Double Whammy or Double Advantage: "Foreignness" and "Newness" as Determinants of Success in International Business

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Abstract

The interplay of newness and foreignness is critical to international companies' success. The assumption that foreignness and newness can work together to cancel out or reduce the disadvantages associates with each factor came about from the large body of research on both the advantages and disadvantages of both factors. This study further explores both concepts and their various effects on international new ventures (INV) and existing international companies. The study presents a comprehensive framework to outline the pros and cons of newness and foreignness and how to manage them. This is a conceptual paper that provides an extensive literature review on this topic. It further presents four propositions to be tested in future research.

Keywords: international business, liability of foreignness, liability of newness, international new ventures

1. Introduction

There are numerous factors that impact performance in organizations. These factors increase as a firm becomes international since they are subject to the liability of foreignness (Zaheer, 1995; Zaheer and Mosakowski 1997; Miller and Parkhe 2002). With more and more firms expanding across boundaries in today's world, it is important to study these factors that lead to liabilities of foreignness and their influence on performance. At the same time, it is critical to know how to best utilize the advantages of being international to cancel out its disadvantages. Similarly, is the case of new firms that enter the market or new industries. Those new firms also deal with what scholars refer to as "liability of newness" (Stinchcome, 1965), which can hinder their performance and reduce their chances of survival at a young age. However, when an organization is new it has advantages that older firms do not have and if the advantages are used to cancel out some of the disadvantages then an organization can increase its chances at survival at a young age.

The assumption that foreignness and newness can work together to cancel out or reduce the disadvantages associates with each factor came about from the large body of research on both the advantages and disadvantages of both factors (Nachum, 2003). If these factors are double sided, then they could work together to minimize the disadvantages and enhance performance. As there has not been much work done on this cancellation or reduction process of the pros and cons of both factors, we decided to study both concepts and their various effects on international new ventures (INV) and existing international companies,

An international new venture is a business that from the very beginning tries to compete not just domestically but also internationally (Oviatt & McDougall, 1994). The significant characteristic of these new venture, or start-ups, is the commitment of resources in more than one country (Oviatt & McDougall, 1994). While both liabilities of newness and liabilities of foreignness have been extensively studied, the interplay of these two concepts has not received sufficient attention. However, for new international companies, the interplay of newness and foreignness is critical to their success and failure. Therefore, this paper seeks to fill this gap by studying the combined effects of newness and foreignness.

In the following sections, we will discuss the literature on liability of newness and liability of foreignness. Then we will present a framework that combines the effects of both newness and foreignness, which lead to advantages and disadvantages under different combinations. Finally, we will provide a conclusion and brief overview of the study.

2. Literature Review

2.1 Liability of Newness

The glossary term for liability of newness points out that the risk of an organization dying is at maximum during its initial founding point and decreases as the organization grows in age (Beck, 1997; Caves, 1998; Klepper 2002; Zimmerman and Zeitz 2002). The three main reasons for this phenomenon are according to Beck are that one, newly found organizations operate in new areas that require new roles. This consumes both time and financing. Two, trust between employees of an organization is not yet formed. Finally, stable client portfolio is not yet built. However, new companies that operate in foreign countries have higher costs, because they are subjected to liability of foreignness as well as liabilities of newness. Thus, these three factors combined make it more difficult for a new company to be successful.

Liability of foreignness is the cost multinational corporations face when conducting business abroad. These costs arise mainly from the unfamiliarity of the environment and differences in economics, politics and cultures. However, the costs associated with liability of foreignness can be reduced when venture capitals cooperate with the foreign ventures. According to Makela and Maula (2004) venture capitals are great help to foreign ventures in that they assist in recruiting, bringing in customers, opening doors to business opportunities, providing contacts to financiers, and understanding of the legal environment. Table 1 below outlines the advantages and disadvantages of newness, and Table 2 provides the literature review for it as a liability.

Table 1. Newness: advantages and disadvantages

Advantages	Disadvantages
• Can learn from other organizations experiences • Transfer of information within a company is easier • Clean slate • Flexible structure that allows the passing on and digesting of information quickly and applying it to the company. • Do not suffer from inertial forces that stifle their adaptation	• Don't have a client portfolio yet • Trust between employees within firm not yet established • No loyalty yet • Barriers of entry • Imitate other companies for short term success (loose identity) • High start-up costs • Not familiar with market • Not many contacts with suppliers, distributors • Lack of organizational legitimacy • No previous learning experience • Questionability on credibility

Table 2. Literature summary on "liability of newness"

Author (Year)	Research Sample	Variables Studied	Key Findings
Beck. K., (1997)	Conceptual paper		Reasons for liability of newness: • Newly found organizations operate in new areas that require new roles. This consumes both time and financing. • Trust between employees of an organization is not yet formed • Stable client portfolio is not yet built
Coleman, S. (2004)	Empirical study 3,561 small firms (500 or fewer employees) in the United States	• Age • Relationships • Size	• Newness is a disadvantage in the acquisition of debt capital • Length of relationship with the primary financial services provider, personal guarantees, and collateral, younger firms didn't influence whether they were given loans.
Deeds, D.L. and Ronthaemel, F.T. (2003)	Empirical study	• Strategic alliances • Age • Alliance performance	• Relationship between age and alliance performance is U-shaped curvilinear rather than linear. • Minimum point of alliance performance occurring after approximately four and one-half years. • Strategic alliances appear to face a liability of adolescence rather than a liability of newness • Important alliances exhibit generally shorter honeymoons.
DiMaggio and Powell (1983)	Review paper		• Isomorphism occurs when organizations operate in the same environment, and that can reduce liability of foreignness and newness in some cases.
Galaskiewicz, J., Hager, M.A., Larson, J.A (2004)	Empirical study Nonprofit organizations in Minneapolis (USA)	• Age • Size • Funding	• Larger organizations and those more dependent on private donations are less likely to close. • Government funding reduces age effect on morality.
Kale, S., Arditi,, D., (1998)	Empirical Study Over 100 U.S institutions over duration of 10 years	• Age • Size • Legitimacy	• The younger the company the higher the risk, and as it grown in age the decrease in risk. Risks were highest with companies that were both young and small in size
Khurana, Rakesh, Shane, Scott A. (2000)	Empirical study. Population of inventions patented by the Massachusetts Institute of Technology	• Career experience • Age	The career experiences of potential founders impact organizational findings by influencing expectations of the liability of newness.
Mäkelä, M., Maula, M.V (2005)	Empirical study Case studies: (Altair, Antares, Betelegues, Capella, Fomalhaut, Pollux, Procyon, Rigel, Vega)	• Foreign investors roles • Legitimacy	Newness leads to isomorphism with new environment, which is double sided. • Positive effects: Bring enhanced endorsements for the prospect of the venture and lower liability by providing contacts and knowledge of the market. • Negative effects: Costs of communication, time, and travel.
Mudambi and Zahra (2007)	Empirical study 275 British firms	• Strategy choice • Industry characteristics • Firm characteristics	• International new ventures have lower unconditional survival propositions than other modes of foreign market entry • Differences in survival probabilities disappeared when the firms' competitive strategies are considered.
Zahra, S.A. (2005)	Conceptual study		Three types of liabilities that INVs experience. These liabilities are associated with newness and inexperience, which limits access to resources and networks. • Newness creates questionability on credibility. • Size limits slack resources and abilities to survive the challenges of internalization. • Foreignness, which is associated with entry barriers, building links with customers and suppliers, and gaining acceptance in a foreign market

However, venture capitalists not only reduce foreign liabilities but also reduce liabilities associated with newness. Makela and Maula researched the roles of cross-border ventures capitalist on the internalization of new ventures with their primary markets in foreign countries. According to the researchers it is advantageous in that it legitimizes the unknown new venture in the new market (Makela and Maula, 2004). Yet, research also shows that it can be disadvantageous if target market differs from home markets of the foreign investors, because foreign investors usually drive portfolio companies towards home markets.

Findings suggest that “the existence of cross-border investors is likely to lead to an isomorphic transformation process” (DiMaggio & Powell, 1983). This transformation process happens between the new company and the new geographic area in which it operates and is called isomorphism. There are many types of isomorphism. However, the type of isomorphism mainly used is coercive isomorphism. Coercive isomorphism occurs when an organization conforms to the market due to pressure from organizations on which it depends on for resources. Conforming to the market and environment decreases liabilities of foreignness (Makela & Maula, 2004). It is important to know that isomorphism with the help of cross-border investors can be both positive and negative to foreign or new ventures. It is positive in that cross border investors bring enhanced endorsements for the prospect of the venture and lower liability of foreignness by providing contacts and knowledge of the market. On the other hand costs of communication, time, and travel that stem from participation from cross borer ventures can be very high.

Institutional theory is a more specific example of the isomorphic process. This theory is based on the assumption that “an actor transforms to be similar to its counterparts in the corresponding context” (Makela & Maula, 2004). More specifically, it is when companies become more similar to other companies that operate in similar environment as them (DiMaggio & Powell, 1983). Companies try to reduce their liabilities and survive at a young age. Similarly, many new companies undergo an isomorphic process whether consciously or subconsciously. Because these organizations are new they look at the older existing organization in the industry or market they operate in as a reference to success. This could result in imitation of the new company to the older or existing one. In some cases this imitation is a solution to short term or immediate success, but can only be deteriorating to the new company’s image and success in the long run because they would be greatly affected by the moves or actions taken by existing firms. This imitation happens to be one of the downfalls or negative aspects associated with newness of an organization. And although in the short term it seems like the most obvious solution to survival at a young age, it leads to loss of company images in the long run and gives competitors in the industry an advantage. This disadvantage associated with newness of organizations is a result of another disadvantage of being new, which happens to be not being familiar to the market. It is the organizations unfamiliarity to factors in the market and lack of previous experience that only comes with time which leads to imitation of existing firms.

It is clear that age and newness are related to each other. New organizations are young in age. Age and size are two contextual factors in a company that have important implications on its survival (Kale & Arditi, 1998). A research study was carried out in search of age relation problems of construction companies that failed. The study looked at the failures at different ages over the course of ten years. The results revealed that the younger the company the higher the risk, and as it grown in age the decrease in risk. Risks were highest with companies that were both young and small in size. The reason is that a construction organization’s young age implies lack of organizational legitimacy as well as learning (Kale & Arditi, 1998). This brings us to another disadvantage that comes with a firm being new in the market place. New organizations have no authority authenticity in the market place when they are first set up. That puts them in a vulnerable position amongst the older firms which have over time developed legitimacy. Older firms also have the previous working experience in the market or industry, which in most cases is nonexistent in new entrants. The rate of survival increases when a company gains legitimacy from vendors, clients, suppliers, and the environment in which it operates it (Kale & Arditi, 1998). Because legitimacy is difficult to gain when an organization is new and is something that only comes with time and age, then an organization will always be associated with liability of newness when it first opens. Similarly, organizational learning also occurs as time goes by and it is only then that a company is able to be more efficient. Newness is also a disadvantage in the acquisition of debt capital mainly because the length of relationship with the primary financial services provider, personal guarantees, and collateral that aren’t as stable as older firms (Deeds, & Ronthaermel, 2003; Coleman, 2004). Being new makes it more difficult for new firms to get in contact and deal with vendors, suppliers and distributors in the market in which they operate due to their lack of credibility at a young age. The stakeholders are more hesitant to deal with new firms because they don’t know much about them and a reputation has not been built yet so many steer away from them. This is a great liability to new companies because at their starting point they will be put in difficult situations and will have to be very careful in their dealings because they will be setting their image. However, this isn't always a disadvantage. Having a clean slate to work with is one of the advantages of being new. It gives organizations a fresh chance at setting the image they hope to set of their company in the market place.

However, the disadvantages of newness do no end at that point. New firms entering the market face many barriers of entry that make it more difficult for the firm to get in the market, and when in to survive amongst the tough competition within it. Barriers of entry result in higher start up costs that the company has to deal with. The burden of those higher costs leads to less resources left to allocate to other important factors that could lead to the companies' profitability.

An organization's young age also means that a client portfolio is not yet established and that loyalty does not exist yet with clients or employees within the firm to the firm itself. Being new also means that employees within the firm are not yet familiar with each other and have not yet built trust amongst each other. That is a great liability for new firms, because employees in all departments need to be able to work and trust each other and work in synergy for the organization to succeed. However, that kind of trust only comes with time and patience.

A more specific study on age conducted by Galaskiewicz, Hager & Larson (2004) goes to support how age plays an important role in an organizations life. According to the authors, younger organizations are at greater risks or closing or disbanding. However, this is not true for nonprofit organizations. Organizations that are dependent of government funds or donations are less likely to be effected by age (Galaskiewicz et al, 2004). Nonprofit organizations are at equal risk of closing whether young or old. Mainly because they have back up and access to resources and networks that are provide to them either by the government or private funds.

In studying age it is important to know the exact starting time because many companies are open periods before they launch the company, and since there are many controversial opinions when it comes to the effect of age on a company it is important for this to be considered. Another important thing to be considered is whether the new venture has been created by an existing company. Companies that have been spun off existing company are not so fragile when young because they have benefited from the resources, networks and established systems of their parent company (Zahra, 2005). According to some studies the issue of age can be reduced depending on the level of previous experiences. Career experiences of founders have a great influence on minimizing the liability of newness (Shane & Khurana, 2000).

Studies show that there are three types of liabilities that INVs experience. These liabilities are associated with newness and inexperience, which limits access to resources and networks. Newness creates questionability on credibility. Another liability is size, which limits slack resources and abilities to survive the challenges of internalization. The final liability is foreignness, which is associated with entry barriers, building links with customers and suppliers, and gaining acceptance in a foreign market (Zahra, 2005).

However, those liabilities are not always negative and do not always have a deteriorating effect on new ventures. An example of when a liability can become an advantage is when new organizations are inherent to 'learning advantages of newness'. This means that new organizations can learn from the past experiences of existing organizations in the market and use their mistakes as guideline of what to steer away from in the market. Furthermore, the learning advantage of newness says that organizations that are new do not suffer from inertial forces that stifle their adaptation. That means that they have not created a system yet which they are used to and stuck on, but are flexible and open to leaning and changing to adapt to market demands. Additionally, new ventures have structures that allow them to pass on and digest information quickly and apply them to their company. The reason for this new structure is that a new organization is still learning and everyone is encouraged to contribute due to the lack of experience of the company. The open and flexible structure allows them to respond more rapidly than existing organizations that are more complex and take longer from information to pass through.

Although being new has many disadvantages and could be considered a liability in many cases, it also has advantages that are many times overlooked. At this point the question is do these advantages weigh up to the disadvantages that diminish or significantly reduce the liability of newness?

2.2 Liability of Foreignness

Liability of foreignness occurs when the parent company and a subsidiary are significantly foreign. In those cases the assets transferred may not fit in the host country (Hymer, 1976; Kostova, 1999; Kostova & Roth, 2002). Some problems that occur as a result of the foreignness between the parent company and the subsidiary vary from simple oversights to more complex cultural misalignments. The more complex type of problems occurs when entire organizational systems are transferred (Brannen, 2004). According to previous literature on MNEs there are a few conditions that can reduce the negative effects of foreignness. Those conditions are the parent companies past experience in internalization, as well as the host country itself.

Studies on foreignness show that cultural distance is seen as a key indicator (Barkema, Shenkar, Vermeulen, & Bell, 1997). For example when Walt Disney opened a subsidiary in Japan it used a "copy-exactly" strategy which was a success. However, when the same strategy was initiated in the opening of Disney's European subsidiary it was met with failure (Brannen, 2004). In this situation there was a reverse effect, because there is a greater cultural difference between the United States and Japan than between the United States and France. Because France shares similar cultural attributes with the United States such as individualism and independence the "copy-exactly" strategy wasn't the best decision made by Walt Disney. That brings us to the conclusion that many MNEs are missing something on the role of cultural context and the transfer of assets across borders.

The broad definition of foreignness is dissimilarity and the lack of it (Brannen, 2004, Zaheer, 1995). The main reason foreignness is seen as a liability is because it is associated with internalization which adds uncertainty of doing business and adds costs that firms operating within their own country do not have to incur. The costs that arise with foreignness are associated with distance costs such as coordination and transportation over space. Other costs are firm specific costs and costs from reception of home country such as lack of legitimacy and economic nationalism (Brannen, 2004). These costs are disadvantages because they put a greater burden on foreign firms and increase their operational expenses. The extra costs of doing business abroad in foreign regions can't be avoided by the foreign firms if they hope to survive in the market of the host country. Table 3 below outlines the advantages and disadvantages of foreignness, and Table 4 provides the literature review for it as a liability.

Table 3. Foreignness: advantages and disadvantages

Advantages	Disadvantages
• Bring a level of legitimacy to the host country when local firms have lost their illegitimacy because they are seen to be overprotected by the government • Foreignness seen as an asset when the parent has a higher economic standard that the host countries. • Transfer of competitive advantages from parent companies that are not available in host countries. • Operating in a foreign region is an advantage when MNE have access to resources which are not available to the host country they do business in • Foreignness is perceived as being superior by the local suppliers, customers and government	• Perceived as outsider • Discrimination • Unfamiliarity (Stereotyping by insiders) • Barriers of entry • Cost of managing operations at a distance • Higher transaction and information costs • Assets transferred may not fit in the host country

Table 4. Literature summary on "liability of foreignness"

Author (Year)	Research Sample	Variables Studied	Key Findings
Belderbos, R., Zou, J., (2003)	Empirical study 1078 Asian manufacturing affiliates of Japanese MNEs in the electronic industry	• Location • Real option theory • Agglomeration theory	Results gave broad support for a real options perspective on divestment. Foreign investment agglomeration leads to 'adverse selection' by attracting weakly competitive firms
Brannen, M.Y. (2004)	Empirical study Walt Disney Company	• Semiotics • Semantic fit • Recontextualization	If you live in one context, there is a cost advantage of not having to worry about things as signifiers, signifieds, and signs. With internationalization, what might be a source of efficiency at home may become a source of inefficiency abroad.
Chen, H. & Hu, M. (2002)	Empirical study Hong Kong investors in China	• Number of partners • Industry growth rate • Liability of foreignness percent of foreign ownership • Resource intensity	MNE's calculations are not so efficient and upon entering a foreign market they face costs that are higher than anticipated. Foreign liability can be reduced and avoided in some cases.
Eden, L., Miller, S. (2000)	Review paper		Because of costs of doing business abroad findings show that

			MNEs need to have distinct competitive advantages if it was to go abroad and be successful.
DiMaggio & Powell (1983)	Review paper		Isomorphism occurs when organizations operate in the same environment and can reduce liabilities associated with newness and foreignness.
Lu and Hwang (2010)	Empirical study 83 local venture capital firms in Singapore	• age • nationality (international or domestic) • size • type • responses (solicited or unsolicited deals)	International firms are found to originate fewer unsolicited deals from networks compared to domestic ones due to liability of foreignness. International firms primarily use their home-grown advantages and originate more solicited deals from network.
Miller and Parke (2002)	Empirical study Using Fitch-IBCA Bankscope data (1989-96)	• Ownership of banks (U.S. or foreign) • Regulatory distance • Financial system distance • Relative financial system efficiency	X-efficiency of a foreign-owned bank is strongly influenced by the competitiveness of its home country and host country in which it operates. U.S. owned banks are more X-efficient than other foreign-owned banks in some environments, but less X-efficient in others.
Nachum, L. (2003)	Empirical study Foreign- and British-owned financial service firms in the City of London	• Costs • Foreign activities • MNE's advantages • Performance	The findings show that in this particular context, the superior advantages of MNEs outweigh the additional costs associated with foreign activity. Hence, foreign firms outperform their domestic cohorts. The implications of these findings for theory developments are outlined.
Nachum, L. (2002)	Empirical study 296 foreign financial service firms in the City of London	• firm-specific advantages • multinationality advantages • home-based advantages • Duration • Cultural distance • Entry mode • Organizational structure	findings show that when examined in this way, the non-existence of the LOF in the City of London is not inconsistent with existing theory, but rather signifies a need to expand its scope and take a more refined look at its causes
Harry G Barkema, Oded Shenkar, Freek Vermeulen, John H J Bell (1997)	Empirical study 1,493 expansions of 25 large Dutch firms	• organizational learning theory • longevity of international joint ventures • experience with international joint ventures • performance	Organizations with previous experience with international wholly owned subsidiaries and domestic joint ventures added to the prolonged existence of international joint ventures. However, past experience with international joint ventures didn't.
John H. Dunning (2000)	Review paper		"an add-on dynamic component to the eclectic paradigm, and an extension of its constituent parts to embrace both asset augmenting and alliance related cross-border ventures can do much to uphold its position as the dominant analytical framework for examining the determinants of international production"
Tatiana Kostova (1999)	Empirical / theoretical multinational corporations (MNCs)	• Country • Organization • Individual • Performance	Successful transfer will more likely occur when members of the transfer coalition embrace positive attitudes toward the parent company.
Tatiana Kostova, Srilata Zaheer (1999)	Empirical/ theoretical study MNE case studies (Nike, Shell)	• legitimating environment • the organization • the process of legitimation	On the effects of environmental complexity, normative and cognitive institutional domains present a greater challenge to MNE legitimacy than does the regulatory domain. For organizational complexity, the subunits of geocentric or polycentric MNEs will be better placed to manage the pressure between internal and external legitimacy than will subunits of ethnocentric MNEs.

However, sometimes foreignness is viewed as an asset to the MNE. Foreignness is an asset when MNEs bring a level of legitimacy to the host country. That usually occurs when local firms have lost their illegitimacy because they are seen to be overprotected by the government. (Kostova & Zaheer, 1999). In situations like this the customers and suppliers in the host country gladly welcome foreign entrants in the market with the hopes of having to stop dealing with local firms that are overprotected by the government. MNEs need to study and be aware of the regions where local firms have lost their illegitimacy, because they have greater chances of being accepted and thus can avoid this liability that is associated with being foreign. Foreignness is also an asset when the parent has a higher economic standard that the countries which are receiving it. In simpler terms, "it is less the brand than the economic power dynamics between the home and host cultures" (Brannen, 2004). Studies reveal that foreign firms that are from countries which have higher economic standards gain credibility and legitimacy in the host country more easily than those that aren't from countries high economic standards. An example of this situation that is an advantage for the foreign firm is when a company from an industrialized country builds subsidiaries in a country such as India that has a weaker economy. Foreignness is then viewed as an advantage due to the power and legitimacy that it is given by the host country to the foreign company.

Companies invest in foreign countries when the benefits of exploring the competitive advantages of those foreign countries are greater than the costs that are associated to it (Dunning, 2000). However, sometime MNE's calculations are not so efficient and upon entering a foreign market they face costs that are higher than anticipated. Foreign liability can be reduced and avoided in some cases. Some studies show that an MNE can significantly lessen its liability of foreignness if investment is done in an area where they have more familiarity (Chen and Hu, 2002). The challenges of foreign liability can also be reduced by the competitive advantages of the foreign investor. In cases where the foreign firm has a competitive advantage over local firms that can range from managerial assets to access to limited resources to patents and trademarks, then foreignness is viewed as an asset. If the foreign firm has a competitive advantage that differentiates it from the local firms then it has a much greater chance of success and acceptance in the host country. Examples of such advantages are ownership control, exploring cooperative synergy, maintaining flexibility, as well as many more (Chen and Hu, 2002).

Many researchers theorize that foreign firms incur extra costs that indigenous firms do not have to deal with. These additional costs arise from running international operations, the discriminatory attitudes of suppliers, customers, the national government, and finally from the unfamiliarity of the foreign environment they are operating in (Nachum, 2003). Operating in a foreign country makes it more difficult for the subsidiary and the parent company to communicate. It also adds to costs of communication due to distance. Costs do not increase for foreign firms due to just distance, but foreign firms are also discriminated against in the host country they are operating in. This discriminatory attitude is done to protect local firms and is also a result of uncertainty of not knowing the foreign firm's intentions. The suppliers and consumers in the host country usually judge foreign firms based on stereotypes which is hazardous and could be very misleading. Thus, foreign firms incur additional costs in trying to familiarize their company with the locals.

There is a large amount of research that suggests that foreign firms perform better than domestic ones. That is mainly due to the superior completive advantages of those foreign firms that are internally transferred within the MNE and used to make up for the disadvantages that come along with being foreign (Nachum, 2003). Operating in a foreign region is an advantage when MNE have access to resources which are not available to the host country they do business in. Being a foreign firm is also seen as an advantage when foreignness is perceived as being superior by the local suppliers, customers and government (Nachum, 2003). In some countries, especially those with lower economic standards, being foreign is a sign of power. Thus, they are treated as being superior to local firms. That comes into play more when firms from more advanced counties invest in those not as advanced (Nachum, 2003). Scale, managerial and organizational skills, the capital from the parent company, and being part of a multinational network that allows connection to worldwide information flows allows MNEs to compensate to some degree for their lack of local information networks. (Zaheer & Mosakowski, 1997). It is also important to have an understanding on the host country's government and its stand on foreign firms. The strength of liability of foreignness is greatly influenced by the host countries governments (Nachum, 2003). One of the major disadvantages of MNEs that have subsidiaries in foreign countries is the cost of managing operations at a distance. However, these governance costs are not just limited to parent and subsidiary, but also from an inter-organizational network (Eden & Miller, 2001).

Liability of foreignness is described as being a "stranger in a strange land" (Eden & Miller, 2001). Foreign companies are perceived as outsiders and in order to gain acceptability of the host country and be able to fit in they have to incur more costs to make that happen. Outsiders are usually looked at with skepticism, which makes it more difficult for them to operate and compete in the market. Many suppliers won't even deal with foreign firms because they are not credible yet and very few would want to risk doing business with a firm that has not gained credibility yet. The costs that are associated with being a stranger can be divided into two components which are unfamiliarity hazards and discrimination hazards (Eden & Miller, 2001). Unfamiliarity and discrimination are examples of the disadvantages of being a foreign company. The unfamiliarity hazard is the need for knowledge of the host market that is unavailable to foreign companies. Thus, extra cost occurs to gain the same amount of knowledge that is known by local firms. (Eden & Miller, 2001). Foreign firms face both liability of newness and foreignness if they enter the new market of a host country for the first time. Discrimination hazard is another aspect associated with foreignness. Some host governments, suppliers and customers treat foreign companies differently than local ones due to political hazards or consumer ethnocentricity of the host country (Eden & Miller, 2001). Thus, foreign firms incur costs associated with gaining legitimacy in the country of operation. Customer ethnocentricity is a disadvantage that is difficult to overcome because it is deep within the local consumers of the host country. Those consumers have been brought up and taught that local firms are better and more trustworthy. Sometimes, it is impossible to change an ethnocentric view and it is best that foreign firms avoid dealing with countries where consumer ethnocentrism is strong.

Barriers of entry are yet another important disadvantage of entering and operating in foreign countries. Many governments make it impossible for foreign firms to enter their market. Barriers such as high tariffs, quotas and such are used to keep foreign entrants as a minimum. The barriers are not just limited to entry, but are also there after foreign firm has managed to enter the foreign market. Those barriers are reaching out for suppliers that are willing to work with foreign firms and provide service that will be vital to the operation of foreign firms. Those barriers make it more difficult for foreign firms to compete in foreign markets not just for customers but also for resources.

3. Research Model and Propositions

There are certain situations when both foreignness and newness are low, and that can work as a double advantage to performance. This double advantage comes from the utilization of the advantages associated with both factors. Because an organization is new it is able to learn from other organizations experience within the market and avoid making some of the same costly mistakes. Transfer of information is easier as well mainly due to the flexible structure of new organizations that allow the passing and digestion of information more quickly. New organizations also are at an advantage because they have a clean slate and do not suffer from inertial forces that stifle their adaptation to the market. Added on to the advantages of newness are the advantages of foreignness, which are a little more complex. Foreign companies bring a level of legitimacy to the host country and are perceived as superior by the locals, this usually is true when local firms have lost their legitimacy due to being overprotected by the government, or when home country has a higher economic standard than host country. The transfer of competitive advantages from parent company to a region where it is not available is also an advantage of foreignness. Foreignness is a benefit when MNE have access to resources that are not available to host country. When all these advantages come together it leads to higher business performance due to combination of double advantages.

Proposition 1: *In situations where foreignness and newness are low, then performance is at a double advantage.*

In situations where foreignness is high and extreme, yet newness is low, that some of the advantages newness cancel out the disadvantages of foreignness, which makes performance suffer less. Some of the disadvantages of foreignness that can be overcome by the advantages of newness are that foreign companies are perceived as outsiders, discriminated against, and the local market is unfamiliar with them. These disadvantages can be minimized if the following advantages of newness are utilized. These advantages are that new firms are more flexible and can digest and apply information more quickly. If the organization responds to discrimination and the stereotypes that are locked in the minds of locals and come up with ways to familiarize the locals quickly with themselves and put the specific stereotypes to rest then these disadvantages of foreignness that would hinder performance could be put to rest. Thus, performance would not suffer as much.

Proposition 2: *In situations where foreignness is high and newness is low the advantages of newness cancel out some of the disadvantages of foreignness and enhance performance.*

Figure 1 below shows the research model that is the basis for the research propositions outlined in this paper. As a conceptual framework it allows for the development of research questions that can be subjected to empirical investigation. International business strategies are highly context-specific and hence understanding the specific situation in which one creates and manages international business is an important prelude to effective international businesses.

		LIABILITY OF FOREIGNNESS	
		Low	High
LIABILITY OF NEWNESS	Low	P1 HİGH PERFORMANCE	P2 MEDİUM PERFORMANCE
	High	P3 MEDİUM PERFORMANCE	P4 LOW PERFORMANCE

Figure 1. Research model

On the other hand, in situations where foreignness is low and newness is high, then the advantages of foreignness cover for some of the disadvantages of newness. The following disadvantages of newness, which are that they don't have a client portfolio yet, not many contacts with suppliers and distributors, lack of organizational legitimacy, and no previous learning experience can be put to rest by taking advantage of some of the strengths of foreignness. Foreign firms are perceived as superior especially when they come from a country with high economic standards, and they bring in level of legitimacy when local firms have lost theirs as a result of being overprotected by the government. Those advantages can help a new firm access local suppliers and distributors with more ease, as they can build a client portfolio with less difficulty. Also most MNE have previous experience with doing international business and that can cancel out the disadvantage associated with newness, which is the lack of experience. Those cancellations help enhance performance are reduce losses.

Proposition 3: *In situations where foreignness is low and newness is high the advantages of foreignness cancel out some of the disadvantages of newness and enhance performance.*

The final proposition states that a double whammy in performance occurs when foreignness and newness are both high. This combines the disadvantages associated with both factors and hinders performance significantly. The hindrance is more specifically a result of being perceived as outsider, being discrimination against, unfamiliarity of locals with foreign company, barriers of entry, costs of managing operations at a distance, and higher transaction and information costs. As well as, not having a client portfolio yet or trust between employees, high start up costs, unfamiliarity with market, not many contacts with suppliers and distributors, lack of organizational legitimacy, no previous learning experience, and questionability on credibility.

Proposition 4: *In situations where foreignness and newness are both high performance suffers a double whammy.*

4. Limitations and Implications

Lack of an empirical support that would statistically validate the formulated research propositions is a major limitation of this paper. However it is intended to be a conceptual paper leading to a research model that would frame questions for future research. Context-based exploration of international business increases the chances of success. The four quadrants in the research model in this paper provide four distinct contexts in which the probability of success in international business has been assessed with significant support from extant literature. Implications of the proposed research model are portentous in guiding international business growth strategies, especially when firms explore hitherto unexplored areas in the world. Future researchers can also build on the research model by empirical testing the research propositions outlined in this paper.

5. Conclusion

The purpose of this paper was to study the concepts of newness and foreignness, and their combined effects. We examined the liabilities as well as the benefits associated with newness and foreignness. Although there has been a large amount of conceptual and empirical studies on the advantages of being foreign and of being a new organization, there has not been much work that studied both concepts simultaneously. With more and more firms, including new ventures, expanding across boundaries in a globalized business environment, it is important to study these factors that lead to liabilities of foreignness and their influence on performance. While liabilities due to foreignness and newness present a potential threat to firms, they can possibly become advantages if companies know how to deal with such liabilities. This study has presented a framework to better outline the advantages and disadvantages of newness and foreignness and how to manage them. As a result the ability, to better understand the circumstances under which liabilities and benefits exist, can be helpful to companies to manage these liabilities. While the notion that foreignness and newness can work together to cancel out or reduce the disadvantages associated with each factor has been mentioned before, we have taken a more thorough assessment in order to better understand the combined effects of newness and foreignness. Especially for new international companies, the interplay of newness and foreignness is critical to their success and failure. This paper has tried to fill this important gap by studying the combined effects of newness and foreignness

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