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HOW AN EMERGING MARKET FIRM OVERCOMES LIABILITIES AND BUILDS LEGITIMACY IN A HIGH-QUALITY INSTITUTIONAL ENVIRONMENT

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ABSTRACT

Objective: To examine how an emerging market firm adopts specific strategies to neutralize the liabilities of foreignness (LOF), emergingness (LOE) and outsidership (LOO), and to gain legitimacy in a high-quality institutional environment. **Method:** Single in-depth case study of a Brazilian firm in the information technology industry based on secondary data and interviews. **Main Results:** The study shows how the acquisition of a local company addressed the three liabilities: LOF, by acquiring knowledge on the host country's institutional environment; LOE, by detaching the company image from the home country and emphasizing a global image; and LOO, by gaining access to already established connections to international networks by the acquired firm. **Relevance/ Originality:** There is still a dearth of literature on how firms from emerging economies other than China — and particularly from Latin America — strategize to mitigate LOF, LOE and LOO when internationalizing to high-quality institutional environments. **Theoretical/ Methodological Contributions:** To provide a fine-grained view of the relationship between LOF, LOE and LOO and their manifestations; and to provide an understanding of the relationship between the liabilities and the legitimation strategies adopted to overcome them along the international expansion of an emerging market high-tech firm from Latin America.

INTRODUCTION

The institutional quality of a country's environment may vary substantially, and firms must adapt to the constraints imposed by the institutional environment of the countries in which they operate. Some studies have focused on how multinational firms from developed economies enter host markets that have a low level of institutional quality (Luo, 2005; Meyer, Estrin, Bhaumik, & Peng, 2009; Elg, Ghauri, Child, & Collinson, 2017), and how host country institutions impact firm's strategy (Svendsen & Haugland, 2011; Tang & Buckley, 2020) and subsidiary performance (Pattnaik, Choe, & Singh, 2015; Getachew & Beamish, 2021). Other research has analyzed the extent to which the home country's institutional environment either promotes or discourages the internationalization of emerging market firms, with mixed results. The low institutional quality of the home country may create difficulties for the internationalization of

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domestic firms (Cheng & Yu, 2008; He & Cui, 2012). And although some studies have shown a negative effect of institutional voids on firm internationalization (Terjesen & Hessels, 2009), others have found positive effects (Yaprak, Yosun, & Cetindamar, 2018; Adomako et al., 2020). Nuruzzaman, Singh and Gaur (2020) suggest that different aspects of the home country's institutional environment may have different impacts on firm internationalization. Other scholars have examined how home country institutional voids impact emerging market firms' choice of foreign markets and entry strategies (Wu, Wang, Hong, Piperopoulos, & Zhuo, 2016; Liu & Yu, 2018). In any case, the relationship between home and host country institutional environments and the international strategy of emerging market firms still needs further investigation (Xu et al., 2021).

When entering foreign countries, emerging market firms, regardless of size, may suffer from liabilities of foreignness (LOF), emergingness (LOE), and outsidership (LOO), which may negatively impact their international expansion (Gaur & Kumar, 2010; Gaur, Kumar, & Sarathy, 2011; Khan, Amankwah-Amoah, Lew, Puthusserry, & Czinkota, 2022). They may lack legitimacy due to their country's reputation, or to perceived lack of conformity to local values and practices (Han, 2021; Zhang, Deephouse, Van Gorp, & Ebbers, 2022). Chen, Saarenketo and Puumalainen (2016) argue that, due to the negative reputation of their countries of origin, Latin American ventures are less likely to advance in their international expansion than firms from other emerging markets. In addition, liabilities differ depending on the type of foreign market entered. Research has shown that emerging market firms often choose markets with institutional quality similar to their home country's (Paul & Benito, 2017; Lopez-Morales, 2018), although in recent years these firms have increasingly entered developed markets. However, despite the growing number of studies that have examined these issues, there is still a dearth of literature on how firms from emerging economies other than China — and particularly from Latin America (Cuervo-Cazurra, 2016; Aguilera, Ciravegna, Cuervo-Cazurra, & Gonzalez-Perez, 2017) — have expanded internationally into markets that present quite different institutional contexts, and how they strategize to mitigate LOF, LOE, and LOO.

From an institutional perspective, the research uses the case study method of investigation to answer the following question: how does an emerging market firm use specific strategies over time to neutralize LOF, LOE, and LOO? The study makes two main contributions to the extant literature on the internationalization of emerging market firms: first, it provides a fine-grained view of the relationship between LOF, LOE, and LOO and their manifestations; second, it provides an understanding of the relationship between the liabilities and the legitimation strategies adopted to overcome them along the international expansion of a high-tech firm in an emerging market from Latin America.

1. LIABILITIES AND LEGITIMACY

Scholars have recognized three major types of liabilities when a firm enters a foreign market: foreignness, emergingness, and outsidership. However, these constructs are to some extent intertwined, and the literature provides limited insights into how to overcome these liabilities.

When a firm enters a new international market, it suffers from LOF, that is, the costs incurred by a foreign firm in comparison with domestic firms when entering a host country, including not only market-related costs, but also "structural, relational and institutional" (Zaheer, 2002, p. 351) ones. Sethi and Judge (2009) classify the costs involved in LOF into two categories: discriminatory and incidental. The first type involves hostility, protectionism, and discrimination against the foreign firm, while the second is more typical of the new entrant's lack of familiarity and knowledge about the host market. The difference between these two types is considerable; they can be seen as less controllable, in the case of discriminatory costs, or more controllable, in the case of incidental costs. Therefore, potential actions by the firm to reduce these liabilities are different. Gaur et al. (2011) argue that LOF originates from two sources: the environment and the firm. Environmentally related LOF comes from the lack of knowledge of the host country's environment, while firm-based LOF is related to firm characteristics. These sources may differ depending on whether the firm comes from a developed or an emerging economy. LOFs may also vary according to the new entrant's industry; firms operating

in knowledge-intensive industries face higher levels of LOF (Gaur et al., 2011). The motives to invest in a new market are also associated with different types of LOF (Zhou & Guillen, 2016). A related construct in the literature is liability of origin, conceptualized by Shapiro, Li and Feng (2020, p. 1) as "disadvantages faced by firms sharing common national origins". However, Sethi and Judge (2009) consider this concept to be a manifestation of LOF, while Marano, Tashman and Kostova (2017) associate it with LOE. LOF tends to wane over time along the firm's trajectory in a host country (Zaheer & Mosakowski, 1997). Scholars have indicated different ways to cope with LOF, such as adopting isomorphic behavior, that is, imitating local firms' behavior in host countries (Zaheer, 1995); exploiting firm-specific advantages (Nachum, 2003); making acquisitions (Luo & Tung, 2007); celebrating joint ventures and alliances (Gaur et al., 2011); and gradual learning (Sethi & Judge, 2009). However, reviewing several studies dealing with the LOF concept, Denk, Kaufmann and Roesch (2012, p. 329) point out that the strategies adopted to reduce LOF may have "both mitigating effects and aggravating ones".

If the new entrant is from an emerging market, it may also suffer from LOE (Madhok & Keyhani, 2012; Kotabe & Kothari, 2016; Xiao, Lew, & Park, 2020). In any case, the new entrant needs to build legitimacy to effectively operate in the foreign market. Some authors do not distinguish LOF from LOE but claim that the latter is a special type of LOF specific to firms from emerging economies (Gaur et al., 2011), while others do, alleging that emerging market firms face different obstacles due specifically to their origin (Madhok & Keyhani, 2012; Zhou, 2018). Hermans and Borda Reyes (2020), however, warn that not all emerging market firms are alike, and that substantial differences may exist among firms originating from different emerging markets. Given that emerging market firms often have to compete overseas in terms of cost, rather than other competitive advantages, suggested strategies for coping with LOE tend to be limited to selling to the diaspora, alliances, acquisition of local brands (Gaur et al., 2011), or of local firms (Madhok & Keyhani, 2012), or hiring local staff (Luo & Tung, 2007). However, some studies indicate the use of differentiation strategies, such as enhancing innovation capabilities, entering niche markets (Kotabe & Kothari, 2016), and sending explicit signals of quality (Wang, Cuervo-Cazurra, & Bu, 2017) such as international certification or licensing of foreign technology.

Another type of liability faced by firms entering a foreign market is LOO, that is, the costs of not belonging to any relevant network in that market (Johanson & Vahlne, 2009). This liability can be understood as a manifestation of a firm's scarcity of resources (Vahlne & Johanson, 2017). The relation of LOO with LOF is not clear. Johanson and Vahlne (2009) claim that the greater the LOF (and psychic distance), the more difficult to build relationships in a foreign market. However, a manifestation of LOO — lack of embeddedness into foreign networks — is also said to be a driver of LOF (Denk et al., 2012). Uppsala scholars see the process of overcoming outsidership as a combination of gradual learning and commitment building. Schweizer (2013, p. 80) provides an in-depth examination of how a smaller firm "transitions from being an outsider to an insider for its internationalization-relevant network," identifying four steps, from the recognition of the problem and of the relevant networks, to "re-bundling resources and capabilities" and exploiting opportunities within the network. Table 1 summarizes the strategies to overcome liabilities described in the extant literature.

To do that, firms must adopt legitimation strategies (Zhang et al., 2022) to succeed in foreign markets. Legitimacy is "a pivotal but often confusing construct" (Suddaby, Bitektine, & Haack, 2017, p. 451). In institutional theory, it refers to how organizations secure positions by complying with the rules of the institutional environment (Meyer & Rowan, 1977; Scott, 1987). Zhang et al. (2022, p. 801) see legitimacy as "the overall assessment of the appropriateness of organizational ends and means."

Scholars have recognized different dimensions of legitimacy and associated legitimation strategies (Table 2). Aldrich and Fiol (1994) propose two dimensions: cognitive legitimacy (how well known a new firm is) and sociopolitical legitimacy (how stakeholders accept the firm once its rules and norms are recognized to conform to the standard). Turcan and Fraser (2016) recognize, in addition to the cognitive and sociopolitical dimensions, a symbolic dimension. Symbolic legitimation strategies include achieving credibility, adapting organizational structures and processes, improving the quality of organizational offer (products and technologies) and firm characteristics. Zhang et al.

(2022) identify four dimensions of legitimacy: regulatory, moral, pragmatic, and cultural-cognitive. Regulatory legitimacy relates to conforming to laws and rules. Thus, emerging market firms face LOF due to a lack of knowledge of the regulatory aspects of the host country's institutional environment. However, moral legitimacy is even more critical for emerging market firms due to their lack of familiarity with the values and norms in the foreign market, while at the same time different stakeholders in the host market are not familiar with the firm's home country values and norms. As a result, these firms face both LOF and LOE associated with moral legitimacy. The pragmatic dimension of Zhang et al.'s (2022) typology — similar to Turcan and

Table 1. Strategies to overcome liabilities.

Strategies	Liability	Authors
Isomorphism	LOF	Zaheer (1995), Sethi and Judge (2009)
Exploiting firm-specific advantages	LOF	Zaheer (1995), Nachum (2003)
Enhancing innovation and technological capabilities	LOE	Madhok and Keyhani (2012), Almodóvar & Rugman (2015), Kotabe and Kothari (2016),
Acquisition of a brand	LOF	Gaur, Kumar, and Sarathy (2011)
Acquisition of a firm	LOF/LOE	Luo and Tung (2007), Gaur et al. (2011), Madhok and Keyhani (2012), Wei and Clegg (2015), Kotabe and Kothari (2016)
Joint ventures and alliances	LOF/LOE	Gaur et al. (2011), Kotabe and Kothari (2016); Sethi and Judge (2009)
Licensing foreign technology	LOE	Wang, Cuervo-Cazurra and Bu (2017)
Gradual learning	LOF/LOO	Johanson and Vahlne (2009), Sethi and Judge (2009), Gaur et al. (2011), Chen (2017)
Capability building and re-bundling	LOO	Schweizer (2013)
Selling to the diaspora	LOF	Miller, Thomas, Eden and Hitt (2008), Gaur et al. (2011)
Niche markets	LOE	Kotabe and Kothari (2016)
Hiring local staff	LOF	Luo and Tung (2007)
Obtaining international certification	LOE	Wang et al. (2017)

Table 2. Dimensions of legitimacy, liabilities, and legitimation strategies.

Dimensions of Legitimacy	Related Liabilities	Legitimation Strategies	Authors
Regulatory	LOF	Conforming to host country's laws and rules	Aldrich and Fiol (1994); Zhang and White (2016) Zhang, Deephouse, Van Gorp, & Ebbers (2022)
Moral	LOF/LOE	Adhering to host country's values and norms	Zhang et al. (2022)
Pragmatic/ Symbolic	LOE	Meeting foreign stakeholders' expectations	
		a. by offering jobs and opportunities	Zhang et al. (2022)
		b. by offering satisfactory products and services	Turcan and Fraser (2016), Zhang et al. (2022)
		c. by presenting acceptable firm characteristics, ownership structure, and processes	Turcan and Fraser (2016)
Cultural-cognitive/ Cognitive	LOF/LOE/ LOO	Achieving acceptance and recognition	
		a. by isomorphism	Zaheer (1995),
		b. by manipulation and negotiation	Kostova et al. (2008), Zhang and White (2016)

Fraser's (2016) symbolic dimension — deals with the extent to which the firm meets foreign stakeholders' expectations, including concerns on whether or not emerging market firms can provide satisfactory products and services, although they are seen as providing jobs and opportunities for local citizens. These aspects of pragmatic legitimacy are more related to LOE. Finally, since the cultural-cognitive dimension has to do with how well a firm is known in a foreign country, this dimension is also related to LOF and LOE. Zhang and White (2016) suggest, as a potential legitimation strategy, convincing the host institutional environment to change its perceptions of legitimacy. And, while institutional theory advocates that to gain legitimacy firms must accept isomorphic pressures from the environment (Zaheer, 1995), thus becoming more similar to local firms, Kostova, Roth and Dacin (2008, p. 1000) claim that multinational enterprises (MNEs) "engage in actor-specific manipulation and negotiation of their status aimed at social construction of their acceptance and approval." Therefore, the process of acquiring legitimacy would make firms less similar. Negotiation involves establishing communication, relationships, and exchanges with key actors, and associating the organization with "other highly legitimate units" (Kostova et al., 2008, p. 1001). Thus, these strategies would also address LOO. Appendix 1 presents the research constructs and corresponding definitions.

2. METHOD

The research adopted the case study method of investigation, which is considered particularly useful when the phenomena of interest are processual, and when the context needs to be taken into consideration (Yin, 1989; Ghauri, 2004). The investigation used a single in-depth case and adopted a longitudinal perspective. Yin (1989) argued that a single case is an appropriate research strategy when the case is revelatory, that is, when it allows to examine a phenomenon that needs to be investigated in depth, such as, in this study, the manifestations of liabilities and the corresponding legitimation strategies used over time by an emerging market firm.

The Brazilian software industry was the locus of the study. The assumption was that the manifestations of different types of liabilities and the resulting legitimation strategies would be more observable when studying a high-tech company from an emerging market. The following criteria were used to select the case:

- the firm should be innovative in terms of actions, products, and processes;
- it should have reached a leading position in the Brazilian software industry;
- it should present a successful internationalization path;
- secondary data about the firm should be available to permit a longitudinal study;
- the firm's top management had to agree to participate in the study.

Four companies were identified that met the first four criteria. Two of the firms refused to participate in the study. As to the third one, the secondary data available showed that its internationalization had taken place in Latin American markets, thus being less impacted by liabilities of foreignness and emergingness, given the cultural and institutional similarities between these markets and Brazil. Therefore, and given a broad availability of secondary data that permitted a longitudinal analysis as well as triangulation, the Brazilian firm Stefanini IT was selected.

The research used both secondary and primary data. Secondary sources included the company's website, articles published in business newspapers and magazines, a biographical book (Godinho, 2011), and academic articles. Data triangulation used the large amount of data available from different sources (Eisenhardt, 1989; Ghauri, 2004). Primary data were collected through virtual interviews, with the support of a semi-structured script. The interview script included an initial section on the interviewee's trajectory in the firm related to international operations, followed by questions addressing the firm's international operations in time. The interview then focused on the evolution of the firm's U.S. operations, including barriers and facilitators, both internal and external to the firm. Finally, the interviewees were asked which were the most important issues the company had learned from the U.S. experience. Although this semi-structured script was used, the flow of the interview was defined by each interviewee. The duration of each topic addressed also varied according to the interviewee's specific experience. Two in-depth interviews took place in March of 2021, generating

64 pages of transcripts. The interviewees were the Global Executive Vice-President and the Head of Marketing North America. Although only two first-hand interviews were conducted with Stefanini's top management, the authors had access to three other interviews with the company's founder and CEO, Marco Stefanini, available in the press.

The analysis adhered to the following protocol. First, a detailed description of the case history was done using secondary data and data from the in-depth interviews. Second, the investigation used within-case analysis, that is, an in-depth study of a single case (Miles & Huberman, 1994). Third, the findings were compared with those in the literature (pattern-matching analysis). Appendix 1 presents a description of the research constructs. Validity and reliability procedures included extensive data triangulation (original interviews conducted by the researchers, interviews available from other sources, and archival data), explaining the rationale for case selection, and performing a pattern matching with the literature (Yin, 1989; 1993; Gibbert, Ruigrok, & Wicki, 2008). Gibbert et al. (2008) add that reliability is also achieved by mentioning explicitly the organization's name.

3. THE CASE

Stefanini IT Solutions was founded in 1987 in São Paulo, Brazil. At the time, the information technology (IT) industry in Brazil was under the protection of a market reserve that aimed at protecting the nascent industry and lasted until 1992. With the end of market protection, most hardware manufacturers were unable to compete. However, in the software segment several firms prospered. Stefanini IT started national expansion into other major cities in Brazil in 1995 and international activities in 1996. By 2020, the company had 70 offices in 41 countries around the world, and more than 25,000 employees worldwide. The company offered a wide range of IT services, including automation, cloud, and internet of things.

3.1. Internationalization trajectory

The company's international trajectory comprises three waves. The first started in 1996 with the entry of IT multinationals into the Brazilian market, stimulating the acquisition of a small IT company in Argentina. This movement was followed by several greenfield operations in other Latin American countries through the year 2000. During the second wave, from 2001 to 2010, Stefanini entered the U.S. and some European countries (Spain, Portugal, Italy, and England) with greenfield investments. The strategy was to carry out greenfield investments, aiming at gaining positions with existing customers in those countries, which would then provide referrals for new clients. The third wave — still in progress at the time of the study — started in 2010 with the acquisition of a U.S. company. In 2012, CEO Marco Stefanini established a growth target for the company abroad: in two years, at least 50% of sales should come from international operations.

The U.S. acquisition was followed by 34 other acquisitions of IT companies "highly specialized in digital transformation" in Brazil and other countries. CEO Marco Stefanini explained: "The focus is to buy companies that can add services to our portfolio so that we can offer what we call a 'full course' to the customer, with solutions capable of being integrated with other technologies offered by Stefanini" (Cilo, 2019). As a result of this process, by 2020 the firm had built a network of laboratories in Brazil, the U.S., Romania, and Singapore. The company's main international market was North America, encompassing the U.S. and Canada. The North American operation carried out its own acquisitions and was responsible for running the Asian region. The second most important market was Latin America, followed by Europe.

3.2. Entry and operations in the United States

In 2001 the company started its activities in the U.S. by establishing an office in Florida, which was considered a gateway for Latin companies, and Stefanini's executives believed that it would be easier to start business activities there. However, the endeavor proved to be more difficult than initially thought; the company was unknown in the U.S., the home country had no reputation as a supplier of IT products, and the firm had no contacts in the foreign market. In addition, the company lacked knowledge about the market and local business practices, which Vice President Barberino termed a "reading error":

> We didn't have recognition from the U.S. market regarding what we could do, what we could deliv-

> er. We depended a lot on offshore development, and we didn't have local delivery. I think there was a reading error because we wanted to deliver to the U.S. from Latin America. But the U.S. market did not think Latin America was mature enough to deliver to the U.S. So, it wasn't buying from Latin America. And that was for us a costly mistake because it meant years of trying to establish an operation without succeeding.

There was clearly a credibility barrier when it came to technology products from Latin America. Moreover, the firm could not provide referrals from U.S. clients ("we had no customers to use as reference"). Thus, "the barrier [was]: to be received in a meeting". Even the multinational clients that Stefanini was already serving in Brazil did not purchase their services in the U.S., frustrating top management's expectation: "We hoped to have the support of those customers [...] who could help us by opening doors in other countries. [...] But that didn't happen."

Communication also emerged as a barrier due to the lack of fluency of executives and technicians in English. Finally, in 2002 the company obtained a significant contract in the U.S., opening an office in Atlanta to serve that client. Although the American branch managed to close other contracts, the operation only started to generate more revenue when Stefanini initiated the first offshore project for an American company, with a team established in the U.S. dedicated exclusively to the project. It had taken some time for the company to finally realize the need to have an advanced team with a good grasp of the language. In addition, the firm obtained international certifications deemed necessary to compete in the host market. In Mr. Barberino's view, being a Brazilian company entering the American market was a disadvantage due to the stereotypes of Brazil and Brazilians abroad:

> If we were Germans looking to open a new market, we would have had a better chance. [...] This is how an American sees us: 'Brazilians are nice people, but they need discipline, focus. I need things that I don't think Brazilians have.' And then there's the language barrier. And there's also the issue of discipline, which they think we don't have. Adding up all those negatives, it's a disadvantage. We [Brazilians] do not have a good image of being those who work well, who work hard, who are focused, who produce. [...] So, they think we don't have good productivity, that we have a project management problem, a decision problem. Things like these are not a good package deal, are they?

Therefore, a Brazilian company in the U.S. had to face several challenges to convince a customer to buy: "you have to sell your country, sell your company, your brand, and then sell credibility as to continuity."

With the acquisition of the U.S. IT company TechTeam in 2010, all that changed. TechTeam already had 3,000 employees in the U.S., and the availability of that local group made all the difference. In addition, at the time of the acquisition, TechTeam had operations in 17 countries. With Stefanini already operating in 18 countries, the acquisition led the company to be present in 23 countries and to achieve rapid growth in Europe and Asia. It not only gave access to new markets, but also to nearshore bases in Europe, and was followed by organic growth within the acquired operation.

Nonetheless, the acquisition was not without its difficulties. One was the TechTeam's location in the metropolitan area of Detroit, a region that was experiencing a period of decline. Another issue was cultural adaptation, both from the perspective of national and organizational cultures. Stefanini's organizational culture was more entrepreneurial than TechTeam's. In addition, since TechTeam was based in a smaller city, the profile of the firm's executives was quite different from those of Stefanini, based in São Paulo, one of the largest metropolitan areas in the Americas. Finally, as expressed by Ms. Ferber, Head of Marketing North America: "In the beginning, it was an American company that had been bought by a Latin, Brazilian company, and there was some embarrassment because of it." Ms. Ferber explained how the company acted to overcome the barriers of being a Brazilian company in the U.S.: "[The company] does not position itself as a Brazilian multinational; it emphasizes its capabilities." CEO Marco Stefanini summarized the difficulties a Brazilian tech company faced when trying to gain credibility abroad:

> There are no big advantages in being a Latin tech company. Worldwide, Brazil is still not known as

> a tech country, unfortunately. From a brand point of view, it adds nothing. At least Brazil is a neutral country. It's a very nice country from the flesh-and-blood point of view, but from the business point of view, it is pretty much ignored; it is not yet associated with business very much. [...] We have an origin, which is Brazilian, and obviously we are proud to be Brazilians, but the fact of the matter is that we have to highlight ourselves as being a global company, with deliveries distributed all over the world (UOL Economia, 2018).

Table 3 presents the manifestations of LOF, LOE, and LOO faced by Stefanini in the U.S., and Table 4 summarizes the internationalization path of the firm, the strategies adopted and their outcomes.

4. DISCUSSION

The international trajectory of the firm studied provides valuable insights into how different liabilities are manifested when an emerging market firm enters a developed market and the strategies adopted to overcome them. The firm had gone international on its own, using the resources and capabilities it had available, and without having established a position in foreign networks (Johanson & Mattson, 1993; Johanson & Vahlne, 2009). Contrary to research findings on internationalizing Chinese firms (Child & Rodrigues, 2005; Deng, 2012; Wei, Clegg, & Ma, 2015), which have received considerable government sponsorship, the Brazilian firm did not get any government support in its internationalization efforts. Neither had the firm benefitted from the previous entry into the U.S. market of other Brazilian IT companies, or from previous links with the Brazilian subsidiaries of multinationals from developed countries. During the first decade of operations in the U.S. market, the firm tried to develop a local branch. The greenfield investment allowed gradual learning (Sethi & Judge, 2009; Gaur et al., 2011; Kotabe & Kothari, 2016; Chen, 2017), which was probably helpful when the firm finally acquired a local firm. Also, during this period the firm obtained international certifications (Wang et al., 2017). Yet, these efforts were not enough to allow the firm to overcome LOF, LOE, and LOO. Thus, despite having a history of organic growth, top management perceived the acquisition as the most promising, if not the only potentially successful strategy to deal with the liabilities faced by the firm.

The leap only occurred when the firm embarked on acquisitions (Luo & Tung, 2007), which addressed most of the manifestations of the liabilities. First, it allowed the firm to become similar to local ones (isomorphism). Second, it allowed the firm to combine, extend and re-bundle capabilities (Schweizer, 2013). Third, a large number of local staff from the acquired firm became part of the acquiring organization (Luo & Tung, 2007), providing human resources familiar with the institutional environment and with local customer behavior. Fourth, the firm enhanced its innovation and technological capabilities by combining its research and development (R&D) units to the ones owned by the acquired firm (Madhok & Keyhani, 2012; Almodóvar & Rugman, 2015; Kotabe & Kothari, 2016). In addition, the acquisition provided the firm with a network of subsidiaries in several countries that allowed rapid international growth.

4.1. Manifestations of liabilities

The case study allowed to identify several manifestations of liabilities and connect them to three different international decisions: the market entry decision, the greenfield investment decision, and the foreign acquisition decision. Figure 1 connects the manifestations of the liabilities to the different decisions in the internationalization of an emerging market high-tech firm in a high-quality institutional environment.

The manifestations of the LOF may affect a high-tech firm in an emerging market differently regarding each internationalization decision. Environmentally derived manifestations of the LOF (Gaur et al., 2011) — such as lack of knowledge of the firm/brand and of the competencies of the home country — impact the foreign market entry decision, regardless of the entry mode chosen. However, the decision to establish a branch in the foreign market (a type of greenfield investment) is affected mostly by firm-related liabilities (***e.g.***, lack of knowledge of local practices and of cultural differences; or lack of language skills). Indeed, if an emerging market firm chooses, for example, to establish an alliance with a foreign distributor, firm-related manifestations of the LOF would not be as relevant as in the case of a greenfield investment. If an emerging market firm acquires a local firm, the only critical man-

Table 3. Liabilities faced by Stefanini in the U.S.

Issues	Selected excerpts of interviews
Liability of Foreignness (LOF)	
Company and brand unknown in the U.S.	"We did not have recognition from the North American market regarding what we could do, what we could deliver."
Lack of knowledge in the U.S. about the Brazilian IT industry	"At the time, no Brazilian IT company had attempted to explore the U.S. market in a structured manner."
Lack of knowledge about local practices	"...a costly mistake because it meant years of unsuccessfully trying to establish an operation."
Lack of fluency in the local language	"And then there's the language barrier, like when I sent the American project manager to talk to the team in Brazil."
Lack of understanding of cultural differences	"For Americans, it's disrespectful to listen in on someone else's conversation, to meddle. [...] That kind of informality is a more Brazilian style of working."
Liability of Emergingness (LOE)	
Inconsistent country image	"...when we would talk about Brazil, people would think of soccer, carnival, naked women and beer — not technology." "Worldwide, Brazil is still not known as a tech country, unfortunately. From a brand point of view, it [the country name] adds nothing."
Inconsistent region (Latin America) image	"...the U.S. market did not think Latin America was mature enough to deliver to the U.S." "They didn't believe that Latinos could offer quality service development."
Negative country image	"And I think that, right now, that problem is being exported again all over the world, in that our control of COVID-19 is a wreck."
Lack of credibility associated to national stereotypes	"If we were Germans looking to open a new market, we would have a better chance." "...this is how an American sees us: 'Brazilians are nice people, but they need discipline, focus. I need things that I don't think Brazilians have'."
Lack of govt. support for internationalization	"There's no incentive in Brazil today for any international expansion of services, of service companies."
Lack of home country investment in country image	"We fought a lot within the association and even with the government [...]. We would say: stop selling Brazil abroad as Carnival, soccer, happiness, and fun. That is not what customers want to hear when they contract for a service. They want to know about seriousness, commitment, quality."
Liability of Outsidership (LOO)	
Lack of local contacts	"...the barrier: to be received in a meeting." "We were cost competitive, but we had not managed to win trust in the U.S."
Lack of referrals	"We didn't have an example to offer: a reference from a local American company." "We had no customer to use as a reference." "...do you know why you are not growing here? [...] because you don't have a showcase here."
Lack of effective links of domestic and intl. networks	"In the beginning, we hoped to have the support of those customers whom we had developed and who could help us by opening doors in other countries. Mainly parent companies that had subsidiaries in Brazil. [...] But that didn't happen."
Problems deriving from an emerging market firm acquiring a developed-country firm	"...it was an American company that had been bought by a Latin, Brazilian company, and there was some embarrassment because of it."

ifestation of the LOF concerns a subtler understanding of cultural differences (national and organizational) during the post-acquisition integration phase.

Concerning the LOE, environmentally derived manifestations can be much more relevant than those of the LOF. Although the two types of liability can

be distinguished conceptually (Madhok & Keyhani, 2012; Kotabe & Kothari, 2016), in practice they seem intertwined. The manifestations of the LOE can be particularly critical to the greenfield investment decision. However, the lack of home country government support for internationalization does not remain relevant once the firm has already established a branch in the foreign country. The acquisition may solve all the issues related to LOE, but it may bring a new one. Although the issue has been seldom addressed in

Table 4. "Waves" in Stefanini's internationalization process, strategies, and outcomes.

Stage	Country/ Region	Entry Mode	Motives	Strategies	Outcomes
1996–2000	Latin America	Acquisition (Argentina) and Greenfield	- Defensive move - Risk diversification	- Acquire a small company - Establish local branches	Slow organic growth
2001–2010	U.S.	Greenfield	- Presence in a key international market	- Establish a local branch - Work to develop a local network (meetings, contacts, etc.) and to generate good referrals - Establish new offices in the U.S.	Slow organic growth
2010 –2020	World	Acquisitions and Joint Ventures	- Become a global player - Diversification of the firm's portfolio - Enter the digital transformation segment - Access to world-class practices	- Integrate the acquired firm and the acquirer's operations globally - Use the network of the acquired firm to establish the parent company in the U.S. and other developed markets - Present the company as a global player (neither Brazilian nor Latin American)	Fast international growth

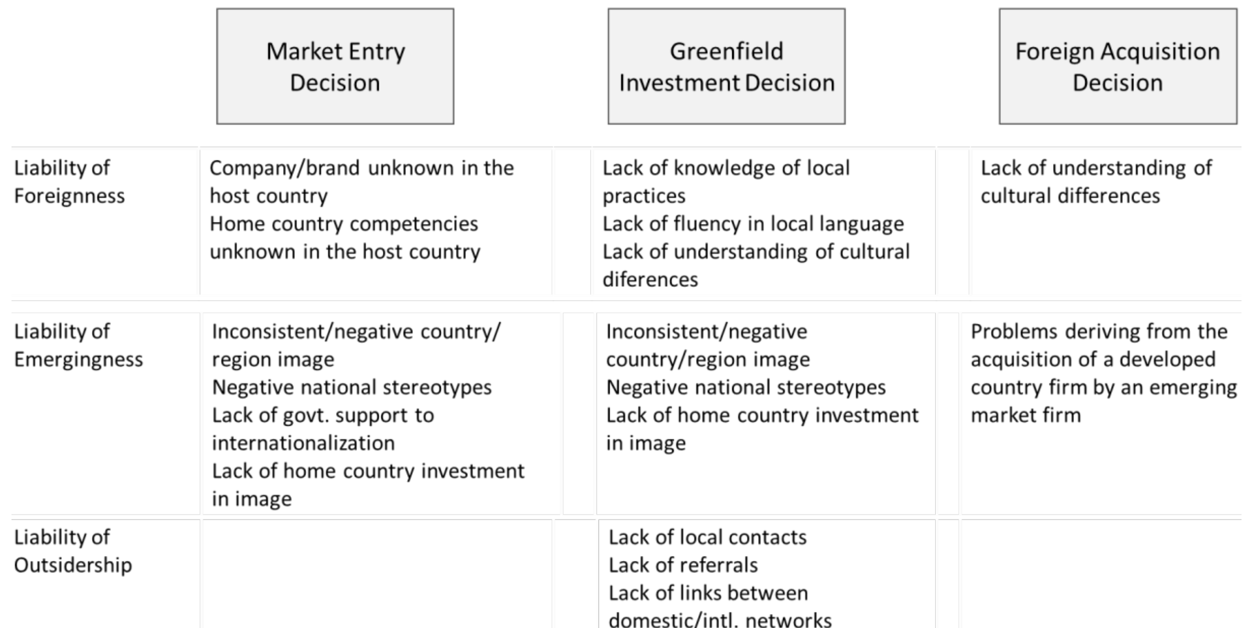

Figure 1. Framework linking international decisions and manifestations of liabilities.

the International Business (IB) literature, developed economy firms are not an easy target for acquisition by emerging market firms. It may be "embarrassing" to be acquired by a firm from a less developed country, with a poor image of technological innovation, in addition to cultural differences. There may be active resistance from developed country employees to acquisitions by emerging market firms, as in the case of the acquisition of the Canadian-based firm Inco by the Brazilian multinational mining company Vale. Media coverage may also be negative, as reported on the acquisition of the Swedish firm Volvo by a Chinese firm (Fang & Chimeson, 2017).

Lastly, all manifestations of the LOO tend to be firm-related (***e.g.***, lack of local contacts, of referrals, and of linkages between home and host country networks). These manifestations are a result of not belonging to international networks, which are deemed critically important for the success of a firm's internationalization (Johanson & Vahlne, 2009). However, their impact is critical mainly in the case of a greenfield investment in a foreign market. They do not impact an exporter that uses international or local intermediaries, because these intermediaries are not outsiders to the local networks. Also, the LOO becomes much less relevant after the acquisition of a company already established and operating in the target market.

4.2. Legitimation strategies

When faced with LOF, LOE, and LOO in advanced foreign markets, an emerging market high-tech firm needs to adopt legitimation strategies to succeed, one of which is a foreign acquisition (Luo & Tung, 2007; Madhok & Keyhani, 2012; Kotabe & Kothari, 2016). Acquisitions have long been identified as a "fast route to securing technology and/or international brand" (Child & Rodrigues, 2005, p. 397) for emerging market firms, and as "a mechanism for competitive catch-up" (Madhok & Keyhani, 2012, p. 26). In the case examined, however, the Brazilian high-tech firm already possessed entrepreneurial capabilities and technological skills that permitted it to successfully compete in the domestic market with IT multinationals from advanced countries, serving other multinational firms established in Brazil. Neither was the purpose of the acquisition to acquire a brand name; quite the contrary, the firm continued to use its own brand name in its domestic and global operations. The acquisition in the U.S. aimed specifically at overcoming LOF, LOE, and LOO.

Gaining legitimacy in a developed host market by means of acquisition of a local company addresses mostly the cultural-cognitive and the pragmatic dimensions of legitimacy (Zhang et al., 2022). The pragmatic dimension of legitimacy, which is related to LOE, refers to the extent to which the emerging market firm meets stakeholders' expectations concerning the quality of its organizational offer (Turcan & Fraser, 2016). This issue is particularly critical when the firm sells high-tech products and services (as in the case studied), and less so if it sells commodities or traditional products, such as garments or processed food. The cultural-cognitive dimension relates to the extent to which a firm is known in a foreign market, which is related to LOF, LOE, and LOO. The lack of reputation is overcome with the acquisition of a local company that already has a name in the local market, thus addressing the LOF. However, it also addresses the LOO, since the acquired company brings a set of connections with established networks, referrals, and recognition. Finally, the most relevant effect of the legitimation-by-acquisition strategy is on the LOE. The acquisition allows the emerging market firm to adjust its identity, by attaching to its image the attributes of a local company and substituting the emerging-country image by a developed-country image, not only in the host country but also in other foreign markets. Once the firm gets rid of the emerging country image, it can more easily compete in other grounds than merely a low-cost strategy (Madhok & Keyhani, 2012). Thus, the legitimation-by-acquisition strategy can also be understood as the adoption of isomorphic behavior (Zaheer, 1995; Sethi & Judge, 2009) by an emerging market high-tech firm to succeed in an advanced market.

Thus, a legitimation-by-acquisition strategy in the host market with a high-quality environment addresses the three liabilities: LOF, by gaining knowledge on all aspects of the institutional environment of the host country, as well as of the local market, and by becoming similar to local firms; LOE, by detaching the company identity from its emerging market origin, thus increasing its credibility; and LOO, by enabling an emerging market firm to participate

in the already established networks of the acquired firm in the host market and in other international markets.

5. FINAL REMARKS

This study addressed the question of how an emerging market high-tech firm from Latin America overcomes home country institutional voids by expanding internationally, particularly to countries of high institutional quality, and how it employs specific legitimation practices to neutralize LOF, LOE, and LOO. The theoretical contributions of the study relate to a fine-grained view of the relationship between LOF, LOE, and LOO, connecting the liabilities and their manifestations to different decisions in the internationalization of an emerging market high-tech firm (the market entry decision, the greenfield investment decision, and the foreign acquisition decision); and a detailed examination of the effects of the legitimation-by-acquisition strategy on LOF, LOE, and LOO along the international expansion of an emerging market high-tech firm. Thus, the study answers a call for more research on how multilatinas strategize (Aguilera et al., 2017; Cuervo-Cazurra, 2016; 2019) by identifying manifestations of liabilities and effects of a legitimation-by-acquisition strategy in a Latin American context — which differs from China (where previous studies were carried out) in terms of the regulatory, normative, and cultural dimensions of the institutional environment (Scott, 1995). Finally, the study brings novel insights into how LOE impacts the acquisition of an advanced-economy firm by a Latin American firm and on how acquisitions of local companies may allow a Latin American firm to "turn local" in an advanced market, erasing the negative attributes of emergingness associated to its identity.

From a practical standpoint, the research has the potential to contribute to top managers of emerging market high-tech firms that internationalize to developed markets, who can vicariously learn from the experiences and outcomes of the research reported in this paper, as well as to industry associations and government agencies that support the internationalization of these firms. When taking the entry-mode decision, managers should be aware of how the different manifestations of liabilities can affect the entry mode chosen and consider to what extent the firm has the competencies to face and overcome them. Industry organizations could also be useful in establishing links between domestic and international networks operating in the specific sector. As to government agencies, the key issues are to invest in promoting the country's image as a producer of high-tech products and services, as well as to provide support services that reduce the liabilities faced by a high-tech firm during the earlier steps of internationalization.

The results from a case are limited to the specific firm studied. However, they have the potential to be extended to other companies similar to the one studied: established and larger high-tech Latin American firms, particularly in the software industry. In addition, the method does allow for analytical generalization; the results can help to clarify the conceptual domain of the constructs under study (Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2011). Other limitations are associated with the small number of interviews, but this was partially overcome by the wide availability of secondary data.

Future research should examine other legitimation strategies employed by emerging market firms to overcome LOF, LOE, and LOO in order to succeed in foreign markets. There is a great need for research on the different types of emerging market multinationals, particularly multilatinas, but also firms from other geographies. Even among multilatinas, there are potential differences between firms depending on their geographic location, geographic isolation (Cuervo-Cazurra, 2016), country size, and several other factors, which deserve to be further explored. In addition, how liabilities affect multilatinas needs to be examined from several theoretical perspectives, such as the Resource-Based View (RBV) and Institutional Theory. Which are the resources and capabilities required to overcome each type of liability? And which characteristics of the home country institutional environment impact each type of liability? Although some research has already examined these issues, there is still a dearth of research from the perspective of multilatinas. Scholars could also explore in more detail a specific manifestation of LOE mentioned in this study, concerning the employees' reaction to the acquisition of a developed-country firm by an emerging market firm.

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COMO UMA EMPRESA DE UMA ECONOMIA EMERGENTE SUPERA AS LIMITAÇÕES E CONSTRÓI LEGITIMIDADE EM UM AMBIENTE INSTITUCIONAL DE ALTA QUALIDADE

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DETALHES DO ARTIGO

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Palavras-chave:
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RESUMO

Objetivo: Examinar como uma empresa proveniente de um país emergente adota estratégias específicas para neutralizar os passivos de origem estrangeira (LOF), emergência (LOE) e não pertinência a redes (LOO) e para ganhar legitimidade em um ambiente institucional de alta qualidade. **Método:** Estudo de caso único, em profundidade, de uma empresa brasileira do setor de tecnologia da informação, com base em dados secundários e entrevistas. **Principais Resultados:** O estudo mostra como a aquisição de uma empresa local lidou com os três passivos: LOF, adquirindo conhecimento sobre a estrutura institucional do ambiente do país de destino; LOE, ao desvincular a imagem da empresa do país de origem e enfatizar uma imagem global; e LOO, obtendo acesso a conexões já estabelecidas em redes internacionais pela empresa adquirida. **Relevância/ Originalidade:** Ainda há uma escassez de literatura sobre como as empresas de outros países emergentes, além da China — e particularmente da América Latina —, adotam estratégias para atenuar LOF, LOE e LOO ao se internacionalizarem para ambientes institucionais de alta qualidade. **Contribuições Teóricas/ Metodológicas:** Fornecer uma visão aprofundada da relação entre LOF, LOE e LOO e suas manifestações; e proporcionar uma compreensão da relação entre os passivos enfrentados e as estratégias de legitimação adotadas para superá-los ao longo da expansão internacional de uma empresa de alta tecnologia proveniente de uma economia emergente da América Latina.

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Appendix 1. Research constructs and corresponding definitions.

Construct	Definition	Source
LOF (Liability of Foreignness)	"the costs of doing business abroad that result in a competitive disadvantage for an MNE subunit"	Zaheer (1995, p. 342)
LOE (Liability of Emergingness)	"the additional costs of foreign expansion derived from the nature of their home country"	Zhou (2018, p. 1)
LOO (Liability of Outsidership)	"liabilities due to the lack of market-specific business knowledge and lack of relevant network positions"	Schweizer (2013, p. 82)
Isomorphism	"a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions"	DiMaggio and Powell (1983, p. 149)
Legitimacy	"the overall assessment of the appropriateness of organizational ends and means"	Zhang et al. (2022, p. 801)
Legitimation	"legitimacy-enhancing strategies"	Zhang et al. (2022, p. 802)

MNE: multinational enterprise.