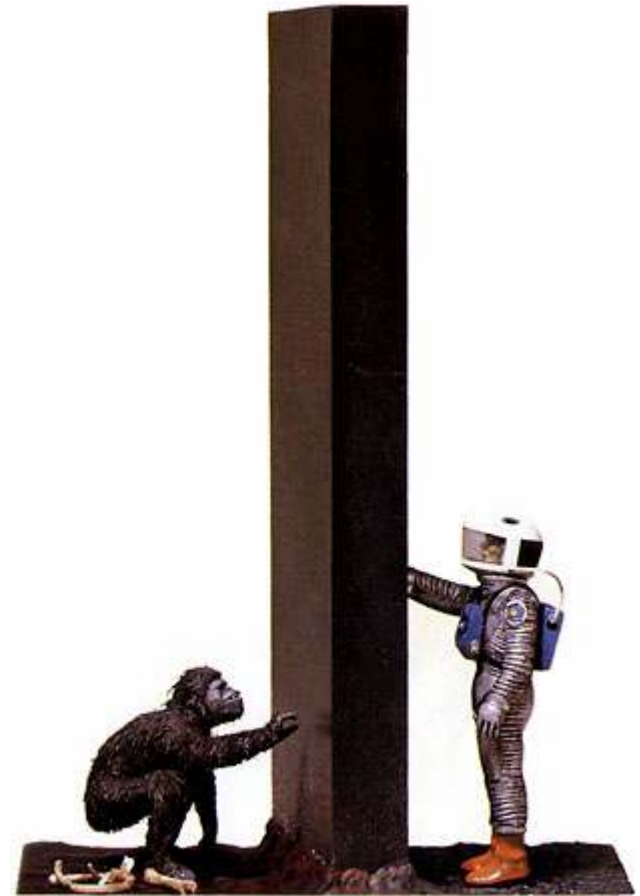


Internationalisation Theory

*An evolutionary
epistemology perspective*



MNE's theories are irrefutable

In Economics as in other social sciences is really difficult to apply falsifiability.

Few if any fundamental theories have been refuted.

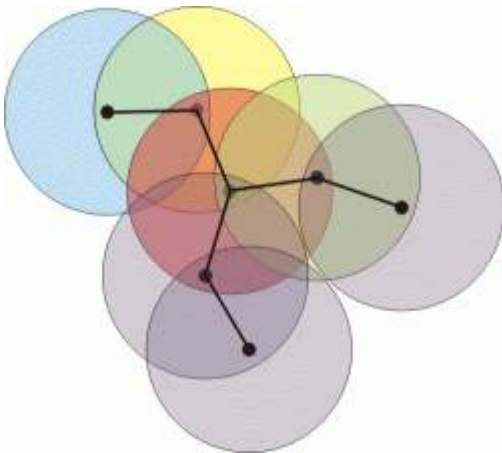
**Are we undertaking a Master of Pseudo-Science
in International Business and Management?**

The main difficulty is that methodologists and historians of economics are too often concerned with **grand theories** rather than the everyday business of economics.

The everyday business of economics is more involved with **model building** and the refutation of a model seldom constitutes a refutation of the theory presented or presumed by the refuted model.

But particular **modelling assumptions** are refuted or rejected everyday

“Some genuinely testable theories, when found to be false, are still upheld by their admirers – for example by introducing ad hoc auxiliary assumptions or by interpreting the theory ad hoc in such a way that it escapes refutation. Such a procedure is always possible, but it rescues the theory from refutation only at the price of destroying, or at least lowering, its scientific status. (I later describe such a rescuing operation as a ‘conventional twist’ or ‘conventional stratagem’.)”



(Popper, 1963:I, 37)

The use of compensatory adjustments of the theory

- The theory loses its scientific status
- The theory becomes more complex (Occam's Razor, parsimony principle)
- Less testable (assumptions introduce possibilities for errors)
- Not easily falsifiable

Our **preference for simplicity** may be justified by his falsifiability criterion: we prefer simpler theories to more complex ones “because their empirical content is greater; and because they are better testable” (Popper, 1992)

Limitations of Falsificationism

“A theory can always be protected from falsification by deflecting the falsification to some other part of the complex web of assumptions”
(Chalmers, 1999:66)

Duhem-Quine thesis (confirmation holism-epistemological holism):

it's impossible to test a scientific hypothesis in isolation, because an empirical test of the hypothesis requires one or more background assumptions (auxiliary assumptions or auxiliary hypothesis). This prevents a theory from becoming conclusively falsified through empirical means.

Quine's aphorism:

“theories face the tribunal of experience as a whole” (1951)

A theory consists of some **indeterminate**
conjunction of hypotheses

$$T \equiv (h_1 \wedge h_2 \wedge h_3 \cdots \wedge h_n) \rightarrow O$$

$\neg O$

$$\neg T \equiv (h_1 \wedge h_2 \wedge h_3 \cdots \wedge h_n)$$

and so

$$\sim T \equiv \sim (h_1 \wedge h_2 \wedge h_3 \cdots \wedge h_n)$$

which implies via De Morgan's law that

$$\sim (h_1 \wedge h_2 \wedge h_3 \cdots \wedge h_n) \equiv (\sim h_1 \vee \sim h_2 \vee \sim h_3 \cdots \vee \sim h_n)$$

Dunning Paradigm (T)

T consists of different assumptions

h1= **O**wnership advantage

h2= **L**ocation advantage

h3= **I**nternalization advantage

$$T \equiv (h_1 \wedge h_2 \wedge h_3 \cdots \wedge h_n) \rightarrow O$$

¬O

$$\neg T \equiv (h_1 \wedge h_2 \wedge h_3 \cdots \wedge h_n)$$

Which of the 3 OLI advantages is falsified?
Really difficult to determine: theory too broad and vague

Buckley and Casson internalization theory (T)

h1= market imperfections of the transactional type

h2= theory of international operations

h3= “knowledge is a public good”

$$T \equiv (h_1 \wedge h_2 \wedge h_3 \cdots \wedge h_n) \rightarrow O$$

¬O (Knowledge transmission is costly – tacit knowledge)

¬ T (h3)

Only an assumption has been falsified, not the overall theory of internalization

Popper sees science primarily as an instance of **learning by criticism.**

He is not interested in science as a static method or justification or as a formula for success.

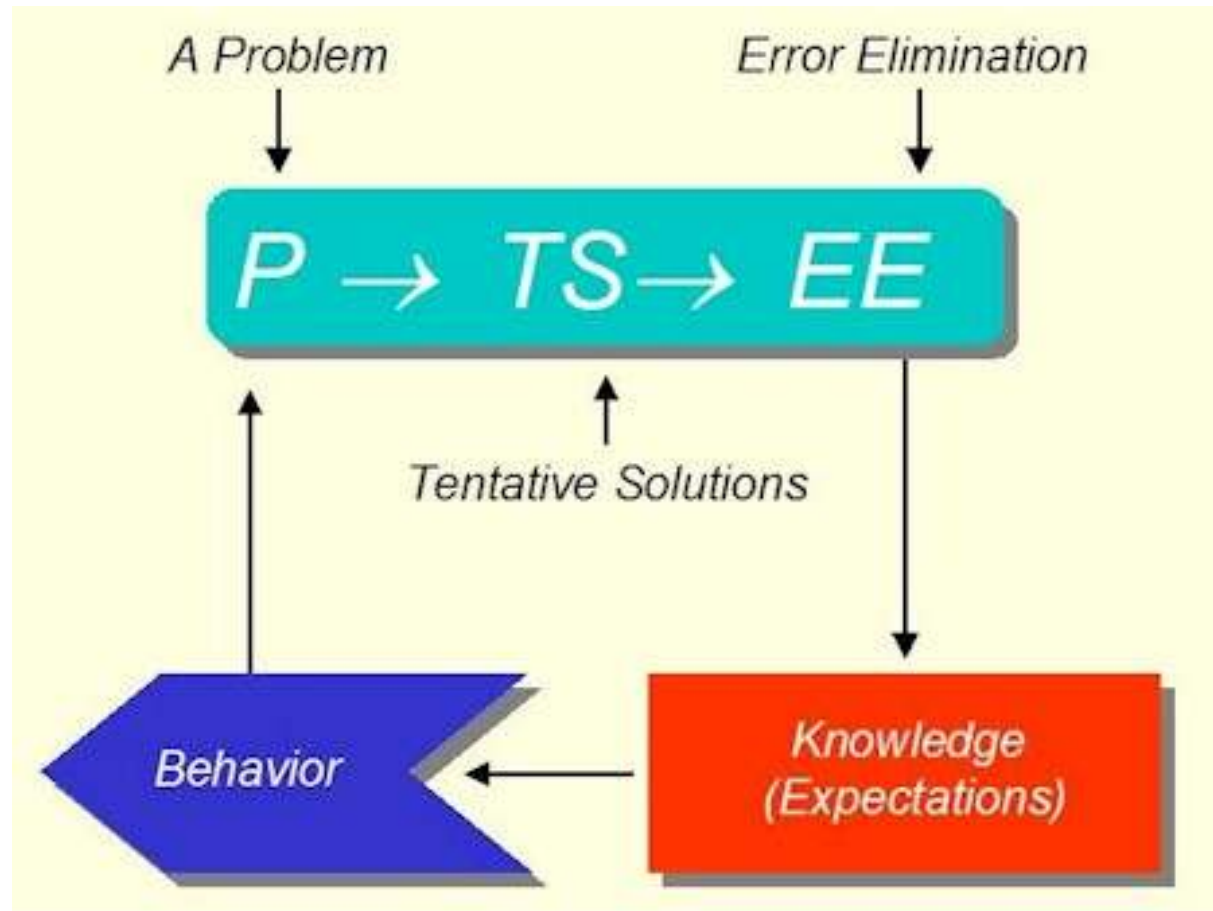
The role of falsificationism in the growth of knowledge is promoted by Popper more to emphasize that **science is a critical process of learning.**

**Learning by criticism applied to the
Internationalization theory**

Incremental learning and creation of the theory

The Unified Theory of Knowledge

All life is a problem solving (Popper, 1999)



MARKET IMPERFECTION "THEORY"

INTERNATIONAL OPERATIONS "THEORY"

INTERNATIONALIZATION THEORY

Dunning (2000)

Ownership advantage
Location advantage
Internalization advantage

Kogut & Zander (1993)

Most of the knowledge is tacit (routines)
Internationalization drive
Firms are social communities
FDI as an organisational replication

Nelson & Winter (1982)

The nature of the "skills/routines"
Coordination in productive
organizational performance

Buckley & Casson (1976)

Market imperfections (transactional imperfections)
International Operations
Knowledge as a public good
Internalization drive

Hymer (1960)

Market imperfections (structural imperfections)
International Operations
Firm-specific advantage
Removal of conflict
FDI as the clearest form of I/O

Penrose (1959)

Firm is a pool of productive resources
The disposal of which is determined by
administrative decisions

Coase (1937)

Market imperfections
Firm is the supersession of price mechanism
(Incentive to internalize - entrepreneur figure)

ASSUMPTION REFUTED.
HOWEVER THE
INTERNATIONALIZATION THEORY IS
STILL VALID

Is there any limit to the evolution of
Internationalisation epistemology?

Dependence on exogenous factors?
What happens in the everyday business activity

ANY IDEA?