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Research on the Formation and Overcoming Strategies of Liability of Origin

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Abstract: *In the context of China's "going out" policy and the the Belt and Road Initiative, it is necessary to study the source country disadvantages suffered by multinational enterprises in emerging economies in the process of internationalization. Based on previous research, this article systematically reviews the formation mechanisms of source country disadvantage from the perspectives of institutional theory, organizational identity, and resource-based theory. It constructs a research framework for source country disadvantage, and summarizes strategies for overcoming source country disadvantage from aspects such as corporate social responsibility, organizational identity, institutional entrepreneurship, and organizational identity.*

Keywords: *Liability of Origin; Institutional theory; Organizational identity; Resource based theory*

1. Introduction

The internationalization of multinational corporations has always been a key topic of research for international business scholars. Since Hymer first proposed the concept of foreign operating costs, the development of multinational corporations has received widespread attention from scholars. On the one hand, Kostova and Zaheer [1] (1999) found that multinational corporations enjoy advantages when operating in foreign countries. For example, Volvo Cars and Sony products are more likely to be favored by consumers in the host country market. This is because the home countries of these multinational companies are developed countries. The fact that multinational companies come from developed countries means that their technology level is high, their products are high-quality and refined, and their Factor of safety is high. A considerable portion of literature suggests that multinational corporations in developed countries will enjoy the advantages brought about by their positive home country image when operating in overseas markets. On the other hand, Zaheer [2] (1995) referred to the additional costs and disadvantages that multinational corporations face when operating in a foreign country, which local companies in the host country do not need to bear, as the Liability of Foreignness (LOF). Eden and Miller [3] (2004) believed that the LOF consists of unfamiliarity costs, discrimination costs, and relationship costs. Multinational enterprises that suffer from the disadvantage of outsiders face high litigation rates, poor performance, low survival rates of subsidiaries, and even the risk of exiting overseas markets.

In recent years, emerging economies, including China, have developed rapidly, and multinational corporations from emerging economies are becoming increasingly active and playing an increasingly important role on the international stage. However, the internationalization of multinational corporations in emerging economies is vastly different from that of multinational corporations from developed countries. For example, Huawei and ZTE struggled in the US market, ZTE was banned, and Huawei's plans to enter the US market several times were halted by the US government; The products of Indian pharmaceutical companies are subject to extremely strict scrutiny in developed countries; Sany suffered setbacks in the German market, and so on. There are many similar phenomena. Unlike the disadvantages and advantages of outsiders, Bartlett and Ghoshal [4] (2000) found that multinational corporations suffer unfair treatment because their home countries are emerging economies. Ramachandran and Pant [5] (2010) define the phenomenon of multinational corporations in emerging economies being at a disadvantage in overseas market competition due to their underdeveloped home country systems, economies, and technologies as a source country disadvantage. This disadvantage affects the performance of multinational corporations through organizational identity, image, capacity development, and resource shortages.

Although a series of studies have been conducted on the disadvantages of source countries in the academic community in the future, the composition of source country disadvantages is still limited to Ramachandran and Pant's research, which divides source country disadvantages into legitimacy based

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disadvantages and capability based disadvantages. The understanding of the formation mechanisms behind these two disadvantages is not deep enough. After understanding the mechanism behind the two disadvantages, how can we overcome the disadvantages of source countries? The solution of these problems can not only enrich the academic circles' understanding of the disadvantages of source countries in theory, but also respond to China's "going out" policy and the "the Belt and Road" initiative in practice, providing help for the internationalization of China's multinational enterprises.

2. The Formation of Liability of Origin

Based on the views of Ramachandran and Pant (2010), this article divides the disadvantages of source countries into two types in the future: firstly, the disadvantage based on legitimacy refers to the discrimination of stakeholders in the host country when emerging economy multinational corporations enter the host country market, which increases the cost and difficulty of establishing and maintaining legitimacy for emerging economy multinational enterprises; The second is the disadvantage of "capability based", which refers to the insufficient resource acquisition and organizational learning abilities of multinational corporations in emerging economies compared to developed market companies.

2.1 The Disadvantages and Formation Mechanism of 'Based on Legitimacy'

This article will analyze the disadvantages of "legitimacy based" from two perspectives: institutional theory and organizational identity theory.

2.1.1 The Formation of Source Country Disadvantages under Institutional Theory

Compared to developed market companies, companies from emerging economies survive in an imperfect institutional environment and lack advanced technology and high-quality resources. Therefore, multinational companies from emerging economies will expand in developed markets to obtain high-quality strategic resources and reduce the constraints of their home country systems on themselves [6, 7] (Marano, 2017; Luo and Tung, 2007). But entering developed markets with more complete systems also poses legal challenges for enterprises.

Legitimacy refers to the general perception or assumption that an entity's behavior is considered desirable, appropriate, or appropriate within a social system constructed by norms, values, beliefs, and definitions [8] (Suchman, 1995). When multinational corporations from emerging economies enter the developed host country market, the institutional environment of the host country that differs from the home country system will increase the difficulty of establishing and maintaining the legitimacy of multinational corporations. The existence of institutional distance makes it difficult for multinational corporations to correctly understand the institutional environment of the host country, thereby making it difficult for them to gain recognition from stakeholders in the host country. Therefore, multinational corporations find it difficult to obtain legitimacy in the host country, and the larger the institutional distance, the greater the difficulty of obtaining legitimacy [9] (Kostova and Zaheer, 1999; Rottig, 2008). Yang [10] (2012) pointed out through empirical research on multinational enterprises in China that legitimacy is positively influenced by institutional distance.

According to institutional theory, the home country system can affect the practice and behavior of multinational corporations in overseas markets. One characteristic of multinational corporations in emerging economies that have long lived and developed under the home country system is that their home country government will participate in the company's practices, which is vastly different from companies in developed markets. Part of the reason for ZTE's setbacks in the US market is due to the relationship between companies and the Chinese government [11] (Yang Bo, 2019). This is because the internationalization of multinational corporations in emerging economies is supported by government finances, such as tax exemptions, loan support, and so on, in order to facilitate the globalization process of their home countries [12] (Luo, 2010). The higher the financial support provided by the home country, the greater the institutional pressure on the company from the home country, and the greater the likelihood that multinational corporations from emerging economies will be committed to government interests [13] (Cui and Jiang, 2012). Compared to developed markets, the excessive intervention of emerging economy governments in the market leads developed market stakeholders to believe that emerging market countries have too much control over multinational corporations, which can lead to discrimination against multinational corporations by host country stakeholders.

In addition, compared to developed markets, emerging markets lack a sound institutional system, and are more prone to phenomena such as incomplete market mechanisms, imperfect institutions, and insufficient protection of intellectual property rights [6, 14] (Marano, 2017; Wang, 2012). Although multinational enterprises in emerging economies can handle relatively informal agreements domestically, they face challenges when entering developed markets and seeking authorization and recognition from developed countries [15] (Yamakawa et al., 2008). When Indian pharmaceutical companies entered Japan, Europe and America, they faced different, unfamiliar, and strict supervision from domestic ones. Developed markets had strict healthcare systems and patent laws. The imperfect system has led to institutional pressure on multinational enterprises in emerging economies, facing legal challenges.

2.1.2 Organizational Identity Theory

Organizational identity is a shared understanding among organizational members of what an organization is and what it does. The organizational structure, practices, and processes formed by the long-term organizational learning of multinational enterprises in emerging economies under the home country system can lead to a profound home country imprint on the organizational identity of multinational enterprises in emerging economies, which can also affect the subsequent internationalization process of multinational enterprises (Ramachandran and Pant, 2010). This impact is particularly evident in the mergers and acquisitions of developed market companies by multinational enterprises in emerging economies. On the one hand, before the company was acquired, employees formed organizational identities under the long-term influence of developed market systems, culture, and values; On the other hand, after the company was acquired, employees became members of multinational corporations in emerging economies, forming a new organizational identity. The employees of the acquired party faced a conflict of organizational identities under two systems, and due to the negative image of the source country in emerging economies, employees believed that the identity of the company after the merger was inferior to that before the merger. Wei Jiang and Yang Yang [16] (2018) argue that this asymmetry in organizational identity can have a negative impact on the integration process after mergers and acquisitions and the acquisition of internal legitimacy within the organization, leading to a disadvantage in the source country. The greater the distance between formal and informal systems, the less employees of multinational enterprises recognize the parent company. The more conflicts between internal members caused by organizational identity asymmetry, the greater the difficulty of communication and coordination between members, and the greater the difficulty of establishing and maintaining internal legitimacy [17] (Li Xueling, 2019).

In addition, when multinational corporations enter the host country market, their identity as outsiders may make them unfamiliar to the host country's stakeholders, leading to a blurred organizational identity of multinational corporations and a lack of understanding of the identity of multinational corporations by host country stakeholders. In situations where information is incomplete and searching for information requires cost and time, host country stakeholders tend to use existing source country images related to the home country of multinational corporations to evaluate multinational corporations [18] (Amankwah Amoah and Debrah, 2017). This stereotype is composed of the representative products, national characteristics, political and political background, historical and cultural traditions of the country, and can lead to misunderstandings of the organizational identity of multinational enterprises. External stakeholders will form specific cognitive outcomes based on the identity characteristics of the organization, and negative stereotypes will lead to negative evaluations of emerging economy multinational enterprises by host country stakeholders, thereby increasing the difficulty of obtaining legitimacy for the enterprise. Du Xiaojun [19] (2015) pointed out that when multinational enterprises in emerging economies enter developed markets, their organizational identity is often labeled as "poor governance structure", "low-end products", and "government participation". Therefore, multinational enterprises in emerging economies will face a lack of legitimacy caused by the stigmatization of their organizational identity. Wang et al. [20] (2014) also believe that emerging economies are often perceived as insufficient in corruption prevention and governance, and that multinational enterprises in emerging economies are also considered to frequently face corruption and expect to have experience in improper business practices to gain an advantage in market competition. When China Sany Heavy Industries entered the German market, it also encountered a similar setback. When Sany Heavy Industries acquired German enterprises, the stakeholders in the host country thought that the acquisition purpose of Sany Heavy Industries would change. This was because the stakeholders in the host country would think that emerging economies had too strong intervention in the market and had too high corporate control. Developed country stakeholders will spontaneously impose stereotypes such as "weak infrastructure", "imperfect systems", "poor economic development", and "low product quality" on multinational enterprises in emerging economies, enhancing the legitimacy challenge of multinational enterprises in the host country (Wei Jiang and Yang Yang, 2018). Robinson and Judge (2017) proposed that negative opinions and stereotypes, which were originally general generalizations that were not specifically applicable to a certain situation, were inadvertently used and did not provide opportunities for multinational corporations in emerging economies to explain. Based on this, Amankwah and Debrah (2017) pointed out two characteristics of negative stereotypes, namely homogenization effect and contagion effect. Homogeneity effect refers to the host country's stakeholders who believe that multinational corporations from the same country have the same characteristics and characteristics, while contagion refers to the negative behavior of multinational corporations that can stigmatize multinational corporations from the same home country. Both of these are negative legitimacy spillover effects suffered by the home country imprint in the organizational identity of multinational enterprises.

2.2 The Disadvantages of "Ability Based" and Its Formation Mechanism

This article will analyze the disadvantages of "capability based" from the perspective of resource-based theory.

The resource-based theory believes that an enterprise is a collection of resources, and its unique resources, including capabilities, knowledge, and practices, are the source of its competitiveness and important factors determining its performance. On the one hand, resources can enhance the ability of the enterprise to cope with uncertain risks, and on the other hand, the enterprise can use its unique resources to create a competitive advantage. Developed market multinational corporations dominated the early stage of internationalization by relying on their advantages in resources, technological knowledge, etc. However, emerging economy multinational corporations do not have obvious advantages in this regard.

This is the result of the long-term survival and development of multinational enterprises in emerging economies under the home country system. Scholars have found that the characteristics of the home country system, such as "imperfect legal system", "imperfect market mechanism", "insufficient protection of intellectual property rights", "government intervention", etc., can make it difficult for enterprises to obtain excellent resources and capabilities, such as funds, technology, talent, etc., in the home country system environment. Amankwah (2017) proposed that issues such as insufficient funds, lack of professional knowledge, and lack of management capabilities can have adverse effects on enterprises. Ramachandran believes that under the conditions of the home country system, multinational enterprises find it difficult to cultivate high-quality talents required for internationalization. The lack of high-quality resources by multinational enterprises in emerging economies puts them at a disadvantage in international competition, and the ability of enterprises to create competitive advantages, such as "low cost" and "establishing relationships with governments", developed countries with more complete systems may not be applicable, unable to create advantages, and may even become a source of disadvantages (Luo, 2010; Wang, 2014).

According to the springboard theory, multinational enterprises in emerging economies enter developed markets in order to break away from the constraints of the home country system and obtain high-quality resources. However, multinational enterprises in developed markets have accumulated experience, marketing technology and well-known brand reputation because they started internationalization earlier. Transnational enterprises in emerging economies have lost the first opportunity because they lack these capabilities and resources because they started internationalization later. In addition, in the international market, multinational enterprises from emerging economies have lost the protection of their home countries, and compared to developed market enterprises, they lack experience, management capabilities, financial and talent capabilities and resource guarantees, resulting in weaker ability to deal with uncertainty issues.

3. A Review of Research on the Disadvantages of Two Source Countries

The existing literature mainly analyzes the disadvantages of the source country based on two aspects: capability and legitimacy. The disadvantages based on legitimacy can be further divided into the lack of legitimacy caused by institutional distance and the lack of legitimacy caused by organizational identity misunderstanding. Moreover, there is a mutually reinforcing relationship between competency based weaknesses and legitimacy based weaknesses. Due to the long-term development of multinational enterprises in emerging economies under imperfect home country systems, their capabilities, such as capital, technology, human resources, and management capabilities, are slightly insufficient compared to those of developed host country market enterprises. This strengthens the negative image of multinational enterprises in emerging economies and exacerbates their legitimacy based disadvantages; Legitimacy can endow enterprises with the ability to obtain resources in competitive markets. If multinational enterprises suffer discrimination from stakeholders in the host country market, it will lead to a lack of legitimacy, making it difficult for multinational enterprises to gain recognition from stakeholders in the host country. The ability of multinational enterprises to obtain resources in the host country will also be limited, thereby exacerbating the "ability based disadvantage".

4. Strategies to overcome the disadvantages of the source country

Once the source country disadvantage was proposed, it has received widespread attention from international business scholars, who have contributed their wisdom to solving the source country disadvantage. The conditions for overcoming the disadvantage of the source country are to not only eliminate discrimination from stakeholders in the host country, but also to be understood and accepted by stakeholders in the host country. The existing literature on overcoming the disadvantage of the source country is also based on considerations of legitimacy. This article will summarize the strategies for overcoming the disadvantage of the source country from four aspects: corporate social responsibility, institutional entrepreneurship, organizational identity change, and strategic alliances.

4.1 Corporate Social Responsibility

Multinational enterprises face information asymmetry when entering the host country market, and their organizational identity has also changed. Enterprises will face the problem of insufficient identity recognition. At this time, corporate social responsibility information disclosure becomes a channel for stakeholders to timely understand the enterprise, and enterprises can also establish connections with stakeholders through social responsibility. And convey a positive signal to stakeholders that the company values them and their behavior conforms to local social norms and values. Therefore, the disclosure of social responsibility information by enterprises is essentially a strategy adopted by enterprises to obtain legitimacy. Yin Juelin [21] (2012) also found that corporate social responsibility is a behavior driven by legitimacy. Meng Mengmeng et al. [22] (2019) confirmed a positive correlation between corporate social responsibility disclosure and legitimacy through research. In addition, Pan Zhen [23-24] (2020) pointed out that as the degree of internationalization of enterprises gradually deepens, the focus of multinational corporations' social responsibility work will gradually shift towards non public welfare social responsibility. Marano et al. (2017) believe that corporate social responsibility disclosure can help multinational corporations in emerging economies mitigate the impact of source country disadvantage. It should be added that Chen Limin's (2021) study found that timely and high-quality corporate social responsibility disclosure can improve performance in the early stages of internationalization. However, considering the cost of legalization, this measure will affect the trend of performance improvement in the later stages of enterprise internationalization. Therefore, enterprises need to fulfill an appropriate level of corporate social responsibility based on their own situation.

4.2 Institutional entrepreneurship

When multinational enterprises enter the host country market, due to the existence of institutional distance, emerging economies' multinational enterprises are unable to correctly interpret the social norms of the host country. The cost and difficulty of complying with the system and making behavior that conforms to the norms of the host country are too high, resulting in excessive pressure on legitimacy. At the same time, excessive institutional pressure also creates conditions for enterprises to choose institutional entrepreneurship. Under the existing institutional framework of the host country, Multinational enterprises in emerging economies are located in a noncore position in the stakeholder network, with a low degree of embeddedness, and their growth does not match the institutional environment of their home country and host country, resulting in institutional conflicts. In order to better enhance the profitability and resource mobilization capabilities of multinational corporations, they will choose institutional entrepreneurship. Ramachandran and Pant (2010) found that emerging economy multinational corporations can overcome source country disadvantages through institutional entrepreneurship. Pant and Ramachandran [25] (2012) constructed a process model for emerging economy multinational corporations to overcome source country disadvantages through institutional entrepreneurship by investigating institutional entrepreneurship in the Indian software industry in developed countries.

4.3 Organizational identity change

In the absence of information, considering the cost of information, host country stakeholders can only use the stereotypical impression of the source country of existing emerging economy multinational

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enterprises as the evaluation criteria. In addition, host country stakeholders will spontaneously associate their parent country identity with multinational enterprises when evaluating them. From the perspective of legitimacy, organizational identity is an important basis for external stakeholders to evaluate the legitimacy of multinational enterprises [26] (Pant and Ramachandran, 2017). Ramachandran and Pant (2010) argue that organizational identity mechanisms can help emerging economies' multinational corporations overcome their country of origin disadvantages, as they can help multinational corporations shape identities that conform to the legitimacy of the host country and reshape their corporate image. Moreover, Ramachandran and Pant (2010) proposed two methods: organizational identity change, which involves reshaping organizational identity, rebuilding the past, and establishing connections with the expected future image to gain legitimacy. The second is identity maintenance, which displays positive identity dimensions and hides negative identity dimensions to stakeholders in the host country by maintaining multiple organizational identities. Yang Bo et al. [27] (2020) found based on their research on Chinese enterprises that multinational enterprises in emerging economies can weaken the negative dimensions of organizational identity through the meaning of organizational identity, eliminate misunderstandings and misinterpretations, and overcome the disadvantage of source countries. Du Xiaojun (2015) enriched the impact of organizational identity change on legitimacy. Organizational identity change adopts three mechanisms: firstly, "replacement" refers to replacing negative identity labels and meanings with real and positive ones; The second is "evolution", which refers to the deepening and development of existing identities; The third is "supplement", which refers to the created identity tags and meanings. Wang Ding et al. (2020) also pointed out that establishing long-term cooperation, joint action, and even organizational integration with third-party organizations such as non-governmental organizations can effectively dilute one's identity as a country of origin and reduce resistance to operating in the host country. Organizational identity change is aimed at increasing the exposure of multinational enterprises in the host country, enabling stakeholders in the host country to have a correct understanding of multinational enterprises, rather than relying solely on stereotypes to evaluate multinational enterprises in emerging economies, thereby weakening the disadvantage of the source country.

4.4 Alliance

Amankwah Amoah and Debrah (2017) believe that forming strategic alliances with advanced and reputable multinational enterprises in developed country markets can help emerging economy multinational enterprises overcome their source country disadvantages. This is because forming alliances can increase the embedding degree of emerging economy multinational enterprises in the host country market, making it easy to obtain advanced technological knowledge, management experience, and funds from developed enterprises, Weakening ability based weaknesses; In addition, due to the spillover effect of legitimacy, alliances can enable multinational enterprises in emerging economies to gain the legitimacy of their partners. The empirical study by Sun Guohui and Jiang Hao [28] (2014) shows that the image of the source country of the partnership brand has a significant positive impact on the attitude of the partnership brand consumers. Liu Jianli [29] (2018) found that a good brand alliance with developed markets can weaken the negative image caused by the identity of the source country and play a positive role in one's internationalization.

5. Conclusion

This article summarizes the formation mechanisms of source country disadvantage from different theoretical perspectives and concludes as follows.

Firstly, according to Ramachandran and Pant (2010), the disadvantages of source countries can be divided into legitimacy based disadvantages and capability based disadvantages. After literature review, it was found that there are two mechanisms for forming disadvantages based on legitimacy. Firstly, from the perspective of institutional theory, the institutional distance between emerging economies and developed economies makes it difficult for multinational enterprises in emerging economies to gain recognition and support from stakeholders in the host country. Causing difficulties in obtaining and maintaining legitimacy. Secondly, from the perspective of organizational identity, stakeholders in developed markets will spontaneously associate emerging economies' multinational enterprises with their negative home country image, leading to misunderstandings of the organizational identity of multinational enterprises, thereby leading to a disadvantage in legitimacy; In addition, the phenomenon of organizational identity asymmetry within multinational corporations can reduce members' identification with organizational identity, resulting in insufficient legitimacy within the organization. The ability based disadvantage from the perspective of resource-based theory refers to the difficulty of emerging economies' multinational enterprises in nurturing and acquiring high-quality strategic resources due to their long-term survival under the home country system and late internationalization, which puts them at a disadvantage in international competition.

Secondly, weaknesses based on capabilities and weaknesses based on legitimacy will mutually reinforce each other. Weaknesses based on capabilities such as insufficient funds, lack of experience, and lack of professional knowledge can strengthen the negative image of the source country, making it more difficult for multinational enterprises in emerging economies to obtain legitimacy. Zimmerman (1985) believes that legitimacy can be seen as a resource that can help organizations obtain resources. In the absence of legitimacy, multinational enterprises in emerging economies find it difficult to gain recognition from stakeholders in the host country, making it more difficult to obtain resources such as knowledge and technology. They may even find it difficult to obtain resources that ensure survival, unable to maintain their existing competitive advantages, and thus exacerbating their ability based disadvantages.

Finally, the article summarizes the existing strategies to overcome the disadvantages of the source country. The existing strategies all start from legitimacy, based on two mechanisms: establishing credibility and reducing discrimination in the host country, mainly including corporate social responsibility disclosure, strategic alliances, organizational identity change, and institutional entrepreneurship.

6. Future research prospects

In recent years, emerging economies have become increasingly active on the international stage, and the source country disadvantage faced by multinational corporations in emerging economies in the international market has attracted increasing attention from scholars. However, research on source country disadvantage is still relatively scarce, and there are many problems worth studying.

Analyze the formation mechanisms of source country disadvantage from different theoretical perspectives to deepen our understanding of source country disadvantage, and thus expand the source of strategies for overcoming source country disadvantage. The existing disadvantages of source countries include capability based disadvantages and legitimacy based disadvantages. Therefore, future research can start from the perspective of social networks, which can simultaneously consider the ability of multinational enterprises to obtain legitimacy and resources.

Strategies to overcome the disadvantages of rich source countries. In the context of the the Belt and Road Initiative, China's outbound investment has gradually increased, and China's multinational enterprises are increasingly active in the international arena. Therefore, it is of great practical significance to enrich the research on the strategies of overcoming the disadvantages of source countries.

There is a lack of empirical research on the disadvantage of source countries in existing academic literature, and scholars have insufficient understanding of what indicators to use to measure the disadvantage of source countries. In the future, relevant research can be conducted in this direction.

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