New Challenges for International Business Research

Back to the Future

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1. The contribution of Edith Penrose to international business scholarship

1. INTRODUCTION

In 1994, the Academy of International Business (AIB) honoured Edith Penrose by electing her an Emeritus Distinguished Fellow of the Academy. This honour, which had only been conferred once before – to Charles Kindleberger of MIT[1] – is awarded by the Academy to those individuals researching and teaching outside the mainstream of international business (IB) scholarship who, nevertheless, have had a powerful and lasting influence over the direction, content and impact of that scholarship.

While acknowledging the impressive array of Professor Penrose's writings, the Academy singled out her distinctive contribution to IB scholarship in two main areas, *viz* (i) the theory of the growth of the firm – and particularly the large diversified firm, and (ii) our understanding of the interface between the strategies and activities of international and/or multinational enterprises (MNEs) and the nation states – particularly developing nation states – in which they operate. And it is these two topics – the former of which engaged Edith's attention in the 1950s and early 1960s, and the latter her attention in the later 1960s and 1970s, together with a third, *viz* the implications, both for firms and national governments, of the emergence of a more liberalised and closely integrated global economy, which she addressed in the late 1980s and early 1990s, that we shall focus on in this chapter.

2. THE THEORY OF THE GROWTH OF THE FIRM – AS APPLIED TO UNDERSTANDING THE NATURE AND DETERMINANTS OF MNE ACTIVITY

Like Ronald Coase beforehand and like her contemporaries, Alfred Chandler, G.B. Richardson and Oliver Williamson, Edith Penrose was not especially interested in the MNE *qua* MNE. Indeed, it is clear from several of her writings (notably Penrose, 1956, 1968 and 1995) that she viewed the MNE primarily as an extension of the national multi-activity and/or multi-plant enterprise. Consider for example, the following two quotes from one of her first and one of her last works:

> The establishment of foreign subsidiaries or branches is for the parent company, not essentially different from the establishment of subsidiaries and branches in its own country. (Penrose 1956, p. 225)

and then nearly forty years later, in reminiscing about her 1959 book, *The Theory of the Growth of the Firm*:

> the analysis I have presented, it seems by and large to apply equally well to expansion by direct foreign investment in its modern form – the processes of growth, the role of learning, the theory of expansion based on internal human and other resources, the role of administration, the diversification of production, the role of merger and acquisition are all relevant. (Penrose, 1995, p. xv).

To be sure, in her analysis of the international petroleum industry (1988) – and much later in a paper on 'unfair competition and multinational corporations (Penrose, 1990) – Mrs Penrose does identify some of the distinctive characteristics of the constituent firms which arise *specifically* from their multinationality, for example those to do with the integration of cross border markets; and the manipulation of intra corporate transfer prices. In her 1959 book, she acknowledges that 'Once established, foreign subsidiaries are likely to require less administrative coordination than their domestic equivalents' (Penrose, 1995, p. 193). But nowhere, at least in my reading of her books and papers, does she explicitly tackle the issue of the ways in which the (foreign) locational choice of firms might affect their core competences or their growth paths. Nor, indeed, does she give a great deal of attention to the question of why firms choose to internalise the cross border markets for their intermediate products rather than sell or acquire these through the market or by some contractual route.[2]

At the same time, Edith Penrose did have a very great deal to say about both the origins and the trajectory of a firm's growth in terms of its unique and sustainable competitive advantages, which is directly relevant to our understanding of the dramatic expansion of MNE activity in the post World War II period. As is now generally appreciated, she was one of the first economists to rigorously dissect the necessary conditions for, and patterns of, a firm's growth. While Coase (1937) was interested in explaining the *existence* of firms – as transaction units – *vis à vis* arm's length markets – Mrs Penrose preferred to see the firm as an administrative organisation designed to make profitable use of a collection or pool of resources under its jurisdiction (Penrose, 1995, pp. 9–30).[3] Both economists questioned

the 'black box' treatment of the firm in neo-classical economies, but they followed rather different analytical paths. The outcome was that Coase is now generally regarded as the father of internalisation theory, which has become the dominant explanation of why, given their home based competitive advantages, rather than license the right to use these advantages to foreign firms, firms choose to engage in foreign direct investment (FDI). Mrs Penrose is lauded as the mother of resource based theory, which stresses that, in order to grow and prosper, firms, relative to their actual or potential competitors – be they national or multinational – require to possess scarce, unique and sustainable competitive advantages; and that the upgrading of these advantages, and the growth they make possible, is best regarded as an evolutionary process.

My sense is that, in her classic 1959 book, Mrs Penrose was more concerned with the necessary prerequisites for, and the *process* and *form* of, growth of firms, together with the benefits they conferred, and its limits, rather than with identifying the core competences of firms at a given moment of time – be that moment of time pre or post growth. While clearly acknowledging such advantages, the O advantages of the eclectic paradigm – references to which are scattered throughout the volume – are usually presented as *potential* advantages which are likely to arise through size and growth.

A selection of these are set out in Box 1.1. We have classified these into two groups, as identified by the eclectic paradigm. The first are those which embrace the creation of new tangible or intangible assets (Oa advantages). The second are those which represent (by growth, specialisation or restructuring) the better, that is more efficient, coordination and/or disposition of existing assets (Ot advantages).

However, it was in her 1956 article on foreign investment and the growth of the firm that Mrs Penrose came closest to specifying the kind of competitive advantages which IB and resource based scholars attribute to the foreign affiliates of firms *vis à vis* their indigenous competitors. To quote her own words, and referring to the act of FDI:

> Its advantages derive largely from the fact that behind the new foreign firms are the resources and experience of the parent concern, including not only managerial and technical personnel but also from that indefinable advantage in its internal operations which an efficient going concern usually has over a new one. Consequently the receiving country, in addition to foreign capital, foreign technicians and management also obtains an unlimited drawing account as it were, on the intangible resources of the investing company. (Penrose, 1956, p. 225)

It will be noted that, in the above quote, Mrs Penrose appears to confine her analysis of the advantages available to foreign affiliates to those

BOX 1.1 SOME 'POTENTIAL' OR 'CONDITIONAL' COMPETITIVE ADVANTAGES IDENTIFIED IN THE THEORY OF THE GROWTH OF THE FIRM (1959, 1985, 1995)[1]

(1) Oa advantages

- The possession of unique resources as bundle of potential or possible services (pp. 25, 69).
- Creative and vigorous management (p.36).
- Managerial knowledge and experience; information management (p.60).
- Ability to create new productive services (p.79).
- Good salesmanship (pp. 116/118).
- Technological prowess (including examples from General Motors) (p.120ff.).
- Entrepreneurial temperance (p. 183).
- Ability to raise capital (p. 218).
- Ability to capture consumer and distributor loyalty (p. 235).
- The comparative advantages of large firms (p. 225).

(2) Ot advantages

- Organisational and administrative flexibility (p. 18).
- Economies of scale (technical, managerial, marketing and operational) (p. 89ff., 261).
- Economies of specialisation and diversification (p. 104).
- Economies of scope (p. 110).
- The benefits from backward and forward integration (p. 145ff.).
- The comparative advantages of large firms (p. 225).
- The benefits of administrative integration.

And lastly a quote:

> The great prestige of the large firm rests on its ability to explore, to experiment, and to innovate; it is this ability together with the market position (carefully cultivated by advertising) that its reputation, and the reputation of its products can command which give rise to many of the economies of expansion. (p. 262)

Note: [1] Pagination refers to the 1995 edition.

possessed by the parent firm prior to its FDI. At this stage in her writing she seems to underplay the possibility that there might be certain growth facilitating or resource upgrading, which *directly result from* the *foreign* activities of firms, and which are unique to those activities. In other words, she does not appear to acknowledge the possibility that FDI confers its own competitive advantages.

Indeed, it has been argued that the more a firm derives its global revenues from the *output* of its foreign affiliates, the wider the geographical spread of these activities, and the more integrated they are within the MNE system, then the more both Oa and Ot (but especially Ot) resources and capabilities are likely to be derived from multinationality *per se*. In other words, the regionalisation and globalisation of firms may be both an *outcome* of prior competitive advantages and be the *means of augmenting these advantages*. In her 1995 preface to the 3rd edition of her 1959 volume, Edith Penrose comes close to acknowledging the growing importance of this latter kind of growth impetus. To quote:

> with the advent of the very large global corporations or 'firms' there spread what became an extremely sophisticated, though not entirely new form of organisation requiring a different analysis of the nature of the firm and the relation between the firm and the market. (Penrose, 1995, pp. xv/xvi).

In a contribution published a year later (Penrose, 1996) Professor Penrose gave separate treatment to multinational (cf. national) firms because of the unique characteristics faced by the firm which arose, in her own words,

> from the additional obstacles (or advantages) relating to cultures, language and similar considerations (which may not apply nationally within ethnically diverse countries), to different currencies, border controls or other types of physical or financial regulations, political attitudes of foreign or home governments, size of protected markets, the configurations of firm cultures or associations, the type of technology involved, and so on (p. 1720).

These, the final thoughts of Edith Penrose on the theory of the growth of the firm and its relevance to explaining IB activity, are as perceptive as her first. Increasingly, over the past two decades the *raison d'etre* for, and the form of, growth of the firm and the MNE in particular, have undergone major changes, as indeed have the ingredients of their core competences. Firms expand their territorial horizons not only to use their existing O specific assets more effectively; but also to protect or augment these assets. Sometimes, this growth occurs through cross border Merger and Acquisitions (which in the last decade have accounted for upwards of two thirds of all FDI); and sometimes by the formation of non-equity alliances with foreign firms. At the same time, competitive pressures and falling transactions costs have caused many firms to shed or disinternalise some of their non-core activities. While, in some cases, the previously internalised transactions have been replaced by arm's length transactions; in many, particularly in knowledge based sectors, it has led to the conclusion of new and continuing alliances between the disinternalising firm and its external customers and/or its suppliers. These alliances, which are frequently part of a network of related firms, are causing the boundaries of the firm to be eroded or become fuzzy. The ability to *access* capabilities from throughout the globe is often a more important competitive advantage than ownership of these capabilities; and firms which can blend externally accessed assets with those which it owns and/or creates in a way in which its long term objectives are advanced are likely to be winners.

While these events are causing scholars to rethink the contents of the resource based and evolutionary theories of the firm, we would argue they are of particular significance for the large and globally integrated firm. This is because, increasingly, a firm's competitiveness and the trajectory of its growth are fashioned by events outside its national boundaries, and its reaction to them. Were these events simply a reflection and/or extension of their domestic counterparts then we would not need a separate theory of the MNE. But I, for one, believe that the demands made on a globally integrated MNE are different in kind as well as magnitude, and that were Edith Penrose writing today she would be the first to acknowledge these differences.

3. THE INTERFACE BETWEEN MNEs AND NATION STATES – PARTICULARLY DEVELOPING NATION STATES

In the late 1960s and 1970s, Mrs Penrose turned her attention away from theorising about the growth of large firms in general to analysing the impact of the presence of international or multinational firms on the economic welfare of countries in which they operated – and particularly host developing countries. Earlier in a seminal article published in the *Economic Journal* (Penrose, 1956), she had explicitly identified some of the costs and benefits of FDI (pp. 232–3[4]); and this theme was next taken up in her book *The Large International Firm in Developing Countries: The International Petroleum Industry*, published in 1968.

To my mind, this book was a bridge between her earlier work on the theory of the firm and her later work on international political economy.

In it, she devoted a chapter to the nature and significance of the large international firm. This not only reiterated the main thesis of her 1959 book, but added several new dimensions which she specifically identified with large international oil firms. The first related to the question of nationality – which she explored primarily from the viewpoint of the distribution of the benefits of FDI between the investing firm and the relevant host country. The second related to some unique costs and benefits of cross border vertical integration, as compared, for example, with alternative contracting arrangements for the supply of crude oil. Thirdly, Mrs Penrose gave particular attention to the economic power exercised by large firms, and especially large international firms, and the reactions of host governments to that power.

Much of Professor Penrose's work of the 1970s focused on the political economy of these and other issues; and especially on the tightrope walked by governments in their efforts to retain as much as possible of their economic and political sovereignty, while benefiting to the maximum extent from the resources and capabilities provided by foreign investors. In these and other writings, Edith Penrose herself trod a narrow path between the views of mainstream economists about the benefits to be gained from the free flow of capital and resources across national boundaries (which she readily embraced) and the appropriability of the institution through which the transfer of this capital and resources occurred. Describing the role of the large international oil firm in particular, she wrote:

> We found it defective, not so much because of the nature of the institution itself, not even because of the monopoly power it often possesses, but because these characteristics, given the international economic environment in which firms operate, may seriously distort the international distribution of benefits obtainable from foreign direct investment. (Penrose, 1968 p. 272)

Note especially the words 'given the international economic environment in which firms operate'. These were written at a time when most developing countries were pursuing policies – including import substituting policies – designed to enhance their political sovereignty and economic self-sufficiency. To this end, most domestic markets were highly protected and regulated. Moreover, Mrs Penrose was applying her analysis to large firms investing in a critical and sensitive resource sector, and in countries which were largely dependent on oil revenues for their living standards; and before OPEC had begun to exert its muscle in any effective way.

Nevertheless, the implications in the quotation just cited are clear enough. The benefits provided by MNEs to host countries are only as good as the institutions and policies of national governments – both host and home – and the international community, allow. While there still remains a great deal of criticism and disquiet about the activities of global enterprises, particularly in some developing countries, there is also a widespread recognition that, to maximise their contribution to national economic goals, host governments must pursue efficient and market friendly macro-economic and micro-management strategies, and maintain an open door policy towards both trade and FDI. In short, the international political economy of FDI in the early 21st century is totally different from that of 30 years ago.

But to return to Edith Penrose's own writings. Her research into the international oil industry (and to a lesser extent, into the pharmaceutical industry) led her to take a more normative approach to the growth of the firm. Mark 2 Penrosian IB-related writings in the 1970s were mainly directed to evaluating the interface between large international firms and national governments and, for the most part, were written from the perspective of the economic welfare of developing governments. I remember one of the first general papers she wrote on this subject was for a conference on 'The Multinational Enterprise' which I organised in Reading in 1970. The paper, later published in a book of that title, was entitled 'The state and multinational enterprises in less-developed countries' (Penrose, 1971). In this contribution, Edith set down the ground rules – later elaborated on in various other papers and presentations in the 1970s[5] – which she believed were necessary if developing countries' governments were to promote and implement the kind of economic policies which both attracted the kind of resources, and use these resources and capabilities offered by inbound FDI, and for these resources and capabilities to be used in a way which best benefited the local economy. Here, and in other writings, Mrs Penrose strongly favoured a conciliatory rather than an adversarial bargaining and negotiating approach between MNEs and governments. Any successful outcome of negotiations was likely to involve the continued presence of an MNE affiliate in the country, she wrote: 'there is much to be said for the maintenance of amicable, non adversarial relations in negotiations without any diminution in hard bargaining' (Penrose, 1978a, p. 35).

In identifying some of the issues addressed at the negotiating table, Mrs Penrose especially expressed sensitivity about some of the wider – and non economic – concerns expressed by the community which if left unaddressed could so easily lead to xenophobia. These included fear of undue foreign economic control, foreign political influence, the problem of economic exploitation by powerful international companies and some of their specific policies, for example with respect to such issues as transfer pricing and the control of export markets. These anxieties, she observed, were more vigorously expressed by countries recently decolonised, and by

those placing a high value on economic autonomy. In 1970, Mrs Penrose wrote:

> In general, it seems reasonable to assume that the more foreign investment there is in the economy and the greater the influence of foreigners, the greater will be the total 'disutility' felt by the community about foreign investment and an increasing pressure on the government to restrict the flow. Hence it is not enough to argue that some gain accrues to the receiving country for the gain must be enough at least to offset the disutility of having this industry dominated by foreigners. (Penrose, 1970, p. 117)

The ability to juxtapose economic logic, complex institutional parameters, the psychic welfare of communities, and the social and political constraints under which governments operate was one of Edith Penrose's particular talents, and she brilliantly displayed these in her identification of the costs and benefits of FDI. But she didn't stop short at describing and evaluating these. In several of her writings she made a number of specific recommendations. We will focus on just two of these. First she was among the early economists to stress the importance of an effective administrative machinery in negotiating with foreign firms. She also repeatedly emphasised the need of developing countries to improve their bargaining skills and to be clear as to what is expected of the inbound investor.[6] In her own words,

> International business, if it is to operate effectively and in the interest of host countries, requires to know and must be required to accept the rules it is expected to observe and the objectives it is expected to serve. This, in turn, requires that all agreements negotiated with prospective or actual host governments should contain (a) a clear understanding of the locus and scope of managerial responsibility and of the division of authority between government and company, and (b) a clear statement of government policy and government objectives affecting all major issues. (Penrose, 1978a, pp. 16–17)

Secondly, Mrs Penrose was a firm advocate of joint ventures between MNEs and local interests, but only providing these were (i) economically viable from the viewpoint of the investing firms, and (ii) brought real social and economic benefits to the host countries. In her 1970 book jointly authored with her husband and Peter Lyon (Penrose, Lyon and Penrose, 1970), and also in a volume edited by Gerry Helleiner in 1976, she enumerated some of the perceived benefits. These included

> a closer association expected between the firm and the local economy, leading to an enhanced contribution by the firm to the local economy, including a reduction in repatriated profits and of foreign control, since the firm may have a

> greater independence in making decisions than does a subsidiary wholly owned abroad. In addition such arrangements are often a useful means of reducing local antagonism toward foreign investment and may in consequence attract an increased volume of investment. (Penrose, 1970, pp. 132–3)

However, Mrs Penrose then immediately sounded a warning note by identifying some of the drawbacks and the problems of joint ventures, including non-equity contracts between foreign and domestic firms. These problems she identified as being of three main kinds. The first arose from the inadequacy of local managerial talents. The second was that, in some cases, joint ventures might result in a reduction of foreign investment by bringing about a substitution of domestic for foreign capital (Penrose, 1976, p. 133). The third reflected the fact that even without equity ownership, the foreign partner might still be able to exert effective control over the operations of the joint venture, for example with respect to technology transfer, exports, marketing rights and sources of purchases, which the foreign partner might write into any agreement. This led Edith to conclude that, in spite of the advantages and her predilections in favour of joint ventures, 'One hundred per cent ownership with the capacity to exercise full control of certain basic industries, could well be a much more satisfying experience of asserting local capacity and economic independence than half nationalization of a number of companies which remain effectively dominated by foreign enterprise' (Penrose, 1976, p. 172); and again, 'The solutions of many of the problems facing the countries in the Third World in the course of their development. . . is more likely to be retarded than advanced by diverting attention and energies to the acquisition of majority ownership in foreign companies generally' (Penrose, 1976, pp. 172–3).

The above observations and quotes give only a small glimpse into Mrs Penrose's incisive and sympathetic views on the international political economy of MNEs. Like her contributions to the theory of the firm, they were not (and indeed still are not) accorded the attention and respect from IB scholars they deserve. But a review of her several writings on the ways and means by which FDI can help promote economic development, and the actions which host governments might, and should, take to ensure this is done without surrendering their wider social and political goals, suggests that they were mini classics of their time. The fact that had she been penning her thoughts in today's global economic scenario, many of her evaluations and prescriptions would probably have been very different, should in no way detract from this judgement.

4. ECONOMIC LIBERALISATION AND THE CHANGING CHARACTERISTICS OF MNEs

In general, Mrs Penrose was not a scholar who liked to revisit her earlier writings. *Inter alia* this is shown by her reluctance to 'update' her 1959 volume in the 1990s. Instead she preferred to address new and challenging problems as they arose. Thus, rather than address the issues of the 1970s from the lens of the late 1980s and early 1990s, she chose to tackle those of the last decade head on.

Unfortunately, for all of us, her writings on IB related topics in the last decade of her life were relatively few. I would however single out four particularly prescient contributions. The first was an unpublished paper[7] she wrote in 1992 on *Economic Liberalisation: Openness and Integration, But What Kind?* The second was a paper exploring the consequences of the emergence of the global corporation for our thinking about the content and form of the international trading system. The third was a chapter in an edited volume by Tim Niblock and Emma Murphy published in 1993 on the interface between the growing trend towards international integration and the nation state; and the fourth – and this was a little gem – in a collection of historical studies on international corporate business entitled 'History, the social sciences and economic "theory" with special reference to multinational enterprise'. I shall look briefly at each of these contributions.

In the first of these, and true to her colours, Edith Penrose welcomed the liberalisation of markets, and particularly in so far as it encouraged (and sometimes compelled) developing country governments to adopt more appropriate macro-economic and micro-management policies; and to take a more open door stance to inbound FDI. And she warmly endorsed the new international division of labour in so long as it genuinely promoted the comparative dynamic advantage of countries.

She acknowledged a critical role that MNEs might (and frequently did) play in facilitating this task by introducing new and superior technologies and management techniques, upgrading the quality of indigenous resources and capabilities, stimulating domestic competition, and opening up new markets. At the same time, Mrs Penrose – always the realist – was at pains to stress that market liberalisation and integration did not necessarily lead to a level playing field among either the participating firms or countries. In particular, if large MNEs exploited their newly found freedom from state intervention in a way detrimental to emerging economies and/or advanced countries continued to protect their goods and labour markets from foreign competition; then, far from gaining from cross border corporate integration, some developing countries might lose out. To prevent this from happening, Edith Penrose argued there was still a critical role for governments to play. In some cases, this might take the form of positive inducements to inbound investors to help establish new industries (a variant of the infant industry argument). In others she urged 'circumspect vigilance' over the unfettered consequence of free markets and (in her words) 'to take explicit account of the economic and political power and operations of the great private bureaucracies of international business' (Penrose, 1992, p. 16). If this is true, then in Edith Penrose's judgement, the issue with respect to the openness to foreign goods and capital, and the global or regional integration of markets is much more complicated than simply deciding when the state should intervene as 'the market gets on with its business. The issue is not this, not one of *intervention* any longer, if it ever was, but rather of the nature and extent of *cooperation* among foreign and domestic business companies' (Penrose, 1992, p. 16).

These indeed are prophetic words, as in the last decade alliance capitalism (Best, 1992; Dunning, 1997) has come of age. Increasingly, national governments see inbound FDI as a way of upgrading the productivity of their indigenous resources and capabilities; while at the same time, they acknowledge their responsibility to ensure that those social and public goods which cannot be marketised are adequately and efficiently provided.[8]

In the second contribution (which, chronologically, predates the first), Mrs Penrose extends this theme by considering how the drive towards liberalised trade, and more particularly the anti-dumping measures initiated by GATT, may inhibit the contemporary MNE or (in her words) the 'global' corporation from behaving in an optimal way (Penrose, 1990).

She reminds us that some of the unique competitive advantages of MNEs, for example their ability to exploit the cross border economies of scope, scale and integration, coupled with their 'anticipatory' innovating capabilities, inevitably lead to 'inherent and avoidable imperfections of the actual markets in which they (*sic*) compete as well as the avoidable ones' (Penrose, 1990, p. 183). As a result, Edith goes on to assert, 'The principles of international trade which include simple price discrimination between national markets among "unfair" or monopolistic trade practices have never integrated or taken account in a coherent manner of any of these characteristics of modern international production and distribution' (Penrose, 1990, p. 182).

In other words, the emergence of the globally integrated corporation demands a reconfiguration of the classical interpretation of the character and content of 'free' markets. Such a reconfiguration should not only acknowledge the inevitability and benefits of market 'failure', but the

positive role which governments and international agencies may play as protectors and facilitators of a multilateral trading system, appropriate for a world in which many intangible assets are mobile across national boundaries.

In the third contribution, Mrs Penrose takes an even broader look at the forces of liberalisation as they have affected the role of the state in developing countries. In this essay, she documents the changing characteristics of MNEs and the changing motives for FDI in the early 1990s; and how these and the 'rolling back' of the state[9] are demanding a reappraisal of the micro-management strategies of developing country governments including those towards FDI. While, as in previous contributions, Mrs Penrose is generous in her acknowledgement of the benefits of a free flow of capital and other resources across national boundaries, she remains sceptical as to how far the large MNEs competing within oligopolistic markets, and geared towards meeting the interests of their global constituents, rather than those of any one country, can abide by the rules of classical liberal competition. In such cases, she argues that governments of countries not yet fully assimilated into the mainstream of global capitalism should adopt a cautious, selective and even defensive response to its machinations, and to those of one of its main organisational entities – the large MNE – lest by unreservedly joining the system 'with which the future lies could be to give unnecessary hostages to fortune' (Penrose, 1993, p. 13).

The desirability of a visible partnership between governments and firms to both ameliorate and enhance the workings of the invisible hand of markets has been a constant theme of Penrosian writings since the late 1960s. Most recently – and somewhat belatedly – it has been taken up by the World Bank in several of its recent annual reports. It is now top or near the top of the economic agenda of many governments and several international agencies, notably the World Bank, the WTO and UNCTAD. Added to governments, international agencies and firms, new actors, comprising a range of non-governmental organisations are also entering the debate as 'quality of life' objectives are now being given a new emphasis. All these developments, I know, would have greatly interested Edith Penrose, and I am sure she would have many wise – not to mention feisty – words to say about them.

I have left the little gem referred to earlier until last. If there was ever a statement about Edith's philosophy towards the purpose and content of economics and its relationship with other disciplines, we have it in a short paper published in 1989. Applying some of her thoughts specifically to the MNE, Professor Penrose favours interdisciplinary (dare I say it, an 'eclectic') approach to understanding the phenomenon and its role in the global economy. In her own words – and responding to any uni-disciplinary claim to be the sole oracle on the subject – she wrote:

> practitioners from each specialisation approach the analysis of the nature, purpose, function, effect or whatever of multinational enterprises from different points of view, with different tools of analysis, different value weights, in effect asking different questions which spring from their different theories about the world they see. All are relevant for the understanding of the phenomenon of multinational enterprise. (Penrose, 1989, p. 9)

What are the implications of this statement? In her words again:

> I think the problem of generalisation – of trying to produce a theory of the multinational enterprise – has its roots in the futility of making definitions without asking relevant and reasonably precise questions about why the definition is sought. (Penrose, 1989, p. 12)

Strong and pertinent words. No wonder I prefer the word 'paradigm' to explain my own approach to understanding the determinants of MNE activity (Dunning, 2000).

5. CONCLUSIONS

Edith Penrose was an economist after my own heart. She was always interested in real life problems but approached a solution to these by rigorous economic analysis. She eschewed mathematical models, and presented few statistical tables and only the odd diagram in all she wrote; yet her words spoke loud and clearly, and her arguments flowed effortlessly and in a way which anyone with a modicum of economics training could understand. This, of course, did not stop her from being fiercely critical of those who did not reach (or attempt to reach) the highest intellectual standards.

Edith's honour conferred on her by the AIB was thoroughly well deserved. Her pioneering and imaginative efforts to understand the growth path of firms; her wisdom and generosity of spirit in attempting to upgrade the quality of the interface between large and powerful companies and emerging developing countries; her scepticism about the benefits of an unfettered or classical international trading system dominated by large and globally integrated businesses; and her pertinent observations about the MNE as a subject for investigation: all these are as fresh and relevant to IB scholarship today as they have ever been. All of us who work in this domain owe a great debt to Edith Penrose.

NOTES

1. And only three times since 1994 *viz* to Geert Hofstede, Richard Caves and Alfred Chandler.
2. For those unfamiliar with it, the eclectic (or OLI) paradigm seeks to offer a deterministic framework for analysing the propensity of firms to engage in and control value added activities outside their national boundaries. In particular, it avers that the extent and pattern of foreign production of firms (i.e. that financed by FDI) will be determined by the strength and interaction between three main sets of variables, *viz* (i) the resources and capabilities which are specific and unique to the investing or potentially investing firms, (ii) the attractions of alternative locations in which these resources and capabilities might be created or utilised, *viz* the L advantages of countries or regions, and (iii) the extent to which firms believe it to be to their benefit to internalise the markets for the creation or use of these O specific advantages, relative to some other organisational mode, *viz* arm's length markets or a contractual agreement with other firms. For full details of the paradigm and its constituent theories see, for example, Dunning (1977, 1993, 1995 and 2000).
3. Throughout this chapter we shall quote from the 3rd edition of *The Theory of the Growth of the Firm*, published in 1995.
4. In this respect she was again ahead of her time, although in a footnote in the *EJ* article she acknowledged the writings of P.M. Hocking and myself on this issue.
5. These included a statement presented at the hearings organised by the Group of Eminent Persons set up by the UN to study the impact of MNEs on economic development; and two papers on 'Participation and Control' and '*Overview of Negotiations with TNCs*', presented at a Round Table on Negotiations with Transnational Corporations organised by the United Nations Centre on Transnational Corporations (UNCTC) in 1978.
6. In parentheses, it is worth noting that Edith Penrose had considerable faith in the governments of less developed countries to pursue sensible and effective policies towards MNE activity in their midst (see especially her comments in Penrose (1976, pp. 151–4).
7. At least, I haven't been able to track down any published version of it.
8. I have explored the role of governments in an era of global capitalism in my most recent book (Dunning, 2001).
9. Penrose (1995, p. 10).

SELECTED WRITINGS BY PROFESSOR EDITH PENROSE OF PARTICULAR RELEVANCE TO IB SCHOLARS

Penrose, E.T. (1951), *The Economics of the International Patent System*, Westport, CT: Greenwood Press.

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