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RESEARCH ARTICLE

UNDERSTANDING INTERNALIZATION THEORY AND MULTINATIONAL ENTERPRISES FROM EMERGING ECONOMIES IN BUSINESS HISTORY PERSPECTIVE

Anteneh Dagnachew Sewenet

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Abstract

This review paper is focused on applying and advancing the Internalization theory to address some of the most current gaps. This paper draws together and synthesizes the lessons learned from the various papers on internalization theory integrated with a business history perspective in this special issue. The review, therefore, is providing a comprehensive understanding of the internalization theory and how it will accommodate the issue of multinationals from emerging economies. To this end, the core point of this paper review focused on demonstrating how to better understand internalization theory and to show how the general internalization theory could be applicable in emerging economy multinationals. While discussing internalization theory and emerging multinationals important insights revealed complementing the business theory with business history to rethink using this two for current business phenomena. Finally, the paper discusses potential avenues for future research and conclusions.

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Introduction:-

The core argument of internalization theory is exploiting a firm's knowledge-based asset across national boundaries (Buckley and strange, 2011). The theory explains how multinationals exist and function considering both external and internal factors affecting their performance (Rugman and Verbeke, 2008). The theory suggests multinationals focus on their internal strength within the firm to get a comparative advantage rather than making a profit through the use of a market mechanism (Verbeke and Kano, 2015). This gives the firms to internalize what they have and develop a strategy for more Firm-specific advantage exploitation by strengthening knowledge or capability unavailable to the competitor and which make it more effective than others. Though the critical importance of a firm's knowledge-based assets is indubitable, when it comes to international business, MNEs need to look also at how attractive the hosting country is. This is because the entry mode and country selection matter. For instance, the emerging economy multinationals interact with each other in their home country. And due to the pattern of the interaction in the home country business system, companies design strategies of internalization and look for outward investment considering the opportunities given by the host country (Hobdari, Gammeltoft, et al, 2017). Therefore, In addition to firms-specific advantage, it is also vital to look for country-specific advantages, like natural resources and low-cost labor which reflects the attractiveness of the hosting country (Buckley and Tianb, 2017).

From the above main concept of Internalization theory, it is clear that the performance of the firms could depend on both firm-specific and country-specific advantages in international business. Since it works in general for any multinationals in doing business across borders, there is no question regarding the applicability of this concept for

developing an international business framework for the current era of multinationals from an emerging economy. However, while discussing the factors determining the performance of EMNEs, Verbeke and Kano, (2015) argued that the effectiveness of EMNEs on their outward investment mainly comes from their monopoly-based business activities rather than knowledge-based. Therefore, for strategic international business advantage, it is noted that EMNEs need to engage themselves in R&D to upgrade the way they are doing business and focused on a strategic-management perspective to be competent in the global context. (Buckley and Tianb, 2017 and Rugman and Verbeke, 2008)

Thinking about the internalization theory of international business, there are three broad directions of multinational enterprises establishing business abroad to capitalize their knowledge-based advantage and to seek abundant resources from hosting country or in general to get any competitive advantage. These moves of firms are (1) from developed economy to emerging economy ;(2) from emerging economy to developed economy; and (3) from an emerging economy to another emerging economy (Verbeke and Kano,2015). Nowadays there is a high contribution of emerging multinationals to the global economy (Barnard, Madhok, et al. 2010). Due to the rise of emerging multinationals, EMNEs have been of particular interest to international business scholars. That is why evaluating the existing business theory (in this specific case, Internalization theory) to make sure whether a change is required on the components of the theory to be applicable in the current dominating EMNEs business era.

Internalization theory with a business history perspective for EMNEs

Business history provides evidence on what were the growing pattern of firms and also the impact of multinationals on host countries. (Jones,&Boddewyn, 2014) and Lopes, Casson, et al. 2019). International business history provides examples from the history of firms how they changed their structure and adopted strategies that used to learn more and fell the misconception about internalization theory. This could be evidence of how some multinational firms made decisions to change their organizational structures to maximize their efficiency in the business while others did not even survive. For example, in early times due to the slow speed of communication multinationals used to give power to their subsidiaries and local entrepreneurs for making business decisions to respond to local problems. Nowadays, it is possible and companies become more efficient by using communication technology for creating a networked platform and making decisions from the headquarter. Therefore, it is clear that business history gives important insights into the Multinationals business is complementary to the prediction of internalization theory. Like longitudinal business, analysis is important it is also critically useful using business history statistical analysis for a better understanding of international business and the behavior of multinationals (Jones, & Khanna, 2006). While analyzing the history of firms it is also used to examine the prediction power of internalization theory and to extend the theory to be applied currently.

The main debating issue on internalization theory is how the existing internalization theory can accommodate the emerging economy multinational enterprises. According to Narula, Asmussen, et al. (2019) and Buckley, (2018). Internalization theory is still applicable in twenty-first-century multinational enterprises. The authors by Examining the existing internalization theory which assumptions of the theory to be changed and which part of it is difficult to apply nowadays argue that the components of the theory could be applicable with integrating it with complementary concepts. These complementary concepts include transaction cost considerations in the bundling and recombination of assets across diverse contexts, the growing relevance of quasi-internalization, the theoretical challenges of (bounded) rationality for internalization theory, and the increasing disconnect between ownership, control, and responsibility.

According to Verbeke and Kano, (2015) also there is no need for a new internalization theory to study EMNEs. Rugman and Verbeke, (2008) recommended extending internalization theory by considering the complexity of global business phenomena through giving due attention to the entrepreneur and management rather than the firm. Some studies open, Casson, et al (2019) and Verbeke and Kano,(2015) also argued that using historical evidence international theory is sufficient to address the complexity of EMNEs that is, by analyzing the behavior of developed-economy multinationals from historical perspectives. Therefore, understanding the behaviors of multinationals whether the relevant firms are originated from emerging or developed economies will be completed only when it is contingent upon the infusion of a business history perspective. An Important insight yielded by this study is that distinguishing firms based on their home country's current economic development is imperfect. Instead, a close look for EMNEs and historical shared evidence must be considered to understand multinational strategy, structure, and performance as they are influenced by distinct national histories, cultures, and political environments as well as external shocks: world wars, natural disasters, and financial crises.

Concluding remarks

This review paper demonstrates that internalization theory (broadly defined) is still a powerful framework and that there is significant potential for using its components in a modular fashion in extending the framework and integrating it with complementary concepts from other theories and using evidence from business history studies. Studying the behavior of multinationals without taking into account the findings studied on international business by historians will be incomplete. And categorizing MNEs based on their origin is imperfect. So that, the development of a new or more integrative approach can be explicit about which assumption of internalization theory is being relaxed or modified to attain analytical clarity and logical consistency.

This review paper fulfills an important function in bringing these issues to the forefront of the research agenda. It is hoped that, in combination, they might serve not only to delineate current frontiers in international business research but also inspire work on new (and as yet unidentified) ones. Building on this work should ensure ample opportunities both for empirical researchers looking to apply internalization theory and for theoretical researchers looking to advance it.

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