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First published 2015 by
PALGRAVE MACMILLAN
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Palgrave Macmillan in the US is a division of St Martin’s Press LLC, 175 Fifth Avenue, New York, NY 10010.
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A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data
The eclectic paradigm : a framework for synthesizing and comparing theories of international business from different disciplines or perspectives / edited by John Cantwell with Academy of International Business.
pages cm
Includes index.
Summary: “While originally the eclectic paradigm helped bring together and compare mainly economic theories of International Business (IB), today its greater value is as a framework that has the potential to enable us to relate to one another IB theories derived from ideas taken from different disciplines and constructed at different levels of analysis. To help to promote a greater conversation between those interested in the theoretical explanation of IB activities from various different backgrounds or starting points, this book offers a special Collection of JIBS articles which concern the foundations and the application of the eclectic paradigm. Journal of International Business Studies (JIBS) is an official publication of the Academy of International Business and is the top-ranked journal in the field of international business. The goal of JIBS is to publish insightful, innovative and impactful research on international business. JIBS is multidisciplinary in scope and interdisciplinary in content and methodology. For more information, visit www.jibs.net. Academy of International Business (AIB) is the leading association of scholars and specialists in the field of international business. The leading global community of scholars and researchers for the creation and dissemination of knowledge about international business and policy issues, the AIB transcends the boundaries of single academic disciplines and managerial functions to enhance business education and practice. For more information, visit aib.msu.edu”—Provided by publisher.
HD2755.5.E2435 2015
338.8'801—dc23 2015029071

Typeset by MPS Limited, Chennai, India.
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1
An Introduction to the Eclectic Paradigm as a Meta-Framework for the Cross-Disciplinary Analysis of International Business

John Cantwell

A major aim of this book on the eclectic paradigm is to enable scholars coming to the International Business (IB) field from a cognate discipline, perhaps for the first time, to be able to connect their own way of thinking about IB issues to a framework for IB analysis that is already well established in our field. It is also hoped that this collection of chapters originally published in the *Journal of International Business Studies (JIBS)*, the leading journal in the IB field, will help to remind mainstream IB scholars of how the framework of the eclectic paradigm has emerged and developed, and of the contribution that *JIBS* has played in this development.

As is well known among IB scholars, the eclectic paradigm was first incarnated as the eclectic theory (by John Dunning in 1977), but rather quickly metamorphosed into a paradigm (Dunning, 1988, 2001), or a meta-framework for the conduct of IB analysis and IB concept or theory building. While Dunning had initially been caught up in the enthusiasm of the early days of the genesis of the IB field to suggest a ‘general theory’ of the multinational enterprise (MNE) and the international production that MNEs organize around the world, he soon appreciated that the synthesis he proposed was instead a means by which the various relevant theories of IB could be identified (according to which question was being asked), and then suitably combined or compared as appropriate. The different theories of IB at that time, and subsequently, can be characterized as addressing selected aspects of the ownership (O), location (L) and internalization (I) advantages that are necessary for the emergence, growth and evolution of international production under common control and coordination across borders. Hence, the eclectic paradigm is also known as the OLI paradigm, and it provides a structure for bringing together and applying various kinds of theories of IB (Dunning, 1990).

Thus, the eclectic paradigm distinguishes between influences on IB activities associated with the nationality of ownership (O) or the foreign
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origin of firms engaged in IB, the extent of the internalization (I) of markets across borders which affects the boundaries of the MNE, and the characteristics of the host location(s) (L) in which IB activities are sited. In other words, the eclectic paradigm is essentially about how to appropriately combine issues of firm network-derived and home country inherited capabilities (O), transaction costs (I), and the resources, capabilities and institutions of locations as host production sites (L). This analytical structure has laid a common foundation for a progressive conversation between different perspectives on IB that enables an increasing interchange to be conducted across various streams of research that might otherwise have found it difficult to relate to one another. While originally the eclectic paradigm helped us to bring together and compare mainly economic theories of IB, today its greater value is as a framework that has the potential to enable us to relate to one another IB theories derived from ideas taken from different disciplines and constructed at different levels of analysis. To help promote a greater conversation between those interested in the theoretical explanation of IB activities from various different backgrounds or starting points, we are pleased to offer this special collection of JIBS articles that help to trace out the foundations and the potential applications of the eclectic paradigm.

The origins of the eclectic paradigm

Without yet using the terminology of the eclectic paradigm, in his earlier work Dunning’s (1958, 1970) analytical reasoning about the determinants of international production had been based on explanations of O and L advantages, and accounts of how such O and L factors may interact with one another over time. This focus on theories of O and L advantages was true of most of the pioneering studies that established the IB field in the 1950s and 1960s, including the contributions of others such as Hymer, Kindleberger, Reddaway or Vernon. The center of empirical attention in those years was the growth of US MNE operations in Europe, and the primary concern was most often with explaining aggregate patterns of foreign direct investment (FDI) and their relationship with international trade and the balance of payments. Explanations were provided for the interaction between home country and parent company (O) and host country (L) conditions in driving an expansion of FDI, and as a means of examining the likely impacts on home and host countries as well as on MNEs. While Dunning, Vernon and especially Hymer did theorize about the MNE and the growth of the MNE as a firm, this was generally placed in the wider context of understanding the overall implications of FDI and its likely home and host country effects. Hence, the theory of the firm, such as it was in that early period of theorizing about IB, was seen as part of the study of a wider system of relationships at a country level, and so I advantages were not a prominent part of analysis.
at that time, although they were incorporated in an early form into Hymer's (1960) story (see e.g., Horaguchi and Toyne, 1990).

Most of the criticisms that have been leveled at the eclectic paradigm derive essentially from continuing to treat as if it was a theory in itself, or as if it has been designed to address some specific target category of research questions about IB in the way that an individual theory should do. In this chapter, we will show how instead the eclectic paradigm has proved remarkably flexible in its application as an encompassing or meta-framework to facilitate our capacity to draw on some quite different theories and thus to answer the very diverse range of IB research questions that have been asked, as the focus of attention in the field has shifted over time with changes in the realworld IB environment. In the early days of the IB field in the 1950s and 1960s, the era of post-war growth and the expansion of international trade and investment in North America and Europe, the combination of (theories that reflected) the O and L prongs of what was to become the OLI paradigm were effective in addressing the questions then being asked, which centered on the home and host country determinants and effects of FDI.

Accordingly, in those days analysis was conducted mainly at a country or a cross-industry level, and focused most often on the interaction between groups of firms (at a national level or at an industry level) and countries as home or host to FDI. In this period of IB theory, L advantages were mainly construed at a host country level (although Dunning had some interest in the sub-national regional and the European-wide levels as well), and O advantages were typically thought of as incorporating elements that were non-firm-specific, such as the advantages of US firms due to the benefits of the US institutional environment and its home country business system. Scholars were concerned with the effects of FDI on the balance of payments position of countries and the productivity of domestic industries. Representative of this classical perspective in the IB field were studies such as those of Dunning (1958) or Reddaway (1970) in the UK, of Hufbauer and Adler (1968) or Bergsten, Horst and Moran (1978) in the USA, of Safarian (1969) in Canada, and of Brash (1966) in Australia. The product cycle model of Vernon (1966) and Hirsch (1967) also represented a particular explanation of the progressive interaction between the O advantages of US-owned firms and the L advantages of host European locations that was especially designed for the context of the growth of US FDI in Europe in the 1950s and 1960s (see Dunning and Cantwell, 1982, and Cantwell, 1989).

The O and L constructs used in the eclectic paradigm are best formulated in a dynamic and evolutionary manner, as befits their origins in an era in which scholars were primarily concerned with the transformative effects on economies and societies of the growth of FDI and the associated emergence and evolution of MNEs. O advantages refer to capabilities that are generated by a firm or within the business network that it controls and orchestrates
An Introduction to the Eclectic Paradigm

(including abroad), or capabilities that derive from its home country origins. This concept of capability generation should be understood from a process-based perspective, meaning that the relevant capabilities must be continuously created and recreated in a process over time. The competitive process never stands still. L advantages represent the advantages to production (by any active firm) in a host location, which enhance the degree of innovative and entrepreneurial dynamism in an area that facilitates the generation of and access to location-specific capabilities in the host environment. Explained this way, it is apparent that O and L advantages co-evolve with one another. This continuous interaction between O and L considerations has led some scholars that take a comparative static outcome-based perspective on IB issues (rather than a holistic evolutionary process-based view) to suggest that O and L are conceptually indistinct and over determined, since over time O and L factors mutually influence each other. However, this interdependence is precisely why we need a broad analytical framework that depicts the key elements of the overall structure of the complex evolving system of IB activity as it develops and changes through historical time.

It also follows that the conceptual boundaries are placed differently in the eclectic paradigm compared to Rugman and Verbeke’s (1992) subsequent framework of firm-specific advantages (FSAs) and country-specific advantages (CSAs), which latter typology was designed for the narrower purpose of the more specific subject area of the international strategic management of the MNE. As the internal advantages of a particular enterprise or MNE, FSAs are just one component of the O advantages comprised of the internal and external capabilities accessible by an IB network, or which capabilities are held in the aggregate among some collective group of firms. L advantages incorporate not just host country CSAs, but also the geographic advantages of sub-national host clusters or provincial areas or global city regions, and the advantages as host sites of supra-national regions (which Rugman and Verbeke have also discussed at length in their assessment that MNEs may have regional rather than global structures, but this strand of work lies outside their FSA-CSA framework). Nor is the eclectic paradigm confined to the perspective of outward FDI (as misleadingly suggested by Rugman, 2010). Outward and inward FDI are obviously two sides of the same coin, and O advantages reflect the outward FDI side of that coin while L advantages take up the inward FDI side. The eclectic paradigm is equally applicable to an analysis of either outward or inward FDI, and more to the point it pertains to the processes of interaction between the two. We can just as well ask questions about the firms of a given home country investing in multiple international locations (outward FDI), as we can ask about a given location as host to incoming firms from multiple different countries of origin (inward FDI).

In the remainder of this Introduction we will see how the eclectic paradigm has been successfully developed and adapted to the changes in scholarly interest that have come about with some substantial shifts in the IB
environment since the 1960s. A key reason why the eclectic paradigm has retained and indeed enhanced its relevance is that changes in the complex system of IB activities are not wholly revolutionary changes that have simply overthrown and displaced or eliminated what went before. Rather they are evolutionary changes that have built upon earlier characteristics but reshaped those enduring aspects through creating a new synthesis that has embodied the old IB features within a new and more complex form. This type of continuous transformation or cumulative process of path-dependent change in the nature of IB activities can only be fully understood and appreciated at a system-wide level. Following the global political economy orientation of much of the early IB research from the late 1950s to the early 1970s, from the mid-1970s we moved into the age of the theory of the firm in IB scholarship. Then from the 1980s we experienced the age of international asset-seeking or knowledge-seeking strategies in a world of knowledge-driven capitalism. From the 1990s onwards we have seen an age of more open and informal IB networks, or what Dunning (1995) termed alliance capitalism. This most recent change was to lead to a fundamental change in the nature of the leading actor in IB activity itself, namely the MNE. Each of these real-world changes has led to some consequent refinements in the way in which we think about and apply the concepts of O, L and I advantages to IB.

The age of the powerful hierarchical large firm, and rising industrial concentration

One strand of IB literature in the 1960s had already been cast at the firm level. The most notable contribution in this respect was that of Hymer (1960), who asked the question of why some established national firms move abroad once they have attained a certain share of the domestic market in their industry. As is well known and on which there is by now a most extensive literature (see e.g. Ietto-Gillies, 2012), Hymer's primary answer to this question was the pursuit of market power by individual firms, repeating abroad a process of colluding with selected others and building a dominant market position in their own right just as they had achieved initially at home. Hymer was writing in an era when it was the conventional wisdom that large firms were efficient organizers of production systems, which enterprises were thus liable to become ever more economically powerful and to be responsible for a gradual but steady increase in industrial concentration. Galbraith's (1967) vision of the new industrial state, in which the administrative planning of large firms displaced the earlier market coordination of activities conducted through the price mechanism was characteristic of the tenor of this period. Meanwhile a new generation of organization theorists, most notably Chandler and Williamson, used evidence from business history as well from contemporary business contexts to explain
the evolution of more efficient structures of managerial hierarchies in the large firm, from a unitary form (U-form) to a multidivisional (or M-form) structure (Chandler and Redlich, 1961, Chandler, 1962, 1977, Williamson, 1964, 1971). In Chandler’s vision the more successful international experiences of capitalist growth in the twentieth century, and especially of course the success of American capitalism, were grounded on the organizational or administrative effectiveness of the kinds of managerial coordination that could be attained in large firms. This he termed the role of the ‘visible hand’ in contrast to Adam Smith’s famous reference to the ‘invisible hand’ of market coordination.

Hymer incorporated much of this received intellectual wisdom of his time into his accounts of IB expansion (see Cantwell and Zhang, 2009). While his main line of argument focused on the exercise of market power by MNEs in their final product markets reaching across national boundaries, as a supplementary rationale Hymer (1960) contended that under conditions of market imperfections (which of course he believed to be the norm) the firm may substitute itself for or internalize intermediate product markets. He elaborated upon this aspect of his discussion more extensively in a subsequent paper (Hymer, 1968). Dunning was influenced by Hymer in the early 1970s, and so he too began to increasingly address similar firm level questions about the nature of the MNE (see especially Dunning, 1973). Indeed, this was part of a wider trend in IB scholarship at that time, as the focus of attention shifted from the country effects of FDI to firm or MNE level issues. This would lead in the mid-1970s to the explicit formulation of the general framework for the analysis of IB provided by the eclectic paradigm, incorporating the I component of the triumvirate of OLI factors alongside the longer established O and L elements (Dunning, 1977). Dunning first became aware of the concept of internalization from the work of McManus (1972) (see Dunning, 2001), who provided the first fully fledged articulation of this idea in general circulation, since Hymer’s (1968) article was not as yet widely known. The principle that the MNE exists because under certain conditions it can reduce transaction costs by internalizing intermediate product markets was made fashionable in the IB field by Buckley and Casson (1976).\footnote{In analyses such as those of Buckley and Casson that focused on internalization as such, O and L considerations were generally treated as fixed or exogenous, or in the case of O advantages they were occasionally regarded as mere reflections of I, as capabilities that arise from the process of internalization of markets by firms, which implies a highly restrictive view of how social or organizational capabilities emerge and evolve in practice. Instead, by incorporating the governance mode issue into the more general framework of the eclectic paradigm, Dunning never lost sight of the wider agenda for IB studies beyond the more specific question of the role of the MNE and the determinants of the boundaries of the firm. Part of that wider
agenda has been to examine the interaction (or co-evolution) of MNEs with other organizations and with their institutional environment (see Cantwell, Dunning and Lundan, 2010). In other words, the aspiration engendered for the IB field by the eclectic paradigm is to gain a better understanding of the role of IB in the variety of complex social systems that are observed internationally, which systems are evolving continuously, and within which firms and markets are themselves component parts of wider social structures.

The debate over whether O advantages are ‘necessary’ for MNEs partly reflected this difference in perspective – the theory of the firm or the MNE as the defining feature of the subject area, or instead a more general framework for relating key theories of IB and its interaction with the wider environment in which it operates. That this debate has continued to resurface in the IB literature from time to time since the original exchanges is a curiosity (see Cantwell, 2000, for a summary and a discussion of the earlier debate, and how it proceeded at cross-purposes as the questions being asked were different). In the management or business strategy field most scholars have long since accepted that there is a role both for theories that relate to O advantages (capabilities) in learning and competitiveness and for theories connected to I advantages (transaction cost issues) in the efficiency of exchange arrangements. It is unfortunate that in the IB field a continuing undercurrent of scholarship has persisted that has treated these two approaches as mutually exclusive alternatives. A few economic theorists still contend that a transaction cost account of the existence of the MNE renders redundant reference to firm capabilities in their capacity as O advantages or competitive advantages (see e.g. Itaki, 1991, Hennart, 2009, Hashai and Buckley, 2014), while in response some trained more in sociology have claimed that capability-based (social group) explanations of the boundaries of the firm make reference to transaction cost factors unnecessary (see e.g. Kogut and Zander, 1993, 2003). However, most contemporary global strategy scholars feel entirely happy when capabilities (competitive advantages or competencies) and transaction cost dimensions are each accorded their rightful place in accounting for different but complementary aspects of firm behavior. As Penrose once remarked, the conventional theory of the firm as an efficient coordinator of exchange relationships and the evolutionary theory of the growth of the firm as a device for innovation and competitive transformation can happily co-exist, ‘so long as it cultivates its garden and we cultivate ours’ (Penrose, 1959, 10). Thus, the eclectic paradigm not only reaches beyond the firm or the MNE in providing a framework for the analysis of a wider system of IB relationships and actors (beyond the domain of business strategy or the theory of the firm), but it also reflects both the value adding or innovative aspects of firms as producers which require relevant capabilities (O advantages) as well as the exchange or coordinating aspects of firm activities (I advantages) (Dunning, 2003).
The age of the knowledge-driven global economy

Dunning had rightly concluded that transaction cost (I) considerations best explain the boundaries of the firm at any given time, while the generation of capabilities (O) in the parent company or in its IB networks better explain the evolutionary paths of growth of firms over time (Dunning and Lundan, 2008). This distinction became central in the application of the eclectic paradigm to the next phase of IB development in the real world. The growth of US FDI in Europe in the 1950s and 1960s that Hymer, Vernon and others had been concerned to explain was market-seeking in character. This had been the fastest growing category of FDI for most of the twentieth century, supplementing and then surpassing in magnitude the longer established form of natural resource-seeking FDI. This helps to account for Hymer’s emphasis on the relationship between the MNE and its final product markets. From the 1960s through to the mid-1980s many studies of the MNE focused on what was termed ‘alternative modes of market servicing’, often implicitly assuming a local market-oriented form of MNE activity. Indeed, this theme remains important in the entry mode stream of IB literature through to the present day (Hennart and Slangen, 2015). However, as MNEs came increasingly to consider how to internationally integrate their dispersed operations, by the late 1980s onwards attention turned to regionally or globally integrated MNE structures, and to asset-seeking as well as asset-exploiting motives for FDI.

The distinction between asset-seeking and asset-exploiting motives for FDI at the MNE parent company or corporate group level corresponded to what we called competence-creating and competence-exploiting types of activity at the subsidiary level (Cantwell and Mudambi, 2005). Competence-exploiting activities utilize some capabilities developed by an MNE parent company in its home country, and adapt them for the purposes of exploiting them in some new foreign context. Typically, the capabilities inherited from the parent company need adapting owing to the specificities of local extraction or climate (in the case of natural resource-seeking FDI) or the requirements of local consumers or regulators (in the case of local market-seeking FDI). The organizational counterpart of a focus on competence-exploiting endeavors is a subsidiary that becomes a miniature replica of its parent, within a corporate hierarchy of the kind described by Hymer (1972) or Chandler (1977). Conversely, competence-creating subsidiary activities generate some new domain of capabilities for the corporate group, not previously included within the core areas of specialization of the parent company, but which rather draw upon the knowledge and innovation base of the host site. Competence-creating initiatives require a greater degree of subsidiary autonomy, and an embeddedness in host country networks. At the same time, a knowledge-seeking MNE strategy requires core corporate group knowledge to be combined with the expertise that lies behind the new lines
of application being opened up by the competence-creating subsidiary, which therefore also requires a closer and more reciprocal relationship with its parent company (Cantwell and Piscitello, 2014). So MNE structures have been transformed in the knowledge-driven and globally interconnected information age to facilitate a more intense interaction between O and L advantages (Cantwell and Narula, 2003).

The eclectic paradigm has proven to be ideally adaptable for the purpose of capturing the observed processes of change in the real world of IB, precisely because it is not wedded to any particular theory or discipline-based branch of theory, and so it helps us identify which avenues of theoretical exploration are needed to help explain emergent new contexts for IB or new trends in IB that could not have been easily predicted in advance. Critics of the paradigm have generally missed the mark since they either treat the framework as if it were itself a theory, or relatedly they suppose that some received theoretical interpretation that had used the categories of the paradigm to explain the characteristics of IB in a given era or in a specific context are from then on set in stone as the only way in which these categories can be interpreted and applied. If this were true, then as IB evolved over time the paradigm would indeed eventually be rendered redundant, as a kind of relic of a bygone era, at some stage washed up on the shore. Instead, the eclectic paradigm is an analytical tool that enables us to appreciate which elements of our IB theories continue to be relevant and can be further developed and extended; which elements need to be dropped or re-thought or subsumed within others as they reflect an increasingly dated perspective on the subject; and which novel aspects of IB require new theoretical attention or new ways of thinking to improve our explanation of them. Of course in principle we could also achieve these goals without reference to the systemic structure of the eclectic paradigm, but by preserving these OLI categories in the analysis of different contexts it becomes much easier to understand the nature of both theoretical continuity and change, and to appreciate how the incorporation of insights from new disciplines in which scholars become interested in IB issues (perhaps as the questions raised come closer to their expertise) can be combined coherently with our longer established IB conceptualizations.

In the case of the emergence of the information age with its knowledge-driven form of capitalism, and the accompanying trend in IB towards knowledge-seeking FDI and more locationally dispersed competence-creating activities, the implication is a change in the nature of O and L advantages, and in the greater extent of their mutual interaction. O advantages, the capabilities that firms develop or access through their home country and IB networks, evolve increasingly through a capacity to make knowledge-based international connections between locations that represent key competence-creating nodes in what have become global value chains. What is more, while in Hymer's original interpretation the O advantages of MNEs were
assessed relative to domestic firms in each host country in a multi-domestic structure that suited the period of early MNE growth and market-seeking FDI he was describing. O advantages must now be understood as the key competencies of a focal MNE relative to the other major MNEs present in the same industry. This recognizes that competition has now become international (see Cantwell, 2000 for a further discussion).

Critics of the eclectic paradigm who do not appreciate that it is intended as a general framework, the application of which is intentionally shifted as the context changes so as to theorize about the change, have sometimes knocked down a straw man version of O advantages as an offset to the liabilities of foreignness in a host country market, which understanding of O advantages was specific to an earlier era of market-seeking FDI. This narrow interpretation of O advantages is often associated with the mistaken view that they must necessarily give rise to absolute cost advantages over at least some category of competitors, while all that is necessary for O advantages is that firms hold differentiated capabilities which provide them with relative strengths or specialized areas of competencies compared to their competitors. One particular variant on the theme of an overly narrow interpretation of O advantages inherited from the earlier era of IB growth (and hence the context-specific lines of argument of the earliest IB literature) has been a supposition that O advantages must be developed only prior to the internationalization of the firm (a conceptualization that was relevant in the application of the paradigm to the question of the conditions under which firms first ventured abroad in the market-seeking period). When instead we consider IB growth in a wider context it becomes immediately apparent that O advantages need to be understood as being in a continual process of evolution, in which initial capabilities are consolidated, extended and built upon in IB networks that connect the parent company of an MNE to a range of other actors. Rather like with the strand of internalization literature that argued that O advantages were not necessary for the MNE, the implicit alternative of a capability-less firm (whether prior to internationalization or otherwise) seems detached from any real-world business and market reality. In market-based economies the continued survival of any firm or location depends on its capacity to build and sustain competitive capabilities (see Cantwell, 2005, for an elaboration on the nature of competitiveness in different settings).

One particular version of the supposedly restricted character of O advantages in the eclectic paradigm that has become fashionable is the notion that the growth of emerging market MNEs (EMNEs) is sufficiently distinct to require a different analytical framework, since their pre-internationalization advantages are likely to be different and weaker (or they are even held to be non-existent in the more extreme accounts). Actually, this contention is hardly new, and it was thoroughly examined and countered in connection with what were once termed ‘Third World multinationals’ years ago (see
especially Lall, 1983 and Tolentino, 1993). More recently, this claim has resurfaced among those that have advocated a linkage, leverage and learning (LLL) model for the emergence and growth of EMNEs, called ‘Dragon multinationals’ (Mathews, 2006). At one level it is very difficult for me to object to the LLL framework, since I have long argued that MNEs in general sustain innovation in their international networks through precisely these three LLL mechanisms (see Cantwell, 1989). However, this is true of the contemporary international dispersion of knowledge creation and innovation in IB in general, and not just peculiarly applicable to the EMNE experience (see Cantwell and Zhang, 2009). Moreover, as argued already, this internationally connected capability building approach to IB in the knowledge-driven global economy is entirely consistent with the appropriate application of the eclectic paradigm, and so the LLL model is in no sense an alternative to the eclectic paradigm. What is true is that the encouragement of knowledge-seeking forms of FDI in the new international environment has created an opportunity especially for recently emerged EMNEs.

The ‘new age’ of more open and informal business networks

The latest major shift of attention in the IB field, which is still in process, is taking us away from our focus since the 1970s on the firm as such and examining IB as a more open business network structure, which comprises both intra-firm and inter-organizational elements (as anticipated by Dunning, 1995; see also Forsgren, Holm and Johanson, 2005). Today, firms often exercise control over much wider IB networks in forms that are commonly known as global production networks or global value chains, in which substantial parts of the network or chain are not owned, but are effectively controlled or orchestrated by the flagship firm. This led Dunning to shift away from the traditional definition of the MNE in terms of the ownership of income-generating assets abroad, and towards defining the MNE instead as a firm that takes the lead responsibility for the orchestration of IB networks (see e.g. Dunning and Lundan, 2008). This sphere of control and coordination rather than ownership perspective is not a new view of the scope of the firm, but it is one that has now become central to the conceptualization of IB in the current era, despite raising some obvious empirical challenges as it departs from the customary legal definition of the corporation. While a conventionally hierarchical firm as described by Chandler or Hymer relied for its capacity to coordinate activity on the formal legal authority associated with the ownership of production facilities or the use of employment contracts, within a system of stable organizational structures and relationships; instead, the orchestration of networks whose composition may fluctuate as projects come and go relies on more informal agreements that mutually bind the contributors together due to the reciprocity required as knowledge becomes more complex and interdependent across actors and across space (Cantwell, 2013).
An Introduction to the Eclectic Paradigm

The fragmentation or fine slicing of production systems that have facilitated outsourcing of selected stages of production processes, and an increased geographic dispersion in some of the activities in value chains has also changed the nature of the interaction between firms and locations. Renewed attention in the study of locations (L advantages) in IB scholarship has shifted towards relational networks in business or innovation systems (as argued by Dunning, 1995), which IB research has run in parallel with work on national or regional innovation systems in the innovation studies field. So too we have witnessed a revival in the role of locations as contributors to innovative dynamism through the enhancement with globalization of localized systems of distinctive (specialized) capability formation that can be reinforced and internationally connected by MNEs, especially where their subsidiaries succeed in becoming embedded local insiders (Cantwell, 2009).

While the earliest scholarly IB analysis was set in an era of large hierarchical firms or MNEs and often rising industrial concentration, which was reflected in the terminology of the ‘internalization’ of markets by firms, the current era is instead typically one of ‘externalization’ and more informal inter-organizational networks, at least if the firm continues to be defined by the ownership of assets (see Ietto-Gillies, 2014 and Cantwell, 2014b for a further discussion). Indeed, although in the process the boundaries between firms has sometimes become blurred, the potential rivalry between newly decentralized poles for innovation in the MNE implies that new boundaries may sometimes now be created within firms (Cantwell, 2013), so that possible conflicts have to be resolved since nodes which hold critical knowledge become more powerful within the firm (Mudambi and Navarra, 2004). The capabilities of large firms or MNEs have increasingly emphasized their competencies for knowledge integration (Adams, Brusoni and Malerba, 2011), and vitally for MNEs their capabilities to combine knowledge acquired from a variety of sources across space. Accordingly, the range of scholarship in the IB field has broadened (or perhaps more accurately, it has now recovered its breadth of interest) beyond the earlier concentration on the firm or the MNE as such to pay greater attention once more to the role of the political, cultural and institutional environment in which the firm operates. The evolutionary view of the MNE as a device for technological accumulation (Cantwell, 1989) remains highly appropriate, but in an era in which the foundations of knowledge itself are ever more globally dispersed, the MNE achieves this by making connections between international knowledge sources that might otherwise appear to be unrelated.

In applying the eclectic paradigm to this new and more complex reality, one convenient way of doing so is to distinguish between O advantages of an asset kind (O_a), O advantages of a transactional kind (O_t) and O advantages of an institutional kind (O_i) (see Dunning and Lundan, 2008 and Lundan, 2010). Of these, O_a denote the capacity to generate tangible and intangible assets including technology, O_t reflect the capacity to coordinate
the IB network effectively and coherently (sometimes referred to as the advantages of multinationality as such), and $O_i$ represent the formal and informal institutions that enable firms and their IB networks to create and sustain trust and legitimacy in the wider political and social environment (or in other words which improve the goodness of fit with the external institutional environment). This sub-division of $O$ advantages into categories can help us to appreciate various aspects of the way in which the eclectic paradigm has been applied in response to changes that have occurred in the IB environment over the past 50 years or so. With reference to our earlier discussion and when thinking of an evolutionary IB process through time, the distinction between $O_a$ on the one hand and $O_t$ and $O_i$ on the other hand can be mapped to the distinction between longer established advantages already held in the MNE or inherited from its home country ($O_a$), and the cumulative reinforcement and extension (or for that matter the possible erosion) of those advantages through the capacity to coordinate their interaction with discovery and change in the IB network and in the environments in which it operates ($O_t$ and $O_i$). This same categorization can also be mapped more or less precisely to the distinction in evolutionary economics between physical technology ($O_a$) and social technology ($O_t$ and $O_i$) (Nelson and Sampat, 2001 and Nelson, 2003). The latter category of social technology might be further sub-divided into the traditional economic or transaction-specific elements of business coordination ($O_t$) and the wider social or psychological aspects ($O_i$). Accordingly, Lundan (2010) treats this distinction as the difference between the coordination of activities through relationships with other market-engaged actors ($O_t$) and through non-market relationships ($O_i$).

We can think of the conceptual development involved in the changing application of the eclectic paradigm as the IB environment has changed as akin to a Hegelian dialectical process. In the earliest phase IB analysis was situated mainly at the country or industry level (thesis), which was followed by a phase in which attention was focused on the analysis of the firm or the MNE (antithesis), then leading to the currently emergent phase in which the interests of IB scholars are turning to the analysis of progressive interactions between MNEs and host locations in an evolutionary process that reflects a more complex reality at a higher level (synthesis). So we come ‘back to the future’ (Dunning, 2010), in which $O$, $L$ and $I$ factors remain central in IB, but now being seen in a new light and as a means of understanding the evolution of the MNE itself into a new organizational form, and as a means of appreciating its wider network structures and the relationship with its environment, rather than for the purpose of studying the firm per se as was once done previously. In this respect, although the eclectic paradigm was first articulated in the earlier eras of IB research, as a systemic or holistic framework it has now really come of age – this is surely its time! It now requires the bringing together of interdisciplinary contributions, so as to
better contextualize the more specific individual theories that derived from a single discipline, if they are applied in relative isolation.

The story of the changing forms of application of the eclectic paradigm by IB scholars (including Dunning) is one that reflects a continuous evolution in the MNE itself and in the steadily more networked IB environment, which has required an increasingly complex conceptualization of these IB phenomena. Hegel provided the philosophical foundation for the understanding that social evolution consists of three elements which co-evolve with one another: the objective material conditions of a society, the nature of social organization (the formal and informal institutions corresponding to its culture or ‘spirit’), and our analytical conceptualization of the world (our knowledge, including philosophy). In the latter case of our conceptualization of phenomena, a core concept such as freedom itself evolves and its meaning becomes more complex over time as society itself changes. With reference to the eclectic paradigm in the analysis of IB the concept of O advantages has evolved to a more complex form as the nature of the associated capabilities has changed, and as the ways in which they are most commonly developed, acquired or accessed have changed too (see Eden and Dai, 2010, for an account of this historical evolution in the construct of O advantages in the eclectic paradigm). However, while this implies development or evolution in the way in which the constructs of the eclectic paradigm are applied or interpreted, this should not be taken to mean that there are different versions of the eclectic paradigm. There is just one eclectic paradigm, which is capable of being adapted when it is applied to a variety of real-world IB circumstances.

The eclectic paradigm in the new era

In the new era of the information age, O advantages entail the capabilities to orchestrate IB networks so as to generate a more powerful and a more sustainable stream of innovation, and to cultivate new combinations of knowledge especially at those nodes in global value chains in which the greatest value creation can be achieved. This conceptualization of O advantages is akin to the notion of dynamic capabilities when translated into the IB context, as opposed to the more widely prevalent ordinary capabilities (Teece, 2014 and Cantwell, 2014a). In some ways the terminology of O advantages has become potentially misleading today, since apart from the conventional mistake of interpreting O as a reference to the ‘ownership of assets’ as opposed to the ‘nationality of ownership’ (which is the meaning intended, implying the incorporation of advantages inherited by any firm originating from a given home country, and which might just have well have been called the ‘nationality of origin’ of the firm that exercises control of productive facilities across borders), the capabilities of flagship firms are generated in IB networks that are increasingly organizationally and
geographically dispersed. This implies the need to recognize a re-definition of the primary agent of IB activities, the MNE. Relatedly, I advantages now entail not so much the choice between alternative modes of coordinating activities (firms vs markets vs alliances, etc.), as in the conventional application of transaction cost economics, but more how complementary modes can be combined or orchestrated to their mutual benefit in what are becoming more open, more informal and more flexible IB network structures. Likewise, L advantages entail not just clustered interrelationships in a locality (which might be termed location-bound advantages or the capabilities of a local innovation or business system), but the capacity of the location for complementary interconnectedness with other such locations elsewhere in the world. The eclectic paradigm provides us with a framework for analyzing these kinds of systemic IB network structures.

Given these changes in the IB environment that the eclectic paradigm can help us to better understand and appreciate, and given that the real-world environment is in any event in a process of continual change, the eclectic paradigm needs to remain alive and adaptable as an explanatory framework for facilitating the conceptualization of IB and its effects. The normal scholarly requirement for intellectual openness and exchange therefore becomes even more vital in this case. The notion that the changing application of the eclectic paradigm as IB itself becomes more complex calls for a ‘gatekeeper’ of the paradigm (as suggested by Narula, 2010) thus seems especially inappropriate. In intellectual development the ‘gatekeeper’ is the real world, and the community of scholars that analyzes it. The determination of whether suggested applications of the eclectic paradigm find acceptance is simply the extent to which they reflect and capture reality well enough to become widely adopted in IB scholarship. Although Dunning was sometimes held by his critics to be a ‘gatekeeper’ of the eclectic paradigm he never saw himself this way; and it is clear that not all of the variations that even Dunning himself tentatively proposed at one time or another found useful life beyond a given immediate application and so were retained and picked up by IB researchers for other purposes too (see Eden and Dai, 2010). It is certainly true that one of Dunning’s greatest strengths was as an intellectual synthesizer. It was his genius to recognize ahead of time trends in the real world and trends in scholarship about the world, which he was invariably able to summarize brilliantly, as evidenced by the tool of the eclectic paradigm. Yet ultimately Dunning’s syntheses were a reflection of a wider body of thinking and research in the IB and related scholarly community, without which his own contributions would never have resonated as well as they did. Without Dunning to help us any more it may take us longer as a community to formulate new applications of the eclectic paradigm that become widely perceived as useful theoretical interpretations of emergent IB processes, but we can be confident that we will still get there. We can be sure that Dunning would not have wanted us to abandon what is probably
his most important and enduring intellectual legacy just because he is no longer able to contribute to our continuing discussion of it.

We should also not be tempted by calls to collapse the categories of the eclectic paradigm into the superficially simpler FSA/CSA framework (as advocated by Rugman, 2010). If our only objective were merely to extend the conventional approaches of strategic management scholars to take account of some IB issues from within their own existing way of thinking about their subject, which subject area is focused on the determinants of the competitive performance of individual firms, then the FSA/CSA framework might be fit for this relatively narrow purpose. If all we are hoping to achieve is to extend the notion of the firm to incorporate the additional complications entailed by the special case of an MNE that operates across national boundaries, then it may be adequate to translate O advantages to mean the capabilities that the firm or its immediate network generates (FSAs), and to adapt L advantages to refer to the characteristics of any of the countries in which the firm is active (CSAs). However, for the IB field as a whole this purely international strategy-based perspective is quite inadequate. In IB studies the different role played by the home country, as opposed to the host country, is essential to so many of our received understandings. This key element of IB theorizing disappears in the FSA/CSA typology. Instead, this home-host distinction is centrally embedded in the eclectic paradigm, since O advantages incorporate capabilities inherited by the firm by virtue of its home country origins when applied in the context of competition in international markets, while L advantages refer only to host locations other than the home country of the firm.

In the IB field we quite often need to group firms and to consider them collectively in either home country groupings (e.g. US-owned firms operating abroad) or host location groupings (e.g. firms of different nationalities of ownership present in some industry in the West Midlands in the UK). The meanings we attach to such home country or host location groupings are quite different and distinctive, and so the interactions between O and L advantages analyzed by IB scholars are more complex than a simple division between firms and countries would allow for. To provide a few illustrations, the significance of which should be immediately apparent to most IB scholars, the relationship between governments and firms tends to be entirely different in home and host countries, as stressed in the IB research of political scientists. Home country governments are often perceived as bargaining in international fora on behalf of the business interests of the leading firms originating from the country, while host country governments are generally believed to bargain with (or to take measures to attract) incoming foreign-owned firms with respect to the conditions for their local presence. An extreme special case occurs when IB research focuses on the international operations of state-owned enterprises (see the *JIBS* special issue 45(8), 2014, on Governments as owners: globalizing state-owned enterprises), in
which home and host country governments may come to negotiate with one another directly over key corporate decisions. Likewise, the sub-fields within IB of cross-cultural management and international human resource management rely for many of their basic ideas on a separate classification of home country nationals and host country nationals within MNEs, and the inferences that follow for example, for the capacity to transfer knowledge internationally. Even within the strategy field itself, the distinction between parent company and subsidiaries or sub-units has given rise to a concept of competence-creating activity that is defined by comparing and contrasting the capabilities generated in a host location with those developed in the home country (see Cantwell and Piscitello, 2014).

The remainder of this book presents a selection of JIBS articles that are organized as follows. The next five chapters of this volume (Chapters 2 through 6) set out in greater detail the development of the eclectic paradigm itself as a general framework for IB analysis, while the closing three chapters (Chapters 7 through 9) present some specific recent developments in IB theory that are already influencing the way in which IB scholars think about and interpret the OLI factors in the current IB environment. In Chapter 2, Dunning (1980) formulates the original version of what was then still called the eclectic theory, in which he focuses on the interplay of O and L advantages. Then in Chapter 3, Dunning (1988) elaborates on what by that time had become the more mature paradigm, in which he examines the connections between O advantages and the strategic motivations of MNEs for FDI. Boddewyn (1988) contributes Chapter 4, in which he shows how the wider political dimensions of IB can be integrated into the interpretation of the eclectic paradigm. A further article by Dunning (1995), which constitutes Chapter 5, discusses how the eclectic paradigm can be adapted to the then emergent forms of knowledge-driven and alliance-based capitalism, in which he considers how to interpret the rising significance of inter-organizational relationships, and in particular their interaction with the building of appropriate locational portfolios of different host business environments. In Chapter 6, Brouthers, Brouthers and Werner (1999) demonstrate how the eclectic paradigm can equally well frame both the analysis of the objective reality of received patterns of IB activities, and the strategies and intentions of the firms and actors that are engaged in these activities.

The final three chapters are not about the eclectic paradigm as such, but they illustrate the key changes in IB itself and in our theorizing about IB that are reflected in the latest applications or suggested interpretations of the eclectic paradigm described above. In Chapter 7, Mudambi and Navarra (2004) examine the implications for IB (and implicitly for each of the O, L and I factors) of the changing nature of the MNE as an actor, in terms of the redistribution of power across the more decentralized knowledge-creating nodes of a firm, or as we would say now, its global value chain. The contribution of Cantwell, Dunning and Lundan (2010), which is included as
Chapter 8, appraises the conditions under which MNE activities co-evolve with the institutional environment of a host location over time, which is an increasingly important aspect of the co-evolution of O and L advantages. Finally, in Chapter 9, Teece (2014) discusses his concept of dynamic capabilities, already well known in the strategy field, can influence our received scholarly thinking in IB, especially with regard to the interpretation of I and O considerations, but also affects our understanding of L advantages.

To briefly conclude, the meta-framework of the eclectic paradigm in the IB field is needed today more than ever to facilitate and enhance a growing conversation across disciplines that are already interested in, or potentially germane to, the IB field. We have argued that the eclectic paradigm provides the bird’s eye vision needed in the IB field to help us address questions about the longer term historical development of IB, and how it has changed and will continue to change from one era to another. The appraisal of these kinds of longer term social evolution require a systemic or holistic approach, which in the case of IB research can call upon the eclectic paradigm as an essential guide.

Notes

1. It is a somewhat amusing irony that Buckley and Casson (2003) complain that in contrast to the period in which they did their pioneering work in the 1970s, at which time IB scholars were centrally concerned with issues of global political economy, by the 2000s IB researchers would rather influence the corporate board room than they would the office of the president or prime minister. The irony is that Buckley and Casson’s 1976 book was a major catalyst in shifting attention in the IB field away from the wider social and political impacts of IB and towards the conduct of management within the firm. As we will explain, in fact interest among IB scholars in the wider institutional environment has since resurged, as the IB field has become more multi- and inter-disciplinary in character, and thereby moved beyond an almost exclusive emphasis on the (economic) theory of the firm as such. To quote Shakespeare, as John Dunning used to be fond of doing, ‘The lady doth protest too much, methinks’ (spoken by Queen Gertrude in Hamlet).

2. The subtext of this plot is the strict application of a discipline-specific logic, bounded by the key underlying assumptions of the prevailing paradigm that governs most research within a discipline. Neoclassically trained economists assert the ‘sufficiency’ of their theories (and by implication the lack of relevance of ideas found in other social and behavioral sciences) for the purpose of answering their own chosen questions, to which other social scientists retaliate with assertions of the equivalent completeness of their theories too. In other words, each celebrates the logically closed nature of their own theory, and thereby also the circular nature of their argument, as they demonstrate the validity of the ceteris paribus assumptions with which they began. As Buckley and Casson (2003) put it, once a question is formulated in a sufficiently precise (and hence narrow) fashion, the answer usually becomes obvious. Yet while this kind of focused, specialized kind of knowledge is best developed within a discipline, answering more challenging questions requires more complex forms of knowledge that arise from a more holistic analysis of a broader system, which is best developed by drawing upon relevant insights from different disciplines.
3. This runs contrary to the claim of Narula (2010) that the notion of firm or organizational capabilities developed in evolutionary economics and which has built upon Nelson and Winter (1982) cannot be classified into asset-type and transaction-type O advantages. More widely, there is a very active debate in evolutionary economics about the need for the development of a meta-framework that would coherently combine and organize the wide multi-disciplinary range of research contributions that are found in innovation studies like in IB, and which would become a counterpart to the eclectic paradigm in the IB field in this respect.

One such proposed framework is that of Generalized Darwinism (Hodgson and Knudsen, 2010), which contends that there are some generic high level features of all evolutionary social processes, in much the way in which we have argued that the categories of the eclectic paradigm represent the generic high level or systemic features of evolutionary IB processes.

4. Consider for example, the evolution in the meaning of freedom from the slave-owning society in the early days of the USA following the declaration of independence, to the meaning of freedom in the USA today.

5. The eclectic paradigm, as described in this chapter, corresponds to what Narula (2010) calls the ‘eclectic paradigm lite’. Yet extensions of the OLI framework such as the sub-division of O advantages into O_a, O_t, and O_i simply represent particular applications of the paradigm for the purposes of analyzing certain IB environments or questions, they do not mean that the basic structure of the paradigm itself has been transformed into a series of new and steadily more unwieldy versions. Therefore, Narula’s (2010) analogy between the original eclectic paradigm lite as a coat hanger and a more recent and complicated version of the paradigm as a Swiss army knife misses the mark. A more accurate analogy might be the emergence of for example, optional add-ons to a motor car for certain purposes, such as a four-wheel drive designed for difficult terrains, or chains used for driving in snow, or sun roofs for driving in hot weather – these all still remain cars and so they all belong to the original common and more general classification, despite their more context-specific differences. I have argued that new and more complex applications of the (same) eclectic paradigm reflect the historical evolution of IB and the IB environment over time.

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