**Essay –** **critical evaluation of theoretical explanations**

**Critically evaluate the following two explanations for the growth of multinational enterprises: the internalisation theory (Casson and Buckley) and the analysis of transnational monopoly capitalism (Cowling et al). (Word-guidance 1500+).**

you are asked to critically evaluate internalisation theory and monopoly capitalism theory as explanations for the growth of multinational enterprises. There are a number of ways to approach this but one is to set out clearly the main tenets of the body of theory (originating with Coase – see Ietto-Gillies chapter 8 for a useful summary) and also based on Casson and Buckley and then ask, what would the other perspective say was missing, flawed or inconsistent. You could then reverse the process and look at the second body of theory based on Sackery et al. and Cowling and Tomlinson in the same way; questioning it from the internalisation perspective.

Remember that critical evaluation implies consideration of the extent to which a theory explains what it purports to do (completeness). In this case, the degree to which each theory fully explains the growth/activities of TNCs. In addition, evaluation should consider the extent to which any theoretical explanation is free from contradictions (internally consistent).

**Evaluation of reasons behind multinational enterprises’ growth**

An immense deal of multinational companies finds significant growth opportunity in emerging markets. There are various fronts via which growth in these markets occurs: foreign investments’ opportunities, development of infrastructure, alongside consumer market expansion fuelled by increased income and emergence of the middle class. Such outsized emerging markets as Brazil, Argentina, China, and India have been identified as drivers of global and regional economic growth characterized by large populations, significant economic reforms, outsized physical sizes, significant political influence within their regions, alongside fast growth rates. Typical emerging markets are characteristic of constant changes representing both considerable risks and exciting opportunities for international enterprises. Businesses in merging markets are faced by the significant challenge of global financial crises. These markets exhibit high susceptibility to financial crises owing to the fact that they depend on external capital. Economists and scholars have made several attempts to explain the growth of international enterprises. To this effect, various theories have been developed in relation to the growth of multinational enterprises alongside other aspects of these enterprises. Outstanding examples of perspectives from which the growth of multinational enterprises can be viewed are the internalization theory and the transnational monopoly capitalism.

**1.1 Internalization theory-Casson and Buckley**

The internalization theory is a conceptualization of Casson and Buckley. In brief, Casson and Buckley show that multinational enterprises have the culture of organizing several activities internally in order to have the capability of developing and exploiting firm-specific advantages-FSAs. These FSAs’ proprietary ownership has the responsibility of overcoming the externality of knowledge as a public good. With consideration of market failure presence, internalization is a governance mechanism in the development and exploitation of FSAs. Ideally, internalization acts as an external market alternative for the development and exploitation of knowledge. Generally, Casson’s and Buckley’s work is a demonstration of the way market imperfection can have the consequence of pressure for internalization by multinational enterprises3. The work of Casson and Buckley can be referred to as a rare original contribution towards international business thinking. The development of the primary idea arguing that MNE has the capability of replacing the market was entirely independent of the thinking of Oliver Williamson. The relationship between the internalization theory, markets, and Williamson’s hierarchy approach was resolved via a publication by Hennart in the year 1977. Ideally, internalization theory acts as a comparative institutional approach towards MNE behavior analysis. This theory is characteristic of allowing the assessment of the relative effectiveness and efficiency of alternative mechanisms of governance with the objective of managing economic interdependencies. Considering the MNE to be a network having weak and strong ties among subsidiaries and between subsidiaries and parent, the application of the internalization theory is possible for the evaluation of the relative benefits and costs of the management of economic interdependencies. This is an example of a positive explanation of organization and functioning of MNE that is efficiency-based3. This has the implication that there is a possibility of extending thus linking internalization theory to network analysis. It exhibits full compatibility with the explanation of the firms’ boundaries, alongside the distinctions of organization between hierarchy, joint ventures, and markets.

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3. Casson, M., 2014. The economic theory of the firm as a foundation for international business theory. *Multinational Business Review*. 22 (3), pp.205 to 226.

It is, however, worth noting that internalization theory’s initial work (as per Casson and Buckley had concern in the exploitation and development of FSAs in the external market and within the firm4.

According to Dunning (1990), government’s role in enhancing economic development via policies complementing MNE FSAs ought to explicitly been brought out. This has the implication that the policies of government are of much essence to the development of FSA and exploitation processes. Thus one of the ways via which the internalization theory explains the growth of multinational enterprises is the development of relations between these enterprises and governments. Ideally, interactions between multinational enterprises and governments are subject to gradual evolution with the CSAs/LSAs vertical axis having the capability of affecting the strength of FSAs of a multinational enterprise. Ideally, the presence of numerous firms having formidable FSAs in one location has the capability of clustering merits thus being advantageous to future entrants of the market. The theory of internalization is also an explanation fro the growth of multinational enterprises considering that internalization is of much essence to dynamic innovation procedures. Ideally, decisions about internalization ought to take into account its potential contribution to the future development of FSA. According to Cason and Buckley, FDI takes place in the event that its advantages are more than the costs. In such cases, foreign direct investment normally acts as a replacement of exportation.

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4. Casson, M., 2014

Ideally, unnatural market imperfections are associated with as much power as the imperfections of Coasian natural market in the prevention of the efficiency of market operations5. Both imperfections result to internalizations and MNEs development.

**2.2 Transnational Monopoly Capitalism-Cowling et al.**

Transnational Monopoly Capitalism offers yet another explanation behind the growth of multinational enterprises. According to Cowling et al6, multinational enterprises owe a significant part of their growth to the power of capital-this is found to have several, complex sides especially in relation to the state and labour. This concept bases its argument on the normative alongside the power of capital’s material aspects. Ideally, multinational enterprises refer to global organizations characteristic of global priorities; these priorities mainly appear in nation states’ public policies. The explanation of this dominance is subject to both normative power and structural power. According to Transnational Monopoly Capitalism, a decline in profit rates is an expression of a decline in the value of surplus provided that the value of constant capital: amount of labour power ratio is constant. A capitalist’s work is found to be inversely proportional to the capital size. Thus the formation of the concept of capital is subject to the interaction between producers and labour conditions. This interaction is characteristic of the ability to accumulate capital, thus a contributing factor to the growth of multinational enterprises.

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5. Buckley, P.J., 2014. Forty years of internalization theory and the multinational enterprise. Multinational Business Review. 22 (3), pp.227-245.

This process of capital accumulation is associated with tremendous expansion with respect to production scale and multinational enterprises-this would not have been possible in the event of individual capitals. In this way, enterprises are also said to receive social capital rather than private capital thus the rapid growth of international enterprises. Transnational Monopoly Capitalism also explains that multinational enterprises grow substantially as a result of cartels, trusts, and mergers. Ideally, groups’ formation is the last stage in monopoly capitalism development. Such groupings have the primary objective of controlling competition. The reaching of this stage is subject to an immense deal of centralization, which reduces the number of organizations in a particular sector, thus intensifying competition to such an extent that it has advantage to no one. According to orthodox economics, efficient capitals have the capability of driving out the inefficient ones via competition. In the event whereby one capitalist kills many, capital centralization and concentration proceeds so much that capital elimination threatens to take out both small and large enterprises. However, in such a situation there is combination of the few survivors thus the control of competition and production6.

Ideally, via the formation of combinations, Transnational Monopoly Capitalism takes the view point of the internalization theory. This is the view that multinational enterprises have the culture of organizing several activities internally in order to have the capability of developing and exploiting firm-specific advantages. Such combinations are significant drivers of the growth of multinational organization as illustrated by the formation of mergers and acquisitions by leading international companies.

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6. Cowling, K. and Tomlinson, P., 2005. Globalization and Corporate Power. *Contributions to political economy*, 24, pp.33-54.

Ideally, these companies have been attempting to minimize competition fro market share via acquisitions thus their ultimate growth. On the other hand, the internalization theory also takes the view of Transnational Monopoly Capitalism via the concept of strength of capital. Ideally, Transnational Monopoly Capitalism recognizes that the accumulation of capital is of much essence to the success of multinational enterprises7. The internalization theory recognizes the accumulation of capital via the organization of several business activities in order to exploit advantages associated with FSAs.

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7. Hoenen, A-K. & Hansen, M., 2009. Oligopolistic competition and foreign direct investment: (Re-) Integration the strategic management perspective in the theory of multinational corporations. Copenhagen: Copenhagen Business School. *CBDS Working Paper*