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Liabilities and benefits: Examining the two sides of the foreignness coin from entrepreneurial perspective

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ABSTRACT

This paper provides an in-depth examination of foreignness at the individual level by studying it in the context of entrepreneurs. Based on data collected from 470 domestic and foreign entrepreneurs operating in the U.S., it was concluded that foreignness has a curvilinear relationship with entrepreneurial performance. There was also evidence of moderating effects of entrepreneurial orientation on the relationship between foreignness and performance. Implications of the findings are discussed.

On hearing the news of Singapore lifting its ban on chewing gums, Art Baer decided to grab the opportunity in that market. He quit his job and put in his own money into a chewing gum, Impress Gum, to be sold for medicinal purposes in the pharmacies of Singapore. Soon, the California-based Impress Gum started showing revenue. The prompt initiatives taken by Baer helped him to overcome the challenges presented by his foreignness and compete against giants like Wrigley's (Williams, 2004).

International entrepreneurs have become a strong force in driving a country's economic development. Over 50% of US's privately owned businesses that have a value of more than $1 billion have at least one co-founder that was born in another country (Leffler, 2017). Research has shown that international new ventures experience two types of liabilities – newness and foreignness (Mudambi & Zahra, 2007). While there is a learning curve associated with any new venture, Hymer (1960) noted that there were certain additional barriers to international operations due to various factors like limited knowledge and discrimination against foreign firms. Subsequently, liability of foreignness (LOF) was conceptualized as the phenomenon whereby foreign firms experienced certain disadvantages compared to their domestic counterparts, due to their foreignness (e.g., Joardar, Kostova, & Wu, 2014; Klossek, Linke, & Nippa, 2012; Luo, Shenkar, & Nyaw, 2002; Miller & Eden, 2006; Moeller, Harvey, Griffith, & Richey, 2013; Zhou & Guillén, 2015). However, other scholars contended that foreignness may bring some possible benefits as well (e.g. Kronborg & Thomsen, 2009; Mallon & Fainshmidt, 2016; Sethi & Judge, 2009). The divergence between the two thoughts makes it important to understand when foreignness is disadvantageous and when it is an advantage for foreign investors and entrepreneurs (Kulchina, 2017).

LOF research has seen another trend. Most of the prior literature on LOF focused on firms. However, the potential existence of LOF at the individual level should not be ignored because the most powerful actors of a firm, especially its executives and founders, play an important role on the bottom line of an organization (e.g. Priem, 1994). This paper uses the concept of foreignness to evaluate its merits and drawbacks as an individual phenomenon (Fang, Samnani, Novicevic, & Bing, 2013; Joardar et al., 2014; Kulchina, 2017). It should be noted that this is distinct from LOF of foreign firms experiencing "stigmatization" by host country nationals at the individual level (Moeller et al., 2013).

Despite the existence of LOF, Baer's success with Impress Gum in the example above illustrates that it is possible to overcome them and be successful in a foreign market (Williams, 2004). Baer was innovative, proactive and willing to take risks by investing in an unfamiliar market. These characteristics have been identified as dimensions of entrepreneurial orientation (EO) (Covin & Slevin, 1989; Richard, Barnett, Dwyer, & Chadwick, 2004). Joardar and Wu (2011) identified foreignness and EO as two distinct influences on international entrepreneurs. We argue that an entrepreneur who is able to tap into the benefits of foreignness will be able to compete against domestic entrepreneurs very effectively. At the individual level, individual entrepreneurial orientation (IEO) reflects an individual's orientation toward entrepreneurial activities (Bolton & Lane, 2012; Goktan & Gupta, 2015). We argue that an entrepreneur with high IEO will be able to overcome his/her LOF and compete successfully with domestic entrepreneurs in a host country

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(Covin & Miller, 2014). Hence, the primary research question addressed in this paper is as follows – *how does an entrepreneur's performance get affected by the dual forces of his/her EO and foreignness*? In order to address this question, first we explore if foreignness is a liability or benefit for entrepreneurs, and second, how it interacts with EO to affect performance.

This paper was primarily motivated by two factors. First, although prior researchers have acknowledged the existence of LOF at the individual level (for example Harvey, Novicevic, Buckley, & Fung, 2005; Joardar et al., 2014; Moeller & Harvey, 2011; Stahl, Tung, Kostova, & Zellmer-Bruhn, 2016), there is a lack of sufficient systematic study of the phenomenon. Joardar and Wu (2011) distinguished individual LOF (ILOF) from LOF at the organizational level and identified its various sources. While important, it is not sufficient to identify only the sources of ILOF. The factors that help overcome ILOF need to be understood as well for foreign entrepreneurs to be successful in a host country (Kulchina, 2017; Miller & Eden, 2006). Hence, it is important to address this gap in research.

Second, the significance of entrepreneurial orientation (EO) in business research has been recognized by the scholarly community (Covin & Lumpkin, 2011). There are arguments supporting positive relationship between EO and business performance (Su, Xie, & Li, 2011). In this paper, we raise the question that if EO indeed has positive impact on performance, could it be sufficient to mitigate some of the liabilities experienced by international entrepreneurs? In an effort to further integrate the international business and entrepreneurship research streams, we conduct an empirical examination of performance of international entrepreneurs.

Our study is unique in several ways. First, over the years, scholars have "overly emphasized a negative view on foreignness" (Stahl et al., 2016, p. 621). In this paper, we present foreignness as a complex phenomenon with both liability and benefit to entrepreneurs, thus taking a new look at the debate on the effect of foreignness (Denk, Kaufmann, & Roesch, 2012; Joardar et al., 2014). Second, rather than take a simplistic view of the effect of EO on performance, we propose that depending on the level of foreignness, while some dimensions of entrepreneurial orientation benefit entrepreneurs, others may fail to have beneficial effect. Since foreignness may be mitigated by increasing foreign exposure (Mezias & Mezias, 2007), we believe a dichotomy may not capture the richness of foreignness as a construct. Consequently, unlike previous research that primarily treats foreignness as a dichotomy, we focus on level of foreignness in this paper. Third, although majority of the studies have examined foreignness at the organizational levels (Zhou & Guillén, 2015), scholars have also stated that foreign entrepreneurs should be investigated at the individual level (Kulchina, 2017; Stahl et al., 2016). Our research contributes to the gap in the research on EO and foreignness by arguing that they are both applicable to individual entrepreneurs (Goktan & Gupta, 2015; Harvey et al., 2005), thereby examining them as individual phenomenon. Given the significance of the people involved in a business venture and their impact on a host economy, it is important to understand how their characteristics impact performance.

The rest of the paper is organized as follows. Following this introduction, the second and third sections provide review of the relevant literature on foreignness and entrepreneurial orientations respectively. The following section presents our hypotheses. The fifth section discusses the methodology used for this study. The next section presents the results of our analysis. The last section concludes with a discussion of limitations and directions for future research.

1. Foreignness

1.1. Liabilities or benefits

LOF originated from Hymer's (1960) research in which he discussed the costs of doing business abroad (CDBA) and was later further developed by Zaheer (1995). It basically refers to the phenomenon causing foreign firms to incur costs more than local companies or be denied the benefits available to domestic firms (Denk et al., 2012; Mezias, 2002b). Sethi and Judge (2009) noted that many business scholars subsequently built on this stream of research and examined it from perspectives such as institutional theory (Kostova & Zaheer, 1999; Mezias, 2002a) and organizational learning (Petersen & Pedersen, 2002). Kostova and Zaheer (1999) argued that MNCs typically have to conform to established regulatory, cognitive, and normative structures in society in order to gain legitimacy. For instance, in a study of labor lawsuit judgments in the U.S., Mezias (2002a) suggested that nonconforming firms face the risk of workforce disruptions, reputation loss and potential boycotts, which are potentially more serious than legal costs.

Prior research identified various sources of LOF such as lack of information or socio-cultural differences between home and host country (Kostova & Zaheer, 1999; Luo et al., 2002; Mezias, 2002a; Miller & Eden, 2006; Nachum, 2003; Zaheer, 1995), discrimination against foreign firm due to stereotyping or differential standards against it (Mezias, 2002b; Miller & Parkhe, 2002; Moeller et al., 2013; Petersen & Pedersen, 2002), lack of integration into the local network (Kulchina, 2017; Zaheer & Mosakowski, 1997), non-conformity to local norms (Mezias, 2002a), differences in cultural values and limited commitment of foreign individuals to host country (Moeller et al., 2013; Zhou & Guillén, 2015). Some of these sources are relevant at both organizational and individual levels. For instance, lack of knowledge about the host country can be a liability for both an organization and an individual (Nachum, 2010; Stahl et al., 2016). Another example is lack of familiarity with the socio-cultural differences in a host country that may affect a foreign individual's ability to interact with others in a new environment (Miller & Eden, 2006).

While many scholars have widely recognized LOF as described above, others have looked at the potential benefits of foreignness (BOF) (Sethi & Judge, 2009; Stahl et al., 2016). Foreign companies that have succeeded in their home market often tend to command better resources when they decide to internationalize (Mallon & Fainshmidt, 2016; Nachum, 2003). For instance, Kronborg and Thomsen (2009) found that foreign businesses may have access to better resources or financial capital. Such companies have also been found to be more learning oriented organizations (Nurmi & Hinds, 2016; Sethi & Judge, 2009). Sometimes, consumers associate foreignness with uniqueness of certain products, thereby enhancing the chance to consume such products (Mallon & Fainshmidt, 2016; Siegel, Pyun, & Cheon, 2010; Un, 2011).

In an effort to capture the various aspects of foreignness, Sethi and Judge (2009) proposed an integrated model accounting for the costs and benefits of doing business abroad in both the host country as well as multinationality contexts. They distinguished between assets and liabilities of foreignness in the host country from assets and liabilities of multinationality that occurred when business was conducted across multiple national boundaries (Sethi & Judge, 2009). Kulchina (2017) tested competing hypotheses that state entrepreneurial foreignness as both benefit and liability. The results indicate that founder-manager status is more likely to be an asset rather than liability. Mezias and Mezias (2007), who found that foreign managers experienced LOF in the U.S., noted evidence of reduced effect of such foreignness with increasing rank. These studies affirm that foreignness is a complex phenomenon whose benefits outweigh the costs under certain conditions. The key factors contributing to liabilities and benefits of foreignness are summarized in Table 1.

1.2. How can LOF be mitigated and BOF enhanced?

At the organizational level, previous research has indicated that foreign businesses are faced with two pressures, competitive and institutional (Miller & Eden, 2006; Zhou & Guillén, 2015). On one hand,