

Article

Overcoming Liabilities of Foreignness: Managing Emerging Market Multinational Companies' Socio-Political Engagement in the Developed Markets

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Emerging market multinational companies (EMNCs) face unique challenges when competing in developed markets, particularly the liability of foreignness (LOF) linked to their home countries. While market strategies can help EMNCs mitigate some of these challenges, effective non-market strategies such as sociopolitical engagement through corporate social responsibility (CSR) and corporate political activity (CPA) are increasingly crucial for navigating the complex sociopolitical landscapes of developed markets. This article draws on the Stereotype Content Model to propose a configurational approach for EMNCs to manage their engagement with socio-political issues in developed markets and provides actionable insights for international business researchers and practitioners.

INTRODUCTION

While anti-globalization sentiment intensified, many multinational corporations feel the pressures exerted by political and societal actors (Brammer, Branicki, & Linnenluecke, 2020; Buckley, 2022) and need to actively employ nonmarket strategies to improve their standing in the eyes of both internal and external stakeholders. Indeed, corporate socio-political engagement (Sun, Doh, Rajwani, Werner, & Luo, 2024), defined as the intersection of non-market strategies, including corporate social responsibility (CSR) and corporate political activities (CPA), presents a compelling vantage point to study liabilities of foreignness (Eden & Miller, 2004; Zaheer, 2002). In particular, earlier research has examined emerging market multinational companies' (EMNCs) additional layers of liability of foreignness due to their countries of origin (Liou et al., 2021; Liou & Lamb, 2018; Tashman, Marano, & Kostova, 2019; Xia, Huang, & Li, 2024). As EMNCs navigate complex socio-political landscapes, where biases and stereotypes may hinder their acceptance, understanding the interplay of two major dimensions of Stereotype Content Model (SCM) (Fiske, Cuddy, Glick, & Xu, 2002), namely warmth and competence perceptions becomes crucial. By applying the SCM, this article proposes a configurational approach for EMNCs to address their liability of foreignness. EMNCs can strategically employ both CSR and CPA to counter the unique country-of-origin stereotypes associated with emerging markets and overcome their liability of foreignness in the developed markets.

EMNCs' LIABILITY OF FOREIGNNESS IN A DEVELOPED MARKET

According to Eden and Miller (2004), the liability of foreignness may result in additional social costs for a foreign firm, compared with domestic firms, through three major competitive disadvantages, including unfamiliarity hazard, relational hazard, and discrimination hazard. As summarized in [Table 1](#), EMNCs are likely to encounter additional liability of foreignness in their socio-political engagement in the developed market. Unfamiliarity costs stem from a foreign firm's lack of host market knowledge (Eden & Miller, 2004). For example, a U.S. bank is better equipped to navigate diversity, equity, and inclusion initiatives than a foreign bank due to its experience in various states with differing regulations (Hellerstedt, Uman, & Wennberg, 2023). Relational hazards involve organizational costs associated with coordination within the firm and with external stakeholders (Eden & Miller, 2004). To meet increasing public policy demands, multinational corporations (MNCs) in developed markets often publish annual sustainability reports and seek third-party certifications to verify their value chain partners' sustainability practices (Liou, Ting, & Chen, 2023). EMNCs can mitigate these hazards by improving their market strategies and learning from best practices in developed markets (Liou et al., 2021; Liou & Lamb, 2018; Tashman et al., 2019). However, the challenge of discriminatory hazards requires careful nonmarket strategies to address stereotypes held by stakeholders about EMNCs, such as those related to worker rights and product safety (Liou, Chao, & Yang, 2016).

Table 1. Liability of Foreignness in EMNCs' Socio-Political Engagement in a Developed Market

Liability of Foreignness	Definition (Adapted from Eden & Miller, 2004)	Examples*	EMNCs' Socio-Political Engagement*
Unfamiliarity Hazard	An EMNC's lack of knowledge of the host country's societal and political stakeholders' expectations	Prevailing social issues in developed markets such as the controversies surrounding diversity, equity, and inclusiveness (DEI) initiatives in the U.S.	CSR: Improving HR policy to improve the employees' sense of belonging. CPA: Monitoring media sentiment and policy discussion on DEI mandates in each state
Relational Hazard	An EMNC's lack of experience in monitoring host-market constituents' potential opportunistic behaviors as well as reconciling diverse values and beliefs	Transparency and accountability of sustainability reporting	CSR: Surveying suppliers on the improvement of sustainability procedures CPA: Attending the business associations' meetings regularly to gather info and participate in discussions of the up-to-date sustainability reporting requirement
Discriminatory Hazard	Host country stakeholders' stereotypes against EMNCs	Inferior product quality; low product safety standards; weak protection of workers' rights	CSR: Supporting host-country sustainable development goals that are relevant to the company's functional activities. CPA: Participating in political campaigns that promote the awareness of product safety and safe working conditions

*Source: Authors' original conceptualization based on the literature review.

THE STEREOTYPE CONTENT MODEL (SCM) AND DEVELOPED MARKET STAKEHOLDERS' SOCIAL JUDGMENT

The social categorization theory suggests that individuals tend to categorize others into social groups and interpret their behaviors based on these groups. This can lead to stereotyping and differential emotions. Fiske et al.'s (2018) Stereotype Content Model (SCM) suggests that stereotypical views are captured by two dimensions: warmth (i.e., whether the other is competing for resources) and competence (i.e., whether the other is capable of carrying out the intent). These dimensions form four types of stereotypical groups: paternalistic, envious, contemptuous, and admiration stereotypes. The SCM has been used to discuss firm-level phenomena in the business literature. [Figure 1](#) shows examples of brand perceptions by U.S. consumers' evaluations of competence and warmth (Malone & Fiske, 2013).

Similarly, lacking information related to EMNCs, developed market stakeholders may evaluate EMNCs based on the country-level characteristics of their home emerging economies (Bitektine, 2011; Liou et al., 2016). A stakeholder refers to "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984: 46). Because of EMNCs' latecomer status in global business competition, EMNCs' stakeholders in developed markets have less information about the EMNCs and are likely to evaluate EMNCs based on the stereotypes associated with the country of origin (Liou et al., 2021). However, there is a lack of understanding of the micro foundation in how EMNCs may utilize nonmarket strategies, including CSR and CPA, to address the liability

of foreignness in a developed market (Sun et al., 2014). Hence, SCM is utilized to gain additional insights.

EMNCs' CSR TO NAVIGATE COUNTRY-OF-ORIGIN STEREOTYPES

EMNCs often face discriminatory challenges in host markets. By engaging in strategic CSR, EMNCs go beyond their legal obligations and the immediate financial interests of shareholders and focus on addressing the concerns of stakeholders, which helps enhance the perception of the company's warmth and competence. For example, Kervin et al. (2022) highlight how CSR efforts can lead consumers to develop a sense of warmth toward a company, resulting in more positive attitudes. Notably, companies from countries perceived as low in warmth tend to reap greater benefits from their CSR initiatives compared to those from high-warmth countries (Shea & Hawn, 2019). Consequently, EMNCs that struggle with negative stereotypes associated with their country of origin can effectively mitigate LOF through their CSR activities in developed host markets. Recent research shows that EMNCs can boost their post-acquisition performance by adopting CSR practices similar to those of traditional multinational corporations in developed markets (Liou & Lamb, 2018). For example, Trina Solar, a leading Chinese solar panel manufacturer, has committed to CSR and community engagement, earning awards for sustainability reporting and Gold Recognition from a global supplier sustainability rating organization (Trina Solar, n.d.). These efforts have enhanced its reputation and strengthened relationships with local stakeholders worldwide.

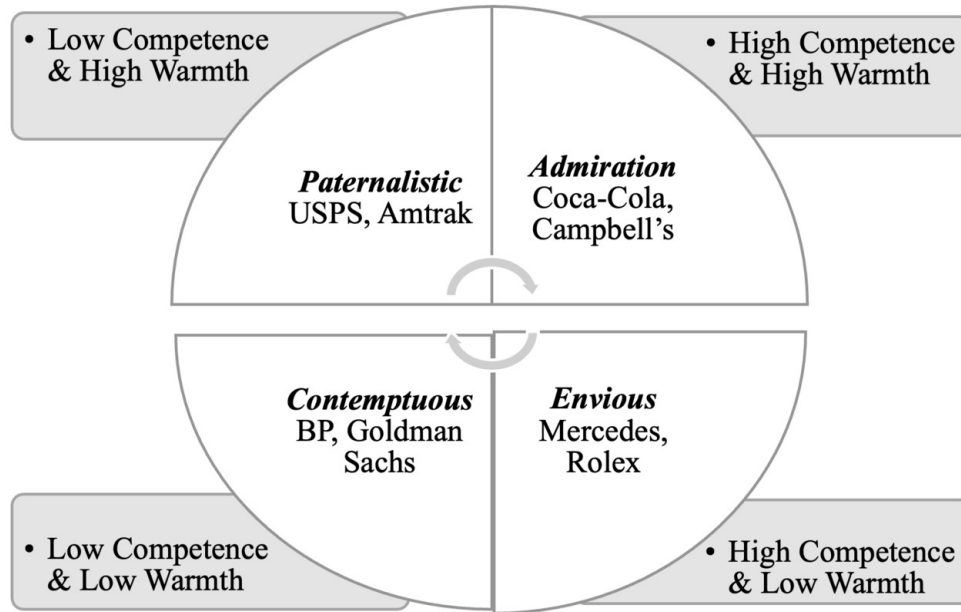


Figure 1. Warmth and Competence of Salient Brands in the U.S. (Adapted from Malone & Fiske, 2013)

EMNCS' CPA TO NAVIGATE COUNTRY-OF-ORIGIN STEREOTYPES

CPA research suggests that corporations can gain insights into policy changes and influence them (Sun et al., 2024). For instance, foreign firms with U.S. subsidiaries can lobby directly or through intermediaries, having spent over \$5 billion on lobbying since 2016, with China as the leading country (Open Secrets). Political embeddedness offers EMNCs advantages, such as knowledge acquisition and access to local networks (R. S. Liou, Brown, & Hasija, 2021). EMNCs can enhance their perceived competence through CPA in developed markets, this may reduce perceptions of warmth, potentially harming their overall reputation (Vishwanathan, Bridoux, & Haxhi, 2022). Competent EMNCs, however, may also face negative stereotypes related to their home country's economic status, further diminishing warmth perception due to high animosity rooted in differing national interests (Hasija, Liou, & Ellstrand, 2020).

Based on the SCM, the stereotypical group that elicited competence, but not warmth, is likely to be categorized as the Envious group and would likely draw the evaluators' negative emotions as well as harmful behaviors against the group (Malone & Fiske, 2013). For example, ByteDance, the parent company of TikTok started lobbying in 2019 and reached the highest lobbying expenditure of \$2.7 million in the first quarter of 2024 (Massoglia, 2023). This surge occurred following a year of record lobbying, amounting to over \$8.7 million in 2023, amidst heightened scrutiny of the video-sharing platform's connections to China, despite ByteDance not being a state-owned enterprise. The intensive lobbying campaign aimed to prevent a potential ban on its service, but the legislation was passed. This included a

provision that would prohibit TikTok from operating in the U.S. unless its China-based parent company, ByteDance, sells its stake in the platform within a year.

A CONFIGURATION APPROACH TO MANAGING EMNCS' SOCIO-POLITICAL ENGAGEMENT IN DEVELOPED MARKETS

As discussed above, CPA and CSR strategies can sometimes result in negative perceptions when implemented ineffectively. CPA often enhances perceptions of competence by demonstrating influence and strategic acumen, but it may also reduce perceptions of warmth due to its association with self-interest. Conversely, CSR activities tend to improve perceptions of warmth and communal orientation but may not significantly impact or even detract from perceived competence if seen as superficial or unrelated to core business objectives. Table 2 further illustrates how EMNCs can exercise positive actions by orchestrating CSR and CPA in a configurational approach depending on the developed market stakeholders' perceptions of competence and warmth.

The strategic alignment of CPA and CSR with the dimensions outlined in SCM is crucial for understanding how EMNCs are perceived by stakeholders in developed markets. First, EMNCs often face country-of-origin stereotypes linked to the economic status of their home countries, which leads developed market stakeholders to categorize them as part of the Contemptuous Group. To improve perceptions of their competence and warmth, these EMNCs can engage in grassroots-level initiatives to build local trust, such as investing in skills development programs in underprivileged communities. Second, after gaining accep-

Table 2. A Configurational Approach to EMNCs' Socio-political Engagement in Developed Markets

Stereotype Category	Purpose	Recommended CSR Strategies	Recommended CPA Strategies
Contemptuous Group (Low competence, low warmth)	Enhance both competence and warmth through visible grassroots impact.	- Address past controversies openly - Implement rigorous compliance programs - Launch initiatives to improve workplace culture and skills development	- Engage in dialogue with regulators through business associations - Advocate for anti-corruption measures - Support policies promoting corporate accountability.
Paternalistic Group (Low competence, high warmth)	Leverage warmth to gradually improve perceptions of competence	- Invest in employee training programs to showcase capability - Highlight quality assurance measures - Showcase technological advancements	- Collaborate with industry associations - Support educational initiatives - Engage in policy advocacy for industry standards
Envious Group (High competence, low warmth)	Mitigate negative emotions and demonstrate goodwill toward the host market development	- Engage in community development projects to build trust - Promote ethical labor practices to counter stereotypes - Increase transparency in operations	- Build relationships with local policymakers. - Advocate for fair trade practices. - Participate in public policy discussions to demonstrate commitment to societal well-being.
Admiration Group (High competence, high warmth)	Maintain strong stakeholder perceptions and solidify competitive and social positioning.	- Maintain high standards in product quality - Continue active community engagement - Lead sustainability initiatives	- Serve on advisory boards - Influence policy development for mutual benefit between the host and home countries - Mentor other businesses in best practices

Source: Author's original conceptualization based on the literature review.

tance in the local community, EMNCs are likely to be seen as part of the Paternalistic Group. In this phase, they can leverage their perceived warmth to gradually enhance their competence perception.

Third, EMNCs engaged in CPA can create a perception of high competence but may simultaneously be viewed as lacking warmth if they are seen as competing for resources. This negative effect on warmth perception can be exacerbated if the EMNCs originate from a country that has high animosity towards the host country, as illustrated by TikTok's example. Consequently, these EMNCs may find themselves categorized in the Envious Group and are advised to conduct CSR and CPA initiatives that benefit stakeholders in the host developed market, thereby mitigating negative emotions and fostering warmth. Fourth, EMNCs that tailor their CSR and CPA efforts to align with the cultural and societal norms of their host countries can foster a sense of warmth and competence perception among developed market stakeholders, thereby placing these EMNCs in the Admiration Group.

In sum, EMNCs that effectively implement both CPA and CSR strategies in host countries are more likely to alleviate LOF in developed markets. A potent case can be seen in the Taiwan Semiconductor Manufacturing Company (TSMC), a leading chipmaker that has the most advanced technology to manufacture computer chips. TSMC is currently working with both American and Taiwanese construction contractors to build multiple fabrications in Arizona (TSMC, n.d.).

TSMC has been a poster child of doing CSR well among Taiwanese firms. TSMC fulfills corporate social responsibility through professional ethics, environmental management, sustainable development, corporate governance, and social contributions (Hoi & Lin, 2012). According to Open Secrets, TSMC began lobbying in the U.S. in 2020. The spending on lobbying increased from \$1.8 million in 2020 to \$3 million in 2023. Upon examining the issues that the company is advocating for, it is clear that TSMC's efforts have benefited not only its own interests but also those of stakeholders in both the United States and Taiwan. The lobbying issues include the U.S.-Taiwan Expedited Double-Tax Relief Act and the American Innovation and Jobs Act. In April 2024, the U.S. Commerce Department announced that TSMC was awarded \$6.6 billion from the CHIPS Act. By effectively aligning CSR with CPA, TSMC continues to enhance U.S. stakeholders' perceptions of its competence and warmth, thereby alleviating the LOF in the U.S.

CONCLUSION

The Stereotype Content Model is a valuable framework for understanding how perceptions of warmth and competence influence stakeholder attitudes toward EMNCs in developed markets. With this foundation, researchers and practitioners can explore the impact of stereotypes and corporate nonmarket strategies across various industries and regions, particularly regarding technology-driven EMNCs facing

techno-protectionism. EMNCs often struggle with negative perceptions due to country-of-origin LOF, being viewed as lacking competence and warmth. To overcome the unique LOF, EMNCs can engage in policy discussions, though relying solely on CPA, like TikTok's lobbying efforts, may backfire. Some CSR initiatives may not be effective if seen as superficial or greenwashing. Therefore, EMNCs should utilize a configurational approach and balance CSR and CPA strategies to enhance the perceived competence and warmth among developed market stakeholders.

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