NORTH-HOLLAND

Journal of International Management
8 (2002) 407–421

THE FOX SCHOOL
of Business and Management
TEMPLE UNIVERSITY

National cultural distance as liability of foreignness: the issue of level of analysis

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Abstract

In this study, we focus on the use of measures of national cultural distance as a proxy for liabilities of foreignness. In particular, we focus on the dominant measure of national cultural distance: a linear combination of the differences between the two countries where the workplaces are located using indices from previously published research. Our question concerns whether measures of distance based on previously published indices at the national level are appropriate measures of cultural distance at the organizational level. Our results suggest that they are not; implications for theory and research are discussed.

Keywords: Cultural distance; Cultural dimension; Liability of foreignness

1. Introduction

As economic activity becomes increasingly global, there has been a notable increase in attention to cultural factors (Erez and Earley, 1993, pp. 4–7), especially as they may impact activities at firms that cross borders. Liabilities of foreignness represent one topic that has

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PII: S1075-4253(02)00094-7

recently received considerable attention as part of this larger trend to study cultural factors. Of course, no single paper can adequately address a topic as broad as liabilities of foreignness. In order to navigate this broad topic in a way that allows us to make progress in a single study, we will focus on studies that have used national measures of cultural distance from previously published work as measures of liabilities of foreignness at the level of the organization. This literature has largely focused on decisions about entry mode when a firm established operations in a host country outside its home country. The remainder of this study is addressed specifically to the issue of whether these measures of national cultural distance are adequate proxies for liabilities of foreignness in this context.

We proceed as follows. We will begin our study by discussing the concept of national cultural distance and how it has been linked with liabilities of foreignness at the firm level. Having introduced the concept, we will review empirical studies that have measured the construct and suggest some open questions that remain from this empirical work. Then, we will review the question of levels of analysis in measuring cultural distance and suggest some reasons for why the organizational level of analysis might need to be examined in more detail as a source of potential cultural distance. Having established the conceptual framework of cultural distance at the national and organizational levels of analysis, we will turn our attention to some data on cultural beliefs in seven countries measured at the organizational level of analysis. We will compare these measures at the organizational level of analysis with published results for the same measures at the national level of analysis; our interest is in the extent to which measures at these two levels converge. Based on our finding that they do not converge, we urge researchers who wish to have measures of the liability of foreignness to be more sensitive to the risk of relying on indices of cultural differences established by earlier studies.

2. National cultural distance and liabilities of foreignness

The construct of cultural distance in the broad literature of multinational enterprises can be traced to the work of Beckerman (1956), who used the concept of psychic distance, Hymer's (1960) discussion of the disadvantages facing foreign subsidiaries, and research from an economic perspective that noticed a multitude of nongeographic factors affecting economic activity. Kogut and Singh (1988, p. 415) introduced the idea of using cultural distance as a measure that would affect organizational outcomes and specifically linked it with the notion of a liability of foreignness. They argued that in more culturally distant countries, firms would face higher management costs and offered a broad rationale for this claim: "These costs may be perceptual only or accurate appraisals of the increased difficulties of managing a foreign workforce in a culturally distant country." Thus, we see an explicit rationale for why firms operating in countries with a culture distant from that of their home country would experience a liability of foreignness.[1] Based on this rationale, Kogut and Singh predicted that the cultural

[1] We do not claim that any of the authors explicitly used the term liability of foreignness; our argument only requires that cultural distance is being used as a proxy for disadvantages a firm faces when it establishes operations in a host country outside of its home country.