

Political connections, the liability of foreignness, and legitimacy: A business historical analysis of multinationals' strategies in Chile

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Research Summary: We conduct a historical analysis of the multinational corporations' strategy of creating connections with a host country's elite as a way of legitimizing its operations in contexts characterized by long-term political, social, and economic changes. We argue that the success or failure of these strategies depends on (a) the perceived legitimacy of these connections among a host country's society during times of change and (b) the capability of the multinational's political connections to shield it from challenges arising when the host country's social structure is undergoing deep transformations. We outline and follow a business historical approach that combines the theoretical frameworks of international business, strategy, organizational theory, and political science to analyze multinationals operating in Chile's energy and telecommunications sectors from 1932 to 1973.

Managerial Summary: Western multinationals face hard challenges when trying to legitimize their operations vis-à-vis the host country's societies in emerging and underdeveloped countries. One strategy developed by multinationals to neutralize potential challenges to their legitimacy has been to establish connections with influential members of the host country's elites. We study how this strategy fares in host countries that are undergoing dramatic political and economic changes. We first argue that overtly maintaining open connections with an elite that is viewed as a relic of an illegitimate past can become a liability. And, second, that highly visible connections are more likely to become a liability in times of political and social change than less visible ones. We illustrate our arguments with a historical study of the

strategies followed by American telecommunications and oil multinationals in Chile.

KEYWORDS

business history, Chile, legitimacy, liability of foreignness, MNCs, oil, political strategies, telecommunications

1 | INTRODUCTION

This article aims to understand how multinational corporations (MNCs) can maintain (or lose) legitimacy in the long term and in the face of continuous changes in host countries' political and economic environments. An MNC seeking to legitimize its operations vis-à-vis a host country's society faces additional challenges when compared to its domestic counterparts (Zaheer, 1995). Large segments of the host country's society view MNCs through the prism of perceptions or stereotypes regarding the MNC's home country, the industry in which the MNC operates, or the MNC itself (based on past behavior of the MNC in other countries) (Kostova & Zaheer, 1999). Strategies created by MNCs to legitimize their operations are constrained by their limited knowledge of the host country's culture and political system, as well as its written and unwritten laws (Kostova & Zaheer, 1999). This process is further complicated when we consider that MNCs must also legitimize their operations on various fronts, including the home country, their headquarters, and other global actors (Brenner & Ambos, 2013).

Some scholars maintain that one such strategy for MNCs to legitimize their operations—and, as a result, protect their property rights—is to create connections with influential domestic individuals (Boddeyn & Brewer, 1994; Kostova & Zaheer, 1999). These scholars argue that since members of the host country's elite are important legitimating actors, the more interests they have in the MNCs' operations, the less likely they are to support government threats against the foreign firms' property rights. Others add that MNCs can also create these links by appointing influential individuals on the MNC's subsidiary board of directors (Hillman & Wan, 2005; Kostova, Roth, & Dacin, 2008). These individuals, they argue, would legitimize the foreign firm's operations, thus neutralizing potential hostile actions against the MNC because such actions would also affect the interests of the host country's elite. Sojli and Tham (2017) add that these connections bring economic benefits to the MNCs. These interpretations assume a static wider political and economic context.

We conduct historical, archive-based research on MNCs operating in two different industries and argue two main points. First, we argue that the benefits of building political connections as part of an MNC's legitimization strategy depend on the long-term legitimacy of those connections in the host country. And, second, we argue that the less visible and open the political connections between the MNC and the domestic elite are, the better these connections can shield the MNC from hostile actions taken against it in times of political and economic change. By historical approach, we do not mean the use of long-term data for a quantitative longitudinal analysis, but one in which the historical information is analyzed in the context of a changing political and social environment (Lipartito, 2014). Our historical approach contributes to the global strategy field in several ways. First, we show that relations between an MNC and the host country are mediated by the historical evolution

of the wider political and economic context resulting from long-term struggles between different social groups over economic rents. This means that actions of governments toward MNCs in a particular point of time are the result of previous complex processes that require scholars to pay close attention to political, economic, and social historical trends. Second, those processes take place over long periods of time for which scholars might not have large amounts of reliable quantitative data. However, corporate and government archives provide insights on how the relations between MNCs and governments evolved. In this way, archival research of specific cases brings insights that studies based on mega databases for relatively short periods of time (say a couple of decades) cannot provide, as suggested by Doz (2011). And, third, we contribute to the literature of legitimacy of MNCs by showing how challenges to the legitimacy of an MNC's operations in the host country are historically determined by previous political and social struggles and that changes in the political and economic context will affect the firm's legitimacy.

In this article, we study the MNC's strategy of approaching the host country's elites as a way of establishing legitimacy when the host country is undergoing important political and economic transitions. We develop a type of analysis that considers challenges to the legitimacy of the political and economic environment, the roots of those challenges, and how those challenges could potentially turn the advantages of the connections with the elite into liabilities. We illustrate our article with the case of foreign oil and telecommunications MNCs operating in Chile from 1932 to 1973, a period of dramatic political and economic transitions for this country. The year of 1932 marks a political transition in Chile, from an oligarchic republic to a democratic regime that lasted until the 1973 military coup that started a military regime that continued until 1990. In economic terms, from 1932 to 1973, Chile adopted a state-led import substitution industrialization (ISI) protectionist model, which was abandoned by the military dictatorship in the early 1980s. We focus on the following firms: the U.S. telecommunications firm International Telegraph and Telephone Company (ITT), Standard Oil of New Jersey's subsidiary Esso, and the Anglo-Dutch oil firm Royal Dutch-Shell (hereafter Shell). During the period we study, these firms controlled close to 100% of the market. Both industries had important political importance due to the fact that they were regulated by the government (making political strategies crucial for the participating firms) and were very visible, as they offered final goods and services consumed by the general public for their everyday necessities.

The article is divided in the following sections: The second section discusses how the integration of historical analysis in our study of the MNCs' strategies consisting of building political connections in the host country helps management scholars solve the existing discrepancy in the literature. The third section explains our methodology. The fourth section studies the evolution of the legitimacy of the MNCs operating in Chile during times of changes in the institutional environment. The fifth section discusses the implications of our findings, and the sixth section concludes.

2 | MULTINATIONALS AND LEGITIMACY IN A DYNAMIC WORLD

The most widely accepted concept of legitimacy in management scholarship defines it as "a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). We also consider Suddaby, Bitektine, and Haack's (2017) idea of "legitimacy as perception," in which individuals confer legitimacy to the operations of an organization. Going beyond individuals, we consider how social groups organized around political organizations perceive the legitimacy of operations of particular organizations.

Management scholars consider legitimization as a dynamic process. Early studies on legitimacy focused on explaining the process through which organizations converged toward (or diverged from) an ideal defined by leading organizations, government agencies, or pressure groups (or the *organizational field*) (DiMaggio & Powell, 1983). Other scholars challenge this notion, arguing that an organization's size, available resources, or the vision of some individuals within it can allow the organization to gain the agency and capabilities to influence and shape the field, resist such pressures, or accommodate to them (Greenwood & Suddaby, 2006; Heugens & Lander, 2009; Oliver, 1991; Suchman, 1995). This latter group of authors, therefore, takes into consideration how changes in the field affect organizations, how organizations respond to those changes, or the effect of changes resulting from the actions of some organizations.

Following Davis and North (1971), we posit that the general principles determining how legitimacy is defined at the organizational field level need to be consistent with the wider norms ruling the society. This is why we bring into the analysis the concept of the *institutional environment*, defined as "set of fundamental political, social, and legal ground rules that establishes the basis for production, exchange, and distribution" (Davis & North, 1971, p. 6) and *institutional arrangements*, which are those "between economic units that govern the ways under which these units cooperate or compete" (Davis & North, 1971, p. 7). This means that the institutional environment provides the context under which the institutional arrangements organize themselves. Following these definitions, we assume that the organizational field as defined by DiMaggio and Powell (1983) forms part of the institutional arrangements.

As is the case with an organizational field, the institutional environment is not static or stable. Rather, we assume the institutional environment as constantly changing and resulting from previous conflicts over economic rents between different political groups or social classes (Acemoglu & Robinson, 2006). Within the struggle for power, each group has a particular view of the ideal institutional environment from which they can obtain a maximum of economic benefit. Those who are able to garner more political power eventually triumph and are able to define the new institutional environment. Even if the written political arrangements express an egalitarian distribution of economic and political power (*de jure* power), the group with the most political power will wield *de facto* power to access economic rents. Those groups not benefiting from the existing institutional environment will challenge its legitimacy and the legitimacy of the institutional arrangements associated to it (Leftwich, 2006). If the challenge is successful, the winning group will create a new institutional environment and delegitimize the previous one.

We study the creation of links between a MNC and the host country's elite as a strategy by the former to legitimize its operations. Several scholars maintain that by legitimizing its operations in this way, a foreign MNC would reduce potential hostile actions by the domestic government (Boddeyn & Brewer, 1994; Hillman & Wan, 2005; Kostova et al., 2008), but other scholars maintain that such interpretation wrongly assumes a stable political environment in which the elite's status is not contested (Bucheli & Kim, 2015; Feinberg, Hill, & Darendeli, 2015; Stevens, Xie, & Peng, 2016). This point has been corroborated by empirical studies showing that when firms create links with a country's elite in order to legitimize their operations and avoid hostile actions from the government, these links become a liability and a source of delegitimation if the elite is overthrown or replaced by an opposing political group coming to power through elections, referenda, coups, or revolutions (Bucheli & Kim, 2015; Bucheli & Salvaj, 2013; Darendeli & Hill, 2016; Leuz & Oberholzer-Gee, 2006; Siegel, 2007) or if the composition of the elite is modified due to changes in the country's economic structure (Sun, Mellahi, & Thun, 2010). These studies point to the following inconsistency: once the dynamic nature of politics is included in the analysis, the empirical evidence

does not support previous studies that proposed that the creation of links with the domestic elite acted as a buffer against challenges to legitimacy, as had been argued in Boddewyn and Brewer (1994), Hillman and Wan (2005), and Kostova et al. (2008). Following Granovetter (2017), links with the elite (as with any social network) are embedded within the existing social structure and accepted norms and are, therefore, consistent with the wider institutional environment. For Western MNCs operating in underdeveloped or emerging economies, challenges to their legitimacy are exacerbated by a historical legacy of colonialism, unequal economic relations, or military and political interventionism, all of which can enhance the perception that the elite with which the foreign firm built ties is a “sell-out” to foreign interests (Bucheli & Kim, 2015).

Based on the previous discussion, we put forward the following propositions: (a) The institutional environment is subject to being challenged, and these challenges will affect the institutional arrangements between organizations; (b) a legitimization strategy consisting of creating links between the MNC and the host country’s elite can protect the firm from hostile actions from the government as long as the institutional environment is not challenged; (c) in the aftermath of changes in the institutional environment resulting from political struggles over economic rents, previously existing connections with members of the elite can become a source of illegitimacy for the MNC; and (d) in the aftermath of changes in the institutional environment, the perception of the MNC home country as allied with the previous order can become a source of illegitimacy for the MNC. The rationale of our argument is displayed in Figure 1, and the next section explains our methodology.

3 | METHODS AND SOURCES

We follow a historical approach that combines the contributions of international business, strategy, organizational theory, and political science to study how a foreign MNC can leverage its links with the elite in an underdeveloped or emerging host country, using them as a legitimization strategy. The complex nature of long-term changes in the institutional environment demands a reading that is attentive to the social and political history of the host country in order to understand the evolution

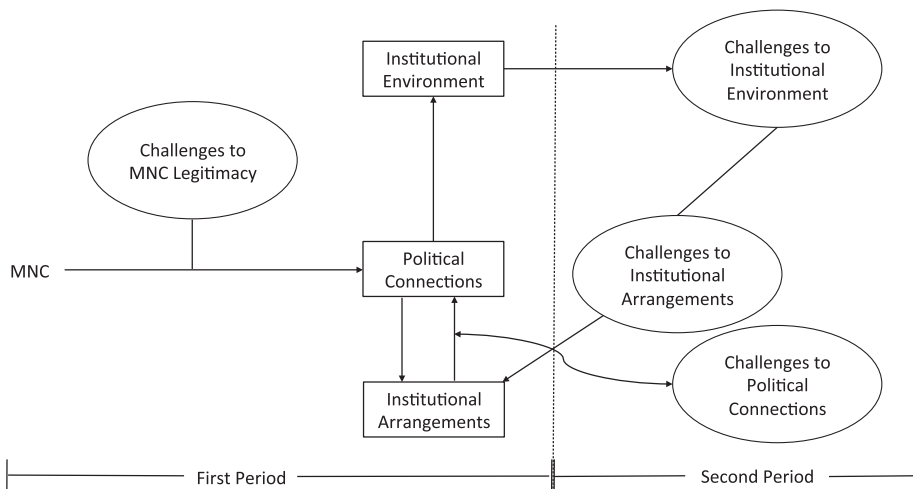


FIGURE 1 Conceptual model of challenges to the institutional environment and its effects on the legitimacy of MNCs’ institutional arrangements and political connections

of the struggles between different social groups over economic rents. We choose this historically informed reading in order to bring to the fore the context in which corporate strategic decisions were made and also to analyze how changes in legitimacy and legitimating actors at the institutional environment level can lead to changes in the legitimacy of the institutional arrangements level to which the MNCs belonged (Bucheli & Kim, 2014). This method allows us to analyze how changes at the institutional environment level affected the legitimacy of MNCs' strategies consisting in creating links with the host country's elite. In this way, our analysis zooms in and out of our reading of the MNCs' strategies by constantly placing them in relation to the larger context and the long-term elements that spurred changes in that context. Our methodology addresses the concerns expressed by Feinberg et al. (2015) and Stevens et al. (2016) regarding the problematic neglect of the dynamic nature of the institutional environment in analyses of the use political connections as a legitimization strategy.

To understand the interaction between changes in the institutional environment and the effectiveness of uses of political connections as a legitimization strategy, it is necessary to analyze in detail the links between these two processes. We share other scholars' concerns about the limitations of studies that use mega-databases or purely quantitative methods to define general trends of how firms make political connections (Suddaby, Foster, & Mills, 2014) and agree with Doz (2011) regarding the benefits of case studies for the analysis of MNCs' strategies. As firms are affected by the changes occurring in the larger context in which they operate, we consider that firms' decisions need to be analyzed "temporarily situated" and, therefore, studied through a methodology that integrates the analysis of their decisions within the context surrounding them (Wadhvani & Bucheli, 2014, p. 9). This is why our analysis of the context in which legitimization strategies were implemented is based on studies of Chilean history that focus on the parallel evolution of the country's elite, political parties, and the economy.

While the analysis of the context on the macrolevel or institutional environment requires a detailed reading of the evolution of a society and its political system, the understanding of a firm's strategic decisions require a microlevel analysis, which is why we conduct archival research. Following the methodology advocated by Decker (2013), Kipping, Wadhvani, and Bucheli (2014), and Taylor (2015), we read our archival sources in light of the historical context in which they were written and the agenda of those who produced them; we also take special precautions to avoid reading into them anachronistic concepts that would not apply to the historical moment in which they were produced (Zan, 2016). In this sense, we do not use our archival sources as mere "data" to feed longitudinal quantitative analysis, but approach them through careful contextualization (Lipartito, 2014; Yates, 2014).

To study the evolution of MNCs' legitimization strategy consisting of creating links with the host country's elite, we analyze the long-term evolution of the political composition of the boards of directors of the MNCs and of Chilean firms operating in Chile's telecommunications and oil sectors from 1932 to 1989. To understand that composition, we surveyed the annual reports prepared by these firms during that period and reconstructed the biographies of each member of the board by conducting archival research at Chile's *Superintendencia de Valores* (the Chilean equivalent of the American Securities Exchange Commission). The biographical data on these board members is not included in corporate annual reports, so we created a biography for each of them using a range of sources, including newspaper and magazine articles (published both in English and Spanish), biographical dictionaries, and books and articles on Chilean history and on the history of the industries we study. It is worth noting that most of the sources we consulted are not available on the web or in any electronic format, so this required detailed time-consuming library and archival research.

To understand the directors' political orientations, we situated their biographies within the context of the evolution of Chilean politics. This demonstrates our awareness that the constituency following a specific party or this party's ideological orientation fluctuates and shifts over time; for instance, 1926 is not going to be exactly the same as in 1960. This is why we examined carefully the history of Chilean political parties, considering how their ideology, constituency, and platforms have evolved from 1932 to 1973 and how this evolution affected their relations with MNCs. Because of the dynamic nature of long-term political processes, we resist the possibility of codifying political parties or their ideology in the long term. We succeeded at contextualizing firm-level events within the larger political and economic environment by constantly "zooming in and out" our analysis of the firm-level events in relation to the long-term processes affecting the firm's decisions, as proposed by Wadhvani and Bucheli (2014).

We also follow the literature that argues that those challenging the *status quo* will attempt to delegitimize existing arrangements by emphasizing how these arrangements are connected to a system they view as illegitimate (Bucheli & Kim, 2014; Leftwich, 2006). To understand the long-term process of delegitimization of the arrangements between the government and members of the private sector (including foreign MNCs), we examined transcripts from the Chilean parliament's sessions during the period (not available in electronic form).

The political sensitivities behind the MNCs' political connections require an analysis of the relations between the host and home countries. This is why we consulted the U.S. Central Intelligence Agency (CIA) declassified documents on the conspiracy against President Allende (1970–1973). We also visited the archives of the United States Department of Justice investigation of the operations of American oil MNCs abroad stored at the Baker Library of Harvard Business School. These unique documents provided us with information about the relationship between the oil MNCs and the Chilean elites.

4 | HISTORICAL EVOLUTION OF THE CHILEAN INSTITUTIONAL ENVIRONMENT AND EFFECTS ON THE LEGITIMIZATION STRATEGIES OF MNCs

Chile is considered a textbook case of an institutional environment that changed as a result of struggles between social groups in the twentieth century (Navia, 2013). These changes are summarized in Table 1. Here, we analyze how foreign MNCs developed their political connections in Chile from

TABLE 1 Evolution of the Chilean institutional environment, 1913–1989

Period	Political environment	Economic environment
1913–1932	Transition from close an open one political system; emergence of middle-class political parties	Transition from open export-oriented economic model to import substitution industrialization model (ISI)
1932–1958	Political competition dominated by center and right-wing parties	Consolidation of ISI
1958–1970	Rise of new middle class- and working class-oriented political parties; demise of right-wing parties	Exhaustion of the ISI model (inflation, devaluation, deficit)
1970–1973	Socialist experiment; instability due to strong opposition to the government	Attempts for statization of the economy
1973–1989	Right-wing military authoritarian regime	Replacement of ISI by an open export oriented model

1932 to 1973 and focus on the implications that changes in this institutional environment had for this strategy.

4.1 | Seeds of transition: Opening the political system while closing the economy (1913–1932)

During the first three decades of the twentieth century, Chile's institutional environment underwent important changes. The country started the century as an oligarchic republic in which voting rights were restricted to the upper classes represented by the Liberal and Conservative parties. This republic adopted an export-led economic model based mostly on a foreign-dominated mining industry (Meller, 1990).

The export-led growth model was reevaluated after the closure of European markets during World War I. President Arturo Alessandri (Liberal, 1920–1924, 1925) proposed a political reform granting voting rights to a wider segment of the population and an economic reform that aimed for a progressive income redistribution. The traditional landed elite opposed the reforms and overthrew Alessandri in a coup in 1924. Back in power after a countercoup in 1925, Alessandri went ahead with constitutional reforms granting voting rights to the majority of the male population, decreasing the power of the traditional landed oligarchy, and supporting labor unionism, in addition to proposing economic reforms aimed at replacing the existing model with a new one based on industrial protectionism (Blakemore, 1993). The economic crisis generated by the Great Depression and the ensuing political turmoil consolidated the consensus around these reforms, permitting Alessandri to go in full force with them after returning to power in 1932. Starting that year, ISI and social welfare spending became the government's official economic policy and was accepted by consensus among most political parties (Meller, 1990).

Politically speaking, 1932 marked the beginning of a period in which Chilean politics were dominated by five political parties: two right-wing parties (the Liberals and Conservatives, which represented the secular/urban/industrial and Catholic/rural/landowning factions, respectively, of the Chilean right); the Radicals, which represented the political center; and the rising Communist and Socialist parties on the left. The industrialization model launched in 1932 thrived particularly during the rule of the center-left Radical party (1938–1941) and led to the enlargement of the urban middle and working classes (Ffrench-Davis, Muñoz, Benavente, & Crespi, 2000).

The evolution of the institutional environment up until 1932 facilitated the entry and operations of MNCs. Shell and Esso arrived in Chile in 1919 and 1913, respectively, and in 1928, they cartelized the Chilean oil products market, of which they controlled 100% until 1934 (Bucheli, 2010). ITT arrived in Chile in 1927 after making an acquisition that granted it control over 78% of the domestic market (Bucheli & Salvaj, 2013). The new firm was named *Compañía de Teléfonos de Chile* (hereafter ITT-CTC).

4.2 | Import substitution industrialization and the building of political connections (1932–1950)

In the 1930s, Chile created an entire institutional framework around the protection and promotion of its industrial manufacturing sector. The private sector increased its cohesiveness and interconnections (Salvaj, Lluch, & Gómez, 2018), organized itself around trade associations to collectively coordinate their operations with the government's national industrialization plans and lobby for subsidies and protection (Schneider, 2005), and adopted a governance structure dominated by diversified business groups (Islas, 2015). Additionally, the government created a whole set of organizations to channel funds toward particular industries and coordinate investments in industry

and infrastructure with the private sector. The most important of these agencies was the *Corporación de Fomento* (CORFO), whose investments in machinery accounted for 30% of the country's total investments (1939–1954), leading to a 246% growth of industrial production from 1940 to 1954 (Mamalakis, 1976).

In sum, after the economic crises generated by World War I and the Great Depression as well as Alessandri's political reforms, Chile created an institutional environment characterized by a close relationship between an industrial elite and a government that also invested in basic welfare spending benefitting the lower classes. The political reforms undertaken in the 1930s opened the door to the rise of new political parties representing the middle and lower classes whose growth eventually affected the whole institutional environment in the following decades.

4.3 | Political connections as a protective shield: Oil

The creation of the ISI model soon affected the operations of MNCs. In 1934, the Chilean industrial elite created the *Compañía de Petróleos de Chile* (COPEC) in a quest to enter the oil products business, but initially faced the opposition of the cartel. COPEC, however, had the strong support of the Chilean government, which proposed a new cartel comprising COPEC, Esso, and Shell. Aware of the potential political backlash and with no support from their embassies, the MNCs agreed on the creation of the cartel in 1935 (Bucheli, 2010).

An analysis of COPEC's top managers and board of directors gives a good picture of the type of political connections that Esso and Shell endeavored to build by accepting the Chilean firm as a member of the cartel. COPEC's founders belonged to a new class of young, sophisticated engineers who were big ISI enthusiasts (Corbo & Meller, 1978). Most were members of influential business associations, were interested in having a say in how energy resources were managed, and opposed actions against foreign investors (Ibáñez, 2003).

Our analysis of COPEC's board from 1939 to 1970 shows that most of the individuals holding executive positions or who were members of the board were connected to the Radical party (the champion of the industrialization model). In fact, by 1939, COPEC was one of the most central and connected firms in Chile (Salvaj et al., 2018). Those with connections to the Liberal and Conservative parties were a minority. We also find that some of the directors maintained a close connection with CORFO, the government's main industrialization arm. It is worth highlighting that conservative directors were involved in the financial and transportation sectors and not just the agrarian one (as mentioned earlier, the Conservative party represented the interests of traditional Catholic large landowners). See the Appendix S1 for details on COPEC's board members.

Around the time of the creation of the cartel with COPEC, Shell and Esso demonstrated awareness of how their opposition to this new member could potentially generate legitimacy problems. Information we unearthed from our archival research in unpublished documents of the United States Department of Justice indicates that, for a brief period of time, some COPEC's leaders toyed with the idea of creating a government-supported national monopoly around COPEC—an idea eventually rejected both by the government and other leaders in COPEC.¹ The same archives attest to how relieved Esso was after the idea of the national monopoly was shelved and also reveal how they acknowledged that opposition to their presence in the Chilean oil sector was understandable and resulted from its “high handed methods of doing business.”²

¹Petroleum Industry Anti-Trust Collection: Division of Markets: Chile. Historical Collections, Baker Library, Harvard Business School, Boston, Massachusetts, United States, 1952 (hereafter PIATC), Case #5: 4–5.

²PIATC, Case #5: 3.

COPEC's presence in the oil cartel proved beneficial for the legitimation of foreign MNCs' operations. In 1938, Chile's president Aguirre (former COPEC president) advocated once again and unsuccessfully for the monopolization of the oil sector in Chilean hands. Opposition to this proposal came both from the Chilean elite (including COPEC's leadership) and the American and British governments (Monteón, 1998).

During the 1950s, Esso faced legitimacy challenges both from its headquarters and Chile. As suggested by Kostova and Zaheer (1999), MNCs face legitimization pressures from both their headquarters and the host country, as was clearly the case for Esso. As the cartel agreement expiration date of 1951 approached, Esso's headquarters in New York instructed the firm not to renew its participation in the cartel with COPEC, something stated in a letter addressed to the Chilean subsidiary that we found in the Department of Justice archives.³ Esso officials in the subsidiary, however, disagreed and renewed the agreement in 1952 for two more years and then again until the 1960s (Bucheli, 2010). This demonstrates that the subsidiary was aware of the legitimacy granted by their participation in the cartel and COPEC's presence.

4.4 | Seeds for political challenges in the telecommunications sector

The institutional environment created by Alessandri's reforms also affected the telecommunications sector. ISI led to a rapid urbanization process that translated into higher demand for telephone service with which according to ITT-CTC, the firm could not keep up due to increasing costs (ITT-CTC, 1945, 1946, 1947, 1949). In 1950, the government allowed ITT-CTC to increase phone rates by 60%, a highly unpopular measure at a time when the inflation rate was at 23% (Braun, Braun, Briones, & Díaz, 2000). ITT-CTC's seeming inability to provide this basic service led some members of the Chilean elite (including members of CORFO) to propose the creation of a state monopoly (Guajardo, 2005).

5 | CHALLENGES TO THE LEGITIMACY OF THE IMPORT SUBSTITUTION INDUSTRIALIZATION MODEL AND CHANGES IN THE LEGITIMACY OF POLITICAL CONNECTIONS

Several important events took place in the 1950s that challenged the institutional environment that had dominated Chile since the 1930s. The heavy government spending ISI required led to high inflation rates (71 and 83% in 1954 and 1955, respectively). The government response only added to the existing discontent, as it consisted of slashing government spending and subsidies while allowing utilities (including telephone) to increase their rates (Moulian, 2006). As a result, the middle class abandoned the Radicals and supported the Christian Democratic party (created in 1957), while important segments of the working class became supporters of a Communist/Socialist coalition, FRAP (*Frente de Acción Popular*, created in 1956).

Despite their different ideologies, the Christian Democrats and FRAP shared strong criticisms of ISI. The Christian Democrats claimed that big businesses had been the main beneficiaries of this model and advocated new tax policies and wealth redistribution policies. FRAP agreed with the Christian Democrats that ISI had benefited big capital more than anyone else (especially shortchanging the working class), but, unlike the latter, FRAP offered as a solution the expropriation of MNCs and government control of monopolies. Even the rightwing Liberals and Conservatives criticized ISI, but advocated a smaller government and privatization as a solution to inflation (Navarrete,

³PIATC, Case #5: 7.

2005). In sum, the legitimacy of the institutional environment created around ISI came to be increasingly challenged by different segments of the political sphere.

In 1958, the Liberals and Conservatives had their candidate Jorge Alessandri (son of former president Arturo Alessandri) elected president by a narrow margin (31.6% of the total) over the FRAP (28.5%) and Christian Democrats (20.5%) candidates. This represented the last fight waged by the Liberals and Conservatives to ensure their political survival against increasingly powerful left and center parties. Aware of the right's decreasing popularity, Alessandri portrayed himself as a post-partisan technocrat, while the Christian Democrats and the left portrayed him as a representative of the old oligarchy and foreign interests (Drake, 1993). Alessandri's strategy to fight against inflation by opening borders to foreign goods backfired badly: exports stagnated, imports increased, and inflation did not go away, giving political ammo to the opposition (Ffrench-Davis et al., 2000).

With the institutional environment being questioned by these new emerging political actors, some of its associated institutional arrangements were challenged as well. The following sections show how the differences between the oil sector's political connections and those of the telecommunications sector led to different outcomes in the management of challenges to the institutional arrangements resulting from the challenges faced by ISI.

5.1 | Challenges to institutional arrangements and protection through political connections: Oil

Serious challenges to the legitimacy of the institutional arrangements in the oil sector came in 1959, after Chile's approval of its first antitrust legislation. Those bringing the cartel to court believed that this arrangement acted against Chilean consumers by benefiting only big domestic and foreign capital (Bucheli, 2010). On the few occasions in which the legality of the cartel was challenged, Chile's Anti-Trust Commission concluded that as long as a Chilean company benefitted from the arrangement, the government would not take action against the cartel (Furnish, 1971; COPEC, 1961). This meant that a protection granted to COPEC also protected Esso and Shell, who remained quiet during debates around antitrust issues.

5.2 | Challenges to institutional arrangements and political connections as a liability: Telecommunications

During the late 1950s, ITT-CTC celebrated in its reports the government's repeated approval of hikes in telephone rates (ITT-CTC, 1957–1960). However, the political costs for the firm of these policies were high. In 1962, a series of debates took place in the Chilean parliament focusing on the institutional arrangements in the telecommunications sector, and ITT-CTC was attacked from many fronts.

The Chilean left, right, and center consensually agreed that ITT-CTC's contractual terms were too generous, rates were high, and the service was bad, but they disagreed on the solutions. The right (Liberals and Conservatives) blamed the existence of the ITT-CTC monopoly and lack of competition, so they advocated for a liberalization of the field by opening the door for other firms to participate. The center (Christian Democrats) blamed corruption and lack of government oversight. Finally, the left blamed the imperialistic nature of MNCs and proposed the total state takeover of the industry (Chilean Parliament, 1962). Against a background of ongoing complaints against ITT-CTC, the Christian Democrats changed their original proposal and joined the left at advocating for expropriation (Chilean Parliament, 1963).

Three arguments were used to delegitimize the institutional arrangements under which ITT-CTC operated. First, both the Christian Democrats and the Socialists highlighted the fact that this was an

American company and, therefore, a representative of “U.S. imperialism,” thus shifting attention from the basic question of phone rates toward issues of sovereignty and imperialist exploitation (Chilean Parliament, 1963).

Second, when the Liberals and Conservatives said that, in a country governed by the rule of law, corporations could not be expropriated at the government’s whim, the left and center counterargued by saying that the contract between ITT-CTC and the Chilean government lacked legitimacy, as it had been signed during a less democratic period (Chilean Parliament, 1963).

And, third, the opposition pointed out the political composition of ITT-CTC’s board in its attempt to delegitimize the firm. In a lengthy intervention, a Christian Democrat legislator showed that ITT-CTC’s president (Ernesto Barros Jarpa) had previously served as vice president of the Liberal party and Minister of the Interior and of Foreign Relations. After denouncing these political ties, the legislator proceeded to read the list of ITT-CTC directors, emphasizing the fact that most of them belonged to the Liberal and Conservative parties (Chilean Parliament, 1963). At some point, Christian Democrat legislators described ITT-CTC’s board as one that featured “the most reactionary elements in the country,” while a Socialist portrayed it as “a relic of the past,” which in their view left no alternative to expropriation (Chilean Parliament, 1963, p. 1330). That same year, the influential weekly magazine *Vistazo* published a lengthy investigative article criticizing the ties that ITT-CTC’s board maintained with the traditional right, the financial sector, and government agencies (Vistazo, 1963). It is worth highlighting that *Vistazo* also criticized the links between COPEC, the government, and other firms, but that MNCs Esso and Shell are nowhere to be found in these criticisms. It is also worth noting that no comparable debate regarding the oil cartel was held in parliament during that period.

When the Christian Democrats and Socialists sought to delegitimize ITT-CTC by pointing out the political composition of its board, the Liberals and Conservatives dismissed their point. Using a wide range of sources, we researched the biographical information of all the 17 directors or individuals in executive positions who worked for more than 4 years in the firm from 1950 to 1970, and we found that one was a Christian Democrat, 10 were Conservative or Liberal, and six had no clear political affiliation. Some of these directors guaranteed that the firm maintained strong ties with government agencies, as was the case of José Manuel Balmaceda (a member of a traditional patrician family), Vicente Izquierdo (related to the Alessandris and close to CORFO), José Ramón Jimenez (the conservative owner of a newspaper), Guillermo Correa (an influential Liberal politician), and Ernesto Barros Jarpa (a former Liberal president). Critics attributed a strong symbolic value to other figures, such as Fernando Eguiguren (member of the ultraconservative organization *Acción Católica*), Luis Subercaseaux (former manager of the conservative National Agricultural Society and ambassador at Vatican City), and Tomás Rodríguez Brieba (staunch defender of the Catholic Church’s rights). The legislators also highlighted the fact that Pedro Silva (the president of Chile’s Supreme Court) also served as the firm’s director, which, in their view, gave the firm unfair legal advantages (the Appendix S2 displays detailed information on ITT-CTC board composition and political affiliations).

6 | THE CHRISTIAN DEMOCRATS’ ATTEMPT TO CHANGE INSTITUTIONAL ARRANGEMENTS

The 1964 elections changed Chile’s political landscape. The Christian Democratic candidate Eduardo Frei won with 56% of the vote, followed by FRAP’s candidate Marxist Salvador Allende with 38.9%, and the Radical party candidate with a mere 5%. The weakened Liberals and

Conservatives did not even nominate a candidate (Corvalán, 2002). The left had become the second major political force in Chile—a fact did not go unnoticed by the Chilean elites, the MNCs, and the U.S. government.

6.1 | Domestic connections as a shield for foreign investors: Oil

During his presidential campaign, Frei criticized the anti-consumer bias of the existing economic model. Shortly after his inauguration, he prohibited the oil cartel from increasing consumer prices and proposed the nationalization of gas distribution. The latter became a matter of concern for COPEC and, in its annual report, the firm published a long letter in which it made an impassioned defense of its role in the Chilean economy, arguing that it played a patriotic role that was now endangered by a potential state takeover of the industry (COPEC, 1968–1969). It is worth mentioning, in COPEC's defense, that it does not mention at any point the foreign MNCs that were part of the cartel. Frei eventually reneged on his project to nationalize the gas sector, a reversal that frustrated the left-wing opposition (DeVylder, 1989).

6.2 | Legitimacy challenges due to political connections to a delegitimized elite: Telecommunications

During the Frei administration, the Socialists continued to criticize ITT-CTC's board and to propose its expropriation. Frei conceded on this front by creating a parallel state-owned company (ENTEL) that would provide coverage to areas not served by ITT-CTC and advocating a new legal framework that would allow the gradual transfer of ITT-CTC shares to the state (Galal, 1996). The left nevertheless considered this to be insufficient. Both the Socialists and Christian Democratic legislators continued their criticisms of ITT-CTC's board (Chilean Parliament, 1966). During those parliamentary debates, ITT-CTC sent a representative to explain the technical reasons for its limited coverage and high rates—in the midst of heated political debate, however, technical explanations did not convince critics (Chilean Parliament, 1966). During this period, the political composition of ITT-CTC's board remained unchanged, linking the firm with the financial and export sectors (Vistazo, 1963).

7 | THE SOCIALISTS' ATTEMPT TO CHANGE TO THE INSTITUTIONAL ENVIRONMENT

A major shift took place in the turbulent 1970 Chilean presidential elections with the election of Marxist Salvador Allende (36.6% of votes). The right reorganized itself under the new coalition party and finished second with 35%, and the Christian Democrats finished third with 28%. Allende's coalition included many who advocated for the elimination of private property and an alliance with the global communist bloc (Corvalán, 2002). Given Allende's orientation, it is understandable that the Chilean elite as a whole felt threatened. In response, they sought to forge alliances with the United States and sectors of the Chilean army (United States Senate, 1973). The CIA's declassified archives prove that Washington planned economic warfare and political agitation against Allende even before he took power (Kornbluh, 2013).

7.1 | Quietly hiding behind domestic political connections: Oil

The CIA archives show that the U.S. Department of State approached the members of the Chilean oil cartel in its quest for allies in the economic warfare against Allende and received a positive

response, as reflected on a cable from a cartel representative to the CIA in which the former expressed that “the economic situation is bad, but it would be good if it got worse,” (United States, Central Intelligence Agency, 1991: from Korry to Kissinger, 25 September 1970). Some Chilean military conspirators approached Esso early on to coordinate the distribution of oil during their planned coup (United States, Central Intelligence Agency, 1991). In short, the cartel members shared both the set of concerns and the plans of opponents of Allende’s agenda and were willing to participate in the CIA’s plan.

The period of economic warfare and political turmoil highlights COPEC’s role in shielding foreign MNCs. COPEC’s worst financial performance ever came in 1971 and 1972, a turn the firm blamed on the new government controls on the economy (COPEC, 1971–1972). This assessment needs to be read with skepticism given the fact that other sources show that the firm volunteered to participate in the economic warfare. As for Allende, he barely mentioned Esso and Shell when criticizing COPEC (Rojas, 1976). Again, even in this critical juncture when the entire institutional environment and institutional arrangements were under threat and when the government could easily use the excuse of foreign imperialism to act against MNCs, the oil firms remained quietly hidden behind the domestic actor that shielded them. It is also worth noting the silence of the parliamentary records regarding the oil sector during this period.

7.2 | Political alliances as the final element legitimizing expropriation: Telecommunications

The CIA archives reveal that ITT-CTC enthusiastically volunteered to support the 1970 right-wing presidential candidate (United States, CIA, 1991). Once Allende was in power, the same archives provide evidence of how the CIA sought this MNC out as an ally in the ongoing economic warfare (United States, CIA, 1991). Adding to the political storm, in August 1972, the *Washington Post* leaked cables proving a CIA-ITT collusion to conspire against Allende. The Chilean government reacted immediately and swiftly expropriated the firm (Kornbluh, 2013).

It is worth highlighting that Allende’s expropriation of ITT-CTC was not met with very strong opposition. This is particularly important if we take into account that, during Allende’s administration, the opposition attempted to block most of his initiatives. Clearly, the loss of legitimacy that ITT-CTC had suffered among most constituents made defending it a politically costly endeavor. Moreover, the firm’s strategy of conspiring with its home government against the host country’s government meant that those who attempted to defend it risked endangering their own image as defenders of national sovereignty.

8 | DISCUSSION: HISTORY CONTINUES

Pioneering works in MNC strategy adopted a holistic approach that allowed the researchers to pay attention to the political environment in which MNCs operate and the historical evolution of that environment (Hymer, 1976; Kindleberger, 1969; Vernon, 1971). That interest partially responded to the Cold War context in which those studies were written. Western MNCs became vilified actors on a range of fronts that included the 1968 global youth rebellions and decolonization movements, as well as scholarly works following dependency theory and Western Europeans anxious that they could lose against the “American challenge” (Dos Santos, 1970; Pakenham, 1998; Servan-Schreiber, 1968). This changing environment in which historical grievances were often used to legitimize increased regulations or expropriation of foreign firms made it difficult for scholars studying MNCs

to ignore historical processes and the institutional environment, spurring long-term studies on MNCs' strategies (Wilkins, 1970, 1974).

The use of a holistic approach drastically decreased from the 1980s to the 2000s. Two reasons explain this shift. First, the global adoption of market-friendly policies diminished tensions between MNCs and host countries, giving the impression that politics had ceased to be relevant when studying MNCs' strategies (Boddeyn, 2016). And, second, a new paradigm emerged in business schools in which the type of research accepted as "valid" consisted of papers using sophisticated quantitative methods to systematically test theory-derived hypotheses (Üsdiken & Kipping, 2014). This new paradigm had an incidence on tenure decisions and business school rankings; research was also reshaped, as case studies and book-length monographs studying long-term processes, or time-consuming archival research were strongly discouraged. As a result, fruitful dialogue between historical perspectives and management studies witnessed in the 1960s and 1970s came to an end (Leblebici, 2014). In fact, influential articles on international business theory written during the 1990s and 2000s explicitly assume the government as a fixed and exogenous variable (Behrman & Grosse, 1992; Buckley, 1993; Eden, Lenway, & Schuler, 2005; Grosse, 2005; Murtha & Lenway, 1994).

The early 21st century provided a new global institutional environment that led scholars studying MNCs to reconsider the role of the political environment. These dramatic changes included the 2008 financial crisis, the growth of emerging countries' MNCs and state enterprises, global corruption scandals involving MNCs, the rise of economic nationalism, and the return of expropriation as a tool of economic policy (Boddeyn, 2016; Hajzler, 2012). Studies of MNCs once again turned toward politics, as a new crop of scholars conducted large-scale quantitative studies analyzing the relationship between political regimes and the property rights of MNCs (Henisz, 2000; Jensen, 2006; Li & Resnick, 2003) in some occasions backed by specific case studies (e.g., Henisz, 2002; Henisz & Zerner, 2001). Other academics focused on the MNCs' political strategies (mainly lobbying activities) (Chen, Ding, & Kim, 2010; Hillman, Keim, and Schuler, 2004; Hillman & Wan, 2005).

The growing interest in analyzing the political context pertaining to MNCs' strategies led to calls to more closely examine the dynamic nature of this context. Cantwell, Dunning, and Lundan (2010) propose that the tendency to view the political and historical context as "background" should be abandoned and that it should instead be an integral part of analyses in which the MNCs' strategies evolve concomitantly with that context. They echo Jepperson and Meyer (1991, p. 2015), who warned about the dangers of "[ignoring the] systemic historical and political sources of [formal organizations]." Jones and Khanna (2006) and Verbeke and Kano (2015) add that our understanding of the coevolution of historical or political contexts and MNCs' strategies can benefit from historical case studies that analyze the nuances of this relationship (as an added benefit, they add that these types of studies help scholars refine theory on MNC strategy and inductively build theory).

The following subsections discuss how our efforts to (re)integrate political and historical aspects in the analysis of MNCs' strategies contribute to the global strategy scholarly literature.

8.1 | Multinational corporations' obsolescing political legitimacy

Our article engages directly with the literature on MNCs' legitimization strategy consisting of creating links with the host country's elite, in an attempt to neutralize potential hostile government actions (Boddeyn, 1988; Boddeyn & Brewer, 1994; Evans, 1979; Hillman & Wan, 2005; Kostova et al., 2008; Kostova & Zaheer, 1999). Other scholars add that firms can react to changes in the organizational field by resisting, shaping it, or accommodating to it (Greenwood and Suddaby, 2006; Heugens and Lander, 2009; Oliver, 1991; Suchman, 1995). Our perspective differs from these

analyses, as they implicitly assume a stable and legitimate institutional environment. Responding to concerns expressed by Bucheli and Kim (2014), Feinberg et al. (2015), and Stevens et al. (2016), we consider that the institutional environment is constantly changing and that its legitimacy can be challenged.

Our findings show a process in which the connections that one MNC (ITT-CTC) had forged with the host country's elite gradually lost legitimacy in the face of social, economic, and political changes in Chile, while the legitimacy of other MNCs (Shell and Esso) was not affected. The concept of *obsolescing political legitimacy* comes in handy when seeking to understand these diverging results. Obsolescing political legitimacy is defined as "a foreign firm's gradual loss of legitimacy with the local society resulting from the identification of this firm with a previous social and/or political regime increasingly perceived as illegitimate or archaic" (Bucheli & Kim, 2012, p. 849). We find that the ITT-CTC presents a clear case of obsolescing political legitimacy, whereas Esso and Shell do not, even though ITT-CTC and Esso came from the same home country, operated in politically sensitive industries, allied themselves with the host country's elite, and faced exactly the same changes in the institutional environment. Previous studies have shown how sudden regime changes can result in a loss of legitimacy of firms (Darendeli & Hill, 2016; Siegel, 2007). We demonstrate the benefits of studying longer-term changes that are often unperceivable for some of the actors who are in the midst of those changes, but that can be understood by analyzing the long-term evolution of the elite. During the period we study, the traditional Chilean oligarchy with which ITT-CTC made an alliance did not stop being part of the national elite. However, this elite had lost both legitimacy and political influence in the eyes of the ever-larger Chilean middle and working classes. The implication here is that the "elite" should not necessarily be studied as a solid bloc but as a complex and heterogeneous group composed of subgroups with divergent (and sometimes conflicting) agendas. As our study demonstrates, a long-term detailed analysis of the evolution of a host country's elite can provide us with insights to understand processes of obsolescing political legitimacy of an MNC.

8.2 | Historical research methods and MNCs' legitimization strategies

Following Cantwell et al. (2010), we consider that the evolution of the strategies of MNCs needs to be analyzed within the changing context in which they take place. Scholars have recently criticized sociological neo-institutionalism for casting aside the wider political and social contexts (Suddaby et al., 2014). "New" institutionalist scholars demonstrate a similar awareness when they call for studies that pay attention to how "major political struggles in modern societies revolve around the formation and reformation of rule systems that guide political and economic action" (DiMaggio & Powell, 1991, p. 28). Powell (1991, p. 183) adds that "political and institutional forces set the very framework for the establishment of economic action; these processes define the limits of what is possible...institutional processes help shape the very structure of economic arrangements."

In order to analyze the stability of an institutional environment and its contestability, we use the toolkit provided by economic history (Acemoglu & Robinson, 2006; Leftwich, 2006), which considers that the institutional environment results from previous struggles between different social and political groups over economic rents. Those representing the winners of those previous struggles create an institutional environment that favors the perpetuation of their privileges, while those feeling disenfranchised tend to question the legitimacy of that environment. Given that institutional arrangements are consistent with the institutional environment, challenges to the latter can result in challenges to the former. When studying operations of Western MNCs in underdeveloped or emerging economies, it is also necessary to consider the role of power relations between the host and

home countries in perceptions of the legitimacy of the operations of foreign firms (for a conceptual framework, see López-Alves, 2013; Nairn 1977; Smith, 1998).

An analysis of changes in the legitimacy of the institutional environment requires scholars to study the evolving composition of a society's elite, the strength of those contesting the elite's power, and the means through which the elite can perpetuate its privileged position. We follow Tyler (2006), who posits that an elite can be considered legitimate when it does not need to use violence to remain in its position and when the rules that it created for the institutional environment are obeyed without the threat of violence. Studies focusing on dramatic and sudden changes provide a clear view of the effects of changes in the institutional environment on the legitimacy of connections with the elite (Darendeli & Hill, 2016; Siegel, 2007). However, what are perceived as sudden changes in the institutional environment are usually the final outcome of long-term processes (North, 1990). For example, the rebellion against Egypt's business-friendly dictator Hosni Mubarak in 2011 took many MNCs by surprise, but closer analyses have shown that resentment grew across broad sectors of Egyptian society over the course of decades of increasing income inequality, inflation, and the perception that years of economic growth had only benefitted the MNCs and Mubarak's inner circle (Nagarajan, 2013). Once the conditions for open rebellion were generated, those disenfranchised members of the population overthrew the regime. Similarly, a nativist discourse that led to the Brexit vote in Britain or to the election of U.S. President Donald Trump in 2016 surprised many, but institutions such as the European Union, free trade agreements, or immigration policies had been gradually—if silently—losing legitimacy among a significant segment of the population for a while.

O'Donnell (1982) maintained that MNCs and domestic firms adapt more easily to gradual political, social, and economic changes than to sudden ones (like the ones resulting from a short revolution or a military coup). We show that gradual changes can also mislead MNCs in understanding where the change is coming from or toward where it is headed. Our results endorse our advocacy for studies that examine gradual changes in the legitimacy of the institutional environment by focusing on the evolution of the narratives generated about this environment among groups that express their disenfranchisement under the current institutional environment. As we demonstrate in the case of ITT-CTC, the narrative that portrayed its connections as illegitimate because they were forged in a past of illegitimacy began to develop more than a decade before the company's expropriation. Similarly, narratives defending the role of domestic entrepreneurs in the oil sector were consistent with long-term industrialization efforts.

There is a wealth of literature in political and economic history that provides sources for the analysis of changes in the institutional environment. We based ourselves on the works of Acemoglu and Robinson (2006) and Leftwich (2006) but, as stated by Lamoreaux, Raff, and Temin (2007), management scholars interested in incorporating the long-term evolution of the institutional environment can benefit from including the great works in economic history and from direct dialogue and collaboration with business historians (see Toms & Wilson, 2017). We add that authors often neglected by business scholarship because of their association with anti-business ideologies provide a vast array of analytical tools to study the processes that lead to changes in institutional environments and their legitimacy. These include Marx (1992 [1867]), Wallerstein (1979), and Luxemburg (2003 [1913]), among others.

We are not advocating that management scholars become historians. We are aware that in the academic division of labor, the detailed analysis of historical processes belongs to historians. Addressing this concern, scholars have developed useful methodologies to contextualize the operations of firms within the larger evolution of a country's politics and avoid the simple codification of regime types (Bucheli & Kim, 2014; Nickerson & Bigelow, 2008). Decker (2013), Lipartito (2014),

and Kipping, Wadhvani, and Bucheli (2014) offer useful methodologies for management scholars to analyze archival sources. Institutions such as Baker Library at Harvard provide an unmatched wealth of archival sources.

We chose to title this section of our article “History continues.” We borrow that phrase from the beautiful autobiography of medievalist French historian Georges Duby (1994), in which he advocated for the social importance of historical research. The message was that history does not stop, it has never stopped, and it continues to determine social, political, and economic relations. We posit that this message holds true for studies of these complex leviathans that are MNCs and, therefore, we advocate for a return of holistic studies that allow for a better comprehension of MNCs’ activities.

8.3 | Managerial implications

What can managers learn from our findings? It is tempting to answer by stating that “history matters.” Despite our efforts to avoid concluding our essay with that cliché, the challenges faced by managers in the uncertain globalized context have forced us to reluctantly restate that phrase. It is well known that the world in which MNCs operate is an uncertain one where friends of foreign MNCs can suddenly find themselves replaced by anti-globalization movements. For years, Western scholars argued that this problem was specific to non-OECD countries. The rise of anti-globalization movements in the West has forced us to rethink the idea that such risks exclusively occur in emerging or underdeveloped countries (The Economist, 2016). MNCs have also been encouraged to develop a “foreign policy” based on previously conducted careful political analysis of the countries where they invest (Chipman, 2016; Henisz, 2016). We believe that our study provides some insights about how this analysis should be conducted. First, MNCs should conduct a careful assessment of the political and economic regime’s legitimacy. A close reading of the opposition’s discourse (even in the case of repressive regimes) and an examination of how powerful that opposition is can provide clues about the regime’s legitimacy. Second, MNCs should determine which groups in the host country’s society feel disenfranchised, why they harbor these feelings, and what tools these groups have at their disposal to challenge the system (whether they are weak or strong). Third, MNCs need to remember that stability is not always synonymous with strength, as the sudden downfall of decades-long regimes such as Mubarak or Qaddafi attest. A mischaracterization or underestimation of the opposition can lead to unfortunate results. These three elements can be grasped with a sophisticated understanding of the historical processes taking place in the host country. Sudden and unexpected changes can turn political connections that provide a good network into a kiss of death. Managers should also be aware that changes that seem to happen overnight did not really happen in that short span. Challenges to a particular institutional environment usually build up over a lengthy period and very often happen under the radar of casual observers. This is why we also highlight the importance of keeping a low profile when building relations. So, we gave in to the temptation of stating that “history matters,” but we qualify that statement by adding that the kind of history that matters is the one that explains the particular composition of the elite, the characteristics of those opposing that elite, and the strengths and weaknesses of the whole institutional environment.

9 | CONCLUSION

We study foreign MNCs’ strategy of approaching members of a host country’s elite as a way of legitimizing the foreign firm’s operations vis-à-vis the host country’s society in the light of dramatic

changes taking place at the institutional environment level. We show that this strategy can be successful if the host country's society perceives those connections as legitimate. Connections with the elite can become a liability when the institutional environment changes due to challenges to its legitimacy posed by groups that feel disenfranchised by the system. This is particularly problematic in countries where resentment against MNCs from a particular country is used to delegitimize those firms' operations. We illustrate our study with the case of the MNCs operating in Chile's oil and telecommunications sectors from 1932 to 1973. Our study shows the benefits of analyzing firms' strategies of legitimization in the light of the institutional environment's legitimacy and explains how this analysis can be conducted through the combined lens of research methods developed by historians, the findings of economic and business history, and the theoretical contributions of international business and organization theory.

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