THEORIES OF THE MULTINATIONAL ENTERPRISES – TWO DIFFERENT APPROACHES

OGREAN Claudia
Lucian Blaga University of Sibiu, Romania

HERCIU Mihaela
Lucian Blaga University of Sibiu, Romania

Abstract:

Multinational enterprises – as key determinants and results (in the same time) of the globalization process that characterize the economic world nowadays – know a lot of different approaches in the academic literature; this is a consequence of the refinement (in time) of the (firm's) internationalization strategies and practices – which is determined, at its turn, by the continuous dynamics and challenges of the world economy.

By this paper we would like to bring into attention two of these general theoretical frameworks; they were developed by Wladimir Andreff (into his 2003 book: Les multinationals globales), and Mats Forsgren respectively (into his 2008 book: Theories of the Multinational Firm). The main idea is to capture the essence of the theories of the multinationals on one hand (no matter if they claim their roots to be into the international business, theory of the firm or international management academic field), and to discover the particularities that each one of the theories and approaches emphasize, on the other hand.

Keywords: multinational enterprise, MNEs' theories, foreign direct investments (FDI)

1. Introduction

The *literature* in the field of multinational enterprises (talking about its roots, as well as its findings) is very rich, diverse and complex; the different approaches claim to a single theory or to integrative frameworks. So, we can mention: Axinn & Matthyssens (2002), Buckley & Hashai, N. (2009), Duran & Ubeda (2001) or Teece (2006) – on one hand, and: Ahiakpor (2001), Dunning & Lundan (2008), Hennart (2009) or Rugman & Doh (2008) – on the other hand. The general theoretical framework proposed by Wladimir Andreff into his 2003 book *Les multinationals globales* in order to explain the evolution and realities of the MNEs is particularly a diachronic one; five theories of MNEs have contributed to the crystallization of this approach within the last half of century. On the other hand, the Mats Forsgren's approach developed into his 2008 book *Theories of the Multinational Firm* is counting on six different tales about MNEs, each one of them emphasizing on one key dimension defining a MNE; this approach also took into consideration more than four decades of theories about MNEs.

2. Multinationals: a theoretical pluralism – Wladimir Andreff's synthetic approach.

During the last half of century there has been identified about five classes of different theories as they are summarized by *Wladimir Andreff* (2003):

2.1. The international economy of multinationals *– founded on the comparative advantages of nations.* As Andreff argues, the first general explanation for the MNEs was developed based on the *neoclassical theory of international specialization of countries*; its main conclusion is there is a strong *substitution relationship* between trade and FDI – meaning that this theory can not explain them both in the same time. In order to get out of this dilemma, the hypothesis of the perfect competition has to be abandoned and replaced with *tariffs*: if within the *Heckscher-Ohlin-Samuelson* model, a monopolistic firm reacts to the rising of tariffs by raising its prices, FDI and end re-exporting of goods from the foreign subsidiaries to the home country.

2.2. The industrial economy of multinationals *– emphasizing on the competitive advantages of industries and firms*. Based on Vernon's article treating the *international life cycle of the new product*, most of the *new and innovative* (American, on his analyze) *products* follow a predictable commercial cycle: *introduction* – when the new product is launched on the domestic market by innovative firms; *growing* – when exports growth and competition intensifies on external markets (the product is also made by foreign firms, while the original innovative firms involve themselves in IDS, still having the technological monopole); *maturity* – when the decreasing of exports made by the innovative nation is happening in parallel with the extension of the production standardization at international level; *declining* – when the former innovative nation becomes a net importer of the product.

2.3. The institutional economy of multinationals *– based on firm specific advantages. (a). The specific advantage*: within an imperfect environment, firms learn how to plan, to coordinate and to evaluate their international activities and branches, so they substitute imperfect markets with *organization* – that becomes their *specific advantage*, which can be transferred abroad and valorized. *(b). Internalization and the transaction* costs: according to Andreff, Hymer was the first who referred to the *internalization theory* and to the *transaction costs* in order to explain the existence of the *big multinational*: FDI are nothing but international transfer of capital, while the MNE is a way to extend the managerial control of the activities abroad and to coordinate them. *(c). The eclectic theory*: it is based on the *OLI paradigm*, which describes the three types of advantages needed to become a MNE: firm specific advantages coming from intangible assets (O), the abroad location advantage (L) and the advantage of internalization (I). FDI are chosen when a firm simultaneously reunites all the three advantages. The state, as well as the MNE could influence the three factors.

2.4. The systemic economy of multinationals – *explaining the MNEs development in relationship with the process of economic globalization.* Among the precursors of this approach is cited Hymer, who argued in 1972 that MNEs organize the world, in such a way that the hierarchy of the national economies is made based on the organization of power within the MNEs. The *global industry* that Michael Porter talks about contributes also to the systemic analysis of the role of MNEs. The industry is not so munch global, because it is composed by MNEs with centralized networks of international subsidiaries but competition, on the other hand, is really global, and so is the integration of the firm activities, and not necessary its capitals. The global network, transboundary, able to supply a personalized production for each country, is the one that characterize the *globalized economy*.

2.5. The investment development path – *an explanatory model of the FDI that is relating them with the development level of the (host and origin) countries.* Dunning has proposed a synthesis theory arguing that countries follow a path of FDI inward and outwards according to their level of development; the three types of OLI advantages change accordingly. In the first phase, the least developed of the developing countries have no FDI inwards or outwards. In the second phase, the developing countries have much more FDI inflows than outwards; in the third phase, host countries have increasingly MNEs, the FDI outwards come closer, step by step, to the FDI inflows, and than exceed them. The fourth phase belongs to the most developed of the developed countries (the Triad), whose MNEs have the three advantages, generating a net FDI outflow. The fifth phase is one of convergence toward similar in and out FDI flows, as long as the economic development levels between the developed countries come closer and their advantages are converging.

3. Theories of the Multinational Firm. A Multidimensional Creature in the Global Economy – six perspectives proposed by Mats Forsgren.

Analyzing the theories of the MNEs that have been dominated the last four decades, *Mats Forsgren* (2008) has developed six tales of the “phenomenon we call a multinational firm”:

3.1. The Dominating multinational: a tale of market power – according to the author, this is ”the first theory on FDI, developed by the economist Stephen Hymer. It *applies industrial organization theory to FDI and is the first attempt to develop a model at the firm level*. It has had a tremendous impact on all later theory development in the field and can be seen as the origin of all modern thinking about multinational firms.”

3.2. The Coordinating multinational: a tale of cost efficiency – Forsgren reveals that ”this model is first of all an application of transaction cost economics to the multinational firm. It argues that *the existence of multinational firms reflects difficulties in the market in handling certain transactions between independent firms. Multinational firms internalize such transactions and coordinate them across borders*.”

3.3. The Knowing multinational: a tale of value creation – this theory, as the author emphasizes, ”develops further a basic premise in the former theories: the necessity of a multinational firm to possess a competitive advantage. (…) It argues that *the never-ending process of creation of such firm-unique values is an important explanation for the existence and behaviour of multinational firms. This approach is firmly rooted in the so-called resource-based view* or knowledge-based view of the firm.”

3.4. The Designing multinational: a tale of strategic fit – by this kind of approach, Forsgren argues that ”the view is *that multinational firms can exist in the long run if, and only if, they have the ability to adapt their organization and control system to changes in the environment*. In contrast to the former theories, this approach puts the environment of the multinational firm much more at the centre of the analysis. *Contingency theory is the basic platform for this analysis*.”

3.5. The Networking multinational: a tale of business relationships – for this theory, as the author mentions that ”The environment is first of all defined in terms of business relationships with customers, suppliers and other counterparts. This approach claims that the *business network, in which each subsidiary is embedded, has a profound impact on the <<internal life>> of the multinational firm in terms of decisions about strategies and future investments*. *Business network theory and resource dependence theory are the foundations for this approach*.”

3.6. The Politicizing multinational: a tale of legitimacy and power – this theory insists mostly on the political side and role of the multinational firm (at the expense of the economic ones). Forsgren outlines that ”this approach *focuses the different institutional environments that the multinational firm has to handle but also the possibility for the firm to influence these environments through different means. Its inspiration is institutionalization theory*.”

At the end of the book, Forsgren brings together the six tales describing the multinational enterprise seen as ”a beauty or a beast in the global economy” by comparing some dimensions defining MNEs one by one: source of theory, core ability as a multinational firm, organization view, critical role of headquarters, main characteristics of the environment, welfare implications.

4. Conclusions

The two theoretical models that we have taken into consideration by this paper – which belong to *Wladimir Andreff* and *Mats Forsgren* – have (both) the merit to be synthetic frames that: **(a).** bring together more decades of studies explaining the theories of MNEs evolutionary (on one hand) and **(b).** try to catch like kaleidoscopes all the facets of these complex realities of nowadays, the MNEs (on the other hand). They also serve as basis for future research – as long as MNEs have become huge actors of the global scene, the main determinants and consequences of the globalization process (with its whole plethora of good and bad, pro and cons).

5. Acknowledgement

”This work was supported by the project "Post-Doctoral Studies in Economics: training program for elite researchers - SPODE" co-funded from the European Social Fund through the Development of Human Resources Operaţional Programme 2007-2013, contract no. POSDRU/89/1.5/S/61755.)”.

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