

Footloose multinationals: Extending the internalization theory

Irina Gokh¹  | Fragkiskos Filippaios² 

¹Leicester Castle Business School, De Montfort University, Leicester, UK

²Norwich Business School, University of East Anglia, Norwich, UK

Correspondence

Irina Gokh, Leicester Castle Business School, De Montfort University, Leicester LE1 9BH, UK.

Email: irina.gokh@dmu.ac.uk

Abstract

Internalization theory explains how the multinational enterprise (MNE) makes decisions on new investments but does not explicitly address the restructuring (i.e., unbundling) processes that can take place within the MNE network of subsidiaries. Further extensions to internalization theory have considered the ways MNEs recombine, bundle, unbundle and orchestrate resources but have yet to address specifically the issue of divestments and relocations. We contribute to the literature by extending internalization theory through conceptualizing footloose behavior, a repeated relocation of divested operations over a period of time, and approaching MNEs behavior in a holistic way. Empirically, we use four case studies of mature, complex and diversified MNEs within the context of European Union (EU). These MNEs have engaged in several investments, divestments and relocations over several years. Through the analysis of their behavior we demonstrate how the inclusion of divestments and relocations can extend internalization theory in explaining the modern MNE.

KEYWORDS

construct development and evaluation, European Union, evaluation of current theories, integration of pre-existing theoretical approaches, internalization theory, international business theory

1 | INTRODUCTION

Internalization theory of the multinational enterprise (MNE) has remained one of the most influential theories explaining the existence, evolution and strategic management of the MNEs (Buckley, 2016; Casson, 2015). Over the last 40 years, since its original introduction, the theory has evolved to remain current with changes in the external environment as well as the evolution of the modern MNE. Fundamentally, internalization theory builds on the work of Coase (1937) exploring market imperfections and suggesting that some transactions are more efficiently performed internally rather than externally. Initially, internalization theory aimed to explain why Foreign Direct Investment (FDI) was focused on knowledge-intensive industries (Casson, 2014) and offered explanations on the choice of the entry mode between market and non-market modes of operation.

Internalization theory suggests that the benefits of internalizing the market should outweigh the costs (Buckley, 2014; Buckley & Casson, 1976; Casson, 2014), i.e., “the advantages of internalizing a market are the obverse of outsourcing” (Buckley, 2014, p. 229). Casson (2014) argues that international business (IB) literature extensively covers the benefits of internalizing the market, but almost ignores the costs, which increase significantly with the size and international expansion of the firm. According to Buckley and Casson (2019) MNEs can demonstrate high levels of versatility. This versatility is reflected in changes in the structure of the MNE through new investments and divestments as the MNE requires a consolidation of resources before expanding further.

Through the work of Rugman and Verbeke (2003) and Hennart (2009) internalization theory has been developed to add a dynamic dimension. In search of the optimal boundary, multinational enterprises do not remain static. Firms change and evolve, with time,

This is an open access article under the terms of the Creative Commons Attribution License, which permits use, distribution and reproduction in any medium, provided the original work is properly cited.

© 2021 The Authors. Thunderbird International Business Review published by Wiley Periodicals LLC.

due to different firm-specific advantages (FSAs) (e.g., new technological developments) and country-specific advantages (CSAs) (e.g., European integration). The interaction of FSA/CSA governs the “boundary” (i.e., the scale) of the firm. Hence, when these factors change, the cost/benefits balance may also shift, and consequently, the boundary of the firm may be pushed back (i.e., the firm will reduce its size). Activities that no longer contribute to the firms' strategic goals become valueless “empty calories” (IBM, 2014, p. 3) and should be divested if the firm wants to avoid potential failure. Buckley (2016) argues that a key avenue of extending internalization theory is through the dynamic nature of the theory. It is through adding and explaining divestments and relocations where the present study aims at extending internalization theory further. Divestments and relocations enable firms to rationalize their size once they have exceeded their optimum size (Casson, 2014) and to reallocate resources to more promising, or new, product lines and markets.

To extend internalization theory, we build on the work of Rugman and Verbeke (1992, 2003), Rugman (2010), Narula and Verbeke (2015), Hennart (2009) and Pitelis and Teece (2018). This study complements prior studies by Buckley and Casson (2019), Strange and Humphrey (2019) and Gaur, Pattnaik, Singh, and Lee (2019) published in a *Journal of International Business Studies* special issue on extending internalization theory. We use resource recombination, bundling and unbundling and orchestration as ways to extend internalization theory and conceptualize footloose behavior, as a repeated relocation of divested operations over a period of time. Through an orchestration approach (Pitelis & Teece, 2018) the MNE decides to drop out old and obsolete assets and bring in new assets to facilitate its functioning. Asset orchestration can span across firm boundaries through a variety of collaborative modes.

First, we approach internalization theory from a strategic perspective and build on arguments developed by Rugman and Verbeke (1992, 2003) to argue that footloose behavior, a repeated relocation of divested operations over a period of time can be seen as a process of constant bundling (i.e., investment), unbundling (i.e., divestment) and re-bundling (i.e., relocation) of resources to balance the optimal size and growth of the MNE. We argue that this process depends both on the nature of CSAs and their changes but primarily on the type of FSAs used, that is, location-bound versus non-location bound FSAs. According to Narula and Verbeke (2015), FSAs sustainability comes through a constant search for locational characteristics that can lead to the creation of non-location bounded FSAs. For complex MNEs linkages between a variety of transactions can lead to differential outcomes in the investment/divestment behavior of the MNE (Narula & Verbeke, 2015).

We extend this argument by including Hennart's (2009) approach and looking at the cost and availability of accessing CSAs. We take this approach a step further and argue that MNEs might not only opt for lower control modes of operations, as argued by Hennart (2009) but completely divest should their FSAs be not strong enough.

In addition to the earlier extension, we integrate the investment motives proposed by Dunning (1993), Dunning and Lundan (2008) with the work of Rugman (2010) to explain how certain types of

investment motives, such as resource, market and efficiency-seeking lead to higher levels of footloose activity when compared with strategic asset-seeking.

Despite the conceptual nature of the article, we offer an empirical discussion with some practical examples through a case study approach. Building on information from FDI Markets and Eurofound we have identified four MNEs. We use these MNEs as a basis for our discussion and practical examples. All four MNEs have had a number of divestments and investments as a response to changing CSAs and FSAs configurations. Our discussion demonstrates empirically how our extension of internalization theory can explain the modern MNE and its behavior holistically, accounting not only for new investments but also divestments and relocations.

The rest of the article is structured as follows: Next section provides our conceptual framework in extending internalization theory and developing two propositions. The following section offers a discussion and practical examples on the application of our proposed extension. Finally, the last section of the article concludes and discusses limitations as well as future research.

2 | CONCEPTUAL FRAMEWORK

2.1 | Definition of footloose behavior

We define footloose behavior as a repeated relocation of divested operations over a period of time. “Repeated” refers to the systematic character of divestments and relocations. A one-time relocation can refer to a random event. “Divestment” refers to a cessation of all or of a major part of existing active operations that reduces the presence in the foreign market (Belderbos & Zou, 2006; Boddewyn, 1979). We subdivide divestments into three groups: (1) exit from the market; (2) closure of a subsidiary; and (3) organizational restructuring. Divestment is termed as “relocation” when terminated activities in the subsidiary are relocated to another country: (1) by establishing a new subsidiary, and (2) by increasing a market scope, product scope or value-added scope of an existing subsidiary (White & Poynter, 1984). The main theoretical anchors that allow us to position the concept of footloose behavior—is the literature that explains different aspects of MNE's activity, that is, investments (Buckley & Casson, 1976), divestments (Benito, 2005; Benito, 2006; Boddewyn, 1979; Boddewyn, 1983; Burt, Dawson, & Sparks, 2003), relocations (Belderbos & Zou, 2006; Buckley & Mucchielli, 1997; Filippov & Kalotay, 2011).

Despite efforts to discuss divestment from a strategic perspective, studies by Boddewyn (1983) and Berry (2010) are isolated efforts. Boddewyn (1983) offers a discussion of the factors that drive divestments, summarizing them in return on assets, strategic and behavioral and resource allocation. Following the same line of argument, Berry (2010) argues that growth and expansion involve divestment and investment. Thus far, only a limited number of studies have addressed the issue of footloose behavior (Cowling & Sugden, 1999; Flamm, 1984; Görg & Strobl, 2003; Van Beveren, 2007). The focus of

these studies is not on the MNEs' strategic behavior but on the negative impact footloose behavior has on the host country's economy. This strand of the literature emphasizes that footloose behavior emerges only due to the adverse shocks in the host country's environment that bring changes to the CSAs; thus, these studies largely ignore the characteristics of the firm, in the form of FSAs, which may also drive footloose behavior.

2.2 | The combination of CSAs and FSAs and footloose behavior

According to Rugman and Verbeke (1992) internalization of activities reflects the market failure. This market failure exists, in the vast majority of cases, due to natural or government-created market imperfections. The MNE owns internationally transferable FSAs (non-location bound) and non-transferable FSAs (location bound). The first ones represent technological, marketing or administrative (governance-related) knowledge that allows the MNE to reduce the costs of doing business abroad. This knowledge can either be codifiable which can be transferred cheaply, but it is also easy to be copied and replicated or tacit with more challenges when transferring to the host location but more difficult to imitate from competitors. The value of these non-location bound FSAs could differ substantially from country to country depending on the goals of the MNE. The second set of FSAs represent access to a network of standalone resources (e.g., a network of distributors), local marketing knowledge or reputational resources, local best practices (e.g., routines) and some domestic recombination capability of resources. These FSAs can only be created by linking with existing third parties operating in host markets. As the MNE enters new locations, it is important to develop new location-bound FSAs in the host country. These will act in a complementary way to the non-location bound FSAs and will enable the firm to maximize the utility from locational characteristics. When seen in the context of internalization theory, Rugman and Verbeke (1992) argue that the core FSAs are non-location bound and originate from the parent company, whilst CSAs are exogenous, cannot be influenced directly by the MNE and therefore can be used in a local and static sense. It, therefore, depends on the MNE whether resources could complement CSAs in a way that can generate long-term FSAs. It is also worth pointing out that internalization advantages will depend on a MNE's transactional FSAs to operate foreign subsidiaries. The MNE will create value through the recombination of resources. This recombination is, at the same time, a key driver but also a constraint and can take a variety of forms. Rugman's view (Narula & Verbeke, 2015) of resource recombination can lead not only to new investments but also to the change of role in existing subsidiaries as well as divestments.

According to Verbeke and Kano (2016), there are four combination processes: fast bundling, principles driven bundling, adaptive bundling, and entrepreneurial resource orchestration. These processes are from lower to higher-order, and as they approach the entrepreneurial resource orchestration they require entrepreneurial skills, slack resources and willingness and capacity to let go of existing resources

in order to substitute them with higher value-creating potential. This leads to the creation of the highest order FSA for an MNE which is the recombination capability. The Rugman and Verbeke (1992) approach to internalization theory assumes that the MNE can access CSAs at no cost and can recombine those seamlessly across national boundaries. Responding to this approach, Hennart (2009) has developed a framework showing that this assumption of cost-free bundling between FSAs and CSAs is not always correct. There might be cases where local CSAs are controlled by actors and therefore accessing them does not come without a cost. Hennart's (2009) approach supports the evolution of an MNE's engagement in a location and shows that the MNE can move between equity and non-equity modes. We take this argument a step further and argue that when this cost of accessing CSAs is high or reduced in alternative locations, the MNE might decide to change the subsidiary's mandate or even divest.

To optimize the internalization in a growing firm, MNEs may start to relocate existing operations, which involve the movement of non-location bound FSAs from one country to another, leading to an increase of the efficiency of the network (i.e., when benefits of internalizing activities outweigh the costs). Internalization theory assumes a linear process of increasing engagement in the host market as the MNE gains experience and therefore, faces reduced transaction costs. Building on our previous argument, this is not always linked with a switch to higher control modes. We argue that it is the strength of the FSAs that will determine whether the MNE will decide to remain in the host market even through a lower control mode or the decision will be made to relocate/divest its assets. We also argue that higher levels of non-location bound FSAs will lead to footloose behavior. The relocation and recombination capability of resources is associated with the necessity to rationalize the portfolio of existing operations in such a way that it will increase the efficiency gains of the differentiated MNE network. Based on the earlier, we put forward our first proposition:

Proposition 1. *The insufficient bundling of non-location bound FSAs with CSAs, reduces the ability of the MNE to generate strong location-bound FSAs and increases the footloose behavior.*

2.3 | CSA/FSA, investment motives, and footloose behavior

According to Rugman (2010), the CSA/FSA framework can be used to complement Dunning's (1993), Dunning and Lundan's (2008) motivations of multinationals. FDI takes place in those cases where FSAs are combined with high CSAs. According to Rugman (2010), three types of motives, that is, resource-seeking, market seeking, and efficiency-seeking emerge in cases where the MNE combines a high level of CSAs with a low level of FSAs. These motives are reflected in the operations of the subsidiary in the host location. According to Gaur et al. (2019) internalization theory should focus on the MNE's subsidiary to provide reasonable explanations to the modern MNE's evolution.

In resource-seeking motivation, the MNE invests because the location can offer a number of CSAs such as an abundance of natural

resources and suitable infrastructure to transport these resources (Castiglione, Gorbunova, Infante, & Smirnova, 2012; Wilson & Baack, 2012). In the case of the natural resource-seeking motivation, footloose behavior is unlikely to occur unless a firm can source these resources somewhere else (Benito, 2015). In resource-seeking behavior associated with access to low-cost resources, footloose behavior might emerge if these resources (usually the cost of the labor force) become relatively expensive in comparison to other locations. Economic development, for example, can lead to an increase in input costs. In market-seeking investments, key CSAs are the size of the market, its geographical proximity to other markets, the level of economic development and the availability of skilled, but reasonably priced labor force (Benito, 2015; Castiglione et al., 2012; Ramasamy & Yeung, 2010; Wilson & Baack, 2012). Market size and opportunities for future growth are crucial (Ramasamy & Yeung, 2010), but “if there is a trade-off between market size over the market growth, manufacturing investors would prefer market size” (Ramasamy & Yeung, 2010, p. 590). In efficiency-seeking investments, CSAs mostly reflect the potential incentives a location can offer to the firm. For example, government involvement in removing trade restrictions (Wilson & Baack, 2012), facilitation of infrastructure development (Benito, 2015; Wilson & Baack, 2012), development in the area of human resources (Wilson & Baack, 2012), more favorable business environment such as government incentives, country's economic and political stability are key CSAs. It is worth highlighting though that government actions such as removing trade barriers or advancing regional integration do not attract the FDI on their own because open borders do not imply that locations can offer other complementary factors such as strong local capabilities (Loll and Narula, 2004). A key CSA is also the reasonable price of labor (Ramasamy & Yeung, 2010) paired with reasonable purchasing power (Castiglione et al., 2012). Divestment can also be complemented by outsourcing when an MNE switches from internal production to production through an external partner. This switch is common in manufacturing, an activity that is predominantly driven by the efficiency-seeking motive (Strange & Humphrey, 2019).

The earlier CSAs are complemented with location bound FSAs. Gaur et al. (2019) argue that the host location environment plays a significant role in the way MNEs leverage their FSAs. In their study, they find that MNEs tend to leverage their FSAs better in countries with weaker institutional environments (Gaur et al., 2019). In resource-seeking FDI and specifically natural resource-seeking, investments tend to flow into developing countries where the rule of law tends to be weak; thus, internalization helps the MNE to secure the stability of production output in highly volatile environments. In the case of market-seeking, FSAs such as property rights, that is, brand name, trademark or an innovative product (Benito, 2015) are crucial. Within market-seeking motivation, we need to highlight the importance of local adaptation. Local adaptation could require additional financial inflows or specific technology and knowledge. In the case of efficiency-seeking investments, the key FSA is the firm's ability to reorganize the network. Investments are performed to build better (more efficient) production facilities and consequently locate the production facilities in a way that increases the overall efficiency

(specialization or clustering) of the MNE (e.g., more efficient logistics) (Benito, 2015). A core FSA used in efficiency-seeking driven investments is the firm's ability to maximize the benefits of activities under common governance. Common governance can have two aims: to coordinate different activities in different parts of the world and to coordinate the same activity in diverse environments.

Strategic asset-seeking, on the other hand, results from a more advanced combination of CSAs with FSAs. In this case, high-level CSAs are combined with a high level of FSAs, in the vast majority of non-location bound FSAs. Strategic asset-seeking is a forward-looking investment motivation, and “it is about developing new resources and capabilities that can generate future streams of revenue, not exploiting already existing ones” (Benito, 2015, p. 6). From a CSA perspective, the location should offer a number of factors to be attractive. High levels of intellectual property protection, reduced volatility of economic conditions and well-developed infrastructure and a highly skilled labor force are amongst them. These CSAs are linked with high-level FSAs such as R&D, customer service and innovation (Wilson & Baack, 2012). Considering that footloose behavior is a systematic activity (repeated relocations) we argue that in the case of strategic asset-seeking investments, the nature of such investments (i.e., long-term investment) makes them less prone to footloose behavior. As Benito (2015, p. 8) argues: “Companies that venture abroad for strategic asset-seeking motivations are likely to prioritise control over their foreign operations, perhaps overriding other relevant concerns”. On the basis of the earlier arguments, we put forward our second proposition:

Proposition 2. *Resource-seeking, Market-seeking and Efficiency-seeking investments will be more sensitive to changes in the CSAs and FSAs combinations than Strategic asset-seeking investments and will lead to more frequent footloose behavior by the MNE.*

3 | DISCUSSION AND PRACTICAL EXAMPLES

In order to provide some empirical support to our conceptual arguments we decided to explore footloose behavior within the European Union (EU) context. Two reasons can be used to support our decision to focus on the EU, one conceptual and one empirical. Conceptually, the EU has, over the last 30 years, gone through a transformational process of integration, accession of new member states and introduction of common policies and regulations. It offers a stable economic and political environment which also reflects a degree of change that we cannot find in any other regional integration group of developed countries (Barrell & Pain, 1999; Filippaios & Papanastassiou, 2008). Table 1 offers a summary of the key arguments supporting the selection of EU as a research context.

Empirically, the EU offers a well-developed database, sponsored by the European Commission capturing the vast majority of divestments and relocations of both domestic and multinational companies. The Eurofound European Restructuring Monitor by The European Foundation for the Improvement of Living and Working Conditions

TABLE 1 Key reasons supporting the selection of EU as research setting

Conceptual	Empirical
<ul style="list-style-type: none"> • 30 years of systematic transformation and integration through expansion with peripheral countries (Greece, Spain, and Portugal) and towards the East with the integration of central and eastern European countries in 2004 • Stable economic and political environment with lower variation in the economic, political and institutional factors 	<ul style="list-style-type: none"> • Well-developed database (Eurofound) capturing divestments and relocations sponsored by the European Commission • Significant investment activity from MNEs over the period of investigation

(Eurofound, 2017) monitors media announcements regarding large restructuring activities of companies operating in the 28 EU member states. As media announcements are included in the database, most of them contain an explanation on divestments and relocations. We have complemented this database with *FDI Markets* (FDI Intelligence, 2017), a division of the Financial Times Ltd. *FDI Markets* is a comprehensive and highly detailed online database, which covers all cross-border greenfield investments in all countries and sectors. The database holds information about the parent company (HQ), the investing company (subsidiary), source/destination country and city, industry and sector, number of jobs created and the amount of invested capital.

By combining these two databases, we have a detailed picture of MNEs behavior in new investments, divestments and relocations. For the purpose of this article, we have focused on examples from the most active companies in both investments and divestments/relocations over the period 2002–2015. Through the classification of companies combining information from the two databases, we have concluded in four companies representing different industries to offer a wider interpretation of findings and a variety of examples. The four companies are IBM with 3 divestments and 166 investments, Johnsons Controls with 3 and 33 divestments and investments, respectively, Electrolux with 3 and 34 and finally Procter and Gamble with 5 and 33 divestments and investments respectively. In all cases, except for IBM, the disinvestment activity represents close to 10% of the overall activity of the MNE, demonstrating the importance of the phenomenon. These companies also provide examples from a variety of industries.

3.1 | IBM and the case of Ireland

International Business Machines (IBM) was founded in 1911 (Marketline, 2017) and has gone through a lot of transformations in its 106 years of existence. The company has managed to survive in a changing environment and remains a leader in the Software and IT industry. IBM is a large, mature and diversified MNE. We argue that IBM has dealt a few times with the optimum network size reflecting the boundaries of the firm set by internalization. According to

Casson (2014) when a firm reaches its size limit (which is its margin), it either breaks down and fails, or the firm will make rationalization decisions that involve a careful exit strategy from locations that no longer serve the company's goals. We extend this argument by suggesting that rationalization of activities is not a one-time event; it is a systematic activity (i.e., footloose behavior). We argue that IBM constantly adopts a footloose behavior (i.e., divestment of “empty calories” in the company's own language), as it is the only way to sustain efficiency and remain competitive.

An example that supports the earlier argument is IBM's divestment from Ireland (2009) and subsequent relocation to Singapore with a market-seeking purpose. IBM has a long history to its presence in Ireland; however, the market in Ireland, and its relatively small size, does not allow IBM to take advantage of expansion opportunities. Therefore, the company decided to relocate to Singapore. This divestment comes shortly after an investment in Ireland, in 2007, because it was an “ideal” location with a welcoming environment reflecting rapid economic growth and high technological activity. The 2007 investment captures an efficiency-seeking investment motive (i.e., the location has some attractive features and fits MNE efficiency goals) but in the years that followed other locations emerged (e.g., Singapore) that offered a better strategic fit to the MNE's goals. Hence, in 2007 Ireland was indeed a good location with impressive benefits, but this changed for IBM in 2009, and IBM decided to divest. The short time frame (2 years only) is crucial in this example. It indicates that CSAs can change rapidly, and unless there is a strong bundle with FSAs, footloose behavior emerges. When IBM announced its relocation to Singapore and to a certain extent to China, they also announced that Ireland would become a center for research and development. In other words, IBM made several consecutive investments/relocations over the course of 2 years (2009 and 2010) but decided to reinvest in Ireland again in 2010 in a different activity. In 2010 IBM invested in the establishment of a research center, showing a strong strategic asset-seeking motive with a combination of CSAs and non-location bound FSAs.

3.2 | Johnson controls in Portugal and Spain

Johnson Controls (JC) was established in 1885, and has, since, remained a leading company in the automotive components industry operating in more than 150 countries (Johnson Controls, 2017). In 2006, JC divested two manufacturing plants in Portugal due to the need to “adjust the output capacity in Europe” (Eurofound, 2017). This may suggest that JC overproduced in Europe and they had to restore efficiency in their operations. They decided to relocate Portuguese activities to Germany and Slovenia. In 2009, there was another case of divestment, and subsequent relocation from Spain, which was similar to the Portuguese case. JC announced that the financial crisis was the reason they had to leave Spain. This reason is in line with our argument about the role of CSAs and the ability of the organization to use them in building strong FSAs. In 2013, JC also announced the closure of another factory in Spain due to restructuring measures. It is clear

TABLE 2 Summary of case studies

Case study	Divestments	Footloose behavior illustrations	Why did the firm engage in footloose behavior?
IBM	Ireland	<ul style="list-style-type: none"> • 2007—Investment to Ireland • 2009 and 2010—divestment from Ireland (high-end servers) • 2009—investment (relocation) to Singapore (high-end servers) • 2010—divestment from Ireland (low-end, mid-range server) • 2010—investment (relocation) to China (low-end, mid-range server) • 2010—investment to Ireland (research center) 	This case reflects a systematic process led by constant changes both within the organization (need to innovate) and in the organization's external environment. The series of investments and divestments/relocations aim at enhancing the FSAs and increasing efficiency.
Johnson controls	Portugal and Spain	<ul style="list-style-type: none"> • 2006—divestment from Portugal • 2006—investment (relocation) to Slovenia • 2006—investment (relocation) to Germany • 2009—divestment from Spain • 2013—divestment from Spain • 2013—investment to Spain 	<p>The firm through its investment and divestment/relocation behavior adjusts to changes in the external environment. However, this adjustment is a reactionist behavior (i.e., the firm has no control over it and must adapt/react to survive).</p> <p>In the case of Portugal, the CSAs are no longer aligned to JC's unchanged FSAs and this leads to a divestment.</p> <p>The same argument holds for Spain, but here there is an additional element—The new presence of JC's client (Renault). This reflects a change to the Spanish CSAs and consequently to an investment back to Spain in order to support the client.</p>
Procter & Gamble	Pan-European restructuring	<ul style="list-style-type: none"> • 2004—Divestment from Italy • 2004—investment (relocation) to France • 2006—divestment from Spain • 2006—investment (relocation) to Poland • 2006—divestment from Ireland • 2006—investment (relocation) to Poland • 2006—divestment from Ireland • 2006—investment (relocation) to Mexico • 2008—divestment from France • 2008—investment (relocation) to Spain • 2009—divestment from Ireland 	<p>In the case of P&G we have a firm that purposefully divest, relocate and reinvest in the initial location.</p> <p>The internal environment and the search for efficiencies plays a major role here.</p> <p>FSAs are constantly transformed (and the transformation is enhanced up by the company-wide restructuring). CSAs of the host locations play a less important role than FSAs.</p>
Electrolux	Italy, Spain, and United Kingdom	<ul style="list-style-type: none"> • 2004—divestment from Italy • 2004—investment (relocation) to Romania • 2004—investment (relocation) to China • 2004—investment (relocation) to Mexico • 2004—investment (relocation) to Brazil • 2005—divestment from Spain • 2005—investment (relocation) to Hungary • 2008—divestment from the United Kingdom • 2008—investment (relocation) to Poland 	<p>Electrolux closed the profitable Spanish plant and relocated to Hungary. The United Kingdom plant was unprofitable and deemed fitted for closure.</p> <p>There is clear contrast between the two divestments (Spain and United Kingdom). While the Spanish factory was no longer servicing Electrolux's internationalization strategy the U.K. factory was generating losses. The two divestments are driven by different motives.</p>

that JC divested from the second Spanish factory because it had stopped being efficient and has fallen below the minimum efficiency threshold acceptable by JC. While JC announced the closure of a production plant in Spain, they also announced an additional investment in Spain. In the same year, JC announced an expansion investment in Spain, in another plant, as their client, Renault, was also located there. This line of behavior illustrates a straightforward case of footloose behavior. Spain, as a manufacturing location was no longer good enough to have a

general manufacturing capacity, but the presence of Renault, a JC client, changed their perspective to some extent.

3.3 | Procter & Gamble and a Pan-European restructuring

Procter & Gamble (P&G) is a multinational company and a manufacturer of consumer packaged products of 50 (Reingold, 2016)

leadership brands. It was founded in 1837 (P&G, 2017) and has grown brand-wise during its 180 years of operation. Some of its products require local adaptation due to different consumer preferences. P&G faces a competing need for global integration and local adaptation of products. Addressing this need requires the investment of substantial resources.

The company decided to discontinue 116 brands over a period of 5 years (2012–2017). We argue that this is a reflection of efficiency-seeking motive driving P&G's restructuring activities and investment patterns. P&G mercilessly divests assets that prevent development and affect the efficiency balance. P&G does not only divest activities but also restructures the MNE network, creating tighter links between subsidiaries and focusing towards increasing the overall efficiency. Yannis Skoufalos, global product supply officer, stated that he is "reworking the [supply chain] system as if he is building it from scratch – a monumental task for a company of P&G's size" (Reingold, 2016, p. 180). A number of events highlight P&G's behavior starting from a relocation from Italy to France in 2004. In 2006, P&G decided to close and relocate from Spain to Poland and in 2008 to close and relocate from France to Spain. We feel that this chain of events reflects part of the strategic action to reduce the number of brands in the portfolio. P&G's example shows that divestments are not just an occasional behavior, but also a vital activity that allows the MNE to reinvest the divested capital in more suitable locations. To emphasize our point even further, we highlight three divestment cases that were announced to take place in Ireland between 2006–2009. In 2006, P&G announced the closure of their Irish skin-care division and relocation of activities to Poland. Also, in 2006, P&G decided to discontinue the dental floss production in Ireland and relocate it to Mexico. We can argue, therefore, that P&G in 2006–2008 reassembled their European network of resources to make it more efficient. Finally, in 2009, P&G closed another plant in Ireland without further relocation.

3.4 | Electrolux and the move to Poland

Electrolux belongs to the household appliance segment of the consumer electronics industry. Electrolux was founded in 1901 (Marketline, 2016) and since 2004 has been restructuring its entire network of operations. Out of a total of 36 investments that Electrolux has in the EU, 14 are in Poland. In other words, 39% of all European investments are located in Poland. In Electrolux's case, there is an interesting case of divestment from Italy that highlights the scale of the restructuring process that started in 2004. In 2004, Electrolux announced the closure of two Italian plants and restructuring measures for the remaining two factories in Italy. Electrolux decided to relocate the production to four different countries: Romania, China, Mexico, and Brazil. This restructuring was also complemented by the divestment of Spanish plants and the relocation of activities to Hungary. Remarkably, the Spanish plant was closed despite being profitable demonstrating that strategic considerations leading to footloose behavior are going beyond financial profitability. Finally, in 2008,

Electrolux announced that their U.K. subsidiary was generating losses forcing the company to relocate the production to Poland.

3.5 | Summary of the four cases

The earlier four cases relate to large, mature, and diversified MNEs that have operations spanning across several countries and with different subsidiaries' mandates. In all cases we have seen that the evolution of the multinational network is a series of new investments, divestments, relocations and re-investments or changes in subsidiaries mandates. Table 2 summarizes the four cases and offers grounds for comparison. We provide the sequential investments, divestment and relocations in column 3 and a brief explanation summarizing the key findings in column 4.

In the case of P&G the footloose behavior is represented by a pan-European restructuring of operations complemented by a significant reduction to the brand portfolio to address changes in the external European markets. Divestments from peripheral countries such as Spain and Italy were complemented by investments in either core countries such as France or central and eastern European countries like Poland. This led to a reduction of costs servicing the markets given the nature of P&G's products. In the case of IBM, we have seen a series of investments and relocations to ensure a better bundling of FSAs with CSAs as well as upgrading capabilities of subsidiaries. In the case of Johnson Controls we can see the importance of clients/partners in the investment behavior of an MNE. The initial divestment from Spain was reverted in order to be able to service a strategic partner such as Renault. Finally, the case of Electrolux highlights the importance of strategic over simple financial considerations in the decision process of MNEs. Whilst the Spanish operation was profitable a decision was made to relocate it in order to better serve Electrolux's strategic mandate.

These case studies suggest that the footprint of the modern MNE does not stay still and is subject to constant change through new investments, changes in subsidiaries mandates but also relocations and closures. Our extension of internalization theory discussed in the conceptual section provides a useful tool in understanding the behavior of the MNE from a holistic approach.

4 | CONCLUSION

The main aim of this article is to extend internalization theory by explaining not only investments but also divestment and relocation activity. The literature does not always make a distinction between the expansion investment and relocation while evaluating the determinants of the "investment" (Sleuwaegen & Pennings, 2006). This logic limits our understanding of both processes because the investment exemplifies the expansion related activity, but relocation exemplifies the move of production facilities from one country to another (Mucchielli & Saucier, 1997). In this article, we explore a new way of investigating the MNE's expansion activity through the lens of

systematic “repeated relocations,” which we approach as footloose behavior. Instrumental in our extension of internalization theory is the work of Rugman and Verbeke (1992) and the way MNEs bundle, unbundle and re-bundle CSAs and FSAs to achieve their strategic goals. This approach enables us to expand internalization theory in explaining not only how MNE behaves vis-à-vis new investments but also explicitly address the restructuring (i.e., unbundling and re-bundling) processes that take place within the network of the MNE.

We contribute to the literature by conceptualizing the footloose behavior, through an extension of internalization theory and providing a new way of exploring the MNEs' investment behavior. The evolution of CSAs and FSAs and the ability of the MNE to combine them in order to create strong FSAs is the first process through which we can explain footloose behavior. The failure of the MNE to bundle CSAs and FSAs successfully in a location creates the necessary conditions for future divestment, especially if CSAs change. We then take this argument a step further, and argue that investment motives, as suggested by Rugman (2010), could also contribute to footloose behavior. Motives that build on a combination of low-level FSAs with CSAs, such as resource, market and efficiency-seeking, generate the appropriate conditions for footloose behavior to emerge in contrast to strategic asset-seeking that builds on a high level FSAs. Finally, two aspects of the MNE network can moderate footloose behavior. HQ-subsidiary interdependence and operational flexibility both contribute to the MNE's ability to transform resources and capabilities and re-bundle them in a way that contributes to the achievement of a long-term strategic goal.

From a practical perspective, our study clarifies how to manage large, mature MNEs and how to keep an optimal balance between the size of the firm and future growth, that is, how to manage a large organization and maintain efficiency while responding to changes in CSAs and FSAs. Casson (2014) argues that even those who are closely involved do not usually foresee failures of the firms. Thus, it is crucial for managers to embrace and understand the complexity of the multinational enterprise, and to understand that the “balance and the boundaries of firms are subject, as always, to conflicting pressures” (Buckley, 2014, p. 231).

The main limitation of our study lies in the empirical validation of the conceptual framework. Whilst we have offered a number of practical examples it would be beneficial to examine our conceptual arguments to a wider population of MNEs coming from a variety of sectors, locations and engaging in a diversity of activities. This would enable us to draw generalizable conclusions and provide stronger empirical validation to the internalization theory and our proposed extension.

From a future research perspective, our study has a number of extensions. Thus far, IB literature emphasizes the negative side of footloose behavior. Despite the fact that divestment creates a void in the host country economy, we are at odds with this conclusion. We argue that the perception of footloose behavior has a relative nature. For example, for the country where MNE divests, footloose behavior may have negative consequences whilst for the country where the MNE consequently invests, it will bring benefits. This argument can

also be expanded further and explore cases where MNEs are moving obsolete or mature technologies to other locations, and this provides the opportunity to the host location to upgrade and enhance its CSAs. This has been the case of Ireland and IBM. IBM has transferred low value-added activities to Singapore and China whilst upgrading its activities in Ireland. This has been clearly a beneficial activity for the Irish economy. MNEs, therefore, through footloose behavior and the change in subsidiaries' mandates could create positive effects for host locations. Further research is necessary to understand the exact conditions where an MNE can bring positive effects to the host location through footloose behavior.

In conclusion, for the MNE itself, footloose behavior can be a matter of survival, and this should be acknowledged in future research. Lessons can be drawn that not all investments will be “new investments,” as some may be simply “relocation investments” and could follow very different investment motivations.

ORCID

Irina Gokh  <https://orcid.org/0000-0002-7148-7712>

Fragkiskos Filippaios  <https://orcid.org/0000-0002-7458-1333>

REFERENCES

- Barrell, R., & Pain, N. (1999). Domestic institutions, agglomerations and foreign direct investment in Europe. *European Economic Review*, 43 (4–6), 925–934. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=11936900&site=ehost-live>
- Belderbos, R., & Zou, J. (2006). Foreign investment, divestment and relocation by Japanese electronics firms in East Asia. *Asian Economic Journal*, 20(1), 1–27. <https://doi.org/10.1111/j.1467-8381.2006.00222.x>
- Benito, G. (2005). Divestment and international business strategy. *Journal of Economic Geography*, 5(2), 235–251. <https://doi.org/10.1093/jnlc/g/bh041>
- Benito, G. (2006). Divestment of foreign production operations. *Applied Economics*, 29(10), 1365–1378. <https://doi.org/10.1080/00036849700000027>
- Benito, G. (2015). Why and how motives (still) matter. *The Multinational Business Review*, 23(1), 15–24. <https://doi.org/10.1108/MBR-02-2015-0005>
- Berry, H. (2010). Why do firms divest? *Organization Science*, 21(2), 380–396. <https://doi.org/10.1287/orsc.1090.0444>
- Boddeyn, J. (1983). Foreign and domestic divestment and investment decisions: Like or unlike? *Journal of International Business Studies*, 14 (3), 23–35. <https://doi.org/10.1057/palgrave.jibs.8490525>
- Boddeyn, J. J. (1979). Foreign divestment: Magnitude and factors. *Journal of International Business Studies*, 10(1), 21–27. <https://doi.org/10.1057/palgrave.jibs.8490786>
- Buckley, P., & Casson, M. (2019). Decision-making in international business. *Journal of International Business Studies*, 50(8), 1424–1439. <https://doi.org/10.1057/s41267-019-00244-6>
- Buckley, P., & Mucchielli, J.-L. (Eds.). (1997). *Multinational firms and international relocation*. UK: Edward Elgar.
- Buckley, P. J. (2014). Forty years of internalisation theory and the multinational enterprise. *Multinational Business Review (Emerald Group Publishing Limited)*, 22(3), 227–245. <https://doi.org/10.1108/MBR-06-2014-0022>
- Buckley, P. J. (2016). The contribution of internalisation theory to international business: New realities and unanswered questions. *Journal of World Business*, 51(1), 74–82. <https://doi.org/10.1016/j.jwb.2015.08.012>
- Buckley, P. J., & Casson, M. (1976). *The future of multinational enterprise*. London: Palgrave Macmillan.

- Burt, S., Dawson, J., & Sparks, L. (2003). Failure in international retailing: Research propositions. *International Review of Retail, Distribution and Consumer Research*, 13(4), 355–373. <https://doi.org/10.1080/0959396032000129471>
- Casson, M. (2014). The economic theory of the firm as a foundation for international business theory. *Multinational Business Review*, 22(3), 205–226. <https://doi.org/10.1108/MBR-06-2014-0024>
- Casson, M. (2015). Coase and international business: The origin and development of internalisation theory. *Managerial and Decision Economics*, 36(1), 55–66. <https://doi.org/10.1002/mde.2706>
- Castiglione, C., Gorbunova, Y., Infante, D., & Smirnova, J. (2012). FDI determinants in an idiosyncratic country. A reappraisal over the Russian regions during transition years. *Communist and Post-Communist Studies*, 45(1–2), 1–10. <https://doi.org/10.1016/j.postcomstud.2012.02.006>
- Coase. (1937). The nature of the firm. *Economica, New Series*, 4(16), 386–405. <https://doi.org/10.1111/j.1468-0335.1937.tb00002.x>
- Cowling, K., & Sugden, R. (1999). The wealth of localities, regions and nations: Developing multinational economies. *New Political Economy*, 4(3), 361–378. <https://doi.org/10.1080/13563469908406409>
- Dunning, J. (1993). *Multinational enterprises and the global economy*. Wokingham: Addison-Wesley.
- Dunning, J. H., & Lundan, S. M. (2008). *Multinational enterprises and the global economy*. Cheltenham: Edward Elgar Publishing Limited.
- Eurofound. (2017). European Restructuring Monitor. Retrieved from <https://www.eurofound.europa.eu/observatories/emcc/erm/factsheets>.
- FDI Intelligence. (2017). Financial Times Ltd.. Retrieved from <http://www.FDImarkets.com>.
- Filippaios, F., & Papanastassiou, M. (2008). US outward foreign direct investment in the European Union and the implementation of the single market: Empirical evidence from a cohesive framework. *Journal of Common Market Studies*, 46(5), 969–1000. <https://doi.org/10.1111/j.1468-5965.2008.00826.x>
- Filippov, S., & Kalotay, K. (2011). Global crisis and activities of multinational enterprises in new EU member states. *International Journal of Emerging Markets*, 6(4), 304–328. <https://doi.org/10.1108/17468801111170338>
- Flamm, K. (1984). The volatility of offshore investment. *Journal of Development Economics*, 16(3), 231–248. [https://doi.org/10.1016/0304-3878\(84\)90076-2](https://doi.org/10.1016/0304-3878(84)90076-2)
- Gaur, A. S., Pattnaik, C., Singh, D., & Lee, D. (2019). Internalization advantage and subsidiary performance: The role of business group affiliation and host country characteristics. *Journal of International Business Studies*, 50(3), 1253–1282. <https://doi.org/10.1057/s41267-019-00236-6>
- Görg, H., & Strobl, E. (2003). 'Footloose' multinationals? *Manchester School*, 71(1), 1–19. <https://doi.org/10.1111/1467-9957.00331>
- Hennart, J. (2009). Down with MNE-centric theories! Market entry and expansion as the bundling of MNE and local assets. *Journal of International Business Studies*, 40(9), 1432–1454. <https://doi.org/10.1057/jibs.2009.42>
- IBM. (2014). Annual report. Retrieved from <https://www.ibm.com/annualreport/2014/bin/assets/IBM-Annual-Report-2014.pdf>.
- Johnson Controls. (2017). Learn about Johnson controls. Retrieved from <http://www.johnsoncontrols.com/about-us/our-company>.
- Lall, S., & Narula, R. (2004). Foreign direct investment and its role in economic development: Do we need a new agenda? *The European Journal of Development Research*, 16(3), 447–464. <https://doi.org/10.1080/0957881042000266589>
- MarketLine. (2016). MarketLine Company Profile: AB Electrolux. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&AuthType=ip,shib&db=bth&AN=115360059&site=ehost-live>.
- MarketLine. (2017). MarketLine Company Profile: International Business Machines Corporation. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&AuthType=ip,shib&db=bth&AN=124183292&site=ehost-live>.
- Mucchielli, J.-L., & Saucier, P. (1997). European industrial relocations in low-wage countries: Policy and theory debates. In P. J. Buckley & J.-L. Mucchielli (Eds.), *Multinational firms and international relocation* (pp. 5–33). London: Edward Elgar.
- Narula, R., & Verbeke, A. (2015). Making internalization theory good for practice: The essence of Alan Rugman's contributions to international business. *Journal of World Business*, 50(4), 612–622. <https://doi.org/10.1016/j.jwb.2015.08.007>
- P&G. (2017). A company history. Retrieved from https://www.pg.com/translations/history_pdf/english_history.pdf.
- Pitelis, C., & Teece, D. (2018). The new MNE: 'Orchestration' theory as envelope of 'internalisation' theory. *Management International Review*, 58(4), 523–539. <https://doi.org/10.1007/s11575-018-0346-2>
- Ramasamy, B., & Yeung, M. (2010). The determinants of foreign direct investment in Services. *The World Economy*, 33(4), 573–596. <https://doi.org/10.1111/j.1467-9701.2009.01256.x>
- Reingold, J. (2016). Can P&G find its aim again (cover story). *Fortune*, 173(8), 172–180 Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=116041016&site=ehost-live>
- Rugman, A. (2010). Reconciling internalization theory and the eclectic paradigm. *Multinational Business Review*, 18(2), 1–12. <https://doi.org/10.1108/1525383X201000007>
- Rugman, A. M., & Verbeke, A. (1992). A note on the transnational solution and the transaction cost theory of multinational strategic management. *Journal of International Business Studies*, 23(4), 761–771. <https://doi.org/10.1057/palgrave.jibs.8490287>
- Rugman, A. M., & Verbeke, A. (2003). Extending the theory of the multinational enterprise: Internalization and strategic management perspectives. *Journal of International Business Studies*, 34(2), 125–137. <https://doi.org/10.1057/palgrave.jibs.8400012>
- Sleuwaegen, L., & Pennings, E. (2006). International relocation of production: Where do firms go? *Scottish Journal of Political Economy*, 53(4), 430–446. <https://doi.org/10.1111/j.1467-9485.2006.00388.x>
- Strange, R., & Humphrey, J. (2019). What lies between market and hierarchy? Insights from internalization theory and global value chain theory. *Journal of International Business Studies*, 50(1), 1401–1413. <https://doi.org/10.1057/s41267-018-0186-0>
- Van Beveren, I. (2007). Footloose multinationals in Belgium? *Review of World Economics*, 143(3), 483–507. <https://doi.org/10.1007/s10290-007-0118-8>
- Verbeke, A., & Kano, L. (2016). An internalization theory perspective on the global and regional strategies of multinational enterprises. *Journal of World Business*, 51(1), 83–92. <https://doi.org/10.1016/j.jwb.2015.08.014>
- White, R. E., & Poynter, T. A. (1984). Strategies for foreign-owned subsidiaries in Canada. *Business Quarterly (Pre-1986)*, 49(2), 59–69.
- Wilson, R. T., & Baack, D. W. (2012). Attracting foreign direct investment: Applying Dunning's location advantages framework to FDI advertising. *Journal of International Marketing*, 20(2), 96–115. <https://doi.org/10.1509/jim.11.0023>

AUTHOR BIOGRAPHIES

Dr. Irina Gokh (irina.gokh@dmu.ac.uk) is a Senior Lecturer in International Business at Leicester Castle Business School at De Montfort University. Irina's research interests focus is on the International Business domain. In particular, Irina is interested in the footloose behavior of multinational enterprises, divestment, international relocations, headquarters-subsidiary relations, network multinationals, operational flexibility and intellectual property. Irina has a substantial teaching experience on various levels of

undergraduate and postgraduate studies. Currently, Irina is leading an undergraduate International Business Programme at De Montfort University.

Professor Fragkiskos Filippaios (f.filippaios@uea.ac.uk) is currently a Professor of International Business at Norwich Business School, University of East Anglia and the Deputy Director of South East Network for Social Sciences one of the 14 ESRC funded Doctoral Training Partnerships. He has responsibility for Training, Employability and Development of doctoral students within the consortium and in collaboration with the Director to lead the partnership's competitions. The period 2016–2019 he was the Associate Dean for the Faculty of Social Sciences at the University of Kent. He has extensive experience at program level

management and design, having been the International MBA Director for Kingston Business School as well as a member of the Faculty of Assessors for the Association of MBAs for the last 15 years. He is currently a mentor for schools entering the accreditation process for the Association for the Advancement of Collegiate Schools of Business (AACSB).

How to cite this article: Gokh I, Filippaios F. Footloose multinationals: Extending the internalization theory. *Thunderbird Int. Bus. Rev.* 2021;1–10. <https://doi.org/10.1002/tie.22193>