

# How do foreign SMEs mitigate violent conflict risk by doing good?

## An instrumental stakeholder theory perspective

### Abstract

Large foreign firms' interventions in violent conflicts have drawn increasing research attention. Nonetheless, scant research has investigated how foreign small and medium-sized enterprises (SMEs), who have little capacity in peacebuilding, can protect themselves from violent conflict risk. Drawing upon the instrumental stakeholder theory (IST), this study explores two specific local community-oriented corporate social responsibility (CSR) practices (i.e., corporate philanthropy and workforce localization) as violent conflict risk buffering strategies for foreign SMEs. Further, we examine their varying effects in different institutional environments (i.e., host country media freedom and labor rights protection). Using data from a cross-country survey of Chinese foreign SMEs combined with archival data from multiple sources, we empirically confirm the attenuating effects of both corporate philanthropy and workforce localization on foreign SMEs' violent conflict risk. Besides, we discover that host country labor rights protection strengthens the mitigation impact of workforce localization on violent conflict risk. Our study advances the literature on IST and CSR by revealing the risk mitigation mechanism of CSR activities for foreign SMEs and elucidating its institutional boundary conditions.

**Keywords:** Corporate social responsibility; foreign SMEs; violent conflict risk; corporate philanthropy; workforce localization; instrumental stakeholder theory

## **Introduction**

In 2022, the Russian invasion of Ukraine and its worldwide financial damage have drawn people's increasing attention to businesses affected by organized violence (Lim et al., 2022). In the past decade, there are 653 violent conflicts causing more than 810 thousand casualties in 97 countries or areas throughout the world (Uppsala Conflict Data Program, 2022). The prevalence of violent conflicts worldwide coupled with business internationalization has exposed an increasing number of foreign enterprises to the threat of violence (Lee & Chung, 2022). Further, small and medium-sized enterprises (SMEs) are recognized as being more vulnerable to such exogenous shocks than their larger counterparts (Miklian & Hoelscher, 2022). Unlike large firms, foreign SMEs usually lack resources and capabilities to recover from disruptive shocks and are more likely to go bankrupt when crises occur in their host countries (Gianiodis et al., 2022). Therefore, it is timely and essential to investigate how foreign SMEs can alleviate violent conflict risk.

Generally, firm strategies to mitigate violent conflict risk can be classified into two types: pre-outbreak buffer versus post-outbreak response. The existing research has primarily focused on how enterprises respond to violent conflict after its outbreak. It is suggested that firms can engage in peacebuilding activities like negotiation, arbitration and condemnation to address violent conflict at its source (Getz & Oetzel, 2009; Jamali & Mirshak, 2010; Oetzel et al., 2007; Oetzel & Miklian, 2017). However, it is still debatable whether or not small businesses can play an instrumental role in peacebuilding (Joseph et al., 2021). Some researchers have posited that SMEs lack the capabilities to generate meaningful peace due to their limited resources and

sphere of influence (Joseph et al., 2021; Miller et al., 2019). Therefore, in this study, we concentrate on pre-outbreak buffering activities, which are more applicable for foreign SMEs, yet have been largely ignored by the extant literature.

In the pre-outbreak period, approaches for SMEs to enhance their risk management capabilities are limited (Ferreira de Araújo Lima et al., 2020). Formal risk monitoring and management initiatives designed for large enterprises like balanced scorecard are too complex and costly for SMEs (Faghfoury et al., 2015; Gao et al., 2013). Furthermore, SMEs seldom get prepared with respect to extra assets like materials and facilities to weather potential crises owing to their limited access to capital (Mitter et al., 2022). Despite these liabilities, SMEs possess a specific advantage in the times of crisis (Eggers, 2020). In contrast to large firms with national or even global stakeholder bases, SMEs usually target a smaller and closer spectrum of local stakeholders (Torugsa et al., 2012). This in turn helps SMEs manage their relationships with stakeholders more easily.

The instrumental stakeholder theory (IST) states that firms can acquire desirable outcomes from their stakeholder management efforts (Jones, 1995a). Corporate social responsibility (CSR) is the most widely accepted stakeholder management approach (Vishwanathan et al., 2020). In the IST literature, numerous studies have indicated the risk management mechanism of CSR engagement through positive stakeholder responses (Godfrey et al., 2009; Harrison et al., 2010; Klassen & Vereecke, 2012). Hence, drawing upon IST, we speculate that foreign SMEs can strategically take advantage of CSR practices to leverage their strengths in stakeholder management and thus relieve their violent conflict risk.

Different from large enterprises, SMEs are usually more prone to local community-oriented CSR practices to promote their local embeddedness (Russo & Perrini, 2010). Specifically, as an expression of managers' moral beliefs, corporate philanthropic activities are common among SMEs to support local development in education, health care, and other fields (Mickiewicz et al., 2016). Besides, foreign firms usually try to hire a large number of host country nationals (HCNs) to address the local unemployment issue and thus get involved in the local communities (Forstenlechner & Mellahi, 2011). Therefore, in this study, we focus on corporate philanthropy and workforce localization as two specific kinds of local community-oriented CSR practices that foreign SMEs could utilize in conflict-prone zones.

Recently, the IST has been extended to consider contingencies for outcomes of firms' different CSR practices (Dixon-Fowler et al., 2013; Garcia-Castro & Francoeur, 2016). Specifically, researchers have pinpointed that stakeholders' evaluations of firms' CSR actions depend largely on external institutional environments (Doh & Guay, 2006). Following this stream of research, we distinguish between the mechanisms of corporate philanthropy and workforce localization, and thus propose that their roles in mitigating violent conflict risk can be strengthened by different institutional conditions.

Given the humanistic nature of corporate philanthropy, its effectiveness mainly depends on its perceived morality among local stakeholders. Media is an important agenda-setter for firms' public images since it can create and disseminate corporate management knowledge (Carroll & McCombs, 2003). Thus, media freedom is particularly salient for corporate philanthropy because it concerns the extent to which firms can communicate their voluntary

care for the local communities with stakeholders effectively. Different from corporate philanthropy, workforce localization is mostly instrumental and bound by labor laws. A country's intensity of labor rights protection might influence the public's opinions regarding corporate staffing strategies. Hence, we argue that host country labor rights protection is particularly relevant to the role of foreign SMEs' workforce localization.

To examine these ideas, we collected data of 336 Chinese foreign SMEs operating in 27 countries through a survey and analyzed them together with archival data compiled from multiple global databases. Our results make several contributions to the IST and CSR literature. First, we suggest that corporate philanthropy and workforce localization are two effective and viable local community-oriented CSR practices that foreign SMEs can implement to mitigate violent conflict risk. This complements the IST and CSR literature by identifying the strategic role of CSR in easing violent conflict risk for not only large enterprises but also SMEs. Second, we find that host country labor rights protection strengthens the attenuating effect of workforce localization, whereas host country media freedom does not significantly alter the effect of corporate philanthropy. This sheds light on the emerging IST literature about the boundary conditions for desirable outcomes of stakeholder management efforts. More importantly, we go beyond the general argument that institutional environments matter for foreign firms' CSR benefits; instead, we differentiate CSR strategies and identify which institutional constituents matter specifically for them.

## **Literature Review**

### ***Foreign Business and Violent Conflict Risk***

Violent conflict refers to the “organized and sustained use of physical force that results in injury or death to persons or damage or destruction to property” (Getz & Oetzel, 2009). According to Oh & Oetzel (2017), violent conflicts can be categorized into armed conflicts, non-state conflicts and one-sided conflicts based on the parties involved. Both armed conflicts and non-state conflicts occur between two organized groups, yet the difference is that in armed conflicts, at least one of the involved parties should be the government. Differently, one-sided conflicts are unilateral attacks of organized armed groups towards civilians.

There are a number of studies which caution against the detrimental impact of violent conflicts on the success of foreign business (Hiatt & Sine, 2014; Oetzel et al., 2009; Witte et al., 2017). They argue that the disruptive and unpredictable nature of violent conflicts can lead to several intractable problems, thereby eroding foreign firms’ financial performance. For instance, an outbreak of violence can result in increased security costs for the recruitment of security personnel and insurance premiums. Furthermore, the occurrence of violent conflicts usually triggers the loss of foreign firms’ human resources due to unsafe working conditions and destroy their physical assets (e.g., buildings, machinery, and goods) (Oetzel et al., 2009). Besides, shortages or delivery delays of critical raw materials from suppliers and disruptions of distribution channels are common operational challenges faced by firms operating in conflict-prone zones, thus escalating their supply chain costs in these areas (Czinkota et al., 2010). Additionally, violent conflicts may induce fluctuating customer demands, leading to both

higher operating costs and lower sales revenues for foreign firms (Brück et al., 2013). Wastes in excessive production due to the inaccurate estimation of customer demands are normally inevitable in violent scenes. Furthermore, foreign firms are susceptible to sudden customer defection caused by violent conflicts.

Recently, researchers have posited that firm-specific risks may not go hand in hand with country-specific risk events (Charpin et al., 2021; Eduardsen & Marinova, 2020). For instance, the study of Dimitriadis (2021) shows that entrepreneurs are not identical in perceiving risk during violent protests in Togo. Entrepreneurs located proximately to violence-prone zones are more likely to encounter violence risks. Besides, firms with sufficient crisis management knowledge might experience fewer risks when exogenous shocks occur (Oh & Oetzel, 2017). De Villa et al. (2019) suggest that the relationship between home and host governments can impact foreign firms' risk perceptions in the host countries to a large extent. Thus, there is a call for risk management research taking firm-specific risks into consideration (Fan & Xiao, 2022). To respond to this call, different from prior studies concerning *country-level* violent conflicts, we particularly focus on *firm-level* violent conflict risk, which reflects the perceived negative impact of violent conflicts on the firm's operations and performance.

### ***Foreign SMEs and Violent Conflict Risk Management***

With respect to violent conflict risk management, examining the role of business in promoting peace is a trending topic (Ford, 2015). The abundant literature has theoretically proposed (e.g., Dahan et al., 2010; Forrer & Katsos, 2015; Fort, 2009; Miklian & Schouten, 2019; Miklian, 2014; Milliken et al., 2015; Miklian et al., 2016; Rettberg et al., 2011) and empirically

suggested (e.g., Hiatt et al., 2018; Katsos & AlKafaji, 2019; Katsos & Forrer, 2014; Katsos & Fort, 2016; Oetzel & Getz, 2012; Reade et al., 2019) that businesses can take various actions to advance peace. Specifically, five basic peace-building approaches are identified: promoting economic development, engaging in track-two diplomacy, enhancing rule of law, improving social cohesion, and developing conflict-sensitive capabilities (Oetzel et al., 2009). However, in recent years, researchers have found that addressing violence at its source may not work as an effective risk management mechanism in some situations (Westermann-Behaylo et al., 2015; Forrer & Katsos, 2015). For foreign SMEs, there might be very little that any of them can do solely in promoting peace (Miller et al., 2019). Peace-building approaches are more applicable to large enterprises with sufficient sphere of influence (Joseph et al., 2021).

There is a rapidly growing body of work emphasizing significant differences between SMEs and large enterprises in terms of how they survive exogenous shocks like violent conflicts (Miklian & Hoelscher, 2021; Rettberg et al., 2011). For instance, large enterprises can rely on post-shock responses to survive in times of crisis since they are usually ‘too big to fail’. Differently, resources and capabilities accumulated in ‘normal’ times might be crucial for SMEs since they are more vulnerable to shocks than large firms (Sydnor et al., 2017). Besides, foreign SMEs usually find it difficult to prepare for crisis with respect to spare materials, facilities, and other kinds of tangible assets due to their limited access to capital (Ellegaard, 2008). Instead, they rely more on intangible assets to promote resiliency against exogenous shocks (Torres et al., 2019). Despite these differences, there is an astonishing paucity of research examining how foreign SMEs mitigate violent conflict risk.



### ***Foreign SMEs and Local Community-oriented CSR***

CSR is an umbrella term for business efforts to address stakeholders' concerns regarding environmental and social issues (Scherer & Palazzo, 2011). In general, CSR refers to “a company's activities and status related to its perceived societal or stakeholder obligations” (Luo & Bhattacharya, 2006, p. 2). Previous studies on CSR have mostly focused on large enterprises which have adequate human and financial resources to conduct prosocial activities (Li et al., 2016). Nevertheless, in recent years, research has revealed that many SMEs have also embraced CSR to make contributions to society and can benefit from their CSR engagement as well (Magrizos et al., 2021; Nejati et al., 2017). Besides, scholars have found that SMEs are not “little big firms” that adopt similar CSR strategies with large enterprises except for the small investment scale (Tilley, 2000). Specifically, SMEs possess their own merits of “being small” that they have smaller and more locally concentrated stakeholder spectrum (Russo & Perrini, 2010). This enables them to outperform their larger counterparts in stakeholder management by contributing to the development of local communities. Hence, in this study, we center on two local community-oriented CSR activities (i.e., corporate philanthropy and workforce localization) for foreign SMEs and examine their role in mitigating violent conflict risk.

Specifically, corporate philanthropy refers to firms' discretionary philanthropic activities, which include contributions of money or gifts or executive time to social and charitable causes, such as education, culture, arts, medicine, health care, and disaster relief (Godfrey, 2005). By engaging in voluntary philanthropic initiatives to satisfy such needs and expectations, firms can make significant contributions to local community constructions (Hogarth et al., 2016; Pek et

al., 2018). A few studies have concentrated on the philanthropic activities implemented by foreign SMEs and emphasized that such activities are particularly helpful for them to cultivate favorable relationships with local stakeholders (Mickiewicz et al., 2016).

Workforce localization denotes the degree to which foreign firms hire HCNs (Forstenlechner and Mellahi, 2011). Some studies suggest that workforce localization that fits with local institutions can provide foreign firms with local legitimacy to operate in host countries (Dickmann et al., 2017; Lam et al., 2010). Meanwhile, previous research highlights that recruiting local labors is a crucial CSR practice that can contribute to creating jobs for local labors, help tackle the local unemployment issue, and boost local economic development (Du et al., 2023; Hess et al., 2002; Ismail et al., 2015). In this sense, foreign SMEs that undertake workforce localization can make sincere contributions to local community development, which enables them to build closer relationships with local stakeholders (Du et al., 2023).

## **Hypotheses Development**

### ***Mitigation Effects of Corporate Philanthropy and Workforce Localization***

IST is adopted as the theoretical lens in this study. IST, which goes back to Freeman's (1984) pioneering work, underlines that corporate strategy should not only serve shareholders' interests but also incorporate stakeholders' needs. Stakeholders are all parties that could affect and be affected by the firm's operations (Post et al., 2002). IST holds that fulfilling stakeholders' needs is an instrumental approach for firms to acquire sustainable competitive advantages (Jones, 1995b). Building on IST, researchers have elucidated that by conducting CSR activities, firms can foster closer and more trustful relationships with their key stakeholders (Harrison et

al., 2010). Moral capital and relationship-based intangible assets accumulated through CSR engagement among stakeholders can provide insurance-like protection for firms when faced with negative events (Godfrey, 2005).

In this study, we draw upon IST to explicate how two local community-oriented CSR practices – corporate philanthropy and workforce localization – help foreign SMEs mitigate the violent conflict risk. Foreign SMEs' contributions to the local communities through CSR are of great interests for local stakeholders. Based on IST, we elucidate that local stakeholders can help foreign SMEs that take CSR actions reduce added costs and revenue losses incurred by violent conflicts. First, it has been underscored that CSR practices signal foreign SMEs' concerns and care for local communities, convincing the local communities that they are more worthy and necessary for society (Gardberg & Fombrun, 2006; Russo & Perrini, 2010). Therefore, the local government may provide more security protection services for them. For example, it was reported that in Uganda, the local government is more willing to provide police and military protection for foreign companies which contribute more to the local community construction (Biryabarema, 2018). Hence, we maintain that CSR practices can help foreign SMEs overcome the increased security costs arising from violent conflicts. In addition, foreign SMEs' CSR practices can nurture their local workers (Sánchez & Benito-Hernández, 2015). Thus, manpower losses due to worsening work conditions in conflict-prone zones might be less severe for these SMEs. Moreover, their local reputation established through CSR engagement can help them attract more skilled employees in the labor market (Kistruck et al., 2015), favoring their recovery from talent shortages caused by violent conflict risks.

Further, we argue that SMEs' local community-oriented CSR practices (i.e., corporate philanthropy and workforce localization) enable them to enhance relationships with their local suppliers. According to Chowdhury et al. (2019), SMEs mainly source raw materials and components locally. The adoption of CSR practices towards local community development can demonstrate SMEs' trustworthiness and quality to their suppliers, which are the foundations of solid supply chain relationships (Hoejmose et al., 2014). In this regard, corporate philanthropy and workforce localization can help foreign SMEs better establish local networks and build favorable relationships with local suppliers. As such, when facing violent conflicts that could lead to supply chain disruptions, SMEs with a higher level of CSR engagement command a better position to obtain raw materials provided by suppliers and are more capable of finding alternative suppliers. Moreover, owing to closer supply chain relationships, suppliers of foreign SMEs are more likely to share the risks induced by demand volatility in the violence period. They have more willingness to bear partial losses and lower transaction penalties when foreign SMEs change procurement volumes because of uncertain market demands caused by violent conflicts (Khanchanapong et al., 2014).

Finally, SMEs embracing CSR practices can enhance customer loyalty (Jenkins, 2006), which buffers reputation losses against negative events (Godfrey, 2005b). Therefore, when foreign SMEs fail to meet volatile customer demands caused by violent conflict risks, the amount of revenue losses induced by product stockouts in conflict-prone areas can be reduced. Thus, we propose the following hypotheses:

**Hypothesis 1a:** Foreign SMEs that engage in a higher level of corporate philanthropy will

experience lower violent conflict risk.

**Hypothesis 1b:** Foreign SMEs that engage in a higher level of workforce localization will experience lower violent conflict risk.

### ***Roles of Host Country Media Freedom and Labor Rights Protection***

The IST literature indicates that the relationship between stakeholder management and firms' strategic outcomes depends on various contingency contexts (Jones et al., 2018). Particularly, instrumental stakeholder theorists have emphasized that the outcomes of CSR actions are intermediated by stakeholders' evaluation processes (Bridoux & Stoelhorst, 2014). For foreign firms, institutional conditions of host countries can amplify or diminish the perceived appropriateness of their CSR practices for local stakeholders, and thus the benefits derived from such practices (Apostol & Näsi, 2010; Morris et al., 2016). Specifically, we focus on two institutional conditions – media freedom and labor rights protection – and argue that they matter for corporate philanthropy and workforce localization, respectively.

*Corporate philanthropy and media freedom.* With respect to corporate philanthropy, there are no laws or codified expectations making it mandatory for foreign SMEs to engage in. Thus, corporate philanthropy is viewed as a humanistic-oriented practice. Given the humanistic nature of philanthropic activities, local stakeholders' perceptions are bolstered by their understanding and recognition of foreign SME managers' ethical beliefs behind such actions. Therefore, communication with local stakeholders in terms of SMEs' images of being civic-minded social actors is considered key for corporate philanthropy to play its strategic role. According to Etter

et al. (2019), media is the most important communication medium for mass participation in the achievement of a consensus on ethical judgments toward an organization. Hence, we posit that host country media is a relevant and critical institutional factor for corporate philanthropy, which may alter its efficacy in terms of foreign SMEs' local stakeholder management.

A country's media freedom refers to the extent to which the media is not affected by the country's legal environments, political pressures, and economic influence (Freedom House, 2019). In countries where media freedom is higher, press outlets can disseminate information about corporate conduct more efficiently (Jiang et al., 2020). Thus, foreign SMEs can better convey their ethical traits embodied in philanthropic activities to local stakeholders. Moreover, a high level of media freedom preserves information credibility to the public (Hallberg & Virkkunen, 2017). Therefore, foreign SMEs' moral images developed through corporate philanthropy reported in the media are more convincing to local stakeholders. As such, foreign SMEs are more likely to receive a higher evaluation on morality from their stakeholders, which contributes to better stakeholder relationships to alleviate violent conflict risk. In contrast, in countries with a lower level of media freedom, information about foreign SMEs' social concerns are more likely to be ignored or suspected (Tsfati & Ariely, 2014). Therefore, the role of foreign SMEs' corporate philanthropy in acquiring support from local stakeholders when faced with violent conflict risk would be undermined. Thus, we propose the following hypothesis:

**Hypothesis 2a:** The mitigation effect of corporate philanthropy on violent conflict risk is greater when host country media freedom is higher.

*Workforce localization and labor rights protection.* Different from corporate philanthropy, workforce localization is often deemed an instrumental initiative for foreign SMEs. In many countries, such as UK, US, and Arab countries, localization and restrictions on immigrant labor have taken central stage in the government policies for foreign enterprises (Ali et al., 2020). Moreover, the localization of employees is often utilized as an important approach for foreign firms to acquire local knowledge and skills and build local networks (Dickmann et al., 2017; Song, 2020). Due to the instrumental nature of workforce localization, local stakeholders are more likely to evaluate such CSR practice based on its actual social contribution rather than its morality. Since the implementation of workforce localization is bound by formal employment contracts, the extent of its contribution to local community development perceived by stakeholders hinges on the credibility of labor rights protection. Hence, we purposely focus on how host country labor rights protection alters the mitigation effect of foreign SMEs' workforce localization on violent conflict risk.

A country's labor rights protection refers to a government's ability to effectively formulate and implement policies and regulations to protect the rights of labors (Ahl et al., 2020). In host countries with a higher level of labor rights protection, there are more complete and sufficient labor-related rules and law enforcement (Wang & Li, 2019). This ensures the strong protection of local employees' rights and interests in the execution process of workforce localization under formal contracts. Furthermore, a high degree of labor rights protection in host countries can prevent symbolic localization practices such as the concept of phantom employees. Hence, local stakeholders are more likely to evaluate foreign SMEs' workforce localization as a solid

contribution to society, thus increasing their willingness to provide more resources or support for foreign SMEs to help them weather violent conflict risk. In contrast, in host countries with a lower level of labor rights protection, labor-related policies and regulations are loosely enforced (Kaufmann et al., 2010). Therefore, the actual contributions of workforce localization to the local communities are susceptible to local stakeholders. Consequently, the effectiveness of workforce localization in terms of mitigating violent conflict risk through stakeholder support would be weakened. Hence, we propose the following hypothesis:

**Hypothesis 2b:** The mitigation effect of workforce localization on violent conflict risks is greater when host country labor rights protection is higher.

## **Method**

### ***Data***

To conduct this study, we collected and compiled data from multiple sources. First, to acquire firm-level information, we conducted a cross-country survey on Chinese foreign SMEs. The questionnaire was designed following the standard procedure proposed by Dillman (2000). To ensure the clarity of item wording, we performed pre-tests with several academic professionals and industry experts and modified the questionnaire based on their feedback. Before sending the questionnaire to executives of Chinese foreign SMEs in different countries, we translated it into local languages with the support of native experts following the rigorous translation/back-translation process.



During the period of April to June in 2023, the questionnaire was sent by professional survey companies to 1148 randomly selected Chinese foreign SMEs in 30 countries. We adopted the criterion for SMEs proposed by the Organization for Economic Co-operation and Development (OECD) in 2005 and included firms with fewer than 250 employees in our sample. Besides, since we aim to examine how foreign SMEs mitigate the negative impact of violent conflicts, we selected the sampled countries based on the latest conflict data from Uppsala Conflict Data Program (UCDP). Finally, we received a total of 430 valid responses and the overall response rate is 37.20%. After dropping those responses with missing values in the variables of this study, our final sample includes 336 Chinese foreign SMEs from 27 countries<sup>1</sup>.

Table 1 presents the descriptive statistics of our sample by country. More than three fourths (76.47%) of sampled foreign SMEs operate in countries where at least one violent conflict occurred in the last five years. Besides, 36% of the total sampled firms are from countries where there were more than 100 violent conflicts in the last five years. Thus, the sample representativeness of foreign SMEs operating in conflict-prone zones was guaranteed. Table 2 shows the sample distribution by industry. Concerning respondent profile, Table 3 demonstrates that 35 percent of respondents are top managers in their respective firms and the other 65 percent are from middle management. Since the questionnaire was designed to include as many fact-based items as possible, common method variance (CMV) issue arising from same-respondent replies is not a serious concern in our study (Chang et al., 2010).

**[Table 1 near here]**

<sup>1</sup> The number of countries drops to 27 because of the lack of secondary data in 3 countries.

[Table 2 near here]

[Table 3 near here]

Furthermore, we acquired country-level data from multiple archival databases, including the World Development Indicators (World Bank), the World Factbook (U.S. Central Intelligence Agency), the World Press Freedom Index (Reporters Without Borders), and the Global Rights Index (International Trade Union Confederation). Since respondents completed survey questionnaires based on firms' operations in 2022, we collected the latest country-level data to match with firm-level data.<sup>2</sup>

### *Measures*

**Dependent variable.** We measured violent conflict risk by seven items on the perceived negative impacts of violent conflicts on firm operations and performances. Respondents were asked to evaluate the extent to which violent conflicts lead to employee turnover, damage to tangible assets (e.g., buildings, machinery, and goods), interruption of local infrastructure services (e.g., water, electricity, and communication), supply chain disruption, fluctuation in customer demands, decrease in sales, and decrease in return on assets (ROA) in their companies (1=no impact, 2=very small impact, 3=small impact, 4=medium impact, 5=large impact, and 6=very large impact). We calculated Cronbach's alpha value of this multi-item construct and found that it is higher than the threshold value of 0.7 ( $\alpha = 0.905$ ). Thus, the reliability of this latent variable is ensured.

<sup>2</sup> We used the data of World Factbook, World Press Freedom Index and the Global Rights Index in 2022 and the data of World Development Indicators in 2021.

**Explanatory variables.** Following prior studies (Du, 2015; Gao & Hafsi, 2015), we measured corporate philanthropy using the amount spent on charitable activities (e.g., supporting education, arts, culture, medicine, health, sports development, and disaster relief in the communities where firms operate) scaled by their sales (multiplied by 100). Second, workforce localization reflects the extent to which foreign SMEs hire HCNs (Chung et al., 2015). Following previous studies (Gaur et al., 2007; Hyun et al., 2015), we measured workforce localization using the number of a firm's HCNs divided by the total number of its employees.

**Moderating variables.** In this study, we consider two moderating factors. In accordance with El Ghouli et al. (2019), we measured media freedom with the World Press Freedom Index published by Reporters without Borders (RSF). RSF is an international non-profit organization aiming to promote the freedom, pluralism, and independence of journalism (RSF, 2022). It conducts annual surveys to compare the extent to which journalists can report matters of public interest independent of political, economic, legal, and social interference in 180 countries and territories. The Press Freedom Index ranges from 0 to 100, with a higher score indicating that journalists can produce and disseminate news more freely. Concerning host country labor rights protection, we adopted the Global Rights Index developed by the International Trade Union Confederation (ITUC). The ITUC rates labor rights in 148 countries on a scale from 1 to 5 and 5 plus annually based on their compliance with collective labor rights (ITUC, 2022). We

adjusted the index reversely in our study so that higher values indicate better working conditions for workers<sup>3</sup>.

**Control variables.** To ensure the rigor of our model, we included several control variables which might influence foreign SMEs' violent conflict risk. For firm-level variables, we first controlled for firm size since larger firms may have more resources and enjoy economies of scale (Orlitzky, 2001). It was operationalized as the natural logarithm of the number of employees. Second, we controlled for firm age because firm experience can significantly impact managers' risk perceptions in their host countries (Oh & Oetzel, 2017). We measured it using the number of years since the SMEs were established in the host countries. Lastly, since the state of income stream is an important determinant for firm risk (Fan & Xiao, 2022), the natural logarithm of return on assets (ROA) was controlled for in our model. For host country-level variables, we first controlled for gross domestic product (GDP) because the overall economic context has a vital impact on foreign enterprises' assessments of their operating situations (Witte et al., 2017). It was measured with the natural logarithm of GDP (constant 2015 US dollars) of the host country reported in the World Development Indicators (WDI) database (Oetzel & Oh, 2014). Furthermore, openness to foreign direct investment (FDI) was controlled for because host countries with a higher level of economic openness to FDI may formulate more favorable policies to protect foreign enterprises from violent conflicts. We measured it using the value of the national FDI inflows divided by GDP from the WDI database (Oh & Oetzel, 2017). Besides, since market potential is an important country-level factor endowment for

<sup>3</sup> 0, 1, 2, 3, 4, 5 representing 5 plus, 5, 4, 3, 2, 1 in the Global Rights Index, respectively.

foreign enterprises (Pek et al., 2018), we controlled for economic growth, which was operationalized as the rate of annual GDP growth. Finally, we included industry dummies to account for potential industry heterogeneity.

### ***Model Specification***

Endogeneity can stem from reverse causality or omitted variables (Kim & Zhu, 2018). It is possible that the level of foreign SMEs' violent conflict risk influences their adoption of corporate philanthropy and workforce localization. Besides, endogeneity bias stemming from omitted variables is not negligible in our study. Therefore, we employed a two-stage least squares (2SLS) approach to address the potential endogeneity issue.

We selected a number of country-level variables as instrumental variables (IVs) since these variables are exogenous to our research models. Regarding corporate philanthropy, we used two home-host country pair level variables as IVs. First, we measured a country's giving level with the World Giving Index produced by the Charities Aid Foundation (CAF). This index is developed upon survey data of individuals' prosocial activities in 143 countries. It depicts the percentage of the population that engage in helping strangers, donating money and volunteering activities. The difference between the indexes of the SME's home country and host country is used as the first IV. Then, we measured a country's religious population ratio by the rate of the population who claim a religious affiliation, provided by the Association of Religion Data Archives (ARDA). The difference between the religious population ratios of the SME's home country and host country is used as the second IV. Prior research has found that CSR

incongruence leads to lower CSR practices (Liu et al., 2021) such as corporate philanthropic activities. Thus, we believe that two IVs are appropriate instruments for corporate philanthropy.

With respect to workforce localization, following prior theoretical findings that home-host country distance is a key determinant of foreign firms' local staffing strategies (Ge et al., 2022; Ando & Paik, 2013), we used home-host country pair-level geographic distance and economic distance as two IVs. In line with prior research (e.g., Oh & Oetzel, 2017; Pek et al., 2018), we operationalized geographic distance using the great circle distance between the geographic center points of two countries based on country geographic data collected from World Factbook. Economic distance was measured by the natural logarithm of the absolute value of GDP per capita between China and foreign SMEs' host countries collected from WDI database (Berry et al., 2010).

In the first stage of 2SLS, we regressed our independent variables (i.e., corporate philanthropy (CP) and workforce localization (WL)) on instrumental variables and control variables. In the second stage, we regressed our dependent variable (i.e., violent conflict risk (VCR)) on our fitted independent variables from the first stage (CP\_HAT and WL\_HAT) and their interactions with the moderators (i.e., CP\_HAT  $\times$  press freedom (PF) and WL\_HAT  $\times$  labor rights protection (LR)), respectively.

## **Results**

Table 4 demonstrates the descriptive statistics and correlation matrix for the variables. We mean-centered the variables before creating the interaction terms to address the issue of

multicollinearity. We further calculated the variance inflation factor values for all variables, which range from 1.04 to 3.66 and are below the threshold value of 10 (Zhong et al., 2019; Mason & Perreault, 1991). This suggests that multicollinearity is not a serious concern in our research.

**[Table 4 near here]**

### ***The effects of corporate philanthropy and host country media freedom***

Table 5 reports 2SLS regression results on the association between corporate philanthropy (CP), host country media freedom (PF) and violent conflict risk (VCR). Panel A presents the results in the first stage of 2SLS. We find that the coefficients of both IVs are significantly negative. This is consistent with previous theoretical findings that CSR orientation incongruence can reduce firms' willingness to engage in CSR activities (Liu et al., 2021). To further check the validity of our IVs, we first conducted the underidentification test and the Kleibergen–Paap rk LM statistic is significant ( $p < 0.001$ ) (Kleibergen & Paap, 2006). Thus, we strongly reject the null hypothesis that our IVs are underidentified. Besides, the Stock-Wright chi-square statistic is significant ( $p < 0.001$ ), suggesting that our instruments are not weak (Stock & Yogo, 2002). Concerning the exogeneity of our IVs, we conducted the Hansen overidentification test (Lu et al., 2018) and found that the statistics is not significant ( $p = 0.2072$ ). Therefore, the exogeneity of our IVs is verified. The results of Panel B reveal that the coefficient of CP\_HAT is significantly negative ( $\beta = -0.4961$ ,  $p < 0.01$ ). This implies that corporate philanthropy contributes to attenuating violent conflict risk. Thus, H1a is supported. Furthermore, we

observed that the coefficient of  $CP\_HAT \times PF$  is positive but insignificant ( $\beta=0.0072, p>0.1$ ).

Therefore, H2a is not supported.

**[Table 5 near here]**

### ***The effects of workforce localization and media freedom on violent conflict risk***

In Panel A of Table 6, as expected, we found that the coefficients of both IVs (i.e., economic distance (ED) and geographic distance (GD)) are positive and significant. Moreover, the Kleibergen–Paap rk LM statistic is significant ( $p<0.001$ ), indicating that our IVs are identified. Moreover, the Stock-Wright chi-square statistic is significant ( $p<0.05$ ) and the Hansen overidentification test statistic is not significant ( $p=0.2615$ ). The results in Panel B reveal that the coefficient of WL is significantly negative ( $\beta=-1.6600, p<0.05$ ), and that of the interaction term between WL and LR is significantly negative as well ( $\beta=-1.3199, p<0.05$ ). Thus, both H2a and H2b are supported. To aid in the interpretation of our results, Figure 1 illustrates the significant two-way interaction effect between WL and LR on VCR.

**[Table 6 near here]**

**[Figure 1 near here]**

### ***Robustness checks***

We conducted several additional analyses to verify the robustness of our results. All detailed results are available upon request.

First, we checked the robustness by adopting alternative measures for host country media freedom and labor rights protection. Following previous research (Jiang et al., 2020), we



measured media freedom using the annual Freedom of the Press index published by Freedom House. This index ranges from 0 to 100, evaluating countries' legal environments for the media, the extent of political pressures that influence reporting, and economic influence over media content and access to information (Freedom House, 2022). Moreover, consistent with prior studies (Wang & Li, 2019), we adopted the regulatory quality dimension among World Governance Indicators (WGI) developed by the World Bank to measure host country labor rights protection. This index ranges from -2.5 to 2.5, depicting perceptions of the ability of the government to formulate and implement sound policies and regulations that protect individuals' rights. Our results are in line with those in our main analysis.

Second, we used alternative measures of several key control variables to further check the robustness of our results. We replaced GDP in constant 2015 US dollars with that in 2018 US dollars (Li & Vashchilko, 2010) and operationalized openness to FDI using the natural logarithm of FDI net inflows. All of our results based on alternative measures remain unchanged.

## **Discussion and Conclusions**

### ***Theoretical Implications***

This study makes several important theoretical contributions. First, it extends the IST literature about desirable outcomes of corporate CSR practices to the context of SMEs. SMEs' CSR issues have come into research foci only in recent years (Jamali et al., 2017; Kechiche & Soparnot, 2012; Stekelorum, 2020). Yet, there exist controversies surrounding whether CSR

engagement can function as a strategic approach for SMEs to achieve their business objectives (Kechiche & Soparnot, 2012). Besides, the limited research on the role of CSR in SMEs has mainly centered on the direct CSR–financial performance relationship (Kechiche & Soparnot, 2012; Oduro et al., 2021; Torugsa et al., 2013). In this study, considering SMEs' strengths in local stakeholder management, we demonstrate that foreign SMEs can utilize their stakeholder relationships accumulated locally through local community-oriented CSR practices (i.e., corporate philanthropy and workforce localization) to mitigate violent conflict risk. Thus, our study opens up avenues for future IST research to investigate the strategic risk management role of CSR for SMEs.

Second, our study contributes to the emerging IST research on moderators in CSR relations by identifying the important yet overlooked role of host country institutional conditions. Recently, cross-country differences in firms' CSR strategies have gradually drawn researchers' attention (Morris et al., 2016; Jiang et al., 2020). In this study, we demonstrate that foreign SMEs should choose appropriate local community-oriented CSR actions according to their host country institutional conditions. Specifically, when host country labor rights protection is higher, foreign SMEs can engage more in workforce localization to tap into its potential of violent conflict risk mitigation. Interestingly, we discover that host country media freedom does not significantly alter the mitigation effect of corporate philanthropy on violent conflict risk. The plausible reason is that compared with large enterprises, SMEs are less visible to the media and thus they may not rely much on the media to elevate local stakeholders' awareness of their implementation of philanthropic activities (Russo & Perrini, 2010). As such, host country media

freedom might not effectively increase the extent of stakeholder support that SMEs can attain through corporate philanthropy and hence not significantly modify the efficacy of corporate philanthropy on violent conflict risk. Overall, our study provides nuanced insights into the varying effects of different institutional factors, thus shedding light on an IST research direction to take country-level boundary conditions into consideration when investigating the risk mitigation benefits of CSR.

Remarkably, our study reveals the multidimensional nature of CSR and distinguishes the functioning mechanisms of corporate philanthropy and workforce localization. The former CSR practice is more humanistic-oriented and informal while the latter is more instrumental by nature and formally bound by labor laws, which influence the evaluation process of the local community (Bridoux & Stoelhorst, 2014). While most previous studies consolidate a spectrum of corporate actions under the unidimensional concept of CSR commitment (Wang & Choi, 2013), some researchers have emphasized the variations within firms' appropriate choices among a broad range of CSR actions (Bouslah et al., 2023; Cavaco & Crifo, 2014). For example, firms' own characteristics (Bouslah et al., 2023; Mazutis, 2013) and attributes of firms' stakeholder landscapes (Brower & Mahajan, 2013) have been identified as critical determinants of diversity in what specific CSR actions they should engage in. Our study advances this research stream and opens up a promising avenue for future research to further investigate the heterogeneity in mechanisms of different CSR actions and find the most appropriate ones in a specific context.

### ***Managerial Implications***

This study also provides several important implications for managers of foreign SMEs. First, our findings suggest that foreign SMEs should proactively engage in local community-oriented CSR practices (i.e., corporate philanthropy and workforce localization) to relieve violent conflict risk. Unlike large enterprises, SMEs usually find that their hands are tied in the face of violent conflicts due to their liability of smallness. Thus, our propositions of effective risk mitigation strategies are vital for foreign SMEs to ease the risk in conflict-prone areas. Furthermore, SME managers are probably skeptical about the benefits derived from proactive CSR practices (Kechiche & Soparnot, 2012). SMEs are overwhelmed by daily operations and thus are not inclined to do more than required by regulations and policies (Lepoutre & Heene, 2006). Our results reveal that foreign SME managers should think beyond the everyday economics of business to understand the strategic risk mitigation value of CSR practices.

Second, our results suggest that managers of foreign SMEs need to pay close attention to host country institutional factors when considering how to shield them from violent conflict risk. Specifically, when foreign SMEs operate in host countries with a higher level of labor rights protection, they should devote more efforts to undertaking workforce localization because host country labor rights protection can reinforce the attenuating effect of such practice.

### ***Limitations and Future Research Directions***

Limitations of this study should be considered along with its contributions. First, our sample of Chinese foreign SMEs compromises the generalizability of our findings, considering that the

characteristics of foreign SMEs' home countries may influence their operations significantly. For example, the differences in ethical standards between foreign enterprises' home countries and host countries might affect the efficacy of their local community-oriented CSR practices. Hence, future research can provide more insights by investigating whether our findings still hold for foreign SMEs from other home countries. Second, our study uses cross-sectional data, which may hinder the examination of the causality between CSR practices and violent conflict risk. Future research is encouraged to employ panel dataset and firm fixed-effect regression models to further address the potential endogeneity issue. Finally, our study only focuses on SMEs' two typical local community-oriented CSR practices (i.e., corporate philanthropy and workforce localization). One avenue for future research is to provide a fine-grained analysis regarding how other potential CSR practices, like green behaviors, might help foreign SMEs mitigate violent conflict risk.

## **Declarations**

**Conflict of Interest:** The authors have no conflicts of interest to declare that are relevant to the content of this article.

**Ethical Approval:** All procedures performed in studies involving human participants were in accordance with the ethical standards of American Psychological Association (APA).

**Informed Consent:** Informed consent was obtained from all individual participants included in the study.

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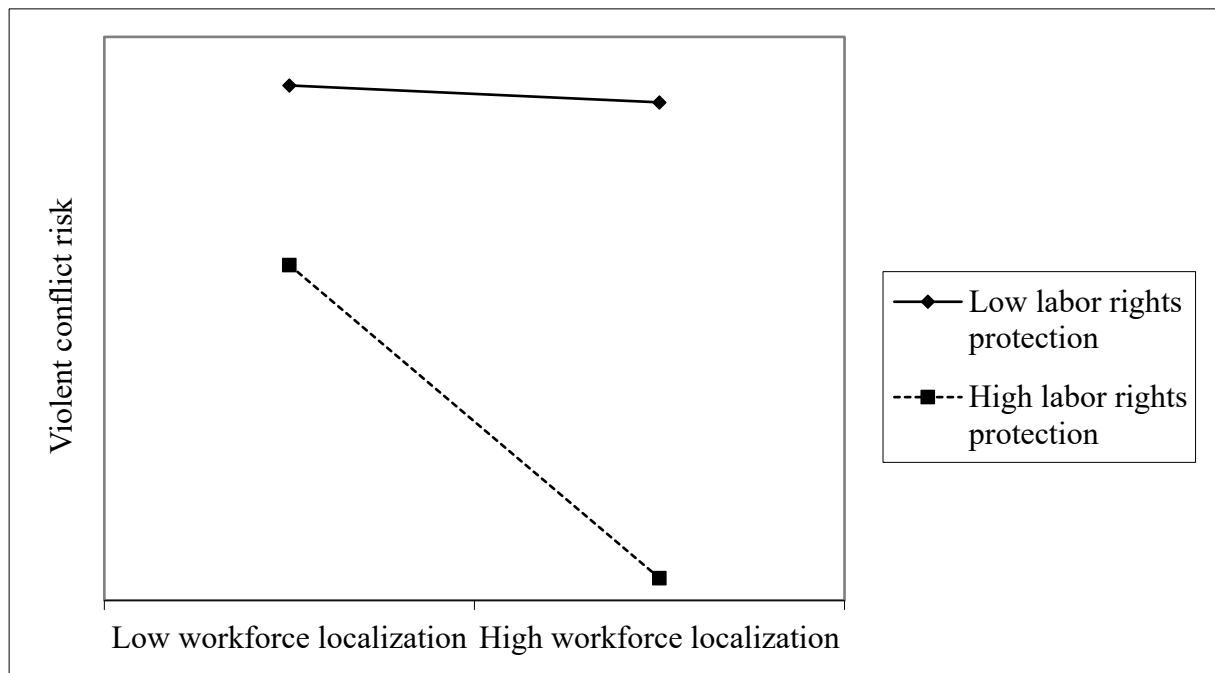
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**Figure 1.** Moderating effect of host country labor rights protection.

**Table 1.** Sample distribution by country.

Country	Number of violent conflicts in the last five years*	Frequency	Percentage (%)
Mexico	9,830	18	5.36
Brazil	3,205	17	5.06
Nigeria	2,644	13	3.87
India	1,757	14	4.17
Pakistan	803	7	2.08
Philippines	679	13	3.87
Colombia	495	13	3.87
Kenya	270	6	1.79
Thailand	153	20	5.95
Indonesia	87	14	4.17
Russia	81	15	4.46
South Africa	42	8	2.38
Morocco	12	12	3.57
Peru	10	12	3.57
France	8	18	5.36
United Kingdom	3	19	5.65
United States	3	14	4.17
Bolivia	1	11	3.27
Poland	1	13	3.87
Argentina	0	17	5.06
Belarus	0	3	0.89
Chile	0	15	4.46
Germany	0	8	2.38
Greece	0	13	3.87
Italy	0	9	2.68
Netherlands	0	5	1.49
Spain	0	9	2.68
Total		336	100.00

\* Reported by the UCDP database.

**Table 2.** Sample distribution by industry.

Industry	Frequency	Percentage (%)
Agriculture, forestry, animal husbandry, and fishery	13	3.87
Mining	19	5.65
Manufacturing	55	16.37
Electricity, heat, gas, and water production and supply	22	6.55
Construction	17	5.06
Wholesale and retail	51	15.18
Transportation, warehousing, and postal services	19	5.65
Accommodation and catering	14	4.17
Information transmission, software, and information technology services	47	13.99
Finance	31	9.23
Real estate	7	1.99
Leasing and business services	6	1.79
Scientific research and technical services	6	1.79
Water conservancy, environment, and public facility management	3	0.89
Residential services, repair, and other services	1	0.28
Education	3	0.89
Health and social work	4	1.19
Culture, sports, and entertainment	8	2.38
Others	10	2.98
Total	336	100.00

**Table 3.** Respondent profile.

Position	Frequency	Percentage (%)
Owner manager	40	11.90
CEO	31	9.23
Deputy CEO	46	13.69
Head of a department	205	61.01
Deputy head of a department	14	4.17
Total	336	100.00

**Table 4.** Descriptive statistics and correlation matrix.

	Min.	Max.	Mean	S.D.	1	2	3	4	5	6
1. Violent conflict risk	1.1429	5.7143	2.6998	1.0444	1.000					
2. Corporate philanthropy	0.0018	25	1.6503	2.3245	-0.0086	1.000				
3. Workforce localization	0.0044	1	0.5370	0.3032	0.1057	0.2021**	1.000			
4. Media freedom	34.77	87	58.6760	14.3208	-0.2148**	0.0950	0.0160	1.000		
5. Labor rights protection	0	4	1.3333	1.1495	-0.1963**	0.0658	0.1180*	0.5170**	1.000	
6. Firm size	0.6931	5.5255	4.2942	1.1406	-0.1448**	-0.0329	-0.5259**	-0.0458	-0.0858	1.000
7. Firm age	1	73	14.7202	11.3021	0.0520	-0.0229	0.1300*	0.0135	0.0341	-0.0317
8. Firm ROA	-1	50	19.4777	13.1489	0.2044**	0.1231*	0.5024**	-0.1165*	0.0388	-0.4434**
9. GDP	24.3338	30.6529	27.3482	1.3051	-0.1896**	-0.0764	-0.4782**	0.3948**	0.1919**	0.3201**
10. Openness to FDI	-13.9944	9.8555	2.2439	2.6153	-0.0146	-0.1654**	0.0248	-0.0853	0.0994	-0.1767**
11. GDP growth	1.5338	13.3495	6.5870	2.8484	-0.0436	0.0358	0.2472**	0.0115	0.0425	-0.2765**
					7	8	9	10	11	
7. Firm age					1.000					
8. Firm ROA					0.1258*	1.000				
9. GDP					-0.1592**	-0.4651**	1.000			
10. Openness to FDI					0.1245*	0.1552**	-0.1171*	1.000		
11. GDP growth					0.0178	0.1871**	-0.2179**	0.0955	1.000	

$N = 336$ . \*  $p < 0.05$ , \*\*  $p < 0.01$  (two-tailed test).

**Table 5. The effects of corporate philanthropy and host country media freedom.**

Variable	Stage 1		Stage 2			
	Dep. Var.= Corporate philanthropy		Dep. Var.= Violent conflict risk			
	Est.	<i>p</i>	Est.	<i>p</i>	Est.	<i>p</i>
Corporate philanthropy_hat (CP_HAT)			-0.4961 (0.1693) **	0.003	-0.3939 (0.1251) **	0.002
Media freedom (MF)					-0.0117 (0.0049) *	0.018
CP_HAT × MF					0.0072 (0.0048)	0.131
Host country giving difference	-4.2484 (1.0756) ***	<0.001				
Host country religious population rate difference	-0.0604 (0.0245) *	0.014				
Firm size	0.0607 (0.1587)	0.702	-0.0492 (0.0914)	0.691	-0.0713 (0.0529)	0.179
Firm age	-0.0027 (0.0095)	0.777	-0.0008 (0.0063)	0.901	0.0005 (0.0045)	0.904
Firm ROA	0.0240 (0.0123) +	0.051	0.0234 (0.0080) **	0.003	0.0219 (0.0055) **	0.001
GDP	-0.2261 (0.1698)	0.184	-0.1430 (0.0732) +	0.051	-0.0823 (0.0537)	0.127
Openness to FDI	-0.1565 (0.1570)	0.320	-0.1071 (0.0761)	0.154	-0.0696 (0.0287) *	0.016
GDP growth	-0.0292 (0.0496)	0.556	-0.0353 (0.0316)	0.264	-0.0337 (0.0197) +	0.088
Industry dummies	Included		Included		Included	
Constant	15.0858 (7.3343) *	0.041	7.6685 (1.4258) ***	<0.001	6.4943 (1.4894) ***	<0.001
Kleibergen-Paap Wald rk <i>F</i> statistic	16.82***	<0.001				
Stock-Wright LMS statistic	30.37***	<0.001				
Hansen test			1.591	0.2072		

*N*=336. +*p*<0.1, \**p*<0.05, \*\**p*<0.01, \*\*\**p*<0.001 (two-tailed test). Robust standard errors in parentheses.



**Table 6. The effects of workforce localization and host country labor rights protection.**

Variable	Stage 1		Stage 2			
	Dep. Var.= Workforce localization		Dep. Var.= Violent conflict risk			
	Est.	<i>p</i>	Est.	<i>p</i>	Est.	<i>p</i>
Workforce localization _hat (WL_HAT)			-1.6600 (0.8322) *	0.046	0.0693 (0.5843)	0.236
Labor rights protection (LR)					-0.1765 (0.0621) **	0.005
WL_HAT × LR					-1.3199 (0.5110) *	0.010
Economic distance	0.07482 (0.0131) ***	<0.001				
Geographical distance	0.0521 (0.0210) *	0.014				
Firm size	-0.0750 (0.0142) ***	<0.001	-0.2123 (0.0841) *	0.012	-0.0567 (0.0710)	0.424
Firm age	0.0010 (0.0013)	0.429	0.0032 (0.0048)	0.506	-0.0002 (0.0048)	0.971
Firm ROA	0.0037 (0.0013) **	0.005	0.0197 (0.0064) **	0.002	0.0103 (0.0059) +	0.082
GDP	-0.0849 (0.0110) ***	<0.001	-0.1910 (0.0567) **	0.001	0.0026 (0.0573)	0.964
Openness to FDI	-0.0026 (0.0064)	0.680	-0.0395 (0.0193) *	0.040	0.0257 (0.0236)	0.277
GDP growth	0.0009 (0.0053)	0.869	-0.0345 (0.0214)	0.108	-0.1063 (0.0314) **	0.001
Industry dummies	Included		Included		Included	
Constant	1.9769 (0.3313) ***	<0.001	9.5310 (2.0799) ***	<0.001	3.2714 (1.8220) +	0.074
Kleibergen-Paap Wald rk <i>F</i> statistic	31.15 ***	<0.001				
Stock-Wright LMS statistic	6.58 *	0.0373				
Hansen test			1.261	0.2615		

*N*=336. +*p*<0.1, \**p*<0.05, \*\**p*<0.01, \*\*\**p*<0.001 (two-tailed test). Robust standard errors in parentheses.