THE ENVIRONMENT AND INTERNAL ORGANIZATION OF MULTINATIONAL ENTERPRISES

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Multiple sources of external authority and multiple denominations of value are two distinguishing aspects of the environment faced by multinational enterprises (MNEs). After defining the MNE as an organizational form, we examine the research implications of these two environmental influences on four aspects of MNE internal organization: modes of entry abroad, configuration of activities, coordination and control, and competitive strategy. We present general propositions to guide future research and argue that multiple sources of authority and multiple denominations of value require cross-disciplinary research efforts in order to fully understand the MNE as an organizational form.

The importance of the multinational enterprise (MNE) to the world economy is beyond debate. However, opinions vary as to the contribution that the scholarly study of MNEs has made or will make to our knowledge base. Some scholars argue that lack of comprehensive theory building has stifled the evolution of past research, and unless this shortcoming is rectified, it will continue to inhibit future research. This concern, for example, was raised by Kogut (1989: 388) when he asked, “What is the analytical value of prefacing the word strategy with the word global?” Others have argued that MNEs are mere cross-national extensions of domestic or non-multinational firms, and, therefore, no new or separate theories are needed; the implication is that what is needed are better theories of organizations and better applications of these theories to MNEs. Still others have argued that the less-than-satisfactory contributions made by MNE research arise from a lack of multidisciplinary perspectives and an overemphasis on functional area-based investigations (Toyne, 1989).

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Before we present the thesis of this article, it is important to briefly examine the logic of each of these conclusions, because the issues raised are at the heart of research and pedagogy in relation to MNEs. First, if it is indeed true that MNEs are mere extensions of non-MNEs to a cross-national setting, then the difference between the MNE and any organization is simply one of degree, and no new organizational theories of MNEs are needed. In this case, the study of MNEs might be more appropriately focused on refining and extending general organizational theories. If, however, there are unique or substantially different aspects of MNEs compared to domestic organizations, then simple extensions of general theories would not suffice to accurately or comprehensively explain MNEs. In this case, the accurate and comprehensive understanding of MNEs would require the development of specific theories. Additionally, the particular nature of these differences would provide the basis for determining if multidisciplinary and integrative research were necessary, as well as the appropriate form and content of such research.

Our thesis is that there are indeed aspects of MNEs that are substantially different from aspects of non-MNEs and that these differences require additional theory-building efforts in order for researchers to accurately and comprehensively understand the organizational form. Furthermore, the aspects that differentiate MNEs are such that multidisciplinary and integrative research is necessary. The disciplines that need to be applied include not only those of the organizational sciences but also those of economics, political science, and law. The task of achieving this integration is unlikely to be an easy one, because economists and political scientists tend to use perspectives that focus on the environment of the MNE and either assume away the organization or treat it as a black box, whereas organizational theories tend to use perspectives that focus on the internal workings of the MNE and pay less attention to the environment in which it operates. In this article, we attempt to bridge this gap by arguing for and developing an initial research agenda that reconciles different perspectives through a multidisciplinary approach. In the process, our analysis is consistent with the growing recognition that MNEs are better understood either as organizational forms that comprise a complex network of differentiated subsidiaries (Ghoshal & Bartlett, 1990) or as complex global forms (Porter, 1986). Indeed, as we argue near the end of this article, our analysis traces one possible set of antecedents and explanations for such organizational forms.

Based on a broad definition of the MNE derived from past definitions and previous efforts at understanding different manifestations of this organizational form, we first examine the distinguishing aspects of MNEs (as opposed to aspects of non-MNEs). We then attempt to add to the understanding of MNEs by describing a theoretical framework and outlining propositions for future research.
A DEFINITION OF THE MNE

Before we examine the aspects that distinguish MNEs, it is useful to define the organizational form. Though many scholars have attempted to grapple with a definition that captures the true richness of this organizational form, previous literature abounds with conflicting, and sometimes competing, definitions. Hymer (1979) defined the MNE as an industry that is integrated across many countries; Perlmutter (1969) used a taxonomy based on management styles—geocentric (world-oriented), polycentric (host country-oriented), or ethnocentric (home country-oriented)—and suggested that a firm’s true degree of multinationality is measured by the extent to which its top executives think geocentrically. Vernon and Wells (1968), Vernon (1974), and Root (1986) defined the MNE on the basis of ownership of productive assets and commonality of strategy formulation and implementation across borders. Casson (1982) and Rugman (1988) defined the MNE on the basis of output measures: That is, the MNE is any firm that owns outputs of goods and services originating in more than one country. Kindleberger (1984) made a distinction among national corporations with foreign operations, multinational corporations, and international corporations based on a range of functional and attitudinal characteristics; Porter (1986) made a distinction between global and multidomestic corporations based on coordination and configuration of the firm’s value chain. Finally, Bartlett and Ghoshal (1989) and Ghoshal and Bartlett (1990) made a distinction among the various organizational forms of the MNE based on organizational structure: global (tightly controlled with a centralized hub structure), multinational (decentralized federations), and transnational (structure that permits retaining local flexibility while simultaneously achieving global integration).

Two observations can be made about these definitions. First, they appear to revolve around an organizing framework that suggests four forms (or stages) (e.g., Dowling & Schuler, 1990) of the MNE. Second, there are certain underlying aspects of the MNE as an organizational form that appear to cut across the different forms. This latter observation provides us with a foundation from which a general, though sufficiently operational, definition of the MNE can be derived.

According to the first observation, Table 1 provides an organizing framework, which encompasses four forms of the MNE that have been identified in the past literature. At one extreme are MNEs that we might call global firms; these are primarily national corporations with tightly controlled foreign operations (Kindleberger, 1984), characterized by ethnocentric management styles (Perlmutter, 1969), high coordination among and concentrated configuration of the various elements of the value chain (Porter, 1986), with organizational structures like a centralized hub (Bartlett & Ghoshal, 1989), and a common set of strategies worldwide (Vernon & Wells, 1968). Regarding output and investment measures, such firms
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<th>Global</th>
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<td>Porter (1986)</td>
<td>Coordination and configuration needs</td>
<td>Global</td>
<td>Complex global</td>
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<td>Bartlett &amp; Ghoshal (1989)</td>
<td>Network/interorganizational structure</td>
<td>Global</td>
<td>Transnational</td>
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<td>Ghoshal &amp; Bartlett (1990)</td>
<td>Organizational structure</td>
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<td>Hedlund (1986)</td>
<td>Organizational structure</td>
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are likely to have ratios of export-to-investment abroad that are substantially higher than the average for all MNEs. At the other extreme are MNEs that we might call multidomestic. They are characterized by polycentric management styles, low coordination among and dispersed configuration of the various elements of the value chain, decentralized organizational structures that operate as loose federations, and a diverse and perhaps uncoordinated set of strategies worldwide. Such firms are likely to have ratios of export-to-investment abroad that are substantially lower than the average for all MNEs.

In between these two forms are the more complex MNEs that we might call transnational; these MNEs variously combine attributes of the other two forms. Such MNEs would be those that Hedlund (1986) characterized as heterarchies, Porter (1986) termed complex global, and Ghoshal and Bartlett (1990) called a network of differentiated subsidiaries. Such manifestations would also be consistent with Perlmutter’s (1969) geocentric MNEs. As we mentioned before, there is a growing recognition in the literature that MNE organizational forms are tending toward these manifestations. The reasons for this tendency include decreasing costs of worldwide coordination and decreasing importance of the need for concentrated configuration of the firm’s value chain (Porter, 1986), or having to manage global integration, local responsiveness, and diffusion of innovations simultaneously (Ghoshal, 1987).

Regardless of the particular MNE organizational form, there are certain common themes and underlying aspects that emerge from the various definitions: This is an entity which, viewed from the “home” (parent) perspective, sells and/or produces in at least one other sovereign “host” (subsidiary) country where the nature and extent of multinationality may be divided further to include certain specific attributes. The crucial idea is that attributes of specific interest to past researchers—whether they be output, sales, investment, management styles, organizational structure, coordination and configuration, or commonality of strategy formulation and implementation—manifest themselves across sovereign boundaries. Using these insights, we offer the following as a practical and an operational definition of the MNE: An MNE is any enterprise that carries out transactions in or between two sovereign entities, operating under a system of decision making that permits influence over resources and capabilities, where the transactions are subject to influence by factors exogenous to the home country environment of the enterprise.

This definition is not only inclusive of past definitions, but it contains elements that describe both the environment in which the MNE operates (factors that derive from the common feature that transactions span sovereign boundaries) and its internal organization (factors that depend on the system of decision making and the MNE’s influence over resources and capabilities).

We construe the words and phrases used in the definition above in inclusive rather than exclusive terms. The notion of enterprise is con-
Structured to be broad enough to include all organizational forms from unitary organizations to the more fluid network relationships. Our relevant unit of analysis is the enterprise (or interchangeably, the firm). The idea of transactions is construed to be broad enough to encompass the notion of transactions in the tradition of Coase (1937) and Williamson (1975, 1985) and the notion of exchange in the tradition of Levine and White (1961), Emerson (1975), Toyne (1989), and Ghoshal and Bartlett (1990). More generally, a relevant multinational transaction for our purposes involves flows of products, capital, people, knowledge, or technology across borders. The notion of sovereignty is inherent to the etymology of the word multinational. The fundamental element of the MNE is the obvious idea that relevant transactions taking place both within and outside the firm are conducted across national boundaries. Accordingly, “system of decision making that permits influence” refers to the firm’s ability to coordinate and control endogenous organizational variables (e.g., resources, subsidiaries, managers) and quasi-endogenous market variables (e.g., buyers, suppliers, competitors). “Subject to influence by factors” refers to the effect of exogenous or environmental variables on transactions (e.g., exchange rates, political and regulatory systems, cultures, tariff and taxation systems).

This definition would include not only firms such as IBM that have plants, offices, and different functions in dozens of countries, but also firms such as Boeing whose cross-border transactions primarily involve exports. There are surely subtleties to the organizational form that richer definitions could perhaps capture better. We suggest the previous definition with a view toward operationalizing the ideas that follow.

DISTINGUISHING ASPECTS OF MNEs

A necessary condition for an organizational form to be called an MNE is reflected in our definition, which recognizes it, inter alia, as an enterprise that “carries out transactions in or between at least two sovereign entities,” or whose transactions span borders. Other features, such as a system of decision making and influence over resources and capabilities, or transfers of products, people, capital, knowledge, and technology, which are aspects of internal organization, are intrinsic to any organizational form. The difference in the case of MNEs is that the aspects of internal organization are couched in the environmental context of transactions spanning borders.

The basic feature of this context is manifestations of sovereignty, or the relative authority of the sovereign state over exchange rates, politics, culture, regulations, and languages (along with the corollary fact that distance and geographic boundaries play a role). Based on the key issues of sovereignty and that transactions cross sovereign borders, we derive two specific attributes of the environment that distinguish the MNE from the non-MNE: (a) multiple sources of external authority and (b) multiple denominations of firm value. After describing each of these distinguish-
ing environmental attributes, we explore their implications for four broad aspects of the MNE's internal organization: its mode of entry abroad, its configuration of activities, its mechanisms of coordination and control, and its formulation of competitive strategy.

Based on the preceding, the structure of this article and the development of research implications that follow are summarized in Figure 1. The main ideas of the article are whether these distinguishing aspects matter for the internal organization of the MNE and, if so, how.

**Multiple Sources of External Authority (MA)**

The overriding principle underlying cross-border relationships is that of sovereignty. The sovereignty of the state is embodied in its authority to influence events within its legal territory and in its choice of being relatively immune to outside influences. This authority generally manifests itself in terms of laws and regulatory institutions, political institutions, official language(s), norms of behavior, and culture. Consequently, the MNE has exposure to multiple (and often conflicting) sources of external authority (referred to hereafter as MA).

There are three aspects of MA that merit consideration: (a) the number of geographic locations in which the firm operates, (b) the variance in country environments resulting from the dispersal in geographic locations, and (c) the lack of a superstructure to mediate threats or opportunities that arise at the intersection of the variances in country environments. Further, although (a) and (b) represent differences of degree (albeit substantial differences) from non-MNEs (i.e., they are considerations that would arise in different forms for any organization), aspect (c) represents

**FIGURE 1**

Environmental and Internal Organization Variables

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<tr>
<th>Environmental Variables</th>
<th>Internal Organization Variables</th>
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<tr>
<td>Multiple Sources of External Authority</td>
<td>Modes of Entry</td>
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<td>Multiple Denominations of Value</td>
<td>Configuration of Activities</td>
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<td>Coordination and Control</td>
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<td>Competitive Strategy</td>
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a difference of kind (i.e., it is a distinguishing aspect of the MNE environment).

Clearly, the issues of geographic dispersal and scope per se (and the attendant problems of communication and coordination) are not unique to MNEs. Many large firms face these problems even within a sovereign country. Indeed, it is possible that problems of coordination and communication among sovereign boundaries can sometimes be no more difficult (or even perhaps easier) than those within sovereign boundaries (e.g., an MNE that conducts activities between the United States and Canada versus a non-MNE in a vast country such as India, where communications are poorly developed). Similarly, on the question of variances in country environments, we could argue that laws, institutions, and behavioral norms can also vary within a sovereign country. In this case, however, differences among sovereign countries are likely to be a matter of greater severity but analogous to differences among regions within countries. For example, there are cultural differences within the United States between the East and West, or the North and South; however, work by scholars such as Hofstede (1980) suggests that the cultural variation within countries is substantially less than that between countries. Consequently, such between-country differences are likely to result in a substantially greater degree of environmental complexity and uncertainty for the firm, but may not raise issues that are categorically different from those in a non-MNE setting.

However, even though particular manifestations of external authority (e.g., laws, political institutions, or cultures) may vary from region to region within the sovereign state, the existence of overarching and commonly applicable frames of reference provides a source of recourse in the event of conflicts. Firms can use such frames of reference as guides for strategy development and implementation. However, in the cross-sovereign setting, there are no commonly applicable legal, cultural, or political mechanisms that the firm can use in designing and implementing exchanges. Even if the issue of resolving conflicts arising from variances in specific country environments is manageable, the notion of sovereignty precludes the enforcement of resolutions without the common agreement of all sovereign entities involved (despite the existence of treaties or global institutions to the contrary).

Consequently, the distinguishing feature of the MNE environment arises at the intersection of differences in country environments. In the absence of commonly applicable and enforceable institutional mechanisms, all conflicts arising from cross-border transactions at this intersection of differences in sources of external authority create both opportunities and risks that non-MNEs do not usually face. The opportunities and risks arise as a consequence of the void in the superstructure to mediate conflicts.

Consider, for example, the case of legal norms and the risks and opportunities they create. The fundamental principle governing the intersection of conflicting between-country legal norms is that of consent be-
between the affected parties or the principle of reciprocal goodwill between nations, often referred to as the doctrine of comity (Neale & Stephens, 1988). Within-country laws have prescriptive, but not enforceable, jurisdiction across countries. There are two broad approaches to defining the nature of sovereign jurisdiction in the event of cross-border conflicts: the territoriality principle (under which no external authority can prescribe laws or take action to enforce laws in the territory of another sovereign entity) and the nationality principle (under which the authority of a sovereign state may extend to individuals owing it allegiance, even when the subject leaves the state territory). Most national authorities regard the territoriality principle as the one that provides implicit consent between nations (Neale & Stephens, 1988: 12–16); under this principle, the basic mechanism for conflict resolution reverts to that of comity.

This void in jurisdiction has often led to conflicts in areas such as antitrust (e.g., the case of Laker Airways’ bankruptcy in 1982; Allely, 1985), multinational bankruptcy (e.g., the case of the Herstatt Bank failure in 1974; Gitlin & Flaschen, 1987), liability limitation (e.g., the case of Union Carbide and the government of India in relation to the Bhopal disaster in 1984; John, Senbet, & Sundaram, 1991), as well as in the application of social, political, and national security norms between countries (e.g., Lindell, 1986). On the one hand, it provides the MNE with opportunities for legal arbitrage between borders. For example, race and gender discrimination laws that apply to firms in the United States may not apply to U.S. firms’ operations abroad; similarly, many strategies that might have the potential for violating U.S. antitrust laws do not pose a problem when undertaken abroad. On the other hand, it also creates risks. For example, Dresser Industries was in violation of the U.S. Export Administration Act on national security grounds when its subsidiary in France shipped compressors to the Soviet gas pipeline project in 1982, but under French executive orders, it was compelled to do so or face the threat of asset expropriation (Lindell, 1986). Similarly, many U.S. firms were found to violate the norms of the Foreign Corrupt Practices Act when they undertook transactions that their competitors’ home governments consider perfectly legitimate (e.g., Graham, 1983).

In all these instances the distinguishing feature in the transactions was not so much the differences resulting from the variance in country environments, but it was the void at the intersection of MA for resolving competing or conflicting demands.

It is important to note, however, that the emergence and growing prominence of supranational institutions (e.g., GATT or the World Court), cross-national trading arrangements (e.g., EC 1992, the Andean Pact, the United States-Canada Free Trade Agreement), and developments in capital markets (e.g., the opening of Eurocurrency markets, the integration of capital markets, the harmonization of laws for securities issuance and trading) might be viewed as institutional mechanisms that have evolved to mitigate the problems at the intersection of multiple sources of external
authority. These and other developments have softened the impact of sovereign authority, but for the reasons mentioned previously, they have not eliminated it. Even with respect to seemingly well-accepted and apparently successful institutions such as the World Court, opportunistic responses to treaties and decisions are endemic. For example, in a fishing rights case between the United States and Canada, the United States agreed with and implemented a World Court ruling because this ruling was in its favor; in contrast, in a case involving the mining of Nicaraguan harbors, the United States refused to go along with the decision because the ruling was seen as impinging upon its ability to conduct foreign policy.

In summary, MNEs face multiplicity of authority (MA) that is potentially broader than non-MNEs because of their geographical dispersal, deeper than non-MNEs because of the variances among country environments, and different from non-MNEs because of the absence of a superstructure at the intersection of differences between country environments.

**Multiple Denominations of Value (MV)**

The second distinguishing aspect of MNEs results from the fact that there are multiple denominations of firm value (referred to hereafter as MV). That is, the firm’s cash flows are denominated in different exchange rates. This difference, in turn, results in three effects on the MNE: (a) translation exposure, which is the problem of ex-post settling up and valuation of transactions already undertaken across multiple currencies; (b) transaction exposure, which is the problem of hedging known or anticipated cash flows against future exchange rate shifts; and (c) economic exposure, which is the problem of the impact of unanticipated changes in real exchange rates on the firm’s competitive position (Lessard & Lightstone, 1986; Sundaram & Mishra, 1991).

Translation and transaction exposures are primarily manifestations of differences in denominations of value. This problem is similar to the issues of geographic dispersal and differences in country environments discussed in the previous section. As in the case of differences in MA, translation and transaction exposures may result in a greater degree of environmental complexity and uncertainty but are unlikely to raise strategic management issues that are categorically different from those in a non-MNE setting. The problem of translation exposure to exchange rates and the well-known accounting rules are conceptually similar to the problem of inflation accounting that a non-MNE might face, just as the problem of transaction exposure and the associated financial hedging techniques are conceptually similar to the problem of having to hedge in, say, commodities markets by non-MNEs.

*However, the distinguishing aspect of the MNE’s environment is the problem of economic exposure. As we mentioned before, this problem occurs at the intersection of differences in currency values: Economic exposure is the consequence of breakdowns in purchasing power parity*
(Cassel, 1922), the mechanism that works to equilibrate differences in real currency values across countries. Since the advent of the floating exchange rate regime, economic exposure has been a source of both great risks and opportunities to MNEs. For example, U.S. MNEs whose costs were substantially denominated in U.S. dollars (e.g., Caterpillar Tractor Co., Boeing Co., firms in the U.S. semiconductor industry) found their competitive positions destroyed by the 35 percent real appreciation of the U.S. dollar between 1981 and 1985 against the currencies of their competitors. Some of these same MNEs found that the subsequent reversal in the real value of the U.S. dollar between 1985 and 1988 gave them a windfall of competitive opportunities that they had not seen in years. Nevertheless, many MNEs found that the cumulative organizational consequences of adverse economic exposure in the early 1980s were extremely difficult to reverse. Similarly, there is growing evidence (e.g., Harris & Ravenscraft, 1991) that a significant explanator of inward direct foreign investment activity in the United States during the second half of the 1980s is attributable to the real depreciation of the U.S. dollar that led to lower costs of internally generated capital and higher net wealth perceptions on the part of foreign investors (see also Froot & Stein, 1991).

In summary, MNEs face multiplicity in denominations of value (MV) that is broader than that of non-MNEs because of the number of currencies involved as transactions cross boundaries, deeper than that of non-MNEs because of the volatility of currency values, and different from that of non-MNEs because of the breakdown of purchasing power parity at the intersection of these differences.

**RESEARCH PROPOSITIONS**

In this section, we explore the organizational implications and research propositions of the distinguishing environmental aspects along two basic organizational questions: (a) What are the forms of involvement that an MNE might undertake abroad? and (b) Once abroad, what are the internal organizational characteristics of such involvement? The former question focuses on modes of entry abroad, whereas the latter question addresses configuration of activities, control and coordination of these activities, and competitive strategy in MNEs. In relation to each of these four organizational attributes, we first summarize the conventional wisdom and then argue that the impact of MA and MV can be used to inform such conventional wisdom. We examine how MA and MV (both separately and jointly) play a role in helping researchers to understand MNE organizational forms, and we develop a set of propositions based on this understanding.

**Multiple Authority**

The problem of MA fundamentally involves the MNE's vulnerability to the authority of the sovereign state. Such vulnerability is manifest in all of the firm's cross-border exchanges. These risks arise not only because of
differences between country environments but also because there is no authoritative superstructure to mediate any conflicts that might arise at the intersection of these differences. We now explore how MA affects an MNE's mode of entry, its configuration of activities worldwide, its systems of coordination and control, and its choice of competitive strategy.

**Modes of entry abroad.** Conventional theories of MNE involvement explain entry abroad by firms as comprising three broad sequential stages: the export mode, where the firm produces at home and sells abroad through direct or indirect sales channels, which is followed by contractual modes such as licensing and technical agreements, franchising, management contracts, and so on, which culminates in the direct foreign investment (DFI) mode, whereby a firm establishes a joint or sole venture (e.g., Calvet, 1981; Root, 1987; Vernon & Wells, 1968).

A dominant paradigm that explains the ultimate stage of evolution of the MNE (i.e., the investment entry mode) is transaction cost economics (TCE) (Buckley & Casson, 1976; Calvet, 1981; Hennart, 1982; Magee, 1976; Rugman, 1980, 1988; Teece, 1983; Williamson, 1975, 1985) and its variants such as the eclectic theory (Dunning, 1979) or those based on appropriability theories (Klein, Crawford, & Alchian, 1978). According to TCE logic, the MNE uses the hierarchy through direct equity involvement to produce and sell its output in situations in which arms-length contracting modes (export or contractual entry) are prone to failures. In particular, the firm will internalize through the DFI entry mode when investment in knowledge-based assets such as technology, managerial skills, corporate culture/shared values, organizational structure, and so on, result in high asset specificity.

Yet, many firms appear to adopt entry strategies that do not follow the "stages" model. More important, many MNEs appear to simultaneously pursue different entry/involve strategies in different markets and for different products at any given time (Vernon, 1990). Ghoshal and Bartlett (1990) observed, for example, that an MNE is perhaps better understood as a differentiated network of subsidiaries, with export, contractual, and direct investment modes coexisting in different parts of the world. In other words, we observe differentiated entry strategies and modes of involvement by MNEs, an observation that is at variance with a dominant body of theory that suggests sequential stages of involvement.

TCE is inadequate for explaining simultaneously different entry modes because the asset-specificity factors that favor internalization must be largely the same the world over. One plausible explanation is provided by the eclectic theory of MNE entry as developed by Dunning (1977), who argued that the type of entry is determined by a trade-off between firm-specific factors (which would argue for internalization) and location-specific factors (which may militate against internalization). But location specificity alone is an insufficient explanatory variable because it would only account for differences in country environments and not the issues that arise at the intersection of differences.
MA provides a different explanation of differentiated modes of entry by MNEs. In the presence of high MA, the firm would seek to minimize its asset commitments in a specific host country, given the greater likelihood of asset and cash flow vulnerability to the authority of the sovereign state. Therefore, when MA is high in the country of foreign operations, the MNE is likely to choose export and contractual modes of entry; when MA is low in the country of foreign operations, the firm is likely to choose the DFI mode of entry. Further, when MA varies by location of foreign operations, an MNE’s entry mode is likely to be different in different locations.

Proposition 1: As MA (i.e., the breadth and depth of sovereign authority differences and the importance of lack of a superstructure at the intersection of these differences) increases, firms will favor export and contractual modes of entry over DFI.

Configuration of activities. One of the central constructs discussed in connection with activity configuration in MNEs is that of dispersal (e.g., Ghoshal & Bartlett, 1990) or, similarly, the extent to which elements of the firm’s value chain are geographically concentrated or dispersed (Porter, 1986). In addition, scholars have also discussed the extent to which dispersed value chain activities are differentiated or undifferentiated (Ghoshal & Bartlett, 1990; Ghoshal & Nohria, 1989).

Many typologies of MNE value chain configurations generally assume undifferentiated dispersal: For example, Porter’s (1986) notion of the country-centered or multidomestic configuration assumes (and by definition requires) that the configuration is undifferentiated across all foreign operations and across all products, suggesting that there is a common configuration throughout the enterprise. However, there is emerging evidence that differentiated value chain configurations within MNEs are also common (Bartlett & Ghoshal, 1989; Ghoshal & Nohria, 1989).

With respect to MA, the greater the differences by location, the greater the importance of a lack of superstructure to mediate differences, and, therefore, the greater the potential risk of dispersing activities across sovereign borders. For example, if manufacturing is placed in a sovereign country in which labor strikes are frequent and long, this could have a significant negative impact on manufacturing costs and the competitive position of those manufactured products relative to products produced in absence of labor strikes with similar wage structures. Thus, in general, we would expect a negative relationship between the extent of dispersal of activities and MA.

Furthermore, the greater the risk for a particular location, the greater the potential risk to the MNE if it locates differentiated activities in such a place. For example, in the previous illustration, if the manufacturing operation produced all of the product for the MNE’s worldwide operations (i.e., the operation was differentiated), the potential risk to the MNE...
would be greater than if the site were duplicated elsewhere (i.e., undifferentiated). Thus, we would also expect a negative relationship between the differentiation of dispersed activities and the degree of MA.

**Proposition 2:** Greater MA will be associated with a more concentrated and undifferentiated configuration of activities.

**Control.** Internal coordination and control of the value chain are central issues of concern in any organization, but they are particularly important in MNEs, given the physical, cultural, and political distances that are generally involved in the crossing of sovereign borders (e.g., Doz & Prahalad, 1981; Prahalad & Doz, 1981).

Although there is no universally accepted conceptualization of control and coordination mechanisms, the dependency school of thought (e.g., Kotter, 1977; Pfeffer, 1981) offers us one set of constructs based on the power relationship between higher and lower levels of authority in organizations (the natural analogy in the MNE context would be the parent and the subsidiary). Scholars of this school argue that the relative power of an individual or an organizational unit over another is largely a function of the extent to which one is dependent on the other for important resources. A common threefold conceptualization of control mechanisms in this context includes centralization, formalization, and socialization (e.g., Edstrom & Galbraith, 1977). The first mechanism, centralization, generally involves the control of the parent over the subsidiary through centralization of crucial strategic decisions in the parent firm because of the subsidiary's relative dependence on the parent. The second mechanism, formalization, involves the routinization of decision making by relying on formal records and procedures. The third mechanism, socialization, involves the creation of shared goals and values as a means of controlling behavior and decision making (Van Maanen & Schein, 1979).

Although past conventional wisdom assumed that the power relationships between the parent and all its subsidiaries as well as the control mechanisms were uniform, theoretically we would expect this to be true only when factors that affect interdependencies between the parent and the subsidiary are also uniform. However, the assumption of uniformity seems quite tenuous. For example, it is quite possible that one subsidiary might be dependent upon the parent firm and be controlled through centralization, whereas another subsidiary within the same firm might be much more independent of the parent, or the parent firm might be quite dependent upon the subsidiary.

When there are multiple sources of external authority as manifested in legal, political, and cultural institutions among countries, if there is no superstructure for resolving conflicts at the intersection of these differences, it becomes difficult for the parent firm to control the subsidiary via centralization. The greater the differences among various countries in which subsidiaries operate, the greater the likelihood that governmental,
legal, and cultural pressures will push respective subsidiaries in various and different directions. More important, it may become impossible for the parent firm to force all subsidiaries to implement centrally made decisions that run counter to pressures in the host country. Thus, the power of the parent over its subsidiaries is moderated by sources of external authority.

The same dynamic would apply to a lesser degree to the case of formalization. To the extent that formalized procedures attempt to specify the content and process of subsidiary activities, greater MA could constrain effective enforcement of those formalized procedures. However, to the extent that formalization is designed solely to provide a common basis for subsidiary performance evaluation, MA is likely to have a lesser impact.

In contrast, socialization may substitute for the void in the superstructure to mediate conflicts by facilitating a common set of organizational values despite differences among nations and problems at the intersection of these differences. In the context of greater MA, socialization would be utilized more often than centralization and formalization as a mechanism for coordination and control.

Proposition 3: Greater MA will be associated with higher use of socialization, moderate use of formalization, and lower use of centralization as control mechanisms.

Competitive strategy. There are numerous typologies of competitive strategy in the strategic management literature. For reasons of specificity in the discussion that follows, we will focus on one of the most widely used typologies, which characterizes firms on their strategic orientation that might be based on either low cost or differentiation (Porter, 1980). In order to minimize the possibility of semantic confusion in the use of the word differentiation, we will use the terms cost-based and value-based, respectively, to refer to Porter's notions of low cost and differentiation.

Firms adopting cost-based strategies worldwide are driven primarily by the imperative to seek efficiency and, therefore, are likely to compete primarily on the basis of price, whereas firms adopting value-based strategies are driven by the imperative to create various types of entry barriers and, therefore, are likely to compete primarily on the basis of nonprice factors (e.g., on dimensions such as R&D, brand name, advertising and promotion, after-sales service).

According to past conventional wisdom, firms should compete primarily along one dimension or the other (where within each dimension, the firm may choose broad or focused market segments) because, otherwise, the firms would be "stuck-in-the-middle" (Porter, 1980: 41). However, there is emerging evidence that many firms compete successfully along both dimensions of competitive advantage (e.g., Wright, 1987).

When there are multiple sources of external authority as manifested in legal, political, and cultural institutions among countries, the risk for
MNEs that compete primarily on the dimension of cost-based strategies would be higher. MNEs that rely on cost-based strategies typically venture abroad either to capitalize on the efficiency that results from their home country operations or to seek greater worldwide efficiency through their foreign operations. The competitive advantage of such firms is predicated on their ability to adopt aggressive pricing policies and manufacturing practices that emphasize ability to achieve economies of scale and experience. The greater the MA, the greater the vulnerability of the cost-based firm to the influences of external authority such as changes in tariff or taxation systems in host countries, rules that specify local content in manufacturing, rules that require the firm to undertake investments in the host country in order to compete there, and so forth.

However, firms that rely on value-based strategies would be less subject to the influences of external authority. First, because such firms often compete on the basis of their ability to tailor their products to local tastes, there is less of a mismatch between the MNE's global product-market needs and the host country's local product-market needs. Second, because nonprice factors are relatively more important in value-based competition, external influences that affect prices abroad will matter less in the MNE's ability to sustain its competitive advantage. Third, if value-based products are R&D and service intensive and if the firm has internalized these through the DFI mode of entry, there will be a lower likelihood of asset appropriability resulting from the influences of external authority.

Proposition 4: The greater the MA, the greater the incentive for the MNE to pursue value-based rather than cost-based strategies in the country of foreign operations.

Multiple Value

The crucial issue arising from MV is how the firm's cash flows and asset values are affected by unanticipated shifts in real exchange rates of the home country currency against host or competitor country currencies. A real depreciation of the home country currency would make the MNE's products produced at home more competitive relative to the rest of the world and would simultaneously devalue home country assets relative to assets in the rest of the world. A real appreciation of the home country currency would have the opposite effects on worldwide competitive position and asset values.

Such real exchange rate shifts are often neither temporary nor short term, and they can be of significant magnitude. For example, taking the case of the United States against the rest of the world, the dollar depreciated by about 15 percent during 1977–1981, following which it appreciated by about 35 percent during 1981–1985, and then again depreciated by about 35 percent during 1985–88, all in real terms (Council of Economic Advisors, 1990).

We now explore how MV affects an MNE's mode of entry, configura-
tion of activities worldwide, systems of coordination and control, and choice of competitive strategy. We will not discuss each of these four organizational attributes themselves in any detail, because we have already done so in our discussion of MA. Instead, we move on to directly exploring the implications of MV for each of these attributes.

**Modes of entry abroad.** When the degree of MV is high, firms with most of their assets in the home country and with relatively high ratios of export-to-investment abroad will be vulnerable to unanticipated real exchange rate shifts. The greater the concentration of productive assets in one location, the greater the fluctuations in its asset values and prices of exports that would result from swings in real currency values.

Because the primary risk of MV arises from unanticipated and real (as opposed to nominal) changes in currency values, it is not possible for the firm to protect itself against this risk through traditional techniques of financial hedging. Protecting against MV will require the firm to diversify its investment base so as not only to diversify the value of its assets, but also to have the ability to shift its production and export worldwide from multiple locations in response to adverse or favorable currency movements. Thus, diversifying the investment base has option value (Kogut & Kulatilaka, 1988). Traditional option theory would then tell us that the greater the uncertainty in real exchange rates, the greater the option value (Smith, 1976). However, in order to maximize this option value, the firm would have to carry adequate manufacturing capacity in multiple locations. Clearly then, high degree of MV would favor the DFI mode of entry, in order for the MNE to take advantage of the benefits from asset diversification. However, if MV is low, there is little option value to asset diversification, and, therefore, the MNE would prefer export and contractual modes of entry in order to avoid the costs of carrying excess capacity worldwide.

As in the case of MA, the foregoing also suggests that when the degree of MV varies by location of foreign operations, the MNE has the incentive to choose different modes of entry in different locations.

**Proposition 5:** Greater MV will favor DFI mode of entry rather than contractual or export modes of entry.

**Configuration of activities.** As discussed previously, the greater the MV, the greater the potential threats of having the firm’s value chain configured in any one country. Dispersing the value chain serves to diversify the firm’s risks arising from unfavorable real exchange rate movements relative to otherwise concentrated value activities. However, to the extent that value chain activities are dispersed but differentiated, each differentiated activity is then subject to risks similar to those discussed for the full range of value chain activities concentrated within one country. Consequently, greater MV would be expected to be associated with more dispersed configuration of the MNE’s value chain and undifferentiated activities.

When the degree of MV is low, the MNE has less of an incentive to
disperse its value chain. Further, the MNE faces less risk in differentiating its dispersed activities. Consequently, low MV would be expected to be associated with a more concentrated and differentiated configuration of the MNE's value chain. Finally, as MV varies by location of operations, we would expect to observe different levels of dispersal and differentiation in the configuration of the MNE's value chain.

Proposition 6: Greater MV will be associated with more dispersed and undifferentiated configurations of value chain activities.

Control. MV cannot be easily managed through centralization and formalization (Lessard & Sharp, 1984; Sundaram, 1991). The reasons for this difficulty are (a) any unanticipated real changes in the value of the currency not only cause (normal) translation effects, but they also directly affect the economics of the subsidiary in relation to its competitors and its related subsidiaries; therefore, it is necessary to disentangle the two effects and (b) unless carefully managed, MV can result in a situation where the performance of the subsidiary is confounded with the performance of the subsidiary manager with the possible result that poor managerial performance would be rewarded when masked by favorable currency movements, while good managerial performance would be penalized when masked by unfavorable currency movements. The exact nature of effects of MV on the subsidiary would depend on factors such as where it originates from, where it sells to, and where its competition is located.

In such a situation, centralized control is difficult and could violate the traditionally accepted principles of fairness and goal congruence in control systems design (Lessard & Lorange, 1977). Formalization would also be difficult unless the economics of all subsidiaries were similar and unless the direction and degree of currency value changes were uniform across all subsidiaries. This would rarely be the case for many of the reasons that we have been discussing. Socialization is likely to be more effective because it provides a means of ensuring goal congruence (via socialized managers) when high MV inhibits or prevents the efficacy of centralization and formalization.

Proposition 7: Socialization is more likely to be used as a mechanism of control than centralization and formalization in cases of high MV.

Competitive strategy. MV affects competitive strategy of the MNE through any or all of three factors: (a) its cost or production function (whether the firm can achieve static or dynamic scale economies), (b) its demand function (both the shape of the demand function and the degree to which the product is substitutable), and (c) the manner in which competitors will react to its strategic moves (whether competitors will react passively or aggressively) (Luehrman, 1990; Sundaram & Mishra, 1991).

In general, changes in currency values matter more when demand is sensitive to price changes. We have already argued that cost-based strat-
egies are more dependent on price competition than are value-based strategies, which are more dependent on nonprice factors and their ability to create entry barriers. Consequently, we would expect that any unanticipated changes in real currency values would matter more in the case of cost-based rather than value-based strategies.

The impact of currency values through the firm's cost function is also similar. In general, cost-based strategies are likely to produce lower per-unit profit margins, resulting in smaller pricing leeway. Consequently, if there is an unanticipated real appreciation of the currency in which costs are denominated, there is a high risk that profit margins will be reduced further. Even worse, an appreciation could push the firm's costs above the world price that the market will bear, resulting in negative profit margins. This risk is much lower for value-based strategies, given the likelihood of higher per-unit profit margins. Thus, as in the case of the demand function, cost-based strategies are more likely to be affected by MV than value-based strategies.

The third factor, competitor responses, could be either passive or aggressive for both cost- and value-based strategies, and, thus, we cannot make a prediction regarding the impact of MV on cost- and value-based strategies mediated solely through this factor. We can, however, make the following argument: Under similar competitor responses to strategic moves, we expect that MV will result in greater cash flow vulnerability for cost-based rather than value-based strategies.

Proposition 8: The greater the MV, the greater the incentive for an MNE to adopt value-based rather than cost-based competitive strategies.

TOWARD AN INTEGRATION OF MA AND MV

In this section, we explore how the interaction of MA and MV might affect these same four aspects of the firm's internal organization: modes of entry, configuration of activities, systems of coordination and control, and competitive strategy. Previously we argued that problems arising from multiple sources of external authority and multiple denominations of value are unlikely to be uniform worldwide. Further, we argued that internal aspects of the organization are differentiated partially as a result of MA and MV.

MA and MV do not necessarily covary in any particular or predictable fashion; in other words, in any particular country, it is possible to observe any combination of high or low presence of either. Consequently, it is important to explore the interaction effects of various combinations of the two. For example, from the perspective of a U.S. firm, operations in the United Kingdom would probably involve low levels of MA, but high levels of MV; operations in Puerto Rico would involve low levels of both MA and MV (the latter because the Puerto Rican currency is the U.S. dollar); operations in areas such as the Caribbean would involve high levels of MA,
but low levels of MV (the latter because many of its currencies are pegged to the U.S. dollar); and operations in Japan would involve both high levels of MV and MA.

Although, in reality, economic exposure and country risk vary continuously, we have categorized these levels into “high” and “low” to facilitate our discussion. Also, because we have already discussed the underlying dynamics of the environmental and the organizational variables of interest, the following section will only highlight the principal issues (see Table 2).

**High MA, Low MV**

Because high MA puts the assets and the cash flow of the MNE at risk, and low MV provides little incentive for geographical diversification of assets and capabilities, in this case the MNE will be likely to utilize export modes of entry rather than contractual or DFI modes, will disperse few and undifferentiated aspects of its value chain, and will primarily utilize formalization and socialization (with some centralization) as mechanisms of control. Even though high MA pushes the MNE toward a value-based competitive strategy, low MV provides the opportunity for utilization of a cost-based strategy as well. Thus, in this context, we would expect to find either value-based or simultaneously value- and cost-based competitive strategies, but we would not expect purely cost-based strategies.

**Low MA, High MV**

In this context, many of the dynamics are the opposite of those discussed above. Low MA means that the assets and cash flows of the MNE are relatively safe, and high MV means that assets and cash flows located in the parent country are vulnerable. Consequently, the MNE will utilize the DFI mode of entry more than export and contractual modes, will disperse a larger portion and differentiated aspects of the value chain, and will utilize formalization and socialization more than centralization as mechanisms of control. Although low MA does not push the firm in the direction of value-based competitive strategies, it does not necessarily inhibit cost-based strategies either. High MV, on the other hand, pushes the MNE toward value-based strategies and away from cost-based strategies. Consequently, in a context of low MA and high MV, we would expect the MNE to adopt primarily value-based strategies.

**High MA, High MV**

In this case, the dynamics of internal organization of the MNE are more complicated. On the one hand, high MA means that there is an incentive to minimize exposure to that risk; on the other hand, high MV means that assets and cash flows in the parent country are vulnerable, which, in turn, creates an incentive to diversify investment abroad. Thus, high MA and high MV are pushing the MNE in opposite directions. In this case, the MNE will be likely to utilize contractual modes of entry (e.g.,
<table>
<thead>
<tr>
<th>Entry: Primarily export, some contract, low DFI.</th>
<th>Entry: Primarily contract, some export, low DFI.</th>
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<tbody>
<tr>
<td>Control: Primarily formalization, some socialization, low centralization.</td>
<td>Control: Primarily socialization, low formalization, low centralization.</td>
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**TABLE 2**
Matrix of Multiple Sources of Authority and Denominations of Value

**MA**
- Entry: Primarily export, some contract, low DFI.
- Configuration: Primarily concentrated and differentiated.
- Control: Primarily centralization, some formalization, low socialization.
- Strategy: Primarily cost-based strategies.

**HI**
- Entry: Primarily DFI, some contract, low export.
- Configuration: Primarily dispersed and differentiated.
- Control: Primarily formalization, some socialization, low centralization.
- Strategy: Primarily value-based strategies.
licensing agreements, franchising, management contracts), rather than DFI or export modes, will disperse some undifferentiated portions of the value chain, will utilize socialization more than formalization and centralization as mechanisms of control, and will compete in that country mostly on the basis of value rather than cost.

Low MA, Low MV

Low MA means that any assets located in that country are relatively safe, which implies that there is no strong incentive to minimize the firm’s exposure in that country; in addition, low MV means that assets at home are not vulnerable to exchange rate shifts, creating little incentive to diversify its assets into that country. In a sense, low MA and low MV are not pushing the MNE in any particular direction. Although low MA allows for DFI, low MA does not push the firm in that direction. Thus, although the low/low context allows for the greatest flexibility in choice of mode of entry, such MNEs are likely to utilize contractual and export modes more than DFI because of the lack of option value from asset diversification. Similarly, this context allows for flexibility concerning the dispersal and differentiation of the firm’s activities. However, we might conjecture that low MV creates a small incentive for less rather than more dispersal and that low MA allows for differentiated rather than undifferentiated activities that are dispersed. The low/low context also provides the easiest situation in which centralization can be effectively utilized as a mechanism of control. Finally, on the one hand, low MA and low MV make it possible for the MNE to pursue cost-based competitive strategies because neither type of risk would affect the firm’s low profit margins; on the other hand, this context would not particularly inhibit MNEs that pursue value-based strategies. Overall, this is the context in which the MNE is most likely to be similar in its internal organization to a non-MNE.

OPERATIONALIZING THE CONSTRUCTS

With respect to the internal organization variables (i.e., whether the mode of entry is export based, contractual, or DFI; whether configuration is dispersed or differentiated; whether coordination mechanisms rely on centralization, formalization, or socialization; and whether the strategic posture of the firm is based on cost-based or value-based strategies), there is a vast literature on operationalizing these variables that is well developed and well known in the organizational sciences and strategic management literature, and in the interest of brevity, we have little to add.

With respect to the environment, we have argued that the crucial constructs of interest are multiple sources of external authority and multiple denominations of value. In both cases, the issue of concern is not only the differences in sources of external authority or the differences in
denominations of firm value (i.e., the breadth and the depth of these differences), but it is the void in, or breakdown of, mediating mechanisms at the intersection of these differences. Further, we have argued that, with the firm as the unit of analysis, both MA and MV can vary by location of foreign operations, leading to internal differentiation. We now turn to initial suggestions for how these two constructs might be operationalized.

With respect to MA, there are several issues of concern in operationalizing the construct. At the firm level, the number of different sources of sovereign authority that a firm faces in its cross-border activities, the extent of these differences between pairs of sovereign authorities, and the volatility within specific sovereign states could all be included in a measure of MA. In particular, the literature on political and country risk analysis (e.g., de la Torre & Neckar, 1990; Fateh-Sadeh & Safizadeh, 1989) provides measures of the volatility of political events within specific sovereign states (e.g., regulatory changes, changes in the controlling political parties, changes in economic conditions). Measures such as Hofstede’s (1980) provide assessments of cultural differences between specific countries, and these ideas could be extended to include variables relating to legal systems (e.g., civil law versus common law systems) and political systems. Consequently, an estimate of the degree of MA an MNE faces in a particular foreign location could be derived as the product of the degree of political risk (i.e., volatility) of the country and a measure of the differences (or distance on a chosen dimension) between the home country and the location of foreign operations. A firm-level measure of MA can be derived as the weighted product of the number of countries in which the firm operates in combination with the degree of political risk and cultural distance, where the weighting scheme would use a measure such as the amount of worldwide sales derived from a particular foreign location. These estimates could be used to test the hypothesized MNE responses to different levels of MA.

With respect to MV, we have argued that the important issue is that of economic exposure to exchange rates. Again, it is possible to derive a measure that captures the number of different sources of MV, the extent of these differences between pairs of countries (i.e., the percentage change in the real exchange rate), and the volatility of a particular currency. This can be operationalized in a straightforward fashion as the covariability of the MNE’s foreign cash flows to changes in the real exchange rate of the home country vis-à-vis the currency of the country of foreign operations (e.g., Jorion, 1990; Luehrman, 1990). The regression coefficient of cash flows with respect to real exchange rate changes would not only capture the effect of volatility by location of foreign operations but also the extent of changes with respect to that particular location. As with the case of MA, a firm-level measure of MV can be derived as the weighted product of the number of countries in which the firm operates, where the weighting scheme would use measures similar to those in the case of MA.
DISCUSSION

At the beginning of this article we took the position that there are aspects of MNEs that are substantially different from aspects of non-MNEs and that these differences require special theory-building efforts in order for researchers to comprehensively understand this organizational form. Further, we claimed that such theory building will have to be multidisciplinary and integrative.

In the analysis that followed, we argued that the distinguishing aspects of the MNE as an organizational form arise from the environment in which it undertakes its transactions. Two distinguishing aspects of the environment are multiple sources of external authority and multiple denominations of value. In both cases, the issue of concern is not only the number and the variance in country environments, but the absence of a superstructure to mediate problems that arise at the intersection of these differences. In an attempt to build an initial theoretical framework, we then examined the implications of MA and MV on four facets of the MNE's internal organization: modes of entry abroad, configuration of activities worldwide, coordination and control mechanisms, and choice of competitive strategy. Although some scholars have pointed to the existence of complex forms of MNE with different modes of entry, configuration, coordination and control, and competitive strategy in different locations, this article has provided some initial theoretical explanations of these differences. In that sense, our article might be viewed as an attempt to trace the antecedents of internal differentiation in the organization of the MNE and the evolution of the complex MNE.

Issues for Future Research

Our analysis also leads to several implications that are of relevance to future research on MNEs, and it raises related issues of research conduct.

Multiple sources of external authority and multiple denominations of value require researchers in strategy and organizational sciences to better appreciate and assimilate the influence of theories in economics, political science, and law. For example, research in international economics provides important insights into the impact of real exchange rate changes on MNE activity, just as literature on political science and law provides theory and evidence on the role of issues such as political risk and relationships among states. In contrast, in the development of theories of the MNE environment and their firm-level impact, economists and political scientists often treat the firm as a black box that costlessly and optimally responds to given shifts in some exogenous variables. They treat organizational issues tacitly, or more often simply assume them away. Economists and political scientists also need to better appreciate and assimilate the influence of organizational theorists.

It would be fair to suggest that a significant amount of theory devel-
opment in the past has been discipline driven, probably having to do with the human capital invested in specific disciplines that argue for particular points of view and methodologies. However, the MNE as an organizational form has gone beyond the relevance and legitimacy of particular disciplines. The real issue, we believe, is one of how the various disciplines can be integrated in the task of understanding a ubiquitous and complex form of organization. This problem has important implications for the manner in which scholars are trained: It would be necessary to train scholars who are willing and able to assimilate the views outside a particular discipline. This issue may also suggest that teams of researchers of varying specialties will be needed to fully understand and explore MNEs, because it is unlikely that a given individual could be adequately schooled in law, politics, economics, strategic management, and organizational behavior simultaneously.

We showed that much of the research on MNEs has been focused on the question of the various forms of MNEs, notably those at the extremes that could be characterized as global and multidomestic firms. Such classifications are a useful organizing framework, but three observations are in order: (a) as we noted, many of the definitions converge to certain common categorizations, perhaps with different labels; (b) such categorizations may give us an overall view of particular forms of MNE, but they tell us little about the antecedents of MNEs and why they came into being; and (c) there is the implicit assumption, perhaps driven by the need for theory parsimony, that once a particular form of MNE is identified, it is considered to be uniform worldwide.

First, we argued that there are certain identifying attributes of the MNEs that transcend particular forms. Second, though we agree that more complex forms of MNEs (e.g., transnational, complex global) are prevalent, we tried to go beyond this observation to specify two distinguishing attributes as antecedents for specific variations of internal organization of MNEs. Third, we argued that unless MA and MV are uniform worldwide, we should not expect uniform patterns of MNE internal organization; indeed, we argued that because MA and MV are likely to vary by location of foreign operations, so will patterns of entry, configuration, control, and competitive strategy in different parts of the world within the same MNE. This variance suggests that researchers may need to conduct more intensive and longitudinal studies of single MNEs in order to examine the extent to which MA and MV lead to such internal differentiation.

One interpretation of our framework is that there are certain distinguishing aspects of MNE operations that are intrinsic to spanning borders. These issues raised implications for the internal organization of the MNE that are independent of where the MNE originates from and where it conducts business. If there is a significant presence of either MA or MV (or both), then our framework provides a starting point for the relevant universal theory base on MNEs, regardless of national or cultural origin. Thus, under the hypothesis that similar patterns of internal organiza-
tional responses should be found, researchers should be able to test these ideas by comparing American MNEs, Japanese MNEs, French MNEs, or those of any other national origin.

Although we have tried to provide a theoretical framework for more effectively examining the MNE, there remain at least two issues that scholars will need to tackle in the future. We identified four aspects of internal organization of MNEs and discussed how MV and MA would be expected to influence these. Even though mode of entry, configuration, control, and strategy are clearly important internal dimensions, they are not the only ones. It is likely that MA and MV influence other internal organization variables such as management and leadership styles and human resource management systems. Because of our need for parsimony and the necessity to focus on a manageable set of constructs, we have restricted our attention to only four. Future theoretical and empirical work may benefit from expanding upon our analysis. Additionally, although we have discussed possible means of operationalizing the constructs of MA and MV, much more refinement is needed. Researchers will have to carefully make a trade-off among operationalizations that are easy to actualize and those that more completely capture the constructs. Though we provided some initial ideas on this issue, there is scope for more careful scrutiny.

Conclusion

In conclusion, we agree with scholars who have argued for comprehensive theory building and those who have suggested that we need better applications of newer organizational theories to the study of MNEs. In this article, we have complemented these perspectives with the argument that there are distinguishing aspects of MNEs that necessitate additional theory-building efforts in order for researchers to comprehensively understand the organizational form. We attempted to specify the form and content of such a theory as a starting point for further theoretical and empirical work and have argued that it is inherently multidisciplinary in scope. We believe that if researchers hold strictly to disciplinary approaches to the study of MNEs, they are likely to produce fragmented and incomplete knowledge about this important phenomenon.

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