The Theoretical Frame to Analysis theTransnational Firm

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In the following text we will offer a brief review of the different perspectives and theoretic focus that have been used to study the transnational firm (TF), and we will propose an explanation for it from the Value theory and the different concepts related to the heterodox point of view, for the explanation of the firm.

The presentation will be as follows: first, a definition of the object of study; second, we will analyze three theoretical approximations to the analysis of the transnational firm: Dunning's perspective, Hymer's perspective and the Costs of transaction perspective; and thirdly, we will present a perspective from the concept of labor-value.

1. Definition

In general, there is a consensus that the Transnational firm is one that operates in more than one country. This criteria can be stricter, for example: Vernon[1] says that for a firm to be considered a transnational it must operate in six or more countries. However, less strict criteria are more common, for example: Dunning[2] refers to the transnational firms as those which own and control productive infrastructure, which includes factories, mines, oil refineries, offices, etc.in more than one country. In the same way, Brook and Remmers[3] state that a multinational firm is that which operates firms in foreign countries, be they manufacturers or supply services. Caves[4] defines the multinational firm as the one that controls and administers the local production - in plants - in at least two countries. And Hirsch[5] says that a firm is transnational when it acquires or establishes a factory in a foreign country. Eitman, Stonehill and Mofett[6] define the multinational firm as the firm that has branches, affiliates, or subsidiaries in a foreign country. This includes firms which are service oriented, such as consultants, management, construction, legal, marketing, entertainment, banking, telecommunications and tourism[7]. The official criteria in the United States[8] and the United Nations Economic and Social Council[9] also use a wide perspective, in the sense that a TF is a firm that decides to acquire or open establishments in the exterior.

Therefore, we conclude that, for our purpose, the transnational firm is the company or enterprise which operates in more than one country, specifically the "mega corporation"[10] or giant enterprises[11].

Objectives of the Transnational Firm

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[1] Vernon, Raymond, "Sovereignty at Bay. The Multinational Spread of US Enterprices", *Basic Books*, Nueva York, 1971.

[2] Dunning, John H., "The multinational enterprises: The background", en Dunning, Jhon H *The Multinational Enterprise*, Ed., Allen & Unwin, Londres, 1971. En español: "La empresa multinacional: antecedentes" en *La empresa multinacional*, compilador J. H. Dunning, Ed., FCE, México, 1976.

[3] Brooke, Michael Z. y Remmers, H. Lee, *The Strategy of Multinational Enterprise"*, American Elsevier Publishing Co., Nueva York, 1972.

[4] Caves, R., *Multinational enterprise and economic analysis*, Ed., Cambridge University Press Segunda Edición, Estados Unidos, 1996.

[5] Hirsch, S., "Multinacional: How Different are they?" en *Centre National de la Recherche Scientificque*, 1973.

[6] Although some economists argue that there is a difference between the TF and the multinational firm, we believe that this difference does not affect the theoretical analysis and therefore use the term TF.

[7] Eiteman D, Stonehill A, y Moffett M., *Multinational Business Finance*, Ed., décima edición, Pearson, Estados Unidos, 2004, p. 2.

[8] Departamento de Comercio, "Survey of Currente Business" del Bureau of Economic Análisis, Washinton, 1985.

[9] Naciones Unidas, "Las corporaciones multinacionales en el desarrollo mundial", Centro sobre Empresas Transnacionales, Naciones Unidas, Nueva York, 1973.

[10] Eichner, 1976.

[11] Chandler, 1969.

One of the first and most important theoretical analysis of the way the transnational firm operates in Mexico was carried out by Fajnzylber and Martínez Tarragó. This analysis allowed them to clearly state the transnational firms' objectives. They are as follows: "Its objectives, of private character, are simple, well defined, and permanent: profitability and growth, evaluated as its integrated operations at a global market level and in a long-term perspective".[12]

From the finance theoretics' perspective there can be at least two alternative objectives for the firms administration: *a)* the maximization of the investors' wealth, and *b)* the maximization of the corporation's wealth.[13] These considerations are relevant to explain the firm's insertion into the different environments in which it takes part, and leads us to the problem of the distribution of surplus, which represents a conflict of interests between the economic agents that conform the firm.

Whatever the interpretation and use of profits, the firm's economic purpose is to create value, in other words to produce profits which can be used to distribute amongst investors or to reinvest, for growth or for accumulating or for both.

2. Theories of the Transnational Firm

In this section we will firstly look at Dunning's theory, Hymer's secondly and last but not least the Costs of Transaction theory.

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[12] Fajnzylber, F. y T. Martínez Tarragó, *Las empresa transnacionales. Expansión a nivel mundial y proyección en la industria mexicana*. FCE, México, 1976.

[13] The first perspective - according to Eitman *et al*., - is the dominant perspective in the majority of courses in the world, particularly in Anglo-American schools (United States, Canada, Australia and New Zealand). However, it is not always realistic due to the differences in philosophy and culture that exists between the Anlgo-American markets and the rest of the world. Under the first model "the firm *must maximize the investors earnings,* as the sum of capital earnings and dividends, for a given level of risk. Alternatively, the firm must minimize risk to shareholders for a given yield rate". p.4. The Agency Theory is the study of how shareholders can motivate the administrators to accept the previous model's prescriptions. The second vision, which dominates the European and Japanese markets, suggests that the corporations' objective is *to maximize the corporations' wealth.* The shareholder is considered just one more member of the groups of interest of the corporation, as are the administrators, laborer, the local community, suppliers, acreedores, and even the government. From this point of view, the markets' function is not assumed to be efficient or not, this is unimportant because the firm's objective is not oriented solely at the shareholders. p.5.

2.1. The TF in Dunning's eclectic analysis

To this author, the starting point should be "an eclectic paradigm of international production"[14] from which we highlight:

a. Perfect competition does not exist, firms are not all equal and price takers. Instead, he suggests that we should start from the idea that enterprises are different, and the leaders have an "advantage" that explains the superior income compared to its competitors.

b. Information does not flow freely between firms, and therefore enterprises are not equal, on the contrary the "good use of the advantage" allows it the possibility to increase its activities, or to have income through rights if other companies wish to use its advantage.

c. The firm is not indifferent to the place that it chooses to produce, nor with who it trades. On the contrary the firm chooses the best place and starts commercial relationships to create and develop its advantage. Through these it produces the best way through activities that create value. Also, it doesn't leave commercial flows to the markets free functioning, instead it coordinates and increases the inter and intra firm activities.[15]

These three characteristics of Dunning's eclectic paradigm[16] look to interpret, theoretically, the transnational firm's functioning, and are the result of what this author calls "the firm's ability" to use the allocation of factors and the creation of new advantages.[17]

[14] Dunning (1988). p.1
[15] *Ibidem* .
[16] As Dunning analyzes the micro and macro aspects of the multinational firm he states that "in the future economic analysis, within itself, will have a less important role in the theorization of the multinational firm, than that which he has observed in the past. Simultaneously, economic analysis, in conjunction with other disciplines, especially the organization's theory, seems to offer new light on the study of the determinants and behavior of the multinationals, and of the interaction between them as well as the other economic agents… to understand the forms, contents and consequences of globalization of the economic activity, international business students must be more eclectic in their intellectual search…" J.H. Dunning, *The globalization of business. The challenge of the 1990s.* Ed., Routledge, London and New York, 1992, pp. 37,38.
[17] According to Dunning, the assumptions of perfect competition in the field of international commerce are "unacceptable" because, among other reasons, the market's imperfections, the firms' different objectives, the presence of inefficiency X, the structural sub-utilization of existing resources in the economy, because of the existence of barriers to trade, being artificial as well as natural, the effect of government intervention in price fixing that is not related to efficiency but rather with equality and sovereignty, etc., and finally the presence of

The TF analysis requires that his paradigm, rest upon the Theory of Factor Distribution at least in part, and also on the Economic Organization Theory, in which the relative efficiency of the market is recognized in "eclectic" terms, as are the hierarchical structures that govern the assignment of resources within the firm.

Also, we should emphasize that his eclectic position comes from his use of "*advantages*", a concept that in conjunction with the firm's "*abilities*", resemble the Theory of Competitive Advantages, moving it away from the neoclassic paradigm.

His definition of competitiveness is of note, as it is based on the relative performance of the firm as a whole, in relation to what it perceives as its main competitors, or as its ability to buy and sell in a particular range of products, or to capture a specific market.[18]

One of the main elements of Dunning's proposed paradigm lies on two factors that - he considers - have introduced faults in the market. These factors can be framed in what is called the economy of knowledge and location.

The economy of knowledge

Penrose was the first economist who stressed the role of knowledge in the firm. She was able to realize that the firm not only produces goods and services, but also knowledge, which is a product of the concrete activities that are managed within the company and its relationship with the environment in which it develops. To this economist knowledge is so important, that she sees this and the ability (managerial ability) as the explanation for the growth of the firm, furthermore it is the main limiting factor for the firm's expansion. Similarly, Dunning finds knowledge as the limiting factor for the firm's growth.

The world that Dunning analyzes is different from the one where competition is perfect because of the existence of two classes of knowledge.

a. The knowledge of the creation and use of resources.[19]
b. The knowledge of the organization of economic activity.[20]

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dynamic factors such as technological innovation. All these factors weaken the principle of comparative advantages as a guide for decisions regarding the allotment of resources between countries. Dunning (1998). Pp. 48-49.

[18] *Ibidem*

[19] For this factor, Dunning refers to the "firm's and countries' ability to innovate new products, processes and materials, or to make better use of existing ones, and coordinate production and marketing these in a more efficient manner. Such knowledge includes not only the technology of products and processes, but also the complimentary activities such as acquisition, finance, marketing among others." Op. Cit. p.3

[20] This point refers to the firm's capacity to incorporate or organize new activities internally, for example: to integrate new activities to the chain of aggregate value (vertical integration) or through the value chain (horizontal integration). These activities may be attained within one country or several. Op. Cit. p.3

What is important is that these forms of knowledge, according to Dunning and Penrose, create the conditions that expand the limits of the firm's growth. Firstly, through the economies of variable proportions or economies of scale, and later through catch-up economies and synergy. Regarding the two factors of knowledge Dunning underscores the following:

a. They cannot be thought of as given factors, they must always be created.
b. Their creation is not linked to the resources from a specific location, they may have mobility between nations.
c. To ensure production, the firm must give it certain protection against its diffusion (it is not a public good) before it yields normal benefits.
d. He also suggests the existence of market flaws.[21]

When we analyze the firm from the labor's perspective (be it direct or associated to indirect activities) we assume the existence and creation of knowledge, as well as its utilization for the design and management of the firm's competitive strategies. Although this area (knowledge) has not been developed under the perspective of value, it's not incompatible with the concept of labor-value. If we narrow knowledge down to the two forms that Dunning has highlighted, it is clear that the managers of said knowledge are a group of employees (managers) who are the highest segment of the hierarchy of the firm's value. Because of which, we can suggest that the knowledge processes are, without doubt, related to the creation of value and also explain the processes of growth and accumulation.

Explanation for the growth and location of the firm

Dunning, Hymer and Caves agree that the transnational firms are the modern equivalent of the national or local multi-plant firms[22] that appeared during the second half of the XIX century. This idea has lead Dunning to investigate the causes of growth and location of the multi-plant firms.

Regarding the growth of the multi-plant and the TF, Dunning offers the following historic and institutional explaining factors:

[21] Op. Cit. p.3

[22] It is relevant to point out that this analysis by the post keyenesian school is centered around the oligopolic firm, which is the departure point that determines the type of theory that can be formed. In other words, our investigation does not assume a model of perfect competition in order to later develop a monopolistic or oligopolistic model. The new, micro theory of the firm (post keyenesian) is an oligopolistic theory of the firm.

a. The growth of great corporations is explained by the historic - institutional conditions that arose from the introduction of companies to the stock market and the principle of limited responsibility.
b. The rise and development of technology, including organizational technology.[23] These last two explanations of the firm's dimensions fuse into Dunning's explanation: the firm as an organization and as a reservoir of knowledge. The economy of knowledge and its effect on the firm's growth are included in this point.
c. The "advantage of specific ownership" (Dunning, 1981, 1988) consists of the advantage that a firm has over its competitors which ensures a certain profitability in order to provide for a foreign market. Dunning points out three types of properties that must be protected by patents: a) preferential access to a market or input, b) an intangible activo or commercial brand, c) the hierarchy's ability to organize productive activities, [24] d) its localization strategy, in other words the factors for choosing a specific location. This analysis leads us to the following questions: Where is the best site for a plant to supply a market? How does the firm choose the place where it will operate?

The neoclassical explanation for these questions is biased towards the idea of the arbitration of capital between countries, guided by the existing differences in the marginal product. However, even for R. Caves, this thesis is "inconsistent with many observations of the facts of the distribution of foreign investment and is superficial compared to the Transactional model".[25]

Caves suggests the development of a theory for the international movement of capital because he believes that at the microeconomic level the choice of the multinationals to invest abroad or to export can be modeled. In this regard, Horst (1971) shows that the TF makes a decision when it is faced with a market with a demand curve with a negative slope, and its productions is based on economies of scale. Under these circumstances the firms will choose to focus there production in a specific location and export from there. This decision will happen, unless commercial restrictions force it to modify its choice. Some restrictions that could cause this could be: tariffs and quotas, and fluctuations in the exchange rate.

We would arrive at a different result if we use Cave's Transactional Model where he demonstrates that the intangible activos and the economies of scale tend to make the TF focus

[23] Dunning, J. "Multinational enterprise and economic analysis" p. 9.
[24] Dunning Ob. Cit. p.11.
[25] R. Caves, "Multinational enterprise and economic analysis"

its production in one place and export it. The central point, from a free trade equilibrium standpoint, is that: "where trade is restricted, capital flow can substitute it; trade and foreign investment are alternatives for general equilibrium as well as for individual firms".[26]

Dunning, on the other hand, identifies three factors that affect the choice for the firm's location:

a. Costs. As the costs of production are determined by the spacial differences in prices as well as the productivity of factors, the enterprise will choose the place with the lowest costs. Therefore, the firm is pushed towards having multi-plant operations both within the country and in the exterior due to the property advantages which favor the geographic separation more than the centralization of the units of production.[27] This is a very important aspect, as Dunning states that economic development, and in particular that of the firms is based on technological and organizational innovations at the international level, that are reflected in the "advantage of the firm's property of mobility more than on the fixed resource allocation of the country".[28]
b. Competitiveness. The physical presence of a firm in a market can improve its competitiveness and simultaneously make the entrance to the market more complicated for other firms.
c. To minimize costs of transactions and to take advantage of the specialization of products and processes.[29]

For Dunning, the firm's decision for the location of the firm's productive activities must be evaluated in terms of the existing relationship between external factors and its capabilities.

The external factors that are related to the country's characteristics can be systematized under the following paradigm: economic environment, systems and politics (ESP).

The internal factors of the firm can be systematized under this paradigm: ownership, location and internationalization (OLI). The advantages attained by these factors in the national context (ESP), determine the extension and pattern of operation of the multi-plant and the TF.

Dunnging concludes that given that the future of the firm lies in its extension, pattern and geographic distribution of the technological and organizational advances, which imply

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[26] *Ibidem.*, p. 66.
[27] Dunning, J. " Multinational, technology and competitiveness" p. 11.
[28] *Idem*., p. 12.
[29] *Idem*., p. 12.

constant change in the TFs, the world and its environment, the global economic context is unlikely to be dominated in the future by the 200 or 3000 great international corporations.[30]

2.2. Hymer's perspective

On his part, S. Hymer proposes a theory for localization (which will be the foundation for his "Unequal Development" thesis) from Chanler and Redlich's scheme[31] that is utililzed to analyze the evolution of the corporate structure.

a. The power pyramid. Three levels of business administrations are distinguished within this scheme, its from these that their explanation for the localization of the firm is derived. These three levels are:

Level III is the management of daily operations, level II coordinated the directors of level III, and assumes a separation between headquarters and field offices. Level I is in charge of objective determination, planning and upper management.

b. Power and exclusion relationships. A second factor that Hymer offers in his explanation is not only is the size of the market but also the barriers to entry for competitors. From the consideration that "the development of products is a fixed cost" and the average real cost of production is below its costs, the limit of production is found either, in a limited demand or a that it does not believe that its growth rate would not allow entry to new products (or innovations), because of which "corporations have a strong interest in impeding the entry of new innovation centers and in maintaining a system for the wide diffusion of their products". In this, manner, the corporations' interests for developing countries is greater than that which would be suggested the market's size.[32] It is in this line of thought that Hymer introduces his explanation for the factors involved in the firm's competitive struggle. In other words, it is a matter of power.

c. Knowledge and the management of the firms growth. Particularly the experience of growth itself. In its path from a local corporation to the national level of the American economy, the firm acquires useful capabilities for operating in other countries.

[30] *Idem*., p. 23 a 27.
[31] A. Chandler y Fritz Redlich, "Recent developments in American business administration and their conceptualization", Business History Review, primavera de 196, pp. 103-128. Citado por S Hymer (1976).
[32] *Ibid*., p. 44.

d. Organizational and administrative structures that allow it to control its operations in different places expressed as a new multi-divisional structure, and

e. Financial power which allows it to finance its foreign investments and to sustain a competitive position in situations where subsidiaries alone would not be profitable, but due to enterprise strategy are maintained.

f. The evolution of communications technology.

g. Finally, another factor that has contributed to the accelerated growth of American multinationals is the growth and international presence of other economic areas, in particular European and Japanese corporations.[33]

Hymer concludes that the unequal development among nations can be explained through the way that multinational corporations operate and are organized, they centralize control imposing a hierarchical system that "imposes a judicious ritual symmetry". This leads to "multinational firms reducing development options"[34] for developing countries, for example, in the fields of education, science, technology, in the same way as they have power to limit a country's fiscal dimension due to their capability to manipulate transfer prices and their ability to move their productive means to other countries.

Finally, Hymer concludes that: "a regimen of multinational firms would not offer developing countries neither national independence nor equality. On the contrary, they should avoid these goals as they would convert developing countries into branches, no only in economic function but also regarding cultural, political and social aspects…".[35]

2.3. The Costs of transaction approach

R. Coase's classic article of 1937[36] attempts to demonstrate that "a definition of the firm that is not only realistic" but that can also merge two economic analysis instruments is possible. Referring to the neoclassic "ideas of margin and substitution, which in conjunction produce the idea of substitution at the margin".[37]

His thesis proposes that there are two mechanisms for the assignment of resources in the economy, one of which has traditionally been studied by neoclassicists: the market, and the other is the firm. In the firm, as opposed to the market, resources are allocated according to

[33] *bid*., p. 39.
[34] S Hymer (1976), p. 45-48.
[35] S Hymer (1976), p. 48.
[36] Coase R. "La naturaleza de la empresa" en Williamson (1996).
[37] *Ibid*., p. 29.

the coordinating entrepreneur's criteria, while in the market, resources are allocated through price mechanisms[38] It is in this discussion that Coase's contribution is relevant, as he recognizes the firm as a different allocation space from the market.

The firm exists because there is a (transactional) cost for the use of the price mechanisms, which consists of: the celebration of contracts, commercialization, taxes and other contributions imposed by the State.[39] Within the firm these costs do not exist or are much smaller. Therefore, the firm exists if the organization of resources (that is the coordinating entrepreneur's responsibility) represents a smaller cost than the one offered by the market. More specifically, he firms exists when the costs of internal transactions are fewer than the market's transaction costs.

The firm will increase o decrease in size depending on marginal costs which imply this change in magnitude. The firm will grow when it organizes more transactions internally, in other words, internalizes activities. And will decrease in size when it externalizes them, or when it stops doing activities that were once done inside it.[40] Secondly, the internalization implies an organizational cost in terms of administrative efficiency, because of which an added administrative task implies an increasing marginal cost.

Once more, the neoclassic idea of diminishing returns surfaces, no in particular due to diminishing returns of administration, which are expressed as: *a.* Diminishing returns in the coordinating function of the entrepreneur. *b.* assignment of production factors to activities that are not the most productive. *c.* An increase in supply prices in one or more of the production factors.[41]

Hence, the firm's growth limit is found where the marginal cost of the inclusion of a transaction in the enterprise is equal to the cost of the transaction in the market or the costs of transactions of other firms. Thus, the concept of benefits is also defined as the difference between the internal costs of transaction and those of the market.

The costs of transaction thesis was not accepted amongst academics until several decades had passed, among other reasons, because according to Williamson[42] because of its

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[38] *Ibid*., P. 32.
[39] *Ibid*., p. 33 al 36.
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[41] Falta nota al pie
[42] It is convenient to note that both R. Coase and O. Williamson have been strong critics of the neoclassic orthodox theory, and one of their main contributions, in terms of this debate and the present state of economic theory has been the acceptance, by a large majority of the economists, has been the importance of studying the processes that take place within the firm. This achievement, has also contributed to the evolutionary economy proposed by Nelson and Winter, see S.G Winter: "Coase, la competencia y la corporación" en *La naturaleza de la empresa, Orígenes, evolución y desarrollo*, compiladores: O. E. Williamson y Sydney G. Winter, Edit. FCE. México, 1996.

lack of operativity (funcionality).And it is from this diagnosis that the institutional economy is born. Williamson set out to make Coase's transaction economy functional and at the same time provide it with a theoretic framework,[43] for which it is recognized that at the heart of the institutional theory lies the thesis of costs of transaction.

According to Williamson Coase's 1937 article was the following: "A firm… serves a role in the economic system if… it organizes transactions within the firm at a lower cost than those incurred if they were done through the market. The firm's size limit… - is reached when the additional costs of the organization of transactions within the firm - outnumber - the costs of the same transactions if they were done through the market".[44] Therefore, it seems adequate to say that the following considerations about Coase's thesis also apply to Williamson's[45] proposal.

In order to do an evaluation of the nature of the firm in Coase's thesis we can use a concept that he proposes when he does a comparative analysis of the explanations for the nature of the firm, this concept uses the idea of *the integrating force of the system.* We believe that Coase[46] is right to emphasize on the fact that the point is to explain how this integrating force - in a analytic system - substitutes another. Unfortunately, he does not propose a new integrating force or an alternative to the neoclassic model, as we will attempt to demonstrate.

The integrating force of the system's and the unit of analysis

The traditional neoclassic approach, considers that the integrating force in such a complex system as capitalism must happen through the market because of price mechanisms, this is what provides the relevant information for the decision making process and the allocation of resources to happen.[47] Since Coase considers the firm as a separate entity from the market, he states that the integrating force is the 'entrepreneur - coordinator'. Inside the firm market transactions are eliminated, the entrepreneur substitutes the price mechanism.[48]

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[43] Williamson, O. "La lógica de la organización económica", en *La naturaleza de la empresa, Orígenes, evolución y desarrollo,* compiladores: O. E. Williamson y Sydney G. Winter, Edit. FCE. México, 1996. p.156.
[44] Williamson, O. "La lógica de la organización económica", en *La naturaleza de la empresa, Orígenes, evolución y desarrollo,* compiladores: O. E. Williamson y Sydney G. Winter, Edit. FCE. México, 1996. p.126.
[45] In a strict sense as we shall see in the following presentation, given that the costs of transaction approach is a viariant of the neoclassic view, the observations we have made to the neoclassic perspective area also valid for this interpretation.
[46] Coase (1937), p. 42.
[47] Hayek, F. Información y sociedad mercantil, en Puterman, p. 85. Esta es un extracto de F. H. The use of Knowlage en Society, The American Economic Review, 35 (1945).
[48] Coase, R. "La naturaleza de la empresa", en en *La naturaleza de la empresa, Orígenes, evolución y desarrollo,* compiladores: O. E. Williamson y Sydney G. Winter, Edit. FCE. México, 1996. p. 32.

The result is that the economy presents us with a dichotomy, it is divided into two alternative spaces: the market and the enterprise. In the market, the allocation is via the price mechanism. In the enterprise, the entrepreneur - coordinator is the one who must organize, coordinate and allocate the resources of production. It is important to highlight the fact that this function is conceptualized as the organization of internal transactions. To put it simply: market, external transactions; enterprise, internal transactions.

Even as this division exists, the unit of analysis remains the same. What happens inside the firm is group of transactions coordinated by the entrepreneur. What happens in the market is a group of transactions coordinated by prices. In other words, in one or the other spaces, disregarding the agent that has the role of coordinator, the analysis will focus on the concept of transaction. Therefore, according to both Coase and Willliamson the transaction is "the basic unit of analysis".[49]

The concept of transaction gives way to the analysis of the firm in terms of contracts, and as an institution. Which is why Williamson will state that firms, markets and correlative contracts are important institutions.[50] Hence, Coase does not bring forth a new integrating force to explain the economic system. Transaction and exchange are once more the anlaytical axis upon which the explanation rests. His true contribution is the distinction between firm and market, but both of them as transaction groups.

From our perspective, the system's integrating force is in the labor, which is the cement that gives cohesion to the whole system. In the enterprises interior, the unit of analysis is individual and group labor. It is in labor that one finds the source of wealth and value.

Transactions in the market, and those that take place in the firm are the result of specific ownership that labor has as a creator of value. Labor has the trait of creating more goods and services than those which the laborer needs to satisfy his needs. Transactions in the market exist because of this trait. In the capitalist system, the firm is the place where the work force is put to work, whose trait allows it to create more value than what is needed to replicate itself and said surplus is left in the hands of the entrepreneur.

Inside the firm the unit of analysis is labor and the labor processes that as they produce a good, create value. In monetary terms, these processes imply costs, but these (are not costs of transaction) are costs of productions, the necessary result of paying the productive recourses owners. They are a consequences of the operation and function of the firm, whose main economic objective is to create value that returns to the firm as benefits.

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The analysis of the production process is relevant to the firm, not because it means costs, but because in the labor process we find the main source of gains. Labor, and more generally, labor processes that production entails are susceptible to the division of labor and organizational changes. Because of this, in the search for greater profitability the entrepreneur will put into effect simple and complex cooperation processes, division of labor and reorganization of productive processes. As A. smith has said the increase in wealth comes from the division of labor, but the source is in the labor itself. The source and nature of the firm is not in the organization of transactions, be this involving complete or incomplete contracts, but in converting itself into a space that puts the workforce to work, whose attribute is to create surplus.[51]

In the transactions that take place in the market, every economist, and in general all schools of thought coincide that nothing new is created, meaning that, a transaction is an exchange of equivalents. Which is why concentrating on transactions leaves one of the most important questions in economy about the sources of wealth, value and growth unanswered. Also, it leads to need to specify the legal terms of these exchanges, in other words, to the research of contracts.

Since no value or wealth is created in the exchange, the only option for "profit" is a behavior in which the agents take advantage of the exchange of equals, in other words, it orients towards analyzing problems of information, risk and opportunistic behavior. This conduct can be avoided if contracts are complete and the information is perfect. But, even assuming that this is the case, focusing our attention on these transactions does not offer and explanation for the sources of wealth and the firm's dynamics. In essence, transactions exist when there is something to trade, and the only source of surplus is human labor.

This discussion leads to the basic question ¿*Why does de firm exist*? According to Coase, the firm exists because the costs of organizing internal transactions are less than the costs of transaction in the market. However, this explanation is tautological in two ways: firstly, if we consider that the firm is a group of transactions, the reference is conceptually the same as the market's. Secondly, because if we define the market from the firm's perspective, we can say that the market is made up of collection of firms that produce in order to sell,

[51] R. Coase is right in criticizing M. Dobb on his explanation that the nature of the firm consists of the division of labor, but is mistaken in placing the explanation on transactions.The explanation must be looked for in the labor's trait of creating surplus, In this sense, following A. Smith, the division of labor is important in explaining the surplus' growth rate and the firm's growth.

which brings us to the fact that the firm exists if other firms exist (with different costs). There is no explanation for the existence of the firm.

From our perspective, the firm exists because it is the most efficient historical form that can create surplus, which in the present system consists on producing benefits. The firm exists because it creates value as it uses the physical resources for operation, and through labor creates goods whose price and costs guarantee that through its sales, it will obtain a monetary benefit. This value is accumulated and reinvested in a continuous growth process. Prices and costs are part of the economic process and are a reflection of the market forces and the competitive conditions of a firm and a country.

Coase sstates that the explanations lies in the fact that there is a cost associated to the use of the price mechanism, to the celebration of contracts, and to the States' policies.[52] Hence, the firm exists due to the fact that the costs of organizing internal transactions in the firm are less than those incurred in the market. In our vies, the firm assumes transactions, but these are not as important, the relevant concept and relationship is not in the costs of transaction but in the concept of labor. In any case, the goal is not to minimize costs, but to generate value, create benefits. The firm is not a passive entity that responds to the market, to the costs of transaction, it is a dynamic agent that creates products, processes, knowledge, etc. and so molds the market and the source of this process is in the (direct or indirect) labor that takes place in the firm.

Once more, the decision criteria is in the marginal costs, that are applied as costs of transaction or as marginal costs of organization. If the marginal cost of organizing an internal transaction is less that the cost of that transaction in the market, then the aforementioned activities are internalized and vice versa. It is in this way that Coase achieves his initial goal of merging the concepts of marginality and costs of organization.

We can identify at least three alternative answers:

a. The decision to incorporate activities in the firm is in the expected value or the expected profit rate that the firm assigns to new investments or activities that are incorporated to firm. The same general criteria must be applied when disincorporating activities. It is at this point that the Theory of Labor Value and the postkeynesians seem to have a common point in identifying the expected profitability as the determinant of an investment and therefore, the size of a firm.

[52] Coase, R. "La naturaleza de la empresa" *op. cit*., p. 33, 34, 35 y 36.

b. From the perspective of competition and competitiveness the decision to include more activities would respond to the short and long-term advantages in competitiveness that a firm would gain in relation to its rivals. Which is Dunning's idea as it considers technology, organization, knowledge and ownership as these advantages.
c. The eclectic approach to the TF that we have previously analyzed, in other words Dunning and Hymer's explanation. Here, we must emphasize that E. Penrose's thesis on the firm's growth and Dunning's thoughts on the field of knowledge offer explanations that support each other and are also complemented by the competitiveness approach and our thoughts on value.

The explanation for the firm's growth seems to be much more complex than what the Costs of Transaction theory seems to imply, and is associated with the firm's structural conditions, its industry, country and at least the different factors that determine value and the dynamic accumulation in which it is involved.

¿What are the limits for the firms growth?

Coase explains the limit for the firm's growth by using the Marshalian idea of margin linking the costs of organization with the costs of transaction. According to this author the limit is in the "diminishing returns of the administration" and in the increase in the supply prices of one or more of the factors of production. From this perspective the firm tends to grow until the increase in the costs of organization are equal to the costs of transaction or those of the other firms.[53]

Once more, the relevant concept is marginal costs, so we can identify this school of thought as a reformulation of the neoclassic point of view on the firm and in its own terms: the changes they achieve area expressed in that the firm "as a function of production is substituted by (or increased) by the concept of the firm as a governing structure".[54] The firm as an organization, has its limit in the marginal costs of the organization.[55]

[53] Coase, R. "La naturaleza de la empresa" ob. cit. P. 38, 39 y 40. Véase también del mismo autor: "La naturaleza de la empresa: influencia" op cit. P. 102.
[54] Williamson, O. "La economía del costo de transacción " en Williamson, *Las instituciones económicas del capitalismo*, FCE, 1989. p. 26
[55] This same concept of organization or governance cannot be referred to what we might assume happens inside the firm, as are productive processes, R & D, management, etc. but as the organization of internal transactions. Thus, the costs that this theory refers to are not the costs of production but the costs of internal transactions.

However, the organization does not seem to limit the firm's growth. On the contrary, a firm's organizational structure appears to be designed to stimulate the growth of productoin and the expansion of the firm.[56] From a postkeyensian point of view, as claimed by A. Eichner and F. Lee, the opposite is true, it is the administrative structure in terms of costs and management, is more a factor for growth, or for a given technological structure or organization, as well as a production scale, the reduction of production below the level foreseen will operate as an (penalty) increase in costs, this being that the costs of organization are diminishing.[57]

A. Chandler and Hymer coincide in that the firm has evolved into ever more complex forms and doesn't seem to have a limit to its growth in so far as the organization goes. Thus, the organizational difficulties that the firm has faced during its growth have been overcome in time, giving way to more complex and efficient structures. For example, the substitution of the departmental organization for the multidivisional, to the taylorist and recently to the just-in-time structure.

2.4. Explaining the Transnational Firm from the Theory of Labor Value and an eclectic point of view

We have already described Dunning and Hymer's point of view as well as the Costs of Transaction Theory, now we will attempt to offer an explanation of the TF from the concept of value. Hence, the questions that we want to answer are: how can we explain the nature and the dynamics of the TF from the Theory of Value? Is the multidimensional character of the firm important in this analysis?

We believe that the two basic concepts that will serve us to explanation of the firm are those of value and labor, as well as the dynamic relationship between them. Therefore, the analysis of the TF assumes an international stage, and so, these concepts and their relationship must be analyzed at another level: the global economy, which is on principle, much more complex due to the diversity of countries (economies, cultures, social relationships, politics and institutions) that are incorporated into the process of the formation of value. Ergo, the economic space in which the firm evolves and creates value has a global character.

[56] Refer to, among others, chapter 6 in Penrose E. Teoría del crecimiento de la empresa. Edit. Aguilar, Madrid 1957.
[57] Refer to chapter 3 and P. Andrews, *Economía de las empresas industriales*, Edit Santiago Rueda, Buenos Aires, 1958, capítulo 4.

This is the path that Dunning already pointed out, and as such we consider that the TF must have - an eclectic perspective that considers - on the one hand, its four multidimensional traits: its historic character, as an institution, as an organization and as a place of product creation in which conflicts of interest exist; and on the other, the competitiveness and competitive advantages point of view.

From a historic perspective, TF's are giant or mega corporations that in a given moment in their development, the growth of its productive and financial forces and capacities transcend that of the local market's demand capabilities, which is why it must expand beyond its national boundaries taking part in different types of operations (sales, production, etc.) in other countries. However, the fact that they operate in more than one country or economy does not alter its basic nature. What does change is the space where value is created, it being the international stage.

The importance of the firm lies in that it is the most important economic agent in the process of accumulation and growth of an economy. The firm has continually evolved since its inception, in general, at the same pace as the system as a whole. It has been growing since the industrial revolution "from the workshop, to the factory, to the national company, to the multidivisional company and presently to the transnational". Hymer says that this tendency has been so clear that it can be thought of as a "general law of capitalist accumulation".[58] In terms of the firm, this law can be expressed as: the firm is the main place and agent in the process of accumulation, and since its inception, has had a continuous growth process. The present environment for growth is the global economy.

The global economy, the place of the creation of value

If the nature of the TF is the same as the national firm's or as the megacorporations',[59] now the place where it does its work, the division of labor and the general process of value creation and realization, transcend the boundaries of a country. The place where the firm's different activities are carried out and where the value that the TF captures is the global economy.

The firm appears as an economic organization that coordinates a group of labor activities at a global level, that are subjected to a plan that consists of producing goods, which

[58] H. Hymer, "Las compañías multinacionales y la división internacional del trabajo" en *H. Stephen H. Hymer L a compañía multinacional, Un enfoque radical*, Ed.,. H. Blume, España, 1982, p. 219.
[59] Similarly Fajnzylber states: "The essential traits of its behavior are determined by its private enterprise character, that normally play a dominant role in their countries of origin, which are in turn developed countries and whose productive, financial and trade processes are in the international arena, and integrate long-term global strategies. *Op.cit. p 28*

can be managed by headquarters or in part, by a subsidiary if it has a certain degree of independence. The fact that the labor process is organized by a strict international division, managed and controlled by a central authority is of special note. This authority comes from the institutional principle of private ownership of the firm over all its subsidiaries.

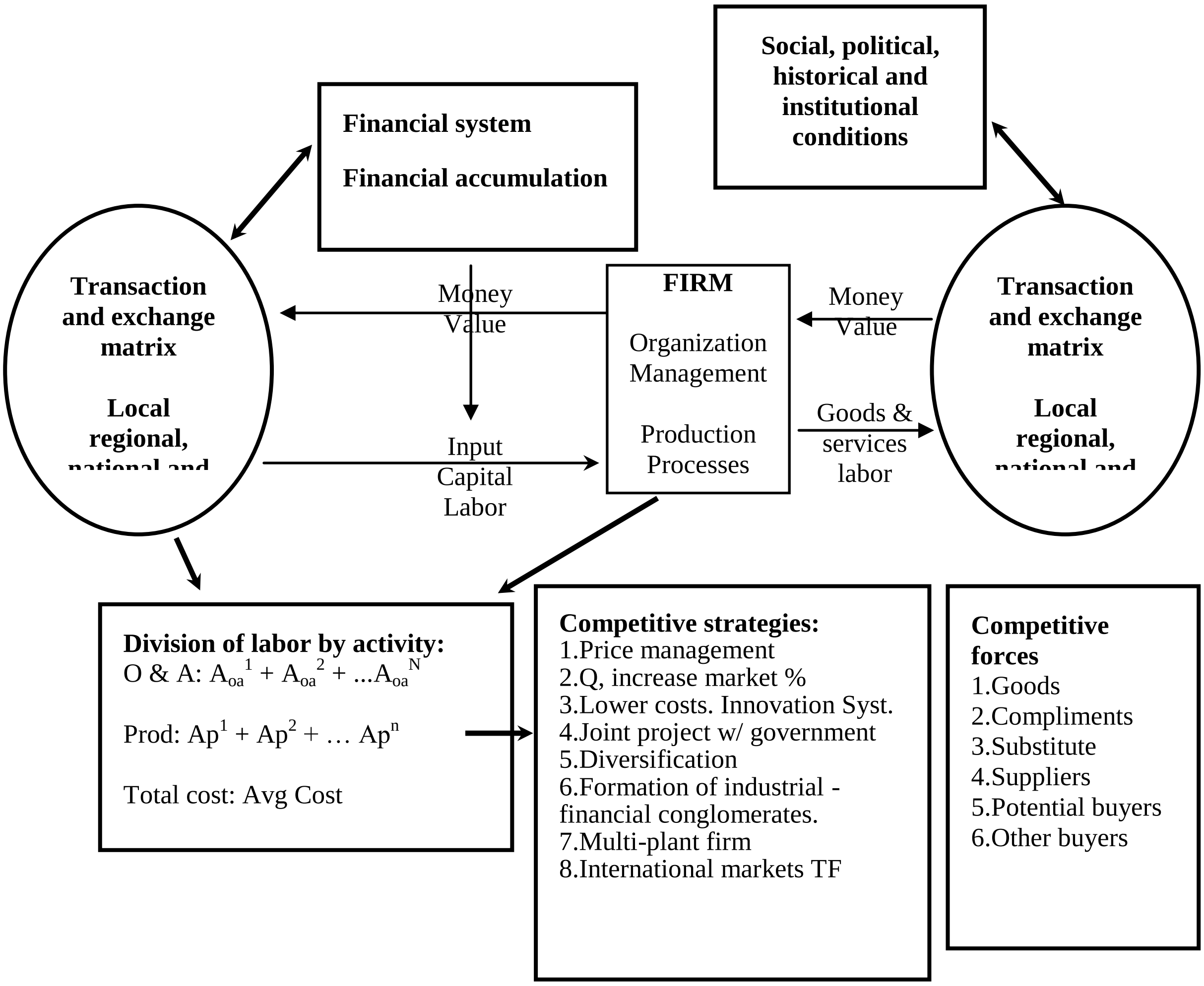
The space where value is formed and realized ceases to be the national economy and becomes the global economy. The national, regional or local economy conformed by: a) the matrix of transactions, b) the set of social, political, historical and institutional conditions, and c) by the forces that form competitiveness, are the conditions, relationships and processes that determine the value that flows, in monetary form, to the firm. The place for the determination of value has expanded to the global economy and market. For the TF, this space is more complex because the set of factors that conform the economy of a nation remain, but is now found in several countries. It is clear that the organizational difficulties that are implied in the coordination of activities in different environments aren't a limiting factor for the firm's expansion.

In many ways, the success of the firm comes from its flexibility to integrate and manage itself in each of these environments: local, regional and national. Some of the differences include culture, history and institutions, political risks and exchange rate, modifications that imply local finances and instruments.[60]

Summarizing, the TF's operation in the global market shifts the place of accumulation from the national to the international stage, from one nation to a global process that links several nations, the engine of accumulation becomes global. For the one part because the division of international labor is global, and on the other the markets are also global. The agent that is subjected to this global process of accumulation is the firm, in particular the TF. In figure 1 we attempt to summarize the factors and connections that determine the formation of value when we consider an international scenario.

Figure 1. The space of value formation in the global stage

[60] D. Eiteman, *et al.* p. 3.



The microeconomic representation of the TF

The internal causes of the firm's evolution can be explained as a result of its structural characteristics, that are that the firm produces a surplus as it organizes labor in order to produce and sell goods, which is distributed between the consumption of the owners and/or to expand the accumulation of capital. However, even if the firm's analysis can be made in micro, postkeyenesian or heterodox terms, the process of creation of value finally results from the processes of individual labor that happens within the firm. These work processes can be expressed in terms of costs, prices, income and profit. Thus, the microeconomic representation of the TF that we are offering is two-pronged, firstly we consider the labor processes and its relationship to the firm's evolution and secondly, representing this process in terms of prices and average costs.

Labor processes and the firm's evolution

Given the conditional relationship between the firm's productive capacity and the market demand, analyzed by A. Smith[61], the firm's evolution is associated to progress of the division of labor within it. One of the key concepts in this relationship is *productive capacity*. This expresses the maximum production volume that corresponds to the full utilization of the factors of production in a firm[62].

The key point in the division of labor is that it expresses itself as an organization of the firm that is trained to face the market's growth, but above all to manage the firm's growth.[63] Hence, the firm's organization is in charge of facing the dynamic accumulation that happens within the firm. The appearance of the multidivisional enterprise and later the TF is the result of successive stages of maturation that are comprised of the accumulation of productive, financial, technological, knowledge and organizational resources that lead it to expand its activities beyond its country of origin.

The division of labor in the firm has consequences that can only be plainly appreciated in the TF i.e. the segmentation of the labor process in activities that can be geographically separated and dispersed in different countries of the world. This separation and differentiation of its labor activities opens up possibilities to apply economic calculations, to evaluate profitability, not only in terms of the costs of each process that conforms the chain of production, but in general to the functioning of all the firm's areas. The firm's systematic search to reduce costs or to achieve economies finds a new perspective in the world's global relationships.

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[61] A. Smith (1776). Even though a discussion exists over what determines if (the division of labor, the market or the opposite is true), we want to highlight the relationship of mutual correspondence. In Smith's classic pin example, the increase in production volume resulted in the division of labor, required an similarly sized increment in the consumer market. Therefore, we assume, that in general, there is a correspondence between labor productivity (associated to the organization of labor) in the firm and the size of the market.

[62] Hymer states: "In the *workshop*, a small number of individuals commonly work on a very restricted specialization… ; the introduction of machinery assumed the appearance of new specialization and subdivisions, as well as a radical division of labor between those that plan it and those that do it, in other words, between capitalists and workers. The national company… In the beginning of this century, the rapid growth of the economy, as well as ample infusion processes had converted many small firms into large national enterprises, which were diversified functionally and geographically… now they tended to integrate backward as well as forward, … The administrative structure differentiated itself, distinguishing itself between personnel, finance, acquisitions and sales and engineering, an experimenting a strong specialization in each of the firm's activities. … *The multidivisional company*… The variable nature of the market from 1920 assumed a continuous introduction of new products…. as well as a bigger differentiation between each line of production… The main enterprises subdivided to coordinate different products or brands to facilitate the development of new products. This lead to the creation of an intermediate level of administration in the firm, destined to coordinate the activities of each product division, specializing in the central management of strategic planning. *Multinational company. … As foreign operations grew … they tended to organize differentiated international divisions…" Hymer, 1982, pp. 220, 221, 222*

[63] Hymer, 1982, p. 226.

As can be seen in figure 2, a reduction of any cost in the activities that are a part of the firm's value chain, but segmented in the international stage, reduces the average costs as a whole and it increases the firm's competitiveness.

2.5. The microeconomic representation of the firm

The firm's growth, labor, division of labor and the market growth processes can be expressed in terms of prices, quantities and costs. The assumptions or characteristics of the eclectic paradigm for the analysis of the transnational firm presented by Dunning are consistent with this and can be adapted to the present explanation.

Similarly to the mega-corporation, there was a surge of successful historical growth processes that allowed small enterprises to become medium and later big and giant enterprises. In general the TF evolved from a big or giant enterprise whose growth lead it to consider and make investments in the exterior.[64] Those mega-corporations that operate in oligopolistic markets are more prone to becoming TF's. Thus, it has been suggested that international expansion can be explained by the associations between oligopolization and transnationalization. This idea is supported by several empiric studies, from which we highlight Caves',[65] who found a positive correlation between the concentration of suppliers in the market of origin (oligopolistic) and transnational expansion.

Taking into account that the relationship between the firm's size and transnational expansion, using the postkeyenesian microeconomic toolset, we have represented the firm's evolution, from its origins as a small firm until its transformation into a TF in figure 2.

If we assume a conditional relationship between the size of the market and the firm's production capacity, we can suggest that the local firm of size A, in market A, reports average costs AC_a. If we assume that this firm is representative, these costs imply a price level, lets say, P_a. If we also assume that the firm operates at its average capacity, the average profits can be described as follows: $A\prod = P_a - AC_a$.

[64] Even though the transnational firm appeared at the end of the XIX century and the beginning of the XX, its main stage of growth in the international market is after the Second World War due to the " … intense development of productive forces that ocurred in the capitalist world that emerged after the economic, political and military post-war rearrangement, entering a fase of increasing growth in economic rivalries between capitalist powers and stronger competition between capitals." Minian, Isaac, "Rivalidad intercapitalista e industrialización e lsubdesarrollo", *Economía de América Latina*, no. 2, CIDE, México, 1979. Quoted from J.J. Martinez & E. Jacobs, in "Competencia y concentración: el caso del sector manufacturero", 1970-1975, en *Economía Mexicana*, No. 2. 1980.

[65] Caves, Richard, "Multinational Enterprise and Economic Analysis" Cambridge University Press, Cambridge, 1982.

Furthermore, if this firm is successful and introduces organizational and technological innovations, among other advantages, and thanks to its competitive strategies, it grows until it becomes a big firm or a national corporation, then we can represent it with a productive capacity of TC_n. With this installed capacity, the big corporation can fulfill a large portion of the national market's demand that will be a concentrated and oligopolistic market. This situation is represented in figure 2 as AC_n, and a volume of production Q_n. Given its price fixing ability it can determine its profit margins and prices accordingly.

The giant enterprises (as shown by Curve AC_n), posses the capacity to participate in a large percentage of an oligopolistic market. Given that these markets operate in a capacity above the expected average gives them the opportunity to overcome, on the one hand, the internal market's variations and on the other, to become exporters.

Therefore, given its costs and its ability to fix prices, these firms can explore foreign markets, be it in developed or developing economies, and compete in such markets. It seems logical that the first step in becoming a TF is the exploration of markets and to become an exporter to the most promising ones. Dunning and Hymer's explanation for the firm's location can also take part in our explanation.

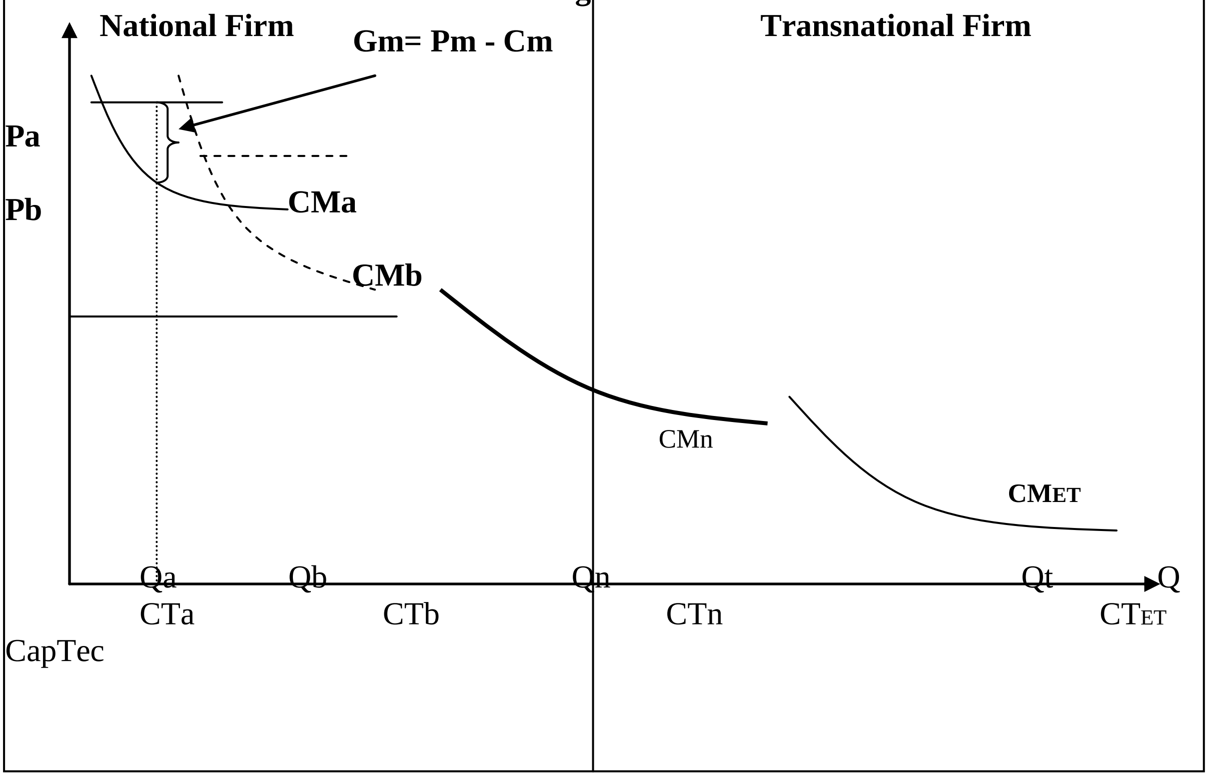
There seems to exist a virtuous cycle between the installed technical base's capacity and the size of the local market that drives the decision of the creation of firms at the global level, that is benefited by the economies of scale that are derived from the segmentation and division of labor at the international level. Within its growth the firm achieves dynamic economies of scale that can increase when the division of labor expands to the international space, with which it obtains lower average costs than if it operated in a single country.

In its growth, the firms transforms into a TF, this can be represented by the average cost curve CMET (Its fair to remind ourselves that the graphic representation of the TF in the figure 2, is fundamentally an analytic representation, and even when we represent it with a single curve it does not mean that we are thinking of a single plan or a single firm in a country).

The big corporations foreign market penetration strategy, when its successful or seems to be, induces other oligopolic firms in the same industrial branch, to make similar investments in these markets. The studies of the Tf in growing economies (like F. Fajnzylber's), shows that the economic sectors in which they are found, are concentrated and oligopolic in a similar fashion to its market of origin.

The representation of the firm's evolution is shown in figure 8.2, and it matches the several works on the TF from several economists. In his introduction to his masterpiece on the firm's evolution and the context of accumulation that give place to the TF, F. Fajnzylber says: "The search for benefits, the hegemony over certain areas of the innovative capacity and the control over the market's resources has favored the growth of a certain number of firms in the developed countries, that become transnational firm, in other words, the path of national economies was progressively verified, looking for an opportunity where a more or less open, oligopolic situation could be found in the global economy".[66] H. Hymer's research shows the historic evolution to an extent that one could consider offering the *general law of accumulation*, which has been mentioned before and is represented in figure 2.

Figure 2



When the enterprises with oligopolistic structures in the global market (TFs), with productive, technological and organizational structures, and ample financial and knowledge resources, arrive in developing markets, alter the market structures, displacing national firms and allowing for a process of concentration which can be more aggressive than that which exists in their countries of origin.

In the sense, Hymer's thesis that states that the unequal character that is implied in the vertical organization and hierarchy of the TF is transferred to the international economy, generating new conditions for an unequal development. This inequality can be observed in figure 2, where on the left side we trace, the average cost curve for the local enterprise, which is found above the average cost curve at which the TF operates, (on the right). The costs

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advantage of the TF, in contrast with the local enterprise will show the conditions that explain the tendency to displace the latter from the market.

3. Conclusions

The analysis of the theoretic perspectives of the TF allows us to conclude:

Firstly, the theoretic perspective for the analysis of real firms function and in particular, the TF is convenient, furthermore, (in Dunning's words) requires an "eclectic paradigm".

Secondly, even though the eclectic perspectives we have analyzed offer important contributions to our explanation, the reorientation of focus that we offer in this essay is also pertinent to these approximations: the force or cement that constitutes the integrating force of the economic system is the relationship between the concepts of labor and value.

Thirdly, the TF is the result of an accumulative process that happens in two complementary economic arenas: the firm and the market.

Fourthly, even though the nature of the TF is that of a private enterprise, its existence implies substantial changes in the global economic function.

a. Production takes place in more than one country, therefore, the internal division of labor in the global arena has resulted in an organizational structure that is capable of directing and coordinating the worldwide activities of the TF.
b. The creation of value happens in a worldwide scale, which assumes several transaction matrices that involve various markets, productive structures, social and cultural institutions and institutional differences, as well as different currency, exchange, impositive and fiscal policies.
c. The TF has become an organization that manages the creation of value on a global scale and along with it, the accumulation of capital. The TF is the pivot around which the global economy rests, including financial, technological, trade, knowledge and information flows, etc., even human resources.