TYPES OF COSTS IN INTERNATIONAL KNOWLEDGE TRANSACTION AND TRANSFER: AN INTEGRATED APPROACH

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dx.doi.org/10.18374/RBR-23-1.5

ABSTRACT

Internalization theory in international business research is perhaps the most important theory that not only explains a firm's international strategy decision but also provides the raison d'être of multinational corporations. Originally based on transaction cost theory, internalization theory has been proposed by important contributors in this field. The central notion of internalization theory is the public good nature of knowledge that a multinational corporation possesses. According to the theory, FDI occur to prevent market failure due to opportunism. However, evolutionary theory-based logic focuses on tacit nature of knowledge which causes transfer cost to rise. In this paper, both perspectives are reviewed and a comprehensive model which combines both transaction cost and transfer cost is presented. It is shown that the total cost will be the lowest when the characteristic of knowledge is neither public nor tacit. Finally, for practical purpose, the implication of theory is applied to different organizational functions such as marketing.

Keywords: *Internalization Theory; Transaction Cost; Transfer Cost; Multinational Corporation*

1. INTRODUCTION

Internalization theory in international business research is perhaps the most important theory that not only explains a firm's international strategy decision but also provides the raison d'être of multinational corporations. Recently, Narula et al (2019), after reviewing 50 years of history of Internalization theory, has concluded that internalization theory has become a generally accepted theory of the multinational corporation.

Originally based on transaction cost theory (Coase, 1937), internalization theory has been proposed by important contributors in this field such as Buckley and Casson (1976), Hennart (1982, 1986), Rugman (1980, 1981), and Dunning (1977, 1995, 2000).

After internalization theory became a dominant framework in international business area, various attempts were made by recent scholars to extend the theory to explain new aspects of global business. For example, Banalieva and Dhanaraj (2019) tried to apply internalization theory to explain digital service multinational enterprises (SMNCs). Strange and Humphrey (2019) extended the theory to describe how global value chain could be perceived. Kano and Verbeke (2019) and Narula et al (2019) even suggested 'New Internalization Theory', which incorporated inter-organizational influence and control into traditional internalization model.

Despite its popularity and numerous extensions however, there has been growing criticisms on the theory. For example, some scholars pointed out the difficulties of testing the internalization approach in the modern theory of the multinational enterprise. Others have criticized that the theory has been described as too general. Specifically, many researchers have suggested that the theory should be restricted to give rise to a number of special theories that can be tested. Even Buckley, an original contributor to the theory, himself emphasized that "this must be done by specifying different types of cost and demand conditions that arise in internal and external markets" (Buckley, 1988, p. 182).

However, consideration of different types of costs in internalization theory is exacerbated by the different contributions from different authors mentioned above. On top of this problem, there have been different