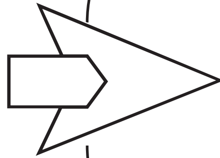
Global Strategy Journal
Global Strat. J., **5**: 1–26 (2015)
Published online in Wiley Online Library (wileyonlinelibrary.com). DOI: 10.1002/gsj.1090



ATTACKED FROM BOTH SIDES: A DYNAMIC MODEL OF MULTINATIONAL CORPORATIONS' STRATEGIES FOR PROTECTION OF THEIR PROPERTY RIGHTS

MARCELO BUCHELI[1]* and MINYOUNG KIM[2]
[1]*Department of Business Administration and History, University of Illinois at Urbana-Champaign, Champaign, Illinois, U.S.A.*
[2]*School of Business, University of Kansas, Lawrence, Kansas, U.S.A.*

Multinationals operating in site-specific industries face two types of opportunistic behavior. If they vertically integrate, host governments have incentives to change existing legislation challenging the firms' property rights. If they do not, they can be held up by business partners or lose control over the production process. These conflicting problems are reflected in the contradictory assessment made by the obsolescing bargaining power and transaction costs economics theories. Drawing on property rights theory, we introduce political integration as a strategy to address the two conflicting problems. It involves the integration of the host country's polities within the multinational's structure to avoid government opportunism, while still benefiting from the advantages of vertical integration. However, this strategy can backfire after institutional changes in the host country. Copyright © 2015 Strategic Management Society.

INTRODUCTION

Beginning in the 1990s, the world seemed to tell multinational corporations (MNCs) that the times of challenges to their property rights through actions such as expropriations had ended. MNCs involved in business with significant investments in immobile fixed assets such as mining, petroleum, or infrastructure had been particularly affected by a wave of government expropriations in the 1960s and 1970s (Jones, 2005; Kobrin, 1980; Wilkins, 1974). The fall of the Soviet bloc, China's insertion in the world economy, and the abandonment of protectionism in Latin America and Asia that came parallel to new foreign business-friendly policies in most countries confirmed that perception (Fukuyama, 1992). Events taking place in the twenty-first century, however, proved any celebration of the end of expropriations premature. The 2008 financial crisis gave new impetus to the voices advocating for a return to protectionism and resuscitated what were believed to be long-forgotten nationalist policies, particularly in industries in which MNCs had little mobility (*The Economist*, 2009). This was apparent with the cases of the expropriation of Brazilian-owned oil property in Bolivia in 2006, the Venezuelan expropriations under the late Hugo Chávez rule, and growing threats to foreign investors in the mining industries in Africa (Flores-Macías, 2012). In April 2012, the Argentinean government expropriated Spain's Repsol properties using similar legal mechanisms as the ones used four decades before (*The Economist*, 2012). The return of expropriation policies, the complexity behind the processes leading to them, and the difficult strategic choices the most vulnerable MNCs face (i.e., those operating in the natural resource or infrastructure sectors) make it imperative for schol-

Keywords: property rights theory; obsolescing bargaining power theory; transaction costs economics theory; business history
*Correspondence to: Marcelo Bucheli, College of Business, University of Illinois at Urbana-Champaign, 1206 South Sixth Street, Champaign, IL 61820-6978, U.S.A. E-mail: mbucheli@illinois.edu.

Copyright © 2015 Strategic Management Society

ars to understand the political and historical issues that undergird this new expropriation wave.

MNCs operating in industries with mobile assets (e.g., retail or finance) have the option of moving out (or threatening to do so) of a country if they perceive the possibility of the host government changing the existing legislation in a way to expropriate their assets. For companies operating in industries that depend on a large amount of immobile assets such as mining or petroleum, however, this is not an option. These type of firms have 'few alternatives' (Nygaard and Dahlstrom, 1992: 4). Mines and oilfields cannot simply moved out of a particular country and their infrastructure requires enormous investment in fixed assets for a long period of time. As such, these MNCs are vulnerable to potential *ex post* opportunistic behavior of the host government once they make significant difficult-to-redeploy investments.

The origin of this issue can be traced back to the very nature of the transactions in the site-specific industries. Scholars following the *transaction costs economics* tradition articulate that most MNCs operating in these types of industries cannot simply subcontract or outsource production to domestic providers (Buckley and Casson, 1976; Hennart, 1982; Klein, Crawford, and Alchian, 1978; Rugman, 1981). First, more often than not, there are no domestic firms with the technological capabilities or the domestic country might lack the necessary infrastructure to exploit the resource (Buckley and Casson, 1976; Dunning, 1988). And second, even if they have those capabilities, MNCs face the possibility that domestic providers will act opportunistically by holding up production to force the MNC to renegotiate prices, offering production to the MNC's competitors or acquiring particular know-how to compete against the MNC. This means that in order to operate in site-specific industries with immobile or highly specific assets, most MNCs have few choices other than vertically integrating their operations in order to minimize domestic providers' opportunism or to simply keep the business running. However, as the scholars who developed the *obsolescing bargaining power* theory maintain (Kobrin, 1979, 1980; Vernon, 1971a, 1971b; Wells, 1977; Wells and Smith, 1975), the more immobile fixed assets an MNC invests in for vertical integration, the weaker its bargaining power vis-à-vis the host government will be if the latter decides to change the rules governing the MNC's property rights (which can go from higher taxation and royalties, stronger participation of domestic actors, or even expropriation (Fosgren, 2013)). The decrease in the post-investment bargaining power of the MNC can be attributed to the loss of redeployability of the sunk investment for the vertical integration. In sum, in the context of site-specific foreign direct investment (FDI), MNCs face two types of opportunistic behaviors (one from business partners and the other form host government) that create a dilemma: MNCs' efforts to mitigate the opportunistic behavior from business partners via vertical integration unintentionally increase potential risks from host governments.

We develop a theoretical framework to investigate this dilemma. Reconciling the tension in the obsolescing bargaining power theory and transaction costs economics, we maintain that an MNC can overcome or mitigate problems of opportunistic behavior from the host government, while keeping the advantages of vertical integration by following a process we define as *political integration*. This process consists of incorporating under the MNC's control the host country's political actors or institutions responsible for defining, delineating, and enforcing the property rights affecting the MNC. In order to advance a theoretical framework on political integration, we first analyze the nature of the phenomenon in question through the lens of the property rights theory (Coase, 1960; Demsetz, 1964; Foss and Foss, 2005; Kim and Mahoney, 2005; Klein *et al*., 2012; Haber, Razo, and Maurer, 2003). The property rights theory provides an ideal lens to investigate this phenomenon because it enables us to link the institutional environment and institutional arrangement and, thus, provides an arena to facilitate a conversation between the transaction costs economics and obsolescing bargaining power theories. We then investigate a set of strategies for MNCs to address this dilemma, focusing on *motivations, conditions,* and *consequences* of political integration. In particular, we pay special attention to the implications of changes in the institutional environment because we do not consider the political environment in which an MNC operates as static, rather a historically determined constantly changing one. We assume that the strategies followed by an MNC not only are determined by the existing political framework, but also determined by the previous social and political processes that led to the creation of that specific political framework. Therefore, our model incorporates the role of institutions in both their static and dynamic dimensions. With these focuses, we try to

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

answer the following three questions for which we advance a series of propositions:

(1) What are the *motivations* for an MNC operating in an industry with high site-specific investments to politically integrate? (Proposition 1)
(2) What are the *conditions* that moderate the degree of political integration? (Proposition 2)
(3) What are the *effects* of changes in the institutional environment on political integration? (Proposition 3)

The article is structured as follows: we first discuss the core constructs to be used as building blocks for our theoretical framework. We then develop the theoretical framework and advance propositions on the static and dynamic aspects of the political integration. A section on implications, discussion, and limitations follows.

CORE CONSTRUCTS

In this section, we review and discuss the core constructs, definitions, and assumptions that lay foundation of our theoretical framework and also provide building blocks to our model.

Opportunism, transaction costs, and obsolescing bargaining power

Opportunistic behavior of host country actors toward foreign MNCs (whether these actors are local providers or host governments) has long been a matter of concern to many scholars. Contrary to domestic firms in host countries, foreign MNCs deal with extra risks when operating in countries different from their own.

Scholars paid particular attention to government opportunistic behavior via expropriation of foreign assets during the 1960s and 1970s expropriations wave. Trying to understand the rationale behind expropriations in the natural resources sector, a group of scholars in the 1970s and 1980s concluded that the more an MNC invests in sunk assets difficult or impossible to redeploy elsewhere outside the host country, the lower its bargaining power vis-à-vis the government will be (or obsolescing bargaining power) (Kobrin, 1979, 1980; Vernon, 1971a, 1971b; Wells, 1977; Wells and Smith, 1975). They reached this conclusion through the following rationale: imagine a host country whose government wants to develop a particular natural resource industry, but does not have the capital or capabilities (nor does any domestic firm) to exploit said industry. An MNC capable of exploiting the industry starts negotiations with the host government in order to develop that business. At this point, these scholars argue, the foreign MNC has its strongest bargaining power vis-à-vis the host government, the reason being that without a penny invested in the industry, it can walk away from the negotiations if the conditions do not look favorable. Once the company reaches an agreement with the host government and starts investing, the theory goes, it will gradually lose bargaining power with the government if the government wants to renegotiate. Say, the company started digging the wells or the mine. If the government changes the existing conditions, forcing the company to leave, that investment will be lost. The more the company invests (assume it starts installing towers, pipelines, roads, etc.), the more it has to lose—because its investments are now difficult to redeploy outside the host country due to the site-specific nature of the investment, weakening its bargaining power vis-à-vis the government. In the long term, the more immobile assets the company owns in that country and the more knowledge the domestic society has accumulated on how to run the industry, the stronger the host government's bargaining power is in case it wants to increase the rents it captures from this industry or even wants to expropriate the foreign firm.

The findings and rationale of the authors who developed the obsolescing bargaining power idea conflict with the ones that have been developed by scholars analyzing the operations of MNCs in light of transaction costs economics. In their foundational works, Coase (1937) and Williamson (1971) maintain that contrary to what neoclassical economic theory tells us, markets are imperfect and generate nontrivial transaction costs, making the marketplace an uncertain and unknown place. Information is limited, actors make rational decisions based on that limitation and, therefore, contracts are necessarily incomplete, leaving the possibility of *ex post* opportunistic behavior. One way firms can reduce the transaction costs generated by imperfect markets is by vertically integrating their operations. In this way, these scholars explain the process of vertical integration by many firms, understood as the establishment of control over multiple aspects of the value chain, from the acquisition of raw materials to distribution and marketing (Coase, 1937; Harrigan, 1985;

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

Williamson, 1971). Joskow (1985, 1988) adds that in some industries, flexible long-term contracts reduce risks of opportunism. We posit, however, that in some industries, particularly those that require firms to invest in other countries, long-term contracts are not an option given the uncertainty of the long-term development of the institutional environment. Some scholars embraced the transaction costs economics approach to understand the existence of vertically integrated firms at the international level (Dunning, 2003). If markets are uncertain, they argued, international markets are even more. The international arena includes multiple political regimes, a difficult-to-calculate number of cultures and social codes, and myriad monetary and fiscal policies and legal systems (Miller, 1992). This makes the environment in which MNCs operate uncertain and give the MNCs' providers greater room for opportunistic behavior (Buckley and Casson, 1976; Dunning, 1977). This provides MNCs with incentives to vertically integrate their operations across borders and, in this way, reduces opportunistic behaviors that can potentially increase transaction costs (Buckley and Casson, 1976; Hennart, 1982; Rugman, 1981). Williamson reinforces this idea by arguing that the more specific a production asset, the more vertical integration becomes necessary to assure efficient use of the asset and reduce opportunism (Williamson, 1979, 1981, 1985). This rationale does not only apply for high site-specific industries. The transaction costs economics theory would also explain vertical integration as a way for firms to protect intellectual property or know-how (Dunning, 1977).

Obsolescing bargaining power and transaction costs economics clearly have contradictory interpretations with respect to the risks and uncertainties faced by MNCs. While the former maintains that vertical integration in site-specific assets can *increase* risks and opportunistic behavior (from the host government), the latter posits that vertical integration can be a good strategy for an MNC to *reduce* uncertainties and opportunistic behavior (from host countries' providers). In the next section, we define *political integration*, which is the mechanism by which a vertically integrated MNC operated in high asset-specific industries can reduce uncertainties generated from host government opportunistic behavior.

A definition of political integration

In order to embrace the conflicting predictions from the two approaches in this article, we develop the concept of *political integration*. This concept allows us to analyze a particular type of political strategy developed by MNCs aiming to reduce the potential opportunistic behavior of the host government. We define political integration as the process by which a profit-seeking organization puts under its total or partial control those actors or institutions of a particular territory or society who are internally and externally accepted as those formally responsible for defining, delineating, and enforcing the property rights within that particular territory. The actors and/or institutions integrated by a particular organization can include those in the three branches of government (executive, judiciary, and legislative) or agencies and organizations in charge of developing particular policies, such as ministries or the armed forces. The aim of this process is for the organization to influence how property rights are defined, delineated, and enforced in a way that benefits the organization's profit-seeking motives. In a country or territory in which an organization has not engaged in political integration, the organization has no power in regard to how the responsible actors delineate, define, and enforce property rights. Therefore, they will exercise this power independent of what is best or worst for the organization. At the other extreme of the spectrum, if an organization succeeded at politically integrating the country's polities, this organization will have control over those defining, delineating, and enforcing property rights and, therefore, will push toward decision that benefit its own interests. The rationale behind political integration is similar to that used to understand vertical integration—an organization that follows a process of political integration aims to reduce the uncertainties of potential opportunistic behavior of political actors by putting them under their control so that some political decisions regarding property rights are shaped by the organization. Following this same rationale, we can say that political integration can be absolute (in the cases in which the organization controls all major individuals or agencies in charge of defining, delineating, and enforcing property rights) or partial (when it controls some of these individuals or agencies).

Scholars have studied processes of political integration as a mechanism for private actors to protect their property rights. Haber, Razo, and Maurer (2002) and Haber *et al*. (2003) show how building coalitions with influential members of society provided firms protection in times of instability in

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

early twentieth-century Mexico. Their analysis shows an alignment of interests between those with political power and the private sector. Our model differs from theirs in the sense that we analyze the internalization of polities seeking control of the political process by MNCs. Their analysis, as well as Boddewyn and Brewer's (1994) and Boddewyn's (1988), however, served as an important starting point for developing our model.

Several scholars argue that MNCs can reduce uncertainties generated by host governments by building networks with individuals or organizations of the host country who are capable of influencing economic policy or who can open channels of information between the government and the MNC that will reduce uncertainties for the foreign investor. The network strategy can take five forms: (1) an MNC can appoint to its subsidiaries' boards highly influential individuals with strong connections to decision makers at the government level (Hillman and Wan, 2005; Kostova and Zaheer, 1999; Kostova, Roth, and Dacin, 2008; Khanna and Rivkin, 2006; Mizruchi, 1996; Podolny, 1993, 2001; Leuz and Oberholzer-Gee, 2006; Siegel, 2007); (2) a foreign firm can approach the government itself and create partnerships through joint ventures (Hennart, 2006; Meschi and Riccio, 2008; Roy and Oliver, 2009); (3) a foreign firm can join a common political front with host country companies with a similar distrust of the host country's government (Kennedy, 2007); (4) a multinational can ally itself with the government and the domestic industrial elite in order to coordinate an industrial policy that keeps the labor movement under control (Evans, 1979; O'Donnell, 1982); and (5) the MNC can make use of the networks created by the expatriate community in the host country in order to gain access to influential decision makers (Rangan and Sengul, 2009). A common aspect of these network strategies is that they all seek to decrease uncertainties for the MNC by improving the communication and information channels with the host country government. Nevertheless, the firms engaging in this type of strategy are not trying to *control* the elements or individuals in the domestic polities that define and enforce property rights. 'Under the table' payments to government officials can be considered a way to politically integrate domestic polities as long as the individuals receiving the bribe do not have the power to hold up the corporation.

Institutional environment, institutional arrangements, and power asymmetry

We frame our model within the concepts of institutional environment and institutional arrangements as defined by Davis and North (1971). These authors define the institutional environment is a 'set of fundamental political, social, and legal ground rules that establishes the basis for production, exchange, and distribution' (Davis and North, 1971:6). North defines 'organizations' as a subset of institutions that play (and compete) under the rules defined by the institutional environment through institutional arrangements (North, 1990). In our analysis, MNCs fall into the category of organizations. Institutional arrangements are defined as the ones created 'between economic units that govern the ways under which these units cooperate or compete' (Davis and North, 1971: 7). They are created within, and are consistent with, the wider institutional framework (Leftwich, 2006). This means the institutional environment will determine how property rights are distributed, protected, and enforced in a particular society. In fact, a large number of scholars studying the institutional environment focus on the role and evolution of property rights to explain the different paths of development taken by different societies (e.g., Coatsworth, 1993; Greif, 2006; North and Weingast, 1989; Musacchio, 2008). Given their approach, we consider the obsolescing bargaining power authors as concerned with the institutional environment and its effects on property rights. Authors using a transaction costs economics approach analyze arrangements between firms that take place in a particular institutional environment and that are constrained by bounded rationality and problems of opportunism. Thus, we can classify this group of scholars as concerned with the institutional arrangements (Buckley and Casson, 1976; Hennart, 1982; Williamson, 1981). So for the case of MNCs operating in site-specific industries, the host country's institutional environment and the way this environment specifies and protects the foreign investor's property rights will determine the foreign firm's institutional arrangements with its providers in the host country and the way the MNC deals with real or potential opportunism problems. It is for this reason that we choose the theory of property rights as the mechanism to reconcile and bring into dialogue the transaction costs economics and obsolescing bargaining power theories.

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

We define property rights as the rights to use, earn income from, and transfer or exchange assets and resources (Kim and Mahoney, 2005; Libecap, 1986; Haber *et al*., 2003). We follow Demsetz (1964), who maintained that the definition of the institutional environment is ultimately a definition of how property rights are enforced and defended. We can define the transactions taking place within a particular institutional environment as a transfer of property rights from one agent to another (Kim and Mahoney, 2005). This means that in an institutional environment that creates zero transaction costs, the transfer of property rights between agents will occur smoothly and with no problems (Coase, 1960; Foss and Foss, 2005). Therefore, the way in which property rights are defined and specified at the institutional environment level determines the institutional arrangements between firms (including transactions of property rights) and their behavior and strategies in the future (Kim and Mahoney, 2005; Klein *et al*., 2012; Haber *et al*., 2003).

We assume an asymmetrical power relationship between the MNC and the host government. As a sovereign entity, the government of a nation-state has the power to alter the institutional environment by changing the rules defining MNC property rights, while in principle the MNC does not have this power (Kobrin, 2010). Following Klein *et al*., we assume that when negotiating between two entities, the side that has more outside options has the greatest power (Klein *et al*., 1978). When the outside options for one side are very limited and restricted by the other side, there will be greater power asymmetry (Ahuja and Yayavarem, 2011). We can find this type of asymmetry tilting in favor of the host government in site-specific industries, in which leaving or threatening to leave if the host government changes the rules is not an option (Penrose, 1968; Vernon, 1971a). This is the case for industries that involve high up front sunk investments that are not able to be redeployed elsewhere or that use crucial resources not available elsewhere (e.g., oil, mining, infrastructure, and agriculture). Table 1 displays a summary of the main constructs in our model.

We illustrate the general framework of this article in Figure 1, which shows how FDI in high site-specific industries involves the elements of asset specificity and an asymmetric power relationship between the host country government and the foreign MNC. Power asymmetry manifests itself as the host government's capability as a sovereign entity to change the rules governing the property rights of the MNCs; the MNCs do not have this power. While transaction costs economics literature maintains that in asset-specific investments vertical integration can reduce *ex post* opportunistic behavior from business partners, the obsolescing bargaining power approach argues that this vertical integration does not reduce opportunistic behavior from the host government and rather makes it even worse, largely due to the high asset specificity and the asymmetric power relationship. More specifically, the vertical integration in site-specific FDI would make it difficult to redeploy the investments, which would, in turn, decrease the MNC's options outside the host country. This site specificity can transform the economic transactions into a power relationship, aggravating the already-asymmetric power relationship and, thus, making MNCs more vulnerable to host governments' potential opportunistic behavior (Klein *et al*., 1978; Pfeffer and Salancik, 1978). In this way, in the absence of power asymmetry between the host government and the foreign MNC, vertical integration would be sufficient to neutralize potential opportunistic behaviors. When this is not the case, however, an MNC that creates a vertically integrated structure would be working with a solution with what Ahuja and Yayavaren (2011: 1638) call a problem of 'iatrogenic inadequacy,' where a market solution generates more problems in the future. Under these circumstances, the MNCs are motivated to find a mechanism to address the problem of power asymmetry, thus minimizing the overall uncertainty from both business partners and the host government (Ahuja and Yayavaren, 2011). As depicted in Figure 1, our model proposes political integration as one of these mechanisms. The conditions moderating the degree of this political integration are the characteristics of the host country's wider historically determined institutional environment. The left side of the figure, which illustrates our static model, shows how, under problems of high asset specificity, an MNC might benefit from political integration as a strategy to decrease the risk of opportunistic behavior from the host government. The right side, which illustrates our dynamic model, shows that after changes in the institutional environment in the host country, the legitimacy of the previous order and the MNC's previously existing politically integrated structure can be questioned. In other words, after changes in the institutional environment, the strategy of political integration can backfire and generate new

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

Table 1. Summary of main constructs

Constructs	Descriptions	Related studies
Institutional environment	A 'set of fundamental political, social, and legal ground rules that establishes the basis for production, exchange, and distribution'	Davis and North, 1971: 6; Leftwich, 2006; North, 1990
Institutional arrangement	Arrangements created 'between economic units that govern the ways under which these units cooperate or compete'	Davis and North, 1971: 7; Leftwich, 2006
Property rights	The rights to use, to earn income from, and to transfer or exchange assets and resources	Kim and Mahoney, 2005; Libecap, 1986; and Haber *et al.*, 2003
Site-specific investment	Investments with high upfront sunk costs that are not deployable elsewhere or use crucial resources not available elsewhere	Williamson, 1985
Political integration	The process by which a profit-seeking organization puts under its total or partial control those actors or institutions of a particular territory or society who are internally and externally accepted as those formally responsible for defining, delineating, and enforcing the property rights within that particular territory	
Power asymmetry	The situation in which one participant in a particular market restricts the choices of the other participants by having more outside choices and capabilities to influence the rules under which all participants play.	Ahuja and Yayavaram 2011; Klein *et al.*, 1978; Kobrin, 2010
Opportunistic behavior from government	The extent to which the host government would behave opportunistically and threaten MNC's property rights	Kobrin, 1979, 1980; Vernon, 1971a, 1971b; Wells, 1977; Wells and Smith, 1975
Institutional characteristics	A set of distinctive features that distinguish an institution from others (e.g., regime type or economic structure)	Acemoglu *et al.*, 2005; Bueno de Mesquita *et al.*, 2005; Gilpin, 2001; Henisz, 2000; Leftwich, 2006; North, 1990
Institutional changes	Changes in the characteristics of the institutional environment	Acemoglu and Robinson, 2006a; Davis and North, 1971; Haber *et al.*, 2002; Jensen, 2006; Leuz and Oberholzer-Gee, 2006

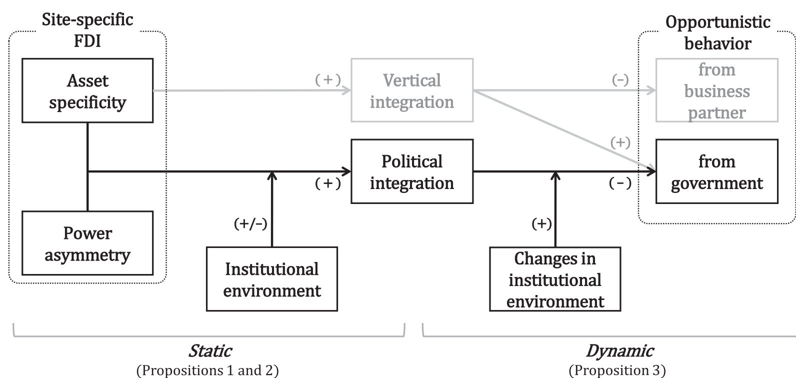


Figure 1. General framework

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

uncertainties for the MNC. The next section uses this framework to develop a static model of political integration by MNCs.

POLITICAL INTEGRATION BY MULTINATIONAL CORPORATIONS: A STATIC MODEL

Building on the previous section's discussion of the theory of property rights and the interpretation of the relationship between MNCs operating in high site-specific industries and host governments, this section explores the motivations these types of MNCs have to engage in a process of political integration when no institutional changes take place in the host country.

Power asymmetry as a motivation for political integration in site-specific investment

The existence of site-specific investments plays an important role in both the studies concerned with the institutional environment (obsolescing bargaining power) and the ones concerned with the institutional arrangements (transaction costs economics). Regarding the former, Fagre and Wells (1982), Vernon (1971a, 1971b), and Wells (1977) maintain that the more sunk or site-specific assets an MNC owns in the host country, the weaker its bargaining power with respect to the host government (a serious problem of power asymmetry). For the latter, however, the need for site-specific investments in fact increased the incentives for a firm to vertically integrate (Williamson, 1985). Others also claim that in site-specific industries, a firm might face more problems of opportunism (Harrigan, 1985; Hennart, 1993; Mahoney, 1992). As we explain later, they can come mostly from the host government.

The theory of property rights provides us with a framework to mitigate the tension between the obsolescing bargaining power and transaction costs economics scholars. A property rights interpretation of vertical integration maintains that a firm makes the decision to vertically integrate by calculating the transaction costs not only at the moment of the investment, but also *a posteriori* (Kim and Mahoney, 2005). That is, the firm managers might ask themselves, 'Are our property rights going to be defended in the future?' 'Is the legislation that protects my property rights going to be enforced in the future?' Thus, we argue that the power asymmetric relationship an MNC can have with the host government in site-specific industries that require vertical integration constitutes the main motivation for an MNC to politically integrate.

The rationale of political integration is consistent with the conditions of asymmetric interdependence constraints among organizations. Authors developing this idea argue that there is asymmetric interdependence between organizations when there are problems of possession of resources between the two (one has an abundance of a resource both of them might need) and posit that organizations can mitigate uncertainties from transactions when there is asymmetric interdependence by opting for power rather than market relations (Pfeffer and Salancik, 1978). They argue the extreme case of this is vertical integration. If we assume that the host country government is one of the organizations involved in this asymmetric interdependence and has the power to define property rights rules, an MNC can opt to partially or totally integrate the host government. Again, this reinforces our argument that power asymmetry constitutes the main motivation for an MNC to politically integrate.

Previous studies have illustrated extreme cases of political integration that help show our model's boundary conditions. Boddewyn and Brewer (1994) mention that in some extreme situations, an MNC not only can integrate domestic polities within its structure, but also *create* these domestic polities. We find this type of situation in what are known as the European proto-multinationals created for colonial trade in Asia between the sixteenth and nineteenth centuries (e.g., the Dutch and English East India companies). These corporations held monopolistic powers over trade in these regions for long periods of time, as well as political powers such as the right to appoint colonial administrative bureaucracies, to own and manage occupation armies and navies, and often even to appoint domestic rulers (Stern, 2011). In the case of these companies, the firm not only integrated the domestic government, it was the government. The fact that these firms operated in colonies makes it hard to classify them as companies dealing with a 'host' government, but this would still be a case of absolute political integration. Although more recent MNCs do not show such an extreme degree of formal political power, some cases still show high degrees of partial political integration. Take the case of the Central American banana republics. During the first half of the twentieth century, some of these countries specialized their economies

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

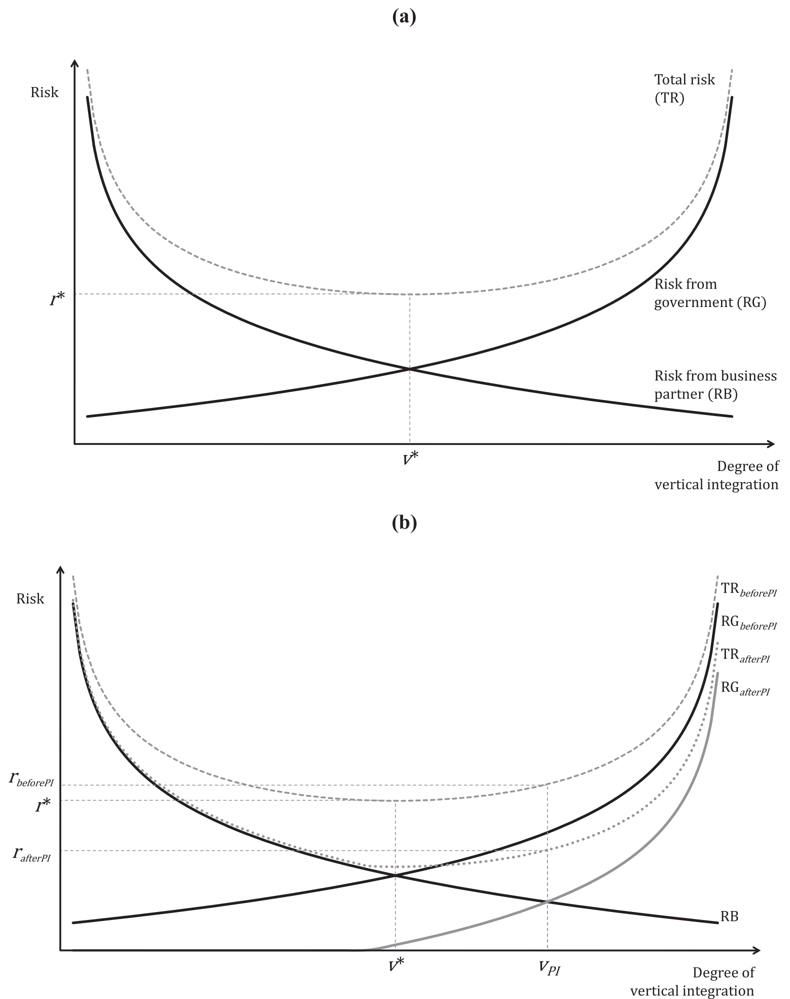


Figure 2. Risk, vertical integration, and opportunism from government and business partners
TR: total risk; RG: risk from government; RB: risk from business partner; PI: political integration

in the production and export of bananas to the U.S. The level of specialization reached such a degree in the case of Honduras that banana exports constituted 50 percent of its total exports in 1913 and a staggering 89 percent of exports in 1929, remaining at around 50 percent until the 1960s. In Costa Rica, the percentage of exports ranged from 25 to 50 percent during the same period (Bulmer-Thomas, 1987; May and Plaza, 1958). Before World War II, a single corporation (the U.S.-based MNC United Fruit Company) controlled around 70 percent of these banana exports. This corporation created a vertically integrated structure from Central America to the United States that included railways, plantations, company towns, roads, telegraph lines in the producing countries, a steamship fleet to transport the bananas to the U.S., and a distribution network in the U.S. (Bucheli, 2005; Read, 1983). This corporation also achieved a high level of integration of the Central American domestic polities within its structure. United Fruit had on its payroll influential members of domestic elites who worked as government officials and also collaborated to topple governments that tried to limit the firm's power (Bucheli, 2008; Dosal, 1993; Taracena, 1993). This company's operations are clearly very high site-specific (it is not easy to move a plantation), but it managed to decrease problems of power asymmetry with the host governments through political integration.

In Figure 2a, we illustrate the tension between institutional environment interpretation (obsolescing bargaining power) and the institutional arrangements interpretation (transaction costs economics), that is, the trade-off that exists as vertical integration increases between the decreasing risk of opportunistic behavior from business suppliers or providers and the increasing risk of the government threatening the

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

MNC's property rights. In this graph, r^* is the optimal (or lowest) risk, and v^* is the optimal degree of vertical integration that minimizes the amount of total risk. Figure 2b shows how an MNC can lower the level of risk from the host government through political integration, thus shifting the curve from $RG_{beforePI}$ to $RG_{afterPI}$, and reducing risk from $r_{beforePI}$ to $r_{afterPI}$. In other words, by shifting the RG curve through political integration, the MNC can enjoy benefits from lower total risk. The degree of the shift of the RG curve is arbitrary because it depends on the extent of the firm's political integration.

Based on the previous figures and discussion, our first proposition is:

Proposition 1: A multinational corporation will have the motivation to politically integrate as a strategy to protect its property rights when operating in site-specific industries where it faces a problem of power asymmetry with the host government.

Host country institutional characteristics as condition for political integration

Political integration is moderated by the host country's institutional framework. Previous studies analyzing the relationship between the institutional framework (such as regime type) and security of MNCs' property rights argue that in more democratic regimes, the MNCs' property rights are safer. The rationale behind this is that a pluralist government cannot change its rules at will overnight making the MNCs' property rights more secure (Blanton and Blanton, 2007; Feng, 2001; Henisz, 2000; Jensen, 2003, 2005, 2006; Wantchekon and Jensen, 2004). Spiller (2008) and Moszoro and Spiller (2012) add that in industries with high sunk costs, there is room for opportunism in both more and less democratic regimes, the root being that contracts between foreign private contractors and governments are written down to the most basic levels, making them highly inflexible in industries that require adaptation and flexibility (contributing to Joskow's (1985, 1988) argument on the benefits of flexible long-term contracts). In less democratic regimes, they argue, the opportunistic behavior comes from the central government; in more democratic regimes, it comes from third-party enforcers who can see the need for changes in the contractual terms as a chance for opportunistic behavior.

Other scholars claim that MNCs' property rights can be more protected and safer under repressive regimes because a ruler who is close to the MNC can, in fact, modify legislation at his/her will to protect the MNCs' interests without dealing with legal opposition (Durham, 1999; London and Ross, 1995; Oneal, 1994; Ross, 2001). A third group argues that MNCs working in the primary sector (where site-specific investments are more prevalent) tend to generate more political instability and violence (Alfaro, 2003; Karl, 1997; Kobrin, 1979; Le Billon, 2001; Li and Mihalache, 2006). Other authors submit that the stability of the regime (regardless of whether it is a democracy or a dictatorship) is ultimately more important for foreign investors than the form the regime takes (Clague *et al.*, 1996; Li and Filer 2007).

In their model on influence rents (defined as the 'extra profits earned by an economic actor because the rules of the game of business are designed or changed to suit an economic actor),' Ahuja and Yayavaram (2011): 1631 provide failure in institutions as a motivation for a firm to seek to manipulate the state through cooptation or capture in the form of more-or-less bribing activities. The main failure, in their view, and more closely related to our analysis is what they call 'iatrogenic inadequacy,' which is when given a particular institutional environment, the market-oriented solution created by an MNC (in this case, vertical integration to mitigate the opportunistic behavior from business partners) can create new problems in the future (in this case, government opportunism). Their model also assumes problems of power asymmetry, but they are between market actors and not between firms and governments.

Using a transaction costs approach to examine the relations between firms and governments, Henisz and Zelner (2004) submit that when the government is a source of costs, MNCs can minimize these costs by lobbying, finding mechanisms to influence policy, or by signing very favorable joint venture contracts. Other strategies include making political contributions or placing individuals with links to the government on corporate boards (Etzion and Davis, 2008; Hillman and Hitt, 1999; Hillman, Keim, and Schuler, 2004; Hillman, Zardkoohi, and Bierman, 1999; Lester *et al.*, 2008). Henisz and Zelner (2004) claim that these strategies are the most that MNCs can do because governments cannot be integrated within the company in the same way as suppliers or distributors. Spiller (2008) and Moszoro and Spiller (2012) show how in a close social order or institutional

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

environment, inflexible concession contracts provide more chances for host government opportunistic behavior. Although we accept their claim, we believe that the relative success of an MNC in approaching a government through nonmarket strategies depends on the host country's institutional characteristics (Henisz and Zelner, 2004; Hillman and Wan, 2005). While in some nations an MNC's options can be limited to strategies by which they build links with influential individuals in the host country or by lobbying activities, in some others the institutional environment provides the conditions for an MNC to integrate significant and influential elements of the local polity within its structure. This means there will be varying degrees of political integration by an MNC subject to the host country's institutional characteristics.

We employ a logic similar to the one used to understand vertical integration in high site-specific industries to identify the types of regimes that provide the best conditions for political integration. In order for an MNC that integrates external markets to successfully reduce opportunism and achieve stability in the quality and prices of the inputs (by producing them itself), it must integrate most of its potential providers (Williamson, 1971). If the firm integrates only a small portion of its providers, leaving the rest free, it will fail to eliminate opportunism and instability. This applies, depending on the size of those left free or the possibilities they had of competing against the MNC. Even if the firm does not need the nonintegrated providers, they can provide to the firm's competition, thus creating new sources of instability and uncertainty for the MNC. Similarly, if an MNC integrates a relatively insignificant portion of domestic polities, it will not be able to minimize potential opportunistic behavior and threats to its property rights from the domestic state. In states where power is not concentrated in a single individual or political party, an MNC will either have to negotiate or try to integrate a wide range of conflicting political actors (Tarzi, 1991). But, in states where power is highly concentrated, an MNC can develop a very targeted strategy of political integration. By integrating the small group of actors that makes the final political decisions, the MNC can manage to reduce the problem of power asymmetry between itself and the government, even in highly site-specific industries such as oil production.

In regimes with highly concentrated political power, the ruler is accountable to only a small group of individuals who assure his/her long-term political survival (Bueno de Mesquita *et al*., 2005; Haber, 2006). In order to keep the loyalty of this small group, rulers may organize the economy in a way that benefits the group, even at the expense of the economic welfare of the majority (Acemoglu and Robinson, 2006a; Bueno de Mesquita *et al*., 2005). But, in countries with less concentrated political power, the ruler is accountable to a wide range of individuals and organizations, and his/her actions are constrained by written rules such as political constitutions (Acemoglu and Robinson, 2006b; Bueno de Mesquita *et al*., 2005). In this type of regime, the ruler may develop policies that increase the majority of the population's material welfare in order to assure their political loyalty (Bueno de Mesquita *et al*., 2005).

Historical evidence shows that political integration is more feasible in regimes with concentrated political power and few formal constraints on the executive than it is in regimes with formal constraints on the executive. The case of Venezuelan dictator Juan Vicente Gómez, who ruled his country from 1908 until his death in 1935, offers an extreme example. Foreign oil MNCs made Gómez and his small but powerful coalition of military men and landowners very rich. In 1918, Gómez even allowed the oil companies to write Venezuelan oil legislation, thereby turning the oil MNCs into virtual members of the judiciary (McBeth, 1983). Other dictators, such as Mexico's Porfirio Díaz, who ruled his country from 1876 to 1910, also depended on a small circle of close relatives, regional leaders, and high-ranking members of the military who held jobs or did business with foreign MNCs. Some of Díaz's close relatives sat on the foreign oil MNCs' boards (Haber *et al*., 2003). During Díaz's regime, foreign MNCs enjoyed secure property rights. It is worth highlighting that both Díaz and Gómez took power after years of great political fragmentation and chaos in their countries. Their regimes led a process of increasing internal coherence and homogeneity of domestic institutions, which facilitated the process of political integration by the MNCs. Radical and sudden institutional change can also bring about less coherence or homogeneity, as happened in the Soviet Bloc after 1989 (Roland, 2002). We note, however, that increasing coherence and homogeneity facilitate political integration only under regimes with little accountability. More recent examples in several African countries with dictatorships show how foreign MNCs incorporate domestic polities by providing the rulers and their inner circles with benefits

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

from the MNCs' operations. In exchange for these benefits, the rulers have silenced voices of criticism against this arrangement through repression (London and Ross, 1995; Oneal, 1994).

However, in other countries with institutional environments characterized by political pluralism but relatively low levels of development and high dependence on particular foreign MNCs, the foreign firm has had a harder time integrating domestic polities. Such is the case of Costa Rica, a country highly dependent on banana exports controlled principally by United Fruit Company during most of the twentieth century. Even though United Fruit had some of its lawyers occupying influential positions in the government, the existence of opposition parties competing for power and holding the government accountable for its actions translated into open criticism of the multinational's influence, which constrained the firm's capability to further politically integrate the host government (Chomsky, 1996). This contrasts with what United Fruit achieved in more authoritarian Honduras during the same period, where the firm integrated the dictatorial regime and obtained strong benefits that included repression of labor and no challenges to its property rights (MacCameron, 1983; Taracena, 1993). Thus, we propose:

> *Proposition 2a: The feasibility and degree of political integration is conditioned by the host country's institutional environment, including economic structure and regime type.*

Home country characteristics as a condition for political integration

Political integration is also moderated by the MNC's home country characteristics and the political and economic relationship between the home and host countries. In this section, we argue that if the host country's government considers changing the institutional environment in a way that threatens the MNC's property rights, the MNC will be more likely to defend itself if it receives support from a home country that has significant political, economic, and military power in the world scene (Tarzi, 1991). Scholars analyzing the home country effect look at the 'cultural distance' between home and host countries and argue that the wider the distance, the greater the uncertainties MNCs face (Kostova, 1999; Xu and Shenkar, 2002). Their analysis, however, does not consider international power structures in which some home countries can influence the relationship between MNCs and host countries more than others (Evans, 1979; Gilpin, 2001). This influence moderates the likelihood of political integration.

Historical evidence can provide us with some cases that illustrate our model's boundary conditions. Before the 1990s, most major MNCs came from countries such as Holland, Great Britain, and the U.S. that were major economic, political, and military actors in the world scene and that had achieved this status after becoming imperial or neo-imperial powers (with some exceptions such as Switzerland) (Jones, 2005; Wilkins, 1974). The power of this type of home country over a host country enabled MNCs to achieve political integration of host countries' polities in cases where there was domestic resistance to foreign domination. The Central American banana republics constitute, again, an extreme but good example. These small republics could not compete against the overwhelming military, political, and economic power of the United States. In the first half of the twentieth century, some of these countries were invaded, sometimes more than once (as was the case of Honduras, which by 1945 had already been invaded by the U.S. five times), and the U.S. helped install governments favorable to the American MNCs (Langley, 2002). In 1954, the U.S. helped overthrow a democratically elected Guatemalan government that threatened to expropriate some of United Fruit's lands (Gleijeses, 1991; Schlesinger and Kinzer, 1990).

Another significant case is the Anglo-American joint action to overthrow Iranian President Mohamed Mossadegh 1954 after he expropriated the properties of the Anglo-Iranian Oil Company. Mossadegh was replaced by the more MNC-friendly and undemocratic regime of Shah Mohamed Reza Pahlevi (Elm, 1992). Home countries can also pursue more global-scale initiatives to protect their MNCs' interests, such as the U.S. Hickenlooper Amendment, approved in 1962 in response to the Cuban revolutionaries' seizure of U.S. property. Although never used against other countries and opposed by President John F. Kennedy himself, at the time, this amendment provided potential threats against countries considering expropriating U.S. property (Lillich, 1975).

Home governments do not always automatically defend property rights of their MNCs when they are threatened abroad. A tense relationship between the home government and the MNC or a particularly good relationship between the host and home countries' governments can deter this from happening.

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

Although a wide body of scholarship assumes that the home country's government and the MNC have similar political agendas (Baran and Sweezy, 1968; Cockcroft, Frank, and Johnson, 1972), historical evidence shows that this is not always the case. In 1938, after the Mexican government's expropriation of foreign oil multinationals, President Franklin D. Roosevelt only reluctantly gave his support to the American oil MNCs, which were traditionally aligned with the U.S. Republican Party. The companies had to maneuver to find ways to receive Washington's support (Maurer, 2011). Similarly, during the early 1970s, the Central American governments rebelled against United Fruit's economic power by increasing taxation on banana exports and forcing the foreign firm to share operations with domestic producers. United Fruit requested help from Washington, which refused to give the firm any support because having anti-communist right-wing dictators in power in the region was more important than United Fruit's fate. This induced United Fruit to vertically disintegrate (Bucheli, 2003, 2005, 2008). These examples show that when the political agendas of the home government and the MNC have not coincided, the latter did not receive support to politically integrate. We, therefore, propose:

Proposition 2b: A multinational corporation can decrease the problem of power asymmetry with respect to the host government when it has the support of its home government.

Proposition 2c: The feasibility and degree of political integration is conditioned by the support of the multinational's home government and by the relative power between the home government vis-à-vis the host government.

POLITICAL INTEGRATION BY MULTINATIONAL CORPORATIONS: A DYNAMIC MODEL

The previous section showed how an MNC operating in high site-specific industries could decrease the risk of opportunistic behavior from the host government by following a strategy of political integration. In this section, we develop a dynamic model that includes institutional change in the host country. We argue that the advantages of political integration as a strategy to decrease uncertainties can be lost after a process of institutional change that affects the host country's institutional environment. Not only can changes in the institutional environment change the definition of property rights under which an MNC operates, but it also can delegitimize a previous process of political integration.

Authors analyzing the uncertainties generated by governments on the MNCs' property rights have viewed the political system as a given to which the MNCs adapt. In Murtha and Lenway's (1994) discussion on how different types of states with particular economic agendas affect MNCs' strategies, they explicitly assume the state as a fixed variable with changing development policies (Murtha and Lenway, 1994). Reviews of international business theory assume the government fixed and exogenous (Behrman and Grosse, 1992; Buckley, 1993; Eden, Lenway, and Schuler, 2005; Grosse, 2005). We differ from previous scholarship by assuming the host country's institutional framework as a constantly changing variable. By taking into account the dynamic nature of politics, we introduce the role of struggles for power and variations in the legitimacy of MNCs' operations into an analysis of political and vertical integration.

We agree here with Acemoglu and his co-authors who assume that the political status quo in a society is the result of conflicts between different groups or social classes over economic resources (Acemoglu and Robinson 2006a, 2006b; Acemoglu, Johnson, and Robinson 2005). Each of these conflicting parties has an ideal set of political institutions from which they would obtain economic benefit, but those with greater political power are able to define the final institutional outcome. The political institutions that are created by the winners in turn determine the distribution of political power and economic resources. Even though there may be a written political arrangement (i.e., a constitution) that expresses a wide and equalitarian distribution of power, the groups with greater economic power may still have stronger *de facto* political power. We concur with Leftwich (2006), who adds that institutions are never neutral, but are designed to distribute benefits to some while disadvantaging others. As a result, in order for those who do not benefit from an existing institutional arrangement (even if they have *de jure* power) to change the status quo, their only option is to directly challenge the system and change the institutions, rather than organizing under already existing rules. The paths a society can follow to get these changes can be of different natures, including revolutions, the emergence of civil society groups pres-

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

suring for change, or external shocks such as sudden changes in the prices of a crucial good the country exports or imports (Foley and Edwards, 1996; Gledisch and Ward, 2006).

When we consider modern capitalism and liberal democracy as resulting from conflicts among social groups, we can see how the triumph of a particular social group was followed by a process of gradual legitimization of the political and economic order. For Marx (1992 [1867]) and Moore (1966), capitalism and liberal democracy are the dual outcomes of a long struggle between the increasingly powerful bourgeoisie and the previous European feudal order. In the *Eighteenth Brumaire of Louis Bonaparte*, Marx (1988 [1852]) explains how the bourgeoisie consolidated its power after 1848 by creating a political system that on paper benefited all social groups but, in effect, benefited the bourgeoisie. Some scholars studying the rise of the United States argue that the very constitution of the country was written to benefit the interests of the merchant elite (Beard, 1913; Bowman, 1996; Handlin and Handlin, 1945; Kaufman, 2008; Maier, 1993). In Acemoglu and Robinson's (2006a) terms, those groups outside of the bourgeoisie achieved *de jure,* but not *de facto,* power.

If we assume the institutional framework that defines and enforces a particular legislation on property rights in a country is the result of previous struggles for economic power, we can then consider the implications for organizations that operate within this system. Organizations create their institutional arrangements in a manner consistent with the wider institutional environment and do not challenge it (Davis and North, 1971). If these organizations promote any change, they will be only at the level of institutional arrangement and not at a level in which they promote any change in the institutional environment. Only those organizations that do not belong to the group in power will challenge the larger institutional framework (in the case of a capitalist system, these organizations will not be private firms) (Leftwich, 2006; Wallerstein, 2004). This means we need to take into consideration the perceived legitimacy of an existing institutional environment, its stability, and challenges to its power. Therefore, we propose:

Proposition 3a: The institutional environment is never fixed and is susceptible to being challenged. These challenges will affect the institutional arrangements between organizations.

Institutional change and legitimacy of the multinational corporations' property rights

In the first part of this article, we argued that by internalizing elements of the host country's polities through political integration, an MNC operating in a high site-specific industry reduces the uncertainties generated by problems of power asymmetry between itself and the host country. Other scholars claim that this type of strategy can also legitimize an MNC's operations and, in this way, reduce hostile actions from host governments (Boddewyn and Brewer, 1994; Hillman and Wan, 2005; Kostova and Zaheer, 1999; Mizruchi, 1996; and Podolny, 2001). We argue, however, that when struggles for economic power lead to a change in the institutional environment a previously excluded group can gain power and may deem the previous institutional system to be illegitimate. With the former institutional environment—under which the MNC had politically integrated—now considered illegitimate, the legitimacy of that integration and the very operations of the MNC can be called into question. In this way, actions against the property rights of the assets owned by the MNC in the host country can become legitimized (O'Donnell, 1982). Suchman (1995) defines various strategies through which firms can manage their legitimacy when circumstances change and the firm needs to gain, maintain, or repair its legitimacy. Witt and Lewin (2007) add that in case of hostile institutional change, firms can also just move their operations to friendlier environments. However, in our model, we argue that Suchman's (1995) strategies may not be feasible in cases when the legitimacy of the whole institutional environment has been called into question, while Witt and Lewin's strategy cannot work in high site-specific industries.

Long-term institutional change is something implicitly accepted among business historians, but still largely neglected among international business scholars. By neglecting institutional change, international business scholars do not consider that the host country's perception of the legitimacy of a foreign MNC is tied to the local perception of the legitimacy of the institutional framework under which the foreign firm operates. This can lead scholars to wrongly assume that this framework is stable, unchallenged, and uncontested. We follow Suchman (1995), who argues that the perceived legitimacy of a firm can be contested when there are changes at the institutional field level. Neo-institutional scholars

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

add that legitimacy is multidimensional and is not the same at the subunit level within the firm, individual organizations, or entire organizational populations (Ruef and Scott, 1998; Scott, 2008; Scott *et al*., 2000). We focus our analysis on how the perceived legitimacy of the wider political institutional environment affects the MNC's operations perceived legitimacy, the rules defining its property rights, and its political strategies.

An analysis of the ways in which political power structures were created helps us understand how changing perceptions of legitimacy in the host society affect an MNC's strategy of political integration and the security of its property rights in high site-specific industries. The stability of the institutional environment depends not only on the previous processes that shaped it, but also on the extent to which the system is perceived as legitimate (Leftwich, 2006). For example, even though it is generally accepted that the institutions of liberal democracy and capitalism were consolidated in Europe after the French Revolution, the challenges posed by the European revolutions of 1848, the rise of Fascism and Communism in the 1930s, World War II, and the Cold War demonstrate that until relatively recently these institutions still had to fight for survival. The general consensus in Europe and the U.S. is that the institutions of liberal democracy and capitalism established themselves from within and (more importantly) from below (Smith, 1990).

The categories commonly used to define countries, such as dictatorship versus democracy or more or less developed (based on GDP), do not take into account a country's level of stability of the legitimacy of capitalist institutions. In their studies of nationalization of private property, obsolescing bargaining power scholars highlight the fact that waves of nationalization of foreign property occurred during times of decolonization in Africa and Asia or during increasing nationalism or protectionism in Latin America (Fagre and Wells, 1982; Vernon 1971a, 1971b; Wells, 1977; Wells and Smith, 1975). International political economists add that dictatorial regimes are more likely to expropriate foreign assets (Feng, 2001; Henisz, 2000, 2004; Henisz and Zelner, 2001; Jensen, 2003, 2005, 2006, 2008). There are clear cases of countries in which property rights became less secure the less democratic the regime was, such as Nazi Germany or Communist China (Dean, 2010; Sit, 1996). However, an analysis of the ways in which power structures and institutions are formed provides us with a different interpretation. While in the U.S. and Western Europe institutions like liberal democracy and capitalism are an integral part of national identities (Smith, 1990), in places where these institutions were imposed, there might be a lack of identification because they were not created from *within*. During the period analyzed by the obsolescing bargaining power scholars, many of the expropriating countries had been created very recently (Kobrin, 1980; Vernon, 1971a, 1971b; Wells, 1977). Some legal scholars analyzing expropriations argued that because their nations did not participate in the creation of the international legal order: (1) they are not obliged to comply with those rules; and (2) those international laws are subject to the local ones (O'Connor, 1983; Castañeda, 1961). African rulers explicitly stated this argument in the 1960s. When expropriating foreign property, they considered their actions completely legitimate even though they went against international law because, they argued, colonial powers wrote this legislation in times when their nations did not even exist and, therefore, did not have a say (Rood, 1976). In sum, the existing institutions were highly contestable because almost no one in the country benefited from them and their legitimacy was highly questionable.

Challenges to the legitimacy of the operations of foreign investors have occurred in countries with a longer existence as nation states. Consider the conflict between the Mexican government and foreign oil companies from 1917 to 1938. Foreign oil corporations enjoyed a generous open door policy under Porfirio Díaz's Mexico dictatorship (1876 to 1911). Díaz, who obsessed with modernization, invited multinationals to invest. Although the Mexican economy grew at spectacular rates during his rule, a segment of the population (including some members of the elite) resented the fact that the fruits of this economic growth were being primarily distributed among Díaz's inner circle. In 1910, members of the elite rebelled, ousting the dictator and sparking a nationwide revolution. In 1917, a new ruling group wrote a new constitution, which declared the country's subsurface rights to be property of the state. The MNCs protested, arguing that this action went against the sanctity of contracts. The law undermined the legitimacy of the MNCs' operations and allowed the government to expropriate their properties in 1938 (Knight, 1991). Even in the 'banana republics,' institutional changes led to the rise of sectors that questioned United Fruit's previous political integration strategies; this challenged the firm's property rights, and the firm responded by

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

vertically disintegrating (Bucheli and Kim, 2012). After the more peaceful transition from apartheid to democracy in South Africa in 1989, some members of the African National Congress argued (albeit with no success) that contracts signed under apartheid should be declared nil because they had been signed under the white racist regime (Bond and Sharife, 2009). In terms of Acemoglu *et al*. (2005), Acemoglu and Robinson (2006a, 2006b), and Leftwich (2006), the legislation regarding foreign investment had been written under institutions that were created by groups whose political power was insufficient or had been eliminated. Groups that had not benefited from the previous institutions had gained enough power to overthrow their rulers and change the institutional arrangement to the detriment of those organizations that previously benefited (the MNCs in these cases).

After a change in the institutional order resulting from struggles for economic power, many of the advantages of political integration mentioned in the first part of this article can become disadvantages. Political struggles over economic rents should always end in a new type of distribution of income (Acemoglu and Robinson, 2006a; Acemoglu *et al*., 2005; Bueno de Mesquita *et al*., 2005). Most institutional changes leading to a more open social order have historically translated into long-term higher incomes for citizens of the place where the changes took place (Huntington, 1968; Przeworski, 2004). A more diversified economy and the fact that citizens have a bigger say in the way their taxes are spent in a more pluralistic system (Ross, 2001) opens the door for challenges to previously existing practices of political integration. If a politically integrated MNC had overwhelming economic power under the previous regime, it is even more likely that those under the new order will consider it illegitimate. For instance, the close relationship that existed between autocratic rulers of oil-rich Arab countries and foreign oil MNCs was, for a long time, a source of security for foreign investors' property rights. However, after the series of anti-government riots in early 2011 known as the 'Arab Spring' (which in some countries like Egypt were preceded by years of economic growth), there was a widespread fear among foreign investors that a new political order (even if it was a more democratic one) would question the legitimacy of their operations and put their investments at risk (*The Economist*, 2011).

The institutional changes that lead to challenges of a particular process of political integration by an MNC can be gradual or sudden. When changes are gradual, MNCs can adapt to them by shifting their political alliances or politically integrating new actors (O'Donnell, 1982). However, very gradual changes might go unperceived by MNCs until it is too late (Bucheli and Salvaj, 2013). But, very sudden changes might leave the previous political integration strategies by MNCs very exposed, making the firms more vulnerable to attacks—as happened after the fall of Mubarak in Egypt or Suharto in Indonesia (Rutherford, 2013; Solingen, 2006). This means the speed of the change does not change the general logic of political integration and the challenges faced by MNCs that politically integrate. We, therefore, propose:

> *Proposition 3b: After a process of change in the institutional environment, a multinational's political integration of the previous political regime and the property rights arrangements obtained under that regime can be considered illegitimate by the new regime.*

Following a similar logic, whereas the power of the home country may have provided protection for a firm integrated backward in the host country before institutional change, the home country's support can become a liability after institutional change. When the MNC's host country is openly hostile to a regime of a new institutional environment, governments can use this hostility to delegitimize MNCs' operations and expropriate them (Bucheli and Salvaj, 2013). We, therefore, propose:

> *Proposition 3c: After a process of change in the institutional environment, previous political support to a multinational from its home country can become a source of illegitimacy and political uncertainty for the firm.*

In short, before institutional changes take place, political integration can help an MNC establish its legitimacy in a host country, as well as mitigate potential threats from the host government. However, after institutional change takes place, previous political integration can become a liability for the firm and a source of illegitimacy, thereby increasing the uncertainties face by the firm. Proposition 3 and its subsets assume the possibility of institutional change in either toward a more open or closer social order. However, when the conflicts over economic rents lead to a more open social order, the possibili-

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

Table 2. Summary of propositions

Propositions	Nature	Focus	Contents
Proposition 1	***Static***	**Site specificity and political integration**	A multinational corporation will have the motivation to politically integrate as a strategy to protect its property rights when operating in site-specific industries where it faces a problem of power asymmetry with the host government.
Proposition 2	***Static***	**Institutional characteristics and political integration**	
Proposition 2a	*Static*	Host country's institutional environment	The feasibility and degree of political integration is conditioned by the host country's institutional environment, including its economic structure and regime type.
Proposition 2b	*Static*	Home government effect and power asymmetry	A multinational corporation can decrease the problem of power asymmetry with respect to the host government when having the support of its home government.
Proposition 2c	*Static*	Home government effect	The feasibility and degree of political integration is conditioned by the support of the multinational's home government and by the relative power between the home government vis-à-vis the host government.
Proposition 3	***Dynamic***	**Changes in institutional environment and consequences of political integration**	
Proposition 3a	*Dynamic*	Changing nature of institutional environment and institutional arrangement	The institutional environment is never fixed and is susceptible to be challenged. These challenges will affect the institutional arrangements between organizations.
Proposition 3b	*Dynamic*	Changes in institutional environment and illegitimacy of political integration	After a process of changes in the institutional environment, a multinational's political integration of the previous political regime and the property rights arrangements obtained under that regime can be considered illegitimate by the new one.
Proposition 3c	*Dynamic*	Changes in institutional environment and home government effect	After a process of change in the institutional environment, previous political support to a multinational from its home country can become a source of illegitimacy and political uncertainty for the firm.

ties of challenges to previously existing political integration increase and the possibilities of politically integrate decrease. We summarize our propositions in Table 2, dividing them between those for our static model and those for our dynamic model.

IMPLICATIONS, DISCUSSION, AND LIMITATIONS

This article has theoretical implications for understanding the relationship between MNCs and states. We contribute to the theories of obsolescing bargaining power and transaction costs economics by framing them within the concept of institutional environment and institutional arrangements through the theory of property rights. The classic obsolescing bargaining power model has been empirically tested and questioned by several scholars who show the limits of this interpretation when applied to particular industries, countries, or economic environments (Jenkins, 1986; Kobrin, 1987; Moon and Lado, 2000; Ramamurti, 2001). Gomes-Casseres (1990) attempted to reconcile the differences between both

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

approaches by considering different sets of interests on the part of both the MNC and the host government, while Levy (2008) included host country's political characteristics. We contribute to their analysis by including political integration and legitimacy. Sawant (2012) proposed a model in which corporate political activities are a substitute for internalization. We argue, however, that they can be complementary if the political strategy is one of political integration. We enrich Oliver's (1991) analysis of firms' reactions to institutional change (i.e., from adaptation to confrontation) by adding the possibility of a firm's integration of the state, as well as by analyzing the roots of that institutional change. Ahuja and Yayavaram (2011) call scholars to focus more on institutional structure than on industrial structure to understand firms' strategies. We show that a simultaneous consideration of both the institutional and industrial structures (e.g., site-specific industries requiring vertical integration) can provide us with a more complete picture of their interaction.

By considering how historical struggles over economic resources can lead to changes in the institutional environment and its design of property rights, we contribute to the literature that argues that the safety of the MNCs' assets against hostile government actions depend on the type of regime in the host country (Blanton and Blanton, 2007; Feng, 2001; Henisz, 2000; Jensen, 2003, 2005, 2006; Wantchekon and Jensen, 2004). As we proposed earlier, illustrated with historical examples, a process of democratization in a host country can be a source of uncertainties and risks for an MNC if the foreign firm had been closely linked to the previous, less democratic regime. Democratization can change the institutional framework in which the foreign MNC had obtained benefits in the host country. If the MNC had integrated parts of a previous, less democratic regime within its structure, its legitimacy and safety can be at risk under a process of democratization in the host country. In this light, one major implication of this work for scholars studying the political relations between MNCs and host countries is the need to consider changes in the institutional environment in the host country that are generated by internal power struggles. The stability of the institutional environment is determined by the extent to which a large percentage of the population perceives the system as legitimate, as well as the capability of those contesting the system to overthrow and change the existing order.

The type of analysis we propose can be particularly useful for scholars studying the dynamics behind recent actions against foreign corporations. The expropriations conducted by the Argentine government from 2010 to 2012 (including Repsol) were justified using arguments of the legitimacy of the operations of the foreign firms, who received concessions under a government considered corrupt (*América Economía*, 2012). After the uncertainties following the fall of Egypt's Hosni Mubarak in 2011, the close relationship many Western multinationals had with the regime made them targets of verbal attacks by politicians who thought they had been way too close to the previous (now considered illegitimate) regime (Shahine and Namatalla, 2011). Aware of how perceptions of political integration after institutional change could cause problems for them, these MNCs quickly courted Muslim Brother Mohamed Morsi's short-lived administration (Fortin, 2013). The close relationship between MNCs and Middle Eastern regimes has been used by radical Islamists to promote their agendas (Everett, 2008). Whether governments were as controlled as opposition to MNCs claim they were or not, the perceptions of existing political integration in times of strong calls for institutional change are something multinationals need to take into consideration when developing particular political strategies. Although our analysis has centered on the case of firms operating in high site-specific industries, recent cases also show its relevance for other type of firms. An example of political integration in non-site-specific industries under the presence of political institutional change is the case of Temasek Holdings, Singapore's largest investment company. In early 2006, Temasek paid $3.8 billion to purchase a 96.31 percent stake in Shin Corp, a leading Thai telecommunications company owned by the family of then-Thai Prime Minister Thaksin Shinawatra. This acquisition caused uproar in Thailand and eventually gave rise to the military coup in 2006. After the coup, Temasek reduced its stakes in Thailand (*Financial Times*, 2006; Lhaopadchan, 2010). In times of a return to economic nationalism, the rise of state-led capitalism in emerging economies, and global economic uncertainty, an analysis of the historical and political aspects affecting MNCs can be particularly useful.

Our examples illustrated mostly cases in which a single MNC engaged in political integration. Analyses of cases in which several MNCs compete with each other to politically integrate can add useful insights on the complexity of this strategy.

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

How can scholars apply our approach? One major implication of this work for scholars studying the political relations between MNCs and host countries, especially those interested in political integration, is the need to consider changes in the institutional environment in the host country that are generated by internal power struggles. The stability of the institutional environment in which an MNC operates is determined by the extent to which a large percentage of the population perceives the system as legitimate, as well as the capability of those contesting the system to overthrow and change the existing order. We are aware of the complexity of determining levels of contestability or legitimacy of a particular system, but existing literature offers ways to generate measurable variables or proxies. Bueno de Mesquita *et al*. (2005) calculate the size of coalitions of rulers in most countries of the world over more than a century, which serves as a good proxy for the level of constraints over the executive and the feasibility of an MNC to integrate domestic polities. The degree of control that MNCs have over a domestic economy can be calculated using the UNCTAD reports on the operations of MNCs, Twomey's (2001) historical statistics of MNCs' operations around the world, and the historical statistics published by the International Monetary Fund. The database developed Center for the Study of Civil War and the Uppsala Conflict Program on internal and external conflicts around the world provides information on the level of contestation that exists in a particular system. Additionally, scholars interested in accurate information on long-term institutional changes in host countries have a rich and large body of scholarship written by historians and political scientists who have worked for a long time studying the political history of many countries. Similarly, military and political historians have written a large number of works on covert and open military interventions by the home countries of MNCs into their host countries. These bodies of scholarship are far too large to quote here, but the good news is that there is no shortage of sources to analyze changes in the institutional environment.

Regarding political integration, Wan and Hillman (2006) created a database on the strategies that some MNCs use to approach political actors. Although this information does not go very far back in time, detailed information in corporate and government archives provides researchers with information regarding which influential politicians sat on the boards of the subsidiaries of MNCs or which senior employees ended up in senior political positions. Historical information on MNCs' shareholders is often available as well.

Detailed analyses of the political connections of a firm with the host political environment can require painstaking archival research. In this regard, we agree with Frynas, Mellahi, and Pigman (2006), who argue that any accurate analysis of MNCs' political strategies—in particular those involving close relationships with political actors—cannot be done by applying statistical methods to mega databases, but should focus on individual case analyses for particular corporations or countries. In addition to specialized institutions such as the historical collections at Harvard Business School's Baker Library or the Hagley Museum and Library, there are many underused historical corporate archives in the United States (Sharp, 2012; Snyder, 2010), the United Kingdom (National Archives, 2012), Germany (Siemens Corporation, 2012; Bayer Corporation, 2012), or China (Lai, 1998) in addition to national historical archives. Ventresca and Mohr (2002), Kipping, Wadhwani, and Bucheli (2014), Yates, (2014), and Lipartito (2014) provide a methodology to study corporate archives. Bucheli and Kim (2014) offer a theoretical approach to analyze the relationship between firms and states in historical perspective. Methods on how to integrate historical analysis in business scholarship in general have been developed by Kipping and Üsdiken (2007) and Bucheli and Wadhwani (2014) and for international business in particular by Jones and Khanna (2006) and Cantwell, Dunning, and Lundan (2010).

There are some limitations we need to acknowledge that can provide basis for further research. First, changes in the institutional environment are not limited to the host country. There can be changes taking place at a wider global level that will alter the power asymmetry between host states and foreign MNCs. Similarly, MNCs can also be affected by institutional changes resulting from struggles over economic resources in their home countries. Besides this study, scholars interested in this kind of analysis can use Nygaard and Dahlstrom (1992), Eden *et al*. (2005), Grosse (2005), Behrman and Grosse (1990), Lenway and Murtha (1994), Murtha and Lenway (1994), and Agmon (2003) as a starting point. Second, opportunistic behavior from the host government can come in ways other than expropriation or higher taxation. Conflicts around royalties, their distribution between different domestic actors, or the MNC's role in job creation and how this affects its

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

bargaining power should be addressed within the framework we created (see Behrman and Grosse (1990) and Grosse (2005)). Third, our study assumed the government as a single variable and does not take into account the existence of more or less federal governments and the competition between subunits (municipalities, provinces, etc.) around economic rents generated by an MNC (Richani, 2005; Wood, 1986). In some cases, the MNCs can politically integrate lower levels of government as a way to neutralize central government opportunistic behavior or the MNC can play a role at being used as a pawn in power struggles between the host country central government and the provinces. Lastly, our theory (especially the dynamic model) assumes as a boundary condition that changes in the institutional environment are exogenously given (Bacharach, 1989). However, it is also possible that the MNCs' political integration strategies influence the nature of the institutional changes in the host country or that this political integration also triggers struggles between different economic and social groups. Future studies illuminating this aspect of political integration will shed further light on the role of political integration.

CONCLUSION

MNCs operating in high site-specific industries face two types of risks. On the one hand, if they vertically integrate their operations, they face the risk of the government changing the rules that govern their property rights once the firm has significantly invested. On the other hand, if they do not vertically integrate, they face the risk of opportunistic behavior or lack of coordination with host country partners. This contradiction is reflected in the different conclusions reached by the obsolescing bargaining power and the transaction costs economics theories. We propose to reconcile this tension by developing the concept of political integration, a process through which an MNC integrates elements of the host country's polities within its corporate structure. Site-specific MNCs are motivated to engage in this type of strategy because of an asymmetrical power relationship they have with the host government (which has the power to change the rules governing the MNCs' property rights). This strategy is conditioned by the type of regime ruling the host country and the degree of support an MNC obtains from its home government. This strategy will work as long as the host country's institutional environment remains unchanged. However, if there is an institutional change generated by internal conflicts among different social groups over economic resources, the previously established political integration can generate uncertainties from the new government. After institutional changes that delegitimize the previously existing institutional environment, the legitimacy of the MNC's previous political integration can be questioned. This can also raise doubts about the legitimacy of the MNC's operations, creating new political uncertainties. Our discussion underscores that the complex world in which the MNCs operate is historically determined and that no MNC operates in a vacuum in which governments or political conflicts do not exist or do not affect either the MNC's political strategies or the arrangements it makes with other firms.

ACKNOWLEDGEMENTS

The authors wish to thank Ruth Aguilera, Joseph Clougherty, Joseph Mahoney, Craig Murphy, and the excellent anonymous referees for their insightful comments on previous versions of this article. We hold responsibility for any error or inaccuracies.

REFERENCES

Acemoglu D, Johnson S, Robinson J. 2005. Institutions as a fundamental cause of long-run growth. In *Handbook of Economic Growth*, Aghion P, Durlauf S (eds). Elsevier: New York; 385–472.

Acemoglu D, Robinson J. 2006a. *Economic Origins of Dictatorship and Democracy*. Cambridge University Press: New York.

Acemoglu D, Robinson J. 2006b. Paths of economic and political development. In *The Oxford Handbook of Political Economy*, Weingast B, Wittman D (eds). Oxford University Press: New York; 673–692.

Agmon T. 2003. Who gets what: the MNE, the national state, and the distributional effects of globalization. *Journal of International Business Studies* **34**(5): 416–427.

Ahuja G, Yayavaram S. 2011. Explaining influence rents: the case for an institutions-based view of strategy. *Organization Science* **22**(6): 1631–1652.

Alfaro L. 2003. *Foreign Direct Investment and Growth: Does the Sector Matter?* Harvard Business School Press: Boston, MA.

Copyright © 2015 Strategic Management Society

América Economía. 2012. Hasta cuándo Cristina. 25 April. Available at: http://www.americaeconomia.com/politica-sociedad/politica/editorial-hasta-cuando-cristina (accessed 22 April 2014).

Bacharach SB. 1989. Organizational theories: some criteria for evaluation. *Academy of Management Review* **14**(4): 496–515.

Baran P, Sweezy P. 1968. *Monopoly Capital: An Essay on the American Economic and Social Order*. Monthly Review Press: New York.

Bayer Corporation. 2012. The Bayer corporate archives. Available at: http://www.bayer.com/en/the-company-archive.aspx (accessed 1 October 2012).

Beard C. 1913. *An Economic Interpretation of the Constitution of the United States*. Macmillan: New York.

Behrman J, Grosse R. 1990. *International Business and Governments*. University of South Carolina Press: Columbia, SC.

Behrman J, Grosse R. 1992. Theory in international business. *Transnational Corporations* **1**(1): 93–126.

Blanton S, Blanton R. 2007. What attracts foreign investors? An examination of human rights and foreign direct investment. *Journal of Politics* **69**(1): 143–155.

Boddewyn J. 1988. Political aspects of MNE theory. *Journal of International Business Studies* **19**(3): 341–363.

Boddewyn J, Brewer T. 1994. International-business political behavior: new theoretical directions. *Academy of Management Review* **19**(1): 119–143.

Bond P, Sharife K. 2009. Apartheid reparations and the contestation of corporate power in Africa. *Review of African Political Economy* **36**(119): 115–137.

Bowman S. 1996. *The Modern Corporation and American Political Thought: Law, Power, and Ideology*. Pennsylvania State University Press: University Park, PA.

Bucheli M. 2003. United Fruit Company in Latin America. In *Banana Wars: Power, Production, and History in the Americas*, Moberg M, Striffler S (eds). Duke University Press: Durham, NC.

Bucheli M. 2005. *Bananas and Business: The United Fruit Company in Colombia, 1899–2000*. New York University Press: New York.

Bucheli M. 2008. Multinational corporations, totalitarian regimes, and economic nationalism: United Fruit Company in Central America, 1899–1975. *Business History* **50**(4): 433–454.

Bucheli M, Kim JU. 2014. The state as a historical construct in organization studies. In *Organizations in Time: History, Theory, Methods*, Bucheli M, Wadhwani RD (eds). Oxford University Press: Oxford, U.K.; 241–262.

Bucheli M, Kim M-Y. 2012. Political institutional change, obsolescing legitimacy, and multinational corporations: the case of the Central American banana industry. *Management International Review* **52**(6): 847–877.

Bucheli M, Salvaj E. 2013. Reputation and political legitimacy: ITT in Chile. *Business History Review* **87**(4): 729–756.

Bucheli M, Wadhwani RD (eds). 2014. *Organizations in Time: History, Theory, Methods*. Oxford University Press: Oxford, U.K.

Buckley P. 1993. Contemporary theories of international direct investment. *Revue Economique* **44**(4): 725–736.

Buckley P, Casson M. 1976. *The Future of the Multinational Enterprise*. Macmillan: London, U.K.

Bueno de Mesquita B, Smith A, Siverson R, Morrow J. 2005. *The Logic of Political Survival*. MIT Press: Cambridge, MA.

Bulmer-Thomas V. 1987. *The Political Economy of Central America since 1920*. Cambridge University Press: Cambridge, U.K.

Cantwell J, Dunning J, Lundan S. 2010. An evolutionary approach to understanding international business activity: the co-evolution of MNEs and the institutional environment. *Journal of International Business Studies* **42**(1): 567–586.

Castañeda J. 1961. The underdeveloped nations and the development of international law. *International Organization* **15**(1): 38–48.

Chomsky A. 1996. *West Indian Workers and the United Fruit Company in Costa Rica, 1870–1940*. Louisiana State University Press: Baton Rouge, LA.

Clague C, Keefer P, Knack S, Olson M. 1996. Property and contract rights in autocracies and democracies. *Journal of Economic Growth* **1**(2): 243–276.

Coase R. 1937. The nature of the firm. *Economica* **4**(16): 386–405.

Coase R. 1960. The problem of social cost. *Journal of Law and Economics* **3**(1): 1–44.

Coatsworth J. 1993. Notes on the comparative economic history of Latin America and the United States. In *Development and Underdevelopment in America: Contrasts in Economic Growth in North and Latin America in Historical Perspective*, Bernecker W, Tobler H (eds). Walter de Gruyter: New York.

Cockcroft J, Frank A, Johnson D. 1972. *Dependence and Underdevelopment: Latin America's Political Economy*. Anchor: New York.

Davis L, North D. 1971. *Institutional Change and American Economic Growth*. Cambridge University Press: Cambridge, U.K.

Dean M. 2010. *Robbing the Jews: The Confiscation of Jewish Property in the Holocaust, 1933–1945*. Cambridge University Press: Cambridge, U.K.

Demsetz H. 1964. The exchange and enforcement of property rights. *Journal of Law and Economics* **7**: 11–26.

Dosal P. 1993. *Doing Business with the Dictators: A Political History of United Fruit in Guatemala, 1899–1944*. Scholarly Resources: Wilmington, DE.

Copyright © 2015 Strategic Management Society

Dunning J. 1977. *Trade, Location of Economic Activity and the Multinational Enterprise: Some Empirical Evidence*. University of Reading Press: Reading, U.K.

Dunning J. 1988. The theory of international production. *International Trade Journal* **3**(1): 21–66.

Dunning J. 2003. Some antecedents of internalization theory. *Journal of International Business Studies* **34**: 108–115.

Durham B. 1999. Economic growth and political regimes. *Journal of Economic Growth* **4**(3): 81–111.

Economist, The. 2009. The return of economic nationalism. 7 February: 7–10.

Economist, The. 2011. Oil pressure rising. 26 February: 79–80.

Economist, The. 2012. Fill'er up. 21 April: 49–50.

Eden L, Lenway S, Schuler D. 2005. From the obsolescing bargain to the political bargaining power. In *International Business and Government Relations in the 21st Century*, Grosse R (ed). Cambridge University Press: New York; 251–269.

Elm M. 1992. *Oil, Power, and Principle: Iran's Oil Nationalization and its Aftermath*. Syracuse University Press: Syracuse, NY.

Etzion D, Davis G. 2008. Revolving doors? A network analysis of corporate officers and U.S. government officials. *Journal of Management Inquiry* **17**(3): 157–161.

Evans P. 1979. *Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil*. Princeton University Press: Princeton, NJ.

Everett B. 2008. The 'resource curse:' oil multinationals to cut the knot? *Fletcher Forum of World Affairs* **32**(1): 201–220.

Fagre N, Wells L. 1982. Bargaining power of multinationals and host governments. *Journal of International Business Studies* **13**(2): 9–23.

Feng Y. 2001. Political freedom, political instability, and policy uncertainty: a study of political institutions and private investment in developing countries. *International Studies Quarterly* **45**(2): 271–294.

Financial Times. 2006. Temasek to reduce stake in Shin Corp. 20 September. Available at: http://www.ft.com/intl/cms/s/0/dcf9ab22-3c3b-11dd-b958-0000779fd2ac.html#axzz2zbfDN8oA (accessed 22 April 2014).

Flores-Macías G. 2012. *After Neoliberalism? The Left and Economic Reforms in Latin America*. Oxford University Press: New York.

Foley M, Edwards B. 1996. The paradox of civil society. *Journal of Democracy* **7**(3): 38–52.

Fortin J. 2013. Egypt's failing economy: Western corporations are awaiting a real economic plan from the Morsi government. *International Business Times*. 20 April. Available at: http://www.ibtimes.com (accessed 23 December 2013).

Fosgren M. 2013. *Theories of the Multinational Firm: A Multidimensional Creature in the Global Economy*. Edward Elgar: Cheltenham, U.K.

Foss K, Foss N. 2005. Resources and transaction costs: how property rights economics furthers the resource-based view. *Strategic Management Journal* **26**(6): 541–553.

Frynas J, Mellahi K, Pigman G. 2006. First mover advantages in international business and firm-specific political resources. *Strategic Management Journal* **27**(4): 321–345.

Fukuyama F. 1992. *The End of History and the Last Man*. Free Press: New York.

Gilpin R. 2001. *Global Political Economy: Understanding the International Economic Order*. Princeton University Press: Princeton, NJ.

Gledisch K, Ward M. 2006. Diffusion and the international context of democratization. *International Organization* **60**(4): 911–933.

Gleijeses P. 1991. *Shattered Hope: The Guatemalan Revolution and the United States, 1944–1954*. Princeton University Press: Princeton, NJ.

Gomes-Casseres B. 1990. Firm ownership preferences and host government restrictions: an integrated approach. *Journal of International Business Studies* **21**: 1–22.

Greif A. 2006. *Institutions and the Path to the Modern Economy*. Cambridge University Press: New York.

Grosse R. 2005. The bargaining view of government-business relations. In *International Business and Government Relations in the 21st Century*, Robert Grosse (ed). Cambridge University Press: New York: 273–289.

Haber S. 2006. Authoritarian government. In *The Oxford Handbook of Political Economy*, Weingast B, Wittman D (eds). Oxford University Press: New York; 693–707.

Haber S, Razo A, Maurer N. 2002. Sustaining economic performance under political instability: political integration in revolutionary Mexico. In *Crony Capitalism and Economic Growth in Latin America: Theory and Evidence*, Haber S (ed). Stanford University Press: Stanford, CA.

Haber S, Razo A, Maurer N. 2003. *The Politics of Property Rights: Political Instability, Credible Commitments, and Economic Growth in Mexico, 1876–1929*. Cambridge University Press: Cambridge, U.K.

Handlin O, Handlin M. 1945. Origins of the American business corporation. *Journal of Economic History* **5**(1): 1–23.

Harrigan K. 1985. Vertical integration and corporate strategy. *Academy of Management Journal* **28**: 397–425.

Henisz W. 2000. The institutional environment for multinational investment. *Journal of Law, Economics, and Organization* **16**(12): 334–364.

Henisz W, Zelner B. 2001. The institutional environment for telecommunications investment. *Journal of Economics and Management Strategy* **10**(1): 123–147.

Copyright © 2015 Strategic Management Society

Henisz W, Zelner B. 2004. Explicating political hazards and safeguards: a transaction cost politics approach. *Industrial and Corporate Change* **13**(6): 901–915.

Hennart J-F. 1982. *A Theory of Multinational Enterprise*. University of Michigan Press: Ann Arbor, MI.

Hennart J-F. 1993. Explaining the swollen middle: why most transactions are a mix of 'market' and 'hierarchy.' *Organization Science* **4**(4): 529–547.

Hennart J-F. 2006. A transaction costs theory of equity joint ventures. *Strategic Management Journal* **9**(4): 361–374.

Hillman A, Hitt M. 1999. Corporate political strategy formulation: a model of approach, participation, and strategy decisions. *Academy of Management Review* **24**(4): 825–842.

Hillman A, Keim G, Schuler D. 2004. Corporate political activity: a review and research agenda. *Journal of Management* **30**(6): 837–857.

Hillman A, Wan W. 2005. The determinants of MNE subsidiaries' political strategies: evidence of institutional duality. *Journal of International Business Studies* **36**: 322–340.

Hillman A, Zardkoohi A, Bierman L. 1999. Corporate political strategies and firm performance: indications of firm-specific benefits from personal service in the US government. *Strategic Management Journal* **20**(1): 67–81.

Huntington S. 1968. *Political Order in Changing Societies*. Yale University Press: New Haven, CT.

Jenkins B. 1986. Reexamining the 'obsolescing bargain:' a study of Canada's national energy. *International Organization* **40**: 139–165.

Jensen N. 2003. Democratic governance and multinational corporations: political regimes and inflows of foreign direct investment. *International Organization* **57**(3): 587–616.

Jensen N. 2005. The multinational corporation empowers the nation-state. *Perspectives on Politics* **3**(3): 544–551.

Jensen N. 2006. *Nation States and the Multinational Corporation*. Princeton University Press: Princeton, NJ.

Jensen N. 2008. Political risk, democratic institutions, and foreign direct investment. *Journal of Politics* **70**: 1040–1052.

Jones G. 2005. *Multinationals and Global Capitalism*. Oxford University Press: Oxford, U.K.

Jones G, Khanna T. 2006. Bringing history (back) into international business. *Journal of International Business Studies* **37**: 453–468.

Joskow P. 1985. Vertical integration and long-term contracts: the case of the coal-burning electric generating plants. *Journal of Law, Economics, and Organization* **1**(1): 33–80.

Joskow P. 1988. Asset specificity and the structure of vertical relationships: empirical evidence. *Journal of Law, Economics, and Organization* **4**(1): 95–117.

Karl T. 1997. *The Paradox of Plenty: Oil Booms and Petro-States*. University of California Press: Berkeley, CA.

Kaufman J. 2008. Corporate law and the sovereignty of states. *American Sociological Review* **73**(3): 402–425.

Kennedy S. 2007. Transnational political alliances: an exploration with evidence from China. *Business and Society* **46**(2): 174–200.

Khanna T, Rivkin J. 2006. Interorganizational ties and business group boundaries: evidence from an emerging economy. *Organization Science* **17**(3): 333–352.

Kim J, Mahoney J. 2005. Property rights theory, transaction costs theory, and agency theory: an organizational economics approach to strategic management. *Managerial and Decision Economics* **26**(4): 223–242.

Kipping M, Üsdiken B. 2007. Business history and management studies. In *The Oxford Handbook of Business History*, Jones G, Zeitlin J (eds). Oxford University Press: New York; 96–119.

Kipping M, Wadhwani RD, Bucheli M. 2014. Analyzing and interpreting historical sources: a basic methodology. In *Organizations in Time: History, Theory, Methods*, Bucheli M, Wadhwani RD (eds). Oxford University Press: Oxford, U.K.; 305–329.

Klein B, Crawford R, Alchian A. 1978. Vertical integration, appropriable rents, and the competitive contracting process. *Journal of Law and Economics* **21**(2): 297–326.

Klein P, Mahoney J, McGahan A, Pitelis C. 2012. Who is in charge? A property rights perspective on stakeholder governance. *Strategic Organization* **10**(3): 305–315.

Knight A. 1991. The rise and fall of Cardenismo, c.1930–c.1946. In *Mexico since Independence*, Bethell L (ed). Cambridge University Press: Cambridge, U.K.; 241–320.

Kobrin S. 1979. Political risk: a review and reconsideration. *Journal of International Business Studies* **19**(1): 67–80.

Kobrin S. 1980. Expropriation as an attempt to control foreign firms in LDCs: trends from 1969 to 1979. *International Studies Quarterly* **18**: 329–348.

Kobrin S. 1987. Testing the bargaining hypothesis in the manufacturing sector in developing countries. *International Organization* **41**: 609–638.

Kobrin S. 2010. Sovereignty at bay: globalization, multinational enterprise, and the international political system. In *The Oxford Handbook of International Business*, Rugman A (ed). Oxford University Press: New York; 181–205.

Kostova T. 1999. Transnational transfer of strategic organizational practices: a contextual perspective. *Academy of Management Review* **24**(2): 308–324.

Kostova T, Roth K, Dacin T. 2008. Institutional theory in the study of multinational corporations: a critique and new directions. *Academy of Management Review* **33**: 994–1006.

Kostova T, Zaheer S. 1999. Organizational legitimacy under conditions of complexity: the case of the multinational enterprise. *Academy of Management Review* **24**(1): 64–81.

Lai C. 1998. Enterprise history: studies and archives. *Chinese Studies in History* **31**: 169–190.

Copyright © 2015 Strategic Management Society

Langley L. 2002. *The Banana Wars: The United States Intervention in the Caribbean, 1898–1934*. Scholarly Resources: Wilmington, DE.

Le Billon P. 2001. The political ecology of war: natural resources and armed conflicts. *Political Geography* **20**(5): 561–584.

Leftwich A. 2006. What are institutions? IPPG briefing paper No. 1, Department of International Development, London, U.K. Available at http://www.ippg.org.uk/papers/bp1.pdf (accessed 21 November 2014).

Lenway S, Murtha T. 1994. The state as a strategist in international business research. *Journal of International Business Studies* **25**(3): 513–535.

Lester R, Hillman A, Zardkoohi A, Canella A. 2008. Former government officials as outside directors: the role of human and social capital. *Academy of Management Journal* **51**(5): 999–1013.

Leuz C, Oberholzer-Gee F. 2006. Political relationships, global financing, and corporate transparency: evidence from Indonesia. *Journal of Financial Economics* **81**(2): 411–439.

Levy D. 2008. Political contestation in global production networks. *Academy of Management Review* **33**: 943–962.

Lhaopadchan S. 2010. The politics of sovereign wealth fund investment: the case of Temasek and Shin Corp. *Journal of Financial Regulation and Compliance* **18**(1): 15–22.

Li Q, Mihalache A. 2006. Democratic institutions and sectoral foreign direct investment. Paper presented at the International Studies Association Meeting, San Diego, CA.

Li S, Filer L. 2007. The effects of governance environment on the choice of investment mode and the strategic implications. *Journal of World Business* **42**(1): 80–98.

Libecap G. 1986. Property rights in economic history: implications for research. *Explorations in Economic History* **23**: 227–252.

Lillich R. 1975. Requiem for Hickenlooper. *American Journal of International Law* **69**(1): 97–100.

Lipartito K. 2014. Historical sources and data. In *Organizations in Time: History, Theory, Methods*, Bucheli M, Wadhwani RD (eds). Oxford University Press: Oxford, U.K.; 284–304.

London B, Ross R. 1995. The political sociology of foreign direct investment: global capitalism and capital mobility, 1965–1980. *International Journal of Comparative Sociology* **36**: 198–218.

MacCameron R. 1983. *Bananas, Labor, and Politics in Honduras*. Syracuse University Press: Syracuse, NY.

Mahoney J. 1992. The choice of organizational form: vertical financial ownership versus other methods of vertical integration. *Strategic Management Journal* **13**(8): 559–584.

Maier P. 1993. The revolutionary origins of the American corporation. *William and Mary Quarterly* **50**(1): 51–84.

Marx K. 1988 (1852). *The Eighteenth Brumaire of Louis Bonaparte*. International Publishers: New York.

Marx K. 1992 (1867). *Capital*. Penguin Classics: London, U.K.

Maurer N. 2011. The empire struck back: sanctions and compensation in the Mexican oil expropriation of 1938. *Journal of Economic History* **71**(3): 590–615.

May S, Plaza G. 1958. *United Fruit Company in Latin America*. National Planning Association: Washington, D.C.

McBeth B. 1983. *Juan Vicente Gómez and the Oil Companies in Venezuela, 1908–1935*. Cambridge University Press: Cambridge, U.K.

Meschi PX, Riccio E. 2008. Country risk, national cultural differences between partners and survival of international joint ventures in Brazil. *International Business Review* **17**(3): 250–266.

Miller K. 1992. A framework for integrated risk management in international business. *Journal of International Business Studies* **23**(2): 311–331.

Mizruchi M. 1996. What do interlocks do? An analysis, critique, and assessment of research on interlocking directorates. *Annual Review of Sociology* **22**: 271–298.

Moon C, Lado A. 2000. MNC-host government bargaining power relationship: a critique and extension within the resource-based view. *Journal of Management* **26**: 85–117.

Moore B. 1966. *Social Origins of Dictatorship and Democracy*. Beacon: Boston, MA.

Moszoro M, Spiller P. 2012. Third-party opportunism and the nature of public contracts. Working paper 18636, National Bureau of Economic Research, Cambridge, MA. Available at http://www.nber.org/papers/w18636.pdf (accessed 15 November 2014).

Murtha T, Lenway S. 1994. Country capabilities and the strategic state: how national political institutions affect multinational corporations' strategy. *Strategic Management Journal*, Summer Special Issue **15**: 113–129.

Musacchio A. 2008. Can civil law countries get good institutions? Lessons from the history of creditor rights and bond markets in Brazil. *Journal of Economic History* **68**(1): 80–108.

National Archives, United Kingdom. 2012. Business history records held in the U.K. Available at: http://www.nationalarchives.gov.uk/records/research-guides/business-history.htm (accessed 22 April 2014).

North D. 1990. *Institutions, Institutional Change, and Economic Performance*. Cambridge University Press: New York.

North D, Weingast B. 1989. Constitutions and commitment: the evolution of institutions governing public choice in seventeenth century England. *Journal of Economic History* **49**(4): 803–832.

Nygaard A, Dahlstrom R. 1992. Multinational corporation strategy and host country control. *Scandinavian Journal of Management* **8**(1): 3–13.

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

O'Connor L. 1983. The international law of expropriation of foreign-owned property: the compensation requirement and the role of the taking state. *Loyola and Los Angeles International and Comparative Law Review* **6**(2): 355–425.

O'Donnell G. 1982. *El Estado Burocrático Autoritario: 1966–1973*. Belgrano: Buenos Aires, Argentina.

Oliver C. 1991. Strategic responses to institutional processes. *Academy of Management Review* **16**(1): 145–179.

Oneal J. 1994. The affinity of foreign investors for authoritarian regimes. *Political Research Quarterly* **47**(3): 565–588.

Penrose E. 1968. *The Large International Firm in Developing Countries: The International Oil Industry*. MIT Press: Cambridge, MA.

Pfeffer J, Salancik G. 1978. *The External Control of Organizations: A Resource Dependence Perspective*. Harper & Row: New York.

Podolny J. 1993. A status-based model of market competition. *American Journal of Sociology* **98**: 829–872.

Podolny J. 2001. Networks as the pipes and prisms of the market. *American Journal of Sociology* **107**(1): 33–60.

Przeworski A. 2004. Democracy and economic development. In *The Evolution of Political Knowledge*, Mansfield E, Sisson R (eds). Ohio State University Press: Columbus, OH.

Ramamurti R. 2001. The obsolescing 'bargaining model?' MNC-host developing country relations revisited. *Journal of International Business Studies* **32**: 23–39.

Rangan S, Sengul M. 2009. The influence of macro structure on the foreign market performance of transnational firms: the value of IGO connections, export dependence, and immigration links. *Administrative Science Quarterly* **54**(2): 229–267.

Read R. 1983. The growth and structure of multinationals in the banana export trade. In *The Growth of International Business*, Casson M (ed). Allen and Unwin: London, U.K.

Richani M. 2005. Multinational corporations, rentier capitalism, and the war system in Colombia. *Latin American Politics and Society* **47**(3): 113–144.

Roland G. 2002. The political economy of transition. *Journal of Economic Perspectives* **16**(1): 29–50.

Rood L. 1976. Nationalisation and indigenisation in Africa. *Journal of Modern African Studies* **14**(3): 427–447.

Ross M. 2001. Does oil hinder democracy? *World Politics* **53**(3): 325–361.

Roy JP, Oliver C. 2009. International joint venture partner selection: the role of the host-country legal environment. *Journal of International Business Studies* **40**: 779–801.

Ruef M, Scott WR. 1998. A multidimensional model of organizational legitimacy: hospital survival in changing institutional environments. *Administrative Science Quarterly* **43**(4): 877–904.

Rugman A. 1981. *Inside the Multinationals: The Economics of Internal Markets*. Columbia University Press: New York.

Rutherford B. 2013. *Egypt after Mubarak: Liberalism, Islam, and Democracy in the Arab World*. Princeton University Press: Princeton, NJ.

Sawant R. 2012. Asset specificity and corporate political activity in regulated industries. *Academy of Management Review* **37**(2): 194–210.

Schlesinger S, Kinzer S. 1990. *Bitter Fruit: The Untold Story of the American Coup in Guatemala*. Anchor: New York.

Scott WR. 2008. *Institutions and Organizations: Ideas and Interests*. SAGE Publications: London, U.K.

Scott WR, Ruef M, Caronna C, Mendel P. 2000. *Institutional Change and Healthcare Organizations: From Professional Dominance to Managed Care*. University of Chicago Press: Chicago, IL.

Shahine A, Namatalla A. 2011. World's biggest stock losses in Egypt may extend decline. Available at: http://www.bloomberg.com/news/2011-02-28/world-s-biggest-stock-losses-in-egypt-to-widen-as-bourse-opens-after-halt.html (accessed 22 April 2014).

Sharp R. 2012. Guide to business history resources. Available at: http://www.loc.gov/rr/business/guide/guide1/sharp13.html (accessed 27 September 2012).

Siegel J. 2007. Contingent political capital and international alliances: evidence from South Korea. *Administrative Science Quarterly* **52**(4): 621–666.

Siemens Corporation. 2012. Siemens corporate archives. Available at: http://www.siemens.com/history/en/siemens_corporate_archives.htm (accessed 1 October 2012).

Sit E. 1996. Broken promises: the status of expropriated property in the People's Republic of China. *Asian American Law Journal* **3**(1): 111–150.

Smith A. 1990. *Nationalism and Modernism*. Routledge: New York.

Snyder T. 2010. *Business History in the United States: A Guide to Archival Collections*. German Historical Institute: Washington, D.C.

Solingen E. 2006. Global incentives and local responses to self-determination: an application to Aceh. In *No More States? Globalization, National Self-Determination, and Terrorism*, Rocencrance R, Stein A (eds). Rowman & Littlefield: Lanham, MD; 161–179.

Spiller P. 2008. An institutional theory of public contracts: regulatory implications. Working paper 14152, National Bureau of Economic Research, Cambridge, MA. Available at: http://www.nber.org/papers/w14152.pdf (accessed 15 November 2014).

Stern P. 2011. *The Company-State: Corporate Sovereignty and the Early Modern Foundations of the British Empire in India*. Oxford University Press: Oxford, U.K.

Suchman M. 1995. Managing legitimacy: strategic and institutional approaches. *Academy of Management Review* **20**(3): 571–610.

Taracena A. 1993. Liberalismo y poder político en Centroamérica (1870–1929). In *Historia General de*

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090

Centroamérica (Vol. 4), Acuña V (ed). FLASCO: Madrid, Spain; 167–253.

Tarzi S. 1991. Third world governments and multinational corporations: dynamics of host bargaining power. *International Relations* **10**: 237–249.

Twomey M. 2001. *A Century of Foreign Investment in the Third World*. Routledge: New York.

Ventresca M, Mohr J. 2002. Archival research methods. In *The Blackwell Companion to Organizations*, Baum JAC (ed). Wiley-Blackwell: New York; 805–828.

Vernon R. 1971a. *Sovereignty at Bay*. Basic Books: New York.

Vernon R. 1971b. The multinational enterprise: power versus sovereignty. *Foreign Affairs* **49**: 736–775.

Wallerstein I. 2004. *World-Systems Analysis: An Introduction*. Duke University Press: Durham, NC.

Wan W, Hillman A. 2006. One of these things is not like the others: what contributes to dissimilarity among MNE subsidiaries' political strategy? *Management International Review* **46**(1): 85–107.

Wantchekon L, Jensen N. 2004. Resource wealth and political regimes in Africa. *Comparative Political Studies* **37**(7): 816–841.

Wells L. 1977. Negotiating with third-world governments. *Harvard Business Review* **55**(1): 72–80.

Wells L, Smith D. 1975. *Negotiating Third World Mineral Agreements: Promises as Prologue*. Ballinger: Cambridge, U.K.

Wilkins M. 1974. *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970*. Harvard University Press: Cambridge, MA.

Williamson O. 1971. The vertical integration of production: market failure considerations. *American Economic Review* **61**(2): 112–123.

Williamson O. 1979. Transaction-cost economics: the governance of contractual relations. *Journal of Law and Economics* **22**(2): 233–261.

Williamson O. 1981. The modern corporation: origins, evolution, attributes. *Journal of Economic Literature* **19**(4): 1537–1568.

Williamson O. 1985. *The Economic Institutions of Capitalism*. Free Press: New York.

Witt M, Lewin A. 2007. Outward foreign direct investment as escape response to home country institutional constraints. *Journal of International Business Studies* **39**(4): 579–594.

Wood WB. 1986. Intermediate cities in a resource frontier. *Geographical Review* **76**(2): 149–159.

Xu D, Shenkar O. 2002. Institutional distance and the multinational enterprise. *Academy of Management Review* **27**(4): 608–618.

Yates JA. 2014. Understanding historical methods in organization studies. *Organizations in Time: History, Theory, Methods*, Bucheli M, Wadhwani RD (eds). Oxford University Press: Oxford, U.K.; 265–283.

Copyright © 2015 Strategic Management Society

DOI: 10.1002/gsj.1090