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Applying Theory to Understand How Multinational Firms Address Brexit

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Introduction

Britain's highly successful aerospace and financial services industries face an uncertain future due to Brexit. If a transitional arrangement is not worked out by March 2019 between Britain and the 27 EU member states to preserve the status quo for a few years while a new trade deal is finalized, British businesses in these industries would immediately face a range of tariff and non-tariff barriers.

Anything that interferes with Europe's highly connected aerospace industry will hurt British companies and their suppliers. For example, consider Airbus, Rolls-Royce, and BAE Systems.

The wings of Airbus civil aircraft, the most technologically intensive part of the plane, are all made and designed in Britain. Airbus UK, which employs 10,000 people, built about 1000 wings for Airbus in 2016. This business depends on the smooth transfer of products and skilled staff to and from Airbus factories in France and Germany. If Britain is outside the EU's customs union and single market, the supply chain may no longer be sustainable.

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Fabrice Brégier, Airbus president and chief operating officer, warned that a "hard Brexit" could mean shifting wing production elsewhere (Symonds 2017).

Airbus is one of largest customers of Rolls-Royce, the world's second-largest aero-engine manufacturer located in London. Rolls-Royce has 23,000 workers in the UK and a total of 55,000 worldwide. Tariffs could reduce the advantage it enjoys against its main rival, America's GE. Also, leaving the European Aviation Safety Agency, which regulates the industry, would cause enormous problems to Rolls-Royce and its suppliers in Britain. Rolls-Royce wants to continue being able to move parts and staff freely between the UK and the EU. Like Airbus, Warren East, CEO of Rolls-Royce, has warned about the perils of a "hard Brexit" (Johnston 2017; Symonds 2017).

BAE Systems, Britain's largest manufacturing firm and the third-largest arms company in the world, is better insulated from Brexit because it does relatively little business with Europe compared with America, where it derives 36 percent of its sales. However, Brexit could mean BAE being cut out of future European defense programs. BAE Systems is part of a consortium of British and French companies working on an advanced drone, but the project is dependent on the French and British governments' commitment, which is not guaranteed. Since the election of Emmanuel Macron as France's president, France and Germany have announced a project to build a European fighter (Symonds 2017).

Similar to the aerospace industry, the financial services industry in nervous about Brexit. The financial services industry has billions invested in London, where international banks employ close to 150,000 staff (Barber 2017).

HSBC pledged to move 1000 jobs to Paris, where it owns a French subsidiary and a banking license (Jenkins 2017). Other international banks doing business in London are looking to relocate operations to Paris' great rivals, Frankfurt and Dublin. Goldman Sachs is among several banks to choose Frankfurt, while Citigroup and Bank of America picked Dublin for investment banking and markets operations (Barber 2017).

An Ernst and Young study of public statements by financial services companies found that of the 222 groups monitored, 19 had spoken of a move to Dublin, compared with 18 that have mentioned Frankfurt. Luxembourg came in the third place, with 11 mentions (Jenkins 2017).

To help provide understanding to these concerns, this chapter examines international business (IB) theories to help inform multinational enterprise (MNE) investment decisions.

Firm-Specific Assets, Competitive Advantages, Dynamic Capabilities and Ownership–Location–Internalization (OLI) Eclectic Paradigm of MNE Activity

FSAs, Competitive Advantages, and Dynamic Capabilities

Firm-specific assets (FSAs) refer to any tangible or intangible resource available exclusively to the firm, either because they are owned by the firm or are made available by third parties for the firm's use (Narula et al. 2017). The resource-based theory of the firm, which builds on the seminal contributions of Penrose (1959), postulates that resources that are valuable, rare, and difficult to imitate are the source of the competitive advantages of firms (Barney 2001; Conner 1991; Peng 2001; Wernerfelt 1995). Competitive advantage results from the ownership of FSAs that are efficiently combined in a value-creating strategy, which currently or potentially competing firms cannot implement simultaneously (Narula et al. 2017). A competitive advantage is sustainable when other firms do not manage to duplicate the benefits of this strategy (Barney 1991). The firm's ability not just to possess, but to grow or acquire more assets of this kind, affords it a sustainable competitive advantage over other firms, and this accumulation process is also reflected in the literature on dynamic capabilities (Dunning and Lundan 2010).

The literature on dynamic capabilities has examined how firms identify and develop new opportunities, how they coordinate the assets required to exploit such opportunities, and how, in the course of doing so, they develop new business models and governance forms (Teece and Pisano 1994; Teece et al. 1997). The dynamic capabilities framework has drawn from several different schools of thought, including transaction cost economics, the behavioral theory of the firm, and evolutionary economics, with the aim of offering an integrative and managerially relevant paradigm that recognizes the challenges related to value appropriation as well as dynamic value creation (Teece 2007; Augier and Teece 2007; Di Stefano et al. 2010).

Dynamic capabilities are second- or higher order capabilities that extend beyond the capabilities required for the firm to carry out its existing value-adding activities. Dynamic capabilities involve the ability of the firm to create new products or services and to restructure its activities to achieve a better fit with the competitive environment (Winter 2003).

OLI Eclectic Paradigm of MNE Activity

The eclectic or OLI paradigm asserts that to engage in cross-border investment, a firm must possess unique and sustainable ownership-specific advantages such as firms of other nationalities. Such advantages consist of asset-specific advantages (O_A), particularly those related to property rights and other intangible assets, and those advantages (O_T) that arise from the ability of a firm to coordinate multiple and geographically dispersed value-added activities and to capture the gains of risk diversification (Dunning 1988a). It seeks to offer a general framework for determining the extent and pattern of both foreign-owned production undertaken by a country's own enterprises and that of domestic production owned or controlled by foreign enterprises (Dunning and Lundan 2008b).

Ownership-Specific Advantages (O)

Firms develop their ownership advantages based on the mobile and immobile assets of the countries in which they operate (Dunning 1979; Hu 1992, 1993; Nachum 1999; Porter 1990).

Ownership-specific advantages (O) refer to the competitive advantages of the enterprises seeking to engage in foreign direct investment (FDI). The greater the competitive advantages of the investing firms, the more they are likely to engage in their foreign production (Dunning 2000).

Many IB scholars have relied on a three-way classification of FSAs (Cantwell and Narula 2001; Dunning 1988b; Dunning and Lundan 2008b; Dunning and Rugman 1985; Narula et al. 2017). The first class is associated with proprietary tangible and intangible assets (asset-type FSA: O_A FSA) such as technologies, intellectual property, systems, and know-how.

The second class is associated with institutional assets (institutional type FSA: O_I FSA). O_I FSA comprise the incentive structure of a particular firm, which comprise internally generated and externally imposed incentives, regulations, and norms. Examples include contracts, covenants, codes, and trust-based relations (Dunning and Lundan 2008b). Institutional advantages (O_I) cover the range of formal and informal institutions that govern the value-added processes within firms (Dunning and Lundan 2008a, b). Such advantages are partly endogenous and partly exogenous to the firm. The exogenous element results from the degree to which the informal (and formal) institutions in the firm's home country, or in important host countries, have impacted the way in which incentives are set within the firm. The endogenous influence

is the result of entrepreneurial or managerial activity, which manifests itself in a particular kind of corporate culture, which may also be encapsulated in the firm's core values or a mission statement (Dunning and Lundan 2010).

The third class has to do with organizational capabilities to efficiently control, coordinate, and organize intra-firm activities to generate economic rents from O_A FSA (transaction-type FSA: O_T FSA) (Narula et al. 2017). O_T FSA is largely concerned with managerial expertise of efficiently running a complex organization by creating and coordinating efficient internal hierarchies and markets within the MNE (Dunning and Lundan 2008b; Narula 2014). From the theoretical perspective of the knowledge-based view (e.g., Grant 1996; Kogut and Zander 1992), the MNE's capability to efficiently transfer O_A FSAs between geographically dispersed locations constitutes a substantial portion of O_T FSA of the MNE (Narula et al. 2017).

In addition, O_T FSA is associated with the geographical dispersion of operations, as it mirrors "the capacity of MNE hierarchies vis-à-vis external markets to capture the transactional benefits (or lessen the transactional costs) arising from the common governance of a network of O_A FSAs located in different countries" (Dunning 1988b, p. 2). O_T FSAs are regarded as more home country specific than O_A FSAs because their development is usually dependent on institutions and relational assets with local actors usually obtained through accumulation of relevant experience (Narula 2002, 2012; Nelson and Winter 1982).

An important aspect of the O advantages of MNEs is that while some of them may be monopolistic in nature, others stem from its dynamic capabilities, that is, the ability to coordinate transactions and to reconfigure assets across borders. As a consequence, dynamic capabilities are relevant to assessing the welfare impact of MNEs on the home and host countries (Dunning and Lundan 2010).

O_A, O_I, and O_T FSAs are complementary and crucial for rent generation (Narula et al. 2017).

Location-Specific Advantages (L)

The spatial distribution of location-bound resources, capabilities, and institutions (L) is assumed to be uneven and, hence, will confer a competitive advantage on the countries or regions possessing them. The O_I advantages are interrelated with all other elements of the paradigm, since they influence both what form (I) and where (L) the MNE will choose to exploit, or add to, its O advantages (Dunning and Lundan 2010).

Location-specific advantages (L) refer to the alternative countries or regions for undertaking the value-adding activities of MNEs. The more the immobile, natural or created resources, which firms need to use jointly with their own competitive advantages, favor a presence in a foreign location, the more the firms will choose to augment or exploit their O-specific advantages by engaging in FDI (Dunning 2000).

For the financial services industry, London has location-specific advantages such as infrastructure, the rule of law, and its time zone to serve Asia (Barber 2017). Although Paris is Europe's only global city on a par with London, it has earned a reputation as a hostile tax location with onerous labor laws. By contrast, Frankfurt is home to the European Central Bank as well as the financial center for Europe's biggest economy. Dublin is an established low-tax banking center (Jenkins 2017).

Internalization-Specific Advantages (I)

FDI will take place when the enterprise perceives it to be in its best interest to add value to its O advantages rather than to sell them, or their right of use, to independent foreign firms. The market internalization (I) advantages reflect either the greater organizational efficiency or superior incentive structures of hierarchies, or the ability of (large) firms to exercise monopoly power over the assets under their governance (Dunning and Lundan 2010). Internalization-specific advantages (I) refer to how firms organize the creation and exploitation of their core competencies. The greater the net benefits of internalizing cross-border intermediate product markets, the more likely a firm will prefer to engage in foreign production itself rather than license the right to do so (Dunning 2000).

The eclectic paradigm has evolved throughout the life of Professor John Dunning and it developed in the following five stages as described in Dunning and Lundan (Dunning and Lundan 2008a, b):

Mark I—Focused on why firms invest overseas rather than through arms-length mechanisms such as trade and licensing, and what the determinants of the amount and composition of international production are.

Mark II—Brought within the O, L, and I the development and application of the eclectic paradigm to macro/country-level/development issues, applications to different industries, and incorporating and clearly defining the role of geography.

Mark III—Brought within the fold of the eclectic paradigm the understanding and application of alliance capitalism.

Mark IV—Provided a strategy dimension as it relates to the eclectic paradigm.

Mark V—Incorporated institutional economics within the eclectic paradigm.

Relational Assets

Professor John Dunning (2002, 2003, 2004), over almost half a century ago, stood as one of the most significant in providing a theoretical framework to analyze the nature, significance, and governance of relational assets to examine their relevance in explaining the growth, structure, and form of MNE-related activity. Professor Dunning argued that social capital plays a critically important role in business strategy and performance, where social capital consists of resources that are embedded in networks of relationships. He focused on the concept of relational assets, which he viewed as a dimension of social capital. The core idea is that relational assets comprise an actor's ability to form and govern beneficial relationships with other actors, including other firms and individuals within a firm. Firms and individuals use their relational assets to gain access to other actors' assets and to coordinate the use of their partners' assets with the focal actor's own resources. Relational assets emphasize attitudinal attributes such as values, honesty, trust, cultural sensitivity, and reciprocity. They range from firm-level measures such as alliance experience and reputations to country-level measures such as corruption and civic engagement. The basic idea is that the ability to leverage resources that other actors control arises from the ability to engender trust in one's own judgment and intentions.

Professor Dunning placed relational assets in the context of his OLI eclectic paradigm of MNE activity (Dunning 2002, 2003, 2004). Relational assets provide ownership advantages through superiority in coordinating the use of functional assets; locational advantages through superiority in business infrastructures; and internalization advantages by providing linkages to many other assets. He suggested that MNEs tend to have more relational assets than domestic firms, owing to a greater number and intensity of linkages. Professor Dunning proposed that a firm's ability to create and use relational assets will lead to an increase in MNE-related business activity. He suggested that international business theory needs to give greater attention to relational assets as key sources of firm advantage; business managers need to develop greater skills in creating relational assets; policy makers need to improve social capital and relational assets within their environments; and supra-national agencies

need to foster international respect for the underpinnings of relational assets, such as trust and reciprocity.

Relational assets are a combination of O_A FSAs, O_I FSAs, and O_T FSAs. Using the OLI eclectic paradigm of MNE activity (Dunning 1980), and especially relational assets, help explain how MNEs such as Airbus, Rolls-Royce, BAE Systems, HSBC, Goldman Sachs, Citigroup, and Bank of America go about assessing their investment decisions regarding Brexit.

Relationship-Specific Competitive Advantages

Social Capital

Social capital refers to the competitive advantage that is created based on the way an individual is connected to others (Arena and Uhl-Bien 2016). Professor Dunning argued that social capital plays a critically important role in business strategy and performance, where social capital consists of resources that are embedded in networks of relationships. He focused on the concept of relational assets, which he viewed as a dimension of social capital. The core idea is that relational assets comprise an actor's ability to form and govern beneficial relationships with other actors, including other firms and individuals within a firm. Firms and individuals use their relational assets to gain access to other actors' assets and to coordinate the use of their partners' assets with the focal actor's own resources. Relational assets emphasize attitudinal attributes such as values, honesty, trust, cultural sensitivity, and reciprocity. They range from firm-level measures such as alliance experience and reputations to country-level measures such as corruption and civic engagement. The basic idea is that the ability to leverage resources that other actors control arises from the ability to engender trust in one's own judgment and intentions (Dunning 1980, 2002, 2003, 2004).

Competitive Advantage Theoretical Frameworks

Both the resource-based view and the relational view serve as theoretical frameworks to explain firms' competitive advantages (Mesquita et al. 2008). In traditional perspectives on competitive advantage, such as the resource-based view (Barney 1991; Dierickx and Cool 1989; Penrose 1959; Wernerfelt 1984), where the firm is seen as a pool of resources, including vital intangible resources, which can create competitive advantage and superior profits, schol-

ars have envisioned firms as independent entities. Consequently, these perspectives have provided only a partial account of firm performance in view of the accumulated evidence of the proliferation and significance of interfirm alliances (Lavie 2006).

Relational view of competitive advantage scholars explain that competitive advantages arise not from the firm but from interfirm sources of advantage (Dyer and Singh 1998; Gomes-Casseres 1984; Lavie 2006; Smith et al. 1995). The relational view assumes that the sources of competitive advantage may span firm boundaries, just as interdisciplinary and cross-functional strengths lead to a competitive advantage within the firm. It is assumed that interfirm networks may be more efficient arrangements for achieving a resource-based advantage than single firms (Dyer and Nobeoka 2000). In addition, the relational view focuses on networks as units of analysis, where advantages that are difficult to replicate by rivals are created through investments in special assets among firms, exchanging knowledge, complementary resources, and building effective governance mechanisms (Mizuki 2014).

In his seminal work, Lavie (2006) reformulated the resource-based view for an interconnected firm by suggesting that a firm's competitive advantage comes from three main sources: first, the firm's internal resources generate "internal rent"; second, "appropriated relational rent" results from deliberately recombining, exchanging, and co-developing idiosyncratic shared resources between the firm and its partners; and, third, a firm may also receive unintended benefits owing to both shared and non-shared resources of partners due to an "inbound spillover" effect.

Asset augmentation of the firm primarily originates from the recombination of complementary assets both within the firm's existing asset portfolio and those of other economic actors, and that recombinant firm-specific assets (RFSAs) are an essential element for doing so (Hennart 2009; Narula et al. 2017; Verbeke 2013). The MNE's capability to tap into multiple locations and create value by recombining a variety of knowledge assets dispersed across the MNE network has been widely recognized as a prime source of competitive advantage (Doz et al. 2001; Meyer et al. 2011; Rugman and Verbeke 2001; Teece 2014; Verbeke 2013).

Whether or not a firm will be able to recombine assets efficiently will depend on the firm's absorptive capacity (Cohen and Levinthal 1990). The higher a firm's absorptive capacity, the higher the likelihood that a firm will be able to exploit RFSAs efficiently (Narula et al. 2017).

Because the MNE network integrates not only internally generated competences but also externally based location-specific assets (Kogut and Zander 1992; Narula 2014; Verbeke 2013), network recombination is primarily rel-

evant to mature MNEs that have substantial operations (i.e., subsidiaries) across many different locations (Narula et al. 2017).

Social Capital Theory

Social capital theory (Putnam 1995) explores the benefits and costs derived from social ties and relationships. One of the most widely cited frameworks for examining social capital is the conceptual model proposed by Nahapiet and Ghoshal (1998), which focused on the relationships between social capital and the level of access to parties for the purpose of combining and exchanging intellectual capital. Intellectual capital refers to the knowledge and knowing capability of a social collectivity, such as an organization, intellectual community, or professional practice (Nahapiet and Ghoshal 1998).

Corporate social capital concerns social structures such as networks and ties and their associated norms and values as they affect the firm and its performance. A firm's internal social capital is embedded in the relationships between the organization's members—for example, relationships based on reciprocity and norms of teamwork, and openness and willingness to exchange information help individuals to access resources within an organization and to develop their own knowledge and skills. A firm's external social capital is embedded in relationships beyond the boundaries of the firm, for example, relationships with customers, suppliers, and external organizations such as universities, banks, venture capitalists, and governmental bodies make possible achieving ends that would otherwise not be attainable and at lower costs (Andrew and Klaus 2009).

Andrew and Klaus (2009) integrated the role of corporate social capital in the resource-based view of the firm. They argued that social capital figures prominently among such intangible resources and showed that an explicit inclusion of the role of social capital further strengthens the analytical powers of the resource-based view in relation to the relative merits of firms and markets as organizational forms, the rationale of interfirm networks as an alternative to spot-market exchanges and coordination by a single centralized authority, and the role of social capital as a governance mechanism in such interfirm networks.

Discussion of a Dynamic Framework

The authors propose an analytical framework for examining and evaluating the main relationships between MNEs operating in the UK and their respective governments. This dynamic representation, presented in Fig. 2.1, draws

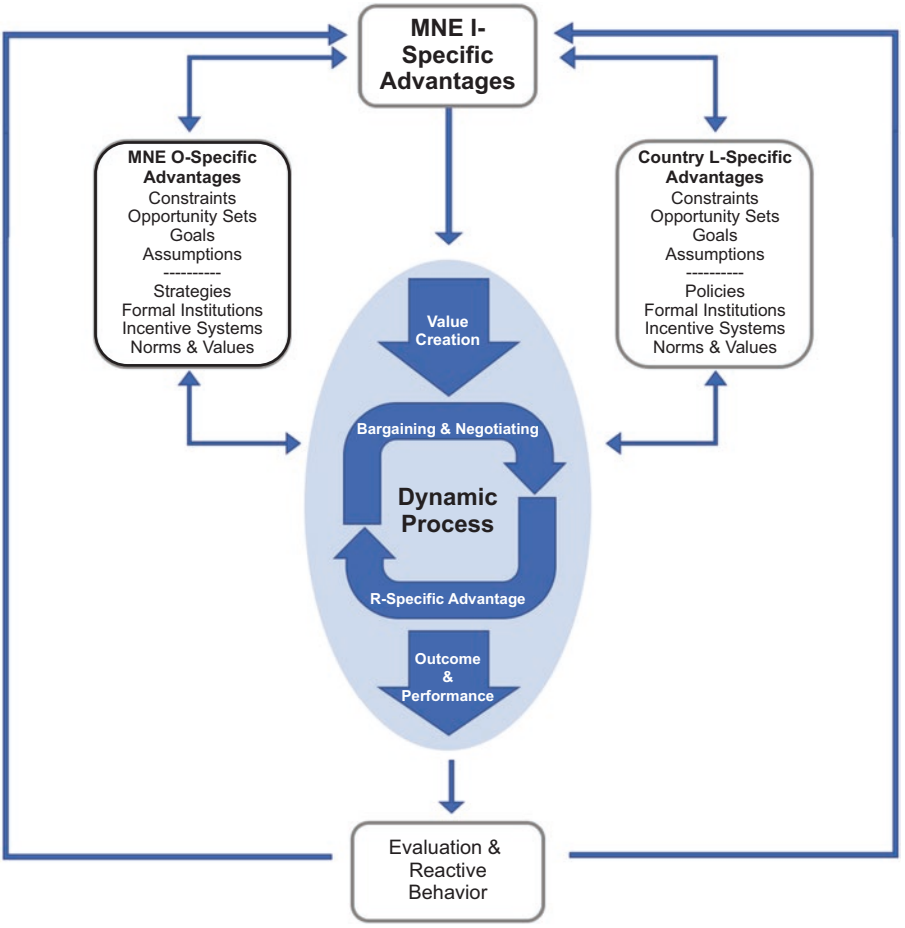

Fig. 2.1 Relationship-specific advantage dynamic process model

on some ideas first set out by Lecraw and Morrison (1991) and later by Dunning and Lundan (2008a, b), but extends their analysis by incorporating the relationship-specific advantage (Dunning 2002, 2003, 2004) as an enabler in transforming a static model into a dynamic model. The framework is essentially grounded on the interaction between the O advantages of firms and the L advantages of countries and how these, in turn, affect the I advantage of MNEs and their organization of cross-border, value-added activities. The revisited configuration of the OLI contains eight components, or stages, which may precede some course of action, or set of actions, taken by governments through an embedded relationship-specific advantage.

The schema is essentially *dynamic* in its approach. It assumes that, at a given moment of time, and within a particular global economic environment:

1. MNEs possess a set of O-specific advantages and constraints and, according to their goals, and their opportunity sets and organizational structures, will pursue certain strategies to advance those goals.
2. Likewise, nation-states possess a set of L-specific advantages and constraints which, according to their goals and opportunity sets, will lead them to take certain actions.
3. Such actions between the O and the L—as directed toward MNEs—refer to how firms organize the creation and exploitation of their core competencies. The greater the net benefits of internalizing cross-border intermediate product markets, the more likely a firm will prefer to engage in foreign production itself rather than license the right to do so (Dunning 2000).

The particularity of this Mark I configuration of the OLI is that the I remains an outcome of the interaction between the O and the L but the I is also an initial phase of an iterative process. This initial phase can also be an application of the eclectic paradigm to macro/country-level/development issues, applications to different industries, and incorporating and clearly defining the role of geography as described on Mark II of the OLI paradigm.

The main feature of this dynamic framework is the rotating effect between bargaining/negotiating and R-specific advantage. This is an element that provides an impetus similar to an engine. This impetus is drawn from Mark III of the eclectic paradigm with an application of alliance capitalism as well as from Mark IV with a strategy dimension as it relates to the eclectic paradigm.

The UK economic architecture of the UK economy will necessarily go through a transformative phase to absorb the shock of Brexit, then regain a level of competitiveness of the pre-Brexit vote. Based on key determinants of competitiveness, our assumption is that Brexit may have impacted negatively the three tenets as they relate to the UK, its industries, and firms—namely, ownership-specific advantage, location-specific advantage, and internalization-specific advantage.

These ownership-specific, location-specific and internalization-specific advantages can shed light on how Brexit can be rationalized, and a road map can be unfolded leading to a recovery strategy. All five marks of the eclectic paradigm can lead us out of a deadlock where traditional economic models or frameworks cannot provide a rational explanation of the new direc-

tion taken by the UK to engage in a reversal of its economic integration with the EU.

While it can be theorized that all three UK tenets of the eclectic paradigm (O, L, and I) may have suffered from Brexit as an economic shock, it can be assumed that in the long run the O-, L-, and I-specific advantages will recover. How it is going to happen in the realm of the eclectic paradigm is worth exploring to shed light on how the UK should redistribute its resources and reshape its policies. As suggested by Dunning (2001), the eclectic paradigm allows for differences in the strategic response of firms to any given configuration of OLI variables.

The following is discussed in Dunning (2001) and is still relevant to our dynamic framework:

> At a given moment of time, the extent and pattern of MNE activity represents a point on a set of trajectories towards (or, for that matter, away from) their internationalization path. That trajectory itself is set by the continuous and iterative interaction between the OLI configuration over successive time periods and the strategy of firms in response to these configurations that, in turn, will influence the OLI configuration in a subsequent moment of time. Let OLI_{t0} be the OLI configuration in time $_{t0}$, OLI_{t1} the OLI configuration in time $_{t1}$, S_{t-n} the past (i.e., pre $_{t0}$) strategies of firms still being worked out, and $\Delta S_{t0 \to t1}$ any change in the strategic response of firms to that configuration between time $_{t0}$ and $_{t1}$. Then, ceteris paribus:
>
> $$OLI_{t1} = f\left(OLI_{t0} S_{t-n} \Delta S_{t0 \to ti}\right) \tag{2.1}$$
>
> If we extend the analysis to a second time period $_{t2}$, then:
>
> $$OLI_{t2} = f\left(OLI_{t1} S_{t-n} \Delta S_{t1 \to t2}\right) \tag{2.2}$$
>
> This analysis further suggests that S_{t-n} and $S_{t0 \to t2}$ determine the path of the movement from OLI_{t0} to OLI_{t2}.
>
> The strategic response is, of course, just one of the many *endogenous* variables which might affect the OLI configuration of firms (mainly by its impact on O and I advantages). Others include: technological and/or organizational innovations; changes in the composition of senior management; increases in labor productivity; new marketing techniques; mergers and acquisitions; and so on. No less significant are *exogenous* changes, such as changes in: population; raw material prices; exchange rates; national gov-

ernment policies; actions taken by international agencies; and so on. If we take all endogenous variables other than strategy to be *EN,* and all exogenous variables to be *EX*, and we assume that changes in *EN* and *EX* do not affect the firms' strategies, then we can rewrite Eq. (2.1) as:

$$OLI_{t1} = f\left(OLI_{t0} S_{t-n} \Delta_{St0 \to t0} \Delta_{ENti \to} t1 \ \Delta_{EXt0 \to t1}\right) \tag{2.3}$$

Equation (2.2) can be similarly reconstructed, and it is easy to incorporate any change in strategy which embraces the response to Δ_{EN} and Δ_{EX} if it occurs before $_{t1}$ is reached by adding * to $\Delta S_{t0 \to t1}$ in the equation.

All O-specific advantages—asset-type O_A, transactional-type O_T, and institutional-type O_I will experience a reorganization at the firm level that will necessitate the UK firms to deploy new types of relations with the rest of the world outside the EU. The authors believe that a relationship-specific advantage will be at play in the recovery of the O_A and O_T at the firm level as well as a new O_I resulting from an evolution of the institutional apparatus of the UK at the country level.

The UK's L-specific advantage is probably the most impacted tenet of the eclectic paradigm as the UK negotiates a soft Brexit. The UK needs to provide an internally coherent paradigm that integrates effectively transaction costs economics (TCE) and resource-based view (RBV) components to make its location attractive outside of market-seeking FDI.

The UK's I-specific advantage recovery will result from a strategic blending of Coasean and Penrosean thinking. The UK firms will need to figure out a new alignment of its assets. The R-specific advantage may be at play in positioning UK firms' interest with other nations.

The UK seems to be inclined to pursue a new path leading them to favor bilateral agreements and shy away from multilateral cooperative agreements. Those motives are mostly political and contrast with traditional motives of the activities in the IB literature.

According to John Dunning, the following are the basic motives for economic integration (Dunning and Lundan 2008b; Dunning and Robson 1987):

- To increase efficiency or resource usage and to increase the economic and strategic (including political) strength of region and member countries.
- To overcome structural market distortions (e.g. tariff barriers, subsidies) and to encourage competition.

- To reduce imperfections in foreign exchange, capital, and labor markets.
- To facilitate the possibility of product and process specialization of firms within the region and promote trade in intermediate products.
- To facilitate the conduct of optimal policies and to secure gains from policy coordination in circumstances of structural and policy interdependence.
- To develop economic and strategic strength by the adoption of a common policy toward non-member countries.
- To increase market size and improve the technological capability of member countries.

Based on the above key motives of economic integration, most economists find it difficult to rationalize or justify the decision of the UK to reconfigure their regional integration stand. When it comes to the cost and benefit of economic integration, it is generally accepted that the cost of economic integration is upfront, while its benefits are downward. Reversing the process of economic integration raises questions about balancing its cost and benefit and how it is going to impact inward and outward FDI in the UK as well as the competitiveness of its industries.

Is the cost of reversing economic integration mostly downward? Is its benefit mostly upfront? The authors propose to study this phenomenon in a follow-on study. At the same time, they will assess the relationship-specific advantages of MNE activities in the UK by analyzing the inward and outward FDI and key economic indicators.

The key challenge facing the UK is to maintain its competitiveness at the country level and of its main industries while not losing all the benefits generated by many decades of transformation of its economic fabric in the context of EU integration.

As a follow-on to this chapter, the authors will investigate and shed light on how the UK may or may not continue realizing the objectives underlined by the above motives for economic integration. Maneuvering backward from a UK economy integrated into the EU market is going to impact the allocation of resources and force UK MNEs to reconsider how their activities are distributed around the world. Using the OLI paradigm and bringing its fourth leg, the relationship-specific advantage, into play, the authors will assess the viability and potential of the UK to enter into a new role or position in the world economy.

Most countries around the world are engaged in one form or the other in economic integration. The integration of major blocs is a prerequisite for a full integration of the world market. The past few decades have demonstrated this phenomenon and have shown an acceleration of a long-term trend toward

greater economic interdependence not only between countries but also between economic blocs. This acceleration was noticeably revealed in the 1990s by the economic and political shakeups that took place in Central and Eastern Europe, the achievement of the internal market of the EU, and the beginning of the North American Free Trade Agreement (NAFTA) between the US, Canada, and Mexico. However, today with the Brexit vote and President Trump's "America First" movement, the global economy has entered a new era undermining economic integration.

As a follow-on to this chapter, the authors will analyze at the firm level whether corporate integration will become necessary for UK firms to compete:

- Efficiency-seeking FDI will strengthen the O-specific advantages of firms; and
- Strategic-asset-seeking FDI will strengthen the I-specific advantages by providing firms with increased agility.

At the industry level, where an industry is as competitive as its supply chain's weakest link, the authors will analyze if the UK's highest performing industries will gain O- and I-specific advantages.

And last at the country level, the authors will analyze if the L-specific advantages of the UK will deteriorate and if the UK's R-specific advantage through increased bilateral economic agreements will mitigate a weakening L-specific advantage of the UK.

The authors wish to gather feedback on the validity of their hypothesis as well as how to select some key determinants and factors to comprehend and measure the phenomenon of reversing economic integration in the UK.

Policy Recommendations

Brexit will have a major impact on FDI in the UK and creates major challenges for the UK to attract FDI, especially in the actual period where the negotiation is taking place, which generates additional economic and political uncertainty.

Our underlying premise is that FDI in the UK is inevitably going to decline throughout the revitalization of all three tenets of the eclectic paradigm. However, O-specific advantage remains a prerequisite for the recovery of the UK economy before it can lead to a significant positive change in the L-specific advantage, as well as the I-specific advantage. Greenfield investments will be

particularly hit hard, while existing foreign investors in the UK and new foreign investors via mergers and acquisitions (M&A) and non-equity form of investment will become more important components in the mix of FDI coming into the UK.

As the UK will strengthen its O-specific advantages, the UK location will need to become more attractive. As such, the UK needs to consider reconfiguring its new investor strategy to focus on the highest potential sectors and markets, put more resources into supporting existing foreign investors, and consider expanding their mandate to encompass M&A and strategic alliances as key pillars of UK FDI strategy.

Given the regional UK diversity, L-specific advantage should take into consideration centralized and local governments in the UK to maintain or increase investment promotion activities, expanding services for existing investors, which is critical to retaining investment and jobs in the UK and ultimately influencing a new I-specific advantage.

Conclusion

Like a thriller, a lot of suspense is keeping the business community waiting for a verdict that has a potential to impact the competitiveness of major industries all over Europe and beyond. The UK aerospace and financial services industries are both examples of what is awaiting to soon unravel and trigger a redistribution of resources through inward and outward FDI.

The wings of Airbus civil aircraft may end up being trimmed and thousands of UK jobs displaced or shredded. Some of the most technologically intense supply chains may no longer be sustainable as their weakest link may be worsened by an unfavorable Brexit outcome. Similarly, the future of the European fighter may be jeopardized.

However, we may hope that the rivalry among Paris, Frankfurt, and Dublin may lead to a stronger EU that is less bureaucratic and more agile.

The UK's ability to form and govern beneficial relationships with other actors, including other non-EU firms and individuals within a firm, may provide the UK economy an opportunity to strengthen its competitiveness at the global level. UK MNEs will be recombining, exchanging, and co-developing idiosyncratic shared resources between its own firms and its new foreign partners leading UK firm's internal resources generate greater "internal rent" (Narula et al. 2017).

The performance of UK firms is at stake and it remains to be seen if the firms' external social capital will free UK firms from the EU bureaucracy of its

institutions and ultimately lead UK MNEs to higher level of competitiveness.

UK firms' O_A and O_I are fully engaged in a spin that is accelerating as the uncertainty between a hard and soft Brexit still hangs above the UK economy. The UK government needs to slow down this "spin" and start working toward providing the strongest O_I to its own MNEs as well as facilitating the reconfiguration of its industry's supply chains' I-specific advantages. The question will remain how much UK R-advantages (Dunning 2002, 2003, 2004) will bring back the UK economy to its golden age.

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