BOOK REVIEW


For more than two decades, the eclectic OLI paradigm developed by John Dunning has provided a unifying framework for research on multinational enterprises. Numerous scholars, including John Dunning himself, have continuously extended it to analyze new research questions emerging with new forms of international business and with increased globalization.

‘International Business and the Eclectic Paradigm’ aims to reassess the contributions of the paradigm to the development of international business research, and its suitability for contemporary research agendas. How can it be adapted to analyze new research questions, and how does it relate to newer developments of theories applied in the international business field? John Cantwell and Rajneesh Narula brought together an impressive group of scholars to these issues. Ram Mudambi reviews their book, and thus reflects over the perspectives for the OLI paradigm within international business research.

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International business and the eclectic paradigm: developing the OLI framework

John Cantwell and Rajneesh Narula
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The core theory in the area of international business (IB) deals with the analysis of the multinational enterprise (MNE). The ‘University of Reading’ school is associated with the development of much of this theory. The Reading school is based on two complementary analyses that were originally published in the 1970s – the ‘eclectic paradigm’ proposed by Dunning and the transactions cost approach developed by Buckley and Casson. Dunning’s objective was to develop a broad and encompassing view of the MNE, while Buckley and Casson were more interested in developing a deep (and technical) understanding of the working of such firms. Both analyses have stood the test of time and the Reading school (two of whose members are editors of the present volume) continues to thrive.

Dunning’s eclectic paradigm offers a unifying framework for determining the extent and pattern of foreign owned activities. It posits that multinational activities are driven by three sets of advantages, namely ownership, location and internalization (OLI) advantages. It is the configuration of these sets of advantages that either encourages or discourages a firm from undertaking foreign
activities and becoming an MNE. The encompassing nature of the paradigm may be seen by noting, for example, that a firm’s internalization advantages are largely driven by transaction cost considerations.

The OLI paradigm has proved to be remarkably adaptable and, over the quarter century or so since the publication of Dunning’s seminal contribution in 1977, it has been developed and extended in many directions. Some of these extensions were carried out by Dunning himself, who was frequently one of the first scholars to discern emerging trends in the nature and organization of the MNE. For example, more than a decade before the consultants at McKinsey and Co. discovered orchestration, he wrote that ‘... the MNE is now increasingly assuming the role of an orchestrator of production and transactions within a cluster, or network, of cross-border internal and external relationships, which may or may not involve equity investment, but which are intended to serve its global interests.’ (Dunning, 1988, 327).

One of the reasons for the enduring nature of the OLI paradigm, as noted by the editors of the current volume, is that it was never intended to be just another theory. It was ‘intended to provide an overall analytical framework for empirical investigations which would draw the attention of the analyst to the most important theories for the problem at hand.’ In fact, many of the criticisms of the paradigm stem from misconstruing it to be a theory (e.g., Itaki, 1991), rather than, as Eden puts it in the current volume, ‘a way of looking at the phenomenon of multinational enterprises and their activities’ [italics in original].

When Dunning wrote his original work, manufacturing and trade was the main focus of MNE activity (providing most of the basis for the ‘O’ and ‘L’ aspects) and the ‘make-or-buy’ decision was the main focus of MNE strategy (the main basis of the ‘I’ aspect). Three decades later, most MNE value creation is related, directly or indirectly, to knowledge management, reflecting the transition of OECD economies to a more service-dominated profile. A major source of MNE competitive advantage resides in the value-creating potential of relationships, i.e., critical resources that span its boundaries and are embedded in inter-firm routines and procedures. Both these tectonic shifts in the MNE organization can be analyzed under the ‘big tent’ of the OLI paradigm, as Dunning points out in Chapter 2.

The current volume contains works of theory development as well as theory application, both under the auspices of the overarching OLI paradigm. It provides a welcome assessment of the contribution of the paradigm to IB scholarship, as well as focusing on current developments and extensions. All of these demonstrate yet again the ‘enveloping capacity’ of the OLI as an organizing paradigm for IB research.

The early chapters deal with theory development. The new institutional economics (Maitland and Nicholas – Chapter 3), endogenous growth theory (Ozawa and Castello – Chapter 4), co-evolution theory (Madhok and Phene – Chapter 5), international economics (Tolentino – Chapter 7) can all be fitted within the broad canvas of the paradigm. Unsurprisingly, contributors stress the importance of their particular theories. Two of the chapters aim to reframe the paradigm to address criticisms leveled at it. Guisinger (Chapter 6) attempts to link the paradigm more closely to the environment in which MNEs operate and to their organizational form. Devinney, Midgley and Venaik (Chapter 8) attempt to set up a dynamic framework by unpacking the OLI aspects of the market, the firm, relevant governments and managerial beliefs. However, as suggested by Eden (Chapter 13), while there is room for these approaches under the OLI ‘big tent’, their value would appear in specific applications rather than as extensions at the meso level.

The later chapters deal with issues of application. Benito and Tomassen (Chapter 9) address the question of how OLI advantages relate to resource-based theory, location economics and transaction cost economics. This provides a useful template for linking the paradigm to firm performance. Indeed, whether the paradigm is descriptive or normative has been the subject of debate (Brouthers et al., 1999). There is evidence that OLI advantages do not always generate superior firm performance (Robins et al., 2002). Oxelheim et al. (Chapter 10) focus on disaggregating the MNE’s finance function into its OLI components, which then leads to testable hypotheses regarding the FDI decision. Some cognizance of the theory of internal capital markets in MNEs (Mudambi, 1999) could have strengthened this chapter. Dunning and Wymbs (Chapter 11) use the paradigm to assess the international organization of e-commerce. This chapter gathers a large host of theories from the ‘big tent’ of the OLI paradigm and is able to shed light on the true globalizing potential of e-commerce. Piscitello (Chapter 12) applies the paradigm to undertake an empirical examination of service sector FDI.

In the concluding chapter, Eden provides a magisterial overview of the development of the
OLI paradigm over the last 30 years. As she traces its development, she notes that Dunning himself originally saw it as a theory, albeit an eclectic one, and only later raised it to the meso level by including a multiplicity of theories under the ‘big tent’. The overview provides the reader with a bird’s eye view of the development of the field of international business. This, in itself, demonstrates the impact that the paradigm has had on the field.

As we look to the future, MNEs are beginning in many ways to look eerily like the free-standing companies of the 19th century – companies that leveraged knowledge, financial resources and personal networks across vast geographical distances (Casson, 1994). Modern MNEs in OECD economies are becoming increasingly ‘asset-light’. Research suggests that even the better performing MNEs from the emerging economies in Asia embrace this approach (Hoschka and Livingston, 2002). This trend will dictate the future development of the OLI paradigm.

Ownership issues will increasingly revolve around issues of intangible assets and intellectual property rights (IPR). The governance of IPR will dominate location issues, just as property rights and the rule of law dominated FDI flows over the previous half century. Internalization issues will increasingly relate to managing the risk associated with ever-larger R&D budgets required by a higher technological frontier, as well as reconciling the conflict between the bureaucracy of large MNEs and the creative environment required for knowledge production and use.

The biggest challenge to IB scholars at the turn of the 21st century concerns the increasing divergence between corporate and national interests. Currently about two-thirds of international trade is intra-firm, i.e., it occurs within MNEs. As MNEs increasingly control international economic exchanges, the interests of corporate shareholders and the interests of location bound citizens (and voters) are often in conflict. This suggests that international politics should begin to play a more important role within all the three dimensions of the OLI paradigm. Thus, in the future, as in the past, the paradigm continues to offer a common organizing framework to integrate the study of the MNE. It is difficult to disagree with the editors’ conclusion that the OLI paradigm is alive and well.

References