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Activating assets of foreignness in compressed developing markets: evidence from New Zealand SMEs entering the Chinese market

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ABSTRACT
The methods Western SMEs can use to activate assets of foreignness in compressed developing markets are not well understood. To fill this gap, this study identifies three main mechanisms for such activation: conforming to home-country institutions, creating distancing narratives and accentuating foreignness. It contributes knowledge about SME internationalization into compressed developing markets through two findings. First, SMEs can benefit from contrasting country practices and norms between home and host countries. Second, SMEs can activate institutional resources of their home country, which requires between-market learning because the value of these resources arises from their use in a different context.

KEYWORDS
Assets of foreignness; China; compressed development; country-of-origin; institutional voids; New Zealand

Introduction

Globalization and market liberalization create a favorable environment for small to medium-sized enterprises (SME) to achieve international growth (Coviello and McAuley 1999; Knight 2000; Burgel, Fier, and Licht 2001; Nummela, Loane, and Bell 2006). In particular, growing demand from compressed developing markets, such as China, which show multiple stages of economic development simultaneously instead of sequentially, provides new opportunities and challenges for SMEs to extend their customer base and achieve business growth (Whittaker et al. 2020, 2010). To take advantage of these opportunities, however, SMEs first need to gain legitimacy in these fast-developing markets (Ahlstrom, Bruton, and Yeh 2008). Past research has highlighted the importance of reputation, brands and the evolution of networks in the internationalization process to more recently developing markets (Rindova, Petkova, and Kotha 2007) and has often focused on barriers to internationalization (Sinkovics, Kurt, and Sinkovics 2018).

Gaining legitimacy when entering a new market is a key challenge for businesses (Khanna, Palepu, and Sinha 2005). The environment in these markets is shaped by different cultural expectations and norms (Luna and Gupta 2001). Thus, managers have to develop new business strategies to succeed (Manolova and Yan 2002; London

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and Hart 2004). Specifically, compressed developing markets are frequently characterized by incomplete, unstable institutional arrangements, leading to an uncertain environment for market participants (Tracey and Phillips 2011; Mair, Marti, and Ventresca 2012; Scherer, Palazzo, and Seidl 2013). The compression of economic development in these markets creates complexities that policymakers and businesses often find difficult to navigate (Whittaker et al. 2010). Therefore, Western managers will struggle to understand the changing 'rules of the game' of these markets and, often, make poor strategic decisions.

Resource constraints exaggerate challenges to establishing legitimacy. SMEs commonly lack internal knowledge and resources to overcome various challenges associated with internationalization, such as liabilities of foreignness (LOF) and outsidership – which often need to be overcome by developing personal business networks in the host country (Johanson and Vahlne 2009; Fiedler, Fath, and Whittaker 2017). Navigating dynamic and uncertain markets requires internal management capabilities (Luo 2001), which are often limited in SMEs (Lu and Beamish 2001). Given these constraints, unsurprisingly, internationalization constitutes a particular challenge for SMEs (Markides and Geroski 2004), in particular, during market entry in unfamiliar markets (Fiedler, Fath, and Whittaker 2021), leading to higher failure rates than for their larger counterparts (Lee et al. 2012).

The literature has focused on identifying ways to overcome the disadvantages of foreignness, pointing out that SMEs are often aided in their internationalization endeavors by other interested parties, including relevant network partners in both their home (Stoyanov, Woodward, and Stoyanova 2018) and host market (Gao, Knight, and Ballantyne 2012). Less is known about the methods Western SMEs could use to turn foreignness into an asset in compressed developing markets. Stahl et al. (2016) point out that past research has overemphasized the negative effects of foreignness, and a better understanding of enablers to succeed in international markets is a promising avenue for future research. In this vein, some early studies suggest that the foreign firms can also activate distinct assets from their home country to gain a competitive advantage in the host country (Doh, Littell, and Quigley 2015). However, most of these studies draw on evidence from multinational corporations (MNCs), which means that opportunities for smaller firms to realize assets of foreignness (AOF) are still not well understood. Therefore, to fill this knowledge gap, this study aims to investigate the following research question: 'How can Western SMEs draw on their home-country assets to achieve AOF in compressed developing markets?'

In this regard, home-country institutions can provide support for SME internationalization. In particular, country-of-origin (COO) affiliation is one way that SMEs can draw on the institutional resources of their home country to internationalize (Godey et al. 2012). Researchers in marketing have established that firms can gain advantages by activating their COO advantages (Bilkey and Nes 1982). More recently, it has been demonstrated that COO affiliation has particular relevance for Western businesses that internationalize in compressed developing markets. For instance, many Chinese consumers perceive foreign products as high-quality, high-status goods. Although the advantage of Western products in China is diminishing, the erosion is far from complete in many product categories and the advantage is often likely to be sustained (Zhou and Hui 2003). As a result, Western SMEs can potentially leverage such home-country institutional resources creatively to gain legitimacy in a compressed developing market such as China.

Building on these insights, in this study, we draw on longitudinal qualitative data of 22 New Zealand (NZ) SMEs in the food and beverage (F&B) sector to gain further insights into how Western SMEs can activate AOF in a compressed developing market such as China. In line with similar studies (Ahlstrom and Bruton 2001; Ahlstrom, Bruton, and Yeh 2008; Bangara, Freeman, and Schroder 2012), we use concepts from institutional theory (Suchman 1995; Zimmerman and Zeitz 2002) to investigate legitimacy-building strategies in fast-developing markets. We find that NZ F&B SMEs could overcome LOF in China by leveraging COO affiliations using a range of different mechanisms. Specifically, we show that NZ SMEs can draw on both informal and formal institutional resources from their home country, for example, by displaying product certification from independent auditors or by using NZ symbols on the packaging. Thus, our study contributes to the understanding of how SMEs can access and activate institutional resources of their home country in order to gain AOF.

Literature review, theory and research questions

Paradox of foreignness in building competitive advantage

Foreignness and distance have traditionally been viewed as liabilities and costs to internationalizing businesses. The LOF concept represents the additional costs a firm operating overseas incurs that a local firm would not incur (Zaheer 1995). In this regard, a perceived difference from local norms and culture can be a barrier to internationalizing firms gaining the legitimacy they need to survive. Further, empirical studies show that foreign firms lack access to tacit knowledge and financing (Mezias 2002) and often have poor survival rates (Mata and Freitas 2012) and. For example, in their study of the global banking industry, Miller and Parkhe (2002) show that foreign banks were less efficient than their domestic counterparts.

Much attention has been devoted to identifying ways to compensate for, or overcome, LOFs. This aim can be achieved by developing personal relationships to gain access to local knowledge networks (Bangara, Freeman, and Schroder 2012). In China, 'guanxi' insiders, or gatekeepers, can connect businesses to local networks (Gao, Knight, and Ballantyne 2012). Foreign firms can also use marketing techniques to signal their closeness with the host country by developing a brand affiliation with established market players (Rao, Chandy, and Prabhu 2008). In a comprehensive study of LOFs, Denk, Kaufmann, and Roesch (2012) find that foreignness negatively contributes 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, somewhat counter-intuitively, foreignness can also be an asset – a resource that businesses can activate (Sethi and Judge 2009). The major source of AOF is institutionally based. It derives from institutional asymmetries between the home and host countries (Mallon and Fainshmidt 2017). This insight has been drawn from institutional theory, which posits that firms are influenced by the various institutions within which they are embedded. Institutions are the formal and informal 'rules of the game' (North 1990). Firms lean heavily on their institutional environment for strategic insights, norms and guidance. Their environment constrains and enables their activities in different ways. The heterogeneous distribution of institutional benefits among countries leads to the label of foreignness, allowing firms to

signal their alignment or distance from certain institutional frames. To be foreign is to be different and unfamiliar, and it is within the context of large institutional differences where firms gain their large degree of foreignness. For example, Siegel, Pyun, and Cheon (2019) show how foreign firms can gain an advantage in South Korea by breaking social norms and promoting women to managerial roles. Local firms find it difficult to imitate or substitute such sources of advantage (Mallon and Fainshmidt 2017). Thus, being foreign can confer resources, capabilities or opportunities unavailable to host-country rivals (Sethi and Judge 2009).

It can be expected that the LOF and AOF for Western businesses in markets such as China are exaggerated. On the one hand, the market environment is shaped by different cultural expectations and norms (Luna and Gupta 2001). Specifically, the rapid transformation and compression of economic development in these countries mean they are frequently characterized by incomplete and evolving institutional arrangements, leading to an uncertain environment for some market participants (Mair, Marti, and Ventresca 2012). Such institutional voids often make it difficult for Western managers to understand the 'rules of the game' in these markets, and often, they succumb to strong isomorphic pressures to conform to inefficient local norms (Vanhonacker 2004). On the other hand, the stark difference between the institutional environments of the host and home countries provides the opportunity to use AOF. The greater the difference between the host and home countries, the more the potential for firms to capitalize on AOF (Insch and Miller 2005; Mallon and Fainshmidt 2017).

Overall, foreignness can be a liability and an asset to a firm, and in different ways. AOF studies do not deny that foreignness can be a liability but acknowledge that it can also serve as a key competitive advantage in some settings (Nachum 2010; Edman 2016). The very same 'foreignness' that may cause isolation and exclusion from local industry associations may be the basis of an AOF allowing the firm to avoid unethical or substandard local industry practices (Shi and Hoskisson 2012). The key challenge for businesses abroad is to mitigate their perception of foreignness when it is costly but accentuate it when it is to their advantage. AOF can counterbalance the costs incurred by LOFs if firms can activate these assets. Therefore, AOF require active pursuit and activation to realize their benefits (Sethi and Judge 2009).

Activating AOF: challenges and opportunities for SMEs

Many different AOF have been identified and explained (Edman 2016). Disappointingly, studies have only focused on how MNCs might activate AOF (e.g. Un 2011). For instance, Shi and Hoskisson (2012) show that foreign firms can shape or evade institutions through 'creative institutional deviance' by legitimate disengagement from normative and cultural-cognitive institutions. They can reap the rewards of creativity and innovation by virtue of being free from isomorphic pressures commonly found in fast-developing markets. Domestic firms are punished for deviating from these norms because they are bound by their institutional environment (Edman 2016). However, AOF activation often requires large firm capabilities to engage in lobbying or advertising to deviate from the host country's institutional frame. Thus, SMEs would not be able to mimic the resource-heavy style of activation that has been currently identified in the literature, building on insights from MNCs. Hence, SMEs would need more cost-effective and unique styles of activation.

Further, poor regulatory support in fast-developing markets often leads to a local distrust of local firms, either within an industry or throughout the country (Kostova and Zaheer 1999). The local perception of the industry or firm is colored by the institutions with which they interact owing to economic, political and social host-country factors, such as protectionism, corruption or deficient regulation. An AOF is the distance that foreignness grants firms from such negative perceptions. Studies on the AOF concept focus on how MNCs use their extensive resources to engage in corporate social responsibility activities to activate their foreignness and accentuate their difference (Doh, Littell, and Quigley 2015). No attention has been given to how SMEs, who do not commonly use corporate social responsibility practices, can use their AOF.

In addition, the COO affiliation is also a form of AOF. The international marketing literature has shown how the 'made in country X' label can boost sales abroad (Bilkey and Nes 1982). The COO provides a halo effect to products, particularly when individuals are unfamiliar with them (Han 1989). However, this effect is a narrow form of AOF. Unlike many other types of AOF, it requires firms to actively highlight the differences between their home country and the domestic country. A COO effect is passively achieved; it accrues to a firm simply by virtue of being from a certain country (Mallon and Fainshmidt 2017). Thus, it is an opportunity easily seized and is therefore equally open to small and large firms. The passive nature of the COO effect means that its potential returns appear limited to the 'halo' effect and may be imitated by other firms from the same foreign country. It is best used in combination with other types of AOF that, while requiring more work to activate, create a more firm-specific and sustainable competitive advantage.

In light of their lack of resources, it would be assumed that internationalizing SMEs are particularly susceptible to failure in challenging developing markets in the absence of extensive resources or multi-nationality benefits. However, Western firms, including SMEs, have enjoyed success in compressed and fast-developing markets (Fiedler, Fath, and Whittaker 2017). Nevertheless, the lack of research on how smaller firms can use AOF to gain a strong foothold in such markets leaves much uncertainty about where the concept of AOF fits into SMEs' strategy. Therefore, a stronger understanding of how SMEs can activate AOF can further explain their success in developing countries. Thus, we ask the following research question: 'How can Western SMEs draw on of their home-country assets to achieve AOF in compressed developing markets?'

Methodology

We used a qualitative methodology to study how SMEs can benefit from AOF in emerging markets. In particular, we investigated how NZ SMEs operating in the F&B sector can leverage their foreignness in China. Hence, we purposefully selected cases. We chose the food sector because NZ enjoys a worldwide reputation for safe, high-quality food products, which SMEs could leverage. By consulting industry experts and business scholars, we built a list of SMEs operating in the food sector that had successfully launched their products in China. An analysis of press releases and media articles helped to further identify SMEs with positive coverage of their China engagement.

The study draws on 31 open-ended, semi-structured interviews with owners or managers of 22 NZ SMEs in the F&B sector that are successfully exporting to China. Interviews were conducted in two rounds during 2010–2015. The data were complemented by

secondary data, including documents and observations. In addition, we conducted five expert interviews at the beginning of the study period, that is, in 2011–2012, to obtain data from a different level of analysis, which helped us in further contextualizing the findings and alleviating success bias. Interviewing these experts helped us to understand whether unsuccessful F&B businesses would try to use their COO affiliation in a similar way, which would have indicated that performance differences are mainly driven by unobserved factors rather than differences in the internationalization strategy.

Table 1 overviews the SMEs studied. At the time of the first interview, 20 of the businesses had fewer than 250 employees and therefore fell under the European definition of SMEs as well as the US definition. Further, two businesses had 380 and 400 employees and therefore fell under the US definition alone. Most businesses were highly regarded in the food sector. Twelve had been nominated for, or had won, industry, export, business growth or innovation awards (e.g. Westpac Exporter of the Year award, Excellence in China award and Finalist for the sustainability award), or recognition for their fast business growth (e.g. Deloitte Company of the Year award). Five others had earned public recognition for their offerings (e.g. Finalist in Dairy award, Gold award, Best-in-category award).

Table 1. Characteristics of SMEs.

Year established	Industry description	No. employees (in 2009–10)	Role of interviewee(s)	No. of interviews	Follow up
1904	Manufacturer and distributor of health foods	380	CEO	1	
1936	Manufacturer and exporter of frozen foods	400	CEO	1	
1947	Wine producer	50	General Manager & Int. Manager	3	x
1961	Wine producer	250	Founder & Asia Manager	3	x
1974	Manufacturer and exporter of natural healthcare products	140	Manager (International)	1	
1979	Manufacturers of ice cream	30	Owner	1	
1986	Manufacturer of natural food ingredients	70	CEO	2	x
1988	Fresh fruit and vegetable marketer	160	CEO	2	x
1988	Manufacturers of ice cream	170	General Manager Asia	1	
1992	Manufacturers of yogurt and related products	40	CEO	2	x
1998	Wine producer	12	CEO	1	
1999	Manufacturer and marketer of premium beverages	80	Manager (International)	2	x
2000	Exporter of dairy products	250	CEO	1	
2000	Exporter of dairy products	5	Director	2	x
2001	Manufacturer and processor of value-added dairy products	30	General Manager	1	
2002	Manufacturer of specialist pet food	12	Founder	1	
2002	Functional health ingredients	200	Founder and CEO	1	
2003	Fresh fruit and vegetable marketer	10	General Manager	1	
2003	Manufacturer and marketer of functional health ingredients	4	Co-founder and CEO	2	
2007	Wine producer	3	Co-founder	1	
2008	Manufacturers of yogurt	3	Founder	1	
2009	Exporter of specialist food products	5	Co-founder	1	

All interviews followed a similar process. They lasted 60–90 minutes. A semi-structured interview protocol was adopted. To cover all protocol themes systematically, two researchers attended each interview. During the interviews, we asked participants to reflect on the reasons their China strategy has been successful or unsuccessful in terms of profitability, growth and brand building. We also asked whether being an NZ business was an advantage or disadvantage for marketing their products in China and which stakeholders contributed to their success. We allowed participants to introduce new themes, which resulted in an opportunity to uncover unexpected findings. After the interview, the researchers discussed the first impressions of the interview and compared notes. The interviews were transcribed and systematically coded.

Our data analysis followed established methods and guidelines for explorative inquiries (Glaser and Strauss 1967; Strauss and Corbin 1990; Gioia, Corley, and Hamilton 2013). After conducting the interviews, we read the transcripts several times to familiarize ourselves with the themes before beginning the initial coding. We compared the themes from our informants during this initial phase to identify first-order themes (categories resulting from the language and concepts introduced by the informants) that relate to how SMEs activate AOF in fast compressed markets (open coding). In a second step, we identified 12 first-order concepts, such as 'smallness of the business', 'family-owned' and 'Western label', which we then categorized into second-order themes (researcher-induced categories), such as 'food safety procedures' and 'boutiqueness'. We constantly compared emerging themes during the coding process and attempted to identify relationships between the emerging concepts (Corley and Gioia 2004). We also compared our findings with those of the literature to increase internal validity (Eisenhardt 1989). In the final step, we aggregated the second-order themes to overarching theoretical constructs, which constitute our theoretical framework representing the three domains of legitimacy.

Figure 1 shows the data structure, that is, the first- and second-order themes and the aggregated overarching theoretical mechanism that SMEs have used to legitimize their offerings in a compressed market.

Findings

Our analysis reveals that differences in institutional environments allow NZ SMEs to draw on different, not mutually exclusive, home-country institutional resources suitable to activate distinct AOF in China. Specifically, they draw on institutional resources resulting from the legal, cultural-cognitive and normative institutions of their home country and the ways that the perceptions of these play in the host market. First, SMEs can highlight conformance to their home country's different legal and regulatory structures, such as the NZ food industry regulations, which result in perceived high food safety for Chinese consumers. Next, SMEs can also create distancing narratives by highlighting the different customs and practices of the NZ food industry. Firms draw attention to these norms to accentuate their foreignness and gain distance from deficient Chinese food safety norms in the eyes of consumers. Last, SMEs can leverage cultural-cognitive capital by accentuating NZ's unique lifestyle and way of thinking, which is interesting to Chinese consumers. Table 2 presents illustrative quotes underlying these themes. In the following sections, we provide a more detailed description of the results of our findings.

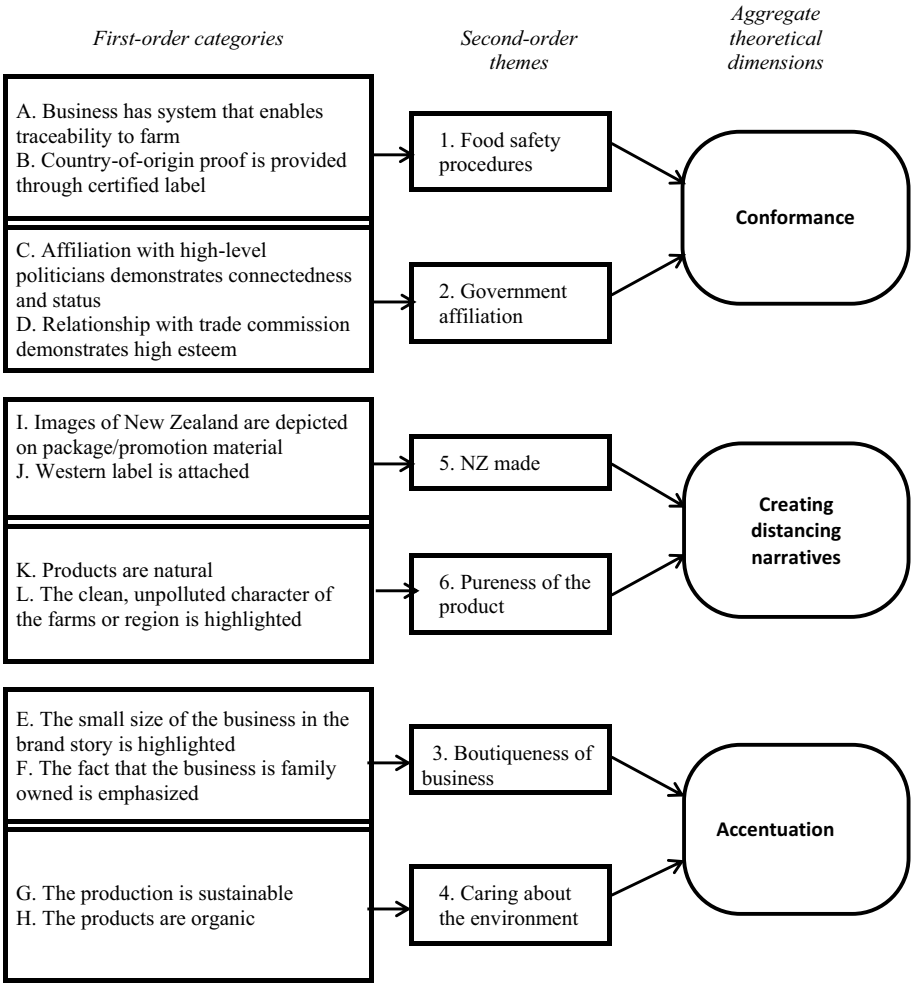

Figure 1. Data structure.

Conformance to home-country institutions to activate assets of foreignness

Food safety procedures

The difference in the regulatory environment provided opportunities to leverage home-country institutions to emphasize firms' foreignness. The NZ regulatory system is widely regarded as business-friendly and reliable. NZ has acquired an excellent reputation worldwide as a provider of safe, high-quality food and has not experienced major food safety scandals.[1] In NZ, the Ministry of Primary Industries is responsible for legislation about food safety.[2] NZand Australia collaborate to develop food standards through Food Standards Australia New Zealand, which consults with different stakeholders on food-related standards and offers recommendations for food safety after a research-informed risk assessment of the industry (Ministry of Primary Industries 2015b).

Table 2. Themes, categories and representative data.

Second-order categories and first-order themes	Representative data
Formal mechanism: legal and regulatory conformance to home institutions.	
1. Food safety procedures	
A. Business has system in place that enables traceability to farm	A1. You need to be able to trace it, and in (our business) case, we have to trace it back to the farm, so we have to make sure that milk is tested in each stage of the supply chain process. (#23)
	A2. We take them down to the Sounds and show them the farms; let them trace the product from the moment it is harvested all the way through to the factory. (#20)
B. Certified labeling	B1. They will pay quite happily a premium for an NZ-produced product, but they have got to be 100% comfortable with it being . . . if we sell something in a box, with foil inside; the foil has also got to be branded 'Made in NZ' because people have taken generic Chinese products and chucked them in a NZ box. (#12)
	B2. So, what our value proposition is where our strength is in China is that we are the trusted hands or the guarantor of safe, delicious, quality NZ products particularly with the food security issues in China. (#19)
2. Government affiliation	
C. Connectedness and status to high-level politicians	C1. Someone from NZ coming from [a certain industry] is nothing but someone who has got enough of a reputation that the Prime Minister invited him on a trip, is somebody they must do business with. It makes their standing improve because they now have an association with someone who has an association, and that's how it works. (#19)
	C2. We have actually got John Key at the moment booked in for an official opening in April for the restaurant as well, which is a bit of a score from our perspective. (#18)
D. Relationship with trade commission	D1. We are bringing government representatives (NZTE) with us because it adds credibility that you have got the government with you. . . . it has mana in the market. (#21)
	D2. Whenever we travel to China, we meet up with NZ government representatives (NZTE) . . . that government connection is important when you are doing business in China. It gives you the stamp of authority; you are sort of sanctioned, if you like, as a reputable business . . . having that connection gives you a certain kudos with the Chinese customers and partners. (#11)
Normative mechanism: creating distancing narratives with regard to local customs and practices	
3. Boutiqueness	
E. The smallness of the business	E1. Our ice cream would be 70% private label; our vegetable business would be 85–90% private label; very small, branded business. (#20)
	E2. A lot of people just don't like big business – especially wine. A lot of people think, if you are small, you make better wine. (#16)
F. The fact that the business is family owned	F1. So to say that we are still proudly family-owned and that our founder is still very much in the driving seat of our company, that is really important. (#16)
	F2. We had always identified as a long-term business prospect something that was NZ related, say, off a farm so, dairy related; built around a brand that it's very hard to fake . . . the brand is built around the fact that it is me, my family . . . we are off the farm; the logo was designed by my wife; all that sort of carry on. (#12)
4. Caring about the environment	
G. The production is sustainable	G1. But we were about – we are virtually 90—almost 100% sustainable and we took quite a big lead there. . . . like bio-grow . . . we measure your water waste and your power wastage – waste disposals and so on; we are quite well known for it. (#16)
	G2. This is made from this one vineyard, carbon zero . . . so that is . . . especially in terms of market access, it is a great story to have. (#10)
H. The products are organic	H1. We are sustainable and that's important. We also do an organic sauvignon blanc as well. (#18)
	H2. NZ got really unique outstanding image in many countries, so once they see us selling NZ, they see this is good milk and honey, you know, it's organic . . . you know . . . this kind of thing. (#2)

(*Continued*)

Table 2. (Continued).

Second-order categories and first-order themes	Representative data
Cultural mechanism: accentuation of difference with regard to the NZ lifestyle and way-of thinking	
5. New Zealand made	
I. Images of New Zealand on package/ promotion material	I1. They are seeing the image (of the NZ landscape on the packaging) of it now, so just the fact that the product looks good from the packaging perspective has boosted sales. (#21)
	I2. That's the kiwi bird on (the packaging). (#2)
J. Western label	J1. Don't put a Chinese label on it; keep it in English because then, it looks like it is foreign and imported and authentic (#16)
	J2. So they are definitely looking for Westernized foods. It is seen as a treat; it is seen as luxurious; it is seen as all those sorts of things. Again we are sort of leveraging off the back of that. (#21)
6. Pureness of the product	
K. Products are natural	K1. So, we always describe our products as natural products that work. (#7)
	K2. There is only a couple of other (products) that are natural and non-caloric, and what we have over them is that we are just a fruit concentrate and that makes a huge difference to the consumer. . . . You don't have E numbers and you don't have additives. So, this becomes very significant. (#6)
L. Highlighting the clean, unpolluted character of the farms or region	L1. Our main manufacturing centers are on the East Coast of NZ, which is where all the vegetables are grown – in a place called Gisborne – we have lovely sunshine and beaches, and the weather is beautiful, and the vegetables all grow there very, very well and it's got its own identity, ok, as a subset of NZ. (#22)
	L2. Take them down to the Sounds and show them the (product) farms. (#20)

In contrast, due to China's relatively weak regulatory environment and issues around food safety in the country, there is a general distrust of local Chinese brands (Pei et al. 2011), resulting in a willingness to pay a premium for Western products (Brown, Longworth, and Waldron 2002). The participants in our study are well aware of food safety issues in China, in particular, for fresh produce. For example, a CEO explained: 'There are food safety issues. They put stuff on their kiwi fruit. There are issues with water. There are issues with dust. So, there are issues with infrastructure. There are issues with, I'll just call it, food safety' (#17).

NZ food safety regulations and standards provide a basis for AOF and a clear point of differentiation. The SMEs could show conformance with their home country's legal and regulatory structures compared with China's regulatory system. Some Chinese consumers perceived the latter as inferior. In fact, for the first time, many SMEs experienced AOF rather than a liability in engaging with international markets, as two CEOs explained:

> China is the only market within Asia where the domestic consumers will pay much more money for imported goods than domestic goods. Most other markets are the opposite . . . [In China] if they know that the product comes from NZ, they will pay more money for it because they perceive it to be safer. (#22)

> 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 [Chinese] . . . to hear them talk about how they can't even trust their own food manufacturers. . . . whether it is safe or not. (#22).

Thus, NZ SMEs could gain distinct AOF. To do so, SMEs needed to demonstrate the authenticity of their product offering. One of the informants pointed out:

> Our value proposition in China is that we are the guarantor of safe, delicious, quality NZ products, particularly with the food security issues in China. . . . We guarantee that product has come directly from NZ; that is, all legitimate. (#industry expert).

In addition, activating AOF required building distinct firm-level capabilities and investment. NZ SMEs needed to demonstrate the authenticity of their food products to the Chinese consumers by using rigid food safety standards, including independent certifications and traceability systems. To ensure the authenticity of the food products, SMEs had to adapt new technologies, such as barcode and product identification systems. Although establishing these processes may be barrier initially, they shelter the business from the competition eventually. For example, a CEO described traceability as a means to obtain a *price advantage*, which allowed them to charge premium prices, and as a *catalyst to change*. Similarly, another participant explained:

> We are a preferred origin to China . . . So, we don't spend a lot of time worrying about our [local] competitors, to be honest. We spend a lot of time worrying about how we can make ourselves more efficient and better. . . . From marketing . . . competency around our products; customer service; delivery service; problem-solving solutions; R&D; technical development; quality. (#22)

Further, SMEs used certificates and labels on their products that highlighted the origin and authenticity of the food product. Many successful SMEs relied on independent quality auditors to demonstrate a high level of food safety awareness, which is important in China, which is flooded with many 'fake products'. Respondents also reported that Chinese competitors had copied their labels and packaging and had claimed that their products were manufactured in NZ. The use of sophisticated, unique packaging that included protection seals, barcodes and certifications established product authenticity and added value to the customers: a CEO described the scope of fake products making independent certification a source of competitive advantage:

> Just to give you an example, last year, the Chinese customs recorded 100,000 tonnes of Manuka honey imported into China but the whole NZ supply of Manuka honey in the year is only 10–15,000 [tonnes]; that is the maximum. So, there is a lot of what we call 'fake' products; it is just putting a label on [them]. It is very hard to tell unless you really go through a lab to test it. (#3)

From this discussion, it appears that in the absence of strong domestic institutions that provide adequate food safety, firms can strategically emphasize their foreign identity to signal their connection to stronger domestic food safety institutions. In a sense, their foreignness can help bridge the institutional gap between the two countries – it signals a firm's distance from deficient host-country institutions and its closeness to more preferable foreign institutional arrangements.

Government affiliation

The authenticity of the business to gain distance from weak local institutions was further shown by affiliation with their home-country political actors or trade associations. In China, businesses affiliated with government officials enjoy a high status for it demonstrates connectedness and power (Ahlstrom, Bruton, and Yeh 2008). Therefore, NZ SMEs could leverage relationships with their government to build legitimacy.

Thus, SMEs with an affiliation to NZ government representatives immediately gained more credibility and an improved reputation among their Chinese customers. Typically, NZ businesses initially did not realize the effect of such an affiliation. However, they reported that after they were seen with government officials from NZ, their business was perceived in a very different way. One way to demonstrate affiliation with the government was through attendance on trade delegations, which provide an opportunity to show a relationship to the highest level of political actors, including the prime minister. For example, an industry expert reflected:

> Another thing about Asia that is different from the US is that if you can tag along somehow with government or be introduced by the government, that gets you indoors; it gets you credibility. . . . Whereas in the US, if you get something set up by NZTE [New Zealand Trade and Enterprise], companies just think, you are going to be wasting your time; you're a bureaucrat . . . it diminishes your credibility almost—whereas, in Asia, it is just enormously important. (Industry expert)

However, there is also an expectation that the NZ government will take responsibility for damages by an NZ business if something goes wrong. A high-level NZ government official explained, 'there is the perception that if the government is performing the introduction, then the government takes some level of responsibility for the outcomes' (Expert: Government official). In some cases, it is not even necessary to have a personal interaction within the market context because such status is granted even without direct personal interaction. Some SMEs could leverage a very brief connection with the government. For example, one of the CEOs explained that he would always carry a photo of himself and the NZ Prime Minister to impress stakeholders, including his customers:

> I give them a photo of myself and John Key and say, 'Prime Minister, a friend of mine'. They go, 'Really!' They tell everybody 'Tom*'s friends with Mr Key' because he is shaking my hand . . . and the Asians love it. (#13)

After realizing that an affiliation with government officials brings certain advantages, SMEs frequently pursued contact with government officials and trade commissioners on various levels. In NZ, such government associations are not unusual, but typically, they have no implication for a firm's competitiveness in this context – government association does not imply high status, nor is it related to past performance. It is accessible for most businesses in NZ. However, such associations with their government elevate internationalizing SMEs' connection with their reputable home-country institutions, underpinning that their business is authentic. Crucially, affiliation with NZ government officials is not accessible to Chinese competitors that attempt to imitate the product offerings of NZ businesses and is thus an advantage that is impossible for local firms to replicate.

Creating distancing narratives to activate assets of foreignness

Boutiqueness

NZ is renowned for the combination of its modern and, simultaneously, environmentally friendly farming customs and practices. The country's reputation constitutes an institutional resource that NZ SMEs in China can leverage. There is a negative connotation toward large-scale, cost-driven farming with little environmental considerations in China. NZ small-scale food manufacturing seems to resonate positively with customer value in China. As #16 stated: 'a lot of people just don't like big business'. Therefore, highlighting the adherence to certain aspects of NZ food manufacturing methods provides opportunities to appear foreign or different:

> People know that we produce good food. . . . There are a lot of people coming down here looking at what we've got and experiencing what we make and eat, and so, it's a good space to be from a manufacturing point of view. It's attractive having food made in NZ and 100% imported from NZ. It's very, very attractive to Chinese consumers. (#11)

Other NZ businesses highlighted elements of modern yet traditional farming methods. Business managers believe a value proposition for Chinese customers is their farming methods; they pursue farming and food processing principles that resemble customers' cultural-cognitive models of how farming and food production *should be done* (Scott 2008). Some businesses work with NZ celebrity chefs who appear on television food shows to reinforce the high product quality to consumers. Furthermore, this food is typically produced in small batches, in a small country, by real people, in a small business environment. Hence, NZ businesses highlight the small size of their business in their brand story. For example, small wine producers emphasize that their wine is from a single vineyard with a certain regional character. For example, a manager explained, 'our product is made from just one vineyard to differentiate ourselves from our competitors who might blend various vineyard growers' fruit' (#10). Similarly, another NZ manager asserted that the regional character of their offering adds additional value for their customers because it differentiates it from those of larger multinational food businesses:

> Global world food companies—there is no brand identification around origin. They don't want to allow brand identification around origin because they want global standardization . . . we think the consumers want to know. We think they want to know about NZ, and they might want to know about a region within NZ. (#22)

Another selling point underpinning the boutique character of a business is that it is family-owned and managed. Some food firms use photographs of the family in brochures to highlight that a founding family member still runs the business. These businesses are aware of their need to offer a niche product in China because their production capacity would not be suitable to serve mass markets. Hence, many food businesses target high-end hotels and restaurants with relatively high-priced products. The focus on a small, niche customer segment provides an opportunity to

educate the Chinese-based distributor of the NZ food products and about the business, its philosophies and values, which is an integral part of the brand story, as exemplified by the following quotation:

> We are going with one company, and we really educate that company so much on our brand story. So, all the senior management have been to NZ; they know the owner personally; they have been to his house for dinner; they have been to all our wineries; they have tasted our wines. They know the story, so again, they can cascade that down to the rest of the company. (#16)

Caring about the environment

The level of pollution in China's cities is high, and people are very concerned about its potential impact on their health and well-being. A current emerging trend shows that organic food is becoming more popular in China's cities due to recent food safety scandals (Chandran and Yoon 2015). NZ businesses provide a point of differentiation by highlighting their environmental-friendly farming approach that is based on certain values, such as using chemical-free ingredients and acknowledging the importance of animal well-being. The quality of the environmental practices of the businesses are in stark contrast with the reality in China's cities, which are highly polluted:

> 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 [that 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)

In addition, the sustainability of food production is a major theme across NZ's food manufacturing businesses closely related to NZ's green and clean image. Businesses are increasingly investigating in modern technology, including modern water, waste and energy management systems, to reduce both their carbon footprint and pollution. In general, the aim is to improve sustainability. These efforts to adhere to sustainable environmental practices for manufacturing are communicated to Chinese consumers. They learn about these practices through company webpages, advertising material and product QR codes (Quick Response Codes), which are linked to landing pages that contain the company story and philosophy. An informant explains his system for ingredient suppliers:

> We have set up an on-farm certification system based on a series of standard operating procedures that they (the farmers) need to adopt. . . . the milk comes from the certified farming systems: we can put on our infant formula products, on a website . . . our customers can click on the QR code, and they can see . . . 'oh, yeah, that is how they make it' . . . that makes me feel really good. (#8)

Accentuation differences in culture and lifestyle to activate assets of foreignness

Clean and green New Zealand

Businesses also activated AOF by highlighting the unique lifestyle and way of thinking in NZ. 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, nuclear-free country. The country's image is an important AOF for NZ food

manufacturers to gain legitimacy in international markets, and they can leverage this positive country image. For example, an industry expert explained how NZ products could increase the desire in Chinese customers to experience products from overseas:

> In a lot of people's minds, NZ is the country of the sheep; it's the country of the blue skies, the mountains, the pastures and the whole thing . . . so, if you buy something from NZ, you are absorbing some of this imagery . . . you're buying a little bit of lifestyle that you can't otherwise purchase if you live somewhere else . . . so, you are selling a whole lifestyle philosophy relationship with NZ. (Industry expert)

Made in New Zealand

The positive image of NZ in China and its good reputation support the internationalization of NZ food SMEs. Firms highlighted the positive country attributes of NZ, such as the clean and green image or the kiwi bird, and incorporated these elements in their product presentation, including in the brand story and packing. Similarly, research has shown that the demand for Western food is increasing in China due to consumer perception that Western food is a sign of modernization (Curtis and McCluskey 2007). In particular, consumers with higher income and higher levels of education prefer Western brands (Laforet and Chen 2012). To demonstrate their Western origin, NZ SMEs often used different NZ scenery images 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)

Furthermore, it is important to highlight that the product is not made in Asia by using the English language on the packaging. Customers were prepared to pay a premium for foreign food products, and the English language was part of highlighting the product's COO. In addition, businesses would make both English and Chinese language versions of their websites available to Chinese consumers to demonstrate their COO. One business explained how they launched their product in China in a campaign that used many features of NZ to sell their ice cream:

> NZ—the whole clean green thing—we really played on that; we had Kiwis (New Zealanders) interacting with the ice cream on the beaches, and we had NZ mountains and we looked more like a tourism shop than we did an ice-cream shop. We taught our staff to say *kia-ora* and smile at people. (#9)

Pureness of the product

Businesses would also highlight distinctive characteristics of their products as a result of being made in NZ. One way to do this is highlighting that the ingredients used are from NZ. For example, one CEO found a clever way to highlight to their Chinese consumers that the features of NZ milk differ from those of Chinese milk, which is particularly visible in the texture of NZ yogurt. This yogurt is relatively thick, and one can stand a plastic spoon upright in it, unlike in Chinese yogurt, which is relatively liquid. The business frequently

conducts tastings in supermarkets to educate customers about the texture and taste of yogurt from grass-fed cows. The comparison offers a unique point of difference to customers that they value.

It is relatively easy for some businesses that use ingredients only available in NZ, such as the NZ green-lipped mussel or Manuka honey, to demonstrate the pureness of their products. However, other businesses created a point of difference by consequently sourcing from NZ only, as one of the managers explains:

> Everything (for this product) is sourced from the South Island, and it all adds to the story a . . . a guy who rang up from Brisbane and said he can provide us with cheaper skim milk powder, and I said, 'That's good, but you are not from NZ or you are not from the South Island'; so, I said sorry. (#21)

Furthermore, businesses again promoted features of the unique region in which the products are manufactured. The regional attractiveness and uniqueness give additional value to customers and a point of differentiation. Businesses invited distributors on business trips to visit the locations of different regions and show off NZ's unique landscape and scenery. Together, the pureness of the ingredients and the unpolluted environment create a distinct product feature that the Chinese consumers highly value.

Discussion

There is a lack of understanding on how Western SMEs can activate AOF in markets that undergo compressed economic development. Prior studies have often focused on how to overcome LOF rather than on how to use AOF. Building on the early study of Joardar and Wu (2017), who demonstrated that entrepreneurs could gain benefits from their foreignness, our study uncovers key mechanisms regarding how NZ SMEs have activated institutional assets of their home country to achieve AOF. Specifically, we identify three main mechanisms that SMEs can draw on, namely, demonstrating conformance to regulations of their home county, creating distance narratives or highlighting differences with regard to customs and practices, and accentuating the unique NZ lifestyle.

Figure 2 illustrates how SMEs can activate these strategies to achieve AOF. Importantly, existing literature has suggested that firms must adapt to host-country institutions, which is shown by the direct line between 'host-country institutions' and 'legitimacy in host country'. Our study adds that 'home-country institutions' also complement 'host-country institutions' in creating potential AOF. Those need to be activated by SME managers to further enhance legitimacy in the host country, which becomes a blend between the adherence to host-country institutions and realized AOF. The theoretical contributions are discussed next.

First, our study shows how SMEs can gain a competitive advantage in compressed developing markets. Past research has argued that SMEs are compelled to pursue legitimacy through strong alignment with the institutions within a particular context, for example, by adapting their product offerings to the local preferences and norms (Schweizer 2012). However, in the context of compressed developing markets, Western SMEs have an opportunity to gain AOF by activating cultural aspects from their home country to another context through accentuating cultural differences to distance themselves from their local competitors. This finding is in line with that of Siegel, Pyun, and

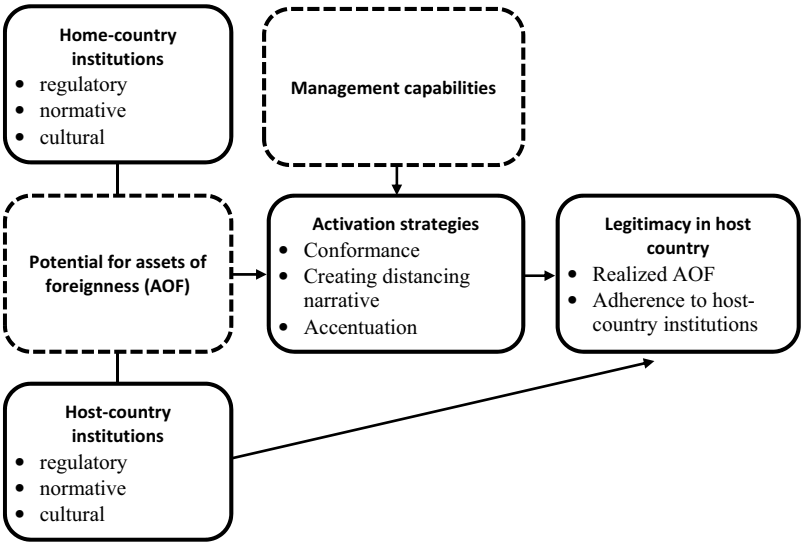

Figure 2. Activating advantages of foreignness in compressed developing markets.

Cheon (2019) on foreign MNCs. These MNCs have built competitive advantages in South Korea by departing from the local social norms, which gives them opportunities to gain access to underutilized talent in the local context. The SMEs in our study have also deliberately distanced themselves from local practices and norms of their host country and resisted assimilation by actively highlighting differences in their home-country institutions, culture and lifestyle. However, unlike larger MNCs that differentiate themselves in the host market by establishing entities with distinct internal structures (Siegel, Pyun, and Cheon 2019), SMEs activate institutional resources to achieve differentiation. Overall, our study shows that home-country institutions can be activated to achieve competitive advantages in distant, compressed developing markets.

Moreover, Peng et al. (2009) pointed out that the institutional conditions and transitions are a third leg of the strategy tripod since they can be a source of competitive advantage for businesses. We provide empirical evidence to support their argument and show how institutional theorizing in strategy making might be linked to SME market success. The literature on acquiring critical market knowledge has frequently highlighted the importance of experimental in-market learning and network building (Johanson and Vahlne 2009). However, activating institutional resources requires between-market learning because the value of institutional resources arises from their use in a different context. Therefore, building and sustaining a competitive advantage in foreign markets requires that SMEs learn how to leverage institutional resources effectively. Thus, a contribution of our study is to show that management capabilities moderate how SMEs can leverage institutional resources in the emerging market to achieve AOF.

Last, these insights bring home-country institutions into focus for the study of SME internationalization (Acs and Karlsson 2002; Wright and Stigliani 2013). Many countries have invested in government agencies that directly support SMEs in their internationalization efforts, creating a creative tension between the role of institutions

and direct market intervention in promoting the export activities of SMEs (Hughes 2009). Our study shows that such support can also occur more indirectly by creating sound and reliable policy settings and institutions in the home country. Numerous studies have investigated COO effects from a customer perspective, in particular (Roth and Diamantopoulos 2009). This study contributes to this literature by further unpacking COO effects in SME internationalization to compressed developing economies by drawing on institutional theory. It shows how COO affiliation can be a distinct resource in the pursuit of legitimacy under institutional voids. Firms can activate the institutional resources of their home country, which can rest on legal, cultural-cognitive or normative pillars. To do so, firms need to invest in a range of capabilities, including technological capabilities, to improve their performance in terms of traceability, as well as in marketing capabilities, to be able to engage in storytelling. Through a combination of new capabilities, they can then leverage the institutional resources of their home country to increase the confidence of their international customers in the authenticity of the product, thereby creating a competitive advantage in institutional voids. Thus, we show that the ability to activate institutional resources in spanning institutional fields is a distinctive capability of SMEs. SMEs need to adjust their resource base to take advantage of home-country institutions and build AOF.

Implication for policymakers and management practice

This study shows how SMEs leveraged the institutional resources of their home country when engaging with China. Understanding the potential of institutional resources for creating competitive advantage is an important issue since it aids policymakers and managers to engage with compressed developing markets more productively. Policymakers need to appreciate that the institutional resources of a country have positive externalities, which many embedded businesses can leverage. These resources are an important part of the launching platform for SME internationalization. Recently, many countries have emphasized policy interventions that directly promote SME internationalization, creating many policy initiatives (Blackburn and Schaper 2012). Our example of the internationalization of F&B SMEs shows that existing institutional resources can effectively facilitate internationalization if institutions are carefully calibrated and creatively leveraged. Hence, policymakers need to further explore the potential to create valuable institutional resources through policy initiatives not directly targeted at promoting SME internationalization. Meanwhile, the recent trade tensions between China and Australia have led to trade barriers for certain products, including wine and lobster, which has affected Australian businesses. Similarly, policymakers and NZ exporters need to expect greater uncertainty when doing business with China. In this vein, Edman (2016) has argued that MNCs that accentuate their foreign identity can gain competitive advantages but may also face distinct liabilities, including xenophobia. Although such liabilities have not been observed for the NZ SMEs in China, challenges could arise if political tensions evolve. Specifically, trade barriers and difficulties in forming network relationships could result in a prohibitive cost to

maintain business relationships and could undermine strategic efforts to leverage AOF. Thus, AOF are dynamic and potentially fragile, and the advantages might only be temporary.

Leveraging institutional resources in SME internationalization requires that managers focus their learning on the combination of external resources available in their home country and international firm capabilities. Prior research has frequently highlighted the importance of experimental market learning. Our study encourages managers to search for opportunities to combine this market learning with institutional resources unavailable to host-country rivals. COO affiliation plays an important role in this between-market learning, and managers are well-advised to nurture organizational receptivity to these learning opportunities.

Conclusion and limitations

To conclude, this study has identified three main mechanisms available to SMEs to activate AOF, namely, conforming to home-country institutions, creating distancing narratives and accentuating foreignness. In contrast to prior research, this finding suggests that SMEs can gain advantages in compressed developing markets by actively highlighting their foreignness. Thus, management capabilities moderate the relationship between AOF and competitive advantage.

Nevertheless, as an early study on how SMEs can activate institutional resources of the home country in navigating institutional voids, this study has several limitations that offer opportunities for further research. First, we have focused on a single country (New Zealand) and a single industry, namely F&B. Although adopting this approach enabled us to isolate important mechanisms of how institutional resources might be activated, the generalizability of the study might be somewhat impaired. Future research could ask similar questions about the role of home-country institutions in facilitating SME internationalization into compressed developing economies in different settings. Second, our empirical strategy to mitigate success bias by including a range of expert interviewees could be improved. For instance, future research could directly investigate SMEs that were unsuccessful in leveraging home-country advantages into a foreign country. Third, we focused on a single, compressed developing market economy, namely China. Future research could investigate whether the mechanisms for leveraging institutional resources through COO affiliation can be extended to other compressed developing economies.

Notes

1. In 2008, the NZ-based company Fonterra was involved in the 2010 melamine scandal as an investor in Chinese dairy company SanLu. More than 290,000 Chinese people (mostly infants) consumed melamine-contaminated milk powder produced by SanLu, leading to the death of at least six babies (Xiu and Klein 2010). However, a study in Lanzhou (the capital of Gansu Province) showed that the majority (almost 72%) of the Chinese consumers still consider NZ food products more safe than Chinese food products (NZ Herald 2014).
2. The regulatory framework is described in four main acts: the Food Act 1981, the Agricultural Compounds and Veterinary Medicines Act 1997, the Animal Products Act 1999 and the Wine Act 2003. Under these acts, further legislation and regulation are introduced by the government and the (Ministry of Primary Industries 2015a).

Disclosure statement

No potential conflict of interest was reported by the author(s).

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