Introduction

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The first paper in this volume (Chapter 1) is a commissioned piece on research in managerial and business economics. The occasion of this paper was the twenty-first anniversary of the founding of the *International Journal of the Economics of Business* where its founding editorial board were asked to submit personal reflections on the development of this specialist field. Consequently, this paper emphasises the applied economics of international business. The piece has a note of regret in that international business has not had more influence on applied economics but points to internalisation theory as an area that has achieved some traction in the economics domain. It further points out that achievements in the international business field – in examining the role of time, in its use of economic geography, in multi-disciplinary successes such as the integration of culture into the analysis, its innovative analysis of joint ventures and collaboration, and its acknowledgement of spatial issues – could, with profit, be introduced more widely into applied economics.

The remainder of this volume emphasises those developments in examining the multinational enterprises' role as the entrepreneurial orchestrator of global networks, the analysis of technological development, economic geography and acquisitions in the new salience of emerging country multinationals, and in the governance and performance implications of the global factory as a competitive organisational form.

The theory of international business

Internalisation theory is a theory that actually works. The simple core principles – that a firm exists in those spaces where organisation is superior to market and that activities are located in a network where the nodes are in the least cost location – are fundamental but flexible (Buckley and Casson 1976, 2009; Buckley and Ghauri 2004; Buckley 2009, 2011a, 2011b). Part II of this volume examines the development of internalisation theory, its role in global interfirm networks and its extension to 'societal failures'. Other theoretical perspectives are introduced, too. The principle of congruity is used to analyse joint ventures and alliances, Adam Smith's theory of knowledge is related to international business theory and practice and historical approaches to the analysis of internationalisation are evaluated. Finally, linguistic and philosophical concepts are applied to 'emic versus etic' research in the international business field.

Chapter 2 looks back over forty years of internalisation theory as it has been applied to the multinational enterprise. It reviews the key analytical principles of internalisation theory as a general theory of the multinational enterprise (MNE). It traces the development of the theory from its origin in Coase's classic (1937) paper 'The Nature of the Firm' to its application to the MNE by Mark Casson and myself in 1976 and through its subsequent incarnations until its application to modern, networked multinationals – the global factory. The long-term aspects of the theory were emphasised by Buckley and Casson (1976, p.2) and the theory has proved itself to be a long-term survivor, equally applicable to emerging market multinational

enterprises (EMNEs) and strategies such as fine-slicing, outsourcing and offshoring as to conventional MNEs of the last century. Concern for the external impact of the MNE, in development issues for instance, and for the theory as a guide to public policy remain critical research issues. The theory lives up to Kurt Lewin's (1951, p.169) aphorism that 'There is nothing more practical than a good theory'.

Chapter 3 examines the novel concept of the division of entrepreneurial labour between MNEs and small and medium sized enterprises (SMEs). This chapter analyses the differential capabilities of SMEs and MNEs (who carries out an activity), the relationships between principals and outsourcing firms (the who) and the context of the participants – specifically the spatial context (the where). The relationships within the global factory are analysed by capabilities, connectivity and contextuality. The concept of the division of entrepreneurial activity is ripe for future development.

Chapter 4 is a radical extension of the internalisation theory of the MNE. It examines the potential of MNEs to substitute for failing non-market institutions by creating intermediate markets, largely in services that are conventionally performed by the state, or, often, are completely missing in certain countries. The role of MNEs in the provision of public goods raises issues of legitimacy and is frequently controversial. The circumstances of non-performance or suboptimal performance of institutions in providing public goods (education, power supplies, local government functions, law and order, communication and transport systems) presents the opportunities for MNEs to substitute for other forms of provision. Such an extension of theory is controversial and drew a critical response (Hillemann and Verbeke 2015) and a response (Buckley and Boddewyn 2016). Internalisation theory remains interesting!

The analysis of cooperation in international business – particularly in international joint ventures (IJVs) and strategic alliances – has been a major area of success in international business theorising. Chapter 5 examines the principle of congruity in the analysis of international business cooperation. A micro-dynamic analysis of parties involved in cooperation shows their attitudes to their (prospective) partner depend on the initial (mis-) match between their mutual evaluations, their wish intensity (to cooperate) and the speed to reach congruity. Applications to different cultural backgrounds and mindsets are developed and the chapter shows that further applications are possible. The integration of the principle of congruity with the analysis of mutual forbearance (Buckley and Casson 1988) in IJVs and strategic alliances is an interesting future research avenue.

Chapter 6 argues that the reasoning and insights of Adam Smith's theory of knowledge can improve international business theory. Smith's work sheds light on decision making in MNEs and on cultural distance (Smith has a set of penetrating insights into what the current literature terms 'liability of foreignness' (Zaheer 1995)) derived from limits to Smith's concept of 'sympathy' (modern 'empathy'). The combination of these analyses yields new insights into multinationals from emerging countries and fits with Smith's depiction of the (global) economy as a complex adoptive system (Hashai and Buckley 2014).

My long-standing interest in history research, and its methods, is reflected in Chapter 7. Internationalisation is a process, and process implies a time dimension, therefore the methods of history should be a good fit in the understanding of the global growth of firms. The chapter defines the internationalisation process as a sequenced set of decisions in time and space, path dependent to some degree but subject to managerial discretion. Research on the

internationalisation of firms, it argues, can benefit from historical research methods including a careful analysis of source material, time series elements, using comparative evidence across time and space and the (not uncontroversial) use of the ‘alternative position’ or counterfactual analysis.

Chapter 8 examines cross-cultural research in international business – ‘custom’ and ‘culture’ are the ‘king of all’ in the opinion of Pindar, quoted by Herodotus in the opening passage of the chapter. Distinguishing the universal from the particular is a critical task in cross-cultural research and this can be approached through the emic–etic dichotomy. The paper examines the linguistic underpinning of this contrast, and looks at issues of language translation and borrowings from social anthropology that can aid international business research. This is applied to a particular business case – German acquisitions of Polish companies and the cultural issues faced by both sides. Issues such as ‘punctuality’ are shown to reflect deep cultural distinctions to which ‘emic calculus’ versus ‘etic measurement’ are different responses which managers need to understand if progress is to be made.

This section on theory is wider ranging and illustrates the virtues of a core theory (internalisation) that can be supplemented by other theoretical approaches that share similar assumptions – theories of entrepreneurship, cooperation and spatial and temporal theories deriving from geography and history. The following section (Part III) applies this core theory to emerging market multinationals – a key phenomenon in twenty-first century globalisation.

Emerging market multinational enterprises

The foreign direct investment behaviour of multinational enterprises from emerging markets has become one of the foci, if not the primary focus, of international business research. The rise of the BRICs and their impact on the global economy has energised the international business research field. Of particular interest is the question as to whether outward foreign direct investment from emerging countries can be explained utilising the tried and tested theoretical rubric that has been used to explain FDI from ‘advanced’ countries. In fact, the challenge of explaining FDI from emerging countries has been met by refinements in, rather than the replacement of, internalisation theory (Buckley et al. 2007; Hennart, 2012). It is a severe test of a theory originally set up to explain Western private, largely manufacturing multinationals to apply the theory to firms that are often none of these. The structure of the theory, having an overarching general structure that firms internalise markets until the costs of further internalisation outweigh the benefits, plus least cost location of activities controlled by the firm, but also a number of nested special theories – for knowledge-intensive firms for instance – has facilitated the ease of application of an unchanged core theory to ‘new cases’. However this requires considerable adaptation to context.

The first two chapters take a radical look at theories purporting to explain OFDI by EMNEs. Chapters 9 and 10 present the global system view of the world economy whereby the global economy is represented by a general equilibrium approach in which all participants aim to maximise the overall utility created by all players in the system. Essentially, this approach predicts the location and ownership of all firms in the global system.

Using this approach, Chapter 9 challenges the view that firm-specific competitive advantage is a necessary condition for the emergence of multinational firms. This represents a view of emerging market MNEs that accords with much casual empiricism – that EMNEs do not have technological, marketing or brand advantages and yet manage to successfully internationalise.

The global system view obviates the (often rather desperate) search for attributes that can be labelled ‘competitive advantages’. The size of the domestic home economy, leading to a large number of home country entrepreneurs, asymmetric liabilities of foreignness and the ability of location and internalisation advantages substituting for ownership advantages sufficiently explain outward FDI from emerging economies.

Chapter 10 analyses how the upgrading of technological capabilities of EMNEs and increases in domestic market size impacts on value chain location choices and the relative competitiveness of EMNEs versus conventional EMNEs. Again, the existence of firm-specific advantages is not necessary for EMNEs to emerge. The model can predict the location choices of MNEs from large advanced *and* emerging economies.

One salient feature of OFDI by emerging market multinationals is the high proportion of this investment that goes (in the first instance) to tax havens and offshore financial centres. Chapter 11 analyses the investment of Chinese MNEs in these centres. There are a number of motivations for this investment – avoidance of taxation is one but so too are the escape from a weak institutional environment to stronger ones, the desire to raise offshore funds to reinvest elsewhere (capital augmentation) and ‘round tripping’ (investing back into the home country, often in a different province). This institutional arbitrage combines with firm-level financing decisions. Investment in tax havens and offshore financial centres is unsettling for international business analysts because the final destination of investment is unclear. This distorts the measurement of FDI flows and conceals changes of ownership en route. Of particular concern is privatisation of state-owned assets. There is much more work to do in this area not only to obtain a clearer picture of FDI sources and destinations but also from a policy point of view with regard to ‘Base Erosion and Profit Shifting’ (BEPS) that bedevils international taxation and fiscal policies.

The role of acquisitions by EMNEs looms large in Chapters 12, 13 and 14. Chapter 12 is one of very few extant pieces of research to assess the implications for performances in acquisitions by EMNEs. The paper shows that takeover of target firms by EMNEs often enhances the performance of the acquired firm. Not all resource inputs from EMNEs are equally beneficial for performance and some types of prior experience even have a negative effect on post-acquisition performance. The results are suggestive of a more fine-grained approach to predicting the success of a takeover by an EMNE.

Chapter 13 is one of a series of empirical studies of cross-border acquisitions by Indian MNEs – a favoured form of international operation by Indian firms. This paper is interesting because (like the previous chapter) it shows that foreign resource inputs can impede, as well as assist cross-border acquisitions. It is the *interaction* of foreign and internally owned resources within EMNEs that is critical.

Chapter 14 asks whether cross-border acquisitions by Indian MNEs are asset exploiting or asset augmenting. Internal financial and technological resources are important explanatory variables as is the presence of an asset seeking (brands, technology, market access) motivation. Interestingly, the paper shows that the experience of Indian firms in managing a culturally diverse home market helps to develop asset bundling skills.

The global factory

The development of internalisation theory to explain the networked multinational enterprise is the basis for Part IV which examines location and control, knowledge transfer and the

performance implications of global alliance portfolio expansion. The governance theme links these three papers. The orchestration of activities, which may be wholly or partly owned or governed by contractual relationships, is a key skill of top managers of global factories. The role of knowledge in these processes is central and these papers examine different aspects of the governance process.

The ‘global factory’ as a theoretical characterisation of the modern, networked MNE derives from internalisation theory and, as such, has governance implications (Chapter 15). Internal transaction costs associated with the governance of the MNE arise from its internal architecture (Buckley and Carter 1996, 2002, 2003) and can be contrasted with external transaction costs to determine the scope of the firm (Teece 1983). This chapter considers also the risk propensity of the MNE and suggests that a future research agenda should explicitly focus on the process of strategy formation by MNE managers taking into account risk propensity.

The utilisation of knowledge transferred between units of the MNE is the subject of Chapter 16. The efficacy of knowledge utilisation is examined in terms of hierarchical governance relationships and ‘lateral’ relationships between subsidiaries. Lateral relationships are found to be powerful stimuli in building subsidiary relationships. This is powerful evidence of network effects within multinational enterprises.

Chapter 17 is the first paper in a strand of research on the speed of strategic moves by MNEs – examining the trajectory of firms’ international alliance portfolios. It starts from the funding from extant research that faster speed in undertaking new strategic alliances has negative effects on profitability. The paper advances theory by examining both costs and revenues and the ways in which speed affects managerial costs and revenues. The negative effects on profitability from speed arise from a greater effect on costs than revenues. A more regular rhythm of expansion and a longer duration of existing alliances reduces negative profitability by moderating the increase in managerial costs. The impact of speed, rhythm and duration of entries is a fascinating and relatively unexplored aspect of the expansion of global factories. Further investigation of these aspects of internationalisation is likely to pay dividends in the understanding of key processes of globalisation by MNEs.

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