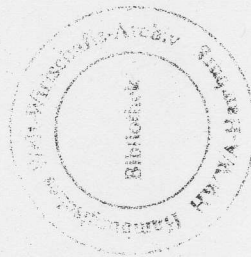


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The Multinational Enterprise and the Globalization of Knowledge

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With a Foreword by Edward M. Graham



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The Research Agenda in International Business: Back to the Future

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Introduction

This chapter is intended to celebrate the achievements of international business researchers and to point the way forward for further developments. In part, it is a response to the challenge laid down by Buckley (2002) in the piece 'Is the international business research agenda running out of steam?' Others have risen to this challenge as we will see (Buckley, 2004a, b).

Received theory: the contribution of international business theorists

Until the 1960s, mainstream economists treated transnational corporations (TNCs) as simply investors of capital, moving equity from countries where returns were low to those where it was higher (Jones, 1996). A major theoretical breakthrough came in 1960, when Stephen Hymer expressed his dissatisfaction with the theory of portfolio capital transfers to explain the international operations of firms. Hymer stated that many of the predictions became invalidated once risk and uncertainty, volatile exchange rates and the cost of acquiring information and making transactions were incorporated into classical portfolio theory. This was because market imperfections altered the performance of firms and their strategy in servicing foreign markets (Dunning, 1993). Although Hymer had written his thesis in 1960, it was only – posthumously – published in 1976, because his work was largely ignored until Kindleberger (1969) took it up. Follow-up developments to refine and test the Hymer-Kindleberger hypotheses were only carried out in the early 1970s.

Hyer was also the first to recognize that FDI involved the transfer of a package of resources, such as technology, management skills and entrepreneurship, and not just capital. The most fundamental characteristic of FDI was that it involved no change in the ownership of resources, whereas indirect investment was transacted through the market. Hymer's identification of the international firm as a firm that internalizes and supersedes the market provided a useful prologue to the theory of internalization (see below) as a means for transferring knowledge, business techniques and skilled personnel (Hymer, 1976).

However, Hymer's work is best known for its application of an industrial organization approach to the theory of international production. Local firms were assumed to possess superior knowledge about the host country markets, resources, legal and political system, language and culture, and all the many other things which distinguish one country from another. As far as this is true, foreign firms would have no incentive to locate in that market or have the ability to survive in it without an advantage. Hymer extended Bain's work (1956) on the barriers to competition in domestic markets to explain the international activities of firms. He argued that such firms had to possess some kind of proprietary advantage. This reasoning led to the view that a foreign firm required competitive advantages over its local rivals to overcome the liability of foreignness (Hymer, 1976). These firm-specific advantages, or ownership advantages, because they are exclusive to the firm owning them, imply the existence of some kind of structural market failure.

Hymer examined the kind of ownership advantages that firms might possess or acquire, as well as the kind of industrial sectors and market structures in which foreign production was likely to be concentrated. Firms can possess any number of ownership advantages when they operate in a foreign market and the type of ownership advantage will differ considerably according to the products and industries. Within manufacturing, superior technology and innovative capacity are especially important in the case of production goods, while product differentiation will often be more relevant for consumer goods (Jones, 1996). Ownership advantages can be generated internally within the firm, or acquired by licensing a technology from a foreign competitor or buying a foreign firm. Transnationals could not only exploit perceived market imperfections, but could use their ownership advantages to create market imperfections themselves (Caves, 1971).

Hymer himself was also interested in the international expansion of firms as a means of fostering their monopoly power, rather than of reducing costs, improving product quality or fostering innovations.

In his later publications, Hymer (1968, 1970) did appear to acknowledge that TNCs might help to improve international resource allocation by circumventing market failure. As such, Hymer's work was a point of departure for the more rigorous work of the internalization economists in the following decade.

Despite the invaluable contributions of Hymer, Kindleberger and Caves, the credit for transforming internalization into a theory of international production is usually attributed to Buckley and Casson (1976). They placed the work of Coase (1937) on the multi-plant firm in an international context. Parallel to the internalization theory, Oliver Williamson developed transaction-cost analysis (Williamson, 1975, 1979, 1985), which was later applied in an international context by Teece (1981, 1982, 1985) and Hennart (1982). While traditional economic reasoning concentrates on the consequences of changes in sales revenues and production costs, transaction-cost economics focuses on factors that influence the choice of foreign operation methods – which are mainly regarded as a question of the degree of control the firm should have over a foreign operation (Anderson and Gatignon, 1986). The underlying logic and analysis of the two approaches are characterized more by similarity than any substantial differences (Rugman, 1980).

Transaction-cost theory provided a different perspective on the reasons for the growth of TNCs. The fundamental insight is derived from the pioneering article by Coase (1937) on the boundaries of the firm. He argued that firms and markets represent alternative methods of organizing production. This theory suggested that the market is costly and inefficient for undertaking certain types of transactions. For instance, the costs of discovering relevant prices and in arranging contracts for each market transaction constitute the transaction costs of the market. Firms will internalize transactions whenever they can be organized and carried out at a lower cost within the firm than through the market.

This theory attracted little attention from economists until the 1970s, when it was extended and refined by Oliver Williamson (1975, 1979, 1985). Williamson suggested that transaction costs could be examined systematically in relation to three factors, namely bounded rationality, opportunism and asset specificity. Bounded rationality means that people invariably make less than fully rational decisions. Opportunism refers to the possibility of people to cheat or engage in misrepresentations. Asset specificity reflects the extent to which certain types of transactions necessitate investments in material and intangible assets such as knowledge. If it is difficult to measure the value of goods and services, and if the opportunities for bargaining and dishonesty are therefore

high, there is an incentive to replace the market by hierarchy. The combination of bounded rationality, opportunism and asset-specificity produces the strongest incentive to internalize a transaction rather than to use arm's-length market contracts.

Internalization is concerned with imperfections in the markets for intermediate products, including technology, organizational know-how and marketing skills. The theory proposes that firms invest abroad because the transaction costs incurred in international intermediate product markets can be reduced by internalizing these markets within the firm. Internalization theory can be used to explain patterns of both vertical and horizontal integration across borders (Casson, 1987b). The internalization of tangible intermediate product flows between upstream and downstream production explains vertical integration between mining and manufacture, agriculture and food processing, component production and final assembly (Hennart, 1991). The internalization of intangibles such as knowledge and reputation can explain patterns of cross-border horizontal integration. Internalization also avoids the difficulties of determining market prices and the proprietary problems associated with arm's-length transactions. Moreover, internalization may allow the company to circumvent government-created market imperfections including trade barriers, differences in tax systems and levels, and restrictions on capital movements.

Although internalization is a deviation from perfect markets, the internalization of firm-specific advantages constitutes an internal transfer of intangible assets that might not take place otherwise. By replacing inefficient or non-existent external markets with internal ones, or by overcoming government-created market distortions such as tariffs, taxes or exchange rates, TNCs produce a more efficient allocation of resources globally (Casson, 1987a). Thus, to the internalization theory, TNCs represent an integrating and welfare-enhancing force in the world economy rather than a source of collusion, monopoly and dependence as argued by, for instance, the global-reach school.

By the late 1970s, the global-reach school (Barnett and Müller, 1974; Lall and Streeten, 1977) was increasingly challenged from the more liberal economic perspective of the internalization school, which believed that TNCs benefit developing countries especially because market imperfections can be expected to be more widespread in developing countries than in industrialized countries. In particular, markets for intermediate products such as technology, capital and supporting services do not function well in many developing countries. More specifically, in internalization logic, FDI may assist developing countries

through the provision of capital, through the inflow of technology, and managerial know-how, and, finally, through their impact on the creation of efficient markets (Buckley, 1985). All these effects derive essentially from the fact that TNCs provide resources that would not otherwise be available in developing host countries (Blomström, 1991; Blomström and Kokko, 1996a); for example, TNCs often have privileged access to capital from the international banking sector (Lipsey, 1999), so that the presence of TNCs thereby gives developing countries access to capital that would not otherwise have been available. By providing developing countries with an inflow of investment capital and foreign exchange, TNCs may help in adjusting some of the macroeconomic imbalances that frequently are major impediments to growth in developing countries.

One of the most frequently cited intangible competencies transferred through FDI is technology (Blomström et al., 1992; Blomström and Kokko, 1996b). Technology transfer can trigger and speed up economic development; for instance, by facilitating the production of goods with higher value-added content, by increasing exports and improving efficiency. TNCs possess the bulk of all patents worldwide, most of the world's R&D takes place within TNCs, and TNCs own many of the technologies that are pivotal to economic and industrial development (Hansen, 1998). Often these technological competencies cannot be obtained in the marketplace (for example via licensing), and FDI may therefore be the fastest, most efficient, and sometimes only way for developing countries to get access to these competencies. TNCs can also play a central role in the transfer of know-how, knowledge and experience to the local workforce through its employment of indigenous professionals and managers (Blomström et al., 1994).

TNCs provide highly efficient organizations that are characterized by a high degree of managerial efficiency arising from training, higher standards of recruitment, effective communication with the parent company and other subsidiaries, and a more global outlook. By virtue of these characteristics, they are able to think strategically on a global scale and to organize complex integrated production networks (Hansen, 1998). The integration into this transnational production network can give developing countries advantages (Blomström et al., 2000). TNCs bring with them improvements in storage, transport and marketing arrangements leading to cheaper delivery, better quality of products, and better information about products to consumers. More importantly, developing countries will be able to use the worldwide marketing outlets of TNCs, selling products where huge marketing investments would

otherwise have been required. Hence, the presence of TNCs may assist developing countries in penetrating foreign markets.

At the macro level, the internalization logic would imply that FDI by TNCs may encourage governments to adopt more rational and competitiveness-oriented economic policies (Dunning and Narula, 1996). At the micro level, TNCs may produce various spillovers on the host economy. Two types of spillovers from MNE activity in developing countries have been identified, namely intra-industry spillovers and inter-industry spillovers (Blomström and Kokko, 1996). Intra-industry spillovers are effects such as those that improve the competitiveness of national industries by forcing inefficient companies to adopt more efficient methods and invest in improvements of their assets. The presence of TNCs may force local companies to become more efficient and introduce new technologies earlier than they would otherwise have done (Kokko, 1994). They diffuse competencies when trained employees move to local companies where those skills are in short supply, and speed up technology transfer by forcing local companies to get hold of those technologies. Inter-industry spillovers are effects on suppliers and customers, as the growing use of subcontractors and suppliers by TNCs encourage backward spillovers in terms of diffusion of the standards, know-how and technology of TNCs. The entrance of TNCs may improve the technology and productivity of local firms, as they demonstrate new technologies, provide technical assistance to their local suppliers and customers and train managers and workers (Hansen, 1998).

Stephen Magee (1977a, b), in a more detailed examination of technology as valuable intangible asset, was primarily interested in the internalization of the market for technology. According to Magee, TNCs distinguish themselves as specialists in the production of advanced and complex products and are better equipped to appropriate the revenues of sophisticated information and knowledge (Calvet, 1981). Magee argued that the incentive for firms to internalize the market for technology varies over time. As such, firms were unlikely to sell their rights to new and idiosyncratic technology because the buying firm was unlikely to pay the selling firm a price that would yield at least as much economic rent as it could earn using the technology itself, and because the licensee might use the technology to the disadvantage of the licensor, and even become a competitor. As the technology matured, however, and lost some of its uniqueness, the need to internalize (or 'appropriate' in Magee's parlance) its use decreased and the firm would consider switching its modality of transfer from FDI to licensing (Dunning, 1993).

In a similar yet contradictory vein, the process of gradually increasing involvement in foreign markets has been a widely noted phenomenon especially in Scandinavian (mostly Swedish) studies (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Luostarinen, 1979; Welch and Luostarinen, 1988). Two types of increasing involvement are often implied: an increasing involvement in any one foreign market through an orderly process of exporting, agency establishment, sales subsidiary, and finally production subsidiary with the possible intervention of a licensing or other contractual form also being included. Second, orderly stepwise penetration of different foreign markets beginning with the closest market in terms of psychic distance (Hallen and Wiedersheim-Paul, 1993) and often physical distance, gradually extending to more distant and therefore more difficult markets. The proponents of the model hypothesize that commitment to internationalization increases with each further step into the international arena. There is a feedback relationship between the level of internationalization and commitment to further internationalization. Many longitudinal, cross-sectional and case studies show that a growing international awareness in managers is a major motivating force in overcoming barriers to internationalization, and psychic barriers are perceived to be lower as internationalization proceeds. These stages are often tied to hypotheses on the learning of firms. At each stage, the firm acquires knowledge of the market, or it can transfer lessons learned in one foreign market to another (Newbould et al., 1978).

It is obvious that internationalization patterns are influenced by the previous stages in the internationalization of the company. The key barriers identified in stage models are the lack of knowledge and of resources, and thus their applicability to smaller firms is likely to be stronger. As such, barriers to internationalization as seen by a small inexperienced firm will be easily overcome by a well-established transnational (Vermeulen and Barkema, 2002). This means that different firms enter a market in different ways and at different moments in time. This is acknowledged by proponents of the Uppsala model who expect jumps in the establishment chain of firms with extensive experience in other foreign markets. The stages approach finds an echo in models of foreign market servicing because such models attempt to establish the conditions under which a firm will service a foreign market by a particular method (Telesio, 1979; Contractor, 1981). The generic methods are exporting, licensing and foreign direct investment. Each of these methods has a variety of subtypes, and the interactions between the methods are, in practice, very important.

Exporting is separated from the other two main forms of foreign market servicing by the location factor in that the bulk of the value-adding activities takes place in the home and not in the foreign market. International licensing appears to combine the best of both worlds; that is, the advantage in technology and skills of the licensing transnational plus the local knowledge of the licensee. However, the same might be said of an international joint venture. The choice between licensing and direct investment is crucial in illustrating the choice between licensing, an external market solution, and direct investment, an internal solution (Buckley and Casson, 1976, 1981). The major motives for conducting foreign direct investment are market-oriented, cost-oriented and, for control of key inputs, either low-end (for example raw materials) or high-end (for example strategic assets).

Buckley and Casson (1976) used a cost-benefit analysis to suggest an internationalization path. Their claim was that, in normal conditions, the fixed costs associated with licensing are lower than those resulting from FDI. They are, however, higher than exports because of the need to guarantee that the licensing agreements are respected by the licensees. Since the opposite happens with variable costs, market-servicing tends to follow the sequence: exporting–licensing–FDI. Buckley and Casson (1981) added that the switch in modes of market servicing is also affected by the life-cycle of the product, the firm's familiarity with the foreign market, and the firm's degree of internationalization.

Vernon and his followers at Harvard were the first to acknowledge the relevance of trade theories to help explain MNE activity. Vernon used the product life-cycle to explain the foreign activities of TNCs (Vernon, 1966). His starting point was that in addition to immobile natural endowments and human resources, the propensity of countries to engage in trade also depended on their capability to upgrade these assets or to create new ones, notably technological capacity (Dunning, 1992). In order to introduce the dynamics of technological change into the Heckscher–Ohlin model, the product life-cycle theory was applied to international capital flows. It was argued that firms based in high-wage countries had a greater propensity to develop new products because of high per capita incomes and high unit labour costs in their home economy. The model suggested that when a new product was developed, a firm normally chose a domestic production location, because of the need for close contact with customers and suppliers, because of uncertainties concerning the production and because of low price elasticity of the product. As a product matures, the technology becomes more difficult to protect and as price elasticity grows, long-run production runs

based on established technology become possible. The firm will begin to look for lower-cost production locations in other industrialized countries with bigger market opportunities. The decision to invest is seen as a strategy to sustain technological and managerial advantages before they become diffused in overseas markets. Vernon's original article (1966), for instance, focused on post-war US investment in Europe. When it became economic for US companies to invest abroad, Western Europe was the preferred choice of location since demand patterns were close to the USA and labour costs were relatively low at that time. When the product enters its standardized phase, the lowest-cost supply point becomes a priority, and production can be transferred to developing countries, replacing exports from the parent company or even exporting back to the country of origin (Vernon, 1966). The third stage of evolution is referred to as the standardized product stage. Both the product and the production process are now completely standardized, while there is pressure to be price competitive in the face of this increased competition. In order to decrease the product's price, production costs must be reduced, particularly if the process is labour-intensive. Because the product and the production process are standardized, the company can now relocate manufacturing operations to a low labour-cost country. The strategy is to serve both the home and developed countries' markets from these developing countries.

Although the international trade literature on FDI has developed separately from development economics, it embodies a host of implications for economic and social development. Essentially, these implications derive from the fact that international trade theory tends to assume that market forces ensure an efficient allocation of resources internationally to maximize welfare. The point of departure for arguing that FDI is welfare-enhancing is that some countries are well-endowed with conditions conducive to certain types of FDI. Roughly, developing countries will attract capital in labour-intensive or natural-resources-intensive sectors, as these are the sectors where they enjoy comparative advantages vis-à-vis industrialized countries. An international relocation of capital and productive resources in these sectors will enhance global welfare and facilitate the process of adjustment in both the host and the home country. The inflow of capital to developing countries will make more investment capital available and thus speed up development, and it will provide badly needed foreign exchange. Moreover, by providing a bundle of well-learned and tested managerial skills and technology, FDI will enable the host country to exploit its comparative advantages more efficiently. The most important effect on developing countries will, according to this

perspective, be that FDI is trade-enhancing, in that FDI will enhance production and export capacity.

The product life-cycle theory of FDI introduced dynamics to the theory of comparative advantage, arguing that developing countries will enjoy comparative advantages with regard to mature and especially standardized products. Consequently, technology transfer through FDI will mainly take place where the products that the technologies are associated with are in the mature stages of the product cycle. This process favours developing countries in that they would get access to technologies without experiencing the mistakes and costs associated with the introduction of new products. Moreover, the product-cycle theory predicts that TNCs might assist developing countries in getting access to international markets. Mature products are subject to significant barriers to entry, especially at the marketing stage, and TNCs can help developing economies overcome these barriers. The influence of Vernon's original model goes way beyond its original application to the development of US direct investment in Europe and in the cheap labour countries, and beyond Vernon's own Mark II appraisal of its usefulness (1979) in response to critics (Giddy, 1978). The dynamics of the model lies in the interaction of the evolving forces of demand patterns and production possibilities. The twin rationales of cost imperatives and market pull are simply explained in Vernon's model. In some ways, its simple yet powerful dynamic, resting on the interaction of demand and supply over time, has never been improved (Buckley, 1993; Buckley and Casson, 1981).

A group of Vernon's doctoral students, notably Knickerbocker (1973), Graham (1978) and Flowers (1976), argued that the spatial distribution of the economic activity of firms resulted from their strategic response to locational variables and to the anticipated behaviour of their competitors. Knickerbocker (1973) argued that oligopolists would normally follow each other into new and foreign markets to safeguard their own commercial interests. This so-called bandwagon effect can be triggered not only by decisions of competitors but also of customers deciding to establish themselves in a certain market. Empirical evidence supports the follow-my-leader idea that FDI is subject to bunching. For instance, an analysis of FDI by US TNCs in European manufacturing industry in the 1960s seemed to support the hypothesis (Flowers, 1976). There has also been a stampede of Japanese TNCs in the US and European auto and consumer electronics industries (De Beule and Van Den Bulcke, 2001). Graham's (1978) tit-for-tat hypothesis is that a TNC, which found its home country invaded by a foreign TNC, would retaliate by penetrating the invader's home market.

An organizing framework – incorporating different theoretical approaches – has been put forward by Dunning in his eclectic paradigm in which he attempts to explain all forms of international investment (Dunning, 1979, 1993, 2001). The eclectic paradigm maintains that firms will engage in international production if they possess ownership advantages in a particular market to overcome the liability of foreignness; if an enterprise perceives it to be in its best interest to add value to these ownership advantages rather than to sell them to foreign firms; and if locational advantages make it more profitable to exploit these assets in a particular foreign location rather than at home.

In explaining the growth of international production, several strands of economic and business theory assert that this is dependent on the investing firms possessing some kind of unique and sustainable competitive advantage (or set of advantages) relative to that (or those) possessed by their foreign competitors. Since the 1960s, the extant literature has come to identify three main kinds of firm- or ownership-specific competitive advantages. A first set are those competitive advantages relating to the possession and exploitation of monopoly power, as initially identified by Hymer (1976) and Bain (1956) and the industrial organization scholars (Caves, 1971, 1980; Porter, 1980, 1985). These advantages stem from some kind of barrier to entry in final product markets to (potential) competitors.

A second set of ownership advantages consist of a bundle of scarce, unique and sustainable resources and capabilities, which essentially reflect the superior technical efficiency of a particular firm relative to those of its competitors. The identification and evaluation of these advantages have been one of the main contributions of the resource-based (Wernerfelt, 1984; Dierickx and Cool, 1989; Barney, 1991; Conner, 1991; Conner and Prahalad, 1996; Montgomery, 1995) and evolutionary theories of the firm (Nelson and Winter, 1984; Cantwell, 1989, 1994; Dosi et al., 1988, 2002; Saviotti and Metcalfe, 1991; Teece et al., 1997).

The basis of the resource-based view of the firm is that it is the heterogeneity, rather than the homogeneity, of its resources that gives each firm its unique character. As such, resource-based views of the firms tend to see differences across companies as the result of differences in efficiency, rather than differences in market power (Montgomery, 1995). In explaining these differences, resource-based theorists tend to focus on resources and capabilities that are long-lived and difficult to imitate (Conner, 1991). In the resource-based view history matters, profits are persistent, and change most often occurs slowly and incrementally (Peteraf, 1991).

The evolutionary theory of the firm has a similar focus but pays more attention to the process or path by which the specific ownership advantages of firms evolve and are accumulated over time (Dunning, 2000). In contrast, or in addition to internalization theory, it tends to regard the firm as an innovator to promote its long-term prosperity, rather than an organizer of transactions to optimize the efficiency of existing resources. Evolutionary theory is a dynamic theory which seeks to explain the diversity of firms. It thereby concentrates on the firm's long-term strategy towards asset protection and augmentation, and the implications for its routines and the development of their dynamic capabilities (Nelson and Winter, 1984; Teece et al., 1997).

A third kind of firm-specific advantages are those relating to the competencies of the managers of firms to identify, evaluate and harness resources and capabilities from all over the world, and to coordinate these in a way which best advances the long-term interests of the firm. Organizational scholars have stressed that these advantages tend to be management-specific rather than firm-specific (Prahalad and Dox, 1987; Bartlett and Ghoshal, 1989). While the focus of interest is similar to that of the resource and evolutionary theories, the emphasis of organizational-related theories is on the capabilities of management to orchestrate and integrate the resources it can internally upgrade or innovate, or externally acquire, rather than on the resources themselves. The objective is assumed to be as much directed to the growth of assets as to optimizing the income stream from a given set of assets (Dunning, 1998).

The eclectic paradigm has also included location advantages of countries as a key determinant of the foreign investment of transnational corporations. Location advantages include the spatial distribution of natural and created resource endowments and markets, input prices, quality and productivity (for example labour, energy, materials, components, semi-finished goods), economic system and strategies of government, such as commercial, legal, educational, transport and communication provisions, as well as ideological, language, cultural, business and political differences (Dunning, 1981, 1988, 1992; Ghoshal, 1987).

While the observation that location-specific characteristics matter to firms is hardly novel (Smith, 1776; von Thünen, 1826; Marshall, 1890), for the most part neither the economics nor the business literature has given much attention to how the emergence and growth of the cross-border activities of firms might be explained by the kind of location-related theories which were initially designed to explain the location of

production within a nation state; nor to how the spatial dimension of FDI might affect the competitiveness of the investing companies.

There have been numerous geographical theories of particular value-added activities of firms and of geographical distribution of FDI. They include the location component of Vernon's product-cycle theory (1966), Knickerbocker's 'follow-my-leader' theory (1973), which was one of the earliest approaches to analysing the bunching effect of FDI, and Rugman's risk-diversification theory, which suggested that TNCs normally prefer a geographical spread of FDI to having all their eggs in the same geographic basket (1975, 1979). However, researchers extended, rather than replaced, standard theories of location to encompass cross-border value-added activities. In particular, they embraced new location advantages such as exchange rates, political risks and inter-country cultural differences, and placed a different value on a variety of variables common to both domestic and international location choices such as wage levels, demand patterns, policy-related variables, supply capacity and infrastructure. These add-on or revalued variables could be easily accommodated within the existing analytical theories (Dicken, 1998).

The emergence of the knowledge-based global economy and asset-augmenting FDI is compelling scholars to take a more dynamic approach to both the logistics of the location of corporate activities, and to the competitive advantages of nations and regions (Dunning, 1998). Firms need to take account not only of the presence and cost of traditional factor endowments, of transport costs, of current demand levels and patterns, and of Marshallian types of agglomerative economies; but also of distance-related transaction costs (Storper and Scott, 1987), of dynamic externalities, knowledge accumulation, and interactive learning (Enright, 1990, 1998, 2000; Florida, 1995; Malmberg, Sölvell et al., 1996), of spatially related innovation and technological standards (Antonelli, 1998; Sölvell and Zander, 1998; Frost, 1998), of the increasing dispersion of created assets, and of the need to conclude cross-border augmenting and asset-exploiting alliances (Dunning, 1995, 1998). As such, since 1990, location has been taken up in explaining the stickiness of certain locations in an increasingly slippery world (Markusen, 1994). Theories suggest that firms may be drawn to the same locations because proximity generates positive externalities or agglomeration effects. Economists have proposed agglomeration effects in the form of both static (pecuniary) and dynamic (technological) externalities to explain industry localization (Baptista, 1998). Theoretical attempts to formalize agglomeration effects have focused on three mechanisms that would

yield such positive feedback loops: inter-firm technological spillovers, specialized labour, and intermediate inputs (Marshall, 1890).

A distinction should be made between two broad types of agglomeration economies. One type relates to general economies of regional and urban concentration that apply to all firms and industries in a particular location. Such external economies lead to the emergence of manufacturing belts or metropolitan regions (Porter and Sölvell, 1997). These urbanization economies do not consist of increased efficiency of the enterprises themselves but of reduced transport and search costs for the customers and, therefore, lead to more customers than the individual enterprise would have been able to attract (Pedersen, 1997). A second type of agglomeration refers to localization economies. As advances in transportation and information obliterate distance, cities and regions face a tougher time attracting and anchoring income-generating activities (Markusen, 1996). Economists, geographers and economic development planners have sought for more than a decade for alternative models of development in which activities are sustained or transformed in ways that maintain relatively high wage levels, social contributions and quality of life. They have searched for 'sticky places' in 'slippery space' (Markusen, 1996), examining the structure and operation of these geographic concentrations of interconnected companies and institutions.

One extensively researched formulation is that of the flexibly specialized industrial district. In the original formulation of the industrial district, Marshall (1890) envisioned a region where the business structure is comprised of small, locally owned firms that make investment and production decisions locally. Scale economies are relatively minimal, forestalling the rise of large firms. Within the district, substantial trade is transacted between many small firms buying and selling from each other for eventual export from the region. What makes the industrial district so special and vibrant, in Marshall's account, is the existence of a pooled market for workers with specialized skills, the provision of specialized inputs from suppliers and service providers, and the relatively rapid flow of business-related knowledge between firms, which result in what are now called technological spillovers.

All of these factors are covered by the notion of agglomeration, which suggests that the stickiness of a place resides not in the individual location calculus of firms or workers, but in the external economies available to each firm from its spatial conjunction with other firms and suppliers of services. In Marshall's formulation, it was not necessary that any of these actors should be consciously cooperating with each other in order

for the district to exist and operate as such. But in a more recent adaptation (Piore and Sabel, 1984), based on the phenomenon of successful expansion of mature industries in the so-called 'Third Italy' (Goodman and Bamford, 1989), and extended to other venues in Europe and the United States (Scott, 1988; Storper, 1989; Paniccia, 1998), researchers have argued that concerted efforts to cooperate among district members to improve district-wide competitiveness can increase the stickiness of the district. While agglomeration economies signal external economies passively obtained by enterprises located close to each other, collective efficiency (Schmitz, 1989; Pedersen, 1994) indicates advantages which enterprises may achieve through active collaboration. Localized information flows, technological spillovers and specialized pools of knowledge and skills will ensure the revitalization of these seedbeds of innovation in these clusters. Clusters are considered as networks of production of strongly interdependent firms, knowledge-producing agents and customers linked to each other in a value-adding production chain (OECD, 1999).

However, many of the faster-growing regions of the world turn out not to be formed by small, locally owned, vertically or horizontally specialized enterprises. There exist regions where a number of key firms or facilities act as anchors or hubs to the regional economy. These clusters are dominated by one or several large, locally headquartered firms, in one or more sectors, surrounded by smaller and less powerful suppliers. These hub-and-spoke districts thrive on market power and strategy rather than on networking (Gray et al., 1996; Markusen, 1996). Yet a third variant of rapidly growing industrial districts may be termed satellite platforms (Markusen, 1996), a congregation of branch plant facilities of externally based firms. Tenants of satellite platforms may range from routine assembly functions to relatively sophisticated research. They stand alone, and are detachable spatially from either up- or downstream operations within the same firm or from agglomerations of competitors and external suppliers or customers (Glasmeier, 1988).

Another way of discerning different clusters is based on the origin of the industry in a specific location: indigenous or transplanted. Some industries grew up as indigenous industries and were afterwards exposed to a globalizing economy of increasing levels of international trade and investment. In the beginning, indigenous (hub-and-spoke) clusters are characterized by tightly linked local firms and a relatively small number of foreign-owned subsidiaries. Over time, the number of foreign subsidiaries in indigenous industries increases because of the globalizing economy. More specifically, successful industries attract transnationals

that set up or acquire local companies to have access to the available strategic assets. Other industries originate as a direct result of the increasing levels of international trade and investment between countries and regions. These transplanted (satellite platform) industries are originally characterized by a limited number of local firms and by (relatively many) foreign branch plants that are rather weakly embedded in the local economy. Transplanted industries are likely to continue to rely on their parent company or network members for key supplies or core technologies for some time, and will only slowly develop strong 'local' ties, set up R&D units, and grow to become clusters. Alternatively, the virtuous circle of economic development by embedding foreign plants in the local economy does not materialize and the agglomeration of firms remains a satellite district. One would expect to find the relatively high value-adding subsidiaries in industry cluster locations, because they are attractive locations for foreign-owned subsidiaries, both in terms of the opportunities for learning and knowledge transfer and in terms of the specialized inputs and labour they provide. They can be seen as 'tapping into' the sources of knowledge and ideas, and scientific and technical talent which are embedded in cutting-edge regional innovation complexes (Florida, 1995). There will obviously also be foreign subsidiaries in non-cluster locations, but they are more likely to be of the market-seeking or resource-seeking types (cheap factors of production), rather than the higher value-adding subsidiaries in industry clusters.

In summary, these contemporary economic events suggest that the nature and composition of a country or region's comparative advantage, which has always been based on the possession of a unique set of immobile natural resources and capabilities, are now more geared to a distinctive and non-imitable set of location-bound created assets and the presence of strong indigenous firms with which foreign TNCs can form alliances to exploit or complement their own core competencies (Dunning, 1996). Nation states are not only becoming increasingly dependent on the cross-border activities of their own and foreign-based corporations for their economic prosperity (Porter, 1996; UNCTAD, 1997; De Beule and Van Den Bulcke, 2004), but the competitiveness of these corporations is increasingly determined by the institutional framework in which they operate (Oliver, 1997). In particular, both national governments and sub-national authorities are recognizing the need to provide the appropriate factor inputs, both for their own firms to generate the ownership-specific assets consistent with the demands of world markets, and for foreign subsidiaries to engage in the kind of

value-adding activities which advance both the technological efficiency and the dynamic comparative advantage of the immobile assets (Porter, 1994; Peck, 1996; Dunning, 1998).

The present

The current argument (Buckley, 2002) is that the collective international business research project has been the statement of, and then the successful engagement with, a series of big research questions. These research questions are essentially empirical issues in the world economy, which can be listed as follows:

- Explaining the flows and impact of FDI, particularly flows of FDI from USA to Europe, with a lesser concentration on flows to less developed countries.
- The explanation of the existence, strategy and organization of transnationals. The dominant paradigms of explanation are the internalization approach, Dunning's OLI framework and resource-based theories of the firm. Incompatibilities between these approaches are not completely resolved.
- 'New' forms of operation – international joint ventures (IJVs) and alliances. The twofold division of explanation between internalization/transaction-cost views and resource-based 'strategic' analysis have been reconciled by many authors, but difficulties in compatibility remain given the different backgrounds and hypotheses.

These three phases of successful research endeavour are neither temporarily distinct, nor fully resolved. However, they represent a distinct intellectual achievement of considerable coherence and power. Furthermore, they fed (and feed) back into other disciplines and succeeded in exporting international business concepts to other areas of social science. The concern now is that the international business research community may be an importer of concepts, techniques and results and only a minor exporter. This is a good measure of an academic discipline's worth and standing.

The future: the new big question?

There are a number of candidates for the new big empirical question to form the core of a collective research programme. They include globalization, geography and location, international mergers and acquisitions

(M&As), and new international institutions (for example non-governmental organizations, NGOs).

Globalization is an obvious candidate. However, its meaning, effects and dynamic are much debated and much misunderstood, and it is in danger of becoming the cliché of our times (Kobrin, 2001). Globalization implies interconnectedness, networks of relationships between a large number of heterogeneous social, cultural, political and economic organizations. The spatial reach and density of global and transnational interconnectedness weave complex webs of networks of relations between communities, states, international institutions, non-governmental organizations and transnational corporations (Held et al., 1999).

Globalization is currently blamed for much of what goes wrong in developed as well as developing countries. Protests against globalization or, before, internationalization, and transnationals are not new. TNCs typically have been criticized for specific reasons, and while specific criticism of transnationals persists, much of the current concern is more general. Today, more and more anti-globalization and anti-multinational campaigners are treating transnationals, and the policies that supposedly give them free rein, as the root cause of political injustices around the globe (Klein, 2002). Although this wave of protest may resonate more broadly than those of the past, this widespread concern about the process of globalization and the role of TNCs is less than explicit.

The international business research community is in a good position to provide clarity and elucidation. The big problem here is achieving coherence in the absence of agreed definitions, scope, empirics and future agenda. There is also much incursion into traditional international business research space by outsiders. An overarching paradigm of the types listed above is not currently available, or, more accurately, not currently agreed upon. If consensus were agreed in the conversations of international business scholars, then there is much promise in this area and an opportunity to recolonize lost areas of research space.

Similarly, renewed attention to the role of economic geography holds a great deal of promise. It is paradoxical that spatial issues have receded in a subject that is centrally concerned with geography (of nations, of companies, of technologies, of transactions, of people). Recent work on 'active subsidiaries' of TNCs, on the locational aspects of technology and innovation, on the role of states and on the neglected aspects of migration and (differential) demography point to a renaissance in this area which can reinvigorate international business.

On a more micro strategic level, the analysis of international M&As has much promise. This also entails the restructuring of existing TNCs. It can interface with both analyses of FDI and of joint ventures and alliances as substitutes or complements to M&A activity. Perhaps this field like its empirical focus moves in waves!

To date, most of the literature on the internationalization of firms has focused on the steady onward, deepening involvement of international business operations (Benito and Welch, 1997; Buckley, 1996). Admittedly, transnationals are by their very nature in a continuous state of flux. Change is endemic in such enterprises but the precise form change takes may well vary from one part of the firm (MNE) to another. At any one time, some parts may be growing rapidly, others may be stagnating, and still others may be in steep decline. Change itself may be the result of a planned strategy of adjustment to changing internal and external circumstances or the 'knee-jerk' response to a sudden crisis. Whatever its origin, however, corporate restructuring will have a specific spatial expression. The changes that occur within the TNC itself will be projected into particular kinds of impact on the localities in which the company locates, relocates, expands or contracts.

Finally, the role of new institutions in the global economy such as NGOs may be an interesting research focus (Doh and Teegan, 2003) requiring new techniques and data-sets. The intervention of NGOs in MNE/government debate is clearly increasing and this strand of research integrates well with the interest in corporate and business ethics.

In the spirit of 'place your bets', the latter two areas will probably thrive as subareas, but are not sufficiently all-encompassing to be a 'big question' which engages the majority of the international business academic community. Concerns remain that globalization research will fragment rather than unify a research conversation in international business. The economic geography route will revitalize whole areas of our research, and in combination with an analytical examination of globalization may well provide our next 'big question' – 'How do globalization and location interact in the world economy?'

Questioning the big-question approach

Naturally, not everyone agrees. Sullivan and Daniels (2004) feel that research in international business is evolutionary, not episodic, and that the approach expressed in the foregoing pages is unduly restrictive in its partitioning into discrete episodes. Others feel that the distinctive nature of international business research lies in its unique mix of

qualitative and quantitative tools and that the way forward is to develop new research tools. There is also a view that comparative management and the analysis of cultural differences lie at the heart of international business research.

A widely held view is that international business represents a 'melting pot' and that a unique contribution lies in the ability of international business researchers to see the big picture. This comparative advantage based on connectivity is evidenced by the wide range of research methods and the scope of the subject. The research boundaries of international business research should go beyond the firm, beyond the TNC and into its impact beyond the firm – economic, political and cultural. The ethical issues of globalization and the relationship of the firm with other institutions such as NGOs should be within its purview.

Is this enough? The above arguments do encompass some of the key attractions of international business as a research area. To them could be added new factors, which have not, as yet, become integral parts of the melting pot, such as demography and migration. In addition there are areas which were once central to international business but which now seem to have fallen by the wayside, such as finance.

However, international business is at its most successful when it is a collective enterprise, to inspire a collective conversation, there has to be agreement as to what constitutes the core of that conversation – the big question again.

The big picture

Three key areas suggest themselves as future (and imminent) research questions around which international business scholars can engage. They are globalization and development, the strategy of TNCs in a globally integrating world, and economic geography and business.

The first question enables international business scholars to return to the centre of policy-orientated research in economic growth and development, focusing on the analysis of the direct and indirect (spillover) benefits and disadvantages of FDI, particularly its impact on poorer less developed countries and on the distribution of income within and between countries. The second enables 'new MNE strategy' to be analysed in that formidable set of concepts which has recently been developed (and, it must be said, imported) by international business scholars to include notions of flexibility, real options, globally integrated production and distribution systems. These concepts, integrated within a systems-theory approach, allow full attention to be paid to

dynamics and it is possible to envisage the reintegration of finance theory into this set of tools. Finally, the renewed attention paid to geography, location and locationally fixed factors (to include culture) can anchor the analysis in the reality of the global economy with its endowments of fixed and locationally mobile factors that determine the 'stickiness' or 'slipperiness' of the activities of TNCs.

Conclusion

The suggested research agenda is rich, flexible, empirically tractable and policy-relevant. It should enable international business research to regain its former success and saliency. The fundamentals of the analysis are familiar: institutions (and new institutions), culture, resource endowments (both fixed and mobile) and spatial issues. The recombination of these elements in a dynamic fashion represents a challenging way forward for international business researchers.

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Notes

Chapter 3 Asian Network Firms: An Analytical Framework

1. This phrase was originally used to refer to the existence of a joint venture.

Chapter 5 Cartography and International Business

1. For vehemently opposing views of the 'Peters Projection Controversy' see Monmonier (1995, Chapter 1) and Wood (1992: 56-61).
2. See the heartfelt denunciation of piracy of maps on Moll's map of Spain (1711). 'Among ye Cheats that ye World are daily abus'd with none have lately been more Scandalous than that of Maps, some times New ones are put out by Ignorant Pretenders, some times mean and imperfect forreign Maps are Copy'd and publish'd by them as their own' There is more in this vein. See also Monmonier (1996).
3. Smith's map did have precedents such as Packe's 1743 chart of East Kent and Maton's 1797 Mineralogical Map of the Western Counties of England (Delano-Smith and Kain, 1999: 232).
4. This is not the only factor, 'the true story of Western exploration, and thus of America, is a spiritual one. It has its basis not in technology, not in the rise of nation states and the consequent international rivalries that dominate the historiography of exploration, but rather in the history of that mythology that tied the West together' (Turner, 1980: 7).
5. See the examples of mapping social and educational change (Social Cartography) in Paulston (1996).

Chapter 6 United States Foreign Direct Investment into Canada: An Empirical Analysis with Emphasis on the Free Trade Hypothesis

1. US FDI in the European Union manifests a strong periodic pattern linked to the business cycle (Clegg, 1996).

19. Shanghai Volkswagen achieved a localization rate of 80 per cent only nine years into its establishment.
20. Elsewhere it is shown that the wholly owned affiliate's network was of a high quality, particularly its local R&D network (Buckley et al., 2003).
21. This resembles the process of 'learning by adapting' (Lall, 1980).
22. The length of time in reaching a localization rate of 80 per cent in the three international joint ventures was as follows: Shanghai Bell had not achieved this target by 1997; Beijing Jeep took 11 years; Shanghai Volkswagen took 9 years.
23. This point can be related to that on the economies of common governance (Ot) advantages identified by John H. Dunning (1993). The resource-based view sees the firm as strategically acquiring Ot advantages.
24. This is still the case in the automotive assembly industry where each foreign entrant is allowed to establish joint ventures with not more than two designated Chinese players in China as a whole. Similar patterns can be observed in other sensitive service industries, such as telecom service, insurance and stock brokering.
25. Motorola (China) only has Chinese joint venture parents at the secondary affiliate level, i.e. the wholly owned affiliate is a parent in local joint ventures with Chinese parent firms.
26. The authors of this chapter are grateful to one of the referees for this insight.

Chapter 8 The Art of Knowledge Transfer: Secondary and Reverse Transfer in China's Telecommunications and Manufacturing Industry

1. The authors are grateful for the comments of three anonymous referees and the Editor of the Special Issue. Financial support from the Universities' China Committee in London (UCCL) for conducting interviews in China is gratefully acknowledged.
2. A listing of the transferred technologies (hardware and software) initially appeared in a company publication (Alcatel Bell, 1998). No reference was made to managerial knowledge transfer. The interviewed managers in Shanghai Bell and, with regard to secondary transfer, its subsidiary NEAT were all asked to confirm the transferred knowledge. It transpired from their answers that managerial knowledge had indeed been transferred. This was subsequently validated by managers at the headquarters of Alcatel Bell in Antwerp, Belgium.
3. The responses to the question on R&D were triangulated, and disagreement was found between the foreign parent and the Chinese interviewees in Shanghai Bell. Chinese respondents claimed that progress had been made in R&D, but this was contradicted by the testimony of the Belgian executives and managers. We interpret this as a difference in understanding about what constitutes R&D. The Belgians construed it conventionally as new technology creation, but the Chinese included the adaptation of existing products (necessary for the Chinese market).

Chapter 9 Language and Social Knowledge in Foreign Knowledge Transfer to China

1. The five-year criterion is consistent with that established in previous research on knowledge transfer and organizational learning (e.g. Inkpen, 1995: 129 and Lyles and Salk 1996: 887).
2. It remains the case that after China's entry to the World Trade Organization (WTO), foreign firms cannot hold more than 50 per cent of equity in any final car-assembly operation. However, there are no ownership restrictions in other automobile manufacturing sectors, for example in components.
3. Beijing Jeep's foreign parent was initially American Motor Corporation (AMC), which was acquired by Renault and then sold to Chrysler in the 1980s. Chrysler became part of Daimler Chrysler in 1998.

Chapter 10 The Relationship between Inward Foreign Direct Investment and the Performance of Domestically Owned Chinese Manufacturing Industry

1. The effects under study are externalities, meaning that no transaction (either within an internal or an external market) has taken place.
2. This measure of managerial input is recorded in the Chinese statistical source, and refers to the salaries of managers plus other fees that facilitate transactions.
3. Though employing labour-intensive production methods by international standards.

Chapter 12 The Strategy of Foreign-invested Manufacturing Enterprises in China: Export-orientated and Market-orientated FDI Revisited

1. Round tripping refers to mainland Chinese capital that has flowed out to access better financial, regulatory and legal services and returned to China as apparent FDI to enjoy fiscal incentives and improved investor protection offered by China to foreign investors. For detailed introductions, see Xiao (2004) and World Bank (2002).
2. The Ministry of Internal Trade is now part of the Ministry of Commerce.
3. Due to the small proportion of licensing sales in total sales revenue and the unavailability of licensing data, licensing sales revenue is excluded.
4. The time span for estimation does not include the period prior to 1992 for two reasons. First, consistent data to estimate FIEs' domestic Chinese market sales revenue are not available. Second, we assume that the major policy change of 1992 altered the ratio of TSR/TIO of FIEs and so our estimation methods cannot be projected backwards prior to 1992.