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Article

Exploring the Liability of Origin: Lessons from Smithfield Foods and Meat Processing in the US During COVID-19

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The Liability of Origin (LOR) refers to disadvantages faced abroad by firms sharing common national origins. We examine the country of origin effect on Smithfield Foods (owned by a Chinese parent), one of the largest meat companies in the US, before and during the COVID-19 outbreak. We find evidence that Smithfield experienced legitimacy challenges associated with its Chinese ownership. We conclude that animosity between a multinational enterprise's home and host countries is an important source of LOR and discuss three strategies (distancing and localization, stakeholder, and social media) that might help companies overcome these challenges.

INTRODUCTION[1]

The Liability of Origin (LOR) refers to disadvantages faced abroad by firms sharing common national origins (Ramachandran & Pant, 2010). It is related to, but is also different from, the concept of liability of foreignness (LOF). Both concepts describe disadvantages of multinational enterprises (MNEs) doing business in a host country. However, LOF refers to the additional costs for MNEs relative to local firms (Zaheer, 1995); it thus emphasizes MNE disadvantages because of where they are *not from* (i.e., not local). In contrast, LOR stresses MNEs disadvantages from the perspective of where *they are from* (i.e., their specific nationality) (Ramachandran & Pant, 2010). We examine an important source of LOR, that arising from the host country's animosity toward the MNEs' home country. Animosity between the United States (US) and China has escalated in recent years first because of trade frictions, but more recently over blame for COVID-19. We suggest that these tensions are manifested in a LOR for Chinese MNEs operating in the US. We examine the country of origin effect on Smithfield Foods before and during the COVID-19 outbreak and discuss the legitimacy challenges it faces in the US as diplomatic relations between China and the US deteriorate. We use this case to discuss strategic options available to managers.

We begin by examining public sentiment toward Smithfield, a Chinese-owned meat processing company in April 2020 at the time of the COVID-19 outbreak in the US, and a time when US–Chinese tensions were increasing. We use Tweets to capture public sentiment toward companies of different country of origin in the meat processing industry, an indication of a company's legitimacy in the eyes of the public. We compare Smithfield Foods, a wholly owned subsidiary of WH Group of China (a privately owned, publicly traded entity in Hong Kong) with two other meat processing firms, Tyson Foods (a family-owned US firm) and JBS USA (owned by a Brazilian parent). We find that although there is no difference among the companies in terms of numbers of negative tweets, Smithfield is more frequently associated with its country of origin than JBS USA.

We then consider possible explanations as to why negative tweets about Smithfield are more likely to identify its Chinese ownership. One possible explanation is that Chinese firms such as Smithfield failed to meet local health and safety standards, a matter of considerable concern in the meat processing industry. COVID-19 represents an exogenous shock that has challenged the capabilities of all meat-processing companies at the same time. We find no evidence that Smithfield performed worse than its competitors in meeting industry standards. We also find that WH Group took various actions to maintain political legitimacy both by satisfying US regulators at the time of the acquisition of Smithfield and by maintaining business practices largely in line with US government goals. Thus, Smithfield did not face significant regulatory challenges, especially in comparison with JBS.

We find evidence that during the COVID-19 outbreak Smithfield experienced a LOR effect related to its legitimacy in the eyes of the public. Given that there is little evidence that Smithfield violated industry standards or government expectations in the US that would draw attention to its Chinese ownership, we attribute the LOR effect to the diplomatic tensions between the US and China which were heightened as a result of COVID-19 and which also resulted in strongly negative public views of China in the US. We conclude by discussing the appropriate strategic response for companies.

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1 A list of citations used to verify various statements in the article is available from the authors on request.

COVID-19, THE MEAT PROCESSING INDUSTRY, AND DIPLOMATIC TENSIONS BETWEEN THE US AND CHINA

The outbreak of COVID-19 in the US in February/March 2020 was an exogenous shock that challenged all meat-processing companies. As of May 15, 2020, COVID-19 had been detected in 115 meat plants across 19 US states, and 44 plants had been closed (McCarthy & Danley, 2020) leading to concerns over meat shortages. Infection rates were particularly high in two states: Iowa where a Tyson plant reported an infection rate of 58% and South Dakota where a single Smithfield plant accounted for half that state's total cases. Since April 2020, strong concerns were expressed on social media platforms regarding the situation at US meat plants with all major meat producers being criticized for keeping the facilities running at the risk of employees' health and safety.

At the same time, the COVID-19 outbreak significantly increased tensions between the US and China as the US blamed China for the spread of the virus (Council on Foreign Relations, 2020). Although negative attitudes towards China among US citizens began to increase in 2012, after the outbreak of the pandemic they grew to an unprecedented level with 73% of US adults holding negative views of China as of July 2020 (Silver, Devlin, & Huang, 2020).

CHINESE OWNERSHIP AND PUBLIC LEGITIMACY: TWEET ANALYSIS

We use sentiment analysis around the time of the COVID-19 outbreak in the US to evaluate public legitimacy of the three meat companies. Recent management literature has proposed sentiment analysis of Twitter data to measure organizational legitimacy (Lee, 2018). Sentiment analysis is based on natural language processing and text analysis to classify the responses of social media users as positive, negative or neutral (Pang & Lee, 2008). We collected all tweets posted between 1 to 28 April 2020 (a period when many plants were closed) with hashtags that included the company name or some variation (e.g., #Smithfield, #Smithfield Foods) for Smithfield, Tyson, and JBS.

Table 1 presents the results of the sentiment analysis. Based on the percentages of negative tweets relative to total tweets, we find no statistical difference among the three companies, suggesting that the overall legitimacy problem of Smithfield is comparable to that of the other companies. However, among the 692 negative tweets for Smithfield, 126 or 18% mention keywords related to China, while only 7.8% of JBS's negative tweets mention the keywords Brazil or Brazilian, the difference being statistically significant. Thus, Chinese ownership matters more than other foreign ownership in influencing public sentiment. Figure 2 presents similar results based on word cloud analyses (the top 30 words) for the negative tweets for all three companies. While each contains a reference to the company, COVID-19 and coronavirus, or workers and employees, only the cloud for Smithfield includes country of origin. Although this evidence is exploratory in nature, it suggests that Smithfield is subject to a LOR that negatively affects its public legitimacy.

No.	Description	Smithfield	Tyson	JBS
1.	Total tweets	1609	1005	591
2	Tweets with negative polarity (percentage out of total tweets)	692 (43%)	416 (41%)	218 (37%)
3	Tweets with negative polarity that have keywords China, Chinese, and CCP	126	3	4
4	Tweets with negative polarity that have keywords Brazil, Brazilian	-	-	17

Table 1. Results of Sentiment Analysis (April 1-28, 2020)

Figure 1: Word Cloud for All Negative Tweets for Smithfield, Tyson and JBS (April 1-28, 2020)

CHINESE OWNERSHIP AND HEALTH AND SAFETY STANDARDS

It is possible that Chinese ownership made Smithfield less capable of meeting health and safety standards, and public sentiment simply reflected this. However, we find little evidence this is the case. It is widely acknowledged that working conditions in meat processing plants are difficult, and nonfatal occupational injuries and illnesses remain about 1.5 times higher than in the manufacturing sector (Smith, 2017). This has left the industry as a whole subject to criticism from civil society and NGOs, including Human Rights Watch (Stauffer, 2019). Human Rights Watch also notes that the industry lobbied for reduced regulation and that regulatory oversight was in fact reduced.

Although the industry as a whole has come under intense negative scrutiny, there is little evidence that Smithfield has stood out after becoming Chinese-owned. While condemning industry standards, even critics like Human Rights Watch have not singled out Smithfield for greater violations. Indeed, inspection of the complaints registered against each company through the Occupational Safety and Health Administration (OSHA) suggests that Smithfield had fewer violations (64 cases) than did Tyson (113 cases) from May 2015 to May 2020, and there is some evidence that JBS had the highest rate of serious worker injuries among the meat companies (Kindy, 2019). Thus, we find no evidence that Smithfield failed to meet industry standards for health and safety.

CHINESE OWNERSHIP AND POLITICAL LEGITIMACY

We also find no evidence that Smithfield violated any regulatory norms in the US that might create problems of political legitimacy. In September 2013, WH Group (then named Shuanghui International) completed the acquisition of Smithfield Foods, the largest hog raiser and pork producer in the US. WH Group paid 4.7 billion USD making it the largest acquisition in the US by a Chinese firm to that date and making WH Group the largest pork producer in the world. Despite concerns from some US politicians regarding food security and loans from the state-owned Bank of China, the acquisition was reviewed and finally approved by the Committee on Foreign Investment in the United States (CFIUS). Approval was based in part on the case that significant economic benefits to the US were involved, in the form of expanded exports from the US to China.

Moreover, to address concerns regarding Chinese government control, the WH-Smithfield team agreed to retain Smithfield's American management team, plants, employees, wage, and benefit packages, as well as brand equity and health and safety standards. Although these were conditions of the acquisition, they were also consistent with the "light-touch integration" approach often taken by Chinese companies when investing abroad (Liu & Woywode, 2013). Essentially, Smithfield committed to operate in the same way as when it was under US ownership. It is also important to note that although WH group's major shareholder is CDH Investments, an asset management company in Beijing, WH Group is listed on the Hong Kong Stock Exchange.

In contrast to the high-tech sectors that are at the center of the US–China strategic competition, Smithfield's business appears to be consistent with the strategic goals of the US government. In particular, Smithfield plays an important role in the phase one trade deal between the US and China as China agreed to purchase more meat from the US. Indeed, US pork exports to China set a record for the first quarter of 2020.

Nevertheless, there was evidence that Smithfield had a legitimacy problem with the US government before COVID-19. In 2018 when the US government rolled out a 558 million USD aid package to help US firms damaged in the US–China trade war, Smithfield received a purchasing contract of 240,000 USD from the US Department of Agriculture (USDA). However, after several complaints from politicians that a Chinese company was receiving assistance, the contract was terminated.

At the same time, though being a Brazilian-owned company that had been the subject of several anti-trust complaints in the US and accusations of corruption in Brazil (Kindy, 2019), JBS USA won 78 million USD in pork contracts with the USDA. Thus, despite concerns that JBS was contributing to excessive concentration in segments of the meat processing industry, JBS still received aid from the US government. However, Smithfield, without any comparable record for violating US antitrust laws, did not. We note as well that the US Justice Department is currently investigating a group of meat processing companies, including JBS and Tyson, but not including Smithfield for price-fixing (Nylen & Crampton, 2020), and in October 2020 the Brazilian parent of JBS agreed to pay a fine in excess of $280m to the US Justice Department to settle charges in violated federal anti-corruption laws.

CONCLUSIONS AND STRATEGIC OPTIONS

The Smithfield case suggests that although the company maintained its American identity and was managed in a way that conformed to industry norms and US government priorities, there is evidence that the company was nevertheless identified in a negative context as Chinese. The case raises important strategic options, which we group as distancing and localization, stakeholder and social media.

We note first of all, that the WH Group has already adopted the distancing (from home) and localization (in the host) strategies that might counter the LOR both in this case and in other cases (Witt, 2019). First, WH changed its home context from Mainland "China" to "Hong Kong", aiming to overcome any LOR related to China. The Smithfield website begins with "Headquartered in Smithfield, Virginia, Smithfield Foods is an American food company". Second, WH used a hands-off approach, maintaining the American management team while not itself taking an active management role, thus minimizing any real or perceived capability deficits related to its country of origin. Some other localization strategies that WH could consider include spinning off Smithfield into an independent, US-listed company, taking on a US partner or even completely divesting. The degree to which these more radical options are necessary will depend in part on the extent of the threat posed by the lack of political or public legitimacy.

The case of WH and Smithfield also illustrates the importance of a stakeholder strategy that considers the interests of both the government and the public. The group has shielded itself from political risks by aligning its activities with the trade goals of both China and the US, thus achieving a degree of political legitimacy, at least for the moment. However, should the tension between China and the US persist, particularly in the area of trade, the company might anticipate future restrictions on their actions imposed by the US government (including export restrictions and limits on acquisitions), an outcome that is more likely if food security becomes a national security problem in the US. Thus, Smithfield must carefully consider whether its current stakeholder strategy is robust enough to withstand a further escalation of China–US tensions. Moreover, the companies' approaches did not protect Smithfield from negative public perceptions related to its country of origin. This raises the question of how much weight should be placed on evidence of negative public sentiment and what firms can do to improve their public legitimacy.

The final strategic options are related to marketing and social media strategies that can increase reputation and public acceptance. Early analyses in the marketing literature (Klein, Ettenson, & Morris, 1998) suggest that affected companies should de-emphasize the country of origin (discussed above as localization strategies) or directly address the relevant issues in public communications. This would suggest an increased emphasis on public communications in particular delivered *via* social media. Firms ought to be open, accommodating and authentic in communicating with online users, with positive messages sent by senior managers (e.g., Ott & Theunissen, 2015). In the case of Smithfield this might imply a focus on food quality and safety, worker health and safety, and company ethics.

We conclude by noting that the strategic choices faced by Smithfield are not unique to Chinese companies. We suggest that the more general question of MNE strategies in the face of LOR should include distancing and localization, stakeholder and social media strategies.

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