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Leveraging Friendshoring in Response to Sanctions: Essential Insights for Global Managers

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Abstract

In the world that has become increasingly hostile and politicized, the use of sanctions has emerged as an often-used tool for enforcing global rules. Nevertheless, organizations engaged in international trade have found ways to circumvent imposed sanctions and deliver goods and services to the sanctioned markets through a variety of means including offshoring, nearshoring, and, most importantly, friendshoring. There has been a notable increase in these shoring phenomena, especially in the context of global disruptions, including the COVID-19 pandemic, the United States and China trade conflicts, and sanctions related to the Russia-Ukraine war. This study offers a rich account of how organizations overcome economic sanctions that lead to restrictions in trade among trading partners. After unique in-depth interviews with representatives from 44 organizations involved in trade in nine imposing, intermediary, and targeted countries, we synthesized six main friendshoring models often used in instances where sanctions are imposed. We end by offering prescriptive guidance for managers whose companies face difficult shoring decisions because of sanctions.

Keywords: sanctions effectiveness; sanctions evasion; sanctions avoidance; sanctions regimes; friendshoring; offshoring

ARE SANCTIONS EFFECTIVE?

In the complex world of international trade, sanctions have emerged as powerful tools for enforcing global rules. Policymakers advocate long-term damage to the sanctioned regime and skeptics, including many academic scholars, suggest that sanctions rarely achieve their desired outcomes (Felbermayr et al., 2021; Peksen, 2019). The current literature presents a substantial debate on the effectiveness and implications of sanctions (see Table 1).

TABLE 1: Weighing up pros and cons of sanctions

Category	Pros of sanctions	Cons of sanctions
Effectiveness	• Can influence policies and behaviors of target states, organizations, or individuals. • Exert pressure on the leadership of countries and organizations to change their behavior.	• Often fail to achieve desired political outcomes. • May lead to unintended consequences such as strengthening the resolve of the targeted entity or lead to tensions between blocs of countries.
Economic impact	• Generally, less expensive than military interventions. • Are used to prevent financing of sanctioned activities.	• Result in harm to the economies of both the target and the imposing countries. • Known to cause disruptions in global markets and supply chains.
Humanitarian impact	• Sometimes used to promote human rights by targeting violators.	• Often those impacted by sanctions are not responsible for the events that led to sanctions.
International cooperation	• Reinforce global norms such as human rights and non-proliferation of nuclear arms. • Can foster international cooperation and solidarity against undesirable actions.	• May have negative consequences for allied countries or organizations of the sanctioned and sanctioning parties. • May result in disputes in international courts.
Non-military tool	• Provide a way to exert pressure without resorting to military action.	• Targeted countries or organizations often retaliate, leading to further conflicts.
Flexibility and implementation	• Are implemented relatively quickly compared to other forms of intervention. • Are easily adjusted or lifted based on compliance.	• Imposing and monitoring sanctions can be administratively burdensome. • Targeted entities may develop tactics to evade sanctions.
Public and symbolic impact	• Demonstrate official disapproval of certain actions or behaviors. • Often garners public support.	• Can generate negative publicity for the imposing entity if perceived as unjust. • Organizations or individuals targeted by sanctions may suffer reputational damage.
Accountability and reform	• Holds organizations and countries accountable for their actions. • Designed to encourage internal reforms within targeted countries and organizations.	• Resources may be diverted to circumvent sanctions. • Countries, organizations, and individuals lose trade business opportunities and partnerships.
Negotiation and deterrence	• Can bring parties to the negotiating table. • Act as a deterrent to other entities considering similar actions.	• Could lead to the growth of black markets and illegal trade.

Sources: Alhassan et al. (2023); Bapat and Kwon (2014); Chakawa (2023); Cipriani et al. (2023); Crozet and Hinz (2020); Felbermayr et al. (2021); Gaur et al. (2023); Gold et al. (2024); Gutmann et al. (2023); Kazantsev (2022); Morgan et al. (2014); Pape (1997); Peksen (2019); Peterson (2013); Thein et al. (2023); Whang et al. (2013)

Notwithstanding the efficacy, sanctions create significant disruptions and obstacles in supply and value chains for targeted industries and organizations. Nevertheless, despite total restrictions or voluntary exits of organizations in some industries, there is evidence of products from sanction imposing regimes reaching sanctioned regimes, including restricted weapons (Kuo & Spindel, 2023) and services circulating in sanctioned regimes. Research demonstrates that these flows are done through neighboring states (Kazantsev et al., 2021), the target's allied nations (Kuo & Spindel, 2023), new value and supply chains with *friendly* states (Kirchberger, 2022), and indigenous production (Azarieva et al., 2022; Fal'tsman, 2022). These sanction evasion strategies are rooted in the varieties of shoring practices, specifically offshoring, nearshoring, friendshoring, and reshoring. We have selected the core shoring practices and highlighted these in Table 2.

TABLE 2: Classification of shoring approaches

Concept	Definition
Offshoring or offshore sourcing	Establishment of productive activities (business processes or work functions) overseas (based on previous research, e.g., Kotabe, 1989; Reynis, 1976).
Reshoring, backshoring, or onshoring	Establishment of productive activities that were previously overseas within domestic national borders (e.g., Boffelli et al., 2021; De Backer et al., 2016).
Nearshoring or close-shoring	Establishment of productive activities in a nearby country or region (based on previous research, e.g., Bock, 2008; Hartman et al., 2017; Merino et al., 2021).
Friendshoring or allyshoring	Establishment of productive activities in countries that are considered as allies to the home country (e.g., Rojas et al., 2022; Vivoda, 2023; Witt et al., 2023).

This research highlights the growing trend for reshoring, nearshoring, and friendshoring in response to sanction activity. Despite the increasing interest in close-shoring or friendshoring of activities, there is a notable lack of organizational strategic choice discourse in the current literature. We aim to understand the phenomenon of trade continuity despite imposed sanctions, from the perspective of location decisions, to ensure supply of goods from *unfriendly* countries to sanctioned regimes.

Our research employed semi-structured in-depth interviews conducted via Microsoft Teams between May 2022 and January 2024, each lasting 30 to 90 minutes. Due to the current political climate in Russia, we relied on personal networks and employed a snowball sampling approach, asking existing contacts to introduce us to other potential respondents. The roles of our interviewees within the firms were as follows: Director (21%), Deputy Director (20%), International Sales Manager (27%), and Import/Export Manager (32%). These firms operated in three industry sectors: manufacturing – 30% (electronics, components, equipment, various devices), sales and resale of construction materials – 30%, and retail – 40% (clothing, electrical appliances, perfume). This study's sample included companies from nine countries: Armenia (2%), Georgia (2%), Germany (14%), Italy (16%), Kazakhstan (5%), Russia (52%), Turkey (5%), United Arab Emirates (UAE) (2%), and Uzbekistan (2%).

FRIENDSHORING IN INTERNATIONAL SUPPLY CHAINS

In the latter half of the 20th century, companies were encouraged to leverage declining trade barriers and various benefits, such as cost savings, to engage in global outsourcing (Davies & Ellis, 2000; Fainshmidt et al., 2016). However, in recent years, evidence suggests a slowdown in international trade, as indicated by the International Monetary Fund’s trade openness metric (Stanley, 2023) and the growing discourse on deglobalization and decoupling, driven by rising nationalism, geopolitical tensions, and supply chain vulnerabilities (Cui et al., 2023; Witt et al., 2023). This inevitably leads to discussions of how to maintain international trade despite uncertainties and, more specifically, how to navigate restrictive sanctions for organizations operating in sanctioned regimes. It is anticipated that people in sanctioned regimes and those cut off from supplies still require access to goods and services produced in other countries.

The current literature suggests that friendshoring is primarily used to restructure supply chains among trusted countries to protect joint economic and security interests (Rojas et al., 2022; “The ‘Friend-Shoring’ of Supply Chains,” 2022; Vivoda, 2023). The context is almost always is Western-centric, i.e., proffering US or European counterparts’ interests, predominantly against the growing Chinese strategic importance (Govella, 2022; Melo Pimentel & Ramírez, 2022; Witt et al., 2023). Besides the limited number of studies on this pertinent topic, we found no substantial evidence of how organizations or countries engage in friendshoring, specifically processes involved. Therefore, our aim is to expand the understanding of friendshoring practices by proposing various friendshoring strategies, particularly in the context of sanctions and the parties affected, including organizations and countries.

RUSSIA–UKRAINE MILITARY CONFLICT AND THE SANCTIONS

In March 2014, the US and the European Union (EU) imposed the first round of sanctions on Russia in response to its occupation of Crimea. Over time, further sanctions were introduced in relation to Russian coercive actions in Ukraine, in particular, its role in the continuing support for separatists in Donetsk Oblast and Luhansk Oblast in former Eastern Ukraine as well as the downing of Malaysia Airlines Flight MH17 in July 2014. There was a mixed response to the introduced sanctions globally (Bělín & Hanousek, 2021). Almost eight years later, on 24 February 2022, Russia began its incursion into Ukraine, calling it a ‘special military operation,’ which inevitably turned the West against Russia. In response, most European countries and the US organized a transport blockade and limited trade (Panibratov & Gaur, 2022). The sanctions of the EU appeared to be the most tangible since, before the war, European countries were the main trading partners of Russia, accounting for more than a third of the trade turnover (Davydov et al., 2022).

Sanctions against Russia, countersanctions by Russia, and the voluntary suspension or reduction of trade by Western organizations with Russia led to a fundamental restructuring of

Russian domestic and foreign trade in 2022, and this process is still ongoing (Allen, 2022; Mahlstein et al., 2022; Markus, 2022). Aviation was the first target of the restrictions at the end of February 2022 when the EU completely closed the sky for Russian air carriers. In parallel, a naval blockade was developed by the European ports and container operators. Railway transportation underwent a partial ban. Trucks with Russian license plates were banned from entering the EU (Allen, 2022; Mahlstein et al., 2022; Markus, 2022). Some transport companies have re-registered their trucks in Kazakhstan and Armenia. Most have rebuilt logistics through neighboring countries: Kazakhstan, Turkey, Armenia, Mongolia, Iran, and China.

Sanctions were expected to significantly damage Russia's economy; however, in 2022, the economy shrank by less than most analysts predicted and ended up in the positive territory in 2023 (IMF, 2024). Furthermore, many foreign companies, including those from the EU and the US, still operate in Russia (Yale School of Management, 2023). Business continuity was an important agenda for businesses and policymakers to ensure strength in the economy (Panibratov & Gaur, 2022). As such, the first response of Russian businesses was a reorientation for suppliers, and even markets, to the Eastern countries since the first round of sanctions in 2014 (Belyi, 2015). Nevertheless, selecting suitable alternatives and delivery takes time. Not every European or US product or market has a substitute in Asia, especially high-tech products and luxury goods. Considering the need for European and other international products, Russian businesses and their trading partners in the West had to adapt quickly throughout 2022 (Kotov, 2022).

Existing studies on sanctions have highlighted the complexities faced by MNEs in exiting sanctioned regimes. MNEs must consider numerous factors when deciding whether to exit including reputational damage, loss of profits and investments, potential unemployment in host countries, management of the personal data of former employees and customers, and resale of assets to local buyers (Meyer & Estrin, 2023; Thein et al., 2024). In the case of Russia, only

10–20% of foreign companies exited after the first two years of sanctions (Kolyandr & Prokopenko, 2024; Shcherbak, 2024). Exits were primarily voluntary due to reputational concerns, unless involving sanctioned products and services. Despite criticism for not leaving the aggressive regime, many foreign companies were hindered by swift restrictions imposed by the Russian government: for example, Raiffeisen Bank and Danone. Russia restricted Western companies from withdrawing proceeds from the sale of Russian assets in dollars and euros, imposing additional de facto currency controls to stabilize the weakening rouble (Kolyandr & Prokopenko, 2024; Weaver et al., 2023).

SANCTIONS-EVADING STRATEGIES

Following the commencement of Russia's invasion of Ukraine, the Russian government has categorized as *unfriendly* or *friendly*. An *unfriendly country* is one that imposes sanctions on Russia and generally opposes its political regime. These countries are typically Western and their allies (e.g., EU, USA, Canada, Australia, Japan, South Korea). A *friendly country* is one that has not imposed comprehensive sanctions on Russia and maintains a neutral or supportive stance toward its political regime (e.g., China, India, Turkey, Kazakhstan, Israel, Thailand).

Prior to February 2022, our respondents typically transported their cargo directly across European borders in St. Petersburg, Belarus-Poland, and Turkey. They knew their partners for several years, having previously met through industry-specific trade associations, B2B marketplaces, and networking events. Some of the respondents used the services of Russian intermediaries to establish these business connections. This cooperation was once a standard approach that involved in-depth market research to comprehend customer behavior, local preferences, and regulatory requirements, given the diversity of the Russian market. Foreign firms developed strategic alliances with local distributors and suppliers to manage logistical complexities and ensure a dependable supply chain. The war in Ukraine and the subsequent sanctions imposed on Russia after February 2022 resulted in increased regulatory complexity and restrictions, making trade compliance more cumbersome. Notably, these sanctions limited the scope of imports and exports by hindering the ability to engage in certain business transactions with Russian entities. A Turkish manufacturer said:

"Trading with Russia now involves a higher degree of due diligence to ensure compliance with regulations. Additionally, payment processing and financial transactions are more challenging due to restrictions on financial institutions and payment methods."

Our Russian respondents reported that their foreign partners continued to do business with them and were sympathetic to their situation, assisting them in finding new ways to operate. An Italian retailer said:

> *"We know our Russian partners. They do not support their government. Whatever is happening is awful. But we have our families to feed — so we must do our jobs. Our whole business focuses predominately on the Russian markets. We told the Russians — "let's carry on. Let's find alternative legal ways of doing business together".*

Our research found that it was not particularly difficult to find new alternative methods. Entrepreneurs in *friendly* nations quickly recognized this market opportunity and began to act as intermediaries in international trade interactions between Russia and other countries, which are predominantly hostile. These entrepreneurs already had international business experience, so, after February 2022, they simply added new services to their portfolios and began acting as transportation and financial hubs between Russian and foreign businesses. A Russian manufacturer said:

> *"It was not very difficult for us to find partners in those friendly countries for re-export. Especially if we all work in the same industry sector. Everyone there now wants to use the opportunity to profit from doing business with sanctioned Russia.*"

As a result of our empirical research, we identified six friendshoring models, which we derived from interviews with industry representatives from three economic sectors. In this section, we provide our findings and a general description of these models, accompanied by the most relevant quotations.

We acknowledge that these models derived from the in-depth research within the Russian context and may not be directly applicable in other country contexts. We, nevertheless, believe they are generalizable to trade with other sanctioned regimes, as most sanctioned regimes are similarly surrounded by *friendly* and *unfriendly* countries enabling various trade arrangements.

Strategy 1: Re-exporting

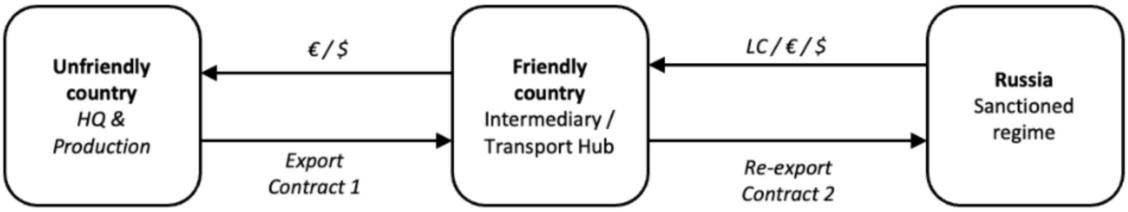
This strategy delineates a standard re-exporting paradigm, conceptualized as the transshipment of commodities to Russia post their initial importation into a geopolitically *friendly* nation (Figure 1). This strategy typically involves the procurement of goods from an *unfriendly* country (e.g., Germany), their subsequent importation into a *friendly* country (e.g., Turkey) inclusive of customs processing, followed by their resale or re-exportation to Russia, often in an unaltered state, although occasional repackaging may occur. In this framework, the intermediary nation (Turkey) serves a dual role as both an intermediary, frequently through export management entities, and a logistical hub, making this strategy the most popular. A Turkish retailer said:

> *"This is a reliable option. Nobody knows where the cargo goes after processing. It may not necessarily go to Russia after all. Obviously, there is an element of risk and additional bureaucracy, and we charge out partners more as a result."*

Adherence to pertinent legal and regulatory frameworks, encompassing international trade statutes, customs norms, and specific mandates from both the originating country and

Russia is imperative. This compliance encompasses ensuring conformity with import and export controls, accurate documentation, and any requisite licensing or certification standards.

FIGURE 1: Strategy 1 — Re-exporting



In this strategy, the company of origin (HQ/producer) cannot necessarily be aware of re-exporting operations; hence, it has no control over where its goods are sold. The trade between *friendly* and *unfriendly* countries occurs in international currencies such as Euros (€) and US dollars ($); however, between sanctioned and *friendly* countries, the standard currencies, including US dollars, Euros, and the local currencies (LC) of these two countries, may be utilized.

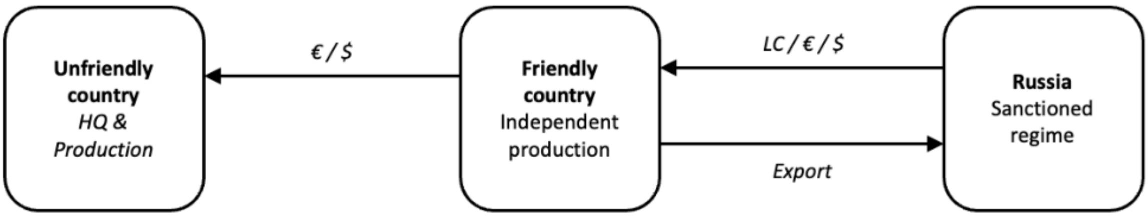
Strategy 2: Outsourced production in a friendly country

In this strategy, firms from *unfriendly* countries, which outsource their production to third-party nations, lose direct oversight over manufacturers that may engage with sanctioned markets (Figure 2). This outsourcing practice, commonplace among MNEs, involves delegating production to cost-effective manufacturing units in developing countries. For instance, an MNE fast-fashion company can produce garments in nations perceived as *friendly* to Russia such as Turkey, Morocco, Bangladesh, and Armenia (Civilnet, 2022; Hanbury, 2018). Producers in these *friendly* countries might directly transact with Russian enterprises, or occasionally through intermediaries, complicating the traceability of shipment of goods. Crucially, these outsourced production facilities, while affiliated, are not owned by the outsourcing entities (e.g., MNE fashion company) and typically cater to multiple brands. This strategy is deemed "safe" as it poses challenges for policymakers and advocacy groups in the sanction-imposing countries to regulate the flow of goods from these production sites to Russia or other destinations. A Russian retailer said:

> *"I think all these brands know the situation [of exporting to Russia]. It is just "business as usual." Russia is a large market — nobody wants to lose access to it. The headquarters may claim that they are not controlling and not responsible for the transportation of their goods in another country elsewhere."*

In the financial aspect of this strategy, transactions predominantly occur between *friendly* partners in either international or respective local currencies of the involved countries. The utilization of international currencies is more common in transactions bridging the gap between *unfriendly* and *friendly* nations. Retailers in Russia adeptly amalgamate both Strategies 1 and 2 to furnish a comprehensive product range for their clientele. This includes employing the standard re-exporting method for specific product lines originating from countries like Spain, while simultaneously importing alternate product lines directly from production facilities located in third countries, such as Bangladesh. This dual approach offers a diversified portfolio to the end consumers in Russia.

FIGURE 2: Strategy 2 — Outsourced production in a friendly country

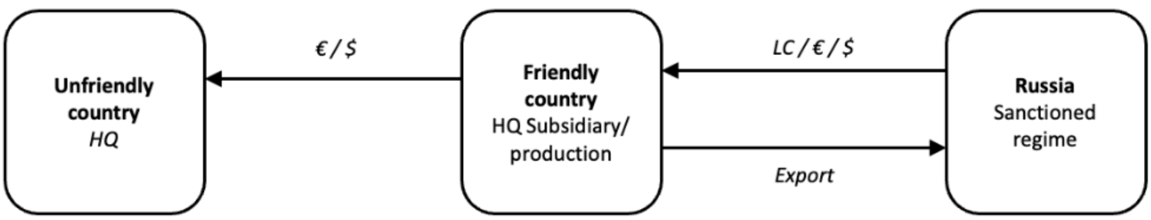


Strategy 3: A subsidiary in a friendly country

Strategy 3, while akin to Strategy 2, exhibits a crucial distinction: MNEs from *unfriendly* countries intentionally establish subsidiaries or production units in *friendly* countries (Figure 3). Often, these entities operate under alternative brand names to circumvent secondary sanctions. This strategy poses significant challenges for regulatory bodies in third-party or *unfriendly* countries in terms of detection and oversight of such parallel trading activities (Huang et al., 2019; Mueller-Langer, 2012). These subsidiaries engage in trade with Russian companies using both international and local currencies, subsequently channeling profits back to the parent company. Over time, these subsidiaries tend to maintain standard operational practices, extending their trade relationships with Russian entities as well as other nations in regions such as Central or Southeast Asia. Another Russian retailer said:

"We used to import most of the flowers directly from the Netherlands. After sanctions were implemented, our partners cooperated with us and quickly opened a subsidiary in Kazakhstan. So, we could trade easily and pay quickly and efficiently."

FIGURE 3: Strategy 3 — A subsidiary in a friendly country



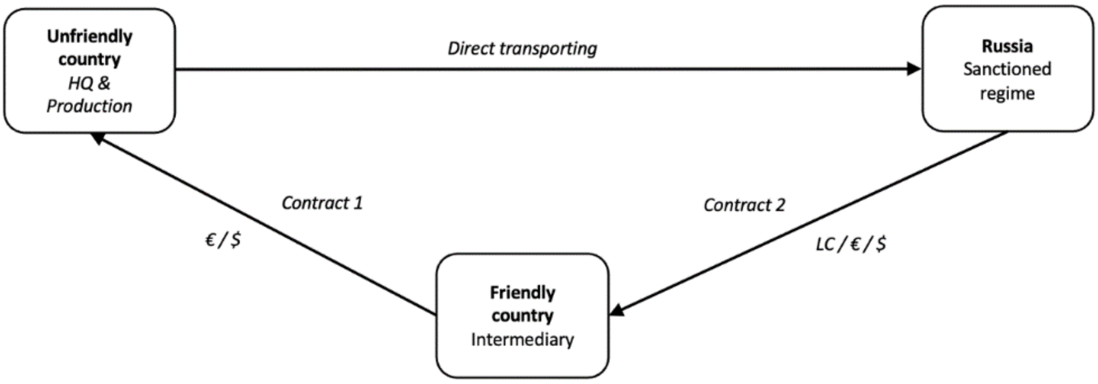
In Strategies 2 and 3, firms in non-sanctioned (*friendly*) countries, recognizing the heightened risks associated with trading under restrictive measures, often levy an additional fee on their Russian counterparts. This premium is reflective of the perceived uncertainty and political risks inherent in international trade under sanctions (Weber & Stępień, 2020), particularly those targeting Russia. MNEs operating within sanction regimes incur supplemental costs for economic interactions, inclusive of non-sanctioned activities (Cipriani et al., 2023). Furthermore, Russian firms face constrained options in terms of potential business partners and accessible markets, effectively bestowing oligopolistic market power upon entities in *friendly* countries. These increased operational costs borne by Russian businesses are typically transferred to the end consumers, culminating in elevated prices for goods and services within Russia.

Strategy 4: Direct transportation and a friendly country intermediary

This strategy optimizes cost-efficiency, particularly for Russian importers, by enabling the direct transit of goods from *unfriendly* countries to Russia, bypassing the need for intermediary (*friendly*) countries (Figure 4). For example, a German supplier may formalize a contract for goods sale with an intermediary entity in a *friendly* nation, like Georgia. Subsequently, the cargo is directly dispatched to Russia, pausing at a customs warehouse, typically located in a Baltic state. At this juncture, the original contract is supplanted by a new agreement between the intermediary and the final Russian purchaser. The cargo then proceeds to Russia, accompanied by a revised set of documents. This method allows for the resale of goods to Russia, potentially without necessitating storage in transit. A German manufacturer said: *"This kind of direct export is called 'resale in transit.' Obviously, you need to have prepared contracts before the trip."*

This strategy typically involves the drafting of two distinct contracts, which may involve transactions in varying currencies. However, this approach is fraught with risk primarily due to the fluid nature of regulations within EU member states. For example, the Polish government's prohibition of trucks bearing Russian or Belarusian license plates from entering its territory and the subsequent Russian countersanctions against Polish trucks (Krzysztoszek, 2023; Reuters, 2023) exemplify the regulatory challenges encountered in this strategy. Consequently, Strategy 5 emerges as a more stable and reliable alternative for entrepreneurs navigating these complex regulatory landscapes.

FIGURE 4: Strategy 4 — Direct transportation and a friendly country intermediary

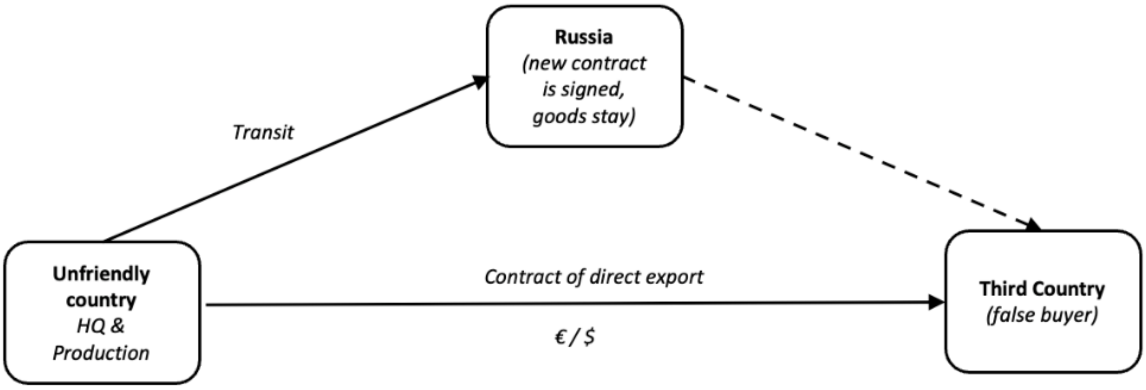


Strategy 5: False transit

This strategy, identified as "false transit," entails the registration of transport vehicles in countries that, while not sanctioned by *unfriendly* countries (e.g., EU countries), maintain amicable relations with Russia (e.g., Armenia, Georgia, Kazakhstan). The operational base of this strategy is typically a firm situated in a *friendly* country (e.g., China), which imports goods from an *unfriendly* country (e.g., EU countries). These goods are transported by trucks, which depart from the *unfriendly* nation with all required documentation. However, the planned route redirects through Russia en route to a third country (e.g., Uzbekistan, Mongolia, China). Upon entering Russia, the trucks proceed to a local customs warehouse, where the goods undergo a "resale" process to the Russian recipient, ultimately remaining in Russia (Figure 5). This strategy also functions in reverse, facilitating the movement of goods from *friendly* to *unfriendly* nations. A participant from an Italian construction company said:

"It is entirely legal, but its reliability is not always predictable. For example, the carrier may refuse to transport cargo, or there may be difficulties at the border — if a cautious customs officer comes across."

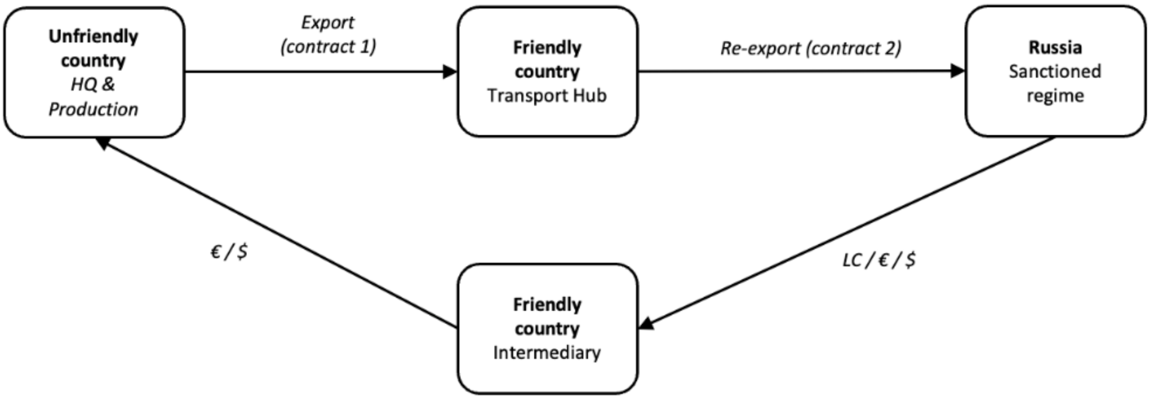
FIGURE 5: Strategy 5 — False transit



Strategy 6: Re-exporting via a transport hub in a friendly country

The final strategy, a refinement of Strategies 1 and 4, exhibits enhanced sophistication and security through the strategic separation and distribution of intermediaries. These intermediaries encompass operational offices and transport hubs, each situated in different *friendly* countries (Figure 6). This strategy typically features a permanent intermediary office dedicated to facilitating trade and transactions across nations. It uniquely possesses the flexibility to utilize various transport hubs located in multiple *friendly* countries. An instance of this strategy is an intermediary based in Dubai, coordinating trade between Russia and EU states, with supply chains routed through transport hubs in countries like China, Turkey, Egypt, or Iran. The Dubai-based intermediary is adept at crafting multiple contracts and engaging with diverse banking institutions across different jurisdictions, thereby streamlining the processes of payment and transaction facilitation.

FIGURE 6: Strategy 6 — Re-exporting via a transport hub in a friendly country



The respondent in Dubai said:

"Some transport companies have re-registered their trucks in Kazakhstan and Armenia. Most have rebuilt logistics through neighboring countries: Kazakhstan, Turkey, [the United Arab] Emirates, Georgia, Armenia, Mongolia, Iran, and China."

WHAT CAN WE LEARN FROM THIS?

The respondents were unanimous in suggesting that lengthening the value and supply chains is fraught with an increase in delivery times and a multiple (two or three times) increase in its cost due to additional costs for logistics and customs procedures in third countries. This fact is supported by literature; for example, Safronova (2024) states that consumer prices absorb all associated costs, with increases ranging from 7% to over 50%. Historically, imported goods were accessible primarily to a limited demographic — a trend that continues. Since the onset of the conflict, the Russian economy has shown remarkable resilience to sanctions (Prokopenko, 2024), even achieving growth through both sanctioned (illicitly) and unsanctioned trade with allied nations directly or through friendshoring routes. This economic stability has softened the impact of price increases for Russian consumers, who benefit from the country's self-sufficiency, large size, and strategic location that supports ongoing global trade.

Our discovered strategies entail a particular risk, uncertainty, and unreliability in business operations. None of the strategies were permanent for our respondents. Our respondents recognized that concentrating operations geographically and operationally heightens vulnerability to regional issues like environmental challenges or local economic crises. Additionally, depending too heavily on a few countries can restrict diversification and hinder quick adaptation to sudden global trade shifts, potentially increasing rather than decreasing supply chain risk. However, our Russian respondents claimed that the significant issues had mainly incurred while trading with European or North American partners due to the imposed sanctions. Those firms that predominately traded with India, China, Turkey, and African and Central Asian countries did not notice significant changes, apart from payment methods and transactions now arranged in local currencies or alternative currencies such as yuan or rupees.

Our respondents indicated that the strategies were not associated with specific industry sectors or countries. Entrepreneurs chose the most suitable and, more importantly, the most readily available approach to sustain their business operations. It is important to highlight that, due to ongoing legislative changes in international trade since 2022 between sanctioned Russia and other countries, some firms reported the necessity of adopting multiple strategies simultaneously. It was found that 30 firms in our sample employed a single strategy, 10 firms implemented two strategies, and 4 firms utilized three strategies concurrently. For instance, one respondent, a Russian retailer, indicated that due to the substantial volume of trade with European partners, they simultaneously employed strategies 1 and 6, or alternated between them. This involved working with an intermediary based in Dubai and routing goods through Turkey and China to mitigate potential disruptions in their supply chain.

Our study suggests that MNEs with complex global supply chains predominantly use transport and intermediary hubs, such as Turkey and the UAE, as well as China, Egypt, and Israel. These MNEs have the resources to afford and establish alternative routes, which is why Strategy 5 was quite popular among our respondents. Smaller businesses, on the other hand, worked with existing intermediaries or opened new offices in countries closer to Russia, such as Armenia, Georgia, and Kazakhstan. Strategy 1 was the most popular strategy among our respondents, likely due to its relative simplicity and low risk. Strategy 2 is also considered to be low risk, but businesses need to have more control over the supply from, and production in, third countries. It is generally easier to maintain relationships with resellers (intermediaries) than with manufacturers, who tend to be more compliant with regulations and less risk averse. Strategy 3 is challenging because not every company has the capacity to open a subsidiary. Strategies 4 and 5 are high risk due to the continually changing regulations in EU countries regarding transportation to and from Russia and the difficulty of monitoring customs procedures. Figure 7 illustrates the frequency of strategy adoption among the respondents.

FIGURE 7: Frequency of strategy utilization among companies in the sample

Our study shows that while friendshoring aims to strengthen supply chains through alliances with geopolitically similar nations, it can inadvertently enable sanctioned regimes to bypass restrictions. These countries may use friendshoring networks for covert trade and financial activities, utilizing intermediaries to access global markets (Benson & Kapstein, 2023; Reiterer & Houng, 2023). Through indirect supply chains and obscure financial routes, the traceability of goods and funds is compromised, undermining sanctions' effectiveness and potentially transforming friendshoring into a tool that counters diplomatic efforts. Also, realigning supply chains to *friendly* nations may extend or complicate transport routes, increasing fuel use and greenhouse gas emissions if these routes are longer or less efficient than before (Paché, 2022).

For firms that do not wish to trade with restricted countries, but whose products are resold without their consent, addressing this issue is highly challenging. Even in the absence of trade restrictions and sanctions, international trade activities involve a complex network of intermediaries, transportation, and transactions. Effective enforcement necessitates rigorous monitoring by supervisory bodies to identify and penalize violators. The firms involved in our research did not engage in illegal activities, such as the sale of weapons or military-associated products, neither did they supply sanctioned individuals or organizations to carry out attacks on Ukrainian soil. Consequently, manufacturers, distributors, logistics providers, and banks did not perceive these transactions as suspicious or illegal; they appeared to be normal commercial activities. Local authorities tended to overlook these transactions as the friendshoring routes were economically beneficial for their countries (e.g., Turkey, Armenia, Kazakhstan, UAE). Additionally, producers often do not perform extra checks on where their products might be re-exported to, either due to financial limitations or an interest in facilitating re-exportation for economic gain. Ultimately, our respondents in the SME category from imposing countries, intermediaries, and Russia are all trying to ensure business continuity using legal routes, thus bringing goods and services to the end consumers, albeit at higher costs.

In terms of overall conflict, part of which are sanctions and their effectiveness, we can observe the Ukraine conflict as a proxy war with implications for Western countries versus the so-called autocratic countries. The West and its allies are utilizing Ukraine as a vehicle to buckle Russia, while countries that appear to support Russia including Iran, North Korea, and China will be at a disadvantage if Russia fails (Brands, 2024). While sanctions are intended to bring acquiescence of a rogue regime, and they can be used as an alternative to military escalation, they may have, and often have had, counterintuitive effects. Sanctions surely weaken a country's industrial base, while at the same time, strengthening its self-sufficiency and relations with its allies. These outcomes support the global decoupling and deglobalization narratives. Countries that are self-sufficient prove to be more independent, and this has indirect implications for how they respond to an ever-changing geopolitical landscape and increasing volatility.

IMLICATIONS FOR GLOBAL MANAGERS

This study provides significant implications for managers facing restricted trade scenarios. For instance, when an organization's business partners or subsidiaries become situated in a sanctioned country, managers must make critical decisions to ensure the continuity of business operations. First, these companies must collaborate with genuinely trusted partners and intermediaries in the entire supply chain. These intermediaries are typically based in a third country considered *friendly* to the sanctioned nation. It is essential that the intermediary is a specialist in the relevant field, knowledgeable about current trade conditions, and fully understands the legal intricacies in all involved partner countries. Additionally, managers might consider establishing their businesses in a *friendly* country, with this subsidiary registered under a different name, to avoid undue scrutiny. Given the complexities associated with involving a *friendly* country, managers will likely need new transport arrangements with different logistics providers, which will incur additional costs due to the increased complexities of trade.

Second, managers must recognize that intermediaries will charge fees for their services, which are likely high due to limited competition in the market. These costs should be carefully integrated into the pricing strategy when operating within or in connection with sanctioned markets. Additionally, banks may impose higher fees and certain restrictions, necessitating alternative financial arrangements between sanctioned and non-sanctioned countries. Furthermore, rerouting and additional logistical complexities will incur further costs. These costs may either reduce profit margins or need to be passed on to customers. Friendshoring models often involve higher costs on organizations, leading some firms to go out of business while others pass these costs onto customers. Our research shows that, despite suffering from sanctions, organizations in and trading with Russia remain determined to continue operations. Ultimately, higher transaction costs are passed down to customers, who are often unwilling to pay more. One Russian retailer stated:

"Listen, we spend large sums of money to obtain the same goods that used to cost 1.5 times or even twice less before the sanctions … Of course, our revenue has decreased, but what can we do? That's how things are currently."

Conducting business in a sanctioned country is not always illegal. For instance, many MNEs from both *friendly* and *unfriendly* countries continue to operate in Russia. However, MNEs that remain in sanctioned regimes face informal pressures, particularly concerning ethical considerations, which can lead to significant reputational damage (Thein et al., 2024). Despite this, many companies choose to stay in these regimes due to their responsibility toward employees and customers. Some MNEs have rebranded and proclaimed independent operations (Kulikov et al., 2024).

Finally, managers must remember that many products, particularly those in IT, electronics, machinery and equipment, and mechanical sectors, require maintenance, after-sales service, and updates. Firms employing friendshoring strategies with and within restricted countries must carefully consider these nuances. Suppose, these activities, such as call centers, IT support, and financial services, are outsourced or located in other countries. In this case, they will need to be reshored to the sanctioned country or nearshored to a *friendly* country to ensure continuity of operations. In the long term, organizations should consider sourcing suppliers closer to the markets, identifying local suppliers, or even producing locally, i.e., nearshoring, local sourcing, or inshoring.

"At this moment, I am actively looking for substitutes in Kazakhstan…," – a Russian manufacturer.

This study conceptualizes the friendshoring phenomenon along with other shoring strategic choices, based on comprehensive empirical research into organizations aiming to sustain their business continuity amidst restrictive institutional barriers. The literature is rapidly growing on the discussions of reshoring, nearshoring, and friendshoring (Barbieri et al., 2018; Boffelli et al., 2021; Mukherjee et al., 2023). This study contributes important new research to the shoring literature by modeling various shoring strategic options and especially under conditions of sanctions and from the organizational strategy and international business perspectives. The research demonstrates that friendshoring is a viable solution for organizations to evade trade restrictions or other disruptions in international trade and supply chains, based on real-life case studies of organizations that manage to deliver restricted goods to sanctioned regimes.

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