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The octopus that shrank: A historical analysis of how multinationals address policy and contractual uncertainty in a global value chain

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Abstract

Research Summary: We analyze how the evolution of the broad institutional environment influences the vertical integration strategy of a multinational corporation (MNC) leading a global value chain (GVC). We develop a history-to-theory study based on the evolution of the banana GVC between 1899 and 1991. We argue that when a MNC's bargaining power vis-à-vis the host government is strong, it will choose a governance structure that addresses contractual uncertainty. When the MNC's bargaining power declines because of changes in the institutional environment, it will prioritize a governance structure that protects its assets. We analyze the evolution of MNC's bargaining power as a result of the interaction of three levels of the institutional environment: global, home country, and host country.

Managerial Summary: Our study examines vertical integration decisions in a global value chain (GVC) throughout its historical evolution. Using historical sources, we show that when MNC managers perceive their bargaining power to be sufficient to protect them from hostile government actions in host countries, their main concern is that of governing their activities as efficiently as possible by amongst others vertically integrating asset-specific transactions. When their bargaining

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power declines, MNCs become more concerned with shielding their assets and rents from expropriations by host-country governments, thus retreating from vertical integration. We illustrate that the bargaining power of MNCs changes as events at the global, home, and host country levels unfold. For example, MNCs' bargaining power declines in periods featuring economic nationalism, such as the 1960s–1970s.

KEYWORDS

business history, contractual uncertainty, policy uncertainty, transaction cost economics, vertical integration

1 | INTRODUCTION

This study investigates how the long-term evolution of the broader institutional environment influences a multinational corporation's (MNC) vertical integration strategy in a global value chain (GVC).[1] We single out three dimensions of this institutional environment (global, home country, and host country) to show how the interaction between them over time shapes the strategic choices of MNCs in response to uncertainty. Drawing on Delios and Henisz (2003) and Henisz and Williamson (1999), we focus on two types of behavioral uncertainty: (a) *contractual uncertainty*, or uncertainty about whether the other parties involved in the transaction will honor their contractual commitment, and (b) *policy uncertainty*, or uncertainty about the conduct of the governments of the host countries in which the GVC's transactions are located, which can pose unforeseen challenges for the MNCs (Henisz, 2000; Schnyder & Sallai, 2020). Our theoretical foundation is transaction costs economics (TCE), which posits that governance choices are determined by the need to address different forms of uncertainty, given their institutional context (Cuypers et al., 2021; Williamson, 1985).

In our analysis, we enrich TCE with ideas from the obsolescing bargaining power (OBP) literature. Our theoretical contribution rests upon two key tenets: First, TCE posits that vertical integration protects the firm's assets and rents in transactions that combine asset specificity with high uncertainty (Ketokivi & Mahoney, 2020; Williamson, 1985), including a high degree of institutional distance between the home and host country (Kostova, 1996) or high policy uncertainty (Anderson & Gatignon, 1986). Second, OBP points out that the greater the vertical integration, the greater the exposure of the firm to hostile host government policies, such as asset expropriations (Vernon, 1971). Scholars combining TCE with political economy, maintain that MNCs can simultaneously keep a vertically integrated structure and reduce hostile actions from the host government (HC) by incorporating the HC's polities within its corporate structure (Bucheli & Kim, 2015; Haber, Maurer, & Razo, 2003). On the other hand, when explaining the governance choices that MNCs make in managing their GVCs, entry mode scholars combine

[1]We use the definition of GVC as the "stages involved in producing a product or service that is sold to consumers, with each stage adding value, and with at least two stages being produced in different countries" (Antras, 2020, p. 3). We follow Davis and North's (1971, p. 6) definition of the "institutional environment" as "a set of fundamental political, social, and legal ground rules that establishes the basis for production, exchange, and distribution."

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TCE with organizational learning theory to argue that previous experience operating in politically uncertain environments alleviates policy uncertainty (e.g., Delios & Henisz, 2000). Experienced firms have nevertheless suffered costly expropriations during different historical periods (Wilkins, 1974). A meta-analysis by Tang and Buckley (2020) concludes that there is no consensus as to which governance mode helps MNCs economize on host-country uncertainty.

We argue that MNCs economize on contractual uncertainty by, as predicted by TCE, internalizing asset-specific transactions of the GVC, if they consider their bargaining power to be sufficient to protect them from policy uncertainty. On the other hand, however, when their bargaining power declines, MNCs focus on managing policy uncertainty. In line with Argyres and Liebeskind (1999), MNCs react to a decline in their bargaining power by retreating from vertical integration: They sell off assets (on occasion to host-country buyers) accepting that doing so will negatively affect performance. We maintain that the latter outcome does not contradict the predictions of TCE. MNCs choose the comparatively most efficient way to economize on different forms of uncertainty, which can entail trading off short-term efficiency for longer-term resiliency (Kano et al., 2022). Our study differs from the work of OBP scholars as it is theoretically anchored in TCE. We see policy uncertainty as a key form of behavioral uncertainty and argue that MNCs try to manage it through their bargaining power, even though, in doing so, they also simultaneously address contractual uncertainty.

We illustrate our contribution with the case of the banana GVC between 1899 and 1991 and demonstrate that its evolution cannot be understood by focusing on technological innovations or changes in tariffs alone, and that geopolitical strategies, internal evolution of polities at both ends of the GVC, and social changes with political impact must be taken into consideration. Studying the banana GVC in a *longue durée* allows us to uncover how changes in the political and institutional environment determine whether an MNC vertically integrates its operations or relies on domestic providers. The banana GVC was the first agricultural GVC and involved the operations of a vertically integrated structure in multiple countries, antedating that later occurred in manufacturing and extractive industries (Wilkins, 1974). In fact, due to its vertically integrated structure that included a wide range of activities and its political influence, the United Fruit Company (hereafter UFCo), the lead firm in the banana GVC was nicknamed *El Pulpo* ("the octopus"; Kepner & Soothill, 1935).[2]

We support our decision to focus on the banana value chain since MNCs have had incentives to vertically integrate their operations in this industry to enhance coordination, as bananas need to be produced in large plantations in places with certain characteristics in terms of climate, soil quality, or rain patterns (Lee et al., 2012). In addition, the banana GVC has had high contractual uncertainty (due to the perishability of the product, host countries' weak rule of law, and inefficient justice systems) and high policy uncertainty in all of the countries where the banana plantations were located. Moreover, the banana industry has been challenged historically by a considerable degree of asset specificity because of hard-to-redeploy investments, such as land and local infrastructure.

Methodologically, we conduct a history-to-theory approach that "uses historical research methods to build and test theories in a context-specific manner" (Argyres et al., 2020, p. 354) to study the workings of vertical integration in a value chain that presented enhanced uncertainties because of host countries' features, combined with asset specificity. We assembled an unparalleled wealth of archival evidence documenting the banana GVC and interpret these

[2]UFCo's image in Latin America as an overwhelmingly powerful actor was so strong, that three Latin American literature Nobel prize winners were inspired by UFCo's operations for some of their works. See, García Márquez (1967), Neruda (1950), and Asturias (1954).

sources according to the principles of business history's research methods (Kipping et al., 2014). Our archival evidence is representative of the entire banana industry due to its oligopolistic structure, whereby five firms controlled 80% of the global market and used their own plantations and transportation facilities which allowed the establishment of high entry barriers to domestic producers (Lee et al., 2012).

Theoretically, the contributions of this study are as follows. First, we argue that an MNC's strategy is based on a careful evaluation of how the broader institutional environment influences its bargaining power, and of the tradeoffs between contractual and policy uncertainty through which each of these are managed, as posited by Henisz and Williamson (1999), Henisz (2000), and Luise et al. (2022).

Second, in line with Argyres et al. (2020), Buckley (2021), and Buckley et al. (2022), when analyzing MNC strategy we do not treat the historical context as mere “background”; instead, we make this context into an integral part of the analysis. Our work differs in several ways from TCE-based research on MNCs. While prior work has focused on comparisons between countries, we examine the evolution of governance choices over time as a function of changing contextual conditions, as called for by several researchers (Bucheli & Kim, 2015; Hennart & Slangen, 2015).

Last, in line with the arguments of Giambona et al. (2017), we contribute to the debate on policy uncertainty by going beyond standardized indexes that attempt to gauge country-level risk, and by examining how different sources interpreted policy uncertainty. We argue that although the organizational experience can help MNCs manage uncertainty (e.g., Cuervo-Cazurra et al., 2018; Delios & Henisz, 2003), when their bargaining power declines, such as during periods of rising economic nationalism like the 1960s–1970s (Abdelrehim & Toms, 2017), MNCs do not consider that prior experience alone suffices to protect them from policy uncertainty.

This study is divided into the following sections. The second section displays our theory development. The third section explains our methodology. The fourth section offers a long-term analysis of the governance choices of the banana GVCs between 1899 and 1991. The fifth section discusses our findings and concludes the study.

2 | THEORETICAL FRAMEWORK

The theoretical foundation of this study is TCE, particularly its tenet that firms align transaction governance with the mechanisms they deem most efficient to economize on different types of uncertainty (Ketokivi & Mahoney, 2020; Williamson, 1985). In line with prior work on MNCs (e.g., Henisz & Delios, 2001), we focus on contractual and policy uncertainty, two types of behavioral uncertainty (uncertainty about the behavior of other parties), and one transaction feature (asset specificity).[3] Contractual uncertainty emanates from misalignments in the execution of contractual agreements, such as ex post opportunism by a supplier (Williamson, 1985). Because of bounded rationality, firms are not able to predict when opportunistic behavior may occur or to draft contracts providing absolute protection from contractual uncertainty (Cuypers et al., 2021; Verbeke et al., 2018).

[3]For parsimony, we do not discuss other transaction features, such as demand uncertainty, technology uncertainty, and transaction frequency (Cuypers et al., 2021).

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Asset specificity increases contractual uncertainty: when a firm invests in an asset that is hard to redeploy for a different purpose, the exchange partner can hold it hostage in ex post renegotiations (Joskow, 1988; Williamson, 1985).[4] Vertical integration helps economize on the increase in contractual uncertainty associated with asset specificity and with some host-country features by internalizing the transaction (Riordan & Williamson, 1985). The TCE literature points out that asset specificity remains a key driver of vertical integration (Cuypers et al., 2021).

The second type of uncertainty that we focus on is policy uncertainty—uncertainty about the behavior of the host-country government, the possibility of a change in the executive power, or the direction and outcomes of such change (Henisz, 2000). OBP scholars argue that bargaining power is the MNCs' main tool for economizing on policy uncertainty. When an MNC's bargaining power declines, such as after investing in assets that are hard to redeploy, the host-country government can threaten the firm's business in numerous ways, for example, by demanding ex post renegotiations of agreed terms or expropriating its assets (Kobrin, 1984; Vernon, 1971).

Recent iterations of the OBP literature clarify that the MNC's bargaining power does not necessarily decline after the investment is made, especially in cases in which the host-country government is interested in attracting follow-up investments and in keeping a good relationship with the MNC's home-country government (Duanmu, 2014). The institutional environments in which the MNC and GVC are embedded also influence uncertainty (Ketokivi & Mahoney, 2020) and bargaining power (Nebus & Rufin, 2010). For example, historical evidence illustrates that MNCs face a decline in their bargaining power during periods of rising economic nationalism and state intervention, as observed during the 1960s and 1970s (Kobrin, 2020). On the other hand, MNCs' bargaining power increased in periods characterized by ideological consensus about the desirability of foreign direct investment (FDI), as well as generalized acceptance of bilateral and multilateral treaties protecting MNC assets and rents, as was the case during the 1980s–2000s period (Cannizzaro, 2020; Müllner & Puck, 2018; Ramamurti, 2001). We build on these ideas to discuss how changes in the broad institutional environment, and interactions between the global, home country, and host country levels shaped MNCs' bargaining power during the evolution of the banana GVC.

Another important stream of literature discussing how MNCs manage HC uncertainties is found in entry mode studies, anchored theoretically in TCE. Entry mode scholars draw on new institutional economics, arguing that where institutions fail to curb the conduct of the executive branch through checks and balances, as in the host countries discussed in this study, MNCs face simultaneously high contractual uncertainty *and* policy uncertainty (Brouthers et al., 2003; Meyer, 2001). In these countries, the government can not only hurt the firm directly, for example by expropriating its assets, but it also can also shape the rule of law and judiciary decisions in ways that favor local incumbents at the expense of the MNC in any dispute (Henisz & Zelner, 2001; Schnyder & Sallai, 2020). Differences between the host and the home country, in particular institutional distance (differences between home- and host-country institutions) enhance contractual uncertainty (Abdi & Aulakh, 2012; Kostova, 1996).

TCE predicts that situations in which asset specificity is combined with high uncertainty should lead to vertical integration (Cuypers et al., 2021). Some scholars suggest that establishing joint ventures with domestic firms mitigates the risk of expropriation (Meyer, 2001).

[4]Transactions entail ex ante costs (those related to the writing of the contract) and ex post costs (misaligned execution of the contract or those associated to some actors involved in the transaction not honoring their contractual commitments). In this paper we focus on the ex post type of costs.

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Other scholars argue that expanding to host countries that share similar characteristics, especially in terms of institutions, helps the MNC economize on uncertainty (Cuervo-Cazurra et al., 2018), though doing so may not always be possible if the GVC entails accessing resources located in countries that are distant from the home market (e.g., in tropical agriculture GVCs, such as bananas, cocoa, coffee, and in extractive industries). Empirical evidence remains mixed (Tang & Buckley, 2020; Zhao et al., 2004).

One stream of the entry mode scholarship draws theoretically on organizational learning theory to explain how MNCs manage contractual and policy uncertainties. Henisz and Delios (2001) examine the operations of Japanese MNCs and find that prior experience in international operations, and particularly in the same country and industry, mitigate the influence of policy uncertainty on the level of equity ownership of the subsidiary. They also find that prior experience for MNCs investing in manufacturing in countries with high policy uncertainty moderates the deterring effect of policy uncertainty on foreign investment (Delios & Henisz, 2003). Padmanabhan and Rae Cho (1999) argue that prior experience with specific entry modes (such as fully owned subsidiaries) is a more important determinant of entry mode governance than previous experience in a particular country or industry. However, highly experienced MNCs in different industries, periods, and geographical contexts have failed to protect their assets and rents from expropriation by host-country governments, which suggests that organizational experience, per se, may not suffice as a mechanism to manage policy uncertainty (Kobrin, 1984; Vernon, 1971).

The literature discussing how MNCs manage uncertainty, and in particular, their vertical integration strategy, remains divided for several reasons (Tang & Buckley, 2020). First, the entry mode literature discusses how host-country features impact MNC strategy, but most scholars do not examine policy uncertainty as a distinct form of transaction uncertainty, nor do they discuss the impact of the broader institutional environment on uncertainty (Cuypers et al., 2021).[5] Second, the entry mode literature has been criticized for diverging from its theoretical foundations in TCE because several studies overlook how transaction features such as asset specificity influence vertical integration (Hennart & Slangen, 2015). Third, most research on MNCs does not discuss how different organizations perceive policy uncertainty, assuming that all firms in a given host country are equally exposed to the threat of hostile government policy (Giambona et al., 2017). The latter argument is aligned with the points raised by OBP scholars, namely that firms perceive and act upon HC uncertainties very differently, depending on contextual factors, such as their country of origin (Nigh, 1985; Vachani, 1995), the relationship between home- and host-country governments (Li & Vashchilko, 2010; Ramamurti, 2001), the desirability of follow-up investments to the HC government (Duanmu, 2014), and the reputation and influence of the MNC (Cannizzaro, 2020; Nebus & Rufin, 2010).

We address these gaps in the literature. We draw from the TCE study of Argyres and Liebeskind (1999). The latter argues that vertical integration makes the firm more vulnerable to hostile actions by the government, because it entails having more assets and a larger workforce, and that the firm economizes on these hazards through its bargaining power. We apply these ideas to examine, through a business history analysis, vertical integration in a GVC featuring asset-specific investments and host countries with high policy uncertainty. In the next section, we explain how we conduct our historical analysis.

[5]Notable exceptions include the works by Henisz and Delios (2001), Delios and Henisz (2003). Bucheli and Kim (2015) offer a theoretical framework that considers how changes in the political environment affect the MNCs' bargaining power and how through an integration of domestic policies in the HC the MNCs can mitigate both policy and contractual uncertainty.

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3 | METHODOLOGY: HISTORY TO THEORY

We conduct a *history to theory* type of research on strategy, defined as that which "use[s] historical research methods to build and test theories in a context-specific manner" (Argyres et al., 2020, p. 354). We examine the broader institutional environment at three levels: global, home country, and host country, then discuss empirical evidence at the firm level. We premise that the evolution of the global institutional environment (e.g., periods of generalized increase in nationalism, conflicts between world powers, etc.) shapes the bargaining power of MNCs at home and abroad (Kobrin, 2020; Witt et al., 2023). When conducting this analysis, we take into consideration interactions between these three levels. For example, we discuss how the changing diplomatic and economic relationship between the MNC's home country and the host country influenced the firm's bargaining power.

As this is a history-informed study of firm strategy, we use both primary and secondary sources. By primary sources, we mean those that were created by the actors we are analyzing at the moment in which the event took place (Howell & Prevenier, 2001). Secondary sources are "published analysis or descriptions of past events" (Argyres et al., 2020, p. 345). Following Kipping et al. (2014), we analyze our primary sources by considering the motives of those producing the document and the context in which they were created (or "source criticism" and hermeneutics) and triangulation (or contrasting the information of those sources with other sources both primary and secondary). Our primary sources include corporate annual reports, which have the clear goal of providing information about the firm's performance to shareholders (or potential investors) and regulatory agencies. The less the regulatory agencies require from corporations, the less the latter will report. So, while the pre-1934 US Securities Exchange Act reports were very slim, the subsequent reports included more information, as was required by law. When reading the annual reports, we take into consideration the evolving external pressures faced by those writing them. The corporate annual reports we use are those of UFCo and the International Railways of Central America (International Railways of Central America (IRCA), 1944).[6] We triangulated the information from the annual reports with the analyses of Moody's Investors Service, government reports, some personal memoirs, and secondary historical sources.

4 | VERTICAL INTEGRATION IN THE BANANA GVC

This section analyzes four different phases in the history of the banana GVC (see Table 1).

4.1 | Phase 1: US Hegemony and nascent demand (1899–1942)

4.1.1 | Global institutional environment

The rise of the banana GVC coincides with the consolidation of the United States as the dominant economic and military power in the Western Hemisphere. Despite its official isolationist policy, the United States did not hesitate to deploy its military forces when American interests were at stake, as is clear by the American military interventions in Honduras (1903, 1907, 1912, 1919, 1924), Dominican Republic (1903, 1914, 1916), Haiti (1914, 1915), Nicaragua (1907, 1909,

[6]UFCo changed its name in 1970 to United Brands Company and then again in 1989 to Chiquita Brands Incorporated.

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TABLE 1 Phases in the history of the banana industry in Latin America.

Phase	Period	Global	Host countries	Home country	Firm strategy
I	US Hegemony and nascent demand (1899–1942)	Rise of the US as the largest economic and geopolitical power	Dictatorship-dominated; banana exports were central for the economy	Bananas seen as nourishment for the poor. Banana firms perceived as a civilizing force. US government willing to intervene abroad to defend the interest of American firms	Establishment of the banana GVC; aggressive vertical integration
II	Global disruption during World War II, followed by the Red Scare (1942–1959)	World War II; beginning of the Cold War	Dictatorship dominated; rise of nationalistic pro-democracy movements	UFCo considered crucial during World War II because of its fleet and the geographic location of its operations. Rise of red scare.	Exploitation of the Cold War to obtain US political support. Vertical integration continues.
III	New model of development in a new stage of the Cold War (1959–1979)	Cold War	Adoption of import substitution industrialization model. New policies to increase taxation to foreign firms operating in natural resources. Government support of banana labor unions in times of economic crises.	US support of non-Communist governments abroad. US Department of Justice anti-trust actions against American multinationals. American media increasingly critical of UFCo's operations abroad. Rise of diversified conglomerates.	Retreat from vertical integration, sale of assets to host governments, or planters. New focus on banana retail and food processing.
IV	Second Global Economy (1979–1991)	1980s Debt crisis. End of the Cold War and start of the Second Global Economy.	Latin American debt crisis leads to pro-foreign investment reforms. Renewed focus on the promotion of exports.	US adoption of neoliberal reforms at home. General global orientation of large corporations.	Re-engagement in vertical integration, purchase of assets in host countries, refocusing on banana production.

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1915), Cuba (1906, 1912, 1917), Panama (1912, 1918, 1925), Guatemala (1920), and El Salvador (1932; Musicant, 1990). This process paralleled that witnessed in other parts of the world, in which American and European armies were often deployed to protect business interests and trade routes (Hobswbawm, 1989).

4.1.2 | Home-country institutional environment

In this period, bananas became a key source of nutrition in the US, with imports rising from almost zero in the 1880s to a million tons by 1920 and a million and a half by 1930 (Bucheli, 2005). In 1913, the US government introduced new import taxes that applied to bananas, but a new lobbying group, the Banana Buyers' Protective Association, campaigned against the tax, arguing, supported by *The New York Times*, that taxing the "poor man's fruit" was "regressive" (Jenkins, 2000). This was also a time in which books and articles in *The New York Times* and *The New England Magazine* celebrated UFCo's operations in Latin America, which they hailed as a "civilizing force" in the tropics (Bucheli, 2005).

4.1.3 | Host-country institutional environment

During the first three decades of the twentieth century, banana-producing countries created favorable conditions for foreign investors by offering generous tax breaks or land concessions (MacCameron, 1983). By 1913, bananas represented at least half of the exports of Costa Rica, the Dominican Republic, Honduras, and Panama. Host-country governments became dependent on the banana industry for exports, investments, and jobs, which contributed to the MNCs' bargaining power, consistently with Duanmu (2014). In fact, the term "banana republic" was coined to describe the leverage that banana MNCs had on the government of Honduras during this period (Bucheli, 2008). The bargaining power of MNCs is illustrated by the forceful interventions of host-country governments in defense of the MNC's interests whenever disputes arose with local labor (e.g., Colombia 1928; Honduras, 1930, 1932; Guatemala, 1930).

4.1.4 | Firm strategy

Between 1870 and 1899, many US-based firms attempted to develop a banana import business. Most of them failed because they depended on unreliable suppliers of the fruit and of the transportation services needed to bring it to the market. The Boston Fruit Company (BFC) took a different approach. It created the "Great White Fleet", the first reliable ocean transportation for bananas, which later became the largest steamship fleet in the world (McCann, 1976). Around the 1890s, American entrepreneur Minor Keith built railways in Central America and Colombia, later investing in banana plantations. In 1899, Keith merged his business with the BFC, creating UFCo (Adams, 1914). The interests of the merged firms matched perfectly: Keith owned railways and plantations in Central America and had already opened a banana market in the southeastern United States, while the BFC owned plantations in the Caribbean as well as the Great White Fleet and had commercialized the product in the northeast of the United States (May & Plaza, 1958).

In its early years, UFCo relied on domestic suppliers but finding suitable partners and enforcing contracts proved challenging. UFCo addressed this issue by internalizing transactions: it vertically integrated by investing in plantations, becoming IRCA's main shareholder, owning the Santa Marta Railroad (Colombia), owning the Tropical Radio Telegraph Company, and controlling banana distribution and marketing in the United States through its subsidiary Fruit Dispatch Co. (May & Plaza, 1958).

In 1930, UFCo acquired Cuyamel, the second-largest MNC in the banana GVC, which owned 250,000 acres of Honduran land, port facilities, 15 steamships, and the concession on the Honduran National Railway. UFCo had already acquired the British firm Elders and Fyffes, which produced bananas in Jamaica and controlled 100% of the British market (Taylor, 2003). The only surviving competitor, the New Orleans-based Standard Fruit Company remained as the only major actor in the business but kept a market participation of around 15% (May & Plaza, 1958).

4.1.5 | Discussion of phase 1

During *Phase 1*, UFCo increased dramatically its vertical integration of the GVC, while also extending it geographically. The perishability of the product made UFCo vulnerable: minor delays could entail the loss of a large share of the harvest, and it was difficult to obtain compensation from suppliers (Read, 1983). Viewed from the TCE lens (Anderson & Gatignon, 1986; Williamson, 1985) UFCo's strategy made sense for a firm aiming to internalize the risk of opportunism by suppliers in a context of asset specificity and in which the host countries presented features that enhanced contractual uncertainty, such as a weak rule of law, unclear regulations, and widespread corruption. Additionally, vertical integration allowed UFCo to expand at record speed the capacity of the value chain, tripling banana output between 1900 and 1905 (United States Department of Agriculture, 1965).

UFCo increased its direct control of the banana GVC, becoming the leading distributor of bananas in the US, the largest market in the world at the time (controlling around 75% by the mid-twentieth century). Exploiting its ownership of a high share of the GVC, UFCo tied banana suppliers into contracts that restricted their ability to switch to alternative buyers, which in turn reduced their leeway for negotiating better prices. Our reading of UFCo's Annual Reports show that the firm's efforts to vertically integrate were mainly driven by the need to manage contractual uncertainty. Consistent with the predictions of TCE, UFCo management was concerned about being overly dependent upon suppliers in host countries where enforcing contracts or obtaining compensation for failures to fulfill commitments was notoriously difficult.

UFCo's vertical integration strategy in this period is inconsistent with the arguments of the OBP literature (e.g., Kobrin, 1980, 1984; Vernon, 1971) and of some of the entry mode scholars (Anderson & Gatignon, 1986; Sutcliffe & Zaheer, 1998). High levels of vertical integration increased the risk that host-country governments might expropriate their assets and rents or supported the demands of organized labor. For entry mode scholars (Anderson & Gatignon, 1986; Sutcliffe & Zaheer, 1998), host countries' characteristics, such as political volatility (Table A4), combined with high institutional distance (Brouthers et al., 2003), and linguistic distances (Cuypers et al., 2015), should have been strong deterrents for vertical integration. Moreover, as the first MNC engaging in this business, UFCo did not have previous experience [contrary to those studied by Delios and Henisz (2003) and Padmanabhan and Rae Cho (1999)] upon which to draw to help manage policy uncertainty.

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During this phase, UFCo faced large and often violent strikes but those events, as well as political violence and coups d'état. However, these events were barely mentioned in UFCo's (1900–1910) or IRCA's (1913–1942) annual reports. As Decker (2013) suggests, the "silence" of primary sources can tell us a lot about the events we study. We interpret this silence as evidence that, for UFCo, the extremely unstable institutional environment of host countries was not a strategic concern. What the firm reported about its awareness of its bargaining power in the region supports our interpretation. In its 1910 *Annual Report*, UFCo stated that "[the] geographical distribution of its properties enables the company to act with patience and firmness in its dealings with the governments" (United Fruit Company, 2020, p. 9). Free of the threat of asset and rent expropriation by host governments, UFCo acted as predicted by TCE scholars—it vertically integrated the activities that were most efficiently coordinated by hierarchical relationships thus economizing on bounded rationality and opportunism in host countries with weak institutions and unstable politics (Verbeke et al., 2018).

UFCo's bargaining power provided an effective mechanism for economizing on policy uncertainty. Elements strengthening this bargaining power included (a) a hegemonic home country with a history of intervention to protect business interests abroad, consistent with Lu et al. (2014) and Vachani (1995); (b) a global context conducive to the expansion of FDI, as argued by Nebus and Rufin (2010); (c) a reputation of the MNC as a force for good, which is consistent with the bargaining model advanced by Vivoda (2010) and Cannizzaro (2020); and (d) host-country governments keen to continue receiving further investments and to remain on good terms with the home country, which is consistent with the arguments of Duanmu (2014), Li et al. (2022) and Ramamurti (2001). We thus advance Proposition 1:

> **Proposition 1.** *MNCs leading a GVC choose the governance structure that most efficiently addresses contractual uncertainty when they have sufficient bargaining power to protect themselves from policy uncertainty in host countries*

4.2 | Phase 2: From World War II to the Cold War (1942–1959)

4.2.1 | Global institutional environment

The banana-producing countries became part of the global battlefield during the Cold War. The US support of the 1954 coup against Guatemala's president Jacobo Arbenz is a good example of this. Even before the coup, the United States managed to have a resolution passed at the Organization of American States condemning the Arbenz government as a case of "external Communist aggression" and therefore deeming it as a continental threat (Brett, 2009). In alliance with the United States, many Latin American republics joined Washington's condemnation of the Guatemalan government.

4.2.2 | Home-country institutional environment

The competition for global dominance between the Soviet Union and the United States affected both internal policy within the United States as well as the relationship between Washington and American MNCs operating abroad. At home, those who wanted to take advantage of anti-Communist paranoia found fertile ground to garner support from legislators or the media to

promote US support for US businesses operating abroad (James, 1954), of which the campaign to support UFCo in its conflict against Arbenz is a perfect example.

4.2.3 | Host countries' institutional environment

Inspired by European fascists, Latin American political movements began promoting economic nationalism, and alliances between organized labor and local capital. In 1944, Jorge Ubico, the dictator that ruled Guatemala, and a close ally of banana exporters, was ousted by a military junta. In the year 1951, Arbenz was democratically elected President of Guatemala, marking a change from a long suite of dictatorships (Schlesinger & Kinzer, 1999).

Arbenz implemented reforms that had a negative impact on banana exporters and other MNCs: land expropriations to facilitate agrarian reform, new taxes, and measures to break down monopolies, including the UFCo-owned railway. Encouraged by government policy, railway workers staged their first strike in history. The institutional environment in neighboring Honduras was also changing. In 1949, the 16 years long authoritarian regime of Tiburcio Carías, a close ally of UFCo, came to an end and was replaced by a new reformist regime that for the first time sided with the banana workers when they went on strike, demanding a renegotiation of their contracts in 1954. In the end, the multinational firms were forced to give in to the workers' demands (MacCameron, 1983).

Institutional investors in the United States perceived these growing political uncertainties in Latin America. As early as 1949, an analysis by Moody's warned for the first time about UFCo that "future political developments remain an uncertainty" (Moody's Investor Service, 1949, p. 528). In 1951, Moody's warned investors again about the increasingly belligerent government-supported labor unions (Moody's, 1951, p. 133). The US Department of State shared a similar opinion, stating in a then secret report that Guatemala's expropriations would create a domino effect on other Central American countries, threatening American business (United States Department of State, 1953). We triangulated multiple sources, including Moody's Investors' Service, the US Department of State, and the reports of both UFCo and IRCA to investors. All sources reported growing concerns that changes in the host countries' institutional environment could put at risk the firm's rents and assets.

4.2.4 | Firm strategy

The first strategy developed by UFCo to defend its investments from the effects of policy uncertainty in Central America was to frame its conflicts with local governments in the context of the Cold War, and leverage its position as one of the largest American MNCs of that period. After the first expropriations by Arbenz, UFCo filed a complaint with the US Department of State, seeking government support. Additionally, the firm offered free tours of Guatemalan plantations to politicians and journalists, it distributed a newsletter to some 250 journalists in the US, and it published a book titled *Report on Guatemala* that it distributed to members of the US Congress and that portrayed the events in Guatemala as a successful maneuver by the Soviet Union (McCann, 1976).

The then head of UFCo's public relations said regarding the firm's use of Cold War paranoia to its benefit: "there is no doubt that Communists played some part in the unrest in Guatemala. But our willingness to exaggerate their importance and to create incidents—coupled with the

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willingness of the American press to amplify our cries of wolf throughout the United States led [...] to the collapse of Arbenz" (McCann, 1976, p. 58). UFCo depicted itself as a symbol of American capitalism in host countries that the US considered its "backyard" during the Cold War, with the objective of influencing the US government's willingness to intervene in Guatemala to overthrow Arbenz. By 1953, Washington considered Guatemala to be "a major center of anti-US influence in Central America" (United States Department of State, 1953, p. 193).

4.2.5 | Discussion of Phase 2

During this phase, several actors (Moody's, UFCo, and the US government) considered vertical integration to be the most efficient way to govern the banana value chain, because of asset specificity and the difficulty of obtaining compensation for contractual failures in host countries. In this period, Latin American countries engaged in reforms that reduced their institutional distance with the United States, such as the democratic elections of Guatemala in 1951, the Costa Rican investments in universal health and education, and efforts to improve labor rights and to build state capacity throughout the region. The literature on institutional distance and entry mode (e.g., Brouthers et al., 2003; Kostova, 1996; Meyer, 2001) would predict that these reforms should have reduced uncertainty for MNCs. Historical sources show the opposite: internal and external analysts interpreted these events as enhancing policy uncertainty for banana MNCs, because they eroded their bargaining power.

In the global institutional environment, this period was one of deep changes resulting from decolonization, and the emergence of economic nationalist movements advocating protectionist industrial policies and the expropriation of the assets and rents of natural resource exporting MNCs (Prebisch, 1952). Several Latin American governments built coalitions with organized labor and domestic businesses, adopting a more hostile stance toward MNCs (Bucheli & Decker, 2021).

As in Phase 1, UFCo attempted to influence host countries' institutional environments in its favor but it was concerned that these efforts were not well received in Washington, where its influence had been steadily declining in comparison to that of American businesses operating in industries that were perceived as more strategic at the time, such as car manufacturing (Cullather, 1999). As a result, the firm was not optimistic about its ability to manage policy uncertainty. As stated in its annual reports: "as long as the political atmosphere remains inimical to American enterprise, the company must of necessity follow a policy of retrenchment" (United Fruit Company, 2020, p. 4).

For the first time since establishing the banana value chain, UFCo pondered whether to economize on policy uncertainty by selling some of its assets to local actors, even though doing so would have negative implications for performance. This shift demonstrates how UFCo's management or investors did not consider prior experience to be sufficient to protect the firm's assets from policy uncertainty.

4.3 | Phase 3: A new stage of the cold war (1954–1979)

4.3.1 | Global institutional environment

During this period, a new breed of leaders in developing countries started advocating a new type of economic policy that freed them from what they perceived was exploitation from the

Western world (Bértola & Ocampo, 2012). This imperative manifested in a wave of expropriations, mostly implemented in natural resource industries (Kobrin, 1980, 1984).

Multilateral organizations such as the World Bank or the Inter-American Development Bank agreed with host-country governments (most of them staunchly anti-Communist) to finance agrarian reform and to increase domestic participation in the banana industry (Offner, 2019). In 1974, inspired by the creation of OPEC, Costa Rica, Guatemala, Panama, and Colombia created a cartel to negotiate new and better terms with the banana MNCs and extend their control over the production side of the banana GVC (Vallejo, 1982). The cartel pressed banana MNCs to pay higher export taxes, claiming that the profits from the international banana market were distributed in such a way that the producing countries obtained 11% of the benefits, the MNCs, 37%, and retailers in the consuming countries, 19% (López, 1986).

4.3.2 | Home-country institutional environment

During this phase, youth movements criticized the American government's practice of siding with repressive regimes to protect the interests of American MNCs. The American media's way of depicting UFCo changed dramatically. The firm, which had been described from its inception up until the 1960s as a symbol of American capitalism, bringing infrastructure, jobs, and progress abroad, was increasingly criticized for the working conditions on its plantations, and for meddling in host countries' domestic politics (Bucheli & Read, 2006).

American consumption patterns changed too. More women joined the workforce and supermarket chains supplanted small shops for food purchases. This led to the substitution of fresh fruit in American homes with processed food (frozen and canned, as it could be stored easily and did not require frequent trips to the supermarket). While by 1909 processed fruit represented only 5% of the total fruit consumed in the United States, in 1964, it reached levels above 40% (United States Department of Agriculture, 1965). Bananas ceased to be seen as a key source of nutrition, particularly for the poor.

From this period on, the relationship between UFCo and the US government also changed. After the 1954 coup in Guatemala, Washington warned UFCo and other MNCs that they should not expect to be rescued again if they created problems in host countries (Cullather, 1999). After successfully conspiring to overthrow Arbenz in Guatemala, UFCo was forced by the US Department of Justice to sell its Guatemalan properties to Standard Fruit in order to comply with American anti-trust legislation (Dosal, 1993). The US anti-trust measures reduced UFCo's monopolistic control of the banana GVC and market, making room for competitors, particularly Dole (formerly Standard Fruit Company) and Del Monte (Roche, 1998).

4.3.3 | Host-country institutional environment

During this period the Cuban Revolution inspired revolutionary groups to take up arms. Latin American governments responded with overwhelming violence. UFCo was one of the first casualties of these changes when Fidel Castro expropriated the MNC's Cuban properties in 1959. The developmentalist coalitions that dominated in Latin America, as they did in most non-Communist countries in the developing world in the same period, were characterized by a nationalist agenda, often involving the military, an involved state, and the alliance of local capital with organized labor (Ciravegna, Fiztgerald, & Kundu, 2013). Latin American governments

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offered subsidies and tariff protection to manufacturing MNCs, while pressing natural resource-exporting MNCs to concede to the demands of labor and decrease their ownership of assets in favor of local capitalists (Wilkins, 1974). Moody's perceived these events as evidence that the institutional environment was changing in ways that threatened banana exporters, and it advised investors to get rid of UFCo stocks (Moody's Investor Service, 1949). During this period, Ecuadorian firms developed, in coordination with their home government, a banana export industry that competed directly with UFCo, partnering with European firms to build distribution channels. This allowed the Ecuadorians to produce their bananas at cheaper costs and by the early 1960s they were perceived by UFCo as a serious rival (Bucheli, 2005).

4.3.4 | Firm strategy

In 1956, Standard Fruit Company, the second-largest banana firm after UFCo, developed a new kind of banana (known as Valery) that was more resistant to disease, yielded more per acre, and was smaller, which made it easier to transport. As a result, Standard Fruit increased its global market share from 8.9% in 1950 to 31% in 1965 (Taylor, 2003). In 1960, UFCo emulated its competitor by shifting to Valery. Simultaneously, government-supported domestic banana-producing conglomerates emerged in the host countries, forcing UFCo to renegotiate contracts and to pay higher prices for bananas (Bucheli, 2004). UFCo reduced its vertical integration, adjusting to a less favorable institutional environment. A Harvard Business School study stated that "by encouraging the nationals to enter the banana industry, [the firm's management] believed UFCo could contribute to the development of stable conditions in the tropics (i.e., aid in the creation of a growing middle class), gain partners who would be valuable allies in the development of joint interests, and reduce the frequent attacks by trouble makers against UFCo as a large landowner and employer" (Arthur et al., 1968, p. 148).

The letter that UFCo's CEO addressed in 1968 to the company's shareholders stressed the fact that changes seemed irreversible: "No matter how successful we are in this process, we still will be perceived, however, I am sure, as a threat to national independence and sovereignty" (United Fruit Company, 2020, p. 1). The company's CEO insisted on this point again in 1970 by telling the following to shareholders: "Latin American countries are being swept by strong winds of nationalist aspiration. [UFCo] knows that it must adjust to change in Latin America. [...] One of the most sensitive areas is that of land use policies. [...] Since 1952 the company has divested itself of 65% of its holdings in the four continents. Many thousand acres have been given to the governments for distribution; the remainder has been sold to individual firms" (United Brands Company, 2020, pp. 2–3; Figure 1 and Table A1 illustrate this process).

The lead banana MNCs (UFCo and Standard Fruit), responded to hostile government policies in Latin America by refusing to ship bananas. In TCE terms, this action amounted to leveraging their ownership of assets specific to the transaction with the aim of strong arming the domestic banana suppliers and host-country governments. The host-country governments confronted the MNCs collectively, through their cartel, supported by student organizations, intellectuals, and the banana labor unions (Bucheli, 2008). United Brands (the name of the conglomerate after UFCo's merger with John Morrell in 1970) also tried to neutralize the cartel by bribing some high-ranking officials, as revealed in a scandal that culminated in the suicide of United Brands' CEO (McCann, 1976). In the end, both MNCs were forced to re-negotiate with the host-country governments after failing to obtain support from Washington in this struggle: their bargaining power had declined to its lowest point since the inception of the banana value chain.

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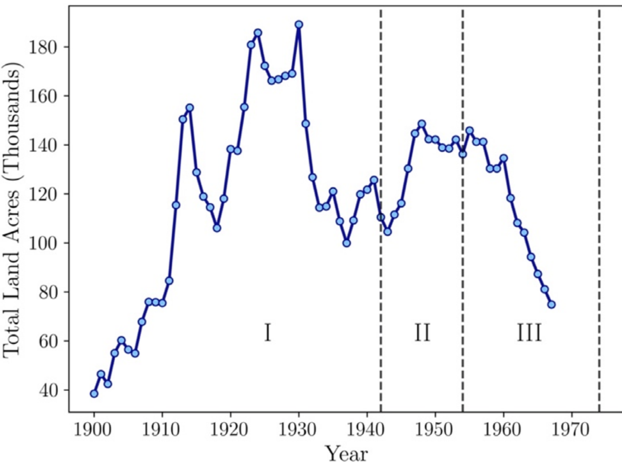

FIGURE 1 United Fruit Company: Land Ownership in Latin America, 1900–1969. *Source*: See Tables A1–A4. United Fruit Company, *Annual Report*, various years. The decline in land ownership during the 1930s responds, first, to disease in plantations in the Caribbean islands that forced the firm to withdraw from that area, and second, to how the Great Depression temporarily reduced the demand for bananas in the US. Afterward, the firm concentrated production in Central America rather than the Caribbean. During the 1930s, UFCo remained vertically integrated.

4.3.5 | Discussion of Phase 3

In this period lead firms reduced vertical integration in the banana GVC. In spite of some technological changes (e.g., the use of different banana varieties and improved logistics), asset specificity and contractual uncertainty remained rather stable. Land and supporting infrastructure remained hard to redeploy or substitute. Relying on local suppliers of bananas, namely firms that produced the same good, continued to pose the same risks as in the past: local courts provided inefficient mechanisms to protect against contractual uncertainty. The new variety of banana reduced the risk posed by non-malevolent commitment failures on the part of unreliable suppliers, but it did not protect the MNCs from opportunism. The nationalist political climate in Latin America entailed a heightened risk that the judiciary and executive branches would side with local suppliers in any kind of dispute.

The retreat from vertical integration to conduct asset-specific, high-uncertainty transactions, diverges from the predictions of TCE (e.g., Anderson & Gatignon, 1986). TCE assumes that MNCs will always seek to maximize efficiency, whereas in this case managers and investors were aware that reducing vertical integration would erode performance. In fact, UFCo's divestiture coincided with a clear decline in its return on assets (Bucheli & Kim, 2012).

During this phase, several host-country conditions that had enhanced contractual uncertainty remained rather stable: in spite of some progress during the 1950s and 1960s, all banana-producing countries except Costa Rica continued to suffer from social unrest and political violence, often erupting into outright conflict (e.g., Colombia, Guatemala), combined with macroeconomic instability (Bulmer-Thomas, 2003). However, the banana MNCs had accumulated great experience in the industry and in the host countries, which, according to entry

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mode scholars (e.g., Cuervo-Cazurra et al., 2018; Delios & Henisz, 2003), should have contributed to alleviating policy uncertainty. Contrary to what the entry mode literature predicts (Delios & Henisz, 2003; Padmanabhan & Rae Cho, 1999), the top management and external analysts perceived that organizational experience per se could not protect the MNC's assets and rents.

This phase coincides with a period in which the bargaining power of MNCs in natural resource-based GVCs was challenged from different fronts. At the global level, the Cold War created incentives for the US government to avoid alienating friendly governments so as to protect American firms, a measure that, in the past, had contributed to US-based firms' bargaining power [in line with Li et al. (2017)]. Industrialization reduced the importance of banana exports. Using Nebus and Rufin's (2010) lens, the coalition that had sustained the firm's bargaining power in previous periods, which included host-country governments and industrial elites, US policy makers, American consumer associations, and the American media, had gradually broken down, causing the MNC to lose some of its bargaining power.

Banana MNCs reacted by reducing vertical integration in the GVC, aware of the potential negative repercussions on performance. United Brands reduced its production assets in the banana-producing countries, including plantations, buildings, railways, telegraph lines, and so forth. This process shows that when their bargaining power declined, the banana MNCs shifted from prioritizing the management of contractual uncertainty to defending their assets from policy uncertainty.

The de-verticalization of the banana GVC hereby discussed mirrors what happened in other natural resource GVCs. MNCs with decades of experience in the oil, copper, and bauxite industries saw their properties expropriated or facing a risk of expropriation. The strategic reaction of most lead firms was to sell their production assets (often to the HC governments), thus reducing vertical integration in natural resource GVCs, and keeping control mainly of the marketing and distribution nodes of the chain (Moran, 1978). Figure 1 illustrates the process of land acquisition and the divestiture that followed during the three phases analyzed in the sections above. Table 2 links the operations of vertical integration with the phases we study. Based on the study of the historical events taking place in Phases 2 and 3 and the theoretical discussions we develop for both phases, we put forward the following proposition:

> **Proposition 2.** *When their bargaining power declines due to changes in the broader institutional environment, MNCs that lead a GVC choose the governance structure that protects them best from policy uncertainty in host countries over one that best addresses contractual uncertainty, regardless of performance implications.*

4.4 | Phase 4: The end of the Cold War and the Second Global Economy (1979–1991)

4.4.1 | Global institutional environment

The 1974 OPEC oil embargo led to a global economic crisis. Protests and social uprisings engulfed all capitalist countries, as the state, burdened by debt, became unable to stabilize prices and deliver the public and collective goods that had supported economic growth up until then. During the late 1970s, neoliberal economic thinking advocating the downsizing of the state, the flexibilization of labor contracts, and a reduction of the power of organized labor, as well as the opening of economies to foreign investment, began to gain traction in the US and

TABLE 2 Phases in the history of UFCo and activities related to vertical integration and de-integration.

Phase 1
1900: UFCo created after merger of Great White Fleet, Fruit Dispatch (banana marketing firm in the US), and Central American producing firms.
1910: UFCo acquires Elders and Fyffes (leading firm in the UK with plantations in Jamaica)
1912: Creation of railway firm IRCA to operate in Central America with UFCo majority ownership.
1913: Honduras gives UFCo a concession to build and manage the country's railways.
1913: UFCo establishes the Tropical Radio Telegraph Co.: Central America's main telecommunications firm until the 1950s
1924: New 100 km land concession secured in Guatemala
1927: UFCo acquires California-Guatemala Fruit Corp.
1929: UFCo acquires Guatemala's largest banana firm, the Cuyamel Fruit Co.
1936: New 99-year land concession in Guatemala
Phase 2
1942–1945: World War II: interruption of operations
1947: New pro-labor code in Guatemala
1949: End of the pro-UFCo dictatorship of Carías in Honduras
1952: UFCo lobbies the US government to oppose Guatemala's agrarian reform law.
1954: Guatemala's president Arbenz overthrown by a coalition supported by UFCo
1958: US Dept of Justice accuses UFCo of violating anti-trust legislation
Phase 3
1959: Cuban Revolution. UFCo lands are expropriated in Cuba
1962: UFCo starts producing new variety of bananas (Valery) that required a technology that could be easily adopted by domestic producers
1963: UFCo stops production in Colombia and sells its remaining plantations in that country.
1970: Creation of the United Brands conglomerate after the merger of UFCo with John Morrell: focus on US-produced processed food.
1972: United Brands sells all its lands in Guatemala
1974: Creation of UPEB, an organization of Latin American banana producers, to negotiate with foreign banana MNCs
1975: United Brands sells all its lands in Panama and 37,500 acres in Costa Rica
1976: United Brands sells Honduran railway
1977: United Brands sells buildings and other assets in Honduras
Phase 4
1985: United Brands sells all non-fresh fruit operations to refocus on banana production
1989: United Brands changes name to Chiquita
1989: Chiquita returns to produce in Colombia by buying 2000 acres and continued buying up to 15,000 by the year 2000.
1989–1993: Chiquita buys new 32,000 acres of land for plantation in Central America.
1993: Chiquita purchases 33% of a banana plantation firm in Martinique.
1995: Chiquita finishes the sale of its meat division.
1995: Chiquita sells oil manufacturing plant in Costa Rica
1997: Chiquita acquires several canning corporations in the USA

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amongst some of the capitalist elites of Latin America. This led to the adoption of neoliberal reforms as one of the conditions upon which their debts would be renegotiated (Bértola & Ocampo, 2012).

4.4.2 | Home-country institutional environment

A combination of factors that included the oil crisis and the Vietnam War led to a dramatic change in economic policy in the United States. In 1979, the Fed increased interest rates dramatically, which made the servicing of external debts very costly for developing countries, initiating a decade of recession, or "lost decade," in Latin America. American consumption patterns changed too. After decades of considering processed food superior to fresh food, health concerns led to an increase in per-capita banana consumption in the US (Putnam & Allshouse, 1999).

4.4.3 | Host-country institutional environment

The increase in US interest rates forced Latin American governments to reduce expenditures in order to service their foreign debt. Most countries responded by printing money, which caused inflation and capital flight. As a result, multilateral organizations, supported by Western governments and banks, pressed Latin American countries to liberalize their markets as part of the conditions for restructuring their external debt. In this environment, host-country policies shifted to promoting exports (particularly in the natural resource sector) and creating the conditions for foreign investors to return. With the exception of Ecuador, which had large oil reserves, banana-producing countries faced prolonged economic crises and extreme macroeconomic instability (Bulmer-Thomas, 2003).

In the 1990s, MNCs operating in natural resources took advantage of newly favorable conditions in developing countries (Ciravegna & Michailova, 2022), together with an expanded global market, and began to engage again in investments that increased their direct control of productive assets in the region, reversing the prior policy of retreating from vertical integration.

4.4.4 | Firm strategy

The global changes in the 1980s, which included the implementation of market reforms in Latin America, led to a revival of old strategies for United Brands. In 1984, Carl Lindner, the firm's largest shareholder and CEO sold many of the conglomerate's businesses, re-focused on the banana business, and increased vertical integration. In 1989, he changed the name of the firm to Chiquita Brands International (1989), to take advantage of Chiquita bananas' brand recognition. Lindner assigned a central role to direct production and the purchase of plantations in different Latin American countries eager to attract foreign investment (Roche, 1998).

4.4.5 | Discussion of Phase 4

During this period, global demand for bananas, and other commodities, was growing because of changing consumption trends at home and the expansion of the world economy. Banana MNCs engaged in aggressive purchasing of assets to internalize the production and

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transportation of bananas. United Brands' ownership of land increased to 100,000 acres in 1989 (from a last reported amount of 74,837 in 1967) and purchases of new land continued during the 1990s when land ownership jumped to 130,000 acres (Chiquita Brands International, 1994).[7]

Thanks to economic reforms, the quality of regulatory institutions had improved from the previous period, which brought about a decline in contractual uncertainty and narrowed the institutional distance between home and host countries. Most importantly, the global and local institutional environment became favorable to natural resource MNCs in Latin America as most countries abandoned economic nationalism and adhered to the same set of multilateral rules that regulated commerce and protected business rents and assets (Ramamurti, 2001).

Issues of asset specificity remained. Contractual uncertainty, albeit lower than in previous periods, continued to pose a threat to the MNCs' rents. Suppliers could hold MNCs hostage to frequent demands for contract renegotiation and force them to pay higher prices, or engage in other opportunistic acts, taking advantage of the flaws of their countries' regulatory and justice systems. The use of (literal) hostages was practiced by illegal armed groups in Colombia in the early 1990s, when they kidnapped Chiquita's managers, taking advantage of the firm's need for new plantations in that country (Maurer, 2009). The reforms advocated by multilateral organizations improved property rights protection, but market institutions remained weak, or affected by "institutional voids," which meant that contractual uncertainty was higher than in advanced economies. Research shows that in these contexts, as predicted by TCE, firms vertically integrate transactions in order to internalize contractual uncertainty (Brenes et al., 2019).

Between 1979 and 1991, the bargaining power of natural-resource-producing MNCs increased for multiple reasons. Demand for commodities was growing. Host countries became eager to attract foreign investment and boost exports. There was a convergence of interests amongst these actors that increased the MNCs' bargaining power (Cannizzaro, 2020; Nebus & Rufin, 2010). Confident that their renewed bargaining power would protect them from policy uncertainty, MNCs again shifted their strategic priorities to economizing on contractual uncertainty through vertical integration. This was the case not only for the banana industry, but also for the mining and other agricultural industries throughout the developing world (Jones, 2005). Based on the evidence and the previous discussion, we offer the following proposition:

> **Proposition 3.** *When their bargaining power increases because of changes in the broader institutional environment, MNCs leading a GVC change their governance structure, choosing the option that most efficiently addresses contractual uncertainty.*

5 | DISCUSSION AND CONCLUSION: VERTICAL INTEGRATION AND ITS HISTORICAL CONTEXT

We have conducted a history-to-theory study of vertical integration in the banana GVC, a value chain involving asset-specific transactions and host-country features that enhance uncertainty. Building on Henisz and Williamson (1999), we focus on how MNCs address contractual and policy uncertainty. We infuse TCE with ideas from OBP. We use historical evidence to show that MNCs consider bargaining power to be a key mechanism for economizing on policy uncertainty in host countries. When their bargaining power is high and on the rise, MNCs address

[7]After merging with United Brands, United Fruit stopped reporting land acreage ownership in its annual reports until the late 1980s.

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contractual uncertainty as predicted by TCE: they vertically integrate asset-specific transactions located in countries where it may be difficult to enforce contracts. In line with the seminal work of Vernon (1971), MNCs retreat from vertical integration when they consider that their bargaining power is insufficient to address policy uncertainty. Our historical analysis illustrates that reducing vertical integration at the expense of efficiency is, in the latter situations, aligned with TCE. When their bargaining power declines, selling shares of the value chain to local organizations becomes an efficient way for MNCs to cater to nationalistic demands for local ownership, thus helping protect rents and assets from expropriations in host countries. Additionally, retreating from vertical integration allows MNCs to reduce their workforce in contexts in which the government is likely to side with organized labor (Argyres & Liebeskind, 1999).

Drawing from the OBP literature, we discuss bargaining power as a function of the interaction between the global, home-country, and host-country institutional environments—which we demonstrate to have shaped the importance of the MNCs at home and abroad—the willingness of the home country to defend MNCs' interests, as well as the attitude of host-country governments. We show that the MNCs' bargaining power increased in periods during which the global institutional environment was favorable to MNCs because of the alignment of the interests of the home- and host-country governments with those of the MNCs. In periods of growing economic nationalism, such as the 1960s and 1970s, the bargaining power of natural resource MNCs declined, as their interests diverged from those of the home and host countries (Abdelrehim & Toms, 2017; Li et al., 2017; Vivoda, 2010).

We agree with the argument that MNCs leverage organizational experience to manage policy uncertainty (Delios & Henisz, 2003; Padmanabhan & Rae Cho, 1999), but we maintain that experience does not suffice to protect MNCs from hostile government actions. We show that by the 1970s, UFCo, the world's most experienced firm in the banana industry and one of the most experienced in the banana host countries, considered a retreat from vertical integration, along with the performance losses that it entailed, to be the only feasible strategy for addressing policy uncertainty. External observers agreed with the latter evaluation. Experience did not provide the firm with protection, but it equipped it with reliable knowledge as to whether its bargaining power had changed for the worse.

We contribute to the literature examining how MNCs manage uncertainty stemming from the features of host countries (e.g., Brouthers et al., 2003). Our work differs from prior TCE research and from the entry mode literature, not only because we enrich the theory with ideas from the OBP, but also because we explicitly discuss contractual and policy uncertainty, as well as asset specificity (Brouthers & Hennart, 2007). In line with Benito et al. (2009) and Verbeke et al. (2018), we examine how MNCs changed the way of governing the value chain over time, after their "entry" into host countries, adapting to the broader institutional environment. This study also differs from the OBP literature because of its theoretical foundation in TCE, which sees policy uncertainty as a key form of transaction uncertainty (Henisz & Williamson, 1999).

We advance research on policy uncertainty by examining, through historical sources, how this factor was perceived and acted upon by managers and investors (Giambona et al., 2017), which reveals interesting trends that country-level indicators do not capture. For example, the banana MNCs' concerns with policy uncertainty increased during the 1960s, a period in which host countries engaged in reforms that reduced their institutional distance from the home country. As in other countries like Iran (1954), the arrival of democratically elected regimes and of progressive policies was not always welcomed by Western MNCs, and it did not always translate into a better protection of their property rights. We believe there is room for further studies

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here on the relationship between democracy and FDI that challenge assumptions that this relationship is necessarily a positive one.

We contribute to the literature by bringing to the fore the broader institutional context in which transaction governance choices are embedded, in line with Lopes et al. (2019), Jones (2005), and Wilkins (1974). This also follows Williamson's (1985) original formulations of TCE, in which he maintained that transaction costs were shaped by institutions, and that changes in the context in which transactions occurred should modify the optimal transaction governance (Ketokivi & Mahoney, 2020). Our study also provides evidence to Buckley et al. (2022) who highlight how a decision for an MNC to internalize its operations can be studied under the lens of property rights theory in which the evolution of the institutional environment is taken into consideration.

Even though focused on one global value chain dominated by a US-based MNC, active in Latin America, our approach can be applied to other industries, geographical contexts, industries, and time periods. Similar trends could be observed in the 1960s and 1970s in the oil, copper, and bauxite industries (Jones, 2005; Wilkins, 1974). Given the need to limit the scope of this paper, we focused on how MNCs manage the uncertainty stemming from host-country features in a value chain entailing asset-specific transactions. Studies on other industries can shed light on other sources of uncertainty, such as demand and technological uncertainty, and other transaction features, such as frequency (Cuypers et al., 2021). Our approach, and the fact that it considers the involvement of MNCs in politics, also enables a dialogue with the nonmarket strategy literature and explores some of their open questions such as the impact of wider political changes have on MNCs' diplomatic strategies (Sun et al., 2021).

Our study has managerial implications beyond the historical period examined. OBP scholars have argued that since the 1980s the sovereign state has been in retreat, while MNCs had gained considerable bargaining power because of ideological consensus on the desirability of FDI and the convergence of most countries toward multilateral treaties that protect business assets and rents (Nebus & Rufin, 2010; Ramamurti, 2001). Those trends, however, have been reversed since the 2010s (Ciravegna & Michailova, 2022; Kobrin, 2020; Witt et al., 2023). With economic nationalism on the rise, understanding how MNCs have economized on policy uncertainty in the past, and how the institutional environment has shaped their bargaining power, can provide important insights for decision makers today.

DATA AVAILABILITY STATEMENT

Data sharing is not applicable to this article as no new data were created or analyzed in this study.

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APPENDIX

TABLE A1 United Fruit: Land ownership by country (acres), 1900–1967.

Year	Guatemala	Honduras	Costa Rica	Panama	Colombia	Dominican Republic	Total land acres (bananas)
1900	N/A	400	10,626	N/A	12,547	3300	38,463
1901	N/A	400	14,260	N/A	15,608	4130	46,455
1902	N/A	400	13,321	N/A	14,445	3480	42,445
1903	N/A	400	17,439	N/A	22,381	3480	55,020
1904	N/A	N/A	19,286	24,765	1646	3480	60,292
1905	N/A	N/A	19,387	20,031	1705	3860	56,474
1906	1250	N/A	21,340	19,245	1772	4160	54,927
1907	1947	N/A	34,125	17,633	2811	4429	67,827
1908	5080	N/A	34,619	21,138	3115	4729	75,922
1909	9254	N/A	29,135	25,729	4346	N/A	75,825
1910	11,625	N/A	24,090	28,909	3499	N/A	75,477
1911	16,673	N/A	25,199	30,713	3915	N/A	84,549
1912	22,156	6163	26,768	34,949	17,169	N/A	115,460
1913	27,122	9037	4723	34,903	22,790	N/A	150,453
1914	30,311	15,117	46,273	34,552	18,334	N/A	155,196
1915	28,550	12,387	33,740	28,609	17,432	N/A	128,827
1916	25,841	12,914	29,863	30,416	16,233	N/A	118,949
1917	24,915	13,902	24,914	28,288	15,243	N/A	114,538
1918	22,834	14,081	22,335	26,572	13,756	N/A	106,053
1919	22,748	26,178	21,708	24,403	14,439	N/A	118,058
1920	23,661	41,675	22,462	26,245	16,197	N/A	138,290
1921	25,466	45,806	18,851	24,129	15,658	N/A	137,622
1922	26,573	60,729	17,833	22,768	20,757	N/A	155,461
1923	28,701	81,212	18,058	20,756	24,540	N/A	180,866
1924	28,393	87,808	17,575	17,199	28,037	N/A	185,779
1925	27,272	82,891	13,959	13,771	27,032	N/A	172,262
1926	26,636	79,008	13,123	12,938	27,593	N/A	166,203
1927	28,253	79,824	13,665	9977	29,070	N/A	166,746
1928	26,860	73,769	13,980	13,176	29,818	N/A	168,198
1929	22,659	75,408	12,827	18,453	27,558	N/A	169,132
1930	21,442	95,300	7958	14,591	27,761	N/A	189,165
1931	15,839	84,302	8506	13,863	16,278	N/A	148,659
1932	15,471	74,555	5228	13,183	13,024	N/A	126,817
1933	14,934	66,429	4699	12,446	10,001	N/A	114,390
1934	16,164	64,060	3888	14,174	9945	N/A	114,920
1935	16,797	67,875	3707	13,651	9726	N/A	121,036

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TABLE A1 (Continued)

Year	Guatemala	Honduras	Costa Rica	Panama	Colombia	Dominican Republic	Total land acres (bananas)
1936	16,247	54,242	3604	16,483	8750	N/A	108,815
1937	19,120	41,415	3615	19,372	8820	N/A	99,934
1938	27,078	36,574	4776	23,126	8572	N/A	109,174
1939	34,530	35,818	7927	24,341	8475	N/A	119,821
1940	32,982	35,400	15,076	24,119	5123	N/A	121,729
1941	33,457	38,162	18,474	22,692	5819	N/A	125,699
1942	31,555	37,049	14,260	19,647	2431	N/A	110,479
1943	30,319	34,806	13,926	18,764	1849	N/A	104,583
1944	29,362	37,646	18,085	18,840	1849	N/A	111,557
1945	29,162	38,569	20,224	20,062	1849	734	116,214
1946	33,313	42,690	28,574	19,281	1849	865	130,346
1947	34,837	42,658	35,463	19,472	6094	2546	144,667
1948	32,762	44,583	38,522	19,226	6948	2896	148,593
1949	28,754	42,104	38,277	19,161	7170	3298	142,341
1950	27,887	41,092	39,419	18,890	7200	3727	142,197
1951	26,097	38,337	40,235	18,681	7202	4051	138,910
1952	23,370	36,506	41,208	20,006	7217	4188	138,514
1953	21,163	39,253	40,200	22,470	7218	4290	142,182
1954	19,554	26,179	37,347	24,916	6819	4183	136,220
1955	20,617	34,071	34,636	26,600	6815	4067	145,846
1956	20,608	32,230	31,957	27,084	6811	3379	141,296
1957	23,314	29,951	29,072	29,183	6867	3201	141,296
1958	25,489	29,043	26,946	29,409	6954	2584	130,342
1959	27,223	27,717	25,904	29,909	6953	2416	130,342
1960	26,718	30,339	25,527	31,333	6953	2366	134,593
1961	23,691	26,121	25,232	32,987	0	2338	118,312
1962	23,640	22,633	27,185	30,463	0	1596	108,138
1963	20,749	20,971	27,737	31,100	0	1084	104,253
1964	8846	24,617	25,518	31,782	0	846	94,336
1965	7146	MISSING FROM THE BOOKS				87,333	
1966	7350	25,618	21,046	26,322	N/A	N/A	81,089
1967	6891	25,087	20,249	21,894	N/A	N/A	74,837

Source: United Fruit Company, *Annual Report*, various years. In 1970, United Fruit became part of the larger conglomerate United Brands and reported aggregate information of all the firms belonging to the conglomerate in the annual reports. United Brands did not report land ownership in acres.

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TABLE A2 United Fruit Company: Basic Financial Information, 1900–1969.

Year	Net income	Net book value	Total assets	Sales	Total lands $ (net book value)	Railways	Steamships
1900	1,150,143	12,827,371	16,949,753		9,998,593	1,253,428	329,233
1901	1,163,933	14,137,921	18,469,490		8,129,461	1,023,311	235,096
1902	2,003,376	14,531,283	19,251,189		8,238,081	1,089,783	322,405
1903	2,764,815	15,278,924	21,314,675		8,433,733	1,179,783	342,774
1904	3,157,951	15,596,658	22,824,251		8,502,792	1,304,783	346,015
1905	3,493,773	16,039,788	24,413,114		8,517,206	1,430,080	346,015
1906	5,523,932	17,787,612	26,599,683		8,549,413	1,966,995	346,015
1907	9,752,050	20,628,932	32,721,183		9,029,026	2,936,786	337,340
1908	10,036,449	22,359,269	35,215,178		8,970,885	4,073,197	342,340
1909	12,006,804	23,689,628	40,756,493		9,062,372	4,865,509	341,210
1910	13,787,325	24,708,499	45,033,752		9,420,057	5,326,886	9,555,710
1911	13,762,998	26,042,226	52,232,833		9,499,956	5,458,949	13,560,513
1912	16,645,853	32,782,408	67,500,393		12,153,355	5,986,756	23,019,694
1913	16,284,211	48,308,638	82,545,384		17,964,534	10,004,496	14,136,973
1914	13,592,404	54,091,945	88,867,408		18,033,094	13,253,974	15,999,631
1915	14,039,687	52,045,344	89,916,321		17,394,441	13,651,249	16,146,173
1916	21,567,370	50,765,234	98,025,109		15,818,930	13,480,411	15,187,599
1917	25,198,059	51,912,358	109,860,550		16,477,324	13,368,079	13,917,764
1918	35,040,154	64,310,873	127,622,346		19,673,304	15,344,063	13,427,595
1919	49,109,722	70,233,807	147,684,401		20,537,684	16,028,944	12,961,852
1920	25,980,010	78,197,713	167,684,126		14,624,274	17,232,376	19,203,833
1921	34,955,774	88,454,682	160,312,775		14,382,631	21,787,475	23,189,097
1922	44,970,023	92,683,983	171,229,306		14,339,519	23,620,895	23,061,662
1923	48,067,353	102,543,358	182,815,562		14,546,306	25,693,712	21,002,824
1924	50,737,561	106,995,771	188,558,084		14,755,856	26,650,268	22,680,486
1925	72,629,266	107,356,314	197,570,463		15,730,840	26,737,016	25,210,727
1926	23,030,483	134,666,974	203,821,287		15,861,182	27,415,239	28,180,784
1927	22,864,609	139,000,122	208,281,618		17,059,240	27,017,221	31,212,859
1928	24,072,016	149,441,344	225,482,616		24,419,626	27,430,200	30,602,774
1929	20,308,942	154,445,469	226,012,529		29,272,665	27,651,121	31,683,074
1930	14,901,607	171,154,588	242,398,163		27,730,384	30,303,154	37,761,100
1931	7,723,871	169,294,314	237,755,415		25,473,869	28,324,148	49,176,944
1932	5,707,221	114,513,704	177,374,548		15,688,688	19,699,765	41,520,683
1933	9,240,941	109,509,939	185,051,581		15,668,146	18,575,649	40,135,134
1934	12,049,299	106,394,276	188,571,819		15,478,097	17,780,132	39,058,299
1935	2,471,252	102,343,122	184,909,190		15,378,572	16,950,647	36,447,385
1936	14,176,995	98,682,348	186,781,969		15,367,411	16,455,385	34,217,470

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TABLE A2 (Continued)

Year	Net income	Net book value	Total assets	Sales	Total lands $ (net book value)	Railways	Steamships
1937	11,817,128	95,086,479	186,774,443		14,271,486	16,352,803	31,522,994
1938	10,272,746	96,835,927	183,770,758		14,965,944	16,372,832	28,997,291
1939	14,101,929	105,534,643	187,026,465		14,773,008	18,074,988	28,148,735
1940	14,920,736	103,883,836	186,103,699		14,750,421	19,883,759	19,291,799
1941	15,442,608	107,975,321	192,375,145		14,600,244	20,168,090	20,442,864
1942	11,934,582	98,784,576	192,910,253		14,600,674	18,715,614	16,982,924
1943	13,834,052	93,970,462	199,348,718		14,848,144	17,710,299	17,943,072
1944	28,945,181	102,107,039	215,622,059		14,835,867	16,989,440	27,358,255
1945	36,236,017	113,772,336	234,694,596		14,830,092	16,739,848	34,977,395
1946	54,461,709	127,005,981	254,004,455		14,864,374	19,196,154	33,734,319
1947	54,140,794	150,678,729	418,912,675		15,320,104	21,467,596	37,192,601
1948	59,740,232	167,724,608	449,563,174		15,264,071	24,199,702	35,838,800
1949	54,852,364	174,849,274	476,900,953		16,254,448	25,966,714	34,537,465
1950	66,159,375	178,623,661	516,251,744	312,273,276	16,159,044	27,680,295	33,434,022
1951	50,893,898	184,370,978	548,889,875	314,047,345	16,069,823	28,329,207	32,857,462
1952	37,937,126	199,991,756	560,787,927	313,463,705	16,176,723	29,566,172	35,609,918
1953	44,556,264	216,220,733	579,342,684	334,837,633	16,275,608	29,541,405	37,572,161
1954	31,459,780	229,021,671	391,870,657	323,542,138	15,871,122	30,039,795	47,860,885
1955	33,539,366	230,133,454	390,134,309	333,242,952	14,031,599	28,952,812	52,658,503
1956	30,283,130	242,658,041	401,378,829	343,693,168	13,769,573	28,504,470	64,468,394
1957	31,454,756	247,220,332	395,914,113	342,324,549	13,129,438	27,831,186	68,155,455
1958	22,741,575	244,250,898	386,339,000	324,385,946	13,088,159	26,964,174	67,266,896
1959	12,087,670	247,394,008	384,627,863	312,921,474	13,098,423	27,195,154	74,936,294
1960	2,171,094	193,702,919	337,641,183	304,421,213	4,614,757	15,275,519	82,849,982
1961	8,920,911	187,855,496	331,373,181	311,320,593	4,190,880	13,797,816	86,014,482
1962	11,005,888	179,970,000	337,793,670	319,786,983	3,837,995	12,560,472	82,181,918
1963	458,298	183,455,000	324,592,373	329,910,481	5,219,258	11,713,000	76,825,000
1964	704,560	182,737,000	318,112,704	351,927,000	4,962,000	10,262,000	73,464,000
1965	17,268,000	176,321,000	343,115,000	399,428,000	MISSING FROM THE BOOKS		
1966	25,015,000	177,102,000	370,907,000	439,763,000	5,537,000	7,792,000	62,662,000
1967	32,113,000	186,069,000	398,708,000	488,884,000	6,484,000	9,583,000	58,289,000
1968	31,157,000	207,715,000	439,799,000	509,518,000	13,871,000	38,468,000	118,714,000
1969	27,986,000	242,771,000	479,321,000	555,383,000	18,798,000	N/A	122,990,000

Source: United Fruit Company, *Annual Report*, various years. After 1970, United Fruit became part of the United Brands conglomerate and assets such as lands included those of other banana-unrelated businesses.

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TABLE A3 United Fruit Company/United Brands Company/Chiquita Brands: Selected events.

Year	Event
Phase 1	
1900	Merger of the firms of Lorenzo Dow Baker, Minor Keith, and Andrew Preston to create the United Fruit Company
1901	The government of Guatemala hires United Fruit Company to manage the country's national post service
1903	Purchase of 50% of the stock of British banana firm Elders & Fyffes
1903	Great White Fleet (owned by United Fruit) launches its first refrigerated ships Panama separates from Colombia supported by the United States. The United States invades Honduras and the Dominican Republic
1904	Guatemalan dictator Manuel Estrada Cabrera grants United Fruit a 99-year concession to construct and maintain the country's main rail line from Guatemala City to Puerto Barrios
1906	United Fruit purchases 50% of the shares of the Vaccaro Brothers Company which had operated in Honduras. Vaccaro had organized export plantations in that country as part of a contract to build a railway between La Ceiba and the interior of the country.
1906	Vaccaro Brothers opens import business in New York The United States invades Cuba
1907	The United States invades Nicaragua and Honduras
1908	Through the Anti-trust legislation, the American government forces United Fruit to sell its Vaccaro shares.
1909	The United States invades Nicaragua
1912	After a fierce price competition against the United Fruit Company, the Atlantic Fruit Company declares bankruptcy. Atlantic had been United Fruit main competitor in Costa Rica; after the bankruptcy United Fruit takes control of the country's banana exports.
1912	The United States Army sends troops to Cuba. The United States marines land in Panama during the presidential elections. The United States Army invades Honduras.
1913	United Fruit gets two railway and land concessions in Honduras. They are managed by the company's subsidiaries the Tela Railroad Company and the Truxillo Railroad Company. These concessions allow the company to begin to produce bananas in large scale in Honduras. Concessions include 162,000 hectares of land from which 71,000 were granted in change of the railroad construction. United Fruit creates the Tropical Radio Telegraph Company
1918	The workers of the banana plantations in Northern Colombia go on strike. They demand 6-day labor week and eight-hour labor day plus health care. The strike does not succeed.
1918	The United States armed forces intervene in Panama and keeps a police force in the country.
1919	The United States marines land in Honduras during the presidential campaign.
1920	The United States Army lands in Guatemala and fights for 2 weeks against the so-called unionists.
1924	The Guatemalan government gives a concession to the United Fruit for all the uncultivated lands in a 100 kilometers territory
1924	The United States Army intervenes in Honduras during elections.
1925	The United States Army lands in Panama during a general strike.

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TABLE A3 (Continued)

Year	Event
1927	United Fruit purchases the California-Guatemala Fruit Corporation which exported fruit from the Guatemalan Pacific Coast to Western USA
1928	Major strike by banana workers in Colombia. Strike ended with force by the Colombian armed forces
1929	United Fruit acquires American firm Cuyamel Fruit Company, United Fruit's main competitor in Guatemala Fruit Dispatch starts aggressive campaign in the United States to promote banana consumption
1930	Banana strike in Honduras easily cracked down by the government
1932	The United Fruit transfers its railroad in Colombia to the national government which, in turn, leases it to the company for 30 years more
1936	United Fruit Company signs a 99-year concession with Guatemala President General Jorge Ubico and opens its second plantation in the country in the region of Tiquisate
1937	United Fruit merges with IRCA
Phase 2	
1942–1945	United Fruit interrupts its operations and leases its ships to the United States armed forces
1945	Juan Jose Arevalo takes power as the new President of Guatemala. He pushes United Fruit to improve the working conditions at its plantations. The company makes some concessions after a series of strikes from its workers.
1947	The Guatemalan government establishes a Labor Code. United Fruit Company denounces it as "Communistic" and threatens to leave Guatemala. The code forces the company to make further concessions to the workers in the strikes that followed
1949	A group of American senators accuses the Guatemalan government of not safeguarding the properties of United Fruit
1949	End of the 13-year dictatorship of Honduras's Juan Vicente Carías. He is succeeded by United Fruit's former lawyer, who opens the political system. Labor unrest affects operations in Colombia, Guatemala, and Costa Rica
1951	Jacobo Arbenz wins the Presidential election in Guatemala and promises to change the agrarian structure of the country
1952	The Guatemalan Congress approves the Decree 900, the Agrarian Reform Act.
1953	Using the Agrarian Reform Act, the Arbenz government declares that 209,842 acres of uncultivated lands of United Fruit should be expropriated and distributed to landless peasants
1954	United States protests against Arbenz's agrarian reform program and leads a covert action that overthrew the government. US Department of Justice begins legal action against United Fruit for violation of the anti-trust legislation.
1954	Major labor strike of banana workers in Honduras paralyzes the industry. Strike lasts 2 months and receives support from the government.
1958	As a way to settle with the Department of Justice, United Fruit agrees to sell its Guatemalan lands to its competitor before 1970
Phase 3	
1959	Cuba's Fidel Castro expropriates United Fruit properties on the island. New labor legislation in Costa Rica
1960	First big strike of banana workers in Panama. United Fruit gives in to their demands

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TABLE A3 (Continued)

Year	Event
1963	As part of United Fruit's diversification program, the firm acquires A&W Root Beer Company
1970	United Fruit merges with AMK-John Morrell creating a new company under the name of United Brands
1971	The United States Department of Justice orders United Brands to rid itself of a banana-producing division capable of 9 million stems. The company sells the division Compania Agricola de Guatemala, to West Indies Co. (a Del Monte subsidiary)
1972	United Brands finishes selling all its land in Guatemala
1974	The governments of the Latin American banana-producing countries create the Union of Banana Export Countries (UPEB) to collectively negotiate better terms with the banana multinationals. United Brands' opposition to the initiative is unsuccessful and the firm increases its payment of royalties and taxes. United Brands agrees to sell all its operations in Panama to the government Hurricane destroys 70% of United Brands' plantations in Honduras
1975	United Brands sells 37,500 acres in Costa Rica. United Brands sells all its properties in Panama
1976	United Brands sells the railway to the Honduran government and transferred to the government some "unused" lands
1977	United Brands sells all its buildings in Honduras
Phase 4	
1984	Carl Lindner becomes United Brands' CEO and starts selling non-banana related assets
1985	Lindner sells non-fresh fruit operations decreasing the size of the conglomerate
1989	Lindner changes the name of the conglomerate to Chiquita to keep focusing on fresh fruit
1990	With the fall of the Soviet Union and the promise of an enlarged European market with the upcoming European Union, Lindner shifts the firm strategy back into banana production and purchase of plantations in producing countries.

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TABLE A4 Political transitions in selected host countries, 1899–1991

Period	Country	Number of times a president was assassinated while in power	Number of times a president was overthrown violently	Number of times a president resigned while in power	Number of times a president finished the term with elections
	Guatemala				
Phase 1 (1899–1942)		1	3	3	0
Phase 2 (1942–1959)		1	3	2	3
Phase 3 (1959–1979)		0	1	2	4
Phase 4 (1979–1991)		0	2	0	2
	Honduras				
Phase 1 (1899–1942)		0	4	1	5
Phase 2 (1942–1959)		0	3	1	1
Phase 3 (1959–1979)		0	4	1	0
Phase 4 (1979–1991)		0	0	0	3
	Costa Rica				
Phase 1 (1899–1942)		0	2	1	9
Phase 2 (1942–1959)		0	1	0	5
Phase 3 (1959–1979)		0	0	0	7

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TABLE A4 (Continued)

Period	Country	Number of times a president was assassinated while in power	Number of times a president was overthrown violently	Number of times a president resigned while in power	Number of times a president finished the term with elections
Phase 4 (1979–1991)		0	0	0	3
	Colombia				
Phase 1 (1899–1942)		0	0	1	12
Phase 2 (1942–1959)		0	2	0	1
Phase 3 (1959–1979)		0	0	0	7
Phase 4 (1979–1991)		0	0	0	3

Source: Authors' elaboration with information from Bucheli (2008), Busey (1961), Posas and Del Cid (1981), and Palacios (2003).

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