Yale SCHOOL OF MANAGEMENT
Chief Executive Leadership Institute

The Unprecedented Exit of 1,000+ Multinational Businesses from Russia

Investing in our Rivals: Examining U.S. Capital Flows to Foreign Rivals and Adversaries Around the World

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Subcommittee on Investor Protection, Entrepreneurship and Capital Markets

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Source: **Politiken** (Based on Our Yale List)

Background on 1,000 Businesses Pulling Out of Russia

Chairman Sherman, Ranking Member Huizenga, and the distinguished members of the Subcommittee: thank you for the opportunity to testify today; and thank you to Chairwoman Waters and Ranking Member McHenry for your leadership.

I am Jeffrey Sonnenfeld, Senior Associate Dean for Leadership Studies, Lester Crown Professor of Management Practice at Yale School of Management, and Founder and President of the Yale Chief Executive Leadership Institute, a division of Yale University and the world's first school for incumbent CEOs – well before the WEF/Davos and CEO-targeted events by Forbes; FORTUNE; BusinessWeek; The Wall Street Journal; and The New York Times. I founded this institute when I was a professor at the Harvard Business School 30 years ago and migrated it to Yale 22 years ago. We have continued to hold over 150 CEO forums hosting thousands of top leaders around the world including events in Washington DC, New York City, Atlanta, Beijing, New Delhi, Shanghai, Mumbai, Mexico City, Montreal, and Phoenix. These events are all non-commercial; educational; informal; non-partisan forums bringing together business leaders and leaders from across civil society, including political leaders from both sides of the aisle including Presidents Joe Biden and Donald Trump.

I have been working in the corporate social responsibility space for 45 years; my first book was entitled Corporate Views of the Public Interest, published in 1981, and since then, I have published 200 scholarly journals and 7 books. I have advised thousands of CEOs on corporate social responsibility challenges and am a weekly corporate governance commentator for CNBC with additional regular appearances on MSNBC, CNN, PBS, CBS, NBC, and ABC.

I am appearing before the Committee today to offer some insights on the historic exits of 1,000+ major multinational companies from Russia after Russia invaded Ukraine. I have been credited by media outlets for having had some role in catalyzing this mass stampede from Russia, but my testimony today will provide a more comprehensive explanation over how this unfolded, what the impact has been on the firms which exited, and the impact upon our adversary Russia – as well as transferable lessons towards other adversarial countries. If time permits, I will also discuss our research on the unappreciated, unparalleled tech transfer of our most sophisticated, sensitive weapons systems to the Saudi – who are now colluding with Russia.

When the Russian invasion of Ukraine broke out on February 24th, initially, only a few companies courageously announced their immediate exit from Russia. But in the hours that followed, the genuinely courageous first-movers became increasingly squeezed by "pretenders" – companies which announced charitable donations to Ukraine or companies that suspended unspecified (and often non-existent) "future investments in Russia" while continuing with substantive business-as-usual in Russia, to the outrage of the companies that genuinely withdrew. At Yale, we quickly stood up a list distinguishing the companies which withdrew from Russia from the companies which continued to reap profits from Putin. We assigned schoolhouse style A-F letter grades to the companies depending on their degree of withdrawal, recognizing that some companies stopped operations more fully than others, based on the criteria below:

A: WITHDRAWAL: companies making a clean break/permanent exit from Russia or and/or leaving behind no operational footprint.

B: SUSPENSION: companies temporarily suspending all or almost all Russian operations without permanently exiting or divesting.

C: SCALING BACK: companies suspending a significant portion (but not all) of their business in Russia.

D: BUYING TIME: companies pausing new investments/minor operations in Russia but largely continuing substantive business in Russia.

F: DIGGING IN: companies defying demands for exit or reduction of activities largely doing business-as-usual.

Each potential addition is carefully reviewed by a team of experts through a collaborative process before a company is assigned a final grade through consensus and then added to the list. Our team of experts drew from diverse backgrounds in financial analysis, economics, accounting, strategy, governance, geopolitics, and Eurasian affairs with collective fluency in ten languages including Russian, Ukrainian, German, French, Italian, Spanish, Chinese, Hindi, Polish and English, compiling this unique dataset using both public sources such as government regulatory filings, tax documents, company statements, financial analyst reports, Bloomberg, FactSet, MSCI, S&P Capital IQ, Thomson Reuters and business media from 166 countries; as well as non-public sources, including a global wiki-style network of 250+ company insiders, whistleblowers and executive contacts. The list was initially primarily focused on large US companies with substantial exposure to Russia, but expanded over time to include firms from across the world, particularly from Europe and Asia, as well as public and private companies of varying size and varying presence in Russia.

As our list picked up steam across the media with citations by the White House and across general media, including front-page features on the Washington Post and the New York

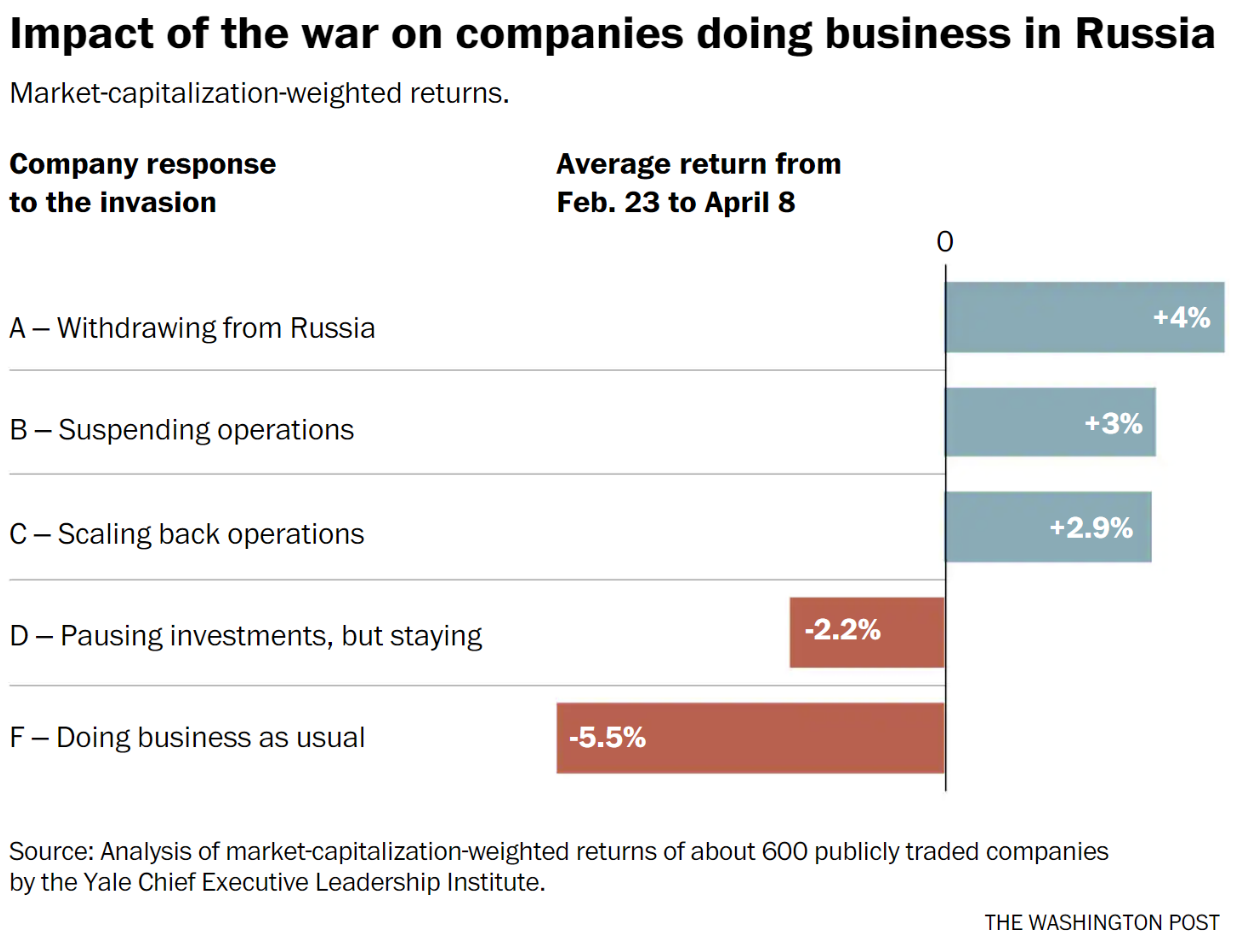
Times, the amount of attention the list received helped catalyze a full-scale retreat. Our list quickly ballooned in size from a few dozen companies to a few hundred companies to now over 1,200 companies that have withdrawn from Russia as CEOs rushed to ensure their companies were not aiding and abetting Putin's war crimes, reinforced by the crucial bandwagon effect of seeing so many peer companies withdrawing, encouraged by credible corporate governance experts, supportive board members, and shareholders.

These exits were fully voluntary – we gave companies zero credit for simply adhering to US sanctions and doing the bare minimum required by law. Rather, we sought to recognize companies which went above and beyond by fully suspending operations in Russia even though there was no legal dictate from any government, whether US or international. The sudden, voluntary exit of over 1,000 major multinational companies – with revenues from Russia representing nearly 40% of Russian GDP – has no historical precedent, far dwarfing the retreat of 200 global businesses from Apartheid South Africa in the 1980s.

Furthermore, contrary to common misconceptions, the exits of these companies from Russia largely did not come at great financial cost to the companies. In fact, financial markets punished companies for staying in Russia while rewarding companies that withdrew. The first day that I went on CNBC the week the invasion started calling out companies that remained in Russia, I saw the stock prices of each of those companies I named tank before my eyes as I pointed out their significant presence in Russia. Each of those companies far underperformed stock market benchmarks that day and during the period since the invasion broke out, as shown below.

	Performance March 7	Since the Start of Invasion, February 23
S&P 500 (Index)	-2.95%	-2.36%
Dow Jones Industrial Average (Index)	-2.37%	-2.24%
Nasdaq 100 (Index)	-3.75%	-3.91%
Arconic (ARNC)	-9.12%	-21.42%
Citigroup (C)	-1.87%	-13.06%
Coty (COTY)	-9.48%	-17.05%
Estee Lauder (EL)	-7.69%	-10.76%
Herbalife (HLF)	-0.11%	-15.13%
Hilton (HLT)	-6.23%	-12.28%
Hyatt (H)	-9.23%	-16.55%
Marriott (MAR)	-7.04%	-14.48%
McDonald's (MCD)	-4.87%	-11.23%
Mohawk Industries (MHK)	-9.89%	-11.54%
Mondelez (MDLZ)	-2.04%	-5.93%
Otis Worldwide (OTIS)	-4.63%	-3.62%
Papa John's (PZZA)	-7.76%	-14.98%
Pepsi (PEP)	-1.99%	-3.51%
Philip Morris (PM)	-6.61%	-14.18%
PVH Corp (PVH)	-15.37%	-32.11%
Starbucks (SBUX)	-6.19%	-9.29%
Timken (TKR)	-7.35%	-11.51%
Trimble (TRMB)	-4.42%	-5.27%
Unilever (UL)	-3.94%	-14.55%
Yum Brands (YUM)	-4.57%	-8.68%

When we noticed this play out in real-time on CNBC, my team did a quantitative, systematic study of whether there was any correlation between a company's willingness to exit from Russia and its stock price. The results were shockingly clear, with a huge disparity in stock performance as shown below.



Further analysis reveals that this pattern of outperformance by companies that withdrew held true across multiple factors, including the regions and sectors of the companies included. We saw the trend remained consistent even across different market capitalization segments, suggesting that even smaller, less well-known companies that remained in Russia were not immune to strong investor backlash. Some have suggested that companies that draw large proportions of their revenue from Russia might be more hesitant to leave Russia or that these Russian-reliant companies would suffer more financially, yet our research shows that companies that draw upward of 5 percent of revenue from Russia have not differed in total returns from those that draw less.

Even smaller companies that remained in Russia saw investor backlash

Average return from Feb. 23 to April 8.

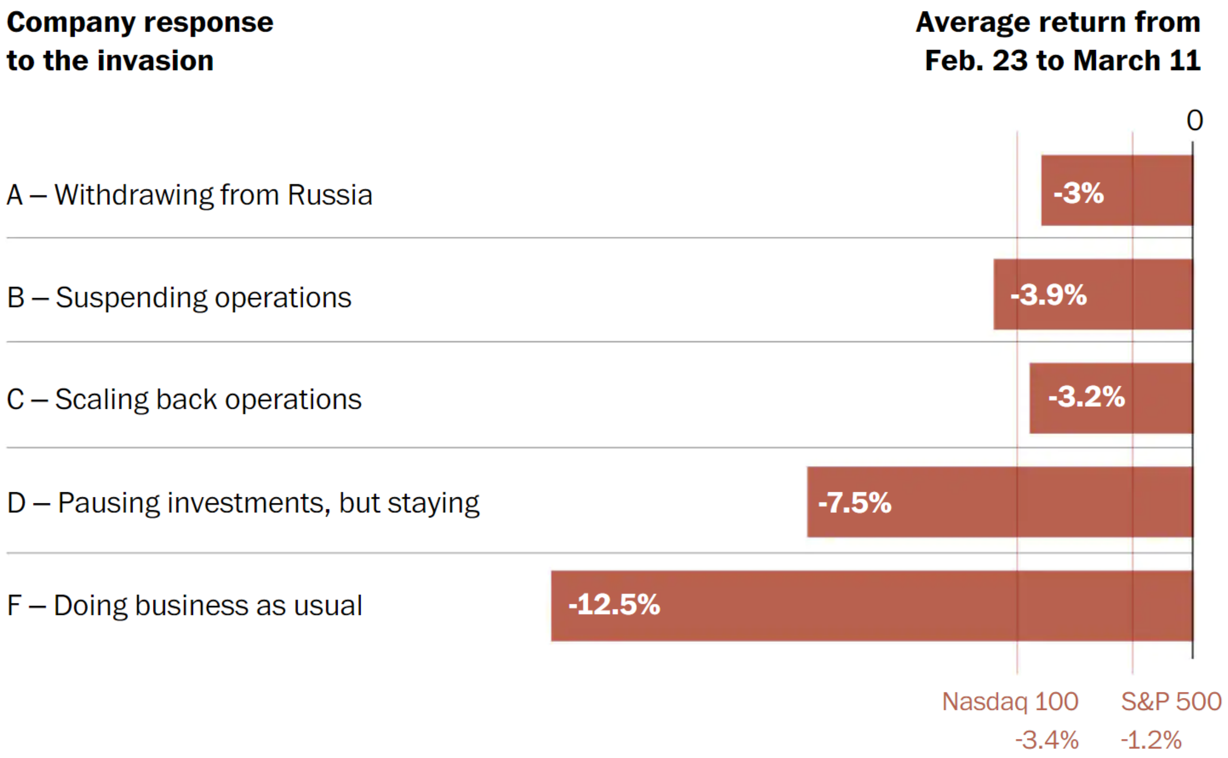
Company size	Response to the war: A – Withdrawing from Russia	Response to the war: F – Doing business as usual
Small cap	+6.5%	-12.2%
Mid cap	-2%	-7.8%
Large cap	+4.2%	-5.3%

Source: Yale Chief Executive Leadership Institute.

THE WASHINGTON POST

Widespread loss in the initial weeks

Market-capitalization-weighted returns.



Source: Yale Chief Executive Leadership Institute.

THE WASHINGTON POST

Indeed, many of the companies that are most reliant on Russian revenue are commodity producers that have been more than offset by rising global commodity prices. For example, ExxonMobil stock has increased by 13 percent since the invasion despite writing off billions in Russian assets and forswearing its profitable Russian operations. Meanwhile, Kinross Gold has gone up by 13 percent even though it exited its investment in the Russian Kupol gold mine, which accounted for 20 percent of its revenue. Even BP, which took a hefty $25 billion hit by writing down its holdings in Rosneft, is in the green.

Thus, contrary to media narratives, when it comes to companies exiting Russia, the focus should not be on their lost revenue or the assets they had to write off. Russian revenue makes up a small percentage of most companies' revenue. And even for the multinational companies that previously drew significant revenue from Russia, investors are clearly much more concerned with the far more important reputational risk of funding the Putin regime and with the potential for large-scale corporate boycotts around the world.

In other words, in the eyes of investors, the far more dangerous financial threat to shareholders is remaining in Russia — not with writing off Russian assets.

Do U.S. Capital Flows to Foreign Rivals Matter? Yes – The Impact of Business Retreats on the Russian Economy

Nine months into the Russian invasion of Ukraine, there remains a startling lack of understanding by many Western policymakers and commentators of the economic dimensions of President Vladimir Putin's invasion and what it has meant for Russia's economic positioning both domestically and globally. Somehow, many well-intending scholars argue that the 1,000 businesses exiting from Russia have not really withdrawn or that their exits are teethless and purely symbolic with no substantive economic impact. They argue that cutting off U.S. capital flows to foreign rivals and adversaries around the world is pointless and that such actions only damage US companies rather than our adversaries. We could not disagree more – and the substantive data strongly supports our case.

Far from being ineffective or disappointing, we found that international sanctions and voluntary business retreats have exerted a devastating effect over Russia's economy. The deteriorating economy has served as a powerful if underappreciated complement to the deteriorating political landscape facing Putin.

That these misunderstandings persist is not entirely surprising given the lack of available economic data. In fact, many of the excessively sanguine Russian economic analyses, forecasts, and projections that have proliferated in recent months share a crucial methodological flaw: These analyses draw most, if not all, of their underlying evidence from periodic economic releases by the Russian government itself. Numbers released by the Kremlin have long been held to be largely if not always credible, but there are certain problems.

First, the Kremlin's economic releases are becoming increasingly cherry-picked—partial and incomplete, selectively tossing out unfavorable metrics. The Russian government has progressively withheld an increasing number of key statistics that, prior to the war, were updated on a monthly basis, including all foreign trade data. Among these are statistics relating to exports and imports, particularly with Europe; oil and gas monthly output data; commodity export quantities; capital inflows and outflows; financial statements of major companies, which used to be released on a mandatory basis by companies themselves; central bank monetary base data; foreign direct investment data; lending and loan origination data; and other data related to the availability of credit. Even Rosaviatsiya, the federal air transport agency, abruptly ceased publishing data on airline and airport passenger volumes.

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Decoding Russian Economic Statistics

Many of the optimistic economic analyses, forecasts, and projections which have proliferated in recent months share a crucial methodological flaw: these analyses draw most, if not all of their underlying evidence from periodic economic releases by the Russian government itself. There are three significant, underappreciated considerations which severely strain the integrity of the Kremlin's statistics since the outset of the invasion. First, the Kremlin's economic releases are becoming increasingly cherry-picked; partial, and incomplete, selectively tossing out unfavorable statistics while keeping favorable statistics.

Sources: Yale Chief Executive Leadership Institute, Bloomberg, Atlantic Council, Russian Federal Service of State Statistics

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Optimistic Forecasts Have It All Wrong with Cherry-Picked Statistics: Drinking From The Fountain of Russian Propaganda

Statistics Withheld By the Kremlin Post-Invasion
All Foreign Trade Data
All Export Data
All Import Data
Oil and Gas Monthly Output Data
Capital Inflows and Outflows
Financial Statements of Major Companies
Central Bank Monetary Base Data
Foreign Direct Investment Data
Airline and Airport Passenger Volumes
Lending and Loan Origination Data

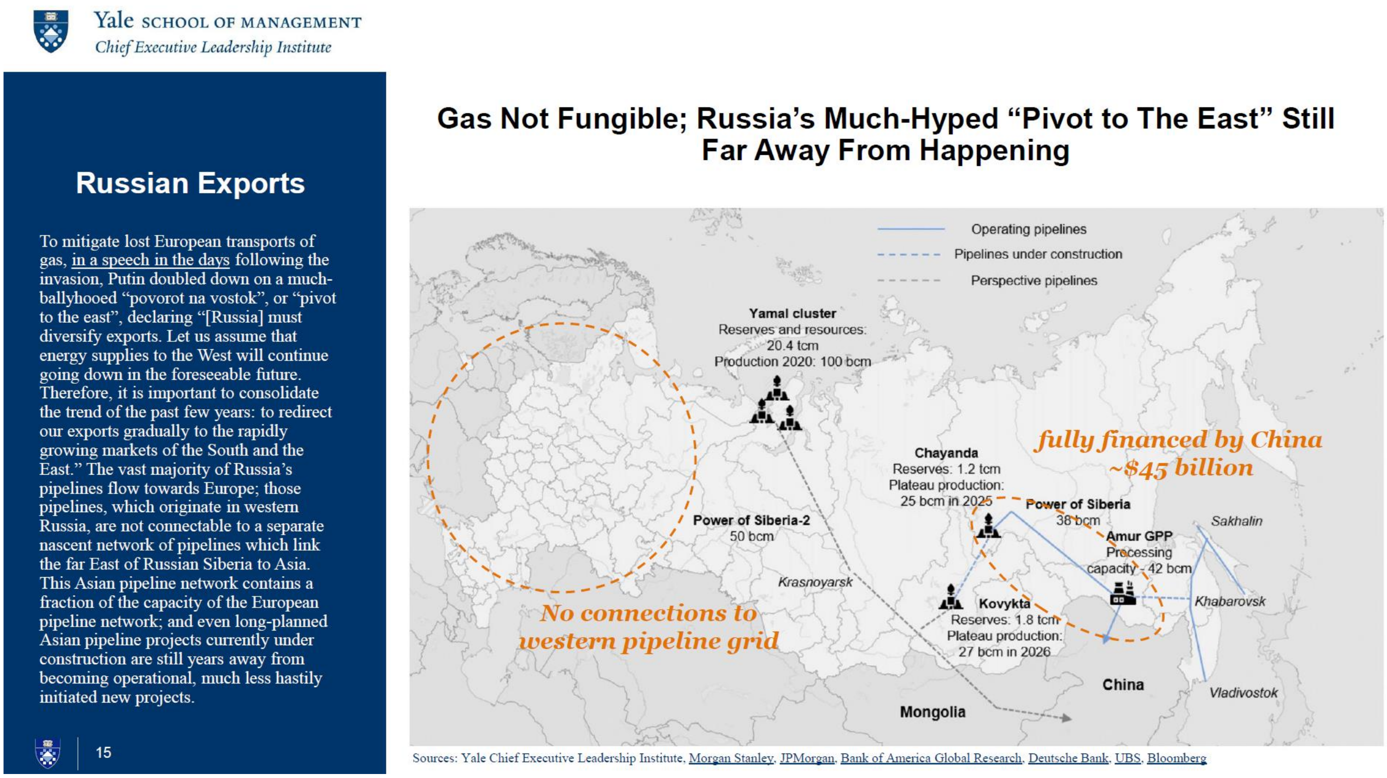
Since the Kremlin stopped releasing updated numbers, constraining the availability of economic data for researchers to draw upon, many excessively rosy economic forecasts have irrationally extrapolated economic releases from the early days of the invasion, when sanctions and the business retreat had not taken full effect. Even those favorable statistics that have been released are dubious, given the political pressure the Kremlin has exerted to corrupt statistical integrity.

Mindful of the dangers of accepting Kremlin statistics at face value, our team of experts, using private Russian-language and direct data sources including high-frequency consumer data, cross-channel checks, releases from Russia's international trade partners, and data mining of complex shipping data, have released one of the first comprehensive economic analyses measuring Russian current economic activity months into the invasion, with contributions from Franek Sokolowski, Michal Wyrebkowski, Mateusz Kasprowicz, Michal Boron, Yash Bhansali, and Ryan Vakil. From our analysis, it becomes clear: Business retreats and sanctions are crushing the Russian economy in the short term and the long term. Based on our research, we are able to challenge nine widely held but misleading myths about Russia's supposed economic resilience.

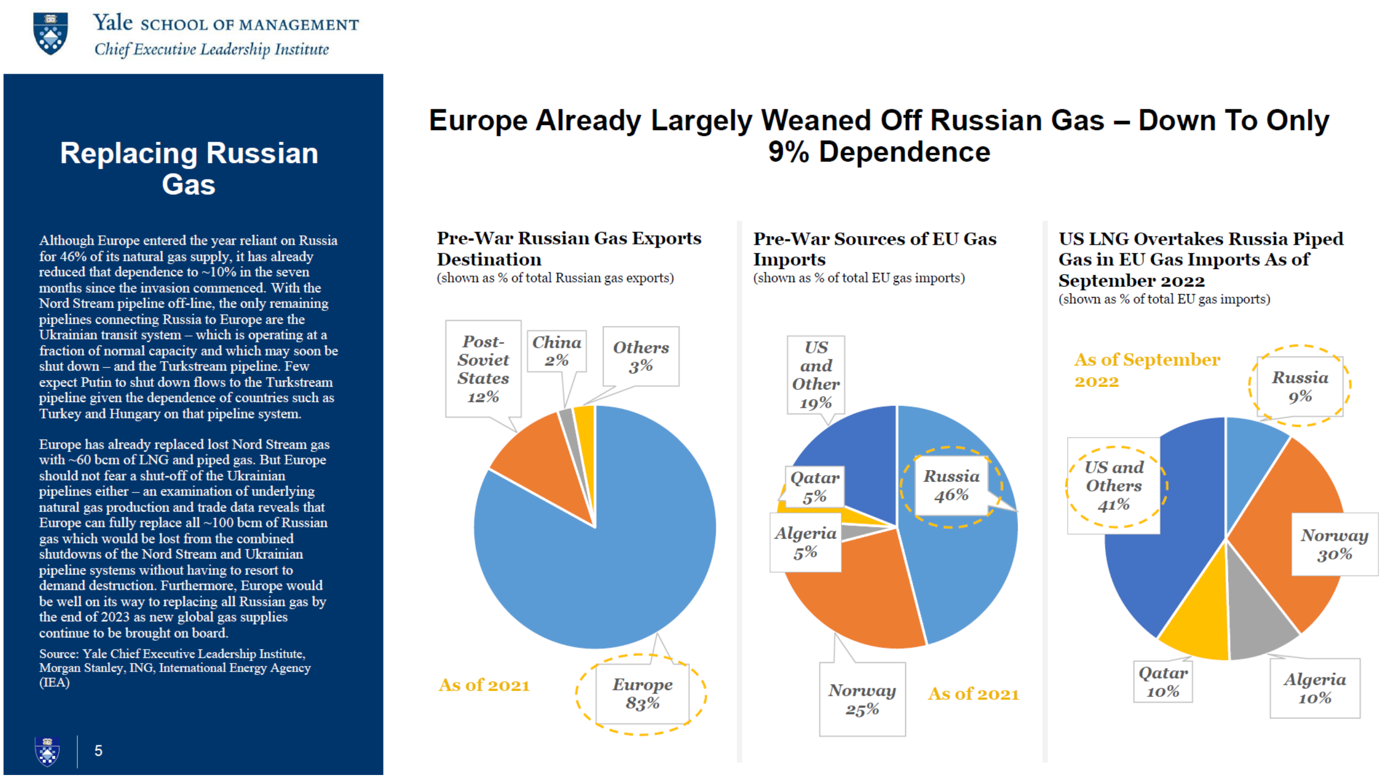
Myth 1: Russia can redirect its gas exports and sell to Asia in lieu of Europe.

This is one of Putin's favorite and most misleading talking points, doubling down on a much-hyped pivot to the east. But natural gas is not a fungible export for Russia. Less than 10 percent of Russia's gas capacity is liquefied natural gas, so Russian gas exports remain reliant on a system of fixed pipelines carrying piped gas. The vast majority of Russia's pipelines flow toward Europe; those pipelines, which originate in western Russia, are not connectable to a separate nascent network of pipelines that link Eastern Siberia to Asia, which contains only 10 percent of the capacity of the European pipeline network. Indeed, the 16.5 billion cubic meters of gas exported by Russia to China last year represented less than 10 percent of the 170 billion cubic meters of natural gas sent by Russia to Europe.

Long-planned Asian pipeline projects currently under construction are still years away from becoming operational, much less hastily initiated new projects, and financing of these costly gas pipeline projects also now puts Russia at a significant disadvantage.



Overall, Russia needs world markets far more than the world needs Russian supplies; Europe received 83 percent of Russian gas exports but drew only 46 percent of its own supply from Russia in 2021. With limited pipeline connectivity to Asia, more Russian gas stays in the ground; indeed, the Russian state energy company Gazprom's published data shows production is already down more than 35 percent year-on-year this month. The EU now sources only 9% of its gas from Russia, down from 46% in 2021, reflecting the permanent loss of European markets for Putin. For all Putin's energy blackmail of Europe, he is doing so at significant financial cost to his own coffers.



Myth 2: Since oil is more fungible than gas, Putin can just sell more to Asia.

Russian oil exports now also reflect Putin's diminished economic and geopolitical clout. Recognizing that Russia has nowhere else to turn, and mindful that they have more purchasing options than Russia has buyers, China and India are driving an unprecedented approximately $35 discount on Russian Urals oil purchases, even though the historical spread has never ranged beyond $5—not even during the 2014 Crimean crisis—and at times Russian oil has actually sold at a premium to Brent and WTI oil. Furthermore, it takes Russian oil tankers an average of 35 days to reach East Asia, versus two to seven days to reach Europe, which is why historically only 39 percent of Russian oil has gone to Asia versus the 53 percent destined for Europe.

This margin pressure is felt keenly by Russia, as it remains a relatively high-cost producer relative to the other major oil producers, with some of the highest break-evens of any producing country. The Russian upstream industry has also long been reliant on Western technology, which combined with the loss of both Russia's erstwhile primary market and Russia's diminished economic clout leads to even the Russian energy ministry revising its projections of long-term oil output downward. There is no doubt that, as many energy experts predicted, Russia is losing its status as an energy superpower, with an irrevocable deterioration in its strategic economic positioning as an erstwhile reliable supplier of commodities.

Myth 3: Russia is making up for lost Western businesses and imports by replacing them with imports from Asia.

Imports play an important role within Russia's domestic economy, consisting of about 20 percent of Russian GDP, and, despite Putin's bellicose delusions of total self-sufficiency, the country needs crucial inputs, parts, and technology from hesitant trade partners. Despite some lingering supply chain leakiness, Russian imports have collapsed by over 50 percent in recent months.

China has not moved into the Russian market to the extent that many feared; in fact, according to the most recent monthly releases from the Chinese General Administration of Customs, Chinese exports to Russia plummeted by more than 50 percent from the start of the year to April, falling from over $8.1 billion monthly to $3.8 billion. Considering China exports seven times as much to the United States than Russia, it appears that even Chinese companies are more concerned about running afoul of U.S. sanctions than of losing marginal positions in the Russian market, reflecting Russia's weak economic hand with its global trade partners.

Myth 4: Russian domestic consumption and consumer health remain strong.

Some of the sectors most dependent on international supply chains have been hit with debilitating inflation around 40-60 percent—on extremely low sales volumes. For example, foreign car sales in Russia fell by an average of 95 percent across major car companies, with sales ground to a complete halt.

Amid supply shortages, soaring prices, and fading consumer sentiment, it is hardly surprising that Russian Purchasing Managers' Index readings—which capture how purchasing managers are viewing the economy—have plunged, particularly for new orders, alongside plunges in consumer spending and retail sales data by around 20 percent year-over-year. Other readings of high-frequency data such as e-commerce sales within Yandex and same-store traffic at retail sites across Moscow reinforce steep declines in consumer spending and sales, no matter what the Kremlin says.

Myth 5: Global businesses have not really pulled out of Russia, and business, capital, and talent flight from Russia are overstated.

Global businesses represent around 12 percent of Russia's workforce (5 million workers), and, as a result of the business retreat, over 1,000 companies representing around 40 percent of Russia's GDP have curtailed operations in the country, reversing three decades' worth of foreign investment and buttressing unprecedented simultaneous capital and talent flight in a mass exodus of 500,000 individuals, many of whom are exactly the highly educated, technically skilled workers Russia cannot afford to lose. Even the mayor of Moscow has acknowledged an expected massive loss of jobs as businesses go through the process of fully exiting.

Myth 6: Putin is running a budget surplus thanks to high energy prices.
Russia is actually on pace to run a budget deficit this year equivalent to 2 percent of GDP, according to its own finance minister—one of the only times the budget has been in deficit in years, despite high energy prices—thanks to Putin's unsustainable spending spree; on top of dramatic increases in military spending, Putin is resorting to patently unsustainable, dramatic fiscal and monetary intervention, including a laundry list of Kremlin pet projects, all of which have contributed to the money supply nearly doubling in Russia since the invasion began. Putin's reckless spending is clearly putting Kremlin finances under strain.

Myth 7: Putin has hundreds of billions of dollars in rainy day funds, so the Kremlin's finances are unlikely to be strained anytime soon.

The most obvious challenge facing Putin's rainy day funds is the fact that of his around $600 billion in foreign exchange reserves, accumulated from years' worth of oil and gas revenues, $300 billion is frozen and out of reach with allied countries across the United States, Europe, and Japan restricting access. There have been some calls to seize this $300 billion to finance the reconstruction of Ukraine.

Putin's remaining foreign exchange reserves are decreasing at an alarming rate, by around $75 billion since the start of the war. Critics point out that official foreign exchange reserves of the central bank technically can only decrease due to international sanctions placed on the central bank, and they suggest that nonsanctioned financial institutions such as Gazprombank could still accumulate such reserves in place of the central bank. While this may be technically true, there is simultaneously no evidence to suggest that Gazprombank is actually accumulating any reserves given sizable strain on its own loan book.

Furthermore, although the finance ministry had planned to reinstate a long-standing Russian budgetary rule that surplus revenue from oil and gas sales should be channeled into the sovereign wealth fund, Putin axed this proposal as well as accompanying guidelines directing how and where the National Wealth Fund can be spent—as Finance Minister Anton Siluanov floated the idea of withdrawing funds from the National Wealth Fund equivalent to a third of the entire fund to pay for this deficit this year. If Russia is running a budget deficit requiring the drawdown of a third of its sovereign wealth fund when oil and gas revenues are still relatively strong, all signs indicate a Kremlin that may be running out of money much faster than conventionally appreciated.

Myth 8: The ruble is the world's strongest-performing currency this year.

One of Putin's favorite propaganda talking points, the appreciation of the ruble is an artificial reflection of unprecedented, draconian capital control—which rank among the most restrictive of any in the world. The restrictions make it effectively impossible for any Russian to legally purchase dollars or even access a majority of their dollar deposits, while artificially inflating demand through forced purchases by major exporters—all of which remain largely in place today.

The official exchange rate is misleading, anyhow, as the ruble is, unsurprisingly, trading at dramatically diminished volumes compared to before the invasion on low liquidity. By many reports, much of this erstwhile trading has migrated to unofficial ruble black markets. Even the Bank of Russia has admitted that the exchange rate is a reflection more of government policies and a blunt expression of the country's trade balance rather than freely tradeable liquid foreign exchange markets.

Myth 9: The implementation of sanctions and business retreats are now largely done, and no more economic pressure is needed.

Russia's economy has been severely damaged, but the business retreats and sanctions applied against Russia are incomplete. Even with the deterioration in Russia's exports positioning, it continues to draw too much oil and gas revenue from the sanctions carveout, which sustains Putin's extravagant domestic spending and obfuscates structural economic weaknesses. The Kyiv School of Economics and Yermak-McFaul International Working Group have led the way in proposing additional sanctions measures across individual sanctions, energy sanctions, and financial sanctions, led by former U.S. Ambassador to Russia Michael McFaul and the experts Tymofiy Mylovanov, Nataliia Shapoval, and Andriy Boytsun. Looking ahead, there is no path out of economic oblivion for Russia as long as the allied countries remain unified in maintaining and increasing sanctions pressure against Russia.

Of course, there are genuine challenges which remain. For example, some cheating on aviation parts continues to allow aerospace parts to trickle into Russia – as we've demonstrated with granular Russian flight data, with Asian airlines and European aerospace companies gaming the system to evade sanctions to the detriment of U.S. companies. Even more concerning is active Saudi collusion with Russia in driving oil prices up by withholding OPEC+ oil supply and aiding Russia, even though Saudi Arabia is a huge beneficiary of US largesse with unparalleled transfers of sensitive technologies and weapons systems. But despite some inevitable challenges, on the whole, the large-scale retreat of businesses from Russia is clearly crippling the Russian economy.

Conclusion – U.S. Capital Flows to Foreign Rivals Can Be A Game Changer – For Better Or For Worse

As we've explained above, the unprecedented exits of 1,000 major global businesses from Russia practically overnight – and the devastating impact this has had on the Russian economy – clearly show the unmatched power of U.S. capital flows and U.S. private sector investment – for better or for worse.

While often overlooked by policymakers, U.S. private investment and capital flows are unmatched structural advantages which the U.S. enjoys, and which no other country can compare to. The U.S. retains the largest and deepest pools of capital, with complex capital markets that allow for private sector investment at unique levels of scale. But it is not only the amount of money that allows for U.S. private sector investment to exert significant influence on the global economy. It is also the know-how, technological edge, management prowess, and integration into global markets that accompany U.S. capital and private investment.

These advantages have been used by foreign countries to great benefit over the last several decades, with rapid economic growth and technological development in not only countries which are strategic competitors, but also in allied countries which have been the beneficiaries of U.S. investment. However, as the implosion of the Russian economy demonstrates, the withdrawing of U.S. capital flows and private sector investment can likewise cripple countries that are no longer favored by U.S. private investment.

The importance of U.S. capital flows and private sector investment is still under-appreciated and often mis-understood by policymakers, national security professionals, scholars, and media commentators. But as a driver – or conversely, when withheld, as a constraint – of economic growth, there are few factors which rival U.S. private investment in magnitude of importance.