

# Goodwill capital, relationship-specific capital, and corporate sanctions: An empirical study of the Russian invasion of Ukraine\*

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## Abstract

Russia invaded Ukraine on February 24, 2022 and led many companies to apply sanctions in Russia. This paper uses this event to investigate the role of relationship-specific capital and ESG scores (our proxy of goodwill capital) on corporate sanctions. Our results indicate that firms with such capital are significantly more likely to apply sanctions in Russia. The likelihood of applying sanctions in Russia increases by 19.2 percentage points for firms with a business relationship in Russia; and by 4.1 percentage points for firms with a one standard deviation increase in ESG scores above the mean. Applying sanctions in Russia is a costly action. We find that the average five-day cumulative abnormal return around sanctions announcements is -1.32 percentage points, or a decline in market value of US\$0.91 billion. Firms with more goodwill capital perform better around sanctions announcements. The average five-day cumulative abnormal return around sanctions announcements is 0.86 percentage points for a one standard deviation increase in ESG scores above the mean.

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