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# The unending embrace: Raymond Vernon, multinational enterprises, and national governments<sup>☆</sup>

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## Abstract

In this article commemorating Raymond Vernon, I make no attempt to summarize his expansive work on the nature and prospects of multinational enterprises (MNEs). Rather, I discuss three forces—rivalry, uncertainty, and time—that Vernon accentuated in his explanations of the behavior of MNEs. I then make brief observations about Vernon and methodology. Subsequently, I speculate on the following question: A hundred years from now, what single idea will Vernon be remembered for? Acknowledging the product cycle as a leading contender, I nominate and discuss (under the moniker “the unending embrace”) another candidate, one that dwells on the undulating tension between MNEs and governments. I conclude by flagging for future research some questions that that central idea raises. © 2000 Elsevier Science Inc. All rights reserved.

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The name Raymond Vernon is synonymous with that set of entities known as multinational enterprises (or MNEs). Certainly, the very length of time—four long decades—that he dedicated to the study and analysis of these enterprises must be part of the explanation. But more than that, I suspect it is Professor Vernon’s unrivaled depth of understanding of MNEs, so evident in his writings, that really explains why many of us might make reflexively this association between scholar and subject.

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<sup>☆</sup> Raymond Vernon mentored me, first as a doctoral thesis advisor, then as a co-teacher and co-author, and, eventually, as a senior colleague. My relationship with Professor Vernon spanned a short decade (1989–1999). For half that period I occupied a small office that was set next to his own. That granted me the privilege of daily contact with him from which I benefited immeasurably. In my remarks here, I draw upon my discussions with him and, of course, upon his writings. Also, I want to thank Robert Lawrence, Ilian Mihov, Jeffrey Reuer, and Lou Wells for giving me feedback on a draft of this article.

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In today's parlance, we might say that Vernon pioneered in developing a behavioral theory of MNEs. He was convinced that in the post-war context these entities had become important actors. To him their importance lay not only in the large role they were starting to play in international commerce, but also in the fact that they were pioneers in technology and marketing (the dimensions that in many respects made the advanced countries "advanced" and were, hence, important in their own right). Understanding the motivations and patterns of behavior of these enterprises was likely to be helpful, he felt, to public policy. But, with few exceptions, economists, he believed, were (for a variety of reasons including lack of interest and lack of tools) continuing in their work to neglect these enterprises. It was with these priors, it appears, that Vernon approached his inquiry into the nature and prospects of MNEs.

To Vernon the reality of MNEs was complex. Yet, among the various forces that shape the behavior of MNEs, three—rivalry, uncertainty, and time—held particularly central positions in his conception. And those forces feature in one or another form in most of his writings on the subject. In the section below, I want to discuss briefly those three forces (all of which he introduces in his 1966 product cycle article, and, which explain, I believe, in no small part the large success of that piece). I then want to make a few observations about Vernon and methodology. In the section after that, I want to offer my speculation on the following (slightly audacious) question: A hundred years from now, what single idea will Vernon be remembered for? While the product cycle must certainly be a leading contender, I will nominate and discuss (under the moniker "the unending embrace") another candidate, one that dwells on the undulating tension between MNEs and governments. I believe it is his insight on the latter that is likely to earn him intellectual immortality (alongside other economists such as Smith and Hayek). In the subsequent and last section, I flag some questions for future research that that central idea raises.

### **1. Three forces Vernon accentuated in his explanations of MNE behavior**

Scratch hard the strategic decisions of MNEs (e.g., the decision to multinationalize, choice of country, mode of entry, timing, sequence, decision to transfer production abroad, which product to produce abroad, which part of the value chain to establish abroad, etc.), and three forces—rivalry, uncertainty, and time—are likely to come visible. Various, as motivation, constraint, and context, the three forces tend to play prominent roles in explanations of MNE behavior. Vernon held this belief deeply and he imprinted them on his students and in his writing as well. I will discuss each of the forces briefly.

Rivalry with a stable set of well-identified counterparts (two to a few) was a defining force in Vernon's world of multinationals. It opened up several avenues of explanation. First, in terms of motivation, it heightened the importance of stability or the *status quo* as an implicit goal of executives that were running multinationals. Second, it gave a defensive hue to much of the behavior of MNEs. Thus, the move of one was followed by the imitative moves of the others. This defensive attitude was not inconsistent with (and in fact it could help explain) the follow-the-leader and exchange of hostages patterns that were not uncommon in the world of multinationals. Third, it promoted (and explained) what some refer to as "multi-point" competition. Entry by a multinational in a particular region or product might, considered on a

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