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How local stakeholder stereotypes impact liability of foreignness and asset of foreignness

Abstract

While it is well known that there are liabilities of foreignness (LOFs) that impact firms as they enter foreign markets, it is less well known how stereotypes held by local stakeholders impact LOFs of foreign firms. Recent research has demonstrated that foreignness can offer benefits, or assets of foreignness (AOFs), for firms as they enter foreign markets. While research is growing in this area, there remains a gap in our understanding of how local stakeholders evaluate foreign firms. We leverage the stereotype content model, which measures dimensions of warmth and competence, to demonstrate that a foreign firm can enjoy an AOF, suffer from a LOF, or contend with both, depending on stereotypes held by local stakeholders. We associate four different combinations of warmth and competence stereotypes with AOFs and LOFs to reveal that the strategies of foreign firms for managing foreignness should attend to stereotypes held by local stakeholders. Finally, we propose several strategies that foreign firms can employ as they manage unfavorable stereotypes.

KEYWORDS

asset of foreignness, liability of foreignness, stereotype content model, stakeholder, stereotype, foreign multinational enterprise

1 | INTRODUCTION

> The owner of Carrefour stores in the Middle East issued a statement saying that, in the region, the brand is fully owned and operated by United Arab Emirates-based Majid Al Futtaim. The company noted that it employs 37,000 people and is “proud to be from the region and for the region”. (Batrawy, 2020, October 26, 2020, paragraph 10)

In response to an October 2020 comment made by President Emmanuel Macron of France, pertaining to an incident involving a teacher in a Paris suburb, many stakeholders in the Middle East and other Muslim majority countries called for a boycott of French products in their home countries. One response came from Carrefour, a French retailer, which downplayed its French origin in its operations in the Middle East. Ordinarily, its French origins might have been a significant differentiating factor for the brand in the region (Newburry, 2012; Yildiz & Fey, 2012). However, following Macron’s comment, Carrefour’s foreignness, which might have previously been an asset, became a liability.

Perceptional shifts raise a host of questions for international business (IB) scholars who investigate the impact of foreignness. For example, are current international IB theories of foreignness nuanced enough to capture evolving local perceptions of foreignness (Acheampong & Dana, 2017; Edman, 2016; Yu & Lindsay, 2017; Yu & Liu, 2018), and when do local perceptions of foreignness become an asset or a liability for foreign firms? Foreignness—the fact of somebody or something being in or from a country that is not your own (Oxford University Press, 2018)—is thus a major theme in the IB literature. Following the thesis of Hymer (1976), who addressed the costs of doing business abroad, scholars have gathered an impressive array of evidence confirming additional costs of foreignness (Eden & Miller, 2004; Moeller, Harvey, Griffith, & Richey, 2013; Newburry, Gardberg, & Belkin, 2006; Wan, Williamson, & Pandit, 2020; Zaheer, 1995). While Zaheer (1995) coined the term, liability of foreignness (LOF), to capture both tangible and intangible costs of doing business abroad, recent studies have demonstrated that an advantage, or an asset of foreignness (AOF), can also be enjoyed by businesses choosing to operate in other countries (Sethi & Judge, 2009; Yildiz & Fey, 2012). These dual outcomes have led researchers to question under what conditions does foreignness become an asset or a liability.

While many studies have addressed this question from the perspective of the foreign firm, a few studies have begun to examine how perceptions of foreignness by stakeholders in host countries (henceforth, local stakeholders) might become assets or liabilities for foreign firms (Edman, 2016; Newburry et al., 2006; Shi & Hoskisson, 2012; Yildiz & Fey, 2012). Foreignness IS an intergroup concept consisting of at least two parties: the foreign firm and its local stakeholders. If local stakeholders did not hold a foreign firm to different standards or treat it differently, foreignness will be analytically mute, as a foreign firm would be equivalent to a local one. The potential impact of perceptions held by local stakeholders is thus relevant when investigating whether foreignness is an asset or a liability for foreign multinational enterprises (MNEs).

In this study, we link the stereotypical perceptions held by local stakeholders and how foreign firms experience and manage foreignness. We also examine the impact of stereotypes held by local stakeholders on LOFs and AOFs. As observed in the response of Carrefour, interpretations of foreignness held by local stakeholders are dynamic, potentially impacting how MNEs experience foreignness and whether foreignness is an asset, a liability, or both. Our main research question thus addresses how stereotype-based perceptions of foreignness held by local stakeholders impact the way in which foreign firms experience and manage foreignness.

We focus on explicating how local stereotypes of foreign firms can impact LOFs or AOFs. To do so, we extend the literature addressing foreignness by incorporating knowledge drawn from the stereotyping literature, specifically, the stereotype content model (SCM). We argue that stereotypes about a foreign firm will partially determine whether foreignness is an asset, liability, or both. While stereotypical evaluations of foreignness have been part of LOF and AOF discourses, few studies have addressed how stereotypes held by local stakeholders might determine the outcome of foreignness (for exceptions, see Yu and Lindsay, 2017; Yu and Liu, 2018). Although stereotypes can be the basis of discrimination, stereotypes can also be favorable or a combination of both (Cuddy, Glick, & Beninger, 2011; Kostova & Zaheer, 1999). We argue that stereotypes contribute to LOFs and AOFs depending on whether they are favorable or unfavorable: unfavorable stereotypes contribute to LOFs, favorable stereotypes contribute to AOFs, and a combination of favorable and unfavorable stereotypes simultaneously contribute to LOFs and AOFs. We also argue that optimal approaches for managing foreignness vary depending on the favorability of local perceptions.

We contribute to the IB literature on foreignness by leveraging stereotype theory, drawn from social psychology, to reveal how the stereotypical perceptions of foreignness held by local stakeholders partially determines if foreignness is an asset, liability, or both. We argue that unfavorable stereotypes of foreign firms lead to LOFs, while favorable stereotypes of foreign firms contribute to AOFs. However, stereotypes also have two key dimensions: warmth and competence. It is thus possible for a foreign firm to be favorably stereotyped on one dimension and unfavorably stereotyped on the other, a combination that can create both an AOF and a LOF. In this study, we find that appropriate strategies for managing foreignness will partially depend on local stereotypes of foreign firm. On the one hand, while standing out might hurt foreign firms with unfavorable stereotypes, isomorphism might help them. Conversely, while standing out might help foreign firms with favorable stereotypes, isomorphism might hurt them (Gorostidi-Martinez & Zhao, 2017; Mallon & Fainshmidt, 2017; Moeller et al., 2013).

2 | FOREIGNNESS: A LIABILITY OR AN ASSET

At the root of foreignness is its bifurcation from localness: firms are categorized as either local, originating from the host country, or foreign, originating from outside the host country. This type of categorization usually incorporates intergroup evaluations, which can have far-reaching consequences for foreign firms and their products. These evaluations, which are often negative, can lead to LOFs. While extant studies have documented how foreign firms experience and manage foreignness, few have addressed how local stakeholders (i.e., in the host countries) process and integrate foreignness into evaluation schemas, as well as how these evaluation schemas might impact how foreign firms experience foreignness.

2.1 Foreignness as liability

Research has demonstrated that local stereotypical perceptions impact LOFs experienced by foreign firms in their host countries (Moeller et al., 2013). For example, Eden and Miller (2001) identified local stereotypes as the basis of discrimination. Local stereotypical perceptions of foreign firms can also be due to several factors. Stereotypes can be linked to current and/or historical geopolitical relationships between host countries and home countries of foreign firms (Acheampong & Dana, 2017; Glaister, Driffield, & Lin, 2020; Kostova & Zaheer, 1999; Russell & Russell, 2010). Histories of colonization, wars, and other major geopolitical encounters between host countries and home countries of foreign firms can result in unfavorable stereotypical perceptions of these foreign firms and their products (Gao, Wang, & Che, 2018; Glaister et al., 2020). The stereotypes held by key local stakeholders, such as government agencies, suppliers, and potential employees, also shape local discrimination against foreign firms. For example, Yang and Tso (2007) demonstrated that consumer animosity towards Mainland China had a significant impact on Taiwanese consumer attitudes towards imported Chinese TV shows. Whatever the source of unfavorable biases of local stakeholders, foreign firms can suffer from LOFs due to local discrimination.

Foreignness as asset

While some scholars have argued that local stereotypical perceptions of foreignness create LOFs for the foreign firm, others have argued that these perceptions can create AOFs. Un (2011) argued that the foundational logic of LOFs—that consumers always discriminate against foreign products—might not be universal. However, Un (2011) also contended that, while this might be the case in developed countries, consumers in developing countries "may prefer foreign products from developed countries because they are viewed as technologically superior to domestic products" (p. 1234).

Favorable local stereotypes might also facilitate the formation of local networks by locals who are eager to collaborate with foreign actors. Sethi and Judge (2009) argued that, while some governments might discriminate against foreign firms, other governments have created policies to attract and promote foreign participation. Chen, Ding, and Wu (2014) also found that foreign ownership facilitates cheaper debt financing and is thus an advantage for small businesses in China. Finally, Yildiz and Fey (2012) demonstrated that favorable local perceptions of foreign firms can contribute to AOFs. While scholars have associated host country discrimination with LOFs, favorable local stereotypes can be springboards for AOFs (Mallon & Fainshmidt, 2017; Nachum, 2010; Un, 2011; Yildiz & Fey, 2012).

3 | STEREOTYPE BASED CONCEPTUALIZATION OF FOREIGNNESS

Because foreignness is an intergroup phenomenon, our study employs stereotype theory drawn from social psychology to elucidate local stereotypical perceptions of foreignness. Our approach complements extant studies that have examined the evaluation of foreignness from the perspective of foreign firms (Eden & Miller, 2001; Edman, 2016). However, we argue that foreignness is not a uniform construct in a host environment (Shi & Hoskisson, 2012).

3.1 | Stereotypes and foreignness

We follow Dovidio, Hewstone, Glick, and Esses (2010) who define stereotypes as "cognitive schemas used by social perceivers to process information about others. Stereotypes not only reflect beliefs about the traits characterizing typical group members but also contain information about other qualities such as social roles" (p. 7). In their conceptualization of unique legitimacy challenges that MNEs face outside their home countries, Kostova and Zaher (1999) not only argued that stereotypes were linked to foreignness but also that MNEs suffered from illegitimacy in their host countries because of LOFs rooted in negative stereotypes. These stereotypes might arise due to a lack of familiarity with the MNEs, their home countries, or both. Kostova and Zaheer (1999) also argued that "the stereotypes used to judge MNEs may arise from long-established, taken-for-granted assumptions in the host environment regarding MNEs in general, or of MNEs from a particular industry or a particular home country" (p. 74) and that stereotypes of MNEs drive LOFs in many IB settings. Following the arguments of Kostova and Zaheer (1999), other scholars have also linked stereotypes with LOFs. Eden and Miller (2004) argued that stereotypes drive LOFs, the intangible costs of operating outside home countries. Thus, local stereotypes of foreign firms partially determine cognitive distance, one of the drivers of intangible costs of operating outside home countries (Eden & Miller, 2004). Further, Moeller et al. (2013) proposed that stereotypical evaluations predict how key stakeholders in host countries interact with foreign MNEs and that unfavorable stereotypes not only precipitate but also perpetuate LOFs for foreign firms (Maruyama & Wu, 2015; Wan et al., 2020). While some studies have only linked stereotypes to LOFs, others have proposed that stereotypes are the basis of AOFs among foreign firms.

3.2 | Stereotype content model (SCM)

Borrowing from social psychology, we leverage the SCM to elucidate local stereotypical perceptions of foreignness. Numerous studies have demonstrated the robustness of the SCM, since it captures biased perceptions within intergroup relations (Aaker, Vohs, & Mogilner, 2010; Dovidio et al., 2010; Fiske, Cuddy, Glick, & Xu, 2002; Halkias, Davvetas, & Diamantopoulos, 2016; Yu & Liu, 2018).

According to the SCM, two key dimensions of stereotypes are warmth and competence (Aaker, Garbinsky, & Vohs, 2012; Cuddy, Fiske, & Glick, 2007; Fiske et al., 2002). Warmth is the perception of friendliness of social groups, while competence is the perception of the capacity of social groups. Warmth and competence are foundational dimensions for social perceptions because they serve social goals and survival in social interactions (Cuddy, Fiske, & Glick, 2008). Social actors must first judge the intentions of foreigners and decide whether they are friendly or hostile. Social groups judged as having benign intentions are considered warm, while social groups perceived as having hostile intentions are considered cold. Social actors must also evaluate the competence of social groups. Groups judged as capable of carrying out their intentions are considered competent, while groups perceived as incapable are considered incompetent. Studies have demonstrated that competition for resources is the antecedent of warmth and status is the antecedent of competence. Audiences thus consider non-competitive social groups as warm and high-status social groups as competent (Aaker et al., 2010; Chattalas & Takada, 2013; Cuddy et al., 2008; Yu & Liu, 2018). Overall, the dimensions of warmth and competence serve social goals and survival goals in social interactions (Cuddy et al., 2011).

Since audiences evaluate social groups along dimensions of warmth and competence, social groups can be evaluated in four main ways: (1) warm and competent (i.e., high warmth and high competence); (2) cold and incompetent (i.e., low warmth and low competence); (3) warm but incompetent (i.e., high warmth and low competence); and (4) cold but competent (i.e., low warmth and high competence). Audiences stereotype friendly and capable social groups as warm and competent, while they stereotype unfriendly and incapable ones as cold and incompetent. Audiences also stereotype friendly but low status social groups as warm but incompetent, while they stereotype unfriendly and capable social groups as cold but competent (for a detailed overview of the SCM, see Cuddy et al., 2008).

While scholars have explored the intersection of stereotypes and foreignness, there are significant gaps in the literature. First, while stereotypes are foundational to intergroup relations, their relationship to LOFs, AOFs, or both is often of tangential or peripheral interest in most extant studies (for exceptions, see Harvey, Novicevic, Buckley, & Fung, 2005 and Yu & Liu, 2018). Foreignness is an intergroup concept and thus foundational constructs of intergroup relations, such as stereotypes, can shed light on the dynamics of foreignness. Second, while most extant studies exploring stereotypes have treated them as either positive (i.e., favorable) or negative (i.e., unfavorable) (Newburry, 2012; Yildiz & Fey, 2012), very few studies have explored the multidimensional nature of stereotypes and how local stereotypes can impact the ways in which foreign firms manage and experience foreignness. We argue that stereotypes are not a unidimensional construct. The SCM demonstrates that stereotypes have at least two dimensions: warmth and competence (Aaker et al., 2010; Barbarossa, De Pelsmacker, Moons, & Marcati, 2016;

Yu & Lindsay, 2017; Yu & Liu, 2018). And since these dimensions vary independently, it is possible to have a favorable stereotype on one dimension and an unfavorable stereotype on the other, leading to four different scenarios.

Studies have demonstrated that mixed stereotypes (i.e., warm but incompetent; and cold but competent), are more prevalent in intergroup evaluations and that uniformly favorable and uniformly unfavorable stereotypes occur less in local perceptions of foreign firms. For example, Yu and Liu (2018) examined stereotypes associated with Chinese firms in New Zealand, concluding that some Chinese MNEs suffered from unfavorable stereotypes. Dos Santos (2018) also linked local perceptions to strategies for managing foreignness, creating a typology that captured different strategic objectives and responses to foreignness. While these studies touch on our main research question, they only examine a single home country (i.e., China and Portugal, respectively). Our study builds on these contributions by elucidating the impact of local perceptions on how foreign firms experience and manage foreignness in their host countries, as well as shedding light on the impact of stereotypes of foreignness held by local stakeholders.

3.3 | Asset or liability of foreignness: The role of stereotypes

Local stakeholders perceive foreign firms in terms of various combinations of warmth and competence stereotypes. Conceptually, a foreign firm can be stereotyped as: (1) cold and incompetent (i.e., low warmth and low competence); (2) cold but competent (i.e., low warmth and high competence); (3) warm but incompetent (i.e., high warmth and low competence); or (4) warm and competent (i.e., high warmth and high competence) (Cuddy et al., 2011; Fiske et al., 2002). Figure 1 captures these four conceptual stereotype combinations and six propositions that reveal how local stakeholder stereotypes of warmth and competence lead to various combinations of LOFs and AOFs.

************Figure 1 about here*************

Different combinations of the two dimensions of stereotypes (i.e., warmth and competence) impact foreign firms, in terms of LOFs and AOFs, as well as both simultaneously (Mallon & Fainshmidt, 2017). While prior studies have made important contributions by revealing how the centrality of local stereotypical perceptions impact LOFs and AOFs, we propose that, since foreignness links at least two groups (i.e., local stakeholders and foreign firms), stereotype theory can further our understanding of LOFs and AOFs, especially from the perspective of local stakeholders (Amine, 2008; Shi & Hoskisson, 2012; Yu & Liu, 2018).

3.3.1 | Cold and incompetent stereotype (LOFs)

A cold and incompetent stereotype is the most hostile and the most likely to instigate LOFs. It represents a perception of untrustworthiness and a lack of capacity. Local stakeholders in the host market might stereotype a foreign firm as cold and incompetent because it is based in an emerging country and/or a country with a history of geopolitical conflicts (i.e., past, or ongoing) with the host market. While emerging countries often suffer from a low competence stereotype (Yu & Liu, 2018), geopolitical conflicts can also precipitate a low warmth stereotype (Kostova & Zaheer, 1999). Foreign firms and their associated industries that have a bad reputation might also prompt a cold and incompetent stereotype. A cold and incompetent stereotype captures local perceptions of low quality. For example, this stereotype may result from the reputations of weak institutions in home countries, as well as high animosity and/or low political affinity (Yu & Liu, 2018).

Studies have demonstrated that some foreign firms do suffer from a cold and incompetent stereotype (Held & Berg, 2014; Vergne, 2012; Yu & Lindsay, 2017; Yu & Liu, 2018). Yu and Liu (2018) documented that some Chinese firms suffered from this stereotype in New Zealand. In their study of local resistance to the acquisition of a New Zealand dairy farm, Yu and Liu (2018) demonstrated how resistance was partially due to a cold and incompetent stereotype. SANY, a Chinese firm, also faced resistance to internationalization efforts in the United States, by the United States Government, and in Germany, by employees of the German concrete pump manufacturer, Putzmeister (Held & Berg, 2014, 2015). Resistance was partially due to fears concerning the intentions of the Chinese firm, as well as a low-quality stereotype, typically associated with emerging countries (McMahon, 2012). In a study of the global arms and amunition industry (an industry with cold stereotype), Vergne (2012) demonstrated how Middle Eastern firms in this industry were stereotyped as incompetent because of perceived qualities of the market institutions in their home countries. One executive interviewed in the study noted: “being from (Middle East country), for a defence company, is not a piece of cake. People are suspicious because of the country’s reputation for corruption, bad government, bad politics, you name it” (Vergne, 2012, p. 1036). Since a combination of a low warmth and a low competence stereotype contributes the most to LOFs, we propose:

> **Proposition 1.** A cold and incompetent stereotype held by local stakeholders accentuates LOFs for foreign firms due to unfavorable local stakeholder perceptions along both warmth and competence dimensions.

3.3.2 | Mixed stereotypes (LOFs and AOFs)

The second stereotype is low warmth and high competence, which is associated with perceptions of suspicious intentions and high capacity. A low warmth stereotype, from which most early internationalizing firms suffer from, is partially due to these firms being perceived as venturing abroad to service the needs of their home countries and governments, sometimes at the expense of host communities. For example, many colonial relationships in Africa and Asia grew out of home government relationships with MNEs from colonizing countries (Glaister et al., 2020; Kostova &

Zaheer, 1999). A cold stereotype of foreign firms can also be due to geopolitical relationships, such as conflicts and histories of colonialism between the host and home countries (Bitektine, 2011; Gao et al., 2018). Unfavorable geopolitical relationships can lead to animosity and low political affinities (Amine, 2008; Leong, Cote, Ang, Tan, Jung, Ku, & Pornpitakpan, 2008). While a low warmth perception might contribute to LOFs, sometimes host countries are in dire need of foreign investments, which can lead host countries to court foreign direct investment (i.e., FDI) (Mallon & Fainshmidt, 2017; Sethi & Judge, 2009). IB studies have demonstrated that many firms also internationalize based on firm-specific advantages (FSAs), which often feed perceptions of high competence among foreign firms (Bakan & Doğan, 2012; Hodgetts, 1993). The perception of high competence may be associated with perceptions of local inferiority that can drive consumer preferences for foreign goods (dos Santos, 2018; Sethi & Judge, 2009; Yildiz & Fey, 2012). A high competence stereotype thus contributes to AOFs.

Several studies in the IB literature document perceptions of low warmth and high competence (Acheampong & Dana, 2017; Gao et al., 2018; Glaister et al., 2020; Kostova & Zaheer, 1999; Stening & Zhang, 2016; Wan et al., 2020). Glaister et al., (2020) not only found that histories of colonization had an impact on local perceptions of foreign firms by former colonizers in many African countries but also demonstrated that past colonial relationships partially shaped formal institutions in former colonies, which tended to prompt them to favor FDI from former European colonizers (Glaister et al., 2020). However, Kostova and Zaheer, (1999) found these same colonial relationships could breed informal institutions that were hostile to FDI from former European colonizers, which led past colonial relationships to provoke perceptions of low warmth and high competence (Gao et al., 2018; Glaister et al., 2020). Acheampong and Dana (2017) demonstrated that foreign firms suffer from high crime rates due to foreign ownership and "that this LOF effect may be driven by deep-seated nationalistic and social issues" (p. 60). Wan et al. (2020) argued that, although MNEs from developed countries might enter emerging countries with significant advantages, a lack of access to insider networks might blunt these advantages over time. In a case study of the Chinese management software industry, Wan et al. (2020) demonstrated how Oracle and SAP fell behind Yonyou and Kingee, local firms in the Chinese management software industry. Although Oracle and SAP were perceived as having higher competence when they entered China, a lack of access to networks that were based on *guanxi* cost them the leadership position in the industry (Stening & Zhang, 2016; Wan et al., 2020). Since a combination of a low warmth and a high competence stereotype accentuates LOFs and AOFs, respectively, we propose:

> **Proposition 2a.** A cold stereotype held by local stakeholders accentuates LOFs of foreign firms due to an unfavorable perception of warmth, while a competent stereotype held by local stakeholders accentuates AOFs of foreign firms due to a favorable perception of competence.

In contrast, a warm but incompetent stereotype reflects the perception of friendliness and inadequate capacity. A warm stereotype may stem from favorable current and/or historical geopolitical relationships between the host and home countries (Bertrand, Betschinger, & Settles, 2016; Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007). For example, the presence of similar ethnic groups in host and home countries can facilitate the development of trust between host countries and foreign firms. These similarities drive the early stages of the internationalization process, which partially explains why firms tend to internationalize regionally rather than globally. Even when firms do not have outstanding FSAs, they can leverage their "*neighborness*" and cultural proximity to expand to proximal geographical locations (Buckley et al., 2007; Ramasamy, Yeung, & Laforet, 2012). While the perception of low competence might ordinarily hinder the internationalization of foreign firms, a perception of friendliness also creates a window of opportunity. High political affinity between host and home countries (e.g., countries that belong to the same regional bloc) can also contribute to a high warmth stereotype, which offers a social license to operate, which reflects community acceptance of a project or an organization (Walsh, van der Plank, & Behrens, 2017). Research has demonstrated that social license to operate is impacted more by the intentions than the capacities of foreigners (Haslam, Ary Tanimoune, & Razeq, 2019; Kostova & Zaheer, 1999). Studies on early internationalization suggest that some non-economic similarities between host and home countries can also determine the destination of outward FDI. For example, Chinese networks based on *guanxi* partially explain why early internationalization efforts of Chinese firms had focused on South East Asian countries with significant local Chinese populations (Buckley et al., 2007; Buckley, Yu, Liu, Munjal, & Tao, 2016). Non-economic similarities can serve as proxies for trust, which should lead to a warm stereotype of foreign firms. We thus propose:

> **Proposition 2b.** A warm stereotype held by local stakeholders accentuates AOFs of foreign firms due to a favorable perception of warmth, while an incompetent stereotype held by local stakeholders accentuates LOFs for foreign firms due to an unfavorable perception of incompetence.

3.3.3 | Warm and competent stereotype (AOFs)

Conceptually, a warm and competent stereotype, reflecting perceptions of friendliness and high capacity, is the opposite of a cold and incompetent stereotype (Aaker et al., 2012; Cuddy et al., 2008; Yu & Lindsay, 2017). This stereotype is often reserved for in-group members and social reference groups (Barbarossa et al., 2016; Cuddy et al., 2007). While local stakeholders often confer favorable stereotypes on local firms (Mallon & Fainshmidt, 2017; Maruyama & Wu, 2015), foreign MNEs—based in countries that are allies in current and/or historical geopolitical relationships—can also enjoy favorable perceptions with local stakeholders. When these foreign MNEs also enjoy favorable perceptions for high quality, local stakeholders can stereotype them as both warm and competent (Bertrand et al., 2016; Held & Berg, 2015). A warm stereotype can also be due to good reputations of the foreign firms or their industries (Haslam et al., 2019; Vidaver-Cohen, Gomez, & Colwell, 2015), constituting an ideal situation for foreign MNEs. Since favorable stereotypes on both dimensions contribute to AOFs by making local stakeholders more open to foreign firms, we propose:

Proposition 3. A warm and competent stereotype held by local stakeholders accentuates AOFs for foreign firms due to favorable local perceptions along both warmth and competence dimensions.

3.4 | Stereotypes and strategies for managing foreignness

Favorable and unfavorable stereotypes should influence the approaches of foreign firms as they manage their foreignness (Gorostidi-Martinez & Zhao, 2017). Favorably stereotyped foreign firms should thus accentuate their foreignness (Edman, 2016; Siegel, Pyun, & Cheon, 2019) to trigger favorable stereotypes. For example, in their promotional materials, German automobile manufacturers often lean into their German origin partially due to an associated high competence stereotype (Chattalas & Takada, 2013; Maheswaran, Chen, & He, 2013; Newburry, 2012). Foreign firms with favorable stereotypes should also follow strategies of standing out rather than blending in (i.e., through isomorphism) with their local environments. Gupta and Govindarajan (2001) investigated how an attempt of the American restaurant, TGI Friday, to blend in with the local landscape in Korea backfired. Expecting an authentic American dining experience, Korean customers disliked the introduction of menu items from Korean cuisine (Gupta & Govindarajan, 2001; Yildiz & Fey, 2012).

In contrast, unfavorable stereotyped foreign firms should attenuate their foreignness (Denk, Kaufmann, & Roesch, 2012; Kostova & Zaheer, 1999; Moeller et al., 2013). By downplaying foreignness, these foreign firms should reduce the impact of an unfavorable stereotype. Dos Santos (2018) demonstrated how Portuguese furniture firms often hid their Portuguese origin because of an associated low-quality stereotype within the European furniture market. Foreign firms with unfavorable stereotypes are thus more likely to adopt a strategic approach of blending in with local firms (Russell and Russell, 2010), since it reduces the likelihood of activating unfavorable stereotypes. We therefore propose:

Proposition 4a. Foreign firms with favorable stereotypes should accentuate and manage their foreignness through strategies that allow them to stand out from local firms.

Proposition 4b. Foreign firms with unfavorable stereotypes should attenuate and manage their foreignness through strategies that allow them to blend in (i.e., through isomorphism) with local firms.

Unfavorable perceptions can be due to a low warmth stereotype, as demonstrated in early research investigating LOFs (Denk et al., 2012; Eden & Miller, 2001, 2004). Although these internationalizing firms possessed FSAs, local stakeholders were often suspicious of their intentions, as these foreign firms had historically represented and promoted the interests of their home countries. This often led to competition for resources between the host and home countries, which served as the basis of a low warmth stereotype being applied to these foreign firms by local stakeholders (Gao et al., 2018; Glaister et al., 2020). As a result, foreign firms with a low warmth stereotype should implement strategic approaches that endear them to their host communities

(Gardberg & Fombrun, 2006; Yu & Liu, 2018) and that signal good intentions towards local stakeholders. For example, foreign firms can leverage corporate social responsibility (CSR) practices to blunt other negative perceptions (Campbell, Eden, & Miller, 2012; Pisani, Kourula, Kolk, & Meijer, 2017; X. Yang & Rivers, 2009). Aggressive CSR strategies can be perceived as gifts of good intentions for host markets and potentially warm locals stakeholders to foreign firms (Yang & Rivers, 2009). Foreign firms with a low warmth stereotype should also embed themselves in the local social fabric by implementing strategies that allow them to integrate with their host communities (Baron & Capo, 2016; Stening & Zhang, 2016; van der Eng, 2017). Organizational approaches, such as proactively hiring local employees, generously partnering with local firms, and promptly paying government taxes and levies, can signal friendly intentions by foreign firms towards local stakeholders (Gao et al., 2018; Glaister et al., 2020; Ikegami, Maznevski, & Ota, 2017). Further, foreign firms with low warmth can blunt this unfavorable stereotype by leveraging strategic approaches that signal their good intentions towards their host communities.

Studies have demonstrated that endearing strategies can mitigate LOFs that arise from a low warmth stereotype (Acheampong & Dana, 2017; Gorostidi-Martinez & Zhao, 2017; Ikegami et al., 2017; Van Der Eng, 2017; Yang & Rivers, 2009). For example, Yang and Rivers (2009)—in a study of CSR activities of foreign firms—argued that a LOF associated with a low warmth stereotype "is often reflected on the part of host country by its use of stereotypes and different standards in judging foreign firms and by the use of foreign firms as targets for attack by host country interest groups" (p. 158). Consequently, Yang and Rivers (2009) argued that MNEs should adopt local CSR practices to manage a low warmth stereotype. Further, Gao et al. (2018)—in a study of Japanese FDIs in China—argued that Japan suffered from a low warmth stereotype in China. To mitigate Chinese animosity, Japanese firms followed diverse strategic approaches to embed their operations in the host environment and signal trustworthiness towards local stakeholders. Strategies included exceptionally large tax payments and extensive local employment (Gao et al., 2018). In contrast, Maruyama and Wu (2015) argued that, while CSR might be related to moral legitimacy (i.e., a construct akin to warmth stereotype), it did not mitigate pragmatic legitimacy (i.e., a construct akin to competence stereotype). Therefore, we propose:

> **Proposition 5**: Foreign firms with a low warmth stereotype should favor strategic approaches, such as CSR practices, local employment, and partnerships with local firms, that signal their good intentions towards local stakeholders and embed them in their host countries.

While early internationalization of firms suffered from LOFs due to a low warmth stereotype, recent internationalization of MNEs from emerging countries (EMNEs) has caused these businesses to suffer from LOFs due to a low competence stereotype (Buckley et al., 2016; Held & Berg, 2015), often one associated with perceptions of their home countries. Even among other emerging countries, local stakeholders often stereotype EMNEs as having low competence (Held & Berg, 2014; Madhok & Keyhani, 2012). To compensate for a low competence stereotype, foreign firms can highlight not only their strengths to local stakeholders but also their capacity to generate high quality offerings (Maruyama & Wu, 2015). Since status is the primary antecedent to a competence stereotype (Alvstam & Ivarsson, 2014; Luo & Tung, 2007, 2018), foreign firms can acquire assets and brands associated with high quality and high-status products, as well as secure endorsements of high-status third parties (Aaker et al., 2010; Bae, Purda, Welker, & Zhong, 2013).

Studies have linked strategic approaches that promote high-quality offerings, as well as the acquisition of strategic assets and high-status endorsements, to perceptions of higher competence.

Maruyama and Wu (2015) offered pragmatic legitimacy as a strategy to mitigate LOFs arising from customer biases against foreign products in the Chinese retail industry. Pragmatic legitimacy concerns the proficiency of a firm in manufacturing and delivering quality products and services, firm-level capacities that can be projected and promoted to counter a low competence stereotype (Gorostidi-Martinez & Zhao, 2017; Maruyama & Wu, 2015). Maruyama and Wu (2015) argued that foreign retailers can overcome LOFs stemming from a low competence stereotype by emphasizing "value-for-money retail mix attributes, such as, increasing product qualities and running effective promotional campaign" (p. 200). Alvstam and Ivarsson (2014) also demonstrated how the acquisition of Volvo transformed perceptions of Geely, the acquiring company. Scholars have often referred to the acquisition of strategic assets from developed countries as a "springboard" approach to internationalization, whereby foreign firms are able to distance themselves from a low competence stereotype (Luo & Tung, 2007, 2018; Luo & Zhang, 2016; Yu & Liu, 2018).

In their study of consumer stereotypes of for-profit and non-profit organizations, Aaker et al. (2010) demonstrated that consumers stereotyped non-profit organizations as less competent than for-profit organizations. However, Aaker et al. (2010) also demonstrated that when non-profit organizations were endorsed by high-status outsiders, the perceived competence of the non-profit organizations rose to the level of the for-profit organizations. Similar mechanisms should apply to foreign firms with a low competence stereotype, since these firms can benefit from third party endorsements. For example, Bae et al. (2013) demonstrated how "a credit rating from Standard & Poor enables these firms [from emerging countries] to certify their financial reporting quality" (p. 216). We therefore propose:

Proposition 6: Foreign MNEs with a low competence stereotype should favor strategic approaches, such as high-quality offerings, strategic asset acquisitions, and high-status endorsements, that prompt perceptions of high capacity and negate perceptions of low competence.

4 | DISCUSSION AND CONCLUSION

When is foreignness an asset or a liability (Edman, 2016)? We propose that stereotypes—held by local stakeholders and leveled on foreign firms—partially determine if foreignness is an asset, a liability, or both (Mallon & Fainshmidt, 2017; Moeller et al., 2013). While prior studies have linked stereotypes to foreignness, very few studies have explored the impact of stereotypes on foreignness. Leveraging the SCM—borrowed from social psychology, we theorize that foreign firms are stereotyped by local stakeholders along two dimensions: warmth and competence (Cuddy et al., 2008; Yu & Liu, 2018) and that variations along these two dimensions influence perceptions of foreign firms held by local stakeholders. We thus contend that these stereotypical perceptions shape LOFs and AOFs of foreign firms.

We also address different strategies for managing foreignness (Denk et al., 2012; Edman, 2016; Gorostidi-Martinez & Zhao, 2017; Siegel et al., 2019; Yildiz, 2014), with local stakeholder perceptions and associated stereotypes set as critical considerations for foreign firms as they seek appropriate strategies to manage their foreignness (Bitektine, 2011; Kostova & Zaheer, 1999). We argue that foreign MNEs, which enjoy favorable stereotypes, should accentuate their foreignness through strategies that allow them to stand out from local firms. However, foreign MNEs with unfavorable stereotypes should attenuate their foreignness through strategies that allow them to blend in (i.e., through isomorphism) with local firms.

Unfavorable perceptions can be due to stereotypes of low warmth and/or low competence. We therefore argue that foreign firms should respond to low warmth stereotypes with strategies that signal friendliness and trustworthiness toward their host countries (Gao et al., 2018; Yang & Rivers, 2009). Conversely, foreign firms should respond to unfavorable perceptions due to low competence stereotypes with strategic approaches that promote high-quality offerings, strategic asset acquisitions, and high status endorsements (Aaker et al., 2010; Bae et al., 2013; Maruyama & Wu, 2015).

Because local stereotypes of different foreign firms might vary within the same host environment, foreignness might be an asset for one group of foreign firms and a liability for another. The stereotypes held by local stakeholders of a foreign firm can also vary across different host environments, with foreignness an asset in one host environment and a liability in another (Kostova & Zaheer, 1999). Finally, following the case of Carrefour (Newburry, 2012; Yildiz & Fey, 2012), we demonstrate that local stereotypes of foreign firms can vary over time, with a foreign firm—in the same host environment—favorably stereotyped at one point in time and unfavorably at another and vice versa. For example, perceptions of competence associated with Japanese products (i.e., especially automobiles) in the United States has evolved over the past few decades (Cusumano, 1988). However, stereotypes can also change within shorter periods. For example, the emergence of anti-Western sentiments in Iran (i.e., after the fall of the Shah's regime) and Venezuela (i.e., with the ascent of Hugo Chavez) are apt examples of rapid changes in local perceptions of foreign firms. As a result, recent changes in geopolitical relationships necessitate theoretical lenses that capture how rapid shifts in political relationships might also be related to simultaneous shifts in local stereotypes of foreign firms.

Since foreignness is inherently intergroup relationships, it is rooted in stereotypical perceptions of warmth and competence. While we theoretically associate the stereotypes of warmth and competence with foreignness, a foundational concept in international business research, we urge future studies to further explore how rapidly evolving geopolitical dynamics, mechanisms, and relationships may impact stereotypes of foreign firms held by local stakeholders.

How foreign firms achieve stereotypical perceptions of warmth and competence in their host countries is another potentially fruitful avenue for future research. Local stereotypes of warmth and competence can help foreign firms neutralize LOFs and take advantage of AOFs. Although many foreign firms wish to be perceived as warm and competent, few foreign firms will achieve this stereotype at the time of entry into a host country. While extant marketing research does offer early insights into strategies foreign firms can deploy to garner stereotypical perceptions of warmth and competence (Aaker et al., 2012; Vidaver-Cohen et al., 2015), this body of research tends to mainly focus on perceptions associated with international brands and products. We argue that masking the foreignness of international brands may well be easier than masking the foreignness of international firms (Newburry, 2012). Finally, we also call for future empirical research to test whether the combinations of strategies for improving warmth and competence stereotypes proposed in this study will lead to local stereotypical perceptions of warmth and competence.

In conclusion, our study opens a new avenue for future research on local perceptions of foreignness. While most prior studies have examined how MNEs experience foreignness, we contribute to an emerging stream of literature that focuses on how local stakeholders perceive foreignness (Mallon & Fainshmidt, 2017; Moeller et al., 2013; Yildiz & Fey, 2012). Understandably, early scholarship tended to favor organizational experiences of foreignness over local stereotypical perceptions of foreignness. However, the storied contingency approaches in management scholarship and practice have suggested that different macro environments might engender different local stereotypical perceptions of foreignness. Since studies have revealed the unique challenges that foreign firms face in different institutional environments, a one-size-fits-all approach may not be suitable for foreign firms (Kostova & Zaheer, 1999; Sethi & Judge, 2009).

Our study also reveals that local stereotypes of foreignness do vary and that foreign firms require different approaches for managing foreignness based on varying local stereotypes. While some studies have addressed approaches that help foreign firms manage favorable local perceptions, future studies should further examine the effectiveness of strategies that mitigate unfavorable local perceptions of foreignness stemming from stereotypes of low warmth, low competence, or a combination of both. Acheampong and Dana (2017) conceptualized LOFs as crime against foreign owned firms; this might be due to low warmth stereotype because low warmth can lead to animosity towards foreigners. Studies have also revealed that a low warmth stereotype can lead to active harm, such as crime, whereas low competence stereotype can lead to passive harm, such as avoidance (Cuddy et al., 2008). In addition, Acheampong and Dana (2017) argued that the security expense (i.e., a seemingly obvious response to crime) does not halt LOFs. This finding is consistent with Proposition 5, which suggests that an unfavorable, low warmth stereotype should be addressed with strategies that demonstrate the good intentions of foreign firms towards local stakeholders; security expenditure are unlikely to fall into such a category.

Finally, we position foreignness as an intergroup concept and thus call for future studies to examine the ongoing dance between foreign firms and local stakeholders. Most studies have favored perspectives of one group over the other: foreign firms or local stakeholders (Edman, 2016; Mallon & Fainshmidt, 2017). While our study also followed this approach by examining local stakeholders' perspectives, we also provide a framework for investigating the dynamic interactions between foreign firms and local stakeholders in their host markets. While local stakeholders can have preconceived stereotypes about foreign firms, we propose several strategies for foreign firms to manage and potentially alter unfavorable stereotypes, thus creating avenues for future research to investigate how the actions of foreign firms in their host environments might impact the stereotypes held by local stakeholders.

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