ISSN 2078-6115. Вісник Львівського університету. Серія економічна. 2024. Випуск 66.
Visnyk of the Lviv University. Series Economics. 2024. Issue 66.

DOI: http://dx.doi.org/10.30970/ves.2024.66.0.6614

УДК 657.37
JEL G14, G32, H56

THE RELATIONSHIP BETWEEN ESG RATINGS AND CORPORATE DECISIONS DURING THE RUSSIAN-UKRAINIAN WAR

Vira Shevchuk, Olha Luchka

Ivan Franko National University of Lviv,
18 Svobody Ave., Lviv, 79008,
e-mail: vira.shevchuk@lnu.edu.ua; ORCID: 0000-0002-0925-6489
e-mail: olha.luchka@lnu.edu.ua

Summary. *ESG ratings allow for assessing the environmental, social, and governance activities of enterprises. In today's business environment, the role of ESG ratings lies in their potential to incentivize companies to adopt more balanced and socially responsible practices. This study aimed to clarify the essence and role of ESG ratings, examine the methodology behind them, and explore the relationship between ESG ratings and corporate decisions during the Russian-Ukrainian war. To achieve this goal, the research addressed the following objectives: to define the essence of ESG ratings and their role in the modern business environment, to examine the methodology used by specialized rating agencies to form ESG ratings, and to investigate the relationship between ESG ratings and corporate decisions concerning foreign companies' exit from the Russian market following Russia's full-scale invasion of Ukraine on February 24, 2022. The research object is ESG ratings of foreign companies that were conducting business in Russia as of February 24, 2022. The study used data collected from Refinitiv's database during an internship at Julius Maximilian University of Würzburg (Germany) in the 2022-2023 academic year. The Yale list, which includes approximately 1,500 companies operating in Russia as of February 24, 2022, was also employed. Data from 8-K reports were gathered from the U.S. Securities and Exchange Commission's (SEC) Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system for the period from February 24, 2022, to September 1, 2022. Additionally, the study applied general scientific and specialized research methods, including observation, analysis, synthesis, generalization, systematization, and comparison. The scientific novelty of the obtained results lies in the fact that we have proven for the first time that more socially responsible firms are more transparent in disclosing information about the Russian-Ukrainian war. Companies with higher ESG ratings responded more promptly to Russia's full-scale invasion of Ukraine, updated their future activity forecasts, and properly disclosed their position regarding a full or partial exit from the Russian market in their 8-K reports.*
Keywords: *ESG ratings, CSR, Yale list, Refinitiv, Russian-Ukrainian war, 8-K reports.*

Statement of the problem. ESG ratings have become a key tool for assessing corporations' sustainability and social responsibility today. In the context of a growing conscious consumer base and increasing demands for sustainable development, ESG ratings allow for the evaluation of a company's environmental, social, and governance activities. These ratings consider aspects such as environmental performance, social practices, and corporate governance, which are becoming important for investors and consumers, government bodies, and other stakeholders. The growing attention to environmental issues, corporate social responsibility (CSR), and global challenges requires corporations to be aware of the impact of their activities on the environment and society as a whole. Thus, ESG ratings are becoming an essential tool for building a sustainable and responsible business and ensuring sustainable development on a global scale.

At the same time, amidst the daily increasing geopolitical risks, especially the Russian-Ukrainian war, which is considered the largest geopolitical conflict in the world since World War II, questions arise: "Do ESG ratings work in the face of such calamities as war? What is the role of ESG ratings, and is there a connection between these ratings and the adoption of socially responsible corporate decisions during the Russian-Ukrainian war?"

Analysis of recent research and publications. The ongoing Russian-Ukrainian war, now in its tenth year, has significantly escalated geopolitical tensions not only in Europe but worldwide, particularly with Russia's full-scale invasion of Ukraine on February 24, 2022. The beginning of the war was marked by Russia's illegal annexation of Crimea and the establishment of quasi-republics (the Donetsk People's Republic and the Luhansk People's Republic) in eastern Ukraine with armed support from Russia. It is now clear that Russia has not achieved its initial goal of destroying Ukraine's sovereignty. Ukraine has managed to regain control over more than half of the territories captured by Russia in the north and east of Ukraine. However, progress on the battlefield has slowed, and Russia continues to target energy and civilian infrastructure, making a ceasefire from both sides of the conflict currently unlikely. Instead, we witness the prolonged political, economic, and military confrontation between the West and Russia. Ukraine's economy has suffered colossal losses across various sectors, and deliberate or accidental escalation between NATO and Russia remains among the top global geopolitical risks.

Following Russia's invasion of Ukraine, over a thousand companies announced full, partial, or irreversible exits from Russia. Researchers at Yale University compiled a list of the largest companies that exited or remained in Russia [15]. This list has been openly published and has been used throughout the war as a tool to pressure companies that delay their decision to leave the Russian market. Some researchers consider this list a powerful instrument enabling consumers and other stakeholders to exert pressure on companies (including through boycotts of goods and services) to exit Russia [10, 11, 13].

While some companies announced their decision to leave Russia almost immediately after the invasion, according to the Yale list, there are more than 200 companies that, two years after the full-scale invasion, have not taken a stance on ceasing operations in Russia or have simply remained in Russia as if nothing had happened. Researchers from various countries are questioning why some companies exited Russia while others stayed.

The stock market's reaction to silence or delays in exiting Russia incentivized public companies to announce their withdrawal, as extensively explored in relevant studies [2, 8, 13, 14]. Some researchers also suggest a correlation between a company's size and its decision to exit the Russian market, though findings across different scholars vary significantly [2, 13]. Researchers agree that the industry influences decisions to exit Russia [2, 8].

Of particular interest to our study are findings from researchers who suggest that more socially responsible firms were the first to exit Russia and have begun studying the role of ESG metrics in driving these decisions [1, 3, 9, 16]. Basnet, Blomkvist and Galariotis [3] summarize that firms with lower ESG and human rights scores were more likely to maintain operations unchanged during the Russian invasion. They also found that companies with higher human rights and ESG scores had less negative stock market reactions to adverse cash flow news.

Ahmed, Demers, Hendrikse, Joos and Lev [1], focusing on European public companies, found that firms with higher ESG ratings were not less likely to operate in Russia and were more likely to inform investors about such activities. Secondly, in response to Western outrage over Russia's atrocities, many companies sought to suspend or divest their Russian operations, but those firms purportedly more socially responsible did not announce such actions more quickly than others. Thirdly, they found that both the significance of the impact of firms on Russia and the extent of disclosure of information about these risks negatively affected profits after the start of the war, while investments in firms with higher ESG ratings did not provide any protection.

Lu, Huang and Li [9], on the other hand, found that companies suspending or withdrawing business from Russia had higher overall ESG scores, particularly in social and environmental aspects. However, firms with higher ESG scores generally took longer to announce their withdrawal, and their disengagement from Russia was also the softest, as they might be prepared to resume business in Russia after the invasion ends.

An interesting conclusion comes from Yan [16], focusing on 51 US firms, arguing that the lower a firm's ESG score in the past, the more likely it is to decide to exit Russia. He explains this by suggesting that firms with lower ESG scores wanted to use their decision to exit the Russian market to enhance their ESG image.

Also, intriguing are studies by researchers questioning whether better CSR performance mitigates market quality deterioration associated with war onset, or how resilient firms with high ESG ratings are to geopolitical catastrophes like war [4, 5, 6, 7].

Deng, Leippold, Wagner and Wang [6] used the Ukraine war as an example to examine how firms with high ESG ratings cope with stress. They concluded that it is not easy for investors to rely on such ratings for investment decisions in the face of calamities like war.

Clancey-Shang and Fu [5], focusing on US public companies, found that better CSR performance mitigates market quality deterioration associated with war onset for foreign firms registered in the US. Such effects are less significant for US domestic firms. They also found that foreign firms experience more severe market quality deterioration compared to their American counterparts. Their findings align with the resilience hypothesis regarding the link between CSR and financial performance, as well as the observation that better CSR performance is associated with improved transparency of information.

Kick and Rottmann [7], analyzing abnormal profitability of European stocks around February 24, 2022, argue that for investors seeking protection from unexpected events, relying on ESG indicators may not be advisable.

Chen, Chen, and Zhang [4], contend that while recent academic literature shows that stocks with high ESG ratings have more resilient returns during market downturns (such as during the 2008 financial crisis and the COVID-19 market crash), there is no significant difference in return sensitivity between resilient and ordinary funds during the Ukraine war. Their evidence suggests that some investors are unwilling to accept lower returns for resilience and behave differently in the face of geopolitical crises, such as war.

Thus, there is no consensus on (1) whether there is a correlation between ESG indicators and a company's decision to exit Russia, and (2) whether companies with high ESG ratings are more resilient to geopolitical catastrophes such as war.

We aim to contribute to the research on the reliability of ESG ratings in wartime conditions by studying the ESG indicators of companies related to Russia in the context of their decision to exit the aggressor country's market or to finance terrorism through tax payments. We believe that ESG rating providers, including Refinitiv, should react to evidence of companies' ethical misconduct through conducting business in undemocratic countries that do not respect fundamental human rights. Therefore, ESG rating providers should consider the facts of companies' activities in aggressor countries when forming these ratings. Additionally, we plan to expand existing research on ESG ratings in the context of geopolitical crises by studying disclosures of information regarding the Russian-Ukrainian war in company reports to demonstrate that more socially responsible firms are more transparent when it comes to corporate disclosure of information.

Statement of the task. The research aims to reveal the essence and role of ESG ratings and their formation methodology, as well as to explore the correlation between ESG ratings and corporate decisions amidst the Russian-Ukrainian war. To achieve this goal, the following tasks need to be addressed: (1) uncover the essence of ESG ratings and their role in the modern business environment; (2) examine the methodology of ESG ratings formation by specialized rating agencies; (3) investigate the correlation between ESG ratings and corporate decisions regarding the withdrawal of foreign companies from the Russian market after Russia's full-scale invasion of Ukraine on February 24, 2022.

The object of the study is ESG ratings of foreign companies that were conducting business in Russia as of February 24, 2022.

Presentation of the main material. In the modern world, increasing attention is being paid to issues of sustainable development and environmental responsibility in the business sphere. This trend not only generates demand for more sustainable and environmentally friendly practices but also enhances the importance of assessing the environmental, social, and governance (ESG) aspects of corporate activities.

Among the instruments used to assess corporate sustainability, ESG ratings occupy a prominent place, as they are a crucial tool for evaluating the sustainability and social responsibility of the corporate sector in today's economic environment. The acronym ESG (Environmental, Social, Governance) encompasses corporate activities related to environmental protection, social initiatives, and corporate governance, which are becoming increasingly critical for a wide range of stakeholders, including investors, consumers, governmental bodies, and other interested parties.

ISSN 2078-6115. Вісник Львівського університету. Серія економічна. 2024. Випуск 66

Despite the widespread use and significance of ESG ratings, their essence and methodologies remain subjects of research and discussion in both academic and practical settings. Rating agencies that develop ESG standards typically employ a comprehensive approach to assess the environmental, social, and governance indicators of companies. This process involves analysing both internal and external company data, as well as evaluating their alignment with ESG criteria. Ratings are typically assigned in the form of numerical scores or letter grades reflecting the level of a company's adherence to ESG standards. Various methodologies and evaluation systems are employed, which can be tailored to specific sectors of company activities.

The scope of ESG ratings extends beyond companies to include stocks, securities, exchange-traded funds, and countries. Investors and consumers use these ratings to make decisions regarding investments and purchases, focusing on high ESG ratings that indicate more sustainable and socially responsible corporate practices.

Prominent rating agencies involved in developing ESG ratings include companies such as Refinitiv, Bloomberg, MSCI, Sustainalytics, CPD, S&P Global, and others. Each agency utilizes its own methodologies and criteria for assessing corporate sustainability and social responsibility. The advantages of rating agencies include their extensive research, resources, and access to data, enabling them to provide reliable information to investors. However, challenges include differences in methodologies, which can lead to varying assessments of the same companies, as well as the potential influence of clients on ratings or lack of transparency in criteria determination.

Overall, rating agencies can be categorized into three types based on the volume of data they use to assess ESG indicators: fundamental data providers focusing on publicly available raw data from reports and web content, comprehensive data providers combining publicly available and proprietary survey data and internal analyses, and specialized data providers offering deep analysis of contextualized data covering a wide range of ESG aspects. Table 1 presents information on the most well-known ESG data providers grouped by categories.

Table 1

Comparative characteristics of the most famous providers of ESG ratings, grouped by category

Category of data provider	Name of the rating agency	The year of the start of the determination of the rating	The number of companies to be evaluated	Features of the formation method
1	*2*	*3*	*4*	*5*
Providers of fundamental data	Refinitiv	2002	> 12000	Percentile rank metrics are easy to understand (available as both percentages and letter grades from D- to A+).
	Bloomberg	2009	> 9000	The range of ESG factor disclosure scores is from 1 to 100. The feature of ESG rating formation at Bloomberg is their focus on using publicly available raw data from reports and web content.

Continuation of the table

1	*2*	*3*	*4*	*5*
Providers of complex data	MSCI	2000	> 8500	Typically for MSCI, their ESG ratings are based on a system of internal analysis that takes into account a wide range of ESG indicators and management practices, and are provided in the form of letter ratings from CCC to AAA.
	Sustainalytics	2018	> 12000	What makes Sustainalytics' ESG ratings unique is their approach, which combines publicly available and proprietary survey data, as well as internal analysis, covering all aspects of ESG, to provide a comprehensive assessment of sustainability and social responsibility of companies.
Providers of specialized data	CPD	2003	> 8400	CPD is a specialized data provider that focuses on in-depth, contextualized analysis covering different aspects of ESG, providing a more detailed view of each.
	S&P Global	1999	> 4700	A feature of the formation of ESG ratings at S&P Global is their evaluation methodology, which is based on a broad analysis of indicators, including the ecological footprint, the number of emissions, social labor standards, corporate governance and others, and takes them into account on a scale from 0 to 100.

Source: compiled by the author based on the official websites of rating agencies.

Regarding the methodology of forming ESG ratings, Refinitiv gathers publicly available ESG data from companies and combines this information to allocate ten ESG category scores. The ten categories include Environmental Innovation, Resource Use, Emissions, Workforce, Human Rights, Community, Product Responsibility, Management, Shareholders, and Corporate Social Responsibility (CSR) strategy. Afterward, the ESG category scores are consolidated to create the Environmental (E), Social (S), and Governance (G) pillar scores, as shown in Figure 1.

Furthermore, Refinitiv offers an aggregated ESG score (ESGC) that considers any substantial ESG controversies affecting the companies under their analysis. Refinitiv's ratings cover a vast range of over 12,000 public and private companies globally, and they maintain a comprehensive time series dataset dating back to 2002. The percentile rank scores are straightforward to interpret and are presented as both percentages and letter grades, ranging from D- to A+. These scores are compared against The Refinitiv Business Classifications (TRBC – Industry Group) for all environmental and social categories, including the controversies score. Moreover, the governance categories are evaluated against the country of incorporation for each company [12]. Importantly, Refinitiv updates its ESG ratings weekly, with retrospective data available up to 5 years.

ISSN 2078-6115. Вісник Львівського університету. Серія економічна. 2024. Випуск 66

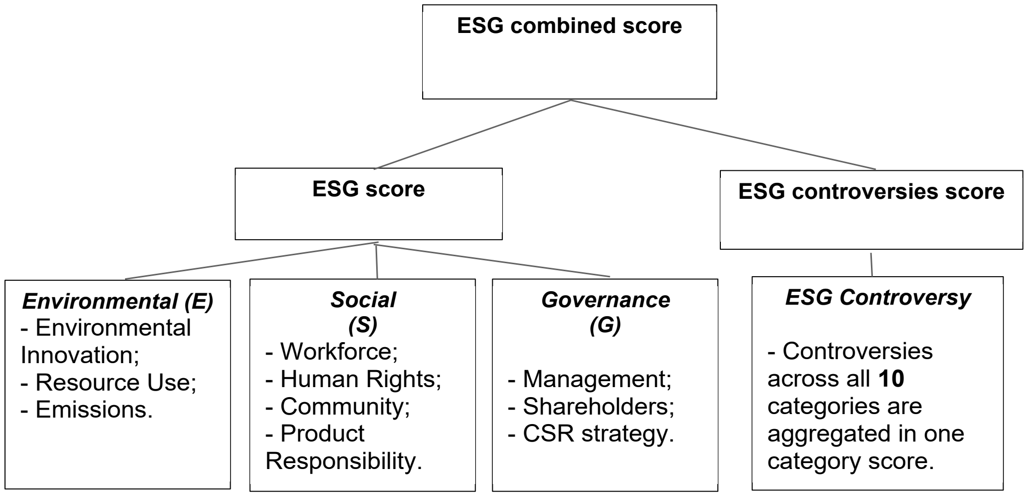

Fig. 1. Refinitiv's ESG score construction methodology [12]

In the context of our research, we are more interested in the Social pillar scores, namely Community categories, including controversies regarding it. The Community score measures the company's commitment to being a good citizen, protecting public health and respecting business ethics. In our opinion, the financing of terrorism through taxes paid in the country of the aggressor should be reflected in Refinitiv ESG community score. As well as Critical countries controversies should affect the aggregated ESG score whereas it is number of controversies published in the media linked to activities in critical, undemocratic countries that do not respect fundamental human rights principles.

Therefore, we have decided to investigate the relationship between ESG indicators of companies and their decision to exit or remain in Russia based on the list of major companies that exited or stayed in Russia (Yale list) compiled by Yale University researchers [15]. We hypothesize that socially responsible companies (with high ESG ratings) were among the first to decide to exit the Russian market following the full-scale invasion, unwilling to tarnish their reputation by conducting business in an aggressor country. Additionally, we will examine the impact of foreign companies' decisions to stay or leave Russia on their ESG ratings after the full-scale invasion of Ukraine on February 24, 2022. It would be logical to identify ESG controversies among those firms that chose to remain in Russia, as operating in an aggressor country implies financing terrorism, which should be reflected in their ESG controversy and, consequently, in the reduction of their combined ESG ratings.

We began our research on the correlation between ESG ratings and the decisions of foreign corporations to exit the Russian market more than six months after the start of Russia's full-scale invasion of Ukraine, using the Yale list and access to ESG ratings from the Refinitiv database. By this time, foreign companies that were operating in Russia before the invasion had already had sufficient time to express their position on staying or leaving the Russian market. Most companies issued their press releases on this matter at the end of February or beginning of March 2022.

ISSN 2078-6115. Вісник Львівського університету. Серія економічна. 2024. Випуск 66

At the outset of our research, we hypothesized that the factor of publicity plays a significant role in the decision to stay or exit the market of an aggressor country. That is, that public companies will be the first to leave the Russian market after a full-scale Russian invasion of Ukraine. To explore this, we categorized information from the Yale list based on companies' positions regarding continuing operations in Russia, and categorized them by their ownership structure (Table 2).

Table 2

Ratio of public and private companies in the Yale List as of September 1, 2022

Categories according to the Yale list depending on the position regarding the continuation of work in Russia	Number of companies by Yale List category	Structure by categories of the Yale list	Structure by form of ownership	
			Public	Private
			57,18%	42,82%
Digging In*	243	17,55%	14,90%	21,08%
Buying Time*	160	11,55%	12,25%	10,62%
Scaling Back*	171	12,35%	15,03%	8,77%
Suspension*	499	36,03%	37,37%	34,23%
Withdrawal*	312	22,53%	20,45%	25,30%
Всього	1385	100,00%	100,00%	100,00%

* Digging In – Companies that are just continuing business as usual in Russia.Buying Time – Companies postponing future planned investment/development/marketing while continuing substantive business. Scaling Back – Companies that are scaling back some significant business operations but continuing some others. Suspension – Companies temporarily curtailing most or nearly all operations while keeping return options open. Withdrawal – Companies totally halting Russian engagements or completely exiting Russia.

As seen from Table 2, 57% of all companies in the Yale list are public, and nearly 43% are private, making their numbers roughly equal. Among public companies, 15% chose to Dig In and continue operating in Russia, while 20% withdrew permanently (Withdrawal). Regarding private companies, 21% are categorized as Digging In and 25% as Withdrawal. Thus, public companies were less likely to remain operating in Russia, but also less likely to withdraw permanently compared to private companies. Therefore, the publicity factor was not decisive for companies in deciding whether to exit the market of the aggressor country.

Moving forward, we focused specifically on public companies because information on their ESG ratings is available in the Refinitiv database. We obtained information on the ESG ratings of these public companies from the Yale list, for those that were available as of September 1, 2022 (Table 3).

As observed from Table 3, on average, public companies that exited Russia had higher ESG scores compared to those that decided to stay (71 versus 62). However, considering that companies with the highest ESG ratings (almost 72) are those postponing future planned investment/development/marketing while continuing substantive business, we cannot definitively say that the most socially responsible firms immediately left the Russian market.

Table 3

Average ESG rating for public companies from the Yale List by category as of September 1, 2022

Categories according to the Yale list depending on the position regarding the continuation of work in Russia	Average ESG rating
Digging In	61,83
Buying Time	71,78
Scaling Back	68,75
Suspension	66,26
Withdrawal	70,86
For all public companies	67,55

Moreover, not all public companies have ESG ratings, which is related to varying requirements for mandatory non-financial reporting across different countries and regions. Only 66% of public companies in the Yale list had ESG scores in the Refinitiv database (Table 4). Furthermore, we did not observe that the presence of an ESG rating influenced a company's decision to exit Russia. In other words, public companies made decisions to leave Russia independently of whether they had an ESG rating or not.

Table 4

Public companies from the Yale list according to the presence (absence) of their ESG rating in the Refinitiv database as of September 1, 2022

Public companies with an ESG rating	Number	Structure, %	Public companies without an ESG rating	Number	Structure, %
In total	519	66%	In total	273	34%
including:			including:		
Digging In	77	15%	Digging In	41	15%
Buying Time	57	11%	Buying Time	40	15%
Scaling Back	80	15%	Scaling Back	39	14%
Suspension	197	38%	Suspension	99	36%
Withdrawal	108	21%	Withdrawal	54	20%
		100%			100%

Furthermore, we did not observe a correlation between the ESG Controversies Score and companies' decisions to exit Russia (Table 5).

ISSN 2078-6115. Вісник Львівського університету. Серія економічна. 2024. Випуск 66

Table 5

Average rating of ESG Controversies for public companies from the Yale list as of September 1, 2022

Categories according to the Yale list depending on the position regarding the continuation of work in Russia	Average ESG Controversies Score
Digging In	89,13
Buying Time	74,35
Scaling Back	75,81
Suspension	77,36
Withdrawal	78,53
For all public companies	78,78

The higher the ESG Controversies Score, the more socially responsible the firm is perceived to be. If there are no controversies, this score is 100. As seen from Table 5, firms that chose to continue operating in Russia had the highest ESG Controversies Score (on average 89). This surprised us and prompted us to investigate whether Refinitiv tracked media reports about the activities of foreign companies from the Yale list in Russia following the full-scale invasion, as ESG ratings are supposed to be updated on a weekly basis.

Refinitiv constructs the "Recent Controversy Critical Countries" metric – the number of articles published in the media regarding the continued operations of certain international companies in critical, undemocratic countries that do not respect fundamental human rights. We found only 21 companies from the Yale List in Refinitiv's database that had similar controversies. Moreover, only 8 of them had an ESG rating. Therefore, we concluded that the continuation of operations in Russia by companies from the Yale list more than six months after the full-scale invasion practically did not affect their ESG Controversies Score, despite Refinitiv analysts' ESG ratings being expected to update weekly. Accordingly, the ESG combined score, which is based on the ESG rating considering controversies, also did not reflect the companies' activities in the aggressor country.

Thus, in the course of further research, we decided to focus solely on the ESG rating (not the ESG combined score), and also to concentrate on companies from the United States (US) for several reasons. Firstly, nearly 30% of the companies included in the Yale list are American (407 companies). Most of them are public (almost 70%), which allows tracking indicators in Refinitiv and other databases. US companies are represented in all industries, which allows conclusions to be drawn about the industry's impact on decisions to leave Russia. Additionally, as seen from Table 6, the publicity factor in US companies was even more influential in the decision not to remain in Russia (only less than 5% of public companies compared to 12% of private companies remained in the Russian market).

Table 6

US companies from the Yale list by form of ownership and industries

Categories according to the Yale list depending on the position regarding the continuation of work in Russia	Structure, %	Structure by form of ownership, %		Number of companies by industry										
		Public	Private	Industrials	Health Care	Communication Services	Information Technology	Consumer Discretionary	Materials	Financials	Consumer Staples	NGO	Energy	Real Estate
Digging In	6,63	4,67	12,15	2	5	1	1	13	2	2	1	0	0	0
Buying Time	9,83	9,67	10,28	4	8	3	2	5	2	1	12	0	3	0
Scaling Back	16,46	19,33	8,41	20	5	5	9	10	3	5	9	0	1	0
Suspension	39,56	42,33	31,78	29	6	18	54	30	3	5	8	2	4	2
Withdrawal	27,52	24,00	37,38	37	1	11	24	13	6	8	2	5	2	3
In total	100,00	100,00	100,00	92	25	38	90	71	16	21	32	7	10	5

Regarding US public companies, 94% of the 277 companies on the Yale list have an ESG rating. We began by analyzing the ESG indicators of US public companies over the last 5–10 years. We found that American companies that remained in Russia had, on average, lower ESG scores than those that announced their exit (Table 7).

Table 7

Average ESG rating for US public companies from the Yale List

Categories according to the Yale list depending on the position regarding the continuation of work in Russia	Average ESG rating	
	10 years (2012–2022)	5 years (2017–2022)
Digging In	43,14	51,28
Buying Time	60,61	65,31
Scaling Back	60,24	64,16
Suspension	53,81	58,10
Withdrawal	54,18	58,04
For all US public companies	55,34	59,68

However, similar to all companies on the Yale list, the highest average ESG ratings are for companies that are postponing future planned investments/development/marketing while continuing substantial business operations. Thus, we cannot definitively say that American firms with the highest ESG ratings immediately left Russia following its full-scale invasion of Ukraine. Consequently, even in the case of American companies, the hypothesis regarding the impact of ESG ratings on the decision to exit the Russian market was not confirmed. Moreover, while we used the latest available ESG indicators for all companies, for American companies, we considered the 5 and 10-year averages.

At the same time, we continued our research and discovered differences in the ESG ratings of American companies depending on their industry and their decision to exit the Russian market (Table 8).

Table 8

Average ESG rating (2012–2022) for US public companies from the Yale List by industry

Categories according to the Yale list depending on the position regarding the continuation of work in Russia	Industrials	Health Care	Communication Services	Information Technology	Consumer Discretionary	Materials	Financials	Consumer Staples	Energy	Real Estate
Digging In	42,22	47,42	21,79	35,50	52,41	59,86	16,56	0,00	0,00	0,00
Buying Time	36,39	76,03	28,33	0,00	52,26	66,19	0,00	63,51	49,77	0,00
Scaling Back	55,48	51,09	42,89	53,68	61,75	73,17	68,58	77,83	78,97	0,00
Suspension	58,91	49,67	39,85	53,69	54,77	40,01	63,60	55,71	56,88	72,17
Withdrawal	57,48	47,77	31,27	49,19	53,65	74,02	57,22	43,77	77,07	72,23

As shown in Table 8, medical firms that completely exited Russia had, on average, higher ESG scores than those that remained. The highest ESG scores were observed in medical companies that only announced the cessation of new investments in Russia. This confirmed our previous assumptions, as most medical firms stated that they were not ready to completely withdraw from Russia for humanitarian reasons, as there are people there whom they are not willing to leave without medical care. Only in the materials and real estate sectors did companies that completely and irreversibly exited Russia have the highest ESG scores. In most industries (communication services, information technology, consumer discretionary, finance, consumer staples, and energy), the highest ESG scores were held by companies that curtailed some significant business operations but continued others. Only industrial enterprises had the highest ESG scores among companies that temporarily suspended most or nearly all operations while leaving options for return open.

Thus, we concluded that the industry indeed influences companies' decisions to exit the Russian market, meaning that in different economic sectors, socially responsible firms made different decisions regarding their future operations in Russia.

We decided to deepen our research to examine how US public companies from the Yale list disclosed information about the war in Ukraine in their financial reports and whether they disclosed it at all. We were interested in the question: "Did more socially responsible firms provide more comprehensive disclosure regarding the Russian invasion of Ukraine, including their position on continuing operations in the Russian market? And if they did, what did they focus on and what risks did they consider the most significant?"

To investigate this, we analyzed 8-K reports of companies listed on US stock exchanges. The official name of the 8-K report is the Current Report. We obtained the 8-K reports from the U.S. Security and Exchange Commission's (SEC) Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system for the period from February 24, 2022, to September 1, 2022.

The 8-K reports pertain to financial statements submitted by American companies to the SEC in the event of changes related to the ownership of securities. These reports include information about changes in the company's ownership structure, such as details of acquisitions, sales, or disposals of securities, reports on changes in management or control over the company, and events that may affect the company's stock price or financial position.

Accordingly, companies conducting business in Ukraine and/or Russia at the time of the full-scale invasion considered it necessary to file 8-K reports and disclose information regarding their intentions to continue operations in Russia or exit the Russian market, as well as all the risks involved. Such information could impact their activities and investment attractiveness. This information was disclosed either directly in the report or in a press release attached to the report.

Table 9

Number, ratio, and average ESG rating of US public companies from the Yale list that disclosed (+) and did not disclose (-) information about the war in Ukraine in 8-K reports

Categories according to the Yale list depending on the position regarding the continuation of work in Russia	Number		Structure, %		Average ESG rating			
	-	+	% (-)	% (+)	10 years (2012-2022) (-)	10 years (2012-2022) (+)	5 years (2017-2022) (-)	5 years (2017-2022) (+)
*Digging I*n	4	8	5%	4%	53,69	37,86	62,63	45,60
Buying Time	8	21	10%	11%	63,76	59,55	66,78	64,82
Scaling Back	11	42	14%	21%	52,73	62,16	55,45	66,39
Suspension	41	76	51%	39%	51,29	55,12	55,50	59,45
Withdrawal	16	50	20%	25%	40,44	57,91	44,92	61,59
For all US public companies	80	197	100%	100%	50,88	57,04	55,08	61,44

As seen in Table 9, the majority of companies (197 out of 277) disclosed information about the war in Ukraine in their 8-K reports or in press releases attached to them. Additionally, companies that disclosed information in their 8-K reports were less likely to remain in Russia (4% of those who disclosed information stayed in Russia compared to 5% of those who did not disclose information and also stayed). Furthermore, 25% of the companies that fully exited Russia disclosed information in their 8-K reports, compared to 20% of those who exited but did not disclose anything.

Regarding ESG ratings, on average over 10 years, companies that disclosed information in their 8-K reports had better scores (57,04 compared to 50,88). Additionally, those who disclosed information and exited Russia (Withdrawal) (57,91) showed better results than those who disclosed information but stayed (Digging In) (37,86). At the same time, we did not observe a connection between the ESG rating among companies that did not disclose information in their 8-K reports and the decision they made regarding Russia. We assume that companies that did not disclose information in their 8-K reports considered it insignificant (possibly due to low operations volume in Russia).

We also decided to investigate the specific information about the war in Ukraine that American public companies from the Yale list included in their 8-K reports (Table 10).

Table 10

Average ESG rating for US public companies from the Yale List by type of disclosure about the Russian-Ukrainian war in 8-K reports

Type of disclosure in 8-K reports	Average ESG rating	
	10 years (2012–2022)	5 years (2017–2022)
In principle, information about the war in Ukraine has been disclosed	57,04	61,44
The intention to leave the Russian market has been disclosed	66,03	69,42
Disclosure of impact on Q1 2022 performance	58,42	62,94
Disclosure of impact on Q2 2022 performance	42,15	46,34
Refinement of annual forecasts for 2022	61,27	65,36
Reference to sanctions	52,86	58,23
Support of humanitarian relief efforts in Ukraine	50,07	54,63
Uncertainties related to the war in Ukraine	48,88	55,09
Cautionary statements	57,62	61,58

As seen in Table 10, American public companies that disclosed their exit from Russia in their 8-K reports had significantly higher ESG ratings over 10 years (66,03) than those that merely disclosed information about the war in Ukraine in their 8-K reports (57,04). This indicates that more socially responsible companies not only exited Russia but also properly disclosed their position on fully or partially leaving the Russian market in their 8-K reports.

Companies that disclosed the impact of the war in Ukraine on their Q1 2022 results (58,42) or updated their annual forecasts for 2022 (61,27) also demonstrated relatively higher ESG ratings. This confirms that more socially responsible firms are more transparent about disclosing information.

Interestingly, companies that disclosed the impact of the war in Ukraine on their Q2 2022 results (i.e., filed their 8-K reports slightly later) had significantly lower average ESG scores than those that did so in Q1 (42,15 vs. 58,42). This suggests that more socially responsible companies responded more quickly to the Russian aggression and promptly disclosed the impact of the war in Ukraine on their Q1 results and expected annual performance.

We were surprised by the lower-than-average ESG ratings for companies that support humanitarian efforts in Ukraine (50,07 vs. 57,04). On the other hand, these companies' reports did not contain any mention of their stance on their business in Russia, but only information about caring for employees in Ukraine, donations to the Red Cross, temporary housing

ISSN 2078-6115. Вісник Львівського університету. Серія економічна. 2024. Випуск 66

worldwide for Ukrainian refugees, or simply expressing sorrow over the war and the unfolding humanitarian crisis in Ukraine. Such a public statement of solidarity with the Ukrainian population, not accompanied by any corporate decision, is called "greenwashing." Although some of these companies did exit the Russian market, we believe that these companies lacked the courage to acknowledge that Russia's war against Ukraine is not just a conflict in Ukraine and that the aggressor country should be punished in all ways, including through the withdrawal of business by foreign companies from its market. Therefore, companies practicing "greenwashing" deserve a lower ESG rating.

Closer to the average (57,62) was the ESG rating of companies that cited the war in Ukraine as a risk factor for their operations, considering "cautionary statements," but this was the most formal disclosure of the fact that the war in Ukraine could impact the company's performance.

The ESG rating was quite low (48,88) for companies that merely stated uncertainties related to the war in Ukraine in their reports, such as concerns about the spread of the conflict in Ukraine across Europe; fears of rising fuel and energy costs, commodity prices, increased inflation; supply chain and labor issues, logistical chaos, or simply stating that their business in Russia is not significant. Given that these companies conducted (or conduct) business in Russia, they did not disclose their stance on withdrawing operations from the Russian market in their reports. It seems that such incomplete and non-transparent information disclosure corresponds to a low level of corporate social responsibility.

At the same time, the ESG rating of companies that cited sanctions as the reason for their exit from Russia was significantly lower than the average (52,86 vs. 57,04). Hence, it can be concluded that sanctions were a factor influencing the decision of American public companies to leave Russia for less socially responsible firms. Meanwhile, more responsible firms were guided by somewhat different reasons.

Thus, we were able to prove that more socially responsible firms were more transparent in disclosing information about the Russia-Ukraine war. Companies with higher ESG ratings responded more promptly to Russia's full-scale invasion of Ukraine, updated forecasts for future operations, and properly disclosed their position on fully or partially exiting the Russian market in their 8-K reports.

Therefore, our research contributes to the accounting literature by combining ESG rating studies with the literature on corporate disclosure.

Conclusions. ESG ratings have become a key tool for assessing the sustainability and social responsibility of corporations in the modern world. Rating agencies that develop ESG ratings play an important role in today's business environment by providing investors, consumers, and government bodies with means to evaluate the environmental, social, and governance activities of enterprises. One of the leading players in this field is Refinitiv, which has several advantages, including broad access to public information and high accuracy in data matching. Refinitiv uses a methodology for collecting and analysing publicly available ESG data, as well as internal research, to form 10 category ratings that are then combined to create indicators for Environmental (E), Social (S), and Governance (G) factors.

Initially, our research aimed to determine whether socially responsible international companies operating in Russia at the time of the full-scale invasion of Ukraine on February

24, 2022 – i.e., firms with high ESG ratings – exited the Russian market or stayed. Essentially, we wanted to see if ESG ratings function effectively in the face of such a disaster as war. A literature review revealed that various scholars had already questioned why some foreign companies exited Russia while others stayed. Some researchers also explored the relationship between ESG ratings and the decision to leave the Russian market. Given the divergent results among scholars, we decided to conduct our study, delving deeper into how companies disclosed such events in their reports.

We used a list of 1,385 major companies that either exited or stayed in Russia (the Yale list), compiled by Yale University researchers. We first ensured that the factor of publicity was not decisive for companies when deciding to exit the market of the aggressor country, as public companies were less likely to stay in Russia but also less likely to leave the Russian market permanently compared to private ones. We then focused on 792 public companies and found that, on average, public companies that exited Russia had higher ESG scores than those that chose to stay (71 compared to 62). However, considering that the highest ESG rating (almost 72) was held by companies postponing future planned investments/development/marketing while continuing significant business, we cannot definitively say that the most socially responsible firms left the Russian market immediately.

Only 66% of the public companies from the Yale list had ESG scores in the Refinitiv database, and we did not observe that the mere existence of an ESG rating influenced the company's decision to exit Russia. Public companies made decisions to exit Russia regardless of whether they had an ESG rating. Additionally, we did not find a link between the ESG Controversies Score and the decision to exit Russia.

Thus, in further research, we decided to focus solely on the ESG rating (not on the combined rating) and also concentrated on 407 US companies, most of which are public (almost 70%), allowing us to track indicators in Refinitiv and EDGAR. However, as with all companies on the Yale list, we found that the highest average ESG ratings were held by public American companies that postponed future planned investments/development/marketing while continuing significant business. Therefore, we again cannot say that American firms with the highest ESG ratings immediately left Russia after its full-scale invasion of Ukraine. At the same time, based on American public companies, we concluded that the industry does impact the decision of companies to exit the Russian market, i.e., socially responsible firms in different sectors of the economy made different decisions regarding their continued operations in Russia.

We deepened our research by studying information from the 8-K reports of 277 US public companies to see how they disclosed information about the Russia-Ukraine war. We found that companies that disclosed information in their 8-K reports (197 companies) were less likely to stay in Russia. Moreover, American public companies that disclosed their exit from Russia in their 8-K reports had significantly higher ESG ratings over 10 years (66,03) than those that merely disclosed information about the war in Ukraine in their 8-K reports (57,04). This indicates that more socially responsible companies not only left Russia but also properly disclosed their position on fully or partially exiting the Russian market in their 8-K reports.

Companies that disclosed the impact of the war in Ukraine on their Q1 2022 results (58,42) or updated their annual forecasts for 2022 (61,27) also demonstrated relatively higher

ESG ratings. This confirms that more socially responsible firms are more transparent about disclosing information.

Conversely, relatively lower ESG ratings compared to the average (57,04) were observed in American public companies that cited sanctions as the sole reason for their exit from Russia (52,86); and practiced "greenwashing," where their reports did not mention their stance on their business in Russia but only information about caring for employees in Ukraine, donations to the Red Cross, or simply expressing sorrow over the war and the humanitarian crisis in Ukraine (50,07); or merely stated uncertainties related to the war in Ukraine in their reports (concerns about the spread of the conflict across Europe, fears of rising energy costs, increased inflation, supply chain and labor issues, etc.) (48,88).

Thus, we were able to prove that more socially responsible firms were more transparent in disclosing information about the Russia-Ukraine war. Companies with higher ESG ratings responded more promptly to Russia's full-scale invasion of Ukraine, updated forecasts for future operations, and properly disclosed their position on fully or partially exiting the Russian market in their 8-K reports. Therefore, our research contributes to the accounting literature by combining ESG rating studies with the literature on corporate disclosure.

References

1. Ahmed, D., Demers, E., Hendrikse, J., Joos, P., & Lev, B. (2023). Are ESG Ratings Informative About Companies' Socially Responsible Behaviors Abroad? Evidence from the Russian Invasion of Ukraine. *Accountability in a Sustainable World. Quarterly, Forthcoming*. Retrieved from http://doi.org/10.2139/ssrn.4151996.
2. Balyuk, T., & Fedyk, A. (2023) Divesting Under Pressure: U.S. Firms' Exit in Response to Russia's War Against Ukraine. *Journal of Comparative Economics*. *Forthcoming*. Retrieved from http://doi.org/10.2139/ssrn.4097225.
3. Basnet, A., Blomkvist, M., & Galariotis, E. (2022). The role of ESG in the decision to stay or leave the market of an invading country: The case of Russia. *Economics Letters*, *216*. doi.org/10.1016/j.econlet.2022.110636.
4. Chen, L., Chen, Y., & Zhang, Ch. (2022). Sustainable Investing During the War in Ukraine. Retrieved from http://dx.doi.org/10.2139/ssrn.4183829.
5. Clancey-Shang, D., & Fu, Ch. (2024). CSR Disclosure, Political Risk and Market Quality: Evidence from the Russia-Ukraine Conflict. *Global Finance Journal, 60*. doi.org/10.1016/j.gfj.2024.100938.
6. Deng, M., Leippold M., Wagner, A. F., & Wang, Q. (2022). Stock prices and the Russia-Ukraine war: Sanctions, Energy and ESG. *CEPR Discussion Paper, DP17207*. Retrieved from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4121382.
7. Kick, A., & Rottmann, H. (2022). Sustainable Stocks and the Russian War on Ukraine – an Event Study in Europe. *CESifo Working Paper No. 9798*. Retrieved from: https://ssrn.com/abstract=4137955.
8. Kiesel, F., & Kolaric, S., Should I stay or should I go? Stock market reactions to companies' decisions in the wake of the Russia-Ukraine conflict (2023). *Journal of International Financial Markets, Institutions and Money, Forthcoming*. Retrieved from: http://dx.doi.org/10.2139/ssrn.4088159.
9. Lu, F., Huang, L., & Li, S. (2022). Sanctions and Social Capital: Evidence from the Russian Invasion of Ukraine. Retrieved from: http://dx.doi.org/10.2139/ssrn.4108129.

10. Pajuste, Anete and Toniolo, Anna (2022). Corporate Response to the War in Ukraine: Stakeholder Governance or Stakeholder Pressure? *European Corporate Governance Institute – Finance Working Paper No. 839/2022*. Retrieved from: http://dx.doi.org/10.2139/ssrn.4183604.
11. Parella, K. (2022). Corporate Foreign Policy in War. *Boston College Law Review, 63*. doi.org/10.2139/ssrn.4223298.
12. Refinitiv (2024). Environmental, social and governance scores from Refinitiv. Retrieved from: https://www.lseg.com/content/dam/data-analytics/en_us/documents/methodology/lseg-esg-scores-methodology.pdf.
13. Sonnenfeld, J., Tian, S., Zaslavsky, S., Bhansali, Y., & Vakil, R. (2022). It Pays For Companies To Leave Russia. Retrieved from: https://ssrn.com/abstract=4112885.
14. Tosun, O. K., & Eshraghi, A. (2022). Corporate decisions in times of war: Evidence from the Russia-Ukraine conflict. *Finance Research Letters, 48.* doi.org/10.1016/j.frl.2022.102920
15. Yale SOM (2024). Over 1,000 Companies Have Curtailed Operations in Russia – But Some Remain. Retrieved from: https://som.yale.edu/story/0/over-000-companies-have-curtailed-operations-russia-some-remain.
16. Yan, K. (2022). What's in It for Me? Responses of the U.S. Firms to the 2022 Ukraine-Russia War. Retrieved from: https://ssrn.com/abstract=4274268.

ВЗАЄМОЗВ'ЯЗОК ESG-РЕЙТИНГІВ І КОРПОРАТИВНИХ РІШЕНЬ ПІД ЧАС РОСІЙСЬКО-УКРАЇНСЬКОЇ ВІЙНИ

Віра Шевчук, Ольга Лучка

Львівський національний університет імені Івана Франка,
79008, м. Львів, просп. Свободи, 18,
e-mail: vira.shevchuk@lnu.edu.ua; ORCID: 0000-0002-0925-6489
e-mail: olha.luchka@lnu.edu.ua

Анотація. ESG-рейтинги дозволяють оцінити екологічну, соціальну та управлінську діяльність підприємств. У сучасному бізнес-середовищі роль ESG-рейтингів полягає в їхньому потенціалі стимулювати компанії до впровадження більш збалансованих і соціально відповідальних практик. Метою цього дослідження є з'ясування сутності та ролі ESG-рейтингів, їхньої методології, а також дослідження зв'язку між ESG-рейтингами та корпоративними рішеннями в умовах російсько-української війни. Для досягнення цієї мети було вирішено такі завдання: визначено сутність ESG-рейтингів та їхню роль у сучасному бізнес-середовищі; досліджено методологію формування ESG-рейтингів спеціалізованими рейтинговими агентствами; вивчено взаємозв'язок між ESG-рейтингами та корпоративними рішеннями щодо виходу іноземних компаній з російського ринку після повномасштабного вторгнення Росії в Україну 24 лютого 2022 року. Об'єктом дослідження є ESG-рейтинги іноземних компаній, що вели бізнес у Росії станом на 24 лютого 2022 року. Для дослідження було використано дані з бази Refinitiv, зібрані під час стажування у Вюрцбурзькому університеті (Німеччина) у 2022–2023 навчальному році. Також застосовано список Єльського університету, що охоплює приблизно 1500 компаній, які вели бізнес у Росії станом на 24 лютого 2022 року. Дані з 8-K звітів було зібрано з системи EDGAR Комісії з цінних паперів і бірж США (SEC) за період з 24 лютого по 1 вересня 2022 року. Крім того, у дослідженні застосовувалися загальнонаукові та спеціальні методи: спостереження, аналіз, синтез, узагальнення, систематизація та порівняння. Наукова новизна результатів полягає у доведенні того, що більш соціально відповідальні компанії демонструють вищу прозорість у розкритті інформації щодо російсько-української війни. Компанії з вищими ESG-рейтингами швидше відреагували на повномасштабне вторгнення Росії в Україну, оновили прогнози своєї майбутньої діяльності та чітко визначили свою позицію щодо повного чи часткового виходу з російського ринку у звітах 8-K.

Ключові слова: ESG-рейтинги, КСВ, список Єльського університету, Refinitiv, російсько-українська війна, звіти 8-K.

Стаття надійшла до редакції 15.03.2024
Прийнята до друку 25.04.2024