The Empirical Study of the Impact of Liability of Foreignness on Foreign Subsidiary Disadvantages

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ABSTRACT

When MNEs’ subsidiaries operate at host country, they may suffer a ‘liability of foreignness’. Liability of foreignness may generate foreign subsidiaries’ competitive disadvantages. Several theoretical and empirical researches have been done on the conceptualization of liability of foreignness and its consequences, yet little research has empirically investigated the relationship between liability of foreignness and subsidiaries’ competitive disadvantages. In this paper, we advance a framework that divide liability of foreignness into unfamiliarity hazards (cultural and institutional distance) and discrimination hazards (country image and animosity) that may result in foreign subsidiaries’ disadvantages. Moreover, we report the results of an empirical test of this relationship, using banking industry in Taiwan for the period 2003-06. Our findings support that cultural distance and country image are associated with foreign subsidiaries’ disadvantages. Further, we also found that firm size and degree of internationalization can moderate the relationship between cultural distance and foreign subsidiaries’ disadvantages.

Keywords : liability of foreignness、foreign subsidiaries、competitive disadvantages

Table of Contents

中文摘要 iii
英文摘要 iv
誌謝辭 v
Table of Contents vi
List of Tables vii
List of Figures viii
Chapter 1 Introduction. 1
Chapter 2 Literature and hypotheses 4
2.1 Competitive disadvantages 4
2.2 LOF. 4
2.3 Firm size. 8
2.4 DOI 11
Chapter 3 Methodology 13
3.1 Framework. 13
3.2 Sample. 14
3.3 Measures. 14
3.4 Analysis 20
Chapter 4 Results 21
Chapter 5 Discussion and conclusion 26
5.1 Discussion. 26
5.2 Implications for research. 29
5.3 Implications for management 31
5.4 Limitations and future research 32
Reference 33

List of Tables

Table 4- 1 Descriptive statistics and correlation coefficient. 24
Table 4- 2 A model linking the LOF, moderating variables and competitive disadvantages 25

List of Figures
Figure 3- 1 Conceptual model of the study. 13

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