

DO SANCTIONS ON RUSSIAN COMPANIES REALLY WORK? THE USE OF FORMAL AND INFORMAL INSTITUTIONS TO FACILITATE INTERNATIONAL TRADE

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Abstract

This commentary focuses on the concepts of formal and informal institutions in the context of Russia, the most sanctioned country in the world. We draw on our experience working in Russia and with Russian companies as well as our research with Russian companies, outlining the importance of understanding the contextual cultural nuances to understand how multinational corporations overcome sanctions. We argue that Russian companies have learnt over the years how to operate in foreign markets despite being from a heavily sanctioned country. Understanding Russian companies can help shed light on the ability of these companies to become adaptable and resilient in domestic and international markets.

Introduction

Russia is the most sanctioned country in the world with over 28,000 sanctions imposed on Russia since April 2014, when Russia annexed Crimea. These initial sanctions largely affected individual businessmen and organisations such as banks and oil companies.¹ Since 2022 the imposition of sanctions has intensified significantly and impacted many Russian businesses' global operations.² This has also destabilised the institutional framework in Russia, with the Russian government tightening control over home operations. Sanctions are supposed to have a long impact on the sanctioned states in the form of punishment for illegal behaviors. The Western sanctions have certainly created barriers for Russian companies' operations abroad, however, these businesses have learnt how to operate under sanctions and developed a high degree of resilience. These operations are largely performed through long-lasting connections established with the former Soviet Union countries that are now part of Europe. This allows them to pivot their operations by having historically validated and developed strategies in place.

We adopt two key concepts from the International Business (IB) discipline – formal and informal institutions. The formal ones represent laws and regulations and informal ones include norms and beliefs. Both are shaped by the historical development of the state. The way companies use these institutions is also impacted by the historic evolution of these institutions; the institutions do not develop in a vacuum. We want to draw attention to the term "use of

¹ Nureev, R., & Petrakov, P. (2016). Economic sanctions against Russia: expectations and reality. *The Business & Management Review*, 7(5), 165.

² Kalotay, K., & Weiner, C. (2022). *The impact of sanctions on Russian business abroad and Hungarian business in Russia: Parallel stories of adjustment* (pp. 110-117). Emerging Markets Institute, SC Johnson College of Business, Cornell University.

institutions". Russian companies have learnt exceptionally well how to “use” both formal and informal institutions to their advantage in both home and host markets. Our observations are positioned at the organisational level of analysis. However, we ground our observations in the historical perspective of state development from Political Science at the macro level. This can help us understand some of the decisions that Russian companies have made since the beginning of the war in Ukraine in February 2022. For this commentary, we focus on sanctions in general and their impact on international trade of Russian companies, we do not look at the impact of sanctions on the individuals.

This commentary is structured as follows. We first provide some research background of our work experience and research in Russia and with Russian companies. We then provide an overview of the role of sanctions in international business. The theoretical grounding of the use of formal and informal institutions is then discussed, which is followed by an explanation of how Russian companies defy the sanctions by MNCs pulling resources together and parallel imports. We finish with concluding remarks.

Our contextual background

Both authors are from Russia. The first author, Anna, was born and grew up in Russia but has lived outside of Russia for 23 years. Anna still has a family business in Russia and has seen and experienced firsthand the use of institutions to develop your own institutional ‘pathway’ for companies to operate. Anna has also done research in Russia with Russian MNCs.

The second author, Marina, was also born in Russia and resides in Australia. Marina owned and operated her own business consultancy in Russia for many years before moving into academia. Running a business herself, Marina experienced the use of institutions and how they can be manipulated to operate successfully in the Russian environment. Both authors conduct research on the impact of sanctions on Russian MNCs’ internationalisation.

Sanctions

Sanctions have been used for many years to apply economic, diplomatic, or military pressure on states, organisations, and individuals that violate established international rules or to achieve certain geopolitical objectives state.³ Sanctions can have a significant impact on trade between home and host countries and their respective firms' operations in the domestic and foreign markets.⁴ Increasing geopolitical tensions between states and regions intensify government involvement and interventions in companies' international operations.⁵

Due to the imposition of sanctions, the institutional environment and the use of formal and informal institutions by different stakeholders in the sanctioned country go through significant changes.⁶ The effectiveness of formal and informal institutions during these changes depends on the enforcement mechanisms.⁷ Hence, operations for businesses from sanctioned countries may not be as straightforward. The actual effectiveness of sanctions is questionable because companies, businesses, and individuals find ways to continue their operations during sanctions.⁸

³ Meyer, K. E., Fang, T., Panibratov, A. Y., Peng, M. W., & Gaur, A. (2023). International business under sanctions. *Journal of World Business*, 58(2), 101426.

⁴ Gaur, A., Settles, A., & Vääänen, J. (2023). Do economic sanctions work? Evidence from the Russia-Ukraine conflict. *Journal of Management Studies*. 60(6), 1391-1662.

⁵ Meyer, K. E., & Li, C. (2022). The MNE and its subsidiaries at times of global disruptions: An international relations perspective. *Global Strategy Journal*, 12(3), 555-577.

⁶ Peng, M. W. (2003). Institutional transitions and strategic choices. *Academy of Management Review*, 28(2), 275-296.

⁷ Earl, A., & Michailova, S. (2021). Home governments and MNEs in Russia: Relationships and MNE external legitimacy. *Journal of International Management*, 27(2), 100847.

⁸ Bajoghli, N., Nasr, V., Salehi-Isfahani, D., & Vaez, A. (2024). *How Sanctions Work: Iran and the Impact of Economic Warfare*. Stanford University Press.

The sanctions had a significant impact on the Russian economy, especially because of a massive decrease in oil prices in 2014-2015. However, the oil prices increased in 2022-2023 due to the supply shortage.⁹ The oil price cap on 3 December 2022, set at US\$60 per barrel, was meant to hurt the ability of Russian companies to trade oil and to hurt the Russian economy overall. However, the GDP in Russia has been growing significantly, from 5.804 trillion at the end of 2023 in Purchasing Power Parity to an estimate of \$8.022 trillion in 2024¹⁰. Russia being the most sanctioned country in the world and its economy growing, makes us question whether sanctions really work and how companies still manage to operate in foreign markets.

Use of institutions

Institutions in emerging economies are often classified by having voids in them and organisations trying to fill these voids¹¹. However, in the Russian context, voids are created on purpose so businesses can use these institutions fit for purpose. Institutions are perpetuated and modified by institutional actors in society, and hence institutional development is a product of history.¹² The Russian state has held power over national enterprises for centuries, and bureaucratic mechanisms are an expression of historic tradition. Thus, the home government's

⁹ Schott, J. J. (2023). Economic sanctions against Russia: How effective? How durable?. *Peterson Institute for International Economics Policy Brief*, 23-3.

¹⁰ World Economics. (2024). [Russia GDP | 2024 \(worldeconomics.com\)](https://www.worldeconomics.com/russia-gdp-2024)

¹¹ McCarthy, D. J., & Puffer, S. M. (2016). Institutional voids in an emerging economy: From problem to opportunity. *Journal of Leadership & Organizational Studies*, 23(2), 208-219.

¹² Buck, T. (2003). Modern Russian corporate governance: Convergent forces or product of Russia's history? *Journal of World Business*, 38(4), 299-313.

involvement carries historic value for companies today and helps them to use these institutions by providing knowledge about how organizations can use these institutions.¹³

Political systems are shaped by historical contexts, with old institutionalism emphasizing the role of law as a foundation for analysing political systems and their major institutional features.¹⁴ While old institutionalism has influenced the development of new institutionalism, the latter incorporates the rational choice perspective, which argues that individuals' calculated behaviors determine their actions, rather than being primarily shaped by historical foundations.¹⁵ Moreover, new institutionalism views the relationship between political and socioeconomic environments as flowing from society to politics, whereas old institutionalism recognizes this interaction as bidirectional.¹⁶

The use of institutions in Russia is very much developed by the historical political system that is driven by bureaucratic mechanisms.¹⁷ Companies use formal institutions by the government tipping them how they can use laws and regulations and use informal institutions such as *svyazy* (relationships) and *blat* (favor, informal form of agreements) to develop their

¹³ Earl, A., Michailova, S., & Stringer, C. (2022). How Russian MNEs navigate institutional complexity at home. *International Journal of Emerging Markets*, 19(10), 3040-3062.

¹⁴ Evans, P., Ryeschemeyer, D., & Skocpol, T. (1985). *Bringing the State Back in*. Cambridge, UK: Cambridge University Press.

¹⁵ Kitschelt, H. (2000). Linkages between citizens and politicians in democratic politics. *Comparative Political Studies*, 33(6–7), 845–879.

¹⁶ Peters, B. G., & Pierre, J. (2020). *The New Institutionalism in Political Science*. Handbook of Political Science. London: SAGE

¹⁷ Gel'man, V. (2011). Institutional trap in Russian politics: Still no way out. PONARS Eurasia Policy Memo No.151. The George Washington University Elliott School of International Affairs.

own institutional ‘pathways’ to continue operations¹⁸. Through the historical development of an institutional environment in Russia, these companies have learnt and developed strategies on how to use institutions to facilitate international trade. We discuss two distinct strategies below.

The increase in sanctions intensified the use of formal and informal institutions through MNCs' being able to pull on their financial and human resources collectively so they can still operate in Europe successfully and use parallel imports to allow import goods from Europe and other parts of the world into Russia. The Russian government changed the law in March 2022, allowing parallel imports of several luxury goods into the country.¹⁹ This made parallel imports more “legal”, and it illustrated that formal institutions in the Russian political and business context can be changed fast and informal institutions (*svyazi* and *blat*) can become crucial in enabling both resource pulling and parallel imports. The two strategies described below are similar in a way that both rely on informal institutions. However, MNCs’ resource pulling relies largely on domestic informal institutions and remaining ally countries in Europe, to export Russian goods, while parallel imports largely rely on connections in the whole global supply chain in order to import goods into Russia.

¹⁸ Michailova, S., & Worm, V. (2003). Personal networking in Russia and China: Blat and guanxi. *European Management Journal*, 21(4), 509–519.

¹⁹ Perry, D., Rapa, A., & Ghasletwala, F. (August 2022). What trademark holders should know about Russia's authorization of parallel imports. [Trademarks, Professional Perspective - What Trademark Holders Should Know About Russia's Authorization of Parallel Imports](#)

MNCs' resource pulling

The institutional environment in Russia has strengthened because of the historical development of the political system.²⁰ Russian companies have learnt how to thrive under sanctions by relying on informal institutions and pulling financial, operational, and human resources together. These companies also understand very well that formal institutions, such as laws and regulations, and their implementation mechanisms can change drastically and fast overnight. Hence, having a network of informal institutions in place can help overcome this barrier. Since the collapse of the Soviet Union in 1991, government officials went on to lead some companies in former Soviet Union countries. This provided a platform to strengthen *svyazi* between Russian managers and government officials with those managers and officials in European countries that were former Soviet Union²¹. This shows the power of historic development of the use of formal and informal institutions. These historic connections have enabled to building of an institutional environment where Russian companies can pull their resources together and operate in foreign markets.

Resource pulling strategy was very popular when sanctions were imposed on Russia in 2014 after the annexation of Crimea. The usual supply chain was interrupted due to sanctions, hence companies had to find alternative ways. They began to use their informal institutions developed because of historic connections in former Soviet Union countries to use the same trade containers and railway infrastructure to ensure that their goods reached foreign markets²².

²⁰ Puffer, S. M., & McCarthy, D. J. (2011). Two decades of Russian business and management research: An institutional theory perspective. *Academy of Management Perspectives*, 25(2), 21-36.

²¹ Kyj, M. J., & Kyj, L. (2009). An institution–stakeholder framework for examining business relationship dynamics in a transforming Eastern Europe. *Journal of World Business*, 44(3), 300–310.

²² Earl, A., Michailova, S., & Stringer, C. (2022). How Russian MNEs navigate institutional complexity at home. *International Journal of Emerging Markets*, 19(10), 3040-3062.

This allowed them to pull their financial and operational resources together. Interviewing a Sales Director from a Swiss subsidiary of a Russian MNC in March 2022, Anna, the first author, found that even after sanctions were introduced, Russian MNCs put together money and physical infrastructure (trainways and trading containers) to export goods around Europe. More importantly, these MNCs shared one export manager who had the strongest connections in Europe. The managers of these companies have a very strong informal network, and they use *blat* amongst them to pull the human resources together from Russian companies, to facilitate international transactions and engage in international trade particularly with European countries due to proximity²³. The importance of the historic development of the political system as well as the experience that Russian companies have operating during sanctions has proven to be one of the key valuable assets for these companies' ability to overcome sanctions.

Parallel imports: grey area or business as usual?

The role of government in forming an institutional environment is critical, particularly in Russia, because the Russian government can change formal institutions e.g. laws, overnight. Parallel imports are often considered a grey area because there is no unified international legislation about it. This allows for a lot of flexibility for different states to adjust and use parallel import legislation.²⁴ The use of parallel imports is not new for Russian businesses, however, it has become a powerful tool for Russian companies since the beginning of the war

²³ Michailova, S., & Worm, V. (2003). Personal networking in Russia and China: Blat and guanxi. *European Management Journal*, 21(4), 509–519.

²⁴ Pederson, C. (2023). The Impact of the exhaustion of rights doctrine on parallel imports and international trade. *Indiana Journal of Global Legal Studies*, 30(2), 391-415.

in Ukraine.²⁵ For example, Zara, which is a clothing brand from Spain, still has its goods supplied to Russia, which are sold in shops with a different name “Panika” (Panic), and the goods are shifted to Russia from a legitimate supplier from Kazakhstan.²⁶ Russian government’s amended legalisation of parallel imports in March 2022, allowing goods to enter the country without the consent of the rights holder.²⁷ This helped Russian businesses to establish a network of alternative supply chains to import restricted goods through third countries, such as Belarus, Kazakhstan, Moldova, China, and India, as well as export Russian goods to other countries through these alternative networks.

Although sanctions have been imposed on Russian companies and individuals, foreign companies still operate in the Russian market by engaging in parallel imports with Russian businesses. These unofficial distribution networks again have been facilitated by the historic development of an institutional environment in Russia and wider European countries. This historic connection comes from the political system of the Soviet Union and culture where connections can be powerful, and businesses invest a lot in nurturing these connections. Parallel imports hence provide an institutional pathway to overcome sanctions. They also facilitate business connections to grow and strengthen between different markets.²⁸ Furthermore, parallel

²⁵ Yampolskaya, D. O., Poberezhnaya, D. S., & Krivomlin, A. D. (2024). The impact of parallel imports on the activities of Russian marketplaces. In *Sustainable Development of the Agrarian Economy Based on Digital Technologies and Smart Innovations* (pp. 43-49). Cham: Springer Nature Switzerland.

²⁶ The Guardian. (2022). [The grey Zara market: how ‘parallel imports’ give comfort to Russian consumers | Russia | The Guardian](#)

²⁷ TKM. (2024). [TKM helps the companies to block unauthorized importers | TKM - International Consulting \(tkm-ic.com\)](#)

²⁸ Erdőháti-Kiss, A., Janik, H., Tóth, A., Tóth-Naár, Z., & Erdei-Gally, S. (2023). The effectiveness of Russian import sanction on the international apple trade: Network theory approach. *Journal of Eastern European and Central Asian Research (JEECAR)*, 10(5), 712-726.

imports provided opportunities for small-to-medium enterprises to engage in international trade, which prior to the sanctions in 2022, was almost monopolized by MNCs. In this regard, sanctions contradict their initial purpose of punishing individuals, businesses, and countries for illegal behavior, because they are enabling parallel imports to become business as usual.

Concluding remarks

The key question that we tried to address in this commentary is: do sanctions work to stop Russian companies from engaging in international trade? The answer is quite simple, No. Sanctions might destabilize the home and host institutional environments. However, Russian companies have always found an alternative way to engage in international trade. This is not surprising considering that the Russian institutional environment goes through "shock therapy" almost every three years, and Russian companies are largely immune to these events. They have been building an inventory of experience, skills, knowledge, and connections around the world, which helps them to evade sanctions.

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