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The impact of liability of origin on corporate performance of Chinese high-tech multinationals

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Background: Multinational companies (MNCs) from emerging economies often face disadvantages in international markets because of the liability of origin (LOO) associated with their home country identity, known as 'born disadvantage'. Recently, fierce international competition and geopolitical conflicts have introduced a new form of LOO, further challenging MNCs' efforts to gain legitimacy in host countries.

Aim: This study aims to examine the impact of the new LOO on the corporate performance of Chinese high-tech manufacturing MNCs' overseas subsidiaries and to explore institutional distance as a moderator and organisational legitimacy as mediator.

Setting: The research focusses on 179 overseas subsidiaries of Chinese high-tech manufacturing MNCs operating in diverse host country environments.

Method: A moderated mediation model was employed, utilising both secondary and primary quantitative data to investigate the relationships between the new LOO, organisational legitimacy, institutional distance and subsidiary performance.

Results: The new LOO's impact on corporate performance varies with host country stakeholder's perception of subsidiaries legitimacy. High institutional distance intensifies the negative impact of the new LOO on organisational legitimacy, significantly influencing subsidiary performance.

Conclusion: The new LOO poses significant challenges for Chinese high-tech MNCs in achieving legitimacy and sustaining performance in international markets, particularly in host countries with high institutional distance.

Contribution: By integrating institutional and identity theories, this study provides valuable insights into the dynamics of the 'born disadvantage' amid geopolitical tensions. The findings are important for Chinese MNCs and authorities to develop more effective internationalisation strategies in institutionally distant markets with escalating geopolitical conflicts to enhance corporate performance.

Keywords: liability of origin; foreign direct investment; corporate performance; legitimacy; geopolitical conflict.

Introduction

It has long been acknowledged that multinational companies (MNCs) face competitive disadvantages in foreign markets (Hymer 1976). These disadvantages were primarily attributed to the 'liability of foreignness' (LOF) (Zaheer 1995), which results from venturing into an unfamiliar institutional setting where local stakeholders might treat foreign investors with bias (Dib-Slamani, Grolleau & Mzoughi 2023; Eden & Miller 2004; Jung & Lee 2018). Ramachandran and Pant (2010) argue that the LOF alone does not fully explain the challenges faced by MNCs from emerging economies (EEs) during internationalisation. Liability of origin (LOO), defined as the challenges borne by MNCs in host countries because of their national origin (Ramachandran & Pant 2010), may result in additional costs or a legitimacy deficit for EE MNCs doing business abroad (Amankwah-Amoah & Debrah 2017; Jiang et al. 2022; Wei, Zheng & Zuo 2025). Yang and Liu (2020) describe this phenomenon as a 'born disadvantage'. Given the negative assumptions of poor technological standards or institutional voids associated with EE, which have been identified as common sources of this 'born disadvantage', EE MNCs face challenges in their quest to gain legitimacy in host countries (Ramachandran & Pant 2010; Tan & Yang 2021; Zuo 2025).

The perception of EE MNCs, particularly Chinese MNCs, has changed, given the rapid expansion of their investment footprint across various global markets. China's aggressive growth approach has attracted considerable international attention, particularly following the introduction of the Belt and Road Initiative (BRI) in 2013 (Yu, Qian & Liu 2019). Nowadays, Chinese MNCs, especially high-tech firms, still experience negative perceptions from host country stakeholders, but not because of the incapabilities of these MNCs because of institutional voids or poor technological infrastructure. Instead, Chinese MNCs are bearing a 'born disadvantage' because of China's rising technological prowess and the challenges it poses to the economic and political dominance of Western nations (Jiang et al. 2022).

Intense international competition and geopolitical dynamics contribute to a new type of LOO (henceforth referred to as 'new LOO') (Tan & Yang 2021). Unlike the traditional LOO encountered when entering developed economies, the new LOO among Chinese MNCs stands out for its unprecedented scale and complexity (Tan & Yang 2021). The new LOO faced by Chinese MNCs has also extended to developing countries, especially those that have joined the BRI (Gu, Yang & Zuo 2022). Given the extent of the new LOO, it is crucial for Chinese MNCs to critically assess this new phenomenon and its corresponding impact on their corporate performance in host countries. This article thus aims to address this insufficiently explored topic by examining the effect of the new LOO on the overseas subsidiary performance of Chinese high-tech MNCs. In addition, a moderated mediation model was employed to elucidate the underlying mechanisms of the association between the new LOO and the corporate performance of Chinese high-tech MNCs' subsidiaries.

This article contributes to several streams of research. Firstly, this research extends the scope of the LOO phenomenon by emphasising the new LOO resulting from geopolitical conflict. Furthermore, prior research on LOO typically assumed homogeneity among EE MNCs. This perspective, however, overlooks possible variations in and evolvement of LOO among different EE MNCs (Jiang et al. 2022; Tan & Yang 2021). This article, thus, concentrates on Chinese high-tech MNCs in the manufacturing sector and advocates the importance of moving beyond focussing extensively on LOF and traditional LOO. Instead, a theoretical framework that surrounds the influence of the new LOO on the corporate performance of MNCs' subsidiaries is offered.

Secondly, by integrating institutional and identity theories, this article sheds light on how the organisational identity (especially national identity) of MNCs influences their corporate performance in the context of escalating geopolitical conflicts. As posited by institutional theory, EE MNCs can enhance their subsidiaries' corporate performance in host countries when employing legitimation strategies to reduce scepticism by home country stakeholders. The importance of obtaining legitimacy in host countries is exacerbated when adverse national identity, that is, the new form of LOO, comes into play. Given the increased complexity of geopolitical environments, the gaining and maintaining of organisational legitimacy by EE MNCs, such as China, has become more complex and could hinder these MNCs' corporate performance in host countries. Considering how institutional and national identity theories interact, a novel theoretical perspective in the context of the new LOO is provided. This research, hence, contributes to the limited and emerging literature on how national identity shapes MNCs' internationalisation and global development patterns.

Empirically, the study distinguishes itself from prior related research by employing a moderated mediation model, where institutional distance acts as a moderator and organisational legitimacy as a mediator. This methodological approach uncovers the mechanisms through which the new LOO impacts the overseas subsidiary performance of Chinese high-tech MNCs. The reported findings are critical for understanding the complexities of the new LOO's effects in a global business context, particularly for MNCs originating from EEs like China.

This article is structured as follows: The 'Theoretical background and hypothesis development' section provides an overview of relevant literature and proposes the study's research hypotheses. The 'Research design' section outlines details of the research approach employed in this study. The 'Results and discussion' section presents and discusses the empirical results. This article concludes with an overview of the findings along with practical implications, limitations and recommendations for future research.

Theoretical background and hypothesis development

Organisational identity and liability of origin

The answer to the question 'Who are we?' as an organisation lies within an organisation's identity, a critical construct in organisational studies (Albert, Ashforth & Dutton 2000:13). According to Oliver and Vough (2020:76), organisational identity is viewed as a 'socially constructed perception of an organization's core characteristics' that are widely recognised and accepted by organisational members, that is, stakeholders. In the context of MNC subsidiaries, stakeholders in host countries examine an MNC's organisational identity to assess whether it aligns with local social values, business norms, and product and brand expectations (Ritvala, Granqvist & Piekkari 2021; Zuo 2025). An important factor in the formation of organisational identity is an MNC's national identity (Jack & Lorbiecki 2007).

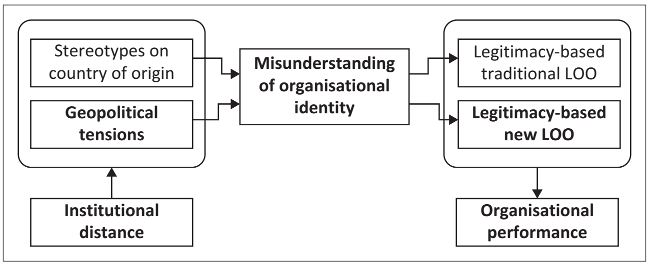
National identity theory suggests that citizens of a country identify with their country's formal and informal institutions (Ashta 2021; Liu & Turner 2018). Depending on the local stakeholders' perception and attitude towards the MNC's country of origin, national identity can be crucial to performance when MNCs enter foreign markets (Edman 2016; Gregorič, Rabbiosi & Santangelo 2021). Consequently, organisational identity, and moreover, national identity, becomes a crucial metric for determining the organisational legitimacy of MNCs in foreign markets (Ellimäki et al. 2021; Wei & Yang 2018). According to Ramachandran and Pant (2010), the national origins of MNCs determine the LOO, that is, disadvantages faced in host countries, which can ultimately influence the corporate performance of MNCs.

Liability of origin is rooted in the adverse stereotypes stakeholders in host countries have of the MNC's home country. This negative stereotyping leads host countries to perceive the organisational identity of MNCs' subsidiaries as illegitimate (Marano, Tashman & Kostova 2017; Zuo 2025). It has long been argued that MNCs from EE face substantial disadvantages when seeking to compete abroad (Ramachandran & Pant 2010). China, in particular, is continuously facing LOO and seeking to acquire complete legitimacy in foreign markets. Given China's unique political and economic institutions, culture, social norms and values, its MNCs experience adverse stereotyping from host country stakeholders. Jiang et al. (2022) explore the LOO of Chinese MNCs and suggested that host countries might perceive these entities as lacking in 'warmth' attributes such as friendliness, good intentions, sincerity and trustworthiness. These perceptions result in host countries not expecting Chinese MNCs to behave according to the hosts' standards, leading to increased suspicion and scepticism, ultimately impacting the success of these MNCs' subsidiaries. Jiang et al. (2022) conclude that when the perceived warmth dimension of China is low, Chinese MNCs are less likely to complete deals in foreign countries. This finding emphasises the impact of national stereotypes on international business operations.

Substantial attention has been devoted to LOO in the international business context (Marano et al. 2017), emphasising how traditional disadvantages impact MNCs' corporate performance. Tan and Yang (2021), however, proposed that besides the typical stereotyping, Chinese MNCs are also increasingly confronting a novel form of LOO, referred to as the 'new LOO'. This emerging 'born disadvantage' stems from escalating geopolitical tensions between countries (Tan & Yang 2021).

Limited exploration of the new LOO has been conducted, with the scant research available focussing primarily on EE MNCs operating in developed economies. However, as geopolitical conflicts intensify, the new LOO faced by EE MNCs also impacts their operations in their developing counterparts (Zámborský et al. 2023). The potential impact of the new LOO on MNCs' business operations in foreign markets highlights the importance of moving beyond focussing exclusively on the traditional LOO to better understand the consequences of and potential solutions for the new LOO.

Drawing from the theoretical discussions in this section, the theoretical framework of LOO formation and impact mechanisms are graphically illustrated in Figure 1.



LOO, liability of origin.

FIGURE 1: Theoretical framework of liability of origin formation and impact mechanisms.

The new liability of origin and the corporate performance of multinational companies' subsidiaries

The new LOO stems from the escalating geopolitical conflicts between countries (Gu et al. 2022; Tan & Yang 2021). Tensions between different states can adversely affect normal international relations (Bloom 2009). According to Tan and Yang (2021), the risk of the new LOO is even more pertinent to Chinese MNCs, especially those operating in competitive, high-tech industries. China has made substantial strides in the high-tech industry, resulting in increased competition between Chinese MNCs and host country corporations (Jiang et al. 2022). China's progression in competitive industries enhances the competition faced by host countries to maintain the position of industry leaders, fuelling geopolitical tensions (Jiang et al. 2022; Witt 2019). This phenomenon can be seen as an industry-level identity disadvantage, which contributes to the new LOO.

Fierce industry competition between China and host countries is thus the driver of the new LOO, as opposed to the traditional assumptions of technological incapabilities and institutional voids of EE MNCs (Tan & Yang 2021). Wang (2014) further elaborates that manifestations of this new LOO include scepticism regarding the motives behind Chinese foreign investment (e.g. national security concerns), investment practices (e.g. irresponsible corporate behaviour) and methods (e.g. allegations of unfair competition by enterprises).

Geopolitical conflicts between countries create an environment of heightened uncertainty and tension, which amplifies cognitive and regulatory challenges faced by MNCs in foreign markets (Guo 2024). Such conditions often result in the stigmatisation of Chinese MNCs, which hinders support from the local government and other stakeholders (Amankwah-Amoah & Debrah 2017; Zhang & De Vries 2023). This, in turn, could significantly impact the MNCs' international corporate performance (Amankwah-Amoah & Debrah 2017; Alkire & Meschi 2018; Yang & Liu 2020). The national identity of China is, thus, expected to be a crucial determinant of Chinese MNC subsidiaries' performance when they enter foreign markets, particularly in countries with high geopolitical tensions (Jiang et al. 2022). Accordingly, the following hypothesis was developed:

H_1: Chinese high-tech MNCs' subsidiaries exhibiting a higher level of the new LOO are associated with lower corporate performance.

The mediating effect of organisational legitimacy

Establishing and maintaining legitimacy in host countries is a pressing issue faced by MNCs (Kostova & Zaheer 1999). Legitimacy is a widely accepted concept in institutional research (Bitektine & Haack 2015; Colyvas & Powell 2006). Institutional theory suggests that an organisation's legitimacy, growth and ultimate survival in foreign countries are contingent upon its compliance with the established principles within the given institutional context (DiMaggio & Powell 1983; Pollock & Rindova 2003; Suchman 1995).

Following an extensive review of legitimacy research, Deephouse et al. (2017:9) define organisational legitimacy as 'the perceived appropriateness of an organization to a social system in terms of rules, values, norms and definitions'. These are dictated by a combination of regulations, societal norms and cognitive frameworks. When MNCs expand into foreign markets, their subsidiaries integrate into the respective local societies, necessitating interactions with various local stakeholders (Cao & Alon 2021).

These stakeholders judge and assess the MNCs' subsidiaries mainly on their organisational identity, which plays a crucial role in gaining legitimacy (Gregorič et al. 2021). For these multinationals, it is imperative to work towards earning recognition and acceptance from these stakeholders to grow and ultimately survive (Kostova, Roth & Dacin 2008).

Misconceptions in public perception can hinder interactions between MNCs and local stakeholders (Marano et al. 2017). Local stakeholders' adverse stereotypes towards the cultural, institutional and economic conditions of the MNCs' home country (LOO) can negatively impact the perceived identity and legitimacy of these MNCs (Ramachandran & Pant 2010; Tan & Yang 2021). This is especially true in the context of EE MNCs, which tend to experience more legitimacy challenges than developed economies (Ramachandran & Pant 2010; Zhang et al. 2020).

Stereotypes may cause host country consumers to view products from EE MNCs as low quality (Klein 2002; Jiang et al. 2022), governments to suspect these MNCs of corruption and lack of transparency (Zhang 2022), investors to doubt their corporate governance (Marano et al. 2017; Liou, Brown & Hasija 2021), and civil societies to question their commitment to environmental protection and labour rights (Fiaschi, Giuliani & Nieri 2017). Such negative perceptions lead to the discrimination of EE MNCs, thus hampering the MNCs' ability to gain legitimacy in host countries. Consequently, local stakeholders are discouraged from providing resources that are crucial to the success of these corporations (Fisher, Kotha & Lahiri 2016; Tan & Yang 2021; Jiang et al. 2022).

Because of geopolitical conflict, local stakeholders have additional legitimacy concerns about Chinese MNCs, which significantly raises the level of legitimacy pressure experienced by these MNCs (Jiang et al. 2022). National identity discrimination, mainly driven by geopolitical tension between countries, resulted in the new LOO (Tan & Yang 2021). The higher the pressure because of the new LOO, the more unlikely host country governments are to award contracts, licences or preferential treatment to these EE MNCs (Parente et al. 2019), and the lower the likelihood of these MNCs achieving a higher level of legitimacy. Chinese MNCs, thus, face increased challenges resulting from the new LOO, which could adversely affect their subsidiaries' corporate performance. In accordance with the proposed linkages between the new LOO, organisational legitimacy, and EE MNCs' corporate performance, the following three hypotheses were developed:

H_2: Chinese high-tech MNCs' subsidiaries exhibiting a higher level of the new LOO are associated with lower organisational legitimacy.

H_3: Chinese high-tech MNCs' subsidiaries exhibiting a lower level of organisational legitimacy are associated with lower corporate performance.

H_4: The relationship between the new LOO and the corporate performance of Chinese high-tech MNCs' subsidiaries in host countries is mediated by organisational legitimacy.

The moderating effect of institutional distance

Multinational companies can be viewed as social constructs formed by specific national institutional contexts, with their identities moulded by their home country's institutional system (Gu et al. 2022). Multinational companies often encounter a competitive disadvantage resulting from the institutional distance between their home country and the host countries in which they operate. Institutional distance is a well-recognised phenomenon in international business (Fiaschi et al. 2017; Yang & Liu 2020). It is defined as the difference between the regulatory, normative and cognitive institutions of two countries (Kostova & Zaheer 1999). The greater the institutional distance between countries, the vaster the institutional differences, and consequently, the more difficult it is for MNCs to gain legitimacy in host countries (Kostava et al. 2020).

Three primary disadvantages arising from institutional distance for MNCs have been identified in the literature: (1) unfamiliarity hazard, where foreign enterprises face informational asymmetries compared to local businesses (Tzeng 2023); (2) discriminatory hazards, involving host country stakeholders' preferential treatment towards domestic enterprises, leading to higher barriers for foreign firms (De Beule, Elia & Piscitello 2014) and (3) relational hazards, where foreign enterprises struggle with exclusion from local social networks, negatively impacting the establishment of trust and business success (Shirodkar & Konara 2017). In this vein, the greater the institutional distance between the MNCs' home country and host countries, the greater the institutional pressure exerted by the host countries' institutional environment on the MNCs. This increased distance leads to a more pronounced LOF for the MNCs. Consequently, as the institutional distance widens, MNCs' subsidiaries facing the new LOO find it increasingly challenging to gain legitimacy in the host countries. Accordingly, the following hypothesis was proposed:

H_5: The relationship between the new LOO and organisational legitimacy of Chinese high-tech MNCs' subsidiaries is moderated by institutional distance.

A moderated mediation effect

In addition to the proposed theoretical prediction that institutional distance likely moderates the relationship between the new LOO and corporate performance via organisational legitimacy, a potential moderated mediating effect was proposed. Drawing on institutional and legitimacy theories, the researchers posited that the hurdle for MNCs in gaining legitimacy, to a certain extent, stems from the difference in the institutional environments of home and host countries, that is, institutional distance.

Institutional distance may lead stakeholders in the host country to be less informed about new market entrants. This lack of awareness can lead to stakeholders relying on stereotypes, potentially labelling MNCs' investments as illegitimate and ultimately impacting the MNCs' corporate performance in host countries. At the same time, MNCs, as foreigners, often face different institutional standards compared to domestic firms (Zaheer 1995). This can subject MNCs to stricter government regulations and potentially unfair discriminatory treatment in the host country (Denk, Kaufmann & Roesch 2012). Furthermore, the substantial differences between the home and host countries' regulatory systems make it more challenging for MNCs to accurately interpret and respond to the host country's institutional environment. This can lead to local stakeholders further alienating MNCs. Institutional distance is also considered a key factor that triggers the LOF (Eden & Miller 2004; Gu et al. 2022) and the LOO in the context of EE (Ramachandran & Pant 2010). The greater the institutional distance, the more significant the 'born disadvantage' challenges faced by EE MNCs. In the context of a high level of institutional distance, the new LOO, together with LOF, makes it more complicated for the subsidiaries of MNCs to obtain legitimacy in host countries and ultimately achieve improved corporate performance.

Greater distance heightens institutional risks for MNCs, especially in host countries experiencing geopolitical conflicts with their home country. This complicates the process of gaining legitimacy, increases institutional costs, and adversely affects success and performance in international markets. Accordingly, the following hypothesis was formulated:

H_6: The mediation effect of organisational legitimacy on the relationship between the new LOO and corporate performance of Chinese high-tech MNCs' subsidiaries in host countries is moderated by institutional distance.

Based on a comprehensive review of prior literature, the proposed relationships between the new LOO, organisational legitimacy, institutional distance and corporate performance are illustrated in Figure 2.

Research design

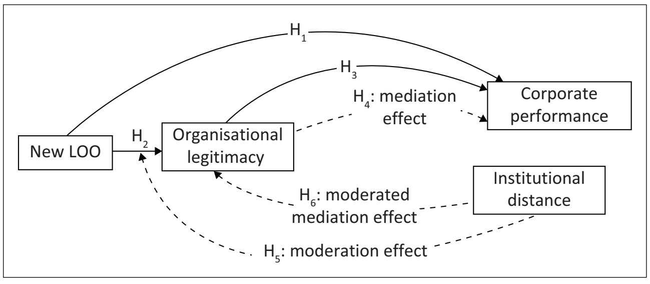
Sample and data collection

According to research by Witt (2019) and Tan and Yang (2021), the risk of the new LOO is more pertinent to high-tech industries that are more likely to threaten the national security of host countries. Given China's technological progression and the subsequent challenges it poses to Western nations (Jiang et al. 2022), Chinese high-tech MNCs were the primary focus of this study. More specifically, high-tech MNCs in the manufacturing sector were investigated since this sector represents one of the largest segments of Chinese outward foreign direct investments (FDI) (NBS 2023). Furthermore, the number of MNCs investing in manufacturing leads in comparison to all other industries (China-Africa Business Council 2021).

Both primary and secondary data sources were utilised for data collection. The new LOO and institutional distance variables were quantified using secondary quantitative data. Primary data were collected by means of a structured questionnaire to measure organisational legitimacy and overseas subsidiary corporate performance.

Prior to formal data collection, a preliminary pilot study was conducted with 12 respondents from Chinese high-tech manufacturing MNCs. The questionnaire was then refined based on the feedback from these respondents. Formal data collection took place from June 2019 to January 2020. The attendance of multiple international exhibitions and investment forums in China (e.g. the second China International Import Expo, the 2019 China Import and Export Fair, and the 2019 China-Africa Private Sector Cooperation Forum) enabled the identification of 212 eligible Chinese high-tech manufacturing MNCs for the sample.

Three steps were followed to ensure the quality of the collected primary data. Firstly, it was required that all respondents either held a senior management position or were involved in the FDI decision-making process at their respective MNCs to ensure the respondents were



LOO, liability of origin.

FIGURE 2: Proposed conceptual model.

knowledgeable about their organisation's FDI projects. Secondly, the survey was conducted using structured questionnaires with the assistance of fieldworkers who received comprehensive training from the lead author prior to data collection. These fieldworkers, therefore, had a thorough understanding of the research project. The fieldworkers first briefed the respondents about the aim of the research, after which they were handed the questionnaire. This step ensured that the quality of data collected was maximised and the number of non-responses kept to a minimum (Lavrakas 2008). Thirdly, only completed questionnaires were included in the analysis, and as a final step, all questionnaires with identical responses across all items were excluded to maintain the validity of our analysis.

Out of the 212 questionnaires, 187 were deemed suitable for analysis. Of these 187 questionnaires, eight were completed for state-owned enterprises (SOEs). State-owned enterprises are frequently perceived less favourably by host country stakeholders compared to their non-state-owned counterparts, primarily because of their strong relations with home governments (Huang, Shen & Zhang 2022). This perception often leads to these SOEs facing greater challenges related to the new LOO and legitimacy challenges, especially in host countries that have hostile political and diplomatic relations with the MNCs' home country (Huang et al. 2022). To minimise biases and ensure the integrity of the findings, these eight SOEs were excluded. A final sample of 179 Chinese private, high-tech manufacturing MNCs was, therefore, considered for empirical analysis.

It was imperative to acknowledge that the sampled MNCs may have outbound FDI projects in multiple countries. Respondents were, therefore, instructed to consider their most recent outbound FDI project when completing the questionnaire. A description of the final sample is reflected in Table 1.

All the MNC subsidiaries included in the sample were, at the time of data collection, established in host countries within 5 years or less. Only 14.3% of the sample employ more than 100 employees at their respective subsidiaries, which was expected given the relatively brief operational history of these FDI projects. In terms of entry mode, 43% of the sampled MNCs entered the host countries via a wholly owned subsidiary (WOS), while the majority (57%) made use of a joint venture.

Geographically, the largest portion of FDI projects (63.1%) spans Asia and Africa, followed by 16.2% in Europe. The top 10 FDI destinations in terms of the number of projects include the United States of America, Japan, Singapore, Vietnam, Germany, Russia, Italy, Brazil, South Africa and Ethiopia. This reported region and country distribution aligns with current trends in the global expansion of Chinese enterprises (NBS 2023). To achieve a representative distribution, a stratified sampling procedure based on investment regions was used in the survey. Recognition was thus given to the fact that geopolitical tensions between China and host countries vary significantly across different regions.

Variables and measurement

Independent variable

The new LOO (*loo*) represented the independent variable of this study. The new LOO faced by EE MNCs originates from national identity discrimination, largely driven by geopolitical tensions. These tensions typically stem from political divergences or the extent to which two nations do not share similar interests and values in global affairs (Charpin, London & Vincent 2024). Political divergence is operationalised as the dissimilarity in voting patterns at the United Nations (UN) General Assembly, as captured by Ideal Point Distances (IPD) (Bertrand, Betschinger & Settles 2016). Countries with larger IPD tend to experience greater geopolitical tensions and are more prone to being in conflict with other countries (Bertrand et al. 2016; Jiang et al. 2022). Subsequently, these countries' MNCs are more likely to suffer the new LOO. Following Voeten, Strezhnev and Bailey (2009), this study uses IPD from the UN General Assembly Voting dataset to measure the new LOO. The IPD values were averaged over the years 2015–2019 to align with the sample period. A greater IPD indicates a more prominent level of China's new LOO, potentially raising suspicion and hostility among stakeholders towards Chinese high-tech MNCs (Li, Li & Wang 2019). Consequently, MNCs may find it challenging to gain legitimacy and achieve satisfactory subsidiary performance in a host country.

Dependent variable

Overseas subsidiary corporate performance (*per*) served as the dependent variable. Obtaining objective corporate performance data for overseas subsidiaries is challenging

TABLE 1: Information on overseas subsidiaries (N = 179).

Categories	n	%
Established years		
1 year	35	19.4
2 years	54	30.1
3 years	38	21.5
4 years	37	20.4
5 years	15	8.6
Number of employees		
Less than 10	36	20.4
11–30	45	25.1
31–50	28	15.8
51–100	44	24.4
Over 100	26	14.3
Location		
Asia	57	31.8
Europe	29	16.2
Northern America	17	9.5
Southern America	10	5.6
Africa	56	31.3
Oceania	10	5.6
Entry mode		
WOS	77	43
Joint venture	102	57

WOS, wholly owned subsidiaries.

(Brouthers & Nakos 2004). A viable alternative is the use of subjective performance measures, which have been proven to be highly correlated with objective measures (Glaister & Buckley 1998). It was, thus, deemed appropriate to employ a subjective measure as a proxy for MNCs' subsidiary corporate performance. In line with prior research (Han 2021; Zhang & De Vries 2023), a composite indicator of corporate performance was developed, encompassing four key factors (Table 2): sales volume (*per 1*), local market share (*per 2*), sales margin (*per 3*) and sales growth (*per 4*). Considering their most recent outbound FDI project, respondents were asked to rate their satisfaction with each of the four performance aspects on a 5-point Likert scale (1 = 'strongly unsatisfied' to 5 = 'strongly satisfied').

Mediation variable

Organisational legitimacy (*leg*) was employed as a mediation variable in the relationship between the new LOO and overseas subsidiary corporate performance. The ability of MNCs to gain organisational legitimacy is not only influenced by market forces but also by non-market forces, including geopolitical tensions (Tzeng 2023; Zámborský et al. 2023). In line with prior research (e.g. Earl & Michailova 2021; Zhang et al. 2018), this study measures the legitimacy of MNCs' subsidiaries by using five items. These items capture acceptance and endorsement by both market stakeholders (employees, customers and suppliers) and non-market stakeholders (governments and media). A 5-point Likert scale (1 = 'strongly disagree' to 5 = 'strongly agree') was employed for the following five statements: 'Customers highly value the products and services provided by us' (leg 1), 'Suppliers want to do business with us' (leg 2), 'Employees are proud to tell others they work in our company' (leg 3), 'We have received various honorary titles from the local government and industry association' (leg 4) and 'We have received considerable positive attention and appraisal from local media' (leg 5).

Moderator variable

Institutional distance (*ins*) between China and their MNCs' host countries was identified as a moderator variable in the relationship between the new LOO and legitimacy gaining.

TABLE 2: Measurement scales and properties (N = 179).

Construct (items)	Factor loading	Cronbach's alpha	CR	AVE
MNCs' subsidiaries' legitimacy (leg)	-	0.896	0.924	0.708
leg 2	0.881	-	-	-
leg 1	0.865	-	-	-
leg 4	0.842	-	-	-
leg 3	0.814	-	-	-
leg 5	0.801	-	-	-
MNCs' subsidiaries' performance (per)	-	0.838	0.892	0.673
per 3	0.839	-	-	-
per 4	0.818	-	-	-
per 1	0.815	-	-	-
per 2	0.811	-	-	-

MNCs, multinational companies; CR, composite reliability; AVE, average variance extracted.

According to Kostova et al. (2020), the World Governance Indicator (WGI) is the most frequently utilised metric for this construct. The WGI encompasses six dimensions: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption (Kostova et al. 2020). For this study, an aggregate WGI approach was adopted to measure the institutional distance between China and host countries. Employing the calculation method of Kogut and Singh (1988), the formula for estimating *ins* is as follows (Equation 1):

$$ins = \frac{1}{6}\sum_{i=1}^{6}\frac{\left(I_{ij} - I_{ic}\right)^2}{V_i} \quad \text{[Eqn 1]}$$

where, I_{ij} denotes WGI dimension i of host country j, V_i is the variance of the index of dimension i and c represents mainland China. The institutional distance from mainland China to host country j is represented by *ins*.

Control variables

To eliminate the impact of confounding effects, variables that may influence the corporate performance of MNCs' subsidiaries at the firm-, industry- and country levels were controlled. Specifically, the size of MNCs' subsidiaries (*size*), their investment history (*age*) and their mode of entry (*mode*) were used to control for firm-level effects. In line with Wang and Gao (2023), the natural logarithm of the number of employees was used to control for subsidiary size. Following Zheng, Luo and Maksimov (2015), the subsidiaries' investment history was proxied by the number of operational years in the host country. The mode of entry was categorised using a dummy variable, with 0 denoting joint ventures and 1 representing WOS. Relevant data for these three control variables were collected from the questionnaire.

In line with Wang et al. (2020), high technology advancement (*tech*) and natural resource abundance (*res*) in the host country were incorporated to control for industry-level effects, as these factors may determine the attractiveness of technology- and resource-seeking subsidiaries. The rate of high-technology exports as a proportion of manufactured exports and the rate of fuel, ores and metal exports as a proportion of merchandise exports were employed to measure the *tech* and *res* control variables, respectively. Lastly, the host country's growth rate (*grow*) and market size (*mar*) were included to control for country-level attributes, as these factors may influence the attractiveness of market-seeking subsidiaries. The former was quantified by the gross domestic product (GDP) annual growth rate (Gu et al. 2022), while the latter was measured using the natural logarithm of the host country's population (Getachew & Beamish 2021). Relevant data for the host country attributes and industry effect variables were collected from the World Bank database. To ensure consistency with the time frames of the collected data, this study utilised 5-year average figures (from 2015 to 2019).

Validity and reliability test

To test the validity and reliability of the organisational legitimacy (*leg*) and corporate performance (*per*) measurement scales, both an exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) were employed.

The EFA reported Kaiser–Meyer–Olkin (KMO) values exceeding the acceptable threshold of 0.7 (i.e. 0.868 and 0.794 for *leg* and *per*, respectively). A significant probability of 0.000 was also reported for the Bartlett's Test of Sphericity, indicating that the data were suitable for factor analysis. Construct validity was thus confirmed. The factor loadings for all items were above the 0.500 threshold (Hair et al. 2014). Therefore, a single common factor for legitimacy (*leg*) and one for corporate performance (*per*) were identified. The characteristic roots for each construct explained 70.763% and 67.485% of the overall variance, respectively. Cronbach's alpha coefficients were calculated to assess composite reliability (CR). As observed in Table 2, Cronbach's alpha coefficients for each scale exceeded the critical threshold of 0.700 (Hair et al. 2022).

The survey data were further examined in a CFA obtaining a good fit for the 2-factor model (χ^2/df [degrees of freedom] = 1.108 < 3, root mean square error of approximation [RMSEA] = 0.033 < 0.080, Tucker–Lewis Index [TLI] = 0.990 > 0.900, Comparative Fit Index [CFI] = 0.994 > 0.900 and Goodness-of-Fit Index [GFI] = 0.964 > 0.900). Convergent validity was assessed by means of the average variance extracted (AVE) and the CR. As indicated in Table 2, the two AVE values surpass the minimum threshold of 0.500, and the CR for both constructs exceeds the threshold of 0.800 (Hair et al. 2022). The square root of the AVEs is higher than the inter-correlations among constructs, as shown in Table 3, confirming discriminant validity.

Common method bias assessment

Given the subjective measures employed to estimate organisational legitimacy and corporate performance, concerns pertaining to common method bias issues, particularly self-report bias, had to be addressed. For this purpose, both procedural and statistical controls, as well as methodological safeguards, were implemented. The procedural controls included anonymous questionnaire submissions, minimisation of the ambiguity of the measurement items and the use of diverse sources to obtain the relevant data for the study. Furthermore, we collected data at different time points (mornings and afternoons) to control for potential time-of-day effects on participant engagement and response patterns. We also gathered data across multiple trade exhibitions and investment forums, which helped minimise temporal and contextual biases that might be associated with specific events or settings.

The methodological safeguard was our research design complexity. As our hypotheses included moderation, mediation and moderated mediation effects, our research design was resistant to common method bias as respondents cannot anticipate these complex analytical relationships (Han 2021).

Furthermore, a statistical measure, namely Harman's single-factor test, was employed. By performing CFA, all survey items were entered into the analysis and allowed to load onto a single factor. The model demonstrated very poor fit (χ^2/df = 7.389, RMSEA = 0.253, TLI = 0.428, CFI = 0.619 and GFI = 0.769). From these results, it was concluded that common method bias was not a concern.

Ethical considerations

This article followed all ethical standards for research without direct contact with human or animal subjects.

Results and discussion

Descriptive statistics and correlation analysis

The descriptive statistics and correlation analysis results for all the variables are presented in Table 3. A significant negative correlation between the new LOO and organisational legitimacy was reported, while the correlation between legitimacy and corporate performance was positive and statistically significant. Both these findings align with the proposed hypotheses. Notably, all the correlation coefficients reported in Table 3 are below 0.400, and the maximum

TABLE 3: Means, standard deviations and correlations (N = 179).

Variables	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11
1. *size*	3.611	1.204	1	-	-	-	-	-	-	-	-	-	-
2. *age*	0.867	0.521	0.155	1	-	-	-	-	-	-	-	-	-
3. *mode*	0.571	0.498	-0.100	-0.037	1	-	-	-	-	-	-	-	-
4. *grow*	0.031	0.028	-0.148	-0.111	0.054	1	-	-	-	-	-	-	-
5. *mar*	11.531	0.838	-0.021	-0.094	-0.074	-0.305***	1	-	-	-	-	-	-
6. *tech*	0.148	0.133	-0.166*	-0.232**	0.006	0.103	0.215**	1	-	-	-	-	-
7. *res*	0.217	0.275	0.109	-0.081	-0.018	-0.359***	-0.072	-0.055	1	-	-	-	-
8. *loo*	0.685	0.755	-0.001	-0.021	-0.151	-0.087	-0.045	0.083	0.029	1	-	-	-
9. *ins*	0.809	1.211	-0.085	-0.043	-0.018	-0.178*	0.469***	0.087	-0.153	-0.030	1	-	-
10. *leg*	3.535	1.027	-0.167	0.034	0.351***	-0.094	0.020	-0.026	0.079	-0.286***	-0.036	0.501†	-
11. *per*	3.426	0.979	-0.060	0.239***	0.271***	-0.013	-0.053	0.156	-0.176*	-0.092	0.022	0.383***	0.453†

grow, growth rate; mar, market size; tech, technology advancement; res, natural resource abundance; loo, liability of origin; ins, institutional distance; leg, organisational legitimacy; per, corporate performance.

*, $p \leq 0.10$; **, $p \leq 0.05$; ***, $p \leq 0.01$.

†, the square root of average variance extracted (AVE).

variance inflation factor (VIF) was 1.24, which is lower than the critical cut-off level of five (Hair et al. 2022). Given these results, multicollinearity was not deemed to be an issue.

Empirical analysis and discussion

The stated hypotheses were addressed by employing a hierarchical regression analysis. Table 4 details the results obtained from the various regression analyses, examining direct, mediating and moderating effects. A bootstrapping methodology was also employed to ensure the robustness of results for the mediating and moderating effects. In addition, a moderated mediation effect, as illustrated in the conceptual framework (Figure 2), was analysed using Hayes' PROCESS macro to assess if the mediation effect varies depending on the moderator variable (Muller, Judd & Yzerbyt 2005). The robustness of the results was ensured through bootstrapping for precise parameter estimates (Hayes 2013).

The direct effect

Columns 1 and 4 of Table 4 display the baseline regression models, showing the results with only the control variables. With the addition of the independent variable (*loo*) in Column 5, a non-significant negative relationship with *per* was revealed (b = -0.213, p = *ns*). A negative relationship indicates poorer corporate performance in the face of a higher level of the new LOO. This result pertaining to the new LOO is closely aligned with the reported negative association between Chinese MNC subsidiary performance and geopolitical risk (Guo 2024; Li et al. 2024). Li et al. (2024) further report that this negative association could be mitigated by heterogeneities at the firm- and macro levels.

Given the non-significance (*ns*) of the *loo-per* association, H_1 could, however, be rejected. This suggests that Chinese high-tech MNCs with higher new LOO levels do not necessarily experience poor corporate performance. This result aligns with prior empirical evidence of Chinese high-tech MNCs achieving inconsistent performance levels in host countries with high geopolitical tensions (Gu et al. 2022; Jiang et al. 2022).

The non-significance of the *loo-per* relationship and possible discrepancies in these MNCs' performance could indicate a missing link between the new LOO and corporate performance. As suggested by prior studies (e.g. Wei, Wang & Liu 2020; Wei et al. 2023; Zuo 2025), MNCs adopt different legitimation strategies to address the new LOO, leading to varied corporate performance outcomes. Organisational legitimacy may thus be the missing link, mediating the *loo-per* association.

Before testing a potential mediation effect, the direct effect between *loo* and *leg* and *leg* and *per* was assessed. Column 2

TABLE 4: Hierarchical regression analysis results.

Variables	Categories	*leg*			*per*			
		1	2	3	4	5	6	7
loo	Coefficient	-	-0.255***	-0.977***	-	-0.213	-	-0.122
	t	-	-2.790	-2.860	-	-0.920	-	-1.350
leg	Coefficient	-	-	-	-	-	0.265***	0.280***
	t	-	-	-	-	-	-2.630	2.770
ins	Coefficient	-	-	-1.140	-	-	-	-
	t	-	-	-1.550	-	-	-	-
loo ins*	Coefficient	-	-	-0.943**	-	-	-	-
	t	-	-	-2.100	-	-	-	-
size	Coefficient	-0.172**	-0.173**	-0.166**	-0.023	-0.027	-0.030	-0.015
	t	-2.170	-2.260	-2.340	-0.280	-0.330	-0.200	-0.100
age	Coefficient	0.202	0.194	0.190	0.474**	0.471**	0.500***	0.543***
	t	1.100	-1.100	-1.050	-2.520	-2.540	-2.680	-2.880
mode	Coefficient	0.390***	0.342***	0.350***	0.291***	0.296***	0.241**	0.210*
	t	-3.930	-3.530	-3.200	-2.930	-3.180	2.300	-1.970
grow	Coefficient	-1.971	-2.921	-2.334	-1.925	-1.539	-2.062	-1.648
	t	-0.500	-0.770	-0.620	-0.440	-0.370	-0.500	-0.400
mar	Coefficient	0.067	0.042	0.226	-0.129	-0.121	-0.124	-0.129
	t	-0.520	-0.330	-1.340	-0.960	-0.970	-0.810	-0.850
tech	Coefficient	-0.307	-0.064	-0.232	1.575**	1.455**	1.681**	1.701**
	t	-0.410	-0.090	-0.320	-2.110	-2.000	-2.370	-2.410
res	Coefficient	0.638	0.853	1.005	-0.758*	-0.739*	-0.926**	-0.927**
	t	-0.750	-1.030	-1.440	-1.750	-1.740	-2.220	-2.230
Constant	Coefficient	-0.264	0.014	-3.019	1.165	1.255	1.013	0.972
	t	-0.160	-0.010	-1.230	-0.680	-0.810	-0.560	-0.540
R^2	-	22.28%	28.46%	32.32%	21.78%	22.52%	31.92%	33.36%
F	-	3.730***	4.480***	4.110***	3.100***	3.230***	3.990***	3.820***
N	-	179	179	179	179	179	179	179

grow, growth rate; mar, market size; tech, technology advancement; res, natural resource abundance; loo, liability of origin; ins, institutional distance; leg, organisational legitimacy; per, corporate performance.

Note: Coefficients are standardised betas. The maximum variance inflation factor (VIF) is 1.24 (below the critical cut-off level of 5).

*, $p \leq 0.10$; **, $p \leq 0.05$; ***, $p \leq 0.01$.

of Table 4 demonstrates a significant negative relationship between *loo* and *leg* (b = -0.255, $p < 0.01$), after accounting for the control variables. This result suggests that Chinese high-tech manufacturing MNCs with a higher level of the new LOO are less likely to gain more organisational legitimacy. H_2 is thus supported. Peng and Beamish (2019) suggest that organisational legitimacy depends on the identity of MNCs. More importantly, MNCs' national identity plays a vital role in forming organisational legitimacy in foreign markets (Ellimäki et al. 2021; Wei & Yang 2018). Our finding aligns with He and Zhang's (2018) conclusion that legitimacy gaining in host countries is impeded by the negative national identities of EE (including, among others, Brazil, Russia, India, Malaysia and Mexico).

'Born disadvantage' resulting from an adverse identity, thus negatively affects the ability of Chinese MNCs' subsidiaries to gain recognition as legitimate businesses by local stakeholders. Securing legitimacy in host countries remains a significant challenge for MNCs (Marschlich & Ingenhoff 2022), especially from EE (Ramachandran & Pant 2010; Zhang et al. 2022). Tan and Yang (2021) point out that the mechanisms that give rise to the new LOO are more formal and explicit than the traditional LOO. Akbar and Kisilowski (2020) also note that adherence to government-imposed legal and regulatory standards is vital for gaining legitimacy in foreign markets. Measures taken by local governments (e.g. the *Entity List* and *Specially Designated National [SDN]* issued by the US government) pose challenges for Chinese high-tech MNCs and their products to enter foreign markets. This 'born disadvantage' is particularly severe in host countries with intense geopolitical conflicts, making it more challenging for Chinese high-tech MNCs to gain legitimacy (Yang & Liu 2020).

Column 6 of Table 4 details the effect of organisational legitimacy on the corporate performance of MNCs' subsidiaries. A significant positive relationship between *leg* and *per* (b = 0.265, $p < 0.01$) supports H_3. This result supports He and Zhang's (2018) finding that the employment of legitimacy strategies enhances EE MNCs' corporate performance in host countries. This finding aligns with previous research indicating legitimacy as a critical resource for corporate survival in overseas markets (Jiang et al. 2022; Pollock & Rindova 2003; Tan & Yang 2021; Zimmerman & Zeitz 2002). Multinational companies can utilise legitimacy as cultural assets and operational resources to obtain essential support from host country stakeholders (Rao, Chandy & Prabhu 2008). Fisher et al. (2016) asserted that an MNC viewed as illegitimate by local stakeholders is less likely to acquire resources in the host environment. Such a low level of legitimacy places the MNCs in a vulnerable position, restricting their access to local resources (Amankwah-Amoah & Debrah 2017) and increasing the risk of political interference and bias from the host government (Parente et al. 2019). This, in turn, obstructs the survival and performance of MNCs' subsidiaries (Han 2021). This study concludes that legitimacy concerns about Chinese high-tech MNCs' subsidiaries may lead to hostility and resistance from local stakeholders, potentially hindering the success of these subsidiaries (Zhang 2022).

The mediating effect

Based on the argument of prior researchers (e.g. Yang et al. 2020; Zuo 2025) that the relationship between the new LOO and corporate performance may not be direct, the researchers investigated whether organisational legitimacy mediates the relationship between these two constructs. The mediating effect of *leg* is confirmed by the results reported in Column 7 of Table 4. Organisational legitimacy has a significant and positive effect on corporate performance (b = 0.280, $p < 0.01$), while the association between the new LOO and corporate performance is non-significant. The bootstrapping results reported in Table 5 confirm that the direct path between *loo* and *per* is non-significant, while the indirect path is significant. Therefore, H_4 is supported, suggesting a full mediating role of legitimacy in the *loo-per* relationship.

The findings imply that the new LOO does not inevitably lead to reduced performance but rather depends on whether MNCs can attain and maintain legitimacy. This finding supports Zhang and De Vries' (2023) conclusion that the success of Chinese MNCs' subsidiaries abroad hinges on overcoming a legitimacy barrier. Therefore, when FDI activities of Chinese high-tech MNCs are considered illegitimate, particularly because of concerns about national security and competitiveness, they will likely face criticism and opposition. As a result, local stakeholders may be reluctant to accept these MNCs (Zhang 2022). The critical importance of obtaining legitimacy for MNCs in their host countries is, thus, emphasised by the findings of this study. To the best of our knowledge, this is the first study to investigate organisational legitimacy as a mediating variable between MNC subsidiary corporate performance and the novel form of LOO stemming from escalating geopolitical tensions between countries. This research presents robust findings in support of both the institutional theory and the theory of national identity. The importance of organisational legitimacy for corporate performance and sustainability in foreign markets (Dorobantu, Kaul & Zelner 2017) is exacerbated by considering adverse national identity in the form of the new LOO. The employment of legitimation strategies, thus, becomes even more important for the survival of EE MNCs with higher levels of the new LOO. These findings highlight the importance of not viewing the institutional- and national identity theories as isolated frameworks but rather considering how they interact in the context of the new LOO.

TABLE 5: Process test results on the mediating effect of organisational legitimacy (N = 179).

loo → per	Effects	s.e.	LLCI	ULCI
Total effect	-0.213	0.099	-0.410	-0.017
Direct effect	-0.122	0.099	-0.318	0.074
Indirect effect	-0.092	0.045	-0.192	-0.017

Note: Bootstrap sample = 5000.

LLCI, lower level of confidence interval; ULCI, upper level of confidence interval; s.d., standard deviation; s.e., standard error; loo, liability of origin; per, corporate performance.

The moderating effect

H_5 proposed that institutional distance between China and host countries moderates the *loo-leg* relationship. Column 3 of Table 4 shows that institutional distance strengthens the negative relationship between the new LOO and organisational legitimacy (b = -0.943, $p < 0.05$), thus supporting H_5. The results confirm that increased legitimacy barriers, established through higher levels of the new LOO, are more pronounced when the institutional distance is greater.

Prior researchers investigating the traditional form of LOO concluded that greater institutional distance between EE MNCs and host countries enhances the LOO, which ultimately threatens legitimacy gaining (Eden & Miller 2004; Liou, Chao & Yang 2016; He & Zhang 2018). Investigating nine EEs (Brazil, China, India, Indonesia, Mexico, Russia, South Africa, Thailand and Turkey), Liou et al. (2016) concluded that EE MNCs opt for low ownership positions in host countries when faced with high institutional distance to reduce legitimacy threats. Enhanced institutional distance implies more substantial dissimilarity between the host- and home countries' institutional environments (Zhang & De Vries 2022), subsequently making it more challenging for MNCs to gain legitimacy in those countries (Kostova et al. 2020).

When Chinese MNCs enter developed markets with vastly different institutional environments from theirs, they will struggle to leverage their existing strengths, such as low labour and material costs. Similarly, emerging markets present distinct challenges for Chinese MNCs. Huang et al. (2022) suggest that institutional distance hampers the effectiveness of BRI cooperation among nations and restricts MNCs' subsidiaries' chances to utilise BRI connections in establishing legitimacy and reaping benefits. Consequently, institutional distance increases the costs for Chinese high-tech MNCs to better understand the 'rules of the game' in new institutional environments. It also reduces their ability, particularly those experiencing the new LOO, to effectively implement strategies that address legitimacy concerns.

For robustness, a 95% CI was estimated, considering three different institutional distance levels (-1 s.d., the mean, and +1 s.d.). The bootstrapping results, presented in Table 6, revealed that the negative effect of the new LOO on organisational legitimacy is strengthened at moderate (the mean) to high levels (+1 s.d.) of institutional distance. However, this is not the case when the institutional distance between China and host countries is low (-1 s.d.).

In addition to bootstrapping, a simple slope test was conducted. The simple slope test, visually presented in Figure 3, supports the results displayed in Table 6. For Chinese high-tech MNCs' subsidiaries in host countries with greater institutional distances, an increased level of the new LOO correlates with lower organisational legitimacy (simple slope = -0.442, p < 0.01). Conversely, the slope is comparatively less pronounced for subsidiaries of Chinese MNCs in host countries with lower institutional distances (simple slope = -0.156, p = *ns*).

Our finding, thus, contributes to the existing literature on legitimacy gaining and institutional distance by taking the new LOO faced by Chinese MNCs into consideration. We conclude that high institutional distance, combined with fierce industry competition and geopolitical tensions between home and host countries, should make legitimacy gaining even more difficult for EE MNCs.

The moderated mediation effect

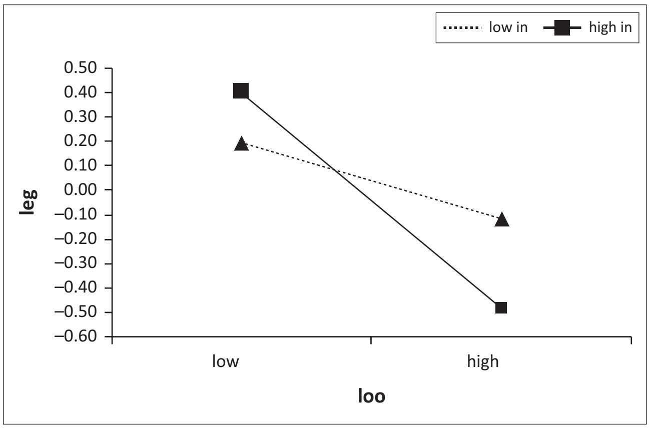
The study further explored whether the confirmed mediation effect of organisational legitimacy on the *loo-per* relationship is moderated by institutional distance. The bootstrapping results are presented in Table 7. The index of the moderated mediation effect is -0.333, and the 95% CI does not contain zero [-0.904, -0.014], thus confirming a significant effect. These results support the overall moderated mediation model. The conditional indirect effect is the strongest when institutional distance is higher (+1 s.d.; b = -0.141, s.e. = 0.076, CI [-0.284, -0.042]) and weakest in the case of lower institutional distance (-1 s.d., b = -0.050, s.e. = 0.042, CI [-0.124, 0.012]). These findings support H_6, confirming that the mediating effect of organisational legitimacy on the relationship between the new

TABLE 6: Process test results on the moderating effect of institutional distance: *loo→leg* (N = 179).

Ins	Effects	s.e.	LLCI	ULCI
-1 s.d.	-0.156	0.125	-0.363	0.052
Mean	-0.281	0.099	-0.444	-0.117
+1 s.d.	-0.442	0.127	-0.652	-0.232

Note: Bootstrap sample = 5000.

LLCI, lower level of confidence interval; ULCI, upper level of confidence interval; ins, institutional distance; loo, liability of origin; leg, organisational legitimacy; s.d., standard deviation; s.e., standard error.



loo, liability of origin; leg, organisational legitimacy.

FIGURE 3: Moderating effect of institutional distance on the relationship between the new liability of origin and organisational legitimacy.

TABLE 7: Results for the conditional indirect effect: *loo→ leg→ per* (N = 179).

Ins	Effects	BootSE	BootLLCI	BootULCI
-1 s.d.	-0.050	0.042	-0.124	0.012
Mean	-0.090	0.044	-0.173	-0.028
+1 s.d.	-0.141	0.076	-0.284	-0.042
Moderated mediation	-0.333	0.288	-0.904	-0.014

Note: Bootstrap sample = 5000.

SE, standard error; LLCI, lower level of confidence interval; ULCI, upper level of confidence interval; s.d., standard deviation; loo, liability of origin; leg, organisational legitimacy; per, corporate performance.

LOO and MNCs' subsidiary corporate performance is moderated by the institutional distance between China and host countries.

As suggested by Huang et al. (2022), when the institutional distance increases, the capacity of MNCs' subsidiaries to leverage international cooperative relationships decreases. Moreover, greater institutional distance escalates the costs for MNC subsidiaries to adhere to regulatory and social norms (Zhang & De Vries 2022, 2023). To our knowledge, scant empirical evidence exists on how institutional distance moderates the mediating role of organisational legitimacy in the *loo-per* relationship. Our finding is the most closely related to the results reported by Shirodkar and Konara (2017), who investigated the association between institutional distance and the subsidiary performance of MNCs across 17 emerging markets. The researchers reported a significant negative relationship between these two constructs. Furthermore, this negative association was weaker for subsidiaries with partial ownership and with greater experience in the host country (Shirodkar & Konara 2017).

Our findings confirm that institutional distance strengthens the impact of the new LOO, consequently diminishing the opportunities for Chinese high-tech MNCs' subsidiaries to acquire local resources and support. This inability to establish legitimacy in host countries ultimately leads to poor corporate performance.

Overall, the hypotheses test results are summarised in Table 8.

Conclusion

The impact of MNCs' country of origin on their international business has emerged as a notable topic recently. Yet, existing literature lacks an in-depth exploration of this aspect. In the context of a complex geopolitical environment and China's increasing presence in international markets, the new LOO has become a critical factor in the internationalisation of Chinese MNCs (Jiang et al. 2022; Tan & Yang 2021). A pressing issue facing Chinese high-tech MNCs is how to survive and grow with this new 'born disadvantage' to ensure and enhance their performance globally.

Based on institutional and identity theories, this study utilised a combination of primary and secondary data to critically investigate whether the new LOO affects the corporate performance of Chinese high-tech MNCs' subsidiaries. An empirical analysis of 179 Chinese high-tech manufacturing MNCs confirmed previous researchers' suggestion that the association between the new LOO and corporate performance may not be direct (Wei et al. 2023; Zuo 2025). It was concluded that this relationship is fully mediated by organisational legitimacy. The empirical results confirmed that the impact of the new LOO on MNC subsidiaries' corporate performance in host countries depends on whether these MNCs can attain and maintain organisational legitimacy. This study provided a novel theoretical perspective by considering how the institutional and national identity theories interact in the context of the new LOO, rather than viewing them as isolated theoretical constructs as in previous research. Their complementary interaction strengthened our argument that MNCs' organisational identity affects their corporate performance in the context of escalating geopolitical conflicts.

TABLE 8: Summary of hypotheses test results.

Hypotheses	Results
H1: *loo* → *per*	Not supported
H2: *loo* → *leg*	Supported
H3: *leg* → *per*	Supported
H4: *loo* → *leg* → *per* (mediation effect)	Supported
H5: *ins* moderate *loo* → *leg* (moderation effect)	Supported
H6: *ins* moderate *loo* → *leg* → *per* (moderated mediation effect)	Supported

loo, liability of origin; ins, institutional distance; leg, organisational legitimacy; per, corporate performance.

It was, furthermore, concluded that the institutional distance between Chinese MNCs and host countries plays a pivotal role in the intricate associations between the new LOO, organisational legitimacy and corporate performance. Firstly, greater institutional distance amplifies the negative impact of the new LOO on organisational legitimacy. Secondly, it significantly moderates the mediating effect of legitimacy on the relationship between the new LOO and the overseas subsidiary performance of Chinese MNCs. These conclusions confirm that vast differences between institutional environments hamper the gaining of legitimacy (Kostova et al. 2020), leading to ineffective cooperation between nations (Huang et al. 2022) and ultimately impacting MNCs' subsidiaries' corporate performance. Institutional distance, combined with the new 'born disadvantage' faced by Chinese high-tech MNCs (Jiang et al. 2022) and their difficulty in increasing organisational legitimacy, places more strain on these MNCs' performance in international markets.

Managerial implications

Several managerial implications could be derived from the findings of this study. Firstly, as a deliberately crafted and manageable institutional framework, geopolitical relations play a crucial role in the international expansion of enterprises. Our findings reveal that the new LOO resulting from geopolitical conflicts does not directly decrease the performance of MNCs in overseas markets but rather operates indirectly through diminished organisational legitimacy. This mediation mechanism suggests that Chinese high-tech MNCs should prioritise legitimacy-building strategies when entering markets affected by geopolitical tensions.

Secondly, legitimacy emerges as the crucial factor influencing the overseas subsidiary performance of Chinese high-tech MNCs. At their core, Chinese MNCs must align with their operational environments' guiding principles, regulations, social norms and frameworks to maintain their existence and facilitate expansion. Since organisational legitimacy fully mediates the relationship between the new LOO and corporate performance, enhancing legitimacy can effectively buffer against geopolitical tensions. Furthermore, mastering identity management is a crucial strategic choice for these companies in gaining legitimacy. This identity management must be precise and tailored to address the specific challenges associated with the new LOO. Moreover, the new LOO of Chinese high-tech MNCs is not solely determined by the adverse perception of national identity. It is also attributed to their industry- and firm-specific identities. Therefore, the identity management strategy should be multi-level and multifaceted to address these diverse aspects effectively.

Thirdly, the effectiveness of MNCs in achieving legitimacy and promoting corporate performance within a host country is influenced by the institutional distance between countries. In host countries with significant institutional distance from China, the dual liabilities of origin and foreignness become more pronounced. Multinational companies in these environments face heightened legitimacy challenges and incur considerable costs in gaining legitimacy. Subsidiaries of these MNCs should allocate more resources and time to understand local institutions, develop networks and implement effective legitimacy strategies, aiming to enhance the performance of their overseas subsidiaries. However, MNCs should also consider balancing the costs and benefits of these endeavours. Alternatively, MNCs might employ avoidance strategies, such as targeting niche markets or markets with smaller institutional distances from China, to mitigate these challenges.

To conclude, recognising that organisational legitimacy serves as the critical bridge between the new 'born disadvantage' and performance outcomes enables Chinese MNCs to develop more effective internationalisation strategies tailored to specific institutional contexts. Furthermore, our moderated mediation model suggests that the strength of this mediating effect varies significantly based on institutional distance, requiring MNCs to calibrate their legitimacy-building efforts more intensively in institutionally distant markets where the pathway from the 'born disadvantage' through legitimacy to performance is most challenging.

Limitations and future research

Several limitations were encountered, which subsequently point towards future research avenues. Firstly, the sample was limited to private high-tech companies to ensure the reliability of the findings. As previously mentioned, the new LOO situation for SOEs may differ from that of private entities. Future research could, therefore, broaden its scope to include SOEs for a more comprehensive analysis. Secondly, the researchers aimed to empirically investigate the impact of the new LOO on corporate performance. The strategies adopted by MNCs to address this emerging form of liability were not assessed. Future studies could consider investigating the impact of specific strategic choices MNCs make and how their response strategies differ from those used in dealing with traditional LOO. Thirdly, LOOs undergo dynamic development and continuously manifest in various forms. This dynamic nature necessitates ongoing attention and presents challenges in accurately measuring 'born disadvantages'. This aspect was beyond the scope of the current study, but it warrants further investigation.

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Competing interests

The authors declare that they have no financial or personal relationships that may have inappropriately influenced them in writing this article.

Authors' contributions

Q.Z. and A.d.V. contributed to the conceptualisation, methodology, validation, original draft preparation, and review and editing of the study. Q.Z. was responsible for software, formal analysis, investigation, resources, data curation and funding acquisition.

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Data availability

The data that support the findings of this study are available on request from the corresponding author, Q.Z.

Disclaimer

The views and opinions expressed in this article are those of the authors and do not necessarily reflect the official policy or position of any affiliated agency of the authors.

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