7 Models of the Multinational Enterprise

7.1 Introduction

The appearance of a major work of survey and synthesis, which goes into successive editions (Caves, 1996), is a clear sign that a subject has reached maturity. Maturity can sometimes indicate stagnation, however, and so the question naturally arises as to whether stagnation has set in to international business research. Caves’ second edition is an encyclopaedic work, but it is very much like the first edition in its general structure. Only the details have been modified in the light of recent research.

This article argues that any impression of stagnation is misleading. Rather than quibble over a number of minor details of Caves’ exposition, this article makes a single substantive point. It identifies a new research agenda for modelling multinational enterprises (MNEs) which is not fully reflected in Caves’ work. This agenda has emerged over the last ten years. It is difficult to recognise because its various components have not yet coalesced. It is nevertheless unfortunate that Caves has failed to emphasise its significance in his recent revision of his book.

7.2 Models of multinational enterprises

The new agenda emphasises dynamic issues. It highlights the uncertainty that is generated by volatility in the international business environment. To cope with volatility, corporate strategies have to be flexible, and flexibility can be achieved by several means. New dimensions of corporate strategy therefore have to be recognised. Efficient information processing is crucial to cope with the resultant increase in the complexity of decision making. This has important implications for
the organisational structure of the MNE and for the motivation of its managerial employees. The new agenda spells out these implications in a rigorous fashion.

The traditional agenda of Caves takes a more static view of international business. It focuses on:

- the nature of firm-specific competitive advantage;
- the choice of location of production; and
- the determination of the boundaries of the firm.

The classic application of the traditional agenda is to the foreign market entry decision. This agenda recognises change, but interprets it as a sequence of independent one-off events, rather than as a continuous systemic process. Thus entry into any given market is analysed independently of entry into others, and each entry strategy tends to be evaluated in terms of its immediate effects rather than in terms of the new opportunities to which it may ultimately lead. The market entry issue will remain important; it has, indeed, received new impetus from the recent wave of FDI into Central and Eastern European markets (Hood and Young, 1994). But the models of market entry developed in the 1970s remain too static to address the crucial issues of the 1990s, because they fail to take proper account of volatility.

This does not mean that static analysis is obsolete. Static analysis is much simpler than dynamic analysis, and for this reason the traditional static approach is a natural preliminary to the new dynamic one. A dynamic model always contains a static model as a special case, and the properties of this special case provide important clues as to whether the dynamic model is logically sound. The new dynamic agenda focuses on:

- uncertainty and market volatility
- flexibility and the value of real options;
- cooperation through joint ventures and business networks;
- entrepreneurship, managerial competence and corporate culture; and
- organisational change, including the mandating of subsidiaries and the ‘empowerment’ of employees.

The stimulus for the new agenda was the end of the ‘golden age’ of Western economic growth, which came abruptly with the oil price shock of 1973–4 (Marglin and Schor, 1990). Lags in recognising and interpreting the symptoms of this change caused its impact on academic literature