

A Strategic Management Analysis of Ownership Advantages in the Eclectic Paradigm

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Abstract: This paper proposes a new typology of Ownership (O) advantages as a function of their differential managerial implications in established multinational enterprises (MNEs). We argue that the mainstream typology of O advantages proposed in Dunning's eclectic paradigm does not recognize the uniqueness of individual firms. We therefore propose a new typology of O advantages, which distinguishes among four types, based on the geographic source of such advantages and their transferability across borders. Moreover, we acknowledge the importance of resource recombination advantages. Two case examples illustrate the implications of the new typology for established MNEs.

Keywords: FDI; multinational enterprise; MNE; eclectic paradigm; OLI; ownership advantages.

INTRODUCTION

John Dunning first introduced his eclectic paradigm (or OLI model with O, L and I referring to Ownership, Location, and Internalization, respectively) in 1976 (Dunning 2001; Dunning and Lundan 2008a). He refined the model several times over a period spanning three decades. The eclectic paradigm rapidly became one of the dominant analytical frameworks to explain the determinants of foreign direct investment (FDI) and foreign activities of multinational enterprises (MNEs). Intrigued by the productivity differences between the US and UK manufacturing industries in the 1950s, and by the impact of multinational activity on reducing such differences, Dunning ultimately identified ownership advantages, location advantages, and internalization advantages as the keys to explaining the scope, geography, and impacts of MNE activities (Dunning 2001). Given the economic changes in the 1980s and 1990s, e.g., the rapid increase of

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international integration and the rise of knowledge seeking investment, Dunning continued to extend and refine the eclectic paradigm (Dunning 2000), but its major purpose remained explaining "the international production of all firms from a particular country or group of countries" (Dunning 2001, 186).

The OLI model primarily intends to analyze the rise of MNE activity: who internationalizes, where is production located, and how are international activities organized? (Guisinger 2001; Madhok and Phene 2001). However, many established MNEs now have a wide dispersion of their production activities, and the key challenge for them is the strategic management of internal resources embedded in a variety of subsidiaries (Guisinger 2001; Madhok and Phene 2001). Although entry mode choices and location selection are still important, the key challenge facing established MNEs is the need for *resource recombination* across borders (Verbeke 2008) given a set of affiliate locations and entry modes. With the basis of competitive advantage shifting more towards "a firm's ability to create and manage a knowledge portfolio" (Madhok and Phene 2001, 244), recombining extant O advantages has become more complex, especially for established MNEs.

Unfortunately, Dunning's typology of O advantages does not contribute much to understanding resource recombination challenges within established MNEs. Dunning's typology does not recognize the uniqueness of individual firms (Tallman 2004), thereby offering limited analytical power useable by MNE managers. Moreover, the geographic sources of O advantages and their transferability, two elements critical to established MNE strategic management, receive very limited attention in Dunning's typology. Finally, the role of MNE strategic management in resource recombination processes (Verbeke 2008), though addressed in Dunning and Lundan (2008a), is not given in-depth attention.

To remedy the weaknesses of Dunning's eclectic paradigm, in terms of explaining established MNE behavior and providing guidance to senior MNE managers, we propose a new typology of O advantages in the present paper. We select the established MNE as the unit of analysis and argue that Dunning's typology of O advantages (Dunning 1993, 1995, 2006; Dunning and Lundan 2008a) must be revised. The typology must acknowledge both the differential geographic sources of O advantages and the different possible levels of transferability of these advantages. Moreover, we focus on the importance of recombination advantages as the higher order component of O advantages. Our new typology not only reflects the

increasing importance of strategic resource management in MNEs, but also provides a useful classification of critical resource bundles for senior MNE management.

The paper is organized in five parts. In the next section, we briefly review Dunning's typology of O advantages. In the following section, we develop a new typology of O advantages that remedies the weaknesses of the extant typology. The fourth section includes two case examples that demonstrate the usefulness of the new typology. The final section concludes.

DUNNING'S TYPOLOGY OF O ADVANTAGES

The analysis of O advantages in the eclectic paradigm is used mainly to predict or explain which firms will deploy specific activities in a particular foreign market (Dunning 1980). A firm's growth strategy may entail horizontal or vertical integration, or diversification, either domestically or internationally. Because of the additional costs of serving an unfamiliar international market, the firm must possess additional advantages to outweigh such costs in the host country. These additional costs are relative to the home environment and/or relative to domestic firms in the host country. According to Dunning, "the greater the competitive advantages of the investing firms, *relative to those of other firms* – and particularly those domiciled in the country in which they are seeking to make their investments – the more they are likely to be able to engage in, or increase, their foreign production" (Dunning 2000, 164).

In his original description of O advantages, Dunning identified three different types: "(a) those that stem from the exclusive privileged possession of or access to particular income generating assets, (b) those that are normally enjoyed by a branch plant compared with a *de novo* firm, and (c) those that are a consequence of geographical diversification or multinationality *per se*" (Dunning 1988, 2). In the two decades following, however, Dunning's work focused on two generic types: the asset (Oa) and the transaction (Ot) advantages of MNEs (Dunning 1983a, 1983b, 1988). Oa advantages stem from "proprietary ownership of specific assets by MNEs vis-à-vis those possessed by other enterprises," such as proprietary knowledge, scale economies, distribution networks, and credit advantages. These represent the MNE's asset power, which may reduce competition and generate rents (Dunning and Rugman 1985). In contrast, Ot advantages refer to "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 these assets located in different countries" (Dunning 1988, 2-3), thereby leading to improved efficiency.

Taking into account the changing characteristics of the world economy, Dunning continued to re-specify what he viewed as O advantages by including elements related to alliance capitalism (Dunning 1995), the dynamic nature of O advantages (Dunning 2000, 2006), and institutions (Oi) (Dunning and Lundan 2008a, 2008b).

First, on the issue of alliance capitalism, Dunning noted that the world had been moving from hierarchical capitalism towards "alliance, relational, collective, associate and the 'new' capitalism" (Dunning 1995, 466). As a result, it had become necessary – in his mind – to broaden the O advantage concept to include the costs and benefits arising from inter-firm relationships, networks, and strategic alliances. In this extension, some Oa advantages, e.g., proprietary rights of brand ownership and internal work processes, remained unaffected, while some other Oa advantages, such as productive linkages with suppliers resulting from cooperative arrangements, became newly recognized or gained in importance. In the area of Ot advantages, alliance capitalism offered an additional avenue for the MNE to combine its resources with those of other firms.

Second, on the issue of dynamics, Dunning attempted to respond to the criticism that the eclectic paradigm was comparatively static. He recognized the increased importance of FDI undertaken to augment extant O advantages (so-called asset-seeking FDI). Dunning therefore classified O advantages as either static O advantages or dynamic O advantages (Dunning 2000). The former reflect strengths held by the firm at a given point in time, whereas the latter comprise strengths that help the firm to "sustain and *increase* its income generating assets over time" (Dunning 2000, 169).

Third, as a result of paying more attention to both conventional business groups and more contemporary "network" MNEs, Dunning and Lundan (2008b) included the concept of institutional O advantages into the eclectic paradigm. These Oi advantages were defined as "the institutional infrastructure," comprising of "a galaxy of internally generated and externally imposed incentives, regulations and norms" (Dunning and Lundan 2008b, 582). The Oi advantages were viewed not only as the third type of O advantages, in addition to Oa and Ot, but also as a determinant of conventional Oa and Ot advantages. For example, the cross border transfer of institutional practices, such as the internal diffusion of Japanese quality control systems from Japan to the United States, reflects the combination of Oa and Oi.

Finally, in the 2000 update of the eclectic paradigm, Dunning (2000, 168-169) acknowledged the presence of three kinds of O advantages in the

extant literature: "Those relating to the possession and exploitation of monopoly power"; "Those relating to the possession of a bundle of scarce, unique and sustainable resources and capabilities, which essentially reflect the superior technical efficiency of a particular firm relative to those of its competitors"; and "Those relating to the competencies of the managers of firms to identify, evaluate and harness resources and capabilities from throughout the world, and to coordinate these with the existing resources and capabilities under their jurisdiction in a way which best advances the long term interests of the firm."

A CRITIQUE OF THE DUNNING O ADVANTAGE TYPOLOGY

Although Dunning himself provided several versions of his O advantage typology, there is a need to modify this typology in a substantive fashion, irrespective of the version chosen, for it to be useful for strategic management purposes.

First, Dunning adopted a reductionist approach in the eclectic paradigm, i.e., O, L, and I advantages were used as envelope concepts to explain MNE activities (Verbeke 2008). Dunning's main intent was to uncover the rationale underlying "the international production of all firms from a particular country or group of countries" (Dunning 2001, 186). In this sense, the eclectic paradigm is "not about a specific firm but the home country firm as an institution" (Madhok and Phene 2001, 246), and the O advantages reflect the general advantages of groups of firms. As a result, there is limited consideration of the uniqueness of individual firms, thereby constraining the typology's relevance for strategic management purposes in any particular firm (Tallman 2004).

Second, though the conventional O advantages mainly focused on asset- or knowledge-*exploiting* investment, Dunning's later work (especially the work published during the past 10 years) acknowledged the importance of asset- or knowledge-*seeking/augmenting* investment by MNEs (e.g., Dunning and Lundan 2009; Dunning 2001, 2006; Lundan and Hagedoorn 2001). The recognition of the importance of new knowledge developed in both home and host countries reflects MNEs' attempts to access knowledge dispersed in many locations (e.g., Birkinshaw et al. 2006; Cantwell and Mudambi 2005; Kumar 2001; Kuemmerle 1997; Mudambi 2008). However, the O advantage concept was not altered to include the critical dimension of geographic sources of O advantages (Rugman and Verbeke 2001).

Third, Dunning tended to assume the international transferability of O advantages. For Dunning, the actual existence of MNEs provided

evidence of the transferability of at least some O advantages across borders (Dunning 1979; Tolentino 2001). As firms gradually increase the scope of their multinational activities, the O advantages become more specific to the firm, but less specific to any particular location (Kogut 1985; Rugman 1979). What is missing here, however, is that such O advantages could still be specific to one particular affiliate and might not be easily transferrable inside the MNE (e.g., Rugman and Verbeke 2001), irrespective of whether they are also embedded in a particular (exogenous) locational context. To put it differently, senior MNE managers should acknowledge from the outset the limited transferability of at least some O advantages when engaging in international strategic planning.

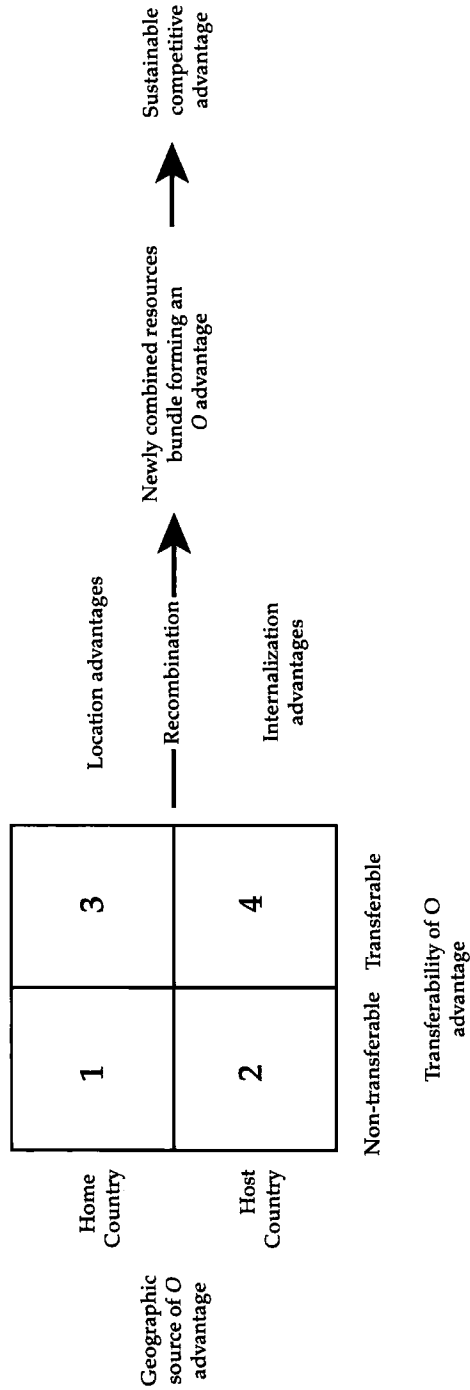
Finally, though Dunning sometimes (2000, 169) identified as one of the O advantages "the competencies of the *managers* of firms to identify, evaluate and harness resources and capabilities from throughout the world, and to coordinate these with the existing resources and capabilities under their jurisdiction in a way which best advances the long term interests of the firm," he largely neglected the role of management in the strategic resource recombination processes inside the MNE (Verbeke 2008). This contrasts sharply with the importance attached to strategic resource recombination by a number of other international business scholars (e.g., Bartlett and Ghoshal 1989, 1993; Prahalad and Doz 1987; Rugman and Verbeke 2001).

TOWARDS A NEW TYPOLOGY OF O ADVANTAGES: A STRATEGIC MANAGEMENT APPROACH

As the eclectic paradigm was designed to describe/explain phenomena different from the key strategic management challenges facing established MNEs, we propose a new typology of O advantages (see Figure 1), mainly to remedy the weaknesses of Dunning's typology, especially in terms of lack of attention devoted to the established MNE's strategy. Here, we also need to emphasize the importance of resource recombination as an expression of higher-order O advantages and as an instrument to creating new O advantages.

Our typology builds upon two dimensions. First, the geographic source of the O advantages: home country versus host country. Second, the international transferability of the O advantage: non-transferable versus transferable. The geographic source dimension implicitly acknowledges the possible main focus on FDI as either O advantage exploiting or O advantage augmenting, though much FDI could cover both. In many cases,

Figure 1: A New Typology of O Advantages



O advantages held by the MNE (knowledge-exploiting FDI component) are bundled with O advantages held by host country economic actors (knowledge-seeking FDI component).

The transferability of O advantages across different MNE operations dispersed in geographic space is partly dependent upon the "distance" between source and recipient locations (in addition to obvious motivational problems as well as technical difficulties associated with such transfer; and related to knowledge tacitness, asset immobility, the recipient's absorptive capacity etc...). Some O advantages may be deployable and exploitable only given the existence of particular institutions in the home country. For example, flexible human resource management practices in the R&D sphere may be feasible only in countries with a strong intellectual property rights regime, whereby any attempt at intellectual theft by employees, e.g., by downloading proprietary corporate information at home, would lead to immediate legal action and strong sanctions. To the extent that MNEs include more institutional distance in their internationalization trajectories (e.g., Ghemawat 2001; Xu and Shenkar 2002; Kostova et al. 2008), it becomes more difficult to transfer, deploy, and exploit profitably such O advantages without adaptation (Verbeke 2009; Verbeke and Yuan 2005).

The two above dimensions allow defining four types of O advantages in Figure 1. Both cell 1 and cell 2 refer to internationally, *non-transferable* O advantages, with cell 1 reflecting O advantages grown out of the home country, and cell 2 O advantages arising out of a host country. Many O advantages are inherently non-transferable across geographic space. First, stand-alone resources linked to location advantages, such as a network of privileged retail locations leading to a dominant market share in the home market (as often found in retail banking), are immobile and therefore simply not transferable. A well-known example of the immobility of domestic networks is Japan-based Kao's relative inability to penetrate foreign markets.

Second, other resources such as local marketing knowledge and reputational resources (e.g., brand names) may not have the same value across borders, either because they are not applicable to the context of another country, or because they are simply not valued to the same extent by foreign stakeholders.

Third, local best practices, i.e., routines considered highly effective and efficient in one country (e.g., incentive systems for highly skilled work-

ers or buyer-supplier relations) may not be considered as such in another country by a variety of stakeholders, and may even be deemed illegal.

Fourth, even the firm's domestic recombination capability, which may have led to a dominant market share and superior expansion rate in one market, as the firm engaged in product diversification or increased its geographic market coverage, is not necessarily adept to address the additional complexities of functioning in other markets.

For O advantages that are internationally non-transferable, executives should clearly identify their geographic origin and embeddedness and avoid attempts at international transfer, since such attempts will be doomed from the outset. Cell 1 refers to O advantages mainly based in the home country and not transferable to other locations (Rugman and Verbeke 2001; Verbeke 2009). A typical example is the service quality in the hotel industry, achieved in locations such as Hong Kong versus the United States (Hu 1995). Hong Kong-based hotel groups, such as the Peninsula, have developed a particularly high service quality, as manifested by a high ratio of employees to rooms, among other factors.

However, when these firms invested in the United States in the late 1980s, such practices were not applicable at that time in this host country, because of much higher labor costs and employee turnover as compared to Hong Kong. Therefore, maintaining the same high ratio of employees to rooms, though viewed as a best practice in Hong Kong luxury hotels, appeared inefficient in the United States. As a result, the Hong Kong hotel groups learned to rely more on other methods to assess and improve service quality in US subsidiaries, e.g., by focusing more on in-house training of the comparatively smaller staff and the recruiting of more enthusiastic and younger staff.

In contrast, cell 2 reflects non-transferable O advantages developed in the host country. In this context, Dunning (2006, 160) stated: "some of the competitive advantages of firms follow rather than lead their internationalization." O advantages in cell 2 are developed in host countries where the MNE operates, and these O advantages are exploited locally, usually by autonomous affiliates.

One example of a cell 2 case is that of US-based Parke-Davis. Warner-Lambert purchased Parke-Davis in 1970 to expand its international market coverage. At the time of being acquired, Parke-Davis operated manufacturing plants in the UK, France, Italy, Spain, Germany, Belgium, and Ireland. These national subsidiaries were responsible for blending

and packaging to meet local needs and "had historically enjoyed considerable autonomy and had developed substantial competences" (Morrison and Roth 1993, 108). However, in the mid-1980s, faced with the single European market, Warner-Lambert planned to restructure these operations through reducing the number of plants and specializing the others along non-geographic lines. "Fearful of losing power, and convinced that the parent was overestimating the impact of globalization, subsidiary managers fought back" (Morrison and Roth 1993, 108). Rationalization finally progressed after three years of intense debate, suggesting that an administrative heritage of autonomous subsidiaries and localized O advantages is difficult to change.

Both cell 3 and cell 4 describe internationally transferable O advantages, with cell 3 focusing on home country grown O advantages and cell 4 referring to host country developed ones. Internationally transferable O advantages can be embodied in final products, namely, when the MNE exports goods and services valued highly by host country customers. Think of an automobile such as a Porsche car, exported from Germany to the United States. The exported vehicle itself embodies the outstanding production quality characteristic of Porsche products, which results from superior production technology and manufacturing processes.

Alternatively, when faced with natural or government-imposed trade barriers, the MNE may transfer some O advantages abroad directly as "intermediate" products. In the Porsche case, the ownership advantages in technology and manufacturing would then be exploited abroad through an affiliate, which will produce and market the automobiles itself, building upon the knowledge bundles it receives from the parent company. The exploitation of O advantages transferred abroad can sometimes also be done by external actors (such as licensees), or by network partners (such as joint venture partners or distributors), who may add their own complementary O advantages to the foreign operation and thereby strengthen the MNE's position in the foreign market place by filling resource gaps.

For the internationally transferable O advantages, the traditional focus of scholarly research has been on O advantages developed in the home country, though the proportion of technological activities undertaken by firms in overseas locations (e.g., Kumar 2001) and the number of relocations of MNE head offices to foreign locations (e.g., Birkinshaw et al. 2006) have been rising.

Cell 3 represents the traditional, Dunning-type O advantages, developed in the home country and transferable to foreign locations. According to

Dunning, only firms commanding such O advantages will be able to internationalize. Such O advantages are usually embedded in the MNE's administrative heritage (Bartlett and Ghoshal 1989).

Cell 4 represents host country grown, internationally transferable O advantages. On the one hand, such O advantages may be reflected in the purpose of much asset- and knowledge-seeking foreign direct investment, e.g., by technological laggards from emerging economies trying to tap into foreign technology reservoirs (e.g., Mathews 2006). On the other hand, the more common case is that of continuous upgrading of O advantages in established MNE foreign subsidiaries.

For example, Citibank honed its capability against financial crises during the Latin American crisis and the Mexican peso crisis, and later transferred the locally created knowledge to Asian countries so as to address more effectively the Asian crisis (McDermott 1997, 1). Citibank suffered large losses during Latin America's debt crisis of the 1980s, but went through the Mexican peso crisis of 1994/1995 with rising earnings. During the above crises, both the corporate executives at the head office and senior managers in Latin America learnt not only to be alert to the signs of a coming financial upset, but also how to address potential financial problems by removing weak customers, applying stricter accounting standards, shunning certain business sectors, etc.

Such experience helped Citibank to interpret correctly the early signs of the Asian crisis in 1997/1998. Even before the Asian crisis emerged, Citibank had taken a number of preventive measures. The corporate banking unit for all emerging markets, emerging-market retail banking, the North Asia division, and the South Asia division were all headed by veterans of the Latin American crisis, who had been re-located to these positions in the early 1990s; many senior executives in Thailand, Indonesia, South Korea, and the Philippines had also lived through the Latin American crisis.

By mid-1996, when the first signs of a crisis materialized in Asian financial markets, the above managers deployed strategies they had learnt in Latin America. Ultimately, the knowledge transfers, embedded in the managers' skill sets operating in Asia, helped Citibank not only to avoid disastrous losses in Asia but even to achieve some earnings growth in 1997.

The above distinction among four generic types of O advantages is of critical importance to senior management in established MNEs. It focuses on identifying the geographic sources and international transferability (or lack thereof) of these advantages, two parameters instrumental to effec-

tive internal knowledge management. These two parameters not only provide a simple managerial framework to categorize O advantages, but also to reflect on possibilities to recombine O advantages in each category with other resource bundles. Such recombination could occur with resource bundles to be developed or already located elsewhere in the firm, and other ones held by external actors.

Recombination Advantages as Higher-Order O Advantages

For established MNEs, identifying the geographic sources and transferability of O advantages also provides critical linkages to further reflection on location advantages and the net benefits of internalization. Non-transferable O advantages often (though not necessarily) reflect close linkages with – and embeddedness in – a particular location. They also reflect the difficulty of effective recombination with resource bundles elsewhere, meaning that generic, foreign location advantages may not really constitute location advantages for the firm (e.g., cheap labor in China does not constitute a location advantage for a firm whose production quality relies heavily on highly skilled American employees, whereby the skills involved cannot be simply replicated in China through training of the local workforce or through the deployment of expatriates). Non-transferable O advantages also imply difficulties associated with international expansion in general: assuming the MNE controls a set of internationally transferable O advantages, these will need to be complemented with new-to-be-developed or accessible resource bundles in the foreign environment to compensate for the absence of the O advantages that were not transferable. The nature of the resource bundles to be developed or accessed in foreign environments may strongly influence the MNE's internalization calculus. Resource recombination is costly but may also drive economic value creation. Value-creation through resource recombination reflects learning and innovating. Learning and innovating facilitate firm-level growth and more effective competition against rivals, as well as better ability to address structural and environmental complexity (Guisinger 2001). The process is one whereby managers find new, profitable applications, in this case across borders, for using excess resources at a relatively low marginal cost. This also implies that the resource recombination capability is both the driver and key constraint of firm growth.

Continuous innovation and effective exploitation of innovation is required to stay ahead of the competition. Here, the MNE's most important strengths are usually not its physical, financial, or human resources as stand-alone items. The MNE's key strengths are in its valuable, proprietary knowledge, especially its combination and recombination capabilities. Here, competitiveness results from the capability to recom-

bine extant knowledge bundles so as to produce goods and services that meet stakeholder needs internationally. Given that the MNE is fundamentally a repository of knowledge bundles, to be deployed and recombined across borders, the firm's recombination capability itself can become the MNE's most important strength. Recombination is especially critical when satisfying stakeholder needs abroad requires more than stand-alone knowledge bundles or existing routines. The MNE's recombination capability leads to processes and products that embody "integrated bundles" of knowledge. In other words, this recombination capability is really the MNE's highest-order O advantage. This capability means the firm is not only able to transfer abroad its existing O advantages that can be unambiguously defined and articulated, but it can also create or access new knowledge; integrate it with the existing knowledge base; and exploit the resulting, new knowledge bundles across geographic space, so as to satisfy stakeholder needs.

Successful resource recombination in the established MNEs requires that at least three conditions be met. First, senior managers must be able to identify correctly and mobilize effectively the firm's O advantages. These O advantages include the four types discussed above, but the location advantages and complementary resources of external actors, such as technology providers, licensees, local distributors, joint venture partners, etc. (Verbeke 2009), should also be recognized as potential contributors to new O creation via resource recombination.

Identifying what constitutes the MNE's most important O advantages is not an easy task. For example, Denrell et al. (2004) found that evaluating "knowledge" in MNEs may be quite complex, with significant "perception gaps" (Arvidsson 1999) existing among subsidiary and corporate managers regarding subsidiary capabilities. Low cultural distance, high perceived profitability, and operating in important markets appeared to increase head office senior managers' knowledge of subsidiary capabilities. In addition, transferring knowledge within the MNE also represents a daunting task. For example, Hansen and Lovas (2004) found that product development teams tend to approach people they know rather than people who know related technologies well, though established informal relations can bring distant subsidiaries together.

Second, resource recombination requires entrepreneurial action to link accessible resources with productive opportunities. Recombination cannot be simply planned; rather, it requires the capability to adapt to new circumstances, especially when setting up a new business in a host country. For example, Birkinshaw and his co-authors (Birkinshaw and Hood 1998;

Birkinshaw et al. 1998) proposed that subsidiary managers can proactively seek new ways of utilizing accessible resources more effectively, thereby leading to the development of new O advantages inside the MNE.

Third, resource recombination requires the availability of – and access to – unused or slack resources, which can be deployed to create new knowledge and perform the actual resource recombination. The importance of unused resources for recombination can be traced back to Penrose (1959), which focused on the quantity of managerial services required to achieve firm growth. As MNEs do not have unlimited reservoirs of managerial services at their disposal, routinized activities are likely to release managerial resources from current operations that can then be utilized in new business activities (Verbeke and Yuan 2007).

Resource recombination can take many forms, as exemplified by the 10 patterns of O advantage development in Rugman and Verbeke (2001) and Verbeke (2009). An example of a resource combination capability is the MNE's administrative heritage (Verbeke 2009). The MNE's administrative heritage reflects the key routines developed by the firm since its inception. It is often determined by the vision of the founder and a complex set of external circumstances ("this is the way we do things in this company"). The traditional discussions of multinational, international, global, and transnational mentalities (Bartlett and Ghoshal 1989) and recent analyses of international coordinators and centralized exporters (Verbeke 2009) all contain specific routines of international O advantage transfer and recombination.

APPLYING THE NEW TYPOLOGY OF O ADVANTAGES: TWO EXAMPLES

In this section we apply our new typology of O advantages to two case examples. We demonstrate how the new typology can help senior executives in established MNEs to understand their O advantages configuration, thereby providing guidance to managerial decision making.

Case Example 1: Whirlpool Corporation

Headquartered in Benton Harbor, Michigan, United States, Whirlpool Corporation is the world's leading manufacturer and marketer of large home appliances. Shortly after its entry into India through a joint venture in the late 1980s, Whirlpool successfully augmented its internationally transferable design skills with new resources to meet local demand there.

In the early 1990s, Whirlpool established a research team to study the psychodynamics of Indian clothes washing through qualitative and quantitative market research tools. Specifically, the team delved into the psyche of Indian housewives, their laundry habits, their schedules, and their attitudes. Among quite a few useful insights, the key finding was that Indian customers have a strong preference, relative to customers elsewhere, for white garments, which are associated with purity and hygiene. However, frequent machine-washing using local water tended to discolor such white garments. After learning about local preferences, Whirlpool designed washing machines "that are especially good with white fabrics" (Engardio et al. 2001, 132). In addition to appropriate design at the upstream end, Whirlpool's TV commercials at the downstream end also appealed to Indian customers. These commercials showed the daydream of a mother, in which her daughter, dressed as Snow White, won a beauty contest, with the other contestants dressed in gray. Finally the mother awoke and "glance[d] proudly at her Whirlpool White Magic washing machine" (Engardio et al. 2001, 132). Between 1996 and 2001, Whirlpool's sales in India rose by 80%, and it became the leading brand in India for fully-automated washing machines.

In this case, an internationally transferable O advantage (i.e., washing machine technology) was developed at home, but in order to exploit the relevant knowledge profitably in host countries, location-bound knowledge in the host country (i.e., knowledge allowing Whirlpool to cater to the Indian preference for white garments) had to be added to it. International success was based on the novel combination of home country-grown, internationally transferable O (cell 1) and host country-grown, non-transferable O (cell 4). In other words, investments in location-bound O advantages complemented the extant, internationally transferable O advantages, thereby allowing national responsiveness.

Case Example 2: P&G

In the late 1990s, marketing experts at P&G found that women in the United States, Europe, and Japan were not satisfied with their facial cleansing products. In the United States, the dominant perspective was that the skin was left too dry after using bar soaps; in Europe, the main perceived problem was that cleansing milk could not clean the skin particularly well; and in Japan, the prevailing foaming facial cleansers did not leave the skin sufficiently moisturized.

P&G set up a technology team in Cincinnati (United States) to integrate knowledge from various locations in the world and to design a product suitable to satisfy consumer needs across the triad. For example, the

team drew on Japanese experts for their knowledge of cleansing processes. Building upon inputs from a variety of geographic origins, the team developed a cleansing cloth truly effective at cleaning and moisturizing the skin. This impregnated cloth technology became the "chassis," based upon which subsidiaries could engage in further adaptation specific to their own geographic markets. In the case of Japan, a local technology team impregnated the cleansing cloth with a cleanser specific to the Japanese market, whereas a marketing team emphasized the cloth's functionality in increasing skin circulation "through a massage while bossing skin clarity due to the micro fibers' ability to clean pores and trap dirt" (Bartlett et al. 2004, 478). At the same time, a US marketing team developed the "one-step routine" concept for the American market. Thus, "(I)n the end, each market ended up with a distinct product built on a common technology platform" (Bartlett et al. 2004, 478).

In this particular case, a set of affiliates was made responsible for developing an internationally transferable O advantage. Technology resources for constructing this O advantage were drawn from several geographic locations and then combined into an internationally transferable strength. Location-bound knowledge was then added to the newly created O advantage in the various countries involved, so as to allow national responsiveness.

CONCLUSIONS

In this paper we have described the evolution of the O advantage concept as developed by John Dunning, one of the founders of modern international business theory. We have argued that two elements must be added to Dunning's typology, so as to make the O advantage concept relevant to senior MNE management. First, the distinction between internationally transferable and location bound O advantages is critical. In contrast to what Dunning's typology suggests, many O advantages actually have only limited deployability and exploitation potential across geographic space. Second, modern international business theory and related empirical work suggest that many O advantages do not arise in the home country, but in host countries. These O advantages may not take the form of conventional R&D or marketing advantages, especially if they arise in emerging economies, but they are key sources of MNE competitiveness. It is now often the recombination of strengths developed in one country with resources accessible in another country that makes for true MNE O advantages.

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