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Editorial

Stephen Herbert Hymer and/on the (theory of the) MNE and international business

The aim of this special issue is to celebrate, critically assess, build upon and extend the contribution of Stephen Hymer to the theory of the multinational enterprise (MNE) and International Business (IB) Scholarship.

We feel it is very important to do so. As, we hope, we will show, Hymer's was an extraordinary contribution, built upon a solid conceptual framework. On the basis of this framework, Hymer was able to raise questions of fundamental importance, provide answers and proceed to predictions, mostly of superior insight. It is arguable that his conceptual framework was at least in part responsible for his contribution. If so, accessing and improving his framework, is as important today as it was when Hymer was writing. In this sense his contribution is as useful today, as it was then, and is also a good starting point.

A second(ary) reason, is that we feel it is useful, particularly today, to have a 'disciplinary memory'. Current pressures on younger scholars to publish in a handful of top journals, themselves competing in part through citation impact factors, lead to increasingly shorter 'memories'. Following few references to those who are considered to have initiated a new area, other references tend to be focused mainly on the past few years, mainly in the same journals. This looks like an orchestrated effort to 'execute' scholarship and commit a (sub)disciplinary 'suicide'. This is particularly sad for a field, like IB, which, until now, has rightfully been proud of its open-mindness, inter-disciplinary and catholic nature and practice. Critically assessing the classics is particularly important in this context.

Arguably Hymer is *the* classic. He was not the first to write on, or about MNEs. Contributions by, for example, Dunning (1958) and Penrose (1956), pre-dated Hymer. However, unlike such giants, Hymer posed the fundamental question, why foreign direct investment (FDI) versus alternative modalities of foreign operations like, for example, licensing, tacit collusion, strategic alliances and the like. This is of course the famous Coasean question, applied to the case of FDI and the MNE. It is the question why internalize—a verb that Hymer used already in his 1960 thesis, see below. In this sense Hymer was the first 'internalization' scholar, for the case of the MNE. Neither Dunning (1958) nor Penrose (1956) had posed this question.

In his PhD thesis, completed in 1960 and published in 1976, Hymer distinguished between FDI and portfolio investment in terms of the higher degree of control conferred to the firm through FDI. The choice of FDI versus, for example, licensing was explained in terms of 'reduction of conflict' in international markets, benefits from exploiting monopolistic

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advantages intra-firm rather than inter-firm and 'risk diversification'. From the three reasons, Hymer felt the last to be least important because it did not involve control.

Already in 1960, Hymer paid particular attention to the reasons why intra-firm exploitation of monopolistic advantages was more profitable when intra-firm, rather than inter-firm. These involved the absence of suitable licensees (in today's terms thin or absent markets), different honest or dishonest perceptions of the advantage (in today's terms 'opportunistic' and non-opportunistic perception of the advantage's value) the possibility of post-contract bilateral oligopoly or monopoly problems (Hymer, 1976, pp. 12–29).

All the above sound very modern—some very 'internalization'-like. Following the emergence of the 'internalization' (due to transaction costs) perspective, notably by Buckley and Casson (1976) and Williamson (1981), there has been some controversy as to whether Hymer pre-dated 'internalization' or not. Kindleberger (2002), Hymer's PhD thesis supervisor, claimed that the new theories simply elaborate on ideas already in Hymer's thesis, others have claimed that in the thesis itself Hymer focused on structural market failures at the expense of natural (transaction-costs related) market failures (notably Dunning & Rugman, 1985).

There is clearly no question that already in the thesis Hymer posed the 'why internalize' question, indeed in these very terms: "The firm is a practical devise which substitutes for the market. The firm internalizes or supersedes the market." (Hymer, 1976, p. 48).[1]

Despite the 'quote', transaction-costs-type theorizing in the thesis was minimal, so at the time Dunning and Rugman's (1985) claim was in essence right. The unearthing of Hymer's (1968) article (in French) where he used Coase's transaction costs approach as extant theory of the firm, alongside more traditional oligopoly theory, led in turn to claims by Casson (1990), and Horagushi and Toyne (1990) that Hymer clearly predated transaction-costs/internalization analysis. For Horagushe and Toyne "the genesis of transaction costs as applied to the MNE can be traced to Hymer." (1990, p. 487)

This claim is now rather uncontroversial. In the 1968 paper, Hymer has explained both horizontal integration and vertical integration, along, explicitly, Coasean lines, indeed predating much of Williamson-type arguments, to include much of the jargon (e.g. specific assets, dishonest (today opportunistic) licensees, etc.)—all these are detailed in Pitelis (2002). Importantly, however, Hymer, went further in the 1968 article, also explaining FDI in terms of the speed advantages on intra-firm transfer of knowledge—an argument quite resource-based in nature, and reminiscent of Kogut and Zander's (1993) 'evolutionary theory of the MNE'.

In subsequent contributions, Hymer (1970, 1972, 1979) built-upon and extended his earlier ideas, to explain the 'macro-cosm' (of international political economy or in his terms 'multinational corporate capital') in terms of the 'micro-cosm' (of the MNE). In this context, Hymer:

1. built on Chandler and Redlich (1961) to propose a 'law of increasing firm size';
2. proposed the 'law of uneven development', between developed and developing countries (his 'core' and 'hinterland').

For Hymer the first 'law' would tend to eventually lead to global collusive oligopoly, while through a 'correspondence' principle, MNEs would transplant their vertical power structures to the

[1] In our mind the importance of this quote should not be overstated. It is important that the very way Hymer had posed the question was 'why internalize' (with the verb or not). As it happens, the use of the verb 'internalize' (and also the use of very Coasean terminology in the thesis) has led some scholars to revisit Hymer's contribution to 'internalization' (e.g. Teece, 2006).

globe, creating a vertical division of power between ‘superior and inferior’ states, cities and indeed peoples. This would generate conditions of dependent and uneven development. Hymer felt all these to be quite unsatisfactory and went on to propose that some sort of ‘central planning’ would be preferable to private planning by the MNEs.

Besides the above, Hymer (1970, 1972) used product/life cycle, theorizing (a push factor for diversification and internationalization of firms in mature industries), proposed an M-form hypothesis, in similar terms to Oliver Williamson’s (1981) subsequent analysis, and was first to predict externalization through subcontracting, at the very time he was observing internalization and growing hierarchies. He also predicted that internationalization of production would eventually lead to global capital markets and global governance (Hymer, 1979).

All these are, of course, very impressive, yet pose the ‘so what’ question. What is the value-added of suggesting that, let us say, Hymer and/or few others said it all? Should we idolize them, and stop researching further?

Besides some intrinsic value in giving dues where dues are due, avoiding the waste of resources involved in reinventing the wheel, and getting inspiration from major contributors, our answer to the ‘so what’ question is in terms of a research question. Namely, to the extent that the successes (or failures) of a scholar are due to his/her adopted (or developed) analytical framework, this framework should be critically assessed, updated and developed so as to build on the advantages, and eliminate, as much as possible, its disadvantages. Building on strength is a good way of developing and improving theory. Moreover, to the extent an author’s views and framework are a product of his/her time and epoch, exploring the relationship between the situation then and now, both in terms of developments in the global landscape and evolving scholarly thinking fashioning this relationship, could facilitate the development or the conceptual framework, which in turn would strengthen the theory. Such an approach, in the case of Hymer, is pursued in Dunning and Pitelis (2004) and will not be repeated here. Instead, we will eclectically draw on some links between Hymer-like contributions, methods and frameworks, in the lens of subsequent development and with the benefit of ‘hindsight’. We will then draw on this account to briefly put in context and introduce the various contributions in this special issue.

1. Life and work

Hymer was born in Canada in 1934, of an Eastern European, Jewish descent. His father was running a small family shop. He died in a car-crash, in 1974. During the short period of his life, he received solid education in Economics, completing his now famous thesis at MIT, under the supervision of Charles Kindleberger. At the time MIT refused to publish the thesis as a book, despite Kindleberger’s support, as it was not felt to be sufficiently analytical (the thesis does read rather descriptive/empirical and it is often sloppy—in part justifying the decision). When some virtues of the thesis were later realized (as being the first attempt to explain the MNE in terms of the theory of the firm and industrial organization, not just as portfolio investment) MIT eventually published it in 1976.

In his early life Hymer felt like an alien in a land of big business and government, and considered Canada to be more of a colony, but less of a state, due to the influence of American MNEs. He, thus, came to realize the importance of money as a social power (see Cohen et al., 1979; Pitelis, 2002). He became quite eminent during his life, extensively visited developing and developed countries, consulted widely, especially for governments and international organizations, openly declared to be a Marxist in 1967, and (yet) was able to join the editorial board of the *American Economic Review* (an icon of neoclassical economic orthodoxy, in 1974, the year of his death).

He suffered some disappointments in his professional life (he failed to get tenure at Yale, and according to Kindleberger (1984) was struggling to get his ideas published in top journals). Hymer was married with two sons and divorced in 1973.

The 1960s and 1970s were a period of radicalism with many people turning to Marxism. Hymer's background, his chosen topic and his times, made him a serious candidate to join the Marxist ranks, as indeed he did.

At the time, a leading contribution in Marxist thinking was Baran and Sweezy's (1966) famous book *Monopoly Capital*. A main claim there, already in Chapter 1, was that modern large corporations, were monopolizing markets, turning most modern industries into a variant of the neoclassical model of monopoly. Hymer had earlier come to this very conclusion directly from the neoclassical route, namely Bain's (1956) (whom he cites in the thesis) industrial organization-type analysis. Indeed, Hymer in 1960 is already close to being the neoclassical variant of Baran and Sweezy's Marxism, so for Hymer the intellectual step was an easy one.

2. Hymer's analytical framework

The framework is simple yet powerful. For Hymer firms pursue high profits. For products with high fixed costs, the more you sell the higher is the profit margin—this is an incentive to grow (eventually to internationalize). There are constraints, however. Expanding abroad involves costs (the now famous costs of being foreign). To offset these costs firms need monopolistic advantages. They derive these in the context of growing domestically (in the US). For Hymer the M-form, organization retained profits, and eventually, multinationality per-se are such monopolistic advantages (Hymer, 1970, 1972).

Through its control potential, FDI is a powerful means of cross-border expansion. First, because of the intra-firm transfer of advantages already discussed. Second, and importantly, because through the removal of conflict, MNEs could capture value through establishing collusive oligopolistic conditions in foreign (and domestic) countries, but also through interpenetration of investments globally. This would lead to a global monopoly situation, a major source of inefficiency in capitalism and a reason to replace it with something more benign. Given that a benefit of FDI was control, if firms could somehow retain control, but without internalizing, they could choose to externalize, e.g. outsource. This would shift the burden of production to subcontractors, while MNEs could maintain overall control, through, for example, ownership-control of intangibles, such as brand names, or some tangibles examples could be the Coca-Cola secret recipe, the colours of Benetton etc. (in Cohen et al., 1979).

To predict outsourcing already in 1971 is quite an achievement, and this is down to the analytical framework (i.e. value capture and/through production and transaction costs minimization) as well as Hymer's superior intellectual abilities. Arguably, it is also the limitations of his perspective (but also the then dominant neoclassical and Marxist theory/Marxist ideology) that are responsible for some of his major failures.

3. Some limitations

There are various such limitations. In his focus on 'value capture', Hymer ignored the issue of 'value creation'. For example, even if one accepts that global collusive oligopoly will be the outcome of MNE actions, an important question is how efficient was the process vis-à-vis alternatives. If firms acquire advantages through efficiency, then these should be considered. Differently put, is eventual global collusive oligopoly that resulted from efficiency-derived advantages, e.g. through innovation as good/bad as one without such efficiency advantages? Is it worse than 'perfect' competition without innovation? In brief, Hymer predicted a state, and ignored the nature and properties of the process. This is a major limitation.

The above pose the question whether advantages are purely monopolistic or also efficiency-based. Interestingly, Hymer himself did not question the efficiency advantages of MNEs, yet chose to focus on the eventual disadvantages of the equilibrium state. Subsequent writers, such as Dunning (1988), correctly renamed advantages to 'ownership', in recognition that these can be both monopoly and efficiency-derived. Penrose (1959) went further in claiming that advantages are definitionally derived at first efficiency ones, as they result from a process of endogenous growth that results from knowledge and innovation within firms. She went on to claim that in their attempt to capture value, firms could use 'impregnable uses' as well as outright monopolistic practices. Thus, the final state could be inefficient, but never the process. The potential inefficiency of any equilibrium state would call for suitable regulation by the state (Penrose, 1959; Pitelis, 2004).

The critiques above are in addition to the fact that eventual collusive oligopoly equilibrium is by no means a foregone conclusion (see Dunning & Pitelis, 2004)—at the very least this position fails to account for the fact that firms create and extend markets through their proactive behaviour, (another Penrosean concept which is missing from Hymer's rather static neoclassical (or Marxist) analysis). Market extension/creation makes 'global collusive oligopoly' more difficult to envisage/sustain.

Other limitations of Hymer's analysis/predictions involve him ignoring the role of small firms, the possibility of proactive government regulatory policy in developed countries, the possibility of developmental states in developing countries, his prescription for central planning. Dunning and Pitelis (2004) discuss these extensively. When it comes to central planning in particular, this does not follow from Hymer's framework, it seems to be in result of 'wishful' thinking, engendered by Marxist ideology (what Marxists called 'revolutionary optimism').

Post-Hymer, we have seen the fall of central planning in most 'existing socialist' countries. MNEs have gone on to develop more federated/heterarchical forms of internal organization, see for example, Birkinshaw (1997), and Hedlund (1986). Some born-global firms have appeared. So did the concept of 'meta-nationals' (see, Doz, 2004). Global 'alliance capitalism' (Dunning, 2005) has emerged, some developing countries have joined the club of the wealthy ones, especially in the Far East, FDI was concentrated in the developed countries in the 1980s, and more recently shifted to the developing ones, small firms and clusters have acquired prominence, governments of developed countries have improved their ability to implement regulatory policies that contribute to innovation and wealth creation. All these, and other shifts in the global landscape, and related advancements in scholarly thinking, are of importance in assessing Hymer. This is beyond the scope of this introduction (but see Dunning & Pitelis, 2004). Instead, we focus here on selected issues of relevance to more recent debates.

Hymer's external market opportunity/reduction of conflict (forces of competition)-based approach (also) pre-dates Porter's (1980) contribution to competitive strategy. Both suffer from a difficulty to account for internal firm resources and explain endogenous growth and (thus) the direction of expansion. Penrose's (1959) contribution is a natural extension and complement to Hymer's. Together they can serve as a more general theory of the firm and the MNE.[2] It is a great tribute to Hymer's insight that he also predated some resource-based ideas (in Hymer, 1968), but

[2] See Pitelis (2005), for a resource/knowledge-based OLI that integrates Hymer's and Penrose's thinking.

also explicitly built on Coase and used transaction-costs analysis (totally missing from Penrose). It is for these reasons too, that the two theorists together serve to provide a more developed analytical framework.[3]

Clearly, there are problems with the integrated Hymer–Penrose story too. For example, they both ignore intra-firm conflict, and pay no attention to intra-firm decision-making. In this context, we feel that future developers of the theory of the MNE should draw on Cyert and March's (1963). This is still in its infancy (see Pitelis, in press, for an early attempt). Instead other important linkages, e.g. with George Richardson's (1972) seminal contribution on inter-firm cooperation, and Nelson and Winter's (1982) evolutionary theory of the firm are already happening (see Mahoney, 2005, for extensive discussions).

Developments in this direction hold significant promise for the theory of the MNE. In the emergent, more complete, theory of the MNE, Hymer's original analysis will play a prominent role. Despite important limitations, Hymer had a powerful framework and a sharp analytical mind that allowed him to become the pioneer, and major contributor, indeed the father figure of the theory of the MNE, and International Business Scholarship.

4. The contributions in this issue

The various contributions in this special issue critically assess and extend Hymer's contribution, some in the direction suggested above, and some in different ones. In all, they point to the extraordinary influence of Hymer's views.

The first two contributions, by Bob Rowthorn and John Dunning, set the scene. Rowthorn had worked with Hymer and co-authored a well-known article on international rivalry (Hymer & Rowthorn, 1970). In his entry Rowthorn pursues some of the arguments raised there in view of more recent developments. Dunning had met Hymer twice. He uses his experiences from these two meetings and his personal 50-year-long wisdom in the field, to provide a unique appreciation of Hymer's views.

The following two papers, by David Teece and Peter Buckley, critically assess Hymer's contribution as a whole. Teece compares Hymer to more recent dynamic capabilities-based contributions and claims that these improve upon Hymer's earlier, rather static, analysis. Buckley addresses the issue of continuity and change in Hymer's thinking. He suggests that there were three phases in Hymer's work. The first was the 1960 PhD thesis, the second—a neoclassical phase represented by his strange 1968 paper in French in *Revue Economique*, and the third—his 'radical phase'. Buckley then explores the intriguing question of whether these three phases are consistent, contradictory or non-overlapping sets. He concludes in favour of the idea that there exists continuity in Hymer's thinking.

Graham follows with a comment on Buckley's paper. He welcomes the idea of continuity in Hymer's views, an idea in line with his own writings. He goes on to explore the issue of dynamics equilibrium and change in Hymer and in neoclassical economics. While neoclassical economic analysis largely sees the dynamics of economics as being a transition from one full equilibrium to another when 'shocks' occur to the system, Hymer saw that there was more to dynamic analysis than this (as did some of his neoclassical teachers at MIT).

[3] Kindleberger (2002 or 1984), and Horagushi and Toyne (1990) have previously observed the need to draw on Penrosean thinking and (for the last mentioned) combine Penrose with Hymer.

The two papers that follow consider the issue of post-Hymer developments in the internal organization of firms, and the implications for Hymer's analysis. While Hymer's era was dominated by hierarchical M-form organizations, post-Hymer we observed more federated, heterarchical forms of internal organization. Papanastasiou and Pearce observe changes such as the use of integrated supply networks, decentralisation of innovation and R&D and even of strategic decision-making. They also note, however, that Hymer foresaw the potential of supply networks and showed the technological feasibility of heterarchical 'grids'. Moreover, the predicted persistence of hierarchy, for Hymer, was a *choice* taken by MNCs to secure core-country control and the ability to appropriate surplus from the periphery.

On the other hand, Yamin and Forsgren pursue the argument that despite new organization forms, MNEs at least try to maintain control. Although Hymer's portrayal of the MNE was deficient in not fully appreciating the organizational complexities inherent in cross-border expansion, his contribution has also enduring value. Hymer's stress on power and its deployment to preserve control over strategy has an important bearing on certain developments in the organization of the MNE that the authors discuss.

The final paper, by Strange and Newton, is the first attempt, we are aware of, to test for Hymer's prediction of subcontracting. The authors claim that in contrast to more recent literature, Hymer sees subcontracting as a means by which MNCs might extend their control over production. They also try to demonstrate how Hymer predated the literature on Global Commodity Chain analysis, a key feature that is the explicit recognition that firms may exploit their ownership advantages without having to internalise productive activities, and yet may retain control over the essential aspects of the production process. The paper then tries to illustrate the applicability of these insights using the example of the global garment industry.

By appreciating, critically assessing and extending Hymer's views, we hope that this special issue contributes to the advancement of the theory of the MNE. Clearly, more is needed—we have hinted to possible directions. We sincerely hope that younger scholars will pursue such, and other leads, building on strength—the strength provided by pioneers such as Stephen Hymer.

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