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Reflections on the Hymer thesis and the multinational enterprise☆

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Abstract

Understanding the economic function of the multinational enterprise remains a seminal issue. Almost half a century ago, Stephen Hymer initiated serious scholarly inquiry into the theory of multinational enterprise by positing that domestic firms needed special advantages to go global and succeed. However, he failed to fully unlock the foundations of the posited special advantages. Moreover, he sensed that multinational firms could not exist in a (theoretical) world of perfect competition, and wrongfully concluded that pernicious market power must be associated with the overseas activities of the multinational enterprise. This article examines Hymer's contributions and hints at the need for an (intangible) assets/capabilities based analysis of the multinational enterprise.

1. Introduction

This paper is an effort by the author to revisit the theory of the multinational enterprise (MNE) after almost three decades (Teece, 1981a, 1985, 1986b). In particular, I will endeavor to assess the contribution of Stephen Hymer. While recognizing Hymer's contributions—and in particular, his examination of MNE from an industrial organization perspective—at the same time it can be shown that elements of his paradigm, built as it was on the structuralist approach to industrial organization—has many of the shortcomings of that approach. Indeed, it led him to

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underplay important elements of the MNE, and to make policy errors with respect to the impact of the multinational enterprise on host and home countries.

I will also show that the internalization school[1], which is conceptually distinct from the Hymer/Kindleberger approach[2], is a more robust approach to the study of the MNE. This is particularly true once internalization concepts became embedded in broader frameworks such as Dunning's electric paradigm. As an organizing framework, internalization ideas have stood the test of time reasonably well.

However, because many national systems of production have became transformed by increased 'outsourcing' and 'offshoring' during the 1980s and 1990s (in part due to the global distribution of knowledge effectuated by the MNE itself), the theory of MNE needs to be modified to capture the essence of global enterprise and intra firm international trade today. In order to come to grips with the evolving nature of the multinational enterprise, the internalization framework and related approaches themselves need to be supplemented by a better understanding of the role of an enterprise's resources and also its dynamic capabilities.[3]

The modern corporation as we know it is multinational. Being multinational is no longer the preserve of large firms; moderately sized firms as well as quite small firms have global operations and employees and investments in multiple jurisdictions.[4] By definition, a MNE operates in the global marketplace. It may use a network of organizational units and subunits (e.g. divisions, offices), but if very small it may not be divisionalized at all and may consist of professionals coordinating their activities via the Internet and telephone. Larger MNEs have the ability to monitor and manage business units in multiple jurisdictions. This in turn requires a communication and control system that is global in its reach.[5] The MNE may or may not have a heavy commitment of fixed tangible assets abroad. The environments in which MNEs operate are likely (though need not) be more diverse than domestic environments. In particular, language, laws, customs, and cultures display more variability internationally than domestically. The essence of the MNE is that it accepts, adapts to, and capitalizes on institutional, cultural, and market heterogeneity while simultaneously trying to capture economies associated with leveraging some kind of (scalable) advantage in certain assets or processes it owns or is currently developing.

A robust theory of the business enterprise must be able to embrace its global scope. Indeed, a domestic enterprise is a special case of a multinational enterprise. Accordingly, the study of international business should not be divorced from the study of domestic business, and the theory of the multinational enterprise should not be a distant cousin to the theory of the business enterprise more generally. However, as discussed later, incomplete global integration leaves special issues and considerations which an entirely domestic view of the enterprise tends to ignore.

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[1] The internalization school began with Coase but was applied most enthusiastically and completely to the MNE by Buckley and Casson (1976), Rugman (1982), and others (see below).

[2] Hymer took considerable inspiration from his advisor and champion, Charles Kindleberger; hence I sometimes refer to the Hymer/Kindleberger approach to recognize the close association between the two.

[3] This is the subject of a related paper (in progress) by this author.

[4] New information and communication technologies and in particular the internet have lowered the costs of international interactions for small firms and large firms alike.

[5] A company that engages in international business by exports and imports, or by non–equity based strategic alliances, ought not be thought of as an MNE, despite the fact that their operations might have an international flavor.