Activating Assets of Foreignness in Emerging Markets: Evidence from New Zealand SMEs.

Abstract
The study addresses the question of how Western SMEs can build competitive advantage in emerging Asia. Drawing on qualitative data from 22 New Zealand (NZ) NZ SMEs food and beverage internationalising in China, the study finds that they can activate institutional resources of their home country to gain legitimacy in the presence of institutional voids. We argue that the institutions of the home country provide a resource for SMEs that they can turn into an advantage of foreignness. Based on these contributions the study offers several practical recommendations for policy makers and managers intending to navigate the challenges of institutional voids in emerging markets.

Introduction and theoretical framework

Globalisation and market liberalisation create a favourable environment for SME internationalisation and growth (Coviello & McAuley, 1999; Knight, 2000; Nummela, et al., 2006; Burgel et al. 2001). In particular, growing demand from emerging markets, such as China (Farrel et al. 2006; Ahlstrom & Bruton, 2010), provides new opportunities for SMEs to extend their customer base and achieve business growth. To take advantages of these opportunities, however, SMEs first need to gain legitimacy in emerging economies (Ahlstrom et al, 2008). Past research has highlighted the importance of reputation, brands and the evolution of networks in the internationalisation process to emerging economies (Rindova et al., 2007). However, less is known about when and how SMEs can activate home country institutional resources to gain legitimacy in emerging market host countries. The aim of this paper is to address this gap.

Foreignness, distance and difference have traditionally been seen as liabilities and costs to internationalising businesses. The concept of 'liabilities of foreignness' (LOF) was first coined by Zaheer (1995) and represents the additional costs a firm operating overseas incurs that a local firm would not incur. A perceived difference from local norms and culture can be a barrier to internationalising firms gaining the legitimacy they need to survive. Foreign firms have been empirically found to suffer from performance (Zaheer, 1995), lack of access to tacit knowledge and financing (Mezias, 2002) and poor survival rates (Mata & Freitas, 2012). For example, Miller & Parkhe (2002) in their study of the global banking industry, found that foreign banks were less efficient than their domestic counterparts.

Much focus has been devoted to how to compensate for or overcome LOFs. This can be done by developing personal relationships to gain access to local knowledge networks (Bangara et al., 2012). In China, 'guanxi' insiders, or gatekeepers can connect businesses to local networks (Gao et al. 2014). Rao (2008) argues that firms can gain legitimacy by establishing affiliations with established firms. Building on this, foreign firms might be able to establish a brand affiliation with established market players in the host country to overcome LOFs (Rao, 2008). Denk et al. (2012) in a comprehensive study of LOFs found that foreignness negatively contributed to unfamiliarity, relational and discrimination costs. The key insight from the LOF literature is that greater difference, be that spatial or cultural, means greater costs.

Yet, counter-intuitively, foreignness can also be an asset; a resource that businesses can employ (Sethi & Judge, 2009). Being foreign can entail possession of unique resources, capabilities or opportunities that are unavailable to host-country rivals (Sethi & Judge, 2009). For example, Siegel et al. (2011) show how foreign firms can have an advantage in South Korea by breaking social norms and promoting women to managerial roles. Shi & Hoskisson

(2012) define assets of foreignness (AOFs) as representing benefits and privileges of foreign firms vis-à-vis local organisations. Local firms find it difficult to imitate or substitute such sources of advantage (Mallon & Fainshmidt 2017).

Different AOFs have been identified and explained such as better innovation capabilities, better access to human capital (Edman, 2016). Disappointingly, research has focussed only on firms with large capabilities to activate AOFs (e.g. Un, 2011). Studies are framed around MNCs, which are characterised by their size, access to financial and human resources, multi-nationality, experience, and networks with global suppliers and subsidiaries. Little to no attention has been paid to how SMEs can benefit from AOFs. SMEs' key differences are they lack finance, experience, management capability, knowledge, skilled personnel, reputation, strategic planning, relationship and networks (Brown and Butler, 1995).

Methodology

The study draws on 36 open-ended, semi-structured interviews. We conducted 31 interviews with owners or managers of 22 NZ SMEs in the food sector who are successfully exporting to China in two interviews rounds. In the first interview round, during 2009 and 2010, we conducted 23 interviews in these businesses. About four years after the first interview, we invited selected businesses for a follow-interview. In the second interview round, we conducted eight interviews with seven SMEs. The data was further complemented using secondary data including documents and observations. We also conducted five expert interviews during 2011-2012 to to further contextualise the findings.

All SMEs interviews followed a similar process. Interviews lasted between 60-90 minutes and followed a semi-structured interview protocol. In order to systematically cover all themes of the interview protocol, two researchers attended each interview as a team. During the interviews, we asked participants to reflect about whether their China strategy has been successful in terms of profitability, growth and brand building, and why. We also asked whether being a NZ business was an advantage or disadvantage to market their products in China, and which stakeholders contributed to their success. We allowed participants to introduce new themes providing an opportunity to uncover unexpected findings. After the interview, the two interviewees discussed first expressions of the interview and compared notes. Our data analysis followed established methods and guidelines for explorative inquiries (Strauss & Corbin, 1990; Glaser & Strauss, 1967, Gioia et al. 2012).

Preliminary results.

Overall, we find that firms use three different mechanisms to activate advantages of foreignness of small firms. First, difference in the regulatory environment provided opportunities to leverage home country institutions to emphasise AOFs. SMEs can demonstrate *conformance* to formal institutions of their home country that are perceived to be superior to the host country. NZ has globally acquired a very good reputation as provider for safe, quality food, and has not experienced major food safety scandals within the country. In NZ, the Ministry of Primary Industries is responsible for legislation with regard to food safety. NZ and Australia collaborate in the development of food standards through Food Standards Australia New Zealand (FSANZ). FSANZ consults with different stakeholders on food-related standards and makes recommendations for food safety after research-informed risk assessment of the industry (MPI, 2015b). The participants of our study are well aware of food safety issues in China, in particular for fresh produce. For example, a CEO explained

"China clearly sees NZ as a source of good quality food, high quality supply chain; good food standards; (...). We did some research up there last year with consumers and some focus groups and it was actually quite sad to hear them talk about how they can't even trust their own food manufacturers. You can't trust the food you eating; locally sourced products, whether it is safe or not ...for a lot of obviously people in China, it's about feeding their families and keeping food on the table when you can't trust your own supply sources." (#22)

Second, SMEs can active AOFs by *accentuation*; NZ has obtained a reputation as a clean and green country. It has often been praised for its natural beauty, and unspoiled, open landscape. It is also known as being a developed country which is nuclear free. The country image is an important institutional resource for NZ food manufacturers to gain legitimacy in international markets, and they can leverage off this positive country image. The positive image of NZ in China facilitates internationalisation of NZ food SMEs to China. Firms highlighted positive country attributes of NZ and incorporated elements of this in their product presentation, including the brand story and packing. For example, businesses would often use different images of NZ's scenery on their packaging. The images or symbols from NZ allowed these businesses to educate customers about NZ, and reinforce the assumptions and beliefs about the country:

"[The images on the package] It is all South Island ... ... NZ ... clean green ... everything like that. So basically the whole design is around this ... leveraging off the NZ dairy industry and NZ's international reputation of clean, green, pure and everything else." (#21)

Third, to activate AOF, SMEs are *constructing narratives* – shaping and evading institutions by using foreign-based narratives to legitimately disconnect from poor local institutions. NZ is renowned for a combination of its modern and at the same time environmentally friendly farming methods. The country's reputation constitutes normative institutional resources in China that can be leveraged by SMEs. In China, there is a negative connotation towards large-scale, cost-driven farming with little environmental considerations, and NZ food manufacturing seems to resonate positively with customer value in China. Highlighting the adherence to certain aspects of NZ farming methods therefore provides opportunities to appear foreign or different, and to detach the product offering from the negative farming perception in China:

"We really focus on sustainability. ... this winter has just been the worst polluted winter here in history; it has just been very grim and so by promoting NZ's clean, green image and (our company) is one of the leading sustainable wineries in NZ and we talk about our green credentials all the time as part of our promotion effort." (#16)

Activating their AOF often required building distinct firm level capabilities. NZ SMEs need to demonstrate the authenticity of their food products to the Chinese consumers through the use of rigid food safety standards, including independent certifications and traceability systems. In particular, the opportunity to trace the food or beverage to a certain farm or production facility increased confidence around the authenticity of the food.

Discussion

There is a lack of understanding on how Western SMEs can build AOFs in emerging markets. Our paper shows that understanding the development of competitive advantage in

SME internationalisation into emerging markets can benefit from an institutional perspective. Western SMEs can sustain AOFs if they creatively leverage institutional resources of their home country to gain a competitive advantage. In doing so, our study contributes to the institutional theory and enhances our understanding of SME internationalisation in emerging markets.

Institutional theory has enhanced our understanding about legitimacy within a set institutional field. In particular, SMEs are often compelled to pursue legitimacy through strong alignment with the institutions within a particular field (Alderich & Martinez, 2001; Scott, 2008). However, as our study shows, institutional voids provide opportunities for Western firms to transfer best practices and norms from their home country to another context, and businesses are therefore well advised to deliberately distance themselves from local practices and norms of their host country. Less attention has been devoted to how actors can leverage institutional resources of their home country creatively when travelling between different institutional fields (Oliver, 1997). International businesses can creatively draw on institutional resources of both their home and host country, which provide opportunity for new combinations as to how to offer value for customers.

The ability to activate institutional resources in spanning institutional fields is a distinctive entrepreneurial capability. Peng et al. (2009) have recently pointed out that the institutional conditions and transitions are a third leg of the strategy tripod as they can be a source of competitive advantage for businesses. We provide empirical evidence to support their argument and show how institutional theorising in strategy making might be linked to SME market learning. Existing literature on the acquisition of critical market knowledge frequently highlights the importance of experimental in-market learning and network building (Johanson & Vahlne, 2009). Activating institutional resources, however, requires between-market learning as the value of institutional resources arises from their use in a different context. Building and sustaining competitive advantage in foreign markets, therefore, requires that SMEs learn how to leverage institutional resources effectively.

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