THE ADVANTAGE AND DISADVANTAGE OF FOREIGNNESS

The paper analyzes the impact of the advantage and disadvantage of foreignness on the operations of multinationals enterprises in a host country. The advantage (disadvantage) of foreignness is the benefit (liability) a firm encounters when its country of origin or foreign nature is liked (disliked) by individuals in a host country. These two concepts highlight the temporary nature of the advantage of the firm and how it varies across space and time. The same resource of the firm – its country of origin – can in some countries provide the firm with an advantage and in others a disadvantage. Moreover, in the same foreign country, the advantage of foreignness can become a disadvantage and vice versa as a result of events outside the control of the firm.

Key words: advantage of foreignness, disadvantage of foreignness, competitive advantage, temporary advantage, multinational firms, resource-based theory

“Let’s say you have three similar watches. One says ‘Made in Japan’ and sells for $100. Another says ‘Made in Switzerland’ and sells for $110. A third says ‘Made in Hong Kong’ and sells for $90. Which watch will consumers prefer? In Europe, between 75% and 95% of all consumers will prefer the Swiss watch – in spite of the 10% premium. In the United States, depending on which region you are talking about, between 51% and 75% of all consumers will prefer the Swiss watch. Only in Japan itself will a majority of consumers prefer the Japanese watch to the Swiss watch.” (Taylor, 1993: 101).

This example illustrates the advantage and disadvantage of foreignness that this paper studies. The advantage (disadvantage) of foreignness is the benefit (liability) a firm encounters when its country of origin or foreign nature is liked (disliked) by individuals in a host country. In the example, being made in Switzerland provides the watch an advantage over similar watches made elsewhere despite the higher price, while being made in Hong Kong provides the watch a disadvantage over similar watches made elsewhere despite the lower price. Conceptually, the same resource of the firm – its country of origin – can become a source of advantage or a source of disadvantage. Moreover, in the same host country, the advantage of foreignness can become a disadvantage and vice versa as a result of events outside the control of the firm, illustrating the temporary nature of the advantage and of the disadvantage.

These ideas contribute to two streams of literature. First, the paper contributes to the strategic management literature that has studied competitive advantage by highlighting the temporary nature of the advantage in a manner that differs from most of the literature. Studies on the sustainability of competitive advantage generally focus on the factors that limit competitors from imitating or substituting a resource’s contribution to advantage (e.g., Barney, 1986; Dierickx and Cool, 1989; Lippman and Rumelt, 1982; Pacheco-de-Almeida and Zemski, 2007;

Peteraf and Bergen, 2003; Reed and DeFillippi, 1990; Rivkin, 2000). Such studies highlight how these barriers are more difficult to sustain in recent times from changes in competitive dynamics and technology (e.g., Adner and Zemski, 2006; Christensen, 1997; D'Aveni, 1994; Ferrier, Smith, and Grimm, 1999; Teece, Pisano and Shuen, 1997). This study argues that another source of the temporary nature of the advantage lies in the value that customers provide to the resource. The advantage provided by a resource may not only cease to exist, but even become a disadvantage, and turn back into an advantage again, depending on how the resource is valued by the individuals in the host country. Moreover, the paper indicates that a resource can be common among a set of firms rather than exclusive to a firm, and still provide firms with an advantage or disadvantage. Finally, the study highlights the importance of analyzing competitive disadvantage and its connection to advantage, which although important (e.g., Leonard-Barton, 1992), has received scant attention in the literature.

The paper also contributes to the literature in international management that has discussed the advantages and disadvantages of multinational enterprises (MNEs) by focusing in one dimension of these concepts. The paper goes deeper into one dimension of these overall difficulties that a firms faces in its foreign operations (Cuervo-Cazurra, Maloney, and Manrakhan, 2007; Hymer, 1976; Zaheer, 1995), highlighting how the disadvantage varies across location and time and how it is interconnected to the advantage of the multinational firm. The paper also highlights one source of advantage of the MNE that is neither fully firm-specific nor fully country-specific (Rugman and Verbeke, 1992), but is specific to a set of firms and appears as firms cross borders. As such, it brings to the forefront the cross-border nature of advantage and its connection with cross-border disadvantages. Finally, the paper builds on the resource-based theory and its application to the analysis of multinational enterprises (e.g., Tallman, 1992;

Tallman and Fladmoe-Lindquist, 2002), discussing in detail the connections between one resource and the advantage and disadvantage abroad.

The rest of the paper is organized as follows. The next section reviews the advantages and disadvantages of MNEs and discusses how the concept of advantage and disadvantage of foreignness fit within these analyses. This is followed by the application of the VRIS framework to the country of origin, explaining how the country of origin becomes a temporary advantage or disadvantage based on the value that individuals give to it. Next appears a discussion of types of advantage and disadvantage of foreignness based on whether it is the government or consumers that prefer or dislike the country of origin. The paper concludes with the implications for the analysis of temporary advantage and disadvantage and the resource-based theory.

ADVANTAGE AND DISADVANTAGE OF FOREIGNNESS

The international strategy literature has discussed the advantages and disadvantages that subsidiaries of MNEs face in comparison to domestic competitors in the host country. However, the advantage and disadvantage of foreignness I discuss here is one dimension of such sets of advantages and disadvantages. Therefore, before I analyze these concepts in detail, I need to establish some theoretical boundaries of the study. First, the paper focuses on the advantage and disadvantage of foreignness that firms experience when they enter a host country to sell their products and services, rather than to achieve other objectives such as accessing natural resources, factors of production, or strategic and knowledge resources (Dunning, 1993). Although the advantage and disadvantage of foreignness may also affect firms that undertake the latter three motives, the mechanisms through which they are affected vary, requiring related but separate analyses that will not be done here. Second, the study discusses how the advantage and disadvantage of foreignness affect a subsidiary of the MNE in a particular country, rather than how they influence the MNE as a whole. The advantage and disadvantage of foreignness do vary across countries, with some subsidiaries enjoying an advantage while others suffer from a disadvantage. Third, the advantage and disadvantage of foreignness exist in relationship not only to domestic companies but also to firms from other foreign countries selling their products in the host market; in the latter case the advantage and disadvantage of foreignness depend on the specific country of origin of the firm rather than on the foreign nature of the firm (Klein, 2002). To simplify the analysis, the discussion will be centered on the comparison between subsidiaries of foreign firms and domestic companies; the arguments can be easily adapted to analyze differences between subsidiaries coming from different countries. Fourth, the advantage and disadvantage of foreignness are dimensions of the broader sets of advantages and disadvantages of being an MNE. I now briefly review the latter but will not analyze them in detail.

Advantages and Disadvantages of MNEs

The advantages of MNEs have been widely studied in the international management literature. Initial studies, such as Aliber (1970), focused on the ability of firms to arbitrage capital market conditions across countries. However, the existence of foreign direct investment not explained by differences in capital market conditions gave rise to the argument that MNE were able to achieve monopolistic positions in comparison to domestic firms, as discussed by Hymer (1976). These positions were achieved on the basis of superior innovation, as Vernon (1960) proposed. However, the MNE not only has an advantage in innovation, but also benefits from internalizing the cross-border transaction and invest in a foreign country rather than merely license the technology, as Buckley and Casson (1976) discussed; Rugman (1981) and Hennart (1982) contributed to this discussion. These multiple views of the advantage of the MNE were integrated in the eclectic paradigm of international production proposed by Dunning (1977). This paradigm, also known as the OLI model, argues that MNEs benefit from ownership, location and internalization advantages in their decision to establish production facilities abroad. Rugman and Verbeke (1992) extended this view by arguing that MNEs benefit from firm-specific advantages and country-specific advantages, some of which are bound to a particular country while others are not location bound. These ideas were complemented with analyses of advantages derived from creating and transferring knowledge across countries, as discussed by Bartlett and Ghoshal (1989), Kogut and Zander (1993), and Doz, Santos, and Williamson (2001), and studies of the creation of advantages in subsidiaries of MNEs, such as Birkinshaw, Hood, and Jonsson (1998) and Rugman and Verbeke (2001). A review of advantages of MNEs appears in Tallman and Yip (2001).

The disadvantages of MNEs also have a long tradition in international management. Hymer (1976) first discussed these disadvantages using the term cost of doing business abroad, which refers to all costs that subsidiaries of foreign firms have to incur abroad and that domestic firms do not have to. Buckley and Casson (1976) also discussed these costs, which included governmental discrimination of foreign firms, while Vernon (1977) highlighted the costs of operating at a distance that the MNE had to incur. Zaheer (1995) reconceptualized the costs of doing business abroad as the liability of foreignness, which was originally defined as the disadvantage of the subsidiary of a foreign firm in relationship to domestic companies; Zaheer (2002) later focused the concept of the liability on those disadvantages that emerged from the differences in the institutional context. Eden and Miller (2004) distinguished among several components of the liability of foreignness, while Cuervo-Cazurra, Maloney and Manrakhan (2007) separated the difficulties that subsidiaries of foreign firms face into different types based on their relationship to the resources of the firm.

The relationships between advantages and disadvantages have been discussed in the literature, but most studies have analyzed these concepts separately. Among the early writers, Hymer (1976) as well as Buckley and Casson (1976) analyzed both advantages and disadvantages in their studies of the existence of MNEs. Later studies branched out into analyses of either advantages or disadvantages. Some recent studies, such as Insch and Miller (2005), Nachum (2005), and this paper bring them back as two sides of the same coin.

Advantages and Disadvantages of Foreignness

Unlike these studies, this paper focuses on one dimension among the many advantages and disadvantages of MNEs, analyzing how the same resource – the country of origin of the firm – can be a source of advantage in some occasions and a source of disadvantage in others. The study of the country of origin provides interesting and novel insights into the analysis of advantage and disadvantage. The same resource can become not only a source of advantage in one location and a source of disadvantage in another, but can even become a source of both advantage and disadvantage in the same location, varying across time. This presents an interesting case for theory building as it informs on the temporary nature of advantages and disadvantages across time and space.

The advantage (disadvantage) of foreignness is the advantage (disadvantage) that a subsidiary of a foreign firm enjoys (suffers) because its country of origin or foreign nature is preferred (disliked) by individuals in the host country. Unlike some of the other advantages (disadvantages) of the MNE, the advantage (disadvantage) of foreignness is directly tied to the cross-border operations of the MNE; it only appears when it operates outside its home country. This advantage (disadvantage) is partially firm-specific because it is not exclusive to one foreign firm, but it is common to firms that come from the same country of origin. The advantage (disadvantage) is also partially country-specific because firms from the same country enjoy (or suffer) it. However, unlike traditional country-specific advantages (disadvantages) that are based on differences in factor markets across countries, the advantage (disadvantage) of foreignness is based on differential perceptions in the host country, perceptions that may not be based on actual factor markets differences.

The advantage and disadvantage of foreignness are based on the preferences that individuals in the host country have regarding the country of origin of the firm. These preferences have been analyzed in the international marketing literature, which has focused primarily on the country where the product is made and the reactions that individuals have to the "Made in Country X" labels (e.g., Bilkey and Nes, 1982; Jaffe and Nebenzahl, 2001; Nagashima, 1970; Peterson and Jolibert, 1995). This literature has identified that consumers in some countries prefer products that are manufactured in their home country rather than abroad (e.g., Shimp, 1984; Shimp and Sharma, 1987), while in other countries consumers prefer products that are manufactured abroad rather than locally (e.g., Bailey and Gutierrez, 1997; Jaffe and Martinez, 1995).

These preferences have two theoretical bases. First, the ethnocentrism of individuals, which goes back to ideas of in- and out-group discussed in psychology (e.g., Byrne, 1961; Brewer, 1979) in which individuals tend to prefer other individuals that are from their in-group and similar to them in some dimensions. As a result, they will tend to have a more favorable view of individuals in the in-group and a more disfavorable view of individuals in the out-group than an objective assessment would reveal. Second, the absolute and comparative advantage of countries, which goes back to studies of international trade (e.g. Smith, 1976; Ricardo, 1819) in which particular countries have an endowed or created advantage over other countries in the production of certain goods and services. As a result, products created in certain countries are more likely to be better in quality, price, or both than products created in other countries.

This paper extends these ideas by arguing that the preferences are temporary, changing over time and across locations, resulting in temporary advantage and disadvantage; that the preferences of not only consumers but also government officials affect products as well as subsidiaries of foreign MNEs; and that firms can manage the advantage and disadvantage of foreignness rather than merely enjoy or suffer them. I discuss these ideas in the remainder of the paper.

THE VRIS FRAMEWORK AND THE ADVANTAGE AND DISADVANTAGE OF FOREIGNNESS

The analysis of the advantage and disadvantage of foreignness reveals new insights into the study of the sustainability of competitive advantage. The application of the VRIS framework to the advantage and disadvantage of foreignness shows how they differ from other sources of advantage traditionally discussed in the literature. Table 1 summarizes these differences.

*** Insert Table 1 about here ***

I use the Valuable, Rare, difficult to Imitate, and difficult to Substitute (VRIS) framework proposed by Barney (1991) to identify how the country of origin supports a sustainable advantage or disadvantage (for a review of the resource-based theory see Barney and Arikan, 2001). The VRIS framework is designed to assess whether a resource provides the firm with a sustainable competitive advantage or not. Its application to the perception of the country of origin reveals new insights on the temporary nature of the advantage, and on the conditions under which a resource can be not only a source of advantage, but also a source of disadvantage.

Valuable

The assessment of whether the country of origin is valuable to customers reveals that in this case value determines not only whether the country of origin provides the subsidiary of the foreign firm with an advantage, but also whether it provides it with a disadvantage. In countries where individuals prefer the country of origin of the firm, this resource provides additional value to the subsidiary of the foreign firm and its products in comparison to domestic firms and their products. However, in countries where individuals dislike the country of origin of the firm, this resource reduces the value that the subsidiary and the products provide in comparison to domestic firms.

This analysis extends the study of value in the VRIS framework from analyzing whether a resource provides an advantage or not, to analyzing whether a resource provides an advantage, does not provide an advantage, or provides a disadvantage. Value, by being determined by the preferences of customers, can result in a resource contributing, not contributing, or detracting from the advantage of the firm; as such, resources can be classified as advantageous, neutral, or disadvantageous depending on the value they, or their services, provide customers.

Variation in value across locations. The advantage and disadvantage of foreignness vary across locations. The same resource, the country of origin of the firm, can become a source of advantage in one country and a source of disadvantage in another. In one country individuals may prefer product from that particular country of origin to domestic products, while in another country individuals may prefer domestic products to products from that country of origin. The opening example of the Swiss, Japanese, and Hong Kong watches illustrates the variation across locations.

Such variation across locations is important in the application of VRIS to the study of country of origin because the recommendations derived from analyzing foreign firms in one country may change when the same firms are analyzed in another. This complements other studies of the sustainability of an advantage, which have argued that resources that provide the firm with an advantage in one industry may have a limited contribution to advantage in another (e.g., Brush and Artz, 1999), thus showing the limits of diversification. The variation of value across countries identified here highlights the limits of internationalization and the contingent nature of advantage across countries (Tallman, 1992; Tallman and Fladmoe-Lindquist, 2004).

Temporary advantage and disadvantage. Moreover, the value that individuals give to the country of origin can change over time, in some occasions dramatically, altering whether the country of origin provides the subsidiary of the foreign firm with an advantage or disadvantage over domestic companies. This transformation highlights the temporary nature of the advantage and disadvantage of foreignness. However, the transformation is not parallel. Whereas a disadvantage of foreignness takes a long time to be converted in an advantage of foreignness, the advantage of foreignness can rapidly change into a disadvantage of foreignness.

A disadvantage of foreignness can be transformed into an advantage of foreignness, but this transformation is difficult and tends to take a long time. Individuals in the host country need to change their attitudes towards a country of origin, attitudes that may reflect reality but that may also reflect baseless stereotypes. For example, the perception about the quality of Japanese products in the US changed over a period of 30 years from being inferior in quality to US products to being superior, with firms changing the way in which they marketed products in unison (Suzuki, 1980). A similar change has been happening with Korean products, which moved from being perceived as inferior in quality to being equal, and in some cases superior to US-made products. This change from disadvantage into advantage takes a long time because it requires breaking with the perceptions that individuals have regarding the quality of the products and the level of development of the country. In both cases, product quality and level of development take time to improve; however, in addition to this improvement, customers need to change their attitudes, which are based in many cases not in reality but in the perception of reality. Hence, firms must not only show the actual changes in quality, but also advertise to create a new perception regarding the quality of the products.

An advantage of foreignness can become a disadvantage of foreignness relatively quickly. Individuals in the host country may react to political events and show their nationalism, changing their preference over country of origin. For example, France's refusal to back the US intervention in Iraq resulted in calls for the boycott of the sale in the US of French products, such as wine and cheese, which traditionally have been highly regarded (Sims, 2003). Events outside the control of the firm and unrelated to its actions, such as political relationships between the home and host country, alter the value that consumers give to the firm and products that come from the foreign country and can quickly transform an advantage into a disadvantage. Fortunately, such rapid changes from advantage into disadvantage are in many cases accompanied by a return to advantage once relations between countries are normalized. For example, US consumers boycotted French products in 1985 when France would not allow US military planes to fly over France to bomb Libya, and in 1995 and 1996 when France tested nuclear weapons in the South Pacific (Sims, 2003). It is not clear that such calls for boycotts have had a large impact on sales (Ashenfelter, Ciccarella, Shatz, 2007). However, in some cases they do, as the Danish food firm Arla saw its daily Middle-East sales of US$1.8 million evaporate after the publication in a Danish newspaper of cartoons that were considered disrespectful of the prophet Muhammad (Gaither and Curtin, 2008).

These changes from advantage to disadvantage or vice versa highlight the temporary nature of the advantage, which is different from what other studies have argued. Most studies on the sustainable or temporary nature of the advantage have focused on how a particular resource enables a firm to sustain its advantage because competitors find it difficult to imitate or substitute. Some of the conditions that support this are path dependency (e.g., Dierickx and Cool, 1989), complexity (e.g., Lippman and Rumelt, 1982), systemic nature (e.g., Rivkin, 2000), or external protection provided by the government, such as in the case of patents (e.g., Levin et al., 1987). When competitors are able to imitate or substitute the resource with relative ease, the advantage of such resource is deemed temporal. In contrast to these studies, in the case of the advantage and disadvantage of foreignness, it is changes in the value given by individuals to the country of origin that determines its temporary nature. Moreover, the value given by individuals can change not only through the influence of the firm and its competitors, but also through the influence of country-level events such as the actions of governments or even the media. This shows the frailty in the sustainability of the advantage provided by resources, and the need to focus not only on protecting the advantage from competitors, but also from external events unrelated to competition.

Rare

The analysis of whether the country of origin is rare reveals that this is partial because a set of firms share the same country of origin. Hence, the country of origin provides an advantage or disadvantage to several firms, those coming from the same country of origin, and although it is firm-specific, it is not exclusive to one firm. Nevertheless, despite being shared by multiple firms, the country of origin can provide an advantage or disadvantage over domestic firms. However, the rareness of the country of origin is relative because it is based on the perceived country of origin of the firm, which in some cases may not correspond to the actual country of origin. A firm may be perceived as coming from one country but the reality may be that it comes from another. For example, some consumers in the US perceive the Target retailer as being French when in reality it is a US firm. As a result, the rareness in the country of origin will vary depending on the perceptions of individuals regarding where the firm or its products originate rather than on the actual country.

This analysis of rareness highlights how this condition is not only a matter of whether one or several firms have the resource, but also whether customers perceive the firms as having the desired or disliked resource. Hence, rareness is not a matter of the resource being unique, but also on the perception that the resource is unique. For example, despite the retailer Target matching its competitor Wal-Mart's prices on similar items, customers perceived Target as weaker on everyday prices and advertised prices (Barwise and Meehan, 2004).

Difficult to Imitate

The evaluation of whether the country of origin is difficult to imitate reveals that there are few barriers to imitation. Imitation of a country of origin can be done by moving production to the preferred country of origin. Barring regulations that prevent foreign firms from establishing production facilities, domestic firms could move production to the desired country of origin to claim the desired advantage of foreignness. The products can be then produced abroad to benefit from the desirable "Made in country X" label and then sold at home to consumers who would choose them on the basis of the country of origin.

The imitation of a foreign country of origin is not only done at the product level. It can also be done at the firm level. One of the best known cases is round tripping of foreign direct investment (FDI), whereby a domestic company creates subsidiaries abroad with the purpose of then investing in the home country as a foreign firm and benefitting from the preferential treatment given to foreign investors by the government. This behavior accounts, for example, for much of the FDI going into China from Hong Kong (e.g., Bajpai & Dasgupta, 2004).

In the case of the country of origin being a source of a disadvantage, domestic competitors will not try to imitate it. They may even avoid being associated with the disliked country of origin by highlighting their domestic origin. In fact, foreign firms may be the ones imitating the domestic country of origin, moving production there to claim a degree of domestic content that limits the disadvantage of foreignness.

The imitation of the preferred country of origin by domestic firms further adds to the temporary nature of the advantage of foreignness. Foreign firms that enjoy an advantage of foreignness may see domestic competitors quickly reducing such advantage. However, such imitation comes at a cost. There are multiples sources of difficulties in internationalization that make operating abroad costly (Cuervo-Cazurra, Maloney, and Manrakhan, 2007). Moving production abroad for the sake of claiming a country of origin advantage in the marketing of products may be too costly. Additionally, such action may be counterproductive in cases when the advantage of foreignness mutates into a disadvantage of foreignness, with the domestic firm finding that it is disliked as a foreign firm despite being a domestic company.

The analysis of the difficulty in imitation in the country of origin reveals a differential importance of imitation regarding whether the resource is the source of an advantage or the source of a disadvantage. In case that the resource is a source of advantage, competitors will imitate the resource, while when it is a source of disadvantage the foreign firm will the one imitating the resource.

Difficult to Substitute

Fourth, the assessment of whether the country of origin is difficult to substitute reveals that there are few barriers to substitution. Domestic firms can substitute the preferred country of origin by adopting product brand-names and developing marketing campaigns that evoke the desired country of origin. Many consumers react to the perceived country of origin and do not know the true country of origin. For example, the premium ice cream Häagen-Dazs is marketed under a name that evokes an aura of superior European food quality, although the name is made up and the firm was created in the Bronx (Haagen Dazs, 2008). Such imitation may be counterproductive once the true country of origin is found if consumers feel betrayed. Nevertheless, unlike the movement of production abroad to imitate the country of origin, creating a marketing campaign to substitute the country of origin is less costly to establish and easier to adapt to new circumstances.

In sum, the application of the VRIS framework to the country of origin and the resulting advantage or disadvantage of foreignness reveals new insights on the sustainability of advantage. First, the value of a resource, assumed to exist in many analyses of competitive advantage and poorly understood in the literature (Lepak, Smith, and Taylor, 2007), comes to the forefront in the study of the country of origin not only because it determines whether a resource supports an advantage or disadvantage, but also because it determines the temporary nature of such advantage or disadvantage without the need for competitors to imitate or substitute the resource. Second, the rareness of a resource is relative, and even when many companies have the same resource this can still support an advantage or disadvantage. Third, the limited barriers to the substitution or imitation of the resource by domestic competitors does not reduce the importance of the resource in contributing to the advantage of the foreign firm. Substitution and imitation are costly and some domestic firms may choose not to undertake them even when it would be beneficial to do so.

TYPES OF ADVANTAGE AND DISADVANTAGE OF FOREIGNNESS

Although I have so far discussed the advantage and disadvantage of foreignness as being determined by individuals in the host country, there are significant differences depending on who in the country is determining this, whether it is the government or consumers. The differences between these two groups exist not only in the ability to influence the firm, but also in the perception regarding value. The government is better than individuals at knowing the true country of origin; the latter are likely to be guided more by perception of country of origin than by the true country. Additionally, the government can have a larger impact on the overall operations of the firm, including its establishment, whereas consumers tend to have a more limited influence on the sale of products. I now discuss how the advantage and disadvantage of foreignness vary depending on whether it is the government or consumers that asses them.

Government-Based Advantage and Disadvantage of Foreignness

The government-based advantage of foreignness appears when the host government provides preferential treatment to foreign firms over domestic ones. This has traditionally taken the form of the promotion of foreign direct investment (e.g. Wells and Wint, 1990). Governments provide preferential treatment to foreign firms by underwriting the costs of operating in a particular location in the country – providing tax holidays, building complementary infrastructure, undertaking employee training, and so on. As a result, the cost of operating in the country is reduced, changing the cost-benefit analysis of the country in comparison to others, inducing the foreign firm to select the country for its investment, or to invest more there.

This preferential treatment is available to foreign investors and not to domestic ones because governments perceive foreign firms as bringing technologies, skills, and access to export markets that domestic firms may not have, and providing employment to local people that may otherwise remain unemployed. Foreign firms are also seen as being more mobile in their decisions to locate investments as they search for new areas to expand because they can choose among multiple countries, thus requiring incentives to select the country over others (Helleiner, 1973); domestic firms are perceived as less flexible in their location decisions because they are already operating in the country and therefore do not require such incentives to invest. Additionally, there is also the perception that foreign investment can result in beneficial spillovers to domestic companies in the form of the development of supplier networks or the unintended transfer of technological or knowledge spillovers to domestic companies. As a result, a firm for the mere reason of being foreign will obtain benefits that domestic companies are excluded from[1].

This government-based advantage of foreignness is usually temporary in nature and focused on the initial investment of the foreign firm. The economic benefits tend to be phased out over time once the foreign firm has invested in the country because it no longer needs to be enticed to invest. There may be additional incentives to undertake new investments and expand existing operations, but these tend to be provided on an ad hoc basis.

These ideas lend support to the following proposition:

P1. Foreign firms that enjoy a government-based advantage of foreignness in a host country are more likely to invest in that host country than in others, or to invest more than the conditions of the country would require, ceteris paribus.

[1] As I indicated before, this results in some cases in roundtrip investment, in which domestic firms set up subsidiaries abroad as instruments for obtaining the benefits that are provided to foreign firms.

Not all governments provide foreign firms with an advantage of foreignness; some governments dislike foreign firms and this result in a government-based disadvantage of foreignness. Governments may dislike foreign firms because they perceive them as a threat to their sovereignty (Kobrin, 2001; Stopford and Strange, 1992). As a result, the government would create controls over the operations of foreign firms in the country that domestic firms do not face, increasing the costs and risks of operating there (Fitzpatrick, 1983; Kobrin, 1979). The government can take extreme positions in their dislike of foreign firms, and either exclude foreign firms from investing in the country, or force foreign firms out of the country by nationalizing their subsidiaries that are already in operation. Although foreign firms are likely to find a disadvantage of foreignness in politically risky countries or countries with governments with socialist ideologies, this is not always the case. For example, in early 2006 the US Congress blocked the purchase by the United Arab Emirates Dubai Ports World of the company P&O that managed terminals in six US ports. In some cases, the disadvantage of foreignness can take subtle forms. For example, in the late 1990s, Coca-Cola in Brazil claimed that local soft drink makers engaged in tax evasion that was overlooked by the government and as a result could charge lower prices (Gertner, Gertner and Guthery, 2005).

Unlike the advantage of foreignness, the disadvantage of foreignness affects foreign firms not only when they are entering the country, but also when they are already operating in it. The government may use regulation to prevent foreign firms from investing in politically sensitive industries while allowing domestic firms to do so, or force foreign firms to undertake investments or actions that domestic firms are not required to undertake in their initial entry in the country, such as invest in a particular location or investing with a local partner. However, the government-based disadvantage of foreignness may also emerge once the foreign firm has been operating in the country for a period of time, with the government imposing new regulations or taxes on foreign firms (but not on domestic companies) or even nationalizing foreign investments, especially when there are few checks and balances in the government (Henisz, 2000). For example, in the mid 2000s the Venezuelan government started renegotiating oil contracts and requiring foreign firms to relinquish control over existing operations or face the full nationalization of operations; whereas many did accept the new terms, some, like Exxon Mobil, did not and had their operations seized in 2008.

These ideas lead to the following proposition:

P2. Foreign firms that face a government-based disadvantage of foreignness in a host country are less likely to invest in that host country than in other countries, more likely to invest less in that host country than in the conditions of the country alone would require, or to have their investments nationalized than in other countries, ceteris paribus.

Consumer-Based Advantage and Disadvantage of Foreignness

The consumer-based disadvantage of foreignness appears when consumers prefer products and firms coming from foreign countries over domestic ones. Consumers prefer products coming from foreign countries because of the implied connotations that the country of origin carries, such as higher technology, better design, or higher quality (Bilkey and Tesar, 1992; Peterson and Jolibert, 1995).

However, just because the firm comes from a foreign country it will not necessarily enjoy an advantage of foreignness. There needs to be an alignment between the product of the firm and the industries that are perceived as being particularly advantageous in the country. For example, whereas firms from Germany and Japan tend to enjoy a strong advantage of foreignness when they are in mechanical and high-tech industries, they have a lower advantage when they are fashion firms. In contrast, French and Italian firms that operate in fashion or design industries tend to benefit from the advantage of foreignness, but not necessarily those operating in high-tech industries. Such consumer-based advantage of foreignness is not only enjoyed by firms from developed countries. In some industries firms from developing countries enjoy an advantage of foreignness. For example, hand-made rugs coming from Iran are perceived as superior to those coming from other developed and developing countries.

Part of the consumer-based advantage of foreignness is linked to the specific geographic conditions that give the product an advantage, such as coffee coming from Colombia, but in many cases the conditions are created, such as the case of chocolate, which is perceived as superior when it comes from Switzerland or Belgium despite the fact neither of these countries produce cacao, a tropical fruit. Consumers grant these preferences because of the location advantage that firms from a country or region have developed over time, in many cases through the use of clusters of highly specialized and competitive firms (Porter, 1990). Although many of the firms are highly competitive and generate very good products, not all of them are necessarily going to do so. This results in a problem of commons, where firms in the location benefit from such advantage without a product that is at the level of expected quality, harming the advantage of foreignness of other firms; one way to deal with this has been industry associations that regulate and establish standards, or even the protection of the image with *appellation d'origine contrôlée*, or appellation of controlled origin, with, for example, the name Champagne being only allowed to indicate sparkling white wine that is produced in the Champagne French region.

A consumer-based advantage of foreignness affects not only the marketing but also the manufacturing of products. First, a firm would undertake promotion campaigns that highlight the country of origin of the product alongside the company to benefit from the association with the country of origin. In some occasions this would result in products that are little adapted to the local needs to maintain the foreignness of the product. Second, a firm may decide to maintain production in the home country, even though it may be cheaper to locate elsewhere, to be able to claim that the product is manufactured in the desirable country and thus continue enjoying the consumer-based advantage of foreignness.

These ideas support the following proposition:

P3. Foreign firms that enjoy a consumer-based advantage of foreignness in a host country are more likely to promote the country of origin of the product than firms from other countries, and they are more likely to manufacture products in the home country than in others, ceteris paribus.

Some firms may face a consumer-based disadvantage of foreignness when consumers in a host country dislike the country of origin of the firm or its products. Consumers may dislike the country of origin for nationalistic reasons, viewing foreign products as harming the development of firms and the growth of employment in their own country. They may alternatively have a negative view of the quality of products manufactured in the foreign country because they perceive the country as being less developed than their own. As a result, a consumer-based disadvantage of foreignness results in a reduction in the revenues of the firm in the country. The company will not be able to sell the products at a price that reflects the actual quality and would have to lower the price to entice consumers to purchase the product and compensate for the perception. In extreme cases the firm may find that consumers are not willing to purchase the product regardless of the price level because of their apprehension regarding the country of origin. The consumer-based disadvantage of foreignness tends to affect the marketing of products, but it can also affect the operations of the firm, with individuals attacking the facilities of foreign firms in protest against the actions of the home government of the foreign firm. As a result, foreign firms that suffer from a consumer-based disadvantage of foreignness would tend to disguise the country of origin of their products, either by not showing the country or by adopting locally-sounding names or local brands.

Like the government-based disadvantage of foreignness, the consumer-based disadvantage of foreignness can vary with events unrelated to the firm's actions. As before, tensions in the relationships between governments can result in the emergence of a consumer-based disadvantage of foreignness affecting firms. For example, in 2005 Japan's bid for a permanent seat on the United Nations Security Council and the issue of a new history textbook in Japan that played down the actions of the Japanese army in East Asia during the Second World War, sparked attacks on Japanese retail operations in China and calls for boycotts of Japanese products (Harney, Sanchanta, & Yeh, 2005). However, unlike the government-based disadvantage of foreignness, consumers react to the perceived country of origin of the firm rather than to the actual one. As a result, for example, in May 1999, the bombing of the Chinese embassy in Belgrade by US planes sparked attacks on the Chinese franchises of the fast food restaurant Kentucky Fried Chicken but not of Pizza Hut, even though both were owned by the US firm Tricon. Managers of Tricon argued that maybe the Chinese viewed the Pizza Hut outlets as being Italian (Ruggless, 1999).

These ideas support the following propositions:

P4. Foreign firms that suffer a consumer-based disadvantage of foreignness in a host country are less likely to promote the country of origin of the product in that host country, and are more likely to adopt local names and brands than in others, ceteris paribus.

MANAGING THE ADVANTAGE AND DISADVANTAGE OF FOREIGNNESS

The advantage and disadvantage of foreignness can be managed rather than merely enjoyed or suffered; I have been discussing some actions that managers can take throughout the paper and now analyze these in more detail. However, since the advantage of foreignness can become a disadvantage and vice versa, these transformations also require management. Table 2 summarizes the different strategies for managing the advantage and disadvantage of foreignness. The advantage and disadvantage of foreignness and their transformation result in four potential conditions in a host country. The first two, the advantage and the disadvantage of foreignness, are static and are conditions that a firm can identify before entering the country. The second two, the movement from advantage to disadvantage or form disadvantage to advantage, are dynamic and are conditions that a firm may encounter once it is operating in the country. These four alternative conditions can be managed using three alternative strategies, which are based on the three strategies for managing decline and conflict proposed by Hirshman (1970): Exit, voice and loyalty. Exit refers to the decision to leave rather than face a conflict, which includes the decision of not entering when conditions are unfavorable. Voice refers to the decision to express disagreement and to try to convince others. Loyalty refers to the decision to adapt to the requirements of others.

*** Insert Table 2 here ***

Managing the advantage of foreignness. This is the easiest option to manage. Since the foreign firm enjoys an advantage over domestic competitors, voice becomes the best option for managing this and obtaining an additional boost to the advantage of the firm. First, the exit option is open to the firm but it does not appear to be an appropriate strategy because entering or operating in the country is made easier thanks to the positive view of the country of origin. Second, the firm can use voice and promote the country of origin heavily, relying on the good image of the country and the additional value it provides to its products and operation. This strategy is particularly useful at the beginning of the operations of the firm in the host country, when it may not have a known brand-name and a reputation on which to build a sales base. It can also choose not to adapt the product to local requirements to maintain the perceived foreignness. Hence, building from a positive view of the country can help the firm position its own brand and products at a higher level of reputation and more easily. With the government, the firm can actively lobby for additional support, highlighting the benefits that it brings to the country as a foreign firm. Third, the firm could opt for loyalty and merely admit the country of origin rather than actively promote it, while adapting to the requirements of the host country in other areas, such as promotion or advertisement. However, this action may reduce the benefit that the firm obtains from being perceived as foreign.

Managing the disadvantage of foreignness. Operating under a disadvantage of foreignness is challenging because the firm is losing value from the association with the country of origin. Of the three strategies, exit may be the least problematic, followed by loyalty. First, the firm may choose to use exit and just wait for the disadvantage of foreignness to be reduced or disappear, such as when there are constraints on foreign investors. Alternatively, the firm can enter the country but disassociate itself from the country of origin, in effect exiting its negative image. This can be done by investing from other countries that do not suffer a disadvantage of foreignness, as McDonalds did in Russia where it invested from the Canadian rather than the US subsidiaries. Second, using a voice strategy, the firm can enter the country and promote the image of the firm rather than the image of the country to highlight how the firm and its products rather than the country of origin are the source of value for the customers. Third, the company can choose loyalty and adapt to the requirements of the country, adopting local-sounding names or using local brands that reduce the association with the country of origin, even moving production to the host country to claim that the products are locally made.

Managing the transformation of the advantage of foreignness into a disadvantage of foreignness. Unlike the management of the advantage or disadvantage of foreignness, in which the firm can choose between the strategies before it enters the country, managing the transformation of advantage into disadvantage and vice versa requires changing the way in which the firm operates in the country.

Therefore, when the firm encounters that the advantage of foreignness it was enjoying becomes a disadvantage of foreignness, it will have to change the way in which it operates, with loyalty being the most appropriate option unless the disadvantage of foreignness becomes too much of a source of disadvantage and the firm may need to consider exiting the country. First, regarding exit, as advantage of foreignness becomes a disadvantage, the firm can continue operating until it is clear that this transformation is long-term, and that it has costly consequences to the firm. Otherwise, the firm may just lay low and wait for normalcy to return; a firm that had previously played up the country of origin may experience a period of negative publicity and even attacks. However, when such normalcy does not return, the firm may opt to exit the country, selling assets to recover previous investments, or operate at arms-length to continue serving the country but reducing its exposure. In some cases the firm may be forced to exit, for example when the government nationalizes the subsidiaries of foreign firms. In such a case, the exit option is forced upon the firm and managers can try to recover as much as possible of the previous investments, using the courts in the host and home country, and the International Center for Settlement of Investment Disputes at the World Bank. This is what, for example, the US oil firm Exxon Mobil did after the Venezuelan government nationalized its operations. Second, the voice option can take the form of active but discrete lobbying of the government and campaigns to consumers to highlight the contribution of the firm to the country and avoid the negative repercussions of the disadvantage of foreignness. These lobbying and campaigns need to be tempered because an active voicing of disagreement may exacerbate the disadvantage of foreignness and tensions, resulting in additional attacks by government and consumers. Third, the firm may remain loyal to the host country and avoid the implications of the disadvantage of foreignness by laying low and waiting for conditions to change. It can also adapt to the new requirements of the country, such as selling participations to local investors or the local government to garner domestic support for the operations, although the price it receives may be lower price than the real value of the participation.

Managing the transformation of the disadvantage of foreignness into an advantage of foreignness. In the case that the disadvantage of foreignness disappears and is replaced by an advantage of foreignness, the firm could use voice to build on this transformation and reinforce its own image. First, the exit alternative has reduced appeal when a firm that has already suffered through the period of disadvantage of foreignness enters a period when its country of origin helps it operate more easily or profitably in the country. Second, the voice option becomes a desirable action to take, with the firm starting to promote the country of origin in addition to the firm to capitalize on the change in sentiment of consumers and the government regarding the country of origin; promotion that was likely not being done before. The firm can additionally change its sourcing strategy, bringing in more products from abroad to benefit form the added valued that foreign products have in comparison to domestically produced ones. Third, the loyalty strategy becomes one of continued adaptation to the changing perceptions of the individuals in the country, with the firm changing the location of the product to capitalize on the increased positive view of the country. However, such strategy would fail to fully benefit from the improved perception of the country of origin.

CONCLUSIONS

The paper analyzed the advantage and disadvantage of foreignness and how these affect the operations of foreign firms abroad. I argued that the advantage and disadvantage of foreignness are special dimensions of the broader sets of advantages and disadvantages that MNEs enjoy or suffer in their international expansion, and unique dimensions in that regard. The application of the VRIS framework to the country of origin revealed new insights into the source of not only advantage but also disadvantage, and the temporary nature of these. I discussed how the impact of the advantage and disadvantage of foreignness on the firm varies depending on who in the host country prefers or dislikes the country of origin, whether it is the government or whether it is consumers. Moreover, there are different strategies that managers can use to deal with not only the advantage and disadvantage of foreignness, but also with the transformation of one into the other.

The analysis of these two concepts contributes to the strategic management literature in several ways. The concepts are an interesting laboratory for the analysis of the sustainability of the advantage of the firm (e.g., Barney, 1991; Peteraf, 1993). The study highlights how the same resource can become a source of advantage at one point in time and a source of disadvantage at another, and go back to becoming a source of advantage again. This temporary nature of the advantage or disadvantage that the country of origin provides is not based on the ability of competitors to overcome barriers that limit the imitation or substitution of the resource, which has been the focus on most studies (e.g., Dierickx and Cool, 1989; Lippman and Rumelt, 1982; Peteraf and Bergen, 2003; Rivkin, 2000). Instead, the analysis of the advantage and disadvantage of foreignness highlights how value becomes the key determinant of whether a resource supports an advantage or disadvantage, and how these are temporary in nature and interrelated. Value is an area of the VRIS framework that has received little attention; it has mostly has been assumed, but this paper reveals it as being important for the study of sustainable competitive advantage.

The paper also contributes to the international management literature. It focuses on one dimension of the advantages and disadvantages that firms enjoy or suffer in their international expansion and links these concepts together. Whereas the advantages and disadvantages of MNEs were discussed together in early studies (e.g., Buckley and Casson, 1976; Hymer, 1976, Vernon, 1977), in later studies they diverged into separate paths of analysis. These two concepts are being linked again (e.g. Insch and Miller, 2005; Nachum, 2005), with this study moving away from a holistic view of the concepts and into a more nuanced analysis of specific dimensions. By taking a strategic management viewpoint, the paper highlights how the advantage and disadvantage are temporary in nature and interconnected across locations and time. The analysis also highlights how the advantages and disadvantage can be managed by firms, going beyond most studies that have focused on identifying whether or not they exist, but that are silent about what to do about them.

All in all, the paper contributes to a better understanding of the analysis of sustainable competitive advantage and of the international expansion of the firm by linking these two streams of research and cross-fertilizing each other (e.g., Tallman, 1992), showing how the analysis of the MNE is a useful setting for extending theories (e.g., Roth and Kostova, 2003; Rugman and Verbeke, 2002).

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Table 1
Differences between traditional studies and the analysis of the advantage and disadvantage of foreignness in the application of the VRIS framework

VRIS framework	Traditional	Advantage and disadvantage of foreignness
Valuable	Assumed in most cases	Determinant of advantage and also of disadvantage, and of the temporary nature of these
Rare	Assumed in most cases, although not in the case of location advantages or cluster advantages	Common to a set of firms from the same country of origin
Difficult to imitate	Focus of most analyses, with the identification of barriers to imitation	Limited difficulty
Difficult to substitute	Focus of most analyses, with the identification of barriers to substitution	Limited difficulty

Table 2
Strategies for managing the advantage and disadvantage of foreignness

		Type of advantage or disadvantage of foreignness			
		Static, before entry		Dynamics, after entry	
		Advantage	Disadvantage	From advantage to disadvantage	From disadvantage to advantage
Strategies	Exit	Not a strategic option	Disguise or not mention	Stay until disadvantage is long-term, then exit	Wait until full advantage
	Voice	Advertise country rather than firm	Advertise firm rather than country	Lobby and explain contribution to country	Promote image of firm, contribute to image of country
	Loyalty	Admit and benefit from perception	Admit and adapt to local requirements	Lay low and wait for change	Adapt to local conditions