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PERSPECTIVE

Stephen Hymer's contribution to international business scholarship: an assessment and extension

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Abstract

We assess Stephen Hymer's contribution to the theory of the multinational enterprise and to international business (IB) scholarship. We focus on Hymer's evolving analytical framework, and assess it in terms of its internal consistency and in the light of the shifting global landscape and scholarly thinking. We also extend Hymer's framework, revisit his predictions, and conclude by questioning his canonical status within the IB profession.
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INTRODUCTION AND OVERVIEW

Stephen Herbert Hymer was born in 1934, and died in a car accident 40 years later. In his short life, he made a seminal contribution to the theory of the multinational enterprise (MNE) and FDI, and to international business (IB) scholarship.

Hymer articulated his views in his doctoral thesis and in approximately 40 articles. Of his contributions, perhaps the most influential have been his 1960 dissertation, a 1968 article published in French, a 1970 article in *The American Economic Review* (*AER*), and a 1970 contribution to a book edited by JN Bhagwati (Hymer, 1960/1976, 1968, 1970a, b).

In his dissertation, Hymer gave attention to the control or governance of value-added activities of firms – especially in relation to their international operations. By first identifying different modalities and then assessing their relative advantages and disadvantages, Hymer was the first economist to address the questions "Why MNEs?" and "Why FDI?" *vis-à-vis* alternative forms of foreign operations. This conceptual/methodological contribution arguably established Hymer as the founder of the modern theory of the MNE and FDI, quite independently of the strength, or otherwise, of the analysis he went on to provide. In his 1968 paper Hymer drew explicitly on Coase's (1937) seminal article on the nature of the firm, taking transaction costs analysis as extant theory. In his 1970 articles and subsequent works Hymer developed the "laws" of increasing firm size and uneven development, and explored the relationship between MNEs and nations, or the political economy of what he called "multinational corporate capital''. By then, he had already made his ''cathartic'' commitment to Marxism (Pitelis, 2002).

Hymer's seminal achievements have been acknowledged by leading scholars in international political economy, economics and business such as Casson (1990), Dunning and Rugman (1985), Eden (1991), Kindleberger (1984, 2002) and Teece (1985), and special issues of journals have been devoted to his writings: see, for example, Contributions to Political Economy (2002) and International Business Review (2006).

Our article differs from other contributions in that it takes a more holistic and more critical approach to Hymer's contribution to IB scholarship. In particular, we:

(1) derive and present Hymer's evolving analytical framework, his extrapolations, predictions and prescriptions;
(2) assess the internal consistency of Hymer's analysis;
(3) critically assess Hymer's views in terms of subsequent scholarly thinking and the shifting global landscape;
(4) extend Hymer's framework and revisit his views with the lens of our new framework; and
(5) conclude with an overall assessment of his work.

Our purpose and intended contribution is to offer a (somewhat provocative) reassessment of Hymer's contribution to IB scholarship, in the context of an enhanced conceptual framework that combines value capture with value creation and learning.

HYMER'S EVOLVING ANALYTICAL FRAMEWORK, EXTRAPOLATIONS, PREDICTIONS AND PRESCRIPTIONS

One of Hymer's lasting contributions was to consider FDI and the MNE as part and parcel of the theory of the firm. ''The theory of international operations is part of the theory of the firm'' (Hymer, 1976: 21).

The extant neoclassical theory of the firm at the time of the writing of his thesis was the market structure-based approach, as set out by Bain (1956). Bain focused his attention on three major obstacles to new competition: absolute cost advantages, product differentiation advantages, and economies of scale. Hymer paid particular attention to, and quoted extensively Bain's work on, such advantages and their origin (Hymer, 1976: 42). The idea that incumbent oligopolists behave collusively was central in Bain's work, and inspired Hymer's first major reason for FDI – the reduction of rivalry, an idea he supported through Dunning's (1958) well-known ''tobacco'' case. When firms are interconnected, Hymer wrote, ''they compete in selling in the same market or one of the firms may sell to the other,'' and because of this ''it may be profitable to substitute centralised decision making for decentralised decision making'' (Hymer, 1976: 37).

Hymer's ''advantages'' thesis was his own conception, and may be reasonably argued to be the forerunner of modern internalisation theory. Hymer observed that ''Certain firms have considerable advantages in particular activities'' (Hymer, 1976: 41). For firms, ''control is desired in order to fully appropriate the returns of certain skills and abilities'' (p 25). ''Unequal ability of firms is a sufficient condition for foreign operations'' (p 46) but not a necessary one. Firms have the option to sell or license their advantages. If so,

> why does a firm use the advantage itself instead of licensing it? We can view the problem this way. The firm is a practical institutional device that substitutes for the market. The firm internalises or supersedes the market. A fruitful approach to our problem is to ask why the market is an inferior method of exploiting the advantage; that is, we look at imperfections in the market. (pp 47–48)

Also, ''it is the market impurity which leads the possessor of the advantage to choose to supersede the market for his advantage'' (p 49).

Hymer's ''advantages'' thesis is path-breaking. First, it is, to the best of our knowledge, the first post-Coasian attempt to analyse the existence of firms – especially MNEs – in terms of the imperfections of the markets in which they operate. Second, his thesis is path-breaking because the reason given by Hymer for the internalisation of markets by firms is not to reduce costs, but to enable them to exploit their advantages better.

While most discussions in the literature focus on Bain's analysis of barriers to entry, Hymer emphasised Bain's identification of the underlying advantages that give rise to such barriers. In his words, ''Bain has carefully analysed the types and strength of advantages in connection with his study of the conditions of entry'' (Hymer, 1976: 42). In view of this, it is reasonable to suggest that Bain had been the inspiration behind Hymer's ''advantages'' thesis. However, having said this, neither Bain nor the subsequent IO literature zeroed down on the desire by firms to profit from their advantages through the control afforded by hierarchical governance. That was Hymer's unique contribution.

The unearthing of the 1968 paper by Hymer created a stir among IB scholars. The paper, originally published in French, was translated and reprinted in English in Casson (1990). For Casson, "This paper is important because it shows that Hymer developed a Coasian theory of the MNE. His theory so clearly anticipates by several years the work of McManus (1972), Buckley and Casson (1976) and others" (p 1).

While in Bain (1956) advantages mainly consisted of lower production costs and product differentiation enjoyed by established firms, in adding the transaction costs-related advantages, Hymer (1968) united the two. In addition, he acknowledged that the strategy of firms in creating and using these advantages was an advantage in its own right. As a result, he concluded that "multinational firms are better institutions than international markets for stimulating business, transmitting information and fixing prices" (Hymer, 1968: 17). At the same time, and precisely for this reason, Hymer asserted that firms will aim and tend to combine rivalry with collusion so as to achieve the state of collusive oligopoly.

The 1968 paper is a treasure chest of ideas developed, often independently, by later scholars. For example, Hymer used the employment contract as an example of how transaction costs can be saved (p 8); he referred to opportunistic behaviour by traders, in all but the term (p 10); he typified the large firm as a learning device that "discovered how to discover" (p 11); he developed a multidivisional (M-form) hypothesis in terms of capital market failures; and he explained vertical integration in terms of investments that involve ownership of "extremely specialised assets" (p 17), much like Williamson (1981). He referred to advantages as being "so complex and ill-defined that it is extremely difficult, and sometimes impossible, to sell" (p 22), as later did Buckley and Casson in their classic work (1976). He predated Kogut and Zander (1993) in the evolutionary theory of the MNE by observing that "the strength of a multinational enterprise stems from the fact that it can trade knowledge internally more quickly than two firms which have to negotiate conditions each time" (p 23). And lastly, by drawing on Chandler (1962), he extended the concept of intra-firm learning to include learning "to plan growth" (p 13), of adapting to, and shaping its external environment (p 13), and of being "a living organism with its own personality, inertia and history" (p 15).

The major influences on Hymer's two 1970 papers are Coase (1937), Chandler (1962), Chandler and Redlich (1961), and his joint work with Stephen Resnick (Hymer & Resnick, 1969) on international trade and uneven development. In the *AER* paper, Hymer identified two sources of coordination of the division of labour, one exercised by markets, the other by entrepreneurs. Extending Adam Smith's view that the division of labour was limited by the size of the market, Hymer suggested that "the division of labour within the firm is limited by the extent of the firm" (Hymer, 1970a: 441). Hymer then built on Chandler (1962) and Chandler and Redlich (1961) to examine the evolution of the large corporation, from its Marshallian beginnings to the multidivisional, the conglomerate and the multinational firm. He pointed to three levels of decisions within firms: governance over day-to-day operations; coordination of managerial decisions throughout the enterprise; and goal determination and planning or "strategy not tactics" (p 52).

Hymer also attempted to develop his ideas in new directions, such as the issue of oligopoly and dynamic (or inter-temporal) efficiency, the relationship between large firms and (small) countries, and the idea of supranationality (global governance). For example, he critiqued Schumpeter's (1942) argument that imperfect market structures might be preferable to perfect competition for dynamic efficiency; Hymer questioned not the *rate of change* effected through oligopolies, but rather *its direction*, which he perceived to be beneficial to MNEs, not peoples or nations. He observed that modern MNEs were interested in manufacturing in developing countries as well as accessing raw materials: they therefore wanted a growing market for advanced products, and an educated, urbanised labour force.

The perceived erosion of state power due to the power of MNEs also led Hymer to ask the question "who is going to perform the government's functions?" (p 62). His recommendation was that "multinational agencies will need to be developed to maintain full employment and price stability". Yet he also pointed out that such organisations do not exist at present, nor can they be built quickly (p 61). He concluded by prescribing central planning as the most suitable macroeconomic institution to set and enforce the rules for wealth creation.

Hymer (1970b) revisited these ideas and pursued them further, while looking towards the year 2000. Here, besides Coase and Chandler, Hymer also drew extensively on the writings of Karl Marx, Alfred

Marshall, Joseph Schumpeter, Adam Smith, Karl Polanyi, Ray Vernon and Chester Barnard. Hymer attempted to extrapolate trends in business enterprise (the "microcosm") on the macroeconomic environment (the "macrocosm"). He formulated the "law of increasing firm size" and the "law of uneven development" He predicted the creation of "core" cities and economies, and a "hinterland", with the growth in the hinterland leading to a growth in the core, but not vice versa. He further suggested that a two stage "trickle-down" and demonstration effect would tend to reinforce "patterns of authority and control", which was likely to "reduce options for development, and erode the power of nation-states", but asymmetrically – more so for smaller than for larger countries. He concluded that, despite any advantages it may possess, the multinational "creates hierarchy rather than equality, and it spreads its benefits unequally" (Hymer, 1970b: 133). He then moved on to prescribe "a system of regional planning" or "a socialist solution" (p 135) and expressed some optimism for this to happen.

THE RELATIONSHIP BETWEEN HYMER'S FRAMEWORK, AND HIS PREDICTIONS AND PRESCRIPTIONS

Hymer's Focus on Value Capture

Hymer's analytical framework involved a focus on the twin advantages that he perceived internalisation confers on firms: the ability to reap profits from their advantages, and (including) an increase in market power through the reduction of competition.

It appears that some of Hymer's analytical problems relate to an early decision of his to view these two sources of value capture by firms as being essentially the same. We believe they are not. While any reduction of rivalry or interfirm collusion is almost exclusively concerned with protecting or advancing monopoly rents, capturing value out of one's various competitive advantages is arguably part and parcel of engendering efficiency and value creation (Pitelis, 2006).

Throughout his writings, Hymer had to struggle with this paradox. There are two aspects of this in his writings. The first is the extent to which any unique assets a firm might possess are the result of, or advance, its efficiency. The second is to do with the issue of dynamic or intertemporal efficiency, and its relationship to industry structures. Concerning the first, Hymer largely evaded the question of whether advantages had their origins in efficiency and/or displayed efficiency attributes. He chose to tackle the question of intertemporal efficiency and market structure by focusing on the direction of change and its uneven characteristics. Hymer failed to deal with the relationship between the static and dynamic efficiency of firms. Nor did he seek to identify the relationship between advantages and their relationship not just to value capture but, more importantly, with value creation.

Hymer's treatment of advantages was an evolving one. In his thesis he focused mainly on the advantages of incumbents *vis-à-vis* potential entrants, as in Bain (1956). Each of these assets and their sources, however, possesses both value creation and value capture attributes. For example, cost advantages and scale economies imply that firms are superior to their competitors in their capabilities to reduce costs. Product differentiation adds perceived value to consumers. The advantages described by Hymer in his thesis involve value creation, and not merely value capture. Yet, in all his subsequent writings, he chose to focus almost exclusively on the latter.

Another crucial aspect of Hymer's limited perspective concerns the process of internalisation itself. This, in Hymer's view, is seen exclusively as a strategy for value capture. However, this argument has two major limitations. First, as shown by Coase (1937), Williamson (1981) and others, internalisation may create value through reducing production and transaction costs. This is even more likely to be the case when one incorporates the advantages discussed by Hymer (1968, 1970a), such as the speed of intra-firm knowledge transfer and advantages to learn, plan and grow.

To summarise, ignoring any efficiency properties of large-sized firms, for Hymer the advantages of integration – in terms of their value capture and/or monopoly power attributes effected through the reduction in production and transaction costs – provided the *raison d'être* for FDI and MNE activity. On this basis, Hymer predicted and/or prescribed:

(1) the "law" of increasing firm size;
(2) interpenetration of cross-border investments, market-sharing and global collusive oligopoly;
(3) uneven development;
(4) supranationality and global governance; and
(5) central planning.

Hymer's Contribution: Critique of its Internal Logic

In the remainder of this section, we critically assess Hymer's predictions and prescriptions on the basis of their consistency with his own analytical ideas and arguments.

Starting with the "law" of increasing firm size, the "law" is consistent with Hymer's assertion that integration is a means of capturing value from *existing* advantages. A fundamental question, however, concerns the extent to which firms can continue to grow without generating new advantages – that is, without creating value. The views expressed by Hymer in his *AER* article (Hymer, 1970a) suggest that this cannot be the case. In this sense, while Hymer's first "law" is consistent with his focus on value capture, it is not sustainable without embracing an element of value creation.

Hymer's prediction of global collusive oligopoly is a direct result of his analytical focus on control, power and value capture. While interpenetration of investments has both analytical and empirical merit (Dunning, 1958; Graham, 1990), Hymer paid little attention to what IO economists have called the instability of collusion (Stigler, 1964) – the idea that collusion provides an incentive for firms to cheat. Another weakness of Hymer's predictions is his assertion that the supercession of the market by firms automatically leads to increased concentration (Hymer, 1970a). This asserts that the growth of firms does not lead to an increase in the size of the market. This flies in the face of traditional IO theory (Scherer & Ross, 1990), which asserts that firms may extend their markets through selling and promotional activities. It also contrasts with the contention of Schumpeter (1942) and Penrose (1959) that firms can both create new markets, and reconfigure existing ones, through the invention of new uses for existing products. This dynamic complementarity between markets and firms is now widely recognised in the literature (Simon, 1995).

A final problem with Hymer's global collusion thesis is that it underestimates the role of potential competition in undermining the strategies of the colluding firms, as well as effecting the conditions of contestability. One source of such competition is Schumpeterian innovation. Because inventors need to capture value from their innovations, their attempts to do so could well challenge existing market structures.

Hymer's third prediction on the need for international organisations follows from his observation that the erosion of the power of nation-states creates a vacuum. A lacuna in Hymer's analysis, however, is the *purpose* of this emergence. He argued that such organisations were needed by MNEs not only for their own purposes, but also in order to maintain full employment and price stability. These two objectives may not always be consistent with each other.

Hymer's law of uneven development follows only under his very specific assumptions and assertions, namely the dominance of MNEs, the absence of learning by nation-states in developing countries, and the lack of "nationalism" on their part. Certainly, in today's economic and political scenario these are questionable assumptions (Eden, 1991).

The idea of uneven development flies in the face of traditional neoclassical growth theory (Solow, 1956) and/or the subsequent "Washington consensus"-based arguments (Dunning, 2006), which predict that convergence is likely to follow from trade liberalisation, with developing countries having more scope for further improvement-catching up (Sala-i-Martin, 2006). It is also not backed up by "development of underdevelopment'-type arguments, which suggest that MNEs can create or help sustain the underdevelopment of countries (Pitelis, 1991; Schuler, Eden, & Lenway, 2006). Despite its "middle ground" position, however, the uneven development thesis follows only under Hymer's specific assumptions. These suffer from a lack of a theory of the state and its role in development: see Eden (1991) and below.

Finally, Hymer's prescription for central planning may follow from his analysis only if one ignores the issue of the source of the advantages and their efficiency. In addition, in advocating central planning, one must also take on board the issue of government failure – which Hymer was reluctant to do.

To conclude, we would accept that Hymer's major predictions and prescriptions are consistent with his analytical framework, his core ideas, and other subsidiary assertions. This is not, however, to imply they were correct, a point to which we now turn.

POST-HYMER DEVELOPMENTS IN SCHOLARLY THINKING AND THE GLOBAL LANDSCAPE IN RELATION TO HIS IDEAS

In respect of the theory of the MNE and FDI, the major development in the 1970s and 1980s was more intensive examination of the "transaction costs" approach, and the introduction of the envelope of internalisation (I), ownership (O) and location (L) as set out by John Dunning. In contrast to Hymer, transaction costs and the OLI focus on the efficient creation and deployment of the advantages.

The efficiency-value creation component of FDI and MNE activity was further strengthened by two other major scholarly developments in the 1990s: the resource-based (RBV) and evolutionary theories. The RBV relies on the assumption of firm heterogeneity, which results from the unique possession and redeployment by firms of their skills, advantages, competences, capabilities, routines, etc. A variant of this view led by Barney (1991) focuses on the ability of firms to capture value through the acquisition or development of resources and capabilities that are hard to imitate (Peteraf, 1993). Another version zeroes down on value creation, and draws more on the writings of Penrose (1959), who emphasised the superior competences of firms to innovate and/or create and utilise knowledge; Teece (1982) and Mahoney and Pandian (1992) are among the scholars who have also endorsed this view. In the case of the MNE, Kogut and Zander (1993) focused on its superior ability to transfer tacit knowledge across national boundaries, while Penrosean applications emphasised innovation, knowledge generation, learning and endogenous growth.

The rents capture version of the RBV is arguably a complement to Hymer's focus, and helps strengthen his argument. At the same time, the value creation version of the RBV is hard to reconcile with Hymer's main thesis. Moreover, Hymer's predictions with respect to global collusive oligopoly are questionable. While sectors and companies as diverse as beverages, commercial aircraft (Boeing-Airbus) and IT appear to be in line with Hymer's expectations, in others there has emerged intensified competition innovation as a result of new entrants, trade liberalisation, improvement in information and communication technologies (ICT), and reduced transportation costs. All these make it easier for even small firms to challenge large ones and, sometimes, to become multinationals themselves (Teece, 2006; UNCTAD, 2006). Interestingly though, it is often through the very presence of large players that new competitors emerge.

Hymer also downplayed the possibility of inter-firm cooperation taking forms other than collusion, for example by the adoption of the participating firms of a "portfolio" approach to their foreign operations, often combining modalities such as FDI, licensing and inter-firm cooperation. Such ideas are both consistent with the RBV and indeed can be expressed in terms of production-related efficiencies (Richardson, 1972). In sum, transaction costs and RBV approaches point to a more complex picture concerning choice of modality and the nature of inter-firm cooperation than allowed by Hymer.

Coming to Hymer's other predictions, the last half century has seen a continuous growth in the world's largest firms. This gives credence to Hymer's first law. Moreover, the recent dynamic growth of outsourcing (Teece, 2006; UNCTAD, 2003), alongside continued growth of firm size, is testimony to the strength of Hymer's framework and his superior insight. As measured by such indices as assets, sales, value-added or employment, firms as diverse as Microsoft, BP and Wal-Mart are far larger than even their largest counterparts at the time of Hymer's writings. Moreover, contemporary technological and organisational advances and increased market liberalisation seem to imply that the law has still some way to go. At the same time, however, in recent years we have experienced the growth of new forms of inter-firm cooperation and the emergence of a portfolio approach to foreign operations that is a far more complex and nuanced mix of market, hierarchy and cooperation than ever envisaged by Hymer (Contractor & Lorange, 2002; Dunning, 1997; Hill, 2006).

Concerning the growth of supranational entities, post-Hymer, organisations such as the WTO have emerged; the role of the World Bank and the IMF has become more high-profile; regional blocs, such as the EU, have widened and deepened their integration; and new blocks (e.g., NAFTA and ASEAN) have appeared. It is, however, less clear whether supranationality has emerged for the reasons advanced by Hymer. His "imperialism thesis" (Cohen, Felton, Morley, & van Liere, 1979) would suggest that international organisations would lead to an increased concentration of economic and political power in favour of MNEs and developed countries. Certainly the World Bank and the IMF have subsequently been criticised along these lines (e.g., Stiglitz, 2002). However, Hymer was ambivalent about the efficiency or power properties of supranationality, and failed to provide a reasoned or persuasive account of the nation-state and supranationality. While his prediction was correct, his analysis of these issues was often inadequate and weak. This may be a problem in IB as a whole (Boddewyn & Brewer, 1994).

Hymer's neo-Marxist prognosis of dependency and uneven development has not been generally supported by the events of the last 30 or more years. While it is true that large areas in the globe, notably Africa, have remained underdeveloped, there have also been spectacular successes, notably in Asia and more recently in Central and Eastern Europe. In the early 2000s, for example, both India and China are experiencing dramatic growth, and are doing so by applying a wide array of policies and development models (UNCTAD, 2006). While these countries initially exhibited significant state intervention (Pitelis, 1994), India's most recent development (e.g., the growth of the IT sector in Bangalore) appears to have taken place without such intervention (Hill, 2006).

Hymer's exclusive focus on value capture also led him to underplay the significance of learning by developing countries and competitors, and the introduction of pro-development government policies. Post-Hymer, development has been uneven, but sometimes in favour of developing countries (Eden, 1991). This possibility was not envisaged by Hymer because of his emphasis on the power of large firms to protect "their" advantages, outcompete their rivals, and weaken the power of countries. While large firms may well try and achieve these objectives, new MNE competitors have sprung up from developing countries, and these emerging-market firms are managing to compete successfully, as well as to access, absorb and upgrade technology (Lall, 2001; Ramamurti, 2004; UNCTAD, 2005, 2006). In all, there exists a complex dynamic system, which is simply not explicable in Hymer's dependency and uneven development prognosis.

Our discussion also weakens the force of Hymer's belief in the merits of central planning. Even with global collusive oligopoly and uneven development, the case for a command economy as a macro-institutional system should be based at least partly on its relative efficiency properties – which Hymer failed to discuss. Hymer also paid little attention to the ways in which capitalist governments might facilitate the positive externalities of inward FDI. One example is the promotion of "industrial districts" and "clusters". As documented inter alia by Porter (1990) and Enright (2000, 2003), agglomerations of interlinked firms, including MNEs, that compete and cooperate in a particular activity in a particular location are frequently a potent source of locally based economic development, and a magnet for FDI. They are also an alternative mode of organising production to central planning that combines some of the efficiency of large and small size, but which also exploits and sometimes adds to the social capital of host countries (Dunning, 2006; Pitelis, 2000).

Hymer's focus on value capture by MNEs also led him to assume that central planning would maintain the efficiency properties of capitalism, while getting rid of its inefficiencies. However, theory suggests that central planning will tend to be inferior in terms of dynamic efficiency innovations: see Schumpeter (1942) and Hayek (1945). History has so far confirmed this.

A NEW LEARNING, ITS IMPLICATIONS FOR HYMER'S WORK, AND CONCLUDING REMARKS

In recent years the shifting global landscape and developments in scholarly thinking have led to a focus on the efficiency, learning, innovation and institutional capabilities of firms and countries and the dynamic interplay between them. Increasing attention has been paid to asset augmenting FDI, including that of MNEs from developing countries (UNCTAD, 2005). Pitelis (2000), Madhok and Phene (2001) and Rugman and Verbeke (2002) have tried to incorporate RBV ideas into the MNE. Various contributors to Cantwell and Narula (2003) have suggested reconfigurations and/or extensions of the OLI paradigm, while knowledge/learning issues are covered in the special issue of *JIBS* edited by Foss and Pedersen (2004). Dunning and Lundan (2007) have explicitly incorporated the content and quality of institutional capital in the eclectic paradigm; Pitelis (2007) has reinterpreted and extended its tenets in terms of learning, imperfect cognition, and strategic, anticipatory behaviour and co-temporal decisions of firms. While we would accept that many of these ideas were anticipated by Hymer (1970a), by choosing to focus on value capture he neglected an important part of their attributes. In concluding, we speculate as to what a more learning-, capabilities- and institutions-based view of the MNE that combines value capture with value creation would imply for Hymer's prescriptions and predictions.

First, an emphasis on the learning attributes of FDI and MNE activity supports the increasing firm size view of Hymer. As pointed out by Penrose (1959), however, the process of firm growth is efficient, almost by definition. While firms may, and often do, capture value resulting from such growth by way of monopolistic practices and the building of "impregnable bases" (Penrose, 1959; Pitelis, 2004b), the main sources of sustained growth are innovation and improved efficiency. To the extent that "big business competition" fuels that process, it is an important vehicle for value creation.

Concerning collusion, Penrose (1959), like Hymer (1970a), was not oblivious to the potential inefficiency of a state of equilibrium in sectors controlled by large firms, which might stem the process of competition. However, Penrose argued that the emergence of small firms, appropriate anti-trust policies, institutions and attempts by governments of developing countries to safeguard their interests would make it unfeasible for large firms to maintain collusion on a global scale for other than short periods of time. It would appear that this Penrosean view is proving to be more accurate than that of Hymer.

A view of firms and nations in terms of learning and value creation can also help explain uneven development in favour of some developing countries, as learning can encourage the creation of institutions that facilitate the access and adoption of both "best" practice and socially responsible behaviour of firms.

All of these are not to assert that convergence necessarily follows as learning increases (Eden, 1991), but it is likely to provide more degrees of freedom for developing countries to pursue strategies that facilitate convergence. For a variety of reasons, some developing countries will be successful in these strategies; some will not. However, those countries that are successful may well eventually be able to effect independent and favourable development trajectories.

Much of the learning-based perspective to development would be largely incompatible with the prescription for central planning. While, in theory, a static efficient allocation of resources through central planning is possible (Lange, 1936), any chances for its success would need to assume an omnipotent, omniscient (socialist) state. Planning, moreover, might blunt the incentives of firms to innovate and/or learn from others.

In recent years scholars have relied on capabilities, learning and institutions to embrace a more diverse, pluralistic view of capitalism. Such a view acknowledges, first, the role of a growing number of extra-market organisations, including NGOs and special interest groups; second, the widening goals, and/or prioritisation of existing goals, of development and the ways in which these may be best achieved (Dunning, 2006); and third, the recognition by governments from both developed and developing economies of the need to continuously reappraise their policies and institutions in the light of a changing global landscape. Hymer's one-sided approach was alien to such developments.

In conclusion, we believe that Hymer's contribution to the theory of the FDI and the MNE resulted in a paradigm shift in scholarly thinking. He originated a new field of scholarly endeavour, and predated much of what was to follow. Having said this, Hymer chose to focus on only half of the story – the value capture by firms – at the exclusion of efficiency and value creation. Perhaps this was because he believed that the same efficiency properties would be present, whatever the efforts of firms to capture value. This has proven naïve. Indeed, it is precisely because firms aim to capture value that they need to create it in the first place. In addition, his beliefs that large MNEs were all powerful, that capitalist states in developing nations were weak and unable to learn, that small firms had no chance to compete, and that a socialist state would be able to solve the problems of capitalism led Hymer to make some predictions and prescriptions that have since proved unsupportable.

While Hymer discussed efficiency, knowledge and institutions-learning-related issues, he chose to do so selectively. In some cases, such as his "law of increasing firm size", his views have subsequently received support by history and scholarly thinking. But in others, where Hymer downplayed or ignored the role of value creation, learning and institutional upgrading (such as his global collusion and uneven development theses), history and subsequent scholarly thinking have not been kind to him. Looking to the future, a learning-value creation perspective would point to the need to address constraints on the sustainability of the value generation process (Pitelis, 2004a). Such constraints are likely to arise whenever entrenched power structures are reflected in monopolistic practices by firms and by strategic trade policies by developed countries, which may work against the interests of developing countries.

In all, while many of the issues identified above were not Hymer's chosen concerns or focus, they are well within his chosen pursuit for a better world. A learning-institution-sustainability-based perspective adds credence to Hymer's concern, and calls for learning and actions to improve our lot – Hymer's agenda. On the other hand, it is at least arguable that, by choosing to downplay the relevance of such issues, Hymer might have been responsible for inhibiting the progress of some aspects of IB research questioning the canonical status he enjoys in IB scholarship. Our value capture and creation framework provides the missing half of Hymer's framework and thus rectifies it, contributing to IB scholarship a framework that is currently missing, in part, because of Hymer's original focus and choices.

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