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The South African economic elite and ownership changes in foreign multinationals' assets during and after Apartheid-era sanctions

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ABSTRACT

Using a historical lens to investigate sanctions against Apartheid South Africa, we found foreign multinational enterprises (MNEs) lost out repeatedly during sanctions, almost always to the local economic elite. When MNEs departed, they often sold their assets to the local economic elite to salvage some value. To ensure continued operations (and thus payments to them), MNE continued supporting buyers during the sanctions era. If MNEs repurchased their assets once sanctions ended, the local elite again benefited. Personal ties matter in institutionally weak contexts, and we make a contribution by using elite theory to interrogate with whom such ties are forged.

1. Introduction

Sanctions are increasingly important in the pursuit of political objectives (Meyer et al., 2023), and have been described as "a weapon of statecraft somewhere between diplomacy and war" (Manby, 1992:192). But much as sanctions are part of a *government*'s policy towards a foreign nation, the responsibility for implementing that policy lies with its *firms* that are doing business with the sanctioned country. This places foreign multinational enterprises (MNEs) in a difficult situation. Sanctions are generally imposed in countries experiencing serious disruption where business conditions are challenging – but shareholders still want a return on their investment. At the same time, MNEs must satisfy at least one very important stakeholder, their home country government, that explicitly or via policies and norms (Evenett & Pisani, 2023) wants MNEs to cut economic ties with the sanctioned country. What happens when MNEs divest from a sanctioned country has large, but poorly understood implications not only for MNEs' strategy and performance, but also regarding the effectiveness of sanctions. We thus seek to understand what happens to foreign MNEs' assets during sanctions.

We use the historical case of sanctions against Apartheid South Africa to address this issue. South African is an appropriate setting for our work, not only because sanctions are deemed to have been fairly successful (Brooks, 2002), but also because we are able to observe the entire arc of how sanctions played out; sanctions were lifted already three decades ago. Using historical evidence to inductively understand MNEs' divestment decisions, we explore MNE actions at three key points: divestment, the post-divestment period, and with reinvestment.

It has long been established that foreign MNEs lost out financially when they divested from South Africa (Meznar et al., 1994; Wright & Ferris, 1997). Our work contributes theoretically by showing the linkages between MNEs' divestment, post-divestment and reinvestment actions, and we demonstrate that the hasty, pressured exit of MNEs put in motion a chain of events that proved expensive for MNEs up to the point of and including reinvestment. Moreover, the primary beneficiaries of sanctions at all three key points were the members of the local economic elite. These elites were players with connections to, as is almost definitional for a country under sanctions, the problematic ruling regime.

Elite theory originates from both political science and sociology, focusing on the distribution of power and influence within societies. It examines the nature of elites, the structure and dynamics of social hierarchies, and the role of elites in political processes (Burton & Higley, 1987; Dahl, 1958). Elite theory remains hardly represented in international business research, with the influence of the economic elite only recently acknowledged by international business scholars (Bucheli & Decker, 2021; Bucheli & Salvaj, 2018; Garg, Lin, & Yang, 2023). Our paper adds to that small body of work, and we suggest that the local economic elite has to be much better understood to make sense of

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sanctions. For example, the financial press has repeatedly highlighted oligarchs as the beneficiaries of MNE divestment from contemporary Russia, a pattern with concerning implications and consistent with what we found during Apartheid South Africa. Moreover, given that elites are sometimes understood as a stabilizing force in society (Higley & Burton, 1989), we believe that elite theory has general application in emerging markets where formal institutions are weak and personal relationships important (Peng & Heath, 1996). By showing the importance of interrogating with whom relationships in emerging markets are forged, our work opens avenues for future research.

The structure of the paper is as follows. We start with a review of the literature on sanctions. We then provide background about the research context – South Africa from the early Apartheid years up to the intensification of international censure. We then explain our research design, our historical cognizance research approach, our data and inductive analytic approach, before presenting our findings. We discuss the theoretical implications of our findings, and finally present a conclusions section.

2. Sanctions, governments and MNEs

Whatever the purpose of sanctions, it is government that makes the decision to sanction a country. However, the decision must be "executed" by the MNEs of that country. We argue that this disconnect causes complications that have not been adequately researched, although it is well known that there are often "unintended consequences" of sanctions (Meissner & Mello, 2022). In seeking to understand how this disconnect affects MNEs, we first review the general sanctions literature, and then the relatively small body of work in business and management that has examined sanctions.

2.1. The political economy of sanctions and its consequences

Sanctions are defined as policy acts where one national government acts against another national government by imposing limitations on trade and investment between the two countries (Peksen, 2019). The empirical evidence in terms of the relative success of sanctions has been questioned with contrasting studies finding disparate results (see Gaur et al., 2023; Meyer et al., 2023; Van Bergeijk, 2021).

Political science and economics advance different mechanisms through which sanctions and their effects are presumed to operate in practice. Crawford and Klotz (1999:26-28) structure these mechanisms into four categories: compellance, normative communication, resource denial, and political fracture. Compellance assumes a rational utility-maximizing state elite who engage in a cost-benefit analysis in terms of how to respond to sanctions. If the latter are to succeed, then the perceived costs need to exceed the benefits and the decision-makers need to suffer loss. Normative communication seeks to delegitimize certain policies and thereby impact elite assessments of self-interests and identities. The resource denial model argues that state policies change by degrading the capability of the state to act by depriving it of key resources. Lastly, the political fracture model sees the state as an assortment of players and institutions and sanctions seek to alter the balance of power within that grouping and produce political disintegration or revolution by undermining internal support.

These four models posit different consequences of sanctions both directly and indirectly. Recognizing this opens up a better accounting for how sanctions may impact a wider range of actors and alter the political economy in sanctioned countries in sometimes unintended and unexpected ways. It also implies that different categories of sanctions may be more successful against different types of political systems, depending on how decisions are made in these systems (Brooks, 2002). Once one opens the black box of the wider political economy affecting the decision-making process, it is possible to better account for who wins and loses under sanctions. It is also easier to assess the political and economic importance, and relative bargaining power, of various stakeholders.

At a macroeconomic level, sanctions may not only lower economic growth but bring about structural changes to the sanctioned economy as it adapts to sanctions by pushing the localization of production through various forms of import substitution. They may alter trade and investment relationships between countries with the establishment of new economic networks that replace traditional ones (Felbermayr et al., 2021). Sanctions may result in limiting a country's access to foreign direct investment and financial markets more generally, contribute towards rapid currency depreciation, restrict access to key technologies, and may impede a government's ability to borrow or refinance debt. Whilst there is some evidence detailing the deleterious macroeconomic effects of sanctions on targeted countries, endogeneity is a big methodological issue that has been ignored in much of the literature. This is because the events leading to the imposition of sanctions on target countries may also impact the observed effects (Morgan et al., 2023).

Finally, even when sanctions accomplish their desired policy goals, scholarship has often overlooked significant adverse side effects. Whilst sanctions may "successfully" address the immediate dispute, they can contribute towards enduring repercussions including economic and political uncertainty, diminished governance, and a surge in unlawful actions. This may jeopardize the long-term economic and political stability of the targeted nation and potentially lead to more significant challenges, not only for that country but for the region or the wider geopolitics (Peksen, 2019). The extant literature therefore not only provides mixed evidence in terms of the success of sanctions but also highlights various limitations of current scholarship. This includes not sufficiently differentiating between long- and short-term effects, and not accounting for how the political economy of the targeted country may result in unintended winners and losers.

2.2. The dynamics of sanctions from the perspective of business

Sanctions have been relatively little researched by international business scholars, although the situation is changing. Given that most work on sanctions has come from economics and political science (Smeets, 2019; Van Bergeijk, 2021), the result is that we know less about how firms respond to sanctions than about macro consequences. Yet sanctions raise the uncertainty firms face in their operations, unsettle their supply chains, raise transaction costs, and eventually may adversely impact their profits (Meyer et al., 2023; Panibratov & Gaur, 2022).

It is important to differentiate between the effects of sanctions on local and foreign firms. Sanctions affect different local firms and sectors differently and alter the strategic balance between firms – between those that are shielded from sanctions and those that are not (Ahn & Ludema, 2020). Crozet et al. (2021) demonstrate that the impact of sanctions on firms are very diverse and vary by firm characteristics, and that some firms can better immunize themselves against sanctions and find alternative ways of organizing. Indeed, local firms are often in a position to acquire the assets of departing MNEs, and a growing body of evidence suggests that local firms can adapt to minimize the negative consequences of sanctions (Afshar Jahanshahi & Brem, 2020; Aliasghar & Rose, 2023; Gaur et al., 2023; Girardone, 2022).

Foreign MNEs' response to calls for sanctions invokes Oliver's (1991) work on the strategic responses available to firms when facing external pressures (in our case sanctions). MNEs can acquiesce, compromise, avoid, defy, and manipulate. As per this framework, organizations will oppose institutional pressure in situations where there is little legitimacy and economic benefit associated with compliance (Gaur et al., 2023). MNEs therefore conduct a cost-benefit analysis considering the relative significance of the sanction-targeted markets as well as their capacity to leverage resources and capabilities to influence the unpredictable outcomes of these external dynamics (Meyer & Estrin, 2023). MNEs also employ various nonmarket strategies, and specifically corporate political activities to navigate and influence the political, social and legal domains (Sun, Doh, Rajwani, Werner, & Luo, 2024) complicated by the imposition of sanctions.

MNEs may initially try to resist compliance and possible exit, and instead mount a nonmarket campaign putting forward the case for why their continued presence in the sanctioned country may lead to more favorable outcomes (Mol et al., 2023). In the case of South Africa, many foreign MNEs argued through major public relations drives that their continued presence in the country could help affect change through their adoption of non-racial labor market practices. Yet few MNEs remained once enough pressure mounted, with Shell South Africa an important example of an MNE defying such pressure (Minefee & Bucheli, 2021). As the case for sanctions strengthened, so MNEs changed their nonmarket tactics, illustrating the dynamic nature of the response to external pressures.

Emerging scholarship points to both the financial/operational and reputational dimensions of the decision to exit sanctions-hit countries (Meyer & Estrin, 2023; Mol et al., 2023). Thus sanctions force foreign MNEs to make difficult strategic decisions, whether to completely exit or ignore sanctions or various alternative "low profile" options in-between (Meyer & Thein, 2014). In this paper, we focus on what happens to the assets of foreign MNEs under sanctions if they do decide to exit. Because MNEs typically exit by divesting their assets, we specifically investigate what happens to their assets, from when sanctions are implemented, while sanctions are in effect, and once they are lifted.

3. The research context: sanctions against South Africa

This study is set in South Africa, a country that saw international economic censure of Apartheid from shortly after the formal adoption of the policy, although comprehensive sanctions were imposed on South Africa only during the violent 1980s. We provide a brief history of sanctions in South Africa, with Fig. 1 providing a timeline of sanctions and their aftermath.

3.1. The early Apartheid years

Although the history of racial discrimination in South Africa dates back to the colonial period under both Dutch and British rule, racial discrimination intensified when the country's National Party government came to power in 1948 with Apartheid as a formal policy. The National Party enacted a series of laws to formally entrench racial separation and discrimination that covered every facet of political, social, and economic life. This was devastating to the black population: Whites made up only about 10 % of the South African population, but their share of total income hovered at over 70 % for most of the pre-1994 period (Simkins, 2011).

Apartheid was roundly condemned, and economic sanctions started to take shape already in the late 1940s, first with India's comprehensive trade embargo, and then with many decolonizing African states (Manby, 1992). This was followed by growing diplomatic and cultural isolation. Voluntary economic and military restrictions were accepted through the UN General Assembly from the 1960s onwards, but mandatory sanctions were vetoed by Security Council permanent members, notably the UK and the US.

3.2. The intensification of anti-Apartheid resistance

An estimated one thousand MNEs had operated in South Africa in the 1980s, mainly from the US, UK, (West) Germany, France, and Switzerland (Mangaliso, 1999). Prior to the escalation of sanctions in the mid-1980s, various international codes of conduct were introduced to govern how Western MNEs should conduct themselves in the country to be agents of change. The Sullivan Code, developed in 1977, provided a code of workplace conduct for US MNEs operating in South Africa. It intended to address the problems associated with the segregation policies of Apartheid, but also aimed to apply economic pressure on South Africa (Sullivan, 1984). The principles (see Table 1) were voluntary, but by 1977, 78 American MNEs had signed on to the Code, rising to reach a peak of 184 MNEs in 1986 before declining as a result of disinvestment (Venter, 1989). The accounting firm Arthur D. Little published signatory grades to monitor the progress of the signatories, and by 1985 just shy of 70 % of the signatories were reported to be making "good progress" or "progress" as regards the application of the Code's requirements. The European Community's Code of Conduct (passed in 1977) was similar and guided investment by MNEs from Europe and the UK (Holland, 1989).

In the US, the Anti-Apartheid movement resonated with especially African-Americans who had been fighting for civil liberties at home (Levy, 2020), and much of the response to Apartheid was led by African-American leaders. In 1986, the coordinated worldwide appeals

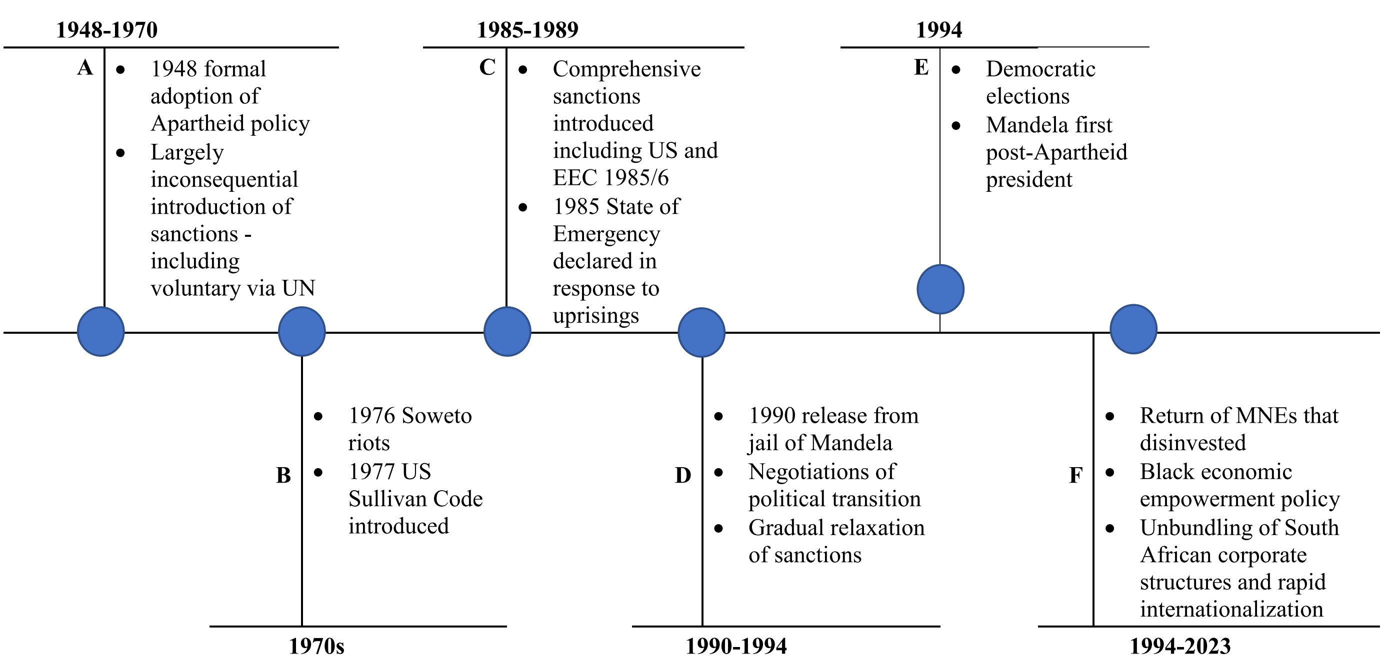

Fig. 1. Timeline of the political economy of sanctions in South Africa

Table 1
Sullivan code to guide behavior of US MNEs during the Apartheid era.

Principle 1	Non-segregation of the races in all eating, comfort, and work facilities.
Principle 2	Equal and fair employment practices for all employees.
Principle 3	Equal pay for all employees doing equal or comparable work for the same period of time.
Principle 4	Initiation of and development of training programs that will prepare, in substantial numbers, blacks and other nonwhites for supervisory, administrative, clerical, and technical jobs.
Principle 5	Increasing the number of blacks and other nonwhites in management and supervisory positions.
Principle 6	Improving the quality of life for blacks and other nonwhites outside the work environment in such areas as housing, transportation, school, recreation, and health facilities.
Principle 7	Working to eliminate laws and customs that impede social, economic, and political justice. (added 1984)
We agree to further implement these principles. Where implementation requires a modification of existing South African working conditions, we will seek such modification through appropriate channels.	
We believe that the implementation of the foregoing principles is consistent with respect for human dignity and will contribute greatly to the general economic welfare of all the people of South Africa.	

Source: Larson (2020)

for sanctions culminated in the US Comprehensive Anti-Apartheid Act. Between 1986 and 1988, 122 US MNEs left South Africa. Although Europe lagged the US in divestment, about 75 British MNEs divested between 1986 and mid-1989, with Barclays Bank and Standard Charter particularly noteworthy (Holland, 1989; John, 2000). Over one third of all foreign companies are estimated to have departed between 1984 and 1990 (Carim et al., 1999:163).

Because sanctions were introduced into a country experiencing substantial and rising political unrest and instability, South Africa had been increasingly unappealing as an investment destination from the 1970s onwards (Fedderke & Liu, 2002). In fact, there are questions whether disinvestments were directly in response to calls for sanctions or due primarily to the rising risk and unattractiveness of South Africa more generally. For example, shortly after the announcement of the 1985 state of emergency, Chase Manhattan Bank announced it would not renew its short-term loans, plunging South Africa into crisis. When explaining the withdrawal, one Chase executive stated:

> We felt that the risk attached to political unrest and economic instability became too high for our investors. We decided to withdraw. It was never the intention to facilitate change in South Africa, the decision was taken purely on account of what was in the interest of Chase and its assets (quoted in Levy, 1999:417).

There were also trade sanctions against South Africa, but they were "leaky". Taiwan, South Korea, and Hong Kong saw their trade with South Africa boom and quickly rose to the top fifteen of South Africa's trading partners. South Africa continued to be one of the leading global exporters of gold and uranium. Although several European economies prohibited imports of South African coal in 1985, coal exports to the European Economic Community rose and by 1986 South Africa had become its major supplier of coal imports (Crawford, 1999:12). By 1988 high proportions of South African trade statistics were not allocated by country (44 % of exports and 20 % of imports) as South Africa sought to protect sanctions-busting countries (Jenkins, 1991). South Africa was thus able to circumvent many restrictions through loopholes in regulations, third parties or complicit countries.

But South Africa's response came at a high cost. Because transshipments were done through third countries or via brokers, the marginal cost to the country in the mid-1980s was estimated at $354 million per annum, or 0.5 % of GNP (Levy, 1999:418). Billions of dollars left South Africa between 1985 and 1990, and during the 1980s, the Rand exchange rate plummeted by 200 % against the dollar. Roughly two-thirds of South Africa's $24 billion external debt in the mid-80s was short-term, leaving South Africa dependent on the readiness of foreign lenders to refinance (Levy, 1999). As Table 2 shows, the country also saw a marked shift from direct to indirect investments like portfolio capital and bank loans.

In sum, at the time sanctions were imposed, South Africa was in political and economic turmoil.

4. Research design

In seeking to answer our research question, we needed to design our research so that we could examine both what transpired during the sanctions era and also the consequences of the actions taken more broadly. Because we had to understand both the actions of MNEs and conditions in South Africa more generally over the time period, we sought a research design that could accommodate an investigation over time and across levels. Given that "historical context considers the interaction between events at different levels" (Decker, 2022:9), a historical approach was most suitable. The value of a historical approach to international business has long been recognized, with many pioneers of the field using historical approaches (Buckley, 2021; Jones & Khanna, 2006).

We follow Kipping and Üsdiken (2014) in using a historical cognizance approach, an approach that is increasingly recognized as key in historical analysis in management research (Argyres et al., 2020; Decker et al., 2021; Maclean et al., 2016). This approach allows us to best use the tension between the implicit theorizing characterizing historical writing, and the more explicit theorizing of business and management research. With a historical cognizance approach, history features "with its specificities *within* theory" (Kipping & Üsdiken, 2014:570). In other words, the approach retains the social science emphasis on theorizing, but acknowledges (and takes seriously) that a context provides idiosyncrasies that need to be considered in order to develop theory.

Kipping and Üsdiken (2014) recommend three steps to strengthen the historical cognizance approach. The requirement to look for historical contingencies and to set up the study in such a way that it reflects the "conditionality on context-specific factors" (2014:576) is met by our clear focus on Apartheid-era sanctions. Other recommendations are the need for reflexivity and acknowledgement of the provisionality (rather than certainty) of knowledge claims generally and evidence in particular, and deep engagement with the work of historians. We found all these recommendations of value to strengthen our work, with the work of scholars like Godfrey et al. (2016), Jones and da Silva Lopes (2021), Rowlinson et al. (2023) and Vaara and Lamberg (2016) particularly useful.

4.1. Ensuring quality evidence

In discussing past research using the historical cognizance approach, Kipping and Üsdiken (2014) point out the diverse types of data sources that have been used, including primary and secondary data, archival and statistical evidence. We sought evidence of how the actions of foreign MNEs over the course of sanctions played out in the context of conditions in South Africa from the time that sanctions were first discussed to when they were finally lifted. Our need for a diversity of data further cemented our decision to use a historical cognizance approach.

Many of the assets of foreign MNEs were acquired by local firms, and

Table 2
Composition of South Africa's foreign liabilities, 1980 and 1985.

	1980	1985
Direct investment	46,1 %	25,1 %
Loans and deposits	34,9 %	61,8 %
Other	19 %	13,1 %
Total foreign liabilities	100 %	100 %

Source: Feinstein, 2005:229

we consulted documents of the acquiring South African firms to obtain insights into how sanctions were understood and experienced locally. Evidence from foreign MNEs was harder to come by. A key record keeper of the sanctions era was the US-based *Investor Responsibility Research Center* (IRRC) and its work was archived at the African Studies library of the University of Cape Town. However, much of that material was lost in the 2019 fire of the library[1]. Some material was salvaged and is used by us, but we also had to use secondary data to capture the US perspective.

Fortunately, there is an extensive body of scholarship on sanctions in South Africa, starting soon after the introduction of the Sullivan code (Smith, 1977). We drew inspiration from Bucheli and Decker's (2021) work on "comparative historiography" as we used and synthesized knowledge from multiple sources. This included scholarly reports, the non-profit online portal *South African History Online* (https://www.sahistory.org.za/), and McGregor's *Who Owns Whom*, the pre-eminent independent South African business and industry research house. We particularly focused on exiting MNEs from 1984 to 1987, when sanctions were at their zenith.

Our approach is consistent with Plakoyiannaki et al. (2023) regarding the diversity of data sources used in international business research, with the caveat that historical work always has to be characterized by a reflexive and problematizing reading of sources: "The term *source* implies an epistemic attitude that is not generally employed for data: one of critical and sceptical evaluation" (Decker, 2022:6). The importance of secondary sources in our work required of us to be particularly mindful of how we engaged with them. We used the six questions presented by Buckley (2021) for establishing source credibility, including identifying the purpose of the text. Rowlinson, Hassard and Decker (2014) repeatedly speak about the need to read texts "against the grain" to infer meanings beyond what an author may initially have intended. This was often useful, e.g. a footnote in a paper of Paul (1989) on corporate social monitoring in South Africa included details of her interviewees. We used those details, for example "Managing Director, Delta Motor Company (formerly General Motors South Africa)", to verify the identities of camouflaged US MNEs in South Africa.

Decker (2022) developed a model of eventful temporality that comprises a past, i.e. the "historical contextualisation" of a sequence of events, which is divided from the present by temporal distance. The pre-, during and post sanctions-era represents such historical contextualization, and must be understood through source interpretation, as she points out.

4.2. Analytic approach

Maclean et al. (2016) provide a typology of approaches based on the purpose of using a historical approach, as well as the mode of enquiry. We saw exposition, i.e. the "substantiation of ideas, constructs, and theories" (Maclean et al., 2016:612) as a purpose clearly aligned with Kipping and Üsdiken's (2014) historical cognizance approach. We chose narrating as the mode of enquiry, and specifically chose "history as narrative" as the most appropriate type of research for our study, given that it seeks to explain "the form and origins of significant contemporary phenomena" (Maclean et al., 2016:614).

In their discussion of history as narrative, Maclean et al. (2016):615) focus essentially on the process of induction: "Generalizations and propositions flow inductively from careful evaluation of evidence" (Maclean et al., 2016:615). Induction is central to our analytic strategy, and we use it particularly to make sense of the different levels at which the evidence must be examined. We follow Bucheli and Salvaj in our analysis by zooming in and out of our reading of MNEs' actions, "constantly placing them in relation to the larger context and the long-term elements that spurred changes in that context" (2018:404).

To adequately accommodate the historical dimension of our research question, we engaged further with issues around time. The entanglement of our phenomenon of interest with its context, and the discursive and non-linear understanding of time clearly fitted in under the "temporal story" category in Hoorani et al. (2023) study of the ways that qualitative international business researchers have theorized time. We had already in the data collection process found value in Decker's (2022) concept "eventful temporality". The discussion of events as not only situated in time, but as crucial inflection points, was helpful for how we saw our work.

We had started the inductive analysis anchored on two inflection points, the imposing of official sanctions and the lifting of sanctions, both consequential and deliberate actions. But our analysis showed additional inflection points. First, in spite of MNEs officially divesting, South African customers could in the main obtain the goods and services of MNEs during the sanctions period, and MNEs' actions and interactions in South Africa during that period needed scrutiny. Second, MNEs' re-entry was triggered by the lifting of sanctions, but represented a separate process. Clearly, a temporal story was playing out.

In presenting our findings we were guided by Plakoyiannaki et al. (2023) who argue that historical research in management often involves narrative, albeit in the service of analysis. We therefore report our findings in terms of three periods, but punctuate the periods with propositions to explicitly generalize from our evidence.

5. Findings

The most systematic evidence about sanctions against South Africa is from the US, both because divestment was legally required (by the 1986 US Comprehensive Anti-Apartheid Act) and because of the work of the US-based IRRC. In our findings section, we therefore focus mainly on the divestment of US MNEs.

5.1. Divestment

Three themes emerge from examining the evidence about divestment. First, MNEs rarely fully departed. Second, the assets of MNEs were consistently sold at steep discounts, and finally, the buyers were members of the economic elite of South Africa. The next sections discuss these themes.

5.1.1. The non-departure of divesting MNEs

The IRRC reports that 122 US MNEs left South Africa as a result of the

Table 3
Methods of disinvestment from South Africa by US firms, 1986 – 1988.

All US firms		Methods of divestment	US firms where contract specifies ongoing support*	
#	%		#	%
26	21 %	Management buyout	17	65 %
45	37 %	Sold to South African company	31	69 %
6	5 %	Sold to another US MNE	1	17 %
13	11 %	Sold to a foreign MNE (Asia, Australia; Europe)	3	23 %
7	6 %	Sold to offshore trust	6	86 %
1	1 %	Shares sold to public	0	0 %
1	1 %	Moved to neighboring country	1	100 %
1	1 %	Donated to church	0	0 %
15	12 %	Closed down	n/a	
7	6 %	Method unknown	1	14 %
122	100 %	Total	60	49 %

* Ongoing support includes franchising, trademarking, licensing, distribution, technological contract etc.
Source: IRRC.

[1] Cape Town fires: police investigate causes after library damaged | South Africa | The Guardian

1986 Act. However, as can be seen from Table 3, the vast majority of these businesses (at least 80 %) remained a going concern. In addition, more than half exited through management buy-outs and sales to South African firms. All of these efforts aimed to ensure that the offering of the MNE would remain available in South Africa.

In many cases, brand names were retained. For example, when Kentucky Fried Chicken exited in 1986, as they announced that they were selling their direct stake in the South African business, the enterprise also explained to South African customers:

> There will be no break in continuity, no practical change in the operation of the Kentucky Fried Chicken system. […] We are here to stay (Webster, 1990:110).

This claim was born out by the ubiquitous presence of Kentucky Fried Chicken outlets across South Africa. In other cases, the names of MNEs were changed, but the “new” entity reassured customers that nothing had changed. For example, a leaked document from the head of ISM (ex-IBM) “unequivocally stated” to customers and associates in South Africa:

> that there will be no change to the supply of IBM products, that there will be the same standards of excellence in service from the new company, and that the new company will be able to respond to their needs with greater flexibility than a wholly owned IBM subsidiary. In the current international climate, such flexibility will clearly be to our customers’ advantage. (published in *The Star*, 14 January 1987)

The continued (although often disguised) presence of MNEs in South Africa after sanctions and the assurances that customers would not be disadvantaged by sanctions suggests that many foreign MNEs recognized that even though pressures to exit had become too great to ignore, the South African market had not been rendered unattractive by sanctions. This leads to our first proposition:

Proposition 1. *The divestment of foreign MNEs does not necessarily remove the value created by those MNEs.*

5.1.2. The high cost of divestment

American MNEs generally lost out financially when divesting from South Africa (Meznar et al., 1994). As forced sellers, MNEs sold their plants and assets at greatly depressed prices to South African companies, and were further punished through the two-tiered exchange rate system that penalized the repatriation of funds.

The only locals with the resources to purchase the assets of the disinvesting MNEs were the members of the small, powerful, white elite who controlled the largest domestic corporations. Foreign firms that withdrew “simply sold their assets cheaply to local white businessmen” (Levy, 1999:418). Moreover, the assets of most of the departing MNEs were purchased by just a few South African conglomerates, notably Anglo American, Barlow Rand, Gencor and Sanlam (Carim et al., 1999).

Anglo American, the largest South African company at the time, gained perhaps more than any other local conglomerate. It obtained the British bank Barclays, for decades the largest retail bank in South Africa, for only $113 million (Anglo American, 1987). (In contemporary terms, that translates to about $281 million[2].) Anglo-American also purchased companies such as Coca-Cola, Imperial Chemical Industries, and Ford Motor company (Katzenellenbogen, 2011). These investments consistently came at massive discounts. Company reports repeatedly announced “great value” acquisitions of departing MNEs (Anglo American, 1986-1989).

The “great value” theme recurs. As the American company Xerox was bought by the South African Venter family, the *Sunday Times* headline on 22 March 1987 celebrated “Venter’s Fintec gets Xerox in a R40m coup” and elaborated on the “bargain price.” Fintec was a part of Altron (a company with ties to the military sector) and an additional company, Ventron, was created to become the country’s largest electronics group by incorporating not only Xerox, but several other former subsidiaries of disinvesting foreign MNEs like Telerate and NCR (Draper, 1995).

Gencor bought the South African interests of the oil giant Mobil, including a refinery and over 1150 petrol stations for only $150 million (about $325 million today) (Gencor various dates, 1990). The chair of the Gencor board emphasized that disinvestment had provided the company with an opportunity to make:

> major transactions [by acquiring] the leading position in two splendid companies during the year: Mobil and Alusaf. We bought 100 percent of Mobil Southern Africa from its American shareholders. It makes a good fit with our plans.
>
> Amidst all the wringing of hands about losing the foreign owner, the fact that the company will now be able for the first time in years to make substantial investments and explore the scope for greater local growth, rather got lost by the wayside. (Gencor Chairman’s Report 1990:8)

Given the small number of buyers, it is important to examine them more closely.

5.1.3. The local economic elite

Large corporations, dominated by powerful economic elites, have been a feature of the South African economy since the discovery of gold and diamonds in the late 19th century. These elites have influenced the political and economic trajectory of the country through the exercise of economic power and by lobbying for policies that favored their interests, often at the expense of society more broadly (Chabane et al., 2006). Under Apartheid, these elites were powerful white families, and research on corporate governance in South Africa before the political transition in 1994 reveals a dominant powerful elite bound together through “old boys’ clubs” and social networks owning shares in each other and sitting on each other’s boards (Padayachee, 2013).

The Oppenheimers that built Anglo American, the Rupert family’s control of Rembrandt/Remgro, Liberty Life run by Donald Gordon, the Anglovaal group built by the Hersov and Menel families, and Bill Venter of Ventron were particularly prominent. During the sanctions period these five conglomerates between them controlled roughly 68.7 % of the market capitalization of the JSE, the Johannesburg Stock Exchange (see Table 4).

The formation of these complex local business groupings took place against the backdrop of limited foreign competition during the

Table 4
Ownership structure of Johannesburg Stock Exchange by market capitalization, 1989.

Controlling body	%
Anglo American group	45.3
Rembrandt group	16.1
SA Mutual	9.8
SANLAM	9.5
Liberty	3.4
Anglovaal	2.2
Ventron	1.7
Foreign control	3.6
Director controlled	4.9
State-controlled	2.2
Total	98.7
Unallocated	1.3

Source: Gerson, 1993:165; McGregor, 1989, 1990

[2] Because purchase and sales values are across multiple jurisdictions (e.g. Barclays Bank was a British bank, but the sale to South African buyers reported in US$) with often substantial variance in exchange rates and with different inflation rates, all the contemporary numbers are approximations. They are provided to give a better idea of the magnitude of transactions, and should be read as such.

Apartheid area. The conglomerates were bloated and inward-focused, often with family control exercised through dense pyramid control structures, differential voting shares, cross-holdings and cross-directorships (Malherbe & Segal, 2001). In addition, domestic savings were primarily intermediated by two life insurers, Old Mutual and Sanlam, both owned by their policyholders. Voting was dominated by a “self-perpetuating management elite” with stakes in and directorships on the boards of almost all of the listed South African corporates (Malherbe & Segal, 2001:19), resulting in minimal ownership supervision.

The result was an intricate web of cross-directorships where the same people sat on multiple boards across the spectrum of South African business and ensured many intra-group transactions. Cox and Rogerson’s (1985:225) work on patterns of interlocking directorships indicates that the majority of companies were drawn into *one* single national network of interlocked directorships, and that “a prominent coterie” of only 29 directors shared 178 directorships at the time.

Because departing MNEs need to salvage some value for shareholders, they need to find buyers. In an economically and politically turbulent era, the individuals who are in a position to purchase the assets of disinvesting MNEs are the economic elite. As per the definition of an economic elite suggested by Atria et al. (2020), buyers are the individuals who can substantially and regularly affect political and economic outcomes through their positions in powerful groups and institutions. This leads us to our second proposition:

Proposition 2. *The assets of divesting foreign MNEs are likely to be acquired by the economic elites of the sanctioned country.*

This means that as foreign MNEs depart, they are likely to transfer ownership of their assets to entities that are tainted by their closer association with the rulers of the sanctioned country.

5.2. Post-divestment period

Sometimes exiting MNEs essentially abandoned their interests in South Africa: Beaty and Hariri (1987) give the example of Bell and Howell selling off for only $1. But generally, MNEs remained involved with the buyers of their divested assets.

The primary concern of divesting MNEs was ensuring that the newly acquired South African operations remained profitable so that buyers could repay the loans used to purchase these assets. To repay these loans, the acquiring South African firms had to reduce costs and amplify short-term cash flows. Thus, MNEs firstly rarely objected to local buyers’ efforts to reduce the cost of operations via cutting back on corporate social responsibility (CSR) projects. Secondly, they continued to offer the needed technological support. We discuss each theme in turn.

5.2.1. The cost-cutting retreat from CSR projects

Hardly any departing MNEs conditioned their sales to South African firms on the maintenance of the types of political and social obligations expressed in the Sullivan principles (Rodman, 1994). This decision substantially worsened conditions for black workers.

There is controversy about the success or otherwise of the Sullivan Code. Critics of the Sullivan Code argue that reforms involved tinkering at the edges but not fundamentally altering the system within which American business operated (Stewart, 2011; Webb, 2021). Research at Ford and GM shows that whilst they made some progress, they did “not sufficiently allay their workers most pressing concerns, nor did they firmly challenge the South African government” (Webb, 2021:64). For example, Ford was one of the first US MNEs to recognize a black union (to great fanfare) and even though unions celebrated that victory, they also questioned whether the company was actually responding to union concerns. Auditors of the Sullivan Code’s implementation at Ford criticized the company “for expending an exuberant amount of capital to implement the Principles, but remaining woefully uncommitted to the spirit of the code” (Webb, 2021:75).

Nonetheless, evidence from the manufacturing sector indicates that the Sullivan code did result in beneficial outcomes for black workers. Signatories to the Code expanded their employment of black labor more rapidly than the sector as a whole, and wages increased (Stewart, 2011; Venter, 1989). Likewise, MNEs that signed to the Sullivan code expanded their CSR activities and expenditure on education, housing, healthcare and other social needs considerably more than non-signatories. Indeed, CSR spending by signatories rose almost fourfold between 1984 and 1986 (Venter, 1989:162).

All of this changed when the US MNEs divested. When pressed about worker conditions, the South African buyers of firms as diverse as Bausch and Lomb (sold to a trust), General Electric (sold to a South African firm) and General Motors (a management buyout) all explained that there was no contractual obligation on them to follow the principles set out in the Sullivan code, and that they were in any case committed to following those principles (IRRC, Appendix I). But South African firms quickly abandoned the obligations laid out in the Sullivan Code (Rodman, 1994).

For example, when General Motors sold its manufacturing facilities to its South African partner Delta, the local firm immediately cut wages, retrenched workers and reduced the funding of community development projects. After the black trade union countered by striking, Delta fired the workers and instructed the police to eject the strikers. They also recommenced sales to the military and police: “In effect, disinvestment allowed former affiliates to take economically expedient actions that would have been politically difficult for an American firm” (Rodman, 1994:331).

5.2.2. Ongoing technological support to the local operations

At the same time as foreign MNEs disengaged with the social dimension of doing business in Apartheid South Africa, they offered extensive technological support to the buyers of their assets. As shown in Table 3, the IRRC documented a range of arms-length support agreements that were concluded with buyers, including franchising, the use of trademarks, licensing, distribution and technological contracts. Such support agreements were concluded with half of the acquiring buyers, with an even higher proportion when the new ownership was South African.

Maintaining licensing and other agreements increased the value of the assets to South African buyers, and activists decried such disinvestments as “sham” or “fake pullouts” (Webster, 1990). For example, Samcor, the “South African Motor Corporation” resulting from Anglo American’s acquisition of the divesting Ford, reported in its 1988 annual report that a consensus had been “reached between the parties, which will ensure that Ford continues to supply management, components, service, parts, and the use of the Ford trademark” (Samcor, 1988:11).

At the same time, maintaining non-equity ties allowed MNEs to minimize income losses after their withdrawal. Because MNEs could register income not via dividends, but instead through royalties and other payments, they were able to avoid some of the financial penalties of the two-tiered exchange rate system:

> Non-equity ties can also be used as a way for a U.S. company to maximize the dollar return from its disinvestment; by selling its assets at less than their market value and then signing lucrative licensing agreements with the new owners, a disinvesting company can repatriate more of its proceeds through the commercial rand and less through the financial rand. (IRRC:25)

Counterintuitively, a consequence of sanctions was thus to provide the South African acquirers a direct link to the technological and managerial knowhow of a wide range of foreign MNEs. A commentator explained that the strategy that best served (both US and South African) investors’ economic interests “was the one that minimized costs imposed on South Africa” (Rodman, 1994:330). This leads to our third proposition:

Proposition 3. *Foreign MNEs are likely to provide support to the buyers of* *divested interests in the post-divestment period.*

When foreign MNEs sell their assets to the local economic elite, ongoing support to the buyers represents not only an ongoing income stream to an MNE seeking to balance obligations to its home country government and its shareholders. It also means that 'divesting' MNEs offer ongoing support to parties close to the ruling regime.

5.3. Reinvestment

Sanctions ended as the political situation in South Africa regularized, from 1990 when Nelson Mandela was released from prison to 1994, when the first elections of the democratic South Africa were held. MNEs were no longer proscribed from operating in South Africa, and were free to take advantage of the economic recovery of the country.

Keen to benefit from economic opportunities in a post-Apartheid South Africa, the foreign MNEs that had once divested started repurchasing their assets. To illustrate with examples from just one manufacturing sector, the car industry: General Motors re-acquired a 49 % stake in the Delta Motor Corporation in 1997, and then in 2004 the company once again became a wholly-owned subsidiary; Toyota initially re-acquired 27.8 % of Toyota South Africa in 1996, before increasing its share to 75 % in 2002 and finally 100 % in 2009 (this share had largely been held by the Wessels family); and Ford in 1994 bought a 45 % share of Samcor and the remaining shares in 2000 (Samcor, 1995, 1999).

Compared to the sanctions era when purchase amounts were newspaper headlines, evidence about the value realized in post-Apartheid dispositions is hard to find. Both buyers and sellers tended to decline to comment on the value of transactions. A 2000 news report explains that Ford was acquiring the 45 % share that Anglo-American was still holding in its South African operations. The reporting on the deal is typical: "Neither Ford nor Anglo American were prepared to disclose the value of the transaction, which would increase Ford's equity in Samcor to 90 percent."[3]

The rare cases where numbers could be obtained suggest that the local economic elite benefited handsomely from disposals. For example, Mobil had been fully acquired by Gencor in 1989 for $150 million; in 1996 Petronas acquired a 30 % stake in it for $440 million[4]. Even adjusting for inflation, Gencor received more than double the cost of the entire asset for a 30 % stake in it.

More often, details were obscured. In the 1999 Anglo American annual report, the company reported acquisitions and disposals as a single combined amount, and reported that they contributed a net operating profit of US$26 million (p. 53) – about $43 million in contemporary terms. Yet elsewhere, talking about only one division, Anglo Industries, they highlighted 45 disposals that had taken place over the previous three years, "representing US$2.5 billion." (p. 6) – in contemporary terms roughly $4 billion, and virtually an order of magnitude greater than reported for the entire firm. Thus it seems they obscured the profits realized for sanctions-related disposals via immediate acquisitions. Anglo American's 2000 annual review reported on "major progress in delivery of our strategy of … disposal of non-core businesses" (p. 4) acquired during the sanctions period. In 2000 Anglo American sold 75 % of its stake in FirstRand (the firm that was created to house its acquisition of Barclays Bank), and the same year went on an international acquisition spree, spending $5 billion on Britain's Tarmac and Australia's Shell Coal in the space of weeks (Anglo American, 2000, 2001).

The industrial distributor Barloworld funded its acquisitions into Australia and the US between 1994 and 2003 by unbundling the unrelated businesses it had acquired during the sanctions era, e.g. its IBM acquisition (Wolf, 2010). When the "Persetel" part of Barloworld's interest in ISM/IBM was divested, it merged with a software provider to eventually become BCX, a South African MNE with a presence across Africa. The packaging company Nampak, regaining its independence in 1993 as part of the same process of unbundling, in 1994 started to internationalize (Andrews & Luiz, 2024).

South African Breweries was disposed of by Anglo American, and rapidly internationalized to become the dominant emerging market beer company within the space of fifteen years. It first aggressively expanded throughout Africa, Eastern Europe, Latin America, China, and India, and then pursued entry strategies in advanced economies such as the US, the Netherlands, and Australia (Luiz et al., 2017).

Two points can be made. First, it is worth remembering that nationalization was a concern for business post-Apartheid (Barnard & Luiz, 2018). The proceeds of South African operations' divestment were likely disguised through foreign acquisitions to counter such a threat. South Africa's remarkably large number of MNEs for a country of its size and level of development has previously been noted (Luiz & Ruplal, 2013). This is especially puzzling given the bloated and inward-focused nature of South African business during the sanctions era. But if the turbulent conditions in their home country explain *why* those firms sought to internationalize (Luiz & Barnard, 2022), the issue of *how* they acquired the resources and capabilities to do so has not been addressed.

Shell South Africa, having decided to remain in the country during sanctions in spite of considerable opposition, at the time described disinvestment as "development aid to South African capitalism" (Minefee & Bucheli, 2021:986). Our evidence supports that claim, and offers an explanation for the process of "delayed, then accelerated internationalization" (Robertson & Luiz, 2019) of South African firms. The end of sanctions provided resources that played an important role in South African firms' internationalization. Companies funded international expansion by exiting from unrelated sectors, often selling assets back to the foreign MNEs that had previously divested from South Africa.

Second, foreign MNEs not only had to sell at a steep discount when sanctions were introduced, but it also seems that they had to pay a premium to repurchase their own assets after the end of sanctions (having supported the buyers throughout the sanctions period). For the immediate post-sanctions era, we therefore suggest the final proposition:

Proposition 4. *In the post-sanctions era, foreign MNEs' repurchase of assets they sold during the sanctions period are likely to further benefit the initial buyers of those assets.*

In sum, whether considering foreign MNEs' departure with the introduction of sanctions, the nature of their engagement with buyers during the sanctions period, or their expensive re-entry process at the end of sanctions, our evidence points to a consistent picture: Divesting foreign MNEs essentially "subsidized" the local economic elite, typically at real cost to the foreign MNE. Moreover, the beneficiaries were generally close to the problematic regime.

6. Discussion

One of the arguments that Meyer and Estrin (2023:1) propose for staying in a country is to prevent MNE assets "from falling into the 'wrong' hands". With the benefit of hindsight, it seems that the issue may not always be one of individual buyers; a firm like Barloworld was long run by social progressives and outspoken critics against Apartheid (Luiz & Barnard, 2022). Instead, the challenge appears systemic: It seems a virtual given that sanctions will benefit those with the resources to acquire the assets of departing MNEs – the local elite. In the next section, we first reflect on the local elite and South Africa post-Apartheid. We then discuss elite theory in an international business context, and finally highlight implications of our work and opportunities

[3] https://www.iol.co.za/business-report/companies/uss-ford-snaps-up-45-stake-in-samcor-791746.

[4] Malaysia's Petronas buys into S.Africa - UPI Archives

for future research.

6.1. South Africa after Apartheid

South African firms, largely controlled by the economic elite, continued to influence the country's socio-economic and political evolution after Apartheid. Despite the post-Apartheid government implementing a policy of Black Economic Empowerment (BEE) to deracialize business ownership and control, and thus redress the legacy of the economic exclusion of the black majority, the lasting power of the historic (white) elite is such that, in a country with a population that is 90 % black, a recent study estimates black ownership of the JSE at only 3 % of its market capitalization (Dube et al., 2022).

The elite not only lobbied to maintain economic rents (Mondliwa & Roberts, 2021), but also legitimized their wealth by shifting the narrative from race (under Apartheid) to a market logic. Adams and Luiz (2022:859) demonstrate how systems of oppression and exploitation were legitimized and perpetuated in South Africa by invoking the "discourse of the supremacy of markets". After the white elite "defending their interests had put up a serious struggle to obtain this protection" (Henrard, 2003:47), a property protection clause was included in the post-Apartheid Bill of Rights. But by limiting the ability of any future government to make restitution to the black population that had been dispossessed during Apartheid, existing inequalities were entrenched. Thus the existing elite could entrench their sources of economic power in ways that were not explicitly racially defined, although in practice they reinforced historical racial divides.

Given that the maintenance of an all-white economic elite was untenable post-Apartheid, expanding the composition of the elite to the black population became pressing to maintain some legitimization of the broader market system. The existing white elite co-opted a small powerful black elite through BEE deals to secure their property rights and influence government policy (Acemoglu et al., 2007). New sources of inequality materialized as politically connected black families joined the ranks of the elites (Freund, 2007). As inequality within the black population increased post 1994, South Africa's inequality became both a race and a class phenomenon.

In fact, although income inequality in South Africa was starting to decline during the 1970s (see the declining share accruing to the top 1 % and 10 %, and a marginal increase accruing to the bottom 50 % in Fig. 2), South Africa has the highest inequality in the world today. The decline can be seen from the late 1980s onwards, coinciding with the period of sanctions being imposed and then lifted.

Sanctions and the entrenchment of the local economic elite seem closely intertwined, requiring a better understanding of elite theory. Although elite theory has deep historical roots and includes the work of scholars with whom international business researchers may be familiar like Weber and Schumpeter (Pakulski, 2018), elite theory has been little used in international business research. We next discuss elite theory.

6.2. Elite theory and international business research

Elites constitute "a controlling group [...] whose preferences regularly prevail in cases of differences in preference on key political issues" (Dahl, 1958:464). The economic elite consists of the owners, board members and high-level executives of the leading firms in a country, and per definition they substantially and regularly affect political and economic outcomes through their position in influential groups and institutions (Atria et al., 2020). Elites shape how and what can be achieved in a country, e.g. through elite settlements (Burton & Higley, 1987), and for this reason, the involvement of elites is sometimes seen as a "stabilizing" force in society (Higley & Burton, 1989). In high-income, open and democratic countries – the countries of origin of most of the divesting MNEs – elite status is typically ascribed to talent and effort, and there is pressure on individuals who occupy elite positions for other reasons (e.g. by virtue of birth) to demonstrate that they deserve their elite status (Atria et al., 2020).

Elite reproduction works differently in developing countries. Elites are often the product of colonial-era processes (Chelati Dirar, 2007; Decker, 2023), with the relative lack of social mobility in developing countries meaning that an initial historical coincidence gets reproduced over time. The composition of the elite rarely changes, and it often happens that historical elite groups benefit rather than lose out during transitional periods (Adams & Luiz, 2022; Walder, 2003). Elites in

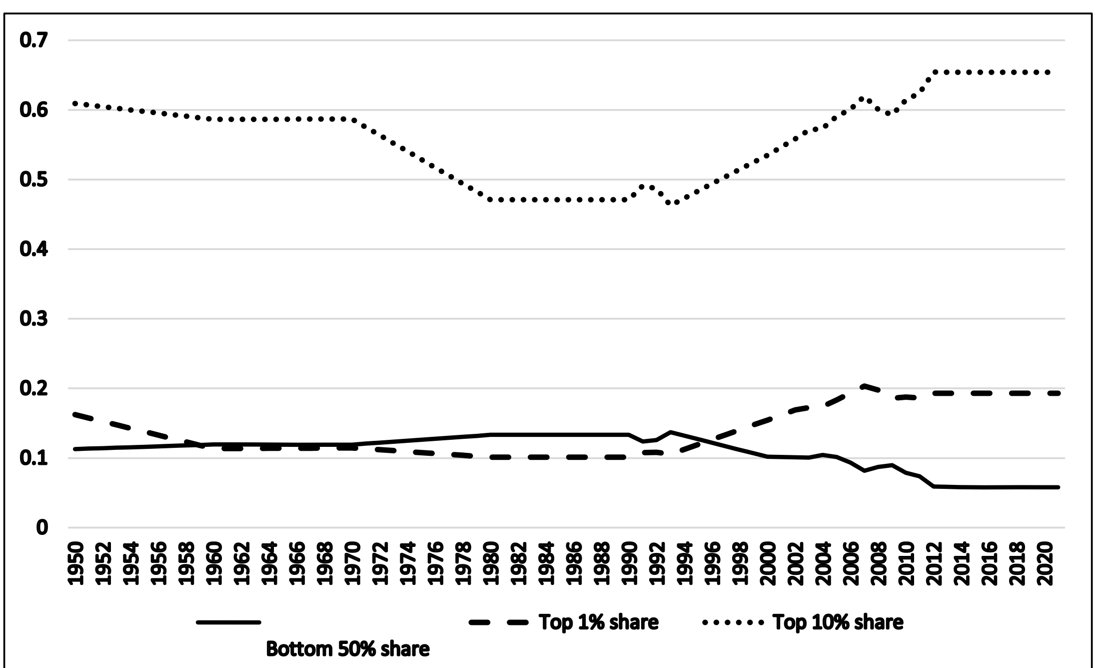

Fig. 2. South African income inequality - relative shares of top 1 %, 10 % and bottom 50 % pre-tax national income (1950-2021).
Source: World Inequality Database

developing countries tend to have economic power via their political connections, e.g. through political cronies (Islam & McGillivray, 2020). Moreover, they frequently engage in predatory behavior rather than productive endeavors in the country (Assouad, 2023). Consequently, there is a generally negative relationship between politically connected wealth inequality and economic growth (Bagchi & Svejnar, 2015).

Elites in emerging markets often gain at the expense of MNEs during post-colonial transition processes. For example, Decker (2023) examines how MNEs were forced to adapt their strategies and operations to changing institutional environments as a result of decolonization, compelling them to develop new political networks with African elites. This culminated in indigenization programs whereby MNEs were pressed to sell equity and assets to domestic investors (local elites) in the 1970s. But although international business researchers have acknowledged the role of elites (e.g. Bohas & Meschi, 2022; 2018; Garg, Lin, & Yang, 2023; Rodrik, 2018), few studies examine the relationship between foreign MNEs and local elites.

In emerging markets, this is an especially important oversight. Local elites are powerful; Bucheli et al. (2019) documented how foreign MNEs entering Chile after the end of authoritarianism confronted a local elite organized in a series of business groups. In response, the foreign MNEs themselves organized into business groups and forged ties with the local (elite-controlled) business groups. It is known that personal relationships and networks are important in emerging markets because the institutions are weak (Peng & Heath, 1996). Although very few scholars have interrogated with whom those relationships are forged, it is telling that Bucheli and Salvaj (2018) find that MNEs invest in relationships with elites, monitoring and adapting relationships when regimes change.

The case of sanctions raises important questions about how MNEs understand and use relationships with the elite in emerging markets. We suggest that elite theory can help explain not only sanctions but also international business in emerging markets generally. In the next section, we elaborate.

6.3. Sanctions and the entrenchment of the local economic elite

MNEs do not always respond to pressure from their home country governments and interest groups to divest from a sanctioned country (Mol et al., 2023). However, they often do – Evenett & Pisani, 2023 calculate a divestment rate of 5 to 13 % a year by Western MNEs after the start of the Russia-Ukraine war. Divestment due to sanctions is different to other types of divestment in that the fundamentals of the business often remain sound. Given that MNEs have established markets, high quality assets and technologically cutting-edge offerings, it can be presumed that MNEs would be attractive sellers. However, few MNEs realize much value when they divest from a sanctioned country. Divestment is a costly step for MNEs and has been interpreted as the cost of being socially responsible (Meznar et al., 1994).

However, our evidence provides a wrinkle in that narrative. The importance of the local economic elite during sanctions is evidenced not only by what happened in South Africa, but also the steady stream of contemporary news reports about the divestment of foreign MNEs since sanctions were imposed on Russia after the start of the Russia-Ukraine war. Oligarchs and allies of Putin have been acquiring the deeply discounted assets of a range of well-known divesting MNEs, e.g. Société Générale by Vladimir Potanin, Lego and Krispy Kreme by Arkady Novikov and Starbucks by the rapper Timati and restaurateur Anton Pinskiy. Lesser known MNEs have also been acquired, and consistently at discounts, e.g. Alexander Govor acquired not only McDonalds but also the Finnish food packaging company Huhtamaki. One of the few South African MNEs with interests in Russia, Naspers, sold its Avito business (worth $6 billion before the war) for about $2.3 billion to Ivan Tavrin's Kismet Capital Group.

These examples point to a limitation of our research: We are theorizing activities that have long passed, and moreover, were not meant to be widely known. Although finding evidence was a nontrivial task, the advantage of our historical approach is that the sensitivity associated with the material declines as time passes, and furthermore, that the longer-term implications become apparent (Meyer et al., 2023). Our research points to the importance of recognizing how dynamics may change with time and the importance of moving beyond what is apparent at first blush. Therefore, the large-scale sanctions currently being imposed on various countries including Russia, Iran and Myanmar present opportunities to engage in real-time longitudinal research that investigates how sanctions affect strategic choices by firms both in the sanctioned countries and those under pressure to exit, as well as their subsequent effect.

We suggest that elite theory is particularly suited for this task. For example, the very high income inequality in South Africa deserves attention not only from a pragmatic perspective, but also theoretically: The limited empirical work on the topic suggests that income inequality harms MNEs (Krammer et al., 2023). Given the growing interest in the relationship between MNEs and income inequality (Narula & Van der Straaten, 2021; Rygh, 2021; Van der Straaten et al., 2023), sanctions provide an important context for examining the relationship between the local elites, MNEs and inequality.

A central preoccupation of elite theory is the relationship between the (individuals comprising the) elite and key institutions – how elites shape public opinions, policies and even decision-making. There is substantial diversity in the institutional manifestations of elite power in different emerging markets (Best & Higley, 2018), but MNEs are a common feature across this diverse range of countries. This represents exciting areas for future research, for example the study of the strategies of a single MNE across various sanctioned countries.

An important area for future research is whether these dynamics are limited to the cases of sanctions, or whether sanctions serve as a "laboratory," highlighting dynamics that are always present but not necessarily visible (Barnard et al., 2017). For example, one of the few studies of elites in emerging markets shows that even though the political and economic fields in Hungary were institutionally separated, in practice they were deeply intertwined: The political elite cultivated ties to the economic elite to secure funding for political activities, reciprocated by the economic elite that saw political connections as a way to gain competitive advantage (Stark & Vedres, 2012). Future research is necessary to understand the role of MNEs in such a process, even during stable periods. Such research will also contribute to elite theory itself, given the underrepresentation of work from the perspective of emerging markets (Hartmann, 2018).

At the very least, our work suggests that scholars of emerging markets need to further develop the point that personal relationships and networks are important in emerging markets (Peng & Heath, 1996), specifically by interrogating with whom those relationships are forged. Elite theory is well positioned to help explain the relationship between the elite and the formation of institutions, and can help shed light on who are the real power-brokers in an economy.

6.4. Practical recommendations

One of the limitations of our work is that we are studying how sanctions were understood and implemented decades ago. So-called "smart sanctions" have emerged over the past decades to make sanctions a more precise tool. Sanctions are no longer necessarily directed at the state, with the increased targeting of individuals and non-state actors. Moreover, sanctions have themselves become more precise, e.g. financial sanctions to cut off players from banking institutions, or secondary sanctions to target sanctions-busting countries (Drezner, 2011; Peksen, 2019).

Nonetheless, contemporary evidence suggests that foreign MNEs are still sometimes called upon to exit a sanctioned country (DeBerge, 2023; Meyer & Estrin, 2023; Mol et al., 2023). Our work suggests the value of in-depth conversations between MNEs and their home country governments about the aims and effectiveness of MNE divestment as they prepare for sanctions. Topics for discussion – and indeed for future scholarly work – suggested by our findings include firstly agreeing on what exactly constitutes divestment. The work of the IRRC (Table 3) demonstrates the range of options used by divesting MNEs, but much of what was recorded as sanctions involved simply replacing equity ties with non-equity ties. In the current era, the definitional lack of clarity remains. Second, the costs of sanctions to MNEs as well as the initial and likely eventual beneficiaries of divestment are intertwined issues that deserve serious consideration. Given that governments are asking of MNEs to execute policy decisions on their behalf, governments should be aware not only of the costs imposed on those MNEs, but importantly also who stands to benefit from the departure of their MNEs.

For example, many of the negative consequences of the exit of foreign MNEs from South Africa can be traced back to the haste with which they left the country. For sanctions to be effective, it is recommended that MNE divestment proceeds in an orderly fashion, and that MNEs are given time to develop an appropriate divestment strategy. Evenett & Pisani, 2023 point out that MNEs like Nissan and McDonalds have “buy-back” clauses in the contracts with the buyers of their Russian assets. The nature of such buy-back clauses is critical. It is one of the great ironies and indeed tragedies of sanctions against South Africa that the elite did not gain only when MNEs exited, but also when MNEs re-entered.

It seems likely that ongoing technological support will be required from the technologically advanced MNEs by the buyers of their assets. This fact needs to be acknowledged by governments that seek to sanction a country, and used to their advantage. The need for MNE support gives MNEs leverage that they can use to from the outset impose restrictions on buyers. In particular, MNE support can be made contingent upon the maintenance and even extension of empowerment initiatives. In the case of South Africa, the initiatives proposed under the Sullivan code (Table 1) could have served as the foundation of contractual requirements to ensure that the buyers of MNE assets use those assets in alignment with the intent of sanctions. Such clauses are especially important in case sanctions drag on because the country situation does not resolve. MNEs need to be able to renegotiate terms at specific intervals, and need to be able to change relationships with buyers if they become problematic.

In other words, divestment cannot only be a response to a government directive; it has to be a part of MNE strategy. This strategy needs to be articulated before divestment takes place, and should include not only how to go about divestment, but also actions in the post-divestment period and the anticipated process of reinvestment, should sanctions be lifted.

7. Conclusion

Comparing the outcomes of the actions of MNEs against the expressed hope at the time of sanctions against South Africa is sobering. It is virtually axiomatic that MNEs (especially from advanced economies) are highly sophisticated in how they operate, whether their organizational structuring, their R&D, their talent management or other aspects of the business. Our findings suggest the need to use that sophistication to design their response to sanctions firstly to make sure that sanctions do not inadvertently benefit (the elite of) the sanctioned country, and secondly to make sure that they do not result in the destruction of MNE value. We hope that scholars will take up these themes in future research.

Statements and Declarations

No declarations related to this research. The authors report there are no competing interests nor any funding to declare.

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Helena Barnard: Writing – review & editing, Writing – original draft, Methodology, Investigation, Conceptualization. **John M. Luiz:** Writing – review & editing, Writing – original draft, Methodology, Investigation, Conceptualization.

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