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Why Do Some Multinational Firms Respond Better Than Others to the Hostility of Host Governments? Proximal Embedding and the Side Effects of Local Partnerships

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ABSTRACT Using a multiple-case study of alleged expropriations reported before the World Bank, we examine how multinational companies (MNC) react to the escalating hostility of host governments. Our study reveals how different choices regarding the interaction with local nonmarket stakeholders – which we refer to as proximal vs. mediated embedding – shape how managers respond to these disputes by affecting their ability to collect, process and interpret information, and to act upon it in a way that effectively mobilizes local and international support. In contrast to the prevailing view that local partners in international joint ventures shelter MNCs from abuse from political authorities, our findings show that primary reliance on local partners to manage the local nonmarket environment can actually reinforce a liability of outsidership and even create a 'liability of insidership', to the extent that relying on local partners prevents the MNC from establishing quality connections with a broad range of nonmarket stakeholders, reducing its alertness and responsiveness to hostile acts from host governments.

Keywords: business-government relationships, obsolescent bargaining, expropriation, nonmarket strategies, exit decision, firm-government dispute

INTRODUCTION

A growing body of research in strategy and international business (IB) has begun to investigate the impact of the nonmarket environment – that is, the 'social, political, legal, and cultural arrangements that constrain or facilitate firm activity' (Doh et al., 2012,

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p. 23) – on firms' performance. This stream of work examines what scholars refer to as nonmarket strategies (Lawton et al., 2014) or nonmarket actions (Doh et al., 2012) – that is the strategies that firms use 'to improve [their] performance by managing the institutional and societal context of economic competition' (Mellahi et al., 2016, p. 144). In international business, this perspective is reflected in the longstanding recognition that the success of multinational companies (MNCs) in foreign markets depends in part on their ability to forge connections with political actors both local and national (Meyer et al., 2011; Okhmatovskiy, 2010; Sun et al., 2010; Welch and Wilkinson, 2004). These political connections allow MNCs to mitigate various political and contractual hazards (Henisz, 2000b; for a review, see, e.g., Lawton et al., 2014) by legitimating them with local stakeholders (Forsgren, 2017) and facilitating access to valuable resources and information (Sun et al., 2010; Werner, 2015).

These studies assume that the relationships between MNCs and political authorities may deteriorate over time, along with the bargaining power that MNCs initially enjoy when they negotiate access to a country (because of the much-needed capital, knowledge and technology they bring), as investments in fixed assets expose MNCs to later attempts by host governments to renegotiate terms in ways that would reduce the profitability of local operations (Vernon, 1971). Some of these attempts escalate into deleterious legal disputes or even partial or total expropriation of those operations (Kobrin, 1982; Maurer, 2011, 2013).

As a result, scholars have increasingly studied corporate political activity (Dahan et al., 2013; Lawton et al., 2014), understood as the goals a firm pursues when engaging with governments, the options available, the resources and capabilities it can mobilize and how it grapples with institutional constraints (Lawton et al., 2013). Activities such as lobbying or campaign contributions (see Dahan et al., 2013; Lawton et al., 2014) help MNCs shelter themselves from hostile acts by host governments (e.g., Darendeli and Hill, 2016; Doh and Ramamurti, 2003; Henisz and Zelner, 2003). MNCs can also develop networks that reduce their risk of becoming the target of hostile actions in the first place (for a review, see Mellahi et al., 2016). Past studies, however, have paid less attention to how events evolve from the inception of a dispute between an MNC and a host government to its eventual resolution, whether favorable or not to the focal MNC. Therefore, we know little of what makes some MNCs better able than others to deal with government hostility, once it arises.

To begin to shed light on this question, we conducted a comparative case study of eight MNCs involved in disputes with foreign governments in Latin America between 2001 and 2012 – Cemex in Venezuela; Telefonica, Repsol, Vivendi and Endesa in Argentina; Telecom Italia in Bolivia; Shell in Nicaragua; and Iberdrola in Guatemala. All these firms filed expropriation claims before the World Bank, the leading venue for settling disputes between foreign firms and host governments. In some of these cases, the firms eventually left the country; in others, they continued operations, albeit in diminished form.

Construing firms as 'interpretations systems' (Daft and Weick, 1984) – and following Doh and Lucea's (2013) suggestion that textured examination of cognitive processes could sharpen our understanding of MNCs' nonmarket actions – our study reveals that the different outcomes were associated with different ways in which MNCs gathered and processed information, and acted upon it as events unfolded. Specifically, most of the firms that eventually left the country failed to pick up early warning signals, could not diagnose the situation in an accurate and timely way and thus could not develop a credible narrative to elicit local support. In contrast, most of the firms that stayed displayed high alertness to warning signals, drew on these cues to craft alternative accounts that countered those disseminated by the government and used these accounts to mobilize local and/or international stakeholders.

A deeper comparison suggests that this difference can be explained by the networking strategies firms had adopted before the dispute. Some firms operated locally through an international joint venture (IJV) – that is, an entity partly owned by the MNC and partly owned by one or more domestic firms (see Geringer and Geringer, 1988; Luo, 2002). These MNCs largely relied on local partners to relate to nonmarket stakeholders – a group that includes 'government actors and institutions, nongovernmental organizations, social and environmental activists, and local communities' (Mellahi et al., 2016, p. 150). Other MNCs, instead, operated through directly controlled subsidiaries. They had been more hands-on in local operations and had engaged more collaboratively with local nonmarket stakeholders. This difference shaped the timeliness and effectiveness of their interpretations of government hostility, and, ultimately, their capacity to mobilize local and international support.

By beginning to unpack how MNCs interpret and respond to events that precede and accompany expropriations of assets or profits, our study extends and complements research on pre-emptive nonmarket strategies available to MNCs to mitigate the consequences of these hostile actions. Past research assumed that local partners in IJVs would help MNCs overcome their 'liability of outsidership' (Johanson and Vahlne, 2009) by helping them navigate the local institutional environment (Roy and Oliver, 2009; Yiu and Makino, 2002) and sheltering them from the hostility of host governments (Delios and Henisz, 2003a; Müllner and Puck, 2018; Newenham-Kahindi and Stevens, 2018). Our findings reveal a potentially harmful side effect of such partnerships: reliance on local partners could inadvertently create a 'liability of insidership' to the extent that partners insulate foreign investors from local stakeholders, thus precluding them from developing direct contacts, nurturing local ties and building local reputation – all of which could impair the MNCs' capacity to respond adaptively to the sudden hostility of local governments.

THEORETICAL BACKGROUND

Nonmarket Strategies in International Business: The Theory of Obsolescing Bargain

Vernon (1971) described the interaction between MNCs seeking access to countries and local political authorities as a negotiation (see also Boddewyn and Brewer, 1994; Grosse and Aramburu, 1991), in which initially host governments may offer tax rebates, subsidies, favorable regulations etc. on the expectation that MNCs will bring in capital, advanced technology and jobs. However, after costly investments have been made and technologies have spilled over to local competitors, host governments may reassess the value of the firm's investments in light of shifting priorities (Makhija, 1993). As a result, they may change industry regulations, withdraw or alter permits and concessions or manipulate taxes and regulatory tariffs, thus transferring rents from the firm to other agents ('creeping expropriation') (Maurer, 2011). Governments can also directly expropriate assets, property rights, or other sources of rent ('outright expropriations') (Maurer, 2011). Even when governments offer a compensation, MNCs often feel that this payment does not adequately reflect their financial losses and reputational damages (Kobrin, 1980), and may prefer to leave the host country rather than face further uncertainty (Blake and Moschieri, 2017).

In manufacturing and high-tech industries, where local operations require lower investments or benefit from ongoing knowledge transfer from home operations, MNCs tend to maintain their bargaining power over time (Bennett and Sharpe, 1979; Grosse, 1996; Kobrin, 1987). Conversely, in industries characterized by asset specificity and high fixed costs – such as those based on exploitation of natural resources (Click and Weiner, 2010; Durnev et al., 2009), large infrastructure projects (Ramamurti and Doh, 2004) or the provision of essential services such as telecommunications, water, electricity and gas (García-Canal and Guillén, 2008) – the MNC's bargaining power tends to erode more rapidly, as it is more costly for it to leave the country (Kobrin, 1982; Maurer, 2013).

Nonmarket Strategies and Host Government Hostility

MNCs can use a broad range of nonmarket strategies to mitigate the risk that a host government will take advantage of their obsolescing bargaining power, such as dedicating local units to manage 'government affairs' (Blumentritt, 2003; Boddewyn, 2007), building a 'political coalition' (Zhu and Sardana, 2020) or establishing links with local political actors (Sun et al., 2012, p. 68). MNCs may also adopt financial arrangements – often resting on international agreements involving the World Bank – that could discourage hostile acts for fear of international repercussions (Doh and Ramamurti, 2003; Gamso and Nelson, 2019), enable the recovery of the investments or minimize losses in case of expropriation (Moran, 1973; Müllner and Puck, 2018; Ramamurti and Doh, 2004). Previous experience in the home country or in 'politically hazardous' host countries with weak political constraints, high policy uncertainty or high currency fluctuations (Delios and Henisz, 2003b; Henisz, 2000b; Maitland and Sammartino, 2015) may also help MNCs better assess the risk that host governments will behave opportunistically in the first place.

The involvement of shareholders, board members or senior officers who are themselves politicians or politically connected can also strengthen the standing of MNCs before host governments (Brockman et al., 2013; Faccio, 2006; Sojli and Tham, 2017) and help them navigate a weak institutional environment (Peng, 2003; Sun, 2019; Xin and Pearce, 1996). Strong political connections, however, can become a liability in the presence of rapid political changes, as the new ruling parties may be less supportive or outright hostile toward firms tied to the previous rulers (Dieleman and Boddewyn, 2012; Leuz and Oberholzer-Gee, 2006; Siegel, 2007).

Finally, partnering with a local firm through an IJV has also been shown to bring potential benefits to manage the nonmarket environment in a foreign country. IJVs can increase a firm's access to local information (Hillman and Hitt, 1999; Hillman et al., 2004), help it conform to normative and regulatory pressures (Yiu and Makino, 2002) and mitigate concerns about weak rule of law (Roy and Oliver, 2009; Yiu and Makino, 2002) and arbitrary corruption (Uhlenbruck et al., 2006). They are therefore more frequent in contexts where structures are unstable, information unverifiable and law unenforceable (Luo, 2007). Partnering with a local actor can also induce host governments to treat foreign firms in a less discriminatory way (Delios and Henisz, 2003a; Newenham-Kahindi and Stevens, 2018), dissuade them from hostile acts that might also harm the local partner (Müllner and Puck, 2018) and reduce losses for the MNC in case of expropriation (Chan and Makino, 2007; Delios and Henisz, 2000).

In sum, the vast majority of prior research focused on pre-emptive strategies available to MNCs (Lawton et al., 2014) to reduce or to compensate for obsolescing bargaining power and to prevent *ex-ante* the risk of government hostility or reduce potential losses in case of expropriation. However, we still know little about how MNC decision makers actually interpret and respond to emerging hostile acts from a host government despite their preventive efforts, and whether and why MNCs differ in their respective cognitive processing.

Responding to Unexpected Events: A Cognitive Perspective

Theories of managerial and organizational cognition (Kaplan, 2011; Walsh, 1995) provide us with a useful analytical concept to investigate how some MNCs respond more promptly and effectively than others to the rising hostility of host governments. Research in this tradition examines how managers process information to interpret and address the issues they confront (Walsh, 1995), and it has begun to unpack the cognitive processes that underpin how organizations respond to unexpected events. It builds on Daft and Weick's (1984) foundational ideas that organizations can be conceptualized as 'interpretation systems' and that how they collect and process information influences their capacity to adapt to changes in their external environment (see also Kiesler and Sproull, 1982).

How organizations respond to external events is based on the interrelation of three processes referred to as *scanning*, *interpreting* and *acting* (Daft and Weick, 1984). Scanning refers to the ongoing collection of information about an organization's environment (Daft and Weick, 1984; Fahey and King, 1977). Information that deviates from expectations and cannot be readily integrated into current understandings of an object or situation attracts attention and triggers interpretation. Interpretation attributes meaning to information, by relating informational 'cues' to 'frames' – knowledge structures that we use to understand objects, events, situations etc. (Walsh, 1995). Responding effectively to surprising events, then, requires reframing the situation, to reconcile what is expected to what is being observed (Rankin et al., 2016). Information that cannot be interpreted with available frames triggers more effortful cognitive engagement, as well as action to gather additional information and test provisional interpretations (Anderson and Nichols, 2007; Weick et al., 2005).

A strand of this literature relevant to our investigation is sensemaking theory. Sensemaking is defined as 'the process through which individuals and groups attempt to explain novel, unexpected, or confusing events' (Maitlis et al., 2013, p. 222). Scholars have used this theory to examine early stages of strategy formulation (Gioia and Chittipeddi, 1991) as well as organizational responses to existential threats (Ravasi and Schultz, 2006). In IB, it has been used to examine the integration of newly acquired subsidiaries (Clark and Geppert, 2011) and how headquarters' strategies are implemented locally (Whittle et al., 2015).

In all these situations, sensemaking theory helps us understand how individuals and organizations process information to attribute meaning to events and situations that are equivocal – that is, open to multiple interpretations (Weick, 1995). This is indeed the situation that our MNCs faced at the outset of a dispute, as managers – consistent with the idea that crises 'defy interpretations and impose severe demands on sensemaking' (Weick, 1988, p. 305) – struggled to attribute meaning to sudden hostile statements and actions from political authorities or local constituents.

In accord with the idea that sensemaking 'is about labelling and categorizing to stabilize the streaming of experience' (Weick et al., 2005, p. 411), an important criterion that managers use to interpret an unexpected or ambiguous event that likely requires a response (an 'issue'; see Dutton and Ashford, 1993) is the extent to which this event poses a 'threat' – understood as a negative event, involving a potential loss, and largely outside one's control (Jackson and Dutton, 1988). Labelling an event as threatening (or non-threatening) is important because early labelling tends to persist and to shape subsequent information search and processing (Dutton and Jackson, 1987). In fact, only if an event is labelled an 'issue' will it receive adequate managerial attention, resulting in further information search, creation of dedicated task forces and substantive action (Dutton and Ashford, 1993). Investigating the processes through which decision makers gather, organize and attribute meaning to information is thus essential to understanding how firms respond to external stimuli (Dutton et al., 1983).

Despite a longstanding and fruitful tradition of applying cognitive theories to the study of MNCs, the use of a cognitive lens has been less common in research on nonmarket strategies and business–host government interactions. Research in IB has largely focused on the cognitive structures that shape how international managers collect and process information. It has shown, for instance, how the complexity of these structures affects managers' propensity to commit early to international expansion (Nadkarni and Narayana, 2007; Nadkarni et al., 2011), and how in turn higher international experience tends to be associated with higher cognitive complexity (Calori et al., 1994; Maitland and Sammartino, 2015; Murtha et al., 1998). Studies have also shown that 'international attention' (Bouquet et al., 2009) and a 'global mindset' (Levy et al., 2007) tend to improve the performance of MNCs. Our comparative analysis of eight cases of business-government disputes shifts the focus from static cognitive structures to dynamic cognitive processes and highlights their role in shaping the differential outcomes of these disputes.

RESEARCH METHOD

Our study combines a multiple-case design (Piekkari and Welch, 2011; Yin, 2014) with longitudinal analysis and grounded theorizing (Burgelman, 2011).

Research Setting

Following previous studies (e.g., Lumineau and Oxley, 2012; Purdy and Gray, 2009), we identified firm-government disputes through claims lodged by firms at the World Bank's International Center for the Settlement of Investment Disputes (ICSID) (Franck, 2011). The World Bank is considered the most important organization for dispute management, because of its influence on governments, especially for countries that rely heavily on international funding. Indeed, 'if a government alienates the World Bank, it may find itself unable to secure future loans from other bodies within the World Bank Group or from affiliated organizations and lenders' (Gamso and Nelson, 2019, p. 4). MNCs thus trust that host governments will comply with ICSID's rulings, even though the World Bank has no legal power to enforce them. In the cases we analyzed, MNCs turned to the World Bank as a last resort, only after having unsuccessfully explored all local solutions (e.g., negotiating with political authorities or presenting a claim before local tribunals), either directly or through their local partner. Indeed, in some cases, an MNC could open negotiation with the host government only after having filed a dispute before the World Bank.

According to the ICSID database, in our observation period, from 2001 to 2012, 352 disputes took place worldwide.[1] To balance concerns for country-specificity of findings against excessive heterogeneity of cases, we focused on a geographical area, i.e. Latin America, that would allow us to include disputes involving several countries (rather than a single one), across comparable political systems (rather than highly heterogeneous ones; see Hillman and Keim, 1995).[2] This choice also enabled us to use archival data in languages that members of the team were fluent in and restricted our sample to 119 cases.

To ensure theoretical comparability across cases, we further narrowed down our sample by focusing on sectors – Construction, Electric Power and other Energy; Oil, Gas and Mining; Water, Sanitation and Flood Protection – where sunk assets and reduced bargaining power would make the option to exit equally arduous and costly for all firms (Doh and Ramamurti, 2003; Ramamurti and Doh, 2004; Vernon, 1971). This further selection yielded 66 cases. We then excluded 11 cases involving very small firms or firms represented by a single individual, with no public data available. Finally, given our research question, we excluded cases that involved specific events endogenous to the firms, e.g., fraud or shareholders' issues. This left us with 30 disputes.

We contacted these 30 firms through personal or institutional connections (e.g., fellow alumni). Probably because of the sensitivity of these events, only eight firms granted us access to a degree that enabled us to study the dispute in sufficient depth. In four of these cases – Cemex in Venezuela in 2003, Repsol in 2012 and Telefonica in 2002 in Argentina, Telecom Italia in Bolivia in 2005 – the disputes were triggered by decisions to nationalize the corresponding industries, leading to the eventual expropriation of firms' assets. In Argentina, Telefonica also suffered from the government's decision to force all economic transactions to take place in the local currency ('pesification') and the associated fall in tariffs chargeable to users. In two cases – Shell in 2001 in Nicaragua, and Vivendi in 2002 in Argentina – disputes were a consequence of turmoil causing a wave of hostile actions, culminating in the withdrawal of concessions or exploitation rights. In the remaining two cases – Endesa in 2002 in Argentina, and Iberdrola in 2008 in Guatemala – the governments reviewed concessions, rates, and taxes in ways that severely penalized the two MNCs.

All these firms sought to protect their position in the country hoping to continue operations there, but only some succeeded, whereas others eventually left the country. This variation in an otherwise relatively homogenous sample (in terms of firm size, type of industry, source of dispute and configuration of the political system) offered us an opportunity to examine contextual conditions and managerial choices that could illuminate the different responses.

Data Collection

Interview data. Between September 2014 and September 2020, we conducted 63 semi-structured interviews with 43 informants, including executives who had personally experienced the dispute or were involved in strategic decision making,[3] managers of peer firms, government officers, representatives of political associations, experts in diplomacy and political economics and labor union experts (see Table I for details). Whenever possible, we relied on multiple respondents per firm, whom we interviewed at different times (Eisenhardt, 1989; Shenton, 2004; Yin, 2014) to mitigate potential subject biases and to compare accounts across informants (Miller et al., 1997). Interviews lasted on average 60 minutes, and in the case of executives they included questions about the firms' activities in the country, the managers' understanding of the local political situation, their relationship with local actors, their initial reactions to the turmoil and the actions they took in response to the hostility.

Secondary data. We used secondary data primarily to reconstruct events and interactions, and to integrate and triangulate evidence from interviews. These data – often produced at the time events transpired – helped us compensate for the potential recall bias in retrospective reports (Huber and Power, 1985; Miller et al., 1997) and avoid systematic bias stemming from the same data source (Eisenhardt, 1989; Yin, 2014). They also helped us anchor and contextualize our informants' accounts (Gephart, 1997), cross-check factual references and more generally strengthen the empirical grounding of our analysis in those cases where fewer informants were available for interviews.

These data comprise more than 2,700 pages of analyst reports, newspaper articles, GRI initiative dossiers, corporate documents shared by informants, governmental documents (e.g., transcripts of parliamentary debates, laws, and decrees), legal documents (from vLex International and the ICSID website) and speeches by political authorities. Many of these documents, such as arbitration reports, included detailed retrospective reconstructions. Others, such as news articles and press releases, described events as they unfolded, and allowed us to put interviewees' statements and recollections in context (Wright, 2011).

Table I. Data sources

Firms	*Analysts' and news reports*	*Corporate documents*	*Government reports*	*Legal documents (including ICSID)*	*Interviews with managers*	*Interviews with stakeholders**	*Public authorities' speeches**
Telecom IT	10	6	2	3	3 directors	2 (local political representative, unions expert)	
Iberdrola	15		6	5	2 directors	5 (director of competitors Gas Natural and Union Fenosa, representative of energy authority, union expert)	
Endesa	9	1	1	1	6 directors	3 (director of competitor Gas Natural, local strategy consultant, local industry expert)	
Vivendi	25	3		4	9 directors	5 (director of peer firm Dragados, 2 unions' experts, legal expert)	
Cemex	29	1	4	5	7 directors	9 (directors of Dragados, Tecnicas Reunidas, Impregilo, legal expert, local political representative)	4 (minister, president)
Telefonica	20	2	1	2	3 directors	5 (local industry expert, legal expert, 2 unions' experts)	3 (president)
Repsol	41	1	41	3	3 directors	13 (directors of Dragados and Tecnicas Reunidas, 2 Spanish government representatives, 2 union representatives)	14 (president, Spanish prime minister, other ministers)
Shell	32	1	3	2	2 directors	1 (competitor Repsol)	
Total	**181**	**15**	**21**	**25**	**35 (26 respondents)**	**43 (29 respondents)**	**21**

*Some interviewees and public speeches provided information about multiple firms.

Data Analysis

In a preliminary step of our analysis, we produced a detailed historical reconstruction of each dispute. Triangulation among different sources helped us establish an accurate chronology of events. Combining documentary evidence and informants' recollections (Shenton, 2004) was essential to contextualize our fine-grained analysis of the process (Welch et al., 2011).

Next, we produced within-case accounts of how each firm responded to the rising hostility of the government. We searched our data sources (e.g., interview transcripts, legal documents and newspaper reports) for text that referred to this increasing hostility or how firms experienced and responded to it. We coded each fragment of text using descriptive labels such as 'noticing unusual increase in sick leaves', or 'asking lobbyists to reach out to authorities' that still closely captured empirical observations (Locke, 2001).

As we moved from within-case to between-case analysis, we began to search for cross-case patterns. We compared incidents and observations across cases and combined early, case-specific codes into more general ones that captured two or more conceptually similar incidents (Glaser, 1992). To do so, we collated similar instances, noted patterns in the emerging subcategories and documented codes in concept-evidence tables (Cloutier and Ravasi, 2021).

As we analysed observations in light of emerging cross-case patterns, we noticed that, to a large degree, differences in responses could be explained by the different ways in which MNCs gathered and processed information to interpret early signals of government hostility, and the actions they took as a consequence of these interpretations. We then turned to theories of managerial cognition as a useful analytical lens to move from 'substantive' to 'general theorizing' – that is, from 'rudimentary categories and concepts that are still closely linked to the data' to 'more general concepts and categories that link to a broader conceptual area' (Burgelman, 2011, p. 598). The adoption of a cognitive lens thus guided the grouping of codes into fewer, more abstract, analytical categories that more directly captured the socio-cognitive process underlying the responses.

This analysis proceeded in multiple rounds as we iterated between within-case and between-case analyses, to refine our conceptualization of observed patterns. As we did so, we periodically reviewed the emerging code structure to ensure that the theoretical constructs captured by analytical categories adequately covered the empirical evidence associated with them through lower-order codes. Tables collecting and contrasting codes across the eight firms helped us navigate through the data (Miles and Huberman, 1994).

As we moved to axial coding in order to surface relationships between analytical categories (Strauss and Corbin, 1998), we plotted the emerging categories onto the chronologies of events to focus our theorizing on process. Doing so highlighted how each case was punctuated by similar 'demarcating events' – events that qualitatively marked escalating hostility from the host government. Such demarcation helped us identify sequential stages common to all the cases we observed (Langley, 1999) and position our analyses in time and space (Rowlinson et al., 2014).

Cross-case analysis highlighted different paths that MNCs followed as government hostility intensified (see Tables AIII and AIV in the Appendix). One of these paths, followed by Telecom Italia, Iberdrola, Vivendi and to some extent Endesa (in an early stage), was characterized by narrow access to information, delayed and ineffectual response and relative lack of local support in the face of overt hostility. The second path, followed by the remaining four firms, and to some extent by Endesa (at a later stage), was characterized instead by early activation and broad information gathering, and a timely response based on more detailed understanding of the events and effective mobilization of local and international support to buffer government hostility.

Comparison between these two groups of firms revealed an important condition that seemed to account for this variation. The four MNCs that followed the first path operated locally through IJVs (Geringer and Geringer, 1988; Luo, 2002), and used local partners in these ventures to liaise with local nonmarket stakeholders. Only one of them, Endesa, had not delegated this activity entirely to the local partner, but had established direct relationships with local municipalities and communities. In contrast, the four MNCs that followed the second path ran their operations directly, and directly liaised with local nonmarket stakeholders. This difference seemed to influence the constraints and opportunities they faced, and the choices they made in the early stages of the process, in important ways.

This insight prompted a further round of targeted data coding to sharpen our understanding of how local ties shaped the eight firms' responses to the disputes. At this stage, adopting a cognitive lens helped us articulate underlying mechanisms that might explain the observed patterns (Morais, 2011). To ensure credibility for this emerging account, we engaged in counterfactual analysis (Burgelman, 2011) and explored alternative explanations (see Appendix A). To ensure the trustworthiness of our analysis, we also conducted 'member-checks' (Lincoln and Guba, 1985) – that is, we presented our emerging interpretations – both within-case empirical reconstructions and the cross-case analysis – to key informants from the focal cases.

FINDINGS

Our comparative analysis of how disputes evolved, from early warnings to the filing of a claim before the ICSID, highlights significant differences in how firms responded to events that marked an escalation of government hostility (see Table II for an overview). Four cases initially displayed what we refer to as a *lagging response*. These firms underestimated the threat at first, mobilized only after the hostility became evident and ultimately failed to secure local and international support. Most of these firms discontinued local operations soon after the expropriation and received minimal or no compensation for their losses. A second group of firms displayed what we refer to as *proactive response*. They captured weak signals that alerted them early on of the impending threat and mobilized promptly to gather information, disseminate alternatives to the governments' narratives and strengthen local and international support. Three of them maintained operations in the country even after the expropriation and/or received more satisfactory compensation from the host government.[4]

Different choices regarding the governance of local operations and engagement with local nonmarket stakeholders largely explained these different paths. These firms operated in the host countries through IJVs (see Table III for details on the governance of local operations). Their nonmarket interaction with local constituents was to a large degree mediated by local partners. This *mediated embedding* severely constrained these MNCs' access to information, their capacity to make sense of events in a timely manner and their ability to mount an effective defense. A fourth, Endesa, had made different choices: while relying on its local partner for interactions with the central government, it had also invested in local communities and interactions with local municipalities. As we illustrate later, ultimately, these local ties helped mitigate the consequences of the initial delay caused by reliance on the local partner.

The four firms that displayed a proactive response, instead, operated locally through wholly owned subsidiaries and had expended significant efforts in engaging with local nonmarket stakeholders. This *proximal embedding* proved important in the face of rising government hostility, because it allowed these firms to collect richer and more timely information and to develop a more nuanced interpretation of events, which in turn enabled more timely action to secure local and international support against hostile governments.

In the following section, we illustrate in more detail how these two groups of firms responded differently to government hostility (see Figure 1 for a visualization of the two main paths we observed, Table IV for an analytical comparison of these paths and Appendix B for a detailed narrative summary of observations across cases). Our observations suggest that these responses unfolded through three phases, demarcated by acts of increasing hostility from political authorities. We refer to these three phases as *anticipation*, *escalation*, and *expropriation*. As Figure 1 shows, each phase influenced the following ones by shaping subsequent information gathering and processing, evolving interpretations of events and possibilities for action.

Phase 1. Anticipation: Responding to Generic Expressions of Hostility

The start of a dispute was typically marked by symbolic acts that directly or indirectly signaled the government's intention to intervene in an industry or in the economy more generally, allegedly to protect the interests of citizens against those of MNCs. In some cases, governments forbade firms to raise prices, established maximum rates chargeable to users, increased corporate taxes or foreshadowed the re-nationalization of some industries. In other cases, governments used citizen associations or trade unions to pressure MNCs through public protests or strikes (see Table II for case-specific details).

These actions generally addressed all competitors in an industry or a region, or all foreign firms operating in the country. For example, in several public speeches, Venezuelan president Hugo Chavez and Argentina's president Cristina Fernandez vilified firms as 'Western', 'capitalist' or 'exploitative,' and accused them of damaging the living conditions and well-being of citizens for the benefit of their foreign headquarters. In Bolivia, President Evo Morales attacked 'some multinational companies [who] take over our natural resources, privatize basic services, fail to pay taxes' (CIADI/Telecom Italia: hands off Bolivia! 7/12/2007). At this stage, all eight firms were exposed to similar puzzling generic expressions of hostility, open to multiple

Table II. Case summaries

MNC	*Political context**	*Government's generic expressions of hostility*	*Targeted action*	*Expropriation*	*Resolution of dispute and MNC's operations afterwards*
Telecom Italia	BOLIVIA: In 2006, Evo Morales, of Movement for Socialism, is elected President	In 2006, Morales presents a national development plan, contemplating the nationalization of various formerly state-owned enterprises in the hydrocarbons industry, and the decrease of tariffs for public service providers	In July 2006, the government imposes on ENTEL (jointly-owned by Telecom Italia) the equivalent of $25 mln in purported withholding taxes. In the following months, the agency regulating the telecommunications industry imposes substantial fines on ENTEL	In March 2007, the government establishes an *ad hoc* commission to negotiate the 'recovery' of ENTEL for the state. After the deterioration of relationships with the government, Telecom Italia files a claim with ICSID, alleging the expropriation of its investment	In 2009, Telecom Italia withdraws its claim and agrees to shift the case to an *ad-hoc* arbitration proceeding that eventually awards the firm $50 mln through settlement (the original claim was $961.60 mln), and the now state-owned ENTEL commits to acquire international wholesale services from Telecom Italia for a total of $16 mln
Iberdrola	GUATEMALA: In 2007, Alvaro Colom of the centre-left National Unity of Hope Party wins the presidential elections, after years of social turmoil under former president Berger	Guatemala's regulator establishes maximum rates that can be charged to users for the period 2008–13 for all firms operating in the energy industry and other primary industries	In March 2007, the government renders ineffective several clauses of the original concession contracts, including an option to revise tariffs chargeable to users, thereby potentially reducing revenues for telecom operators	In April 2007, Iberdrola realizes that the new legislation does not affect local operators. After a failed attempt to renegotiate the contract, it files a claim with ICSID arguing that its investments are not receiving just treatment and compensation	Negotiations resume and the government agrees to a temporary conciliatory solution (a promise of tariff adjustments over several years) and the case is suspended. In 2009, ICSID rules in favor of the state, and Iberdrola divests from the country

(Continues)

Table II. (Continued)

MNC	*Political context**	*Government's generic expressions of hostility*	*Targeted action*	*Expropriation*	*Resolution of dispute and MNC's operations afterwards*
Endesa	ARGENTINA: In 2001, IMF stops $1.3bn in aid. President De la Rua resigns. In 2003, left-leaning Peronist candidate Nestor Kirchner becomes president and strikes a debt-refinancing deal with IMF	In 2002, the government terminates dollar-peso pegging, forcing all economic transactions to take place in the local currency. A general devaluation of the peso follows, along with an increase in taxes and a freeze of tariffs for services in industries of national interest	In 2002, the government announces the withdrawal or modification of energy industry concessions. It increases taxes on them and requires public service concessions to be renegotiated. Endesa loses control of Edesur's board after the government forces its representatives in	The government unilaterally decreases tariffs for the few foreign firms operating in public services. This change renders ineffective clauses specific to Endesa's Edesur. In April 2003, Endesa files a claim with ICSID for receiving no compensation for the revenue loss caused by new legislation	In 2006, Endesa reaches a settlement. The tribunal awards it only compensation for damages (the original claim was $1,307 mln), but the government agrees to a revision of tariffs until 2011. Endesa retains the generation plants and the ownership of Edesur, although with these lower tariffs
Vivendi	ARGENTINA: In the 1990s, neo-liberal President Menem privatizes previously nationalized industries, including water and electricity, as a condition to obtain financing from the World Bank	In 1993, Vivendi wins the concession for water management in the province of Tucuman. The agreement allows an increase in tariffs. The Peronist governor of the region, Ortega, allows popular protests against Vivendi's Aguas del Aconquija	In 1995, the leader of the conservative opposition, Bussi, is elected governor of the province, and pressures Vivendi to reduce tariffs. A denigration campaign by the provincial government and citizens' associations accuses the firm of depriving citizens of access to clean water. People protest outside its offices and workers go on strike	In 1996, the provincial government unilaterally changes the concession agreement, including tariffs. Vivendi is also targeted by actions in the streets instigated by the government. Vivendi sends a letter to the central government asking to discuss the case, but receives no reply. Vivendi files a claim before ICSID in 1997	In 1999, the government takes over Vivendi's water management operations. The ICSID dispute drags on for about a decade, becoming the (then) longest dispute ever at ICSID. In 2007, ICSID dismisses the dispute after many rounds of renegotiations. The compensation claimed was $317 mln; the tribunal awards Vivendi $105 mln, which the government does not pay until 2013

Table II. (Continued)

MNC	*Political context**	*Government's generic expressions of hostility*	*Targeted action*	*Expropriation*	*Resolution of dispute and MNC's operations afterwards*
Cemex	VENEZUELA: In 1998, Colonel Hugo Chavez (supported by a coalition of socialist parties) is elected president. In 2005, he signs a decree on a land reform to eliminate Venezuela's large estates and benefit the rural poor	In 2003, the government declares its intention to nationalize assets, and it fosters protest demonstrations and nationwide strikes in industries of national interest, including cement and energy	In 2007, the government begins to target specific firms, through comments in the media, fines, street demonstrations, and increased taxes. It announces the intention to nationalize firms (including Cemex) that are allegedly enriching themselves at the expense of citizens and polluting the local environment	In 2008, after announcing the nationalization of Cemex's subsidiary, government officials enter its offices with the army. They denigrate Cemex executives in the media and prosecute many of them for embezzlement. Cemex files a claim before the ICSID	In 2012, the two parties agree on an out-of-tribunal resolution of the dispute, by which the government pays Cemex a compensation of $600 mln (the original claim was $1,200 mln). Cemex retains minor investments and informal collaborations in local projects
Telefonica	ARGENTINA: In 2001, the IMF stops $1.3bn in aid. President De la Rua resigns. In 2003, left-leaning Peronist candidate Nestor Kirchner becomes president and strikes a debt-refinancing deal with IMF	In 2002, the government terminates dollar-peso pegging, and forces all economic transactions to take place in the local currency. A general devaluation of the peso follows, along with an increase in taxes and a freezing of tariffs for services in some industries deemed of national interest	Argentina's Emergency Law modifies licensees' tariff regimes, increasing costs and taxes, and decreasing revenues. Not all firms are affected – only foreign investors that operate in industries of national interest. In telecommunications, Telefonica is effectively the only provider affected	Decreased chargeable tariffs, increased taxes, and the devaluation of the currency with no corresponding compensation allegedly make Telefonica operations economically unviable. Telefonica files a claim with the ICSID in 2003	In 2009, the tribunal awards Telefonica an undisclosed amount (the original claim was $2,800 mln), discontinuing the proceeding. Telefonica signs a letter of intent with the government offering to make new investments in Argentina in exchange for a commitment to renegotiate ADSL prices to compensate for the reduction of telephone tariffs

(Continues)

Table II. (Continued)

MNC	*Political context**	*Government's generic expressions of hostility*	*Targeted action*	*Expropriation*	*Resolution of dispute and MNC's operations afterwards*
Repsol	ARGENTINA: In 2011, benefiting from strong economic growth, left-leaning President Cristina Fernandez de Kirchner wins a second term	In 2011, the government announces its intention of 'recovering sovereignty' over natural resources and of eliminating subsidies, in a wave of populistic communications and announcements	After the discovery of the Vaca Muerta oil reserves in November 2011, the government attacks foreign firms, accusing them of 'stealing national resources', and specifically oil. Repsol is subject to government-led demonstrations outside its offices, while other competitors continue to operate with no major disturbances	After forcing Repsol to transfer part of its shareholding in its local subsidiary, YPF, to a prominent local family through the Petersen Group, the government expropriates almost all of its remaining shareholding (51%), while leaving untouched the local owner's 25% (Law 660/2012). Repsol files a claim with ICSID	In 2013, the two parties reach an out-of-tribunal agreement on a partial compensation of $500 mln (the original claim was $1,050 mln). Two years later, Repsol leaves YPF by selling its remaining ownership of 11.9% for $900 mln to Morgan Stanley. Only in 2019 does Repsol leave the Argentinian stock exchange
Shell	NICARAGUA: In 1996, Arnoldo Aleman (Liberal Alliance) is elected president. He is succeeded in 2001 by Enrique Bolanos (same party), who beats his Sandinista rival Daniel Ortega, with the support of many foreign countries and firms	In 2000, the government publicly accuses chemical firms operating in the country of using products and processes harmful to the population, and issues a new law to regulate chemical firms' operations	In 2002, the government fines four MNCs, including Shell, for allegedly infringing the new law. Citizen associations, possibly manipulated by the government, start a denigration campaign against these firms. Shell is accused of exposing people to dibromochloropropane (DBCP), a pesticide manufactured by Shell Oil	In January 2006, the government stops Shell's chemical operations and seizes its trademark to enforce the payment of $489 mln in damages. Shell files a claim for the unfair seizure of intellectual property of its brands. After attempting to find a solution through a local court, Shell turns to ICSID	The two parties reach a confidential agreement in 2007, and Shell withdraws the lawsuit. Shell stays in the country, maintaining in its oil operations and long-term ownership options on its downstream businesses

**Sources*: Bjørnskov and Rode (2019); Marshall et al. (2014b); Roser (2013).

Table III. Governance of local operations and engagement with nonmarket stakeholders in the eight cases

MNC	*Ownership structure of local operations*	*Unions*	*Local communities & NGOs*	*Other MNCs and local firms*	*Local and national governments*
Telecom Italia	In 1995, Telecom Italia acquires 50% of privatized telecom provider ENTEL; two local pension funds – the employees' fund and Fondo de Capitalización Colectiva (47%) – and local shareholders (3%) control the rest	When entering the country, Telecom signs agreements with two unions, but eventually does not respect them	Telecom avoids non-profit-seeking investments. It reaches out to local NGOs and social movements only after the ICSID filing	No evidence of significant efforts to build local ties	No significant interaction after privatization, until the expropriation
Iberdrola	In 1999 Iberdrola acquires control of 80% of privatized electricity distributor EEGSA, as leading investor (49%) in consortium DECA, with international partners Teco (24%) and EDP (16%); the rest is owned by INDE (a local producer of electricity, operating as a legally and financially autonomous public entity [6%]) and by local shareholders (4%)	Direct interaction with unions to agree on a code of conduct for employees. During the dispute, unions side with the government	No evidence of significant social investments or direct ties	Iberdrola joins business associations (e.g., Cámara de Industria de Guatemala, Cámara Empresarial de Comercio y Servicios) but deliberately refrains from using local suppliers from a country considered 'at risk'	No significant interaction after privatization, until the expropriation

(Continues)

Table III. (Continued)

MNC	*Ownership structure of local operations*	*Unions*	*Local communities & NGOs*	*Other MNCs and local firms*	*Local and national governments*
Endesa	Endesa enters Argentina through its Chilean branch, Enersis, in 1992. In 2002, it operates electricity concession Edesur (66%) jointly with Argentinian firm Perez Companc	Direct negotiations with one union representing local workers. No evidence of unions taking sides during the dispute	Aid to charities and underprivileged municipalities, support to education and culture; financial support to local NGOs	No evidence of significant efforts to build local ties	Delegation of interactions with local and national governments to its local partner. Direct contacts with local municipalities
Vivendi	In 1993, Vivendi acquires the concession for the supply of water in the Province of Tucuman. It owns 36% of the local Aguas del Aconquija; Argentinian real estate firm Roggio and Spanish controlled Dycasa own 27% each, and the employees own the rest	Direct negotiation with unions at the time of the concessions. Tensions arise later, as unions along with local citizens mobilize against the MNC	Early antagonism. Organized boycotts by the Association for the Defense of Users and Consumers in Tucumán. Opposition from local NGOs	Vivendi joins local firms' association, but eventually other associates do not want to get entangled in political issues	No direct interaction with local political authorities until late in negotiations

Table III. (Continued)

MNC	*Ownership structure of local operations*	*Unions*	*Local communities & NGOs*	*Other MNCs and local firms*	*Local and national governments*
Cemex	Cemex owns 70% of Venezuela's largest cement producer, Vencemos, acquired in 1994 from distressed group Mendoza. The remaining shares are fragmented among minority investors (about 6,000 persons)	Direct interaction with unions. Some remain neutral. The largest one, Fetra Cemento, supports the government	Investments in schools, community projects, the arts and health care, through four main foundations; micro-lending program; cement sold at discount or donated to local communities	Direct interaction with other MNCs that suffered previous expropriations	Direct use of lobbyists and high-level contacts in the government to interact with political authorities
Telefonica	Telefonica fully owns and manages the local subsidiary after having bought out, in 2000, the local partners (Citicorp and Argentinian holding Techint) that had participated in the initial bid for the concession in 1990	Collaborative interaction with unions to address lack of training and to revise contractual conditions	Investments in programs in support of education, the environment and the development of small towns	Good personal relationships with managers of local competitors and other MNCs	Direct interaction with various municipalities to improve telecommunication services and infrastructure
Repsol	In 1999 – 13 years before the dispute – Repsol begins to acquire shares of YPF, a state-owned oil producer privatized in 1990, gradually bringing its ownership to 97%	Direct interaction with unions, which eventually supported the government	Investments in local schools and health centers. Personal and official ties with NGOs and universities	Direct ties with other Argentinian industrial and financial firms, and MNCs operating in the country	Direct use of lobbyists to liaise with political authorities

(Continues)

Table III. (Continued)

MNC	*Ownership structure of local operations*	*Unions*	*Local communities & NGOs*	*Other MNCs and local firms*	*Local and national governments*
Shell	Shell Oil had been operating in Nicaragua since the 1970s through a fully owned subsidiary (Compañía Química Nicaragüense) operating in oil & gas distribution and chemical fertilizers	Direct interaction with unions and workers organized in citizen groups	Direct ties with NGOs and communities for the management of social and environmental programs funded by the firm	Direct ties with other MNCs operating in the country	No evidence of direct or indirect (e.g., lobbyists) ties with current government before the expropriation

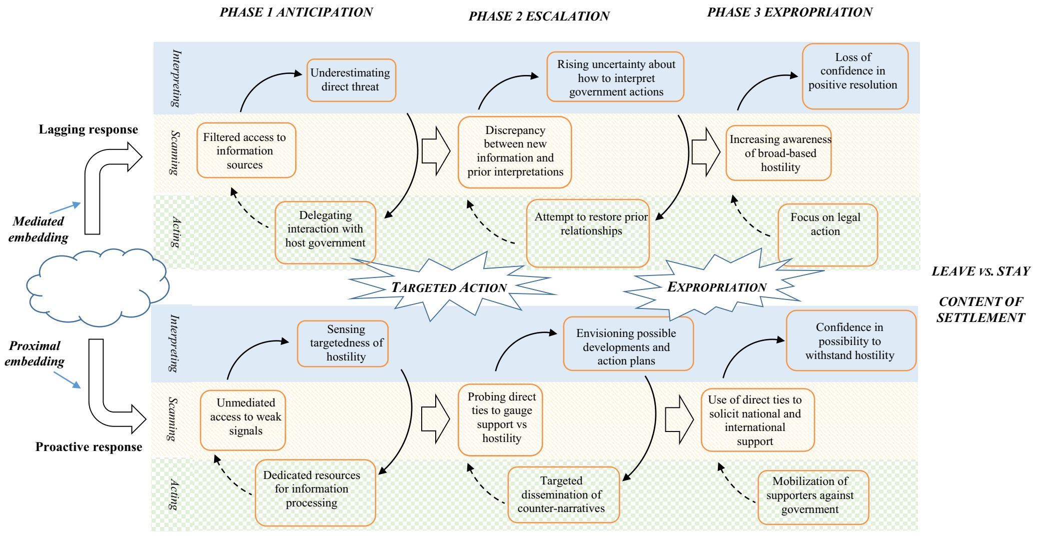

Figure 1. A process model of how multinational firms respond to a dispute with a foreign government

provisional interpretations. The two groups, however, differed in how they responded to this ambiguous situation (see Table III for a summary and Appendix B for additional evidence).

As we illustrate in this section, four firms relied on local partners to gather additional information and to monitor the situation. Partners, however, channeled and filtered information, so that the four firms had a partial and inaccurate understanding of the situation that led them to delegate action as well. In contrast, the other four firms used their multiple direct ties to nonmarket stakeholders, such as local lobbyists, trade unions or other MNCs operating locally, to scan the environment more broadly and more deeply. Their broader local network acted as an ongoing conduit of textured information – either prompted or spontaneous – not otherwise publicly available, exposing these MNCs to 'weak signals' (non-obvious, apparently disconnected cues (see Schoemaker and Day, 2009) and alternative frames (tentative interpretations from local contacts) that suggested an impending escalation of hostility and prompted them to early action.

Lagging response: passive delegation. Three of the four MNCs that initially displayed a lagging response, Telecom Italia, Vivendi and Iberdrola, had largely delegated to their partners the task of liaising and interacting with local constituents and political authorities (see Table III). They had adopted, in other words, a networking strategy that we refer to as *mediated embedding*.

Our informants observed that Telecom Italia considered the local investment 'a cash cow', and Iberdrola 'did not consider it necessary to invest in NGOs or projects for the communities' and 'did not make any effort to ingratiate themselves in the society'. These MNCs' direct local ties had been limited and weak (e.g., Iberdrola and Vivendi had formally joined local business associations, but when the governments manifested

Table IV. Responding to escalating government hostility: A theoretical summary of observations

	LAGGING RESPONSE	*PROACTIVE RESPONSE*
Phase 1		
Scanning	*Filtered access to information sources* Facing ambiguous statements from political authorities, the MNC trusts the local partner to gather additional information and monitor the situation. This choice restricts access to information from the very early phase of the dispute	*Unmediated access to weak signals* Facing ambiguous statements from political authorities, the MNC uses its local ties to get additional information, enabling early exposure to weak signals of government hostility and multiple interpretive frames
Interpreting	*Underestimating direct threat* Scarce information induces managers to misinterpret early signals of government hostility. Cognitive inertia causes them to judge inaccurately the causes, targets and/or threat of that hostility	*Sensing targetedness of hostility* Access to rich cues and multiple frames enables managers to produce a fine-grained representation of the situation and its possible ramifications – including potential threats to the MNC itself
Acting	*Delegating interaction with host government* Limited information and underestimation of the potential threat lead managers to delegate (or accept delegation of) action – in the form or informal meetings or preliminary negotiations – to the local partner, requesting only to be kept informed	*Dedicating resources for information processing* Sensing the potential threat leads the MNC to intensify direct collection of cues, and to dedicate organizational resources to strengthen the subsidiary's information processing capacity to sharpen interpretation and support future action
Phase 2		
Scanning	*Discrepancy between new information and earlier interpretations* Targeted hostility – in the form of direct accusations or discriminatory treatment – attracts the MNC's attention; its inconsistency with previous interpretations raises concerns about potential threats	*Probing direct ties to gauge support vs hostility of stakeholders* Sensing the imminence of a hostile act, the MNC uses its direct ties to probe local stakeholders about their assessment of the events or to check their support in case of a dispute
Interpreting	*Rising uncertainty about how to interpret and react to government actions* Managers base their understanding of the situation on fragmented information, mostly gathered through the local partner or informal channels. They remain unsure how to interpret government's actions and attribute them to exceptional circumstances	*Envisioning possible developments and action plans* Anticipating targeted hostility, managers' attention shifts from retrospective interpretation of recent events to prospective envisioning of future scenarios and action plans in case of a dispute

Table IV. (Continued)

	LAGGING RESPONSE	*PROACTIVE RESPONSE*
Acting	*Attempt to restore previous relationships*	*Targeted dissemination of counter-narratives*
	Persistent ambiguity about the host government's intention and underestimation of its determination induce the MNC to refrain from confrontation, to adopt a conciliatory stance and to attempt to restore relationships with the government	Taking advantage of a fine-grained understanding of the situation and the stakeholders' perspective, the MNC begins to disseminate an alternative representation of the issues raised by the government that aims at securing the consensus of stakeholders
Phase 3		
Scanning	*Increasing awareness of broad-based hostility*	*Use of direct ties to clarify national and international support*
	Expropriation announcement finally reveals the government's hostile intentions. Scarcity of local ties makes it difficult to gauge the extent to which other stakeholders support this action	Direct ties with local and international stakeholders enable managers to assess the extent to which they accept their representation of the issue, and to monitor the extent to which it can count on their support
Interpreting	*Loss of confidence in positive resolution*	*Confidence in possibility to withstand hostility*
	Facing a combination of broad-based hostility from local stakeholders and overt aggression from the government, the MNC eventually loses confidence in the possibility of dissuading the government from hostile acts	Knowing how far pre-emptive efforts affected local and international stakeholders reinforces managers' confidence that they enjoy sufficient support to stand up to the host government and secure fair compensation
Acting	*Focus on legal action*	*Mobilization of supporters against government*
	The MNC exits the country, and concentrates efforts on seeking compensation for the expropriation, through the ICSID case and out-of-tribunal negotiations	Intensification of efforts to mobilize local stakeholders activates them to show support in multiple ways, reinforcing the position of the MNC against the host government

hostility, no other member rallied in defense of the MNCs), or even counterproductive (e.g., Telecom Italia had struck an agreement with the unions when setting up operations but had later violated this agreement and fired workers).

The fourth one, Endesa, instead had maintained direct relationships with local municipalities, while delegating relationships with the central government to the local partner. Endesa had given aid to underprivileged municipalities, offered training activities, distributed books, supported cultural workshops and aided charity organizations (Endesa Annual Report, 2002). This difference may explain why Endesa eventually managed to mobilize some local support and to renegotiate tariffs with the government, so that the MNC maintained operations in the country, albeit diminished, for five more years, having negotiated improved conditions with the government in the aftermath of the dispute.

Local partnerships shaped how MNCs interpreted these initial events by *channelling and filtering information* available to them. Lacking good relationships with local stakeholders, such as unions or local authorities, managers relied on their local partners to investigate early manifestations of hostility and to monitor events, and the MNC's headquarters was simply 'informed about the evolution of the conversation with the authorities' (interview, Vivendi, director#5).

Managers trusted their local partners not only to monitor but also to relay and connect to the local political environment. They all *delegated interactions with local and national governments* to their local partners. Iberdrola's director of legal affairs recalled that it 'delegated the negotiations with the central government to the local partner. That was the how we used to do things'.

As another manager explained,

> You needed to identify trusted persons, outside the firm, to develop good relationships with [political authorities] before a crisis. (interview, Vivendi, director#1)

By doing so, however, the headquarters of these MNCs effectively relinquished the collection and interpretation of information to their local partners. As a result, the information these MNCs got in this phase was not only fragmented and loosely connected – as is common when managers first confront novel events (Barr, 1998; Isabella, 1990) – but also delayed and possibly filtered by local partners, whose evolving interests did not coincide with those of the MNCs.

Informants explained that, as a consequence of their relative detachment, the headquarters of these MNCs were induced to *underestimate early signs of hostility*. They believed the governments' accusations to be generic and non-targeted, perhaps 'absurd,' and anyway 'irrelevant' for their operations. Inaccurate attribution of the causes or targets of attacks, then, led managers to interpret the situation as less threatening than it would eventually turn out to be and to deliver a relatively inertial response (Barr, 1998; Barr and Huff, 1997): they left matters in the hands of their local partners. 'We were myopic', the director#1 of Telecom Italia regretted during the interview, 'We delegated and we should have intervened in first person'. We summarize the first stage of this response in the following proposition:

> *Proposition 1*: When the firm confronts early signals of potential hostility (in the anticipation phase), mediated embedding likely constrains environmental scanning and induces managers to interpret the issue as non-threatening and to delegate action to local partners.

Proactive response: alert preparations. The other four firms directly owned and managed their local investments, and – in three cases out of four – liaised with the central government through lobbyists or what an informant from Cemex described as 'high-level contacts' (see Table IV); the fourth firm, Shell, had no official ties with political authorities in Nicaragua, but it had operated in the country since the 1970s and some informants hinted at informal interactions with political authorities. Direct ownership and management of operations had enabled these firms to establish direct relationships with a broad range of local stakeholders, including other MNCs, NGOs and local communities. These firms, in other words, had adopted a networking strategy that we call *proximal embedding*.

An industrial relations expert recalled, for instance, that Telefonica had sought to increase its goodwill in the country by creating a new training center, offering attractive job contracts and promoting internally. Cemex had created foundations to support local schools, health care, community projects and the arts. It had started a micro-lending program and sold at a discount or donated cement to local communities. As a manager explained,

> We have a long-time perspective when we enter a country. We have a longer time perspective than the country's government. Sometimes we have to deal with more than one authority at the same time in just one country. So, we try to keep a good relationship with the country as a whole, regardless of the issues that one may have with one of these authorities. (Interview, Telefonica, director#1)

Faced with governments' early actions, these firms could therefore rely on a broader range of information sources to help them interpret these actions. Rather than relying on local partners to investigate the matter, managers at these firms took it upon themselves to consult union representatives, politicians, business leaders and other contacts. Shell and Telefonica liaised directly with diverse local players in Nicaragua and Argentina respectively, Cemex turned to lobbyists and contacts in the government and Repsol contacted its lobbyists, other industrial and financial players in Argentina and various local experts who helped managers understand that, as one of these experts put it, 'this is more of a political game than a technological or energy game' (*El Mundo,* 15 March 2012). Prior efforts to build positive relationships with stakeholders helped managers gather textured and varied information from multiple sources.

> The stakeholders spoke to us – mayor's offices, local communities, shareholders, employees and collaborators, suppliers, customers. (Cemex, Corporate document)

Interviewees at Cemex also noted that discussions with local connections helped them notice that, despite generic statements, other firms 'remained untouched' – that is, they were not referred to in government announcements or targeted by government-led demonstrations of unions or activists (Cemex, various interviews).

By interacting directly with local stakeholders, these firms could *detect weak signals of targeted hostility* in subtly changing behavior. Managers at Cemex and Repsol, for example, noticed that some contractors were delaying payments and some large clients had changed providers. Others reported that they could sense that something was amiss, as employees were taking more sick days or 'gossiping' more intensely in the corridors:

> The process originated a series of internal reactions. Increased resignations and difficulty to hire, a drastic reduction of emails, in some cases greater than 80 per cent. An increase in internet consultation times, e.g. social pages and news. We

> noticed corporate staff coming in late, a lot of hallway conversation, increase collection of social benefits, vacations, and savings, increase in social security status requests and an emerging concern of staff for their belongings. (Cemex, corporate document)

In accord with the idea that the stress generated by a perceived threat tends to prompt organizations to act (Barr and Huff, 1997) and to intensify information processing (Daft and Weick, 1984), interpreting government actions as targeted – rather than generalized – induced managers to *dedicate more resources to collecting and analyzing information*. Firms created task forces and reallocated personnel to gather information. For instance, one respondent recalled that Cemex collected and organized all TV announcements, public commentaries and declarations by political authorities:

> We collected evidence and documents. They were saying or doing something one day? We would take note of it and write it down. We had it documented. We never feared that we lacked arguments. … Cemex had [also] previously reached out to other firms that had experienced an expropriation and knew how to be prepared. We had a virtual copy of all their documents. (Interview, Cemex, director#1)

These efforts enabled them to link seemingly disparate events into comprehensive accounts of antecedents, actions and implications and, as another informant explained, 'prepare a response in case anything happened'. We summarize these observations in the following proposition:

> *Proposition 2*: When a firm confronts early signals of potential hostility (in the anticipation phase), proximal embedding likely fosters broad environmental scanning, induces managers to interpret the issue as potentially threatening and intensifies the gathering and processing of information.

Phase 2. Escalation: Responding to Targeted Actions

Early generic expressions of hostility ultimately escalated into targeted acts. Some MNCs, for instance, were directly accused of having failed to deliver the investments they promised to improve local sectors or services. Political leaders, such as Hugo Chavez in Venezuela, Cristina Fernandez in Argentina and Evo Morales in Bolivia, publicly blamed specific firms for the deterioration of citizens' wellbeing. For example, during an official event, Chavez commented,

> For three hours I saw what I thought was smoke, but it was a dust from Cemex, which for years has been polluting these communities. (Public speech by Venezuelan President Hugo Chavez on 29 May 2010)

Political authorities vowed to take measures against these firms, and even threatened to incarcerate their managers. The firms suddenly became the targets of street demonstrations, fines, increased taxes, class actions and vilifying comments in the media (see Table II and Appendix B for more details):

> It is one of the few rivers of the world whose pollution can be seen from space. Living by the river is a curse. Surrounded by chemical and petroleum industries, the zone's combustibility is considered a time bomb. Adding to this intense pollution is the waste of Vivendi, which is dumped directly into the river each day without treatment. (*CorpWatch*, 26 February 2004)

> It is the Government's obligation to regulate in the public interest. […] Telecom Italia is accused of all manner of foul play and dirty tricks. Today, Telecom Italia faces charges of espionage. Even forming a new board has proven comically complicated. (CIADI/Telecom Italia: hands off Bolivia!, 7 December 2007)

Manifestations of direct hostility triggered an important qualitative shift in the process of interpretation. Managers of MNCs operating through local partners experienced an alarming discrepancy between the unfolding events and their earlier interpretations of the situation as non-threatening. However, in the face of persisting ambiguity about the intentions of the host government, they preferred to avoid direct confrontation and adopted a conciliatory stance. In contrast, manifestations of direct hostility fit into the provisional framing of the situation that characterized managers of proximally embedding firms, who had already sensed the potential threat, and used direct ties to gauge the extent to which local stakeholders shared the hostility displayed by the government.

Lagging response: distressed fumbling. Managers at headquarters recalled their increasing puzzlement and concern at the escalation of events. An informant from Iberdrola, for instance, recalled how suddenly 'things got hotter and hotter'. The public regulator began to talk about 'changing the energy matrix'. Local communities complained that Iberdrola had not provided the services it had promised. Union leaders publicly complained that privatizations had only enriched foreign investors. A director of Vivendi's joint venture also recalled his surprise when local authorities 'hamper[ed] the collection of the many outstanding customer invoices'. Telecom Italia saw generic calls to renationalize formerly state-owned enterprises turn into accusations of unfair and inequitable conduct, soon followed by the imposition of $25 million in purported withholding taxes and later substantial fines.

Informants recalled their increasing confusion:

> In Bolivia, my impression is now that the local partner knew, but did not say. But that's an impression. We were myopic. We delegated and we should have intervened in first person. […] When there is no partnership, you have a better understanding of what happens. (Interview, Telecom Italia, director#1)

Vivendi tried to open up independent communication channels with the authorities, attempting to collect first-hand information, and Telecom Italia tried to reach out to distant contacts in the governments. Having invested in citizenship programs earlier on put Endesa in a better condition. Its initial reaction had been delayed not only by its trust in the local partner but also by its indirect control of local operations through the Chilean subsidiary. Alerted by the intensification of hostilities, it was now in a position to interact directly with local municipalities, while leaving negotiations with the central government to the local partner.

In the face of rising ambiguity about the intentions of host governments, managers began to lose trust in the reassuring accounts of their partners and to form diverging interpretations of unfolding events and how to respond to them. For example, an informant from Telecom Italia noted that

> In Bolivia, there was this tension [between partners] around whether to start a dispute to make some money by being able to sell [the company], or trying to maintain control of the company, because it was profitable. (Interview, Telecom Italia, director#2)

At this stage, however, in accord with the idea that labels like 'threatening' or 'non-threatening' tend to stick over time (Dutton and Jackson, 1987), managers still attributed hostile acts to exceptional circumstances. While 'surprised and concerned' by the events (Tribunal Permanente de los Pueblos, 2008, about Telecom Italia), they maintained that the hostility they faced was due to 'unfortunate events' (BIICL, 2008, about Vivendi Argentina) rather than a deliberate plan to seize their assets. Given fragmented information and observations that seemed inconsistent with the interpretations of local partners, they still *struggled to make sense* of government actions.

Informants recalled striving not to worsen the situation and to *restore relationships* with political authorities 'back to normal'. This was, for example, the strategy of Vivendi in Argentina, as headquarters managers – largely disconnected from the local context – mistakenly blamed the situation on changes in the composition of the regional government and tried to address it quietly at a higher level. As an informant explained:

> We wanted to negotiate with the government, not to pick a fight. We tried to be discreet. (interview, Vivendi, director#1)

These observations are summarized in the following proposition:

> *Proposition 3*: When the firm confronts direct hostility (in the escalation phase), mediated embedding is likely accompanied by rising discrepancy between new information and previous interpretations, reluctance to interpret the issue as a direct threat and actions aimed at appeasing the government.

Proactive response: rapid rebuttal. In contrast, the other MNCs, following explicit attacks from political authorities, used direct ties to gauge the extent to which clients, suppliers, employees and other local stakeholders sided with the government, and acted accordingly.

For example, Cemex noticed a deterioration of its local interactions:

> Clients did not want to position themselves in favor of the company for fear of retaliation and took a 'neutral' stand. Suppliers changed their trading conditions. Customers did not want to honor their debts. Banks restricted credit lines and many refused to assist with retention schemes. Some of the unions began to make noise. (Cemex, Industry chamber's report)

Cemex managers then proactively contacted suppliers to re-discuss the terms of their contracts. They met with clients who had stopped or delayed payments and set up meetings with local employees to discuss rumors that senior executives were 'negligent'. Cemex also contacted 'friends' in the government and intensified pressure on lobbyists to gather more and better information about the motives of political authorities.

Other MNCs met with representatives of other foreign firms in the host country to understand who else was affected by governments' actions, and gauge the support they could expect. Shell realized that only a few players would be affected by a newly passed law, and that its own operations would suffer the most. Repsol discovered that a competitor was starting a secret negotiation with the government to acquire its local operations right after their expropriation (*La Nacion*, 5 May 2012, and various interviews).

Developing an increasingly fine-grained understanding of possible developments helped managers devise coping strategies. Rather than trying to appease the government, they concluded that confrontation was inevitable, managers began to plan accordingly. All, to varying degrees, produced analyses showing how their investments had contributed to local economic development and growth, and started to develop arguments to counter hostile narratives broadcasted by political authorities. The firms' counter-narratives emphasized their contributions to local communities and argued that the actions proposed by the government would harm, not help, these communities. They portrayed the government as the 'villain' and the MNC as the 'victim' or 'hero' of the situation. For example, Cemex described how it had helped local communities build affordable houses by offering cement at discounted prices. Telefonica stressed how its 'incorporation of modern management technologies increased business efficiency and quality of services and goods offered to the community' and pointed out that 'the State did not have the capacity to finance the necessary investments', were it to manage and operate the telecoms business (Activists' forum *Presidentes Argentinos*, 2005). As an informant recalled,

> Our narrative was: Telefonica is engaged for the long-term, with long-term investments. We want to be partners with the country. With the right regulatory environment, we could double the number of lines and deploy more and newer technologies in a short time. (Interview, Telefonica, director#3)

In some case, these firms also publicized the likely harm of government actions for the local economy. For example, Repsol explained that if MNCs were cast out, investments from abroad would decrease. Telefonica argued that the local population would no longer benefit from the technological improvements and quality service that MNCs were able to offer. In summary,

Proposition 4: When the firm confronts direct hostility (in the escalation phase), proximal embedding likely enables integrating new information into a provisional interpretation of the issue as threatening, reducing ambiguity about the hostile intention of the government and the potential support of local stakeholders and disseminating alternative accounts to counter governments' accusations.

Stage 3. Expropriation: Responding to the Seizure of Assets or Profits

Early attacks and accusations were eventually followed by formal actions such as the cancellation or modification of concessions (e.g., Iberdrola and Endesa), the expropriation of assets (e.g., Cemex, Repsol, Telefonica and Telecom Italia), or the seizure of a firm's sources of rent (e.g., Shell and Vivendi), always without compensation. At this stage, the different paths taken by the two groups of firms placed them in very different positions to respond.

Managers of firms operating through local partners finally faced the threat they had underestimated. As the official narratives that MNCs damaged society and the national interest remained undisputed (with the exception of Endesa, which had invested in local ties), these managers now faced broad-based hostility from local stakeholders. They lost faith in the possibility to resolve the dispute amicably, and focused instead on defending their interests in court, while terminating operations in a country that, by now, they saw as excessively hostile and risky.

In contrast, direct ties gave managers of proximally embedding firms a clearer understanding of the support they could muster from local and international stakeholders, thanks to prior pre-emptive efforts. More confident in their chances to withstand the government's hostility, they intensified efforts to mobilize these stakeholders and put pressure on host governments to settle the dispute amicably, or at least not to cause further harm to their remaining assets.

Lagging response: resigned capitulation. In three of the lagging cases, managers *faced increasing, widespread hostility* and felt increasingly isolated. Neither local nor international stakeholders intervened to support them. Managers at Vivendi, for example, struggled to find 'potential witnesses [to create] an *afectio societatis* [people's support] among them' (Vivendi, corporate document). Caught by surprise by the acceleration of hostile actions, managers felt trapped in 'a hostage situation' (Mr. García González, VP of Aguas del Aconquija, *La Nacion*, 11 June 1998). To their dismay, managers saw local communities and the local press jumping on the government bandwagon, praising the expropriations and blaming the MNCs for ignoring the people's needs and threatening the country's sovereignty and democracy. Local mayors and journalists, for instance, accused Vivendi of offering poor services (*El Vigia*, 11 April 2002).

Local partners prioritized safeguarding their own interests through independent negotiations with the governments or the pursuit of different strategies. A manager recalled how 'our local partners Roggio and Dycasa […] didn't help. They had their own, different agendas' (interview, Vivendi, director#2). 'When there is no partnership,' director#1 of Telecom Italia later admitted, 'you have a better understanding of what happens'. In the case of Vivendi,

> The shareholders […] took up different strategies: local investors decided to pull out of the claim […]. The government, in turn, tried to get together interested parties in order for [Vivendi] not to give up the concession, but to sell its shares. (*Citizen Forum for Participation for Justice and Human Rights*, 2006)

In belated attempts to reach agreement with the authorities, some of these firms engaged in formal out-of-tribunal negotiations and conciliatory meetings. Telecom Italia, for instance, contacted the authorities officially and tried to ingratiate itself with local NGOs and social movements; an informant, however, described these effort as 'too little, too late'. Vivendi contacted local and central authorities more than a hundred times to question their motives, to ask them to modify acts or to demand formal legal recourse, without seeing real improvements in the initial terms of the dispute. Iberdrola also attempted to negotiate the conditions of expropriation, but only through the exchange of legal documents.

Several informants reported how, at this stage, they began *to lose hope in the possibility to reach an amicable solution to the dispute*, and they saw in *escalation of legal action* the only option to recover part of their investments. Vivendi, for instance, hoped that bringing the dispute before the ICSID would open new channels of communication with the government:

> The prospect of an ICSID claim did open the doors right away and gave us access to the highest decision-makers of the Government who, from that moment on, became directly involved in the negotiations with [us]. (Chairman, *Aguas del Aconquija*, 2009)

In the case of Vivendi, the dispute resolved, after a decade of negotiations, with a compensation of $105 mln – about one-third of its claims – paid out six years later. Telecom Italia eventually settled for an agreement with the government for the sale of telecom services for $16 mln, and a compensation of $50 mln instead of the claimed $961.60 mln. Iberdrola found no local actor willing to support its case, and in 2009, ICSID ruled in favor of the state. All three firms terminated local operations entirely after the expropriation.

Endesa, instead, despite losing control of the board during the dispute and being forced to sell its majority stake in its local subsidiary, maintained ownership of 48 per cent of the shares. The collaboration of local authorities – possibly thanks to Endesa's history of citizenship programs – helped make the case to the central government that Endesa's investments had considerably improved the electricity service. This helped Endesa persuade the government to renegotiate tariffs, so that, while still significantly lower than those initially agreed upon, they were slightly higher than those imposed as creeping expropriation, making continued operations viable. Endesa also settled the dispute for a confidential, undisclosed sum as compensation for damages (which informants reported as significantly lower than the original claim for $1,307 mln).

Proposition 5: When expropriation eventually occurs (in the expropriation phase), mediated embedding is likely accompanied by increasing awareness of lack of support from stakeholders and from local partners, and loss of confidence in an amicable resolution of the dispute, leading to legal actions aimed at containing financial losses.

Proactive response: mobilizing supporters. Facing impending expropriation, firms that had adopted a proactive response tried to gauge and mobilize local support, relying on the counter-narratives they had previously disseminated among local and international stakeholders. At Cemex, for instance, direct interaction with local stakeholders reassured the MNC that managers of smaller local offices and local citizens' associations were not as hostile to the firm as the central government was. In contrast, Telefonica realized that local dissatisfaction with prices and services was too high, and turned its efforts to garner the support of international stakeholders, claiming that the expropriation posed a problem 'not with Telefonica, but with the whole of Europe' (interview, Telefonica, director#3). The Spanish government intervened by threatening Argentina with diplomatic repercussions. Repsol also concluded that there was little space for negotiating alone and, but they could rely on the support of influential international stakeholders. Accordingly, they no longer framed the situation as an idiosyncratic issue, but as a potential threat to all foreign investors, 'a precedent with severe consequences for the future' (*The expropriation of Repsol-YPF; Argentinian version*, 2012). It managed to stir support from the home government and even the European Union, so that when the expropriation was announced, the Spanish prime minister publicly declared that 'any act of hostility anywhere in the world against our firms will be interpreted as a gesture of hostility against [Spain] that will have consequences'. Finally, Shell's intense exchanges with other MNCs convinced its managers that, if they made a common front, they could contain the hostility of the government in the future. These consultations also reassured them that they could count on support in court. Indeed, a manager at Dole Food, another MNC operating in Bolivia, publicly spoke in defense of Shell (*Notimex*, 17 January 2006), and other MNCs threatened to halt investments in the country.

Knowing that they enjoyed the support of influential stakeholders *increased managers' confidence that they could withstand the hostility of the government*. While formally filing a complaint with the ICSID, therefore, they felt comfortable about adopting a 'wait-and-see' strategy (Clarke and Liesch, 2017) and maintaining local operations. Telefonica presented the ICSID claim as a manifestation of its intention and commitment to remain in the country. After the ICSID filing, the government agreed to adjust some tariffs, while Telefonica not only stayed in the country, but even signed a letter of intent to make new investments in Argentina. Also thanks to the backing of other local MNCs, Shell eventually reached a confidential agreement with the Nicaraguan government, withdrew the lawsuit at ICSID and maintained its oil and downstream businesses in Nicaragua. In the case of Cemex, the local communities, which Cemex had supported over time with a variety of direct investments and relationships, did not antagonize Cemex. The firm offered to maintain the management of operations while relinquishing ownership, and in an out-of-tribunal resolution, the government paid Cemex a compensation of $600 mln, half of its original claim. The firm also retained minor investments and informal collaborations in local projects. Repsol and the Argentinian government ultimately reached an out-of-tribunal agreement whereby the firm received half of the $10,500 mln claimed and remained in the country with minor investments (which it later sold to Morgan Stanley). As an informant from Repsol commented,

> All in all, it was a good agreement for both parties in the dispute. Our claim was only partially met but we avoided the lengthy process associated with legal procedures, and departed the country with a clean slate. It was a good agreement for Argentina too, because it had reached its limit, being pressured from every side. (Interview, Repsol, director#2)

Proposition 6: When the firm confronts direct hostility (in the escalation phase), proximal embedding likely enables a textured understanding of the opportunities available to counter government hostility, thereby increasing confidence in the capacity to do so and leading to mobilization of local and international stakeholders to support a negotiated settlement.

A MODEL OF HOW MNCS RESPOND TO GOVERNMENT HOSTILITY

Our comparative analysis of eight disputes between MNCs and host governments in Latin America suggests that, when business-government relationships are disrupted by the escalating hostility of political authorities, the firm's strategy to network with local nonmarket stakeholders affects its capacity to sense, interpret and respond to this disruption. In the preceding section, we described the process through which these disputes unfolded (see Figure 1) and distinguished the trajectories taken by different groups of firms (see Table IV). We showed how different trajectories were associated with different choices regarding the governance of local operations and engagement with nonmarket stakeholders (see Table III). These choices constrained or enhanced managers' access to information, their capacity to make sense of events in a timely and accurate manner and ultimately their ability to mobilize local and international support.

In this section and in Figure 2, we present the more general theoretical model emerging from our analysis. Our model highlights the impact of different *networking strategies* (proximal vs. mediated embedding) on an MNC's capacity to react adaptively to the rising hostility of a host government and to mobilize support effectively, ultimately attenuating the impact of the eventual expropriation. Table V compares these two strategies. We may conceive of them as poles of a continuum, with the actual position of a given firm on this continuum – as the hybrid strategy adopted by Endesa suggests – reflecting different combinations of choices regarding the *governance of local operations* (full vs. shared) and *engagement with local nonmarket stakeholders* (direct vs. delegated).

As Table V illustrates, in *mediated embedding* the MNC operates locally through an IJV with one or more local firms. Managers at HQ tend to rely on local partners to collect and process information about the local political environment, and delegate

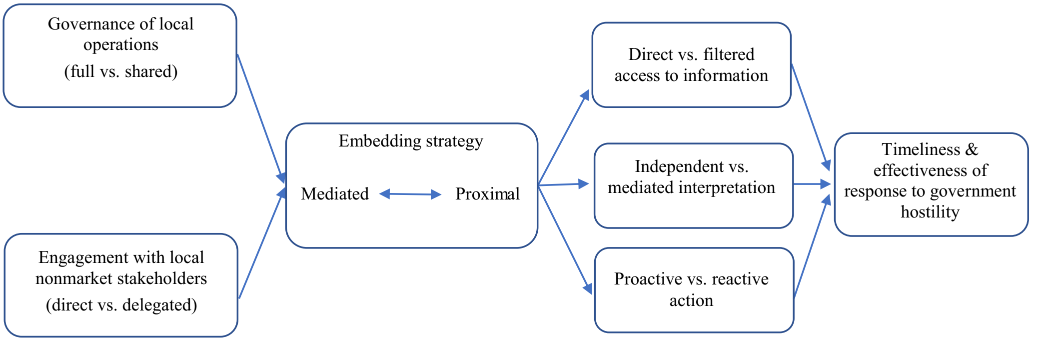

Figure 2. Conceptual model. Embedding strategy, managerial cognition and MNCs' response to escalating host government hostility

to them the task of interacting with local nonmarket stakeholders, trusting that they will act in the best interest of the joint venture. In *proximal embedding*, instead, the firm operates locally through wholly owned subsidiaries. Local managers report to HQ (or regional holding firms) and are tasked with keeping them informed about developments in the local political environment. Full ownership and control of operations foster direct interactions and collaborative relationships with a broad range of local nonmarket stakeholders through various means including lobbying, social investments and informal consultation.

These networking choices were associated with different trajectories as the disputes unfolded. Endesa, which adopted a hybrid strategy – operating through a joint venture but also directly engaging with local communities – also displayed a mixed response to the increasing hostility of the host government. Different networking strategies shaped cognitive processes that in turn determined the *timeliness* of the response (early activation in the face of weak signals vs. late response prompted by targeted aggression) and the *effectiveness* of managers' efforts to counter the narrative of the hostile government and mobilize local or international support. Prompted by research on managerial and organizational cognition (Daft and Weick, 1984; Thomas et al., 1993), we conceptualize these cognitive processes as three interrelated phases of scanning, interpretation and action. This conceptualization seeks to bring analytical clarity to a process that proceeded through continuous iterations, as information gathering, processing and action mutually shaped one another, until a demarcating event triggered a qualitative shift in their dynamics.

We now abstract from the specifics of our cases to articulate a more general model of how various networking strategies influence cognitive processes and, ultimately, the capacity of an MNC to deal adaptively with the host government's hostility. This model draws on and is grounded in the empirical observations presented in the prior section and summarized in Propositions 1 to 6.

Networking Strategies and Cognitive Processes

Mediated embedding, our findings show, effectively *delegates scanning* the local political environment to local partners. The resulting information will be not only delayed but

Table V. Proximal embedding vs. mediated embedding: a summary

	Proximal embedding	*Mediated embedding*
Definition	Purposeful attempt to establish direct collaborative relationships with broad range of local nonmarket stakeholders, through lobbying, social investment, informal consultation etc	Delegation of interactions with nonmarket stakeholders to local partner (shareholder) in host-country operations. Minimal investment in direct collaborative relationships
Structural arrangements	Local managers report to HQ and serve as local 'sensors': they collect and process information about the local political environment, and keep HQ informed about events	Local managers report to the board of the JV or regional subsidiaries, and only episodically interact with HQ. They rely on local partners to collect and process information about the local political environment
Approach to dispute	Proactive use of ties to collect information, and centralized processing to support rapid response	Passive delegation to local partner, based on trust that it will act in the best interest of the venture
Impact on information processing	In-house processing and interpretation: Local network facilitates timely and comprehensive collection of information, and more accurate interpretation of events	Outsourced processing and interpretation: Local partners channel and delay relay of information and offer self-serving interpretations of events
Impact on legitimacy	Superior information processing enables more timely and persuasive framing of dispute (moral legitimacy) to secure local and international support (socio-political legitimacy)	Delegating legitimation with political authorities to a local partner makes the MNC vulnerable to the partner's opportunistic behaviour; delayed response facilitates de-legitimation by the hostile government

also filtered, as local partners may have an incentive to withhold information from the MNC – either to maintain their role of intermediary between firm and government, or, if they sense that hostile action is imminent, to pursue separate negotiations with the government to safeguard their own interests. Restricted information will *impair* the MNCs' *ability to develop an independent interpretation of the situation*. Their understanding will be shaped by the selective – and possibly self-serving – accounts offered by local partners. Even when increasing inconsistency between partners' early accounts and the gradual unfolding of events leads managers to question early interpretations and to consider scanning the environment independently, the absence of direct collaborative ties with local nonmarket actors will make it difficult for them to find alternative reliable information sources. Biased information in turn will hamper interpretation, likely delaying action. Reassured into inaction by their partners at first, managers will later be shocked by the government's unexpected aggression and will *react* to the government's moves rather than trying to anticipate them. Delayed by their inaccurate reading of the situation, they will likely let narratives spread by the government dominate the public domain and rally nonmarket stakeholders against them – so that, by the time they try to mount a defense, they will find it *difficult to mobilize support*.

In contrast, proximal embedding maintains scanning the local nonmarket environment firmly under the direct control of the MNC. Multiple direct ties and collaborative relationships with local nonmarket stakeholders enable *fast and comprehensive collection of information*, including weak signals that constitute early warnings. Direct scanning enables managers to monitor not only government actions and narratives but also nonmarket stakeholders' responses. Access to a constant and timely flow of information, in turn, allows managers to generate a *fine-grained, independent interpretation* of the situation right from the start, and to update their interpretations as events unfold, so they feel 'in control' and confident in their capacity to withstand government hostility. They will thus be able to *anticipate* government's moves, rather than reacting to them. Expecting escalation will prepare them to use available information to elaborate counternarratives, and to use available information channels to gauge potential support for their position. This early mobilization increases the likelihood that they will muster enough support to induce the government to re-negotiate or de-escalate hostility after the expropriation, or will strengthen the firm's position before court arbitrators.

Networking Strategies and Legitimacy

Past research conceptualized one of the fundamental purposes of MNCs' political strategies and nonmarket actions as gaining legitimacy in the host country (Forsgren, 2017) – that is, establishing an MNC's local operations as desirable and socially beneficial (or moral legitimacy; see Suchman, 1995), and earning the support of political authorities and other nonmarket stakeholders (or socio-political legitimacy; see Aldrich and Fiol, 1994). Broad-based support and the backing of influential nonmarket stakeholders can help MNCs secure a 'license to stay' (Boddewyn, 1995), especially when host governments become hostile (Darendeli and Hill, 2016; Lawton et al., 2012) or even violent (Oetzel and Getz, 2012).

Mediated embedding effectively entrusts local partners with this sensitive social task and renders the MNC vulnerable to the partner's opportunism. We do not suggest that all local partners behave with guile. However, in the face of mounting hostility from the government, local firms may not have the option (as MNCs do) to relocate their businesses or turn to international arbitrators. They may feel compelled to safeguard their own interests and devote less effort to maintain the socio-political legitimacy of the joint venture.

Proximal embedding, conversely, gives MNCs the information to counter attempts at undermining their moral legitimacy, and also confers higher socio-political legitimacy through direct and collaborative ties with local nonmarket stakeholders. Early activation in the face of weak signals of hostility and more compelling counternarratives help MNCs mitigate the possible erosion of this legitimacy, securing the continued support (or, at least, neutrality) of many stakeholders even in the face of rising hostility from the government.

DISCUSSION

Prior research widely investigated how MNCs and host governments bargain over the conditions of initial entry into a country (e.g., Vernon, 1971) and the continuation of operations after the initial investment (Eden et al., 2004; Grosse, 1996; Grosse and Aramburu, 1991; Müllner and Puck, 2018). In contrast, our study focused on the events that surround the disruption of agreements and culminate in the expropriation of local assets or profits. We did not assume MNCs' bargaining power based on existing firm-government relations but adopted a process perspective, and examined how different choices regarding the governance of local operations and engagement with nonmarket stakeholders – encapsulated in the concepts of proximal vs. mediated embedding, as networking strategies that prioritize direct interaction with local stakeholders vs. using local partners to manage these connections – impacted the capacity of MNCs to collect and process information and to use it to strengthen local support when facing hostile action.

Our study highlights the socio-cognitive mechanisms that link political networking and nonmarket strategies to firms' capacity to respond proactively to the hostility of host governments, by capturing early signals and acting promptly to secure local and/or international support. Our study thus complements the traditional emphasis on external socio-cognitive dynamics, which makes legitimacy central to MNC-government relationships, by drawing attention instead to internal cognitive processes and viewing organizations as interpretation systems (e.g., Daft and Weick, 1984). Past research has noted local ties as important sources of information (Inkpen and Beamish, 1997; Nippa and Reuer, 2019), but it has focused primarily on observable interactions at the interface between the MNC and local stakeholders, rather than internal cognitive processes.

Buffering the Obsolescence of Bargaining Power: How MNCs Respond to Government Hostility

Past research has widely examined pre-emptive strategies for delaying obsolescence (e.g., Doh and Ramamurti, 2003; Henisz and Zelner, 2003) or mitigating the risk or the consequences of hostile actions from political authorities (e.g., Moran, 1973;

Müllner and Puck, 2018; Ramamurti and Doh, 2004). Our study extends this work by providing insights into how MNCs handle the events that precede and accompany expropriations of assets or profits. Previous research often used cross-sectional, large-scale studies to examine conditions that foster hostile actions or their effects; our longitudinal qualitative method enabled us to take a process view of these events and to reveal conditions, actions and interactions that shape 'the response of managers to circumstances and activities beyond their immediate control' (Lawton et al., 2012, p. 81).

We can thus offer novel insight into what happens *after* MNCs' relations with host governments break down (Darendeli and Hill, 2016; Teegen et al., 2004). Past research highlighted risks associated with the sudden collapse of a political regime that an MNC was connected with (Darendeli and Hill, 2016; Darendeli et al., 2020; Gifford et al., 2010). Our study looks instead at the arguably more common case of unexpected hostility from the government in charge – whether or not it is newly elected, and whether or not the MNC has previously had direct ties with the government. In fact, we found no evidence that the eight MNCs we studied were penalized by the current government because of ties with the previous administration.[5]

Whereas past research showed how philanthropic activities and ties with influential nonmarket stakeholders not connected to the current government may mitigate the impact of a regime collapse by building local goodwill for the firm (e.g., Darendeli and Hill, 2016), our study highlights the value of a broader set of ties – built not only through social projects, but also through direct interaction with local government, trade unions or other multinationals operating locally – and shows how these relationships can be important information conduits when the MNC faces ambiguous hostile signals from political authorities. From a theoretical standpoint, whereas extant work explains the value of local networking and collaborative engagements in institutional terms (e.g., Doh et al., 2012; Henisz and Delios, 2004; Henisz and Zelner, 2003; Welch and Wilkinson, 2004), we propose a complementary socio-cognitive explanation, by drawing attention to the influence of local networks on the *cognitive processes* that shape MNCs' responses to hostile acts – particularly early on, when reading ambiguous signals may be essential to ready the organization for an intensification of hostility.

Our findings highlight the information-processing advantages of direct local networking (that is, proximal embedding) over mediated contacts, and show how these benefits may enrich legitimacy with local social actors – or even compensate for the lack of it. Although increased legitimacy certainly benefited Cemex and Endesa, which had made considerable social investments in the country, it explained only part of the story. Comparison across the four cases suggests that what really made a difference, especially early on, was the use of local ties as a source of direct or indirect cues on how to interpret events and respond appropriately. Indeed, some of the firms adopting proximal embedding strengthened their position not by relying on pre-existing ties with local stakeholders but by using timely and comprehensive information to mobilize peers and international political actors.

Instead of conceptualizing MNCs' bargaining power as based primarily on the interests, resources and strategies of firms and governments and the relations between them (e.g., Bucheli and Kim, 2012), our study reveals the importance of relationships with local stakeholders when political connections fail to protect an MNC from the hostility of a host government. We thus address the call to move the conversation about firm-government relationships beyond a static, bilateral conceptualization of MNC–state bargaining towards a dynamic, multi-party interaction model (Boddewyn, 2017; Darendeli et al., 2020; Müllner and Puck, 2018).

One could argue that that the nonmarket strategy we describe as proximal embedding – engaging directly with local nonmarket stakeholders – is similar to the 'relational' political strategy outlined by Hillman and Hitt (1999), based on building long-term collaborative relationships, and that the main difference between the two is that the strategy described by Hillman and Hitt focuses on political authorities rather than on a variety of nonmarket stakeholders. And one could also see some similarities between mediated embedding and interaction with political authorities, focused on negotiating resolution of the issue at hand. Hillman and Hitt argue that relational strategies work better in countries – like Argentina and arguably other Latin American countries – with a 'corporatist' system of interest intermediation (Murtha and Lenway, 1994), where governments are more authoritarian, consensus is built through peak associations of business and labor and there is high overlap between economic and political elites. To facilitate comparability across cases, we deliberately sampled disputes in countries that had relatively similar institutional systems. Different choices, however, may be more effective in other systems. This context may constitute an important boundary condition to our findings.

Past research has produced different theories to explain variation in institutional systems through alternative configurations of political institutions, financial markets, labor markets, social capital, corporate governance etc. (e.g., Fainshmidt et al., 2018; Hall and Soskice, 2001; Saka-Helmhout et al., 2016; Whitley, 1999; for a review see Sun et al., 2021). According to one of these theories (Fainshmidt et al., 2018), the countries we analysed could be classified as 'state-led' institutional systems, with a newly developed economy, weak institutions, opaque political decision-making and an active role of the state in the economy. These characteristics might have influenced the way in which disputes unfolded – for instance, by making political authorities less directly accessible to international players, more inclined to confiscate assets or to unilaterally change contractual agreements. Replication of our study in other types of institutional systems may help tease out whether different regulatory frameworks, political institutions or roles of the state may influence how business-government disputes unfold.

Finally, it is worth noting that, while the situations that we described are probably more likely to occur when there is a change of government or when a socialist government is in power (see the first column in Table II for detailed information about the political orientation of the government in charge at the time of the dispute), we found no evidence that the political orientation of the government in charge influenced the process significantly. Some MNCs (Cemex, Telefonica) were able to collaborate with unions or to induce them to remain neutral against left-leaning governments; others (Shell, Vivendi) failed to do so against conservative governments.

The Under-investigated Side Effects of Local Joint Ventures

Early internationalization theories (e.g., Johanson and Vahlne, 1977) assumed that a joint venture is usually a less risky mode of entry into a foreign market than a wholly owned direct investment, because it helps an MNC overcome the 'liability of outsidership' (the lack of local networks) as well as the more general liability of foreignness. Under normal circumstance, a JV with a local partner may offset the disadvantage of operating in uncertain and unfamiliar nonmarket environments (Sun et al., 2010) by improving access to local information (Hillman and Hitt, 1999; Hillman et al., 2004; Inkpen and Beamish, 1997; Nippa and Reuer, 2019; Roy and Oliver, 2009; Yiu and Makino, 2002) and making local operations less attractive to a predatory host government (Chan and Makino, 2007, Delios and Henisz, 2000, 2003a).

But, as we explain above, relying exclusively on a local partner to compensate for this disadvantage – a strategy we referred to as mediated embedding – may create a 'liability of insidership' that makes it harder for managers at headquarters to liaise with local nonmarket stakeholders or to mobilize support if a dispute arises. Trusting one 'insider' to mediate relationships with political actors may economize resources and managerial attention in the short term, but at the expense of higher vulnerability. Under normal circumstances managers at HQ may assume that local partners will use their local political connections in the interest of the venture. But, as our study shows, when confronting rising hostility from the government, local partners may prioritize their own interests; they may selectively relay information, negotiate a separate deal with the government to minimize their own losses or even effectively cooperate with the government's plan to expropriate the MNC.

Obviously, we do not intend to suggest that MNCs should refrain from using JVs to run local operations. Managers, however, should be mindful of the potential drawbacks of these partnerships and consider a hybrid strategy like that of Endesa – relying on a local partner in the short term, while starting to build direct ties with other influential local stakeholders that can back them up if the local partner proves unreliable. As Endesa's case indicates, proximal embedding and mediated embedding are not mutually exclusive strategies.

Indeed, informants from Vivendi and Cemex spontaneously mentioned that, after their unfortunate experience, they planned to invest more in direct local engagement in case they may face a similar event again in the future. Our findings should alert managers to risks that – as our cases show – they may underestimate until painfully learned lessons induce them to reconsider their approach to the local nonmarket environment.

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NOTES

[1] As of 30 June 30 2020, ICSID had registered 768 cases under its convention, of which 29 per cent involved firms in South and Central America and 54 per cent involved firms in construction, water and energy. These proportions are not significantly different from what we observed in the period covered by our study.

[2] Previous studies stressed the importance of comparability in the relative political risk of the host country, i.e., events and actions, such as conflicts, social unrest, political instability and market imperfections that may influence the entry choice and entry mode of a foreign firm (De Villa et al., 2015; Lawton et al., 2013; Luo, 2001) and its economic outcomes (Giambona et al., 2017).

[3] Usually, the executive teams directly involved in these disputes were relatively small, and only senior managers were involved in decision making and interactions with political authorities. While the total number of interviews for each case may appear small, it nevertheless enabled us to cover multiple perspectives on these events, inside and outside the focal firms.

[4] It is common for MNCs to inflate the amount requested when they present their initial claim, as they expect to receive only a partial compensation, even if ICSID rules in their favour.

[5] None of our informants mentioned anything to this effect, nor was there any hint of this in archival data. In fact, in all these countries, the new governments were democratically elected. According to the Bjørnskov-Rode regime database (Bjørnskov and Rode, 2019; Marshall et al., 2014b; Roser, 2013) there were no 'regime changes', with the negative repercussions for foreign firms that often accompany these events. The sudden hostility of the government partly reflected socialist (i.e., bringing back valuable resources or operations under state control) or populist ideologies (i.e., attacking multinationals as a way to strengthen political support among the common people).

APPENDIX A

ALTERNATIVE EXPLANATIONS

It is possible that other factors partly explain whether these MNCs decided to stay or leave the host country. To account for this possibility, we analyzed firms that had similarly long-term and financially successful presences in the countries up to the start of the dispute.

First, to rule out possible alternative explanations, we also looked at our firms' assets, cash, and earnings around the time of the dispute as possible triggers of divestiture decisions (Brauer, 2006) and as proxies for the firms' ability to deal with policy makers (Schuler et al., 2002). Our firms had positive assets, cash reserves, and earnings at the time of the dispute (see Table AI in this appendix), ruling out the possibility that the divestitures were due to firms' underperformance, or to lack of resources that could be used for lobbying or pressuring the host government (Meznar and Nigh, 1995).

Second, we compared countries in terms of their relative political risk – a notion that refers to events and actions, such as conflicts, social unrest, political instability and market imperfections, that may endanger the economic outcomes of a firm (Giambona et al., 2017) and may therefore influence the entry choice and entry mode of a foreign firm (Lawton et al., 2013; Luo, 2001; De Villa et al., 2015), or its decision to divest from a country (Soule et al., 2014). We considered two different measures of political risk. First, we use political constraints (POLCON) (Henisz, 2000a), a composite index of the extent to which the structure of a country's political institutions constrains any one political actor from effecting a change in government policy. Second, we use the International Country Risk Guide (ICRG) measure, a political risk rating that includes 12 weighted variables covering both political and social attributes of a country. At the inception of the disputes, POLCON and ICRG scores varied across countries, but there were no notable differences across the two groups of firms, as both groups include firms operating in countries with relatively higher and relatively lower scores. This observation excludes the alternative explanation that those MNCs who divested did so because of political risk.

We further considered whether different political capabilities could have explained these firms' different abilities to manage the political environment. Previous researchers used experience in countries characterized by political constraints (Henisz, 2000a) or regime changes (Henisz and Delios, 2004) to proxy for political capabilities (Delios and Henisz, 2003b; Henisz, 2000b). To approximate these conditions, we checked the number of years of operations in Latin America before the start of the dispute.

Table AI. Political risk, political capabilities, and available resources

FIRM	*Assets*	*EBIDTA*	*Cash*	*Host POLCON*	*Host ICRG*	*Home POLCON*
CEMEX	61244	49983	5980	0.5	0.49	0.6
TELEFONICA	10573	11534	543	0.3	0.67	0.5
REPSOL	20329	8036	2677	0.6	0.81	0.3
SHELL	40546	23653	1556	0.3	0.73	0.6
TELECOM IT	18025	12829	7219	0.4	0.60	0.3
IBERDROLA	10414	5171	980	0.5	0.66	0.4
ENDESA	6876	5278	201	0.4	0.67	0.5
VIVENDI	111260	10496	4382	0.6	0.67	0.2

Note: All data refer to the year of the inception of the dispute. Corporate data come from Compustat and are rounded to $mil, and country data come from POLCON version iii and ICRG. Because ICGR offers several measures, we take the average for the year.

Following previous studies (Henisz and Delios, 2001; Holburn and Zelner, 2010), we also approximated international experience with the total number of international acquisitions (data from Thomson One Banker) before the dispute. While we saw no significant difference between the two groups in the number of international acquisitions, those firms that had displayed a more proactive strategy had, on average, more years of experience in Latin America. It is possible that this experience might have led these MNCs to appreciate more than the others did the importance of direct local connections – which eventually put them in a more favorable position to respond to the disputes. We checked whether these countries had experienced a regime change, a situation that may bring additional risks for the collapse of a political regime that an MNC was connected with (Darendeli and Hill, 2016; Darendeli et al., 2020; Gifford et al., 2010) or even supportive of (Dieleman and Boddewyn, 2012; Leuz and Oberholzer-Gee, 2006; Siegel, 2007). A consultation of various databases, summarized in Table AII, revealed no regime changes in the countries and years under study (sources: Bjørnskov and Rode, 2019; Marshall et al., 2014a; Roser, 2013).

Researchers have also argued that political capabilities may arise from previous experience (Basuil and Datta, 2015; Hillman et al., 2004; Lux et al., 2011) or affinity (Hasija et al., 2020) with an uncertain political environment in the home country. With the exception of Cemex, however, all our sample firms came from countries that the POLCON index rates as highly stable (Spain, France, Italy, UK/Netherlands). Because personal political connections may be more likely to exist if the general manager is a national of the host country, we also analyzed our interviews to check whether our respondents felt that the nationality of the general manager had influenced relationships with the host government. Only informants from Vivendi, however, reported feeling that foreignness had penalized their direct interactions with the local government.

From these analyses, we concluded that if variation in political capabilities had affected the responses we observed, it was primarily by leading the firm to adopt a proximal embedding strategy and develop broad direct local ties, as opposed to relying exclusively on a local partner.

One could also wonder whether other, non-targeted firms possessed particular features that sheltered them from hostility or capabilities that shaped their relationships with host governments in a more favorable way, hence protecting them from expropriation (Bonardi et al., 2005). To address this issue, we examined secondary data and interviews for references to other firms that operated in the host countries and in the same industries at the time of the dispute but were not expropriated. Insights from these sources seem to support our findings, as informants from peer firms and competitors, law firms, and home and host governments highlighted the importance of building direct ties, and the dangers of relying solely on local partners.

Table AII. Regime change information (sources: Bjørnskov and Rode, 2019; Marshall et al., 2014a; Roser, 2013)

MNC	*Dates*	*Is the country's regime communist / socialist?*	*Regime type change*	*Coups*	*Change in Polity score (from −10 to 10)*	*Political Regime (from −10 to 10)*
Telecom Italia	2006–2007	No	no change: presidential democracy	no coups	stable 8	stable 9
Iberdrola	2007	No	no change: presidential democracy	no coups	stable 8	stable 9
Endesa	2002–2003	No	no change: presidential democracy	no coups	stable 8	stable 8
Vivendi	1993–1999	No	no change: presidential democracy	no coups	stable 8	from 7 to 8
Cemex	2003–2008	No	no change: presidential democracy	Failed coup in 2002	from 8 to 6 over the whole period	from 6 to 5 over the whole period
Telefonica	2002	No	no change: presidential democracy	no coups	stable 8	stable 8
Repsol	2011—012	No	no change: presidential democracy	no coups	stable 8	stable 8
Shell	(earlier than) 2000–2002	No	no change: presidential democracy	no coups	stable 8	stable 9

APPENDIX B
Narrative Summary and Illustrative Quotations

Table AIII. Lagging responses to escalating government hostility

	TELECOM ITALIA	*IBERDROLA*	*ENDESA*	*VIVENDI*
Phase 1. Anticipation				
Scanning: Filtered access to information sources	HQ managers allowed partners to independently collect information and analyse the situation. 'We have a clear segregation of competences', the operations manager recounted; 'I did not know and did not need to know what was happening.'	HQ managers relied on the local partner to handle the situation. Only later did disagreement emerge and they 'challeng[e] the modifications the [representative of the local partner] had made in the Amended [tariffs'] Study' (Notice of Intent, by TGH 18 January 2009).	Headquarters managers accepted the local partner's offer to reach out to authorities to inquire about events – a process the director of legal affairs described as 'tortuous'.	Managers at the headquarters delegated monitoring of events to local partners. '[HQ] was regularly informed about the evolution of the conversation with the authorities,' director#5 explained, '[but] there was a great separation between Vivendi Tucuman and HQ'.
Interpretation: Underestimating direct threat	Managers believed that new laws and communications were 'idiocy'; Telecom Italia's relationships with the government began to deteriorate. 'Before the nationalization', the director#1 explained, 'we feared that something would happen, because the president was a populist. We expected new taxes… But we did not expect this move'.	Managers believed that a crisis was imminent but general, related to a nationwide situation, not specific to a few players. 'There was a political issue when the case happened', an energy authority expert explained. Managers believed initial announcements were part of the campaign for the upcoming elections.	Managers thought that generic hostility reflected the fact that the firm was profitable. They remained optimistic. In public, Endesa's CEO downplayed the effects of the crisis in this region. As the press reported, 'their expectations for the future, after the reorganization they are undergoing, are good' (*El Pais*, 27 April 2003).	Managers attributed the turmoil to increased political interference in business. They were unclear about the specific impact but saw no need to react. As director#5 recalled, 'we did not see firm-specific risks'.

(Continues)

Table AIII. (Continued)

	TELECOM ITALIA	*IBERDROLA*	*ENDESA*	*VIVENDI*
Action: Delegating interaction with host government	The local partners contacted local authorities on behalf of the consortium. Headquarters was kept informed about these meetings.	Managers attempted to renegotiate the license through the local partner to obtain permission from the government to increase tariffs in the near future.	'We delegated the negotiations to the local partner', explained the director of legal affairs. The partner then engaged in preliminary discussions with the host government to secure an exemption from tariff rebates or tax increase.	The local partner had experience with similar issues and insisted on being in charge of negotiations with local parties. Only later, as the regional manager recalled, did Vivendi realize that local partners 'had their own, different agendas'.
Phase 2. Escalation				
Scanning: Discrepancy between new information and previous interpretation	HQ managers noticed that the government declared that Telecom Italia (but not the local partner) was harmful to local communities. Rumors through the grapevine contrasted with official communications. 'My impression', a regional manager recounted, 'is that the local partner knew [about the hostility] but did not say'.	While the local partner sought information through official channels, managers noticed specific accusations from the government about Iberdrola's lack of engagement in the country. They realized that now the public regulator was starting to talk about 'changing the energy matrix' (interview, energy authority expert).	Managers noticed a 'different treatment [… that] can be considered as discriminatory', as the government declared that foreign investors should no longer exploit local industries and let local firms gain control of operations. They noticed that other firms remain untouched by attacks, but were unsure why (*FOCO*, 2006).	Managers noticed an intensification in protest demonstrations after the election of the new governor. As director#5 later recalled, they began to suspect that local authorities 'hamper[ed] the collection of the numerous outstanding customer invoices'.

(Continues)

Table AIII. (Continued)

	TELECOM ITALIA	*IBERDROLA*	*ENDESA*	*VIVENDI*
Interpretation: Rising uncertainty about how to interpret and react to hostility	Different views about the appropriate course of action caused rising tensions between the MNC and its local partners. As a director explained, partners disagreed 'around whether to start a dispute to make some money by being able to sell [the firm], or trying to maintain control of the firm, because it was profitable'. Managers began to lose trust in the local partner.	Despite noticing that other firms remained untouched by the attacks, managers attributed the fact to an unfortunate sequence of events, and, as the director of legal affairs recalled, they officially presented the situation as due to 'exceptional circumstances'.	Confused by government actions and unsure about how to interpret them, managers were in doubt about what to do. The local partner started to negotiate independently with the government to protect its own investment.	Managers failed to understand why the local population was dissatisfied. They blamed the situation on changes in the regional government and remained unclear about the potential impact of the turmoil. The hostility they faced was due to 'unfortunate events' (*BIICL*, 2008 about Vivendi).
Action: Attempt to restore previous relationships	Telecom Italia intensified its engagement with the authorities through formal, official channels (lawyers and senior executives). 'At the beginning', director#1 explained, 'we thought we could resolve it outside the tribunal. The government received these actions with hostility.	Through the local partner, Iberdrola continued to try to negotiate with local government. It highlighted its efforts to bring the situation back to normal (Notice of Intent, by TGH 18 January 2009)	Managers explored opportunities to resolve the dispute amicably through 'the participation of a multilateral organization as mediator' (international lawyer Hourbeigt, 03 August 2002). These efforts remained vain	Managers, director#1 recalled, asked the local partner 'not to pick up a fight' and invited the authorities to change decrees and legal postils. They sought not to worsen the relationship with the local authorities and to restore the situation 'back to normal'.

(Continues)

Table AIII. (Continued)

	TELECOM ITALIA	*IBERDROLA*	*ENDESA*	*VIVENDI*
Phase 3. Expropriation				
Scanning: Increasing awareness of broad-based hostility	Local activists argued that Telecom Italia's lack of responses to the people's demands undermined sovereignty and democracy and was hampering the 'socio-economic development' of the country (*Frente Nacional de Lucha* 22 January 2009). Other local MNCs and the home government offered little or no support.	The situation, as the director of legal affairs recalled, got 'hotter and hotter'. Consumers' associations pressured Iberdrola to leave the country and to leave the management of its operations to a better operator. The home government gave only lukewarm support.	Through 'lawsuits from citizens and public advocates' (Dow Jones, 01 May 2003), citizens' associations demanded that the firm leave the country and let a local partner manage the concession. Managers did not find support from other foreign firms operating locally.	The local population increasingly manifested its dissatisfaction, and was now openly backed by the provincial government (*El Vigia*, 11 April 2002). Vivendi found no 'afectio societatis [people's support] among them' (corporate document). No support came from the home government.
Interpretation: Loss of confidence in positive resolution	Managers finally realized that the firm was the target of government action, as the timing of the expropriation decree seemed to be chosen deliberately to surprise the firm. 'There had been no message, no signal before', director#1 explained. Managers took this as a sign that 'our strategy didn't go well' and lost hope in an amicable resolution.	HQ managers finally recognized challenging local conditions. As a manager at competitor Union Fenosa recalled, 'the hostilities were led by violent activists that opposed the presence of MNCs. There were public manifestations in the streets, all violent'. Managers failed to see opportunities for an amicable solution.	Managers noticed that other local competitors received no public opposition. They finally recognized that the government was being partial and discriminatory. Managers argued that the government had 'breached the fair and equitable treatment obligation, taken arbitrary and discriminatory measures' (BIICL 2008 on ARB/02/16).	Realizing that the provincial government was also backed by the central government, managers concluded that there could be no amicable resolution. Managers felt trapped in 'a hostage situation' (Chairman, *Aguas del Aconquija*, 2009)

(Continues)

Table AIII. (Continued)

	TELECOM ITALIA	*IBERDROLA*	*ENDESA*	*VIVENDI*
Action: Focus on legal action	Managers' efforts focused on the ICSID case and protracted out-of-tribunal negotiations with local political actors. 'After we filed the claim before the ICSID,' director#1 explaie,d, 'our lawyers were confident […] Probably they must have thought: We are going to go after them and beat them!'	Managers used the ICSID case to maintain an open channel with the host government for a conciliatory resolution, which they could not reach (ARB/09/5).	Along with the ICSID case, managers engaged in protracted out-of-tribunal negotiations and attempted to hold conciliatory meetings with the government (Endesa 2004 Sustainability report for LatAm). The general manager publicly declared that 'the arbitration is part of a legal process independent of the negotiations that may continue to be held with the Argentine authorities' (*El Pais*, 23 April 2003).	Managers filed an ICSID case and engaged in out-of-tribunal negotiations, along with the case, for over a decade. As the chairman of local operations later recalled, 'the prospect of an ICSID claim did open the doors right away and gave us access to the highest decision-makers of the Government who, from that moment on, became directly involved in the negotiations with [us]'.

Table AIV. Proactive responses to escalating government hostility: A narrative summary

	CEMEX	*TELEFONICA*	*REPSOL*	***SHELL***
Phase 1. Anticipation				
Scanning: Unmediated access to weak signals	Managers turned to 'lobbyists and high-level contacts', asking for explanations. Precious information was gathered from local contacts. As an internal document recalled, 'the stakeholders spoke to us – mayor's offices, local communities, employees and collaborators, suppliers, customers'.	Managers directly liaised with local communities to understand how they could improve service. A director explained, 'you cannot depend on [local partners]. […]. In the long run a partner adds no value and you just depend on it'.	Managers used lobbyists and local 'experts' to gather first-hand information and possible explanations (*El Mundo*, 12 April 2012 and Efe 20 March 2012).	Managers used direct contacts with 'experts and relevant stakeholders' to better understand who could be affected by the new laws announced by the government (Shell, Annual Report 2005).
Interpretation: Sensing targetedness of hostility	Managers saw street protests and people's anger as potentially threatening, because directly instigated by the government. The director of operations recalled how they 'started having serious preoccupations. There were strikes and incidents in the streets. Those who started the attacks were [the president's] groups'.	Managers perceived a decrease in tariffs and increase in taxes as targeting primarily foreign firms. Director#1 explained that the firm noticed that 'the majority, if not the totality, of the hostile actions of the Argentinian government were against MNCs'.	Early contacts raised the suspicion that the government would soon target Repsol. As director#3 explained, 'We knew that something was not right some time before. But we had the confirmation when [the president] starts saying that she wants to get the Falkland Islands and oil back. By then, we knew […] that she would come after us'.	Early analyses suggested to managers that the new law might be intended specifically against a few foreign firms. Director#2 recalled that they noticed that 'only firms in the oil industry [were] faced with this harsh operating environment.' Managers believed that the government would use the new law as an excuse to extort payments from these MNCs.

(Continues)

Table AIV. (Continued)

	CEMEX	*TELEFONICA*	*REPSOL*	***SHELL***
Action: Dedicated resources for information processing	Managers began to keep track of public announcements, declarations, and commentaries by political authorities, to support their defense in case the situation escalated	Managers began to build a dossier about official announcements from the government, even if not directly related to the firm and its operations. As director#2 explained, they did this 'to be prepared in case things didn't go well in the country'.	Managers drafted a detailed chronology of events that helped them connect the government's sudden concern with natural resources and people's welfare with the discovery of a new oil reserve by the firm (e.g., *El Mundo*, 2012, *La Nacion*, 2012).	Managers prepared a comprehensive report to demonstrate how they always operated within the law and with citizens' interests in mind. The first confidential reports date back to the 1960s (*Envio*, 04/1995).
Phase 2. Escalation				
Scanning: Probing direct ties to gauge support vs. hostility of stakeholders	Managers experienced issues with local stakeholders: some clients changed suppliers or did not pay bills, sick leaves became more frequent, guilds worked with other firms, etc. The director of operations explained how, at this stage, direct interaction with 'friends and lobbyists' also helped managers identify opponents and supporters outside the firm	Managers liaised with local firms and other MNCs to understand how their investments in the country would be affected in the long term, and whether there were conditions to continue operating in the country. As director#1 explained, 'our director of institutional relationships, worked tirelessly to maintain relationship with the government'.	Managers talked to other MNCs operating locally to understand whether they were targeted by similar actions and check how concerned and sympathetic they were about the situation. As director#3 recalled, 'we sent a letter to our peers, such as Exxon and Total, to ask them not to invest until Argentina paid us. They all supported us'.	Managers leveraged what the director of operations referred to as their 'social embeddedness' with the unions and local workers to try to improve relationships with the government, and inquired whether their operations really were as harmful to the population as the government claimed.

Table AIV. (Continued)

	CEMEX	*TELEFONICA*	*REPSOL*	***SHELL***
Interpretation: Envisioning possible developments and action plan	Anticipating an escalation of hostility, managers produced an accurate analysis of the industry, showing the ways in which the firm's investments sustained economic development and growth, and how CEMEX's social responsibility programs helped in 'strengthening our local communities' (Annual Report 2011)	Managers analysed how the host government and other MNCs had dealt with previous disputes, to anticipate the government's moves and offer it a compromise. They aimed to 'develop an active institutional presence [and] participate in developing a new regulatory paradigm' (Investors' meeting, 2003) to protect the firm's investments.	Managers wondered whether government hostility was really due to the will to favor a competitor. They suspected that 'there were already talks between Argentina and the Chevron oil company to exploit [the new oil field]' (*El Economista*, 17 March 2017). Managers began to reflect on the possible implications of a dispute with government.	Managers noticed that only a few competitors were targeted. They concluded that, regardless of culpability, only some MNCs would be affected by the new law and risk being fined. The directors recalled how they 'adopted a 'hold and wait' option' and 'considered divestment options only as a last resort.'
Action: Targeted dissemination of counter-narratives	Based on its analysis and the concerns raised by local stakeholders, managers ran local advertising campaigns and communicated with citizen associations to explain how the firm had been beneficial for the country, and how its products were 'at the foundation of social and economic development' (GRI report, 2008). They strengthened social investments and intensified contacts with NGOs	Telefonica quickly incorporated requests from stakeholders in its operations, for instance by revising terms perceived as exploitative. As a director explained, managers used dossiers previously prepared to depict the presence of the firm as 'beneficial for the population' (e.g., providing housing and employment).	Managers used advertising campaigns and press releases to highlight, both locally and internationally, Repsol's investments in the country. They claimed that the new legislation would harm future investments by any MNC and presented it, as director#3 recalled, as 'a precedent with severe consequences for the future'.	Managers declared that the embargo and fines were discriminatory and asked for 'due process, transparency and fundamental fairness' (*Investment Treaty News*, 13 October 2006). Managers used analysts and Shell's own media resources to highlight its productive investments in the country and offer a different view on the events, e.g., stressing the seizure of 'intellectual property rights' (OECD, Liberti 2010).

(Continues)

Table AIV. (Continued)

	CEMEX	*TELEFONICA*	*REPSOL*	***SHELL***
Phase 3. Expropriation				
Scanning: Use of direct ties to clarify national and international support	Managers used their 'footprint', as director#1 called it, to gauge the support of stakeholders in the country and abroad. As the director explained, '[if] in the country, you have a name, some revenues, some connections, as well as [ties with] the home government [you can] ascertain whether they support the cause of the firm'.	Managers reached out to local ties and liaised with other foreign firms operating locally as well as the home government to check their availability to publicly support their case. Director#2 explained, 'you need to pay attention to the relationship you […] develop with a country […] the media, [even] the King of Spain'.	Managers reached out to local communities, the home government and the EU to enlist their support. As director#3 recalled, 'we appealed to anybody who would listen in Spain, the EU and the US in order to present our case. We received a strong and firm support at home and in Europe, and even from US officials'.	Managers asked other MNCs in the country for their support to resist the government's fines. They asked the home government to support negotiations for compensation for trademark expropriation. They publicly declared that 'we cannot meet these challenges on our own. We will need to continue to develop our relationships with external organisations' (Annual Report, 2005).
Interpretation: Confidence in the possibility of withstanding hostility	Direct interactions reassured managers that local stakeholders, such as managers of smaller local offices and local citizens' associations, were not as hostile to the firm as the central government. Director#1 later recalled that 'we always knew we acted in good faith before the government. I was confident.'	Managers understood that they could not count on the support of local communities. People still believed that the firm charged excessive prices and offered poor services. However, managers concluded that they had the backing of international stakeholders and in the home country, including the Spanish government.	Managers were reassured by international stakeholders' supportive response. They also trusted other MNCs to support them through public declarations, petitions, and withholding investments. As a manager explained, 'we protect each other a lot, because we have many contracts with one another'.	Interactions with other MNCs operating locally reassured managers that, by making a common front, they could induce the government to come to an agreement. A senior Nicaraguan officer reported that, in a meeting, the companies 'implied that they would do everything short of declaring war' (*INYT*, 18/01/2003).

Table AIV. (Continued)

	CEMEX	*TELEFONICA*	*REPSOL*	***SHELL***
Action: Mobilization of supporters against the government	Cemex offered front-line managers support to deal with local aggressive actions. Some local communities openly supported the MNC against the government. Cemex also received the support of the Mexican government. 'We had reached out to other firms that had experienced an expropriation', director#1 recalled, 'and knew how to be prepared'.	The home government publicly declared its standing by Telefonica. Thanks to the support of international stakeholders, Telefonica felt in a stronger position to negotiate with the host government. A director remarked how the firm managed to build the case that 'the expropriation posed a problem, not with Telefonica, but with the whole of Europe'.	The home government and the EU blamed the government's actions. The Spanish Minister of Industry warned that 'the Government interprets [hostility towards Spanish firms] as gestures of hostility towards Spain' (Efe, 12 April 2012). Managers used arbitrage and international support to negotiate a fair compensation for the expropriation	Managers in other MNCs operating in the country submitted 'triggering letters' (an official initial request or opinion) or *amicus curiae* petitions, offering to assist the court by providing information supporting Shell's case (*Notimex*, 17 January 2006)

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