

The theory of the MNE@64: Building on Hymer's legacy

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Abstract

We look at the past, present and possible futures of the theory of the multinational enterprise (MNE). We argue that the modern theory of the MNE, propounded by Stephen Hymer, viewed rivalry reduction and/through the internalization of advantages by firms as a strategy to acquire market power. Hymer anticipated the modern theory of the domestic firm and strategic management and later the transaction costs-focused 'internalization theory'. While 'internalization theory' focused on efficiency, Hymer viewed efficiency and market power as complementary. His theory of the MNE was influential in the development of International Business scholarship and has itself developed through cross-fertilization with adjacent fields. It has significant scope for further development by leveraging resource-based, international entrepreneurship and dynamic capabilities ideas. It faces technical and substantive challenges, notably that its focus on the sustainability of firm-level competitive advantage underplays wider multi-level environmental, economic and social sustainability challenges.

KEYWORDS

Hymer, internalisation theory, sustainability, theory of the MNE

INTRODUCTION

This paper looks at the past, present and possible futures of the theory of the multinational enterprise (MNE), with an eye to helping students of the MNE to sense and seize novel research opportunities. We argue that the modern theory of the MNE, originally developed by Stephen Hymer (1960/1976), entailed rivalry reduction and the internalization of (monopolistic) advantages by firms with the aim to maintaining and acquiring control and market power. For this reason, it was a strategic theory which anticipated the modern theory of the domestic firm and strategic management developed by Michael Porter (1980), as well as the transaction cost-based 'internalization theory' (thereafter in inverted commas to distinguish it from Hymer's variant) of the MNE. While post-Hymer 'internalization theory' focused mostly on efficiency, Hymer's early strategic internalization theory considered the links between both efficiency and market power.

Research about international business predated the modern theory of the MNE and explored much broader issues than the MNE as an organization (Buckley, 2011).

However, the economics-inspired modern theory of the MNE has played an important role in the development of International Business (IB) as a field of study, by providing more solid conceptual foundations (Dunning & Lundan, 2008; Dunning & Pitelis, 2008). Over time, the theory of the MNE has made progress by leveraging and developing ideas from adjacent fields, such as strategic management. It has significant scope for further development, especially by leveraging resource-based, international entrepreneurship and dynamic capabilities ideas. Towards this purpose, it faces some technical and substantive challenges and hence, opportunities for research. These include, but are not limited to, distinguishing empirically between apparently rival theories. In a departure from Hymer's own original systemic concerns (see below), the modern theory of the MNE focuses on the sustainability of firm-level competitive advantage and underplays the latter's relation to system-wide environmental, economic and social sustainability.

In the next section, we argue that Hymer's cross-border early strategic theory of the MNE anticipated the strategic theory of the domestic firm and strategic

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management and the transaction costs-focused ‘internalization theory’. The latter advanced Hymer’s ideas, especially as regards the role of transaction costs and their sources. The following section argues that the theory of the MNE has made more progress by leveraging ideas from adjacent fields, notably strategic management and has further scope for cross-fertilization.

In the final section, we focus on technical and substantive challenges and potential research opportunities. Key among these is that the theory of the MNE focuses on the sustainable competitive advantage (SCA) of firms and pays limited attention to multilevel systemic sustainability. While this is a challenge for every field, it is arguably critical for the theory of the MNE because of the reach and influence of MNEs. We explore the issue of sustainability and other research opportunities and discuss ways to develop further a theory of the sustainable and sustainability-fostering MNE. These include addressing challenges with integrating and/or discriminating between apparently competing theories and institutional and cultural constraints to making more progress with theory development.

HYMER AND THE MODERN THEORY OF THE MNE

The modern theory of the MNE dates back to the PhD dissertation of Stephen Hymer (1960/1976). Hymer explored the question, why US firms undertook international operations, and in this context why they chose to control production activities overseas, namely, to undertake foreign direct investment (FDI), as opposed to more market-based, less hierarchical, portfolio investments and cross-border entry modalities, such as exporting and/or licensing. Despite extensive writings on MNEs, their operations and broader International Business (IB)-related issues prior to Hymer’s (see Buckley, 2011), which included a seminal book by John Dunning (1958), Dunning had graciously attributed the parenthood of the modern theory of the MNE to Hymer. This is because Hymer distinguished between foreign portfolio investment and FDI, and because he was the first post-Coase (1937) scholar to ask and answer Coase’s famous question of why private hierarchies (firms) internalize or supersede the market, when conceivably all exchange could take place through voluntary contracts in markets (Dunning & Pitelis, 2008, 2010; Horaguchi & Toyne, 1990). Moreover, in contrast to Coase who focused on the domestic firm, Hymer posed and answered this question for the case of the MNE.

Hymer’s PhD supervisor at MIT, Charles Kindleberger (2002) shared Dunning’s view. A doyen of international economics and author of a classic international economics text, Kindleberger had originally treated the MNE as a vehicle for international capital flows, explicable in terms of the pursuit of higher financial rates of

return, such as higher cross-border interest rates. Hymer observed that did not tally with reality on the ground. That reality included firms being typically large and with oligopolistic status in their home countries, often borrowing in host countries, being concentrated in some, usually high-tech sectors, and moving cross-border in waves. Hymer claimed that the appropriate disciplinary base of the MNE was not international economics and finance but rather the theory of the firm.

In his thesis, Hymer drew upon an early variant of the structure–conduct–performance paradigm of industrial economics originally developed by Joe Bain (1956). Bain had sought to explicate why in real life industries’ prices exceeded the perfectly competitive price that lied at the lowest point of the average cost curve and resulted in normal (or zero excess) profits, but were below the maximum profit maximizing price of a monopolist/collusive oligopolists. Bain argued that was because in oligopolistic sectors barriers to entry prevented firms from entering the industry, but the fear of potential entry, and actual entry, kept prices below the level of collusive oligopoly as a strategic move to avoid attracting potential entrants. The three key barriers to entry, or the key ‘advantages’ of incumbent firms, were economies of scale, absolute cost advantages and differentiation advantages — with the last mentioned being found empirically to be most important. In so doing, Bain (1956) had founded the *advantages* approach that was to become central in Hymer.

Following the classic formulation of these ideas in the form of a limit pricing model by Franco Modigliani (1958), the structure–conduct–performance approach became for some time the dominant paradigm of the textbook theory of the firm and industrial economics (later termed industrial organization). Scherer (1970) was a classic textbook. Subsequently, the ‘new industrial organization’ placed more emphasis on the conduct of firms than the original focus on the industry structure and explored in detail the conditions under which firms could behave strategically to deter entry. Tirole (1988) is an authoritative account of this ‘new industrial organization’ and ‘strategic entry deterrence’ literature.

Hymer (1960/1976) had also cited the earlier study on FDI and a paper on profit sharing by oil firms of Edith Penrose (1956, 1959a). In those papers, Penrose attributed the resources and other advantages of the subsidiary to those of the parent company. She explained FDI mostly in terms of her endogenous growth of the firm theory (Penrose, 1959b) and the market power advantages of vertical integration (Penrose, 1959b; Pitelis, 2011).

Industrial economics/organization was the inspiration of Michael Porter’s (1980) modern strategic theory of the domestic firm, which was in turn a major input into the development of the modern theory of strategic management (Rumelt, Schendel, & Teece, 1994). Hymer (1960/1976) had anticipated the new industrial organization in that he placed firm conduct centre stage and proposed a theory of international operations of national

firms, according to which national firms in richer countries (notably the United States) grew organically and through acquisitions to gradually acquire oligopolistic status, initially at home. This status conferred several size- and market-power-related *advantages*, including the possibility of collusive practices by oligopolists. Hymer called these *monopolistic advantages*.

Hymer went on to argue that national firms with monopolistic advantages at home would consider undertaking 'foreign operations' to further increase their market size and profit base. This could be achieved by leveraging their advantages to consolidate/monopolize foreign markets. The latter entailed outcompeting local firms and *reducing rivalry* both between remaining local firms and MNEs themselves. The main way to achieve that was through interpenetration of investments and international market sharing, which helped establish conditions of international collusive oligopoly. While initially entry by MNEs could engender a bust of competition, over time stability would ensue taking the form of international collusive oligopoly with detrimental effects on consumers and society at large (Hymer, 1970).

Already in his thesis, Hymer observed that the best way for MNEs to profit from their advantages was by keeping them internal to the firm. That entailed preferring FDI from more market-based entry modalities like exporting or licensing. Among others, licensing entailed the risk of advantage dissipation and the creation of competitors. Hence, FDI was likely to be a common cross-border modality of entry.

In his thesis, Hymer explicitly mentioned that the MNE 'internalizes or supersedes the market' (Hymer, 1960/1976, p. 48), but he did not cite Coase (1937). There is no evidence he had read Coase's article at the time, and he did not consider explicitly transaction costs ideas (Dunning & Pitelis, 2008; Horaguchi & Toyne, 1990). However, the argument that firms prefer to internalize their advantages to maintain control over them is nothing less than that the internalization of advantages is a reason for MNEs to undertake FDI. In this sense, Hymer's view was an early variant of internalization theory.

Our discussion so far supports the following point.

Concluding point 1. *In Hymer's modern economic theory of the MNE, the choice of FDI over portfolio investments and entry modalities, such as exporting and/or cross-border licensing by firms, was predicated upon the reduction of rivalry/acquisition of market power and through the internalization of their monopolistic advantages.*

In time, and alongside major contributions by Caves (1971, 1982), the industrial economics-inspired Hymer/Kindleberger/Caves theory of the MNE established itself as the main theory of the MNE. The theory emphasized the strategic acquisition and leverage of

monopolistic advantages, rivalry reduction and market power as the key reasons for FDI and the MNE.

While in his thesis Hymer had not cited Coase, nor had he employed explicit transaction costs theorizing, in Hymer (1968), originally published in French and subsequently translated in English and published in Casson (1990), he referred explicitly to Coase and employed Coasean transaction costs thinking to bolster his argument that the internalization of advantages helped MNEs acquire market power. Despite acknowledging that transaction cost reductions increased efficiency and other efficiencies of MNEs (which he also called contradictions), Hymer (1970) pointed out that efficiency was aimed at and resulted in increasing market power. That was a far cry from 'internalization theory' that emphasized almost exclusively efficiency savings from transaction cost reductions, and severed the connection made by Hymer between efficiency and rivalry reduction/market power.¹

Concluding point 2. *In Hymer's theory of the MNE, efficiencies from transaction cost reductions helped foster the acquisition of market power.*

As we have already mentioned, Hymer's rivalry reduction thesis was subsequently developed by Michael Porter (1980) into a strategic theory of the domestic firm and has served as a foundation for modern strategic management (Rumelt, Schendel, & Teece, 1994). For Porter, and subsequent strategic management scholarship, the holy grail of business strategy was the acquisition and maintenance of sustainable competitive advantage (SCA). In Porter's view, the best way to acquire SCA was by reducing the (by now too well-known to warrant repetition) five forces of competition in an industry. In turn, this could be facilitated through firms positioning themselves as cost leader, differentiator, or niche player, and by aligning the selected 'generic strategy' to the activities involved in the value chain of the firm (Porter, 1985).

Despite several criticisms and subsequent developments, Porter is widely regarded as the, or at least a, founder of the modern theory of strategic management. Empirical studies showed that reducing rivalry can help explicate superior performance (McGahan & Porter, 1997, 2002, 2003). That Hymer's theory of the MNE anticipated the modern strategic theory of the domestic firm and strategic management is important. This is

¹There remains some confusion regarding internalization thinking in Hymer's PhD thesis. The view of Dunning & Rugman (1985) was that in his thesis, Hymer focused on structural not natural (transaction cost-related) market failures. This is accurate but does not question the argument that in his thesis Hymer had an (non-transaction costs-based) internalization theory of 'monopolistic' advantages (Dunning & Pitelis, 2008, 2010; Horaguchi & Toyne, 1990). Hence, the confusion is mostly semantic. In addition, natural and structural market failures are not always readily distinguishable, for instance when the solution of natural market failures helps create structural market failures by conferring efficiency advantages, which can help MNEs acquire market power.

because of its widely acknowledged influence on IB scholarship (Dunning & Lundan, 2008), as well as that his contribution was clearly shaped by his international focus. The latter helps establish the modern theory of the MNE and IB as leading, rather than following, theory development.

As we have already noted, Hymer (1968) had pointed to both efficiency and power (the title of his 1970 *American Economic Review* article was ‘the efficiency (contradictions) of multinational corporations’), but chose to emphasize market power and monopoly. Following an early contribution by McManus (1972), Buckley and Casson (1976) developed a comprehensive transaction cost-based ‘internalization theory’ of the MNE, according to which FDI entailed advantages pertaining to transferring knowledge-intensive intangible assets within firms, as opposed to between firms and through markets. Arrow (1974) had previously referred to the paradox of knowledge, according to which knowledge is worth little to a potential user until the said user had acquired it, but once s/he had acquired it, s/he had no incentive to pay for it. That led to market failures. By internalizing such transactions, market failure problems could be addressed. Accordingly, and much like in Coase (1937), Buckley and Casson (1976) argued that internalization of markets by hierarchies could reduce transaction costs and enhance efficiency.

Teece (1976, 1977) had developed a variant of ‘internalization theory’ of the MNE in which efficiencies were derived from the lower transaction and production cost of transferring technology intra versus inter-firm across borders. Other variants of ‘internalization theory’ included Rugman (1980) who argued that there existed transaction costs efficiency advantages in internalizing all factors of production, rendering internalization a ‘general theory’, and Hennart (1982) who argued that MNEs possessed efficiency-related advantages to coordinate labour across borders. More dynamic approaches included Cantwell’s (1989) theory of technological accumulation in which the degree of complexity, path dependency and dispersion of technology could help predict the degree of requisite internalization of learning (Dunning and Lundan, 2008). Kogut and Zander (1993) proposed an ‘evolutionary theory’ which emphasized efficiencies arising from the speed of cross-border knowledge transfer intra versus inter-firm.²

Oliver Williamson (1981) developed a variant of the intangible assets view and what he called the internal capital market hypothesis. According to the last mentioned, through internalization, multidivisional firms could

address market failures in financial markets by operating as an internal capital market, allocating financial resources internally to activities they felt to be worthy and better aligned with the strategy of the firm. These might not have secured external funding due to market failures derived from asymmetric information between the firm and its potential borrowers that would require high transaction costs to be resolved. According to Williamson (1975, 1981), prior to taking a decision that involved market exchange contracts, such as choosing a supplier, firms were faced with a ‘large number condition’ (namely, several potential suppliers). However, once they had made a choice, they faced a bilateral monopoly (a monopolist/monopsonist situation). In the presence of asset specificity (investments specific to a place, actor or activity), and hence high non-recoverable (‘sunk’) costs, an opportunistic supplier could renegotiate agreements when conditions permitted that, for instance when demand and/or firm profitability increased. This would make transaction costs overly high. A firm with an adequate degree of foresight would choose to internalize the transaction rather than rendering itself a hostage to fortune and facing hold ups and, hence, high transaction costs due to the opportunistic supplier (Williamson, 1981).³

Williamson (1975) had presented his ideas as a rebuttal of the (market) power-based approach, but was originally more nuanced recognizing that power and efficiency might coincide (Pitelis, 1991). In Williamson (1991), however, he contrasted the idea of ‘strategizing’ of Porter and the then emergent resource-based view, with that of ‘economizing’ through savings in transaction costs and he claimed the best strategy was to economize and not to strategize.

Scholars of the MNE had not initially paid much attention to either the internal capital markets variant of internalization theory or Williamson’s emphasis on opportunism and asset specificity. Gradually, Williamson’s ideas found a place in the theory of the MNE and IB scholarship (Barney, Arikan & Arikan, 2023; Dunning & Lundan, 2008). This helped strengthen the focus of ‘internalization theory’ on efficiency at the expense of market power through rivalry reduction. However, while some of Hymer’s and Porter’s ideas about control and market power may appear to some as rather dated, ignoring them altogether is limiting. More recently, there has been an acknowledgement of the continuing importance of market power in the theory of the MNE and IB (Clougherty & Skousen, 2021). Moreover, leading economists such as Zingales (2017) argued that market power is alive and well and that it often morphs to political power and regulatory capture, which are pernicious to innovation and undermine economic performance and the ‘American dream’.

²Hymer (1968) and Kogut and Zander (1993) did not call their theories internalization theories. In fact, Kogut and Zander explicitly presented their evolutionary theory as an alternative to market failure-based ‘internalization theory’. Our inclusion of them as variants of internalization theory is because they all refer to reasons why firms internalize their advantages and/or extant and/or potential market exchanges. In this context, we distinguish between internalization theories and ‘internalization theory’. The latter drew on Coase (1937), and later Williamson (1975).

³The case of the acquisition of Fisher Body, the then exclusive supplier of car body parts to General Motors, by General Motors, was argued to support the transaction costs-based theory of vertical integration. This was despite Coase (2000) himself casting doubt on the role played in that case by hold ups, asset specificity and opportunism.

Such views align well with Hymer's view that markets were the result of power (in his words created from the barrel of a gun) and resulted in the market power of MNEs and more broadly in 'multinational corporate capital', which in turn had pernicious effects on socio-economic wellbeing (Dunning & Pitelis, 2008; Hymer, 1970, 1972a).

To summarize, in Hymer, transaction costs reduction efficiencies helped firms acquire market power. This was facilitated by the cross-border interpenetration of investments and market sharing by MNEs that have mostly eluded 'internalization theory' and strategic management scholarship. Hymer saw efficiency and market power, as interrelated, but chose to place emphasis on monopoly power.

Arguably, a key reason why Hymer's theory predated the modern strategic theory of the domestic firm and strategic management is because its international focus presented challenges and opportunities often hidden from scholars of other, more domestically focused, sub-disciplines. These challenges and opportunities related to cross-border locations and multinationality. Cross-border location had featured in Hymer's ideas that MNEs expanded cross-border not only to exploit resources in foreign countries but also to develop new markets for their products. It also featured in his 'correspondence principle' according to which MNEs gradually transplant their hierarchical model to different world locations (Dunning & Pitelis, 2010; Hymer, 1970). Cross-border location and the role of countries have featured prominently in Dunning's (2000) ownership, location, internalization (OLI) paradigm, in the firm-specific advantage (FSA)/country-specific advantage (CSA) framework of Rugman and associates (Rugman, Verbeke & Nguyen, 2011) and in Hennart (2009). Cross-border location, interpretation of investments, the liability/asset of being foreign and inter-national competition between nation-states are concepts which do not readily lend themselves as research within a nation. In this context, the post-Hymer IB is special because of its focus on the MNE and on different countries (Beugelsdijk & Mudambi, 2013), and the interaction between home and host country capabilities (Cantwell, 2014), which are absent in a purely domestic theory.

The focus on countries, not just locations, is important.

In addition to locational, resources and capabilities and institutional, cultural, and regulatory specificities and distances, it entails differences in management and organization in their relationships with the local society, which are country specific (Sorge, Noorderhaven & Koen, 2023). Importantly, it entails sovereignty, the legal monopoly of force and occasionally the possibility to protect national enterprises, for instance from expropriation of assets by host governments and/or from piracy. This can be a major subsidy to businesses involved in international trade, relations and transport, not least because national defence budgets which can be leveraged to protect their operations are funded socially.

This leads to our next concluding point.

Concluding point 3. *The theory of the MNE is special in its focus on cross-border operations by firms in sovereign foreign locations/countries.*

A key potential limitation of Hymer's focus was that it focused on value appropriation/capture through monopoly, taking value creation through efficiency as given. That was arguably one-sided. It did not flow organically from his theory and it failed to explore the relationship between market power/value capture and efficiency/value creation (Dunning & Pitelis, 2008). In particular, Hymer failed to entertain that the pursuit of value capture can help incentivize value creation and co-creation, for instance because (with the exception of 'natural' or public sector monopolies) in market economies, firms usually capture parts of the value they and others help co-create (Pitelis & Teece, 2010). While Hymer's consideration of both rivalry reduction and/through the internalization of advantages secured his legacy as the first scholar to posit a modern strategic theory of the MNE, his choice to focus on monopoly/value capture at the expense of efficiency/value creation delimits his contribution.

Our discussion leads to the following point.

Concluding point 4. *Hymer's theory of the MNE undertheorized the relationship between market power-value capture and efficiency-value creation.*

While 'internalization theory' helped redress the balance, it mostly considered transaction costs efficiencies and ignored market power. In addition, it failed to consider that efficiency entails more than transaction costs reductions in a comparative static setting. It entails especially intertemporal efficiency through innovation (Baumol, 2002; Grandori, 1993). All these call for a more explicit consideration of efficiency and value creation and their relationship to market power and value capture, as well as other determinants of sustainable advantage.

DEVELOPING THE STRATEGIC THEORY OF THE MNE

We have employed the word s(trategic) in Hymer's theory because Hymer saw rivalry reduction and/through internalization of advantages as strategic moves at establishing market power and because subsequently his rivalry reduction idea became central in Porter's strategic theory of the domestic firm. This, however, is a rather limited definition of the term strategic. For instance, as Williamson (1991) argued, 'economizing' is a form of strategy and in his view a more effective one. If the

pursuit of efficiency is part of the strategy, then post Hymer 'internalization theory' is strategic too, its downplaying of market power notwithstanding.

However, business strategy entails much more than reducing rivalry and/or 'economizing' (Chandler, 1992). It entails deciding where the organization wants to be in terms of activities and locations, by when and how to get there. These in turn require a vision and a mission, a value (creation) proposition, a business model, requisite resources and capabilities, requisite governance, aligned organizational structure, infrastructure and processes and value appropriation apparatuses. Importantly, it also requires an understanding of the actors who take decisions, notably the top management team (TMT), how they decide, other internal actors, external actors whose actions impact upon the firm (the ecosystem) and their relationships. It requires dealing with external rivalry but also with internal relations and rivalry. It also requires dealing with inter-organizational cooperation, other than in the form of collusion (Hymer's focus), and with intra-organizational cooperation, as well as the relationships between competition and cooperation (aka cooptation) with both internal and external actors.

Addressing these to build the strategic theory of the MNE presents a major research opportunity. Hymer's theory of the MNE can be rendered more genuinely strategic by cross-fertilizing it with ideas from adjacent fields, notably the resource-based view of strategy (Barney, Arikan & Arikan, 2023), international entrepreneurship (Oviatt & McDougall, 1994; Zahra & George, 2017) and the dynamic capabilities view (Pitelis & Teece, 2018; Pitelis, Teece & Yang, 2023). We explore these in turn.

Despite the very concept of monopolistic 'advantages' of MNEs in Hymer, ownership advantages in John Dunning's (2000) OLI and firm-specific advantages in the FSA/CSA framework can also refer to their resources and capabilities advantages (Dunning and Lundan, 2008; Narula and Verbeke, 2015). Until recently, resources and capabilities thinking did not feature prominently in the theory of the MNE (Barney, Arikan & Arikan, 2023; Pitelis and Teece, 2010, 2018; Teece, 2014). The traditional microeconomic theory of the firm on which Hymer drew was a theory of industry structures and employed the industry not the firm as the unit of analysis (Penrose, 1959b). It assumes that technology is exogenous and that all firms have the same resources and capabilities. Hymer and Porter were trained economists. For a theory of the firm, not the industry, firm homogeneity is Hamlet without the Prince of Denmark.

While Hymer had stated that 'control is required to appropriate fully the returns on certain skills and abilities' (Hymer, 1960/1976, p. 25), he did not pursue (capability-related) arguments much further. Penrose (1959b) had already referred to the unique identity of firms and criticized the assumption of traditional microeconomics that firms were merely points on a cost curve. Demsetz (1973) also questioned the homogeneity assumption from

within industrial economics/organization and proposed a differential efficiency hypothesis according to which superior firm performance could be attributed to superior resources and capabilities. Earlier, Schumpeter (1942) had famously attributed creative destruction to the differential prowess of firms to innovate. Nelson and Winter (1982) had emphasized the role of organizational routines, which were distinct and differed across firms. All these helped inform the subsequent focus of strategic management on the 'insides' of firms and their heterogeneity.

In IB, Cantwell (1989) applied the ideas of Nelson and Winter (1982) and Rosenberg (1982) to the uniqueness and differentiated character of technological accumulation within MNEs, emanating from the interaction between OLI configurations and strategic responses to these. Kogut and Zander (1993) saw MNEs as intrinsically differentiated organizational communities with distinct identities.

Early strategic management research had considered resources and capabilities but was mostly descriptive as opposed to analytic (Rumelt, Schendel, & Teece, 1994). The first analytic resource-based (RB) theory, now better known as RB View (RBV) of the firm, was by Edith Penrose (1959b) who argued that intra organizational learning improved productivity, released resources already paid for by managers, and hence motivated the redeployment of the resulting 'excess resources' by managers to new tasks, thereby engendering endogenous firm growth. Managers possessed their individual 'productive opportunity' (their perception of the interface between the external and internal environment of the firm); hence, each firm and each firm's activities were unique. Barney (1991) with several associates argued that by accessing, developing, building and leveraging resources and capabilities that are valuable, rare, inimitable and non-substitutable (VRIN), firms could acquire and sustain competitive advantage.

Penrose's argument was about learning, innovation, productivity, resource and, hence, value creation advantages which in turn could help firms capture value. Moreover, she argued that once firms had solidified their position, they would also employ explicit value capture strategies, including monopolistic restrictive practices. The Barney variant of the RBV was originally a value capture theory given value creation (the V in VRIN). The two variants are complementary and can help explicate both value creation and capture. They have been developed by Teece (1980, 1982, 1986), who had moreover synthesized and developed Penrosean and transaction costs ideas.

Resources and capabilities which are VRIN are intra-firm barriers to competition, and they are as relevant for the strategic theory of the firm as are external ones. The two are related. For example, the industrial economics/organization-based strategic entry deterrence through the strategic building of excess capacity (Spence, 1977)

complements Penrose's intra-firm excess capacity creation due to endogenous growth. A comprehensive strategic theory of the MNE should incorporate all the ideas, both in terms of content and in terms of placing them in a real life dynamic, evolutionary process.

Hymer and the post-Hymer 'internalization theory' also paid limited attention to entrepreneurs, managers, and intrapreneurs-entrepreneurial managers. Penrose (1959b) considered managers to be the key organizational human resource in existing firms. Schumpeter (1942) extolled the role of entrepreneurs in, among other things, innovating and creating organizations and markets. Kirzner (1973, 1997) explicated the role of entrepreneurs in making markets work. Casson (1982, 2005) saw market creation as an important entrepreneurial function. Entrepreneurship scholarship considers organization creation as a key part of entrepreneurship (Foss & Klein, 2012).

More recently, International Entrepreneurship (IE) literature (Oviatt & McDougall, 1994; Zahra & George, 2017) explained the role of entrepreneurs in undertaking foreign operations with or without creating new ventures, with or without undertaking FDI, and sometimes almost from their inception or soon afterwards. These became known as born global firms. It is important that entrepreneurship and the role of the TMT are integrated within the theory of the MNE. This is for the simple reason that humans take the final strategic decisions. Cross-fertilizing the economic theory of the MNE and international entrepreneurship literature is a major opportunity for theory development (Pitelis & Buckley, 2021).

The focus of international entrepreneurship scholarship on the exploration and exploitation of cross-border opportunities aligns well with the dynamic capabilities view (DCV) of the firm and business strategy, domestic and cross-border. According to the DCV, firms employ ordinary capabilities that allow them to do things right, namely, to deliver a reliable product or service to potential buyers. Importantly, they possess, develop and employ dynamic capabilities (DCs) that help them do the right thing at the right time. Clearly the right thing at the right time should also be done right; hence, both ordinary and dynamic capabilities are important (Pitelis, 2022). DCs help organizations sense and seize opportunities and reconfigure their resource base not only to align it with a shifting external and internal environment but also to shape the latter to the extent possible. DCs reside not only in entrepreneurial managers and the TMT but also in other organizational actors, such as workers, and in the organization(al) processes and routines. The process of embedding and integrating entrepreneurial and organizational capabilities is important and can be linked to internal systems and/or leadership types (Pitelis & Wagner, 2019). They are critical because doing right the wrong way, or the right thing at the wrong time, and especially the wrong thing at the wrong time and not right either, is a recipe for failure.

The DCV is important to the theory of the MNE in part because the cross-border context is likely to be more 'alien' to foreign firms (the well-known 'liability of foreignness'), and because in some case, governments can favour domestic players (Nambisan & Luo, 2022). It can also be important because foreignness can be an asset (Pitelis, 2009). While the mecca of transaction costs thinking is vertical integration, that of the DCV is diversification (Pitelis, 2022). The latter can be within nations and/or across borders. In the latter case, firms must sense and seize cross-border opportunities and reconfigure their resource base to remain capable of sensing and seizing. These can refer to opportunities to identify liabilities and institutional voids and other potential challenges and, when possible, turn challenges into opportunities and assets. DCs are critical for cross-border strategy. This is because the decision on which country to choose and what activity to focus upon in the said country requires sensing the opportunity and reconfiguring the resource base to be able to seize the opportunity (Pitelis, Teece & Yang, 2023).

Besides their common focus on the sensing (exploring) and the seizing (exploitation) of opportunities, the DCV and international entrepreneurship share a focus on entrepreneurial and intrapreneurial agency. International entrepreneurship can be broader, in considering international entrepreneurial activities by individuals who may not be part of an organization, for instance individual migrant entrepreneurs (Piteli, Kafouros & Pitelis, 2021).

The cross-fertilization of the DCV and international entrepreneurship can help develop an entrepreneurial strategic theory of the MNE. According to this, entrepreneurs and entrepreneurial managers motivated by value capture employ DCs to sense their value creation advantages and opportunities that can help them create value, part of which they can capture, alongside a part of the value created by others. The creation of a multiperson organization is an important step because through division of labour, specialization, teamwork and learning, organizations help foster innovation and co-create value (Penrose, 1959b). In addition, by building value capture apparatuses and business models, organizations can seize these opportunities. By reconfiguring their resource base firms can remain relevant and ahead of competition. When cross-country assets are co-specialized moreover, firms can be born global with FDI (Pitelis & Teece, 2010). In all, integrating international entrepreneurship, the DCV and Hymer's early strategic theory of the MNE is a major research opportunity.

Our discussion leads us to the following:

Concluding point 5. *Hymer's early strategic theory of the MNE can be rendered more genuinely strategic by cross-fertilizing it with ideas from the RBV, international entrepreneurship and the DCV.*

LIMITATIONS, THE CHALLENGE OF SUSTAINABILITY AND MORE RESEARCH OPPORTUNITIES

The focus of Hymer's early strategic theory on inter-firm rivalry reduction underplayed the role of intra-firm actors and their relationships. In their behavioral theory of the firm, Cyert and March (1963) focused on intra-firm actors, such as the TMT, middle level managers and workers. They argued that the relationships between these groups can be cooperative or conflictual. It was important for the TMT to ensure that the organization managed conflict. Sometimes, that could be achieved by leveraging slack resources to bring about negotiated outcomes that kept all groups satisfied, hence reducing conflict and friction. One could take that point further and claim that the role of the TMT should be to also leverage creative dissent, hence turning the diversity of views into a strategic advantage.

The focus of the behavioural theory on intra-organizational conflict was maintained in agency theory. In Alchian and Demsetz (1972), the theory focused on the relationship between owners ('principals') and workers ('agents') and explored how principals faced with intra-organizational divergence of interests try bringing the interests of agents closer to their own. In Jensen and Meckling (1976), the agency considered was between shareholders and managers. Agency theory and the behavioural theory of the firm focused on intra-firm stakeholders. Stakeholder theory considers a wider set of actors who invest in firm-specific assets, notably employees and/or are important to the ability of the firm to generate profit, such as key suppliers (Barney, 2018). Open team production theory (Berti & Pitelis, 2022) maintains that while the traditional team production theory focused on intra-organizational actors, inter-organizational actors, who invest in firm-specific assets or are otherwise important for the ability of the firm to exist and thrive, and their relationships should be considered. This aligns well with an ecosystem view (Pitelis & Teece, 2010) and includes complementors and coopetitors. These considerations were mostly absent from Hymer and early 'internalization theory'. More recently, they are becoming central (Dunning & Lundan, 2008; Pitelis & Teece, 2018).

Another limitation of the economic theory of the MNE is that it mostly delineates the external environment within which MNEs operate to that of rival firms. Hymer (1970, 1972b) and many other scholars since (see Dunning & Lundan, 2008) have also considered MNE-country relations both home and host ones. However, the external environment also includes buyers, suppliers, substitutes, complements, actual and potential entrants. It also includes other organizations, markets, business ecosystems, clusters and institutions, namely an entire socio-economic ecosystem. A comprehensive strategic theory of the MNE should consider these actors and how can

the MNE impact upon them to shape the external environment in a way that helps it build sustainable advantage.

DCs, international entrepreneurship and the more recent 'orchestration theory' can help do this. Orchestration theory views MNEs as key orchestrators of the value creation and capture process inter- and intra-country. The said process entails competition and cooperation (coopetition) both with internal and external actors to the MNE. According to orchestration theory, MNEs internalize/externalize but in addition cooperate, co-create and seek to orchestrate organizations, markets, business ecosystems, global value chains, local production systems and business ecosystems and clusters, and hence the wider context within which they operate. The said internal and external context is partly endogenous to their decision-making and, to the extent possible, is partly malleable. So far, the literature on context creation and co-creation has focused mostly on non-market strategies (Doh, Lawton & Rajwani, 2012). There is a major opportunity to leverage the DCV/orchestration view to develop the strategic theory of the MNE further, especially as this pertains to global value chains, and in their relationship to business ecosystems and clusters.

A further limitation/opportunity for development of the strategic theory of the MNE relates to its nearly exclusive focus on the production-supply side of the economy. The demand side of the economy, such as the market size and anticipated rate of growth of demand, can be of the essence in the MNE decision-making. Equally important is the stage in a country's business cycle, often in relation to the business cycles of the MNE's current country portfolio (Kudina & Pitelis, 2014). MNEs facing declining demand in their home country can expand in countries where demand is higher or increasing. Vernon (1966) attributed significance to product life cycle-related demand patterns. However, demand and the business cycle are broader than the product life cycle. Consider the size of the market in countries like China and India. An MNE would normally like to tap into such markets for their buyer base and market size.

While country demand can be viewed as a country specific advantage, these are usually regarded as exogenous. However, MNEs can help expand demand through selling and promotion activities, including those by competitors, lobbying governments and overall, by expanding their ecosystem. Despite early developments of a demand side view, which include Hymer (1970), Vernon (1966) and macroeconomic theories (Dunning & Lundan, 2008; Jones & Pitelis, 2015), the theory of the MNE remains focused on the supply side and can benefit by consideration of and integration with demand-side issues. The theory must also pay more attention to non-collusive inter-firm cooperation and entrepreneurial ecosystems. These are excellent opportunities for students of (the theory of) the MNE.

The further development of a strategic theory of the MNE faces technical and other challenges. A major technical challenge relates to its ability to derive predictions that clearly distinguish theories from each other. Concepts like asset specificity, VRIN resources, firm-specific advantages and asset co-specialization are very similar. Together, these similar concepts inform four major views — the Hymer/Porter rivalry reduction theory, transaction costs ‘internalization theory’, the RBV and the DCV. They also inform the resource dependency view of organization theory, which also employs the very similar concept of resource dependency (Ulrich & Barney, 1984). That makes the derivation of distinguishable hypotheses hard. It also points to the need for more integrative theories and more discerning empirical testing. For instance, in addition to testing Porter and the RBV in the same econometric regression as in McGahan and Porter (1997, 2002, 2003), and/or the RBV and transaction costs economics as in Monteverde and Teece (1982), one should include clearly distinguishable proxies for all major theories, alongside control, moderating and mediating variables (Pitelis, Teece & Yang, 2023). We are not near this now, and this is a major research gap and opportunity.

Cultural and institutional barriers to progress include a tendency by scholars to present their views as alternative and rival to the extant, even when this is not evident and even when these can be complementary (Grandori, 1993). An example is transaction costs efficiency versus market power, which Hymer skilfully synthesized. Another is the RBV and rivalry reduction, both of which look at barriers to mobility, one external and the other internal to the firm. Finally, the DCV complements other theories which require ordinary and dynamic capabilities to explain what they purport to explain, yet it is sometimes presented as an alternative to extant views such as Porter’s rivalry reduction (Pitelis, 2022).

Institutional challenges relate to communication and differential resources and access. These are common in other fields too but can be more intense in multidisciplinary fields such as IB. IB sub-disciplines can often employ different languages and problematics that make communication hard. Transaction costs and international entrepreneurship are cases in point. It is hard for a non-economist to internalize transaction costs jargon and unclear to an international entrepreneurship scholar why the definition of the MNE by IB scholars trained in economics should be limited only to firms which undertake FDI. There is nothing in the word multinational that precludes defining as MNEs firms with other types of international operations. A transaction costs scholar might find international entrepreneurship a-theoretical, while international entrepreneurship scholars can find transaction costs thinking static, narrow and restrictive. In addition, lack of resources can render it harder for younger scholars and especially those from emerging economies to access the leading journals. This can help reduce

diversity of opinion and forgo theory advancement opportunities by scholars with different experiences and perspectives.

As we have already noted, the theory of the MNE was influential in IB scholarship. Arguably, the dominant paradigm in IB (not just the theory of the MNE) remains John Dunning’s OLI. This is because the OLI deals not only with the theory of the MNE per se, but also with internationalization, and it envelops most other theories. The OLI maintains the focus of Bain and Hymer on advantages (renamed as ownership, as opposed to Hymer’s monopolistic), and the emphasis of ‘internalization theory’ on internalization (the I in OLI). It adds the importance of location (the L in OLI). It is arguable, however, that a fully developed strategic theory of the MNE would require revisiting the OLI triad. For instance, ownership advantages refer to assets, resources and capabilities possessed and/or controlled by the firm of a particular nationality (Cantwell, 2014). Over time, many firms rely more on control than ownership or on the minimum requisite ownership to maintain control of what they perceive as critical assets. In publicly traded companies, this can be very small (Cubbin & Leech, 1983). In addition, and related to that, in the past 30 years or so, firms outsource/externalize many non-core and sometimes even core operations (Teece, 2006). Firms grow through both internalization and externalization, as well as through cooperation. Importantly, MNEs seek to orchestrate their internal and external environments to suit their purposes. Additionally, the word location does not fully convey the idea of cross-border operations. There exist different locations (states, regions, etc.) within a country. For the MNE, important is not location as such but rather cross-border, or international location, hence internationalization.

All these are well recognized in Dunning and Lundan (2008), who refer explicitly to ownership and control, domestic and cross-border location and multiple countries, internalization, externalization and cooperation, and view the modern MNE as a coordinator, controller and manager of cross-border assets and activities. In this context, however, it is unclear how informative remain the O, L and I acronym. It is arguable that a different acronym might help convey better today’s complex and multifaceted realities, especially to new students of IB who may feel inclined to take the constituents of the OLI acronym at face value.

By way of an example, consider digital platform-based born global firms, such as Amazon, Meta, Alphabet, Uber, Airbnb and Netflix. These rely more on proprietary ownership and (hence) control of the platform, expand across borders with minimal FDI, employ externalization while maintaining control of their critical assets and capabilities, notably the digital platform itself, and importantly, they co-create and orchestrate the ecosystem and the wider context within which they operate (Piteli & Pitelis, 2023). Digital platform-based born

global firms are more about selective ownership, control when feasible without ownership and orchestration than ownership and internalization. They are multicountry not just multilocational. Despite their limited FDI, they are widely recognized as MNEs. An international entrepreneurship scholar would be well justified in questioning the continuing definition of the MNE as an international firm with FDI, for instance in Dunning and Lundan (2008). Among others, the limited FDI of these MNEs questions the hoped-for positive impact of MNEs on economic performance (Piteli, 2010).⁴

In our view, the most important, substantive challenge to the theory of the MNE and IB scholarship and hence a major research opportunity, however, refers to the issue of sustainability. In contrast to Hymer's early focus on the political economy of multinational corporate capital (Dunning & Pitelis, 2010; Pitelis, 2002) and the potentially pernicious impact of MNEs on sustainable development and the prospects of poorer countries and latecomers, the modern theory of the MNE fails to consider the impact of firm's capture value strategies on the sustainability of value creation and co-creation at the firm, economy and society-wide levels, within nations and internationally (Mahoney, McGahan & Pitelis, 2009). An exclusive or predominant focus on value capture, especially when this involves restrictive practices, however, can undermine the system-wide sustainability of value creation and hence eventually, the sustainable advantage of firms. Hymer (1970) has argued that through a 'correspondence principle' the MNE helped shape the world to their image, creating a hierarchy of superior and inferior nations and peoples. MNEs divided people between countries and within countries, in terms of class, gender, caste and race. In his view, breaking the various glass ceilings became harder the nearer one went to the top. All these helped undermine diversity, economic and societal sustainability. Paradoxically perhaps, while Hymer became a founder of the modern theory of the MNE, subsequent developments have focused on the positive role of MNEs (Hendriks, 2017; Zhou & Wang, 2020) and pay less attention to his concerns about the potentially negative impact of MNEs on sustainable development.

Sustainability has economic, social and environmental aspects. It is fair to say that the theory of the MNE has so far paid limited attention to these, at least comparatively. Nature and the environment are often viewed as another MNE advantage. Ignoring nature and the environment is short sighted in that by undermining the

sustainability of nature, MNEs can eventually undermine the sustainability of their own advantage. This may not be immediate enough to affect specific MNEs in the short run, but ignoring the future possibility is the very definition of being myopic.

Similar considerations apply for the case of economic and societal sustainability. These do not feature much in the theory of the MNE, which focuses on the specific firm. However, the way in which a firm/MNE captures value is critical. When this is done through restrictive practices, tax avoidance, the use of sweatshop-type conditions for labourers, the exploitation of child labour, economic and societal sustainability suffer. Resulting and/or remaining distributional inequities in income, wealth and opportunities are a waste of the ultimate and most valuable of resources, the human. Nonmarket strategies by MNEs can undermine sustainability, not least by weakening institutional capacity and regulatory oversight and fostering regulatory capture. Industrial and strategic trade policies by developed countries in support of their domestic industries, firms and MNEs can help render the rarely level playing field even less level and undermine sustainability (Pitelis, 2013).

All these call for moderation, self-regulation and arm's length regulation by the public sector, as well as mutual monitoring by the third sector/polity and society at large (Piteli & Pitelis, 2023). An exclusive reliance on firm level advantage can help paint scholars of the MNE as apologists for unfettered market forces and sometimes questionable business practices. The future and the psyche of the theory of the MNE depend on its ability to address this challenge, align itself to wider (such as the United Nations) sustainability goals and help solve rather than co-create today's 'grand challenges'. Among those, particularly pertinent to the theory of the MNE and IB is migration and the globalization of labour. Despite that migration is the human counterpart of the internationalization of capital and that the monetary value of migrant remittances has lately exceeded that of FDI, the determinants and effects of the globalization of labour, the relationship between FDI and remittances, and their impact on sustainable economic performance have so far received limited (albeit growing) attention in the theory of the MNE and IB (Mockaitis, 2023; Piteli, Buckley & Kafouros, 2019; Piteli, Kafouros & Pitelis, 2021). In prefacing Mockaitis (2023), Peter Buckley welcomed the focus on migration and pointed out that much more work is required in this area. Migrant remittances (which appear only twice in the main text of the book) is a case in point. These are important research opportunities.

In a world characterized by deepening distributional inequities, an environmental market failure of epic proportions, mass migration, de-globalization, geo-politics, protectionism and wars, ignoring the efficiency/market power contradictions of MNEs highlighted by Hymer and focusing exclusively on their efficiency advantages at the expense of the potentially pernicious effects of

⁴It may be worth noting that Penrose (1987) had questioned the value added of the word internalization to the already established term integration. Dunning & Lundan (2008) observe that the O advantages in the OLI are like Porter's (1980) competitive advantages, while Cantwell (2014) thinks that the word ownership advantages can be misleading, in that it fails to make clear that it refers to the specific advantages of firms of (home or host) countries. Penrose (1987) and Pitelis & Boddewyn (2009) moreover had argued that most extant theories of the MNE (including Hymer and the OLI) fail to focus on the *differential* benefits of multinationality versus multilocational intra-nationality.

restrictive practices, market and political power, can be counterproductive. It does no favours to anyone, not even to the MNEs which can benefit only in the short run.

This leads to our final concluding point.

Concluding point 6. *The concept of MNE sustainable advantage becomes meaningful only when it is aligned with systemic socioeconomic and environmental sustainability.*

To conclude, Hymer's modern theory of the MNE has anticipated strategic theory of the domestic firm and modern strategic management. It has developed through several variants of 'internalization theory' which did not initially rely on the concepts of asset specificity and/or opportunism. The subsequent incorporation of such concepts helped bolster 'internalization theory'. The latter is mostly about efficiency and value creation and only incidentally about value capture. Hymer's early theory of the MNE addressed both efficiency/value creation and value capture through rivalry reduction/market power but emphasized the latter.

The RBV, DCV and entrepreneurship literature have more recently helped advance Hymer's theory of the MNE. There remains, however, significant scope for development, by incorporating ideas from the RBV, the DCV and international entrepreneurship. Other areas of potential development include the focus of the behavioural and agency theory of the firm on intra organizational conflict. Inter-firm cooperation and the relationship between competition and cooperation (co-opetition) should also receive more attention. Global strategy and the role of the demand side are important. Sustainability concerns, the natural environment and climate change ought to be centre stage. The globalization of labour and migrant remittances are important aspects of globalization which should receive more attention. In their relationship to climate change and global health, education and food and energy adequacy, as well as policies for transition to renewable energy (Pitelis, 2018; Pitelis et al., 2019), these are important research opportunities.

The special characteristics of the theory of the MNE, and by extension IB scholarship, are a strength, but can also be perceived as a weakness. They are a strength because of the wider research opportunities multinationality lends itself to in terms of challenging *themes and issues that can be unique to it*. It can be and is sometimes perceived as a weakness because its breadth and multidisciplinary nature makes it apparently harder to establish widely agreed *theories* that can also help inform other sub-disciplines. Our paper helps establish that the focus on multinationality helped Hymer develop an early strategic cross-border internalization theory of the MNE. This may also suggest that methodologically there is as much to be gained by starting from the general (international) and going to the specific (domestic) levels and

then back again, as well as the other way around. This questions a claim that because all firms today are in some way international, the theory of the MNE and IB should be seen as a subset of other, allegedly more general, sub-disciplines. This view might well have informed the gradual diminution of standalone IB departments, and it is worth challenging.

Besides its significant opportunities for development, the strategic theory of the MNE faces important challenges. Most important is that it has yet to explore systemic, multilevel sustainability, its foes (sometimes the MNEs themselves) and potential remedies. The latter involve issues of politics and geopolitics, regulation, stakeholder monitoring and multilevel governance. These are significant development opportunities. While beyond the scope of this paper, we hope other scholars will be motivated to address them.

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Equal contribution.

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The authors declare no conflicts of interest.

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N/A.

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