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ESG as a nonmarket strategy to cope with geopolitical tension: Empirical evidence from multinationals' ESG performance

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Abstract

Research Summary: Although rising geopolitical tension is critically affecting multinational enterprises (MNEs), our understanding of geopolitics and its effects on corporate strategy is surprisingly limited. This study sheds light on this underexplored topic by examining the environmental, social, and governance (ESG) strategy of foreign MNEs amid tension between their home and host countries. We argue that the media plays a critical role in shaping host-country public perceptions of such tension. As media-reported tension increases, foreign MNEs enhance their subsidiaries' ESG performance to alleviate potential institutional pressure from the host-country public. We further show that historical conflicts positively moderate this relationship, whereas ongoing conflicts serve as a scope condition that diminishes this relationship. This manifests that MNEs attempt to maximize ESG's insurance-like benefits in coping with geopolitics.

Managerial Summary: Rising geopolitical tension leading to a less stable global business environment highlights the growing importance of geopolitics and strategic responses of firms. This study explores how host-country media coverage of geopolitical tension affects foreign MNEs. If host-country news media reports more tense interactions between MNE's home and host countries, the MNE ex ante is likely to experience heightened pressure from the host-country public. Thus, we argue and show that MNEs subject to pressure from the host-country public intensify their ESG efforts to enjoy the insurance-like benefits of ESG's prosocial initiatives. Our study also shows that both past and ongoing conflicts between home and host countries differentially influence MNE's ESG efforts because the anticipated effectiveness of their strategy is heterogeneous.

KEYWORDS

ESG, geopolitics, media, multinationals, nonmarket strategy

1 | INTRODUCTION

Geopolitics has always been of central importance to international business, but its implications for multinational enterprises (MNEs) have recently been further amplified (Napier et al., 2023), in part due to the rise of nationalism and populism (Evenett, 2019; Luo, 2023). As a result, we are witnessing rapidly changing, and thus less stable, interstate relations, frequently leading to serious tension or conflict between countries. The nature of such changes is volatile (Blake & Jandhyala, 2019), inevitably creating turbulence in global business environments. Despite its increasing importance and impact, our grasp of geopolitics, and in particular its effects on MNEs and their strategies, remains surprisingly limited (Aguilera et al., 2019; Wang et al., 2021).

Studies show that MNEs use corporate social responsibility (CSR) as a strategic tool to enhance their legitimacy by positively influencing host-country stakeholders' perceptions (Marano et al., 2017; Mithani, 2017) but research on CSR in the context of geopolitics is scarce (Napier et al., 2023). With geopolitics involving sovereign state and government actors, it is generally assumed that political strategy is more relevant and effective in dealing with such stakeholders (e.g., Luo, 2023; Meyer & Li, 2022); CSR, by contrast, largely targets the general public. However, under the assumption that media plays a critical role in shaping public's view and perception (e.g., DellaVigna & Kaplan, 2007; Vergne et al., 2018), the host-country public can also be the main stakeholder MNEs may need to deal with, depending on the media coverage of geopolitics and its tension. Furthermore, even if MNEs engage in CSR to alleviate host-country institutional pressures (El Ghoul et al., 2017), it is unclear under what conditions MNEs would engage in CSR in a host country in the wake of geopolitical tension. This distinction implies that it is critical to clearly define the fundamental nature, type, and driving mechanisms of geopolitical tension to accurately identify targets of nonmarket strategy and ultimately to assess the effectiveness of such strategic efforts.

This study aims to fill this theoretical gap by examining media-reported interstate events. We define interstate or geopolitical tension as a worsening of the relationship—from cooperative to less cooperative or more conflictual—between home and host countries (Crescenzi, 2007; Tuathail & Agnew, 1992), particularly when driven by media-reported events.[1] Building on studies of the role of the media in framing stakeholders' perceptions and emotions (e.g., Shipilov et al., 2019), we assume that the media plays a critical role in shaping a host-country public's perceptions of relations between home and host countries. As the media covers conflictual events between home and host countries, the host-country general public will tend to perceive the focal country negatively; this tendency will lead ex ante to increased public institutional pressure (Pollock & Rindova, 2003), not only on the focal country but also on its MNEs. Thus, we hypothesize that, as interstate tension increases, foreign MNEs' subsidiaries will intensify their environmental, social, and governance (ESG) performance to lessen host-country institutional pressures (Zhou & Wang, 2020). Because ESG functions as public goodwill or moral capital, allowing firms to enjoy insurance-like benefits (Godfrey, 2005), this tends to minimize legitimacy challenges.[2]

We further posit and test the role of serious interstate conflict (such as military conflict or war) between home and host countries. On the one hand, a conflictual history between countries can more easily trigger citizens' negative evaluations and emotions (Guiso et al., 2009). Therefore, subsidiaries of MNEs whose home country has a history of conflict with the host country is apt to face heavier institutional pressure ex ante (Hutchison & Bleiker, 2014); they will thus attempt to intensify their ESG performance to enjoy insurance-like benefits of ESG. On the other hand, if home and host countries are already involved in ongoing conflict, MNEs may not improve but decrease their ESG efforts. This is because host-country institutional pressure is likely to have already heightened, reducing the effectiveness of MNEs' ESG efforts.

Empirically, we examine 207 publicly traded subsidiaries of foreign MNEs from 23 countries, located in 34 host countries, from 2002 to 2019 (1433 firm-year observations with 86 home- and host-country pairs). The empirical results strongly support our theory that MNEs intensify their ESG performance in response to tension between their home and host countries. Our analyses also reveal that a history of conflict between home and host countries positively moderates MNEs' ESG efforts in the wake of interstate tension. However, we also find a scope condition: MNEs decrease their ESG efforts in the presence of an ongoing conflict between the home and host countries. Interviews with government officials and managers of multinational firms support and confirm our theories and empirical findings (Gao et al., 2017; Gao & McDonald, 2022).

This study makes several theoretical contributions. First, it contributes to the international business literature, particularly on the intersection of international political economy and global strategy. Given the volatility of global business environments (Bremmer, 2019; Meyer & Li, 2022), it has become more crucial than ever to understand when and how geopolitical tension can trigger institutional pressure, which types of host-country stakeholders instigate it, and what strategies foreign MNEs can use (Aguilera et al., 2019). By identifying the more nuanced nature of interstate tension (i.e., media-reported) and one potential source of more institutional pressure (i.e., a history of conflict), the study enhances our understanding of MNEs' host-country nonmarket strategic activities.

[1]*Interstate relations* is a broad theoretical concept that encompasses geopolitics (Agnew, 2000), but we will use the two terms interchangeably here.

[2]This study assumes that corporate ESG activities are a manifestation of CSR; following related studies, we use the terms interchangeably (e.g., Hawn et al., 2018).

Our study also contributes to the nonmarket strategy literature. The importance of nonmarket strategy in managing host-country stakeholders cannot be overstressed (Jia, 2018; Shi et al., 2021). Even so, studies of CSR/ESG in the realm of international business have largely overlooked MNEs' nonmarket strategies in dealing with geopolitics. By clearly identifying its main audience (the host-country general public) and ESG as a strategic tool to alleviate host-country stakeholders' pressure, we shed light on strategic CSR/ESG in the context of international business. This clarification further underscores the importance of connecting public and private politics in managing global nonmarket environments (Baron, 2003).

2 | THEORY AND HYPOTHESES

2.1 | The nature of geopolitics

Due in part to the turbulence of today's global business environment, scholars are paying increasing attention to the role of geopolitics in shaping MNE strategy (Blake & Jandhyala, 2019), but our knowledge remains limited. First, though prior studies have emphasized nonmarket strategy (including CSR) in a host country as a strategic lever for foreign MNEs (El Ghoul et al., 2017; Mithani, 2017), scant scholarly work examines whether CSR/ESG is effective in the context of geopolitics (Napier et al., 2023). This scenario may be attributable in part to the nature of geopolitics. Tension between sovereign states tends to promote the assumption that state actors are the most important stakeholders with whom foreign MNEs must contend. Thus, prior studies of geopolitics and foreign MNEs' nonmarket strategies largely assume and assert that political strategy is the main strategic tool for dealing with geopolitics and that state actors are the main stakeholders (e.g., Luo, 2023; Luo & Van Assche, 2023).

In reality, however, the types and effects of interstate tension are quite heterogeneous (e.g., Dai et al., 2017), depending on an array of interactions, positive and negative, between two sovereign states (Kobrin, 1979). This scenario further implies that the stakeholders with whom MNEs must deal, and the costs levied on them, are also heterogeneous. Without clearly distinguishing the nature and characteristics of interstate tension, and the main stakeholder at whom firms must target their strategic efforts, it is impossible to determine whether and how multinationals' nonmarket strategies can help them manage interstate tension.

An interstate relation is a dynamic, dyadic relationship between two countries (Crescenzi, 2007; Tuathail & Agnew, 1992). It can be either cooperative or conflictual, depending on political and diplomatic events and on the interests of both nations, which consistently vary over time (Li et al., 2018). As is evident in interstate security relations formed through military pacts or security treaties, such relations typically persist and are, thus, stable over time (e.g., the North Atlantic Treaty Organization). Countries with strong military or security ties are considered allies, naturally maintaining warm and cooperative relationships (Gartzke & Gleditsch, 2004). However, allies can also experience tension or disputes, such as the trade disputes between the United States and its allies Canada and Mexico. Disputes between countries can lead to provisional conflictual relations even if the countries in question are largely cooperative; such fluctuation is not captured by stable-relationship measures (e.g., military agreements, intergovernmental networks).

Fluctuations in two countries' dynamic relationship (Bremer, 1992; Crescenzi, 2007) frequently shape perceptions of a focal country within the host country (Lee & Hong, 2012). But the host country's stakeholders will not be aware of every political, diplomatic, or economic event that takes place between the two countries (e.g., persona non grata, new diplomat agrément) (Somin, 2015). Moreover, different stakeholder groups can perceive the same interstate event differently, or attribute different degrees of importance to it. In short, host-country stakeholders' perceptions of a focal country will vary depending on the nature of a given interstate event and on the event's relevance to them.

Therefore, in this study, we assume that media coverage of events between two countries will play a critical role in shaping the perceptions of host-country stakeholders, and particularly those of ordinary citizens, regarding interstate relations. State interactions between two countries are not always fully disclosed; they are also selectively covered by the media (Besova & Cooley, 2009). If the media reports and covers more conflictual interactions with the focal country, the host-country public will be more likely to perceive tension with the focal country. This awareness will function ex ante as a source of potential institutional pressure, causing focal-country MNEs to intensify their ESG (a manifestation of pro-social behavior) to reduce public host-country pressure.

2.2 | The role of the media in shaping stakeholders' perceptions and emotions

Numerous studies have examined the media's crucial role in shaping how people view and perceive social phenomena (e.g., DellaVigna & Kaplan, 2007; Vergne et al., 2018). In essence, studies have shown that the media is not unbiased; media outlets select events for coverage at their own discretion, and produce a limited quantity of news content with an eye to attracting large audiences (Chermak, 1994; Herkenrath & Knoll, 2011). Thus, although the media plays a critical role in influencing people's perceptions of events and issues, it does not reflect reality in its entirety (Pollock & Rindova, 2003); "*reality*" can be driven largely by the media's own agenda (McCombs, 2005).

The media's role in shaping stakeholders' perceptions of and sentiments about particular foreign countries has also been studied (e.g., Besova & Cooley, 2009; Hwang, 2011). These studies have found that media coverage of a given foreign country drives public perceptions and sentiments about that country (Lee & Hong, 2012). For example, the French government strongly denounced US military operations in Iraq in 2003; US media covered this heavily. In a study of the relationship between the United States and France in the wake of the Iraq War in 2003, Michaels and Zhi (2010, p. 261) showed that US media covered "anti-French sentiment" in the US quite aggressively, and that this coverage promoted further deterioration of American's views of France. Other countries also opposed the Iraq War, but Americans' perceptions of them remained unchanged because media coverage of their positions was infrequent.

Aside from delivering the news, media reports can also instigate organizational change by influencing firms' perceived legitimacy (e.g., Vergne et al., 2018). Because the media shapes relevant stakeholders' assessments of corporate activities, and thus firms' legitimacy (Hayward et al., 2004; Shipilov et al., 2019), corporate managers pay close attention to media coverage of their firms' activities. For example, Bednar et al. (2013) show that negative media attention drives organizational change, and particularly resource allocation, to reduce stakeholder institutional pressure; this effect is stronger when outside stakeholders can more directly influence organizational outcomes and performance (Deephouse, 2000). Similarly, if geopolitical tension intensifies the external pressure on a firm (from low-key pressure such as negative product or service evaluations to serious pressure such as boycotts) exerted by host-country stakeholders

(Dacin et al., 2007), MNEs will pursue legitimacy-enhancing strategies in the expectation that a direct or indirect legitimacy issue will affect operations and performance in the host country (Kang et al., 2018).

In sum, the media can catalyze change in organizational practices by affecting stakeholders' perceptions of an organization's legitimacy. When the media covers conflictual interstate events between a host country and a given foreign country, a foreign MNE from the foreign country could expect more probable host-country stakeholder pressures that may cause legitimacy challenges. Therefore, we argue that in such circumstances MNEs will intensify their ESG performance; enhancing ESG is widely considered an effective strategy to lessen potential institutional pressure and to protect a firm's legitimacy (Darendeli & Hill, 2016; Luo et al., 2018) by manifesting positive social behavior (Godfrey et al., 2009).

2.3 | Mobilizing ESG to alleviate host-country pressure driven by interstate tension

Because legitimacy-building increases the likelihood of acceptance in a host market (Zaheer & Mosakowski, 1997), alleviating challenges to its legitimacy is among the most important strategic efforts a foreign MNE undertakes (Hymer, 1976; Kim, 2019). The core mechanism is that greater legitimacy helps a foreign MNE gain social trust, equipping it to shield itself from perceived liabilities as foreign in the host-country society (Johanson et al., 2009; Lu et al., 2018).

Studies have shown that alleviating potential institutional pressure by improving legitimacy is one important motivation for firms to engage in ESG (e.g., Durand, Hawn, & Ioannou, 2019). Engaging in ESG activities can effectively shield firms from negative events, thus protecting firms' legitimacy and performance (Flammer, 2013; Henisz et al., 2014), by making stakeholders less prone to evaluating firms' legitimacy solely on the basis of adverse events (Godfrey, 2005). For example, Luo et al. (2018) tested a model in which firms could buy reputation insurance for a possible future negative event. Their empirical test showed that philanthropy helps firms moderate stakeholders' reactions to negative events, a manifestation of ESG's insurance-like benefits. Jia et al. (2020) report a similar result—that firms actively advance ESG to reduce potential risks driven by regulatory shocks. Their results also confirm the risk-reduction and legitimacy-enhancing motives of intensified ESG driven by negative events.

ESG's legitimacy-enhancing benefits are also well illustrated in studies of foreign MNEs (e.g., Mithani, 2017; Rathert, 2016). Institutional pressure from host-country stakeholders is one key reason why foreign MNEs engage in ESG activities (Aguilera et al., 2007). Foreign MNEs can improve their overall trustworthiness, reputation, and public image in a host country (Husted et al., 2016) via ESG because their ESG activities will be considered beneficial to the host country (Darendeli & Hill, 2016). For example, Mithani (2017) shows that MNEs' philanthropy helps mitigate the effects of the liability of foreignness. Other studies report similar results, suggesting that foreign MNEs can increase their legitimacy in a host country by investing in ESG practices: foreign MNEs' positive social behaviors can positively influence host-country stakeholders' perceptions (e.g., Marano et al., 2017). A senior executive director at a large Korean MNE elaborated in an interview[3]:

[3]We conducted interviews in Korean. One author translated the interviews into English; the other authors reviewed the accuracy of the translation.

> ESG is one of the most important risk-hedging strategies in dealing with consumers in a host country … Because there is always uncertainty in relationships between countries, we expect to see risk-mitigating benefits through our consistent ESG efforts (field interview, February 2024).

A former CEO of a global automotive company's Korean subsidiary elaborated:

> It is critical to build and maintain a good rapport with host-country stakeholders such as consumers and NGOs, because we [a foreign company] can easily become a scapegoat. Although ESG is not a conventional competitive strategy, it is an effective nonmarket tool in sustaining a local business … Geopolitical tension can easily ruin the local business, and this can be even more serious without a strong rapport. I strongly believe ESG is the only tool allowing us to create such rapport in the host-country society (field interview, March 2024).

In sum, under the assumption that (1) media-reported interstate tension ex ante can increase host-country stakeholders' pressure on foreign MNEs, and that (2) ESG activities help firms fend off such pressure and thus enhance their legitimacy, we can expect foreign MNEs to intensify their ESG activities to alleviate potential institutional pressure from host-country stakeholders and to reduce threats to legitimacy. Therefore, we argue that, as media-reported interstate tension increases between their home and host countries, foreign MNEs will ramp up their host-country ESG performance to activate ESG's insurance-like benefits against negative consequences of geopolitical tension.

Hypothesis 1. As media-reported interstate tension between its home and host countries increases, a foreign MNE's host-country subsidiary will enhance its ESG performance.

2.4 | A history of past conflict as a moderating mechanism

Not every interstate tension escalates into a serious conflict. However, once such tension develops into a serious conflict such as military and/or security conflict (i.e., war) between two countries—the highest form of interstate conflict (Alexander, 2004; Confino, 1997), it has a profound effect on both societies (Siegel et al., 2011). Hence, we argue that serious conflict—historical or ongoing conflict—will differently affect MNEs' ESG efforts amid interstate tension because the anticipated effectiveness of their ESG will be heterogeneous.

Every society has its own collective memory (Klein, 2002); this awareness of a shared history undergirds and significantly influences every aspect of the society, including how its members perceive and evaluate social phenomena (Halbwachs, 1992). Collective memory can also elicit shared emotions (both positive and negative) throughout an entire society, including such feelings as "anger, fear, trust, or empathy" about societal/national issues; a society's collective memory can in turn justify such emotions (Hutchison & Bleiker, 2014, p. 504), whether rational or not. Evoking collective memory can also help consolidate and unite a society (Confino, 1997).

A type of collective memory relevant to the current context is a history of conflict (a stigmatized event deeply seeded in both societies; Guiso et al., 2009) between two sovereign states (Arikan et al., 2020).[4] Studies have found that past conflict between two countries, manifested as collective animosity, critically influences how the citizens of a given country see and evaluate a focal country (Fisman et al., 2014). Particularly, a history of military and/or security conflicts, such as war in the past between two countries, is one of the main sources of negative perceptions and emotions toward another country (Confino, 1997). Thus, it is predictable that an MNE whose home and host countries share a history of conflict will likely face more institutional pressure during present-time interstate tension, because latent negative public sentiment in the host country can be easily retriggered (Fisman et al., 2014).

The media can also exacerbate this process. We assume that the media plays a critical role in disseminating information and, consequently, in shaping and framing the public's perceptions and emotions (Michaels & Zhi, 2010; Pollock & Rindova, 2003). By identifying particular news events as salient, the media directs public attention to them (Aharonson & Bort, 2015). And because people pay more attention to more stimulating events (Oliver & Maney, 2000), the media tends to gravitate toward such news (Hawn, 2021), and interstate tension between two countries is such news the media is incentivized to report more (Besova & Cooley, 2009). Moreover, interstate tension between countries with a history of conflict is compelling because it can easily trigger latent societal sentiments (Herkenrath & Knoll, 2011). Our field interviews support this view. In the words of a former policy advisor to the Korean president, "The media is biased in reporting interstate events, and it tends to report the events and tension with countries with historical conflicts" (field interview, January 2024).

In sum, assuming that (1) the media reports on news events are likely to capture the public's attention (Hawn, 2021) and that (2) negative sentiment toward a focal country is more easily triggered when it and the host country share a conflictual history (Confino, 1997), a foreign subsidiary of an MNE from a country with such historical conflict is more likely to experience institutional pressure from host-country stakeholders than a company whose home country lacks such a history. In other words, ex ante, managers at a foreign MNE whose home country has a history of conflict with the host country may think that the tension between the home and host countries will generate intense institutional pressure from host-country stakeholders if the tension continues. Thus, we predict that a history of conflict between its home and host countries will positively moderate a foreign MNE's host-country ESG efforts because the firm will want to maximize ESG's insurance-like benefits by exhibiting prosocial behavior.

Hypothesis 2. If its home country has a history of conflict with its host country, a subsidiary of a foreign MNE will enhance its ESG performance even more in the wake of media-reported interstate tension.

2.5 | Ongoing conflict as a scope condition

Our fundamental theoretical argument is that MNEs will intensify their ESG in the wake of media-reported geopolitical tension to fend off potential host-country pressure via ESG's insurance-like benefits (Luo et al., 2018). But if MNEs doubt that they can effectively shield themselves from such pressure through ESG, they will have little incentive to increase their ESG. Therefore, we argue that the main effect hypothesized above will not apply if an MNE's

[4] "The history between countries plays the most prominent role in driving the fundamental perception and emotion against each other" (field interview with a former policy advisor to the Korean president, January 2024).

home and host countries are already experiencing ongoing conflict (e.g., a diplomatic crisis, armed/military conflict), *a scope condition of the main effect*.[5]

Not all interstate tensions, as noted above, evolve into serious military or security conflicts. Since corporate managers at MNE subsidiaries cannot reasonably predict how an existing tension will evolve, they invest in ESG to enjoy its insurance-like benefits. However, the fact that the home and host countries are in such conflict implies that the MNE's home country's image may already have been tainted and stigmatized in the host country (Arikan et al., 2020; Linville et al., 1986). Studies have shown that a serious conflict between two countries can trigger grave host-country institutional pressure, leading to national antipathy among the host-country general public (Duanmu, 2014). Such stigmatization of its home country will significantly limit not only a foreign MNE's degree of strategic freedom but also the effectiveness of its strategic activities (Lubinski & Wadhwani, 2020; Sofka & Zimmermann, 2008); thus, the MNE may not engage in strategic activities to improve its legitimacy under such circumstance.

In short, ongoing conflict between its home and host countries will prevent a foreign MNE from enjoying the insurance-like benefits of ESG because host-country stakeholders' institutional pressure will already be high (Shiu & Yang, 2017). Therefore, regardless of the degree of tension reported by the media, multinationals will restrict their ESG performance accordingly because such efforts will be assumed ineffective. As a result, the relationship between media-reported interstate tension and the ESG activities of MNE subsidiaries will diminish. Thus, we predict;

Hypothesis 3. If its home and host countries are already involved in interstate conflict, the relationship between media-reported interstate tension and an MNE subsidiary's ESG activities in the host country will diminish.

3 | METHODS

3.1 | Data and sample

Our main data source is the Refinitiv Eikon database, which provides comprehensive organizational, financial, and ESG data on publicly traded firms in global market. To the best of our knowledge, no previous study has examined the ESG performance of foreign MNE subsidiaries across a range of countries.

Because corporate ESG data became available in 2002, our sample period encompasses the years 2002 through 2019. Given that we are seeking to examine the effect of interstate tension on the ESG performance of subsidiaries of foreign MNEs, our first step was to identify each company's ultimate ownership (i.e., whether it is foreign owned). We did so using the global ultimate-ownership measure, a conservative way to account for both a firm's ownership and its controllability (Kim, 2019). We dropped from our sample foreign MNEs' subsidiaries without ESG data or relevant financial and parent data. We further excluded firms located in tax-haven countries or in countries with special relations.[6] The final sample consists of 1433 firm-year

[5]When two countries are involved in ongoing conflict, media covers all different types of interstate events between the two countries (Gilboa, 2006), which makes media-reported interstate relations vary.

[6]We identified tax-haven countries using Hines's (2010) list. We excluded special relational ties, such as those between China and Hong Kong or China and Macau. To ensure that our results are robust, we ran a separate regression including the companies excluded from our final sample for the above-mentioned reasons; the results remain unchanged and still support our arguments. Those results are not reported here.

observations of 207 unique subsidiaries of foreign MNEs, owned by 164 companies from 23 home countries and located, operating, and publicly traded in 34 host countries. Appendix Table A1 provides summary statistics for selected host-country characteristics.

3.2 | Dependent variable

The dependent variable is the annual ESG score of foreign MNEs' subsidiaries in a given host country (*ESG score*). Refinitiv Eikon provides scores for each firm on the three pillars of ESG: Environmental [E], Social [S], and Governance [G]. We use the aggregate ESG score as our dependent variable (see Appendix S1 for a brief description of how the ESG measure is constructed in the database). Thus, the higher the ESG score, the more a foreign MNE's subsidiary engages in ESG activities in a host country.

3.3 | Explanatory variables

We measure interstate tension, our main explanatory variable, using the Goldstein conflict-cooperation scale, which is indexed in the Global Database on Event, Location, and Tone (GDELT), widely used to study interstate relations and conflicts (e.g., Hu et al., 2021; Wang et al., 2021). The GDELT provides more than 250 million data points for events reported daily by print, broadcast, and online news media (Leetaru & Schrodt, 2013). All relevant information—including affiliated actors, type of event, and intensity of conflict or cooperation—are machine-coded into the database; all duplicate reports are compiled into a single event record. The Goldstein scale is provided for each media-reported event (Goldstein, 1992); depending on the event type, the impact of each event is scaled from −10 (most conflictual) to +10 (most cooperative). Therefore, using the Goldstein scale of every event in a given year and a given host country, we calculated the annual average Goldstein score for every reported event between pairs of home and host countries, lagged 1 year to infer the effect of interstate relations on ESG.

For example, assume that 10 events occur between a home and host country: five of them score −5 on the Goldstein scale, two score 0, and three score +2. The annual average Goldstein score is −1.9, a weighted average of each event occurring between the two countries. If the number of more conflictual events increases over that of the previous year, the weighted average of the Goldstein score will reflect the deteriorating relationship between the home and host countries. For ease of interpretation, we reverse the original annual average of the Goldstein score: thus, the higher the value of our explanatory variable, the more conflictual events occurred between the home and host country (see Appendix Table A2). To preempt a potential multicollinearity issue, we mean-centered the variable (*interstate tension*).

To test Hypotheses 2 and 3, we created a categorical variable using interstate-conflict-and-crisis data obtained from the International Crisis Behavior data set, version 15 (ICB v15). GDELT does not fully and comprehensively capture all interstate events; it records only those covered by the media. Furthermore, since media covers all different types of interstate events between two countries, GDELT makes it difficult to clearly identify the serious conflict we attempt to operationalize (Leetaru & Schrodt, 2013; Wilkerson & Casas, 2017). By contrast, ICB includes all interstate conflict at the system level (Beardsley et al., 2020), comprehensively capturing all sovereign actors involved in each conflict/crisis based on a clear theoretical rationale

(Brecher et al., 2023).[7,8] Because the database is known for capturing "all military-security crises involving states" (Brecher & Wilkenfeld, 1997), and is widely used in studies of interstate conflict (e.g., Arikan et al., 2020), we decided to use the ICB database. To test Hypothesis 2, if the home and host countries had been involved in serious interstate conflict with each other before the sample period (before 2002) but not during the sample period, we coded the country pairs 1 (*historical conflict*). To test Hypothesis 3, if two countries engaged in a serious interstate conflict or crisis were identified in the database as main adversarial actors during our sample period, we coded them 2 (*ongoing conflict*). All other country pairs (the baseline reference group) were coded 0.

Two fundamental assumptions of our theoretical argument are that (1) interstate events between an MNE's home and host countries will be the source of host-country stakeholders' perceptions of the home country, and thus that (2) host-country stakeholders, particularly the general public, are apt to better know the current state of relations between the home and host countries as the media report more events between the two countries. To further justify these theoretical assumptions and our empirical operationalization of them, we will use the tension between the United States and South Korea in 2017 and 2018 to discuss the explanatory variable—the Goldstein conflict-cooperation scale (reversed).

During his presidential campaign, former US president Donald Trump openly criticized existing US foreign policy, and US allies; South Korea was one of his targets. As president, Trump wanted to withdraw from the free trade agreement (FTA) between the United States and South Korea. He also threatened to withdraw US troops from South Korea, where they had been playing a critical role in preventing another war with North Korea. Because of his groundless criticism of the effects of the FTA and threats to withdraw troops, many Koreans viewed the United States and its president negatively, leading to a historically low country-favorability rating (Fuchs & Lee, 2020).

Although the relationship between the two countries has fluctuated over the past few decades, South Korea and the United States have largely maintained a close and strong ally relationship via various economic, security (military), and political ties (Fuchs & Lee, 2020; Park, 2019). The two countries' reversed annual average Goldstein score between 2002 and 2016 was −1.81, lower than that of all other country pairs in the GDELT database (−1.09). Moreover, the Korean media has always kept a watchful eye on the United States, in keeping with its importance in Korea's politics and its economy; this pattern was amplified during the Trump-era period of tension between the two countries. As Figure 1 shows, the Korean media covered interstate events between the United States and Korea more closely than they did those between Korea and China or Korea and Japan (the other countries to which the Korean media has traditionally paid the most attention). Moreover, the media reported more conflictual events, resulting in multiple spikes on the conflictual side (i.e., the positive scale). Thus, due to the absolute increases in both the overall volume of media attention and the number of negative events reported, it is highly likely that the Korean general public became highly aware of tension between the two countries. This pattern is further illustrated in Appendix S3, which presents the total number of monthly media-reported events in the GDELT for Korea and the

[7]GDELT Goldstein score clearly shows a high degree of conflict when such conflicts occur but due to limitations described above, we used both databases to maximally test our theories. In Appendix S2, we provide additional examples to delineate this in more detail.

[8]ICB v15 provides a comprehensive list of interstate conflict and crisis events at a dyad level, listing 496 events associated with 1078 crisis actors from 1918 through 2019.

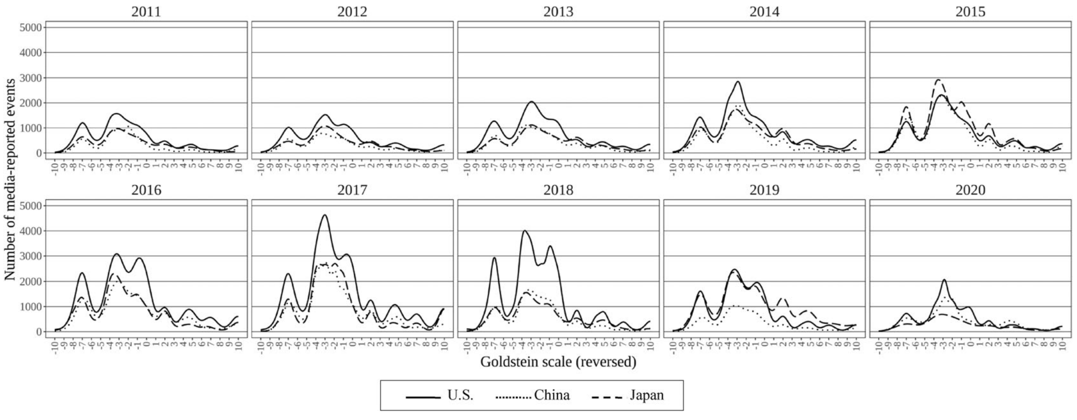

FIGURE 1 Distribution on the Goldstein scale of interstate events between South Korea and three countries—the United States, China, and Japan—reported by South Korean media, 2011–2020. These figures present (1) the numbers of media-reported interstate events between South Korea and three countries—the United States, China, and Japan—that elicited the most attention from Korean media and (2) the corresponding Goldstein scales from 2011 to 2020. The solid, dotted, and dashed lines represent the density of such events in the United States, China, and Japan, respectively.

United States across different event types. Both positive and negative events occurred between the two countries in 2017 and 2018; as the Appendix clearly shows, the Korean media reported conflictual events more heavily. The figure also illustrates that monthly volume corresponds to the number of major events between the two countries, suggesting that the Korean stakeholders were highly likely to be aware of the status of relations between the two countries.

The figures provided here and in the Appendix help affirm our theoretical and empirical assumptions and operationalization. To demonstrate that further examples are easy to marshal, Appendix S4 provides similar plots for two further pairs of countries: (1) the United States and China, and (2) the United States and Russia. Appendix S5 provides multiple figures to document (1) that the media's attention is distributed among countries unequally and not reciprocally, and (2) how its distribution changes over time.

3.4 | Control variables

The main specification controls for several firm-level variables assumed to significantly influence corporate engagement in ESG activities. First, we control for multiple foreign subsidiaries' characteristics. Because prior studies have shown that a firm's size and capability affect the implementation of CSR activities, we control for the natural logarithm of total assets (*total assets*) to account for the size and importance of the subsidiary (Gallo & Christensen, 2011). Studies show that financial slack helps firms determine their capacity to implement CSR (e.g., Surroca et al., 2010) and allows them to allocate financial resources for CSR activities instantaneously, when necessary (Mishina et al., 2004). Thus, we control for slack resources by dividing a company's total debt by the total amount of company equity, which indicates potential resources to be allocated (*D/E ratio*). Because a firm's profitability is considered a major driver of CSR activities, we also include return on assets (Nelling & Webb, 2009).

We also consider the leverage of a foreign subsidiary and the amount of its resource commitment in a host-country market (Kronborg & Thomsen, 2009) by controlling for its *debt ratio* (total debt divided by its total assets) and measuring its total tangible assets, particularly physical assets (*property*, *plant*, *and equipment*). Controlling for the physical assets of a foreign subsidiary is particularly important because corporate commitment is one of the indicators that local stakeholders consider for local cooperation (Cao & Alon, 2021). When a foreign MNE's subsidiaries are exposed to the effects of increasing tension between their home and host countries, resource commitment may motivate them to engage in CSR, especially because their first priority may be to protect their host-country investment (Mata & Freitas, 2012).

We also control for multiple characteristics of the ultimate-parent company. As the controllability of their parent company increases, subsidiaries are apt to follow the parent company's strategic direction (Sengul & Gimeno, 2013). To account for the effect of the parent company's controllability and ownership, we control for the percentage of equity in a subsidiary owned by the home-country parent company (*ultimate parent*: *equity share*). We also include the parent company's ESG score (*ultimate parent*: *ESG score*). Subsidiaries operating in a host market face institutional-duality pressure (Hillman & Wan, 2005; Kim, 2019), which implies that the parent company's strategic direction can be transplanted easily within the foreign subsidiary. Controlling for the parent company's ESG score will effectively capture strategic alignment between a foreign subsidiary and its parent company (Husted et al., 2016; Rodrigues & Krishnamurthy, 2022), which could be the most relevant alternative reason to engage in ESG activities. Finally, we also control for the parent company's visibility (*ultimate parent*: *global Fortune 500 company*). Studies have shown that corporate sustainability is connected to corporate reputation rankings (Bermiss et al., 2014). Because the expectations of relevant stakeholders, including the public and the media, for firms listed in these rankings are relatively high (McDonnell & King, 2013; Zhou & Wang, 2020), such companies might intensify their ESG activities. Hence, we create a binary variable indicating whether an ultimate parent company is listed in the Fortune 500.

Finally, we attempt to account for potential institutional pressures in the home and host countries. Firms' strategic behavior can also be driven by institutional pressures from various sources to secure legitimacy, and CSR/ESG is no exception (Martínez-Ferrero & García-Sánchez, 2017). Assuming that a foreign MNE's subsidiary is regulated by both home- and host-country institutions (Hillman & Wan, 2005), its overall ESG level in both countries might affect its ESG score to secure legitimacy in both the home and host countries. Thus, we control for the average ESG score of all firms in the home (*home-country average ESG*) and host countries (*host-country average ESG*) in the entire database. Moreover, the type and frequency of historical events between the two countries may have driven stakeholder perceptions and sentiments, as well as firms' ESG efforts, which may confound our suggested mechanism (Arikan et al., 2020). Hence, to disentangle the theoretical mechanism proposed (historically rooted animosity), we further control for the percentage of international conflicts as a percentage of all interstate conflicts in which a country pair engaged as allies (*historical partnership*) and the total *number of global events* in which countries collectively engaged.

3.5 | Identification strategy and statistical analysis

Interstate events are typically considered exogenous to firms; firms cannot reasonably foresee and anticipate them (Fisman et al., 2014). Even so, it is also true that our study is not free from endogeneity concerns, particularly omitted variable bias. Thus, we attempt to address the endogeneity issue as follows. First, we use a 1-year lag of the annual average Goldstein score reversed, from which the temporal structure of the explanatory variable allows us to lessen, in part, our endogeneity concern. We also employ various fixed effects to control for unobserved heterogeneity at multiple levels. To control for time-specific unobserved heterogeneity, we control for year fixed effects. Because firms' exposure to interstate tension might differ by industry, we control for industry fixed effects. Because the conflict in question is bilateral, between the home and host countries, we also include home-and-host-country-pair fixed effects. We include foreign-subsidiary fixed effects to account for unobserved firm heterogeneity. Therefore, we use the panel fixed-effects regression; the main regression equation is as follows:

$$\text{ESG score}_{\text{i,j,k,t}} = \alpha + \beta_1 * \left(\text{Interstate tension}_{\text{j,k,t}-1}\right) + \lambda_i + \lambda_t + \delta' \mathbf{X}_{\text{i,j,k,t}} + \varepsilon_{\text{i,j,k,t}}$$

where $ESG\,score_{i,j,k,t}$ denotes the ESG score for a subsidiary of a foreign MNE i, from home country j, located in host country k in year t; $Interstate\ tension_{j,k,t-1}$ is the annual average of the Goldstein score reversed for the country pair j and k in year $t-1$; λ_i is industry, country pair, and firm fixed effects; λ_t is year fixed effects; and $\boldsymbol{X}_{i,j,k,t}$ is the vector for all the control variables. $\varepsilon_{i,j,k,t}$ is the foreign MNE subsidiary-country pair-year-specific error term.[9] Robust standard errors are clustered by each subsidiary unless otherwise noted.

4 | RESULTS

Table 1 presents the descriptive statistics and pairwise correlations for the variables included in our main estimation model. Table 2 shows the main fixed-effects panel regression results for ESG score as our main dependent variable. We provide additional robustness checks in Appendix Table A3. The variance inflation factor (VIF) is 1.36; no individual VIF exceeds 2.08, which is an acceptable level of multicollinearity.

The main regression results appear in Table 2. Model 1 includes only control variables; model 2 tests Hypothesis 1, and model 3 tests Hypotheses 2 and 3. Hypothesis 1 asserts that media-reported interstate tension between its home and host countries will lead a foreign MNE subsidiary in the host country to improve its ESG performance; in model 2, the coefficient of interstate tension, our main explanatory variable, is positive as expected ($\beta = 1.039$, $p = .045$), strongly supporting Hypothesis 1. Hypothesis 2 asserts that a history of conflict between home and host countries positively moderates the ESG performance of foreign MNE subsidiaries; the results strongly support our claim. The coefficient of the interaction term in model 3, indicating that home and host countries were involved in serious interstate conflict in the past, is positive ($\beta = 9.036$, $p = .040$). This finding means that a subsidiary of an MNE whose home country has a history of conflict with the host country but a conflict-free present-time relationship will intensify its ESG performance if interstate tension increases. As the annual average Goldstein score reversed increases by one standard deviation from the mean, the ESG performance of these firms increases by 19.8%.

[9]We conducted the Hausman test to ensure that fixed effects are more appropriate than random effects to capture firm-specific error terms. The test rejects the null hypothesis that the error terms are uncorrelated with the main regressors ($\chi^2 = 215.02$, $p = .000$), confirming the use of firm fixed-effects regression as our main analytical approach.

TABLE 1 Descriptive statistics and pairwise correlations.

	Variables	Mean	S.D.	1	2	3	4	5
1	ESG score	43.149	20.112	1				
2	Interstate tension (1-year-lagged)	−1.389	0.740	0.059	1			
3	Ongoing/historical conflict	0.052	0.316	−0.032	−0.020	1		
4	Total assets (logged)	22.059	1.411	0.324	−0.117	−0.049	1	
5	D/E ratio	0.953	4.223	−0.035	0.008	−0.007	0.067	1
6	ROA	0.050	0.153	0.136	0.050	0.009	−0.059	−0.045
7	Debt ratio	0.592	0.300	0.123	0.007	−0.042	0.371	0.118
8	Property plant and equipment (logged)	19.995	2.076	0.303	−0.024	−0.041	0.600	0.047
9	Ultimate parent: Equity share	14.216	27.128	0.238	0.044	−0.044	0.314	−0.012
10	Ultimate parent: ESG score	60.298	20.288	0.370	0.036	−0.020	0.193	−0.016
11	Ultimate parent: Global Fortune 500 company	0.394	0.489	0.145	−0.001	−0.043	0.160	−0.009
12	Home-country average ESG	45.050	9.187	0.245	−0.114	−0.035	0.178	0.018
13	Host-country average ESG	41.685	7.935	0.429	−0.028	−0.014	0.150	0.000
14	Historical partnership (1-year-lagged)	0.621	0.461	−0.121	0.216	−0.003	−0.178	0.017
15	Number of global events (1-year-lagged)	4.054	5.441	−0.226	0.067	−0.024	−0.161	0.030

	6	7	8	9	10	11	12	13	14	15
6	1									
7	−0.284	1								
8	0.056	0.102	1							
9	0.063	0.113	0.181	1						
10	0.045	−0.023	0.128	0.331	1					
11	0.015	0.006	0.122	0.192	0.444	1				
12	−0.061	0.037	0.065	0.307	0.497	0.196	1			
13	0.059	0.079	0.146	0.135	0.215	−0.001	0.287	1		
14	−0.059	−0.058	−0.068	−0.157	−0.206	−0.236	−0.237	−0.139	1	
15	−0.044	−0.019	−0.065	−0.255	−0.134	−0.061	−0.048	−0.091	0.498	1

Note: The table presents the descriptive statistics and pairwise correlations for variables in the main analysis at the firm level.

Hypothesis 3 suggests a scope condition and predicts that a foreign MNE subsidiary will decrease its host-country ESG if its home and host countries are experiencing serious ongoing conflict; this assertion is also strongly supported (model 3). The coefficient of our main explanatory variable, interstate tension, is positive ($\beta = 1.039$, $p = .046$); but the coefficients of ongoing conflict ($\beta = -9.042$, $p = .000$) and the interaction term ($\beta = -10.603$, $p = .000$) are negative which makes the overall effect negative. This confirms our proposed scope condition that when the home country is currently experiencing ongoing conflict with its host country, the positive correlation between the media-reported interstate tension and MNE subsidiary's ESG

TABLE 2 Fixed-effects panel regressions on the ESG scores of foreign MNE subsidiaries in the wake of interstate tension.

DV: ESG score		Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Interstate tension (1-year-lagged; mean-centered)	*Hypothesis 1*		1.039	1.039	1.019	1.019	0.987	0.969
			(0.515)	(0.517)	(0.499)	(0.500)	(0.503)	(0.506)
			[0.045]	[0.046]	[0.042]	[0.043]	[0.051]	[0.057]
Historical conflict	*Hypothesis 2*			−5.635		−6.652		−7.145
				(4.597)		(4.691)		(4.867)
				[0.222]		[0.158]		[0.144]
Interaction: Interstate tension × Historical conflict				9.036		9.940		9.853
				(4.376)		(4.550)		(4.552)
				[0.040]		[0.030]		[0.032]
Ongoing conflict	*Hypothesis 3*			−9.042		−8.445		−7.633
				(2.386)		(2.765)		(2.848)
				[0.000]		[0.003]		[0.008]
Interaction: Interstate tension × Ongoing conflict				−10.603		−9.587		−8.739
				(1.245)		(1.400)		(1.905)
				[0.000]		[0.000]		[0.000]
Total assets (logged)		0.967	0.900	0.843	1.199	1.147	0.910	0.908
		(1.513)	(1.517)	(1.506)	(1.547)	(1.534)	(1.568)	(1.558)
		[0.523]	[0.554]	[0.576]	[0.439]	[0.455]	[0.563]	[0.561]
D/E ratio		−0.085	−0.088	−0.088	−0.090	−0.089	−0.078	−0.078
		(0.078)	(0.078)	(0.078)	(0.082)	(0.082)	(0.077)	(0.077)
		[0.280]	[0.258]	[0.263]	[0.273]	[0.278]	[0.309]	[0.313]
ROA		−2.734	−2.725	−1.752	−2.030	−1.291	−1.842	−1.214
		(3.574)	(3.559)	(3.460)	(3.533)	(3.487)	(3.390)	(3.348)
		[0.445]	[0.445]	[0.613]	[0.566]	[0.711]	[0.587]	[0.717]

TABLE 2 (Continued)

DV: ESG score	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Debt ratio	−2.179	−2.388	−2.117	−2.281	−2.071	−2.257	−2.088
	(1.845)	(1.850)	(1.848)	(1.854)	(1.857)	(1.771)	(1.771)
	[0.239]	[0.198]	[0.253]	[0.220]	[0.266]	[0.204]	[0.240]
Property, plant, and equipment (logged)	−1.589	−1.612	−1.643	−1.798	−1.809	−1.622	−1.661
	(0.862)	(0.875)	(0.857)	(0.897)	(0.877)	(0.879)	(0.869)
	[0.067]	[0.067]	[0.057]	[0.046]	[0.040]	[0.066]	[0.057]
Ultimate parent: Equity share	−0.018	−0.017	−0.017	−0.014	−0.014	−0.015	−0.016
	(0.036)	(0.037)	(0.037)	(0.036)	(0.036)	(0.038)	(0.038)
	[0.609]	[0.653]	[0.638]	[0.701]	[0.696]	[0.684]	[0.676]
Ultimate parent: ESG score	0.046	0.040	0.048	0.042	0.050	0.034	0.043
	(0.056)	(0.057)	(0.057)	(0.059)	(0.060)	(0.058)	(0.059)
	[0.414]	[0.477]	[0.406]	[0.486]	[0.403]	[0.562]	[0.463]
Ultimate parent: Global Fortune 500 company	−2.704	−2.784	−2.811	−2.432	−2.407	−2.821	−2.789
	(1.542)	(1.552)	(1.561)	(1.646)	(1.665)	(1.591)	(1.604)
	[0.081]	[0.074]	[0.073]	[0.141]	[0.150]	[0.078]	[0.084]
Ultimate parent: Total assets (logged)				−2.499	−2.688	−2.345	−2.535
				(1.932)	(1.968)	(1.867)	(1.901)
				[0.197]	[0.174]	[0.210]	[0.184]
Ultimate parent: D/E ratio				−0.008	−0.009	−0.007	−0.008
				(0.012)	(0.013)	(0.013)	(0.013)
				[0.491]	[0.456]	[0.586]	[0.540]
Ultimate Parent: ROA				−10.528	−8.715	−9.907	−8.293
				(6.350)	(5.886)	(6.075)	(5.725)
				[0.099]	[0.140]	[0.104]	[0.149]

TABLE 2 (Continued)

DV: ESG score	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Ultimate parent: Debt ratio				−1.266	−0.524	−0.972	−0.297
				(6.803)	(6.824)	(6.587)	(6.634)
				[0.853]	[0.939]	[0.883]	[0.964]
Ultimate parent: Property, plant, and equipment (logged)				0.860	0.759	0.709	0.632
				(1.395)	(1.392)	(1.399)	(1.402)
				[0.538]	[0.586]	[0.613]	[0.653]
Home-country average ESG	0.101	0.102	0.107	0.198	0.210	0.179	0.189
	(0.266)	(0.258)	(0.258)	(0.261)	(0.261)	(0.250)	(0.250)
	[0.704]	[0.694]	[0.678]	[0.448]	[0.421]	[0.474]	[0.452]
Host-country average ESG	0.038	0.036	0.052	−0.002	0.009	0.055	0.059
	(0.189)	(0.190)	(0.192)	(0.190)	(0.191)	(0.186)	(0.186)
	[0.841]	[0.849]	[0.785]	[0.991]	[0.962]	[0.769]	[0.753]
Historical partnership (1-year-lagged)	29.811	29.220	39.564	31.832	44.346	31.546	44.890
	(5.986)	(5.921)	(10.909)	(6.305)	(11.340)	(6.485)	(11.524)
	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]
Number of global events (1-year-lagged)	−1.415	−1.351	−1.347	−1.421	−1.468	−1.560	−1.646
	(1.328)	(1.337)	(1.345)	(1.344)	(1.349)	(1.351)	(1.360)
	[0.288]	[0.313]	[0.318]	[0.291]	[0.278]	[0.249]	[0.228]
Control of corruption						2.061	3.020
						(4.303)	(4.238)
						[0.632]	[0.477]
Government effectiveness						−9.819	−9.503
						(5.516)	(5.531)
						[0.077]	[0.087]

TABLE 2 (Continued)

DV: ESG score	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Regulatory quality						−0.084	−0.804
						(4.313)	(4.262)
						[0.984]	[0.851]
Rule of law						9.453	8.511
						(7.247)	(7.286)
						[0.194]	[0.244]
Political stability						0.536	0.848
						(2.752)	(2.758)
						[0.846]	[0.759]
Constant	34.751	37.324	31.381	72.912	71.434	73.146	71.114
	(32.356)	(32.306)	(32.313)	(47.014)	(46.504)	(46.559)	(46.180)
	[0.284]	[0.249]	[0.333]	[0.122]	[0.126]	[0.118]	[0.125]
Year fixed effects	Included	Included	Included	Included	Included	Included	Included
Industry fixed effects	Included	Included	Included	Included	Included	Included	Included
Home-host country pair fixed effects	Included	Included	Included	Included	Included	Included	Included
Firm fixed effects	Included	Included	Included	Included	Included	Included	Included
Adjusted *R*-squared	.806	.807	.808	.809	.810	.811	.811
Number of home- and host-country pairs	86	86	86	86	86	86	86
Number of firms	207	207	207	205	205	205	205
Number of observations	1433	1433	1433	1407	1407	1407	1407

Note: This table presents the results of a fixed-effects panel regression in which a foreign MNE subsidiary's ESG score is the dependent variable. Model 1 includes control variables only. Models 2 and 3 are our main specifications testing Hypotheses 1–3. Models 4 through 7 control for additional ultimate-owner characteristics (models 4 and 5) and host-country characteristics (models 6 and 7) to rule out alternative explanations. Models 4 and 6 test Hypothesis 1; models 5 and 7 test Hypotheses 2 and 3. All models include year, industry, home- and host-country pairs, and firm fixed effects. For each variable, robust standard errors clustered by foreign subsidiary appear in parentheses, followed by the *p*-value in brackets.

performance diminishes. The ESG performance of foreign MNE decreases by 20.6%, as the reversed Goldstein score changes to one standard deviation from the mean. Therefore, our empirical findings for Hypotheses 2 and 3 further confirm and are aligned with the prior literature that firms' ESG efforts hinge on the potential benefits of ESG's insurance-like benefits (Luo et al., 2018; Shiu & Yang, 2017).

Additional regression results in Table 2, models 4 through 7, rule out alternative explanations. In models 4 and 5, we control for additional characteristics of the foreign subsidiary's ultimate parent. Although the main specification controls for several ultimate-parent characteristics, we further control for the organizational capability of the ultimate parent to rule out that these characteristics may have influenced the subsidiary's ESG performance (Rodrigues & Krishnamurthy, 2022). We control for the same organizational variables at the subsidiary level. The results remain unchanged and still support our hypotheses. In models 6 and 7, we further control for home- and host-country characteristics. It is critical for a firm to consider the host-country institutional environment when formulating and implementing a strategy; that environment could influence its strategies' legitimacy and effectiveness (Ortas et al., 2019). Thus, in models 6 and 7, we control for host-country institutional characteristics (degree of corruption, regulatory quality, rule of law, and political stability), which we obtained from the World Bank's World Governance Indicators. Even after controlling for these host-country institutional characteristics, our results remain robust and thus strongly support our hypotheses.

Because our dependent and explanatory variables are indices, it is not intuitive to delineate economic magnitude and significance. Hence, we conducted dominance analysis to gauge the significance of interstate tension, our main predictor, by estimating how much it contributes to the variance of the main model. The objective of dominance analysis is to identify a dominant predictor in the estimation model by predicting the R^2 for each variable or variable set included in a complete model (Azen & Budescu, 2003; Luchman, 2021). The post-estimation result shows that control variables and fixed effects *as a set* account for 50.24% of the total R^2 of Table 2, model 2, our main specification; the explanatory variable accounts for 49.76% in the same model. This implies that interstate tension contributes approximately half the variance estimated in explaining the ESG performance of subsidiaries of foreign MNEs. To further rule out that the outcome is driven by outliers in the sample, we also conducted Grubbs's (1969) test, the maximum normalized residual test, to detect outliers. The test iterates the search for outliers until there are no outliers in the sample. We searched for potential outliers by iterating 16000 times and found that there is one possible outlier ($t = 5.50$, $\widehat{Y} = 25.871$). We ran a regression after excluding that outlier; the results remain unchanged and still strongly support our theories.

We further tested our specification by correcting standard errors for clustering at both the firm and home/host country-pair levels (Bertrand et al., 2004), because the variation in our explanatory variable is situated at that level. The results, not reported here, remain robust.

4.1 | Robustness checks

4.1.1 | Ruling in or out the effect of boycotts

The literature on social movements has shown that consumer boycott is a factor driving organizational change; boycotts exert external pressure on organizations (King & Soule, 2007).

Companies targeted by boycotts often face public scrutiny; targeted firms are compelled to reassess and modify their practices, policies, and/or offerings to placate stakeholders and thus minimize economic or reputational loss (Ingram et al., 2010). In this study, consumer boycotts caused by interstate tension may have driven foreign MNE's ESG performance; firms would have attempted to reduce host-country public pressure by demonstrating prosocial behavior via ESG. Therefore, in this robustness check, we attempt to rule in or out the effect of boycotts to further confirm our theory that foreign MNEs will improve their ESG performance in the wake of interstate tension to enjoy the insurance-like benefits is orthogonal to host-country boycotts (please see Table A3).

To construct the boycott measure, following the methodology used in social movement studies (e.g., McDonnell & King, 2013), we searched news articles in the Factiva database using the search term *boycott*. Next, following prior studies, we created a dummy variable based on firm, industry, and country identifiers for each published article, indicating whether a given boycott targeted a foreign MNE, its industry, or home country, (e.g., Gupta & Briscoe, 2020; Ingram et al., 2010). We additionally controlled for these newly created variables to determine whether doing so weakened our main results. The results in Table A3 confirm that our theories are still strongly supported even after controlling for the firm-level boycott variable. We further created an interaction term between our main explanatory variable, *interstate tension*, and the firm-level boycott variable, and ran a regression. However, our results remain unchanged, ruling out the possibility that boycotts drove the results. We also tested two other boycott measures at the industry and country levels; the main results remained robust.

We think the results above may be driven by characteristics of ESG. Although enhancing ESG can provide insurance-like benefits by demonstrating prosocial behavior of firms, ESG strategy is unlikely to allay the concerns raised by the boycotting stakeholders (Godfrey et al., 2009; Shiu & Yang, 2017). Boycotts aim to change targeted groups' behavior or practices; ESG does not directly address such demands. Moreover, boycotts driven by interstate tension express collective hostility to the boycotted firms' home country (Klein, 2002). In the case of this type of boycott, as distinct from firm-targeting boycotts, firms are unable to directly address the main stimulus of the boycott (Harmeling et al., 2015). In future studies, identifying a more effective strategy under such circumstances described above would provide a more comprehensive understanding of the nonmarket strategy and its effectiveness.

5 | CONCLUSION AND DISCUSSION

> Geopolitics (and its impact) has become a more structural issue in global business. Thus, it's become a huge burden for us to better deal with it (field interview with the former CEO of a global automotive company's Korean subsidiary, March 2024).
>
> I believe it is quite evident that the global business environment is getting less stable and more unpredictable … and this is deeply rooted in structural transformation in geopolitics (field interview with a senior executive director of a large Korean multinational enterprise, February 2024).

We live in a globalized society, in which all countries are connected and people enjoy the same food, music, movies, TV shows, and the like. At the same time, nationalism and populism are surging in many nations (Devinney & Hartwell, 2020). Meanwhile the longstanding global order has been seriously weakened; greater uncertainty is driving lower predictability (Acharya, 2017), and as a result multinational corporations are facing a business environment characterized by more frequent and more intense interstate tensions, often leading to serious conflicts (Arikan & Shenkar, 2022). However, few MNEs can simply leave host countries; instead, they need to find a way to survive by enhancing their legitimacy.

This study proposes that media-reported interstate tension between the home and host countries of a subsidiary of a foreign MNE will shape the perceptions of host-country stakeholders, and in particular those of ordinary citizens. As more conflictual events are reported by the host-country media, ex ante, host-country stakeholders will likely impose increasing pressure on firms from the focal country. We argue that foreign MNEs will in turn intensify their ESG activities to alleviate such anticipated pressures by activating ESG's insurance-like benefits (Luo et al., 2018; Mithani, 2017). Our empirical results show that foreign MNE subsidiaries' ESG activities are heterogeneous, dependent not only on the nature of the pressure they experience but also on the effectiveness of ESG ex ante.

This study makes several theoretical contributions. First, it contributes to the international business literature. As global business environments have become more volatile, scholars have emphasized the importance of foreign MNEs' management of such turbulent environments (Napier et al., 2023). However, prevailing understanding of the effects of geopolitical tension—and of firms' strategy for dealing with such tension—is far from complete (Aguilera et al., 2019). In particular, the causes and effects of interstate tension vary. Some tensions are caused by fundamental ideological difference (e.g., disagreement over policy at the United Nations); others are not (Kim & Siegel, 2024). Some tensions are more relevant to political elites; others are more germane to different stakeholders (Meyer & Li, 2022). Furthermore, the effectiveness of a given nonmarket strategy is not uniform: a given ESG effort can help alleviate institutional pressure in one context but not in another. Our study explores the media's role in shaping citizens' perceptions of one type of geopolitical tension. Its findings shed light on an underexplored topic in international business: the effect of media-reported geopolitical tension on MNEs' strategy.

Our study also contributes to the nonmarket strategy literature, and particularly to the literature on ESG in the context of international business. Although prior scholarship has shown that ESG activities fortify foreign MNEs' perceived legitimacy, our understanding remains limited. Many independent institutions evaluate firms' ESG activities, but data on foreign subsidiaries is often scant or lacking. By examining the ESG scores of MNEs' subsidiaries in host markets, we believe that our study provides a better understanding of how such subsidiaries use nonmarket tools to deal with host-country institutions. It would be helpful for future research to study whether and how ESG activities in the face of geopolitical tension can also help firms to achieve more immediate and tangible outcomes. For example, prior studies show that increased ESG efforts can minimize negative stakeholder reactions (e.g., Rathert, 2016). Other studies show that vigorous ESG produces positive stock-market return (e.g., Flammer, 2013). This pattern implies that ESG efforts in the wake of geopolitical tension can help foreign subsidiaries achieve positive market and/or nonmarket outcomes. Therefore, it would be fruitful to study whether this effect applies to foreign MNEs' ESG efforts, and if so under what conditions, how, and at what magnitude of effort it helps firms achieve various types of tangible outcomes.

Though our findings support our theoretical assertion about the effects of geopolitical tension on foreign MNEs' ESG performance, our empirical context and operationalization have limitations. That is, we examine the ESG performance of publicly traded subsidiaries of foreign MNEs in a foreign market. These firms are very visible, and thus likely to elicit considerable institutional pressure (King & Soule, 2007). But many small and medium-sized foreign companies also maintain a presence abroad. Host-market pressures on them may be milder than what large MNEs experience, so enhancing their ESG activities may not be a viable option for such companies. Even so, it might be productive for future research to delve into whether these firms behave like large multinationals or pursue different strategic activities. For a large firm, accepting a host country's demands can create controversy in the home country; a case in point is the NBA's apology for its comments on Hong Kong, which elicited serious political backlash in the United States (Stevens et al., 2016). For smaller companies, however, cooperating with activists (Odziemkowska, 2022) may manage host-country pressure driven by interstate tension without engendering significant backlash in the home country. Further, our supplementary analyses show that host-country pressure can be heterogeneous for a range of reasons. This finding implies that other as-yet-unrecognized factors also shape firms' heterogeneous strategic responses to interstate tension. Identifying those factors can deepen our understanding of foreign MNEs' strategies in the wake of interstate tension.

Our study also has practical implications for corporate managers. Dealing effectively with turbulent global business environments has become an important strategic goal for managers in all industries (Aguilera et al., 2019). Our findings suggest that ESG can be an important nonmarket strategic tool, particularly in the face of increasing geopolitical risk and tension (Devinney & Hartwell, 2020). Our field interviews suggest, however, that despite its effectiveness in alleviating pressure from the general public, ESG may be less effective with other types of stakeholders or under other conditions. This finding implies that building and consolidating nonmarket dynamic capabilities is critical (Ballesteros & Magelssen, 2022). Therefore, corporate managers may want to rigorously pursue the nonmarket capability (Albino-Pimentel et al., 2021) of sensing exogenous shocks or changes in geopolitics more easily and quickly so that they can proactively and promptly allocate relevant resources and capabilities.

6 | SUGGESTIONS FOR FUTURE RESEARCH

6.1 | The interplay between MNEs' ESG and political strategy

One important motivation of this study is that prior research has mostly focused on political strategy as a response to geopolitical tension as geopolitics naturally involves political elites. Thus, while conducting this research, we became curious about whether MNEs engage in political strategy in the host country, alongside ESG, in the wake of interstate tension. Due to the scope of our study and the unavailability of pertinent data, we were unable to fully explore this question. However, our interviews provided hints: "I believe that ESG plays a significant role in alleviating geopolitical risks. Because our main constituents, voters, will see foreign firms positively if they are actively engaging in ESG, we voluntarily (or involuntarily) have to treat them well" (field interview with a former policy adviser to the Korean president, January 2024). Two practitioners also supported this viewpoint:

> Political strategy is effective only short-term because political power always changes … If we consistently show and engage in our ESG efforts, because people will positively perceive us, conducting ESG will be at the end of the day a more powerful strategy [than political strategy] in managing geopolitical tension (field

> interview with senior executive director of one of the largest Korean multinational enterprises, February 2024).
>
> ESG is fundamentally a strategic approach to managing host-country consumers … Firms' pro-social behaviors are positively evaluated regardless of host-country political regime and their motivation…Because ESG helps not only reduce any political pressure but also build strong consumer relationships, multinationals can more effectively manage higher pressure driven by the history between two countries through ESG than through political strategy (field interview with the head of global strategy/performance unit of one of the largest Korean multinational enterprises, February 2024).

In a follow-up interview, a former Korean diplomat concurred: "Although lobbying can be more effective in dealing with a very specific interstate issue, ESG in general can be a more effective and less risky strategy because political strategy in one country can trigger antipathy against the MNE in other host markets" (field interview, March 2024). These interviews suggest an interesting future research topic. To the best of our knowledge, most studies that examine MNEs' approaches to geopolitics have emphasized political strategy in managing interstate tension. However, our empirical results, as well as interviews, show that firms use different nonmarket strategies, which may imply that their effectiveness differs (i.e., political strategy vs. ESG) depending on the nature of the interstate tension in question. A future comparison of different nonmarket strategic tools could tease apart the underlying conditions that determine the effectiveness of different strategies, and thus paint a holistic picture of interactions between private and public politics in the geopolitical context (Baron, 2003).

6.2 | MNE heterogeneity and its effects in the wake of geopolitical tension

Another interesting and fruitful future research topic is to further examine the effect of MNE heterogeneity in the wake of geopolitical tension. The results of Hypotheses 2 and 3 illustrate that foreign MNE's ESG performance will be heterogeneous because institutional pressures will vary depending on the home country of the foreign MNE (country-level characteristics). The results may imply that institutional pressure can also vary with the heterogeneity of foreign MNEs (firm-level characteristics). For example, on the one hand, prior studies indicate that companies in consumer industries face more public scrutiny and are thus more exposed to institutional pressure (e.g., Diestre & Rajagopalan, 2014). On the other hand, if MNEs primarily do business-to-business businesses, the general public may not be the main source of institutional pressure but another source such as MNEs' host-country business partners can be the dominant source of pressure. In this scenario, foreign MNEs in the host country would need to implement a different strategy to deal with institutional pressure from different stakeholders. This further implies that geopolitical tension can also change domestic firms' strategy in dealing with interstate tension such as business partner's negotiation strategy or domestic firms' competitive strategy to fully exploit interstate tension against foreign competitors, which also can ultimately change the competitive landscape between domestic firms and foreign MNEs in the host country.

Host-country experience is another example. Under the assumption that host-country experience and social embeddedness can help MNEs be seen as more legitimate (Hymer, 1976; Zaheer & Mosakowski, 1997), we can expect to see a foreign subsidiary with less host-country experience to be more likely to respond to interstate tension. On the contrary, another subsidiary with more experience in a host country may not need to respond as aggressively due to lower institutional pressure ex ante. Similarly, institutional pressure can also vary depending on whether MNEs are perceived as local (Chan & Makino, 2007). For example, if a local firm is acquired and becomes a subsidiary of a foreign MNE, it is likely to continue to be perceived as local, and thus experience lower host-country institutional pressure. By contrast, a firm established by a foreign MNE is more likely to be penalized since it will more likely be seen as a foreign entity. Although testing and reporting the results of these claims are beyond the scope of our study, we tested above possibilities and the results generally support our claims. Future studies examining such possibilities and further teasing apart the underlying mechanisms would greatly enhance our knowledge on the effect of interstate tension and firm strategy.

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DATA AVAILABILITY STATEMENT

The data for our analysis are sourced from public platforms such as the Global Database of Events, Language, and Tone (GDELT) Project, the International Crisis Behavior (ICB) Project, and so forth, as well as from a licensed source, the London Stock Exchange Group (LSEG; formerly Refinitv) EIKON platform. Restrictions apply to the availability of licensed data, which were used under license for this study. The data are available upon request, subject to permission from the LSEG Group.

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SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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