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RESEARCH ARTICLE

Power transitions in the host country and the survival of subsidiaries in infrastructure industries

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Research Summary: We argue that for firms competing in infrastructure industries, a change in the government that granted the permission to invest in the host country increases the likelihood of divestment of foreign subsidiaries. The logic surrounding this behavior lies in the fact that these firms may develop cooperative relationships with the granting government and that a power transition depreciates the relational capital accumulated and the effectiveness of the commitments achieved. Building on the literature on relational governance and the relational view of corporate political actions, we argue that this effect increases with host country governmental discretion and with investment longevity. An empirical analysis of the survival of foreign investments made by Spanish firms from infrastructure industries during the period 1986 to 2008 provides support for our hypotheses.

Managerial Summary: The aim of this article is to analyze how changes in the host government that granted the investment in the host country influence firms' foreign subsidiaries' survival in the case of firms competing in infrastructure industries. We found that for firms in these industries, power transitions in the host country erode the cooperative relationship they may have with the granting government, increasing the probability of firms' foreign subsidiary divestiture. In addition, we identify two factors that make this effect greater: the length of operation of the foreign subsidiary and host country governmental discretion.

KEYWORDS

FDI, infrastructure industries, MNE-host government relationships, relational capital, survival

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1 | INTRODUCTION

The traditional view of multinational enterprise (MNE)-host country relationships has considered them as bargaining processes (Fagre & Wells, 1982; Moran, 1985; Vernon, 1971). Related with this traditional view, the so-called "obsolescing bargain" hypothesis introduced by Raymond Vernon (1971) states that governments may worsen conditions for MNEs over time, reducing their profitability. Based on this view, foreign direct investment (FDI) can be considered as the outcome of a bargaining process in which the initial bargaining power is in the hands of the foreign MNE, but once the firm makes the bulk of the investment on foreign soil, the balance of power turns to the host government. Even though this hypothesis has been contested in the literature (e.g., Eden, Lenway, & Scguler, 2004), governments can seriously damage the profitability of FDI, as shown by the recurrent problems that foreign investors face in countries with populist governments such as Argentina, Bolivia, or Venezuela (Müllner & Puck, 2018), the recent shift toward protectionism in national governments (Cuervo-Cazurra, Mudambi, & Pedersen, 2017), and recent academic research on privatization and emerging economies (Jiang, Peng, Yang, & Mutl, 2015; Meyer & Peng, 2016). This damage can be especially severe in infrastructure industries, forcing the divestment of the subsidiary[1] or even the expropriation of the investment (Ontiveros, Conthe, & Nogueira, 2004). As host governments play an important role in the profitability of firms from infrastructure industries, the relationship between firms and governments needs to be taken into account in order to understand foreign subsidiary survival in these industries. For the purpose of this article, we consider as divestments all exits from the host country, including sales, liquidations, expropriations, and nationalizations of the foreign subsidiary. All of them can be considered as direct or indirect outcomes of the relationship between infrastructure firms and host governments.

However, governments do not always act against the interests of the foreign multinational. Multinationals can develop in each foreign country what Hillman and Hitt (1999) call relational corporate political activities. Firms following this relational strategy pursue long-term relationships with host governments, building relational capital that can be leveraged in future negotiations with them (Frynas & Mellahi, 2003; Hillman & Hitt, 1999; Lawton, McGuire, & Rajwani, 2013; Luo & Zhao, 2013). Following this approach, host governments and foreign multinationals can maintain relationships based on cooperation aimed at getting win-win situations (Luo, 2001, 2004). In fact, infrastructure firms are used to deal with governments and develop relational capital with them (Fernández-Méndez, García-Canal, & Guillén, 2015; Hillman & Hitt, 1999; Luo & Zhao, 2013), as they have a greater exposure to governments' actions and policies in comparison to firms from other industries (Bonardi, 2004; García-Canal & Guillén, 2008; Hillman, 2003).

The relational capital developed with governments has been considered one of the main building blocks of cooperative relationships with them (Luo, 2001). Related with the importance of this relational capital, Siegel's (2007) pioneer work on partner selection in foreign countries showed that relational capital with a fading government could be a liability and asked for further research identifying the moderating factors of this negative impact of relational capital. Thus, an external factor, such as a change in the party in power, can limit the effectiveness of MNE-host country cooperative relationships, allowing that the risks associated with the obsolescing bargain arise. According to this, it could

[1]Generally speaking, the literature on foreign affiliate survival points to the subsidiary's profitability as the main factor influencing divestment decisions by multinational enterprises (Berry, 2010; Sousa and Tan, 2015).

be expected that power transitions can lead to subsidiary divestment. However, this hypothesis has not been tested in previous research.

We address this gap by analyzing to what extent power transitions in the host country (changes in the government of the host country that oust the granting political party) increase the likelihood of divesting. By extending the insights of the literature on relational governance (Dyer & Singh, 1998; Gibbons & Henderson, 2012; Poppo & Zenger, 2002; Zaheer & Venkatraman, 1995) and the relational view of corporate political actions (Hillman & Hitt, 1999; Luo & Zhao, 2013) to the field of subsidiary divestment, we develop a theoretical framework in which the relational capital accumulated by the MNE is specific to the relationship with the granting government/political party; so power transitions may break the virtuous circle in which infrastructure firms and governments may enter. According to our framework, foreign subsidiaries in infrastructure industries are always exposed to an external shock in the form of a power transition, especially when they have accumulated relational capital for a long time and when governmental discretion is high. With this article, we reconcile the competing views of the obsolescing bargain and the relational approach. Building on the relational approach, we argue that relational capital with a host government can be an asset that favors the survival of the investment. However, we argue that the main trigger of the obsolescing bargain is not necessarily the execution of the investment *per se*, but the removal of the government with whom the company negotiated the entry and has accumulated more relational capital. We test our model empirically by analyzing the survival of investments carried out by Spanish firms from infrastructures industries during the 1986 to 2008 period.

2 | THEORY AND HYPOTHESES

2.1 | MNE-host government relationships from a relational perspective

FDI is a dynamic process in which multinationals make gradual commitments to the host country under the watch of host governments and regulators. Building on social exchange theory (Granovetter, 1985), Luo (2001) argues that multinationals and host governments can enter into a virtuous cycle based on reciprocity in which both parties get to win-win situations by making adjustments to the initial terms of the relationship. Considering this relational approach, the interaction between a multinational and a host government could be understood as a cooperative relationship in which the two parties make adjustments to reach desirable outcomes for both of them (Hillman & Hitt, 1999; Luo, 2001, 2004): favorable conditions to operate in the case of the multinational (García-Canal & Guillén, 2008) and improvements in the host country welfare in the case of the government (Eden & Molot, 2002; Luo & Zhao, 2013).

While interdependences in MNE-host governments' relationships exist in every industry (Eden & Molot, 2002; Kobrin, 1987; Luo, 2001, 2004; Moran, 1974; Nebus & Rufin, 2010; Shirodkar & Mohr, 2015; Vivoda, 2009, 2011; Wagner, 2013), they are amplified in the specific case of infrastructure industries. Multinationals from these industries and local governments certainly maintain an interdependent relationship, as the profitability of the subsidiary is conditioned by the commitments made by both parties. On the one hand, it is conditioned by the commitments made by the firm related to infrastructure investment, payment of license fees, and/or restructuring expenses stemming from the acquisition of a local firm operating there. On the other hand, the commitments made by the government regarding the entry conditions, competitive levels, regulated prices, and so on would condition the expected profitability of the foreign

subsidiary.[2] As infrastructure projects are complex and their exploitation is surrounded by uncertainty in many ways, it is difficult to specify beforehand operational conditions to perfectly regulate the rights and obligations of the winners of the bids or contracts. For this reason, the relationship requires some adjustments during the life of the investment in order to fill the gaps that may exist, as both parties figure out what is acceptable and what is not. The fact that the relationship may have an indefinite duration introduces some of the elements of relational contracts, as it may be sustained not only by the contract and the applicable legislation, but also by the shadow of the future (Baker, Gibbons, & Murphy, 2002). That is why the insights from the relational governance literature can be applied to the relationship between MNEs in infrastructure industries and host governments.

This literature suggests that exchange relationships have not only a legal-formal component, but also an informal one that is developed over time based on the interactions and commitments beyond the limits of the formal relationships made by the parties (Dyer & Singh, 1998; Rousseau, 1995). That is why formal contracts and relational governance are currently seen as complements rather than substitutes (Larson, 1992; Poppo & Zenger, 2002; Zheng, Roehrich, & Lewis, 2008). When two parties enter into a (cooperative) relationship, it is usually difficult to specify beforehand the expected behavior of each one. At this point, partners in the relationship know neither the potential synergies of the cooperation nor the evolution of the environment. That is why formal contracts are necessarily incomplete and the parties have to fill the gaps through a series of interactions aimed at making the most of the relationship. But these interactions go beyond the scope of formal contracts and enter into the field of relational contracts, as they are sustained by the shadow of the future (Gibbons & Henderson, 2012). Previous research has documented this coexistence of formal and relational contracts inside organizations (Gibbons & Henderson, 2012), buyer–supplier relationships (Dyer, 1997; Levinthal & Fichman, 1988; Poppo & Zenger, 2002), IT and construction projects (Badenfelt, 2011), and, generally speaking, in all alliances (Dyer & Singh, 1998). However, it is in the field of interfirm strategic alliances that this phenomenon is best documented. Research on alliance evolution has shown that flexibility and adaptability are critical factors for alliance success (Majchrzak, Jarvenpaa, & Bagherzadeh, 2015). This stream of the literature shows that the governance of the alliance becomes easier as the partners show adaptability, so, after several iterations, two positive outcomes appear in every satisfactory cooperative agreement: first, consensual norms regarding the functioning of the agreement and, second, trust that allows the partners to effectively manage the alliance[3] (Ariño, De la Torre, & Ring, 2001; Doz, 1996; Dyer & Singh, 1998). The main problem is that these consensual norms and trust (which we jointly label as relational capital) are partner specific, so they have value only among the particular partners that have generated them. That is why changes in the identity of the partners usually do not generate positive feedback in cooperative relationships (Majchrzak et al., 2015).

[2]The profitability of infrastructure firms is driven by upfront payments, (regulated) prices, required investments, and competition (e.g., Henisz and Zelner, 2000; Sarkar, Cavusgil, & Aulakh, 1999). These factors are highly dependent on regulations and policies (Hillman, 2003; Keim & Hillman, 2008; Mahon & Murray, 1981). Host governments can even expropriate the infrastructure assets of the subsidiary, leading to a forced divestment (Sawant, 2010).

[3]Consensual norms can be understood as shared expectations regarding how the partners will react to specific contingencies (Doz, 1996; Gibbons & Henderson, 2012). Trust on the other hand, is related to a general expectation that the partner is not going to take advantage of the exposure to risk of the other partner (Williamson, 1993).

2.2 | Power transitions and the divestment of foreign subsidiaries

Extending the insights from the relational governance literature to the field of MNE-host government relationships in infrastructure industries, we argue that a power transition radically alters the nature and the outcomes of these relationships. In this way, a change of the granting government can be assimilated to a change in the identity of the partner in an alliance, leading to negative outcomes. In infrastructure industries, a new government that emerges after a power transition may want to renegotiate the terms of the relationship for a number of reasons. Besides its possible dissatisfaction with the provision of the service, the renegotiation might be triggered by a lack of fit between the terms of the service, on the one hand, and governmental preferences and those of its voters, on the other hand (Guasch, Laffont, & Straub, 2007). In addition, the lack of trust and previous investments in the relationship by the new government reduce its willingness to maintain the agreement. Whatever the case, this renegotiation may end in a divestment, either by sale or liquidation of the subsidiary or even by nationalization (Guasch et al., 2007). It is also important to note that after a power transition, the relational strategy of the foreign multinational may no longer be helpful in keeping the initial conditions negotiated with the granting government.

As long as local politicians with whom the company had negotiated the entry and accumulated relational capital remain in charge (or members of the same political party), the company can use this capital to enforce the specific entry conditions and make any subsequent adjustments in the relationship (Holburn & Bergh, 2008). For this reason, when analyzing the survival of a foreign affiliate, the formation of a new government supported by a political party different from the one with which the company negotiated the investment is usually bad news for multinationals. Having a new government entails a sharp decrease in the value of their local relational capital, due to its nontransferability. Even in the cases in which it would be possible to transfer the norms and rules to the new government, two problems arise. First, the main problem is that what is acceptable for the MNE and the granting government may not necessarily be acceptable for the incoming government. In fact, each political party has its own preferences regarding whether and how multinational firms should be involved in infrastructure industries. Second, relational capital is specific to the relationship with a particular government rather than transferable to any government. As a consequence, there is a problem of credibility (Gibbons & Henderson, 2012), as it is impossible to transfer relational assets to the new relationship with the incoming government. In fact, according to Siegel (2007), trust levels could be even negative, as the firm may be perceived by the incoming government as a collaborator of a rival political party. That is why a power transition may trigger the problems associated with the obsolescing bargain, making the incoming government unwilling to keep the informal promises and commitments made by the former government to the MNE (Ramamurti, 2003). As the firm loses the relational capital developed with the granting government, the MNE is more exposed to government decisions that can harm its profitability.

Therefore, power transitions reduce the effectiveness of the relational mechanisms that serve as a counterbalance to the relationship between the MNE and the host government, reducing the profitability prospects of the subsidiary or increasing the risk of nationalization. According to this, we formulate the following hypothesis:

> **Hypothesis 1 (H1)** *A power transition ousting the political party that granted the permission to invest increases the likelihood of divesting foreign subsidiaries in infrastructure industries.*

We argue that this effect is moderated by two factors: host country governmental discretion and the subsidiary's length of operation in the foreign country. Both factors intensify the positive effect

that the ousting of the granting government has on a foreign subsidiary's divestment in infrastructure industries. We analyze these moderating effects in the following paragraphs.

2.2.1 | The moderating effect of the host country governmental discretion

Governmental discretion is a typical factor highlighted in previous research on MNE-host government relationships that can trigger conflicts between MNEs and host governments (Henisz & Williamson, 1999). The conventional wisdom suggests that when governments do not have enough checks and balances, they have ample leeway to change the MNEs' operating conditions after the entry, worsening the profitability of the investment. However, applying the insights from the relational governance literature, governmental discretion could have a positive effect on subsidiary longevity, as the government can use its discretion to move beyond conventional practices in the industry (Fernández-Méndez et al., 2015; García-Canal & Guillén, 2008; Holburn & Zelner, 2010; Jiménez, Luis-Rico, & Benito-Osorio, 2014). In addition, fewer checks and balances favor the effectiveness of corporate political activities, because the number of actors with which the firm should negotiate is lower. In fact, Fernández-Méndez, García-Canal, and Guillén (2011) found that, for a sample of firms operating in infrastructure industries, increases in the host country governmental discretion led to increases in the odds of survival of the foreign subsidiary. Thus, from a relational view of corporate political actions, governmental discretion tends to favor subsidiary survival in infrastructure industries.

However, this is not always true. In effect, after a power transition, enjoying governmental discretion is a factor that gives the incoming government more leeway to damage the profitability of foreign subsidiaries. Not only they can renege on the informal commitments made by the former government, but they can also change the formal scenario where foreign subsidiaries are operating (the so-called "rules of the game"). As long as the political party with whom the company negotiated the investment remains in power, the firm can expect reciprocity in their relationship with it. However, as governmental discretion increases, a change in political actors leaves the company increasingly unarmed to deal with changes in the rules of the game. In this case, it is not possible to continue with the previous dynamic of cooperation. Trust levels are dramatically reduced, and the incoming government may find unacceptable the implicit arrangements (consensual norms) between the MNE and the granting government. Ontiveros et al. (2004) show that the underlying risks associated with governmental discretion emerge when there is a change in the government. This means that companies can maintain entry conditions as long as the granting government remains in charge. For this reason, power transitions are more dangerous in a context of governmental discretion, as it is in this type of cases when the new government can easily withdraw any commitment made by the outgoing government with the foreign multinational. In fact, in countries where checks and balances are ineffective, the host government can nationalize the foreign subsidiary and unilaterally break the relationship. When governmental discretion is high, governments have more leeway to renegotiate the terms of the relationship to adjust it to their preferences and those of their voters (Guasch et al., 2007). If, however, governmental discretion is low, the host government can force a renegotiation only if the company fails to comply with any of the terms of the investment (Guriev, Kolotilin, & Sonin, 2011). For these reasons, the risks associated with the obsolescing bargain and opportunistic behavior on the side of governments are more likely to appear after a power transition in countries with fewer checks and balances, as the new government can easily adjust the terms of the investment to its own preferences. Nationalization and expropriation are more feasible outcomes of the renegotiation of the investment in the case of governmental

discretion. In fact, they can even be used as a threat by the government to impose its conditions. Therefore, we argue that:

> **Hypothesis 2 (H2)** *Governmental discretion intensifies the positive effect of a power transition ousting the political party that granted the permission to invest on the likelihood of divesting foreign subsidiaries in infrastructure industries.*

2.2.2 | The moderating effect of the length of operation

It is widely acknowledged in the relational governance literature that commitment between exchange partners increases over time (Levinthal & Fichman, 1988). With the passage of time, the number of interactions involving the parties in an exchange relationship increases, which entails more opportunities for both of them to demonstrate their commitment to the relationship and create trust (Blatt, 2009; Blau, 1964). In the specific field of MNE-host government relationships, previous research suggests that it is easier and more effective for firms to adopt a relational approach to their political strategy with the passage of time (Hillman, 2003; Luo & Zhao, 2013). Personal ties are the typical way in which firms develop this relational capital with the host government (Luo & Zhao, 2013). The development of these ties takes time because relational capital is an asset subject to time compression diseconomies (Dyer & Singh, 1998). In effect, relational capital is the outcome of a set of interactions that lead the company to a satisfactory relationship with the host government (Dutta, 2013; Li, Lin, & Arya, 2008). For instance, Frynas and Mellahi (2003) showed, through a case study, how Shell (a British multinational in the oil industry) built relational capital over time in Nigeria and how the company leveraged this capital when difficulties arose. Thus, we can expect the relational capital accumulated with the host government to increase with the length of operation in the foreign country and that this capital reinforces the odds of survival of the foreign affiliate. However, the main problem with this capital is that it is specific to the granting government and, for this reason, it can turn into a liability after a power transition. When the MNE has been collaborating with the former government in the past, the incoming government may be reluctant to maintain the collaboration and the implicit agreements made by their predecessor. Compared with the situation in which the granting government stays in power, differences in the propensity to maintain a cooperative relationship with the MNE increase with the passage of time. As relational capital increases over time, every year the granting government stays in power, its propensity to maintain its commitments increases. However, a power transition disables the effect of this relational capital, so, compared with the cases in which the grating government stays in power, divestments are more likely to occur as the length of operation at the time of the power transition increases. In these cases, the new government has more incentives to renege on the promises and commitments made by the granting government. According to this, we formulate the following hypothesis:

> **Hypothesis 3 (H3)** *The length of operation in the foreign country intensifies the positive effect of a power transition ousting the political party that granted the permission to invest on the likelihood of divesting foreign subsidiaries in infrastructure industries.*

3 | METHOD

3.1 | Sample

We analyze the survival of 837 subsidiaries of 21 Spanish firms competing in infrastructure industries that were listed on the Madrid stock market during the 1986 to 2008 period. These subsidiaries are distributed throughout 58 countries around the world (see Table 1 for the distribution of the

TABLE 1 Number of investments and divestments by host country

Host country	N Investments	N Divestments
Angola	1	0
Albania	1	0
United Arab Emirates	1	0
Argentina	85	20
Australia	6	2
Belgium	3	0
Bulgaria	4	0
Bolivia	9	1
Brazil	66	4
Chile	67	7
China	18	0
Colombia	33	6
Costa Rica	4	0
Cuba	7	0
Germany	13	1
Dominican Republic	8	2
Algeria	31	3
Egypt, Arab Rep.	13	2
Estonia	1	0
Finland	6	1
France	25	4
United Kingdom	41	4
Greece	15	0
Guatemala	5	0
Honduras	1	0
Ireland	10	2
Iran, Islamic Rep.	1	0
Israel	3	0
Italy	47	6
Kazakhstan	2	0
Kenya	6	0
Liberia	1	0
Latvia	1	0
Morocco	16	0
Moldova	1	0
Mexico	73	3
Niger	2	0
Nicaragua	1	0
Netherlands	8	1
Norway	1	0
Oman	1	0
Panama	5	2
Peru	23	0

TABLE 1 (Continued)

Host country	N Investments	N Divestments
Philippines	3	2
Portugal	58	2
Qatar	2	0
Russia	7	0
Singapore	1	0
El Salvador	1	0
Slovak Republic	5	0
Slovak Republic	2	1
Syrian Arab Republic	1	0
Thailand	1	0
Trinidad and Tobago	4	0
Uruguay	9	3
United States	53	4
Venezuela	22	3
South Africa	2	0
Total	837	86

investments and divestments by host country). The countries that compose our sample are heterogeneous in terms of governmental discretion and other institutional and economic characteristics that may affect the survival of the subsidiary.

The main advantage of using evidence of firms from Spain is that their internationalization is a recent phenomenon boosted by the entry of Spain into the European Economic Community (nowadays European Union) in 1986. For this reason, our database covers the bulk of the investments made by these firms (Guillén, 2005; Guillén & García-Canal, 2010), especially if we take into account that the internationalization of firms from infrastructure industries is a relatively recent phenomenon. Privatization, liberalization, economic reforms, and domestic capital restrictions are the drivers of the internationalization of these firms (Henisz, 2003). For the purposes of this study, we consider as infrastructure industries those that provide the physical underpinnings of the economy, including construction, energy, transportation, telecommunications, and water. These industries were highly regulated in the past due to natural monopoly considerations and, as stated by Fernández-Méndez et al. (2015, p. 139), "despite liberalization and deregulation processes around the world, entry for newcomers still requires acquiring a company owning one of the limited licenses available to operate in the industry or being awarded a new license or contract, usually through a competitive bid."

When gathering the data, we included only operations traditionally considered as foreign direct investments, since these are the ones that generate a higher level of sunk costs in the process of entering a country. Thus, a foreign investor is defined as one having more than 10% of the equity of a local company (U.S. Bureau of Economic Analysis, 2004). As a consequence, our sample is composed of greenfield wholly owned subsidiaries and acquisitions of foreign firms and joint ventures made in a foreign country in which the MNE has a stake higher than 10%. Data about the investments undertaken by these companies was obtained from the Systematic Database on International Operations of Spanish Companies, built under the sponsorship of the Spanish Institute for Foreign Trade, ICEX (see Guillén & García-Canal, 2007). Once all the investments in subsidiaries were identified, we proceeded to confirm whether these were still active at the end of the observation period or if, on the contrary, they were sold, liquidated, or nationalized prior to 2008. For each of the investments, we conducted structured searches through press databases and other

sources of information. We proceeded to systematically search using the names of the subsidiaries, the host country, and the parent corporations as keywords, in order to verify whether these investments remained operative or not. Finally, we used other sources of information with a twofold purpose: on the one hand, to gain further insight into each specific case and check the information previously collected; on the other hand, to complete that information with divestments that were not detected in the first search. The secondary sources of information used were: information released by the parent firm, such as annual reports and/or their websites; official communications to the Spanish stock market regulator, Comisión Nacional del Mercado de Valores (CNMV); and documents from international institutions such as the World Bank or the International Centre for Settlement of Investment Disputes (ICSID).

3.2 | Variables

3.2.1 | Dependent variable

Our unit of observation is the investment-year combination, so our dependent variable is the occurrence of a firm's foreign subsidiary divestment during each year in which the investment is active. The divestment of the subsidiary can be considered as the outcome of a bargaining process between the firm and the host government. In this sense, as previously stated, we define divestments as all withdrawals from the host country, including sales, closures (liquidation or bankruptcy), expropriations, and nationalizations of the foreign subsidiaries. All of them can be considered as unilateral reactions by the firm or the host government to situations in which they perceive that the relationship is not giving the expected outcomes. Thus, this variable is valued 1 when a divestment occurs in year t and 0 otherwise. Of all of the 837 subsidiaries analyzed, 86 were divested during the observation period, 25 of which were caused by nationalizations (29%) and only two by closure (2.3%). The rest of the investments (751) were right censored; that is, they were still active at the end of the observation period.

3.2.2 | Main independent variable: New party in government

The variable *new party in government* is a dummy variable valued at 1 if a change in the party or political coalition (that was in power when the firm made the investment) occurred in the country during the previous year, and valued at 0 otherwise. To build this variable, we used the Database of Political Institutions (DPI) developed by the World Bank. This database includes several variables related to different aspects of political institutions in 179 countries. We used the variable that accounts for the political party that was in power each year.[4]

3.2.3 | Governmental discretion

By governmental discretion, we mean the extent to which politicians and regulators can unilaterally alter the conditions under which firms operate in the country in a way that affects their profitability. Considering this definition, the political constraint index POLCONV, developed by Henisz (2000), is the most accurate and widely used measurement from which we can build a governmental discretion index (García-Canal & Guillén, 2008; Holburn & Zelner, 2010; Jiménez et al., 2014; Perkins, 2014; Slangen, 2013). The POLCONV index includes the number of independent power branches (e.g., the executive, legislative, and judicial branches) with veto capacity over policy changes in each country, while also taking into account the degree of alignment among them. This index also considers the existence of subnational governments. Values in this index range from 0 to 1 on a yearly basis, with 0 being the lowest degree of political constraints and 1 the highest. The higher the number of power branches with veto capacity, and the lower the alignment among them, the higher the POLCONV index. Following previous studies, we built a

[4]This variable is named "EXECME" in the DPI database.

governmental discretion index by subtracting the POLCONV score from 1 (Fuentelsaz, Garrido, & Maicas, 2014; García-Canal & Guillén, 2008; Holburn & Zelner, 2010).

3.2.4 | Length of operation in the host country

We measured this variable as the number of years since the investment was made. Thus, this variable accounts for the age of the foreign subsidiary.

3.3 | Control variables

Multiple factors related to the firm, the industry, and the host country can influence divestment decisions. We included in our model several control variables at different levels.

3.3.1 | Firm-level controls

It has been demonstrated that parent experience in the host country increases the probability of subsidiaries' survival (Delios & Beamish, 2001; Gaur & Lu, 2007). We measured the company's accumulated experience in the host country as the number of years since the first investment performed by the firm in that country to the date of the investment being analyzed, which could be a different one than the analyzed investment. Over the observation period, three mergers occurred among the firms in our sample. In these cases, the experience in the host country after a merger starts to count from the moment in which the first investment was performed, independently of which firm—the bidder or the target—made it.

We also controlled for product diversification in foreign subsidiaries. Previous studies have found that firms tend to divest subsidiaries that are outside their core business (Berry, 2010; Li, 1995). We included in our estimations a dummy variable (*diversified operation*) valued 1 if the analyzed investment was made outside the firm's core activities and 0 otherwise. To build the variable, we considered that the firm diversifies when the activities of the subsidiary are classified under a different SIC code than the SIC codes closely related to the firm's core regulated activities[5] (Li, 1995). We built this variable based on the information from the Systematic Database on International Operations of Spanish Companies. This database provides the data regarding the SIC codes for the multinational and the foreign subsidiary.

We also included a dummy variable accounting for the fact that the company has the government as a shareholder. State-owned companies may be more used to dealing with governments and regulators; thus, they may have a better ability to develop relational capital with them. To build this variable, we used the information compiled by Vergés (1999, 2010). This variable is valued 1 if the firm had the State as a shareholder at the end of the year prior to the observation.

The remaining control variables included in the model at the firm level are as follows: We introduced the firm's sales to control for the multinational size and Tobin's q as a proxy for intangible assets owned by the firm (Berry, 2006). To compute Tobin's q, we followed the procedure described by Chung and Pruitt (1994).

3.3.2 | Host-country controls

Macroeconomic uncertainty constitutes an important variable when deciding to invest in a country, as well as when choosing to divest (Berry, 2010). Previous studies show how firms avoid

[5]We use the following SIC codes to identify firms in each industry: water (4941, 4952, 4959, and 1781), energy (4924, 4911, 4931, 4932, 4939, 1541, 1623, 4925, 2911, 2999, 1381, 1382, 5172, 4922, 4923, 1311, 1321, and 1389), construction (1611, 1622, 1629, and 4953) and telecommunications (4811, 4821, 4833, and 4899).

macroeconomic uncertainty when investing abroad (Dunning, 1993; García-Canal & Guillén, 2008), and even more so when the amount of the investment is high (Campa, 1993). We calculated this variable following the methodology developed by Servén (1998) for measuring unexpected changes in economic growth. We computed macroeconomic uncertainty as the logarithm of the conditional variance of GDP growth for a determined year, using available information up to that moment. Specifically, we followed a GARCH (1, 1) model that is formulated as follows:

$$y_{it} = \alpha_1 t + \beta_1 y_{i,\ t-1} + \varepsilon_t$$

$$\sigma_t^2 = \gamma_{i,0} + \gamma_{i,1}\,\varepsilon_{i,t-1}^2 + \delta_i\,\sigma_{i,t-1}^2$$

where y_{it} is the country GDP for a specific year t, and σ^2 is the variance of ε_t conditioned to the available information up to that year t. σ^2 was computed separately for each country.

The rest of the control variables at the host country level included in all regressions are: GDP at constant (2000) prices and GDP percent growth as measurements for host market size and growth potential, respectively.[6] We also included two variables in order to control for other sources of risk in the host country: *host country's corruption level* and *host country's law and order. Host country's corruption level* accounts for the degree of corruption in each country in each particular year; and *Host country's law and order* accounts for the quality, strength, and impartiality of the legal system of each country on a yearly basis. The first variable adopts values from 0 to 12, and the latter takes values from 0 to 6. These two variables were obtained from the International Country Risk Guide (ICRG) database.[7] We introduced a dummy variable (*Host-home country's governments sharing the same political orientation*) to control for possible home and host country political ties due to the similarity of their governments' ideologies, which can help firms maintain their investments in a particular country. This variable is valued 1 if the home and host country have a government sharing the same political orientation. We obtained governments' political orientation information from the previously mentioned DPI database of the World Bank. Finally, at the host country level, we included two measures of distance between the home and the host country: administrative and geographic distances. Data for both variables were obtained from the Cross-National Distance Database (Berry, Guillén, & Zhou, 2010), which is available online from the Penn Lauder CIBER webpage. Administrative distance accounts for differences in terms of colonial ties, religion, and legal systems between both countries. Geographic distance is defined as "great circle distance between two countries according to the coordinates of the geographic center of the countries" (Berry et al., 2010, p. 1464).

At the industry level, we controlled for the sector to which the firm belongs. For this purpose, we created five dummy variables valued 1 whenever the firm belongs to a specific sector and valued 0 otherwise. Each of these five variables refers to the industries being analyzed: telecommunications, water, electricity, petroleum and gas, and construction industries. As many studies on investment survival have done before, we used logarithms for the firm's sales variable (Barkema, Bell, & Pennings, 1996; Tsang & Yip, 2007). To tackle endogeneity problems, information on all independent and control variables is referred to the year (t-1). As the interactions had a high correlation with their main effect, before their calculation, we mean-centered the continuous variables included in it (Jaccard & Turrisi, 2003). Furthermore, we included year and firm dummies. Table 2 shows the descriptive statistics and correlations among our variables.

[6]Data for both variables have been obtained from the World Bank.

[7]In the case of the corruption variable, we inverted the original index contained in the ICRG database to use a measure of corruption instead of a measure of lack of corruption.

TABLE 2 Means, standard deviations, and correlations

	Variable	Mean	Std. dev.	Min	Max	1	2	3	4	5	6	7	8
1	New party in government	0.08	0.27	0.00	1.00	1							
2	New party in government × Governmental discretion	0.00	0.06	−0.33	0.57	−0.21*	1						
3	New party in government × Length of operation	−0.04	0.95	−4.71	13.29	−0.16*	0.21*	1					
4	Governmental discretion	0.00	0.25	−0.33	0.57	−0.06*	0.25*	0.05*	1				
5	Length of operation	0.00	4.15	−4.71	17.29	−0.04*	0.05*	0.23*	0.12*	1			
6	Firm's sales	16.16	1.01	11.42	17.85	0.01	0.02	0.03*	0.12*	0.23*	1		
7	Firm's Tobin's q	1.43	0.31	0.27	3.13	0.02	−0.01	0.02	−0.01	0.08*	0.29*	1	
8	Diversified operation	0.10	0.30	0.00	1.00	0.00	−0.01	−0.02	−0.04*	−0.07*	−0.00	0.09*	1
9	Firm's host country experience	8.78	4.82	1.00	23.00	−0.03*	0.04*	0.14*	0.10*	0.62*	0.48*	0.28*	0.04*
10	State ownership	0.08	0.27	0.00	1.00	−0.02	0.02	−0.02	−0.02	−0.11*	−0.14*	−0.11*	−0.05*
11	Host country's GDP	0.07	0.19	0.00	1.00	0.02	−0.11*	−0.04*	−0.28*	−0.09*	−0.01	0.03*	0.15*
12	Host country's GDP growth	3.65	3.80	−14.88	26.75	−0.06*	0.10*	0.07*	0.23*	0.10*	0.06*	0.06*	−0.02
13	Host country's macroeconomic uncertainty	−7.18	1.10	−11.32	−1.79	0.02	0.08*	0.06*	0.13*	0.02	−0.08*	−0.03*	0.02
14	Host-home country's governments sharing the same political orientation	0.46	0.50	0.00	1.00	0.11*	0.01	0.02	−0.01	0.02	0.04*	0.05*	0.03*
15	Host country's corruption level	3.00	1.05	0.00	5.50	0.02	0.07*	0.02	0.54*	0.10*	0.14*	0.06*	−0.06*
16	Host country's law and order	3.79	1.41	1.00	6.00	−0.00	−0.17*	−0.02	−0.58*	−0.09*	−0.09*	−0.00	0.06*
17	Geographic distance	6,522.06	3,718.83	346.84	15,839.89	0.02	0.07*	0.03*	0.22*	0.01	−0.12*	−0.03*	0.12*
18	Administrative distance	84.85	52.49	24.55	235.34	0.08*	−0.07*	0.07*	−0.17*	0.01	0.01	0.06*	0.02

TABLE 2 (continued)

	Variable	Mean	Std. dev.	Min	Max	9	10	11	12	13	14	15	16	17	18
9	Firm's host country experience	8.78	4.82	1.00	23.00	1									
10	State ownership	0.08	0.27	0.00	1.00	−0.22*	1								
11	Host country's GDP	0.07	0.19	0.00	1.00	−0.07*	−0.07*	1							
12	Host country's GDP growth	3.65	3.80	−14.88	26.75	0.09*	0.00	−0.06*	1						
13	Host country's macroeconomic uncertainty	−7.18	1.10	−11.32	−1.79	0.08*	0.11*	−0.22*	0.10*	1					
14	Host-home country's governments sharing the same political orientation	0.46	0.50	0.00	1.00	0.11*	−0.11*	−0.07*	−0.11*	0.07*	1				
15	Host country's corruption level	3.00	1.05	0.00	5.50	0.16*	−0.14*	−0.28*	0.15*	0.21*	0.10*	1			
16	Host country's law and order	3.79	1.41	1.00	6.00	−0.12*	0.06*	0.25*	−0.08*	−0.13*	−0.01	−0.59*	1		
17	Geographic distance	6,522.06	3,718.83	346.84	15,839.89	0.03*	−0.03*	0.01	0.13*	0.58*	0.16*	0.26*	−0.33*	1	
18	Administrative distance	84.85	52.49	24.55	235.34	0.03*	0.07*	0.00	−0.05*	0.17*	0.14*	−0.05*	0.22*	−0.04*	1

*$p < 0.05$.

To test our hypotheses, we used a Cox's proportional hazards model (Cox, 1972). In particular, we follow a discrete-time Cox model, which allows us to incorporate the time-varying variables of our model (Allison, 1982). The Cox model estimates the effect of our main independent variables without imposing a parametric form to the distribution of the hazard rates. In this model, the hazard has the following form: $h(t)= h_0(t) \exp(\beta_1 x_1 + \cdots + \beta_k x_k)$. The baseline hazard function ($h_0(t)$) does not have to be specified, and the effect of the independent variables is assumed to be proportional. For the event of interest, a set of coefficients that estimate the positive or negative impact of the independent variables on the hazard ratio are calculated.

As our dependent variable is the occurrence of a foreign subsidiary divestment, our unit of observation is the investment-year combination. Our sample is composed of 837 investments performed by the 21 firms over the analyzed period. An investment enters the dataset the year in which it is made and exits at the time the divestment occurs or is right censored in 2008.

4 | RESULTS

Table 3 summarizes the main results obtained from the regressions. Each of the columns shows the estimated coefficients for each variable across different specifications of the model. We present five specifications: control variables only, main independent variables, the effect of each interaction (Models 3 and 4), and the full model with all interaction effects (Model 5).

Consistent with Hypothesis 1, the removal of the granting government has a positive and significant coefficient ($p < 0.05$ in the full model) across most of the specifications. This variable increases the probability of divesting for the firms in our sample. Our second hypothesis is also supported, as the moderating effect of governmental discretion is positive and significant. However, its significance falls below the 0.05 level ($p = 0.09$) in the full model. As predicted by our third hypothesis, the interaction term between the removal of the granting government and the length of operation in the host country is positive and significant ($p < 0.05$ in the full model). As expected, our results show that the formation of a new government supported by a different political party is always bad news for the survival of the investment, but governmental discretion and the length of operation amplify this positive effect on the divestment decision.

In addition to having the expected sign, the coefficients are also large in magnitude. To calculate the magnitude of the effect of our main independent variable (*new party in government*), we used the coefficients showed in the fifth specification of the model, which includes the two moderating variables. We analyze the effect of the removal of the granting government considering the variation of each moderating variable separately. To do that, we value at its mean the moderating variable that is not being analyzed.

When the granting government is removed from power, a one-half standard deviation increase in governmental discretion *increases* the chance of divesting by *188.68%* when the length of operation is valued at its mean, which is 0, $(\{\exp[(0.73 \times 1) + (2.66 \times 1 \times 0.5 \times 0.25)] - 1\} \times 100)$. Figure 1 shows how the effect of governmental discretion on the hazard rate of divestment occurrence increases comparing both scenarios: when the granting government is removed from power and when the granting government remains in power.

The magnitude of the effect of the removal of the granting government is also large when considering increases in the length of operation. In this case, if the granting government is removed from power, a one-half standard deviation increase in the length of operation *increases* the chance of

TABLE 3 Cox's proportional hazards model results

Variables	(1)	(2)	(3)	(4)	(5)
New party in government (H1)		0.63†	0.55	0.81*	0.73*
		(1.93)	(1.50)	(2.43)	(2.02)
New party in government × Governmental discretion (H2)				3.27*	2.66†
				(2.21)	(1.70)
New party in government × Length of operation (H3)			0.18*		0.14*
			(2.50)		(2.09)
Governmental discretion		−1.61**	−1.67**	−1.94**	−1.91**
		(−2.58)	(−2.64)	(−2.87)	(−2.85)
Length of operation		−0.08*	−0.10*	−0.08*	−0.10*
		(−2.05)	(−2.43)	(−2.18)	(−2.40)
Firm's sales	1.04	0.93	0.95	0.96	0.98
	(1.59)	(1.39)	(1.42)	(1.43)	(1.45)
Firm's Tobin's q	−2.26†	−2.33†	−2.29†	−2.28†	−2.24†
	(−1.73)	(−1.77)	(−1.83)	(−1.77)	(−1.80)
Diversified operation	−0.22	−0.33	−0.30	−0.34	−0.32
	(−0.49)	(−0.73)	(−0.66)	(−0.77)	(−0.71)
Firm's host country experience	−0.05	−0.01	−0.00	−0.01	−0.00
	(−1.43)	(−0.19)	(−0.04)	(−0.15)	(−0.06)
State ownership	0.43	0.47	0.59	0.53	0.62
	(0.72)	(0.82)	(1.02)	(0.92)	(1.06)
Host country's GDP	−0.65	−0.90	−0.94	−0.89	−0.94
	(−0.91)	(−1.28)	(−1.33)	(−1.27)	(−1.33)
Host country's GDP growth	−0.04	−0.01	−0.02	−0.03	−0.03
	(−1.10)	(−0.32)	(−0.67)	(−0.75)	(−0.97)
Host country's macroeconomic uncertainty	−0.08	−0.06	−0.08	−0.08	−0.10
	(−0.52)	(−0.43)	(−0.56)	(−0.57)	(−0.65)
Host-home country's governments sharing the same political orientation	−0.20	−0.27	−0.33	−0.34	−0.37
	(−0.77)	(−1.07)	(−1.27)	(−1.32)	(−1.43)
Host country's corruption level	0.08	0.14	0.16	0.19	0.20
	(0.58)	(0.93)	(1.06)	(1.22)	(1.26)
Host country's law and order	0.07	−0.05	−0.03	−0.01	−0.00
	(0.52)	(−0.33)	(−0.24)	(−0.05)	(−0.02)
Geographic distance	0.00	0.00	0.00	0.00	0.00
	(0.80)	(0.76)	(0.71)	(0.95)	(0.87)
Administrative distance	0.00*	0.00†	0.00	0.00†	0.00
	(2.23)	(1.87)	(1.57)	(1.94)	(1.61)
N of investments	837	837	837	837	837
N of divestments	86	86	86	86	86
N of firms	21	21	21	21	21
Observations	6,100	6,100	6,100	6,100	6,100

Robust z-statistics in parentheses:
**p < 0.01.; *p < 0.05.; †p < 0.1.
Firm, industry, and year dummies have not been included in the table due to space.

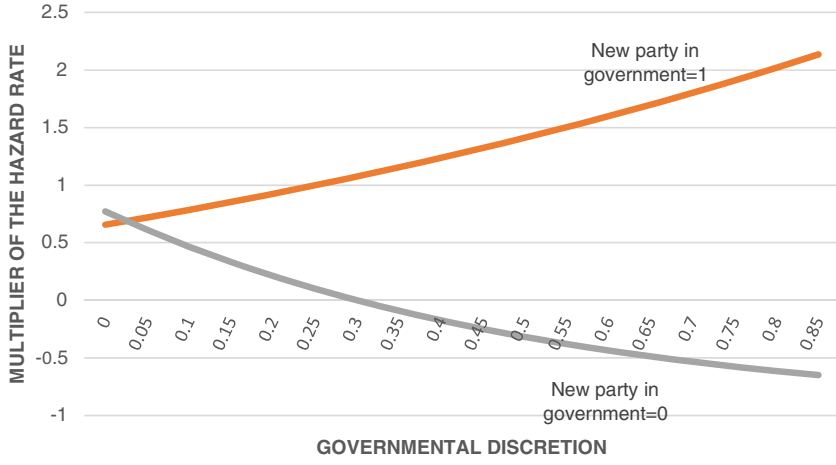

FIGURE 1 Moderating effect of governmental discretion

divesting by *176.76%* when governmental discretion is valued at its mean. Figure 2 presents the increase on the hazard rate of divestment occurrence as the length of operation increases comparing both scenarios: when a new government arrives and when the granting government remains in power.

Regarding control variables, only the firm's Tobin's q is significant across all specifications of the model. The level of the firm's intangible assets decreases the probability of the firm's foreign subsidiary divestment. It is important to note that the firm's host country experience and the subsidiary's length of operation show a high level of correlation (correlation coefficient = 0.62). The explanation of this high correlation is that, in some cases, the value of the firm's host country experience may be the same as the value of the length of operation of the firm's subsidiary. As a robustness check, we reran our regressions excluding the variable accounting for the firm's experience in the host country, and all of our results remained the same.

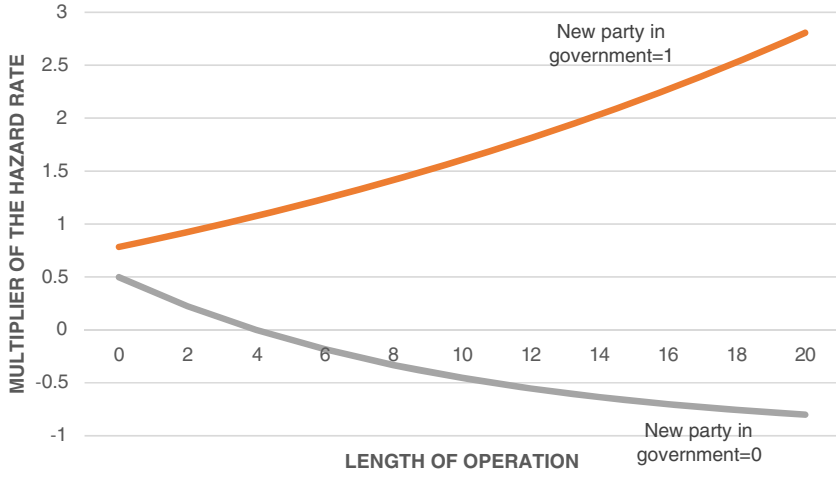

FIGURE 2 Moderating effect of the length of operation

4.1 | Additional robustness checks

To provide an additional test of the causal relationship between a new party in government and divestments, we performed a difference-in-difference estimation with covariates. From this estimation, we obtained the difference-in-difference estimator, which is the difference in the outcome variable for treated and control units before and after the intervention (Villa, 2016). In our model, the outcome variable is the occurrence of a foreign subsidiary divestment, and the intervention variable is the change of the granting government (it is a dummy variable valued 1 at the time of a power transition ousting the granting government and 0 otherwise). The treatment variable is a dummy variable valued 1 if the investment *i* belongs to the treated group and valued 0 if the investment *i* belongs to the control group. We considered that an investment belongs to the treated group if it experienced a power transition during the analyzed period while those investments for which the granting government remained in power during the observation period belong to the control group. We also included in the estimation the rest of the covariates of our model. Table 4 shows the results of the difference-in-difference estimation. The difference-in-difference estimator is positive and significant, showing the robustness of the observed effect of a power transition on a foreign subsidiary divestment occurrence.

We also performed the time-dependent covariate test to determine whether the coefficients of the covariates change with time and which variables violate the proportional hazard assumption (Cox, 1972). Not all of the covariates of our model comply with this assumption. For this reason, to ensure the robustness of our results, we rerun our model including an interaction of each of the variables violating the assumption with time, one of most common options to deal with the non-proportionality assumption (Allison, 2010). Table 5 shows how our results remain the same after including the interaction of each of these variables with time (column two of Table 5 shows the interactions with time of the violating variables).

5 | DISCUSSION AND CONCLUSION

We have developed and tested a theoretical framework grounded on the literature on relational governance and the relational view of corporate political activities to explain divestment decisions of foreign affiliates by infrastructure firms. Specifically, we considered foreign subsidiary divestment decisions as an outcome of the relationships through which infrastructure firms and host governments handle their interdependence. Consistent with the relational view, we expected infrastructure MNEs

TABLE 4 Difference-in-difference estimation

Outcome variable	Divestment occurrence	Standard errors	|t|	P > |t|
Before				
Control	0.419			
Treated	0.387			
Diff (T-C)	−0.032	0.008	−3.92	0.000**
After				
Control	0.391			
Treated	0.402			
Diff (T-C)	0.011	0.017	0.67	0.505
Diff-in-diff	0.044	0.019	2.24	0.025*

Clustered std. errors
Inference:
**p < 0.01; *p < 0.05.

TABLE 5 Cox's proportional hazards model results with time-varying covariates

Variables	(1) Main equation	(2) Time-varying covariates[a]
New party in government (H1)	0.72*	
	(2.00)	
New party in government × Governmental discretion (H2)	2.83†	
	(1.67)	
New party in government × Length of operation (H3)	0.12*	
	(2.03)	
Governmental discretion	−4.59**	0.46**
	(−3.82)	(3.38)
Length of operation	−0.14**	
	(−3.08)	
Firm's sales	1.08†	
	(1.75)	
Firm's Tobin's q	−0.32	−0.36**
	(−0.23)	(−2.70)
Diversified operation	−1.48*	0.21*
	(−2.09)	(2.20)
Firm's host country experience	−0.16*	0.04**
	(−2.26)	(4.53)
State ownership	2.79**	−0.46*
	(3.16)	(−2.22)
Host country's GDP	−3.02**	0.41**
	(−4.18)	(2.71)
Host country's GDP growth	−0.16*	0.02
	(−2.16)	(1.60)
Host country's macroeconomic uncertainty	−0.58**	0.09**
	(−2.83)	(2.92)
Host-home country's governments sharing the same political orientation	0.09	−0.09
	(0.20)	(−1.31)
Host country's corruption level	0.24	
	(1.46)	
Host country's law and order	0.07	
	(0.52)	
Geographic distance	0.00	
	(1.13)	
Administrative distance	0.00	
	(1.05)	
N of investments	837	837
N of divestments	86	86
N of firms	21	21
Observations	6,100	6,100

Firm, industry, and year dummies have not been included in the table due to space.
[a] Variables in this equation are multiplied by time.
Robust z-statistics in parentheses:
**p < 0.01,; *p < 0.05,; †p < 0.1.

and host governments to enter into a cooperative relationship that could evolve into a virtuous circle. Despite the fact that these relationships can be seen as cooperative, there are events that break the virtuous circle. In this regard, our framework enriches the relational view by explaining how an external shock—in our case, the removal of the granting government—may turn these relationships of cooperation into situations of confrontation that can end in divestments. Our results show that this is when the risks associated with the so-called "obsolescing bargain" come to the surface. In this sense, it is not only the execution of the investment *per se*, as predicted by the obsolescing bargain hypothesis, but the loss of the firm's relational capital with the granting government that leads to a conflictive relationship. The incoming government can behave opportunistically and change the rules of the game—even via nationalizations—or it can just renege on the promises and implicit commitments made to the firm.

Our framework attempts to reconcile the two streams of research analyzing MNE-host government relationships: on the one hand, the view that considers these relationships as cooperative (Dunning, 1993; Luo, 2001, 2004; Stopford, 1994), and, on the other hand, the view that considers these relationships as conflictive (Kobrin, 1987; Vernon, 1971). In particular, we add to this literature by documenting how a power transition may alter a relationship of cooperation and by analyzing when and why it may lead to the divestment of the foreign subsidiary. Our main argument is that a change in government increases the likelihood of divestment due to, first, the loss of the relational capital accumulated by the foreign MNE since the early stages of the investment, and, second, the difficulty in building relational capital with the new government and maintaining a cooperative relationship with it. This accumulated relational capital is the main safeguard protecting the infrastructure firm against the effects of the obsolescing bargain. We also argue that the level of governmental discretion in the host country and the length of operation amplify the impact of a power transition on the likelihood of divestment. Previous research has shown that the relational capital with a particular regime may turn into a liability when this regime disappears (Fisman, 2001; Henisz & Delios, 2004; Siegel, 2007). However, these studies have focused on extreme contexts of political transition (i.e., the transition from an authoritarian system to a democratic one). For instance, for Henisz and Delios (2004, p. 390) a regime change "involves the replacement of an existing set of political institutions with an entirely new structure." A recent study by Dai, Eden, and Beamish (2017) shows how wars in the foreign country can also lead to divestments. Interestingly, their study shows that resource commitments to a country become a liability when a war starts, reinforcing the idea that the obsolescing bargain can be triggered by external events and not just by the execution of the investment. We show that the simple fact of having operated under the watch of the former government can become a liability, even after changes in the political party who occupies the government that do not necessarily lead to the replacement of the entire political apparatus. In other words, all power transitions matter when it comes to assessing the performance consequences of past and present cooperative relationships with governments. An empirical analysis based on survival models applied to international investments made from 1986 to 2008 by companies from Spain competing in infrastructure industries lent support to our hypotheses.

We contribute to the relational governance literature by extending its insights to the analysis of MNE-host government relationships in infrastructure industries. Previous studies have analyzed the complementarity of contractual and relational governance in different types of relationships, ranging from contracts inside companies (Gibbons & Henderson, 2012) to alliances (Dyer & Singh, 1998) and even public-private partnerships (Zheng et al., 2008). Our main contribution is to show that an exogenous change—the removal of the granting government—drastically changes the cooperative relationship between the host government and the MNE. A change in government not only

undermine the relational capital accumulated by the parties, but also reduces the effectiveness of the informal norms and consensus developed throughout the relationship. The relational governance literature suggests that there are specific assets to the relationship that go beyond trust and ties (Gibbons & Henderson, 2012). These assets consist of operational rules and procedures developed by consensus over time, and they may be difficult to transfer to a third party. In the case of MNE-host government relationships, transferring these informal rules and commitments is difficult not only because of their tacit nature, but also because the former government may not be interested in disclosing them if they imply moving beyond conventional practices in the industry.

This article also adds to the literature on the impact of the institutional environment on foreign direct investment. Previous research has suggested that governmental discretion does not always have a negative impact for the firm, so firms do not always avoid investing in countries with high levels of governmental discretion (Fernández-Méndez, García-Canal, & Guillén, 2018; García-Canal & Guillén, 2008; Jiménez et al., 2014; Lawton et al., 2013). In fact, as shown by Fernández-Méndez et al. (2011) and, confirmed by our results, governmental discretion reduces the likelihood of divestment for firms from infrastructure industries. These results, however, cannot be easily reconciled with the problems faced by foreign firms in countries such as Argentina, Venezuela, or Bolivia, which are characterized by weak institutions and high levels of governmental discretion. Governments in these countries behave consistently with the "obsolescing bargain" model (Vernon, 1971), sometimes even by expropriating the subsidiary (Müllner & Puck, 2018). Our results show that for firms from infrastructure industries, these problems are more likely to appear once the granting government is removed, and not just after the investment is made. Thus, even though infrastructure firms can take advantage of governmental discretion when they invest in a foreign country (Fernández-Méndez et al., 2015; García-Canal & Guillén, 2008; Jiménez et al., 2014), governmental discretion turns into a liability when a new government comes in. At this point, governmental discretion leaves the firm unarmed to deal with a government with free hands to renege on previous formal and informal commitments made by its predecessor. In this way, the most important managerial implication of our results is that firms should be prepared for the contingency of a power transition. The best strategy to deal with this situation is to discover in foreign countries new sources of legitimacy other than governmental support. In this vein, recent studies have shown how other stakeholders besides the local government exert an important influence on firms' value and their relationships with host governments. For instance, Henisz, Dorobantu, and Nartey (2014) show how the creation of social capital with local stakeholders increases the firm's financial value. Similarly, Darendeli and Hill (2016) found that firms politically connected with the Qadhafi regime in Libya who made investments in projects with social objectives and developed ties with local families less connected with the Qadhafi regime were able to obtain a greater legitimacy to handle Qadhafi's removal from power. Thus, corporate diplomacy (Henisz, 2016) and nonmarket strategies (Dorobantu, Kaul, & Zelner, 2017; Lawton, Doh, & Rajwani, 2014) are ways firms can prepare for a smooth transition from one government to another.

It is interesting to note the role of length of operation. Consistent with the relational governance literature, the length of operation reduces the likelihood of divestment, as it is expected that relational contracts are developed over time. It is when a new government comes in that these contracts become ineffective and firms face the dilemma of starting again to negotiate a new relational contract or divesting the subsidiary. The effect of a power transition can be assimilated to a change in the identity of one of the partners in a cooperative relationship. The literature on alliance dynamics highlights that changes in partner composition do not generate positive dynamics inside a strategic alliance (Bakker, 2015; Majchrzak et al., 2015). We show that these changes are also detrimental in the context of MNE-

host government relationships in infrastructure industries. Thus, managers need to be aware of the risks associated with a power transition, as this is something that is going to happen sooner or later.

However, some alternative explanations for our results can be provided. First, we have not been able to fully account for all of the factors that influence the firm's bargaining power, like the amount and timing of its investments in sunk costs, the identity and influence of its local partners, the degree to which the firm benefited from the support of its home country government or bilateral contracts between home and host countries, or the existence of other firms interested in investing in the country. As a consequence, alternative explanations based on the obsolescing bargain framework cannot be completely ruled out. Regarding the specific effect of sunk costs, although we do not have data on the redeployability of the investments of the foreign firms, our data seems to show that the irreversibility of the investments in infrastructure industries could explain the relatively low number of closures as compared to other types of divestment.

In the same way, it could be argued that not only the change of the granting government, but also the direction of the change, could affect the survival of the subsidiary. Right-wing governments have more investor-friendly policies than left-wing governments, which means MNEs can perceive more risk when changes from right-wing governments to left-wing governments are likely to occur (Vaaler, 2008). For this reason, changes from a right-wing government to a left-wing government could be more damaging than changes in other directions. To test the impact of the direction of the political change, we created two additional variables: the first one accounts for changes of the granting government that entail shifting from a center or right-wing government to a left-wing one; and the second variable accounts for changes in other directions (e.g., left-wing government to a right-wing government or any movements from or to other types of government).[8] Table 6 shows the results of these additional estimations, including all interaction effects, to test our three hypotheses; it also considers the direction of the change. We can see that the expected effect of Hypothesis 1 is supported only for changes from right-wing to left-wing governments. Hypothesis 2 is supported for both types of changes; regardless of the nature of the change (in terms of the political orientation of the new government), all power transitions increase the probability of divestment when governmental discretion increases. Finally, regarding the interaction effects for the length of operation, the coefficients are positive, but not significant. In this sense, evidence supporting Hypothesis 3 is weaker than for Hypothesis 2. Taken as a whole, these results are consistent with our theoretical framework that states that power transitions in the host country pose a threat to the survival of subsidiaries, as they put an end to the cooperative relationship between the MNE and the host government. However, they clearly show that power transitions from right-wing to left-wing governments are the worst scenario, although in all power transitions, the existence of governmental discretion is a factor that threatens the survival of the subsidiary. At any rate, our results regarding the role of the ideology of the incoming government open new avenues for future research.

Finally, given that we analyzed the occurrence of a foreign subsidiary divestment, our results contribute to the literature on the survival of foreign subsidiaries (Berry, 2010; Dai, Eden, & Beamish, 2013; Demirbag, Apaydin, & Tatoglu, 2011; Kim, Delios, & Xu, 2010; Li, 1995; Mitchell, Shaver, & Yeung, 1993, 1994; Pan & Chi, 1999; Wan et al., 2015; Woodcock, Beamish, & Makino, 1994; Zheng, Singh, & Mitchell, 2015). In a recent study, Blake and Moschieri (2017) highlighted how a situation of confrontation with a host government can lead to subsidiary divestments. They showed how multinationals having formal disputes with a host government were more prone to divest their foreign subsidiary in that country—and even in countries within the same region. We add to this literature by highlighting how a power transition can be the starting point of a situation of confrontation that can lead to the divestment of the subsidiary in infrastructure industries. Our framework is

[8]We obtained the information regarding the political orientation of the host government from the Database of Political Institutions (DPI) developed by the World Bank.

TABLE 6 Cox's proportional hazards model results for variables accounting for the direction of the power transition

Variables	(1)	(2)
Right-wing to left-wing direction	1.84**	1.63*
	(4.19)	(2.38)
Other directions	−0.04	0.11
	(−0.03)	(0.11)
Right-wing to left-wing direction × Governmental discretion		4.32*
		(2.11)
Right-wing to left-wing direction × Length of operation		0.09
		(1.10)
Other directions × Governmental discretion		3.44**
		(3.15)
Other directions × Length of operation		0.06
		(0.87)
Governmental discretion	−1.67**	−1.85**
	(−2.62)	(−2.78)
Length of operation	−0.08*	−0.09*
	(−2.06)	(−2.20)
Firm's sales	1.08	1.08
	(1.60)	(1.60)
Firm's Tobin's q	−2.14†	−2.09†
	(−1.71)	(−1.73)
Diversified operation	−0.30	−0.30
	(−0.68)	(−0.67)
Firm's host country experience	−0.01	−0.01
	(−0.20)	(−0.18)
State ownership	0.60	0.71
	(1.02)	(1.20)
Host country's GDP	−1.13	−1.03
	(−1.51)	(−1.40)
Host country's GDP growth	−0.03	−0.06
	(−0.97)	(−1.51)
Host country's macroeconomic uncertainty	−0.08	−0.11
	(−0.55)	(−0.73)
Host-home country's governments sharing the same political orientation	−0.38	−0.42
	(−1.45)	(−1.62)
Host country's corruption level	0.18	0.22
	(1.22)	(1.42)
Host country's law and order	−0.01	0.02
	(−0.07)	(0.14)
Geographic distance	0.00	0.00
	(0.92)	(0.81)
Administrative distance	0.00†	0.00
	(1.73)	(1.21)
N of investments	837	837
N of divestments	86	86

TABLE 6 (Continued)

Variables	(1)	(2)
N of firms	21	21
Observations	6,096	6,096

Firm, industry, and year dummies have not been included in the table due to space.
Robust z-statistics in parentheses:
**p < 0.01,; *p < 0.05,; †p < 0.1.

especially applicable to infrastructure industries, due the high interdependence they have with host governments. One question that arises is to what extent our findings can be extended to industries different from the infrastructure ones. Obviously, the answer might be that it would be dependent on the impact of government decisions on the profitability of the subsidiary. In industries in which prices are not regulated and in which the firms sell to individual customers, the impact of power transitions should be lower; but our framework could be applied in any context in which foreign firm profitability is heavily conditioned by local regulation in the foreign country.

One of the limitations of our study derives from the difficulty of introducing a variable accounting for the profitability of the investment. Due to lack of information, we could not include this variable in the model. Another limitation is that we do not have information regarding competitors from other countries operating in the same host country. In line with Soule, Swaminathan, and Tihanyi's (2013) work, which analyzes the diffusion of divestments by foreign firms in Burma, future research may try to analyze competitors' response to a multinational's political strategy and the impact that it has on MNE-host government relations. In addition, we do not have information about other nonmarket strategies firms may employ to mitigate the impact of governmental change, such as corporate diplomacy strategies (Henisz, 2016), which can allow them to develop relational capital with other stakeholders. A final limitation is that we were able to identify some outcomes of the relationship, like withdrawals, but not others, like changes in regulations or even profit expropriation. Through these changes and actions, governments can harm the profitability of the investment, so they could be considered as a kind of expropriation different from the outright expropriation. However, identifying this information requires much more information and a different (more focused) research setting, as each infrastructure industry has its own peculiarities regarding competition and regulation.

These limitations open the way for promising future work overcoming them and introducing new variables that could influence divestment decisions. The effect of entry mode choice on the survival of subsidiaries has been widely analyzed in subsidiaries survival literature (Dhanaraj & Beamish, 2009; Ogasavara & Hoshino, 2008; Shaver, 1998; Song, 2014). However, more research is needed to identify which type of entry mode allows infrastructure firms to maintain better cooperative relationships with the host government. In addition, future research identifying the complete sequence of outcomes in the MNE-host government relationship could develop our framework to account for the peculiarities of each infrastructure industry. Finally, and in line with Henisz et al. (2014), another interesting future line of research would be to analyze the influence that other stakeholders may have on MNE-host government relations. These research questions would develop further the perspective advanced in this article, that relational capital with host governments is contingent on a number of factors.

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