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Liability or asset? The role of foreignness in intellectual property litigations in an emerging market context

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ABSTRACT

While foreignness has traditionally been viewed as a liability, recent scholarship increasingly argues that it can also serve as a potential asset. Drawing on research on locational dependencies, this study explores the host-country institutional context as a driver of the asset of foreignness, emphasizing how heterogeneity in foreign dependencies across host locations shapes the advantages that foreign firms can derive. Using a unique sample of intellectual property (IP) lawsuits in Chinese courts, we find that, in general, firms with higher levels of foreign ownership are more likely to win IP lawsuits. We elucidate the underlying mechanism by showing that the effects of the asset of foreignness are amplified when host markets are more economically and technologically dependent on foreign investment. Our additional analyses further suggest the coexistence of the liability and asset of foreignness, indicating that not all firms benefit equally from foreignness. This study advances research on international business and locational dependencies by highlighting the context-contingent nature of foreignness.

1. Introduction

Foreignness has traditionally been conceptualized as a liability that imposes additional costs and challenges on multinational enterprises (MNEs) operating in foreign markets in the international business (IB) literature (Zaheer, 1995). However, recent research has argued that foreignness can also be an asset (Fuad et al., 2024; Lu et al., 2022; Taussig, 2017). In contrast to the liability of foreignness (LOF), the asset of foreignness (AOF) perspective posits that foreign firms can derive advantages from their resources, advanced managerial practices, and global networks that are not readily accessible to domestic competitors, offering a more balanced interpretation of foreignness (Nachum, 2010; Sethi & Judge, 2009). Despite the emerging stream of research recognizing the dual nature of foreignness (Mallon & Fainshmidt, 2017), *the conditions under which foreignness functions more as an asset rather than a liability* remain underexplored.

Drawing on research on locational dependencies, this study focuses on the host-country institutional context as a critical driver of AOF. Emphasizing the locational factor within the classic resource dependence theory (RDT) framework (Pfeffer & Salancik, 1978), the locational dependency perspective posits that the heterogeneity of resources across different locations shapes the nature and extent of dependencies that MNEs confront, thereby creating distinct opportunities and constraints in each setting (Jiang et al., 2023). Moreover, the dependency relationship between MNEs and host markets can be reciprocal, as host-market stakeholders simultaneously rely on MNEs for critical resources such as capital, technology, and access to global value chains (Malatesta & Smith, 2014).

Different countries and regions exhibit distinct dependencies and preferences toward foreign firms. These variations shape the dynamics of interdependence and, consequently, determine whether foreignness manifests as a liability or an asset. Emerging markets often face developmental gaps as they strive to catch up with advanced economies, resulting in a heightened reliance on international investment to accelerate local economic growth and technological advancement (Tse et al., 2024). As a result, stakeholders in emerging markets tend to provide preferential treatment to foreign firms that serve as important contributors to the local economy, thereby transforming foreignness into an asset (Huang & Tang, 2018; Prud'homme, 2019).

We test these arguments using the empirical setting of intellectual property (IP) litigation in China, as China constitutes a large, representative emerging market and a significant host market for global investment. Using a hand-collected dataset of 1289 IP infringement cases, we provide support for the notion of AOF, indicating that foreignness

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generally functions as an asset, with a firm's foreign ownership positively influencing its likelihood of success in IP litigation. The boundary conditions further demonstrate that the advantages of foreignness are not uniform, with the effect of foreign ownership being more pronounced in host subnational regions exhibiting higher levels of economic and technological dependence on foreign investment.

This study makes several contributions. First, we extend IB research on foreignness by identifying a context-specific institutional mechanism and providing empirical support for the AOF notion (Brannen, 2004; Taussig, 2017; Un, 2011). Specifically, we argue that the extent to which host markets depend on foreign firms enables foreign firms to leverage their strategic importance to achieve favorable outcomes (Gu et al., 2025; Mallon & Fainshmidt, 2017). Adopting a host-country lens offers a more granular understanding of AOF, explaining why the same level of foreignness yields different outcomes across markets. Second, we contribute to resource dependence theory by enriching the ongoing conversation on locational dependencies, which incorporates the heterogeneity of resource dependencies arising from different institutional contexts (Cardinale, 2018; Jiang et al., 2023). In doing so, we also deepen the understanding of power asymmetries by examining a less-explored direction of dependence—specifically, situations in which the external environment relies on firms. Third, we bridge IB insights to the corporate litigation literature by showing that foreign ownership serves as an important antecedent of litigation success, a critical non-market performance outcome (Firth et al., 2011; Kim & Mudambi, 2020; Krishnan et al., 2016; Lu et al., 2015; Sun et al., 2023).

2. Theoretical and research background

2.1. Research on foreignness: A liability or an asset?

Foreignness has long been a fundamental concept in the IB literature. The traditional view of foreignness suggests that MNEs face liability of foreignness in overseas markets, defined as "all additional costs a firm operating in a market overseas incurs that a local firm would not incur" (Zaheer, 1995:343). Research indicates that the LOF arises from (1) unfamiliarity with institutional and cultural differences, as well as a lack of knowledge about the local market; (2) relational hazards, which refer to the lack of embeddedness and ties in local networks; and (3) discrimination hazards, stemming from biases, unfavorable treatments, and discriminatory practices (Eden & Miller, 2004; Kronborg & Thomsen, 2009). As a result, compared with domestic firms, foreign firms often face greater challenges and uncertainties and have lower performance (Mezias, 2002).

More recently, a new line of research has emerged, known as the "asset of foreignness," which contradicts the traditional view of foreignness as a liability. The AOF view argues that foreignness can confer an advantage because foreign firms often possess unique resources and capabilities unavailable to their local rivals (Sethi & Judge, 2009). The extant research has revealed that AOF can manifest in several forms, including enhanced reputation, higher survival rates, and superior performance (Kronborg & Thomsen, 2009; Nachum, 2010; Un, 2016).

The existence of foreignness as an asset can be explained through several theoretical perspectives. The resource-based view posits that AOF can arise from foreign firms' possession and exploitation of distinctive resources unavailable to local rivals (Barney, 1991; Un, 2016). According to transaction cost theory, the AOF arises because foreign firms achieve lower transaction costs by internalizing specific markets, thereby attaining efficiency advantages (Dunning, 1980; Williamson, 1981). Whether foreignness is a liability or an asset also depends on the institutional context (Lu et al., 2022; Nachum, 2010). However, relatively less attention has been devoted to understanding how host-country conditions drive and interact with foreign ownership to shape the foreignness effect. In the following sections, we draw on locational dependencies research to explain why AOF exists in emerging markets.

2.2. Locational dependencies as a driver of foreignness

Resource dependence theory addresses how organizations manage their relationships with the external environment to reduce dependence and uncertainty (Pfeffer & Salancik, 1978). Recent developments in the application of RDT introduce a salient dimension of dependency, namely locational dependencies (Jiang et al., 2023). The locational dependency perspective suggests that, driven by the asymmetric distribution of resource endowments and comparative advantages across countries and regions, MNEs deploy their operations globally to access diverse resources. MNEs also manage these distinct dependencies by carefully calibrating their international strategies to align with local institutional conditions.

The nature and intensity of locational dependencies are shaped by the conditions in both the MNEs' home and host countries. In the home country, factors such as domestic industrial development and policy support play a key role (Cuervo-Cazurra et al., 2014). In the host country, dependencies are influenced by comparative advantages such as resource availability and market demand. The relationship between home and host countries, including historical ties, cooperation, and conflicts, further shapes these locational dependencies (Bertrand et al., 2016). Building on this insight, extant studies demonstrate how MNEs manage their locational dependencies through a variety of strategies, including adapting entry modes, forming local business partnerships, targeting corporate social responsibility initiatives, and engaging with local regulatory stakeholders (Doh et al., 2017; Dunning, 1980).

In addition to the conventional focus on how firms depend on the external environment, research also suggests the possibility of reverse dependencies, where firms hold strategic importance for host markets (Xiang et al., 2022). MNEs can make critical contributions to local economic, technological, and social development, serving as key conduits for resources, knowledge, and capabilities that may be scarce or unavailable domestically. These contributions include the introduction of advanced technologies, managerial expertise, and organizational practices that enhance productivity, innovation, and competitiveness in local industries (McGaughey et al., 2020). Additionally, MNEs generate employment opportunities, contribute taxes, and facilitate access to global value chains, thereby integrating local economies into broader international networks.

Therefore, firms are not only the recipients of resources from their external environment but also providers of assets upon which external actors rely. The relationship between foreign firms and host-market stakeholders becomes reciprocal: while MNEs rely on the host environment for market access and legitimacy, host-market stakeholders simultaneously depend on foreign firms for investment and strategic assets. This reciprocal interdependence reveals that neither party unilaterally holds power and influence; rather, both actors shape and are shaped by each other's capabilities and needs (Xia et al., 2014). Host market is not merely a backdrop imposing constraints but an interactive system in which the significance of foreign firms generates interdependence that can recalibrate favorable outcomes. As a result, host-market stakeholders can actively facilitate or protect foreign firms by providing policy incentives and favorable treatment to preserve their contributions. For example, in May 2024, the local council in Germany approved Tesla's European Gigafactory plan in the village of Grünheide in the State of Brandenburg despite persistent protests. The regional economy minister described it as "a strong signal for the future development of Grünheide and Tesla,[1]" as it would create thousands of jobs and bring "economic development to a previously disadvantaged region" (Siebert

[1] Local council in Germany approves Tesla factory expansion despite opposition. Retrieved from https://morningstaronline.co.uk/article/local-council-germany-approves-tesla-factory-expansion-despite-opposition.

& Vanclay, 2024:482).

Different countries and regions exhibit heterogeneous needs and expectations due to variations in their institutional frameworks, economic development, and socio-political contexts, giving rise to divergent patterns of dependence on and interaction with MNEs (Lamin & Livanis, 2013). The heterogeneity of host conditions influences how MNEs engage with the local environment, prompting them to adopt market and non-market strategies that align with local expectations. These contextual differences also shape both the nature and intensity of host-market reliance on MNEs: in some regions, dependence may be primarily capital-driven, whereas in others it may center on knowledge transfer. In emerging markets, this reverse dependence is particularly salient, as host-market actors are often more reliant on foreign investment for critical resources that are relatively limited domestically. They are thus more willing to accommodate, support, and extend preferential treatment to foreign entrants, creating conditions in which the traditional liabilities of foreignness can be mitigated and even transformed into advantages.

3. Hypothesis development

3.1. Foreign ownership and litigation outcome

Whether foreignness is a liability or an asset depends largely on the context of the host country (Brannen, 2004; Mallon & Fainshmidt, 2017). It is well established that emerging markets exhibit demands and priorities that differ significantly from those in developed countries, largely because of their imperative to catch up (Lamin & Livanis, 2013). In response, emerging markets leverage foreign investment as a catalyst to address structural gaps and accelerate economic growth, industrial development, and technological capacity (Kafouros & Forsans, 2012). This contribution is manifested through capital investment, technology transfer, human capital development, and integration into global value chains. Through these channels, MNEs generate positive spillovers that enhance local firms' competitiveness and contribute to local economic development (McGaughey et al., 2020).

Consequently, emerging markets generally exhibit greater dependence on international investments and tend to offer preferential treatment to foreign firms, including favorable policies, subsidies, tax incentives, less restrictive investment regimes, and streamlined administrative procedures (Peng et al., 2009). An illustrative example is Tesla China, which received $207 million in subsidies from the Shanghai government for its wholly-owned factory in 2019 and 2020, making it one of the most subsidized electric vehicle manufacturers in China[2]. Similarly, Huang and Tang (2018) propose a "foreign-ownership bias" perspective, highlighting the Chinese government's preferential treatment of foreign firms over domestic manufacturing firms. Their findings show that, on average, foreign firms face de facto value-added tax rates that are two percentage points lower than those of domestic firms.

IP protection has been a pivotal factor in supporting firm operations and attracting foreign investment (Peng, 2013; Sethi & Judge, 2009). Strong IP protection reduces the risk of misappropriation of proprietary technologies and incentivizes MNEs to engage in R&D activities. This, in turn, accelerates knowledge spillovers to the local market. Furthermore, effectively protecting MNEs' IP rights sends a positive signal to the international community regarding the host country's commitment to institutional credibility, strengthening the confidence of foreign investors and further encouraging inflows of capital and technology (Mai & Stoyanov 2019). Therefore, foreign firms in emerging markets may experience advantages in IP litigation (Love et al., 2015; Prud'homme, 2019). Based on the above arguments, we hypothesize that:

Hypothesis 1. *A firm's foreign ownership is positively associated with the likelihood of winning IP litigation in an emerging market.*

We do not assume that being foreign automatically provides an advantage in emerging markets; instead, its value depends on the varying degrees of dependence that stakeholders have on foreign firms. To further elucidate our theorized mechanism, we identify two types of dependence that host-market stakeholders have on foreign firms and examine how these dependencies, in turn, influence the ability of foreign firms to leverage their advantages: economic dependence and technological dependence. Economic dependence reflects the extent to which local stakeholders rely on the capital, employment, and fiscal contributions generated by foreign firms, as these investments directly affect local economic performance (Kentor, 1998). Technological dependence captures the extent to which local actors rely on the advanced technologies and managerial know-how introduced by foreign firms. Economic and technological dependence disentangle how reverse dependence operates along complementary yet distinct channels, shaping incentives for local actors to protect foreign firms' interests and moderating the effect of foreign ownership.

3.2. The moderating effect of economic dependence

Emerging markets exhibit substantial subnational heterogeneity due to differences in historical and socio-political legacies, natural resource endowments, infrastructure, economic development, and institutional frameworks across regions (Li et al., 2018). Collectively, these factors create complex subnational contexts in which dependence on foreign economic activities varies substantially, resulting in uneven incentives for local stakeholders to favor foreign firms.

In regions with higher dependence on foreign economic activities, foreignness is more likely to function as an asset. First, when foreign firms make substantial contributions, the regional economy becomes closely dependent on the inflow of international resources (Xia et al., 2014). The withdrawal or reduction of such input would impose high costs on local authorities, including job losses, revenue shortfalls, and setbacks in industrial upgrading. This dependence increases foreign firms' bargaining power and legitimacy in the host market. Second, host regions with greater economic dependence have a stronger incentive to maintain the confidence and continued engagement of foreign firms. As a result, intellectual property protection becomes not only a matter of enforcing legal requirements but also an economic imperative, as it signals institutional reliability to the global business community and, in turn, enhances the region's attractiveness for further investment. Third, as foreign investments accumulate, regions hosting significant MNE activities can develop administrative capacity for handling complex IP cases (Peng et al., 2009). This institutional learning also enhances the responsiveness and competence of judicial processes, indirectly benefiting foreign litigants whose claims often involve advanced technologies and cross-border complexities.

In contrast, in regions with lower dependence on foreign economic activities, the importance of foreign firms is less pronounced. Host-market stakeholders have fewer incentives to provide preferential treatment to foreign firms, thereby weakening foreign firms' bargaining leverage. In these settings, foreignness may even revert to a liability, evoking unfamiliarity, limited embeddedness, or perceptions of misalignment with local norms. Consequently, the positive relationship between foreign ownership and IP litigation outcome is weakened. We therefore propose that the level of a region's economic dependence on foreign investment strengthens the positive impact of foreign ownership:

Hypothesis 2. *The positive relationship between foreign ownership and litigation outcome is stronger in regions with higher economic dependence on foreign investment.*

[2] Subsidies to Tesla: Shanghai government grants US $207 million. Retrieved from https://www.opportimes.com/subsidies-to-tesla-shanghai-government-grants-us-207-million/

3.3. The moderating effect of technological dependence

Locational dependencies also stem from structural differences between the host and home countries of MNEs (Singh et al., 2025). Disparities in countries' capacities to innovate and generate knowledge arise because innovation is unevenly distributed across countries, reflecting differences in knowledge endowments, technological capabilities, and the quality of institutions that support the transformation of these inputs (Berry et al., 2010). Therefore, the knowledge gap between host and home countries largely shapes the extent to which host markets rely on foreign firms.

When foreign firms originate from countries with higher innovation capacity, they are more likely to possess advanced technologies and specialized expertise, positioning them as critical conduits for knowledge transfer and innovation diffusion. This technological asymmetry increases the host market's dependence on foreign firms. Conversely, for firms originating from countries with lower innovation capacity, host markets are less dependent on them due to the absence of unique technological contributions, thereby diminishing the advantages they might otherwise enjoy. Thus, host-market technological dependence shapes how foreign ownership translates into benefits.

Hypothesis 3. *The positive relationship between foreign ownership and litigation outcome is stronger in regions with higher technological dependence on foreign investment.*

4. Data and methods

4.1. Research context: IP litigation and protection in China

We test our hypotheses using a unique hand-collected dataset of corporate IP litigation in Chinese courts. China provides an appropriate setting for several reasons. First, as a large emerging market, China has evolved into one of the largest host markets for FDI recipients. Second, with the rapid expansion of international investment, the global nature of IP litigation has become increasingly prevalent, creating a cross-border dependency context (Kim & Mudambi, 2020; Sun et al., 2023). Third, China exhibits institutional heterogeneity across subnational regions, providing an opportunity to examine how foreignness interacts with varying local dependencies.

The IP protection plays a pivotal role in supporting market mechanisms and facilitating technological innovation (Peng, 2013). Despite China's rapid economic growth, external pressures have prompted China to align its IP protection more closely with international standards (Sun et al., 2023; Zhao, 2006). Chinese domestic IP owners also actively advocate for stricter enforcement of IP rights (Kshetri, 2009). On the other hand, since the early 2000s, China has emphasized "indigenous innovation" as a national strategy to improve domestic firms' technological capabilities (Li-Ying & Wang, 2015), encouraging the regulators to strengthen IP institutions as part of the long-term strategy to protect intellectual assets and facilitate innovation.

The combination of external pressures and internal strategic goals has prompted the Chinese government to prioritize an effective IP litigation system, leading to a notable series of reforms and initiatives (Tse et al., 2024). For example, in 2021, China issued *Outline for Building a Powerful Country with Intellectual Property Rights (2021–2035)*, and the *National Plan for Protection and Application of Intellectual Property Rights During the 14th Five-Year Plan Period*. In particular, the Chinese government has made substantial efforts to improve IP protection for foreign firms. For example, in 2017, the State Council issued the *Circular of the State Council on Several Measures Concerning the Expansion of Opening-up and the Active Use of Foreign Capital* (Guo Fa [2017] No. 5) and the *Circular of the State Council on Several Measures to Boost the Growth of Foreign Investment* (Guo Fa [2017] No. 39), in which a range of measures for enforcing IP rights were introduced[3]. In September 2017, China launched a four-month campaign supported by a joint action plan involving 12 government departments, with an emphasis on combating malicious trademark registrations and counterfeit imitations of foreign brands[4].

These measures have yielded tangible outcomes, as evidenced by the increasing number of foreign firms successfully prevailing in IP litigations in China. As the Chairman of the China Council for the Promotion of International Trade emphasized in 2017: "*The win rate in patent cases involving foreign parties suing Chinese companies in China has reached 81% in recent years. We're seeing more and more patent litigations involving non-Chinese companies being brought into Chinese courts because litigants believe they can expect fair treatment.*[5]" For example, in 2018, the American firm Wyeth LLC, a global leader in infant milk powder, filed a lawsuit in Hangzhou's Court, against Guangzhou Wyeth Baby Maternal and Infant Products Co., Ltd. for trademark infringement and unfair competition. Wyeth LLC won the case and was awarded more than $4.6 million in punitive damages. In 2021, New Balance, the American sportswear brand, won a major legal battle against one of China's most prolific and aggressive copycat brands, New Barlun, in Shanghai's court, which ordered the defendant to pay New Balance USD $3.85 million—one of the largest awards in the sports sector in the history of Chinese IP litigation. The Senior Counsel at New Balance commented: "*It is very encouraging that the Court has once again recognised the legitimacy of New Balance's IP rights which will help ensure that our brand is safeguarded and protect our consumers' interests.*" The Principal and Head of the Shanghai Litigation Group similarly noted: "*This is not only a win for New Balance but for a wide range of international brands operating in China […] The judgment further demonstrates China's commitment to establishing a sophisticated and robust IP system that matches other leading countries and will be crucial in attracting international investment.*[6]" The Diplomat journalist also pointed out that "*In reality, foreign companies fare just as well in enforcing IP rights in the trial as privately-owned Chinese firms. […] It is no wonder that China is increasingly being selected as the forum of choice for non-Chinese companies to litigate IP disputes.*[7]"

4.2. Sample

We collect IP lawsuit samples from China Judgement Online (CJO, https://wenshu.court.gov.cn/), an official platform established by the Supreme People's Court of China (SPC). To promote judicial openness and transparency, the SPC issued a new regulation on November 21, 2013, requiring that all courts upload their judgments and rulings online starting January 1, 2014. The CJO platform is the most comprehensive Chinese lawsuit database, encompassing judgment documents from all levels of Chinese courts.

[3] Year-end Overview IV for Commerce Work in 2017: Actively and Effectively Use Foreign Capital to Promote High-quality Economic Development. Retrieved from http://english.mofcom.gov.cn/article/zt_overview2017/news/201803/20180302718760.shtml

[4] China launches campaign to protect IPRs of foreign companies. Retrieved from http://xinhuanet.com/english/2017-09/19/c_129707091.htm

[5] Protecting intellectual property rights and improving the business environment. Retrieved from https://www.gov.cn/xinwen/2017-12/14/content_5246827.htm

[6] New Balance wins landmark copycat trademark case in China. Retrieved from https://rouse.com/about/announcements/new-balance-wins-landmark-copycat-trade-mark-case-in-china.

[7] China's Progress on Intellectual Property Rights (Yes, Really). Retrieved from https://thediplomat.com/2018/01/chinas-progress-on-intellectual-property-rights-yes-really/

Chinese courts operate within a four-tier system: Basic People's Courts, Intermediate People's Courts, Higher People's Courts, and the Supreme People's Court (Bian, 2018). Due to the technical complexity of IP litigation, such cases are typically adjudicated at the Intermediate level or above. After a first-instance judgment is issued, the losing party has the right to appeal to the next higher-level court, and the SPC ultimately issues a final judgment. We begin by collecting data on intellectual property cases from the Supreme People's Court of China, as Supreme Court rulings carry significant legal implications for future cases (Haynie & Sill, 2007). To capture the contingent nature of AOF and the heterogeneity across subnational regions, we trace these cases from the Supreme People's Court to the lower-level Higher People's Courts (i.e., provincial-level courts). In the main analysis, we adopt outcomes from the provincial-level courts and use results from the Supreme People's Court as a robustness check.

We identify IP cases as those related to patent, copyright, and trademark infringement disputes. Examining patent, copyright, and trademark infringements together allows for a more comprehensive understanding of the intellectual property landscape (Long & Wang, 2015). Given that our analysis is conducted at the firm level, we retain the IP cases in which both the plaintiff and the defendant are associated with at least one firm. We exclude settled cases to ensure more accurate coding of litigation outcomes[8]. For each case, we code case-level information, including the case number, the names of the plaintiff and defendant firms, the date of infringement, and the case outcome, all are retrieved from judicial documents. To collect firm-level information, we search for each firm's name in the TianYanCha and Dun & Bradstreet databases, both of which have been widely employed in prior studies (Chandler et al., 2014; Hu et al., 2020). For firms not listed in either database, we use additional sources such as Google searches and the company's website to gather the necessary information.

Because IP litigations typically involve multiple plaintiffs and/or defendants, we follow previous studies and treat the plaintiff-defendant dyad as the unit of analysis (Jones et al., 2021; Uribe et al., 2020). Zooming in on this dyad enables us to conduct a more nuanced examination of each firm's distinct attributes and the specific interaction between the parties in a legal dispute. Accordingly, each observation represents a single dyad, consisting of a plaintiff and a defendant. The number of observations in a case ranges from a minimum of one (in cases with a single plaintiff and a single defendant) to a maximum of eight (in cases with multiple plaintiffs or defendants). For example, a case involving two co-plaintiffs and one defendant would generate two dyadic observations. Our final sample consists of 2127 unique plaintiff-defendant-case observations drawn from 1289 IP infringement cases from 2014 to 2019.

4.3. Variables

4.3.1. Dependent variable

The dependent variable in this study is the outcome of an IP lawsuit. Consistent with previous research (Long & Wang, 2015; Lu et al., 2015), the outcome is defined from the plaintiff's perspective, who initiates a legal claim. The outcome variable, *Win,* is a binary variable that takes the value 1 if the court supports a plaintiff's claim and 0 otherwise (Sytch & Kim, 2021; Zhang et al., 2020).

4.3.2. Independent variable

We adopt a continuous measure of *foreign ownership*, defined as the number of shares held by foreign investors divided by the total number of shares. For firms involving indirect or layered ownership structures, we check each ownership tier to determine whether the ultimate controlling shareholder is a foreign entity. As robustness checks, we replace the independent variable with dummy variables based on different definitions of foreign-owned firms and obtain consistent results.

4.3.3. Moderators

In line with prior research (Xia et al., 2014), we measure *economic dependence* as the concentration of economic activities undertaken by foreign firms in each region. We use three indicators that collectively capture the economic embeddedness of foreign activities: (1) *foreign firm density*, measured as the proportion of foreign firms relative to the total number of firms in a province, reflecting the degree of foreign participation in local business ecosystem; (2) *revenue contribution*, calculated as the share of revenue generated by foreign firms as a percentage of provincial GDP; and (3) *tax contribution*, measured as the share of tax contributions from foreign firms relative to total provincial tax revenue. Data are obtained from the China Statistical Yearbook. We standardize these indicators and aggregate them into a composite index.

We measure *technological dependence* using knowledge distance, calculated as the difference in Global Innovation Index (GII) scores between the host and home countries, which serves as a proxy for the gap in national-level innovative capacity. Published by the World Intellectual Property Organization (WIPO), the GII is a comprehensive composite indicator comprising approximately 80 metrics that evaluate countries' innovation capabilities across multiple dimensions. We use directional rather than an absolute measure to capture the asymmetry in the knowledge gap—specifically, whether firms originate from technologically more or less advanced countries—which has distinct implications for their status in the host market. Accordingly, a higher value of knowledge distance indicates that the foreign firm originates from a country or region with greater technological advancement relative to the host country.

4.3.4. Control variables

We include a number of case-level and firm-level variables that may influence litigation outcomes. At the case level, our dataset includes three types of IP infringement disputes: patent, copyright, and trademark. Accordingly, we add a categorical variable to control for *case type*. We incorporate the *number of plaintiffs* and the *number of defendants* in a case (Zhang et al., 2020). The presence of a greater number of firms on one side may provide greater support and resources, thereby affecting their win rate. We control for *industry relatedness* between plaintiffs and defendants by including a dummy variable that indicates whether both parties operate within the same industry to account for potential similarities in technological domains.

At the firm level, we include a plaintiff firm's *size*, measured as the natural logarithm of registered capital, and a firm's *age*, measured as the natural logarithm of the number of years between its founding year and the year of the litigation. Young and small firms are likely to be constrained by limited experience and knowledge, which hinders their ability to protect intellectual property rights. Prior research has also documented the influence of a firm's state ownership on its litigation outcome (Lu et al., 2015). Accordingly, we control for a plaintiff firm's *state ownership*, measured as the percentage of shares owned by the government. We also include a dummy variable for *joint venture* status to capture a firm's local embeddedness, coded as 1 if the plaintiff has partners or co-owners who jointly control the firm, and 0 otherwise. To proxy for a firm's global prominence and reputation, we include Global 500, coded as 1 if the plaintiff is listed in the Fortune Global 500, and 0 otherwise. Likewise, we use the same set of measures to control for the defendant firms' corresponding characteristics. Finally, we control for year-fixed effects by including year dummies in all models.

5. Results

Table 1 presents descriptive statistics and the correlation matrix of the variables used in this study. Our sample comprises 2127 observations from 2014 to 2019, including 1271 patent infringement cases, 679

[8] The sample includes both listed and unlisted firms, with the majority being unlisted.

Table 1
Descriptive statistics and correlation matrix.

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1 Win	1.00																		
2 Foreign ownership	0.13	1.00																	
3 Economic dependence	0.01	0.21	1.00																
4 Technological dependence	0.01	0.37	0.21	1.00															
5 Case type	−0.06	−0.13	−0.23	−0.12	1.00														
6 Number of plaintiffs	−0.03	0.08	0.10	0.07	0.10	1.00													
7 Number of defendants	0.10	0.08	0.03	0.00	−0.12	−0.05	1.00												
8 Industry relatedness	−0.01	0.02	0.01	0.02	−0.04	−0.03	0.00	1.00											
9 Size (plaintiff)	0.03	0.24	−0.01	0.13	−0.03	0.01	0.04	0.02	1.00										
10 Size (defendant)	−0.03	0.04	0.11	0.07	−0.15	0.09	0.16	−0.02	0.02	1.00									
11 Age (plaintiff)	−0.11	0.31	0.00	0.13	0.06	0.03	−0.01	0.06	0.49	−0.05	1.00								
12 Age (defendant)	−0.10	0.07	0.02	0.03	0.01	0.03	0.01	0.02	0.04	0.32	0.14	1.00							
13 State ownership (plaintiff)	0.02	−0.18	−0.13	−0.07	0.25	−0.02	0.05	−0.02	0.05	−0.02	0.10	−0.04	1.00						
14 State ownership (defendant)	−0.10	−0.09	−0.14	−0.05	0.09	0.02	0.03	−0.05	−0.04	0.15	0.01	0.22	0.08	1.00					
15 Joint venture (plaintiff)	−0.02	0.15	−0.02	−0.01	0.00	0.02	−0.03	−0.01	0.07	0.01	0.04	−0.02	0.00	−0.02	1.00				
16 Joint venture (defendant)	−0.01	0.03	0.07	−0.01	−0.03	−0.01	0.03	0.02	0.02	0.11	0.00	0.10	−0.02	−0.01	−0.01	1.00			
17 Global 500 (plaintiff)	0.03	0.17	0.00	0.15	0.00	−0.01	−0.01	0.04	0.38	−0.01	0.29	0.03	0.11	−0.05	0.00	−0.01	1.00		
18 Global 500 (defendant)	0.03	0.10	0.02	0.09	−0.06	−0.05	0.12	−0.12	0.00	0.28	−0.09	0.18	−0.06	0.09	−0.02	0.08	0.05	1.00	
19 Foreign ownership (defendant)	−0.03	0.15	0.21	0.04	0.02	0.06	0.16	−0.01	−0.07	0.31	−0.05	0.22	−0.04	−0.06	−0.03	0.19	0.03	0.31	1.00
Mean	0.63	0.27	0.93	0.68	1.49	1.10	2.15	0.34	17.24	14.95	2.68	2.28	0.08	0.06	0.06	0.02	0.04	0.06	0.11
S.D.	0.48	0.43	0.58	3.03	0.65	0.37	1.14	0.47	4.11	4.94	0.73	0.64	0.24	0.22	0.23	0.14	0.20	0.23	0.29

Notes: N = 2127. Correlation coefficients > |0.049|, significant at $p < 0.05$.

trademark infringement cases, and 177 copyright infringement cases. The average win rate is 63%, indicating that plaintiffs win in the majority of cases. The median age of plaintiff firms is 14 years, compared to 10 years for defendant firms. The median registered capital is RMB 20.5 million for plaintiff firms and RMB 5.02 million for defendant firms. On average, plaintiff firms are slightly older and larger than defendant firms. To check for multicollinearity, we calculate the variance inflation factors (VIFs). The average VIF value is 1.93, suggesting that multicollinearity is not a serious issue in our model.

Because the dependent variable in our analysis is binary, we use logistic regression to estimate the probability that a firm would win an IP infringement case. Table 2 presents the logistic regression results.[9] Model 1 is the baseline and includes all control variables. Model 2 introduces the plaintiff firm's foreign ownership as the main variable of interest. Models 3 and 4 incorporate the interactions between foreign ownership and economic dependence, and between foreign ownership and technological dependence, respectively.

Hypothesis 1 posits that a firm's foreign ownership positively influences its likelihood of winning IP litigation. In Model 2 of Table 2, the coefficient for foreign ownership is significantly positive ($\beta = 1.159$, $p < 0.01$). The coefficients for foreign ownership are also positive and statistically significant across all models, indicating a strong positive association between a firm's foreign ownership and its probability of winning an IP infringement case. Because the logit model is nonlinear, we estimate and plot the marginal effects of foreign ownership in Fig. 1, holding all other variables at their means (Wiersema & Bowen, 2009). In addition, we conduct a *t*-test to assess the effect of foreign ownership. In line with prior research, we define a firm as foreign if it has foreign ownership of 10% or more (McGaughey et al., 2020). The *t*-test results show that the mean win rate in our sample for foreign firms is significantly higher than for domestic firms: the mean win rate for domestic firms is 0.59, whereas the mean win rate for foreign firms is 0.73 ($t = 5.95$, $p < 0.01$). Overall, these results provide strong support for Hypothesis 1.

Hypothesis 2 proposes that the positive effect of the plaintiff's foreign ownership on litigation outcome is stronger when regional economic dependence on foreign investment is higher. In Model 3 of Table 2, the coefficient for the interaction term between foreign ownership and economic dependence is positive ($\beta = 0.569$, $p < 0.01$), indicating that the effect of foreign ownership is strengthened. Fig. 2 plots the marginal effect to further interpret the moderation effect. The effect of foreign ownership on litigation outcomes appears stronger for firms located in regions with higher levels of foreign economic dependence (one standard deviation above the mean) than for those in regions with lower levels (one standard deviation below the mean). Specifically, the predicted likelihood of winning IP litigation increases from 60.32% to 68.88% to 76.28% with foreign ownership of 0% to 50% to 100% for firms located in less foreign-dependent regions, while the predicted probabilities rise more sharply, increasing from 54.70% to 68.66% to 84.26% with foreign ownership of 0% to 50% to 100% for firms located in more foreign-dependent regions. Hypothesis 2 is therefore supported.

Hypothesis 3 predicts that the plaintiff's foreign ownership has a stronger effect on litigation outcome when the host-home knowledge distance is greater. In Model 4, the coefficient for the interaction term between foreign ownership and technological dependence is positive and significant ($\beta = 0.363$, $p < 0.01$). As shown in Fig. 3, the relationship between foreign ownership and litigation outcome is steeper for firms originating from countries with greater knowledge distance. Therefore, Hypothesis 3 is supported.

5.1. Supplementary analyses

We conduct additional analyses to provide further insights into the

[9] Appendix A reports the odds ratios.

Table 2
Logistic regressions predicting IP litigation outcome.

	Model 1	Model 2	Model 3	Model 4
Case type	0.012	0.032	0.026	0.027
	(0.084)	(0.085)	(0.086)	(0.086)
Number of plaintiffs	−0.002	−0.064	−0.043	−0.074
	(0.136)	(0.144)	(0.138)	(0.143)
Number of defendants	0.171***	0.143***	0.149***	0.150***
	(0.044)	(0.045)	(0.044)	(0.045)
Industry relatedness	−0.008	−0.020	−0.028	−0.034
	(0.101)	(0.103)	(0.103)	(0.103)
Size (plaintiff)	0.046***	0.038**	0.042**	0.039**
	(0.015)	(0.017)	(0.017)	(0.017)
Size (defendant)	−0.003	0.001	−0.001	0.001
	(0.011)	(0.011)	(0.011)	(0.011)
Age (plaintiff)	−0.446***	−0.649***	−0.671***	−0.658***
	(0.082)	(0.083)	(0.085)	(0.084)
Age (defendant)	−0.198**	−0.201**	−0.196**	−0.204**
	(0.083)	(0.083)	(0.084)	(0.084)
State ownership (plaintiff)	0.268	0.611***	0.582***	0.611***
	(0.224)	(0.220)	(0.222)	(0.222)
State ownership (defendant)	−0.754***	−0.691***	−0.715***	−0.695***
	(0.231)	(0.228)	(0.229)	(0.228)
Joint venture (plaintiff)	−0.231	−0.556***	−0.529***	−0.382*
	(0.202)	(0.200)	(0.201)	(0.210)
Joint venture (defendant)	0.015	0.035	0.038	0.031
	(0.331)	(0.347)	(0.344)	(0.347)
Global 500 (plaintiff)	0.581**	0.482*	0.488*	0.459*
	(0.264)	(0.271)	(0.270)	(0.270)
Global 500 (defendant)	0.346	0.269	0.253	0.239
	(0.255)	(0.268)	(0.269)	(0.269)
Foreign ownership (defendant)	−0.251	−0.423**	−0.417**	−0.410**
	(0.185)	(0.196)	(0.197)	(0.197)
Economic dependence	0.044	−0.036	−0.177*	−0.033
	(0.086)	(0.087)	(0.102)	(0.087)
Technological dependence	0.017	−0.025	−0.036*	−0.373***
	(0.017)	(0.019)	(0.020)	(0.121)
Foreign ownership		1.159***	0.578**	1.097***
		(0.153)	(0.264)	(0.152)
Foreign ownership # Economic dependence			0.569***	
			(0.205)	
Foreign ownership # Technological dependence				0.363***
				(0.124)
Constant	0.236	0.895*	0.981*	0.895*
	(0.483)	(0.508)	(0.508)	(0.513)
Year fixed effect	Yes	Yes	Yes	Yes
Observations	2127	2127	2127	2127
Log likelihood	−1300.5765	−1267.4085	−1263.8004	−1262.7964
Wald chi-square	165.988	227.826	237.534	229.897

Robust standard errors in parentheses; * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

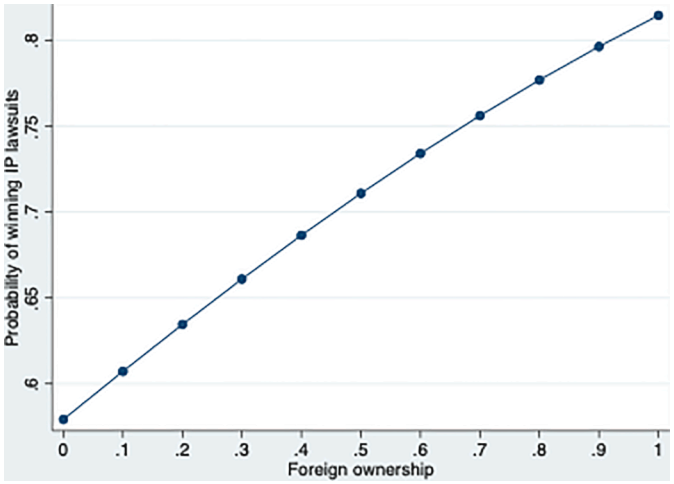

Fig. 1. The effect of foreign ownership on IP litigation outcome.

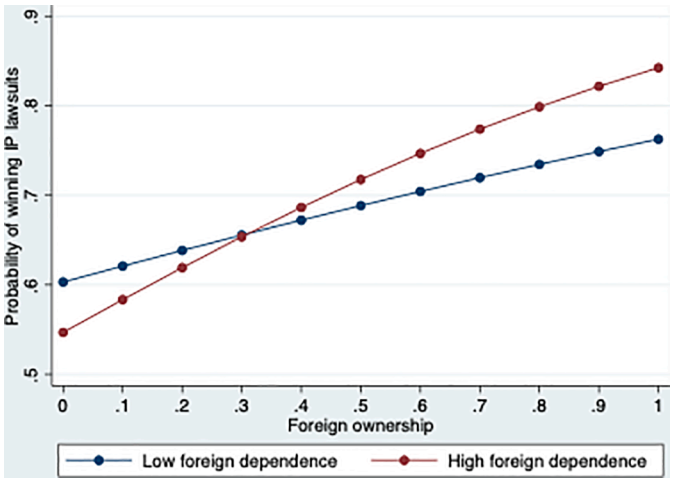

Fig. 2. The moderating role of economic dependence.

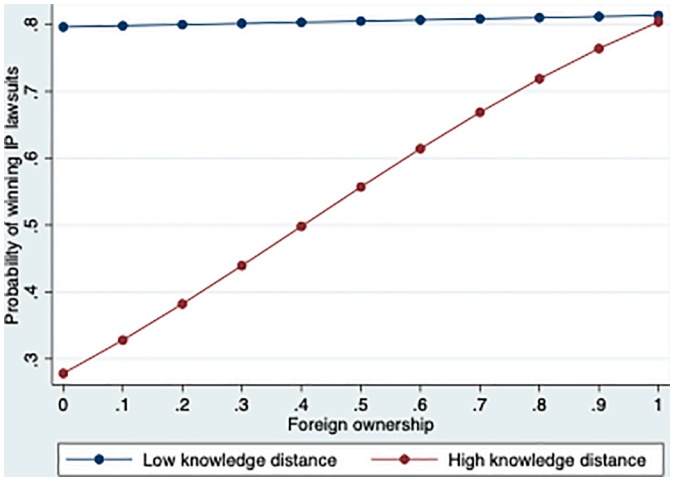

Fig. 3. The moderating role of technological dependence.

relationship between foreign ownership and litigation outcomes in emerging markets. First, we test the generalizability of our findings by examining litigation outcomes in cases adjudicated by the Supreme People's Court, assessing whether the advantages associated with foreign ownership persist in a higher-level institutional arena. We use litigation outcomes at the Supreme People's Court as the dependent variable (Haynie & Sill, 2007), coded as 1 if the Supreme People's Court supports the plaintiff's claim and 0 otherwise. The majority of rulings at the Higher People's Courts are consistent with the final decisions

rendered by the Supreme People's Court. As shown in Table 3, the coefficient for foreign ownership remains positive and statistically significant ($\beta = 0.935$, $p < 0.01$, Model 2) in the Supreme Court setting, supporting the robustness of our results.

We extend the scope of our theoretical framework by examining how the AOF interacts with the LOF. LOF coexists with AOF as simultaneous institutional forces, as foreign firms operate in multidimensional environments where different aspects of foreignness yield distinct effects. For example, a foreign firm may leverage its globally recognized brand reputation to attract customers in foreign markets, while simultaneously facing challenges in adapting to local cultural norms. Specifically, we argue that greater cultural distance between host and home countries can amplify LOF by hindering communication, trust-building, and legitimacy, thereby constraining the extent to which foreign firms can leverage their advantages. We measure cultural distance using Hofstede's (1980) cultural dimensions (Kogut & Singh, 1988). As predicted, cultural distance weakens the positive relationship between foreign ownership and the likelihood of winning IP lawsuits ($\beta = -0.421$, $p < 0.01$, Table 3).

In addition, foreignness is not a static condition but one that evolves with institutional changes (Meyer & Tse, 2025). As institutional frameworks transform, the underlying patterns of interdependence between firms and their host environment recalibrate accordingly. To capture its dynamic nature, we focus on political affinity and regional trade agreements (RTAs) between host and home countries. Political affinity refers to the alignment of national interests between countries in global affairs (Gartzke, 1998), reflecting the evolving diplomatic, economic, and strategic relationships among them over time. When foreign firms originate from countries with greater political affinity, they tend to receive more support and favorable treatment from their host markets (Bertrand et al., 2016). RTAs represent an important form of institutional change that deepens mutual dependencies, as they establish binding commitments that reduce uncertainty and facilitate trade liberalization.

We proxy political affinity using the voting positions in the United Nations General Assembly (Bertrand et al., 2016). In the UN General

Table 3
Supplementary analyses.

	Model 1	Model 2	Model 3	Model 4	Model 5
Case type	0.205**	0.216**	0.210**	0.221***	0.219***
	(0.083)	(0.084)	(0.084)	(0.084)	(0.084)
Number of plaintiffs	0.171	0.084	0.085	0.071	0.065
	(0.123)	(0.126)	(0.129)	(0.128)	(0.128)
Number of defendants	0.172***	0.170***	0.171***	0.158***	0.160***
	(0.043)	(0.044)	(0.045)	(0.044)	(0.044)
Industry relatedness	−0.071	−0.081	−0.067	−0.083	−0.076
	(0.101)	(0.102)	(0.103)	(0.102)	(0.102)
Size (plaintiff)	0.055***	0.057***	0.048***	0.053***	0.055***
	(0.017)	(0.018)	(0.018)	(0.018)	(0.018)
Size (defendant)	0.011	0.012	0.011	0.011	0.011
	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)
Age (plaintiff)	−0.591***	−0.617***	−0.580***	−0.620***	−0.602***
	(0.086)	(0.088)	(0.087)	(0.087)	(0.088)
Age (defendant)	−0.136*	−0.131	−0.122	−0.123	−0.119
	(0.083)	(0.083)	(0.083)	(0.083)	(0.083)
State ownership (plaintiff)	0.685***	0.775***	0.744***	0.796***	0.800***
	(0.223)	(0.225)	(0.222)	(0.224)	(0.225)
State ownership (defendant)	−0.852***	−0.829***	−0.841***	−0.858***	−0.872***
	(0.234)	(0.236)	(0.235)	(0.236)	(0.238)
Joint venture (plaintiff)	−0.398**	−0.460**	−0.837***	−0.752***	−0.857***
	(0.203)	(0.203)	(0.248)	(0.219)	(0.228)
Joint venture (defendant)	0.133	0.125	0.107	0.129	0.126
	(0.345)	(0.347)	(0.343)	(0.342)	(0.342)
Global 500 (plaintiff)	0.624**	0.584**	0.656**	0.645**	0.614**
	(0.279)	(0.279)	(0.286)	(0.284)	(0.288)
Global 500 (defendant)	0.108	0.115	0.121	0.146	0.140
	(0.266)	(0.267)	(0.266)	(0.265)	(0.266)
Foreign ownership (defendant)	−0.351*	−0.379**	−0.352*	−0.362*	−0.358*
	(0.187)	(0.189)	(0.187)	(0.187)	(0.187)
Cultural distance	0.095**	−0.038	0.243**	−0.043	−0.036
	(0.045)	(0.060)	(0.106)	(0.062)	(0.063)
Political affinity	0.015	−0.076	−0.094	−1.833***	0.012
	(0.203)	(0.207)	(0.210)	(0.679)	(0.211)
RTA	−0.742***	−0.424*	−0.565**	−0.334	−2.842***
	(0.224)	(0.248)	(0.260)	(0.255)	(0.891)
Foreign ownership		0.935***	1.407***	−0.790	−1.519*
		(0.243)	(0.344)	(0.671)	(0.871)
Foreign ownership # Cultural distance			−0.421***		
			(0.142)		
Foreign ownership # Political affinity				1.983***	
				(0.694)	
Foreign ownership # RTA					2.773***
					(0.918)
Constant	0.125	−0.019	0.124	1.761**	2.346**
	(0.508)	(0.513)	(0.516)	(0.849)	(0.978)
Year fixed effect	Yes	Yes	Yes	Yes	Yes
Observations	2127	2127	2127	2127	2127
Log likelihood	−1.3e+03	−1.3e+03	−1.3e+03	−1.3e+03	−1.3e+03
Wald chi-square	238.341	243.900	247.452	247.516	247.326

Robust standard errors in parentheses; * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Assembly, each member state has equal representation and an equal vote on issues concerning a wide range of international affairs, including political, economic, social, and military matters. Voting distance is calculated as the absolute value of the difference in votes. The political affinity index ranges from −1 to 1, with higher values representing more aligned voting patterns and stronger bilateral relationships. The formation of an RTA is coded as 1 if the foreign firm's home market and the host country are signatories to a formal trade agreement in a year, and 0 otherwise. As presented in Table 3, the moderating effects of both political affinity and RTA are significant and positive, indicating that the benefits of foreignness are amplified as institutional conditions improve.

5.2. Robustness checks

First, our main analysis argues that foreign firms can enjoy advantages due to the host market's reliance on foreign investment. A possible alternative explanation is that these advantages may stem from foreign firms' access to international resources. To account for this, we use Fortune Global 500 status as a proxy for firm resources, as globally recognized firms are more likely to possess resources, international networks, and managerial capabilities necessary to manage litigation. If firm resources were the primary driver of the AOF effect, we would expect the results to be more pronounced for these firms. However, the interaction term between foreign ownership and Global 500 status is not statistically significant ($\beta = 0.388$, $p > 0.01$).

Second, we employ alternative binary measures to capture the degree of foreignness based on firms' ownership. Specifically, *foreignness_1* is coded as 1 if the firm has any foreign ownership, and 0 otherwise; *foreignness_2* is coded as 1 if the firm operates as a joint venture, defined as having foreign ownership exceeding 50%, and 0 otherwise; *foreignness_3* is coded as 1 if the firm is a wholly foreign-owned subsidiary, and 0 otherwise (Appendix B).

In addition, we exclude firms without foreign ownership from our baseline regressions to mitigate concerns that foreign firms may selectively initiate cases they expect to win, or that only foreign firms with superior capabilities are more likely to initiate IP litigation, which could bias our results. This subsample isolates foreign firms from domestic actors, mitigating potential confounding factors and providing a clearer picture of the relationship between foreignness and litigation outcomes. The AOF effects remain robust across these alternative operationalizations (Appendix B).

Third, to assess the sensitivity of our results, we employ alternative estimation strategies. We use Probit models to account for the binary dependent variable and obtain consistent results (Appendix C). Fourth, since some cases involve multiple plaintiffs or defendants, we cluster standard errors at the case level to control for unobservable characteristics shared across observations within each case. Our results are robust to the alternative method of estimating standard errors (Appendix D).

6. Discussion

Drawing on locational dependencies and the host-country perspectives, this study examines whether foreign firms enjoy advantages over domestic firms in emerging markets by analyzing the relationship between a firm's foreign ownership and its likelihood of winning IP litigation. Using a unique sample of IP infringement lawsuits from 2014 to 2019, we find that, on average, foreign plaintiffs have a higher win rate than domestic plaintiffs do. Our results provide evidence that foreignness can function as an asset. Furthermore, we elucidate the mechanism underlying the locational dependencies by showing that the positive effect of foreign ownership is more pronounced when a region's dependence on foreign firms for economic and technological resources is higher.

6.1. Theoretical implications

This study makes several important contributions to the literature. First, we extend the IB research on foreignness. Complementing the traditional notion that foreignness is a liability, the AOF perspective offers a more balanced view of foreignness and serves as a valuable lens for understanding the outcomes of international activities (Lu et al., 2022; Stoyanov et al., 2018). Extant research has examined the role of foreignness primarily from an organizational perspective, focusing on how foreign firms' liability or asset status arises from their relative advantages or disadvantages vis-à-vis local competitors (Eden & Miller, 2004; Lee et al., 2022; Stoyanov et al., 2018). We advance this emerging stream of work by identifying host-country institutional factors as a fundamental source of AOF. In contrast to prior work that emphasizes the protection of local firms, such as Choudhury et al. (2025), who report that domestic patent holders and challengers achieve higher success rates than their foreign counterparts in the U.S. context, our study draws on an emerging market context characterized by higher host-market dependence on foreign firms. We find that foreign firms are indeed more likely to achieve favorable outcomes than their domestic counterparts, providing robust support for the existence of AOF (Fuad et al., 2024; Gu et al., 2025; Prud'homme, 2019). This divergence suggests that liabilities of foreignness observed in developed markets do not automatically generalize to emerging economies. Variations in institutional settings can effectively "flip" the foreignness effect, such that the liabilities or advantages associated with foreignness are not fixed but are highly contingent on institutional conditions.

Our supplementary analyses further reveal the co-existence of LOF and AOF. Foreign firms can simultaneously benefit from their unique advantages and confront the challenges of being outsiders in host markets. LOF, which captures the social, cultural, and regulatory disadvantages associated with foreignness, thereby attenuating its positive effects. By moving beyond treating foreignness solely as an advantage or a liability, our findings enhance the explanatory power of the AOF perspective and demonstrate that its effectiveness as an asset is contingent on a complex set of institutional factors.

Second, this study advances resource dependence theory by engaging directly with the emerging perspective on locational dependencies (Jiang et al., 2023). Traditional RDT research has largely overlooked the importance of location and geography (Drees & Heugens, 2013; Pfeffer & Salancik, 1978), a dimension particularly salient in the context of IB. Global expansion involves business networks spanning geographically dispersed markets, each characterized by distinct institutional contexts. This spatial heterogeneity creates complex patterns of interdependence between firms and their locations, requiring MNEs to navigate these dependencies strategically by coordinating activities across their portfolios. We show that the IB context offers rich opportunities for RDT by incorporating heterogeneous locational dependencies across institutional boundaries.

This study also extends the concept of locational dependencies by highlighting a reverse direction of dependency, moving beyond the conventional focus on firms' reliance on their host environment (Boddewyn & Brewer, 1994; Cuervo-Cazurra et al., 2014). Although organizations are often vulnerable to their external environment, these relationships can be bidirectional, with host markets relying on the firm for the provision of scarce, strategically important assets (Xiang et al., 2022). In this context, foreign firms act not merely as economic participants but as strategic actors whose presence can shape the competitiveness of host markets. Our findings that the effect of foreign ownership is more pronounced in regions with higher levels of dependence on foreign investment provide empirical validation for the reciprocal dependency. By examining this less-explored direction of locational dependencies, this study contributes to a more nuanced understanding of the power dynamics in cross-border activities.

Third, this study contributes to the literature on corporate litigation. IP litigation is particularly influential because of its far-reaching

implications for economic growth and technological development. The widespread phenomenon of litigation risk has prompted researchers to examine the antecedents of firms' exposure to it (Tan, 2016). Another line of research emphasizes the consequences of litigation for firms and relevant stakeholders, including monetary and reputational losses, which in turn affect firm performance and strategic decisions (Ganco et al., 2020). However, relatively little is known about the determinants of litigation outcomes (Firth et al., 2011; Krishnan et al., 2016; Sun et al., 2023; Sytch & Kim, 2021). We contribute to this emerging body of work by positioning firm ownership structure as an antecedent of litigation success. Specifically, this study's novel findings demonstrate that foreign firms are more likely than their domestic counterparts to win an IP lawsuit in China, contrary to the conventional belief that emerging markets provide limited IPR protection to foreign investors (Bian, 2018; Keupp et al., 2010; Love et al., 2015; Zhao, 2006). Beyond the structural constraints of institutions that "make some actions impossible," institutions can also create opportunities and "actively induce actors to pursue some of those possibilities" (Cardinale, 2018: 133). This study explores the mechanisms that enable institutional environments in emerging markets to evolve to strengthen IPR protection (Tse et al., 2024). The context of litigation also reveals that the effect of foreignness manifests beyond market-based outcomes, such as performance (Chen, 2011; Nachum, 2010), survival (Kronborg & Thomsen, 2009), and innovation (Un, 2011, 2016), extending to favorable outcomes in non-market domains.

6.2. Practical implications

This study offers practical implications for managers and policymakers in emerging markets. First, managers of MNEs operating in these markets should recognize the potential advantages. A firm's ability to navigate legal challenges is critical to its success and resilience in complex institutional environments. Variations in IP enforcement and reliance on foreign investments across different regions can significantly influence the effectiveness of a firm's legal strategies. Hence, when making location decisions, firms should carefully consider subnational heterogeneity to identify locations where their operations are more likely to generate benefits. Firms operating in regions with higher dependence on them should also proactively leverage their strategic value by cultivating relationships with local stakeholders and emphasizing their contributions to regional development. In addition, firms should adjust their legal strategies based on location-specific conditions, recognizing that these conditions are dynamic and fluctuate as institutional quality improves or deteriorates. Overall, aligning firm behavior with local institutional characteristics is essential for transforming foreignness into asset and fostering mutually beneficial relationships between the host market and the firm.

From a policy perspective, the findings highlight both challenges and opportunities for emerging market policymakers. On one hand, judicial processes need to remain impartial and consistent across regions, minimizing potential perceptions of bias for or against specific types of firms. Differences in local governance—such as the independence, capacity, and transparency of courts—can influence litigation outcomes, highlighting the need to ensure judicial neutrality and maintain a fair and credible legal system. On the other hand, policymakers should recognize the importance of strengthening institutional credibility through effective IP enforcement, which can attract investment while fostering trust in the broader legal system.

6.3. Limitations and future research directions

This study has limitations that suggest future research avenues. First, in this study, we employ the win rate as an indicator of pro-plaintiff case outcomes. However, litigants may selectively pursue cases with a higher probability of success, leading to potential selection bias (Clermont & Eisenberg, 1997). Although we have conducted a subsample analysis focusing on foreign firms to mitigate this concern, the case-selection effect could still influence our findings. Moreover, not all cases proceed to the appeal stage. Future research could expand the analytical scope to include a more representative sample of lawsuits.

Second, due to data constraints, we focus on IP lawsuits that were appealed to the Supreme People's Court. Despite the advantages of using the SPC data, and although we have traced and coded litigation outcomes from lower-level courts, we acknowledge that the dataset cannot provide a comprehensive picture of litigation. Future research could further enhance understanding of IP litigation by incorporating data from different court levels and comparing how cases are adjudicated across judicial tiers. Furthermore, litigation is a complex process influenced by a multitude of factors. We obtain case-level information by manually coding the content from judgment documents. Omitted variables, such as the quality of legal representation, the characteristics of the judges, and other contextual factors, may also influence court decisions. Future research could conduct in-depth qualitative studies to better understand the relationships between foreignness and litigation outcomes.

Third, this study includes unlisted firms, which constitute a significant portion of the sample. While including unlisted firms allows for a more representative sample of cases, these firms have limited publicly available information. In addition, the measurement of the moderating variables could be further refined. For example, we lack direct data to assess regional economic dependence, including the potential disruption to local markets if foreign firms were to withdraw. Indicators that more directly capture the magnitude of such disruption—such as estimated output losses, employment shocks, or fiscal deficits—could provide a more precise assessment of reverse dependence. Similarly, the measurement of technological dependence on foreign firms could be enhanced using more comprehensive indicators, such as citations of foreign patents or the density of foreign-owned R&D centers. Future research could leverage alternative data sources to obtain more detailed firm-level and regional-level information.

Fourth, the empirical analysis of this research is conducted in a single emerging market. Other countries have different institutional and cultural contexts that may influence the relationship between foreign ownership and IP litigation outcomes, thereby limiting the generalizability of our findings. Future researchers may develop comparative studies across different settings.

CRediT authorship contribution statement

Xuchang Chen: Writing – original draft, Methodology, Data curation, Conceptualization. **Jane Wenzhen Lu:** Writing – review & editing, Supervision, Conceptualization. **Changqi Wu:** Writing – review & editing, Conceptualization.

Supplementary materials

Supplementary material associated with this article can be found, in the online version, at doi:10.1016/j.jwb.2026.101742.

Data availability

The authors are unable or have chosen not to specify which data has been used.

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