

Man without a country: Is there a liability of foreignness in individual outcomes?

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Abstract: This study focuses on evidence for a liability of foreignness at the individual level of analysis. We review the past literature, particularly studies of liabilities of foreignness and expatriate employees, to suggest that there will be a liability of foreignness in individual outcomes. We also hypothesize that length of time in the foreign country and position in the firm may affect this liability. We operationalize foreignness by examining non-US citizens employed in the US offices of the firm and focus on annual salary increases as the individual outcome of interest. Our results show a significant negative effect of foreignness on salary increases; we also show that hierarchical level has a significant, positive interaction with foreignness. We discuss implications and conclusions of these findings.

Key Words: Liability of Foreignness, International Human Resource Management, Salary

Introduction

In his fiction classic, Man without a Country, Edward Everett Hale (1917) tells the story of a man who turned his back on his country, the United States, and paid dearly for this act. We call up the image of this man without a country to start our discussion of a substantively less fictional question: What are the consequences of leaving one's country of citizenship behind to seek employment in another country? Of course, there is likely no simple answer to this question, the consequences suffered by Hale's protagonist notwithstanding. In developing a theoretical approach to this complex issue, we will start with a simple notion that foreign workers coming to another country are at a disadvantage with respect to citizens. We base our argument on the evidence that multinationals face a liability of foreignness when operating in countries outside their headquarters' nation (Hymer, 1976; Zaheer, 1996, Mezas 2002; Luo and Mezas, 2002). At the most basic level, this suggests being foreign may be a liability to individual employees. The complexity of the issue, however, demands taking account of the

larger context, a particularly daunting task. We approach this by focusing on one set of consequences: workplace outcomes, for one set of persons working outside their home countries: workers at a financial services firm in the United States (US) during the late 1990s. Thus, we hope to control for many complexities of the general question of foreignness by focusing on a particular set of workers in a specific institutional context. While this has clear costs in terms of generalizability, it does allow us to take into account issues like job level and organizational tenure and to control for some effects of the larger institutional context by only looking at workers in the US.

We proceed as follows. First, we review the literature on liability of foreignness and expatriate adjustment to suggest some difficulties foreigners might face when working in a country other than that of their citizenship. We use this literature to suggest a hypothesis of liability of foreignness: The prediction is that individual outcomes for foreign citizens are worse than outcomes for US citizens. Second, we look at the literature exploring adjustment of expatriate workers to suggest some mechanisms that may alter the effect of foreignness on individual outcomes. Our hypotheses here will focus on tenure and job level in the firm. Then we turn to a description of the firm and our data and estimation of our results. We close by discussing our results, conclusions, avenues for future research, and implications for understanding of foreignness and expatriate status.

Liabilities of Foreignness

Liabilities of foreignness refer to phenomena causing foreign firms to operate at a disadvantage relative to domestic firms (Hymer, 1960/1976; Zaheer, 1996; Luo and Mezas, 2002; Mezas 2002b). Hymer (1960/1976: 34) was first to discuss disadvantages facing foreign firms when he cautioned that "... national firms have the general advantage of better information

about their country: its economy, its language, its law, and its politics.” Other early research on activities of multinational enterprises attributed these liabilities to market driven costs such as physical distance, a diffused locus of control (Kindleberger, 1969), or a discrimination hazard (Vernon, 1977). However, the dominant argument for liabilities of foreignness is that those managing foreign firms are unfamiliar with the institutional environment and attendant cultural, social, and legal norms; thus, they have trouble identifying and interpreting informal processes and norms in the local environment (e.g., Zaheer, 1996; Kostova and Zaheer, 1999; Mezas, 2002a). This is especially likely when local practices are distinct and incompatible with parent company values, creating conflict as subsidiaries struggle for internal and external legitimacy (e.g., Westney, 1993; Kostova, 1999).

Recently the liabilities of foreignness construct has garnered much theoretical attention in terms of current and future research directions (Luo and Mezas, 2002), research design issues (Mezas, 2002b), interfirm and nation-state level determinants of liabilities (Calhoun, 2002), and classification within costs associated with international business (Eden and Miller, forthcoming). Additionally, empirical work has documented existence of the liability of foreignness with respect to profits (Zaheer, 1995); survival (Zaheer and Mosakowski, 1997); revenue, production costs, and marketing costs (Luo, Shenkar, and Nyaw, 2002); efficiency (Miller and Parkhe, 2002; Miller and Richards, 2002); labor lawsuits in the US (Mezas, 2002a); and profitability, growth, and survival (Nachum, 2003).¹ Interestingly, all this research has discussed and tested liabilities of foreignness at the firm level of analysis. Nonetheless, most researchers imply or explicitly state that these firm-level liabilities exist in part because of a corresponding phenomenon at the individual-level of analysis, particularly among those managing foreign firms. While some

¹ A Special Issue of *The Journal of International Management* (Volume 8, Issue 3, 2002) is dedicated to exploring liability of foreignness research and this is a good starting place for those interested in exploring these issues further.

liability of foreignness research touches on cognitive challenges facing individual foreigners, there is little direct focus on the individual level of analysis in this research. In this study, we address this deficit by investigating one question related to the possible manifestation of the liability of foreignness at the individual level of analysis: Do foreign citizens suffer relative to their domestic counterparts with respect to individual outcomes in the workplace? In answering this question, we will rely on the literature of expatriate adjustment to frame the context and develop hypotheses about a liability of foreignness at the individual level of analysis.

Expatriate Status

There is considerable literature examining consequences of being a citizen of one country while working in another. The majority of these studies, however, focus on expatriate status, which is usually conceptualized as involving temporary assignments. We review this literature with a focus on how it might be interpreted to suggest predictions about outcomes for non-American citizens working with legal resident status at an American financial services firm. The expatriate literature emphasizes the difficulties created by moving to another country, culture, and workplace. The basic explanation for these difficulties is summarized by the results of Black and Porter (1991), who found that U.S. managers in Hong Kong behaved more like US managers in the US than Chinese managers in Hong Kong. These expatriate managers persist with American behaviors despite the fact that they do not enhance their job performance. Similarly, Miller and Cattaneo (1982) found that West German expatriate managers tended to favor participative decision making regardless of the country to which they were assigned. This literature explores issues of adjusting to a new cultural milieu when taking an assignment out of one's home country.

At the individual level, the focus has been on adjustment and the possible factors that may ease this adjustment. The premise of much of this literature is that taking an assignment outside of one's home country is a job change requiring adjustment much like any other significant job change. Lee and Larwood (1983) found that although Korean and American managers had different managerial attitudes based on their cultural backgrounds, socialization to the values of Korea was possible among American expatriate managers working in Korea. In fact, they found evidence that this occurred and that managers who had adopted attitudes typifying Korean culture exhibited higher job satisfaction. Mendenhall and Oddou (1985) offered a theoretical discussion of how acculturation and 'failure' might be linked in the case of expatriates. They suggested that adjustment, which would reduce assignment failure, is linked with individual characteristics, relationship building activity, and understanding of cultural differences in behavior. Black, Mendenhall, and Oddou (1991) developed the notion that anticipatory adjustment, which they defined in terms of preparation efforts made before arrival at the workplace site outside the country of origin, could ease adjustment to working outside of one's native country. The theoretical arguments of Shaw (1990), who focused on expatriate manager interaction with local subordinates, also reflect the theme of intercultural adjustment. Using the psychological model of cognitive categorization, he argued that differences between managers and subordinates from different cultures could arise for informational reasons. In particular, the ways that individuals collect, process, store, and use information about one another's behavior may vary systematically across cultural backgrounds. Based on this argument, he suggested that convergence of cognitive structures would arise from the intercultural dynamics of daily interactions between a manager and a subordinate.

The findings of Sunkyu, Gentry, and Hun (2001) also mirror the importance of increasing familiarity with host country culture. Their results show that the extent expatriates participate in the consumer market of their host country had a positive impact on satisfaction with the expatriate assignment. Black and Mendenhall (1991) proposed that success in cultural adjustment could be understood in terms of three skills. The first involved skills related to maintaining self, the second related to fostering relationships with host nationals, and the third concerned cognitive skills that promote an accurate perception of the host environment and its social systems. They used social learning theory to focus on processes by which cultural patterns can be learned. Leiba-O'Sullivan (1999) refined the notion of cross-cultural training in terms of addressing issues that may arise from the characteristics of individuals. These authors suggest the value of becoming familiar with the culture of work assignment. This work is compatible with research arguing the dynamic nature of liabilities of foreignness and that local learning likely minimizes exposure to these liabilities (Zaheer and Mosakowski, 1997; Mezias 2002a; Petersen and Pedersen, 2002; Zaheer 2002). We interpret these studies on the difficulty of intercultural adjustment and the value of increasing local familiarity to suggest two hypotheses:

Hypothesis 1: Status as a foreigner will have a negative impact on individual outcomes.

Hypothesis 2: The negative impact of foreignness on individual rewards will decrease as familiarity with host country culture increases.

The literature on expatriates also suggests that multiple factors contribute to the difficulty of being successful at work in a country other than that of citizenship. Particularly relevant to our context is literature suggesting that organizational factors affect the cultural adjustment process. Naumann (1992) linked expatriate employee turnover back to more general models of turnover developed in the literature of industrial organization psychology, which have long

emphasized organizational factors. Feldman and Thompson (1993) explained adjustment in terms of job characteristics, the extent and nature of career adjustment assistance, the degree of change from one job assignment to the next, and individual coping strategies. Their use of the distinctions among expatriate, repatriate, and domestic geographical location as independent variables allowed them to highlight both similarities and differences between expatriate and other kinds of new job assignments. Shaffer, Harrison, and Gilley (1999) confirmed the multidimensional nature of expatriate adjustment, showing that it responded to individual factors, such as language familiarity and previous expatriate assignments, as well as positional factors, such as hierarchical level, functional area, and the length of the assignment. Harvey (1997) found that both expatriates and their spouses frequently believed the company transferring them to an expatriate assignment failed to provide adequate training or social support. Thus, individual cultural adjustment, itself a complex and difficult process, must be embedded in the context of particular jobs at specific organizations.

This embeddedness of individuals adjusting to another culture in their workplaces is reflected in literature considering problems of expatriates in the context of their work organizations. Miller (1977) found that management rank affected American expatriate managers' perceptions of managerial abilities. Newman, Bhatt, and Gutteridge (1978) urged examining expatriate adjustment in the context of a model recognizing important aspects of the employing organization. Black and Gregersen (1991) looked at factors affecting the success of repatriation, that is, the return to the home country of an expatriate employee. They found that factors related to the firm and job context -- returning from longer assignments to ambiguous jobs with relatively less discretion -- were associated with more difficulties at the time of repatriation. Naumann (1993) found that job, task, and organization characteristics all had

significant relationships with reported job satisfaction among expatriate managers employed by US multinationals operating in South Korea, Hong Kong, Taiwan, and China. Birdseye and Hill (1995) found that turnover tendencies among expatriates had a stronger relationship with job autonomy than with individual characteristics, which also suggested the importance of the organizational context. Taken together, these findings and arguments in the expatriate literature suggest that organizational status affects individual level outcomes we examine. We formalize this with our third hypothesis:

Hypothesis 3: The negative impact on individual outcomes of foreign status will decrease with rank in the organization.

Organizational Setting and Data

The data for our study comes from the records of an extremely large multinational financial services firm headquartered in the US. Given our limited ability to capture the effects of the larger institutional setting with any great level of precision, we focus on employees working in the US. The main justification for this choice is control of institutional factors, but this focus also provides a benefit of large sample size: By choosing the US, we obtain a sample of over 28,000. Employees of the firm worked in locations throughout the US in separate divisions designated to provide financial services to consumers, corporations, and wealthy individuals. We examine the year 1997 and focus on a measure of individual outcomes that has obvious importance and validity: salary. Specifically, we look at the change in salary, measured in US dollars, from the year 1996 to 1997; this is the dependent variable in all analyses we report.²

² We report the results here for analysis of change in salary and include prior salary as a control variable. This allows us to use ordinary least squares regression. We conducted the analyses to test all of the hypotheses using percentage increase of prior year's salary as the dependent; all of the results for the hypothesis tests are the same.

Our independent variables are based directly on our three hypotheses. The first is status as a foreigner. This variable is coded one if the country of citizenship of the employee is not the United States of America. The hypothesis is supported if we find a significant, negative effect of this variable. The second hypothesis suggested that the negative effect of foreign status would decrease as the employee became more familiar with the host culture. To measure this effect we begin with length of time that an employee has been at the firm, which we call **Tenure** in all analyses. We measure this as the count of the number of years that have passed since the employee first joined the firm. Since some of the literature investigating determinants of salary suggested the relationship between salary and tenure is curvilinear rather than linear (e.g., Yoo, 2003), we also include the square of tenure to allow for the possibility that salary increases with tenure at a decreasing rate. This is called **TSquared** in all analyses; we divide both this variable and its interaction with status as a foreigner by 100 for scaling purposes. To test Hypothesis 2, we will examine the interaction between foreign and these variables, which we call **ForeignTenure** and **FTSquared** in all analyses. The hypothesis is supported if we find that these interactions have a significant, positive effect on change in salary.

To test the third and final hypothesis, we obtained a measure of status in the firm. Specifically, the firm reports on the ranks of the positions held by individual employees in terms of twenty-six (26) levels in the firm hierarchy. We coded this variable so that lower levels are assigned lower values and higher levels are assigned higher values. Thus, we have created a rank variable that sorts employees according to their position in the hierarchy of the firm; this variable is called **Rank** in all analyses. To test Hypothesis 3, we include the interaction between

Because this involved using weighted least squares and the general model, we chose to report the more straightforward OLS regression on change in salary.

foreign status and rank in the firm, which we call **ForeignRank** in all analyses. Support for Hypothesis 3 is indicated if this variable has positive and significant effect on change in salary.

We also include a variety of control variables designed to account for factors we believe may affect salary changes but are not of direct relevance to understanding the impact of foreignness. First, since salary increases are frequently awarded as a percent of prior salary, we believed it was important to include **Previous Salary** as a control. The remaining control variables are intended to account for effects of human capital and demographic factors because numerous management and sociology studies have argued the importance of age, gender, race, and educational background in affecting compensation and promotion (e.g., Bellas, 1994; Weil and Kimball, 1996). We control for the effect of age by including **Age**, which measures how old an employee is in years. We control for the effect of gender by introducing a dummy variable called **Female**, which is coded one if the employee is female and zero if male. We control for level of education by coding dummy variables for the highest level of education achieved. These include the variables **2YearDegree**, **4YearDegree**, and **PostGradDegree**; this coding leaves no college degree as the omitted category. We also control for the effect of race by introducing dummy variables for races other than Caucasian; these include **Asian**, **AfricanAmerican**, **Hispanic**, and **NativeAmerican**. Finally, we introduce marital status as a control variable by including dummy variables for the categories of **Single** and **Divorced**; this coding leaves married as the omitted category.

Estimation and Results

Table 1 reports descriptive statistics for both the dependent variable and all independent variables. The average salary increase was just above \$2808, which is just below 5.5% of the

mean prior year salary of just over \$51,500.³ The mean of the dummy variable for foreign status is 0.07, indicating that about seven percent of the US employees of this firm were citizens of a country other than the US. Mean job rank is just above 15 on a scale with a maximum rank of 26; this implies that the distribution is skewed slightly toward higher ranks. Mean tenure is high at just over 11 years; taken together with the average age of 40.83, this suggests this firm offered stable, long-term employment to its large workforce in the US. The firm also has a high predominance of women in the workforce, with the mean of the dummy variable for female gender, 0.58, indicating that well over half the workers were women. These characteristics of the workforce at the firm should be kept in mind when considering generalizability and the scope of applicability of the results we report below. The other demographic variables, all proxies for ethnic or national origin, do not seem to indicate proportions far different from those in the general US population. The marital status variables seem a bit surprising, with the mean of the dummy variable for single, 0.41, indicating that more than four of ten employees were single. Together the means of the education dummy variables sum to 0.4, which indicates that six in ten employees received no education beyond high school.

Insert Table 1 about here.

Table 2 reports correlations among the dependent, explanatory, and control variables. Given a sample size of 28875, it is not surprising that many of these correlations are significant at the 0.05 level or less. However, relatively few of the correlations are extremely large. It is not at all surprising that the largest pair wise correlation is between **Tenure** and **TSquared**. Aside from that pairing, the largest pair wise correlations are among variables used to create

³ However, 479 changes in salary resulted in negative numbers, 44 of which were less than one dollar. As far as we can tell, these negative values result from hourly workers working fewer hours and workers taking leaves. We ran our analyses excluding these observations, and it did not change the sign or significance levels of any of the variables. Thus, we decided to include these cases because we have no a priori rationale for excluding them.

interactions, which is also as expected. In particular, the correlation between **Foreign** and **ForeignRank** is very high (0.931) and significant at the $p < 0.01$ level. Additionally, pair wise correlations between **Foreign** and both **ForeignTenure** and **ForeignTSquared** are very high (0.820 and 0.589 respectively) and significant at the $p < 0.01$ level. We will take account of these high correlations by checking for multicollinearity in the estimation of models.

Insert Table 2 about here.

Table 3 reports on the results of estimation of several models. The first consists of only control variables. Not surprisingly, the most significant variable is previous salary, which has a significant and positive effect, $t = 59.3$, $p < 0.001$. Employees who received a higher salary in the previous year tended to receive higher salary increases. Age is also a fairly significant and negative predictor, $t = -21.88$, $p < 0.001$; the coefficient for this variable shows that employees lost about \$69 in salary for each year of age.⁴ The education variables yield mixed results, with only 4 year degree status, having a significant effect on salary, $t = 4.34$, $p < 0.001$, indicating that those with 4 year degrees tend to receive about \$314 of additional salary relative to those with no post high school education. Surprisingly, neither 2 year nor postgraduate degrees have a significant effect on salary. The demographic variables have several significant, but not very large effects. The largest is the effect of being Asian, which is significant and positive, $t = 4.34$, $p < 0.001$; the coefficient indicates that being of Asian descent increased salary by just over \$516. Being African American had an opposite effect, negative and significant, $t = -2.37$, $p < 0.05$; the coefficient for this variable indicates a reduction in salary of about \$203. The dummy variables for being of Hispanic descent or Native American were not significant predictors of change in salary. Being female had a significant and negative effect, $t = -3.22$, $p < 0.01$; the

⁴ We ran additional analyses including the square of age to allow for a curvilinear effect. We found no such effect; nor did including the square of age change the sign of any of the coefficients or any of their levels of significance.

coefficient for this variable indicates a reduction in salary of about \$198. The marital status variables were not significant at conventional levels.

Insert Table 3 about here.

Model 2 introduces the variable for foreign status along with the main effects of rank and tenure. The increment to adjusted r-squared from the addition of these variables is modest. Contrary to Hypothesis 1, the effect of being foreign is significant and positive, $t = 6.35$, $p < 0.001$; the coefficient indicates that foreign citizens working at the firm received a salary increase of just over \$707 more than the typical American citizen working there. The effect of rank is positive and significant, $t = 6.62$, $p < 0.001$, as would be expected. For each increase of one rank, the average worker employed by this firm received about \$50 more in salary increase. Figure 1 illustrates the effect of tenure, depicting its curvilinear effect. Changes in salary tend to increase with tenure until about the 21st year, after which negative effect of the squared term dominates, leading to an overall decrease in changes in salary with tenure. There is some minor movement in the coefficient values for the control variables after we add these explanatory variables, but all variables that were significant in the previous model are still significant in this model and all in the same direction.

Insert Figure 1 about here.

Model 3 adds the interaction terms to test Hypotheses 2 and 3. The increment to adjusted r-squared from the addition of these variables is once again modest. Interestingly, the coefficient on the dummy variable for foreign citizenship now reverses direction and is significant and negative, $t = -2.60$, $p < 0.01$. Of course, this flipping of variable for foreign status may occur either because adding the interaction variables reveals its true effect or because these new variables introduce multicollinearity. The standard error of the variable **Foreign** does increase

by almost a factor of 4 from model 2 to model 3, from 111.33 to 421.42. For this reason, we performed the condition index diagnostic test for effects of multicollinearity. Belsley (1991) discussed interpretation of the condition index test at length, arguing that larger condition indices signal problems with estimation resulting from correlations among the independent variables. While there are no precise test statistics for assessing multicollinearity, he argued that values of the condition index for a variable larger than 100 signal near dependencies that likely make regression coefficients unstable. The value of our highest condition index was only 25.37, which is far less than 100, indicating that multicollinearity does not unduly affect our significance tests. Hence, we conclude that the change in sign for the variable **Foreign** in this model is a revelation of its true effect by addition of the interactions rather than a spurious effect of high correlations with interaction variables.

Hypothesis 2 is not supported; neither interaction of foreign status with the tenure variables was significantly different from zero. While past literature found that expatriate employees experience less difficulty as they become increasingly familiar with the host country culture, we find no effect on salary from longer tenure at the firm among foreigners. We will review some possible interpretations of this result in the discussion. Hypothesis 3 is supported, $t = 5.64$, $p < 0.001$; the coefficient on the interaction of foreign and rank indicates that for each increment in rank, a foreign citizen received nearly \$103 in additional salary increase. According to the coefficients from this model, this is well over twice \$42 salary increment that accrued to the average member of the work force. We interpret the results for Hypothesis 1 and 3 to suggest that the positive effect of foreign in the second model was a result of the foreign variable absorbing the effect of generous salary increases given to foreign citizens at each rank. Figure 2 depicts the net effect of being foreign and its interaction with rank. Where the line

crosses zero is the point at which the typical foreigner overcame the liability of foreignness, which occurred upon receiving a rank greater than 10 out of 26.

Insert Figure 2 about here.

Discussion

These results reveal significant support for the notion that status as a foreigner has an effect on individual outcomes in an American firm. Of particular importance is the direct effect of foreignness, which is negative after taking into account the interaction with rank. According to our results, foreign citizens received a salary increase of \$1482 less than the typical employee who was a US citizen. At the same time, foreign citizens received an increase in salary of about \$103 more than the typical American citizen for each increase of one rank in the firm hierarchy. What explains this apparent paradox? We believe the answer lies in the institutional setting that governs immigration into the US, which divides the pool of foreigners entering the US into two categories. Both groups face the difficulties of leaving behind one's country of citizenship to work in a cultural, institutional, and organizational setting that is distinct from that of the home country. We believe these adjustment difficulties create a general liability of foreignness in salary increases revealed by our analysis. However, not all immigrants are equal on other dimensions, which is where the institutional environment comes into play. A first group of foreign citizens working in the US would be those that gained legal status via the lottery for visas, through marriage, or through amnesty. There is no particular reason to expect these foreign citizens to be especially successful in US labor markets.

A second group would be those who enter the US specifically to become members of the workforce. This requires a strict standard of labor certification, designed to ensure those who

enter the US move into professions where demand for labor typically exceeds supply.⁵ Exceptions to this policy also ensure that foreign citizens entering the US to work as legal immigrants are likely to obtain more remunerative positions. One such example is a national interest waiver, which often is supported by affidavits from well-known, established, and influential people or organizations. Such waivers require evidence of achievement as well, including the receipt of well-recognized prizes or awards, recognition in the professional or other major trade publications, original contributions of major significance, authorship of articles in relevant trade publications or other major media, etc. In fact, evidence that the person has commanded a high salary or other high remuneration for services is also accepted. For an extraordinary ability waiver, the required evidence to prove special capabilities of the individual is even more stringent. Taken together, the controls on immigration would tend to ensure foreign citizens in this group would tend to do well in the hierarchy of the firm we studied.

We believe the failure to support Hypothesis 2 is also related to the institutional context of legal immigration into the US. The strict immigration controls affect who is given legal status as well as who will subject themselves to the arduous process of gaining an employment visa. Clearly, one would expect those who marry US citizens would be more familiar with US culture and institutions than the typical foreign citizen. Given the low probability of success, those who gain entry by lottery have most likely been trying for years and have had time to learn about US culture and institutions. Amnesty has been given in recent times only to those who have already lived and worked in the US for long periods. Similarly, we believe national interest and extraordinary ability waivers are also likely to serve, at least in part, as proxies for being relatively well informed about culture and institutions in the US. More generally, we believe

⁵ The facts for our discussion came from <http://www.usavisanow.com/nationalinterestwaivergreencardinfo.html>, which summarizes the regulations governing the granting of work visas for entry to the US.

foreign citizens pursuing emigration to the US are also likely to be a self-selected group who are relatively informed about US culture and institutions. Taken together, these factors related to the institutional environment governing legal immigration to the US may work to reduce the effect time working for the focal US firm has on the liability of foreignness in individual outcomes.

Of course, it would certainly be preferable if we could measure individual familiarity with American institutions and culture for each person in our sample; unfortunately, we cannot. Our best available proxy was tenure in the firm, but this measure introduced at least two potential errors. First, the individual may have worked for other organizations in the US before working for the focal firm of our study. This would mean tenure at our focal firm would not correctly measure the time that the foreign citizen has had to become acculturated to working in the US. Similarly, individuals now working for our focal firm in the US may have previously worked for this or another US organization outside of the US. Again, this would mean that for these individuals, tenure in this firm would not correctly measure time that the foreign citizen has been working in the US. Thus, the conclusion that time in the US or time working for an American organization does not reduce the liability of foreignness in individual workplace outcomes must be viewed as tentative. Future research could assess more directly relevant experience by measuring either time working in the focal country or time working for US firms, which would compensate for any potential discrepancies between focal firm tenure and the amount of time a foreigner has had to acculturate.

A final issue to discuss with respect to our results concerns the explanatory power of the model and the practical relevance of the effects revealed by the measures to test our hypotheses. First, it is worth noting that the overall explanatory power of the model depends integrally on what dependent variable we chose to test the hypotheses, even though all of the results for our

hypothesis tests are the same. We could report a model with an r-squared of over 0.97 if we use current salary as a static outcome, controlling for prior salary. Not surprisingly, the lagged dependent variable, previous salary, provides almost all the explanatory power. We chose not to go this route because the inclusion of the lagged dependent variable creates some estimation problems, leading to a more complex set of analyses just to reach the same conclusions. By contrast, if we use percentage change in salary, the r-squared declines, even though none of the results for our hypothesis tests change. Once again, switching to this analysis introduces estimation problems due to the restricted range of the dependent variable. Given that the results for all three dependent variables yield exactly the same conclusions with regard to our hypotheses, we decided that the linear regression on salary change had the most comparability with past research and the most straightforward interpretation of the results.

Clearly, in terms of the increment to r-squared, the addition of our theoretical variables does not have much impact. Thus, although they are statistically significant, they are not particularly important in terms of explained variance. However, this does not mean that our results imply that these variables do not have practical significance. The finding for previous salary is important because the firm clearly used a benchmark, about 5.5 percent according to our estimated coefficient for prior salary, in establishing a pool for total salary increases. Knowing that this is a year where the pool is based on five and a half percent as opposed to a year when the pool is based on zero or ten percent is extremely informative. In establishing a baseline prediction for amount of salary increase absent any other information, the best guess for the year 1997 in this firm would have been five and a half percent of the prior year's salary. At the same time, however, it is also true that there is significant individual variation around the target increase for the pool as a whole; this is where our theoretical variables become important. The

coefficient on status as a foreigner in the final model has the interpretation that those with foreign citizenship suffered a decrement to salary over \$1400 dollars. This is nearly half of the mean increase in salary reported in Table 1. Similarly, a foreign person holding the mean rank of 15 reported in Table 1 would experience an increase of salary of \$2185 dollars, more than three quarters of the mean salary increase observed. Thus, we feel safe concluding that the results for our variables of theoretical interest have practical significance as well as the statistical significance implied by their test statistics.

Conclusions

The first set of conclusions we draw are linked tightly with our results. Foreign citizens working at the American offices of a large multinational financial services firm headquartered in the US experienced a large liability of foreignness. Their average salary deficit of more than \$1400 was equal to half of the mean salary increase in the sample. Thus, foreigners, on average tended to receive about half the salary increase of American citizens. This constitutes clear evidence that individual foreign citizens experience a liability of foreignness when working at the American workplaces of a US based firm. The main implication for future research from this finding concerns the need to understand better the mechanisms producing liabilities of foreignness at the individual and other levels of analysis. For example, Zaheer (1996) documented that foreign firms were less profitable than were their domestic counterparts. She attributed this to managers of foreign firms not understanding or adapting quickly to institutional differences between their home and host country environments. Additionally, Mezas (2002a) demonstrated that foreign firms operating in the US are more likely to experience labor related lawsuits than a matched set of American firms. He argued that this was due, at least in part, to a failure to understand the legal environment of the US. Our results suggest that future research

should examine the group and individual processes that play a role in producing the liability of foreignness at *both* the individual and firm levels of analysis.

Analyzing liabilities of foreignness exclusively at the firm level of analysis raises a substantive question: Does the liability stem more from this lack of understanding or is it a difficulty in implementing adjustments to social, cultural, and institutional differences? Although the answer is likely a combination of both, finding a liability of foreignness at the individual level suggests that firm level liabilities are not simply due to implementation difficulties that may exist in complex organizations. Thus, we interpret our findings to suggest that an inability to identify or understand tacit differences in culture and institutional environments may play an important role in creating liabilities of foreignness (Zaheer, 1996; Mezas, 2002a). Future work could explicitly assess the role that both lack of understanding stemming from foreignness and implementation play in creating liabilities of foreignness.

This study also contributes to the stream of research incorporating the institutional environment into the explanation of liabilities of foreignness (Zaheer, 1996; Zaheer and Mosakowski, 1997; Mezas, 2002a). We do not doubt that cultural beliefs at the individual, organizational, and societal levels are related to liabilities of foreignness (Mezas, et al., 2002). At the same time, we believe the codification of these beliefs in institutions and other aspects of the legal environment, as well as in organizational structures and practices, provides a comprehensible and measurable shorthand for illuminating the effects of cultural beliefs. Thus, one of the key findings of our study concerns the interaction of rank and foreignness and its interpretation. In the second model, where we did not account for how rank affects foreignness, we found a positive effect for foreignness. Inclusion of the interaction with rank, however, revealed that the true effect of foreign status is negative. Our interpretation of the results is that

the explanation for the paradoxical finding that rank is rewarded more generously for foreign citizens lies in the institutional environment of legal immigration. Future research should examine this claim in more detail than was possible in this study. More importantly, future work on globalization and liabilities of foreignness needs to grapple with the complex world of institutions at the regional, national, and even global levels (Meyer, Boli, Thomas, and Ramirez, 1997).

Our study has implications for practice because lower salary increases received by foreign workers at this large financial services firm may affect motivation, performance, and labor costs. The liabilities of foreignness and expatriate adjustment literatures would suggest that these lower salary increases might be due to a lack of understanding of social and cultural norms. Given that managers should be concerned about equity (e.g., Cox and Nkomo, 1986; Pazy, 1986; Cox and Blake, 1991), they may be well advised to take action to remedy any major discrepancies. Just as organizations use training and mentoring to improve expatriate adjustment (e.g., Black and Porter, 1991; Allen, Eby, Poteet, Lentz, and Lima, 2004) similar programs could be utilized to improve adaptation and utilization of foreign workers. If this problem stems in part from systematic bias, then sensitivity training may help improve workplace conditions and make supervision more objective (Cox, 1991; Cox and Blake, 1991). In addition, by broadening the investigation of foreigners to include non-expatriate, our study contributes to the growing research on international human resource management (Dowling, Schuler, and Welch, 1994; Scandura and Von Glinow, 1997). Future research could examine the extent of the problem facing non-citizens and investigate best practices associated with reducing these problems. These human resource practices may differ from practices used to help expatriates on temporary assignments.

A final contribution of our study has been, in the vocabulary of the sociological literature, to bring the organization back in (Baron and Bielby, 1980). We have done this by incorporating hierarchical levels within the firm into the analysis of foreignness and adjustment difficulties. Most of the expatriate literature has focused on fairly high-level employees of American firms working overseas in temporary assignments. Our results suggest that the adjustment difficulties of lower level employees, at least as they manifest themselves in the individual level outcome of salary increases, will be even greater. In that sense, we would urge that future research take into account the effect hierarchical levels and other organization level variables, not just variables at higher levels of analysis. As our results show, the interaction between foreignness and organizational variables can be a significant part of explaining manifestations of foreignness in important outcomes at the individual level. We believe the same may be true of outcomes at higher levels of analysis such as for groups, firms, and even industries, countries, or regions. We welcome the help of others in assessing such complex effects in a world that becomes increasingly global with each passing year.

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Table 1: Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
Change in Salary	-41287	235000	2808.22	5169.58
Foreign	0	1	0.07	0.26
Rank	1	26	15.04	5.83
Tenure	1.04	51.65	11.62	7.92
TSquared	0.01	26.68	1.98	2.84
ForeignRank	0	26	1.15	4.38
ForeignTenure	0	15.77678	0.13	0.80
ForeignTSquared	0	39.72	0.83	3.56
Age	20.5	83.93	40.83	9.66
Female	0	1	0.58	0.49
2Year Degree	0	1	0.06	0.24
4Year Degree	0	1	0.31	0.46
PostGrad Degree	0	1	0.03	0.18
Asian	0	1	0.06	0.24
African American	0	1	0.13	0.34
Hispanic	0	1	0.10	0.30
Native American	0	1	0.00	0.05
Single	0	1	0.41	0.49
Divorced	0	1	0.00	0.05
Previous Salary	3294.27	445000	51531.37	39106.61

n = 28875

Table 2: Pearson Correlations

Variables	Change in Salary	Foreign Rank	Tenure	TSquared	Foreign Rank	Foreign Tenure	Foreign TSquared	Age	Female	2Year Degree	4Year Degree	PostGrad Degree	Asian	African American	Hispanic	Native American	Single	Divorced	Previous Salary	
Change in Salary	1.000																			
Foreign Rank	0.057**	1.000																		
Tenure	0.314**	0.025**	1.000																	
TSquared	0.009	-0.017**	0.238**	1.000																
ForeignRank	-0.007	-0.0178**	0.209**	0.956**	1.000															
ForeignTenure	0.098**	0.931**	0.123**	-0.006	-0.008	1.000														
ForeignTSquared	0.044**	0.820**	0.038**	0.133**	0.111**	0.787**	1.000													
Age	0.025**	0.589**	0.036**	0.190**	0.174**	0.577**	0.929**	1.000												
Female	-0.0123*	-0.016**	0.187**	0.578**	0.541**	-0.006	0.081**	0.119**	1.000											
2Year Degree	-0.170**	-0.056**	-0.366**	-0.088**	-0.109**	-0.084**	-0.0423**	-0.027**	-0.094**	1.000										
4Year Degree	-0.016**	0.004	0.009	-0.006	-0.012*	-0.006	-0.003	-0.006	-0.010	0.006	1.000									
PostGrad Degree	0.185**	-0.031**	0.420**	-0.097**	-0.094**	-0.003	-0.048**	-0.048**	-0.049**	-0.210**	-0.172**	1.000								
Asian	0.071**	0.052**	0.169**	-0.027**	-0.010	0.077**	0.016**	0.005	0.044**	-0.094**	-0.048**	-0.123**	1.000							
African American	0.047**	0.225**	0.061**	-0.043**	-0.041**	0.230**	0.135**	0.066**	-0.033**	-0.040**	-0.007	0.092**	0.073**	1.000						
Hispanic	-0.084**	0.094**	-0.171**	0.069**	0.062**	0.042**	0.098**	0.081**	0.009	0.105**	0.019**	-0.127**	-0.051**	-0.098**	1.000					
Native American	-0.028**	0.099**	-0.082**	0.000	0.007	0.075**	0.081**	0.063**	-0.057**	0.0356**	0.020**	-0.091**	-0.038**	-0.084**	-0.128**	1.000				
Single	-0.011	0.005	-0.039**	-0.019**	-0.0185**	0.002	0.000	-0.004	-0.018**	0.015**	-0.003	-0.024**	0.008	-0.014*	-0.021**	-0.018**	1.000			
Divorced	-0.037**	-0.023**	-0.145**	-0.165**	-0.139**	-0.037**	-0.041**	-0.040**	-0.274**	0.095**	0.006	-0.002	-0.027**	-0.009	0.086**	0.016**	0.018**	1.000		
Previous Salary	-0.014*	-0.014*	-0.016**	0.003	-0.005	-0.013*	-0.011	-0.008	0.031**	0.031**	-0.001	-0.016**	0.003	-0.012*	-0.008	-0.013*	-0.003	-0.040**	1.000	
Previous Salary	0.380**	0.040**	0.741**	0.279**	0.248**	0.115**	0.065**	0.062**	0.298**	-0.389**	-0.026**	0.356**	0.199**	0.037**	-0.154**	-0.096**	-0.027**	-0.196**	-0.018**	1.000

n=28875, * p < 0.05; ** p < 0.01; 2-tailed tests

Table 3: Linear Regression Results for Difference in Salary

Variable	Model 1	Model 2	Model 3
(Constant)	2865.56*** (19.44)	1758.60*** (9.80)	1850.83*** (10.22)
Foreign		707.43*** (6.35)	-1097.67** (-2.60)
Rank		50.00*** (6.62)	42.047*** (5.47)
Tenure		39.35** (3.11)	38.79** (2.98)
TSquared		-196.32*** (-5.81)	-191.13*** (-5.52)
ForeignRank			103.69*** (5.64)
ForeignTenure			45.39 (0.84)
ForeignTSquared			-170.04 (-1.01)
Age	-69.08*** (-21.88)	-56.58*** (-15.38)	-56.11*** (-15.25)
Female	-198.20** (-3.22)	-183.40** (-2.95)	-188.01** (-3.02)
2Year Degree	-42.12 (-0.36)	-150.69 (-1.29)	-122.95 (-1.05)
4Year Degree	313.99*** (4.52)	147.58* (2.01)	179.73* (2.44)
PostGrad Degree	-109.87 (-0.67)	-298.07 (-1.79)	-296.50 (-1.78)
Asian	516.02*** (4.34)	307.73* (2.51)	279.03* (2.27)
African American	-203.10* (-2.37)	-206.68* (-2.37)	-170.05 (-1.94)
Hispanic	112.62 (1.18)	71.48 (0.74)	91.69 (0.95)
Native American	-131.57 (-0.25)	-113.24 (-0.22)	-120.95 (-0.23)
Single	94.28 (1.58)	132.84* (2.23)	133.85* (2.25)
Divorced	-70.84 (-0.12)	-167.80 (-0.29)	-178.68 (-0.31)
Previous Salary	0.05*** (59.31)	0.05*** (42.96)	0.05*** (42.77)
Adjusted R-Square	0.164	0.168	0.17
F-Value	472.61***	365.92***	310.22***

n=28875, * p < 0.05; ** p < 0.01; *** p < 0.001; 2-tailed tests; (t-values)

Figure 1: Effect of Tenure on Predicted Change in Salary

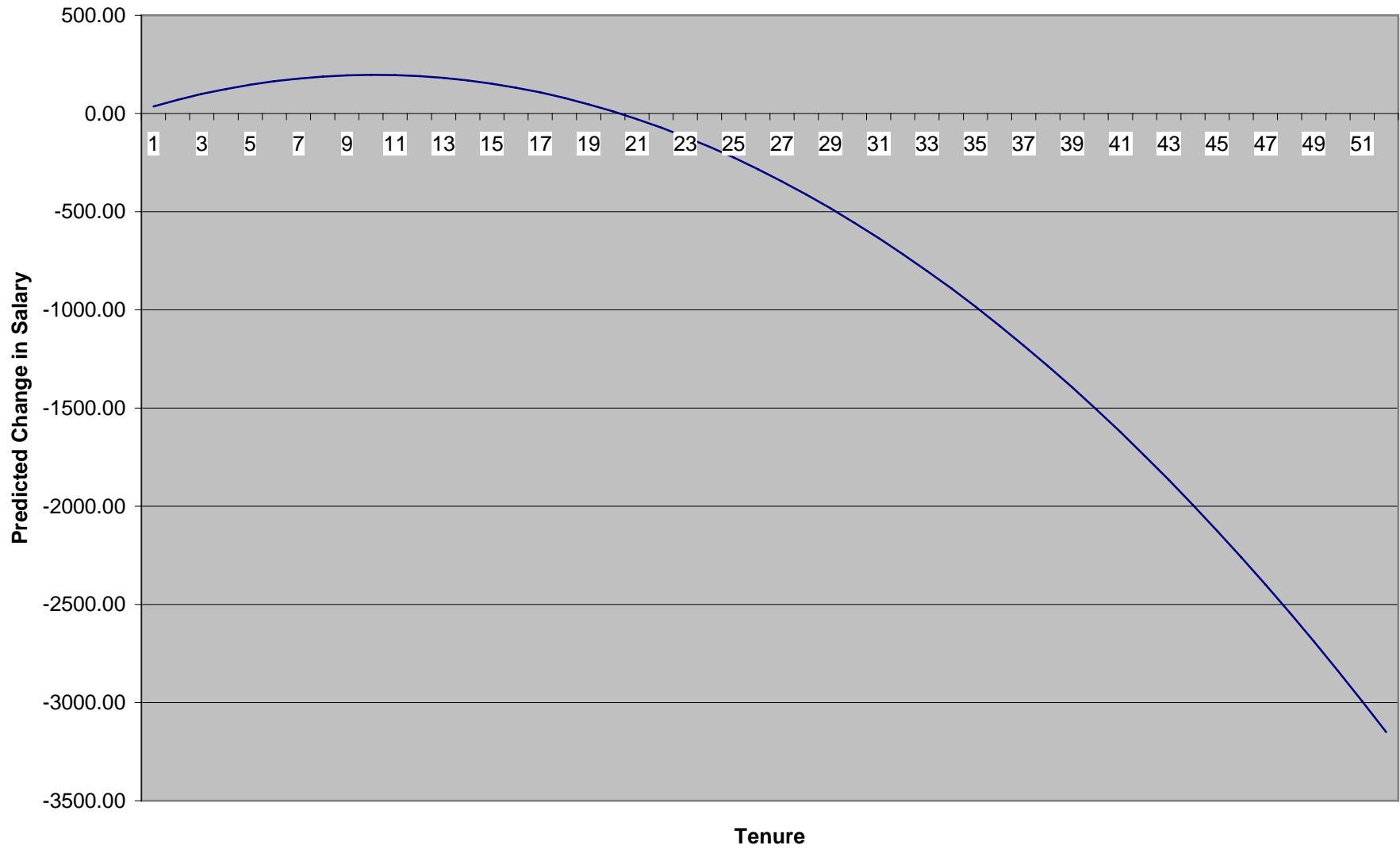


Figure 2: Effect of ForeignRank Interaction on Predicted Foreigner's Salary

