

Dunning's eclectic paradigm of international business essay sample

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John Dunning's eclectic theory developed in 1977 mainly attempts to explain economic issues involved in various countries, especially for the questions of international business and international production. He began his work by analyzing two different types of business activities. One is related with the domestic productions that have a purpose for the foreign markets and the other is related with foreign direct investment. Dunning indicated that the two activities have the same nature and he attempted to explain them both. The questions Dunning trying to answer are that why the enterprises decide to invest and produce in foreign countries then how to achieve this aim and where to be chosen as the locations.

The result of Dunning's research is that there are three different types of advantages can be included to answer the questions. The advantages include ownership, location and internalization advantages. Ownership advantages mainly refer to the peculiar advantages, such as technological advantage, managerial advantage and brand advantage, that hence can reinforce the enterprise's power and then enable it to engage in occupying the world markets. Internalization advantages may answer the question how to operate FDI and international production. By transferring the asset and the ownership advantages to the subsidiaries in the foreign countries, enterprise can enjoy and utilize the resources belong to the headquarters. This way can bring more benefit to the enterprise than through licensing them to other enterprise. Location advantages are those advantages that are related to the factor endowments and the policies adopted by the local government. When the ownership and internalization advantages are combined with the location advantages, the enterprise can gain more benefit

than through domestic production and exports. So those advantages need to be carefully analyzed by the enterprise so as to determine the place where to settle the subsidiaries or locate the production.

Dunning's eclectic approach seems to go further than the theories of previous authors in the aspect of FDI. It not only links the micro and macro elements together but also involves the explanation of international trade and international production within the same theory. Many enterprises regard this theory as a guide for engaging into FDI.

Although Dunning's eclectic theory has many strong points that made it very successful, it also induced many critiques as Dunning himself had acknowledge. Dunning has successfully indicated that macro economy and market structure would affect enterprise's behaviors and thus affect its size, market position and so on. But he has ignore the opposite case, that is to say he failed to consider that large enterprise's monopoly power and market position also can affect the governors and thus affect the macro economy.

By developing the conception of OLI, Dunning concluded that companies that enjoy ownership advantages, such as managerial, marketing and organizational advantages, have the capabilities to engage in occupying the world market through FDI and international production. And if a country possesses factor endowment like abundant raw material and low labor costs, it will create a great attraction for the country to obtain inward investment.

MNCs involved in FDI are mainly from developed country and countries with location advantages are mainly the developing countries. There are several countries that are involved in both outward and inward investment, however,

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Dunning fail to explain this fact. It implies that though Dunning's eclectic theory has a large range of applications, there are still some failings.

The theory is certainly popular as a method of classification, but a doubt about this theory is that if it really can contribute more as an explanation to the activities of FDI. It seems to just describe the process of the issues and has little evidence to support its conclusions. And in terms of its OLI advantages every different factor can be classified into the three classes, thus make it seems too simple as an explanation to international trade and international production, and then cause it hardly catch the nature of the business activities. One of the reasons of this result is that Dunning's mainly concentration on the taxonomy.