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Positive institutional changes through peace: The relative effects of peace agreements and non-market capabilities on FDI

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Abstract

Despite the fragile economic and political environment in conflict-affected countries, a significant number of multinational enterprises (MNEs) enter these markets, particularly as conditions begin to improve. To better understand how MNEs respond to positive institutional changes in challenging markets, we examine the relative effects of peace agreements and MNE capabilities on foreign direct investment. We expect that MNEs can engage in institutional arbitrage by leveraging political capabilities in their home market as well as their environmental, social, and governance capabilities to enter conflict-affected countries. Thus, rather than focusing solely on managing downside risk, we also analyze the relative value of MNE capabilities as countries strive to become more peaceful. Specifically, we hypothesize and find that peace agreements and the associated positive changes in the political environment in the host country are less important for MNEs with political capabilities and strong environmental and social governance than they are for other MNEs. The results raise important questions about why and how certain firms may thrive in challenging environments and reveal the differential impact of positive institutional change.

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INTRODUCTION

If conflict deters foreign direct investment (FDI), do efforts to increase peace encourage it? There has been a significant amount of research on how violence and conflict affect FDI (Dai et al., 2013, 2017; Liu & Li, 2020; Oh & Oetzel, 2017; Skovoroda et al., 2019; Witte et al., 2017, among others). Yet, we know little about whether the prospects for peace incentivize investment. For example, what is the relative value of country-led initiatives, such as peace agreements, as mechanisms for positive institutional change relative to firm-specific capabilities that might enable a firm to manage risk (DeRouen Jr, Ferguson, Norton, Park, Lea, & Streat-Bartlett, 2010; Oh & Oetzel, 2017)? To explore these questions, we integrate the political risk and FDI research in international

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business (IB) with the literature on peace building and peace agreements from political science to examine the relative benefits of peace agreements vis-à-vis firm-specific non-market capabilities in attracting FDI.

A challenge in studying peace agreements is that peace is a somewhat nebulous concept and is often ill-defined. Here, we adopt a commonly accepted definition of negative peace as the absence of war or direct violence (e.g., a ceasefire) and positive peace as the absence of structural violence associated with social injustice, discrimination, and economic inequality (Galtung, 1969, 2012). We focus on intrastate conflicts, rather than other types of violence such as terrorism, social unrest, or interstate conflict, for a couple of reasons. First, terrorism and social unrest are not typically resolved by peace agreements or other types of positive institutional change. Second, recent research shows that while colonial and interstate conflicts accounted for approximately half of all armed conflict immediately after WWII, that number dropped dramatically by the late 1950s. For several decades now, the major type of conflict has been intrastate in nature (Dupuy & Rustad, 2018; Szayna, Watts, O'Mahony, Frederick, & Kavanagh, 2017).

There is a great deal of research on how violent conflict and other negative events affect MNEs (for some examples see Dai et al., 2013; Li & Vashchilko, 2010; Liu & Li, 2020; Oh & Oetzel, 2017; Witte et al., 2017), but efforts to promote positive institutional changes through peace agreements are less understood. Researchers have made compelling arguments about the significant role that governments play in promoting economic development and attracting FDI (Dunning & Narula, 2003). Undoubtedly, promoting good governance, reducing corruption, and strengthening the rule of law have been core issues in IB (Berry et al., 2010; Dunning, 1998; Eden & Miller, 2004, among others).

Regarding positive institutional changes, there is also substantial research on how bilateral investment or regional trade agreements can facilitate trade and promote FDI (Albino-Pimentel et al., 2018; Fratianni & Oh, 2009; Jandhyala et al., 2011). One study in particular has shown that supranational agreements – essentially establishing a multinational institutional framework for investments – serve to increase FDI (Albino-Pimentel et al., 2018). Institutional change can be difficult to study because it is not always obvious when it is happening. Change often takes decades or longer to be realized. For instance, in the middle of peace negotiations, the end result is often unclear, since the process of change can take many twists and turns. For these reasons, peace agreements offer an opportunity to overcome some of these limitations since they generally represent years of political negotiations prior to an agreement. Furthermore, unless they die due to a lack of state support, once-ratified peace agreements may receive international support through supranational institutions like the United Nations (DeRouen Jr et al., 2010).

In addition to assessing host-country conditions, managers of MNEs may develop firm-specific non-market capabilities to manage conflict or political risk. They may use influence-based strategies, such as building political ties in the home country, which can be leveraged abroad to attenuate the negative effects of political risk and operate in countries with weak institutional environments (Albino-Pimentel et al., 2018; Bucheli & Salvaj, 2013; Doh et al., 2012; Holburn & Zelner, 2010; Lawton et al., 2013; Rajwani & Liedong, 2015). Another strategy they might employ involves proactive approaches such as building internal environmental, social, and governance (ESG) capabilities. In the literature review that follows, we discuss these strategies and the mechanisms relating non-market capabilities to FDI in conflict-affected countries in greater detail.

To examine how positive institutional change, captured by the adoption of peace agreements, affects new FDI and what its benefits are relative to firm-specific non-market capabilities to manage risk, we test our hypotheses using FDI data capturing new investments made by listed firms headquartered in the United States from 2005 to 2011. Our main findings show that positive institutional change aimed at reducing conflict and addressing the issues that led to violence in the first place has an overall positive effect on FDI. What is more surprising, however, is that the findings suggest that the effect of conflict cessation on FDI varies according to MNE non-market capabilities. MNEs with proactive and influence-based approaches for handling host country risk are less affected by conflict cessation than other MNEs. It appears that these types of firm-specific advantages enable an MNE to manage FDI risk in the absence of structural change (in the form of peace agreements) in host-country institutions.

Our results raise important questions about why and how certain firms may thrive in challenging environments. They also reveal the differential

impact of positive institutional change and internal firm capabilities and contribute to the literature on non-market risks and MNE strategies. MNEs have little control over the institutional environment in which they find themselves, but it appears possible for some firms to develop valuable firm capabilities in their home countries that can be leveraged abroad to overcome host-country conditions and enter conflict-affected countries. On the other hand, MNEs with insufficient resources or know-how to develop valuable non-market capabilities in their home country appear to benefit more from the potential for positive institutional change in the host country.

Our contribution to the literature on MNE capabilities for managing risk associated with FDI in conflict-affected countries, on the one hand, and peace agreements as a mechanism for positive institutional change in a conflict-affected country, on the other, is two-fold. First, rather than focusing solely on the nature and level of risk in conflict-affected countries, we focus on how and whether attempts to positively improve the institutional environment, as reflected in peace agreements, lead MNEs to be more likely engaged in FDI in a particular country. By focusing on peace agreements, we seek to better understand the nature and value of positive institutional change, while by focusing on MNE choices, we seek to minimize causality concerns that more strongly affect studies relying on country-level FDI data. Second, to further our understanding of how MNEs value efforts to promote peace in a target market, we examine how firm-specific non-market capabilities compare to the relative importance of positive changes in the host country.

We also contribute to international political economy (IPE) research. Since Vernon (1971), IPE research has emphasized the influence of home and host country political characteristics, including institutional risk, political regime changes, and international agreements, on the location choice decision by MNEs (Pandya, 2016). Largely missing from IPE research is the role of firm-level capabilities. By capturing and comparing the importance of both host-country political characteristics and MNE capabilities, we can begin to tease out the relative importance of these factors and how they vary in different country contexts. Thus, economic globalization can be achieved through positive institutional changes initiated by host country governments as well as non-market capabilities developed by private actors. Both of these are new to research in international business and IPE.

THEORY AND HYPOTHESIS DEVELOPMENT

Conflict and FDI

While MNEs are attracted to favorable macro-level conditions such as strong institutions, high local demand, low corruption, low uncertainty regarding government policies, and overall country stability (Caves, 2007; Cuervo-Cazurra, 2006; Dunning, 1998; Henisz & Delios, 2001; Peng et al., 2008), other factors, often the inverse of these conditions, are known to deter FDI (i.e., violent conflict, political unrest, and political uncertainty, among others) (Blake & Moschieri, 2017; Dai et al., 2017; Oh & Oetzel, 2017). This can be challenging since country conditions are often in flux and can quickly change from calm to conflict and back again. Host countries that have been affected by conflict often cycle through periods of calm, followed by increasing tension, peaking in an outbreak of violence (Galtung, 1969). After the violence has passed, there is generally a period of de-escalation, but there is uncertainty regarding how long the relative calm may last. In the absence of a resolution of the issues that led to conflict, the country may never be entirely free of the cycle of conflict unless there is major structural change.

In fact, once a country experiences conflict, it is more likely to see additional violence (Walter, 2002). At the end of a civil war, countries are more likely to return to conflict than remain at peace (Walter, 2002). More than half (57%) of 103 countries that experienced a civil war between 1945 and 2009 experienced at least one more conflict after the war ended, a phenomenon dubbed the "conflict trap" (Collier & Hoeffler, 2002).

The IPE literature has suggested that trade and FDI may promote peace through the economic development of affected regions (Bussmann & Schneider, 2007; Reuveny & Kang, 1996). This creates critical concerns regarding the causality between peace building and foreign investments. These concerns are particularly salient in extant studies undertaken using country-level data on FDI flows. Also, the role of MNEs in the IPE literature is limited (Eden, 1993). In fact, Kobrin's (1987) obsolescing bargaining power model assumes that both host-country governments and MNEs possess resources that are complementary. However,

regarding the relationship between conflict, peace, and FDI, very few studies have been carried out. Those that have tend to overlook the influence of firm-specific capabilities (e.g., Biglaiser & DeRouen Jr, 2007; Skovoroda et al., 2019). To address these concerns, we examine a tangible consequence of attempts to build peace, i.e., foreign investment, using firm-level information on unique firm investments. Compared to aggregate country-level FDI flows, such investments by particular firms are less likely to be the cause of peace-building attempts than the consequence. In addition, we recognize that country governments and multilateral institutions are not the only ones that promote peace and globalization. Due to their size and scope of operations, MNEs' capabilities can also enhance peace and FDI. To further explore this relationship, besides investigating the overall impact of peace agreements on MNE investments, we examine how firms differ in their sensitivity to peace agreements depending on firm-specific capabilities to privately deal with violence-related risks.

Positive Institutional Change

Peace agreements, also referred to as negotiated settlements, may be used as a method of conflict resolution when neither side of a violent conflict achieves a military victory (DeRouen Jr et al., 2010). While not all peace agreements are effective at maintaining long-term peace, there are certain provisions and conditions that increase the likelihood of success. One such provision is the extent to which the agreement is seen as credible (DeRouen Jr et al., 2010; Fearon, 2004; Walter, 2002). Credible peace agreements should address the underlying grievances that led to conflict in the first place. In some cases, that will mean alleviating injustice, disenfranchisement, political or economic exclusion, a territorial dispute, or any other issue that led to conflict.

For long-term success, researchers have argued that the government must have the capacity to execute and enforce an agreement and maintain a ceasefire (DeRouen Jr et al., 2010; Fearon & Laitin, 2003). According to one study, the United Kingdom, "is a prime example of the combined effect of high state capacity, intervention, and implementation leading to a peaceful conclusion" (DeRouen Jr et al., 2010: 340). To elaborate, the peace agreement between the British and Irish governments was reached on April 10, 1998, and became effective December 2, 1999. It was the culmination of "a long process of state-institutional change" that was characterized by different phases (Todd, 2014: 522).

During the peace process, it took years for the British to accept that their mode of political management was not necessarily appropriate for Northern Ireland. Over time, the process of changing existing political institutions and structures was bumpy. As British politicians began to accept that a "shared British–Irish strategy" was necessary, peace negotiations began in earnest (Todd, 2014: 533). This has been characterized as one of three key "threshold events" during the peace process.

For negotiations to move from deliberation to agreement, however, it was necessary to enfranchise the parties in conflict so they had access to the economic and political institutions in the region (Oetzel & Oh, 2019; Todd, 2014). Since the political and economic exclusion of minority groups – the Catholic minority in the case of Northern Ireland – is highly correlated with violent conflict (Cederman et al., 2010; Stewart, 2016), this was a critical stage of the peace process constituting a second threshold event. For the final stage of the process, both parties needed to win over groups that were against peace, particularly those that could veto an agreement (Todd, 2014).

These examples illustrate how institutions define the rules of a society and can "reduce [or exacerbate] uncertainty by establishing a stable structure to human interaction" (North, 1990: 6). They also affect the opportunities available in a country and who can take advantage of them. Institutions often appear static but in fact they do change over time. Change is often hard to observe since it tends to be slow, incremental, and nonlinear. Yet, there are times when political institutions change quickly (Weyland, 2009).

One of those times is when there is a desire to end conflict and violence in a country. As we discussed earlier, the willingness to accept a peace agreement may occur because the parties to a conflict may reach a point where neither party is likely to win through force (DeRouen Jr et al., 2010). This was one of the drivers behind the peace agreement signed in Colombia in 2016. The parties to the conflict realized that decades of violence had failed to resolve political and economic grievances in the country and were unlikely to do so. In such circumstances, peace agreements can be an important mechanism for negotiating institutional changes aimed at addressing grievances in an effort to end violence and conflict.

Peace agreements vary widely in terms of their aims and scope. Some peace agreements are designed to suspend violence (e.g., cease-fire), while others aim to address the systemic issues that lead to conflict in the first place. Agreements that try to address the full set of underlying grievances, inequalities, or other factors that led to conflict are typically referred to as comprehensive agreements. A means for resolving these issues can then be addressed in a formal agreement that can be implemented (Bell, 2006). While formulating effective peace agreements is challenging and can take years or even decades, they continue to be highly valued as a mechanism to end conflict and prevent reescalation (Galtung, 1969).

In terms of the content of peace agreements, they generally include one or more specific provisions depending upon the grievance that led to conflict in the first place (Högbladh, 2011). The first type of agreement includes military-related provisions and may involve actions such as the withdrawal of military forces, a ceasefire, disarmament, demobilization, and reintegration (DDR) (DeRouen Jr et al., 2010). Another type of agreement addresses disputes around the control of territory. A third type of agreement tries to address conflicts that arose from a lack of justice and/or political rights faced by some groups in a society.

Comprehensive peace agreements are those aimed at addressing the totality of issues that led to conflict. Such agreements may seek to alleviate injustice and disenfranchisement by developing policies to promote political or economic inclusion or to offer political reforms that provide for government representation of disaffected groups. These types of agreements generally provide for legal protections of the parties involved. Such agreements are assumed to be more likely to lead to lasting peace than those that address individual issues in an ad hoc manner. Based on the arguments thus far, we hypothesize that:

Hypothesis 1: A comprehensive peace agreement positively moderates the negative effect of intrastate conflict on new MNE foreign investments.

Firm-specific non-market capabilities

Despite their promise, managers of MNEs cannot assume that positive institutional change will necessarily happen in a conflict-affected country, or that the change will endure. For this reason, managers of MNEs often develop internal firm-specific resources and capabilities that not only enable them to manage risk (Albino-Pimentel et al., 2018; Darendeli & Hill, 2016; Doh et al., 2012; Dorobantu et al., 2017), but possibly reduce risk at its source (Oetzel & Getz, 2012). Non-market capabilities can attenuate the negative effects of political risk and enable firms (in some cases) to successfully operate in countries with weak institutions and even political violence (Albino-Pimentel et al., 2018; Bucheli & Salvaj, 2013; Holburn & Zelner, 2010). Next, we focus on two types of non-market capabilities that MNEs may deploy to mitigate host-country risk, influence-based and proactive approaches (Dorobantu et al., 2017), and discuss how they influence the relationship between positive institutional change and MNE foreign investment.

Influence-based capabilities developed in the home country

Influence-based non-market capabilities are oriented at using political influence to gain preferential treatment or firm-specific investment protections that are not available to other MNEs (Boddewyn & Brewer, 1994). Under this scenario, managers of MNEs will develop relationships with home-country politicians using lobbying, political donations, and the like, with the expectation that managers may leverage these relationships in other markets. There is a robust literature suggesting that corporate ties with key political actors in an MNE's home country can be valuable for addressing political risks in other countries (Albino-Pimentel et al., 2018; Mellahi et al., 2016; Pek et al., 2018). MNEs that have corporate political ties may enjoy strong firm-specific relationships with government officials and/or policy makers that are difficult for other companies to imitate. The inimitable nature of these ties makes them potentially valuable for protecting MNE investments when host-country risks are too great to manage alone (Albino-Pimentel et al., 2018; Doh et al., 2012; Dorobantu et al., 2017; Lawton et al., 2013; Mellahi et al., 2016).

One particular source of influence-based (non-market) capabilities for firms is political contributions to parties and politicians in the home country (Lawton et al., 2013; Mellahi et al., 2016). We have discussed the value of such non-market capabilities for firms, but it is crucial to describe the mechanism behind the relationship between political donations and the reduction of risk for MNEs in conflict-affected countries. A major reason that the top managers in an MNE may donate money to a variety of politicians is to buffer themselves against potential risks by

leveraging political support when they need it (Hillman et al., 2004; Mellahi et al., 2016). In the United States government, many agency heads and government officials are political appointees. From the Secretary of State, to the Assistant Secretary of State for the Bureau of Economic and Business Affairs, on down, representatives of the party in power often serve in visible roles as "Commercial Diplomats" who work to support U.S. business abroad. While the Office of Commercial and Business Affairs (CBA) is supposed to represent all U.S. businesses operating overseas, some administrations and administrators may be more partisan than others. As partisan politics intensifies, it is reasonable to assume that the interests of businesses that donated to the party in power might advance to the head of the queue if they require assistance in their overseas operations.

Another service of the State Department is the "Direct Line for American Business" (Direct Line for American Business, 2020). This service, which links U.S. businesses to ambassadors and economic and commercial experts "at over 260 embassies and consulates in over 190 countries," provides information on business opportunities abroad. Ambassadors and other State Department employees can offer more extensive service, advice, and political assistance on a discretionary basis. Ambassadors are all political appointees, and as such, have their own biases and political opinions that have the potential to affect whom they can help and to what degree.

We argue that firms with influence-based capabilities can leverage these advantages even in countries affected by conflict. They will receive more complete and relevant information from the home-country diplomatic services regarding which conflict-affected countries offer the best opportunities for investments. At the same time, they can count on the assistance of the home-country government's apparatus in case things go awry in a risky foreign location. This alleviates the risk of investment. These firms can potentially even receive direct assistance from home-country government officials when negotiating with host-country authorities to guarantee investment protections (Holburn & Zelner, 2010). Based on these arguments, we hypothesize that:

Hypothesis 2: The positive moderation of a comprehensive peace agreement on the effect of intrastate conflict on new MNE foreign investments is less important for MNEs with influence-based non-market capabilities in their home country than for firms that do not have such capabilities.

Environmental, social, and governance capabilities implemented in the host country

While some MNEs may choose to develop political capabilities in their home markets that can be arbitraged in other countries, there are other ways that firms can manage political risk. MNEs can also take on "social and political responsibilities that go beyond legal requirements and fill the regulatory vacuum in global governance" (Scherer & Palazzo, 2011: 899). We define such proactive (non-market) capabilities as those associated with ameliorating conditions that exacerbate risk. They do so by positively contributing to the social, environmental, and economic development in the location where an MNE operates. Such strategies are aimed at gaining legitimacy, reducing risk, mitigating institutional voids, and/or developing relationships with local stakeholders (Bucheli & Salvaj, 2013; Oetzel & Miklian, 2017).

Some MNEs have resources and capabilities around the protection of human rights (Matten & Crane, 2005) or understand why and how environmental issues can affect the broader business (Rivera, 2010). These capabilities can serve as valuable assets in challenging environments. MNEs that engage in CSR-related activities or charitable giving in institutionally weak environments may gain greater legitimacy in countries where they operate (Henisz, 2016; Hornstein & Zhao, 2018; Pek et al., 2018). This enhanced legitimacy and greater social embeddedness may minimize investment risk and help managers overcome location-specific political risks (Khanna & Palepu, 1997). For these reasons, companies tend to engage more when entering new markets with fragile institutions as a way of building support with local stakeholders (Hornstein & Zhao, 2018). When environmental, social, and corporate governance (ESG) practices are part of a MNE's core competencies and are embedded in the organization, they can enhance corporate legitimacy and possibly minimize risk for the firm and the host country in which it operates.

Some MNEs may adopt corporate social responsibility (CSR) strategies that are purely instrumental and that only seek to protect the firm rather than improve social or environmental conditions on the ground. MNEs that lack a deeper understanding of the complex dynamics in conflict-affected countries, that do not go beyond their basic profit generating activities, and that fail to develop ESG as

distinctive competencies, are unlikely to gain social legitimacy in conflict-affected countries or mitigate risk.

For these reasons, we expect that MNEs that lack ESG practices will be more likely to wait for positive institutional change before entering conflict-affected countries. On the other hand, MNEs that have strong ESG capabilities will be somewhat less dependent on positive external change in the operating environment, like the adoption of a peace agreement. Thus, internal firm resources and capabilities around effective governance and attention to environmental and social issues may be more valuable for considering new FDI in a conflict-affected country rather than positive external change in the institutional environment. Based on these arguments, we hypothesize that:

Hypothesis 3: The positive moderation of a comprehensive peace agreement on the effect of intrastate conflict on new MNE foreign investments is less important for MNEs with strong environmental, social, and governance capabilities, than it is for firms that do not have such capabilities.

DATA AND METHODS

We tested our hypotheses on a sample of FDI investments made by listed firms headquartered in the U.S. from 2003 to 2011. The timeframe of our analysis is limited by the availability of data on greenfield investments. Our analysis uses data from 2005 to 2011. We use foreign investments data from 2003 and 2004 to create measures of experience based on firms' prior investments. These measures temporally precede the FDI location variable, alleviating potential endogeneity concerns between firm experience and investment location choices. We focus on foreign greenfield investments which, contrary to other forms of investment, reveal information about location choice that is less limited by the existence of potential acquisition targets (Alcácer & Chung, 2007; Shaver, 1998).

Our data source for FDIs is the Financial Times *fDiMarkets* database, which tracks greenfield investments across all countries worldwide (Castellani & Lavoratori, 2020; Duanmu, 2014; Georgallis, Albino-Pimentel, & Kondratenko, 2021). Starting in 2003, *fDiMarkets* provides detailed information, gathered from multiple sources in real time, on new and expansion greenfield projects by private and public companies. The name of the investing firm and the investing firm's parent are also provided when applicable.

We matched firms from *fDiMarkets* with political donations data from the Database on Ideology, Money in Politics, and Elections (DIME) (Bonica, 2016). We used a fuzzy text algorithm to match unstandardized firm names in each dataset. We first created a subset of *fDiMarkets* data covering investments by US-based, publicly traded firms during our period of analysis. We compared the name of each US-based firm in *fDiMarkets* to the name of every firm in DIME. When names did not exactly match, we evaluated matches with high similarity scores. The matching procedure produced a matched dataset of 8230 foreign investment projects by 1531 US-based firms.

We combined the matched data with other data sources to construct our analysis dataset. In particular, to test Hypothesis 3, we use data on firm corporate social responsibility, as reflected in environmental, social and governance activities and captured by the Asset4 database. Because not all FDIs are carried out by firms included in the Asset4 data, and in order to test our hypotheses on a consistent sample of firms and investments, we limited our analysis to 349 firms for which we have ESG data.

MNEs evaluate their FDI decisions based on various country and firm characteristics, which may affect the development of non-market capabilities and the ratification of peace agreements. Thus, potential endogeneity issues exist. We explicitly lower such concerns by using Heckman's two-step sample selection approach. In the first-stage model (modeling the decision to invest in a particular country), we assume that a firm could invest in any potential host country for which we were able to obtain data in any year during our period of analysis. That is, the model includes all combinations of firm, potential host country, and year without missing data, namely, 271,022 observations. This includes 3992 observations where at least one investment is carried out in one of the 110 potential host countries in our sample. In the second-stage model (number of MNE investments), which we used to test the hypotheses, our dataset includes only those countries where a given MNE eventually makes at least one investment, thus modeling the time and level of the investment. Thus, the number of observations included in our final dataset is reduced to 14,575, including 3392

instances of at least one investment by 349 firms in one of 109 host countries included in our dataset for analysis.

Dependent Variable

Our dependent variable is *MNE new investments*, the number of investments a firm makes in a particular country in a given year. A greater number of greenfield investments is associated with higher risks and commitment to a particular host country.

Independent Variables

We measure *intrastate conflict* with a dummy variable that takes the value of 1 if a potential host country is involved in an intrastate conflict with 25 or more fatalities in the year prior to the focal investment year, a standard measure in the conflict resolution literature (Kreutz, 2010; Melander et al., 2009). We use the Uppsala Conflict Data Program (UCDP) data for this variable. Our hypotheses investigate moderators of the relationship between intrastate conflict and MNE new investments.

To test Hypotheses 1, we use an interaction of *intrastate conflict* and a variable capturing the presence of a comprehensive peace agreement in a potential host country. Our variable *peace agreement* equals 1 if a potential host country is a signatory of a peace agreement in the year prior to the focal investment year. We use UCDP data for this variable. We test the robustness of this measure in post hoc analyses by replacing it with more sophisticated indicators that assess the number and nature of the issues covered by the peace agreements present in a potential host country.

Hypotheses 2 and 3 compare the extent to which *peace agreement* moderates the negative impact of *intrastate conflict*, depending on the level of a firm's non-market capabilities, both influence-based and proactive. Intrastate conflicts have constituted the vast majority of conflicts since the end of World War II. Additionally, the quality of host-country governance plays a major role in a government's ability to credibly ratify and implement a peace agreement. By focusing on intrastate conflicts, we can control for a country's capacity and for the conflict dynamics within a country. We test these hypotheses by including interactions with measures of political and environmental, social, and governance (ESG) capabilities to our model.

To test Hypothesis 2, we create the variable *political capabilities,* a measure of influence-based non-market capabilities, using data from DIME (Bonica, 2016). We follow prior literature and use the logarithm of a firm's donations to candidates for government positions in the home country during the elections immediately preceding the focal investments (e.g., Aggarwal et al., 2012; Cooper et al., 2010). Research and anecdotal evidence show a substantial link between donations during election campaigns and firms' preferential treatment (Aggarwal et al., 2012; Boas et al., 2014; Claessens et al., 2008; Cooper et al., 2010), particularly in the U.S. context (e.g., Aggarwal et al., 2012; Cooper et al., 2010). We test the robustness of this measure by replacing it, in additional models, with a measure only considering donations to candidates that eventually won the election and obtain similar results.

To test Hypothesis 3, we use Asset4 data to create the variable *ESG capabilities* (El Ghoul et al., 2017), a measure of firm proactive non-market capabilities. We use the firm's average score across environmental, social, and governance practices to measure this variable. In robustness tests, we also evaluate the impact of each category of capabilities, namely environmental, social, or governance capabilities, and obtain results consistent with our theory.

Control Variables

We control for expected antecedents of MNE foreign investments and other factors that could influence the relationship between intrastate conflict and peace agreements and such investments. We thus include controls at various levels to minimize the impact of potential alternative explanations for our findings.

First, we control for those features of a potential host country, or its relationships with other countries, that are directly related to uncertainties stemming from conflict. The variable *interstate conflict* captures whether the potential host country was involved in violent conflict with other countries. Arguably, interstate conflict may also deter investments by foreign firms and may also be related to the emergence or strengthening of intrastate conflict. This is a dummy variable, which takes the value of 1 if the host country was involved in a conflict with other countries resulting in at least 20 fatalities, and 0 otherwise. We use data from UCDP to measure this variable. We also add a dummy variable that indicates whether the potential host country had a military head of state (*military government*) in the year preceding the focal investment. This variable captures the strength of the military, and indirectly of the conflict, in a potential host country. We use data from the World

Bank Database of Political Institutions (DPI) (Beck, Clarke, Groff, Keefer, & Walsh, 2001). In the same vein, we also create a dummy variable, *left government,* which equals to 1 if the chief executive party is a leftist party, a feature that prior research suggests is related to FDI flows (Pinto, 2013; Pinto & Pinto, 2008). We also control for the number of international non-governmental organizations (*INGOs*) that operate in a potential host country, using data from Anheier, Glasius, and Kaldor (2005).

Second, we control for other features of a host country shown in the literature to make it attractive as a location for foreign investment. We control for the size of a potential host country with a measure of *population* (in millions of inhabitants). Additionally, we control for the potential host country's wealth and level of development with a dummy variable indicating whether it is a member of the Organization for Economic Cooperation and Development (*OECD)*. We control for a potential host country's engagement in international economy with a measure of its *trade openness*, that is, the host country's total trade (imports plus exports) as a percent of the GDP. We also control for the country's *land area* with the logarithm of a potential host country's total area (in thousands of square kilometers). We use data from the World Bank's World Development Indicators to compute all these variables.

Finally, we include firm controls for firm features that could affect MNE foreign investments and risk assessment. We use the logarithm of a firm's total assets to measure the variable *firm size*. We also include measures of three types of firm market capabilities: the ratio between a firm's total R&D expenses and total sales to measure *R&D intensity,* the ratio between total advertising expenses and total sales to measure *marketing intensity,* the ratio between goodwill value and total sales to measure *firm reputation* (Oh & Oetzel, 2017). Finally, we include *firm growth rate,* a measure of percent growth in sales.

In addition, all models include industry fixed effects (at the SIC two-digit level), region fixed effects, differentiating host countries in different regions of the world, and year fixed effects, to account for potential time trends. Table 1 describes the variables included in our main regressions.

Econometric Approach

As our dependent variable is a count variable, Poisson or negative binomial models could be adequate for testing our hypotheses. Because of the overdispersion in our data, negative binomial is the most appropriate methodology. We thus used negative binomial regression models to analyze our data. As noted above, our analysis may suffer from a limitation related to self-selection. We thus implemented a Heckman's selection model (Heckman, 1979) in order to account for the self-selection issue that could affect our results.

The first-stage regression models a firm's decision to make a foreign investment using a number of controls at the firm, country (including host-country fixed effects), and intercountry level. Based on this model (see results in the online Appendix), we computed an inverse Mills ratio, which was included in all models we present in this paper. It is important to note that we tested a number of different specifications for our negative binomial models (second-stage models), including specifications that did not include the correction for self-selection, to investigate exclusion restrictions (Oh & Oetzel, 2017). Since the investments of a given firm across potential host countries may not be independent from one another, we cluster standard errors by firm.

Our modeling presents several advantages relative to conditional logit modeling, more traditionally used in location choice studies (Georgallis et al., 2021; Li et al., 2018; Nachum et al., 2008; Train, 2009). First, by using negative binomial models, we are able to take full advantage of the variance in the number of investments a firm chooses to make in a particular host country in a given year, rather than simply assessing the choice to invest. Second, by using an unconditional model, we are able to include control variables not only at the host-country level, but also firm-level controls and year effects. With a conditional logit approach, firm features that do not vary across potential locations within a given point in time can only be modeled through the fixed effects. Besides, recent research reveals that when the number of potential choices is large enough, the results should converge between conditional and unconditional nonlinear models (Greene, 2001; Holburn & Zelner, 2010; Vasudeva et al., 2018). Third, and related to the previous reason, with our approach we can control for potential self-selection in our data. Finally, our approach makes it possible for us to calculate the marginal effects based on interactions of continuous variables to test our hypotheses.

Table 1 Variable and data sources

Variable	Description	Level	Source
Number of investments	Count of the number of greenfield investments a firm makes in host country	Firm	fDiMarkets
Peace agreement	Equals to 1 if the potential host country is a signatory in a comprehensive peace agreement, otherwise 0	Host country	UCDP
Intrastate conflict	Equals 1 if potential host country involved in intrastate conflict with 25 or more fatalities in year prior to the focal investment year, otherwise 0	Host country	UCDP
Political capabilities	Logarithm of the amount (USD) of political donations made by a firm in an election immediately prior to investment	Firm	DIME
ESG capabilities	Firm overall ESG score	Firm	Asset4
Interstate conflict	Equals 1 if host country involved in conflict with other country resulting in 20 or more fatalities, otherwise 0	Country Dyad	UCDP
Military government	Equals 1 if host country head of State belong to the military, otherwise 0	Home Country	DPI
Left government	Equals 1 if host country chief executive party is leftist, otherwise 0	Home Country	DPI
INGOs	Number of international NGOs active in the host country in 2004	Host country	GCS
Population	Host country population in millions	Home Country	WDI
Trade openness	Host country trade as percent of GDP	Home Country	WDI
Land area	Country area in thousand square kilometers	Home Country	WDI
OECD membership	Equals 1 if host country is member of the OECD, otherwise 0	Home Country	OECD
Firm size	Logarithm of firm total assets	Firm	Compustat
Firm R&D intensity	Firm R&D expenses divided by firm total sales	Firm	Compustat
Firm marketing intensity	Firm advertising expenses divided by firm total sales	Firm	Compustat
Firm reputation	Firm goodwill value divided by firm total sales	Firm	Compustat
Firm growth in sales	Firm annual percent growth rate in sales	Firm	Compustat

UCDP: Uppsala Conflict Data Program.
DIME: The Database on Ideology, Money in Politics, and Elections.
DPI: Database of Political Institutions.
GCS: Global Civil Society.
WDI: World Development Indicators.
OECD: Organisation for Economic Cooperation and Development.

RESULTS

Table 2 presents descriptive statistics and pairwise correlations between the variables we use in our main models. The data seem to provide substantial variance regarding our focal variables. Indeed, 8% of the potential host countries were facing intrastate conflict and 27% were engaged in at least one peace agreement. Regarding firm non-market capabilities, firms' *political capabilities* vary from 0 to 17.51, with an average of 4.57, while their *ESG capabilities* vary from 23.8 to 294.33, with an average of 199.19. The potential host countries also vary substantially on all other features that matter for investors' choices. The correlations between the variables in our models do not raise issues about multicollinearity, being consistently below 0.4.

Table 3 presents the results of our negative binomial analyses. The coefficient of the inverse Mills ratio is negative and significant across all models in Table 3. The negative sign suggests that the coefficients of independent variables could be biased downward if we did not include the inverse Mills ratio in the model. In other words, without controlling for self-selection, our results would show that unobserved factors may explain more of the variance in FDI location than they do. Model

Table 2 Descriptive statistics and pairwise correlations

	Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
(1)	Number of investments	1.00																	
(2)	Peace agreement	0.06	1.00																
(3)	Intrastate conflict	0.03	0.32	1.00															
(4)	Political capabilities	0.05	− 0.02	− 0.01	1.00														
(5)	ESG capabilities	0.07	− 0.01	0.00	0.38	1.00													
(6)	Interstate conflict	0.01	0.22	0.54	− 0.01	0.00	1.00												
(7)	Military government	− 0.02	0.04	0.01	0.04	0.05	0.07	1.00											
(8)	Left government	0.07	0.15	0.13	− 0.02	− 0.02	0.02	− 0.09	1.00										
(9)	INGOs	0.02	0.08	− 0.13	− 0.05	− 0.09	− 0.05	− 0.13	− 0.03	1.00									
(10)	Population	0.12	0.18	0.38	− 0.05	− 0.04	0.33	0.04	0.42	− 0.08	1.00								
(11)	Trade openness	− 0.05	− 0.16	− 0.15	0.03	0.00	− 0.14	− 0.05	− 0.28	− 0.18	− 0.51	1.00							
(12)	Land area	0.07	0.03	0.20	− 0.03	− 0.01	0.18	0.04	0.35	− 0.10	0.72	− 0.73	1.00						
(13)	OECD membership	0.02	− 0.02	− 0.21	− 0.04	− 0.09	− 0.20	− 0.13	− 0.07	0.82	− 0.21	− 0.13	− 0.12	1.00					
(14)	Firm size	0.09	− 0.01	− 0.02	0.50	0.53	− 0.02	0.05	− 0.03	− 0.07	− 0.09	0.00	− 0.03	− 0.06	1.00				
(15)	Firm R&D intensity	− 0.02	0.01	0.04	0.02	0.07	0.05	0.01	− 0.02	− 0.01	− 0.01	0.05	− 0.06	− 0.01	− 0.04	1.00			
(16)	Firm marketing intensity	− 0.01	− 0.02	0.00	0.12	0.03	− 0.01	0.00	− 0.04	0.03	− 0.03	0.01	− 0.03	0.04	0.02	− 0.03	1.00		
(17)	Firm reputation	− 0.04	0.00	0.02	− 0.03	− 0.15	0.03	0.00	0.00	0.03	0.00	0.00	− 0.02	0.05	0.05	0.20	0.22	1.00	
(18)	Firm growth in sales	0.01	− 0.02	− 0.04	− 0.07	− 0.11	− 0.03	0.00	0.00	0.02	− 0.01	− 0.01	− 0.01	0.02	− 0.11	0.06	− 0.03	0.07	1.00
	Mean	0.39	0.27	0.08	4.57	199.19	0.10	0.03	0.39	3306.71	− 3.09	88.05	6.17	0.38	9.61	0.05	0.02	0.25	0.10
	Std. Dev.	0.93	0.44	0.27	5.75	74.72	0.31	0.16	0.49	2004.63	1.71	68.20	2.21	0.48	1.38	0.08	0.04	0.33	0.22
	Min	0.00	0.00	0.00	0.00	23.80	0.00	0.00	0.00	32.00	− 7.10	22.11	− 0.37	0.00	5.21	0.00	0.00	0.00	− 0.79
	Max	18.00	1.00	1.00	17.51	294.33	1.00	1.00	1.00	6755.00	0.31	441.60	9.70	1.00	13.93	1.18	0.32	3.31	3.87

N = 14,575.

Table 3 Intrastate conflict, peace agreement, and firm capabilities

		Model 1	Model 2	Model 3
Intrastate conflict × Peace agreement	H1 (+)	0.311	0.697	1.305
		(0.170)	(0.257)	(0.644)
		[0.07]	[0.01]	[0.04]
Intrastate conflict × Peace agreement × Political capabilities	H2 (−)		− 0.061	
			(0.027)	
			[0.02]	
Intrastate conflict × Peace agreement × ESG capabilities	H3 (−)			− 0.004
				(0.003)
				[0.09]
Intrastate conflict		− 0.144	− 0.574	− 1.467
		(0.125)	(0.199)	(0.490)
		[0.25]	[0.00]	[0.00]
Peace agreement		0.147	0.150	0.072
		(0.050)	(0.062)	(0.146)
		[0.00]	[0.02]	[0.62]
Political capabilities		0.005	0.003	0.005
		(0.006)	(0.006)	(0.006)
		[0.40]	[0.63]	[0.38]
ESG capabilities		0.000	0.000	− 0.000
		(0.001)	(0.001)	(0.001)
		[0.66]	[0.67]	[0.89]
Intrastate conflict × Political capabilities			0.071	
			(0.020)	
			[0.00]	
Peace agreement × Political capabilities			− 0.000	
			(0.010)	
			[0.98]	
Intrastate conflict × ESG capabilities				0.006
				(0.002)
				[0.00]
Peace agreement × ESG capabilities				0.000
				(0.001)
				[0.60]
Interstate conflict		− 0.056	− 0.056	− 0.065
		(0.089)	(0.088)	(0.090)
		[0.53]	[0.52]	[0.47]
Military government		0.160	0.149	0.146
		(0.119)	(0.120)	(0.124)
		[0.18]	[0.22]	[0.24]
Left government		0.007	0.004	0.004
		(0.049)	(0.049)	(0.049)
		[0.89]	[0.93]	[0.93]
INGOs		− 0.000	− 0.000	− 0.000
		(0.000)	(0.000)	(0.000)
		[0.00]	[0.00]	[0.00]
Population		0.070	0.069	0.067
		(0.033)	(0.033)	(0.032)
		[0.03]	[0.03]	[0.04]
Trade openness		0.000	0.000	0.000
		(0.001)	(0.001)	(0.001)
		[0.84]	[0.80]	[0.89]
Land area		− 0.011	− 0.010	− 0.011
		(0.017)	(0.017)	(0.017)
		[0.50]	[0.56]	[0.52]

Table 3 continued

	Model 1	Model 2	Model 3
OECD membership	0.312	0.311	0.302
	(0.083)	(0.083)	(0.083)
	[0.00]	[0.00]	[0.00]
Firm size	0.057	0.057	0.053
	(0.036)	(0.036)	(0.035)
	[0.11]	[0.12]	[0.13]
Firm R&D intensity	− 1.054	− 1.058	− 1.059
	(0.464)	(0.464)	(0.465)
	[0.02]	[0.02]	[0.02]
Firm marketing intensity	− 0.971	− 1.007	− 1.012
	(0.559)	(0.557)	(0.558)
	[0.08]	[0.07]	[0.07]
Firm reputation	− 0.057	− 0.052	− 0.049
	(0.095)	(0.095)	(0.094)
	[0.55]	[0.58]	[0.60]
Firm growth in sales	0.266	0.264	0.259
	(0.120)	(0.120)	(0.120)
	[0.03]	[0.03]	[0.03]
Constant	0.099	0.099	0.239
	(0.580)	(0.588)	(0.596)
	[0.86]	[0.87]	[0.69]
Inverse Mills ratio (self-selection parameter)	− 0.647	− 0.650	− 0.659
	(0.084)	(0.085)	(0.086)
	[0.00]	[0.00]	[0.00]
Industry fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Region fixed effects	Yes	Yes	Yes
Zero inflation fix	Yes	Yes	Yes
Observations	14,575	14,575	14,575
Investments	3392	3392	3392
Firms	349	349	349

Negative binomial regression. Standard errors in parentheses, *p* values in squared parentheses. The second stage of Heckman's selection model. For the first-stage results, see Table A1 in online Appendix.

1 contains the interaction between *intrastate conflict* and *peace agreement* to test H1. The model shows a negative effect (though not significant) of intrastate conflict ($\beta = -0.144$, $p = 0.25$), a positive and significant effect of peace agreement ($\beta = 0.147$, $p = 0.000$), and a positive and significant (at 10% level) effect of the interaction of these two factors ($\beta = 0.311$, $p = 0.07$) on the incidence of investments in a particular host country. This suggests that peace agreements indeed appear to mitigate the negative impact of intrastate conflicts on investor's perception of risk in potential host countries, providing support for Hypothesis 1.

Model 2 adds *political capabilities* to the interaction used in model 1 in order to test Hypothesis 2. The three-way interaction between intrastate conflict, peace agreement, and political capabilities is negative and significant ($\beta = -0.061$, $p = 0.02$). This result suggests that political capabilities indeed moderate the mitigating effect peace agreements have on intrastate conflict. Similarly, model 3 adds the three-way interaction with *ESG capabilities* to test Hypothesis 3, which also reveals a negative and significant impact on the incidence of MNE investments in a particular host country ($\beta = -0.004$, $p = 0.09$). In other words, firms with either greater political capabilities or greater ESG capabilities seem to need the guarantees reflected in peace agreements to reduce the risk of investing in conflict-affected countries less than other firms. These results are consistent with Hypotheses 2 and 3.

To further investigate the impact of non-market capabilities on MNE foreign investments, we compute the marginal effects of intrastate conflict depending on a firm's level of capabilities of either type, and on whether a peace agreement is in place in a given host country. Figure 1 illustrates the

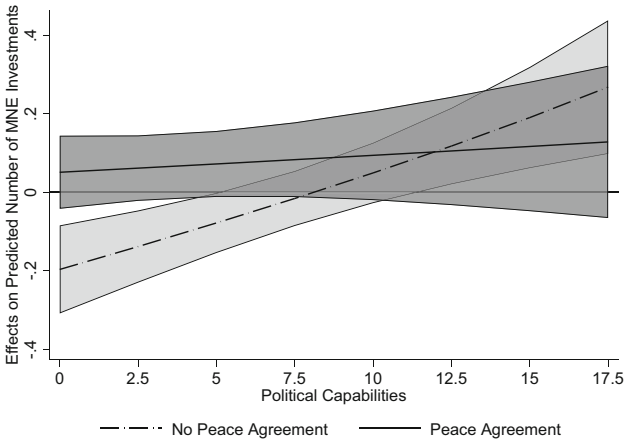


Figure 1 Marginal effect of intrastate conflict with 90% confidence intervals (political capabilities).

results regarding *political capabilities*. The results suggest that the negative effect of intrastate conflict basically affects firms with very limited political capabilities when investing in countries that did not sign a comprehensive peace agreement. Both peace agreements and political capabilities seem to mitigate such a negative effect. Indeed, the marginal effect of intrastate conflict on MNE investments is no longer significant when there is a peace agreement in place or when the MNE has a sufficiently high level of political capabilities. Figure 2 illustrates the results regarding *ESG capabilities,* revealing very similar conclusions. Again, the negative impact of intrastate conflict seems to affect only those firms with limited ESG capabilities and those planning on investing in countries without a comprehensive peace agreement. Here,

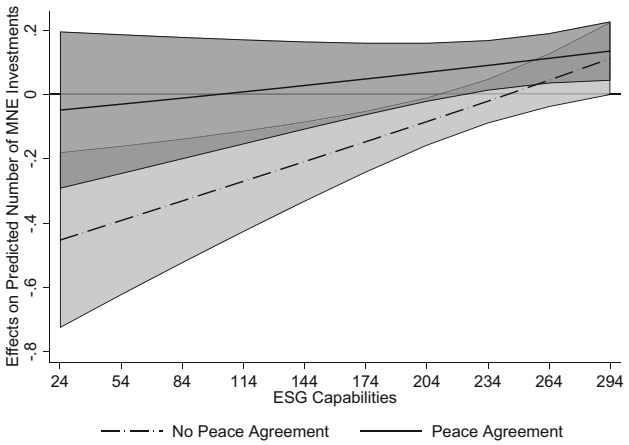


Figure 2 Marginal effect of intrastate conflict with 90% confidence intervals (ESG capabilities).

it is interesting to note that firms with high ESG capabilities become positively affected by intrastate conflict when there is a peace agreement in place. This suggests that such firms may have a competitive advantage when they deploy their ESG capabilities and, in complement with peace agreements, contribute to peace building in conflict-affected countries.

Robustness Checks

We performed a series of robustness tests to assess the consistency of our results to changes in measurements, control variables, and empirical approach. First, prior research shows that in the U.S. political system, firms hedge their donations in election campaigns by investing on all potential winners in a particular election (Aggarwal et al., 2012; Cooper et al., 2010). However, it could be argued that our theory about the impact of political capabilities requires that the firm have strong ties with the party in power. To consider this, we ran models in which we replace our measure of *political capabilities* with a measure that only includes donations to the candidates belonging to the party in power during the investment year. Our results remain robust to this change.

Second, we opted to use a general measure of firm *ESG capabilities*, based on a firm's average performance in all three areas, environment, society and governance. It could be argued that the value of these types of capabilities may vary when it comes to investing in conflict-affected countries. To account for this, we create three separate measures of firm-specific ESG capabilities: environmental capabilities, social capabilities, and governance capabilities. We then run models in which we replaced the measure of *ESG capabilities* with these specific measures one at a time. Our results are consistent across types of ESG capabilities but seem stronger, achieving higher levels of significance, for governance capabilities.

Third, we theorize about peace agreement comprehensiveness, but rely on a measure that captures the presence of a peace agreement in a potential host country for an investment. We carry out a series of models that seek to capture the idea of peace agreement comprehensiveness in more detail. Research on peace building distinguishes peace agreements depending on the types of provisions they include, such as military, control of territory, justice or political rights provisions. We use data from UCDP to classify all peace agreements in our sample according to whether or not they

include each of these four types of provisions. We then run models in which we replace our measure of peace agreement with three alternative measures: (i) whether a country has peace agreements covering at least two types of provisions, (ii) whether a country has peace agreements covering at least three types of provisions, and (iii) the count of the number of provisions covered by the peace agreements to which a country is a signatory. Our results are robust to using these alternative measures, suggesting that our main measure accurately captures the construct of positive institutional change.

Fourth, related to our previous point, rather than peace agreement comprehensiveness, it could be argued that particular dimensions of a peace agreement are more or less meaningful for MNE investment decisions. To consider this, we also performed analyses in which we focus on peace agreements depending on territorial, military, political, or justice issues. We find that our results for H1 are consistent across types of peace agreements, but weak when focusing on political and justice peace agreements. More importantly, we find some interesting nuance regarding the moderating effect of political and ESG capabilities. The impact of ESG capabilities is consistent across types of peace agreements, though it is not significant for peace agreements focused on territorial or justice issues. Political capabilities seem to behave consistently with our main models only when peace agreements include provisions related to military issues, but is not significant for other types of peace agreements. These results suggest that the moderating effect of political capabilities is particularly salient when considering peace agreements that include military-related provisions.

Fifth, though we account for the effect of a potential host country's institutional environment with several control variables (either in the main model or in the first-stage model), it could be argued that a firm's decision to invest in conflict-affected countries may be contingent on that firm's ability to handle corruption (Cuervo-Cazurra, 2006; Cuervo-Cazurra & Genc, 2008). We consider this possibility by testing the sensitivity of our models to the inclusion of an additional control that captures such firm's ability. Specifically, we include a measure that captures a firm's experience investing in countries with varying levels of corruption, giving weights to each prior investment of a firm according to the host country's level of corruption. Adding this control variable does not affect our findings.

Sixth, we test our models excluding the correction for self-selection captured by the inverse Mills ratio computed from the first-stage model. Our results, after excluding the inverse Mills ratio, are qualitatively similar to our main results but reveal a less consistent pattern of significance. This, and the significance of the inverse Mills ratio in our main analysis, suggests that controlling for self-selection is important in our empirical analysis.

Finally, some could argue that a more complete assessment of MNE investment choices should include any countries where the firm could invest, rather than only those where the firm invests at some point during our period of analysis. In other words, while we chose to rely on a more streamlined and accurate set of choices of countries where a given MNE could choose to invest, it could be argued that our dataset for analysis should include all firm–host country–year combinations, even those based on host countries where MNEs never invest. Doing so would result in a dataset with 237,105 observations (while conserving the same number of investments and firms as in our main analysis), including a large frequency of zero counts. Because these cases of zero investments can be concentrated in certain regions and time periods, we relied on a zero-inflated negative binomial model to analyze these data (Ridout et al., 2001), using measures of host country GDP and geographic distance from the home country as estimates for the zero vector. This analysis produces results entirely consistent with our main findings.

DISCUSSION

This study examined the relationship between positive institutional changes associated with intrastate conflict and MNE investment decisions. Prior work found that conflict deters market entry (e.g., Dai et al., 2013, 2017; Liu & Li, 2020; Oh & Oetzel, 2017; Skovoroda et al., 2019; Witte et al., 2017), yet this study finds that some MNEs make new investments in countries experiencing conflict. The crucial difference might relate to how firms evaluate FDI risk relative to whether conflict is new, ongoing, or ending. Prior FDI location choice research tends to examine new or ongoing conflict (Dai et al., 2013, 2017; Oh & Oetzel, 2017). This study examines the end of conflict and finds evidence that firms make new FDI investments in association with the ratification of peace

agreements between actors involved in intrastate conflict. Additionally, this study shows evidence of how firm-level heterogeneity in terms of political and ESG capabilities is associated with different sensitivity to the roles of peace agreements in choosing an investment location.

An important insight associated with firms using their own capabilities to invest in conflict-affected countries is that, depending on the type of capabilities, firms' actions may also have heterogeneous impacts on peacebuilding. For example, firms relying on their political capabilities to invest in conflict-affected locations may be driven by short-term, self-interested goals, which could potentially enhance conflict in the host country. Indeed, firms with strong political capabilities seem to be unaffected by peace agreements (the impact of conflict on their investments is not significant when there is a peace agreement). Without the peace prospects associated with a peace agreement, these firms are positively affected by conflict, i.e., they are attracted to conflict-affected countries, keeping other factors constant. This suggests that political capabilities can become a competitive advantage in countries affected by conflict and without government-led mechanisms to mitigate risk. It is thus necessary to point out that political advantages in the home country could be used by MNEs as a detriment to peacebuilding in the host country.

MNE ESG capabilities on the other hand are associated with a positive impact on reducing conflict. Firms relying on their own ESG capabilities could value transferring initiatives aimed at addressing stakeholder interests in the host country and working on peacebuilding efforts, much in the same way as examples we discuss further down in this section. This suggests a complementary relationship between ESG capabilities and support of peacebuilding. Thus, our results suggest that who benefits from peace versus conflict in foreign investments may depend substantially on the type of capability firms rely on to invest in conflict-affected countries.

Importance of Studying Positive Institutional Change

Understanding MNE investment choices requires considering both positive and negative institutional change. A country descending into conflict experiences a negative institutional change. Studies have examined how investment choices follow the outbreak of conflict (Biglaiser & DeRouen Jr, 2007). However, our understanding of how positive institutional change relates to MNE investment choice is limited. Implementing a peace agreement aimed at ending conflict is a positive institutional change. Early studies have focused on some positive institutional changes such as signing a monetary union, regional trade agreements and BITs, whose relationships with MNE investment choice are rather obvious (Albino-Pimentel et al., 2018; Fratianni & Oh, 2009; Hillemann et al., 2019). However, because the major purpose of peace agreements is to end conflicts, its impact on MNE investment choice can be more complicated. Our findings show that bringing positive institutional changes through peace agreements provides better investment environments overall, but such changes may adversely affect MNEs who developed some types of non-market capabilities. These MNEs, particularly those with strong political capabilities in the home country, may need to redistribute their resources from non-market capabilities to other types of capabilities to compete in newer environments. This study thus adds to our understanding of how positive institutional changes like peace agreements, and the cessation of conflict, relate to MNE investment location choices, thus contributing to the MNE literature inspired by new trade theories (e.g., Beugelsdijk et al., 2010; Dunning, 2006; Ethier, 1998).

Our results show that peace agreements and the associated positive institutional change in the host country are valuable for attracting MNE FDI, with the proviso that the host-country government is supportive of the peace agreement. The example of the peace process in Northern Ireland discussed earlier exemplifies how strong government support for peace is essential for successful ratification and implementation of a peace agreement. The case of Colombia also illustrates how wavering government support for a peace agreement can undermine the prospects for peace. Since a peace agreement was ratified with the Revolutionary Armed Forces of Colombia-People's Army (FARC-EP) in 2016, after 50 years of violent conflict, key portions of the agreement have started to unravel. While there are multiple parties to blame, the current government led by President Iván Duque is attempting to back out of key provisions that were "painstakingly negotiated" over years before the agreement was signed (Binningsbø, Dahl, Nygård, Steele, & Weintraub, 2019). While President Juan Manuel Santos, who signed the agreement, was enthusiastically supportive of it, the current administration is reluctantly overseeing the implementation of the

agreement. While time will tell if this agreement holds, it is clear that central government support is the linchpin for the ultimate success or failure of the agreement.

MNE Capabilities to Manage Conflict

Political capabilities

Our theorizing and findings suggest that, in the absence of a peace agreement, MNEs can engage in institutional arbitrage by leveraging political capabilities developed in their home market. Building political relationships, therefore, may appeal to MNEs because they provide a competitive advantage over firms without the same relationships. Prior research has examined firms using relationships with political elites to reduce investment risk in the contexts of bilateral investment treaties, economic dependence, and political affinity (Albino-Pimentel et al., 2018; Li et al., 2018). The main argument is that political capabilities enable the MNE to convince its home-country government to protect its investments in new countries (Albino-Pimentel et al., 2018; Holburn & Zelner, 2010). Accordingly, our arguments and findings indicate that MNEs from the United States that have political ties to the U.S. government might get preferential protection.

Exxon Mobil provides an example of the type of advantages firms with political relationships to a government can derive for operations in other countries, notably conflict-affected countries (Coll, 2012; Kelley, 2012). Exxon's lobbying office in the United States capital of Washington, D.C. promotes its interests with the U.S. government (Hochschild, 2012). Exxon's chairman Lee Raymond formed relationships with U.S. political actors like Vice-president Dick Cheney. At the same time, the U.S. government allowed Exxon to play a role in conflicts independent of U.S. government policy, ostensibly to protect Exxon's capital investments. Exxon deployed a paramilitary force of more than 2000 security staff around its facilities in Chad, supplied the Nigerian military and police with boats and other material around its facilities in the war-torn Niger Delta, and funded the Indonesian military's counterinsurgency forces, even as the U.S. government cut off military funding in response to reported atrocities (Coll, 2012). Consistent with the example of Exxon and prior research in this area more generally, our findings suggest that, at least in some cases, the U.S. government continues to deploy its foreign policy power to protect the overseas investments of its firms in much the same way as it used to do in the early 20th century in Central America and the Caribbean (Maurer, 2013).

In addition to getting home countries to intervene and protect MNE investments, how else might MNE political capabilities reduce new investment risk in conflict-affected countries? One mechanism, in line with our findings, might be that relationships with political elites provide the firm with valuable information about host countries, specifically political conditions, local resource availability, and how to navigate the institutional environment (Bonardi & Vanden Bergh, 2015). Firms could combine such information with environmental, social, and governance (ESG) capabilities to reduce investment risk. MNEs that utilize these types of capabilities will likely focus more on building local legitimacy through ESG-related contributions to the host-country institutional environment.

However, political capabilities may not always be useful in conflict-affected countries, especially when other elements of the institutional environment address the conflict. If a conflict-affected country institutes a peace agreement, political capabilities might not be needed to reduce investment risk. If a peace agreement changes the host-country institutional environment by ending a conflict, market competitiveness rather than non-market political capabilities might become more important determinants of both investment location choice and the investment risk associated with potential host countries.

Overall, political capabilities may be beneficial to an MNE but ultimately destructive to the host country, as the example of Exxon illustrates. Healthy economies need mutually beneficial investments. When MNEs leverage political power from home and try to wield it in other countries, the aim is not for mutual gain. From the host country's perspective, strengthening institutions and resolving internal conflict is more likely to attract the type of FDI that will have a positive economic impact on the country. Our results indicate that peace agreements may help mitigate the advantage firms with political capabilities enjoy when investing in conflict-affected countries, thus contributing toward leveling the playing field for all firms. Peace agreements may also help host countries to avoid the potentially negative impact that politically connected firms' investments could have for peacebuilding. Ultimately, our findings

should further underscore the importance of peace for conflict-affected countries. In the absence of peace, there is a risk of a race to the bottom as companies with political leverage in their home countries may use that power to gain advantages abroad that can undermine peace and stability in host countries.

Environmental, social, and governance capabilities

Another firm-specific capability that can be valuable in conflict-affected countries is ESG capabilities. Such capabilities can be leveraged to transfer activities focused on stakeholders to the host country, helping to build peace. Coca-Cola FEMSA in Colombia, a Mexican MNE long known for its strong ESG performance, is an illustrative example. Around the end of 2007, Coca-Cola FEMSA became the first private company to work with the government on furthering the peace process (Gonzalez, Layrisse, & Lozano, 2012). Solely getting involved in the peace process sent a powerful signal to other businesses and social actors in the country that it was possible to overcome the fear of involvement and to contribute to the peacebuilding process. As part of their involvement, Coca-Cola FEMSA made a major impact through its efforts to reintegrate former combatants into society using job training and helping start new businesses (Gonzalez et al., 2012).

Other researchers have documented similar initiatives in other parts of the world. In many cases, companies engage through multi-sector partnerships (Kolk & Lenfant, 2015). Our finding that firms with high ESG capabilities may seek to invest in conflict-affected countries when a peace agreement is in place contributes to the literature on business involvement in peacebuilding. This finding indeed reveals that firms with a high level of ESG capabilities seem better equipped to invest in conflict-affected countries and to contribute to peacebuilding by collaborating with governments.

Yet another example is the case of Bombardier in Northern Ireland (Andersson, Evers, & Sjöstedt, 2011). Canada's Bombardier is one of the largest aircraft manufacturers in the world. Through its commitments to several ESG engagements, such as the United Nations Sustainable Development Goals, and active stakeholder management, the company has received many accolades, including being one of the 2020 Global 100 Most Sustainable Companies in the World and 2020 Best 50 Corporate Citizens in Canada (Bombardier, 2021). These capabilities to deal with societal issues appear to be part of the reasons why Bombardier has taken a prominent role in conflict-affected Northern Ireland, being today responsible for a substantial portion of economic production, exports, and employment in that region. Bombardier was able to transfer its ESG capabilities to build competitive advantage even in the difficult environment of Northern Ireland. Indeed, besides its contributions to the region through salaries, it also invests around 2% of its profits in charity (Andersson et al., 2011), with activities in several areas including education programs and energy conservation. It is worth noting some activities specific to the conflict in Northern Ireland: for example, the company's labor practices go beyond the local law and encourage Catholic applicants, a largely underrepresented group (Andersson et al., 2011; Haidvogl, 2010). This capacity to use ESG capabilities developed in the home country to build competitive advantage seem to have helped Bombardier develop a stable position in Northern Ireland. Bombardier was able to achieve a competitive advantage in Northern Ireland, despite the conflict, and to contribute toward peace building in the country (Andersson et al., 2011).

Limitations and Future Directions

Our study has several limitations, which indicate areas where future research could make contributions. First, we focus on comprehensive peace agreements. However, peace agreements differ in many ways, including the types of conflict they aim to address, e.g., territorial disputes, political alienation of certain groups, etc. We attempted to account for this type of peace agreement heterogeneity in our robustness analyses, but future research could provide more detailed theorizing and analysis regarding other features of peace agreements that we were not able to consider in this study.

Second, we focused our analysis on political capabilities created in a firm's home country. Future research should also investigate the impact of firms' political engagement in the host country, which could operate as a substitute for the capabilities we examine in this study. Additionally, the relationships between the firm's home country and the focal host country may be relevant as an enabler of the transfer of home country-based political capabilities. Future research could also investigate the mechanisms underlying political and ESG capabilities and their employment by firms when investing internationally.

In addition, one could argue that our results suggest that MNEs could misuse their political capabilities by pursuing their home governments' political agendas in foreign locations, thus directly intervening in the market-based economic system. A number of current debates, such as China's Belt and Road Initiative and the U.S.' America First doctrine under former president Donald Trump, generated concerns about neo-imperialism, competitive capitalism, and the monopolization of capital, all issues discussed in a classic work with a Marxist root (Baran & Sweezy, 1966). In our paper, we focus on MNEs' political capabilities as serving a competency-enhancing or risk-reducing purpose. While it was beyond the scope of this study, we thus consider that a deeper examination of when and how firms can use their political capabilities to help governments pursue their own political agendas would be a very interesting topic for future research.

Lastly, our analysis focuses on FDIs of U.S. MNEs between 2005 and 2011. The political, economic, and armed powers of the US may enable their MNEs to use their home-based political capabilities abroad, and thus the results could be different for MNEs from countries whose geopolitical interests are different or whose powers are low. For example, many of the largest investors from China are state-owned MNEs whose investments could reflect the diplomatic interests and power of the Chinese government (see Duanmu, 2014; Li et al., 2018). One could thus suggest that Chinese MNEs do not need to have political capabilities or ESG capabilities to overcome risks related to intrastate conflict since the Chinese government will back up investments managed by its state-owned enterprises. MNEs from smaller countries may also face different issues. In fact, in 2021, Iranian armed forces hijacked a South Korean tanker ship in the Persian Gulf because South Korea had frozen $7 billion of Iranian funds under American economic sanctions (BBC News, 2021; McCurry, 2021). This could suggest that, rather than targeting U.S. firms directly, Iran chose to indirectly target a South Korean company. Thus, particularly for MNEs from certain less geopolitically powerful countries, political or ESG capabilities need to be investigated in combination with the power of the home country. Finally, the value of home-based political capabilities abroad can be changed over time as the economic and political powers of the home-country change. Future research needs to use MNEs from multiple countries over a longer time period.

CONCLUSION

There has been a substantial amount of research on how host country risk, particularly violent conflict risk, may affect FDI. Yet, how managers of MNEs respond to positive institutional changes in challenging markets is relatively less understood. To address this gap in the literature, we drew on the IPE literature to examine whether and how peace agreements can serve as a mechanism to promote positive institutional change in conflict-affected countries and possibly attract higher levels of FDI. We then integrated this literature with the research on MNE firm-specific capabilities, particularly non-market capabilities, for managing risk in conflict-affected countries to examine the relative importance of positive institutional change versus firm-specific capabilities as a mechanism to reduce risk in conflict-affected countries. Our theory and findings advance our understanding of why and how certain firms may thrive in challenging environments, especially those under violent conflict, and reveal the differential impact of positive institutional change.

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NOTES

[1]We included measures of political capabilities, ESG capabilities, interstate conflict, military government, autocratic government, checks and balances, left government, INGOs, population, GDP,

GDP per capita, trade openness, land area, OECD membership, US military troops deployment, bilateral investment treaty, trade agreement, US sanctions, experience in host country, firm size, firm R&D intensity, firm marketing intensity, firm reputation, firm annual growth rate, year fixed effects, host-country fixed effects and industry fixed effects.

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