

Responsible Exit Dilemmas under Sanctions: Multinationals' Divestment Complexities in Myanmar

ABSTRACT

This study is centered around the context of current sanctions against the Myanmar military junta in response to the human rights abuses and the resulting implications of the coup for multinational enterprises (MNEs). We provide a rich qualitative analysis of MNEs' strategic choices under sanctions and institutional pressures in Myanmar, a context that received sparse consideration in international management studies. We contribute to institutional theory by introducing a nuanced taxonomy of strategic choices for MNEs operations under sanctions in response to formal and informal institutional pressures. Specifically, we draw attention to the ethical dilemma faced by MNEs and whether their exits are done responsibly or irresponsibly. We also provide evidence that MNEs can succumb to informal stakeholder pressures by exiting voluntarily, even in the absence of regulatory enforcement. We find that the exits are not always 'clear-cut' and even when MNEs exit voluntarily, they can do it irresponsibly, harming human rights and leaving the assets in the hands of unethical buyers or the military. Our study has significant implications for policy and human rights activism.

Keywords:

Sanctions; exit; divestment; multinational enterprises; Myanmar; social responsibility; ethical dilemma; institutions; human rights; activism

Introduction

Multinational enterprises (MNEs) are invariably tied to formal and informal country institutions, including governments. Institutions impose coercive regulatory constraints and less formal normative and cultural-cognitive pressures on MNEs (Scott, 2005). The literature is relatively rich on how home, as well as host country institutions, influence investment climate as location or localization advantages and act as pressures or enablers for MNEs (Estrin et al., 2016; Hartman et al., 2003; Marano et al., 2016). Research dedicated less attention to the roles of international and supranational institutions in influencing MNE decision-making. It is inevitable that MNEs consider stakeholder expectations when they face potential financial and reputational damage that could affect shareholder wealth or when it represents a good marketing move (Beddewela & Fairbrass, 2016; Berg et al., 2018; Yang & Rivers, 2009). These informal institutional pressures in the form of home, host, international, and supranational stakeholders that influence MNEs are becoming an increasingly important phenomenon in the context of international sanctions (Pajuste & Toniolo, 2022; Surroca et al., 2013). Their pressure is particularly relevant in host countries that pursue policies that violate widely held ethical norms and are thus faced with international sanctions. Researchers in political economy and international business policy have debated the efficacy of such sanctions in achieving their political goals (Drury, 1998; Felbermayr et al., 2021; Peksen, 2019b). To date, however, there is limited research on MNEs' strategic choices under pressure from the formal and informal institutions including stakeholder accountability.

We expand our study of politically turbulent markets by looking at factors that increase or decrease MNEs' presence and by answering the following research question: *“What are the strategic exit dilemmas that MNEs face under sanctioned regimes? How are these choices influenced by home-host country institutions' interactions and MNEs' social responsibility?”* Our strategic choice analysis highlights the impact of risks on strategic choices and dilemmas

over different periods for MNEs, which face political risks, especially when firms from countries with weaker institutions interact with countries with strong institutions. While the decision to sell has risks and costs, MNEs more sensitive to political tensions may choose to do so. If policymakers want to preserve foreign direct investments (FDI), it is crucial to understand the behavior of MNEs to develop measures to prevent exit and protect jobs, business activities and technological learning associated with FDI. From a business perspective, it is essential to identify the drivers of divestment that sometimes make an exit inevitable.

In our study, we focus on the case of MNEs' strategic choices in and exits from Myanmar following the military junta takeover in February 2021. It is specifically interesting for several reasons. We provide a rich qualitative analysis of MNEs in Myanmar and their strategic choices under sanctions and institutional pressure – a context that received sparse consideration in the international business literature. This sanctioned regime is different from the more comprehensive sanctions imposed on countries including Iran and North Korea. Even though the sanctions are selective against some organizations and individuals, MNEs nonetheless are significantly affected by the political and economic tensions post the military takeover. This brings forth the impetus of studying the acute intersection of political risk and sanctions and their effects on MNE strategic choices. Second, Myanmar is a small market with a limited number of Western MNEs making regulatory sanctions less effective compounded by the fact that only a very small number of governments have imposed targeted sanctions on Myanmar following the 2021 military coup. Furthermore, while regulatory sanctions are neither imposed nor far-reaching, we observe that *informal pressures from civil society organizations have gained traction, influencing MNEs' strategic choices*. These calls are premised on human rights responsibility that imposes ethical dilemmas for MNEs' decision-making. These dilemmas may not end with decisions to exit from Myanmar because there are

pressures on exiting MNEs to do so responsibly. The informal pressures are becoming an increasingly important area of research as we move further into recognition and implementation of the highest social and environmental standards within countries and organizations alike.

Hence, our study's aims are two-fold. We offer insight into why MNEs respond not only to formal/regulatory sanctions but also to informal pressures. Besides, we raise the academic debate about MNEs' responsible exits from the host country under the sanctioned regime. This study contributes to the extant literature in several ways. First, we offer a consolidative framework of formal and informal pressures faced by MNEs in Myanmar following the 2021 military coup and the resultant strategic choices MNEs made in the context of sanctions – real or perceived. Second, we offer a detailed investigation of the previously under-researched role of informal institutional pressures in sanctioned regimes. Third, we offer an in-depth analysis of the demands placed on exiting MNEs to exit responsibly and the strategic choices the MNEs made amid accusations of irresponsible exits. Finally, this study is unique in delineating an understudied context from other sanctioned regimes, thus highlighting varieties of sanctioned regimes.

The structure of the paper is as follows. The next section provides a review of the available literature covering strategic choices of MNEs in sanctioned regimes as well as the relationship of institutional pressures with the proffered set of strategic choices of MNEs in sanctioned regimes. Following the literature review, we provide the data collection and analysis outline. The fourth section presents and discusses the findings. Finally, the paper concludes with a reflection on the contribution to theory and practice as well as the implications of the findings for future discussion on the impact of institutional and stakeholder pressures on the MNEs' responsible strategic choices under sanctioned regimes.

Sanctions, Institutions, and Strategic Choices of MNEs

Globalization and the increasing responsibility of society to protect human rights, national security interests, international law and norms, as well as upholding international peace have made it necessary to integrate the experience and activity of governmental and non-governmental organizations into international politics. While sanctions are often criticized for their counterproductive effects, they can be a tool to force political concessions, reinforce international norms, and promote peace (Bapat & Kwon, 2015). Sanctions between nation-states are often seen as a negotiating tool and, therefore, as an alternative to military intervention (Stępień & Weber, 2019). Sanctions are generally aimed at causing a political change in a targeted state (Doxey, 1987) or deterring other agents such as organizations from creating a threat to the security of other nations or agents (Alon et al., 2021; Drezner, 2021).

Consequently, research on international sanctions is focused on how to make them more effective. If, at the initial stage of the study of sanctions, their efficacy was generally assessed as unfavorable, then later scholars turned their attention to the conditions for success and possible ways to circumvent negative consequences (Aloosh et al., 2019; Eriksson, 2010; Kazantsev, 2017; Peksen, 2019a). Sanctions are more likely to be effective if they are aimed at achieving moderate political change, the target state is an ally of the states that initiated the sanctions (Kern, 2009), sanctions have been applied in a complex manner, or they primarily affect local elites (Mulder, 2022). The effectiveness of sanctions depends on whether the states applying the sanctions can deter their domestic actors from trading with the target. When economic exchange with purpose is vital to firms in sending countries, they are more likely to evade restrictive measures. This means that sanctions are more likely to be effective when trade links are of moderate importance to both economies (Bapat & Kwon, 2015; Stępień & Weber, 2019).

However, recent literature has expanded from economic coercion to a more complex set of potentially interrelated goals, including punishing the victim for their actions without necessarily intending to bring about change, deterring perceived undesirable behavior, limiting the victim's ability to engage in prohibited activities, or signaling the target or some other relevant groups about behavioral norms (Baldwin, 2020; Cortright & Lopez, 2000; Hufbauer et al., 1990; Nooruddin, 2002; Pape, 1997). The uncertainty created by the imposition of sanctions relates both to the nature and extent of the impact of sanctions on the company's activities and the duration and development of the sanctions dispute. It affects all companies maintaining (or planning) business relations with the target country. The perception of uncertainty and the corresponding strategic choices can vary across companies. MNEs, for example, can be more involved in imposing sanctions (and in closer contact with politicians) so that they can better anticipate whether they will eventually be targeted and how they should respond to sanctions.

The impact of sanctions on MNEs' activities is determined by how companies perceive the uncertainty and risk associated with restrictive measures. Uncertainty concerns both the nature and extent of the impact of sanctions on the MNEs' performance (due to the general economic downturn) and the duration and development of the sanctions dispute – and affects the business relations of all companies with the target country, regardless of whether the company fell under sanctions directly or not (Weber & Stępień, 2020b). The imposed sanctions increase the risk perception of global investors and reduce global FDI flows. Stępień & Weber (2019) transfer this argument to MNEs in sending countries: the increased risk for global investors when a country imposes sanctions is equal to the increased risk for all domestic economic actors in the sending state when only sectoral sanctions are imposed. Thus, due to increased uncertainty and political risk, MNEs operating under the sanctioned regime must pay a risk premium in economic interaction, even for activities not directly subject to the sanctions.

In addition, sanctions can indirectly affect firms when their trade and supply chain partners or financial institutions are targeted. Sanctions then create market friction and increase the administrative costs of verifying compliance.

Strategic choices of MNEs in sanctioned regimes: Review search strategy and outcomes

We reviewed reliable sources in order to provide the most comprehensive understanding of the strategic choices of MNEs in sanctioned regimes. The most prominent and reliable scientific publications end up in large academic databases, with Elsevier's Scopus being the most extensive database that offers structured and extractable datasets (Elsevier, 2022; Harzing & Alakangas, 2016). Scopus has major overlaps with the second largest extractable database – Clarivate's Web of Science, and it is common practice to choose one or the other to conduct literature reviews (Klarin et al., 2021). We thus extracted all available publications from Scopus with the following Boolean logic search criteria: (i) *sanction* AND (ii) business* OR organisation* OR organization* OR firm* OR compan* OR ventur* OR entrepreneur* OR enterprise* OR franchise* OR corporation* OR multinational* OR conglomerate* AND (iii) economic OR political OR diplomatic OR asset OR arms OR travel OR "united nations" OR un OR autonomous OR import OR export OR trade OR international OR multinational OR transnational OR cross-border OR investment OR nation* OR global AND (iv) strateg**. In total we extracted 780 documents as of 26/09/2022 that have the term (i) *sanction(s/ed/ing/etc.)*, with (ii) *business* and its related terms, also with the (iii) types of *sanctions*, and (iv) mentioning the term *strateg(y/ies/ic, etc.)*. We read through all 780 publications to extract only those that provided at least one of the strategic choices of firms and policymakers in countries under sanctions or under a threat of sanctions. Altogether we ended up with a comprehensive dataset of 98 publications that refer to strategies available to firms or policymakers under sanctioned regimes.

Based on the list of strategies for all firms and policymakers, 28 studies depicted strategic choices of foreign MNEs in sanctioned countries, mainly Russia, Iran, South Africa, and Myanmar. After a careful evaluation of all depicted strategies in the available literature (Gurkov & Saidov, 2021; Kotov, 2022; Meyer & Thein, 2014; Weber & Stępień, 2020a), we are thus in a unique position to offer an integrative model of strategic choices for foreign firms in sanctioned regimes, Figure 1.

Insert Figure 1 about here

The first subset of strategies, referred to as *nonconformance*, proposes that MNEs remain in the sanctioned country with either no reduction of activity or an actual increase in activity. This supports the fact that there are MNEs still in Russia post the 2022 war with Ukraine despite the world condemnation and most companies curtailing operations in the country (Lau, 2022). In terms of increased activities, some MNEs find opportunities amidst sanctions and increase or enter sanctioned regimes (Trofimova, 2018; Weber & Stępień, 2020a) such as the case of some companies entering Russia in 2022, for example, a Chinese fashion brand Li-Ning that sees an opportunity in the Russian market for inexpensive and trendy apparel lines amidst an exodus of a number of Western fashion MNEs (Liu, 2022). Further, some companies simply choose to remain within the country with no significant changes to operations. These companies tend to have highly localized supply chains and minimum exposure to foreign borrowed capital to withstand non-convertibility and fluctuations in exchange rates (Spitsin et al., 2020).

MNEs finding *alternative arrangements* is often exhibited in multinationals evading sanctions utilizing such strategies as friend shoring, using third-country sourcing of required resources or as export destinations. The alternative arrangement strategy may result in reduced activities or no significant changes to the size of multinationals (Bravo, 2020). This strategy

stems from broader strategic literature on responses to institutional processes and institutional maintenance in the face of coercive reforms (Micelotta & Washington, 2013; Oliver, 1991; Xiao & Klarin, 2021). For example, Abramova & Garanina (2018) find that oil and gas and information technology companies ought to develop relational competencies, especially with friendly countries (mainly Asia), to reduce exposure to countries that impose sanctions. It also requires extensive import substitution to decrease overreliance on sanctioning countries (Gurkov & Saidov, 2021; Klarin & Ray, 2021; Spitsin et al., 2020). Finally, compromise reduction of activities refers to winding down some operations, partial sell-off, reduction in workforce, and freezing investments at full or limited capacities (Weber & Stepień, 2020a). As such, MNEs that choose to remain in a sanctioned regime are often barred from further investments and are forced to adopt ‘low profile strategies’ that comply with sanctions but yet remain in the country and stay out of the ‘spotlight’ thus reducing exposure to the stakeholder and regulative pressures (Meyer & Thein, 2014).

The final subset of strategies is *divestment* from a sanctioned regime. The literature suggests divestments occur due to regulative or wider stakeholder pressures. Wider stakeholder or societal pressures, including non-governmental organizations (NGOs), interest groups, customers, and society in general, apply pressure on organizations to divest or stop activities in sanctioned regimes. For example, Hunt et al. (2017) found that MNE divestment from South Africa took place based on anti-Apartheid campaigns in the late 1970s to 1990s and fossil fuel campaigns since 2012, both actions falling under social responsibility and are reputation-based. Regarding regulative interference, it is demonstrated through laws and regulations aimed at preventing activities with or in a sanctioned regime, such as US and EU ban on commercial activities with Iran and the ensuing countersanctions imposed by Iran (Hufbauer & Jung, 2020).

Institutional pressures under sanctioned regimes in responsible decision-making

The institutional theory explains how social orders are created, and whilst the ‘old institutionalism’ dating back to the 19th century emphasizes history and habit or moral pressures in social construction, the ‘new institutionalism’ offers ‘coercive, normative, and mimetic’ processes of social construction (DiMaggio & Powell, 1983) thus emphasizing mental maps and symbolic systems that guide behavior (DiMaggio & Powell, 1991; Jepperson, 1991). Institutions are typically defined as the rules of the game and the mechanism for enforcing them (North, 1992). In the international business context, they are defined as a set of variables that influence the performance of MNEs (Peng et al., 2008; Smallbone & Welter, 2012). They were primarily analyzed for host countries, especially developing ones, which restrict the activities of foreign participants through institutional gaps (Kim & Song, 2017; McCarthy & Puffer, 2016), high transaction costs (Meyer et al., 2009), weak protection of intellectual property rights (Sweet & Eterovic Maggio, 2015) or a high level of uncertainty (Yu et al., 2018). Companies respond to unfavorable institutions by either staying out of the relevant markets, adapting their organizational forms, or building competencies to overcome these particular institutional constraints (Cavusgil et al., 2021). Accordingly, businesses face disparities in institutions in origin and host countries as a barrier that increases the cost of doing business and also creates some opportunities for institutional arbitrage (Bruno et al., 2022).

Scott (2001) developed the theory further. He offered a split of institutions into formal and informal, where formal ones are regulative and created by governments, ministries, supranational agencies, and other authorized bodies enforced through laws and regulations. In contrast, informal institutions are further divided into normative and cultural-cognitive (Scott, 2005, 2008a). Normative institutions rest upon values and norms, where norms specify ‘appropriate ways’ to pursue goals and objectives. In contrast, values are conceptions of preferred or desirable together with the construction of standards (Scott, 2008b, p. 64). The

cultural-cognitive institutional pillar is the defining feature of neo-institutionalism. It emphasizes shared conceptions constituting the nature of social reality and creating frames through which meaning is derived, in which external cultural frameworks guide agents' interpretive processes (Scott, 2008b, p. 67).

In this study, we demonstrate how formal and informal institutional pressures affect MNE operations in sanctioned regimes, see Figure 2. We do note that there are undoubtedly other inter- and intra-organizational pressures that affect the operations of MNEs in foreign countries, including competition, resources, financial, demand, supporting and related industries, and others; however, for this paper, we only consider sanction-related pressures that are rooted in the institutional pressures.

Insert Figure 2 about here

In summary, existing research predominately focuses on strategic choices of local and foreign firms in sanctioned regimes as well as commercial and political risks MNEs face after the implementation of international sanctions. However, upon further analysis, it becomes evident that the current literature is very limited in the discussion of *ethical dilemmas* that MNEs have to deal with during or whilst contemplating to exit from targeted regimes. These dilemmas include but are not limited to the welfare of employees, data protection, provision of essential goods and services, and transferring assets to sanctioned governments or agents. Some of this limited research includes di Norcia (1989) and Paul (1989), which discussed corporate social monitoring that was devised in the 1970s, where Sullivan principles were formulated to guide American companies that refused to exit due to their social and moral obligations in South Africa. Specific attention must be given to this issue in the contemporary academic debate taking into account idiosyncratic institutional environments in a variety of sanctioned

countries (e.g., Iran, Russia, Venezuela, North Korea, Cuba, and Myanmar), as well as a multitude of businesses that operate in them.

Methodology

We utilized an inductive multiple case study methodology (Eisenhardt, 1989; Yin, 2018) to derive theoretical insights from this relatively unexplored area of research. The inductive case study approach allows for exploratory analysis of phenomena and events that are scarce in existing research to build theory from the ground up. Multiple case studies provide an excellent opportunity to compare and contrast different cases thus allowing for triangulation and augmentation of the external validity of the findings (Eisenhardt, 1989; Miles & Huberman, 1994; Yin, 2009).

Furthermore, the two cases we selected to analyze in this study represent a range of different characteristics – industry sector, country of origin, market potential, the timing of exits, formal and informal pressures they face, responsible/irresponsible exits, etc., in order to provide a balanced contextual analysis, which is more generalizable. This also enables the development of insights that are more nuanced and multi-faceted. Each of the case studies is briefly introduced next.

Telenor Myanmar was a subsidiary of the Norwegian government's Telenor Group and was considered one of the leading telecommunication services providers in Myanmar. Telecommunications is undoubtedly a strategic and sensitive sector to the government of Myanmar. The industry is also capital-intensive.

Kirin Holding (Japan) and the military-owned conglomerate **Myanma Economic Holdings Limited (MEHL)** formed a **joint venture** in 2015 thus taking control of Myanmar Brewery and Mandalay Brewery which supplied the vast majority of beer in Myanmar. The beer market is a lucrative fast-growing enterprise in Myanmar.

Data collection and analysis

The authors gathered data from a variety of sources including personal first-hand observations, meetings, interviews, commentaries, and the activism social responsibility domain of Myanmar context. Interviews, meetings, focus groups, and email communications were performed by one of the authors on Myanmar's context since the first phase of sanctions on the country in 1997. The data sources include interviews, meetings, and other communications, such as emails with MNEs, activists, advocacy groups, governmental departments, and politicians. The several-decade-deep longitudinal understanding of one of the authors' involvements in the corporate social responsibility domain in Myanmar has helped with a further appreciation of the situation MNEs were faced with when the coup occurred in 2021. The first-hand data is consolidated by secondary data including government reports, other gray literature including NGO and supranational organizational reports, as well as media coverage. The multiplicity of data sources allows us to carry out an iterative cross-check process to deliver triangulated and robust findings.

Our study followed the following stages of data analysis with each stage guiding the subsequent stages. We first studied international sanctions so far imposed on Myanmar, see Appendix 1. We then identified a total sample of 31 MNEs that have chosen to withdraw from Myanmar following the 2021 coup, see Table 1. Through several rounds of discussions and debates, the authors were able to deconstruct the courses of action of MNEs to analyze responsible exit dilemmas that MNEs faced and thus provide a less researched case of complexities of responsible business conduct in sanctioned regimes.

Insert Table 1 about here

MNEs' Strategic Responses to Institutional Pressures in Myanmar Context

First, we compiled a chronological list of targeted sanctions imposed on the Myanmar military involving the governments who have imposed these sanctions and the summary of the contents of the sanctions (see Appendix 1). Targeted sanctions – on individuals, businesses, and military-owned conglomerates – have been imposed solely by the Western governments (e.g., the United States, the United Kingdom, the European Union, Canada, New Zealand, and Denmark).

Second, we investigated the 31 companies which have exited Myanmar, we identified and verified the home country of origin and compared it with the governments that have sanctioned targeted entities in Myanmar (Table 1). As shown in Table 1, only two companies' exits were the direct result of the regulatory sanctions while another two could be the indirect result of the regulatory sanctions or threat of it. The large majority of exits occurred not because of sanctions, but could be because of informal pressures exerted by stakeholder groups in the MNEs' home and host countries.

Third, we then selected two company cases (Table 2 shows the firm-specific characteristics of these six selected companies).

 Insert Table 2 about here

After being able to identify only two companies (out of 31 in total) that have withdrawn because of regulatory pressures (sanctions), we embarked on exploring the informal factors that have caused the rest to withdraw.

We began with an identification of pressures MNEs faced in calls not to provide revenues to the military. We traced the timeline to identify the calls from various parties and how the companies responded.

We triangulate and start with company announcements, news reports, and activists' reports (Justice for Myanmar; Myanmar Now being the two most significant sources). This process is important in enhancing accuracy. We tracked stakeholders' pressures leading to exits. We cannot be certain. We analyze this against firm and industry firm-specific factors. These processes enabled us to ascertain how voluntary the exit was – plotting from voluntary to semi-voluntary on a continuum/scale.

We have selected two contrasting cases for the study to show the different nature of impact by both formal and informal institutions influencing MNEs' decisions to exit Myanmar, plus the aftermaths the firms faced regarding being called out as irresponsible exits.

Regulatory sanctions: Telenor

We analyzed the formal and informal forces influencing Telenor Myanmar's exit. Telenor Myanmar (TM) went through stages of exiting from Myanmar. First, in May 2021, Telenor wrote off the total value of its Myanmar operation, which was worth US\$782 million. Second, Telenor Myanmar announced, in July 2021 (nearly five months after the military coup), its decision to exit Myanmar citing the worsening human rights situation and the lack of security in the country, as cited in the statement from Telenor, "*we remain committed to complying with the OECD's guidelines for multinational companies, as well as the UN's guiding principles for business and human rights. This also corresponds well with our own values and standards. We did however arrive at the sad conclusion that it is no longer possible to adhere to these principles, keep our employees safe and at the same time remain as an operator in Myanmar. This makes our continued presence in Myanmar untenable.*" If Telenor Myanmar were forced to activate the interception program, it would

breach the Norwegian and the EU sanctions. Therefore, TM decided to exit Myanmar to avoid having to breach sanctions.

Norway aligns itself with the EU Global Human Rights Sanctions Regime and its restrictive measures. Therefore, Telenor Myanmar fell under the EU sanctions regime. In addition to regulatory sanctions, Telenor Myanmar faced both formal and informal institutional ‘threats’ from both home and host countries, as shown in Figure 3.

Insert Figure 3 about here

Formal versus informal pressures: Telenor’s exit from Myanmar was due to its desire to avoid breaching the European sanctions if the company had to activate the interception surveillance program responding to pressure from the Myanmar junta. This decision was a response to the EU regulatory sanctions. In addition to regulatory pressures, Telenor was also targeted by pro-democracy campaigners and advocacy groups, with many calling for the Norwegian government to intervene, given that Telenor is a state-owned company.

Ethical dilemma: The Myanmar crisis presented TM with an ethical dilemma. On the one hand, whether to stay put and provide much-needed internet service to the users – an essential service mainly because the anti-coup movement is entirely dependent on social media and internet connectivity. On the other hand, potentially having to give in to the military pressure to install intercept surveillance technology would break the EU Global Human Rights Sanctions Regime and its restrictive measures against Myanmar. Even without this potential scenario, continuing to operate in Myanmar in a climate where the junta’s human rights abuses were rampant and drawing international condemnation would have posed a conflict with Telenor’s commitment to respecting human rights.

Irresponsible exit: TM's involvement in Myanmar did not end with its decision to withdraw. It has been mired in criticism from home and host stakeholders regarding the buyers' integrity (and human rights track record). Telenor Myanmar was sold at a big loss to a local conglomerate called Shwe Byain Phyu (which has a longstanding and close relationship with top generals, both past and current serving members in the junta), holding a majority stake, and the Lebanon-based group, M1 Group, which has a history of working in countries ruled by the brutal regimes in Yemen, Syria, Sudan and Lebanon. There is a concern that the new buyers, under duress, could agree to install intercept surveillance technology that invades users' private communications and also give in to demands to reveal customer data and history of usage, given dissidents inside Myanmar solely rely on social media to promote the anti-coup movement. In these regards, Telenor Myanmar's exit from Myanmar raised the question of potential complicity to the Myanmar military's human rights abuses.

While Telenor Group did not directly breach the EU sanctions by selling to Shwe Byain Phyu and the M1 Group, Telenor Group is accused of potentially **aiding and abetting the buyers to violate the EU sanctions** on Myanmar. Justice for Myanmar (a highly regarded advocacy group) claimed that *"the sale involves M1 Group entities in Cyprus and the Cayman Islands, subject to EU and UK sanctions that prohibit the transfer and operation of surveillance technology."* (Justice for Myanmar, March 22, 2022)

How did Telenor aid and abet the M1 Group to violate the EU sanctions on Myanmar? According to claims made by Justice for Myanmar, Telenor Myanmar executives were thought to be aware of the buyer's intention to activate the interception Telenor Group installed in Myanmar. This technology was left in Myanmar when the sale was completed. Activation of this interception technology will breach the EU and UK sanctions on Myanmar and the Justice for Myanmar, therefore, *"contends that Telenor Group has constructive knowledge that the Telenor Myanmar sale will result in breaches of EU and UK sanctions by*

MI Group. Telenor Group is aiding and abetting MI Group's imminent sanctions violations." (Justice for Myanmar, March 22, 2022)

Telenor's exit is called out as *irresponsible* for the following reasons. First, the sale's impact on the security of Telenor Myanmar's customers: if the new buyer succumbs to the junta's pressure to reveal customers' data and usage history and also to activate the interception technology, that would endanger the 18 million users inside Myanmar. Justice For Myanmar spokesperson Yadanar Maung says, "*Telenor Group and MI Group are continuing to show an appalling disregard for the law and for the lives of Myanmar people...the sale of Telenor's Myanmar business to Shwe Byain Phyu and MI Group will put millions at risk and embolden the military junta, which is a terrorist organisation.*"

Second, there is evidence of Telenor's apparent recognition of the military coup government: that Telenor sought and received approval from the military coup government to execute the sale has meant that, according to the Justice of Myanmar, "*Telenor has already provided de-facto recognition to the illegitimate junta in seeking regulatory approval.*"

The irony is that Telenor's exit (to avoid breach of sanctions) has made the human rights situation in Myanmar potentially get worse (due to the concerns regarding the new buyer's integrity). Telenor's situation was unlike that of other foreign investors who were pressured to exit because of human rights concerns owing to TM's excellent reputation with its customers and the nature of the sensitive and strategic industry of the telecommunication sector. The anti-coup movement wanted Telenor to stay in Myanmar because TM was considered the most trustworthy of all telecommunication providers at the time.

While Telenor was not in direct breach of sanctions, its irresponsible exit was due to allegations that it aided and abetted the buyer in violating the EU sanctions. This shows that the sanctions regimes are complex, and MNEs can find themselves in a situation where they

are indirectly involved in sanctions violations. It also shows that the decision to exit is not the end in itself because the aftermath of exits can be messy, and the MNE's reputation is at stake even if it has made the right decision in calling it quit.

Voluntary exit: Kirin beer

Kirin entered Myanmar at the start of the democratic era in 2015. Seizing the opportunity to enter what was termed the last frontier of the Asia Pacific region and also to help build the nation, Kirin entered Myanmar. It formed a joint venture with a military-owned conglomerate MEHL, one of the two entities that have come under fire since the United Nations publication entitled "Economic Interests of the Military" by the United Nations Fact-Finding Mission Report (UNFFM).

Kirin, with its top-selling Myanmar Beer brand, ran a profitable business in Myanmar with plenty of expansion opportunities until the brand came under intense fire following the 2021 coup. Activists and the anti-coup movement called businesses to cut ties with the military, and Kirin was in the most targeted category because it was directly in a joint venture relationship with the military. Since the publication of the UNFFM report, activists' attention has been on calls for cutting ties with the military to target the military's interests.

Kirin's eventual exit from Myanmar went through these stages: First, Kirin announced its determination to terminate its joint venture relationship with the Myanmar military on February 5, 2021, only four days after the coup, making it the first MNE to exit Myanmar since the coup. Kirin Holding Company issued a statement explaining the decision to exit: "*Kirin Holdings Company, Limited (President and CEO: Yoshinori Isozaki) is deeply concerned by the recent actions of the military in Myanmar, which are against our standards and Human Rights Policy...Given the current circumstances, we have no option but to terminate our current joint-venture partnership with Myanma Economic Holdings Public*

Company Limited, which provides the service of welfare fund management for the military. We will be taking steps as a matter of urgency to put this termination into effect.”

Although there was no regulatory requirement from the Japanese government in terms of sanctions for Kirin to cut ties with the military, Kirin’s own human rights stance, as cited in the statement, would not be consistent with the joint venture partnership with the military that reversed the democracy Myanmar has enjoyed for nearly a decade.

The response from activist groups such as Justice for Myanmar (JFM) was welcoming. The termination showed that the business community would not want to do business with an illegitimate government. JFM also confirmed the importance of financially isolating the military. Justice for Myanmar said Kirin had *“listened to the voices of the Myanmar people” and made the right decision...Kirin’s bold and timely move to cut ties sends a strong message to the Myanmar military that their illegitimate and brutal coup and continued genocide, war crimes and crimes against humanity will not be tolerated...Kirin’s actions support the democratic struggle of the Myanmar people for democracy, peace, justice and accountability...the business interests of top generals is a motivation for the coup so business has a crucial role to play now by cutting ties.*” Kirin’s decision to terminate its JV relationship with the military was also welcomed by Amnesty International Australia.

 Insert Figure 4 about here

Second, over a year after Kirin’s announcement to exit, disputes erupted between Kirin and the military-owned MEHL over the ownership of the Myanmar Brewery.

Third, in mid-2022, Kirin gave control of all its shares in the two breweries – the Myanmar Brewery and the Mandalay Brewery – to the military and announced the decision to exit Myanmar.

Irresponsible exit: While the termination decision was welcomed by activists as decisive, some argued it was not clean-cut because Kirin should have ended its JV partnership in 2019 when the UNFFM report revealed its partnership with the military and called for Kirin to cut ties with the military.

Instead of making a full exit when the 2021 coup was staged, Kirin's efforts to find an alternative partner to the military have indicated Kirin's desire to stay in business and in Myanmar even after its announcement to exit.

Kirin's decision to terminate its partnership with the military did not turn out to be a neat end in itself as one month after its exit announcement, Norway's Government Pension Fund Global (which is the largest sovereign wealth fund in the world), placed Kirin Holding, on a watch list, to monitor Kirin's implementation plan in exiting Myanmar. This highlights a threat of financial punishment if failing to make a responsible exit.

Kirin's decision to give control of its shares in the two breweries – the Myanmar Brewery and the Mandalay Brewery – to the military was criticized as an irresponsible exit, and Kirin was accused of using the safety and continued employment of the employees as an excuse for its decision to hand over Kirin's shares to MEHL. Justice for Myanmar called on Kirin to reverse its decision, and also to reveal Kirin's human rights due diligence processes in reaching the decision.

Dilemmas: Kirin tried to hold onto its shares of the breweries to remain in its lucrative business in Myanmar. After unsuccessful attempts to find an alternative partner, Kirin had to transfer its shares to the military. In defense of this decision, considered by activists as irresponsible (because the share transfers have meant increased revenue for the military), Kirin provided a reason for protecting the safety of its employees and providing

them with continued employment. To the anti-coup movement, Kirin's decision was thought to be in conflict with respecting human rights.

The Myanmar Beer, among many other military-affiliated products and services in Myanmar, was widely boycotted by local customers with a mission to cut financial lifeline to the military, and the boycotts have worked to some extent in denying revenue to the military that has already run into cash flow problems as there was a run-on bank following the coup.

Like in the case of Telenor, Kirin's exit was considered irresponsible, but for a different reason than that of Telenor. Kirin's case shows how the MNE navigated the termination process (and later exit process) by first trying to remain in business in Myanmar and then transferring all of its shares to the military. That Kirin was put on Norway's Government Pension Fund Global watchlist to monitor the termination process shows how perilous exit processes can be and how important for the MNE to manage them responsibly.

We went further into the analysis of the exits and can proffer the following model of exits, Figure 5. Specifically, we found that it is possible to classify the exit strategy of MNEs into regulative/forced or voluntary on the one hand, and responsible or irresponsible on the other hand.

Insert Figure 5 about here

Conclusion and Directions for Future Research

Our study examines responsible exit strategy dilemmas faced by firms under the Myanmar military junta and juxtaposes these against the availability of firm strategies currently found in the literature. The paper ultimately suggests a set of strategic choices available to MNEs in Myanmar that extend to those offered by the existing literature and recent reports, thus consolidating the strategies across idiosyncratic contexts globally. The paper also aims to highlight the role of informal institutions in significantly affecting the operations and exits of MNEs from sanctioned regimes.

Contributions

Our contributions are threefold. First, responsible exit from a sanctioned regime is different and is more complex than traditional divestments from a non-sanctioned country. Second, large MNEs that act as ‘national champions’ face different pressures from their home governments or stakeholders to execute responsible exit strategies. Such pressures increase, especially if they are in strategic industries (e.g., telecommunications) or for state-owned enterprises. Our study’s findings are novel in addressing divestment complexities from the national champions’ perspective in the age of deglobalization and import substitution for resilience. We go beyond the limited confines of business and government relations in that we include further stakeholder relations, specifically activists and NGOs in our cases that add significant complexities for firm-level decision making. This is because, in many cases, MNEs’ exits have been a response to activists’ pressures rather than a regulatory measure such as sanctions. Third, we contribute to institutional theory as we investigate the effects of multiple institutional pressures, both formal and informal, at home or via international organizations, on MNEs’ strategic choices. Finally, we aim to provide an integrative model of firm behavior in sanctioned regimes based on the most comprehensive review of the literature to date, coupled with an in-depth case study carried out over a number of years on two MNEs

in Myanmar. The case study analysis is sourced from a variety of first-hand data on the two organizations and the Myanmar context as a whole, including letters to governments, embassies, and the UN, national and international petitions, meeting minutes and emails, reports, and other such data complemented with publicly available information.

Direction for future research

Our study investigates the complexities faced by multinationals in their divestments from countries subject to international sanctions. While we establish a taxonomy of strategic choices related to exits, we can only depict certain possible cases of divestments due to the relatively small size of the country studied. A longitudinal or a comparative study would allow an increase in the variety of cases under observation and further generalization. With this study, we call for future research on responsible exit strategies, especially in times of opposing world factions in larger and smaller countries.

Managerial and policy implications

The responsible exit dilemma, the distinct institutional and stakeholder pressures conferred by different countries, and the importance of sanctions on MNEs' internationalization point to the need for managers to reconsider the international business strategy and for public officials the international business policy. Traditionally, the international business policy recommends that governments take an active role in facilitating investments by multinationals. However, in the case of countries with sanctioned regimes, the home country governments have to consider whether to adhere to international sanctions or not. This creates a tension between policy development that is directly implemented through the creation of laws and regulations that can be applied to multinationals on the one hand, and indirectly through sanctions, which can be a tool to force political concessions or promote peace, on the other hand.

Final thoughts

In sum, this study highlights the importance of the conditions of home country institutions, and in particular corporate social responsibility as a new and understudied driver of strategic choices that MNEs face in countries with the sanctioned regime. We hope that the ideas contained in the paper open new avenues of research on this important phenomenon and a better understanding of institutional theory and divestment strategies for multinationals.

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TABLE 1

MNE Exits and Countries of Origin

No.	Names	Regulatory Sanctions	Dates of announced exit	Country of Origin
1	Kirin Beer		05/02/21	Japan
2	Racer - exits investments in the Virginia Tobacco Company		09/02/21	Singapore / USA
3	TRD consulting Anti drone company		19/02/21	Singapore
4	Google Inc.		21/02/21	USA
5	Facebook		02-12/21	USA
6	Asian Development Bank (ADB)		10/03/21	Philippines (HQ)
7	H&M		08/03/21	Sweden
8	Benetton Group		12/03/21	Italy
9	OVS		15/03/21	Italy
10	EDF		19/03/21	France
11	Bestseller		19/03/21	Denmark
12	Pou Chen Corp.		30/03/21	Taiwan
13	Giesecke and Devrient		31/03/21	Germany
14	S&P Down Jones Indices		15/04/21	USA
15	POSCO International - POSCO C&C only ended the steel business with MEHL.		16/04/21	South Korea
16	Eneos Holdings Inc.		05/21	Japan
17	KLP pension fund will divest from Adani ports		06/21	Norway
18	Tobacco maker of Lucky Strike cigarettes	Yes, both UK and USA sanction on military and its businesses	10/21	UK-USA
19	TotalEnergies	The EU imposed sanctions on MOGE (Total's partner) on 21 Feb 2022 one month after Total's exit	21/01/22	France
20	Woodside Petroleum		27/01/22	Australia
21	Telenor – sold out to M1 Group since 18 March 2022	Yes, Norway aligns with the EU sanctions	18/03/22	Norway
22	Voltaia		31/03/22	France
23	Petronas – has handed the project over to Gulf Petroleum Myanmar (GPM), a private oil and gas company backed by the Thai tycoon Chatchai Yenbamroong		29/04/22	Malaysia
24	Adani Group – only Adani Ports and SEZ limited exited.	Indirectly impacted by the U.S sanctions	06/22	India

25	Chevron	Likely that US could follow the EU's lead in sanctioning MOGE (the military government's enterprise)	07/22	USA
26	Primark		15/09/22	UK
27	PUMA, a subsidiary of Trafigura		10/10/22	Switzerland
28	Mark and Spencer		10/22	UK
29	Norwegian fund		16/12/22	Norway
30	IFC- World Bank		20/12/22	
31	PTT		26/12/22	Thailand

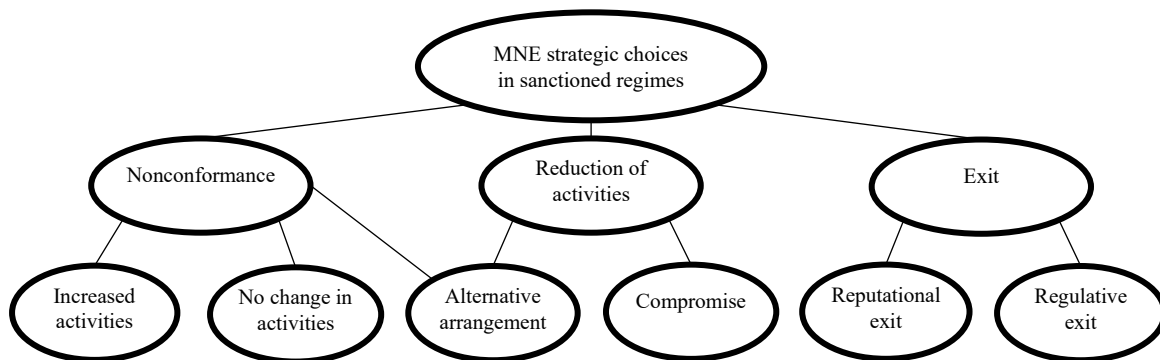
TABLE 2

Firm-specific Characteristics of Cases

	Country of Origin	Entry	Exit	Ownership	Industry	Profit ability	Sunk investment	Growth potential
Telenor	Norway	2015	2022	Wholly owned	Telecom	High	Owned a telecom tower	High
Kirin	Japan	2015	2021	Joint venture	Beverage	High	Jointly owned a brewery	High

FIGURE 1

Typology of Strategies in Sanctioned Regimes Based on Previous Research



Sources: An expanded model based on a framework proposed by (Weber & Stępień, 2020a), as well as Gurkov and Saidov (2021), Kotov (2022), and Meyer and Thein (2014).

FIGURE 2

Institutional Pressures and Strategic Choices of MNEs under Sanctions

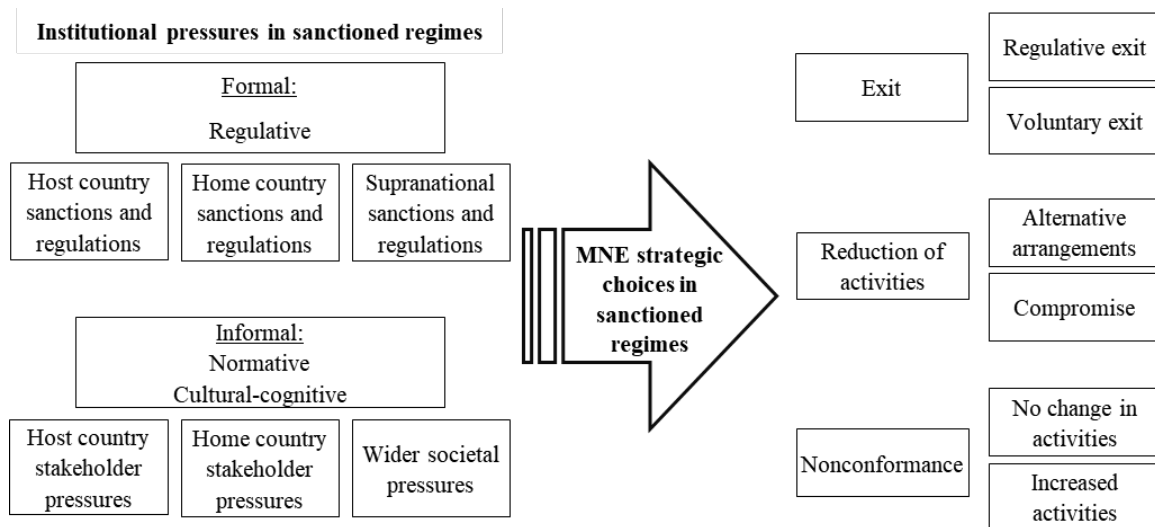


FIGURE 3

Institutional Pressures Faced by Telenor

Host institutions	<p>A high potential to have to give in future demand from the Myanmar military to reveal customer data and usage history</p> <p>The Myanmar business environment increasingly deteriorated as the junta intervened in the banking sector and also in restricting movement of foreign executives, etc.</p>	<p>A statement by Justice for Myanmar undersigned by 45 Civil Society Organisations</p>
	<p>Telenor Myanmar's prospective buyer the M1 Group's subsidiary which is incorporated in the Republic of Cyprus) is subject to European Union sanctions and falls under EU restrictive measures regarding surveillance technology</p> <p>Telenor was concerned about breaking the 2018 EU arms embargo against Myanmar regarding the pressure from the military to use intercept surveillance technology.</p>	<p>Complaint filed to the Norwegian National Contact Point (NCP) under the UN Guiding Principles by 474 Myanmar-based civil society organisations</p>
Home institutions	Formal institutions	Informal institutions

FIGURE 4

Institutional Pressures Faced by Kirin

Host institutions	<p>Military's refusal to sell its shares to Kirin in not allowing Kirin to take up a new partner</p> <p>Kirin ended up transferring all its shares to the military</p>	<p>A nationwide boycott and social punishment campaign not to use military-affiliated products and services</p>
	<p>No regulatory sanctions imposed by the Japanese government</p> <p>Placed on Norges sovereign wealth fund's watch list to monitor responsible exit</p>	<p>Calls by activists and the anti-coup movement to cut ties with the military</p> <p>United Nations Fact Finding Mission Report (UNFFM) called to cut ties with the military</p>
Home institutions	Formal institutions	Informal institutions

FIGURE 5

Strategic Choices for Assets under Sanctions

Reduction of activities	Revenue flow to the military continues; Payments continue; Handed over assets to military	Technology and data left with a new buyer Should have exited earlier not to continue providing revenue to military Placed on investment fund's watch list over the implementation of exit Used employee safety and employment as an excuse for handing over assets to military
Exit	31 companies exited	Many exits are not clean-cut in making a complete withdrawal Exiting companies seek buyers so that they can retrieve their investment from Myanmar Irresponsible exit

Regulative and forced Semi voluntary → Voluntary

APPENDIX 1

Targeted Sanctions on Myanmar

State/Sr.	Date	Sanctions
USA		
1	11 Feb. 2021	Sanctions against leaders of the military coup and their three entities
2	22 Feb. 2021	Sanctions against members of the State Administrative Council
3	10 Mar. 2021	Sanctions against family members profiting from connection to coup leader
4	22 Mar. 2021	Sanctions against selected officials and military units
5	25 Mar. 2021	Sanctions against two military holding companies
6	8 Apr. 2021	Sanctions against state-owned and key gems enterprises
7	21 Apr. 2021	Sanctions against two state-owned and key timber and pearl enterprises
8	17 May 2021	Sanctions against one entity and 16 individuals connected to the military regime
9	2 July 2021	Sanctions against senior officials and family members connected to military
10	10 Dec. 2021	Sanctions against perpetrators of serious human rights abuse
11	31 Jan. 2022	Sanctions against military officials and military-affiliated cronies
12	25 Mar. 2022	Sanctions against military leaders, cronies, businesses, and a military unit
13	6 Oct. 2022	Sanctions against arms dealers who provided support to military regime
14	8 Nov. 2022	Sanctions against major arms brokers/ aircraft suppliers for military regime
United Kingdom		
1	18 Feb. 2021	Sanctions against military generals for serious human rights violations
2	25 Feb. 2021	Sanctions against members of State Administrative Council
3	25 Mar. 2021	Sanctions against major military businesses
4	1 Apr. 2021	Sanctions against military linked companies
5	17 May 2021	Sanctions against gemstone company linked to military regime
6	21 Jun. 2021	Sanctions against two state-owned enterprises and the State Administrative Council
7	2 Sept. 2021	Sanctions against one crony and his companies
8		UK adopted Myanmar Sanctions Regulations 2021
9	10 Dec. 2021	Financial sanctions against four military directorates
10	31 Jan. 2022	Financial sanctions against 3 individuals of the State Administrative Council
11	8 Feb. 2022	Financial sanctions against 2 cronies linked with the military regime
12	25 Mar. 2022	Financial sanctions against 3 individuals and 3 companies linked with the military
13	16 Jun. 2022	Financial sanctions against six companies linked with the military regime

14	24 Jun. 2022	Financial sanctions against one company linked with military regime
15	24 Aug. 2022	Financial sanctions against 3 companies linked with military regime
16	11 Nov. 2022	Financial sanctions against 36 individuals and entities
17	9 Dec. 2022	Financial sanctions against 2 military units
18	13 Dec. 2022	Financial sanctions against military unit 99 th Light Infantry Division
European Union		
1	22 Mar. 2021	Sanctions against 11 high rank military personnel and election commission chair
2	19 Apr. 2021	Sanctions against 10 individuals and two military controlled companies
3	21 Jun. 2021	Sanctions against 8 individuals and 4 companies linked with the military
4	21 Feb. 2022	Sanctions against 22 individuals and 4 entities
5	8 Nov. 2022	Sanctions against 19 individuals and one entity
Canada		
1	18 Feb. 2021	9 senior military officials
2	14 May 2021	16 individuals (senior military officials, family members) and ten entities
3	10 Dec. 2021	4 military and defence related entities
4	31 Jan. 2022	3 individuals
5	24 Mar. 2022	4 individuals and 2 entities
6	7 Dec. 2022	12 individuals and 3 entities
New Zealand		
1	9 Feb. 2021	suspending all high-level political and military contact with Myanmar and travel ban on all military leaders
Denmark		
1	18 Feb. 2021	Stops projects and withdraws aid