Peterburgsky, 2022). In this sense, prioritizing shareholders seems to not have been the right move from both a short-term and long-term perspective.

Given the positive responsiveness of the stock market to Russian divestments and that ESG scores also impact financial performance in terms of stock price (Cardillo, Torluccio & Bendinelli, 2023; Freeman, 2010), one would expect that ESG scores were also sensitive to the ethicality of firm actions in the same way, allowing them to bolster further support for

socially ethical decision-making by firms. In this way, they would also increase the two-way benefit of divestment decisions for both stake- and shareholders, and thereby the firm itself. However, this was found to statistically not be the case, and firms who completely withdrew or divested from Russia, who made conscious efforts to act in a socially responsible, ethical way, were only rewarded via the stock market while actually being punished via social and governance scores. Meanwhile, suspension efforts were not responded to at all by the relevant ESG pillar and category scores which ironically makes them the better option, in terms of ESG responses, compared to fully divesting. This presents a rather stark empirical realization that ESG scores may not be adequate instruments to incentivize firms to act responsibly and prioritize social stakeholders, long-term brand perception, and sustainability over short-term financial health. Because, in order for them to serve this purpose, they must be accurately and effectively responsive to the CSR-related policies, decisions and actions of firms which this paper has arguably statistically disproven. This is clear in that firms who arguably went beyond what was legally required of them to prove their disdain for the war, as well as support Ukrainian and other stakeholders stemming against Russia, were penalized by ESG.

6.2.3 ESG Scores as a VRIN-O Resource

Based on the prior analysis of how the results of this study add to criticisms for ESG scores, as well as their relation to stake- and shareholder theory, one can draw a parallel between these two discussions through an examination of how the results relate to Barney's (1991) RBV. In accordance with Barney's (1991) assertions regarding key strategic resources and SCA, many have concluded that ESG commitments, and thereby ESG scores, are VRIN-O resources that can result in unique competencies, valuable relationships with stakeholders, and thereby competitive advantages for firms (Donaldson & Preston, 1995; Hull & Rothenberg, 2008; Melo & Galan, 2011). However, though this may be the case in theory, one can argue that ESG scores can only be VRIN-O resources and sources of competitive advantage if they are actually and appropriately responsive to firm actions. This is clearly something that the study at hand disproved. What is detrimental about this finding is that ESG scores are the only widely accepted and operationalized way to quantify, measure, and compare the CSR policies that companies engage in. They are thereby also the only driving force, besides legislation, that holds companies accountable and incentivizes them to act in a socially conscious and responsible manner. And yet, they seem ineffective in fulfilling these roles accurately and responsively.

In connection with the relevance of this to the RBV, it has been proven, as found by Duan, Li and Michaely (2022), as well as Koh, Burnasheva and Suh (2022), that western consumers in particular base their brand perceptions and consumption habits, at least in part, off of the ESG scores of firms. Therefore, ESG scores can directly impact sales and other financials. In addition, how firms perform, particularly in their social and governance ESG scores, had a direct positive effect on brand credibility and image (Koh, Burnasheva & Suh, 2022). Similarly, as described in Hart, Thesmar and Zingales' (2022) study contextualized by the Russia-Ukraine war, consumers are also quite sensitive to how firms (re)act to social issues and are willing to punish firms who act irresponsibly, even at personal cost. A firm's ability to motivate and retain its employees and attract new talent is also very closely tied to ESG performance, as well as the ability to attract investors (Li et al., 2021). Based on these studies, ESG performance can therefore clearly be a source of competitive advantage and a VRIN-O resource as it sways consumption habits, brand perception and talent allocation in the labor market, thereby increasing sales, credibility, and ability to attract talent for high performers, while also helping them retain and motivate current employees, attract investment and increase stock value.

However, all of these incentives to invest in improving ESG scores to gain them as a VRIN-O resource providing many benefits and potential competitive advantages, arguably fall away when the scores are either not appropriately responsive, or responsive at all, as this thesis has statistically shown them to be. This is because, when the scores are not (appropriately) responsive, they misrepresent firms' CSR policies, even, as shown by this study's results, at critical decision times for firms like the Russia-Ukraine war. Given the findings of the studies just mentioned, this misrepresentation is extremely detrimental as it can cause social stakeholders, including consumers, employees, and communities, as well as shareholders, to develop false brand perceptions of companies.

This, in turn, causes a widespread misallocation of resources in the form of investment funds, sales, and brand credibility across all firms, regardless of industry and geography. In other words, firms who genuinely make efforts to invest in ESG and CSR and prioritize stakeholders are not rewarded enough, at all, or even punished in relation to firms who make no effort to act responsibly. This was clear in the finding of the study at hand that there was essentially no difference in ESG changes for firms who continued business as usual in Russia, suspended operations, and those that went above and beyond to maintain brand credibility and

reputation by taking on often substantial costs to fully withdraw from the country. Though the latter may have been rewarded via the stock market (Sonnenfeldt et al., 2022; Glambosky & Peterburgsky, 2022), they should also have been rewarded by the actual measure for CSR-related decisions like this one, namely ESG scores, yet they were not. They were actually penalized for making the choice they interpreted to be most ethical based on social stakeholder and political demands. All of these discussed aspects relating to the results of this thesis therefore render ESG scores to be ineffective in responding to firm actions and representing their brand and CSR policies through the eyes of social stakeholders. Therefore, it can be argued that the scores' inappropriate and/or lack of responsiveness causes them to simultaneously lose their socially ethical behavior incentivization and VRIN-O resource potential for firms.

6.3 Considerations and Limitations

Though much of the limitations and delimitations that apply to the study at hand have been detailed in the methodology chapter, some further insight and reiteration should be provided into both additional and previously established considerations and limitations. That being said, upon a thorough examination and consideration of the limitations for this research, it can be said that their potentially negative impacts are either negligible for the purpose, aim, and results of the thesis, and/or would be visible in the statistical analysis performed anyway.

6.3.1 Considerations

One consideration that should be made relates to how this thesis is conceptualized and framed. The viewpoint of the authors aligns with the western sentiment that the Russia-Ukraine war is an inexcusable, brutal violation of the Ukrainian peoples' human rights, and that MNCs should play a role in helping combat and condemn it. This view is shared amongst western social stakeholders and governments alike, seen in their respective use of boycotts and financial sanctions, as referenced throughout the paper (Hart, Thesmar & Zingales, 2022; Parella, 2022; Pajuste & Toniolo, 2022). This aspect, as well as the CSR-based nature of ESG scores, led to the authors' expectation that ESG scores would reward companies adhering to social and political demands to halt their Russian operations, as this indicates a will to stand with their stakeholders and against Russia's actions. In particular, those who completely divested from Russia were expected to be rewarded via ESG, perhaps

even more so than those suspending operations, as they went beyond what was essentially required of them by sanctioned financial repercussions for continued Russian business.

However, many Eastern countries like India and China have been neutral towards the war, something very visible in the overwhelming amount of Western MNCs divesting and suspending operations in comparison to most Eastern MNC's continuing business as usual (Sonnenfeldt et al., 2022). This relates to the assertion that companies often mirror the attitudes of their home countries (Minefee & Bucheli, 2021) and interestingly, ESG disclosures, unlike in most western countries, remain voluntary and not mandatory in many Eastern countries including China and India (Dasani & Guan, 2021). This disparity in ESG importance and mandates, as well as stances and activism towards the Russia-Ukraine war between the East and West therefore merits consideration, though it has no effect on the results of the paper due to the unbiased nature of a statistical analysis; however, their interpretation and discussion was approached from a Western perspective.

6.3.2 Limitations

There are three main limitations to this study, all of which have already been referenced in the methodology chapter. The first limitation is the time-frame of one year for the social and governance pillar and category scores which is naturally caused by Refinitiv only releasing ESG scores annually for each firm and at an uneven pace (Refinitiv, 2023). The reason the time-frame implicates the study is that though the Russia-Ukraine war was arguably the most impactful event in 2022, firm-specific scandals or occurrences could also play a role in ESG pillar and category score changes. However, to hone in on the relation of ESG changes to firm actions in light of the Russia-Ukraine war, more specific ESG categories were analyzed that more directly relate to the event (i.e. human rights, community, and stakeholder engagement scores). As well, the influence of other factors would be and was reflected in low R and R² values for the regression analyses, indicating other factors play a greater role in explaining ESG score changes than firm decisions resulting in costs of suspension or withdrawal. As already discussed, the uneven pace of Refinitiv's score releases also limited the sample size that could be used in the study; however, the sample still ended up being adequate.

The second limitation of the study is that the results relate only to the responsiveness of the social and governance ESG pillars and their respective underlying categories. As discussed, the environmental (E) pillar does not relate to the focal event and the decisions and actions

that firms took in response to it. Therefore, this pillar was excluded from the analysis due to its irrelevance, as well as its exclusion helping to further isolate the effects of firm decisions in relation to the war and changes in ESG scores specifically relating to the war. That being said, the results and their respective conclusions regarding the lack of responsiveness of social and governance pillar scores and their underlying category scores should not be extrapolated to represent or assume the responsiveness of the environmental pillar scores.

A final limitation was the quantification method used for the independent variables, namely the costs of divestment and suspension. The only way these costs could be found or estimated is via firms' annual and quarterly reports, as well as public statements, which, though subject to stringent accounting standards and valid in their retrieval from a primary source, could make them subjective. As well, given the lengthy, uncertain nature of the war, and that estimates of financial impacts for companies were made towards its beginning, companies may have under- or overshoot their cost estimates. However, this is argued to not impact the results of the study as it is not the exact value of costs, but rather their relative magnitude that is important. It should be mentioned that cost estimations did not apply to those firms that did business as usual since they actually would have generated revenues in Russia, but these specified revenues are not reported and simply assigning costs for all of these companies a value of zero does not allow them to be used as a variable in the regression analysis. Hence, companies who continued business as usual and their changes in ESG scores could only be analyzed through the contingency table and had to be excluded from the regression analysis.

6.4 Chapter Summary

This chapter lended itself to analyze, interpret, and discuss the results of the statistical analysis contained in chapter five. In this way, the meaning of both the regression and contingency table results were explained. More specifically, the regression analyses' indication toward the acceptance of the alternative hypothesis H_{A2} for the respective, negative relationships between withdrawal costs and social and governance score changes was rationalized. The acceptance of the null hypotheses (H_{A0}) for the respective relationships between withdrawal costs and community, human rights, and stakeholder engagement score changes, as well as its acceptance for the relationship between suspension costs and all dependent variables, was also explained. Thereafter, the finding that ESG scores were either negatively or not at all responsive to firm actions in light of the Russia-Ukraine war were

interpreted, compared, and connected to the theoretical and empirical assertions detailed in the literature review chapter. Namely, the arguments were made that the inappropriate and/or lack of responsiveness of ESG scores makes them lose their ability to be a VRIN-O resource and create SCA's, sway consumption habits towards socially responsible firms, attract and retain talent and investors, and generally act as an incentive mechanism besides legislation to push firms to value CSR. Finally, a discussion of the study's considerations and limitations was provided.

7 Conclusion

This chapter concludes whether the aim and objectives of the study were achieved, as well as providing a rationalization as to how. As well, the practical implications that the results of the research have for firms, stakeholders and legislators are discussed. To round off the chapter, recommendations for future research are also made.

7.1 Research Aim

In assessing whether the study at hand achieved its primary aim, it is worth its reiteration. The overarching aim of the study was to take an empirical look at the validity and appropriateness of ESG scores as a responsive measure to how well corporate policies address social and governance issues in their operational context. The research thereby embodied the purpose to fill the empirical gap of a comprehensive statistical analysis for (in)validating the response-based effectiveness of ESG scores as social ethicality motivators. It did so by examining how ESG responded, or did not respond, to MNCs' different divestment strategies, represented by their respective costs, in light of the Russia-Ukraine war. One can say that the aim was clearly achieved in that concrete results were obtained from the regression analyses performed, indicating the inappropriate, or complete lack of responsiveness of ESG scores to firm actions. This is visible in the negative relationship found between costs of full withdrawal and changes in social and governance scores, showing that firms who believed they were acting ethically and in accordance with the will of their stakeholders were actually punished for doing so by ESG. In addition, the more specific and relevant social and governance subcategories, like human rights, community, and stakeholder engagement scores showed no response to both firms who withdrew from Russia, and those that suspended operations. For firms suspending operations, their social and governance scores were also not responsive to this action.

In this way, the study added a clear statistical support to criticisms for ESG scores in that they are either inappropriately or non-responsive to firm policies and actions, even when contextualized by an event of immense social importance, the Russia-Ukraine war. This lack of, or inappropriate responsiveness was also discussed in the previous chapter to reject the effectiveness of ESG scores as social ethicality motivators, as they clearly misrepresent the

views and demands of social stakeholders in their scoring. This means they, statistically, do not reward firms who act most ethically in accordance with stakeholder views.

7.2 Research Objectives

The first main objective to support the research in achieving its discussed aim was to study changes in ESG scores and divestment costs, denoting different divestment strategies in light of the Russia-Ukraine war, to explore how each strategy was rewarded or not by ESG. The second objective, in accordance with the first, was to develop a robust statistical model to reflect and analyze this relationship, or lack thereof, between divestment costs and changes in the ESG scores of MNCs. As arguably already reflected in the achievement of the study's aim, these supporting objectives were undoubtedly achieved. The research effectively studied changes in ESG scores and the divestment costs resulting from different divestment strategies. Through the development of validated, robust statistical models by way of the OLS regressions, the study was able to successfully analyze the relationship between divestment costs and changes in ESG score to reach a conclusion that firms were not rewarded by ESG pillar and category scores in most cases. They were even punished by way of social and governance scores for pursuing a full withdrawal divestment strategy and taking on its according costs.

7.3 Practical Implications

The arguably surprising results of this paper's research undoubtedly have several, key practical implications. The clear, empirically-backed criticism that the results provide towards the responsiveness of ESG scores have stark repercussions not only for firms, but also social stakeholders and legislators. These implications and repercussions are discussed in the coming subsections.

7.3.1 Implications for Firms

As previously analyzed, the finding that ESG scores are either inappropriately responsive in representing stakeholder demands, or completely unresponsive in relation to firm actions and policies, has serious negative implications for firms. Given that ESG scores measure firms' CSR policies, thereby providing a basis for stakeholders to develop their brand perceptions, if they are inaccurately representative of how ethically and socially responsible a company is

conducting itself, they will mislead stakeholders. This has serious financial and competitive implications for firms, since, as discussed, ESG scores affect consumers' consumption habits, and thereby sales, as well as the ability to attract and retain employees and investors. If a company's ESG scores, irrespective of the pillar, are misrepresented, they can lose out in all of these categories even when they are making the socially ethical and sustainable decisions desired of them by various stakeholder groups. Thus, though high ESG scores have been described as VRIN-O resources that offer SCA's, if they are inappropriately responsive or unresponsive altogether to firms' actions and corporate policies, then they arguably cannot be VRIN-O resources. Firms are increasingly making investments to build long-term social sustainability under the assumption that their ESG score will increase and become a VRIN-O resource that positively sets them apart to consumers, employees, legislators, and investors, yet this may not actually be the case given the results of this paper. This implication thereby calls into question whether firms' investments in CSR will even be accurately reflected and rewarded by ESG.

7.3.2 Implications for Stakeholders

Paralleling the implications of the study's results for firms are the implications for stakeholders. Because stakeholders base their brand perceptions, at least in part, off of ESG scores, and these respective perceptions influence their consumption habits, stakeholders' brand perceptions may be misguided due to the inappropriate and/or unresponsiveness of ESG scores. This means that while stakeholders assume ESG scores accurately represent how socially responsible firms are, this may not be true. Moreover, while they may seek to use their buying power to reward firms who act in accordance with their and other stakeholders' demands, like withdrawing from Russia for example, relying on ESG scores to judge firm responsibility and ethicality could misguide them.

In turn, this misguidance causes a misallocation of resources, as consumers, (potential) employees, and investors may think they are rewarding firms who act responsibly, but in actuality are not, due to the apparent responsiveness and appropriateness issues for ESG scores. In other words, instead of having the intended effect of financially and intangibly rewarding firms for heavily investing and prioritizing CSR, ESG scores may actually reward firms who do not act responsibly, or at least less responsible than others. This was visible in the fact that ESG scores punished firms taking on costs to fully withdraw from Russia to

protect their brand image and adhere to stakeholder demands, while responding neutrally to those who simply did the bare minimum to avoid sanctions. Even worse, the response was also statistically ambiguous for firms that just continued business as usual with no apparent regard for stakeholders and the social magnitude of the war. Therefore, a secondary implication would be that the scores either need revision or a secondary measure should be developed to assist stakeholders in evaluating and incentivizing the social ethicality of firms.

7.3.3 Implications for Legislators

Finally, the implications for both firms and their stakeholders culminate in implications for legislators and other public officials. This is because these figures are tasked with protecting the interest of social stakeholders which also means ensuring that firms act in a socially responsible manner. Given that ESG scores are the only other mechanism besides legislation to incentivize or demand that firms make CSR a priority and are conscious of their social impacts, yet have now been empirically proven to be faulty, legislators may need to step up to the plate in a more serious way.

As discussed, ESG scores appear inappropriately or completely unresponsive, especially in representing stakeholder demands towards key social issues and events, so they may no longer be completely relied on to continue incentivizing firms to act how society would like them to. This therefore points to the need for more comprehensive and swift passing of legislation to more intensely legally and financially incentivize firms to invest in CSR and govern themselves in a socially responsible manner. This is because, based on the results, there is a potentially socially detrimental disparity between the legal and personal demands of various stakeholder groups and how and what ESG rewards. The widespread assumption of ESG's responsiveness and appropriateness has up until now been fairly robust and non-detrimental; however, after this paper has statistically disproved, or at least weakened, this assumption, the fact that legislation usually lags behind and is not comprehensive enough is a clear issue requiring attention. In other words, the reliance on ESG to be an effective social ethicality motivator for firms on behalf of stakeholders seems to be too great and somewhat misguided, rationalizing this call to action for legislators.

7.4 Future Research

Given the increasing rise of ESG and CSR, as well as the limited studies exploring business operations in relation to the Russia-Ukraine war, there are multiple opportunities for future research. First, one can see that ESG scores mainly did not respond to Russian divestments. Many argued that divesting was not as impactful a way to condemn the war compared to the impact direct activism could have meant (Barzuza, Curtis & Webber, 2020; Kell, 2018; Pollman, 2022). However, this was not addressed by this paper. It would therefore be interesting to study the positive and negative effects on each stakeholder group, to conclude if the actions to divest did a net positive change, or if it was net negative. This would then also address Matten's (2022) claims of firms profiting from being woke rather than making a real difference. As well, it is worth exploring the exact scoring methodologies, potential biases, and political and social views that ESG rating agencies have, as well as how they may benefit financially from the scoring. It is clear that Refinitiv's scores were not aligned with stakeholder views, begging the question of why and how this may relate to the interests of the organization.

The significant result of the contingency table analysis for stakeholder engagement scores also presents an avenue for further research. Firms not choosing to divest saw an even split between increases and decreases in this category score. Future research could therefore include in-depth, comparative studies on the reasons for this, namely whether the ones facing increases in the scores acted differently in the matter compared to the firms facing a decrease in the score. For example, one could explore whether the rationalization for a given decision mattered more than the decision itself in ESG scoring. For example, perhaps some firms rationalized doing business as usual in Russia similarly to Shell who decided to stay in South Africa to be able to directly contribute to the anti-Apartheid movement through corporate activism (Minefee & Bucheli, 2021).

As referenced in the limitations for this paper, the conscious, methodological choice was made to exclude the environmental ESG pillar from the analysis, due to its irrelevance to the focal context. Therefore, since the results of the social and governance pillar, as well as their underlying category scores, being either inappropriately responsive or completely unresponsive cannot be extrapolated to the environmental pillar, its particular responsiveness presents an avenue for future research. It would be interesting to discover whether or not the

responsiveness of this pillar aligns with the results for the social and governance pillars presented in this paper. If the results for the environmental pillar would align with the findings for the social and governance pillars, this would have the same detrimental implications for firms, stakeholders, and legislators, but also for the environment.

Finally, a longitudinal follow-up study that uses the exact methodology utilized in the study at hand can also be recommended. This would be interesting to see if ESG scores responded differently to divestment costs given a longer time-frame, namely the scores from 2022 and 2023 would be included in the study, but the independent variable categories of the costs of withdrawal and suspension would be kept the same. One could thereby explore whether ESG scores perhaps just take exceptionally long to appropriately respond to and reflect firm policies and actions. However, a word of caution for the greater likelihood of other factors interfering in this analysis, given the longer time-frame and global, socially-relevant developments within it, should be given.

Chapter Summary

In summary, by fulfilling its key aim and objectives, the study found ESG scores to be either inappropriately responsive, or completely unresponsive to the CSR-related strategic actions and policies of multinational firms in light of the Russia-Ukraine war. Thereby, clear, comprehensive statistical evidence was added to the criticisms against ESG, as this finding has multifaceted, adverse implications for the ability to incentivize firms to act in a socially responsible manner and for stakeholders to accurately form brand perceptions. In this way, it is clear that the scores, at the very least, require revision and legislators should play a more active role in using policy and law to incentivize socially responsible behavior among firms.

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Appendix A

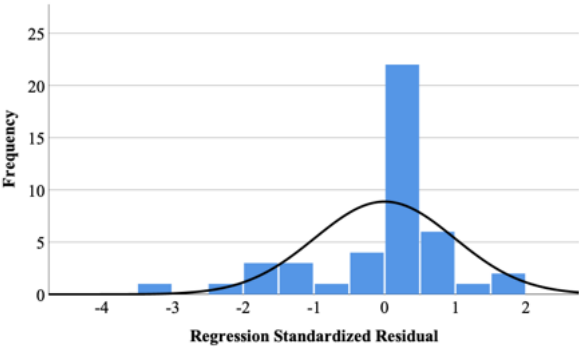


Figure A1: Residual histogram of the social pillar (withdrawal).

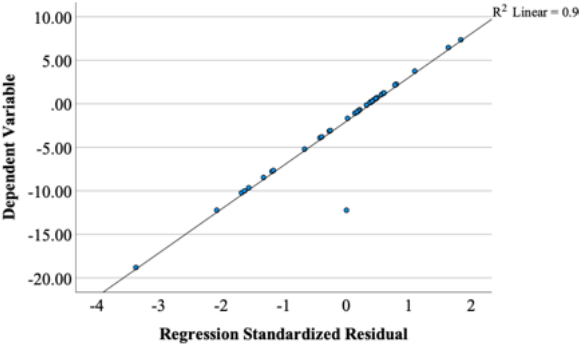


Figure A2: Homoscedasticity plot of the social pillar (withdrawal).

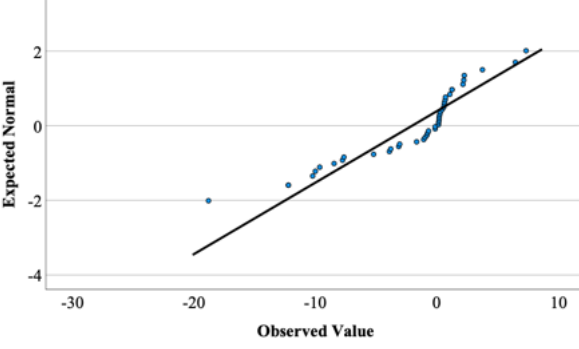


Figure A3: Normal Q-Q plot of the social pillar (withdrawal).

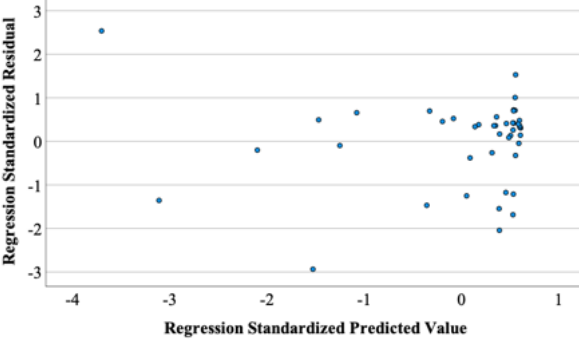


Figure A4: Residual plot of the social pillar (withdrawal).

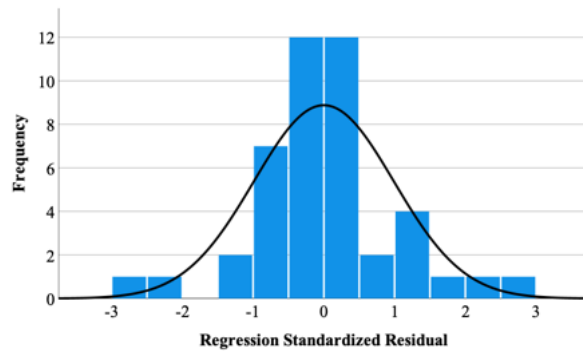


Figure A5: Residual histogram of the governance pillar (withdrawal).

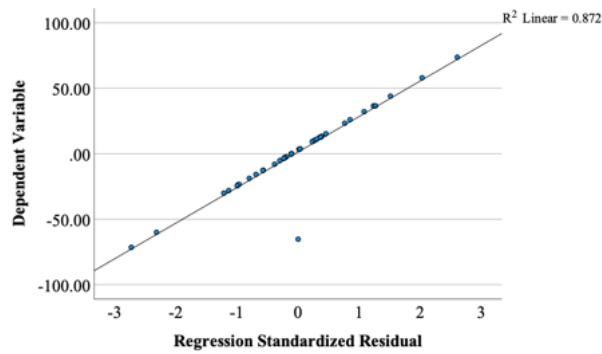


Figure A6: Homoscedasticity plot of the governance pillar (withdrawal).

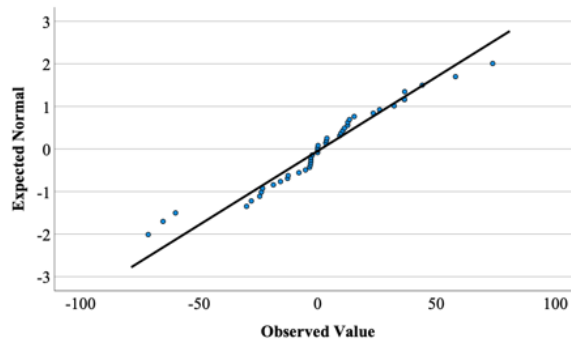


Figure A7: Normal Q-Q plot of the governance pillar (withdrawal).

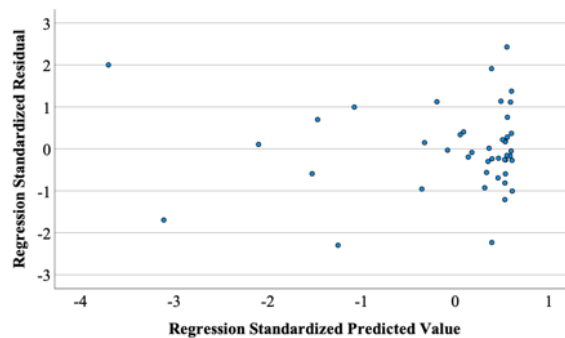


Figure A8: Residual plot of the governance pillar (withdrawal).

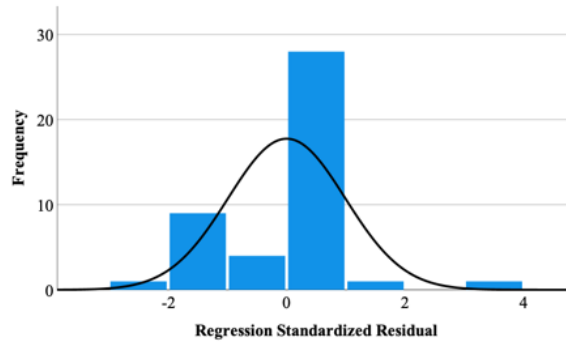


Figure A9: Residual histogram of the community category (withdrawal).

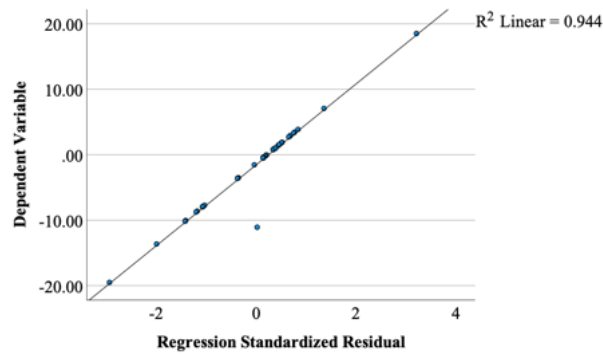


Figure A10: Homoscedasticity plot of the community category (withdrawal).

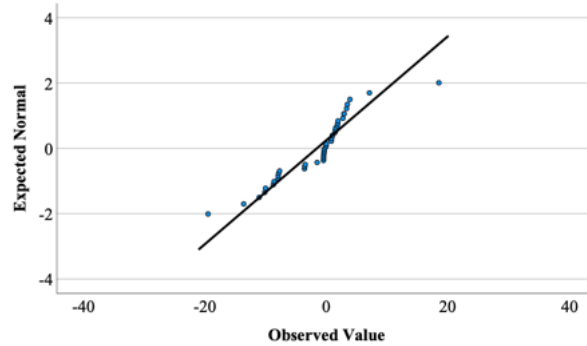


Figure A11: Normal Q-Q plot of the community category (withdrawal).

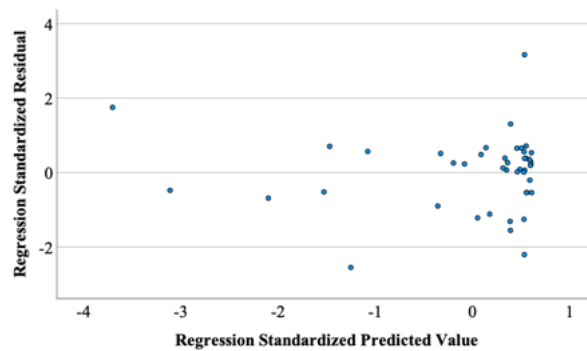


Figure A12: Residual plot of the community category (withdrawal).

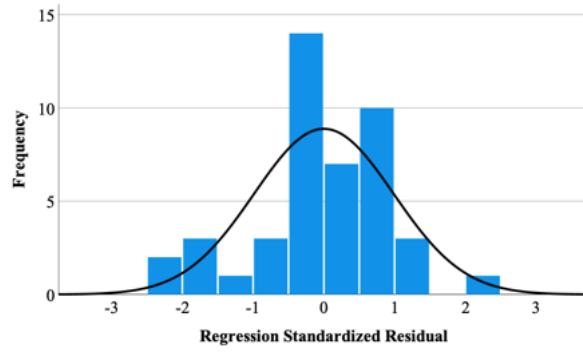


Figure A13: Residual histogram of the human rights category (withdrawal).

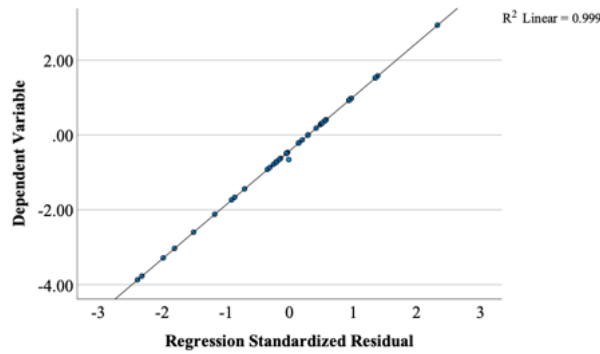


Figure A14: Homoscedasticity plot of the human rights category (withdrawal).

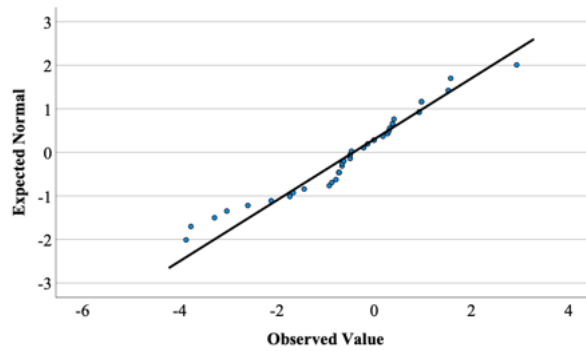


Figure A15: Normal Q-Q plot of the human rights category (withdrawal).

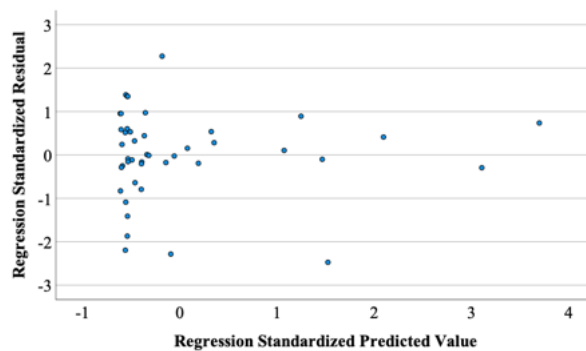


Figure A16: Residual plot of the human rights category (withdrawal).

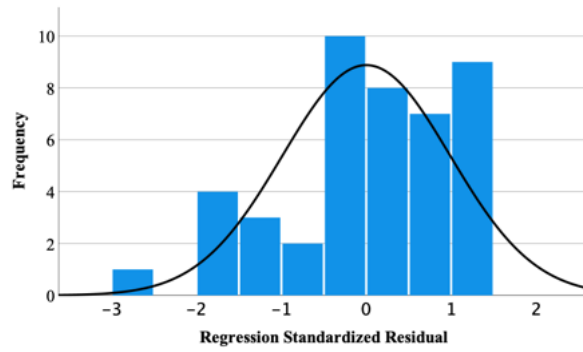


Figure A17: Residual histogram of the stakeholder engagement category (withdrawal).

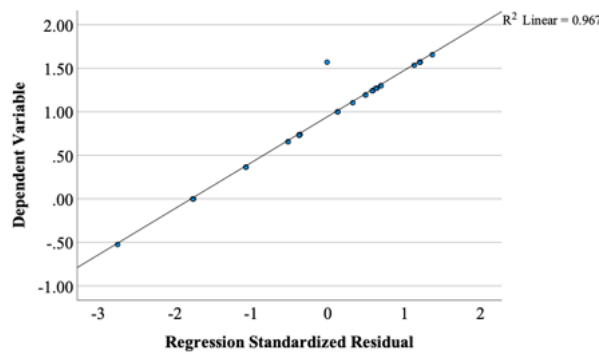


Figure A18: Homoscedasticity plot of the stakeholder engagement category (withdrawal).

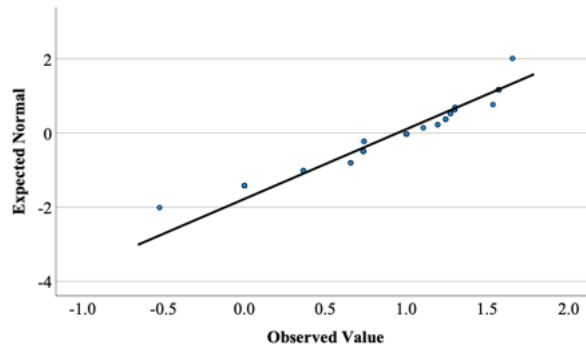


Figure A19: Normal Q-Q plot of the stakeholder engagement category (withdrawal).

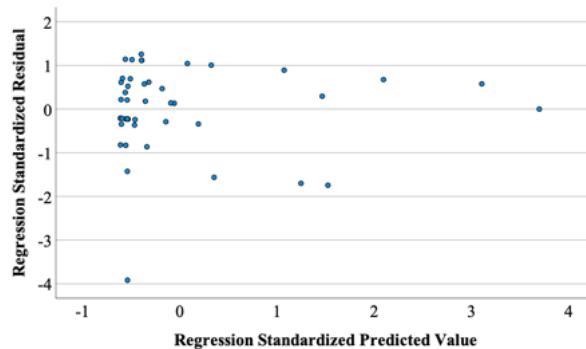


Figure A20: Residual plot of the stakeholder engagement category (withdrawal).

Appendix B

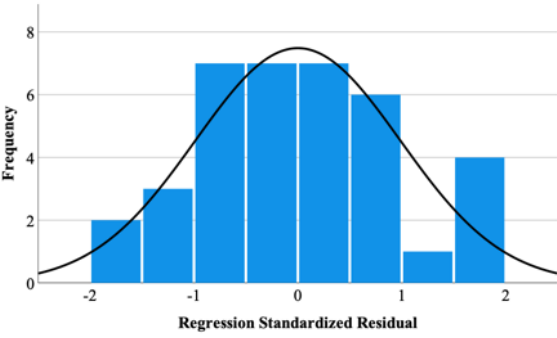


Figure B1: Residual histogram of the social pillar (suspension).

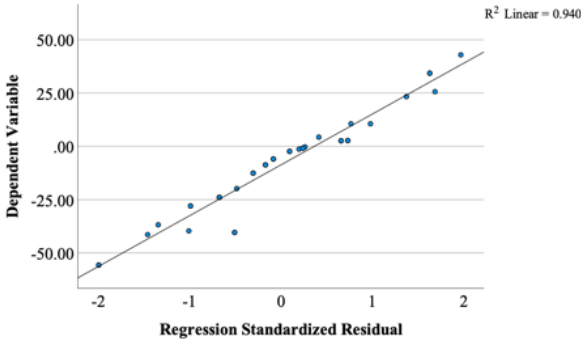


Figure B2: Homoscedasticity plot of the social pillar (suspension).

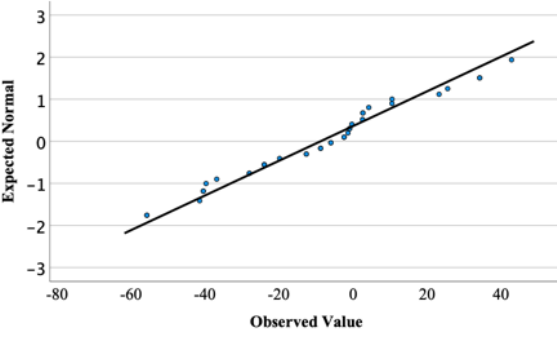


Figure B3: Normal Q-Q plot of the social pillar (suspension).

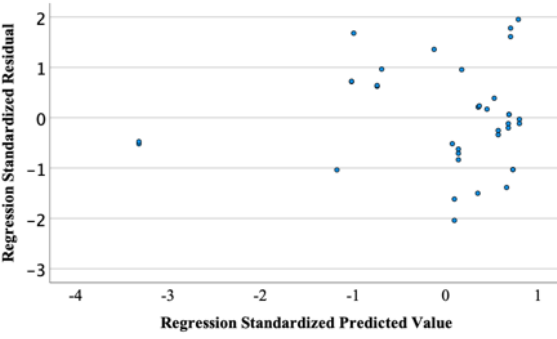


Figure B4: Residual plot of the social pillar (suspension).

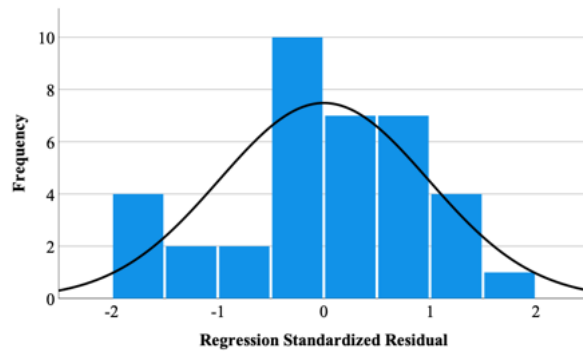


Figure B5: Residual histogram of the governance pillar (suspension).

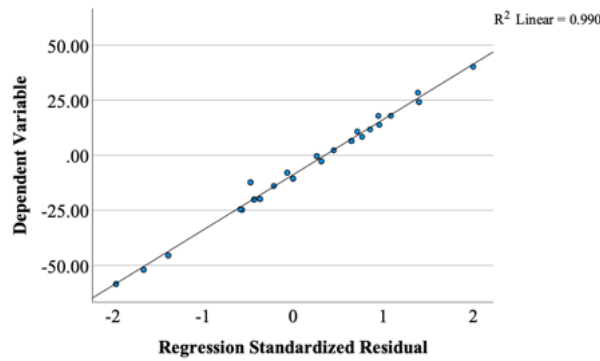


Figure B6: Homoscedasticity plot of the governance pillar (suspension).

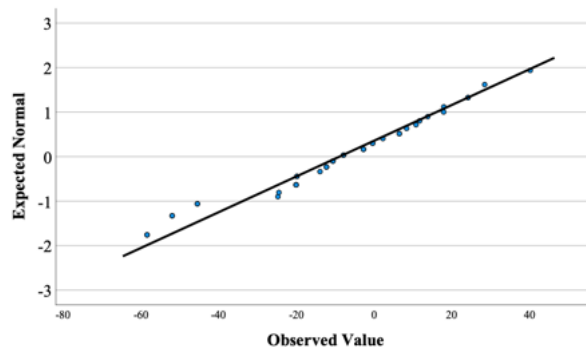


Figure B7: Normal Q-Q plot of the governance pillar (suspension).

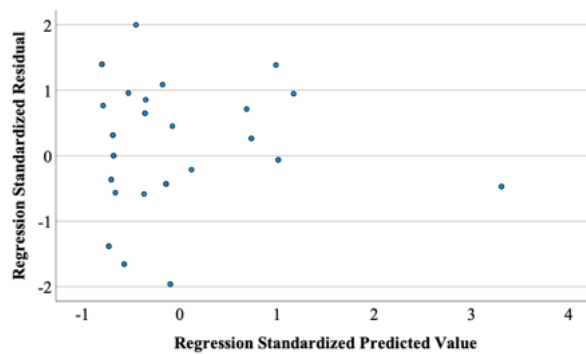


Figure B8: Residual plot of the governance pillar (suspension).

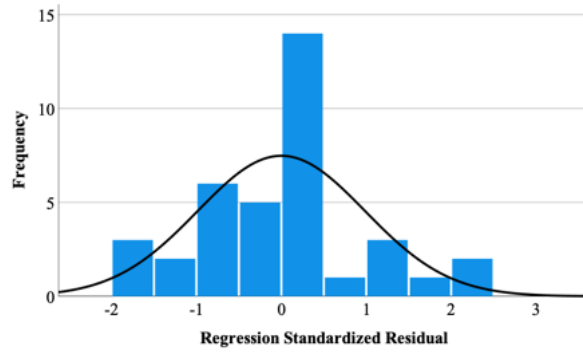


Figure B9: Residual histogram of the community category (suspension).

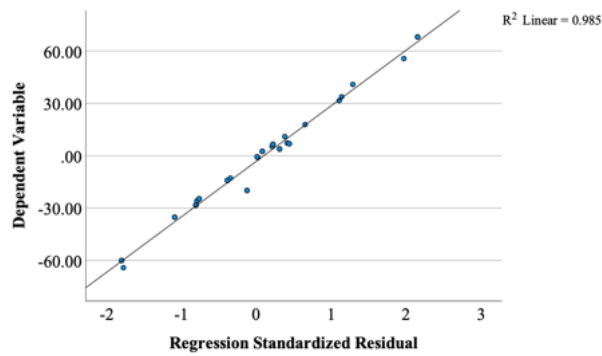


Figure B10: Homoscedasticity plot of the community category (suspension).

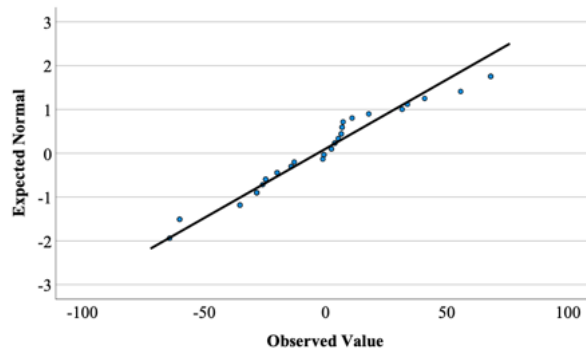


Figure B11: Normal Q-Q plot of the community category (suspension).

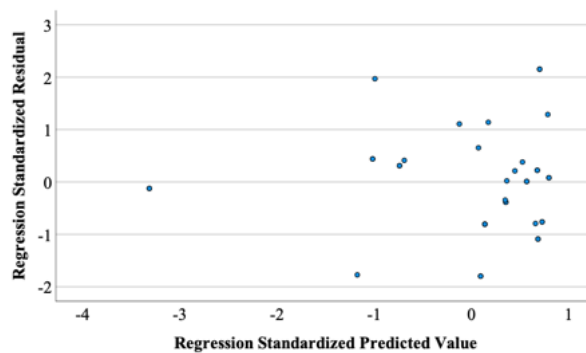


Figure B12: Residual plot of the community category (suspension).

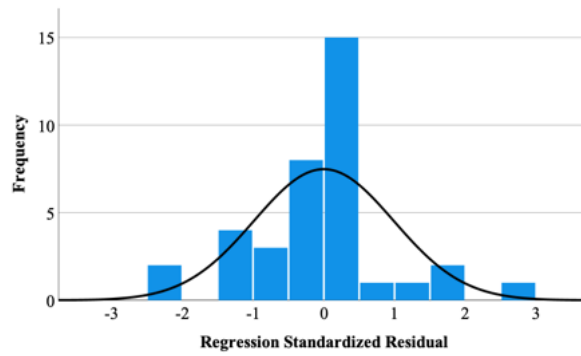


Figure B13: Residual histogram of the human rights category (suspension).

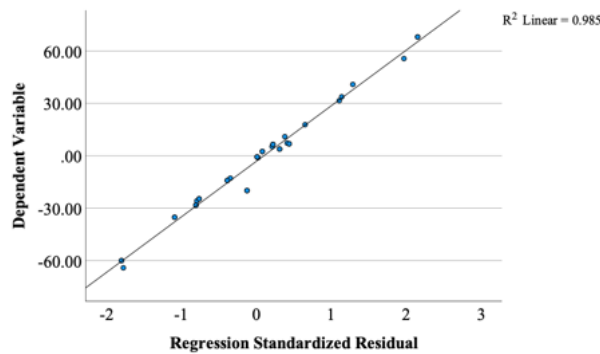


Figure B14: Homoscedasticity plot of the human rights category (suspension).

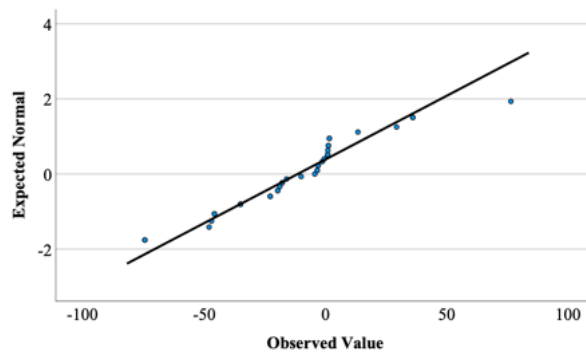


Figure B15: Normal Q-Q plot of the human rights category (suspension).

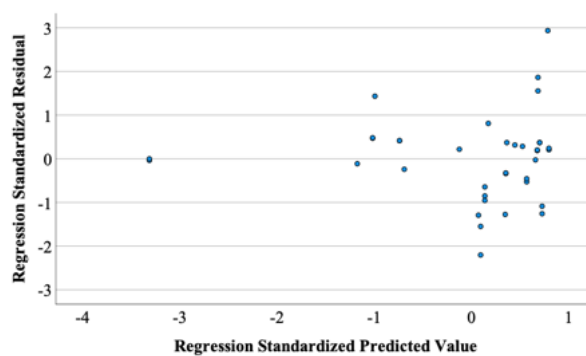


Figure B16: Residual plot of the human rights category (suspension).

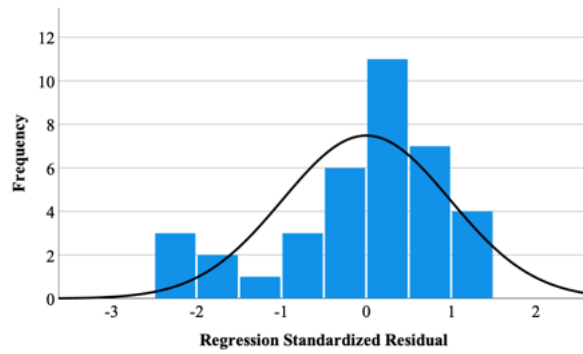


Figure B17: Residual histogram of the stakeholder engagement category (suspension).

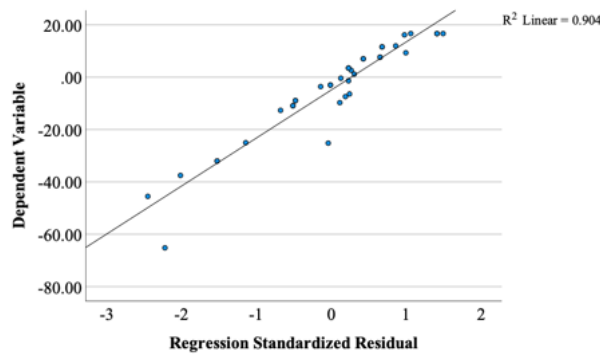


Figure B18: Homoscedasticity plot of the stakeholder engagement category (suspension).

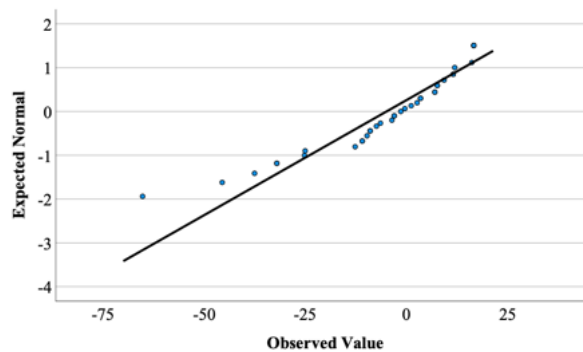


Figure B19: Normal Q-Q plot of the stakeholder engagement category (suspension).

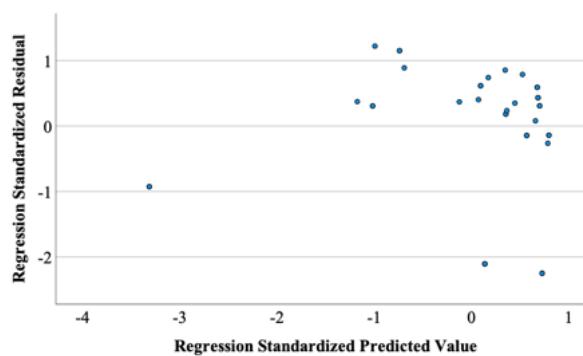


Figure B20: Residual plot of the stakeholder engagement category (suspension).

Appendix C

Table C1: Linear regression model summary, ANOVA, and coefficient tables for withdrawal costs and social score changes

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.302 ^a	.091	.069	5.03873158	1.968

a. Predictors: (Constant), Cost/revenue

b. Dependent Variable: Social

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	106.905	1	106.905	4.211	.046 ^b
	Residual	1066.330	42	25.389		
	Total	1173.236	43			

a. Dependent Variable: Social

b. Predictors: (Constant), Cost/revenue

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.783	.770		-2.317	.025
	Cost/revenue	-.002	.001	-.302	-2.052	.046

Table C2: Linear regression model summary, ANOVA, and coefficient tables for withdrawal costs and governance score changes

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.357 ^a	.128	.107	27.1809658	2.309

a. Predictors: (Constant), Cost/revenue

b. Dependent Variable: Governance

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4540.977	1	4540.977	6.146	.017 ^b
	Residual	31029.806	42	738.805		
	Total	35570.783	43			

a. Dependent Variable: Governance

b. Predictors: (Constant), Cost/revenue

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.894	4.151		.697	.490
	Cost/revenue	-.015	.006	-.357	-2.479	.017

Table C3: Linear regression model summary, ANOVA, and coefficient tables for withdrawal costs and community score changes

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.237 ^a	.056	.034	6.18004968	2.059

a. Predictors: (Constant), Cost/revenue

b. Dependent Variable: Community

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	95.436	1	95.436	2.499	.121 ^b
	Residual	1604.107	42	38.193		
	Total	1699.543	43			

a. Dependent Variable: Community

b. Predictors: (Constant), Cost/revenue

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.342	.944		-1.422	.162
	Cost/revenue	-.002	.001	-.237	-1.581	.121

Table C4: Linear regression model summary, ANOVA, and coefficient tables for withdrawal costs and human rights score changes

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.023 ^a	.001	-.023	1.44633823	2.379

a. Predictors: (Constant), Cost/revenue

b. Dependent Variable: Human Rights

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.047	1	.047	.022	.882 ^b
	Residual	87.860	42	2.092		
	Total	87.906	43			

a. Dependent Variable: Human Rights

b. Predictors: (Constant), Cost/revenue

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.422	.221		-1.908	.063
	Cost/revenue	-4.791E-5	.000	-.023	-.149	.882

Table C5: Linear regression model summary, ANOVA, and coefficient tables for withdrawal costs and stakeholder engagement score changes

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.182 ^a	.033	.010	.529711364	2.088

a. Predictors: (Constant), Cost/revenue
b. Dependent Variable: Stakeholder Engagement

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.405	1	.405	1.442	.237 ^b
	Residual	11.785	42	.281		
	Total	12.190	43			

a. Dependent Variable: Stakeholder Engagement
b. Predictors: (Constant), Cost/revenue

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.930	.081		11.496	<.001
	Cost/revenue	.000	.000	.182	1.201	.237

Table C6: Linear regression model summary, ANOVA, and coefficient tables for suspension costs and social score changes

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.244 ^a	.060	.033	23.8525085	2.535

a. Predictors: (Constant), Cost/revenue
b. Dependent Variable: Social

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1261.972	1	1261.972	2.218	.145 ^b
	Residual	19912.976	35	568.942		
	Total	21174.948	36			

a. Dependent Variable: Social
b. Predictors: (Constant), Cost/revenue

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.760	5.155		-.729	.471
	Cost/revenue	-2.501	1.680	-.244	-1.489	.145

Table C7: Linear regression model summary, ANOVA, and coefficient tables for suspension costs and governance score changes

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.102 ^a	.010	-.018	25.1354726	2.156

a. Predictors: (Constant), Cost/revenue

b. Dependent Variable: Governance

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	234.281	1	234.281	.371	.546 ^b
	Residual	22112.719	35	631.792		
	Total	22347.000	36			

a. Dependent Variable: Governance

b. Predictors: (Constant), Cost/revenue

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-11.036	5.432		-2.032	.050
	Cost/revenue	1.078	1.770	.102	.609	.546

Table C8: Linear regression model summary, ANOVA, and coefficient tables for suspension costs and community score changes

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.122 ^a	.015	-.013	31.8221842	2.159

a. Predictors: (Constant), Cost/revenue

b. Dependent Variable: Community

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	537.466	1	537.466	.531	.471 ^b
	Residual	35442.799	35	1012.651		
	Total	35980.265	36			

a. Dependent Variable: Community

b. Predictors: (Constant), Cost/revenue

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.047	6.877		.007	.995
	Cost/revenue	-1.632	2.241	-.122	-.729	.471

Table C9: Linear regression model summary, ANOVA, and coefficient tables for suspension costs and human rights score changes

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.056 ^a	.003	-.025	29.8262290	2.513

a. Predictors: (Constant), Cost/revenue

b. Dependent Variable: Human Rights

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	96.943	1	96.943	.109	.743 ^b
	Residual	31136.138	35	889.604		
	Total	31233.081	36			

a. Dependent Variable: Human Rights

b. Predictors: (Constant), Cost/revenue

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-10.077	6.446		-1.563	.127
	Cost/revenue	-.693	2.100	-.056	-.330	.743

Table C10: Linear regression model summary, ANOVA, and coefficient tables for suspension costs and stakeholder engagement score changes

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.310 ^a	.096	.070	18.3508616	2.005

a. Predictors: (Constant), Cost/revenue

b. Dependent Variable: Stakeholder Engagement

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1253.720	1	1253.720	3.723	.062 ^b
	Residual	11786.394	35	336.754		
	Total	13040.114	36			

a. Dependent Variable: Stakeholder Engagement

b. Predictors: (Constant), Cost/revenue

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.050	3.966		.013	.990
	Cost/revenue	-2.493	1.292	-.310	-1.929	.062

Appendix D

Table D presents the data results of Pearson’s Chi-Square test and Fisher’s Exact test which indicates whether any identified relationships from the contingency table analysis were significant. The tests were generated in SPSS when running the contingency analysis. When a contingency table had one or more cells with a cell count lower than 5, the Fisher’s Exact test was used instead. The null hypothesis for the Fisher’s Exact test was rejected when the p-value was less than 0.05, which it was for the Stakeholder Engagement Category score. As for the Pearson’s Chi Square test, the null hypothesis would be rejected when the p-value was lower than 0.05, or when the “value” was higher than the “critical value”. The critical value was derived from the Chi-square distribution table based on the degree of freedom. As seen in table B, the results were not significant enough for rejecting the null hypothesis for any of the ESG score data.

Table D: Significance Tests for Contingency Table.

ESG Data	Pearson’s Chi Square(Fisher’s Exact Test)			
	Value	Degrees of Freedom	Critical Value	p-value
Social Pillar	4.772	2	5.991	0.090
Governance Pillar	2.035	2	5.991	0.390
Community Category	0.738	2	5.991	0.689
Human Rights Category	3.005	-	-	0.556
Stakeholder Engagement Category	(33.931)	-	-	<0.001

Appendix E

Contingency table with the divestment strategy as the dependent variable and the country of origin represented by the continent as the independent variable. The Fisher's Exact Test indicates that there is a significant relation between the two variables.

Table E: Contingency Table of Divestment Strategy Categorized by Continent.

	Continent			
Divestment Strategy	Asia	Europe	North America	Total (%)
Business as Usual	32	4	6	42 76% / 10% / 14%
Suspension	2	34	1	37 5% / 92% / 3%
Withdrawal	1	34	9	44 2% / 77% / 21%
Total	35 91%; 6%; 3%	72 6%; 47%; 47%	16 38%; 6%; 56%	123
Fisher's Exact Test p-Value	<.001			