

Private Sanctions

Based on BFI Working Paper 2022-164, ["Private Sanctions,"](#) by Oliver D. Hart, Harvard University; David Thesmar, MIT; and Luigi Zingales, Chicago Booth

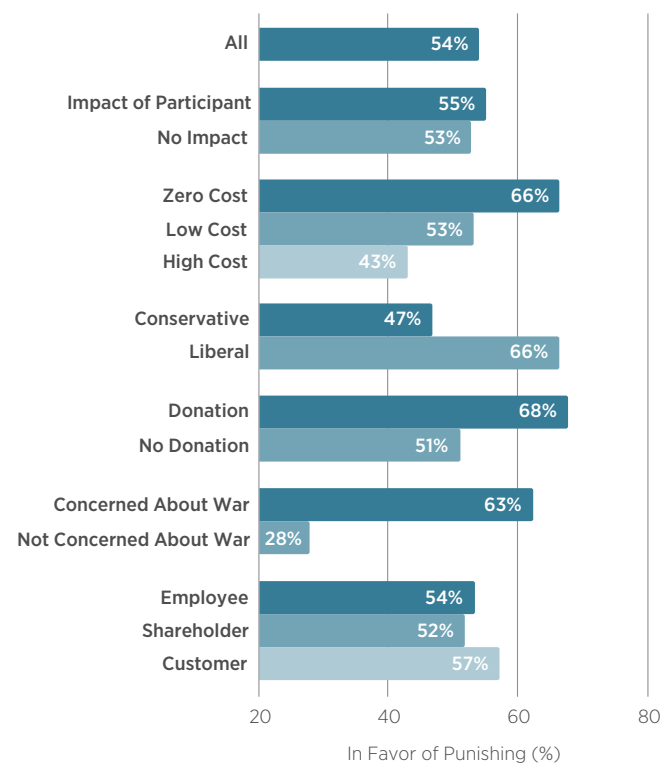
Of US respondents to a national survey, 61% say firms should exit Russia, regardless of the consequences; 37% think that leaving Russia is a purely business decision; while 66% would boycott nonconforming businesses, but desire to boycott diminishes as respondent costs rise.

In February 2022, when Western nations responded to Russia's military buildup and subsequent invasion of Ukraine by imposing severe sanctions, private companies soon followed suit. More than 1,000 companies, employing over 1 million Russians, left Russia in the months following the invasion.

This relatively new phenomenon of private companies joining state sanctions is explained by different theories, including value-maximization aimed at protecting corporate reputation, and "woke-washing," or making cheap business decisions to appear morally virtuous. Understanding why firms choose to act against states is important not only for those firms' valuations but, importantly, for international political strategy as well. That is, if private sanctions become a part of modern warfare, then it behooves states to understand firms' motivation.

This new research addresses this issue by studying the reaction of firms' stakeholders. Do people support such action by private companies? Do they expect it? Are people willing to pay a personal cost to support such action? To examine these and related questions, the authors survey 3,000 US "hypothetical stakeholders" who are randomly allocated to three different treatments wherein they consider themselves an

Figure 1 • Firms' Stakeholders Willingness to Punish



Note: This Figure represents the percentage of respondents willing to punish for categories of impact of the participant on the firm, cost of punishing, political orientation, decision to donate, concern about Ukrainian war, and condition assigned to respondent.

employee, a customer, or a shareholder of a firm that refuses to close its Russian operations. The authors find the following:

1. Stakeholders want the companies they patronize to take a position.
 - Only 37% of the respondents (whether a customer, employee, or shareholder) think that leaving Russia is a pure business decision, best resolved by weighing the economic costs and benefits.
 - Just 30% say that only the government should impose sanctions.
 - For 61%, “doing business in Russia is like being an accomplice of the war” and a “company should sever its ties to Russia, whatever the consequences.”
2. A majority of stakeholders are willing to punish companies that refuse to halt their Russian operations, but their “willingness to punish” is strongly sensitive to the personal cost they pay.
 - With no personal cost, 66% of the respondents are willing to punish non-exiting companies.
 - If boycotting carries a cost of \$100, 53% are still willing to boycott, and that number falls to 43% when the cost is \$500.
 - Sensitivity to cost suggests that participants trade off their moral obligation with their personal cost, which also suggests that answers to hypothetical questions are not pure virtue signaling.
3. To guide their analysis of factors (besides costs) that impact an individual’s decision to boycott a firm, the authors develop a simple framework with three components: a moral imperative, independent of consequences; a (randomized) dollar cost of acting; and the welfare impact of the moral action (partly randomized). Please see the working paper for more details, but this exercise reveals the following:
 - The moral motive is worth about \$250 for average participants, with a standard deviation of \$2,000; this range is estimated from the fraction of participants who refuse to punish even if the cost is zero.
 - Participants who claim willingness to punish “even if no one else does it” have a moral motive on average worth \$1,000, instead of \$250 for the sample average. A similar impact is observed for participants who answer that “the firm should exit Russia, no matter what.”
 - Being told that their “punishing action” will negatively affect the company has little effect on respondents’ answers.
4. Finally, the authors find that the willingness to impose sanctions is highly related to moral values.
 - Participants with a high score on compassion and authority, and a low score on purity and loyalty, are much more willing to punish the “immoral” firm.
 - Older generations are much more willing to punish the firm for not leaving Russia than younger ones, which stands in stark contrast with the commonly held view that the younger generation is politically more sensitive (a difference possibly explained by older respondents’ experience of the Cold War with Russia).
 - Liberals are more willing to impose sanctions than conservatives, but the additional explanatory power of political leanings is small.

Bottom line: The assertion that firms should focus only on profit maximization is challenged by this paper’s findings, which reveal that a majority of Americans prefer that private firms engage in sanctions to effect public change, as revealed in the case of Russian sanctions meant to end the war. Further, this work offers a methodology to predict which firms will impose private sanctions and in what situations.

READ THE WORKING PAPER

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