Do Supply Chain Relationships Matter for Firms' Non-market Strategies?

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Abstract

Supply chain relationships with partners operating in institutionally weak environments heightens exposure to ex ante risks stemming from these partners' socially irresponsible conduct. While these risks can be mitigated through vertical (re-)integration, many multinational corporations instead employ non-market strategies such as corporate philanthropy for risk management. Drawing on data from 344 publicly listed U.S. firms between 2010 and 2020, we find that lower institutional quality within a firm's portfolio of international partners corresponds to greater engagement in corporate philanthropy. This association is contingent on three control mechanisms such as internal quality management systems, relational embeddedness, and local subsidiary presence, which help reduce information asymmetry and promote goal alignment. Moreover, we observe that when a misalignment in a multinational firm's corporate philanthropy occurs, firm performance declines.

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