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**FOREIGN DIRECT INVESTMENT: IS BEING FOREIGN  
REALLY A LIABILITY?**

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## ABSTRACT

Liability of foreignness (LOF) is the disadvantage that firms faced when they operate in foreign countries. These foreign firms may have to incur extra costs which would make them less competitive in the host country environment. This study examines the extent to which foreign firms in Malaysia encountered LOF and the strategies they used to mitigate LOF. Potential respondents for the study were obtained from a sample of foreign-owned companies listed in the Malaysian International Chamber of Commerce and Industry (MICCI) directory. A cross-sectional survey was conducted using self-administered questionnaires. Based on a small sample of 13 respondents, a descriptive analysis of the data was performed to obtain some preliminary findings. The results show that the LOF faced by foreign firms in Malaysia was perceived to be low. This may be due to the firm-specific advantages which the companies already have in the form of superior products and adaptability to the host environment. Strategies used to mitigate LOF were mainly in the form of HR-, learning-, network-, and product-related strategies. Government-related strategies were perceived to be less important in reducing LOF.

Another aspect of LOF is to examine the expatriates, who are foreigners working in foreign countries. This study examines the extent to which being a foreigner poses a disadvantage to the expatriates working in Malaysia. Unlike their local counterparts, these expatriates face new challenges and uncertainties in their new local environments thus their ability to adjust and perform at their workplace will depend on their level of LOF. Based on a sample of 102 expatriates employed in Malaysia, the influences of expatriates' adjustment, age, gender, country of origin and length of working in Malaysia, on LOF were examined. The study findings from a multiple regression results showed that the level of LOF among expatriates tended to be influenced by their adjustment and country of origin. LOF was found to be negatively related to expatriate adjustment. The influence of gender, length of working in Malaysia and age on LOF was found to be not significant.

The study on expatriates was extended further by separating the expatriates into two groups: company-assigned expatriates and self-initiated expatriates. In



recent years, the trend on mobility of labor has begun to see the emergence of expatriates who, unlike the assigned expatriates, voluntarily seek jobs in foreign countries. These expatriates are known as self-initiated expatriates. Therefore, in this study, the extent to which company-assigned and self-initiated expatriates differ in terms of expatriate adjustment and their perceptions on the liabilities of being a foreigner was examined. Using a sample of 35 expatriates employed in Malaysian subsidiaries of foreign companies to represent company-assigned expatriates and a sample of 73 academic expatriates employed in Malaysian public universities to represent self-initiated expatriates, results from t-tests showed that no significant differences in terms of expatriate adjustment between the assigned expatriates and the self-initiated expatriates. However, perceptions on liability of foreignness were relatively higher among the self-initiated expatriates than the assigned expatriates.

Limitations of the study are highlighted, implications of the findings are discussed, and suggestions for future research are also provided.

Keywords: Liability of foreignness (LOF), LOF Measures, Foreign-owned firms, Company-assigned expatriates, Self-initiated expatriates, Malaysia

