Available online at www.sciencedirect.com
SCIENCE DIRECT®

International Business Review 15 (2006) 140–147

INTERNATIONAL BUSINESS REVIEW

www.elsevier.com/locate/ibusrev

Stephen Hymer: Three phases, one approach?

Peter J. Buckley *

Leeds University Business School, Maurice Keyworth Building, Leeds LS2 9JT, UK

Received 18 August 2004; received in revised form 3 November 2004; accepted 9 March 2005

Abstract

Stephen Hymer is a seminal figure in the development of the theory of the multinational enterprise (MNE). This paper argues that the three separate phases of his writing–his thesis (1960), his neoclassical 1968 paper and is later radical pieces–can be reconciled around the central core of the economics of the MNE and the attempt to build in a dynamic element.

Keywords: Multinational enterprise; Direct Foreign Investment; Globalisation; Internalisation theory; Marxist economics

1. Introduction

Stephen Hymer (1934–1974) is regarded as a seminal figure in the establishment of the theory of the multinational enterprise (MNE) and a founder of the academic subject of international business. This reputation is largely built on Hymer's thesis, written in 1960 (published only as Hymer 1976) but also on his later writings which, after Hymer's conversion to Marxism, took a critical view of the activities of MNEs and their impact on the world economy from the viewpoint of a radical economist.

This paper suggests that there were three phases in Hymer's work. The first phase was the 1960 PhD thesis, the second is a neoclassical phase represented by his strange 1968 paper in French in *Revue Economique,* and the third his 'radical phase'.

The intriguing question, which this paper explores, is whether these three phases are consistent, contradictory or non-overlapping sets.

* Tel.: +44 113 3434646; fax: +44 113 3434754.
E-mail address: pjb@lubs.leeds.ac.uk

0969-5931/$ - see front matter
doi:10.1016/j.ibusrev.2005.03.008

2. The three phases of Hymer's work

2.1. Phase 1: the thesis: the International Operations of National Firms (1960)

Hymer's thesis deserves the epithet 'seminal'. Its title is significant. Hymer saw firms as primarily national and their international operations were seen as expansions from their home, national, base rather as a firm might diversify from its original industry. This parallel is instructive.

In Hymer's view firms have a nationality in three senses. First, they have a legal nationality which provide legal constraints on the firm's behaviour. Second, most shareholders reside in a certain nation and the firm is obliged to pay dividends in a certain currency. Third, managers have a nationality and this may affect their allegiance and behaviour. Hymer's firms are committed to earning and (their shareholders) to receiving profits in their 'own' currency. Firms have a distinct, definitive nationality. They are in no sense 'global' firms.

Hymer made a profound and enduring distinction between portfolio and direct foreign investment. The distinguishing feature between the two is that direct foreign investment (DFI) implies control of the operation whilst portfolio foreign investment confers a share of ownership, but not control. This is important because the traditional theory of investment based on differential interest rates, after accounting for the risk premium, does not explain DFI. This profound empirical observation prepared the ground for a separate and separable theory of DFI. It was supported by the following stylised facts.

1. There was little, or no, correlation between high interest rates and inflows of DFI.
2. Cross DFI occurred. Firms of country A were investing in country B at the same time (and often in the same industry) as country B's firms were investing in country A.
3. Most DFI (in Hymer's observation period) was undertaken by firms of one nationality—the USA. Thus the motivation must be other than interest rate differentials.
4. There was distinct, definite pattern of industrial composition of DFI. Some industries were characterised by a great deal of DFI, others by little. And, DFI took place in both directions between countries simultaneously.

The motivation for DFI was the desire to control foreign operations. It was often profitable to control enterprises in more than one country in order to remove competition. Some firms have advantages in a particular activity and may find it profitable to exploit these advantages by establishing foreign operations. They need to do this in order to fully appropriate the returns from these advantages. The profits from these operations are related to control. A minor motivation relates to the diversification advantages of international operations. (In fact, DFI is a poor way to diversity. The need to control operations necessitates putting more investment in one location than would be dictated by an optimal portfolio, which would tend to be more widely spread.)

Hymer thus begins where the firm already has an advantage, developed in its home market. There are managerial or organisational advantages which favour centralised or at least unified decision making. The direction of DFI will also be influenced by the ease of entry into particular foreign locations.

Hymer further needed to explain why the firm does not license its advantage to a third party, given that the foreign firm necessarily incurs costs of operating in an alien environment. (The costs of information in operating in a foreign market he may have seen as a fixed cost.) Hymer's answer was made up of two parts. First, there is not necessarily joint maximisation of profits if