

Dissertation

Study on Corporate Litigation in International Business Context

Xuchang Chen^{1a}

¹ University of Reading, UK

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The global expansion of firms increasingly exposes them to challenges arising from international disputes. In recent years, escalating geopolitical tensions and de-globalization forces have intensified conflicts in international business (IB). This dissertation examines three critical stages of the litigation process: the antecedents of a firm's litigation risk, the determinants of court outcomes, and the consequences of litigation. It makes both theoretical and empirical contributions to the literature on international business, nationalism, and corporate litigation, while also offering practical insights for firms seeking to strengthen their competitiveness in the global marketplace.

BIG QUESTION

What drives firms into legal disputes, what shapes their outcomes, and what are the implications of litigation in the context of international business?

tions of potential litigants. Second, what factors influence a firm's success in legal disputes? Third, while prior research has predominantly highlighted the negative consequences of litigation, this dissertation investigates the conditions under which litigation may bring opportunities.

INTRODUCTION

The global expansion of firms into foreign markets frequently gives rise to international disputes, driven by disparities in market practices, cultural norms, and regulatory environments. In recent years, emerging geopolitical fractures, intensifying de-globalization forces, and the enduring effects of the pandemic have introduced new complexities that are likely to further increase volatility and conflict in international business (IB). For example, one of the world's leading dispute resolution bodies, the Stockholm Chamber of Commerce (SCC), documented a significant rise in the total value of business disputes, increasing from €840 million in 2021 to €1.6 billion in 2022, and further to €3 billion in 2023. Notably, 55% of the cases registered in 2023 involved international disputes, with parties originating from 42 different countries.

Litigation has become a primary means of resolving such disputes; however, its implications in the IB context remain largely overlooked. This dissertation addresses three research questions by examining different stages of corporate litigation. First, what factors help firms to reduce their exposure to litigation risk? I examine how a firm's foreign ownership structure influences this exposure, emphasizing that litigation risk is shaped not only by the firm's own practices but also by the incentives and strategic motiva-

STUDY 1: FOREIGN OWNERSHIP AND FIRM LITIGATION RISK

Firms routinely face litigation risk in their business operations. Litigation imposes substantial economic, temporal, and reputational costs, often resulting in adverse consequences for both firms and their stakeholders. Accordingly, understanding how to mitigate litigation risk is important for firms. One potential solution from the literature involves corporate governance mechanisms. Specifically, effective monitoring helps ensure that firms comply with legal and ethical standards, thereby reducing the likelihood of managerial misconduct and limiting exposure to legal disputes. However, litigation inherently involves two opposing parties; thus, the likelihood of a firm's becoming involved in litigation is shaped not only by its own governance practices but also by the incentives of potential litigants (Lumineau & Oxley, 2012).

Drawing on agency and signalling perspectives, this study proposes that foreign ownership can reduce litigation risk by strengthening corporate governance and serving as a deterrent signal to potential litigants. From the perspective of the focal firm—that is, the potential target of litigation—foreign ownership facilitates the international transfer of governance practices, thereby lowering the likelihood of corporate misconduct and associated legal disputes. On

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one hand, foreign investors have strong incentives to engage in monitoring activities due to their significant financial. On the other hand, foreign investors possess strong monitoring capabilities arising from their ownership positions and international governance experience. From the standpoint of potential litigants, foreign ownership signals that initiating legal action may be more costly and complex, given the challenges inherent in cross-border litigation. Litigation involving foreign investors often requires navigating multiple legal systems, managing language and cultural differences, and bearing higher enforcement and coordination costs. As a result, potential litigants may exercise greater caution when engaging with firms with higher levels of foreign ownership.

I further examine how the impact of foreign ownership on litigation risk depends on both investor and firm heterogeneity. First, I distinguish among types of foreign ownership based on ownership form and country of origin. In terms of ownership form, I differentiate between foreign corporate ownership and foreign institutional ownership. Foreign corporate ownership refers to investors who not only provide capital but also engage actively in the firm's management and operations. In contrast, foreign institutional ownership involves financial investors who participate in the secondary market primarily to generate returns. One key distinction between foreign corporate investors and foreign institutional investors lies in their ownership and control positions. Foreign corporate investors typically acquire significant ownership stakes in the form of equity or assets, enabling them to exert a greater degree of control and influence. I also consider the country-of-origin effect. Second, I explore how firm-level characteristics can substitute for the deterrent effect of foreign ownership.

This study uses a sample of Chinese listed firms, consisting of 37,184 firm-year observations from 2004 to 2019, to test the above hypotheses. The findings indicate that the presence of foreign investors reduces a firm's exposure to litigation risk. Moreover, that the negative association between foreign ownership and litigation risk is weaker for investors from financial institutions and stronger for those from advanced economies. Additionally, the relationship between foreign ownership and litigation risk is less pronounced in firms with higher levels of analyst coverage and greater outward internationalization.

This study contributes to the literature by providing deeper insights into how agency and signalling perspectives complement each other in explaining the unique benefits that foreign ownership offers to firms. While previous studies have provided valuable insights into the corporate governance mechanisms of foreign investors from an agency perspective, less attention has been given to their signalling role. Litigation risk is understood not only as a function of the focal firm's governance but also as a reflection of how opposing parties perceive the costs and challenges associated with pursuing legal action. Therefore, foreign ownership can act as a signal to various stakeholders, conveying higher costs, greater challenges, and formidable capabilities, which shape the risk perceptions of potential litigants and influence their willingness to initiate

legal action. This study also contributes to a more nuanced understanding of foreign ownership by elucidating how investor- and firm-specific contingencies moderate its effect.

STUDY 2: THE ROLE OF FOREIGNNESS IN LITIGATION

The traditional view of foreignness holds that multinational enterprises (MNEs) face liabilities of foreignness (LOF) when operating in host markets: "additional costs a firm operating in a market overseas incurs that a local firm would not incur" (Zaheer, 1995: 343). More recently, however, an emerging line of research challenges this notion, introducing the concept of "assets of foreignness" (AOF) (e.g., Lu, Ma, & Xie, 2022). Contrary to LOF, the AOF perspective argues that foreign firms can leverage advantages stemming from their foreign status, and offers a potentially more balanced understanding of the implications of foreignness.

The existence of assets of foreignness can be explained through several theoretical perspectives. AOF may stem from foreign firms' possession and exploitation of tangible and intangible resources and capabilities that are inaccessible to domestic rivals in the host country. It can also arise because foreign firms may achieve lower transaction costs than domestic competitors by internalizing specific markets, thereby attaining efficiency advantages. Whether foreignness functions as a liability or an asset also depends on the host country's institutional context. For example, Brannen's (2004) case study of Disney's theme park illustrates how foreignness is considered an asset in one host country but a liability in another. In this study, I draw on an institution-based view to investigate the conditions under which foreignness is more likely to function as an asset rather than a liability.

Further, I argue that LOF coexists with AOF, as foreign firms operate in a multidimensional institutional environment where different facets of foreignness lead to distinct outcomes. Foreign firms can simultaneously benefit from their advantages while facing the inherent challenges of being outsiders in host markets. For example, a foreign firm may leverage its globally recognized brand reputation to build trust and attract customers. At the same time, it might struggle to understand or adapt to local consumer preferences and cultural sensitivities, which could hinder its ability to effectively tailor products or services to local demands. Therefore, this study focuses on institutional contextual factors that may exacerbate or mitigate LOF and shape how foreign firms differ in their capacity to capitalize on AOF.

This study makes both theoretical and empirical contributions by using a unique sample of IP lawsuits in Chinese courts, showing that firms enjoy AOF. First, this study provides empirical support for the notion of AOF, offering a more balanced perspective for understanding foreignness. More importantly, while extensive research has examined the role of foreignness primarily from an organizational-level perspective, I explore context-specific institutional factors as a fundamental source of AOF. Through a compar-

ison of court outcomes between foreign and domestic firms, the study also reveals how the effect of foreignness manifests not only in market-based outcomes. In addition, it bridges the LOF and AOF literatures by identifying key contingencies that amplify or mitigate LOF and demonstrating how LOF interacts with AOF.

STUDY 3: THE IMPACT OF LITIGATION UNDER TECHNO-NATIONALISM

The world is currently experiencing a notable upsurge in techno-nationalism policies—government-led initiatives and regulations that link a nation’s technological capabilities directly to its national security and geopolitical influence (Luo & Van Assche, 2023). For example, the European Union’s Gaia-X project aims to establish a secure and sovereign European cloud infrastructure, reinforcing digital independence. The U.S. CHIPS and Science Act is a bipartisan law authorizing substantial federal investments to strengthen America’s leadership in semiconductor manufacturing and scientific research. India’s “Make in India” campaign, launched in 2014, seeks to position the country as a global manufacturing hub. Similarly, China’s “Made in China 2025” strategy promotes domestic innovation in advanced industries. This study examines how such techno-nationalism shapes inter-firm interactions by focusing on international IP litigation, which involves firm-level legal conflicts related to intellectual property infringements.

According to social identity theory (Tajfel, 1974), individuals and organizations categorize themselves and others into social groups, generally favoring their in-group over out-groups. This categorization fosters social identity, where group membership strongly influences perceptions, attitudes, and behavior (Ashforth & Mael, 1989). In the context of nationalist policies, national identity becomes especially salient, with international tensions acting as catalysts for nationalism, evoking feelings of national pride, identity, and unity. The implementation of techno-nationalism policies can lead domestic stakeholders to perceive international conflicts, including intellectual property disputes, as threats to their national identity and interests (Reich, 1987). Consequently, IP litigation between domestic and foreign firms extends beyond economic issues and becomes intertwined with broader geopolitical dynamics.

Using China’s “Made in China 2025” initiative as the empirical context, this study applies a triple-differences approach to a dataset of Chinese listed firms. The findings reveal that, following the adoption of techno-nationalist policies, firms involved in the litigation—where the perceived threat intensifies in-group favoritism and biases against out-groups—experience changes in subsequent market support. It provides fresh evidence of the significant impact of techno-nationalism policies on the outcomes of organizational conflicts and broadens existing research on techno-nationalism by incorporating perspectives from social identity theory.

CONCLUSION

This dissertation offers insights into the multifaceted role of litigation within the context of international business. The findings reveal that litigation in IB extends beyond legal adjudication, carrying strategic and economic implications. These broader effects highlight the importance of conceptualizing litigation not merely as a legal outcome but as a complex, socially embedded process with far-reaching consequences for firms operating in an evolving and fragmented global environment. This integrative perspective contributes to a more comprehensive understanding of the legal, strategic, and economic impacts of legal disputes.

The findings also carry important implications for practitioners and policymakers. Study 1 highlights the risk-mitigating effects of foreign ownership. Addressing litigation risk is particularly crucial for firms, as it allows them to strengthen stakeholder confidence and ensure long-term sustainability in an increasingly litigious business environment. Foreign investors not only bring international knowledge and technologies but also serve as a crucial mechanism to alleviate litigation risk. Therefore, to fully leverage the advantages of foreign investors, managers should engage in effective communication and capitalize on their expertise and networks. Study 2 reveals that firms aiming to operate in international markets should also recognize that liabilities and assets of foreignness coexist. While foreignness can create disadvantages—such as higher transaction costs, regulatory hurdles, and liability of unfamiliarity—it can also confer unique advantages. Therefore, managers should devise strategies that minimize the negative impacts of LOF while capitalizing on the advantages of their foreign status. Study 3 demonstrates that legal disputes, under certain conditions, can be advantageous, at least in the short term, emphasizing the need to consider both economic and social factors when evaluating the consequences of litigation. Additionally, the findings across all three studies highlight the importance of institutional environments in both home and host countries. Institutions, as the “rules of the game” (North, 1990), play a pivotal role in shaping firm strategy and performance. Successfully recognizing and navigating institutional complexities in both contexts is critical for firms pursuing success in global markets.

ABOUT THE AUTHOR

Xuchang Chen is a Lecturer (Assistant professor) in International Business and Strategy at the Henley Business School, University of Reading. Her primary research interests lie at the intersection of global strategy, nationalism, and emerging market firms.

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