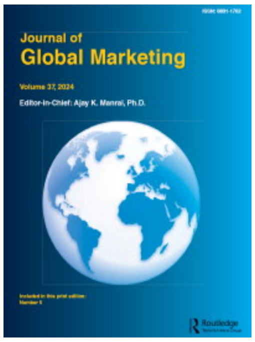

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Mehdi Rasouli Ghahroudi, P. V. (Sundar) Balakrishnan & Yasuo Hoshino

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RESEARCH ARTICLE

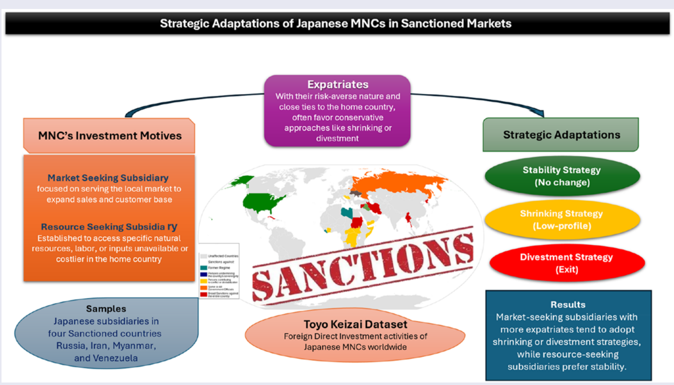
Strategic Adaptations of MNCs in Sanctioned Markets: The Impact of Investment Motives and Expatriate Presence

Mehdi Rasouli Ghahroudi[a], P. V. (Sundar) Balakrishnan[a] and Yasuo Hoshino[b]

[a]School of Business, University of Washington, Bothell, WA, USA; [b]University of Tsukuba, Tsukuba, Japan

ABSTRACT
This study examines the strategic choices of multinational corporations (MNCs) operating in sanctioned markets and their implications for global marketing strategy. Using the Toyo Keizai dataset alongside data from the World Bank and UNCTAD's World Investment Reports, we analyze 332 observations from 92 Japanese MNCs in Russia, Iran, Myanmar, and Venezuela. Our findings highlight that investment motives and expatriate presence significantly influence MNCs' strategies. Market-seeking subsidiaries with more expatriates tend to adopt shrinking strategies, while resource-seeking subsidiaries prefer stability. These behaviors differ from non-sanctioned markets, where market-seeking subsidiaries lean toward stability. Building on real options and resource dependency theories, this paper introduces a strategic adaptation framework to analyze MNC behavior in sanctioned markets by exploring strategic responses beyond divestment, to include stability and shrinking; and illustrating how investment motives and expatriates together shape marketing strategies. Our findings provide actionable insights for global managers on balancing investment motives, expatriate involvement, and strategic flexibility to adapt effectively while maintaining a market presence under sanctions.

GRAPHICAL ABSTRACT



KEYWORDS
Sanctions; investment motives; MNC strategy; global markets; real option theory; resource dependency theory

Introduction

Multinational corporations (MNCs) face substantial challenges in turbulent foreign markets, where geopolitical conflicts and economic sanctions disrupt operational norms. Sanctions, a diplomatic tool used to enforce political objectives, compel firms to navigate complex compliance while safeguarding investments. Mitsubishi Corporation, for example, maintained its involvement in Russia's Sakhalin-2 energy projects despite significant sanctions, illustrating MNCs' deliberate strategies (Tokunaga & Suganuma, 2020). Existing research on MNC strategies under sanctions often emphasizes market exits (e.g., Dai et al., 2023; Li & Rugman, 2007) while neglecting the broader spectrum of adaptive responses.

This study addresses this gap by exploring the strategic decisions that MNCs employ—beyond mere divestment—to sustain operations under sanctions. Specifically, we aim to answer the

CONTACT Mehdi Rasouli Ghahroudi rasouli@uw.edu School of Business, University of Washington, 18115 Campus Way NE, Bothell, WA 98011-8246, USA.

following questions: How do investment motives from parent corporations, such as resource-seeking *vs.* market-seeking, shape strategic choices in sanctioned markets? What role does expatriate presence play in determining these strategies? How do MNC strategies in sanctioned markets differ from those in non-sanctioned markets? Our paper analyzes how investment motives and expatriate presence influence MNC strategies.

Building on real options and resource dependency theories, this study introduces a strategic adaptation framework to analyze MNC behavior in sanctioned markets. Real options theory offers a lens to evaluate strategic flexibility under uncertainty, while resource dependency theory explores how external dependencies shape decision-making (Pfeffer & Salancik, 1978; Tseng & Chen, 2013). The framework categorizes MNC strategies into three broad approaches: stability, shrinking, and divestment. Stability strategies, or maintaining the status quo, range from minimal operational changes to further entrenchment in existing investments. Shrinking strategies involve scaling back operations to reduce exposure while preserving a foothold, such as halting new investments or repatriating expatriates. Notably, Japan Tobacco suspended new investments in Russia while maintaining ongoing operations, reflecting a cautious approach to managing risks. Divestment represents partial or full market exits, often necessitated by unsustainable risks or redundant subsidiary activities (Belderbos & Zou, 2009). This study broadens the strategic lens, offering insights into MNC flexibility and actionable guidance for navigating volatile environments.

Recent geopolitical conflicts, such as Russia's annexation of Crimea and Iran's nuclear activities, have intensified economic and political pressures for MNCs, complicating their strategies for navigating risks and opportunities in these volatile environments. Japanese MNCs find themselves in a complex dialectic when operating in sanctioned markets, balancing potential losses from a full exit against the risks of ongoing engagement. These dynamics necessitate careful consideration of both investment motives and expatriate presence as critical factors influencing strategic decisions. Subsidiaries with resource-seeking motives, for example, may prioritize maintaining presence in the host country for access to their critical resources despite sanctions, while subsidiaries with market-seeking motives might assess the viability of continued operations based on market conditions and risks.

Shrinking is a richer and more nuanced strategy that allows firms alternate mechanisms to scale back operations (i.e., "*lurking in the shadows*") to mitigate risks while maintaining a foothold in sanctioned markets. This approach may involve actions, such as halting manufacturing, suspending shipments, freezing new contracts, reducing operational profiles, or relocating expatriate employees. For example, Marubeni reduced its exposure in Russia by cutting investments by 12.6 billion yen in 2022 while maintaining selective involvement in critical projects. Similarly, Takeda suspended new clinical trials in Russia but continued managing its existing commitments. Shrinking allows firms to conserve resources, reduce compliance risks, and wait for more favorable geopolitical conditions. This strategy exemplifies strategic flexibility, enabling MNCs to respond dynamically to sanctions without completely forfeiting market opportunities.

Additionally, shrinking often involves leveraging local talent to replace expatriate managers, reducing operational visibility while sustaining key functions. For instance, Japan Tobacco operates with reduced expatriate staff in sanctioned markets while retaining sufficient local personnel to manage day-to-day operations. This balance ensures the firm remains agile in adapting to future changes. By "lurking in the shadows," MNCs preserve their ability to reenter or expand operations rapidly once sanctions are lifted or geopolitical conditions stabilize.

To investigate these strategic adaptations, we analyze a georeferenced dataset of Japanese MNC subsidiaries in four sanctioned countries (Russia, Iran, Myanmar, and Venezuela) from 2000 to 2022. The dataset is supplemented with data from the World Bank and UNCTAD's World Investment Reports to assess the influence of investment motives and expatriate presence on strategic choices. This multilevel analysis enables us to test hypotheses related to each strategy and its interaction with market dynamics. For example, firms with resource-seeking motives, such as Mitsui &

Co's stakes in Sakhalin-2, are more likely to maintain a presence, even under sanctions, to secure access to critical resources. Similarly, expatriate presence influences strategic decisions, as expatriates often advocate for conservative approaches like shrinking or divesting to mitigate risks (Gaur et al., 2019). This research design provides a robust framework to analyze strategic flexibility in sanctioned markets.

We explicitly focus on sanctioned countries, unlike prior studies that have primarily studied conflict zones (e.g., Abdelzaher & Ramadan, 2023; Cornwell et al., 2023; Dai et al., 2023) which differ significantly. Sanctioned countries face economic or trade restrictions due to political, human rights, or security concerns, while conflict zones are characterized by active hostilities and military operations that pose significant risks to civilian populations (Chen, 2017; Dai et al., 2013;Getz and Oetzel, 2009). Although overlaps exist, not all conflict zones are sanctioned (e.g., Sudan), and not all sanctioned countries are conflict zones (e.g., Iran, Venezuela, and Belarus). This distinction is critical to understand how MNCs adapt their strategies to the unique challenges of sanctions. This enables us to draw clearer comparisons between sanctioned and non-sanctioned markets, offering insights into how geopolitical and economic pressures influence strategic choices differently across these contexts.

Our study contributes to global marketing and international business literature by broadening the understanding of MNC responses to sanctions. First, we expand real options and resource dependency theories by incorporating strategic flexibility as a critical variable in navigating uncertain environments. For example, shrinking operations—a common strategy among Japanese MNCs—demonstrates how firms reduce exposure while retaining the potential to scale operations when conditions improve. Second, we address a critical gap in sanctions literature by analyzing firm-level strategies, in contrast with existing studies that primarily focus on country-level impacts (Paul & Feliciano-Cestero, 2021). Third, we provide actionable insights for policymakers and managers, emphasizing the importance of balancing investment motives, workforce composition, and strategic flexibility in managing sanctioned markets. By doing so, we offer a nuanced perspective on how MNCs adapt to geopolitical and economic disruptions, contributing both to academic theory and managerial practice.

In the next two sections, we review the literature and develop hypotheses on MNC behavior in sanctioned markets. In section 4, we outline the data and research methods, and in Section 5 presents our analyses and results. We conclude in section 6 with a discussion of our findings, their theoretical and managerial implications, and avenues for future research.

Literature review

The advent of globalization has created both opportunities and challenges for Japanese MNCs. In an increasingly interconnected world, they must continually adapt to dynamic and ever-evolving market conditions (Grewal et al., 2018). This is particularly evident in regions affected by conflict or subject to sanctions, where navigating distinct cultural and regulatory landscapes presents significant hurdles (Qiu & Homer, 2018). Crafting effective strategies and maintaining compliance in volatile and uncertain environments remain critical hurdles for Japanese MNCs as they strive to remain competitive on the global stage (Randrianasolo, 2021).

Entry into a foreign market is often motivated by specific incentives unique to each multinational corporation (MNC). Consequently, the behavior of a subsidiary within a host country is shaped by the investment motives of its parent company, which dictate its market entry strategy (Morschett et al., 2015, p. 79). Theories, such as real options and resource dependency provide valuable frameworks for understanding the strategic decisions MNCs make in foreign markets, particularly under uncertainty. These theories shed light on how MNCs adjust their strategies and subsidiary structures in response to external pressures, such as those encountered in sanctioned markets. Resource dependency theory, in particular, illustrates how firms navigate uncertainty by adapting their strategies to maintain control over critical resources (Meyer et al., 2023).

The strategic approaches adopted by MNCs in foreign markets are influenced by a multitude of factors, including investment motives, international experience, organizational capabilities, transaction costs, subsidiary performance, and the host country's economic conditions (Schmid & Morschett, 2020). In turbulent environments, the adjustment of strategies hinges on considerations, such as reputational risks, the scale of business prospects, and the degree of irreversible investment in the target market. Additional determinants identified by researchers include local knowledge (Kim et al., 2010), organizational factors (Kafouros et al., 2022), relational capital (Yayla et al., 2018), inter-subsidiary sales, expatriate allocation, and institutional environment (Gaur et al., 2019). Prior experience with divestment (Kolev, 2016), the subsidiary's mandate portfolio (Lee et al., 2019), its capabilities (Olarewaju & Ajeyalemi, 2023), and incremental innovation (Tan & Sousa, 2019) also significantly influence strategic decision-making in global markets.

Mayer and Thein emphasize the role of institutional constraints and introduce the concept of a "low-profile strategy," outlining how home-country pressures shape MNC performance in international markets. Stępień and Weber (2020) observed that European companies affected by EU sanctions on Russia often intensified their activities within the sanctioned country, leveraging local markets and intangible assets to sustain operations. Similarly, Lee and Chung (2022) propose a proactive survival strategy for Japanese MNCs operating in conflict-affected host nations. This strategy involves restructuring operations and resource-seeking activities within subsidiaries to enhance their strategic value. By doing so, MNCs can access critical resources more cost-effectively and avoid the need to exit volatile markets. Ultimately, MNCs can make informed decisions to manage uncertainty and control resource dependency in local markets, thereby aligning their global strategies with local operational realities (Li & Rugman, 2007).

Real option theory and MNC strategy

The real options theory has been extensively embraced to examine diverse topics in international management, including performance, entry strategies, divestment, joint ventures, operational exposure, and MNC networks (e.g., Belderbos & Zou, 2009; Chi et al., 2019; Lee & Chung, 2022; Tong & Li, 2008).

Sanctions, as a form of uncertainty, present MNCs with significant challenges that are critical in shaping their strategic decision-making. Real options theory offers a robust framework for analyzing MNCs' strategies in hostile environments (Dai et al., 2023; Li & Rugman, 2007). To strategically capitalize on uncertainty, MNCs can establish real options, such as divesting, downsizing, or further developing operations. These options allow Japanese MNCs to adapt their strategies effectively in response to turbulence and challenges (Li & Rugman, 2007; Buckley et al., 2007). Therefore, ROT has significantly advanced our understanding of MNCs' decision-making processes under uncertainty (Belderbos & Zou, 2009; Li & Rugman, 2007; Tong & Reuer, 2007). In accordance with the tenets of real options theory, the MNC possesses the capacity to curtail market commitment, and even leverage the option of diminishing resource dependency on the local market, particularly due to the valuable nature of the deferral option (Li & Rugman, 2007; Tong & Li, 2008). Simultaneously, guided by the organizational learning theory, MNC subsidiaries are empowered to make judicious decisions aimed at regulating and mitigating endogenous uncertainty (Li & Rugman, 2007).

Previous research indicates that firm factors like empirical knowledge, assets, capabilities, product diversity, human resources, and performance influence company decision-making under conditions of uncertainty (Kafouros et al., 2022). Yet, critical external determinants—such as political stability, country risk, institutional quality, market growth, developmental stage, economic stagnation, and active sanctions—play a significant role in heightening uncertainty. These factors are pivotal in guiding MNCs to select suitable real options for their international strategy. Notably, such "defiance" strategies can undermine the effectiveness of sanction policies, reducing their intended economic and political impact (Stępień & Weber, 2020).

MNCs employing a proactive survival strategy, which involves restructuring the operations of a foreign subsidiary situated in conflict-affected host nations, could substantially improve their prospects for survival (Lee & Chung, 2022). Moreover, these subsidiaries might consider pursuing or obtaining operations geared toward resource seeking operation, all while judiciously managing the overall count of operations. This approach aims to amplify the subsidiary's value as a strategic switching option, facilitating the MNC's access to essential raw materials at favorable costs while sidestepping the necessity for divestment. We argue that subsidiaries in host countries with valuable resources or strategic importance may exert considerable influence over MNCs, compelling them to maintain a presence despite sanctions. Conversely, powerful MNCs can leverage their economic importance to negotiate more favorable conditions or exemptions. This interplay can shape the extent to which companies adopt divestment, stability, or shrinking strategies (Hillman et al., 2009).

Resource dependency theory and MNC strategy

A fundamental premise of RDT is that an organization's reliance is contingent upon factors within its external environment (Lin, 2019). Sanctions pose a significant environmental challenge to the operational endeavors of companies in the targeted country. Consequently, from a managerial perspective, the level of assets and investments allocated within the sanctioned market, coupled with the magnitude of sales and revenue generated therein, directly influences the complexity of divesting a subsidiary or exiting the market for MNCs (Peng & Beamish, 2014). As a result, corporations strive to implement suitable strategies and remedies aimed at enabling sustained operation within the target market to mitigate the adverse repercussions of sanctions. The RDT centers around the influence of trade relationships and reliance stemming from access to resources within a sanctioned host country (Chen et al., 2012). This is done to uphold connections and sustain economic operations in the intended market in the face of potential risks and expenses.

Environmental risks and uncertainties impact a firm's ability to acquire essential resources and influence its approach to operating in foreign markets (Kogut and Singh, 1988). Resource Dependency Theory (RDT) provides a valuable framework for understanding the behavior and strategic decisions of MNCs as they manage dependencies and navigate complex global environments. RDT posits that firms rely on external resources for survival and success, prompting them to adopt strategies that manage these dependencies and reduce uncertainty (Pfeffer & Salancik, 1978). By analyzing how investment motives shape MNC strategies in sanctioned countries, we gain critical insights into the mechanisms and approaches firms use to thrive in challenging environments. As resources circulate within an MNC network, reliance on a subsidiary with resource-seeking motives presents a complex challenge. The MNC must choose between continuing operations to secure natural resources or divesting from the sanctioned market, which involves opportunity costs by forgoing available real options (Dai et al., 2017). A third strategic option for MNCs is a shrinking approach: reducing the scope and scale of operations and adopting a low-profile strategy to weather market uncertainty until sanctions are lifted.

Expatriates' role in MNC strategy

Expatriate managers are defined as those who do not reside in the country in which they work, and who are assigned to the host country due to specific operation capabilities and according to the decision of the parent company (Kong et al., 2018). Their presence is often linked to various strategic outcomes, including knowledge transfer (Kim et al., 2024; Wang & Chen, 2023), cultural integration (Harzing et al., 2016), and subsidiary performance (Fang et al., 2010; Minbaeva et al., 2003). Expatriates are viewed as critical resources, bringing essential knowledge, transfer capabilities, and local networks from the parent company to the subsidiary (Chen et al., 2012). Expatriates help MNCs manage local operations, understand the regulatory framework, and uphold strategic control (Fang et al., 2010), and their presence is positively linked to the subsidiary's longevity and success (Gong, 2003).

Expatriates play a pivotal role in adapting corporate strategies to local market conditions, ensuring that subsidiaries effectively respond to dynamic environmental changes (Harzing, 2001). Their expertise and on-the-ground presence enables multinational corporations (MNCs) to bridge the gap between global strategies and local market needs. By leveraging their knowledge and experience, expatriates provide critical insights into tailoring MNC strategies for competitive advantage in diverse cultural and economic contexts. Host markets often facilitate this adaptation by fostering both formal and informal interactions with expatriates, enhancing their learning opportunities, and aligning strategic objectives with local realities (Qu, 2012). During turbulent periods, expatriates serve as stabilizing agents, maintaining continuity in subsidiary operations by applying best practices and expertise from the parent company. However, their effectiveness can be constrained by challenges, such as cultural distance, high costs, and resistance to expatriate-driven strategic control from local stakeholders (Elango, 2024).

The uncertainty inherent in host markets complicates strategic planning and execution, particularly for global marketing efforts. Expatriates frequently face pressures related to managing crises, adapting to evolving regulatory landscapes, and addressing socio-political changes. These demands, compounded by the stress of cultural adjustment and risk exposure, can lead to burnout and diminished performance. Additionally, extreme conditions, such as international sanctions or geopolitical conflicts may pose security risks, adversely affecting expatriates' well-being and potentially leading to their premature departure (Harvey & Novicevic, 2001). Such disruptions can weaken subsidiary operations, sometimes compelling MNCs to consider divestment or scaling back their market presence.

Conversely, in host markets experiencing economic crises or political instability, expatriates play a critical role in sustaining operational resilience. They assist MNCs navigate uncertainties, mitigate risks, secure resources, and recalibrate strategies to align with shifting market dynamics (Caligiuri & Tarique, 2012). By adapting global marketing approaches to local realities, expatriates contribute to sustaining competitive advantage and fostering long-term success, even in volatile environments.

Hypothesis development

Considering the investment motives of Japanese MNCs, resource-seeking subsidiaries are less likely to face divestment due to the dependency and sunk costs imposed on the MNC network (Kolk & Lenfant, 2010). In contrast, market-seeking subsidiaries, which can be relatively easily substituted within an MNC network, may be closed during periods of uncertainty to limit the costs of operating in unstable markets (Belderbos & Zou, 2009). The flexibility to shift operations to alternative host markets within the MNC network reduces divestment costs, making it more feasible for MNCs with market-seeking motives to exit troubled markets (Dai et al., 2017).

MNCs with access to alternative market opportunities are more likely to view the costs of remaining in a volatile host market as exceeding the costs of divestment. In turbulent environments, real options, such as alternative investments, provide MNCs with the flexibility to redirect resources and pursue new opportunities (Sirmon et al., 2007). However, divestment remains a high-cost strategy that MNCs are generally inclined to avoid or defer, particularly under conditions, such as international sanctions.

MNCs are often aware of the potential lifting of sanctions in the future and may also anticipate opportunities to capitalize on a recovering host market. Additionally, the presence of firms from other countries that maintain economic exchanges with sanctioned nations adds complexity to the divestment decision. For example, when European MNCs scaled back or exited oil extraction and refining projects in Iran due to sanctions, Russian and Chinese firms quickly filled the gap, taking over these lucrative opportunities.

MNCs employ a wide range of resource dependence strategies and effectively manage their resource dependencies in diverse circumstances (Jiang et al., 2023). The impetus for seeking primary resources is rooted in the advantage of being a first mover, enabling access to local resources (Hennart & Larimo, 1998). Nonetheless, significant natural resources are frequently subject to partial control by the host government. Consequently, foreign enterprises striving to acquire these resources often find it necessary to establish partnerships with local counterparts (Morschett et al., 2015, p. 83). In situations where there exists a notable divergence in productivity and labor costs within the host nation, or where logistical expenses are diminished due to proximity to consumer markets, coupled with the availability of suitable suppliers, multinational corporations adopt an efficiency-seeking approach (Grünig & Morschett, 2012).

The resource-seeking strategy is simultaneously related to interdependence with the rest of the MNC, as resources acquired in the foreign market are either delivered directly to the MNC in the home country, sent to subsidiaries in other countries, or provided to other foreign companies in the host country (Dai et al., 2023; Lee & Chung, 2022). MNCs adopt this strategy due to access to natural and essential resources, lower resource costs in the host country, or the relevance of resources for the activities of the MNC in the host market. Among the primary motivations for starting operations in a foreign market is often access to new markets and sales potential in the host country (Getachew & Beamish, 2017). Therefore, the market-seeking strategy is determined based on the size of the market, market growth, and valuable customers in the target market. Another reason for moving production lines to foreign countries is the production cost advantages of a host market, even if the primary sales market is still the home country (Morschett et al., 2015, p. 85). The purpose of the efficiency-seeking strategy is to obtain specific location advantages for their activities, optimizing the production processes for the multinational company or reducing production and sales costs (Dunning, 1998).

Resource-seeking subsidiaries enable MNCs to secure raw inputs and optimize operations within their network. Consequently, uncertainty in such host markets is less likely to lead to subsidiary divestment (Lee & Chung, 2022). Instead, narrowing the scope of operations to mitigate risks while continuing resource-seeking activities can enhance the subsidiary's chances of remaining in the sanctioned market (Skovoroda et al., 2019). Therefore, for resource-seeking subsidiaries, divestment costs are higher due to their critical role in the MNC network. MNCs with resource-seeking motives in a host country are less likely to divest in response to sanctions because the opportunity and sunk costs of divestment exceed those of maintaining a stability strategy.

Dunning's (1998) typologies include resource-seeking motive in which the parent company makes direct investment to provide access to natural resources or raw materials that are not available in the original country, or that have competitive price or quality advantages in the host country (Getachew & Beamish, 2017). The efficiency-seeking motive is to achieve the advantage of reducing production and labor costs and economies of scale. Further benefits that MNCs seek include government incentives and tax breaks, developing an international production network, reverse import to the home market, and financial risk management. Market-seeking motive is to reach potential consumers through production and sales in the host country market or in a neighboring region. Therefore, investments are made for a competitive price advantage, creating distribution and sales networks, building new businesses, exporting to other countries, and managing trade disputes. The seeking of strategic assets includes acquiring information, new technology, and engaging in research and development (Bhattacharyya, 2020; Hong et al., 2019).

Given the overarching influence of resource dependence, our subsequent hypotheses, grounded in the principles of RDT, pertain to the diverse strategic pathways pursued by companies while operating within a sanctions-constrained environment:

> **Hypothesis 1a:** Resource-seeking subsidiaries are less likely to employ a shrinking strategy in sanctioned foreign markets.

> **Hypothesis 1b:** Resource-seeking subsidiaries are less likely to employ a divestment strategy in sanctioned foreign markets.

> **Hypothesis 1c:** Resource-seeking subsidiaries are more likely to employ a stability (i.e., status-quo) strategy in sanctioned foreign markets.

> **Hypothesis 2a:** Market-seeking subsidiaries are more likely to employ a shrinking strategy in sanctioned foreign markets.

Hypothesis 2b: Market-seeking subsidiaries are more likely to adopt a divestment strategy in sanctioned foreign markets.

Hypothesis 2c: Market-seeking subsidiaries are less likely to employ a stability (i.e., status-quo) strategy in sanctioned foreign markets.

Bebenroth and Froese (2020) argue that substituting expatriates with managers from the host country can lead to an enhancement in the performance of subsidiaries. Furthermore, the greater number of expatriates in subsidiaries facing exogenous uncertainty may increase the likelihood of survival. Since, during an overseas assignment, a foreign expatriate faces numerous professional and personal challenges caused by insufficient knowledge of the political, cultural, and economic conditions of the local country, adaptability seems to be a key factor in the success of expatriates (Chung & Beamish, 2005).

Expatriates' ties to their home country create challenges in adapting to novel circumstances, and the volatility prevailing in the host country and may contribute to a risk-averse disposition among expatriate managers (Qiu & Homer, 2018). This, in turn, tends to discourage their commitment to maintaining the company's operations in the face of sanctions. In such scenarios, Japanese managers often align their strategies with headquarters directives, curtail their market involvement, or choose to divest. Conversely, local managers, leveraging their market acumen, demonstrate a propensity for calculated risk-taking and an inclination to uphold subsidiary functions even within the confines of restricted operations (characterized as low-profile), amidst an atmosphere of uncertainty (Silbiger et al., 2021). Since Japanese managers and employees in a foreign subsidiary are considered expatriates within the local market, we propose that an increased reliance on expatriate employees may raise the likelihood of divestment while also diminishing the subsidiary's level of engagement within the sanctioned market.

We argue that expatriates, with their stronger ties to the home country, often exhibit lower levels of adaptation to new and uncertain host market conditions, making them more risk-averse and less inclined to support continued operations under sanctions (Bebenroth et al., 2008). This limited adaptation may reinforce an expatriate-led preference for divestment, as they may prioritize the parent company's stability and compliance over operational risks in the host country.

Hypothesis 3a: The presence of a larger number of expatriates in an MNC's subsidiary moderates the relationship between its investment motives and strategic choices thereby increasing its propensity to adopt a shrinking strategy in a sanctioned host market.

Hypothesis 3b: The presence of a larger number of expatriates in an MNC's subsidiary moderates the relationship between its investment motives and strategic choices thereby increasing its propensity to pursue a divestment strategy in a sanctioned host market.

Hypothesis 3c: The presence of a larger number of expatriates in an MNC's subsidiary moderates the relationship between its investment motives and strategic choices thereby increasing its propensity to adopt a stability strategy in a sanctioned host market.

Research method

Data and samples

Global marketing research requires distinctive data. Using reliable data alongside appropriate statistical analysis yields clear inferences about cause and effect (Bettis et al., 2014). For our empirical research, we utilized data on the direct investment activities of Japanese MNCs sourced from the comprehensive Toyo Keizai dataset, which compiles information from annual reports of Japanese subsidiaries worldwide. Our sample of Japanese MNEs was derived from *Kaigai Shinshutsu Kigyou Souran, Kuni-Betsu* (Japanese Overseas Investments, by Country), a Japanese-language directory of FDI information published by Toyo Keizai, covering global activities. To enhance this data, we integrated country-level control variables from the World Bank's Indicators and UNCTAD's World Investment Report 2022. This combined dataset enables us to test our framework and hypotheses.

As the world's third-largest economy, Japan holds a pioneering role in foreign investment, with numerous multinational companies spanning the globe. Post-World War II, it adopted a relatively neutral stance in most political conflicts, attenuating the influence of the home country on the outcomes. The response of MNCs to sanctions has drawn growing interest, with many firms struggling to determine appropriate strategies for remaining in or exiting sanctioned markets. A prominent example is the Yale School of Management's public-facing initiative, which documents multinational brands' responses to the Russian sanctions. The database categorizes companies by their response as either withdrawal, suspension, scaling back, buying time, or digging in. Japanese brands, such as Daikin, Fujifilm, Asics, Nissan, and Toyota illustrate the varied approaches taken by firms facing sanctions, demonstrating the deep impact these strategies have had on the Russian economy (Sonnenfeld et al., 2022).

The Toyo Keizai dataset has comprehensive information regarding foreign investment activities within sanctioned nations, which is typically challenging to obtain. Among the countries subjected to sanctions, data were available for: Russia, Iran, Myanmar, and Venezuela.[1] The data facilitates a more in-depth examination of subsidiary behavior. As a result, we were able to construct a subset of a wide range of 92 Japanese MNCs operating between 2000 and 2022 across these four countries encompassing 332 observations. We conduct research at multiple levels of analysis and employ various methods, including OLS regression, Cox hazard regression, and binary logistic regression. Our analyses examined the strategies of Japanese MNCs in four sanctioned countries.

Russia

Since 2014, the United States and the European Union have imposed diplomatic and economic sanctions on Russia in response to its annexation of Crimea. These sanctions limit Russia's access to EU capital markets, restrict sensitive technologies in oil exploration, and impose constraints on Russian banks and companies. Additionally, they prohibit the import and export of military equipment and curtail trade and diplomatic interactions (Abramova & Garanina, 2018; Bayramov et al., 2020). The primary goal is to compel Russia to change its behavior regarding Ukraine and cease military interventions (Doornich & Raspotnik, 2020). Sanctions have adversely affected Russia's economy, leading to a worsening investment climate, significant capital outflows, reduced GDP growth, and prolonged economic stagnation (Abramova & Garanina, 2018, 2016). According to the International Monetary Fund, Russia's economy contracted by 2.1% in 2022, the first year of the war. However, the IMF estimates that the economy rebounded with a 2.2% growth in 2023 and projects a growth rate of 1.1% for 2024.

Iran

Following the 1979 Iranian Revolution and the hostage crisis, the United States suspended economic and diplomatic relations with Iran, imposing sanctions on its financial sector, investments, and oil industry. In 2006, the United Nations Security Council imposed additional sanctions related to Iran's nuclear program, targeting nuclear activities, missile exports, and investments in oil, gas, and petrochemicals (Ghahroudi & Chong, 2020). The European Union also imposed sanctions to pressure Iran to comply with nuclear regulations, expanding these to include an oil embargo in 2012. Other countries, including Japan, Canada, Australia, India, and South Korea, have also imposed sanctions. Collectively, these measures have significantly impacted Iran's economy (Kandil & Mirzaie, 2021). The 2015 Joint Comprehensive Plan of Action (JCPOA) temporarily eased some sanctions, raising hopes for increased foreign investment (Ghahroudi et al., 2022). However, the United States withdrew from the JCPOA in 2018, re-imposing sanctions. Recently, escalating tensions in the Middle East—including the Gaza conflict, rising hostilities between Israel and Iran, and the deployment of Iranian-manufactured drones to Russia—have brought these sanctions back into focus. Iran was previously the most sanctioned country in the world until Russia surpassed it in 2022 due to sanctions following the invasion of Ukraine. Despite ongoing uncertainties, Iran's natural resources and technological infrastructure continue to attract multinational corporations (Koyama & Krane, 2021; Soltani & Wilkinson, 2011).

Myanmar (Burma)

Myanmar's economy, valued at $76.09 billion in 2019, is one of the fastest-growing globally, despite significant informal and illegal business activities. The military controls several key companies in the oil sector. From 1996 to 2011, international sanctions were imposed due to Myanmar's military regime (Meyer & Thein, 2014). Reforms led to the easing of some sanctions in 2012 and 2013. However, the 2021 military coup resulted in renewed sanctions due to escalating human rights violations. Foreign companies benefit from Myanmar's competitive natural resources and an inexpensive, efficient labor force. However, investing in Myanmar entails risks, including engagement with corrupt government elites who control the political and economic landscape, with regulations subject to change at their discretion (Soule et al., 2014).

Venezuela

The United States has imposed sanctions on Venezuela in response to drug trafficking, terrorism, human rights violations, corruption, authoritarianism, and anti-democratic practices. These sanctions include freezing accounts and assets, prohibiting transactions, seizing assets, implementing arms embargoes, and imposing travel restrictions. In 2022, the US, Canada, the UK, and the EU indicated their intent to ease some sanctions to encourage Venezuela to conduct free and fair elections in 2024. Additionally, fluctuating oil prices have prompted some European nations and the US to seek alternative oil sources beyond Russia.

Dependent variables

Our dependent variables include the stability strategy (maintaining the status quo), the shrinking strategy (reducing the range of activities), and the divestment strategy (exiting from sanctioned markets). MNCs may reduce their operational scope in uncertain conditions when a complete exit is not feasible or cost-effective due to long-term interests, resource dependencies, or the strategic importance of the host market within the MNC's network. This approach is sustained until the restrictions imposed by sanctions are mitigated. We specifically focus on the shrinking strategy, defined as a low-profile approach (Meyer & Thein, 2014), as our primary dependent variable. This variable is a composite measure, based on the average total reduction in equity held by the parent company and the ratio of reduction in subsidiary employee numbers within the sanctioned country. The stability strategy is coded as a dummy variable, assigned a value of 1 if the MNC's subsidiary maintains or expands its operations in the sanctioned country, and 0 otherwise. Similarly, the divestment strategy is coded as a dummy variable, with a value of 1 if the subsidiary exits the host market and is removed from the TK dataset, and 0 otherwise.

Independent variables

We build on Dunning's (1998) framework of MNC investment motives, as well as subsequent research (e.g., Bhattacharyya, 2020; Hong et al., 2019; Lee & Chung, 2022; Xie et al., 2016), to incorporate them into this study. Toyo Keizai dataset provides subsidiary mandates in seventeen investment motives categories which include, *Market seeking:* market access, building international networks of distribution, export to other countries, building new businesses, controls business of the area, trade conflict; *Resource seeking:* natural resources, materials; *Efficiency seeking:* labor intensity, tax breaks for investment, building international networks of production, export to Japan, financing, and currency hedging. Japanese MNCs utilize strategic asset-seeking motives (such as alliances with customers in Japan, information gathering, royalty revenue, and research and development) less frequently in the countries under our study. This can be attributed to market uncertainty and the availability of natural resources in these countries, coupled with their economic and political situations. Consequently, we incorporate asset-seeking motives into the resource-seeking subsidiary category. We thereby focus on three role typologies as independent variables: resource-seeking, efficiency-seeking, and market-seeking mandates.

For instance, Kanematsu in Iran, Amada in Russia, and Konoike Group in Myanmar are classified as resource-seeking subsidiaries. Similarly, Sumitomo operates as a resource-seeking subsidiary in Iran and Myanmar, as does Makita in Russia. Each investment motive variable was coded with a value of 1 if the subsidiary's primary investment motive aligned with that category. For instance, the market-seeking variable was coded as 1 if the subsidiary's motives were primarily market-seeking and 0 otherwise, using efficiency-seeking as the reference.

Moderating variables

Expatriates are employees dispatched from the home country to work in a subsidiary located in a host country. In this study, we explore the moderating effect of expatriates on the relationship between investment motives and MNC strategies in sanctioned markets. To quantify the expatriate presence, we employ a ratio metric, measuring the number of Japanese employees within a subsidiary relative to its total workforce (Lee & Chung, 2022).

Control variables

Country level factors

Previous studies have explored the relationships between sanctions and economic indicators within the host country. These indicators play a significant role in determining the subsidiary mandates and operational decisions of MNCs in foreign-sanctioned markets. The interaction between firms at national and local levels has not been clearly explored (Meyer & Peng, 2016). Thus, not paying attention to institutional factors can lead to misinterpretation of data obtained from different markets (Sahin & Mert, 2022). To control for host country institutions, we followed established practices (Lee & Chung, 2022; Oetzel & Oh, 2021). We used the average of the six World Governance Indicators (WGI) from World Bank data—political stability, absence of violence/terrorism, regulatory quality, voice and accountability, rule of law, government effectiveness, and control of corruption—to assess each country's institutional quality. The WGI percentile rank reflects a country's standing on the aggregate indicator, ranging from 0 (lowest rank) to 100. Additionally, we incorporated two World Development Indicators: FDI outflow and FDI inflow of the host country. FDI inflow is calculated as the sum of equity capital, reinvested earnings, other long-term capital, and short-term capital, as reported in the balance of payments, divided by the host country's GDP. This metric serves as an indicator of the host market's attractiveness (Delios & Henisz, 2003; Lee & Chung, 2022). We also included GDP growth data (sourced from the World Bank) to account for variations in market size. Due to the longitudinal nature of our study, we incorporated Japanese FDI outflow data from the World Investment Report (UNCTAD, 2022). Japanese FDI outflow represents the net outflows of Japanese investment to the rest of the world, normalized by GDP. This adjustment helps control for fluctuations in foreign investment originating from Japan, which may be influenced by factors, such as economic recessions, the pandemic, or macroeconomic policies.

Parent level control

Given that the position of the parent company can significantly influence subsidiary strategy adjustments under sanctions, we included two control variables in our analysis to capture the MNC's size and performance (Dai et al., 2023). We measure parent company performance using the MNC's return on equity (ROE) and assess size by taking the logarithm of the MNC's total sales.

Subsidiary level control

At the subsidiary level, size plays a crucial role as it enhances the target country's ability to withstand the sanctions regime. Larger subsidiaries are generally better equipped with the necessary resources to weather such challenges (Lee & Chung, 2022). Therefore, the (log of) number of employees is used to account for subsidiary size. A higher initial capital indicates a positive assessment of foreign market opportunities and greater capabilities to create value from those opportunities. We use the natural log transform of the subsidiary's initial capital invested in the host country. We examine the use of expatriate managers, as they may influence the parent company's decision regarding their strategy in a sanctioned market. The variable is set to the value of 1 if the top manager of a subsidiary is a Japanese national (and 0 otherwise). As performance significantly influences an MNC's decision regarding foreign divestment (Abdelzaher & Ramadan, 2023; Dai et al., 2013), we controlled for subsidiary performance using self-performance reports from managers in Toyo Keizai. This was set as those subsidiaries reporting a profit (coded as 1) or breakeven or loss (as 0). Moreover, MNCs adopt different strategies for each industry in which they operate. For example, industries associated with natural resources, such as oil, gas, and petrochemicals, agriculture, or manufacturing and mining industries, which facilitate the access of the MNC's network to resources (Lee & Chung, 2022), have more strategic importance and more sunk costs compared to service and sales industries. Thus, we controlled the industry of a subsidiary operating in the host market for wholesale, manufacturing, or service industries with wholesale as the reference category (Dai et al., 2017; Ghahroudi & Hoshino, 2007).

Results

Descriptive statistics in Table 1A indicate that 46% of subsidiaries are wholly owned (WOS), while 54% are joint ventures (JV). Approximately 64% of these subsidiaries have Japanese managers. Market-seeking is the most common subsidiary mandate at 50%, followed by resource-seeking at 37%, and efficiency-seeking mandate at 13%.

In Table 1B we present the average strategic adjustments made by Japanese subsidiaries. In Iran, 45% of Japanese subsidiaries adopted a stability strategy, while only 19% did so in Venezuela. Divestment strategy was employed by 37% of the MNCs in Russia, and ~27% in Iran, Myanmar, and Venezuela. Shrinking strategy, characterized by reductions in either equity or workforce, was adopted by a high of by 52% in Venezuela, to a low of 39% in Russia and Myanmar.

Figure 1A compares Japanese foreign direct investment (FDI) outflows to worldwide FDI outflows from 2000 to 2021, based on the World Bank's report. Notably, Japanese FDI outflows increased after the Covid-19 pandemic in 2019, surpassing the world average. Figure 1B illustrates FDI inflows into the four sanctioned countries (UNCTAD, 2022). It is evident that FDI in Myanmar saw a significant rise after the country's 2014 reform and the lifting of sanctions. In contrast, FDI in Russia has been fluctuating, with peaks in 2007 and drops due to sanctions following military intervention in Ukraine. Investment in Iran has shown a decline since 2002, even after a slight growth following the JCPOA deal in 2015. Similarly, Venezuela is experiencing a declining trend, despite fluctuations in foreign investment (UNCTAD, 2022).

Table 2 provides descriptive statistics and correlations for all variables. On average, subsidiaries had 32.2 years of local experience, with 47% being wholly owned. In terms of performance, 79% of the subsidiaries reported gains, while only 21% incurred losses. Additionally, 31.9% of the subsidiaries exited the sanctioned market, while 33.1% remained with a stability strategy.

To ensure robustness of our research findings, we employ a multiple-analysis approach to test the hypotheses (Bettis et al., 2014, Meyer et al., 2020). Table 3 presents the standardized regression results with the shrinking strategy as the dependent variable. Overall, the models demonstrate robust explanatory power and statistical significance.

Table 1A. Distribution data of sanctioned countries from 2000 to 2022.

Host country	Observations	WOS	JV	Japanese manger	Resource seeking	Market seeking	Efficiency seeking
Russia	138 (42%)	51 (37%)	87 (63%)	77 (55%)	46 (33%)	77 (56%)	15 (11%)
Iran	132 (40%)	77 (58%)	55 (42%)	87 (66%)	45 (34%)	65 (49%)	22 (17%)
Myanmar	41 (12%)	10 (24%)	31 (76%)	37 (90%)	23 (56%)	13 (49%)	5 (12%)
Venezuela	21 (6%)	13 (62%)	8 (38%)	13 (62%)	10 (48%)	11 (52%)	0 (0%)
Total	332	151 (46%)	181 (54%)	214 (64%)	124 (37%)	166 (50%)	42 (13%)

Our control variable results indicate that, at the country level, World Development Indicators (FDI outflow) positively impact the shrinking strategy. Subsidiaries in the service sectors are more likely to reduce their operations in sanctioned markets. Regarding parent-level controls, parent company performance has a positive effect on the shrinking strategy, suggesting that Japanese subsidiaries with better-performing parent companies are more inclined to downsize their operations in the host country. Interestingly, our results reveal that subsidiary size ($\beta = -0.201$, $p < .001$) negatively affects the shrinking strategy, implying that larger subsidiaries are less likely to downsize. Expatriate managers positively influence the shrinking strategy. This suggests that subsidiaries led by expatriate managers, as opposed to local managers, are more inclined to reduce their scope of operations. In other words, subsidiaries with Japanese managers in turbulent and uncertain environments tend to be more risk-averse and prefer to maintain a lower profile. Support for hypotheses H1a and H2a is evident in Table 3. MNCs with resource-seeking subsidiaries are less likely to implement a shrinking strategy ($\beta = -0.169$, $p < .001$), while market-seeking subsidiaries ($\beta = 0.118$, $p < .01$) are more likely to reduce their operations.

Model 3 examines the moderating effects. The role of expatriates is particularly noteworthy. A higher number of expatriate employees ($\beta = 0.725$, $p < .001$) in a subsidiary is strongly and positively associated with the adoption of a shrinking strategy, supporting our prediction (H3a). Additionally, the interaction between market-seeking motives and expatriates ($\beta = 0.650$, $p < .001$) positively impacts the shrinking strategy, indicating that market-seeking subsidiaries with more expatriates are more likely to reduce their operations through layoffs and transfers of ownership. Including interaction effects significantly improves the model fit, reinforcing our hypothesis (H3a) that expatriates play a crucial role in these strategic decisions.

Moreover, the interaction between resource-seeking subsidiaries and expatriates ($\beta = 0.086$,

Table 1B. Average of Japanese MNCs strategy adjustment in sanctioned countries.

Country	Divestment strategy	Stability strategy	Shrinking strategy
Russia	0.369	0.239	0.391
Iran	0.272	0.454	0.288
Myanmar	0.268	0.366	0.390
Venezuela	0.286	0.190	0.524

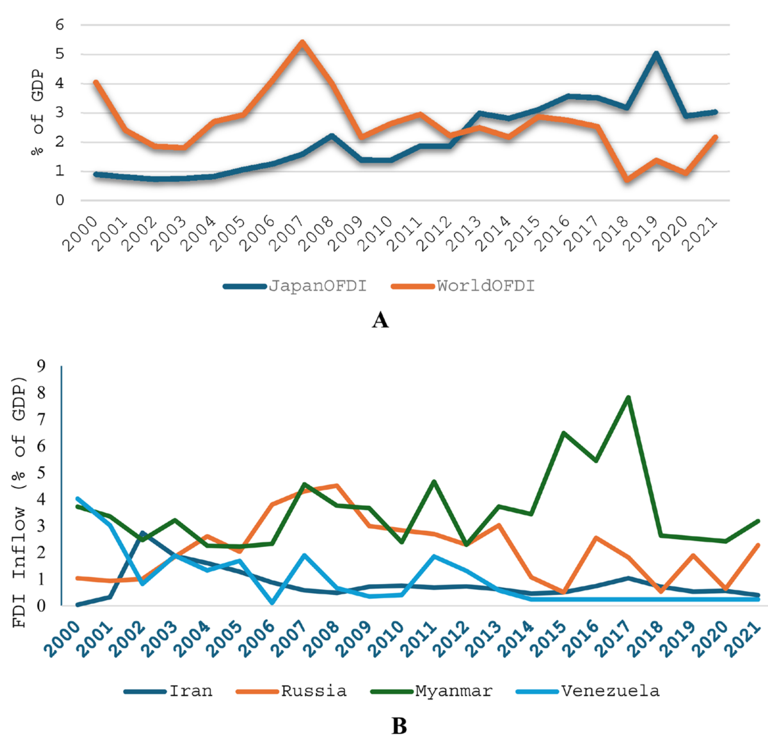


Figure 1. (A) FDI outflows Japan *vs.* world (UNCTAD, 2022). (B) FDI inflows into four sanctioned countries (UNCTAD, 2022).

Table 2. Descriptive statistics and correlations.

	Variables	Mean	SD	1	2	3	4	5	6	7	8	9
1	WGI	17.789	3.262	1								
2	GDP growth	2.432	5.795	0.000	1							
3	Japanese FDI	2.222	1.173	0.965	0.000	1						
4	WDI: FDI outflow	1.028	1.234	0.240	0.549	0.069	1					
5	WDI: FDI inflow	1.606	1.653	0.148	0.081	0.179	0.000	1				
6	Wholesale	0.467	0.499	0.169	0.865	0.019	0.000	0.000	1			
7	Services	0.253	0.435	0.306	0.941	0.496	0.886	0.069	0.000	1		
8	Manufacturing	0.277	0.448	0.357	0.946	0.069	0.000	0.858	0.000	0.003	1	
9	Expatriate manager	0.654	0.476	0.404	0.926	0.304	0.052	0.037	0.000	0.462	0.020	1
10	Initial capital	11.626	4.116	0.978	0.705	0.021	0.000	0.000	0.000	0.971	0.822	0.827
11	Parent size	22.497	2.024	0.372	0.999	0.421	0.000	0.000	0.000	0.196	0.003	0.003
12	Expatriate employees	0.154	0.206	0.058	0.675	0.058	0.099	0.014	0.009	0.055	0.385	0.076
13	Subsidiary size	3.016	1.342	0.400	0.832	0.700	0.527	0.128	0.316	0.474	0.298	0.003
14	Parent performance	1.842	0.842	0.535	0.059	0.015	0.000	0.006	0.000	0.201	0.000	0.279
15	Subsidiary performance	0.795	0.404	0.223	0.041	0.024	0.253	0.000	0.700	0.105	0.204	0.658
16	Efficiency seeking	0.130	0.333	0.464	0.998	0.904	0.638	0.109	0.000	0.001	0.582	0.150
17	Market seeking	0.500	0.501	0.273	0.997	0.423	0.183	0.485	0.000	0.040	0.610	0.028
18	Resource seeking	0.370	0.484	0.561	0.998	0.167	0.187	0.200	0.584	0.072	0.973	0.232
19	Divestment strategy	0.319	0.467	0.283	0.291	0.735	0.059	0.039	0.032	0.013	0.594	0.022
20	Stability strategy	0.331	0.471	0.319	0.949	0.928	0.000	0.007	0.157	0.090	0.141	0.053
21	Shrinking strategy	0.358	0.480	0.887	0.312	0.739	0.177	0.435	0.492	0.372	0.483	0.000
22	Shrinking (ratio)	0.095	0.089	0.318	0.390	0.166	0.009	0.138	0.416	0.048	0.121	0.000

	Variables	10	11	12	13	14	15	16	17	18	19	20	21	22
10	Initial capital	1												
11	Parent size	0.000	1											
12	Expatriate employees	0.002	0.000	1										
13	Subsidiary size	0.147	0.000	0.000	1									
14	Parent performance	0.001	0.016	0.931	0.480	1								
15	Subsidiary performance	0.220	0.288	0.137	0.111	0.465	1							
16	Efficiency seeking	0.536	0.003	0.132	0.312	0.232	0.130	1						
17	Market seeking	0.204	0.009	0.002	0.068	0.027	0.416	0.000	1					
18	Resource seeking	0.313	0.769	0.017	0.205	0.114	0.328	0.000	0.000	1				
19	Divestment strategy	0.182	0.347	0.055	0.662	0.185	0.342	0.064	0.097	0.838	1			
20	Stability strategy	0.048	0.234	0.000	0.008	0.796	0.030	0.008	0.000	0.004	0.000	1		
21	Shrinking strategy	0.001	0.988	0.000	0.000	0.103	0.061	0.564	0.008	0.002	0.000	0.000	1	
22	Shrinking (ratio)	0.009	0.774	0.000	0.000	0.121	0.198	0.431	0.000	0.000	0.000	0.000	0.000	1

WGI stand for World Governance Indicators; WDI-FDI stands for World Development Indicators-Foreign Direct Investment (FDI) of each country. FDI outflow and inflow are usually expressed as a percentage of GDP.

$p < .01$) suggests that resource-seeking subsidiaries with a higher expatriate presence in the host market are also more inclined to adopt a shrinking strategy. In contexts where access to natural resources is crucial, MNCs are generally reluctant to scale back their operations. However, subsidiaries with a higher number of expatriates may be more inclined to reduce their activities in sanctioned countries.

Table 4 displays the results of the Cox regression analysis with the divestment strategy as the dependent variable. Among the country-level controls, GDP growth is positively associated with divestment. Surprisingly, FDI outflow and inflow of countries under sanctions, used as proxies for World Development Indicators (WDI), have a negative effect on divestment. This indicates that these world development indicators are effective institutional factors in convincing MNCs to remain in a sanctioned market. At the subsidiary level, the manufacturing industry ($\beta = -0.675$, $p < .001$) exhibits a significant negative effect on

Table 3. Standardized regression results: shrinking strategy.

	Model 1		Model 2		Model 3	
Variables	Beta	*t*	Beta	*t*	Beta	*t*
WGI	0.101*	1.860	0.109*	2.079	0.067	1.381
GDP growth	−0.071	−1.253	−0.065	−1.179	−0.043	−0.854
Japanese FDI	−0.09	−1.631	−0.072	−1.347	−0.085*	−1.737
WDI: FDI outflow	0.192**	3.317	0.169**	2.993	0.191***	3.681
WDI: FDI inflow	−0.013	−0.218	−0.021	−0.359	−0.027	−0.499
Manufacturing	−0.035	−0.569	−0.045	−0.74	−0.026	−0.467
Service	0.092	1.624	0.096*	1.743	0.126**	2.480
Parent size	0.07	1.134	0.047	0.78	−0.022	−0.383
Parent performance	0.149**	2.781	0.175***	3.326	0.194***	4.025
Subsidiary size	−0.201***	−3.617	−0.177***	−3.240	−0.305***	−5.507
Subsidiary performance	−0.05	−0.943	−0.059	−1.148	−0.043	−0.906
Initial capital	0.156**	2.776	0.181***	3.292	0.135**	2.670
Expatriate manager	0.243***	4.419	0.225***	4.216	0.146**	2.917
Market seeking			0.092	1.642	0.118**	2.292
Resource seeking			−0.188***	−3.452	−0.169***	−3.373
Expatriate employees					0.725***	7.725
Market seeking × expatriates					0.650***	7.607
Resource seeking × expatriates					0.086*	1.817
Observations	332		332		326	
R^2		0.191		0.244		0.374
Adjusted R^2		0.158		0.209		0.338
ANOVA *F* statistic		5.766***		6.813***		10.369***

Dependent variable is the composite average reduction in foreign equity ownership and the ratio of reduction of the number of subsidiary employees during the MNC operations in the sanctioned host country.
$^*p<.10$; $^{**}p<.05$; $^{***}p<.01$. Values are standardized coefficients and *T*-values.

Table 4. Survival cox regression: divestment strategy.

	Model 1		Model 2		Model 3	
Variables	Beta	SE	Beta	SE	Beta	SE
WGI	0.003	0.033	−0.001	0.033	0.004	0.034
GDP growth	0.064***	0.019	0.069***	0.02	0.068***	0.02
Japanese FDI	−0.351***	0.114	−0.341***	0.114	−0.345***	0.114
WDI: FDI outflow	−0.277***	0.088	−0.345***	0.092	−0.359***	0.093
WDI: FDI inflow	−0.246***	0.072	−0.237***	0.071	−0.237***	0.071
Manufacturing	−0.754***	0.266	−0.65***	0.267	−0.675***	0.266
Service	−1.245**	0.287	−1.273**	0.292	−1.27**	0.295
Parent size	0.134**	0.062	0.105**	0.065	0.118**	0.065
Parent performance	0.015	0.123	0.035	0.124	0.026	0.126
Subsidiary size	0.122	0.09	0.161*	0.093	0.236**	0.105
Subsidiary performance	−0.223	0.245	−0.208	0.248	−0.196	0.247
Initial capital	−0.151***	0.032	−0.153***	0.033	−0.154***	0.034
Expatriate manager	−0.108	0.24	−0.208	0.242	−0.187	0.253
Market seeking			0.799***	0.245	0.79***	0.256
Resource seeking			0.139	0.337	0.184	0.34
Expatriate employees					−0.064	0.059
Market seeking × expatriates					−0.045	0.177
Resource seeking × expatriates					−0.024	0.308
No. of subsidiary years	332		332		332	
−2 Log likelihood	921.071		908.754		905.527	
Chi-square	103.527***		117.808***		121.172***	
AIC	432.923		433.016		421.137	
BIC	486.195		493.899		504.592	

Standardized coefficients are reported with standard errors.
$^a p<.10$; $^*p<.05$; $^{**}p<.01$; $^{***}p<.001$.

the hazard rate of divestment, suggesting that MNC subsidiaries operating in the manufacturing industry are less likely to exit the market. We did not find any significant effects of performance at either the parent or subsidiary level on the divestment strategy. Additionally, subsidiary size has a positive effect on the divestment strategy, indicating that larger subsidiaries are more inclined to divest their operations in the sanctioned host country.

In line with our predictions (H2b), market-seeking subsidiaries ($\beta=0.799$, $p<.001$) are associated with the divestment strategy, indicating that MNCs are more likely to divest their operations when market-seeking motives are at play in a sanctioned market. However, for H1b, we did not observe any significant relationship between resource-seeking ($\beta = 0.184$, ns) and the divestment strategy. Furthermore, the interaction of market-seeking and resource-seeking motives with expatriate employees in subsidiaries (H3b) had no significant effect on the divestment strategy.

We also conducted binary logistic regression to test our hypotheses regarding stability strategy. Key results from Table 5 indicate that subsidiary size ($\beta = 0.264$, $p < .01$) and performance ($\beta = 0.575$, $p < .01$) exhibit a significant positive effect, indicating that larger and better-performing subsidiaries are more inclined to stay and resist sanctions in the host market. Moreover, the negative effect of initial capital indicates that subsidiaries with lower initial capital are more likely to maintain their operations unchanged in a host country under sanctions.

In line with hypothesis H2c, the market-seeking mandate is negatively associated ($\beta = -0.899$, $p < .001$) with the stability strategy, while resource seeking (H1c) has a positive effect on stability. In the words, Japanese MNCs with market-seeking subsidiaries in a sanctioned country are less likely to keep their size and visibility unchanged compared to those with other motivations. Additionally, the interaction of market-seeking and expatriates ($\beta = 0.934$, $p < .01$) has a positive effect on the stability strategy (H3c). This indicates that market-seeking subsidiaries with greater numbers of expatriates are less likely to remain unchanged in sanctioned markets. In other words, MNCs subsidiary with a market-seeking motive and a larger presence of expatriates are less likely to adopt a stability strategy and are more inclined to adopt a shrinking strategy, reducing their range of operations in a sanctioned country. In contrast, resource-seeking subsidiaries are more likely to adopt a stability strategy and are less likely to reduce their activities in the host market.

Counterfactual robustness tests

We conducted several additional tests for robustness. First, in our theoretical development, we considered multiple levels of factors, including economic, parent, and subsidiary levels. To evaluate the robustness of our results against an alternative classification of sanctioned countries, we categorized host countries based on their institutional quality, as measured by the World Governance Indicators of the World Bank. Furthermore, we incorporated world development indicators (WDI) and GDP growth rates

Table 5. Logistic regression: stability strategy.

	Model 1		Model 2		Model 3	
Variables	Beta	SE	Beta	SE	Beta	SE
WGI	−0.053	0.041	−0.067	0.042	−0.053	0.042
GDP growth	−0.007	0.025	−0.007	0.025	−0.013	0.025
Japanese FDI	0.005	0.116	−0.039	0.12	−0.045	0.122
WDI: FDI outflow	−0.454***	0.134	−0.408***	0.136	−0.420***	0.138
WDI: FDI inflow	−0.06	0.099	−0.069	0.102	−0.057	0.102
Manufacturing	0.876**	0.357	0.789**	0.374	0.741**	0.377
Services	0.826**	0.324	0.718**	0.334	0.650**	0.338
Parent size	−0.001	0.076	0.042	0.078	0.073	0.08
Parent performance	−0.104	0.158	−0.227	0.165	−0.262*	0.169
Subsidiary size	0.264**	0.111	0.232**	0.117	0.351**	0.131
Subsidiary performance	0.575*	0.346	0.592*	0.359	0.647*	0.368
Initial capital	−0.065**	0.034	−0.082**	0.037	−0.074*	0.039
Expatriate manager	−0.32	0.281	−0.212	0.294	−0.067	0.308
Market seeking			−0.899***	0.305	−1.058***	0.322
Resource seeking			0.618*	0.399	0.499*	0.427
Expatriates employees					−0.173*	0.089
Market seeking × expatriate employees					−0.934**	0.431
Resource seeking × expatriate employees					−0.459	0.296
No. of samples	322		322		322	
−2 Log likelihood	377.444		359.832		349.414	
Chi-Square	44.271***		61.883***		72.301***	
Cox and Snell	0.125		0.170		0.196	
Nagelkerke	0.174		0.236		0.272	

Standardized coefficients are reported with standard errors.
[a]$p < .10$; *$p < .05$; **$p < .01$; ***$p < .001$.

to account for differences in economic conditions. Additionally, we included Japanese FDI outflows to control for investment fluctuations caused by various factors. We also employed multiple methods by running regression models with different dependent variables to address potential sample bias and ensure the robustness of our results. In a separate set of estimations, we tested our models by excluding Russia and re-analyzing it with a separate dummy. All these alternative estimations substantially confirm our results. The one highlight of all alternative models is that across all variants, the role of the expatriates' effect is highly significant.

More importantly, we recognize that not all strategic adjustments may be attributed to sanctions, thus, we conduct a counterfactual analysis of MNCs' behavior in a sample of non-sanctioned countries (see Tables 6 and 7). To this end, we examine the robustness of our findings by repeating our analyses using data from 155 Japanese subsidiaries in several non-sanctioned countries, namely, the US, UK, China, India, Belgium, Mexico, South Korea, Taiwan, Singapore, Vietnam, Philippines, Thailand, and Hong Kong. The results of our counterfactuals, very interestingly, show the opposite results in non-sanctioned economies. Specifically, we find in non-sanctioned countries that market-seeking subsidiaries are less likely ($\beta = -1.151$, $p < .01$) to engage in divestment strategy (i.e., exit the market); and they are more likely ($\beta = 0.656$, $p < .1$) to employ a stability strategy (i.e., a *status quo* approach). There is no significant impact of investment motives on the shrinking strategy in the samples from non-sanctioned countries.

In the case of MNCs using expatriates, we find a marginally positive relationship ($\beta = 0.295$, $p < .1$) with the divestment strategy in non-sanctioned countries, in contrast to our findings in sanctioned economies. Overall, the results indicate that MNCs exhibit different behaviors in non-sanctioned markets compared to sanctioned markets. Getachew and Beamish (2017) assert that market-seeking subsidiaries are less likely to divest because they benefit from increased flexibility, adaptability, and the ability to navigate challenges in turbulent environments.

Table 6. Logistic regression for non-sanctioned countries.

	Divestment		Shrinking		Stability	
Variables	Beta	SE	Beta	SE	Beta	SE
Subsidiary size	0.021	0.02	−0.044**	0.018	−0.002**	0.006
Initial capital	0.001**	0.001	0.001**	0.001	0.001	0.001
Parent performance	0.039	0.043	−0.029	0.045	−0.012	0.031
Equity ownership	0.023	0.014	−0.045***	0.015	0.004	0.009
Expatriate employees	0.295*	0.16	−0.245	0.297	−0.246	0.128
Market seeking	−1.151**	0.541	0.618	0.795	0.656*	0.442
Resource seeking	1.612	1.007	0.736	1.171	−1.473	0.866
−2 Log likelihood	109.174		73.955		155.328	
Chi-square	31.649***		14.832***		13.389***	
Cox and Snell	0.143		0.093		0.084	
Nagelkerke	0.245		0.210		0.126	
Sample size	155		155		155	

Standardized coefficients are reported with standard errors.
[a]$p < .10$; *$p < .05$; **$p < .01$; ***$p < .001$.

Discussion and conclusion

The sanctions regime introduces a significant external uncertainty that challenges MNCs operating in affected countries, compelling them to decide whether to maintain, adjust, or exit their operations in these markets (Li & Tallman, 2011). Taking a global marketing perspective, we explore MNCs' strategic responses to sanctions, examining how they navigate operational complexities and sustain market presence under restrictive conditions (Meyer et al., 2020). Contrary to the notion that divestment is the only feasible option in volatile environments, we argue that MNCs can employ a range of adaptive strategies (Belderbos et al., 2021; Nguyen et al., 2022).

Table 7. Differences between non-sanctioned *vs.* sanctioned countries for strategic choices.

	Divestment strategy		Shrinking strategy		Stability strategy	
Variables	Non sanctioned	Sanctioned	Non sanctioned	Sanctioned	Non sanctioned	Sanctioned
Market seeking	Sig. (−)	Sig. (+)	Not Sig.	Sig. (+)	Sig. (+)	Sig. (−)
Resource seeking	Not Sig.	Not Sig.	Not Sig.	Sig. (−)	Not Sig.	Sig. (+)
Expatriate employees	Sig. (+)	Not Sig.	Not Sig.	Sig. (+)	Not Sig.	Sig. (−)
Parent performance	Not Sig.	Not Sig.	Not Sig.	Sig. (+)	Not Sig.	Sig. (−)
Initial capital	Sig. (+)	Sig. (−)	Sig. (−)	Sig. (+)	Not Sig.	Sig. (−)
Subsidiary size	Not Sig.	Sig. (+)	Sig. (−)	Sig. (−)	Sig. (−)	Sig. (+)

Note: Sig. indicates statistically significant results at $p < 0.05$. Not Sig. indicates no statistical significance.

Table 8. Summary of hypotheses and results.

Hypothesis	Results
H1a: Resource-seeking subsidiaries are less likely to employ a shrinking strategy in sanctioned foreign markets.	Supported
H1b: Resource-seeking subsidiaries are less likely to employ a divestment strategy in sanctioned foreign markets.	Not supported
H1c: Resource-seeking subsidiaries are more likely to employ a stability (status-quo) strategy in sanctioned foreign markets.	Supported
H2a: Market-seeking subsidiaries are more likely to employ shrinking strategy in sanctioned foreign markets.	Supported
H2b: Market-seeking subsidiaries are more likely to adopt divestment strategy in sanctioned foreign markets.	Supported
H2c: Market-seeking subsidiaries are less likely to employ a stability (status-quo) strategy in sanctioned foreign markets.	Supported
H3a: The presence of a larger number of expatriates in an MNC's subsidiary moderates the relationship between its investment motives and strategic choices thereby increasing its propensity to adopt a shrinking strategy in a sanctioned host market.	Supported
H3b: The presence of a larger number of expatriates in an MNC's subsidiary moderates the relationship between its investment motives and strategic choices thereby increasing its propensity to pursue a divestment strategy in a sanctioned host market.	Not supported
H3c: The presence of a larger number of expatriates in an MNC's subsidiary moderates the relationship between its investment motives and strategic choices thereby increasing its propensity to adopt a stability strategy in a sanctioned host market.	Supported

MNCs often leverage a multi-faceted approach to adjust their operations strategically (Li & Rugman, 2007), adopting one of three primary strategies in sanctioned host markets: stability, shrinking, or divestment. When a turbulent environment is perceived as a threat to a subsidiary, expatriate managers are likely to prefer less risky alternatives. This preference arises because expatriates often struggle with their outsider status and corresponding competency issues in the host country. As a result, expatriates may leave foreign subsidiaries in a condition that makes it difficult for their successors to perform well (Bebenroth & Froese, 2020). In contrast, local managers tend to be more risk-seeking due to their deeper knowledge of the host market. MNCs skillfully navigate challenging scenarios in international relations, even when foreign policy pressures fall short of legal sanctions (Doh et al., 2022). Subsidiary resources, including expatriates, empower MNCs to effectively respond to the uncertainties arising from sanctions (Ambos et al., 2011; Meyer et al., 2020). MNCs' investment motives and subsidiary resources help them adopt suitable solutions in uncertain and critical situations, enabling them to overcome sudden environmental changes in the local market and make informed strategic decisions (Kirtley & O'Mahony, 2023). In short, this adaptability can enhance subsidiary resilience in the face of sanctions (Khanna & Palepu, 2010; Stępień & Weber, 2020).

Market-seeking subsidiaries with a larger presence of expatriates are less likely to adopt a stability strategy and are more inclined to adopt a shrinking strategy, reducing their range of operations in a sanctioned country. This tendency can be attributed to the heightened risk perception and home country bias of expatriates, leading to more conservative decision-making in volatile markets (Bebenroth & Froese, 2020; Gaur et al., 2019). In contrast, resource-seeking subsidiaries are more likely to adopt a stability strategy and are less likely to reduce their activities in the host market. This is because access to critical resources often outweighs the risks associated with operating in sanctioned environments, prompting firms to maintain their operations to secure these valuable inputs (L.-J. Chen & Tsou, 2020; Pyndt & Pedersen, 2006). Thus, the strategic responses of MNCs in sanctioned countries are influenced by their primary investment motives and the composition of their workforce. Our findings reveal that, beyond economic factors, elements, such as investment motives and the presence of expatriates can significantly influence MNCs' decision-making in a sanctioned market. This perspective enriches global marketing theories by illustrating how MNCs balance global standardization with local adaptation under constrained conditions, revealing the nuanced ways that investment motives and workforce structure can drive strategic flexibility in international markets.

Our research, employing multi-level analysis and diverse methodologies, examines the strategies of Japanese MNCs operating in sanctioned countries, offering insights into how global marketing theories apply to high-risk environments. We find that MNCs' strategic responses to sanctions are shaped by the host country's environment, investment motives, and the presence of expatriates (Y. S. Chen & Tsou, 2020). Specifically, market-seeking subsidiaries in sanctioned markets tend to adopt divestment and shrinking strategies—such as reducing equity ownership and workforce cuts—over stability strategies, aligning with theories on risk mitigation and asset preservation in international marketing (Park & Lee, 2021). The shrinking strategy, which scales down the subsidiary's size and visibility while retaining a limited market presence, allows MNCs to maintain a foothold and resume operations efficiently when conditions stabilize. This approach reflects strategic flexibility, a key concept in global marketing, allowing firms to adapt and sustain brand presence even under constraints.

In contrast, resource-seeking subsidiaries demonstrate a greater tendency to challenge sanctions by adopting stability strategies, with minimal reductions in ownership and staffing. When these subsidiaries rely on critical resources within the host country, their resource-dependency underpins resilience, enabling them to prioritize continuity despite adverse conditions (Dai et al., 2023; Lee & Chung, 2022). This aligns with resource-dependency theory in global marketing, where access to essential inputs influences strategic decisions to weather geopolitical risks. Expatriate managers and employees, often linked to shrinking strategies, bring home-country perspectives that contribute to a more conservative approach in volatile environments. Their inherent risk aversion, reinforced by ties to the home country, often discourages full commitment to maintaining operations in sanctioned markets, which aligns with theories on cultural distance and risk management in international business (Hong et al., 2019). This risk-averse mindset influences MNCs' strategic choices, prompting subsidiaries to adopt more conservative market-presence strategies when faced with external pressures.

Our study also highlights the influence of economic conditions in the host country, industry factors, and specific characteristics at both the parent and subsidiary levels on MNC decision-making in sanctioned markets. By demonstrating how investment motives, local conditions, and workforce composition interact, our findings contribute to a deeper understanding of strategic adaptation in global marketing, particularly in politically volatile environments where MNCs must balance global integration with local responsiveness.

Theoretical implications

Our research makes significant contributions to both academia and policymaking by integrating theories on MNC behavior in sanctioned countries. Our strategic adaptation framework represents a substantial theoretical advancement in understanding MNC strategies in these challenging markets. Furthermore, the study contributes to global marketing theories by addressing gaps in sanctions-related literature and introducing innovative frameworks for comprehending MNC strategies in turbulent environments (Panibratov & Gaur, 2022; Tang, 2023). By integrating real options theory and resource dependency theory, the research expands the scope of global marketing by illustrating how firms balance internal resource constraints with external uncertainties through adaptive strategies, such as stability, shrinking, and divestment.

The incorporation of multiple levels of analysis—parent, subsidiary, and institutional—enriches global marketing theories by offering a nuanced understanding of how market forces and corporate strategies interact (Meyer et al., 2020). Additionally, distinguishing between sanctioned countries and conflict zones clarifies the context-specific challenges MNCs face, emphasizing the necessity of tailored strategies (Dai et al., 2023; Lee & Chung, 2022). This approach provides deeper insights into how firms can sustain beneficial operations and adjust their strategies in uncertain environments, as exemplified by the evolving approaches of Japanese MNCs in global markets (Fitzgerald & Rowley, 2017).

By extending real options theory to encompass diverse strategic options and applying resource dependency theory to explore how external dependencies shape MNC decisions (Lee & Chung, 2022; Nguyen & Larimo, 2022), this research deepens the theoretical connection between resource management and international marketing strategy (Papadopoulou et al., 2023). Moreover, the differentiation between expatriate and local managers highlights the critical role of human capital in shaping strategic responses, aligning with the global marketing focus on cultural and operational adaptability (Qiu & Homer, 2018; Silbiger et al., 2021).

In advancing real options theory, our study applies it to MNC decision-making in sanctioned markets by considering three strategic options: stability, shrinking, and divestment. This approach moves beyond the conventional emphasis on divestment, presenting a broader range of adaptive strategies (Dai et al., 2013; Nguyen & Larimo, 2022; Panibratov & Gaur, 2022). The research underscores the importance of proactive strategy development to effectively manage foreign investments in fluctuating market conditions (Meyer & Thein, 2014). By applying resource dependency theory, we further demonstrate how investment motives, expatriate presence, and institutional factors shape corporate strategies. These factors drive adaptive behaviors, such as scaling back operations, suspending new investments, and reducing operational visibility (Fitzgerald & Rowley, 2017). Such strategies enable MNCs to manage uncertainty, mitigate risks, and maintain the flexibility needed to respond to emerging opportunities and challenges in sanctioned host markets.

Our analysis also explores how investment motives and resource dependencies influence MNC strategies in sanctioned countries, shedding light on how firms navigate uncertainty and manage risks associated with market selection and strategic decision-making (Ciravegna et al., 2023; Wenzel et al., 2020). The findings reveal that a greater reliance on expatriate employees and managers may lead to foreign divestment and reduced subsidiary operations in sanctioned markets. By distinguishing between expatriate and local managers, the study highlights how differing managerial perspectives shape MNC responses to sanctions.

Overall, this study advances global marketing theories by bridging critical gaps, integrating multi-layered perspectives, and offering practical insights for managing uncertainty and risk in politically complex environments.

The results of the hypotheses testing, summarized in Table 8, reveal the strategic choices of MNCs in sanctioned foreign markets and the moderating role of expatriates. Resource-seeking subsidiaries are less likely to adopt shrinking or divestment strategies (H1a, H1b) and show a stronger tendency toward maintaining stability (H1c). In contrast, market-seeking subsidiaries are more inclined to pursue shrinking or divestment strategies (H2a, H2b) and are less likely to maintain a stability strategy (H2c). Additionally, the presence of expatriates moderates the relationship between investment motives and strategic choices, increasing the likelihood of stability and shrinking strategies (H3a, H3c) but not divestment (H3b).

Managerial implications

Our findings highlight critical insights for MNCs managing subsidiaries in turbulent environments. For MNC managers, a deep understanding of the host environment is crucial for developing resilient and adaptable strategies (Khanna & Palepu, 2010). This includes selectively shrinking or maintaining a low-profile presence, enabling MNCs' managers to mitigate risks while retaining a foothold in key markets. A shrinking strategy allows MNCs to scale back without a complete exit, which can be advantageous for reengagement once conditions stabilize. Resource-seeking subsidiaries, in particular, are more likely to sustain operations to secure critical resources, underscoring the need to align investment motives with strategic choices in sanctioned markets (Meyer et al., 2020). When deploying expatriate employees and managers, Japanese MNCs must be mindful that these individuals often bring a home-country perspective, which can lead to risk-averse decisions, especially in turbulent markets with limited local expertise (Bebenroth & Froese, 2020). This can ultimately result in shrinking or divesting from these markets. By tailoring responses to specific market conditions, MNCs managers can retain strategic flexibility and cultivate resilience, ultimately safeguarding competitive advantage. For global managers, these insights suggest that a dynamic, context-sensitive approach is essential when facing regulatory constraints, emphasizing adaptability and local market integration as key elements for sustaining operations and maintaining strategic options in sanctioned countries (Doh et al., 2022).

For market-seeking subsidiaries, adopting a market-oriented shrinking strategy—where operational presence is reduced without a full exit—can be advantageous (Meyer et al., 2020). This approach allows the company to retain a foothold while minimizing visibility, ready to reengage more fully when conditions improve. Market orientation (MO) plays a crucial role here (Kohli & Jaworski, 1990; Narver & Slater, 1990); managers should utilize market intelligence to be innovative by identifying customer segments that remain viable under sanctions and focus on maintaining a low-profile presence to sustain those relationships. For example, Japan Tobacco and Takeda have scaled back new investments in Russia while continuing essential operations. This strategy of maintaining presence without further expansion serves as a practical way to minimize risk while keeping the door open for future reengagement. Managers should prioritize suspending non-essential activities and reducing brand visibility while using customer-focused intelligence to determine which aspects of their operation are essential for future growth. In contrast, resource-seeking subsidiaries are generally more inclined to pursue stability to continue accessing crucial resources despite sanctions (Lee & Chung, 2022). This stability strategy is also informed by understanding local market dynamics, which can create competitive advantages when aligned with market orientation principles (Deshpandé et al., 1993). Here, a market-oriented approach helps managers align their strategic goals with local market needs, building strong local partnerships that help secure these resources while distributing risk more effectively. This is particularly important given the volatile nature of sanctioned markets, where maintaining local alliances is crucial to resilience. Maintaining stability should not necessarily mean committing extensive resources but rather involve a focused strategy to protect essential operations until the external environment stabilizes (Pyndt & Pedersen, 2006). For instance, Nippon Steel has sought alternative suppliers for Russian resources, demonstrating a flexible stability strategy that avoids over-commitment while ensuring continued access to critical materials.

Expatriate presence also plays a significant role in strategic decision-making under sanctions. Subsidiaries led by expatriate managers tend to adopt shrinking strategies more frequently, as expatriates provide the oversight necessary for managing operational reductions while preserving compliance and stakeholder engagement (Bebenroth & Froese, 2020; Koch, 2022). However, managers must adopt a balanced, market-oriented approach—expatriates should not only act as overseers but also actively engage in understanding the local market. A prime example of effective expatriate management is seen in KDDI Corp, which has continued operations in Russia by relying heavily on local staff. This approach minimizes the risks associated with expatriate visibility in politically sensitive environments while preserving market presence. Managers should therefore invest in local leadership development to enable seamless transitions and ensure that subsidiaries remain embedded in the local context with reduced reliance on foreign staff. Establishing a succession plan to transition key roles to capable local managers allows subsidiaries to lower their risk profile, as local managers often face fewer political and cultural barriers in maintaining operations.

Managers should be particularly mindful of the stark differences between sanctioned and non-sanctioned markets. In non-sanctioned contexts, market orientation can effectively drive stability strategies, as market conditions are less likely to be affected by sudden political shifts. Market-seeking subsidiaries in these environments can successfully adopt stability strategies when supported by robust customer insight and market data, benefiting from reduced levels of political threat. However, in sanctioned markets, such stability is often impractical due to regulatory unpredictability and political risks. A dynamic, market-oriented evaluation approach—involving regular reassessment of geopolitical developments and customer behavior—should guide managers in deciding whether to stabilize, shrink, or divest. For instance, shrinking operations in a highly uncertain market can reduce exposure, whereas a more stable approach may be warranted if diplomatic improvements appear likely.

The industry type also significantly affects strategic choices and the relevance of market orientation. Manufacturing subsidiaries, with high sunk costs and resource intensity, are more inclined to maintain stability and less likely to divest. For these managers, adopting a market-oriented, risk mitigation strategy is crucial, including securing long-term local contracts to ensure stability. For example, Nippon Steel's strategy of finding alternative suppliers for Russian resources highlights how manufacturing firms can continue operations without directly expanding commitments, mitigating risks while ensuring the continuity of critical supply chains. In contrast, service sector subsidiaries can adopt a scalable shrinking strategy more effectively, leveraging the inherent flexibility of the service industry (Deshpandé et al., 1993). Market orientation allows these subsidiaries to adapt their service offerings more dynamically, focusing on maintaining critical customer relationships while scaling down non-essential activities (Robb & Stephens, 2021). For instance, Mitsubishi UFJ Financial Group temporarily relocated expatriate staff but maintained essential services in sanctioned markets, which illustrates the adaptability of service-based firms (Doh et al., 2022; Khanna & Palepu, 2010). Managers in the service sector should use market intelligence to identify which parts of their operations are indispensable for customer needs and focus on preserving these services while scaling down non-essential activities (Deshpandé et al., 1993). By employing scalable solutions, service sector subsidiaries can adjust operations efficiently in response to evolving sanctions, ensuring a quick response to any easing of restrictions while still serving core customers.

Moreover, country-level economic indicators, such as FDI inflows and GDP growth influence strategic choices significantly. During periods of GDP growth, maintaining a stable presence is often viable, as economic expansion can create opportunities. However, this must be tempered by market orientation: managers should assess whether increased competition accompanying growth requires partial withdrawal or adaptation to focus on high-value customer segments. Fluctuating FDI inflows, on the other hand, signal economic instability, prompting subsidiaries to consider a shrinking strategy to protect resources while maintaining enough presence to leverage market opportunities when the conditions stabilize. Market seeking subsidiaries in sanctioned markets involves generating market intelligence and responding proactively to shifts in customer needs and market conditions (Robb & Stephens, 2021). For example, Takeda and Japan Tobacco demonstrate how a shrinking strategy focused on reducing visibility and suspending new investments enables companies to remain in the market with a reduced but strategic presence.

Our findings indicate that when Japanese MNCs have a substantial reliance on the target market and its resources, coupled with the vulnerability of their investments to sanctions, they tend to confront sanctions by implementing adjustment strategies. These strategies frequently entail reducing equity ownership and implementing workforce reductions through layoffs. As a result, Japanese MNCs continue to maintain limited operations in the host market until economic conditions improve and sanctions are lifted. This helps provide actionable managerial insights that equip MNCs subsidiaries with the strategies and capabilities needed to mitigate the impact of sanctions and remain competitive under adverse conditions. These insights are grounded in empirical evidence and are relevant for practitioners (Aguinis et al., 2022; Ciravegna et al., 2023). Although sanctions are perceived as inherent market drawbacks, MNCs operating in such countries demonstrate adaptability in confronting these challenges, leading them to formulate bespoke strategies (Abdelzaher & Ramadan, 2023). This adaptability is especially pronounced among MNCs that are engaged in business within sanctioned markets with a primary objective of securing natural resources (Lee & Chung, 2022).

In summary, the strategic adaptation framework for Japanese MNCs provides a balanced application of market orientation, strategic adaptability, and geopolitical awareness. Global managers need to weigh factors, such as investment motives, expatriate involvement, and subsidiary size—against external conditions, including geopolitical risks, economic indicators, and local market dynamics. Such proactive perspective enables managerial adaptability as they can dynamically assess risks and adapt their strategies to balance operational risk with market opportunities, to sustain operations and maintain a foothold for future growth (Robb & Stephens, 2021). By focusing on subsidiary capabilities, proactive adaptability, and strong local market connections, Japanese MNCs can effectively navigate the complexities of sanctioned markets, preserving long-term opportunities even in challenging conditions (Koch, 2022).

Limitations and future research

While our insights offer actionable guidance for MNC managers and global marketing leaders, helping them sustain operations, mitigate risks, and remain competitive amidst sanctions and other market adversities, we caution that our data is limited to Japanese MNCs and their foreign subsidiaries in sanctioned countries. Focusing on a single home country helps control for empirical complexities associated with that home-country effects (Getachew & Beamish, 2021), but this focus may limit the generalizability. MNCs of other countries may exhibit very different strategic behaviors due to the distinct cultural, political, and regulatory factors in both the home and host markets (Hennart & Sutherland, 2022). Future research should replicate our study involving MNCs from multiple home countries to capture a broader range of strategic responses.

Using secondary data mitigated risks related to respondent and common method biases. Future research could augment this with primary data, such as in-depth manager interviews, to provide deeper insights into strategic decision-making processes and motivations behind adaptations, including local expertise and expatriate deployment. Longitudinal studies also offer promise by examining MNC behavior over time—before, during, and after sanctions—thus providing a dynamic view of strategic flexibility. This approach would clarify how MNCs recalibrate their operations in response to prolonged or intensified sanctions.

The type, level, and intensity of sanctions vary significantly across countries (Ghahroudi & Chong, 2020), influencing investment strategies and decision-making. Financial sanctions may restrict capital access, while trade sanctions limit market access, each demanding distinct strategic response. Exploring these differences could further refine our understanding of how MNCs adjust to specific challenges posed by different sanction regimes.

Finally, an MNC's network and access to alternative resources and markets can play a crucial role in shaping its strategies (Zaheer & Nachum, 2011). Examining how access to alternative markets and resources influences MNC behavior would offer valuable insights for global managers, supporting MNC adaptation in sanctioned markets. Pursuing these directions would validate and refine our strategic adaptation framework and contribute to a deeper understanding of MNC behavior in politically volatile environments.

Note

1. The United States temporarily lifted most restrictions on Venezuela related to producing, selling, and exporting oil to its chosen markets in October 2023 (Parraga, October 19, 2023).

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Appendix A

Table A1. Decision matrix: investment motives and expatriate presence.

Condition	Stability strategy	Shrinking strategy	Divestment strategy
Investment motive: resource-seeking	✓ More likely to adopt stability to maintain access to resources (β = positive).	✗ Less likely to implement shrinking ($\beta = -0.169$, $p < .001$). Resource-seeking subsidiaries prefer not to scale down.	✗ No significant effect found between resource-seeking and divestment ($\beta = 0.184$, ns). Resource dependency discourages divestment.
Investment motive: market-seeking	✗ Less likely to maintain stability ($\beta = -0.899$, $p < .001$). Market-seeking subsidiaries avoid status quo and are inclined toward action.	✓ More likely to reduce operations while maintaining presence in sanctioned markets ($\beta = 0.118$, $p < .01$). Market-seeking subsidiaries shrink to manage risks.	✓ More likely to divest when seeking market opportunities in sanctioned markets ($\beta = 0.799$, $p < .001$). Avoid risks by exiting.
Investment motive: efficiency-seeking	✗ Limited emphasis on stability, as efficiency-seeking focuses on cost reduction and adaptability.	✓ Likely to employ shrinking as a method to reduce operational expenses and maintain flexibility.	✗ Not typically inclined toward divestment, as efficiency-seeking subsidiaries aim to optimize costs rather than fully disengage.
Expatriate presence: high	✗ Market-seeking subsidiaries with expatriates are less likely to stay stable ($\beta = 0.934$, $p < .01$).	✓ Strong positive influence on shrinking strategy ($\beta = 0.725$, $p < .001$). Subsidiaries led by expatriate managers prefer reducing scope to mitigate risks.	✗ Marginal positive impact in non-sanctioned countries ($\beta = 0.295$, $p < .1$). No significant impact in sanctioned environments.
Expatriate presence: low	✗ Low influence on maintaining stability due to reduced operational oversight and flexibility.	✗ Lower likelihood of shrinking since expatriate influence is not substantial.	✓ Higher likelihood of divestment due to limited embedded influence in sanctioned markets.