THE ROLE OF MULTINATIONAL ENTERPRISES IN RESPONDING TO VIOLENT CONFLICT: A CONCEPTUAL MODEL AND FRAMEWORK FOR RESEARCH

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Abstract

The purpose of this paper is to examine how multinational enterprises and their subsidiaries (MNE) can respond to violent conflict in the host countries where they operate and what types of strategic inventions are most appropriate. Drawing on insights from the conflict resolution, corporate social responsibility, and political risk literatures, we develop a framework that provides guidance to MNEs confronting violent conflict with respect to existing projects or facilities. This is the first paper, to our knowledge, to not only demonstrate that private sector firms may have a role to play in resolving violent conflicts and to identify strategic interventions, but also to specify the conditions under which different interventions are appropriate.

INTRODUCTION

Situations of violent conflict are among the most difficult for people and societies. Social change directed at reducing or ending violent conflict is thus among the most significant activities in which societal actors can engage. We define violent conflict as organized physical force, resulting from grievances between two or more parties and leading to injury or death to persons or damage or destruction to property. The role of business in responding to violent conflict has largely been overlooked in the management and international business research. This is surprising, considering the threat violence poses to firm success. For example, in March 2003, Chevron's Nigeria unit shut down all its operations in the Western Niger Delta in response to ongoing violence in the area, which threatened the safety of Chevron employees. The operations had produced 440,000 barrels of oil and 285 million cubic of feet of natural gas per day. Although operations were fully restarted in February 2004, the 11-month closure was costly.[1]

The objective of this paper is to develop an understanding of why and how businesses can respond to situations of violent conflict. Drawing on insights from the conflict resolution, corporate social responsibility, and political risk literatures, we develop a framework that provides guidance to multinational enterprises (MNEs) confronting violent conflict with respect to existing projects or facilities. We explicitly exclude from consideration firms that are contemplating new foreign investment since they would likely avoid investing until the situation improves (Nelson, 2000). In fact, the literature on political risk typically offers firms two options in the face of intractable problems such as violent conflict: avoidance or retreat. However, some firms cannot easily take either course of action. The literature provides little guidance for such firms, and that which it does provide is oriented toward protecting the firm (obviously a

[1] See http://www.chevron.com/news/press/2003/2003%2D03%2d23.asp and http://www.chevron.com/news/press/2004/2004%2D02%2D11.asp .

legitimate concern), but not toward resolving the problem. Further, the guidance has a clear zero-sum orientation (Rapoport, 1974). Yet Galtung (1996) and others have suggested that an approach to situations of impending or actual violence which focuses on finding win-win outcomes can produce situations of positive peace – where violence is not merely avoided but the causes of violence are actually mitigated.

LITERATURE REVIEW

Conflict Resolution

While conflict is considered a necessary and inevitable part of social change (Miall, Ramsbotham & Woodhouse, 1999), violence in response to conflict results in destructive outcomes. Thus, it is important to understand the sources or causes of violent conflict and to determine methods by which such conflicts can be prevented, managed and ultimately resolved without the use of destructive force (Miall, et al, 1999). This paper is concerned exclusively with initiatives that deal with conflict of a violent nature in an intrastate or international context.

Ninety percent of current conflicts are intrastate, and 90 percent of causalities are non-combatants (Paris, 2004). Many recent conflicts are attributed to a variety of systemic trends such as economic stagnation (Stewart, 2002), unequal distributions of wealth or economic power (Rogers & Ramsbotham, 1999), and governmental corruption (Fort & Schipani, 2004). Deep-rooted or protracted social conflicts (Azar & Burton, 1986) (i.e. Palestine, Kashmir), characterized by intransigent actors with grievances based in ethnicity (Crocker, 1999), identity (Rothman, 1997), culture (LaBaron, 2003), or other non-negotiable issues (Burton, 1990) also cause violent conflict. Countries experiencing these difficulties also tend to have governments with questionable legitimacy that are unable or unwilling to provide for the basic security of and services to a large portion of the population and that do not exert effective control over their own territories. Thus, these countries are known as fragile states (USAID, 2005). Critics of business assert that typical MNE practices in fragile states create or contribute to the economic, social or political conditions that foster violence. Even though MNEs' contributory role tends to stem from negligence rather than intention (Korten, 1995; Schwartz & Gibb, 1999), Getz and Ladek (2005) have shown that in some cases business has a moral obligation to respond to violent conflict.

Methods to resolve conflict range along a continuum from the use of force to the use of cooperation (Fisher, 1996). Historically, disputes between groups were decided by military might, but as weapons became increasingly powerful the need for other means to resolve conflict became apparent. Cooperative efforts to resolve violent conflict without war seek to achieve positive peace (Galtung, 1996). Negative peace is measured by the absence of violence, while positive peace seeks the cessation of structural and cultural violence (Galtung, 1996).

The most common method of conflict resolution is negotiation among official actors representing parties to the conflict. Traditionally, negotiation focused on zero-sum outcomes, but today efforts are made to achieve mutual gains (Fisher & Ury, 1991). Also, while traditional methods are reactive, newer methods emphasize prevention (Wenger & Möckli, 2003). Multi-actor conflict resolution methodologies are particularly promising as a way to achieve positive-sum outcomes in the prevention or resolution of intra- or international disputes. These methodologies, known as Track Two (Montville, 1992) or Multi-Track Diplomacy (Diamond & McDonald, 1996), encourage and facilitate the development of positive, durable, formal and informal relationships between non-official actors from business, civic, religious, cultural, and other sectors. By engaging a broad range of groups and individuals, usually led by recognized social leaders, these relationships provide official actors with the political space and flexibility necessary to take steps towards resolving their conflict. Within all of these linkages, networks, and interdependencies, in which business might be key, true conflict transformation becomes possible.

Corporate Social Responsibility

The basic idea of corporate social responsibility (CSR) is that business decisions affect societal stakeholders and business is responsible for those effects (e.g., Swanson, 1995; Wood, 1991). Although economic and legal responsibilities are critical (e.g., Carroll, 1979), a central focus of the CSR literature has been the discretionary activities undertaken by business in response to ethical or stakeholder concerns (e.g., McWilliams & Siegel, 2001).

Businesses explain their decisions to engage in CSR activities in a number of ways. That there may be an ethical obligation to do so is a view of scholars (Carroll, 1979; 1995; Windsor, 2001), business executives (Moir, 2001) and business critics (Korten, 1995). The complex and continuous interaction of business with society leads directly to obligations for a firm if it has caused social problems or if social problems are related to its operations (Preston & Post, 1975). However, the boundaries of ethical obligation may not be easily discerned. Certainly, many would argue that certain intractable problems are outside the scope of business's legitimate responsibility (e.g., Friedman, 1962; Preston & Post, 1975), and that violent conflict is among such problems. However, Getz and Ladek (2005) present the case for a generalized ethical obligation for business response to violent conflict: When business activities have contributed to violence or business has benefited from the conditions that contribute to violence, there exists a legitimate rationale for engagement. When this rationale exists and business has sufficient financial, technical, and human capacity to engage, there exists a moral obligation to respond.

Even in the absence of ethical obligations, the voluntary assumption of CSR activities may be in the firm's own interest (McWilliams & Siegel, 2001). This enlightened self-interest has positive and negative components. CSR activities may lead to direct benefits, such as better employee recruitment and retention (Turban & Greening, 1997) or increased sales (Mohr, Webb & Harris, 2001) or may help firms avoid risks (Ortlizky & Benjamin, 2001) by increasing trust, support, and legitimacy with various stakeholders (Moir, 2001). Further, the voluntary assumption of CSR activities can be defended against those who claim that the only purpose of business is to maximize shareholder value (Friedman, 1970). As Phillips (2003) explains, it is morally appropriate for firms to respond to the interests of such stakeholders as activists and the media (derivatively legitimate stakeholders) because they may affect those stakeholders to whom firms have clear ethical obligations (normatively legitimate stakeholders).

As noted below, situations of violent conflict create risk for firms, and many firms respond by exiting the country for safer locations. However, voluntary engagement in conflict-reduction activities could lead to competitive advantages provided that the firm orients its activities toward primary stakeholders. Such engagement may, for example, reduce employee turnover rates, help avoid loss of assets, or improve relations with the community. Further, the firm's engagement may help it avoid high-profile encounters with critics or, even more positively, help it establish more cordial relationships with them. A firm that voluntarily responds to violent conflict may establish a foothold that strengthens firm legitimacy and ultimately leads to a long-term competitive advantage in the host country. When the situation improves, the firm that engaged in conflict resolution may have advantages stemming from good relations with local stakeholders and activists.

Political Risk

As noted above, firms may decide to engage in violent conflict resolution because they accept an ethical or social obligation to do so. Another important business motivator, however, is the MNE's need to reduce its exposure to political risk. Violent conflict, one type of political risk, can pose a serious threat to firm profitability and even survival (Howell, 1998; Kobrin, 1978; Wells, 1998a; 1998b) and business disruptions, property damage, and physical threats to personnel can create major complications for both day-to-day business operations and the formulation of long-term strategic planning. Managers seeking to minimize the political risks associated with violent conflict, and to formulate strategies for managing these risks on an ongoing basis, find little practical help in the extant literature on political risk because most of the research has focused on the pre-investment stage of FDI.

The emphasis on managing pre-investment risk is troubling for two reasons. First, the econometric models used by risk ratings and assessment agencies to predict violent conflicts (and other forms of political risk events) before they occur have not been effective (Cosset and Roy, 1991; Oetzel, Bettis and Zenner, 2001). Second, most foreign direct investments (FDI), particularly in manufacturing, infrastructure, or extractive industries, tend to be medium or long-term in nature with at least three- to five-year time horizons and some as long as thirty years or more. Given the long-term nature of most investments and the fact that ratings agencies are unable to predict risk events, MNEs need strategies for managing risk on an ongoing basis.

One of the few perspectives aimed at managing political risk after a firm's FDI is established is bargaining power theory. Bargaining power theorists have offered important insights into the changing nature of firm risk and relative bargaining power both before and after a FDI has been made (Kindleberger, 1969; Penrose, 1959; Vernon, 1971; Fagre & Wells, 1982). Although the focus of bargaining power theory is on the MNE's ability to influence the terms of investment pre- and post-FDI, the theory also has strong implications for a firm's ability to engage in conflict resolution. An MNE's relative bargaining power affects its ability to influence the various stakeholders related to the conflict in question and therefore its willingness to intervene. Factors affecting bargaining power include: (1) the perceived legitimacy of the MNE and its subsidiary in the host country (Kostova and Zaheer, 1999); (2) MNE and subsidiary size (Kindleberger, 1969; Vernon, 1971; Fagre & Wells, 1982); and (3) the firm's experience, (both in the host country and in relation to the specific issues generating conflict) (Holburn, 2001; Eden and Miller, 2004; Zaheer, 1995; Zaheer and Mosakowski, 1997).

One weakness of the bargaining power approach is its tendency to conceptualize the MNE-host country relationship as adversarial, neglecting the potential for MNE-host country cooperation. In order to recognize and take advantage of cooperative opportunities, a shift in thinking is necessary to reframe how we consider political risk management. Rather than remaining a prediction oriented approach used primarily for site selection purposes, political risk management should be part of the firm's integrated corporate strategy (Boddewyn and Brewer, 1994; Oetzel, 2005). MNEs that recognize the opportunity to not only reduce operating risk but increase social and economic welfare for host country residents may gain a sustainable long-term competitive advantage. Developing a strategy for conflict resolution may be one step toward this end.

FRAMEWORK

The activities associated with responding to violent conflict traditionally rests with government (Bennett, 2002). However, since other actors have not satisfactorily responded to the problem of violent conflict, there is room in the process for business (Wenger & Möckli, 2003). Acting unilaterally or in collaboration with others, there are many potential opportunities for business to contribute constructively to conflict resolution initiatives or to try proactively to resolve issues underlying conflicts. Since it is difficult to generalize across conflicts, generic recommendations for action are inappropriate (Nelson, 2000). Given that, we develop a typology of intervention strategies from which a firm might build a portfolio of potential interventions. Then we present propositions, based on established understandings of responses to political risk, showing the conditions under which different types of interventions are most likely to be effective.

Dependent Variable: A Typology of Strategic Interventions

The prevailing typology in the conflict resolution literature describes the actors engaged in conflict resolution activities as working along multiple parallel tracks, and suggests that the interventions available to each are mutually exclusive (see e.g., Miall, et.al., 1999). While this typology is very important in having opened the possibility that conflict need not be addressed only by diplomats, it is limited in helping understand the rich array of possible interventions. Here, we present a typology that embraces these possibilities and will be able to accommodate further evolution in conflict resolution practices. Given the very broad the range of conflict resolution activities and firms' limited resources and capabilities, firms must decide whether to carry out the activity alone or in collaboration with other actors, as well as whether to focus their energy directly and explicitly on resolving the conflict or to undertake activities that only indirectly address the problem. These are the dimensions of our typology (see Figure 1).

Figure 1 about here

As Mitnick (1987) describes, a good typology must be well defined (with natural and essential dimensions) and must be useful (for theory and practice). The dimensions of our typology are derived from common themes in extant literature, reports, and critiques on conflict resolution (e.g., Bennett 2002; Berman, 2000; Campbell 2002; International Alert, 2005; Switzer & Ward, 2004). Both dimensions have evolved over time as practitioners and theorists have adapted to changing patterns of conflict. Further, as we shall demonstrate, the typology is useful both for theory and for practice. Although the typology has utility for the full range of actors that might engage in conflict resolution activities, we describe it with specific reference to firm activities.

Our horizontal dimension describes the degree of independence with which a firm takes action. Firms may address situations of violence unilaterally or in collaboration with other actors. A collaborative arrangement is one in which two or more organizations combine a portion of their intellectual, technical, and/or financial resources to achieve a strategic goal (Gray, 1989). An intervention is *not* considered collaborative if there are simply parallel activities by more than one actor. Rather, key determinants of whether an intervention is collaborative include whether there is joint planning or an exchange of knowledge between actors. Collaboration can be manifest in varying degrees (e.g., joint ventures, informal alliances) and coalitions can be formed along different agendas (e.g., geographic proximity, industry sector, situation specific issues) and with a variety of partners (e.g., other firms, NGOs, governmental agencies).

Collaborative arrangements may provide several advantages over unilateral action. Collaboration may be preferred when partners bring knowledge and skills to the effort that complement the firms' own capabilities. Local organizations may have greater expertise with the issues related to the conflict or with cultural issues of relevance. In addition, they may have valuable relationships with key stakeholders to the conflict. Partnerships also provide firms with the opportunity to share the financial cost and other risks associated with involvement in conflict resolution activities. For example, firms engaged in collaborative effects will be able to share the blame in case of failure.

There are also disadvantages to collaborative arrangements. The most important downside is the risk of choosing the wrong partners. Allied organizations may find that they are largely incompatible or do not have the same level of commitment to the conflict resolution process. The risk of incompatibility is particularly high when organizations from different sectors collaborate (Konczak, 2001). Another downside, specific to the problem of violent conflict, is that many types of interventions do not lend themselves to collaborative action. This is discussed below.

Historically, firms have tended to respond to social and political issues such as the environment, labor, and human rights unilaterally, with each individual firm setting its own standards or codes of conduct for operation[2] and developing its own social programs. However, as both the number of social and political issues and the number of affected firms have increased, the idea of business as a social actor has gained traction (Smith & Feldman, 2003). One way firms have responded is by seeking ways to collaborate, both within the business community and with non-business actors, to find effective solutions (Tennyson, 2003). Today, collaboration between private firms, government agencies, NGOs, and other organizations is becoming more commonplace (Doh & Teegen, 2003). A recent example occurred in Chad and Cameroon, where ExxonMobil, Chevron-Texaco, and Petronas collaborated with the World Bank, International Finance Corporation, European Investment Bank, local oil companies, and a host of local and international monitoring groups and NGOs to minimize disruptive environmental and social effects of a pipeline project.[3]

[2] Few of these codes even mention violent conflict (Switzer & Ward, 2004).
[3] See http://www.worldbank.org/afr/ccproj/

Our vertical dimension describes the directness of action relative to the particular situation of violence a firm is experiencing. Directness refers to how an action specifically addresses a particular violent conflict. Miall, et.al. (1999) describe efforts to *prevent* violence from occurring as light or deep. Light prevention is intended to keep situations with a clear capacity for violence from becoming violent, whereas deep prevention is intended to mitigate root causes so that a situation is less war-prone. Similarly, conflict resolution activities can directly address the conflict or can indirectly address underlying causes or adverse effects of violence. In some instances firms may be effective in reducing conflict by directly participating in conflict resolution initiatives, such as negotiation or mediation. In other situations, however, effectiveness may only be achieved through indirect actions focused on reducing drivers of violence or alleviating its adverse effects.

With respect to social and political issues, such as violent conflict, firms have tended to assume an apolitical stance, holding fast to the principle that their contribution as an economic actor was the best role to play (Bias & Huijser, 2005). Firms have maintained that the contribution of jobs, income, tax revenues, and so on, would indirectly contribute to the reduction of problems. More recently, however, as firms have found themselves direct targets of violent acts or activism highlighting their inaction, they have looked for ways to intervene directly, either to protect themselves or to find ways to address problems.

In summary, our typology shows that the strategic interventions available to firms can be categorized along the dimensions of unilateral/collective and direct/indirect. Some actions are better suited to particular circumstances than others. The activities listed below are illustrative and not exhaustive for each category.

Unilateral/Direct

There are a number of direct, independent actions firms might take in response to violent conflict. Some approaches are reflective of historical tactics and methods found in traditional international relations. Military or security activities and negotiation directly engage a single firm in the conflict as a participant. While firms do not engage in offensive military action, many firms do employ private military services that offer defense against violence or may act as a deterrent.[4] Negotiation may be the most appropriate response for a firm that has directly experienced violence (i.e., employee kidnapping),

A variety of third party methods are available to firms that prefer to remain a real or perceived neutral party. As described in the literature review, these include the provision of arbitration, facilitiation (Isenhart & Spangle, 2000), mediation (Kriesburg, 1998), conciliation (Agarwal, 2001), and problem solving (Azar & Burton, 1986). These interventions enable the MNE to help forge trusting relationships between disputing parties, eventually opening up political space for official diplomatic actions.

Other direct options include withholding payments that might support violence (Sharp, 1973), public condemnation of violent acts (Human Rights Watch, 2005), and providing services to government peacekeeping missions (Bennett, 2002; Gerson & Colletta, 2002).

Unilateral/Indirect

MNEs may prefer to take indirect action focused on reducing drivers of violence or alleviating its adverse effects. The simplest such intervention is to choose to continue normal operations during times of violence. By continuing to provide jobs, create wealth, develop infrastructure, and enhance systems of governance, the firm presents incentives for parties to end conflict (Fort and Schipani, 2002; Nelson, 2000). This approach is often cited as the business community's most important contribution to conflict reduction (Bias & Huijser, 2005). A

[4] See http://www.IPOAonline.org

similarly straightforward intervention is engaging in philanthropy to benefit victims of violence (Wenger & Mockli, 2003) or relief organizations (Bennett, 2002; Nelson, 2000; Davies, 2000; Khan, 2003; Schwartz and Gibb, 1999; Gerson & Colletta, 2002; Wenger & Möckli, 2003).

A number of initiatives that that firm can implement internally may indirectly address situations of violence. Independent auditing of supply chains (FAFO, 2002; Human Rights Watch 2005) may ensure that the production and delivery of inputs do not create or sustain violence. Likewise, independent certification of the firm's own products can assure that the firm's activities do not create or sustain violence. Firms can also create internal guidelines for operating in violent settings (FAFO, 2002), especially for potential use of military force (Human Rights Watch, 2005). Firms might improve employment practices to assure gender, racial, and ethnic equity (Fort, 2002; Khan, 2003; Schwartz and Gibb, 1999). Firms can also increase their capacity to deal with situations of violence (Thomson & Kanaan, 2004). For example, they can provide employee and/or contractor training to build skill sets that both help prevent actions that might spark conflict and build skills to address conflict as it unfolds (Human Rights Watch, 2005; Global Witness, 2004).

Unilateral indirect interventions can also be directed toward the government or governmental activities. For example, lobbying the government for reform or explicitly supporting the rule of law might eventually help develop a strong and healthy government (Fort, 2002; Khan, 2003; Schwartz and Gibb, 1999; Gerson and Colletta, 2002).

Collaborative/Direct

Collaborative direct interventions are much more limited than unilateral direct interventions. Options available include public condemnation of violent acts and providing services to peacekeeping missions. However, other direct options, such as negotiation, arbitration and mediation would not likely be effective if carried out collaboratively. Such approaches appear to require a clearly identifiable and trusted intermediary, a role more likely taken by an individual firm than a coalition of firms and others.

Collaborative/Indirect

Collaborative indirect interventions, too, are more limited than unilateral indirect interventions, although they too may focus on reducing the causes of conflict and alleviating the effects of violence. Unlike unilateral interventions, collaborative indirect interventions trend toward broad systemic change and may address common features of violence in more than one context. Compliance with Global Multilateral Agreements (GMA) that address issues across industries, products, or other categories is one type of collaborative indirect intervention. Some such GMAs are explicitly focused on violence, such as the original Sullivan Principles, initiated to address apartheid in South Africa, the Kimberely Process, designed to address the use of profits from diamonds to support organized violence (Kassem, 2002; Global Witness, 2004; Wameyo, 2001), and the Equator Principles, designed to guide foreign investments in conflict regions. Other GMAs address a broader set of issues consistent with sustainable business practices. If effective, widespread compliance with these GMAs could fundamentally change the way businesses decisions are made in challenging contexts. Examples include the UN Global Compact and the Global Reporting Initiative.

Both violence-oriented and broader GMAs may be related to indirect actions a firm might take unilaterally. For example, the GMAs may provide guidance for auditing supply chains or for improving employment practices. However, the involvement of the organizations that promulgate provides the MNE with the advantages linked with collaborations as well as exposing it to the associated risks.

Independent Variables and Propositions

A firm's ability to engage in different types of strategic interventions is influenced by a variety of factors. As the discussion of political risk research demonstrated, bargaining power theory is a useful tool for considering the relative negotiating strength of the MNE and host country government. Much of the research on bargaining power has tended to focus on how one party can gain an advantage over the other (Schelling, 1956), for example how firms can realize an advantage over the host country. However, some researchers have suggested that bargaining power can be used to promote alliances, foster exchange between parties, and minimize conflict (Williamson, 1983; Boddewyn and Brewer, 1994). In the same vein, we suggest that the insights of bargaining power research are helpful in understanding firm interventions in situations of violent conflict.

Using bargaining power theory as an umbrella under which to integrate insights from conflict resolution, corporate social responsibility and political risk, we suggest that there are four principle factors that are most likely to influence how the firm chooses to intervene: 1) the MNE's interorganizational environment; 2) the perceived legitimacy of the MNE and its subsidiary in the host country; 3) MNE and subsidiary size; and 4) the firm's in-country and issue related experience. The first factor influences the feasibility of unilateral versus collaborative intervention. The other three factors influence the feasibility of both unilateral versus collaborative intervention and of direct versus indirect intervention.

Interorganizational Environment

The nature and activities of groups and organizations in the MNE's environment are likely to affect whether it intervenes unilaterally or collaboratively in the resolution of violent conflict. As noted in the previous discussion, firms may prefer collaborative strategies over independent action when operating in high risk situations or when the costs of failure are high (Henisz, 2000). Despite the many benefits of partnering, it is not always easy to identify organizations with which to collaborate. Thus the availability of coalition partners, within the country or elsewhere, is important. While ideal potential partners will have an understanding of the situation in the host country and other competencies that complement the firm's own, they may be hard to identify.

> Proposition 1: Collaborative intervention in violent conflict resolution will be more feasible if potential collaborators can be identified.

Firm Legitimacy

In order for a firm to engage in direct intervention in response to violent conflict, it must be perceived by relevant stakeholders (e.g., government, belligerents, and victims) as a legitimate organization. Perceived firm legitimacy results in part from the consistency of organizational goals with societal functions (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Oliver, 1991; Scott, 1987; 2001). As Kostova and Zaheer (1999) point out, achieving organizational legitimacy is especially challenging for MNEs operating in multiple institutional contexts. Relevant stakeholders may infer the consistency of organizational and societal goals based upon the firm's own behavior, actions of the firm's home government, or certain characteristics of the firm's industry.

The MNE's own behavior affects perceived legitimacy. If the firm's actions demonstrate a clear commitment to the host country, its legitimacy in enhanced. This commitment may be demonstrated through investment in the host country. By promising to hire more workers, expand firm operations or invest in projects in the local community, the firm can demonstrate its commitment to the community and reassure important stakeholders that it does not plan to exit. With such investments, the firm increases its stake in the long-term political and economic stability of the country. Similarly, a commitment to corporate social responsibility in general, and in the host country in particular, demonstrates to stakeholders that the firm is interested in the social stability of the country.

In contrast, a firm that is seen as having a clear self-interest in one party prevailing over another will have considerably lower legitimacy, such that direct intervention may be infeasible. Relevant stakeholders may reject any direct intervention by the firm on the grounds that it is not a credible, unbiased broker. Of course this is not to suggest that a firm should be devoid of self-interest in its response to violent conflict. Rather, it suggests that the types of interventions available to the firm will be limited if it is perceived as responding merely due to its own interests.

Other factors influencing firm legitimacy are the reputation of the subsidiary's parent organization and the involvement of the home country government in the host country. A subsidiary may obtain important firm-specific advantages from the parent organization. For example, the subsidiary may be able to leverage the reputational benefits of the parent company (Rugman and Verbeke, 2001). Similarly, a subsidiary may experience positive country-of-origin effects if the firm's home country is highly regarded in the host country. Of course, these reputational and county-of-origin effects can also operate in the reverse. If the parent firm is known as a firm that consistently flouts labor and environmental laws, the subsidiary's reputation may suffer, regardless of its actions. In addition, an organization's legitimacy may be compromised by the actions of its home country government. For example, U.S. government involvement in the Colombian drug war and guerilla conflicts may lead Colombians to question the legitimacy, motivations and objectivity of U.S. firms wishing to engage in violent conflict resolution in that country.

Certain industry characteristics can also affect perceived firm legitimacy. Firms in industries characterized by large sunk costs, asset specificity, and immobility of assets, for example, necessarily make more long-term commitments to host countries than firms in other industries (Williamson, 1983). These characteristics, often seen in the infrastructure and extractive industries, create barriers to exit for the firms. In turn, these barriers increase stakeholder confidence that firms are committed to the country, thereby increasing the firm's perceived legitimacy and ability to credibly commit to negotiations (Williamson, 1983). In contrast, small service or retail establishments generally have lower sunk costs and higher mobility, making exit strategies less problematic. This, in turn, may minimize or reduce service firms' perceived legitimacy, making direct interventions much less feasible.

Other relevant industry characteristics are the importance and reputation of the industry. Investment in natural resource projects has long been among the most sensitive of all international corporate activities (Moran, 1998). Sadly, in many developing countries there is a high correlation between an abundance of natural resources and violent conflict (Sachs and Warner, 2001). This resource curse may increase the urgency of firm involvement in responding to violent conflict because of the firm's need to access natural resources in the host country, but it also has the effect of making direct intervention less feasible. One reason is that stakeholders may resent an MNE's repatriation of earnings from natural resource projects, on the grounds that the wealth generated by natural resources should be enjoyed by the country's own population (Kapelus, 2002). Another reasons is that natural resource extraction often entails significant environmental disruption, the negative effects of which are felt primarily by local stakeholders. These effects may lead to resentment of foreign MNEs, reducing the perceived legitimacy of firms in the extractive industries, making direct interventions less feasible.

A firm's legitimacy is also likely to affect the feasibility of engaging in unilateral intervention. Collaboration with well-respected organizations can enhance the legitimacy both of the firm and of the coalition as a whole (Teegen, Doh & Vachani, 2004).

Proposition 2A: Direct intervention in violent conflict resolution will be more feasible if the MNE enjoys a high degree of perceived legitimacy among relevant stakeholders.
Proposition 2Aa: Direct intervention in violent conflict resolution will be more feasible if the MNE is perceived as having a commitment to the long-term political, economic, and social stability of the host country.
Proposition 2Ab: Direct intervention in violent conflict resolution will be less feasible if the MNE appears to have a clear preference in having a certain party prevail.
Proposition 2Ac: Direct intervention in violent conflict resolution will be more feasible if the MNE has a good reputation among relevant stakeholders
Proposition 2Ad: Direct intervention in violent conflict resolution will be less feasible if the MNE's home government has engaged in actions that are perceived as illegitimate among relevant stakeholders.
Proposition 2Ae: Direct intervention in violent conflict resolution will be more feasible if the MNE is in an industry an industry characterized by large sunk costs and asset specificity.
Proposition 2Af: Direct intervention in violent conflict resolution will be less feasible if the MNE is in a sensitive industry

Proposition 2B: Collaborative intervention in violent conflict resolution will be more likely for firms that have low perceived legitimacy in the host country.

MNE and Subsidiary Size

Size is likely to affect a firm's ability to intervene directly in conflict resolution. All else being equal, larger firms have greater experience, more financial slack, and greater access to financial, human, technological and organizational resources than smaller firms (Kindleberger, 1969; Vernon, 1971; Fagre & Wells, 1982). In developing countries in particular, MNEs may also be the largest employers and contribute more than any local firm to the gross domestic product (GDP). The economic power of MNEs often translates into significant bargaining power vis-à-vis host country stakeholders (Kindleberger, 1969; Penrose, 1959; Vernon, 1971; Fagre & Wells, 1982). Since direct interventions tend to require a greater use of resources, it is reasonable to assume that such interventions will be more feasible for large firms.

While the size of the MNE as a whole is clearly important, there is growing evidence that the relative size of the subsidiary may be relevant (Birkenshaw & Morrison, 1995; Blumentritt & Nigh, 2002; Jarrillo & Martinez, 1990; Rugman & Verbeke, 2001), particularly for managing political risks such as violent conflicts (Oetzel, 2005). Regardless of the size of the parent company, if a subsidiary is small relative to the local economy, to local competitors, or to the key stakeholders in a conflict, the firm may have little influence on the belligerents. However, as noted above, relatively large subsidiaries generally have greater influence simply due to their economic importance in the local setting (Kindleberger, 1969; Oetzel, 2005) and are therefore better positioned to undertake direct intervention in situations of violent conflict.

Size is also likely to affect a firm's ability to intervene unilaterally in conflict resolution. One small firm may have little influence, but a group of small firms may be able to wield greater bargaining power. Further, collaborating enables firms to share any financial costs associated with intervention activities so that a single firm is not left at a financial disadvantage relative to non-participants.

> Proposition 3A: Direct intervention in violent conflict resolution will be more feasible if the MNE's subsidiary is large relative to other parties involved in conflict resolution.
> Proposition 3B: Collaborative intervention in violent conflict resolution will be more likely for firms that are small relative to the other parties involved in violent conflict resolution.

Firm Experience

A firm's experiences are likely to affect both its ability to intervene directly in violent conflict resolution and the feasibility of collaborative intervention. First, issue-related experience is important. The more closely the issues causing the conflict resemble issues with which the firm has dealt in other settings, the more relevant the experience. However, any experience in responding to social or political issues is potentially important because it suggests management's interest in and commitment to non-commercial activities (Black and Hartel, 2004; Trevino, et.al., 1999). Furthermore, firms with such experience are also likely to have developed a capacity for responding to social or political issues, including a specialized staff with expertise in an array of contentious issues (Trevino, et.al., 1999; Weaver, et.al., 1999). As noted above, managerial, human, and organizational resources make direct intervention in violent conflict resolution more feasible.

Second, country-specific experience, the length of time the subsidiary has operated in the host country, is also germane. The longer a firm has operated in a given location the more likely it is to have developed relationships with key stakeholders, established operational and political networks, and overcome the costs and liabilities of operating as a foreign firm (Eden and Miller, 2004; Zaheer, 1995; Zaheer and Mosakowski, 1997). Such relationships and networks may facilitate collaborative interventions and the fact that any liability of foreignness may have faded suggests that direct interventions would be feasible.

> Proposition 4Aa: Direct intervention in violent conflict resolution will be more feasible if the MNE has experience dealing with the issues similar to those causing the conflict in the host country.
> Proposition 4Ab: Direct intervention in violent conflict resolution will be more feasible if the longer the MNE's experience operating in the host country.
> Proposition 4Ba: Collaborative intervention in violent conflict resolution will be more feasible if the longer the MNE's experience operating in the host country.
> Proposition 4Bb: Collaborative intervention in violent conflict resolution will be more likely for firms that have little experience dealing with the issues at the source of the conflict in the host country.
> Proposition 4Bc: Collaborative intervention in violent conflict resolution will be more likely for firms that have little experience operating in the host country.

IMPLICATIONS AND CONCLUSION

Situations of violent conflict are among the most difficult for people and societies. Social change directed at reducing or ending violent conflict is thus one of the most significant activities in which societal actors can engage. This paper builds on insights from the literatures of conflict resolution, corporate social responsibility, and political risk, to discuss why and how businesses can respond to violent conflict.

While responding to violent conflict may not be possible or appropriate for all firms at all times, we have developed a framework that presents a typology of intervention strategies and indicates when those interventions might be appropriately applied. The typology organizes intervention strategies on two dimensions: direct/indirect and unilateral/collaborative. Several factors affect which interventions are most appropriate: 1) the MNE's interorganizational environment; 2) the perceived legitimacy of the MNE and its subsidiary in the host country; 3) MNE and subsidiary size; and 4) the firm's in-country and issue related experience. The first factor influences the feasibility of unilateral versus collaborative intervention while the other three factors influence the feasibility of both unilateral versus collaborative intervention and of direct versus indirect intervention. This framework is not a formula, but rather a tool that can help firms decide what strategies might work best based on their particular circumstances.

While this work suggests strategies that firms can follow to minimize risk, enhance long-term stability, and, more generally, reduce the occurrence of violent conflict, it is not meant to suggest that MNEs should replace governments and other official actors. Rather, business should be viewed as a valuable contributor to and currently underutilized resource in the conflict resolution process. Also, this framework and the suggested interventions are not exclusive to MNEs – both could be used by local business and MNE subsidiaries.

Despite these significant implications, there are some limitations to the present work. First, our focus has been on firms that are unable or unwilling to exit the host country. For firms with greater flexibility, exit may often be an appropriate response to violent conflict. This is particularly true because of the very intractability of violent conflict. MNEs cannot solve all problems and they may fail at times. Failure has potentially negative consequences, particularly as the firm's effort may have built expectations among some important stakeholders. An expectations-performance gap (Waddock, 2004), while understandable from an arms-length perspective, can create reputational problems for a firm. Despite this risk, the alternative – to do nothing – is not viable in many situations. With further research, it will be important to learn how MNEs can protect themselves from this risk.

Second, most of the strategic interventions available for business may have varying effectiveness over time. Conflict is often described as having a life cycle, such that conditions of conflict foment over time, eventually reaching a crescendo of violence, followed by a period of less violence (Kriesburg, 1998). When violence is at its peak, an MNE likely must concentrate its efforts on security. The strategic interventions we suggest are likely to be more effective as conflict builds toward violence (thereby preventing outbursts) or as violence wanes (thereby preventing recurrences).

Third, our work has not taken into account micro-level issues. In particular, it is very likely that individual persons matter, in determining both whether and how an MNE would intervene in situations of violent conflict. The sensitivity and commitment of individuals and top management teams is a key factor that determines firms' actions with respect to ethical, social and political issues (Trevino, et al, 1999). Such is also likely to be the case for the issue of violent conflict.

Contributions to the Literature

Our work makes a number of contributions to extant literature. It provides several valuable contribution to conflict resolution research. We build on previous work by Getz and Ladek (2005) which developed a framework detailing the circumstances under which business has a moral obligation to respond to violent conflict. We have taken an appropriate next step by forming a structure firms might use to appropriately fulfill this obligation. Other works in this vein typically provide lists of intervention options that might be available to firms. In contrast, this paper develops a framework specifying conditions under which various interventions would be feasible.

Also, this work expands the conception of track two and multi-track diplomacy by explaining the appropriate and significant roles of private firms. Most importantly, there are clear intervention strategies firms can use unilaterally and/or in collaboration with other actors. Although we focus on MNEs, our framework, including the typology of strategic interventions and the independent variables, is applicable to other potential actors for multi-track diplomacy.

In addition, this work extends consideration of social responsibility to an issue often considered outside the scope of a firm's control. Although we do not intend to suggest that MNEs are responsible for resolving the problem of violent conflict, they do have a self-interest in becoming engaged. Our work shows that firms can intervene without significantly increasing their exposure while still making an important difference in people's lives. Similar thinking could be applied to other intractable problems, such as human rights abuses. Current literature on business and human rights tends to highlight abuses and mistakes by firms. Instead, we focus on ways in which firms can become part of the solution.

This study also contributes to the literature on political risk by focusing on strategies that firms can use to manage political risk on an ongoing basis. As we discussed earlier in the paper, research on political risk analysis has focused primarily on avoiding risk rather than managing it, despite the fact that political risk events are generally difficult if not impossible to predict. Even if risks could be predicted for the near term, foreign direct investments with a 20 to 30 year time horizon would continue to face risk exposure over the life of the investment.

One reason that avoidance or exit strategies have received more attention is that political risks such as violent conflict are often considered intractable problems, particularly for private firms. What we have attempted to do here is to demonstrate conditions in which responding to violent conflict may be a feasible and appropriate risk management strategy for firms to follow. Furthermore, rather than viewing a firm's strong bargaining position vis-à-vis other stakeholders as an opportunity to gain an advantage at the other stakeholders' expense, we see the firm-stakeholder relationship as an opportunity for a positive sum outcome for all actors involved.

Directions for Future Research

We see three important types of future research. First, we must examine whether the relationships we have proposed can be empirically verified. Second, we must determine whether there are significant differences in firm performance across the possible strategies for engagement. Third, because we recognize a critical distinction between outputs (activities) and outcomes (impacts) (Mitnick, 2000), we must also deterime whether there are significant differences in conflict reduction across the possible intervention strategies. The appropriate approach for each of these research projects would be to combine a large-scale survey of MNEs operating in violent settings with database research. The survey would provide primary data on MNEs' strategic interventions, along with some data related to the independent variables we have identified. Database research would provide secondary data for some of the independent variables developed here, for firm performance, and for conflict resolution.

Conclusion

Our goal for this paper has been to develop an understanding of why and how businesses can respond to situations of violent conflict. We have done this by drawing on insights from the conflict resolution, corporate social responsibility, and political risk literatures to develop a framework that provides guidance to MNEs confronting violent conflict with respect to existing projects or facilities. This is the first paper to not only demonstrate that private sector firms may have a role to play in resolving violent conflicts and to identify strategic interventions, but also to specify the conditions under which different interventions are appropriate.

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Figure 1: Typology of Firm Responses to Violent Conflict