



Dealing with Trust Deficit and Liabilities of Foreignness in Host Countries: Chinese Multinational Enterprises in Australia

Mingqiong Mike Zhang¹ · Ying Lu² · Jiuhua Cherrie Zhu¹ · Kaixin Zhang³

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Abstract

In the face of growing global tendencies of anti-globalization and de-globalization, emerging economy multinational enterprises (EMNEs) are suffering from a trust deficit and multiple liabilities of foreignness in leading economies. The purpose of this study is to empirically examine the coping strategies of EMNEs towards the challenging institutional environment in host countries. It adopts a qualitative approach, conducting longitudinal multiple cases studies among MNE subsidiaries and employing interviews as the main method of data collection. The findings reveal that EMNEs are not passive recipients of the adverse institutional environment and adopt institutional adaptation as the only response strategy. Given that a single strategy cannot be effective, they have developed both proactive and protective strategies to handle the multiple liabilities of foreignness and trust deficit. This study can help EMNEs gain a better understanding of the dominance effect and develop more effective measures to manage challenging institutional environments in host countries. Given that interactions between institutional environments and firm-level strategies of MNEs remain under-researched, this study advances understanding of strategies and behaviours of MNEs in host countries.

Keywords Foreignness effects · Institutional environment · Liabilities of foreignness

1 Introduction

Understanding cross-national activities of multinational enterprises (MNEs) and their strategic responses to the institutional environment of host countries is a central topic of international business studies (Henisz & Swaminathan, 2008; Regnér & Edman,

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2014. Saittakari et al., 2023). The defining trait of MNEs is that they operate across different markets and are more likely to encounter favourable and unfavourable institutional environments. Especially in this turbulent world, anti-globalization forces, geopolitical conflicts, and sociocultural stereotypes have intensified the difficulty of operating in the international market (Lu et al., 2022). How MNEs handle challenging institutional environments in host countries is crucial for MNEs to survive and succeed. Learning to deal with challenging host country institutional environments effectively is particularly relevant for emerging economy MNEs (EMNEs). In recent years, MNEs from emerging economies have increased considerably and turned out to be an important source of global outward foreign direct investment (OFDI), among which many of them are state-owned companies (Paul & Benito, 2018). Research has found that although EMNEs have become an important global FDI player (UNCTAD, 2019), they are more likely to suffer from multiple liabilities of foreignness, especially in developed markets (Fang & Chimenson, 2017; Li et al., 2023; Paul & Benito, 2018).

For example, surveys on trust in MNEs conducted in 26 countries since 2009 reveal that EMNEs (e.g., MNEs headquartered in Russia, India, and China) suffer a serious trust deficit in host country markets (Edelman, 2013, 2014). In developed economies such as the United States, Germany, and France, nearly two-thirds of respondents (63%) do not trust state-owned EMNEs (Shearman, 2013). In general, EMNEs are trusted much less in host country markets than at home. For instance, in 2013, Chinese companies were trusted by 83% of respondents in the domestic market, and by 56% in other emerging economies, but only by 24% in developed markets (Edelman, 2013). Given the importance of trust in business, a trust deficit inevitably disadvantages EMNEs in developed economies. How to handle challenging host country institutional environment with trust deficit to obtain legitimacy is a major challenge for EMNEs.

However, the existing literature on MNEs has paid little attention to the interaction between MNEs, especially EMNEs, and host country institutional environments (Alaydi et al., 2021; Chidlow et al., 2021; Liu et al., 2021; Parente et al., 2019; Zhang et al., 2017). Empirical studies exploring how EMNEs proactively respond to challenging host country institutions are very limited (Alaydi et al., 2021; Liu et al., 2021; Lu et al., 2022). Since research on the post-entry interaction between EMNEs and institutions is still in the early stage (Chidlow et al., 2021), many topics are under researched (Zhang et al., 2017). We do not have sufficient knowledge about how EMNEs interact with local institutions and behave in host countries, how they respond to host country institutional challenges, what are the mechanisms through which interactions between EMNEs and local institutions occur, and what factors shape such interactions (Chidlow et al., 2021; Zhang et al., 2017).

To narrow the gaps in the literature and answer the call for more research on interactions between EMNEs and institutions (Henisz & Swaminathan, 2008; Regnér & Edman, 2014; Liu et al., 2021), this study explores how Chinese MNEs address the challenging institutional environment in Australia. Specifically, based on a longitudinal qualitative study, this research examines the following questions: *what strategies have been adopted by Chinese MNEs to deal with a challenging institutional environment with multiple liabilities of foreignness and trust deficit in Australia?*

2 Theoretical Background: The System, Societal, and Dominance Effects

Extant studies on the interaction between MNEs and institutional environment have been dominated by institutional theory (Chidlow et al., 2021). Traditional institutionalism focuses on legitimacy (DiMaggio & Powell, 1983; Scott, 2001). Studies on the relationship between MNEs and institutions based on traditional institutionalism emphasize the influence of institutional environments on MNEs and isomorphism, arguing that MNEs should adopt strategies of local adaptation so as to obtain legitimacy and social licence (Dieleman & Sachs, 2008; Edwards et al., 2013; Hamprecht & Schwarzkopf, 2014; Regnér & Edman, 2014; Yi et al., 2023). The notion of passive isomorphism has received criticism in recent decades since it views organizations as submissive recipients of a given institutional environment but downplays organizational agency (Regnér & Edman, 2014; Saittakari et al., 2023; Zhang et al., 2017). In fact, passive isomorphism cannot ensure legitimacy. By contrast, neo-institutionalism calls for going beyond the rigid institutional determinism and emphasizes that organizations have the ability, resources, and intention to proactively manage external institutional challenges for self-interests (Luiz, 2021; Oliver, 1991; Regnér & Edman, 2014). In other words, organizations will develop their strategies to respond and shape local institutional environments.

Based on institutional theory and resource dependency theory, Oliver (1991) hypothesizes a five-strategy framework to describe how organizations strategically address institutional pressures and constraints, including *acquiescence* (full compliance), *compromise* (partial compliance), *manipulation* (co-option, influence, or control strategies), *avoidance* (concealed or symbolical nonconformity), and *defiance* (active rejection strategy). According to Clemens and Douglas (2005, p.1210), these strategies can be grouped into two categories: ‘*work within the system*’ (acquiescence, compromise, and manipulation) and ‘*fight the system*’ (avoidance and defiance). However, apart from reconciling or wrangling with existing institutional environments, MNEs have a third option. For example, based on coevolutionary theory (Lewin & Volberda, 1999), Cantwell, Dunning, and Lundan (2010) hypothesize that MNEs may choose to co-evolve with local institutional environments. On the one hand, MNEs comply with local formal and informal institutions through institutional adaptation; On the other hand, MNEs act as change agents to foster local institutional change (Saittakari et al., 2023). Therefore, the interaction between MNEs and institutional environments is a process by which MNEs shape and shaped by institutional environments.

The interactions between MNEs and institutional environments may be better understood through the framework of “system, societal, and dominance effects” (hereafter the SSD model) put forward by Smith and Meiskins (1995). MNEs as complex socio-economic entities operate across multiple national regimes and systems, and hence shaped by various forces, not just home and host country institutional contexts, but also the global organizational fields, international standards, and the global political economy. Therefore, a global perspective is essential to expand and deepen our understanding of the interactions between MNEs and institutional environments, considering multiple forces. The SSD model (Smith & Meiskins, 1995) can help us

understand cross-national behaviour and strategies of MNEs in a broader context of the global political economy and extend our understanding of MNEs' strategic responses to host country institutional environments.

According to Smith and Meiskins (1995, p.253), system effects refer to the influence '*modes of production*' resulting from the application of science and technology to production, which set parameters and limits on organizational strategies and behavior. Systems have different levels. At the organizational level, a system can refer to the '*socio-technical system*'. At the industrial level, it can be distinct economic sub-systems. At the national level, it involves a political economic system such as capitalism or state socialism. System effects reflect uneven development and a hierarchy of efficiency and performance, which contributes to a country's image and status in the global economy.

Societal effects refer to the influence of "societal contexts through which 'modes of production' emerge, develop and get reproduced. It is a level of institutionalisation which encultures systemic forces with unique qualities" (Smith & Meiskins, 1995, p.254). Societal effects arise from nationally specific traditions, institutional arrangements, and culture, as well as differences between countries. A country's social and cultural institutions or the national business system (Whitley, 1999) are significant factors shaping organizational characteristics and behavior (Kostova et al., 2008).

Societal effects are closely related to country-of-origin effects in international business research. On the one hand, country-of-origin effects emphasize that home-country imprinting shapes the characteristics of MNEs, leading them to behave in different ways (Harzing & Sorge, 2003). On the other hand, the nationality of MNEs generates stereotypical views among host country nationals, shaping MNEs' image and competitiveness, and leading to various liabilities of foreignness (Dobrucali, 2019; Moeller et al., 2013; Porter, 1990; Ramachandran & Pant, 2010; Verlegh & Steenkamp, 1999).

Dominance effects highlights uneven development of different nation states and the hierarchical nature of the global economy. According to Smith and Meiskins (1995), the global economic system is a hierarchical structure comprised of markets with different degrees of economic status. Markets in the group with the highest level of economic performance and efficiency are dominant economies deemed to be the representatives of modernity and superiority. Consequently, the prevailing practices in these markets tend to be viewed as best practices and are easy to transfer to non-dominant economies. Such a dominance effect positively or negatively influences the level of acceptance of foreign products and companies in host countries. The higher the economic status of a country in the global economy, the more likely its MNEs and products are more welcomed in other countries (Moeller et al., 2013). However, the dominance effect is mediated by the length and timing that a country has been a member of the leading group in the global economy (Smith & Meiskins, 1995). Late industrializers need to wait for a longer time to obtain acceptance from other countries. As a complex phenomenon, dominance effects tend to lag behind the shift of global economic power.

Smith and Meiskins (1995) agree that it is difficult and artificial to separate system, society, and dominance effects since they interact and reinforce each other. Nevertheless, the SSD model provides us an integrative framework to capture "the three

broad levels of influence derived from society, system and dominance effects” on cross-national organizational practices (Smith & Meiskins, 1995, p.261). It can help us analyse the interactions between MNEs and local institutional environments, and strategies adopted by MNEs in the international market. For example, from the SSD perspective, apart from institutional avoidance, adaptation, and coevolution (Cantwell et al., 2010), MNEs may behave in ways different from both local firms and home-country organizations (Zhang et al., 2017). In the global economy, MNEs are not just influenced by the institutional arrangements of home and host countries, they are also influenced by the best practices of dominant economies, the organizational fields of MNEs, and international regulations and standards. Therefore, an MNE may choose the fourth option: following international standards and the patterns of dominant economies or exploring innovative ways to differentiate itself from other local firms and MNEs to build positive image and achieve competitive advantage.

The SSD framework can also help us understand various liabilities of foreignness suffered by EMNEs such as the liability of foreignness (Zaheer, 1995), the liability of origin (Ramachandran & Pant, 2010), and the liability of emergingness (Madhok & Keyhani, 2012), the extra costs specific to EMNEs when operating in developed countries. In this study, we name all these as liabilities of foreignness. For example, Pant and Ramachandran (2012, pp.226–227) found that, due to the SSD effects, EMNEs from India operating in the U.S. market encountered three challenges including liability of foreignness, liabilities of origin, and liability of advantage. The liability of foreignness refers to the disadvantages due to ‘*where they are not from*’; the liability of origin is the disadvantages because of ‘*where they are from*’; and the liability of advantage is the phenomenon that advantages of EMNEs in their home markets turn out to be disadvantages in a host country market. Given the SSD effects, these Indian MNEs need to repeatedly demonstrate competence to reduce liabilities of foreignness and obtain legitimacy.

Existing research also found that the SSD effects could change the impact of country-of-origin effects on MNEs. Foreignness does not inevitably mean liability, it can be a premium, depending on the relative positions of host and home countries in the global economic hierarchy (Lu et al., 2022). Therefore, foreignness can be a liability in one country, but an advantage in another, shifting the liability of foreignness (LOF) to the advantage of foreignness (AOF). However, the SSD model is mainly used to analyse the transfer of best practices of dominant economies (e.g., Edwards et al., 2013; Sayim, 2010), few studies have employed it to examine how MNEs can strategically manage institutional environment to address the liabilities of foreignness in host countries.

3 The SSD Effect and Trust Deficit of EMNEs in Host Countries

The SSD framework can also deepen our understanding of EMNEs’ trust deficit in host countries from the perspective of global political economy. Given that trust is the foundation of human relationships and plays a vital role in establishing and nurturing healthy business collaborations, understanding how to build high levels of trust and identifying effective strategies to deal with trust deficit are crucial for the survival and

success of MNEs. According to Mayer et al. (1995), trust refers to a trustor's willingness to be vulnerable to the actions of a trustee based on the positive expectation of trustworthiness in terms of ability, integrity, and benevolence. However, given that trust has been defined in different ways and have multiple meanings (e.g., trust has been defined as attitude, belief, expectancy, behavior, or disposition, etc.) in different disciplines (Bunting et al., 2021; McKnight & Chervany, 2001; Tallant & Donati, 2020), in recent years, some scholars have called for understanding and analysing trust as a family of concepts including trust, mistrust, and distrust, rather than one construct (Bunting et al., 2021; Devine et al., 2020).

Differing from trust that reflects a positive attitude towards the target party, mistrust is "a cautious attitude towards others" (Lenard, 2008, p.313), reflecting "doubt or skepticism about the trustworthiness of the other" (Citrin & Stoker, 2018, p.50). Therefore, a mistrustful stakeholder will interact with the target party hesitantly and cautiously (Lenard, 2008). By contrast, distrust is "a suspicious or cynical attitude towards others" (Lenard, 2008, p.313), reflecting a negative attitude and "a settled belief that the other is untrustworthy" (Citrin & Stoker, 2018, p.50). Therefore, mistrust and distrust should not be equated with low trust or lack of trust, in other words, trust, mistrust, and distrust are distinctive concepts (Bertsou, 2019). Given the complexity of social relationships (e.g., multiple stakeholders, and the multidimensionality of trustworthiness), trust, mistrust, and distrust are not mutually exclusive but may coexist among stakeholders in host countries (Bunting et al., 2021; Devine et al., 2020; Lewicki et al., 1998; McKnight & Chervany, 2001).

Similar to trust, there is no consensus on what trust deficit is in the literature. Studies usually use the term without a clear definition (e.g., Adelopo & Rufai, 2020). In this study, we define trust deficit as a complex scenario where there is a lack of high levels of trust. Although whether mistrust and distrust belong to the trust conceptual family might be controversial and needs further discussions, mistrust and distrust are indisputably the members of the trust deficit conceptual family. Moreover, apart from low trust, mistrust, and distrust, it is possible that trust deficit involves a neutral state of 'neither trust nor mistrust or distrust' exists (Bertsou, 2019; Cho, 2006). Therefore, following the notion that trust should be understood as a family of concepts, we assume that trust deficit manifests in various forms, including low trust, a neutral state (without trust, mistrust, or distrust), mistrust, and distrust (Bertsou, 2019; Cho, 2006; Lewicki et al., 1998). Given the complexity of trust deficit, multiple strategies are necessary for EMNEs to address it.

Based on the mechanisms of trust generation, Zucker (1986) identified three types of trust including process-based (i.e., based on past experience and observation), characteristic-based (i.e., based on certain traits and corresponding stereotypes), and institution-based trust (i.e., based on formal regulations and social systems). By contrast, McAllister (1995) categorizes trust into cognition-based (i.e., based on cognitive evaluation) and affect-based trust (based on feelings, emotions, and intuition). Therefore, trust and trust deficit are not fully objective and evidence-based, they are subjective beliefs, expectations, and emotional feelings, shaped by cognitive, affective factors and social contexts (Adelopo & Rufai, 2020; Mayer et al., 1995; Schoorman et al., 2007). As "socially learned and socially confirmed" expectations (Barber, 1983, p.164), trust and trust deficit are deeply embedded in institutional environ-

ments (De Jong et al., 2017). Therefore, Lewicki et al. (1998) call for bring social context into studies on trust relationships.

However, existing studies on trust have paid limited attention to social contexts and many context variables have been neglected (Lewicki et al., 1998; Schoorman et al., 2007; Paluri & Mishal, 2020). For example, an extensive literature review on trust in supply chain management identifies 40 antecedents of trust, most of them are characteristics of trustees in terms of ability, integrity, and benevolence (Paluri & Mishal, 2020). In the international business field, studies on trust and trust deficit are limited (Mandi et al., 2022). The inadequate scholarly attention to trust and trust deficit in international business studies is surprising, given that trust is crucial for international operations. Since international business has been dominated by the interactions of global social, economic, and political forces, introducing the SSD effect into analyses when examining EMNEs' trust deficit in host countries enables us to better understand the international business dynamics.

4 Research Method

To address the research question, we adopted a qualitative approach, conducting longitudinal multiple case studies among MNE subsidiaries and employing interviews as the main method of data collection. Specifically, we conducted multiple case studies involving seven Chinese MNEs operating in the Australian market, aiming to obtain a comprehensive understanding of strategies adopted by Chinese MNEs to address the trust deficit and liabilities of foreignness.

We chose the Australian market as the context of our empirical study since Australia has been one of the major investment destinations of Chinese MNEs in the past decades. Moreover, opinion polls have revealed that Chinese investment has attracted considerable controversy and Chinese MNEs have suffered from a serious trust deficit and multiple liabilities of foreignness in that market (Oliver, 2018). In addition, Australia and China are very different countries with distinct sociocultural institutions and political-economic systems. Since the two countries have different levels of per-capita income and industrialization, they locate at different positions in the hierarchical global economy. All these traits make Australia an ideal context to examine how EMNEs interact with local institutional environments from the SSD perspective.

Case MNEs were selected following strategies suggested by Yin (2017). First, case MNEs should have rich information and hence can tell us more about the research questions (Patton, 2002). Therefore, we chose large MNE subsidiaries that employed both Chinese expatriates and local employees and had been in full operation for at least one year in Australia. Second, according to Denzin and Lincoln (2011), atypical or extreme cases which are either '*most likely*' or '*least likely*' are usually information-rich cases worthy of in-depth study. Given that state-owned MNEs are most likely to encounter the trust deficit issue and influenced by multiple liabilities of foreignness, this study chose state-owned MNEs as case firms. Third, following Eisenhardt (1989) and Thomas (2004) who suggest that four to ten cases are appropriate for a multiple case design, this study focused on seven informative state-owned MNEs located in different Australian cities. According to Nielsen et al. (2020), incorporat-

ing more contextual elements such as organizational units, locations, and time into a study through a multiple case and location design enables researchers to broaden contextual settings, achieve contextual triangulation, and increase research validity. To ensure anonymity, we denoted the case MNEs as CME1 to CME7. The profile of case MNEs is presented in Table 1.

4.1 Data Collection

The case study method has proven to be an effective tool to generate and test theory but is subject to criticism for a lack of methodological rigor in the process of data collection and analysis (Thomas, 2004; Oesterle & Wolf, 2011; Wolf & Rosenberg, 2012). Therefore, this study took steps to establish trustworthiness following the procedures suggested by Cuervo-Cazurra et al. (2016), Nielsen et al. (2020), and Singh et al. (2021), such as data replication, contextual triangulation, data triangulation, and investigator triangulation. For example, adopting a multiple case design and a longitudinal approach enables us to achieve data replication across cases and time points (Cuervo-Cazurra et al., 2016). Our case MNEs located in different industries and locations, we visited each case MNE on more than one occasion, and interviewed key informants on several occasions each year, either face to face or by phone. By collecting data continuously, internal validity is enhanced, which enabled us to understand whether there were pattern changes overtime and identify recurrent models. The multiple case design and the longitudinal approach also helped us to build trustworthiness through contextual triangulation (Nielsen et al., 2020; Singh et al., 2021) by collecting data in different venues, times, and contexts, which broadened the applicability of the findings. To achieve data triangulation, establish internal consistency, and reduce single source bias, this study supplemented semi-structured interviews with panel discussions and documentary sources such as company intranet pages and online information (Cuervo-Cazurra et al., 2016). Our study also pursued investigator triangulation, at least two researchers with bilingual skills and different theoretical backgrounds participated in interviews and group discussions, and interpreted results together to expand insights (Yin, 2017).

Table 1 Profile of case study Chinese MNEs

Case MNEs	Industry	Ownership	Year of investment in Australia	No. of expatriates	Entry mode
CME1	Mining	Listed company	2006	68	Greenfield
CME 2	Energy	SOE	2008	12	Greenfield
CME 3	Mineral resource	SOE	2009	15	M&A
CME 4	Manufacturing	Listed company	2007	37	JV
CME 5	Coal & coal chemical	Listed company	2004	18	M&A
CME 6	Mining	SOE	2009	9	M&A
CME 7	Metallurgical	SOE	2008	16	Greenfield
Total					

Note: SOE: State-owned enterprise; JV: Joint venture; and M&A: Mergers & Acquisitions

Table 2 Profile of interviewees

Interviewees	CME1	CME2	CME3	CME4	CME5	CME6	CME7	Total
CEO/General manager	3	2	1	2	3	2	2	15
Board member	2	1		2	3	1	2	11
Head of department/middle manager	2	1	2	3	2	2	2	14
Total	7	4	3	7	8	5	6	40

Table 3 Analytical coding process to induce theoretical dimensions

Illustrative first-Order codes	Second-Order Constructs	Aggregate Theoretical Dimensions
• Mutual learning & two-way familiarization	Bridging strategy	Proactive strategy
• Follow the highest standard in labor and environment protection	Improvement strategy	
• Keep all employees & not to shut down operations	Embeddedness strategy	Protective strategy
• Going global for domestic dominance	Redefining market strategy	
• Reduce interaction with local stakeholders	Low dependency strategy	
• Blurring foreign identity	Low profile strategy	

Data were continuously collected through interviews and focus group discussions from 2012 to 2017. During interviews and focus group discussions, we asked participants to describe what being foreign meant for Chinese MNEs; the advantages and disadvantages for Chinese MNEs operating in the Australian market; the influence of Chinese identity and nationality; and how they addressed various liabilities of foreignness and the trust deficit issue, and so on. Extensive notes were taken during the interviews and focus group discussions. A total of 40 Chinese expatriates were interviewed including CEOs, general managers, board members, assistant managers, and heads of department. The profile of interviewees is summarized in Table 2.

4.2 Data Analysis

We analysed data following the procedure recommended by Charmaz (2014). After creating a data repository (Miles & Huberman, 1994), the researchers organised and managed the data using the three stages of an evolutionary coding process: initial coding, focused coding, and theoretical coding (Charmaz, 2014). During initial coding, chunks of data such as phrases, sentences, and paragraphs important to the research questions were identified and labelled. After agreement was reached regarding such units of meaning, we moved to the focused coding stage to identify dominant concepts and categories to understand the relationships among the initial codes. In the theoretical coding stage, categories were combined into themes to capture theoretical connections, ideas, and implications. During the coding process, we conducted constant comparison analyses to gain understanding of patterns and relationships in the data (Charmaz, 2014; Yin, 2017). Through analysing the data, information was grouped into different categories and themes such as different coping strategies of Chinese MNEs. Table 3 offers examples of our data coding process.

5 Findings

Our findings indicated that due to the SSD effects, Chinese MNEs in Australia suffered from trust deficit and multiple liabilities such as the liability of foreignness (Zaheer, 1995), the liability of emergingness (Madhok & Keyhani, 2012), the liability of origin (Ramachandran & Pant, 2010), and the liability of outsidership resulting from the lack of relationships and network membership in the host country (Johanson & Vahlne, 2009). Nevertheless, Australia had been one of the top investment destinations for Chinese firms. Our findings revealed that Chinese MNEs were not just passive recipients of challenging institutional environments and adopted adaptation as the only response strategy. Given that a single strategy cannot be effective to address the multiple liabilities of foreignness and trust deficit, they had developed both proactive and protective strategies to handle the challenging local institutional environment. In this study, *proactive strategies* refer to various constructive legitimization approaches used to mitigate negative foreignness effects and handle trust deficit through achieving legitimacy in host countries. By contrast, *protective* or *defensive strategies* are passive avoidance approaches employed by MNEs to reduce the negative impact of foreignness and trust deficit through minimizing interactions with local stakeholders and other decoupling methods. Figure 1 summarizes the various proactive strategies such as bridging strategy, embeddedness strategy, and improvement strategy; and the protective strategies including tactics of low dependency, market shifting, and low profile.

Our longitudinal study found that the formation of these strategies is the results of a learning and exploration process. While the seven case companies began with limited understanding of the Australian institutional environment, their strategies evolved

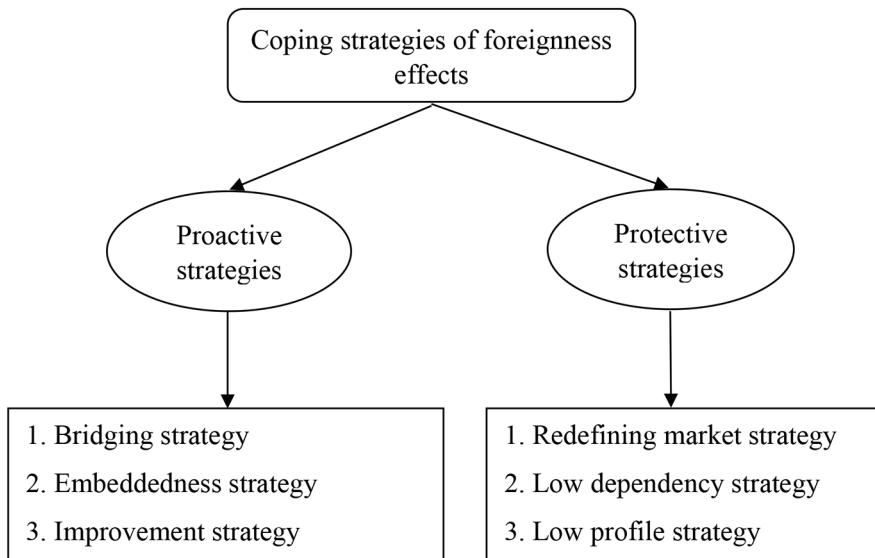


Fig. 1 Coping strategies of Chinese MNEs towards foreignness effects

significantly as they understood the local market and made the effort to address various challenges when operating in Australia. Respondents told the researchers that their companies had no clear strategy of how to operate in Australia in the early years of investment. Trapped by their former success in the domestic market, some case Chinese MNEs (e.g., CME2 and CME6) initially planned to directly transfer their business models to Australia and ran their Australian subsidiaries in the Chinese way. They soon realized, however, that their former ways of running business did not work well in a new institutional environment with trust deficit and various liabilities. They must run their business in an Australian way and find ways to build trust and legitimacy and minimize the negative impact of various liabilities. Over time, the case companies gradually understood how to do business in Australia and worked out some proactive and protective strategies.

5.1 Proactive Strategies

Bridging strategy. In this study, a bridging strategy refers to that EMNEs act as intermediaries, facilitating mutual learning and understanding among stakeholders between host and home countries. Given the huge socioeconomic and cultural differences between China and Australia, case companies found that people in the two countries did not know much about each other. They gradually realized that unfamiliarity and misunderstanding constituted a major source of the trust deficit and liabilities of foreignness and felt obligated to address such issues. Our interviews found that bridging had been the most common strategy adopted by Chinese MNEs in Australia. All case firms emphasized the importance of mutual learning, aiming to achieve ‘*two-way familiarization*’ between MNEs and host country stakeholders (Pant & Ramachandran, 2012, p.226). On the one hand, expatriates tried to familiarize themselves with the local market, business practices, and institutional environment. On the other hand, headquarters sent potential expatriates to their Australian subsidiaries for training and accumulation of working and living experience abroad. A mine manager of CME2 explained the strategy as follows:

Chinese companies usually do not have enough experience of international investment ... the major task for Chinese companies is to learn how to do business and to know the outside world.... that is why I always emphasize the training function of our investment.

In the cross-cultural context, unlearning was also adopted by Chinese MNEs. Unlearning refers to the process of intentionally discarding some assumptions, beliefs, habits, routines, and knowledge (Tsang & Zahra, 2008). Given various country and cultural differences, Chinese MNEs usually had some routines that did not fit the host country market. Simultaneously, after working and living in the host country for some time, expatriates realized that some assumptions and beliefs they hold about the host country market were not accurate or even misleading. Our findings found that Chinese MNEs had recognized that some of their beliefs about the Australian market were not correct and some of their managerial practices were not effective. Therefore,

most case MNEs and respondents had gradually abandoned such understandings and practices. As the Office manager in MNE3 explained:

After working and living in Australia for several years, the management team realize that some of our beliefs formed in China about Australia, about the Australian culture, employees, and workplace are not accurate and need to be updated.

Apart from improving their knowledge of Australia culture and society, Chinese MNEs actively created opportunities to help Australian stakeholders have a better understanding of Chinese culture and companies. All case MNEs arranged training programs at headquarters for Australian managers, aiming to improve mutual understanding and reduce misunderstanding. At the same time, all case MNEs suggested that the current cross-cultural training needed to be improved. Traditional cross-cultural training and international business studies have always emphasized cultural differences, psychic distance, and institutional distance but downplay cultural and country similarities unless discussing investment destinations and entry modes. In our fieldwork, interviewees believed that it was not helpful for MNEs to overemphasize cultural and country differences, especially not helpful for emerging economy MNEs since they were eager to bridge the two cultures. As the CEO of CME6 said:

When I was trained as a potential expatriate at a university before I came to Australia, lecturers always discussed differences between China and Australia. Books and online information are also focus on country and cultural differences. Therefore, in the first two years I worked here as an expatriate manager, I found that the company and Chinese managers were constrained by such knowledge of cultural differences. I was even afraid of associating with local people for fear of making mistakes. ... Our management team realized this and decided to change the situation since we found that cross-cultural differences are secondary, similarities are primary, human nature is alike. ... Emphasizing differences may hamper cross-cultural interactions and make our company and expatriates look more like outsiders.

Bridging strategy emphasizes that MNEs as a mutual learning bridge of multicultural understanding and interactions, and cross-cultural training should pay attention to both sociocultural differences and similarities of host and home countries. All interviewees believed that such a strategy was helpful for obtaining local legitimacy and acceptance. A bridging strategy is more likely to be effective when the trust deficit manifests in the form of a neutral state without mistrust and distrust. In such a scenario, mutual learning is more likely to occur, and a two-way familiarization may foster positive expectations about Chinese MNEs' trustworthiness among local stakeholders. We therefore posit the following proposition:

Proposition 1 *EMNEs may adopt a bridging strategy in a neutral institutional environment without mistrust and distrust.*

Embeddedness strategy. In this study, an embeddedness strategy is defined as the proactive measures taken by an MNE to maintain its dedication and support to local stakeholders amidst the dynamic ups and downs of the economy. As discussed earlier, Chinese MNEs suffer from trust deficit and multiple liabilities of foreignness, which generates tremendous pressure on them. Our interview findings revealed that realizing the existence of a trust deficit could drastically shape MNE behaviours, leading them to pursue trust building and social license first, not efficiency. All the case MNEs told the researchers that building high levels of trust in the host country is the top priority for them, even if doing so might seriously sacrifice profits. For example, in order to build a reputation as responsible investors, Chinese companies decided not to retreat in difficult times. By doing so they wanted to demonstrate trustworthiness and build high trust among local stakeholders. As the CEO of CME5 explained:

Due to changes of the market, our companies in Australia have not been doing well in recent years. A local manager tells me one day that in such a situation private companies in Western countries usually declare bankruptcy and come back when the market gets better. But our headquarters has decided to keep all employees and not to shut down operations. We want to demonstrate that we are a responsible company and concern the needs of local communities.... Chinese investors are not a foreign exploiter.

A mine manager of CME5 expressed the same idea:

Although all our companies in Australia are losing money in recent years since the price slump, we do not lay off any local employees. Time will tell that Chinese MNEs are not selfish and mercenary.... Chinese companies are trustworthy in difficult times.

Due to the trust deficit suffered by EMNEs, Chinese MNEs have tried to repeatedly offer objective evidence to reassure local stakeholders (Pant & Ramachandran, 2012). However, achieving legitimacy and building high levels of trust in a host country might require years of efforts. Nevertheless, proactive strategies adopted by EMNEs will contribute to mitigating liabilities of foreignness and trust deficit. This line of thinking leads to the following proposition:

Proposition 2 *EMNEs may adopt an embeddedness strategy in a low-trust institutional environment without mistrust and distrust.*

Improvement strategy. An improvement strategy in this study refers to MNEs making continuous efforts to reduce doubt and skepticism about their trustworthiness among local stakeholders, aiming to meet the high expectations regarding their responsible performance. Interviewees of this study reported that they indeed felt great pressure from the perceived mistrust when operating abroad. For example, they know that the internationalization process of Chinese MNEs is often subject to negative media coverage in Western countries (Fang & Chimenson, 2017). They also know that Chinese state-owned enterprises invested in industrialized markets often attract much debate

and controversy in these countries (Cuervo-Cazurra et al., 2014). As a result, some local stakeholders are in doubt about the intention and trustworthiness of Chinese firms and interact with Chinese MNEs with a mistrustful and questioning mindset. Since MNEs usually have higher visibility in host markets and a higher exposure to various forms of monitoring than local firms (Kostova & Zaheer, 1999), when operating in Australia, Chinese MNEs had pay greater attention to their conduct and made greater efforts to establish and maintain a positive company image, aiming to dispel the suspicion over the trustworthiness of Chinese firms among some local stakeholders. As CEO of CME1 explained:

We know the negative media coverage of Chinese companies and understand that some media are waiting for our mistakes. Therefore, we emphasize time and again in meetings that CME1 must rigorously comply with local laws and regulations and follow the highest standard in labor and environment protection.... Establishing a positive company image is our top priority, even if doing so is very costly.

As state-owned MNEs, interviewees believed that expatriates and their companies represented the image of their home country. Therefore, they had paid greater attention to the corporate reputation and behaviour. Apart from actively contributed to local communities through corporate social responsibility programs, they quickly localized key company positions to ensure a good relationship with local trade unions and the media. As the manager of CME3 explained:

In China, if a firm is not a listed company and does not encounter a crisis, there is no need for it to deal with the media. Its major relationship with the media is to advertise its products. ... Since the land in China is state-owned and government dominates the major decision-making process, companies only need a good relationship with local governments. There is no need for them to work directly with local communities. However, when operating in Australia, everything has changed. Since we do not encounter such issues in China, we do not know what to do in the beginning and make some mistakes.... Now we know timely and transparent communication with the media and local communities is very important.

A board member of CME5 also stated that:

Companies in China do not have experience in dealing with trade unions since the management-union relationship in China is quite different from that in Australia. ... To enhance our capability to deal with local affairs, we have now localized all positions in which we lack local experience, including human resource management, safety management, public relations, and environment protection.

The interviewees of CME2 and CME3 also made similar observations that their companies had changed the way of doing business in Australia and operated in the

same way as local firms. The quick localization of key positions in the early stage of operation made the subsidiaries less alien and hence reduced the negative foreignness effects and mistrust. The quick localization under pressure also enabled them to manage the relationship with local trade unions, the media, and communities effectively, improved the relationships, and reduced cross-cultural missteps. The mainstream literature on international business usually views liabilities of foreignness and challenging institutional environments as barriers and disadvantages for international business. The findings of this study showed that challenging institutional environments with mistrust are not always bad things, they might push MNEs to continuously improve their behaviour and capabilities in order to reduce mistrust and succeed in challenging institutional environments. Such findings lead to the following proposition:

Proposition 3 *EMNEs may adopt an improvement strategy to demonstrate their trustworthiness in an institutional environment with mistrust and low trust.*

5.2 Protective Strategies

Low dependency strategy. A low dependence strategy in this study refers to a passive decoupling approach adopted by an MNE to minimize their interactions with local stakeholders to reduce the negative impact of a challenging low-trust institutional environment. Our interviews showed that some Chinese MNEs had tried to reduce interaction with local stakeholders to reduce the impact of negative foreignness effects. A manager of CME6 stated that:

We know that Chinese companies are not welcomed and trusted by some local stakeholders. ... To avoid trouble, we have adopted some strategies such as not recruiting too many local staff since we do not have experience to manage local employees and deal with trade unions. If a task can be done in China, we do it in China, it is much cheaper and simple; if the task cannot be done in China, we outsource it to local contractors in that case. ... However, they were effective strategies in the beginning when we were still small, they are not helpful for business growth. ... We need effective strategies to build trust and do business in an unfavourable environment.

The low dependence strategy was usually adopted by some small Chinese MNEs in their early internationalization stage when they felt that distrust was high and mutual trust was low. Interview findings showed that most interviewees were not like such a strategy and viewed it as a short-term expedient approach before achieving high levels of trust in the host market.

Proposition 4 *EMNEs may adopt a low dependency strategy in a low-trust institutional environment with distrust.*

Redefining market strategy. As discussed earlier, according to the SSD perspective, in this hierarchical global market, MNEs and products of the leading country group tend to enjoy a reputational premium in late industrializing economies. Similarly, companies of emerging economies that invest in leading economies may in turn benefit from the dominance effect in developing country markets through obtaining brand names and other resources. In other words, investment by EMNEs in industrialized economies can help those companies reduce the liability of emergingness and the trust deficit issue when they invest in other third-party countries through their foreign subsidiaries. As the Manager of CME2 noted:

Although our company is viewed as a Chinese MNE in Australia, it is viewed as an Australian company in other economies when we invest in those countries and our products are viewed as Australian products.... Even if CME2 invests in China, it is viewed as a foreign company and is eligible to enjoy favourable foreign investment policies.

Therefore, if this study were to focus only on the Australian market, the foreign status of Chinese MNEs in Australia might be found bring no benefits to those MNEs. However, if the international market is considered, some benefits of foreignness can be identified. As the assistant manager of CME3 explained:

Australia is an industrialized economy, its brand names and products enjoy a very good reputation in China and other countries. If CME3 is successful, our parent company will expand investment into other local industries such as food businesses. I know that some Chinese companies invest in Australia but sell their products produced here in China and they are very successful.

Our fieldwork findings revealed that the dominance effect had pushed many Chinese MNEs operating in Australia to shift their target market from Australia to China (e.g., CME1, CME5, and CME6) to address the unfavorable local institutional environment with high distrust in Chinese investment. Such a strategy created a unique phenomenon: the objective of many Chinese companies' overseas investment is not to compete in the host country or the international market, but to gain comparative advantages in the Chinese market and consequently compete successfully in the home country. This is a strategy of going global for domestic dominance. Companies benefited from the dominance effect through acquiring quality resources in Australia and enjoying market premium in the domestic market. In so doing, Chinese MNEs can transform the trust deficit in Australia into a trust surplus in China. The manager of CME2 explained the strategy:

There are many reasons that we choose to focus on the Chinese market. Acquiring an Australian company means that you get some resources such as brand names but does not mean that you also secure the local market. In fact, if we have good products, it is easy for us to find enough buyers in China. Although we do not know much about the Australian market, we know our Chinese market which is huge enough.... Meanwhile, Australian products have a good

reputation in China. Investing in Australia to obtain high-quality resources will make our company stronger and attractive in the Chinese market.

A manager of CME3 also expressed similar views:

Given the negative media coverage and stereotypes, it is sometimes not easy to market Chinese products in Australia. It is enough for our company just to focus on the Chinese market. This makes our life much easier. Investing in Australia to obtain quality products and then market them in China can achieve synergy – combining the Australian advantages with a large Chinese market.

For Chinese MNEs, investing in Australia helped them obtain a favorable foreignness status in other markets including China where foreign investment is welcomed, yielding indirect benefits from foreignness effects and mitigating the trust deficit suffered in industrialized markets. Such findings lead to the following proposition:

Proposition 5 *EMNEs may adopt a redefining market strategy in a high-distrust institutional environment lacking trust.*

Low profile strategy. A low profile strategy refers to an approach employed by MNEs to avoid attracting unnecessary attention and scrutiny by diluting their foreign identity in host countries. This study found that all case Chinese MNEs had tended to keep a low profile in the Australian market. Even if Chinese investors had 100% ownership, they did not emphasize that the firm was a Chinese company. No websites of the case companies emphasized that they were a foreign-funded enterprise. This can be viewed as a tactic adopted by EMNEs to reduce the visibility of their foreign identity in a mistrustful institutional environment lacking trust. As a manager of CME5 commented:

In China, you find that foreign-funded firms employ every opportunity to emphasize that they are a wholly foreign owned company or an international joint venture. They do so because they know that they are welcomed and their foreign identity even enable them to claim a price premium. When we know Chinese investment in industrialized countries often attracts debate and controversy, it is impossible for us to highlight that we are Chinese companies in a suspicious market.

The assistant manager of CME3 commented that she did not think this was an effective strategy, “This cannot help foreign investors become more attractive in local communities.” Nevertheless, a low profile strategy can help EMNEs to reduce the exposure to risk such as a consumer boycott through reducing public visibility in a mistrustful institutional environment. Therefore, we propose the following:

Proposition 6 *EMNEs may adopt a low profile strategy in an institutional environment where they feel mistrust is high and trust is low.*

Figure 2 illustrates the different forms of trust deficit and a potential strategy that can be adopted by EMNEs to address it. It is worth noting that, differing from the conventional wisdom that one strategy can only be applied in one situation, we assumed that some strategies can be used to address different forms of trust deficit. For example, the improvement strategy and the embeddedness strategy can be used to address all forms of trust deficit. Our fieldwork found that some Chinese MNEs (e.g., CME1 and CME6) adopted all the strategies of bridging, improvement, and embeddedness.

6 Discussion and Conclusion

Understanding how MNEs strategically respond to challenging institutional environments in host countries is a central question for international business research. Given that the existing literature on MNEs has paid little attention to the interaction between MNEs and host country institutional environments (Alaydi et al., 2021; Chidlow et al., 2021; Liu et al., 2021), this study seeks to narrow the gaps in the literature by examining the strategies adopted by Chinese MNEs toward the trust deficit and various liabilities of foreignness in Australia. It is among the limited empirical research on the interactions between MNEs and institutional environments (Alaydi et al., 2021; Liu et al., 2021; Lu et al., 2022), especially the limited research on the strategic responses of EMNEs to challenging institutional environments involving multiple liabilities of foreignness and trust deficit. Our findings reveal that pressures of the trust deficit and various liabilities of foreignness resulted from the SSD effects such as the country-of-origin effect have significantly shaped the behavior of Chinese MNEs in Australia. To survive and succeed, Chinese companies have adopted both proactive strategies such as bridging strategy, embeddedness strategy, and improvement strategy; and protective strategies such as low dependency, market shifting, and low-profile strategies to address the liabilities of foreignness and trust deficit.

6.1 Theoretical Contributions

This study makes several theoretical contributions to the literature. First, given that there is no systematic research on trust deficit in the field of international business, this study conceptualizes trust deficit as a family of concepts based on the literature

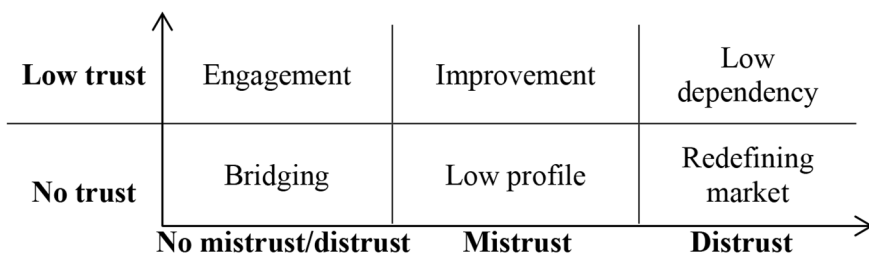


Fig. 2 Institutional environments with trust deficit and EMNE strategies

(Bertsou, 2019; Cho, 2006; Lewicki et al., 1998) and highlights that trust deficit manifests in various forms including low trust, a neutral state (without trust, mistrust, or distrust), mistrust, and distrust. By doing so, this study offers an analysing framework for future studies on trust deficit and enables us to obtain a more nuanced and comprehensive understanding of it. Future studies can employ this typology to examine relationships with trust deficit.

Second, differing from the mainstream research focusing on a single strategic response of MNEs to the institutional environment of host countries (Lu et al., 2022), this study identifies and defines a set of strategies adopted by EMNEs to address institutional environments with trust deficit and multiple liabilities of foreignness, enriching and advancing our understanding of the dynamic interactions between MNEs and host country institutional environments.

Third, our study makes a substantial contribution by generating a set of complementary propositions for future research, derived from our fieldwork findings and guided by our novel trust deficit framework. These propositions present an integrated overview of EMNEs' strategic interactions with challenging institutional environments, highlighting various potential strategies in different institutional environments as illustrated in Fig. 2. These propositions can serve as a roadmap for future investigations into EMNE behavior, suggesting new avenues for research that could reveal new insights into how EMNEs manage liabilities of foreignness and trust deficit in host countries. Together, they sketch out a more nuanced and dynamic picture of EMNEs' interactions with host country institutional environments, thereby filling critical gaps in the literature.

Fourth, this study examined liabilities of foreignness and trust deficit from the perspective of the global political economy, which is important, especially in this increasingly politicized global environment (Saittakari et al., 2023). Moreover, differing from the mainstream literature which has limited its attention within the host country market when examining liabilities of foreignness, this study goes beyond country borders to understand how EMNEs address challenging institutional environments with trust deficit through shifting their target markets globally to leverage the dominance effect. By so doing, this study addresses some challenging questions unanswered in the literature, for example, when foreignness is a liability, when it is an advantage, and how to translate the liability of foreignness into an advantage of foreignness.

6.2 Practical Implications

Our study also has some significant practical implications for MNEs, expatriates, cross-cultural educators, and international business. First, introducing the SSD framework into international business can help MNEs, especially EMNEs, have a better understanding of the potential challenges in a host country and develop coping strategies from a global perspective. The pre-entry analysis of the local investment environment should not just focus on the system and societal effects, but also take into account the dominance effect. Understanding customers' perceived relevant positions of the host and home countries in the global economy can help MNEs develop effective strategic responses to institutional environments.

Second, our research findings are particularly important for EMNEs investing in leading economies. For example, given that Chinese MNEs tend to suffer from multiple liabilities and trust deficit in leading economies, before entering such a market, they should proceed carefully and have a good understanding of the local institutional environment, not just focusing on economic feasibility analyses. When entering an acquisition abroad, Chinese MNEs usually seek to be the dominant equity holder or have 100% ownership. However, given that Chinese investors tend to suffer from multiple liabilities of foreignness, they might need to rethink their entry modes, and reduce liabilities through pursuing a minority stake and joint venture arrangements. This study can help EMNEs learn how to address challenging institutional environments using the identified strategies.

Third, our research findings also have implications for Chinese expatriates. Given that they tend to lack international experience, this study can help them understand how to analyse and handle unfavorable institutional environments. Fourth, this study can help improve cross-cultural training of MNEs. The findings remind cross-cultural educators that cross-cultural training should discuss both country and cultural differences and similarities. Focusing only on cultural distinctions might contribute to psychological alienation and cultural divide. Overemphasizing cultural differences is undesirable and detrimental to cross-cultural interactions.

This study has explored a timely topic with significant implications for international business. In recent years, populism is rife, anti-globalization is on the rise, and geopolitical conflicts have been increasingly fierce. There is a concern that the world may return to the era of polarization and confrontation, and the environment for international business will be ever more deteriorating. In these troubled turbulent times, how MNEs develop effective coping strategies to manage adverse institutional environments is even more important.

6.3 Limitations and Future Directions

This research is not without limitations. One major limitation is that only Chinese expatriates were interviewed. Future studies could improve upon this research design by interviewing local managers, frontline workers, government agencies, and local communities to enrich and triangulate findings. Moreover, incorporating both EMNEs and developed economy MNEs into one comparative study to compare their strategies and behavior can be more appropriate for theory testing and building. Future research could use such comparative study designs to deepen our understanding of interactions between MNEs and institutional environments, or adopt the mixed method approach to benefit from both qualitative and quantitative techniques and achieve method triangulation (Nielsen et al., 2020). In conclusion, understanding interactions between MNEs and local institutional environments is important for international business. Since research on this topic is still in the early stage, many questions remain unanswered. We call for more studies to help MNEs effectively manage various favourable or unfavourable investment environments so as to survive and succeed.

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Declarations

Conflict of interest None of the authors have any conflict of interest or funding information specific to this research to declare.

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Authors and Affiliations

Mingqiong Mike Zhang¹  · Ying Lu²  · Jihua Cherrie Zhu¹ · Kaixin Zhang³

✉ Mingqiong Mike Zhang
mike.zhang@monash.edu

Ying Lu
candy.lu@mq.edu.au

Jihua Cherrie Zhu
cherrie.zhu@monash.edu

Kaixin Zhang
kaixin.zhang@unsw.edu.au

- ¹ Department of Management, Monash University, Melbourne, VIC 3800, Australia
- ² Department of Management, Macquarie Business School, Macquarie University, Sydney, NSW 2109, Australia
- ³ School of Management and Governance, University of New South Wales, Sydney, NSW 2052, Australia