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## Legitimacy of Multinational Enterprises: Systematic Review and Research Agenda<sup>1</sup>

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**Abstract.** Despite the growing academic interest in organizational legitimacy in the field of international business, the application of this concept varies widely. Our systematic literature review covers studies on legitimacy from the perspective of multinational enterprises (MNEs) over the past thirty years since the concept was introduced in the field. Our review comprises 72 articles from high-rated journals, which allows us to categorize the extant literature into various strands of research, discuss the evolutionary waves of research on MNE legitimacy, and provide directions for future inquiry. Additionally, we contribute by developing an integrative framework that offers a comprehensive understanding of the state-of-the-art theory on MNE legitimacy. We conclude that since the emergence of the concept, interest in it has grown across various management areas. Furthermore, while early research predominantly relied on institutional theory, the second wave saw a significant expansion of theoretical frameworks. In recent years, there has been an increase in articles addressing themes of ESG reporting and corporate social responsibility. Geographically, there is a noticeable increase in studies dedicated to emerging markets and MNEs from these countries. Besides systematizing knowledge, we contribute to the theory of international business by developing a comprehensive theoretical framework that reviews the antecedents for MNEs and their subsidiaries to acquire legitimacy, as well as the complexities and consequences of this process.

**Keywords:** MNE, MNC, legitimacy, international business, ESG, CSR

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## ИССЛЕДОВАТЕЛЬСКАЯ СТАТЬЯ

# Легитимность мультинациональных корпораций: систематический обзор литературы и исследовательская повестка

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**Аннотация.** Несмотря на растущий академический интерес к концепции организационной легитимности в сфере международного бизнеса, существуют разногласия по поводу ее применения. Наш систематический обзор литературы охватывает исследования легитимности с точки зрения мультинациональных корпораций (МНК) на протяжении последних тридцати лет с момента развития данной концепции. Цель данной работы заключается в систематизации существующего знания об организационной легитимности МНК и их дочерних компаний. Предметом исследования является легитимность МНК. Наш обзор охватывает 72 статьи в высокорейтинговых международных журналах и позволяет классифицировать существующую литературу по различным направлениям исследований, проанализировать эволюционные волны исследований легитимности МНК и обозначить релевантные направления для будущих исследований. В ходе работы авторы приходят к выводу, что с момента появления концепции интерес к ней рос со стороны разных областей менеджмента. К тому же, если в ранних исследованиях преобладало использование институциональной теории, то во вторую волну спектр теоретических рамок был существенно расширен. Кроме того, в последние годы наблюдается рост числа статей, обращающихся к тематике ESG-отчетности и корпоративной социальной ответственности. С точки зрения географического контекста, заметно повышение числа исследований, посвященных развивающимся рынкам и МНК из этих стран. Помимо систематизации знаний, мы вносим вклад в теорию международного бизнеса за счет разработки комплексного теоретического фреймворка, обобщающего предпосылки для приобретения МНК и их дочерними предприятиями легитимности, а также сложности и последствия этого процесса.

**Ключевые слова:** МНК, легитимность, международный бизнес, ESG, КСО

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## 1. Introduction

Despite the advancement of global society characterized by shared interests among groups of people in different countries (Peck, 2020), multinational enterprises (MNEs) are subjected to a lot of pressures on foreign markets. Not surprisingly, there has been an increasing interest towards organizational legitimacy in management research in recent decades. Dealing with the firms that operate in various political, economic, and cultural environments, international business (IB) research seeks to explain their behavior patterns and legitimization strategies. By the end of the 20th century, MNEs have become the central economic agents in the international flow of goods and services (McCann, 2008). One notable aspect of their operation is the necessity to adhere to the requirements of various environments, which adds complexity to their efforts in establishing and upholding legitimacy, yet it's crucial for their overall success.

Organizational legitimacy can be defined as a “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman, 1995, p. 574). For MNEs, given their intricate structure and presence in diverse environments,

organizational legitimacy becomes a multifaceted concept that encompasses various contexts and organizational tiers (Kostova, 1999).

Despite the fact that hundreds of papers have been published about the legitimacy of MNEs since the emergence of this concept 30 years ago, the theoretical framework in this area still remains fragmented, and application of various theoretical lenses is chaotic. We consider this as a significant gap that inhibits further research, especially since it has been getting more popular.

Numerous conceptual and empirical papers have explored this niche. However, they often introduce confusion in terminology and lack consistency in theoretical foundations, particularly concerning the classification of legitimacy in international business. To resolve these issues and synthesize the insights garnered from over three decades of organizational legitimacy theory development, we undertake this systematic literature review to address two primary questions:

RQ1: How has research on the legitimacy of MNEs evolved over time?

RQ2: How do various strands of research in this area conflict with or complement each other?

We embrace an evolutionary perspective and delineate two significant waves of research. Consequently, we construct an integrative framework that synthesizes and scrutinizes primary theories regarding MNE legitimacy, along with its antecedents and consequences. Additionally, we address the intricacies often encountered during the MNE legitimization process and offer existing typologies of legitimacy. The contribution of our study is threefold. Firstly, we systemize the body of knowledge on MNE legitimacy by presenting a chronological overview of the pertinent literature.

Secondly, we present an integrative framework that sheds light on key theories, antecedents, outcomes, complexities, classifications, as well as research focuses and contexts of MNE legitimacy.

Thirdly, leveraging our framework, we outline potential avenues for future research. Our paper follows this structure: following the introduction, we detail the article selection process and provide a description of the formal properties of the resulting sample, including types and methods of studies, and the chronology of publications. The subsequent section outlines research waves and their key features, which is followed by the description of our integrative framework, where we analyze its components using insights from the reviewed sample. Finally, we identify research gaps and propose avenues for future research.

## 2. Methodology

### 2.1. Sample

To make an inquiry into the extant research on legitimacy of MNEs we compiled a database where we included articles from the top-tier journals. To this end, we selected peer-reviewed articles from the 3, 4, and 4\* journals from the ABS list<sup>1</sup> with no time constraints.

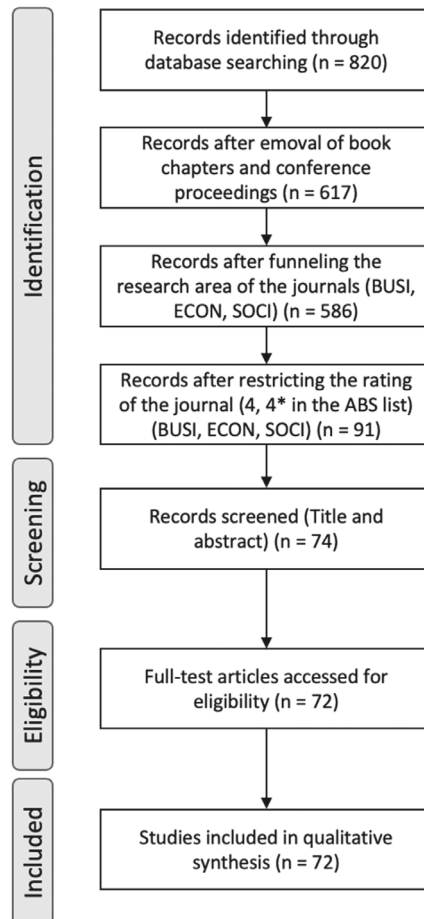
We found no previous literature reviews neither on the topic of MNE legitimacy, nor on organizational legitimacy in general, whereupon we had no extant examples we could consult with to facilitate identification of the relevant papers. As pioneers in our review of

<sup>1</sup> This list is also known as the Academic Journal Guide. It “provides information on journals from various fields that are salient to business and management studies” and is frequently used in business schools as a publication guide.

the topic, we deliberately chose popular terms for referring to a multinational enterprise, namely *multinational enterprise\**, *multinational corporation\**, *multinational\**, *MNE\**, and *MNC\**. We used asterisk in the end of the words to allow for search of their plural forms, since some authors may employ “multinational corporations” as one of the keywords.

The other vital term for our analysis is legitimacy. Building on the idea that *legitimacy* is acquired through the process of *legitimation* (sometimes also referred as *legitimization*) that grants an organization its legitimate status, we resorted to the query *legitima\**.

The search was implemented in four databases accessible in Russia as of June 2022: Scopus, Google Scholar, EBSCO, and JSTOR. The initial sample was 820 text documents. After the exclusion of books and conference proceedings it was reduced to 617 results. We then limited the choice of journals to the three areas: (1) business, management, and accounting, (2) social sciences, and (3) economics, econometrics, and finance. This reduced the number of articles to 586. We then selected journals that had the rating of 4, and 4\* in the ABS list 2021, which resulted in 91 papers. The screening of the title and the abstract as well as paper accessibility left us with a sample of 72 papers, where the first paper was dated as early as 1993.



**Fig. 1.** Selection Process Following the PRISMA Protocol  
Source: Compiled by the authors

Figure 1 illustrates the selection process graphically, following the PRISMA protocol. PRISMA is a set of guidelines designed to ensure a transparent, complete, and accurate account of the article selection and identification process for systematic reviews (Page et al., 2021). We found these guidelines helpful for refining our methodological approach to selection.

For the analysis of journal coverage, we used a large sample. Table 1 presents an overview of the journals, including their ABS ratings and research areas. Most journals fall within the category of management, aligning with MNE legitimacy as a key area in IB research. Additionally, four articles are published in economic journals and two in sociological journals.

Table 2 presents the types and methods of the selected studies. Of the 72 papers in the sample, 64 are empirical and 8 are conceptual. Among the empirical studies, 29 use quantitative methods, while 35 employ qualitative methods. This distribution indicates that research on MNE legitimacy is mature, evidenced by the abundance of highly cited quantitative studies (Edmondson & McManus, 2007).

Table 1

## Journal Coverage

Journal	Rating	Area	Articles
Journal of International Business Studies	4*	M	22
Journal of World Business	4	M	11
Global Strategy Journal	4	M	5
Journal of Management Studies	4	M	4
Organization Science	4*	M	4
Academy of Management Review	4*	M	3
Human Relations	4	M	2
Journal of Economic Geography	4	E	2
Organization Studies	4	M	2
Strategic Management Journal	4*	M	2
Academy of Management Journal	4*	M	1
Accounting, Organizations and Society	4*	M	1
Administrative Science Quarterly	4*	M	1
American Journal of Sociology	4*	S	1
American Sociological Review	4*	S	1
Business Ethics Quarterly	4	M	1
Business History	4	M	1
Business History Review	4	M	1
Contemporary Accounting Research	4	M	1
Economic Geography	4	E	1
Governance	4	M	1
International Journal of Operations and Production Management	4	M	1
Journal of Operations Management	4*	M	1
Journal of Organizational Behavior	4	M	1
Work, Employment and Society	4	E	1
Total	—	—	72

M = Management, E = Economics, S = Sociology

Source: Compiled by the authors

Table 2

**Descriptive Analysis of Sampled Articles by Type and Method**

Type of study	No. of articles	Methods
Empirical	64 articles (88 %)	29 quantitative (45 %)
—	—	35 qualitative (55 %)
Conceptual	8 articles (12 %)	—

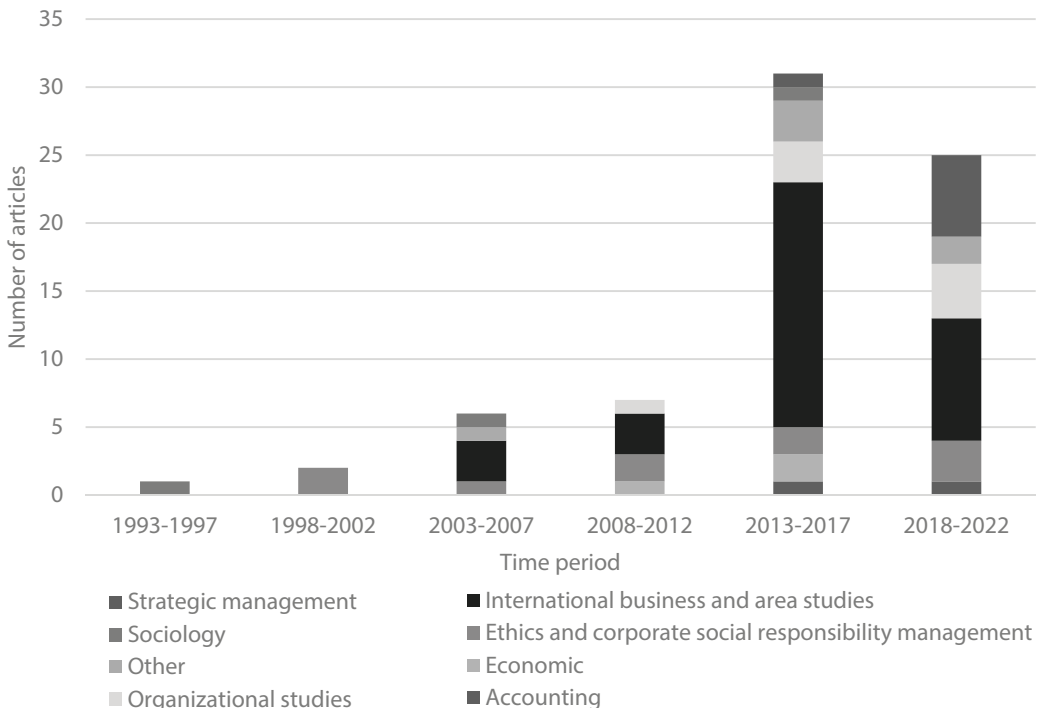
Source: Compiled by the authors

**2.2. Publication Trends**

Figure 2 presents the number of publications by time period in journals of a particular ABS subject area. Research on the topic began in the mid-1990s in sociology and then expanded into various management fields, with international business becoming dominant in the mid-2000s. From 2013 to 2017, the number of publications grew significantly, followed by a slight decrease in the next five years. A recent trend shows growing interest in MNE legitimacy within strategic management.

**2.3. Coding and Categorization of Studies**

The development of a coding procedure is essential for a qualitative analysis of articles (Gaur & Kumar, 2018). Since there was no prior systematic literature review on organizational legitimacy, we pioneered the development of categorization criteria. We based our coding on methodologies proposed in selected systematic literature review articles in management (Bergh et al., 2019) and international business (Nielsen et al., 2017; Debellis et al., 2021; Chakravarty et al., 2021). We categorized the selected



**Fig. 2.** Number of Publications in Leading Journals by Period and ABS Subject Area

Source: Compiled by the authors

articles using multiple criteria, first defining key variables based on existing theory on organizational legitimacy (Dowling & Pfeffer, 1975; Suchman, 1995). We categorized articles by the type of legitimacy analyzed (pragmatic, moral, and cognitive) and the approach to achieving it (institutional, strategic, or mixed).

We also incorporated an exploratory approach to coding, allowing key concepts and categories to emerge from the data (Schreier, 2012). We relied heavily on the seminal work of T. Kostova and S. Zaheer (1999), borrowing ideas on various approaches to legitimacy classification and the definition of audiences (one or many, local or global, etc.). Recognizing that legitimacy can be considered from both the MNE and its subsidiary perspectives, and that these legitimacies may not align, we adopted the research level classification approach proposed by Hitt et al. (2007), which defines multiple levels: individual, group, subunit, organization, interorganizational network, and environment.

Additionally, we relied on standard categorization variables for systematic literature reviews: the role of legitimacy in the article (core or part), type of article (conceptual, quantitative, qualitative), type of data for quantitative studies (cross-sectional, longitudinal, panel), sample size for empirical studies, MNE's home country, host country, MNE sector (as per NAICS 2021 classification), the phenomenon in question (e. g., market entry, merger, establishment of a new facility, factory shutdown), and the theories applied.

From our data, we identified multiple approaches to determining sources of legitimacy for MNEs and their subunits. We used the framework from Bergh et al. (2019), which includes cause-effect characteristics of phenomena. Accordingly, we extracted antecedents and consequences of legitimacy from the data. Finally, we collected and analyzed the propositions and hypotheses from the studies.

In the next section, we present insights from the two waves of research on MNE legitimacy. Following that, we provide our framework of MNE legitimacy, discuss the propositions and hypotheses from the data, and suggest avenues for future research.

### 3. Evolution in Academic Thinking about MNE Legitimacy

The concept of legitimacy, originating in sociology, caught the attention of management scholars in the 1970s, when ideas from seminal works on societal legitimacy (e. g., Parsons, 1960) began influencing organizational studies (Suchman, 1995). During this period, multinational enterprises became a central research focus in international business due to their growing dominance in the global exchange of goods and services (McCann, 2008). However, it wasn't until the 1990s that management scholars began to consider the unique aspects of legitimacy for MNEs. Our review includes studies from the mid-1990s addressing MNE legitimacy, but the large-scale discussion began a few years later when T. Kostova and S. Zaheer (1999) published their conceptual paper on the topic, presenting ten propositions and a clear call for future research.

Based on the final sample of the selected papers we determined two major waves<sup>1</sup> of research (Table 3). Importantly, the key characteristics presented apply to the mainstream studies within the waves, rather than every study. Additionally, these waves are not entirely aligned with the depicted research interests in Figure 2, but rather based on specific content-related characteristics such as main foci and theoretical lens.

<sup>1</sup> The term "wave" serves as a broader alternative to the term "period" in delineating borders. Therefore, we do not adhere strictly to the rigid boundaries between waves, but instead describe trends within the defined periods.

Table 3

**Waves of Research on MNE Legitimacy**

Key characteristics	First wave (1995–2006)	Second wave (2007–ongoing)
Main foci	Organizational level (MNE as a whole). Conceptualization of MNE legitimacy	Subunit level (MNE subsidiary). Specification of legitimacy types
Research questions	How is legitimacy of MNEs different from the one of ordinary firms? How can an MNE build and maintain legitimacy? How are institutional pressures for external legitimacy different depending on the context?	How can MNE subsidiaries mediate between internal and external legitimacy pressures? What is the role of CSR/ESR reporting in the legitimation process? How to shape legitimation strategy in order to reach various stakeholder groups? How do MNEs manage both home and host country legitimacy?
Theoretical lens	Institutional theory	Institutional theory, (combined with other theories, e.g., legitimacy theory)
Proposed approaches to cope with institutional pressures (according to Suchman, 1995)	Institutional, mixed (institutional + strategic)	Mixed (institutional + strategic), strategic
Type of legitimacy (according to Suchman, 1995)	Pragmatic	Multiple types
Audience for legitimation	One (clients, suppliers / buyers, local government)	Various stakeholder groups
Focal contexts	Market entry	Legitimacy maintenance
Methodologies	Quantitative, conceptual	Quantitative, qualitative,
Illustrative references	Hannan et al. (1995); Kostova & Zaheer (1999); Henisz & Delios, (2001)	Chan & Makino (2007); Ahlstrom et al. (2008); Vaara & Tienari (2008); Marano et al. (2017)

Source: Compiled by the authors.

The first wave began in 1995 and lasted for 12 years. Studies from this period focused on how the legitimacy of multinationals differs from that of ordinary firms, particularly in terms of increased difficulty. Many studies (e.g., Kostova & Zaheer, 1999; Hillman & Wan, 2005) highlighted the complexity of operating within multiple institutional environments (regulative, normative, and cognitive) in foreign locations, as MNEs often struggle to acquire knowledge about these environments, especially norms and cognitive perceptions. Another complexity arises from the differing legitimacy criteria across institutional environments. Consequently, an MNE's behavior in one location may negatively impact its legitimacy in another location (Kostova & Zaheer, 1999). Legitimacy as a factor influencing firm internationalization and market entry decisions (Chan et al., 2006), as well as local customer involvement strategies (Zhang et al., 2015), also received significant attention.



In contrast, for the second wave it is more common to discern between the legitimacy of the MNE as a whole<sup>1</sup> and the legitimacy of its subsidiaries, despite this idea being initially proposed by T. Kostova and S. Zaheer (1999). Most second-wave studies differentiated between internal and external institutional pressures on subsidiaries (Chan & Makino, 2007; Li et al., 2014). Another research direction focused on tailoring legitimation strategies to the demands of various stakeholders, differing both in scale (global / local) (Marano et al., 2017) and social position in the host environment (Chan & Makino, 2007; Vaara & Tienari, 2011). Finally, Corporate Social Responsibility (CSR) and Environmental, Social, and Corporate Governance (ESG) reporting emerged as important topics, as these practices help MNEs acquire additional legitimacy (Marano et al., 2017; Durand & Jacqueminet, 2015).

Studies of the first wave considered multiple ways for MNEs to obtain legitimacy, generally emphasizing conformity to the institutional environment of a given location. Locations where stakeholders are knowledgeable about the industry and have a positive view of multinationals are more favorable (Hannan et al., 1995; Henisz & Delios, 2001). In contrast, the second wave more commonly applied a strategic perspective. Two examples include (1) the implementation of CSR reporting as a strategic choice to build legitimacy (Marano et al., 2017) and (2) cognitive influence through discourse creation (Ahlstrom et al., 2008; Vaara & Tienari, 2008, 2011, 2021).

The focus of first-wave scholars aligns with the dominant assumptions of institutional theory, which posits that organizations do not operate in a vacuum but within environments governed by specific rules. To succeed, organizations must adhere to these rules (Scott, 1995). However, some studies from this wave suggest that organizations have strategic choices in responding to environmental demands. A. Hillman and W. Wan (2005) propose considering proactive political strategies such as information, financial incentives, and constituency-building. In the second wave, there is a tendency to turn to legitimacy theory to explain MNE behavior aimed at creating an image for a particular audience (Cho et al., 2015).

Most first-wave studies focus on pragmatic legitimacy, which involves satisfying the interests of the local society, whether financial (Rodriguez et al., 2005) or informational (Hannan et al., 1995). In contrast, the second wave more commonly differentiates between pragmatic, moral, and cognitive legitimacy (Ahlstrom et al., 2008; Vaara & Tienari, 2008; Cuervo-Cazurra, 2016). New themes in legitimacy include the legitimacy of socio-political factors (Stevens et al., 2016; Tacconelli & Wrigley, 2009) and a sharper focus on M&A (mergers and acquisitions) deals (Vaara & Tienari, 2011).

The assumption that legitimacy is a resource for the MNE in a particular environment is more common in the first wave. In contrast, the second wave often considers legitimacy as something achieved for each specific stakeholder group, representing a relationship rather than a static resource.

Most empirical studies of the first wave focused on market entry and its legitimacy issues (Hannan et al., 1995; Kostova & Zaheer, 1999; Henisz & Delios, 2001). In contrast, second-wave studies rather focused on how to maintain legitimacy given an organization's presence in multiple environments (Campbell et al., 2012; Cho et al., 2015; Marano et al., 2017).

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<sup>1</sup> This type of legitimacy comprises legitimacy of the MNE and its subsidiaries for the global environment where such supranational institutions as global media and activist groups operate.

Methodological patterns also differ: from 1995–2006, there were more quantitative (Hannan et al., 1995; Henisz & Delios, 2001) and conceptual studies (Kostova & Zaheer, 1999; Rodriguez et al., 2005). Starting in 2007, there has been a growing number of qualitative studies (Ahlstrom et al., 2008; Vaara & Tienari, 2008, 2011), reflecting the call for more qualitative research in IB (Fletcher & Plakoyiannaki, 2011).

In addition, we identified two tendencies not covered in Table 3. First, during the second wave, more papers focused on legitimacy as the core phenomenon under investigation, rather than as part of the research context. This likely reflects an increased emphasis by MNE researchers on the role of legitimacy in MNE performance, and a growing attention to the concept of organizational legitimacy over the past 15 years. Second, the second wave saw a rise in quantitative studies, particularly those using panel data, in contrast to the first wave, which predominantly relied on cross-sectional data. We attribute this shift to the enhanced opportunities for data collection driven by ongoing digitalization and datafication processes worldwide

#### **4. Integrative Framework: Insight on the Antecedents and Complexities in Gaining and Maintaining Legitimacy and Consequences of Being Legitimate**

After reviewing the short sample of the selected articles, we developed an integrative framework shown in Figure 3. This framework presents the main theoretical perspectives used to analyze the legitimacy of multinationals. It provides insight into the process of legitimation, including the actions that lead to the establishment of legitimacy and the complexities that may hinder this process. We outline various classifications of legitimacy and the consequences of being legitimate for the firm. The three remaining building blocks focus on the level of inquiry, as well as exo- and chrono-contexts.

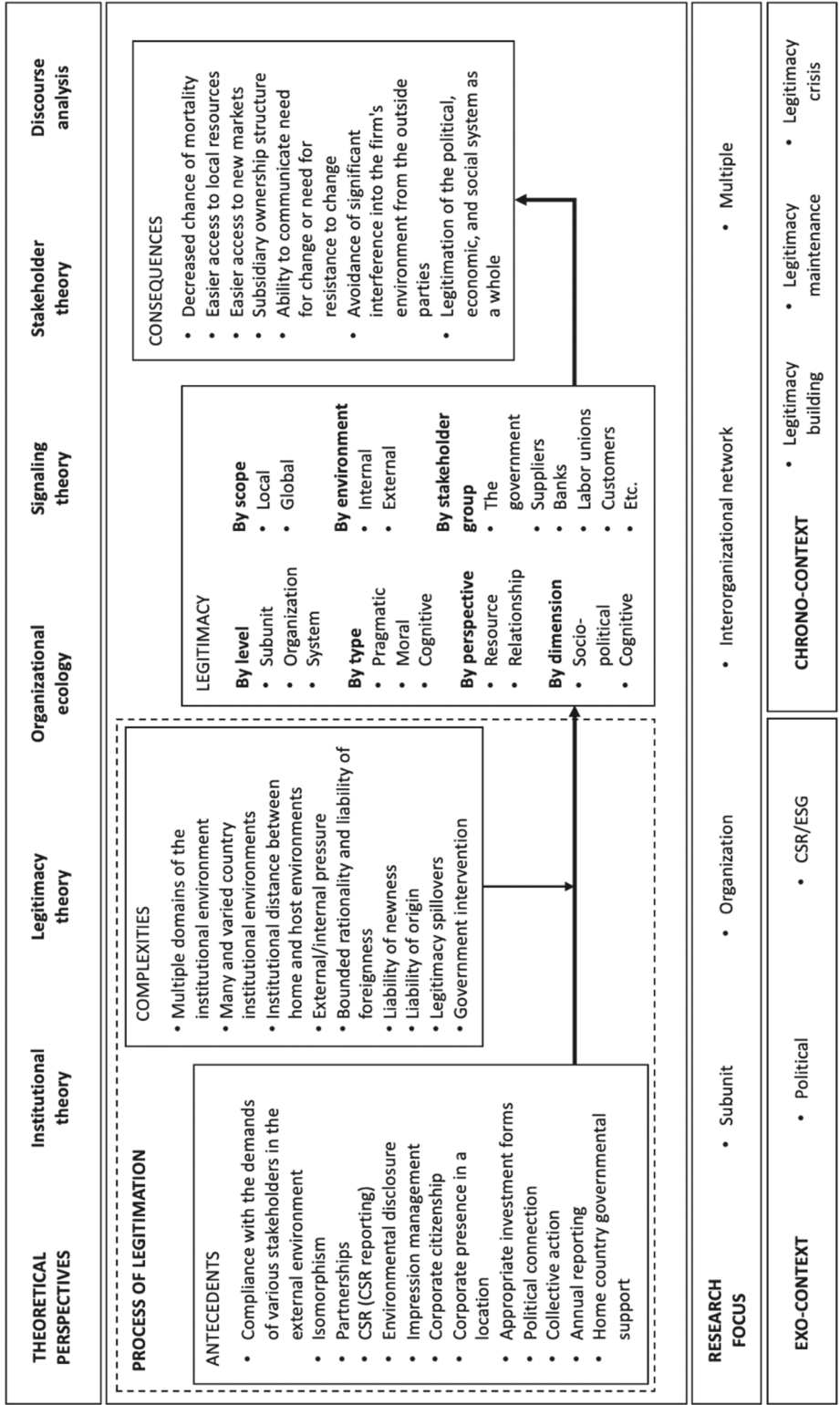
Next, we discuss the theoretical perspectives adopted for researching MNE legitimacy. Following this, we examine the processes associated with legitimacy issues of multinationals step by step.

##### **4.1. Theoretical Perspectives on MNE Legitimacy**

###### *Institutional theory*

Institutional theory and its varieties (neo-institutional theory, new institutional economics) have enjoyed a broad application in international business studies (Kostova et al., 2020). Most of the studies refer to this approach in analyzing the issues of legitimacy. The main tenet of this approach is that actions of economic agents are constrained by the characteristics of environments in which they operate.

T. Kostova and S. Zaheer (1999) refer to institutional theories in order to define three sets of factors that affect organizational legitimacy: the characteristics of the environment, the characteristics of the organization, and the process of legitimation. Most of the analyzed studies indicate that to be legitimate an MNE has to comply with the demands of the host environments. Through the review of articles, we identified two general strategies an organization may adopt: (1) selecting an environment where its characteristics are appropriate (Hannan et al., 1995; Chan & Makino, 2007), and (2) adjusting its own characteristics to align with the external environment (Hillman & Wan, 2005; Tacconelli & Wrigley, 2009; Ben Khaled & Gond, 2020). However, this adjustment is not without challenges, as it often involves navigating conflicting expectations from multiple environments (Pant & Ramachandran, 2017).



**Fig. 3. Integrative Framework of MNE Legitimacy**  
Source: Compiled by the authors

### *Legitimacy theory*

Legitimacy theory argues that organizations must continuously seek ways to ensure their operations align with the expectations of their environment (Kostova & Zaheer, 1999). Unlike the institutional approach, it emphasizes the role of corporate strategy, which should be shaped in response to the pressures of the institutional environment. This theory focuses on the interactions between an organization and society, a large part of which involves impression management (Connell, 2006; Jacqueminet & Durand, 2020), sometimes including efforts to de-legitimize competitors (Luyckx & Janssens, 2016). In our sample, legitimacy theory is often combined with stakeholder, signaling (Cho et al., 2015), and institutional (Bird et al., 2019) theories. All studies adopting this perspective focus on CSR/ESG reporting. Cho et al. (2015) examine how MNEs build organizational façades when their sustainability reports do not align with actual practices and reveal associated problems. Zygliopoulos et al. (2016) found that the extent of developed MNEs' CSR practices positively correlates with their degree of internationalization.

### *Contingency theory*

Contingency theory helps investigate how organizations and leaders can adapt to changing circumstances and be effective in different situations. By recognizing the importance of situational factors, organizations and leaders can make better decisions and achieve better outcomes. Political contingencies of companies operating in a new institutional environment are also considered (Schnyder & Sallai, 2016).

### *Agency theory*

Agency theory in legitimacy studies often highlights how MNEs manage complexities in HQ-subsidiary relationships caused by their locations in different environments. Benito et al. (2011) discuss the relocation aspects of MNEs' divisional HQs. They find that MNEs move their HQs to gain efficiency by co-locating with foreign subsidiaries, but keep them at home when the company becomes large, highly diversified, and complex to manage. Balogun et al. (2019) show how legitimacy-building processes evolve over time in subsidiaries and influence their decision-making processes

## **4.2. Antecedents of Legitimacy**

Building on the body of research in the current review, our integrative framework presents an overview of antecedents of legitimacy for MNEs and their subsidiaries. A commonly proposed way to obtain legitimacy is to reveal and comply with the demands of the external environment, as suggested by the institutional approach. Building upon T. Kostova and S. Zaheer (1999), we propose that the cognitive and normative domains of institutional environments in host countries present a greater challenge for MNEs than the regulatory domain. A. Hillman and W. Wan (2005) advocate the necessity of conforming to the external environment. Rodriguez et al. (2005) discuss the need to engage in corrupt behavior, which may take different forms depending on the country.

Isomorphism is another concept from institutional theory proposed as an appropriate measure to build legitimacy in host locations. In this context, isomorphism refers to the imitation of organizational forms and processes of legitimate organizations. This approach is particularly relevant for market entries. Meyer et al. (2014) suggest that imitating local practices may be especially useful for state-owned enterprises, as they are subject to stronger external institutional pressures. C. Chan and S. Makino (2007) find that isomorphic behavior in terms of subsidiary ownership structure can be crucial for building legitimacy, as the government or society may be wary of the presence of

foreign firms. Zhang et al. (2015) find that MNE subsidiaries might opt for local customer involvement as part of their legitimation strategy.

Business liabilities are often studied in relation to the organizational legitimacy of MNEs. The papers distinguish between liabilities of foreignness, emergingness, disruption, and privateness (Campbell et al., 2012; Bhanji & Oxley, 2015; Bucheli & Salvage, 2018; Marano et al., 2020).

Several studies propose partnerships with legitimate organizations, which may take the form of joint ventures with local enterprises (Stark & Vedres, 2006; Meyer et al., 2014; Hearn, 2015), buyer-supplier relationships (Ahmed & Shafiq, 2022), or collective action by foreign MNEs in the region (Ahlstrom, 2008). CSR activities are assumed to have a positive impact on the legitimacy of multinationals and their subsidiaries, especially when there is a large institutional distance between the home and host locations (Campbell et al., 2012; Liou et al., 2016; Rana & Sørensen, 2021), with host country institutions substantially shaping the CSR practices of MNE subsidiaries (Rathert, 2016). Appropriation of CSR reporting practices by MNEs from developed countries is another way for MNEs from emerging countries to develop external legitimacy (Marano et al., 2017; Tashman et al., 2019). However, adjustment to external CSR expectations by subsidiaries may conflict with the legitimate practices of the MNE (Husted et al., 2016). Alternatively, multinationals might use environmental disclosure (publication of materials about environmental impact) to convince stakeholders that they care about environmental challenges and are ready to contribute to their solutions (Riaz et al., 2015).

Another way to build legitimacy is to resort to political action. Hillman et al. (2005) refer to three political strategies, available for MNEs: (1) information strategy, (2) financial incentive strategy, and (3) constituency-building strategy. They allow for impact on the host location environment that will reduce external pressures. Political support from home governments may result in increase of both internal and external legitimacy for state-owned enterprises (Li et al., 2014) while political affinity between home and host countries mitigates legitimacy concerns (Hasija et al., 2020).

However, political action is juxtaposed with corruption. In some environments, illegitimate and illegal do not coincide. Therefore, involvement in corrupt practices may cause what A. Cuervo-Cazurra (2016) calls “illegal legitimacy.” In this regard, greater subsidiary autonomy in corrupt environments reduces its legitimacy costs (Rabbiosi & Santangelo, 2019). Additionally, public acceptance increases MNE bargaining power and reduces the probability of engagement in corruption (Stevens et al., 2021). It also increases the chances of survival during times of political turmoil (Sidki Darendeli & Hill, 2016; Bucheli & Salvaj, 2013).

Locations with a lasting presence of an industry, organizations from a particular country, or a given MNE are endowed with “legitimacy from scratch,” that is, local stakeholders are well-informed about the operation of an emerging subsidiary and can find ways to deal with it. Hannan et al. (1995) contend that the presence and density of a particular population of organizations in a location increase the legitimacy of new entrants from the same population. C. Chan and S. Makino (2007) go further and find that the prevalence of a given organizational form of MNE subsidiaries (ownership structure) increases the chances that newly established subsidiaries following this pattern will have higher legitimacy. In some cases, such as in the transition economies of Eastern Europe in the 1990s, foreign firms may have a priori higher legitimacy than local firms since customers are dissatisfied with local firms’ behavior, product quality, etc. (Kostova & Zaheer, 1999).

Talent management practices present another dimension of legitimation, which can be fostered by industrial and professional standards (Alamgeer & Banerjee, 2019), human resource practices (Daudigeos, 2013; Sidani & Al Ariss, 2014; Forstenlechner & Mellahi, 2011), including corporate citizenship (Shinkle & Spencer, 2012), and performance management systems (Cooper et al., 2019).

Evidence suggests that the importance of internal and external legitimacy for a subsidiary varies depending on the market entry phase, with external legitimacy being more important at the early stage (Zhang et al., 2018). In particular, host country public sentiment is positively associated with ownership level in M&As (Yiu et al., 2022).

### **4.3. Complexities in Acquiring Legitimacy**

One of the most evident complexities of achieving legitimacy for MNEs is the necessity to operate in multiple different institutional environments. These environments differ in terms of stakeholders' interests and their balance of power (Kostova & Zaheer, 1999). In addition, as institutional theory proclaims, one environment consists of three domains (three institutional pillars): regulatory, normative, and cognitive. T. Kostova and S. Zaheer (1999) argue that the latter two domains present a greater challenge to MNE subunits in establishing their legitimacy, and to MNEs and MNE subunits in maintaining legitimacy, compared to the regulatory domain. However, this proposition has not been hypothesized and tested further.

Operation in foreign markets implies poorer access to local resources due to liability of foreignness. S. Zaheer (1995) defines liability of foreignness as all additional costs (search, negotiation, control, etc.) that a firm has to incur when dealing in a foreign market. From the perspective of new institutional economics, this implies that bounded rationality is higher since not all necessary information is explicitly stated and easy to acquire. T. Kostova and S. Zaheer (1999) extend this concept to local stakeholders, who can be prone to stereotypes about the country of the MNE's origin or the industry in particular. They provide an example of Cargill's unsuccessful entry into the Indian market, where it was considered a "new colonist from the West" and a "threat to national economic freedom."

MNEs find it particularly challenging to operate in host environments that differ significantly from their home environments or in locations with greater institutional distance. Campbell et al. (2012) show that various types of distance (cultural, administrative, geographical, economic) significantly affect MNEs' propensity to resort to CSR activities to increase legitimacy. To mitigate the liability of emergingness, MNEs from emerging countries with poor institutional environments (institutional voids) might use CSR reporting to enhance legitimacy in developed countries (Marano et al., 2017), undertake M&As through one of the MNE's subsidiaries located in a neighboring country or region (Wang et al., 2022), or build social ties (Elg et al., 2017). Evidence also suggests that opposition from the public is a greater challenge for firms with disruptive business models, as they bring new ideas to a market and thus undermine the power of existing suppliers (Marano et al., 2020)<sup>1</sup>.

Many studies in our sample mention the necessity for MNE subsidiaries to conform to pressures from both the external local environment and internal pressures from their parent MNE. Internal pressures, however, may differ depending on the code of conduct (Rodriguez et al., 2005), international orientation of the company (Kostova &

<sup>1</sup> Uber / Gett are common examples of disruptive business models. Their entry to the markets in many countries provoked protests from taxi drivers (see, e.g., Lesteven & Godillon, 2020).

Zaheer, 1999), its shareholders (Wood, 2017), mechanisms of social and environmental integration (Torres De Oliveira et al., 2020), headquarters location (Balogun et al., 2019), and personal relationships between the MNE's and its subsidiaries' management (Conroy & Collings, 2016). This need to consider pressures from both sides is called "institutional duality" (Kostova & Roth, 2002).

Given that operating in multiple environments implies higher subsidiary coordination costs, global integration of an MNE results in higher internal institutional pressures and leads to greater use of active political strategies to influence external environments (Hillman & Wan, 2005; Nell et al., 2015). Therefore, MNE subsidiaries face a trade-off between conforming to internal and external institutional pressures (Brenner & Ambos, 2013). One tool to manage this is governance mode. J. Fortwengel (2017) suggests that hierarchy leads to greater internal legitimacy, while networks facilitate external legitimacy acquisition

The legitimacy of a MNE or a subsidiary does not stand alone. The external legitimacy of a subsidiary can be affected by the legitimacy of the parent MNE, its other subsidiaries, and other MNEs or firms from the same country of origin in the region (Kostova & Zaheer, 1999; Williamson et al., 2021). W. Henisz and A. Delios (2001) study the patterns of plant locations of Japanese MNEs and find that, in market entry, MNEs tend to choose locations with the presence of other MNEs. These locations promise more lucrative conditions due to legitimacy spillovers despite potentially increased competition. The same pattern is observed for subsidiary ownership structure. C. Chan and S. Makino (2006) find that newcomers follow the entry mode and ownership stake of other MNEs in the region. Liou et al. (2016) associate greater institutional distance between the home and host countries with a lower degree of subsidiary ownership. This is an option to reduce the chance of external intervention since partnerships with local firms lead to positive legitimacy spillovers. This might be especially relevant in countries where the government is keen on exercising its authority, e.g., through extortion of bribes (Rodriguez et al., 2005; Cuervo-Cazurra, 2016) or direct interference (Meyer et al., 2014), despite the generally limited abilities of governments to regulate MNEs and the externalities of their operations (Schneider & Scherer, 2019).

#### ***4.4. Typologies of Legitimacy***

There are multiple approaches to classifying the legitimacy of MNEs. Here, we examine some of the most commonly used methods in the literature.

One approach is classification by level. Generally, there are three levels of legitimacy conveyed by the operations of multinationals. The first level is the legitimacy of a subsidiary, which is framed by the context in which it operates. Consequently, subsidiaries shape their behavior according to the demands of the local environment (Hillman & Wan, 2005).

The second level is the legitimacy of the parent MNE. According to T. Kostova and S. Zaheer (1999), this level of legitimacy is more than just the sum of the legitimacy of all subsidiaries. The legitimating environment for an MNE comprises its home and host environments, as well as the global environment, which includes supranational institutions and media groups.

The third level is the legitimacy of the international business system as a whole. In this context, MNEs can be perceived positively or negatively by stakeholders in various countries.

Another criterion for classifying legitimacy is its scope. The research literature defines local and global scopes of legitimacy. Local legitimacy is built by adhering to the laws and norms of a specific location, earning the approval of various audiences there. Global legitimacy, on the other hand, involves alignment with global meta-norms and expectations, such as implementing CSR (Corporate Social Responsibility) and ESG (Environmental, Social, and Governance) practices (Selmier II et al., 2015; Marano et al., 2017; Tashman et al., 2019). Collisions between local and global interests may represent institutional duality.

Classification by type is based on the seminal work of M. Suchman (1995), who distinguishes three types of organizational legitimacy: pragmatic, moral, and cognitive. Pragmatic legitimacy refers to an organization's ability to meet the interests of various stakeholder groups. Most papers focus on this type. For instance, C. Chan and S. Makino (2007) and Meyer et al. (2014) analyze how MNEs choose the ownership structure of their subsidiaries to meet local stakeholders' interests. Rodriguez et al. (2005) and A. Cuervo-Cazurra (2016) study corruption behavior as a response to governmental interests.

Moral legitimacy refers to the perception that corporate actions are "right" or promote societal welfare. One widespread practice addressing moral expectations is CSR/ESG reporting, where organizational units summarize their commitment to the common good (Marano et al., 2017). Cognitive legitimacy implies that corporate actions are taken for granted or perceived as "normal." This type of legitimacy is shaped by cultural models that allow society to interpret and explain organizational activity. MNEs use language to communicate their interests and create discourses (Vaara & Tienari, 2008, 2011).

Classification by environment is valid for MNE subsidiaries. On the one hand, they are part of a parent MNE, and they have to comply with their institutional pressures to receive necessary resources (internal legitimacy); on the other hand, they require external legitimacy to be able to interact with external economic agents (Kostova & Zaheer, 1999; Kostova & Roth, 2002). This ambiguity is called "institutional duality." Most of the studies in our sample consider both internal and external legitimacy, however, earlier studies predominantly focused on exclusively external legitimacy (e.g., Hannan et al., 1995; Henisz & Delios 2001).

M. Suchman (1995) proposes two perspectives on legitimacy: (1) as a resource that can be accumulated and invested and (2) as a relationship with a particular audience. The first perspective is common for studies that do not discern between various stakeholder groups and treat legitimacy as a resource in a particular environment (Henisz & Delios 2001; Hillman & Wan, 2005). The second perspective underlies studies that focus on legitimacy management among multiple audiences (Chan & Makino, 2007; Ahlstrom et al., 2008; Vaara & Tienari, 2008; Alamgir & Banerjee, 2019).

Ahlstrom et al. (2008) also apply the classification of H. Aldrich and C. Fiol (1994), who define two dimensions: socio-political and cognitive. The first represents the approval of the key stakeholders (general public, opinion leaders, the government), whilst the second refers to the spread of knowledge about the enterprise and the acceptance by the local culture at large. They analyze how MNEs strive to be legitimate in both dimensions in mainland China and Taiwan.

Studies that consider legitimacy in relation to a particular audience typically define several stakeholder groups. For example, C. Chan and S. Makino (2007) mention the government, supplier groups, labor unions, and national trade associations.



#### **4.5. Consequences of Legitimacy**

Legitimate organizations enjoy substantial benefits that facilitate their operations, such as a decreased chance of failure and an enhanced ability to communicate their attitudes effectively. Hannan et al. (1995), in their study on organizational evolution in the European automobile industry, found that legitimate subsidiaries have a higher chance of survival. E. Vaara and J. Tienari (2011) concluded that legitimate MNEs are better positioned to communicate the need for change and to manage resistance to it. Additionally, legitimacy in host markets contributes to institutional change and knowledge spillovers (Siebers, 2017).

For MNEs, specific advantages include access to local resources and new markets (Ahlstrom et al., 2008), the ability to manage subsidiary ownership structures (Chan & Makino, 2007; Liou et al., 2016), and the avoidance of interference from external actors, particularly the government (Rodriguez et al., 2005; Ahlstrom et al., 2008). Moreover, MNEs can help legitimize the political, economic, and social systems as a whole in a particular location.

#### **4.6. Research Focus**

For classification of research focus we adopted the typology of Hitt et al. (2007) that distinguishes six levels: individual, group, subunit, organization, interorganizational network, environment. Most of the studies in our review focused on the legitimacy of MNEs. W. Hennisz and A. Delios (2001) analyzed how prior actions of other firms affect the legitimacy of a newcomer MNE. E. Vaara and J. Tienari (2008, 2011) show how multinationals create discourses to affect the perceptions of the society. Marano et al. (2017) examine how MNEs from emerging markets use CSR to increase their legitimacy in developed countries.

Another set of studies focuses on subunits as the level of analysis. A. Hillman and W. Wan (2005) studied how MNE subsidiaries build legitimacy through the development and implementation of political strategies. One study also considers interorganizational networks; Hannan et al. (1995) explore the development of populations of automobile manufacturers in five European countries.

#### **4.7. Exo-Context**

In addition to general research on the legitimacy of multinational enterprises, we identified two exo-contexts that require separate consideration. The first is associated with the political connections of MNEs. W. Hennisz and A. Delios (2001) report that political hazards negatively impact the propensity of multinationals to locate their facilities. Rodriguez et al. (2005) and A. Cuervo-Cazurra (2016) examine political relations of MNEs in terms of engagement in corrupt behavior. A. Hillman and W. Wan outline political strategies that can be used to increase legitimacy in a particular country. Li et al. (2014) and Meyer et al. (2014) study the unique aspects of legitimacy acquisition for state-owned enterprises.

#### **4.8. Chrono-Context**

The prominent phenomena that underlie the legitimation process include legitimacy building associated with market entry, legitimacy maintenance during continued operations in a given location, and legitimacy crises, which require urgent action.

Entering new markets requires both pre-entry and post-entry legitimacy building. However, there are instances where MNEs have “legitimacy from scratch” due to their home country’s good reputation among the local population (Kostova & Zaheer, 1999)

or favorable political relations with the host country (Li et al., 2018; Li et al., 2022). To disseminate knowledge about the industry, organization, or its actions, an MNE may create its own discourse (Vaara & Tienari, 2008).

Once a satisfactory level of legitimacy is achieved, the organization seeks strategies to maintain it. The most challenging aspect is mediating between the demands of multiple stakeholders (Cho et al., 2015). Strategies for maintaining legitimacy include developing political action plans (Hillman & Wan, 2005), fostering workplace partnerships to increase legitimacy among subsidiary employees (Butler & Tregaskis, 2015), and adapting supplier development strategies (Charpin et al., 2021). CSR is frequently recommended to strengthen organizational positions with the government, various social groups, and the general public (Hönke & Thauer, 2014; Rana & Sørensen, 2021).

### 5. Avenues for Future Research

Future research directions are presented in Table 4. Additionally, we took propositions from qualitative studies that lacked empirical testing and converted them into research questions.

In general, most studies suggest a need for further specification of the antecedents and consequences of legitimacy, as well as a deeper exploration of the complexities

Table 4

**Avenues for Future Research on MNE Legitimacy**

Element of the integrative framework	Research gap	Themes	Research questions
Antecedents of legitimacy	Most research operates within the institutional approach framework, yet a deeper dive into strategic action opportunities could enhance theory.	Characteristics of the organization	RQ1: How does the size of an MNE affect the external pressures? RQ2: How is the legitimacy of a MNE subsidiary affected by the legitimacy of the MNE and other subsidiaries?
		Normative and cognitive domains of environment	RQ3: How do various discourses interplay in the process of MNE legitimation? RQ4: How specific textual releases about a specific MNE in the media can affect the legitimacy of other MNEs? RQ5: How are widely spread stories and storytelling, implemented by MNEs, linked to power structures and ideological representations?
		Specification of legitimating strategies	RQ6: What is the impact of various forms of CSR on MNE legitimacy depending on the context? RQ7: What political strategies can MNEs implement to avoid corruption but keep (increase) their legitimacy? RQ8: What socio-institutional elements do MNEs take into account when they attempt to make sense of their social and environmental reporting?

*The end of Table 4 on next page*

Element of the integrative framework	Research gap	Themes	Research questions
Antecedents of legitimacy	Most research operates within the institutional approach framework, yet a deeper dive into strategic action opportunities could enhance theory.	Characteristics of the environment	RQ9: How does the legitimacy of local firms affect the difficulty of the legitimization of MNEs? RQ10: How do social movements and NGOs force both companies and the State into action on socio-environmental management and disclosure issues? RQ11: What factors contribute to the varying degrees of influence exerted by regulatory, normative, or cognitive pressures within the environment on driving the behavior of MNEs? RQ12: To what extent are normative and cognitive domains of institutional environment more challenging for MNEs than the regulatory domain? What idiosyncrasies make them more challenging?
Complexities of legitimization	Scarcity of empirical evidence to support propositions	Specification of institutional pressures	RQ13: To what factors of institutional change are state-owned MNEs more sensitive than ordinary ones? RQ14: What are the subsidiary characteristics that affect the level of conformity to internal institutional pressures?
Legitimacy classifications	Scarcity of empirical evidence of several types of legitimacy	Internal and external legitimacy	RQ15: What is the relative importance of internal and external legitimacy for MNE subsidiaries? Upon what is it contingent? RQ16: What are specific forms of external and internal legitimacy?
Consequences of legitimacy	Research on this element is generally lacking	Impact of legitimate MNEs on the environment	RQ17: What are specific areas that are likely to be affected by legitimacy, including the firm's cost of capital, stock market performance, employee attraction and retention, and the number of lawsuits filed against the firm, among others? RQ18: What is the effect of CSR legitimating strategies on different global stakeholders, for example NGOs, consumers, or foreign stock markets? RQ19: How do MNEs from emerging markets contribute to CSR-related institutional change in their respective home countries?

of the legitimization process. There is also a call for more qualitative studies to explore specific characteristics of MNE legitimacy (Kostova & Zaheer, 1999; Hillman & Wan, 2005; Chan & Makino, 2007). Some authors (e.g., Chan & Makino, 2007; Marano et al.,

2014) propose testing their hypotheses on different samples. Additionally, W. Henisz and A. Delios (2001) encourage exploring approaches beyond institutional theory, such as organizational ecology, although they acknowledge the challenges of data collection associated with this approach. Overall, based on our review, there appears to be a significant gap in empirical studies on the topic.

## 6. Conclusions

Research on MNE legitimacy has flourished over the last three decades since its inception. Numerous studies have explored the factors preceding, influencing, complicating, and resulting from legitimation in diverse contexts. However, this knowledge has often been scattered and lacked systematization. Our systematic review is aimed to fill this gap and serve as a reference point for future research on the topic. Additionally, we hope that our review will offer valuable insights for practitioners, equipping them with strategies to address legitimacy challenges, particularly as these issues have become increasingly significant in the globalized world.

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