

This is a repository copy of *Using history to help refine international business theory: ownership advantages and the eclectic paradigm.*

White Rose Research Online URL for this paper:  
<http://eprints.whiterose.ac.uk/11235/>

---

**Monograph:**

da Silva Lopes, T. (2010) Using history to help refine international business theory: ownership advantages and the eclectic paradigm. Working Paper. Department of Management Studies, University of York

---

**Reuse**

Unless indicated otherwise, fulltext items are protected by copyright with all rights reserved. The copyright exception in section 29 of the Copyright, Designs and Patents Act 1988 allows the making of a single copy solely for the purpose of non-commercial research or private study within the limits of fair dealing. The publisher or other rights-holder may allow further reproduction and re-use of this version - refer to the White Rose Research Online record for this item. Where records identify the publisher as the copyright holder, users can verify any specific terms of use on the publisher's website.

**Takedown**

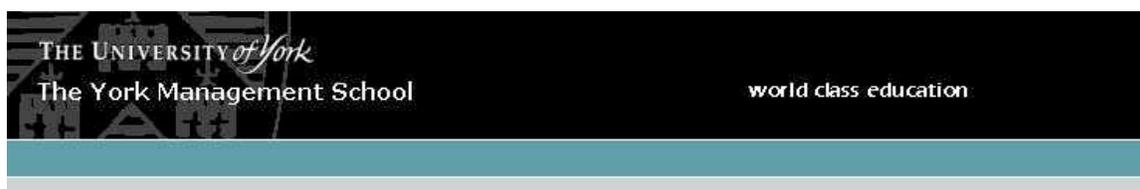
If you consider content in White Rose Research Online to be in breach of UK law, please notify us by emailing [eprints@whiterose.ac.uk](mailto:eprints@whiterose.ac.uk) including the URL of the record and the reason for the withdrawal request.

*promoting access to White Rose research papers*



**Universities of Leeds, Sheffield and York**  
**<http://eprints.whiterose.ac.uk/>**

---



---

White Rose Research Online URL for this paper:  
<http://eprints.whiterose.ac.uk/11235>

---

**Working Paper**

da Silva Lopes, (2010) Using history to help refine international business theory:  
ownership advantages and the eclectic paradigm  
Working paper number 54

---

*White Rose Research Online*  
*[eprints@whiterose.ac.uk](mailto:eprints@whiterose.ac.uk)*

THE UNIVERSITY *of York*

University of York  
The York Management School  
Working Paper No. 54  
ISSN Number: 1743-4041  
March 2010

**Using history to help refine international  
business theory: ownership advantages  
and the eclectic paradigm**

by **Teresa da Silva Lopes**

Professor of International Business and Business History  
Director of the Centre for Evolution of Global Business and Institutions  
(CEGBI)

**This paper is circulated for discussion purposes only and its contents should be  
considered preliminary and use of any of its contents prohibited.**

# **Using History to Help Refine International Business Theory: Ownership Advantages and the Eclectic Paradigm**

## **Abstract**

In John Dunning's eclectic paradigm firms need to have ownership, location, and internalisation advantages in order to cross borders and engage in foreign direct investment. By drawing on historical evidence on the evolution of a group of leading marketing-based multinationals in consumer goods, this paper claims that, despite its richness, the eclectic paradigm, and in particular the concept of 'ownership advantages', needs to be revised and extended, to take into account different levels of institutional analysis. For the eclectic paradigm to give a rounded view of the internationalising firm it needs to acknowledge the critical importance of firm-specific ownership advantages such as the role of the entrepreneur.

**Key words:** Dunning's eclectic paradigm, asset ownership advantages, internalisation theory, business history, entrepreneur, multinational enterprise.

## 1. Introduction

John Dunning's eclectic paradigm, which considers that firms need to have ownership, location, and internalisation advantages (OLI) in order to cross borders and engage in foreign direct investment, is widely acknowledged as a key tool in the research and teaching of international business (Rugman, 2009; Verbeke, 2009). The paradigm is an all-encompassing framework which takes into account different and often competing theories, such as transaction costs economics and the resource-based view of the firm, and provides an overall analytical framework of empirical investigation. Hence Dunning called it 'an envelope for economic and business theories of the multinational activity' (Dunning, 1998).

When theories or frameworks such as the eclectic paradigm become well established, a critical literature usually emerges challenging, confirming and extending those theories. Raymond Vernon's product life-cycle theory and Michael Porter's 'diamond' that explain countries' national competitiveness are examples of such frameworks and theories that have now become of widespread use, helping systematize and explain international business phenomena. Both of these have already been subject to criticism and extensions (Vernon, 1974; Porter, 1990, Kogut, 1984, Rugman and Verbeke, 1993).

In the same vein, the eclectic paradigm has also been challenged (Casson, 1986; Itaki, 1991; Cantwell and Narula, 2003; Rugman and Collinson, 2006). Dunning himself acknowledged some of the limitations of his framework and incorporated several extensions and changes over time (Dunning, 1987, 1988, 1998). In keeping with the tradition of constructively critical work, this paper aims to show that the paradigm fails to reflect a sufficiently rounded view of the firm. Some of the variables Dunning classified as 'ownership advantages' require reclassification, and a new typology of ownership advantages which clearly distinguishes different levels of institutional analysis can provide a fuller account of the internationalising firm. This paper argues that the eclectic paradigm, although currently very useful in the analysis of industries' and countries' foreign direct investment strategies (Dunning and Narula, 1996), needs to pay more attention to firm-specific ownership advantages, and in particular to the role of the entrepreneur.

Firms are established to help entrepreneurs implement ideas. The multinational enterprise is a special case of a firm whose boundaries have crossed borders, adding

value in different parts of the world. Ownership advantages may be interpreted as a measure of the net wealth accruing from past entrepreneurial activity, and thus they have a dynamic role in Dunning's eclectic paradigm (Casson, 1986). The concept of entrepreneur used here is a stretched one (Lopes and Casson, 2007). The entrepreneur is someone who specialises in taking judgemental decisions about the coordination of scarce resources with an economic aim and under conditions of uncertainty. This means that the entrepreneur is not necessarily a capitalist or an inventor, but instead is someone who has the capacity to synthesize information from diverse sources, is not afraid to take risks and 'gets things done' (Schumpeter, 1947; Casson, 1982). The stretched concept of entrepreneur allows us to consider innovative management, developed over a period of time within an industry and often by the same firm. While researchers such as Schumpeter tend to associate the role of the entrepreneur with invention and innovation in technology-based industries, the industries analysed here are marketing-based, suggesting that innovation may encompass other activities, in particular, as the cases discussed here indicate, relating to the globalisation of marketing and brands.

Very few international business scholars have so far acknowledged and used the entrepreneur in their theory formulation. This can be explained by the fact that they tend to differ widely in their choice of unit of analysis, and also by the difficulties that exist in quantifying entrepreneurial behaviour, as it refers to initiatives such as: the ability to identify profit opportunities, the capacity to judge them, and the tactical awareness to exploit these opportunities properly. The group of international business scholars that look at the manager of the multinational enterprise as an entrepreneur is relatively limited. They include Bartlett and Ghoshal, and Birkinshaw, who analyse the decision taking processes of managers of headquarters and subsidiaries within inter-organizational networks (Bartlett and Ghoshal, 1989; Birkinshaw, 1997).

This essay takes an historical view. There have been recent attempts by international business and business history scholars to promote business history more within international business research (Jones and Khanna, 2006; Buckley, 2009). Business history is an area of academic enquiry which is mainly concerned with the study of the growth and development of business as an institution (Wilkins, 1988). While it is common for business historians to use concepts from international business theory to help them create generalisations, put forward propositions and hypotheses, and resolve different issues separately, there exist, however, many fewer cases of

international business scholars drawing on business history research. Dunning, Casson, Hennart, and Vernon, are some of the exceptions (Dunning, 1998; Casson, 1986; Hennart, 1986; Vernon, 1966). They often cite the work of business historians such as Chandler, Wilkins and Jones. As the work by these international business scholars shows, business historians can bring valuable insight to international business theory. The very rich evidence they generate permits international business researchers to test models rigorously. More importantly, perhaps, the *longue durée* of business historical work allows international business researchers to analyse the dynamic and evolving nature of firms and to test the staying power of theories over long periods of time. They can also take into account the complexity of the environment, and monitor, for example, the failure as well as success of firms.

The article draws on the evolution of a group of leading multinationals in the foods, drinks and cosmetics industries ranking among the world's largest industrials (Fortune 1000, 2009). They include Pernod-Ricard (a leading alcoholic drinks multinational), Nestlé (a leading food producer), L'Oréal (a leading cosmetics company), and Unilever (an Anglo-Dutch diversified multinational with strong focus on foods and toiletries). The period of analysis starts in the 1960s and goes to the present day. This period is of great relevance in the development of multinational business. It is characterised by fast globalization, liberalization of markets, and the emergence of revolutionary innovations in communications and distribution systems (Pollard, 1997). It is also a period when firms in the sectors analysed went through large merger waves. The information presented here is essentially qualitative, and gives a brief overview of the types of entrepreneurs that took internationalization decisions which led to mergers and acquisitions over time. The evidence provided draws on multiple primary sources of information such as companies' archives and other public documents such as merger reports and consultants' reports, and also on interviews with managers. It also uses secondary sources such as companies' biographies, industry magazines, and British and foreign newspaper articles.

This paper is organised in four parts. Section two provides a brief overview of the eclectic paradigm and its OLI typology. A special emphasis is given to ownership advantages (O) as a necessary condition for sustained profitability and growth. A discussion about the limitations of the current typology of ownership advantages is followed by a proposal of a new typology of ownership advantages. Section three offers the historical evidence which forms the basis for the proposed new typology for

Dunning's ownership advantages which are general ownership advantages, firm-specific ownership advantages, and product-specific ownership advantages. Finally section four acknowledges the continuing importance of Dunning's eclectic paradigm and the benefits that exist in extending and reclassifying his types of ownership advantages. The use of different levels of institutional analysis highlights the importance of firm-specific ownership advantages, such as the role of the entrepreneur, and also provides a fuller account of the development of the internationalizing firm over time.

## **2. Reclassifying Dunning's Asset Ownership Advantages**

The eclectic paradigm of international production, first developed by Dunning in 1977, identifies and evaluates the significance of factors that influence the level and structure of a firm's value adding activities in foreign markets. This paradigm considers that the extent, form and pattern of international production is determined by three sets of advantages as perceived by internationalising enterprises - ownership advantages, location advantages and internalisation advantages (Dunning, 1977, 1980, 1981, 1988). The ownership advantages (O), which are the focus of this study, provide the initial framework for analysing the expansion of a firm in international markets. They are essentially concerned with the production activity, nature and nationality of the ownership of the investing firm, and are a necessary condition for sustained profitability and growth. Location advantages (L) relate to the 'where' of production. They deal with host country factors such as natural resources, market size, labour force, government behaviour, and other environmental factors. Finally, the internalisation advantages (I) which draw on Buckley and Casson's (1976) internalisation theory, refer to the alternative ways in which the firm may organize the creation and exploitation of its core competencies, and take advantage of location attractions in different countries and regions. Internalization advantages reflect the greater organizational efficiency of hierarchies or their ability to exercise monopoly power over the assets under their governance (Buckley and Casson 1976, Rugman, 1981). The eclectic paradigm further considers a contextual variable which provides the precise configuration of the OLI parameters facing a particular firm (Dunning, 1977, 1980, 1998).

In the 1980s Dunning explored the concept of ownership advantages further, and added that the most successful multinationals are those that are best able to nurture and exploit both asset ownership advantages ( $O_a$ ) and transactional ownership advantages ( $O_t$ ) (Dunning, 1981, Dunning and Rugman, 1985). In 2008 a new category of ‘institutional assets advantages’ ( $O_i$ ) was introduced (Dunning and Lundan, 2008). ‘Asset ownership advantages’ ( $O_a$ ) reflect Bain and Hymer type advantages and refer to structural imperfections and monopolistic benefits which enhance the power of the multinational enterprise (Bain, 1956; Hymer, 1960, 1968). They include the possession of superior technology, scale economies, product differentiation, distribution networks, and privileged access to financial capital. These increase market power by closing markets to market imperfections.

‘Transaction ownership advantages’ ( $O_t$ ) relate to the capacity of the multinational enterprise to capture the transactional benefits and minimize transaction costs. They result in efficiency benefits and include the advantages of common governance (of organising  $O_a$  with complementary assets), the ability to coordinate multiple and geographically dispersed value added activities, and the capacity to capture gains associated with diversification. They are a result of the size, product diversity and learning experience of the firm, and also of its exclusive access to inputs in the host country, to information and to product markets. Finally, ‘Institutional assets advantages’ ( $O_i$ ) refer to the codes of conduct, norms and corporate culture, incentive systems and appraisal, and leadership within the firm.

This typology of ownership advantages has nonetheless some limitations. Several of the variables currently under ‘transaction ownership advantages’ ( $O_t$ ) relate in fact to location advantages and internalisation advantages. It is therefore suggested that those variables currently classified as  $O_t$  such as exclusive access by the multinational enterprise to inputs, information and product markets in the host country, should be reclassified as location advantages (L). Other variables currently under  $O_t$  such as operational flexibility, better information about international markets and the ability to take advantage of differences in factor endowments, should be reclassified into internalisation advantages (I). Only the variables currently under ‘asset ownership advantages’ ( $O_a$ ) and ‘institutional asset advantages’ ( $O_i$ ) translate into genuine ownership advantages as they are specific to the country of origin and industry, the firm or the product/service.

The historical evidence on the development of multinationals presented in section three serves as the basis for a new typology of ownership advantages. The proposed new categories for Dunning's ownership advantages (O) are: general ownership advantages ( $O_g$ ), firm-specific ownership advantages ( $O_f$ ), and product-specific ownership advantages ( $O_p$ ). General ownership advantages ( $O_g$ ) are specific to the country or industry in which the firm operates. They include variables such as the cultural, legal and institutional environment, labour and natural resources, and capital markets.

Firm-specific ownership advantages ( $O_f$ ) refer to the Chandlerian type advantages which are generic across products. The doyen of business historians, Alfred Chandler, in his research on the largest US industrial firms, and subsequently in his work on the largest British and German firms, highlighted the importance of resources such as the professionalization of management, the capacity of firms to implement effective management succession systems; and the willingness of the management of firms to recruit top professionals (Chandler, 1962, 1977 and 1990). Other important firm-specific ownership advantages, of relevance in marketing-based global industries, are the presence of accumulated marketing knowledge within firms, the capacity to trade knowledge and other types of intellectual property, and the possession of distribution networks. Marketing knowledge is defined here as the intelligence and skills that exist within the firms concerning the management of brands and distribution channels (Lopes, 2007). These Chandlerian type advantages agree, to a great extent, with Penrose's core competencies and dynamic capabilities of the resource-based view of the firm, and also with Rugman's concept of firm-specific advantages (Penrose, 1959, 1995; Rugman and Verbeke, 2003; Rugman, 2010). While in periods characterized by fragmented markets and local competition, the Hymer type ownership advantages are sufficient for firms to successfully cross borders, in periods of globalisation, other types of knowledge (here part of the Chandlerian type ownership advantages), become more important in explaining successful internationalization.

Following the same line of reasoning, where ownership advantages relating to different levels of institutional analysis are segregated in different categories, 'institutional ownership advantages' ( $O_i$ ), should be reclassified as 'firm-specific ownership advantages' ( $O_f$ ), as they relate to firm-specific variables such as norms and corporate culture, incentive systems and appraisal and also leadership. Finally, 'product-specific ownership advantages' ( $O_p$ ) which are the advantages specific to the

product, include variables such as patents, trademarks and copyrights, the capacity of the firm to differentiate its products or services, to obtain scale economies and to produce innovations.

### 3. The Evidence

The period from the 1960s to 2000s is one in which competition changed dramatically, initially being played at a domestic level to become global by the end of the twentieth century. Table 1 divides the period from the 1960s until 2000s into three different stages of competition played in the industries: domestic, multimarket, and global competition. The types of ownership advantages that were sufficient for firms to cross borders successfully are also highlighted. They rely on the new proposed typology of ownership advantages: general ownership specific advantages ( $O_g$ ), firm-specific ownership advantages ( $O_f$ ), and product-specific ownership advantages ( $O_p$ ). The sample of four leading multinationals also includes some of their major predecessors, the largest firms they merged and acquired over the years. They are used here to illustrate the dynamic evolution of what are considered to be, at each moment in time, critical ownership advantages for international growth and survival.

Insert Table 1 here

From the analysis of Table 1 it is clear that, over time, firm-specific ownership advantages ( $O_f$ ) are the most important sources of ownership advantages.  $O_g$  and  $O_p$  are sufficient for foreign growth and survival at earlier stages of globalisation. Once competition becomes global,  $O_g$  and  $O_p$  are no longer sufficient ownership advantages for firms to internationalize. General ownership advantages ( $O_g$ ), such as tax incentives and other home country or industry advantages, become obsolete. Product-specific ownership specific advantages ( $O_p$ ) also lose distinctiveness once it becomes possible to trade brands and trademarks and other forms of intellectual property rights through mergers and acquisitions or even on their own. The firm-specific advantages which relate to the resources of the firm, and in particular the knowledge to manage brands, trademarks and other intellectual property rights, and also to the superior management skills, become the crucial source of ownership advantages for globalising firms.

## **Domestic Competition, 1960s – 1970s**

During the 1960s - 1970s there was a merger wave in the developed world, mainly characterised by a domestic consolidation of firms' positions. The foods, drinks and cosmetics industries were also affected by such waves (Lopes, 2002; Jones, 2005, 2010). The mergers between the British confectionary firms Rowntree and Mackintosh in 1969, the French alcoholic beverages firms Pernod and Ricard in 1975, and the acquisition of the American cosmetics firm Helena Rubinstein by the US leader in toiletries Colgate-Palmolive in 1979 are all important illustrations.

The two leading British confectionary firms, Rowntree and Mackintosh, merged in 1969. This was a period when the confectionary market was stagnated, international competition intensified, and the management of firms believed that the best way to grow was through diversification, scale or internationalization. Rowntree had previously made attempts to diversify but failed. Donald Barron, the chairman of Rowntree, believed that a merger with the right partner at that point was important to achieve size, scale and expand internationally. In 1969, just before the merger with Mackintosh, Rowntree was subject to a takeover bid by the US giant in the food industry General Foods, which was rejected. The merger with Mackintosh which took place later in the same year was preferred as it was a natural development from the joint arrangements these two firms already had in overseas markets for many years. The possibility of closer association had been discussed by the two companies for some time. Many benefits followed from this consolidation of activities of the two companies, such as enhanced size and corporate capabilities, shared support for advertising investment in brands, and economies of scale and scope in production, research and development, marketing, transport and exports. Other factors such as the common Christian ethos, and management approach, and also the uncertainty of succession at Mackintosh, were also considered to be important in this merger decision.

The merger that formed Pernod-Ricard in 1975, brought together two French family firms, Pernod and Ricard. Like Rowntree, these firms had already made attempts to diversify into other businesses, such as tea and coffee, which did not succeed. This merger was also a natural development from the alliances the two companies had formed for some years in distribution. The aim was to form a large

company with national coverage, and to diversify within alcoholic beverages developing a significant international business.

Helena Rubinstein, an entrepreneur concerned since the beginning of her activity with internationalizing her cosmetics brand and with product and marketing innovation, died in the late 1950s, at a time when her cosmetics brand was one of the most popular luxury beauty product suppliers in the United States. After not investing in the brand for a long time, in 1974, family members decided to sell it to Colgate-Palmolive. Colgate-Palmolive was a leader in mass market production of toiletries, with functionality being the main imagery they used in the marketing and advertising of their brands. Their lack of understanding of the beauty industry, and the lack of capacity to hire entrepreneurial managers with skills to invest in the exclusive personality of the brand explain why Colgate-Palmolive targeted, without success, the Helena Rubinstein brand to mass-markets.

Apart from consolidating their domestic positions through mergers and acquisitions, and diversifying both their portfolios of products and geographically, some large firms were already quite internationalised by the 1960s and 1970s, the main motivations for investing abroad being ‘resource-seeking’ and ‘market-seeking’, i.e. to source inputs for value added activity and to better serve existing markets, or to penetrate new market segments (Dunning, 1992). Unilever’s acquisition of Lipton International in 1972 is an illustration of that. Unilever acquired T.J. Lipton in the United States soon after World War II. T. J. Lipton had been founded at the end of the nineteenth century by Sir Thomas Lipton, who is claimed to have taught the Americans to drink tea, and always kept his North American business separate from the tea business in rest of the world, having developed the latter into Lipton International. However, it was only in the 1970s, after the acquisition of Lipton International, that Unilever developed its tea business at a global level.

### **Multi-Market Competition, 1980s**

In the 1980s a new global merger wave took place, characterized by multi-market competition, including multinationals home countries. A large number of investments were ‘asset-seeking’, but ‘market-seeking’ investments still remained quite important. Firms were acquiring other firms especially for their brands which had the potential to become global, and also for their superior managerial marketing capabilities. Some

examples are the acquisition by Pernod Ricard of its American distributor Austin Nichols, who owned the bourbon brand Wild Turkey in 1988, and also had an important distribution network in the US market; the acquisition of Helena Rubinstein by L'Oréal in 1987; and the acquisition of Rowntree-Mackintosh by Nestlé in 1988.

Colgate- Palmolive and Albi Enterprises (which also owned the firm between 1980 and 1984) had not invested in the elitist image of the brand Helena Rubinstein while under their ownership, having changed its imagery to a mass-market cosmetic. By the early 1980s the brand was being sold in United States drugstores at very cheap prices and was not receiving much merchandising support. It had a better positioning outside the United States, in particular in Europe, Japan and Asia, where it was still considered up-market. In 1987, as part of L'Oréal's strategy to cover all the different segments of the beauty market and to increase its presence in the United States, it acquired Helena Rubinstein. Under the new management of Lindsay Owen Jones, the exclusive imagery of the brand was restored and it was also transformed into a truly global upmarket brand. Owen Jones was an ambitious British manager hired by the L'Oréal family as CEO, who combined business knowledge with a passion for business. He was also very entrepreneurial in his behaviour and proactive at detecting global opportunities (Jones, 2010). While in the 1960s only 3 percent of the volume of sales of Helena Rubinstein were in foreign markets, by 2000 over 50 percent sales were generated outside Europe. Overall, it took ten years for the changes in the international distribution strategy of Helena Rubinstein to become effective and for the brand to become truly global.

Rowntree-Macintosh was acquired by Nestlé in 1988 in a hostile takeover. Despite its very respectable financial performance and its innovative record, Rowntree was perceived as an underperformer in stock market terms, as there was a general view that the company could have done better. The high price Nestlé paid for Rowntree's shares reflected the company's powerful brands, such as KitKat and Rolo, and their potential for profitable expansion into world markets, where Nestlé already had a presence with factories in over twenty countries. The two main reasons for this acquisition were, however, to establish a significant position in the UK market, and to become one of the leading manufacturers of chocolates in the world. Additionally, the new portfolio of products complemented Nestlé's own activity in this field. Nestlé had been until then concentrated mainly on the production of chocolate bars, while Rowntree-Mackintosh specialized in chocolate covered bars.

The relationship between the top managers of the two companies, Helmut Mancher from Nestlé and Kenneth Dixon from Rowntree, developed under great secrecy in 1981. Initially the two firms merely cooperated commercially. In 1988 when Jacob-Suchard, another Swiss manufacturer, acquired 15 percent of Rowntree, Nestlé felt forced to make a hostile takeover bid for Rowntree. A new strategic unit was set up for chocolates, candies and cookies, which was placed under the control of Kenneth Dixon, the former chairman of Rowntree. Nestlé was therefore able to gain additional knowledge in confectionary items and chocolates, while providing a wider scope for the geographical expansion of Rowntree-Mackintosh brands such as KitKat and Rolo.

### **Global Competition, 1990s-2000s**

Finally the 1990s and 2000s are decades of global competition. 'Efficiency seeking' becomes an additional common motivation for international mergers and acquisitions. New foreign direct investments speed up connections and allow firms to benefit from cross border cost reductions, and economies of scale and scope. Some illustrations are the acquisitions of the French bottled water firm Perrier by Nestlé in 1992, and the US cosmetics firm Maybelline by L'Oréal in 1996, and also the partial acquisition of the alcoholic beverages business of the Canadian multinational Seagram by Pernod-Ricard in 2000.

Perrier water was created in 1898, and the business was originally developed by a British entrepreneur. From its formation, Perrier was exported to foreign markets, in particular to Britain and the British Empire. The brand underwent another period of successful internationalization in the 1970s, when the new owner of the brand, Gustave Leven, took the brand successfully to the US market (despite the advice of consultants that it would be foolish to try to sell sparkling water in the land of Coca Cola and 'gin and tonic' drinkers). The firm continued to grow internationally throughout the 1980s. However, in the early 1990s Leven retired, and the brand started suffering some erosion under the new management. Perrier ended up being acquired by Nestlé in 1992. Nestlé's entrepreneurial management turned Perrier into a truly global brand through its worldwide distribution networks. Additionally, they invested in the bottled water business, by acquiring sources and water firms in foreign markets, and broadening the scope of successful local brands.

The acquisition of Maybelline cosmetics by L'Oréal in 1996 is another illustration of Owen Jones' entrepreneurial skills and strategy of acquiring brands with potential to become global. When it was acquired in 1996, Maybelline held nearly one-fifth of the American mass cosmetics market. After the acquisition, L'Oréal launched a radical new make-up collection which transformed the brand's aging image. Within five years it had become the US leader in colour cosmetics, and had been launched in 80 new countries.

The acquisition of the alcoholic beverages business of Seagram by Pernod-Ricard jointly with Diageo, the world's leading multinational in alcoholic beverages, took place in 2000. This alliance turned out to be an innovative way of allowing what were already large firms to grow in size. It addressed anti-trust concerns that would have been raised in the case of an acquisition of the whole alcoholic business of Seagram by a single firm. The deal was suggested by Jack Keenan, the CEO of Diageo, to Thierry Jacquillat, the CEO of Pernod-Ricard, who saw this as a good opportunity to target new geographical regions, broaden the scope of brands within the firm's portfolios, and also obtain economies of scale and scope and other costs reductions at a global level.

#### **4. Conclusion**

This paper has discussed and illustrated the power of the OLI paradigm in explaining multinational activity over time. It has highlighted, however, that in order to provide a full account of which ownership advantages are important for the internationalizing firm over time, it is important to distinguish different levels of institutional analysis. Dunning's ownership advantages should therefore be categorised into general ownership advantages ( $O_g$ ), firm-specific ownership advantages ( $O_f$ ) and product-specific ownership advantages ( $O_p$ ). Firm-specific ownership advantages ( $O_f$ ) are, however, the enduring type of ownership advantages, as they prevail as such even in hostile environments characterised by high competition. General ownership specific advantages ( $O_g$ ) tend to obsolete as markets become global, and product-specific ownership advantages ( $O_p$ ) can easily be appropriated through merger and acquisition (due to its increasing smoothness). To illustrate the advantages of such typology, a study of some of the main mergers and acquisitions of a group of leading

multinationals in foods, drinks and cosmetics from the 1960s to 2000s was carried out.

It is believed that the new typology has several advantages. First, it allows a better assessment of the origins of profitability and growth of firms. Second, it enables the distinction between short-term ownership advantages (such as brands that can be acquired quickly via merger or acquisition), from long-term advantages that can only be generated by resources concentrated in the firm over a period of time. Third, it facilitates the critical sources of ownership advantages of firms over time. A key point of this article is to show that, as a result of increased competition, liberalisation and globalisation of markets the Chandlerian type advantages or firm-specific ownership advantages ( $O_f$ ) are the main type of advantages which explain successful internationalisation over time. These advantages prevail in both benign and hostile environments characterised by fierce competition, and they also acknowledge the role of the entrepreneur or entrepreneurial manager in the internationalization strategies of the firm.

**Table 1 – Ownership advantages and the evolution of global marketing-based industries**

	<b>1960s/1970s</b>	<b>1980s</b>	<b>1990s/2000s</b>
	Domestic consolidation	Multimarket competition	Global competition
<b>Ownership advantages</b>	<b>General (Og)</b> <b>Firm-specific (Of)</b> <b>Product-specific (Op)</b>	<b>Firm-specific (Of)</b> <b>Product-specific (Op)</b>	<b>Firm-specific (Of)</b>
<b>Industry/Sample Firms</b>			
Alcoholic Beverages	Pernod, Ricard (merger, 1975)	Pernod Ricard, Austin Nichols (acquisition, 1988)	Pernod Ricard and part of Seagram (acquisition, 2000)
Foods	Rowntree, Mackintosh (merger, 1969)	Nestlé, Rowntree-Mackintosh (acquisition, 1988)	Nestlé, Perrier (acquisition, 1992)
Cosmetics	Colgate-Palmolive, Helena Rubinstein (acquisition, 1969)	L'Oréal, Helena Rubinstein (acquisition, 1987)	L'Oréal, Maybelline (acquisition, 1996)

Note: For those cases of acquisitions – the acquirer is the firm to appear first, and the acquired firm is the second. Eg. in 1969 Colgate Palmolive acquires Helena Rubinstein.

## References

- Bartlett, C.A. and S. Ghoshal (1989) *Managing Across Borders: The Transnational Solution*, Harvard Business School Press: Cambridge, MA.
- Birkinshaw, J. (1997) 'Entrepreneurship in multinational corporations: the characteristics of subsidiary initiatives', *Strategic Management Journal*, 18 (3): 207-229.
- Buckley, P.J. (2009) 'Business History and International Business, special issue of Business History 51 (3).
- Buckley, P.J. and Casson, M. (1976) *The Future of Multinational Enterprises*, Macmillan: London.
- Cantwell, J. and Narula, R. (2003) *International Business and the Eclectic Paradigm: Developing the OLI Framework*, Routledge: London.
- Casson, M. (1982) *The Entrepreneur: An Economic Theory*, Martin Robertson: Oxford.
- Casson, M. (1986) 'General theories of the multinational enterprise: a critical examination', in P. Hertner and G. Jones (eds.) *Multinationals: Theory and History*, Aldershot & Brookfield: Gower.
- Chandler Jr., A.D. (1962) *Strategy and Structure*, The MIT Press: Cambridge, MA.
- Chandler Jr., A.D. (1977) *The Visible Hand*, Harvard University Press: Cambridge, MA.
- Chandler Jr., A.D. (1990) *Scale and Scope: The Dynamics of Industrial Capitalism*, Harvard University Press: Cambridge, MA.
- Coase, R.H. (1937) 'The nature of the firm', *Economica* NS.4: 386-405.
- Dunning, J.H. (1998) 'Location and the multinational enterprise: a neglected factor', *Journal of International Business Studies* 29(1): 45-66.
- Dunning, J.H. (1958) *American Investment in British Manufacturing Industry*, Allen and Unwin: London.
- Dunning, J.H. (1980) 'Toward an eclectic theory of international production: some empirical tests', *Journal of International Business Studies* 11(1): 9-31.
- Dunning, J.H. (1981) *International Production and the Multinational Enterprise*, Allen and Unwin: London.
- Dunning, J.H. (1987) 'The eclectic paradigm of international production: a restatement and some possible extensions', *Journal of International Business Studies* 19 (1): 1-31.
- Dunning, J.H. (1988) *Explaining International Production*, Unwin Hyman: London.
- Dunning, J.H. (2000) 'The eclectic paradigm as an envelope for economic and business theories of the MNE activity', *International Business Review* 9: 163-90.
- Dunning, J.H. (2002) 'Revisiting UK FDI in US manufacturing and extractive industries in 1960', in G. Jones and L. Galvez-Munoz (eds.) *Foreign Multinationals in the United States*, Routledge: London: 50-69.

- Dunning, J.H. and Lundan, S. (2008) *Multinational Enterprises and the Global Economy*, Edward Elgar: Cheltenham, 2<sup>nd</sup> ed.
- Dunning, J.H. and Narula, R. (1996) 'The investment development path revisited', in J.H. Dunning and R. Narula, *Foreign Direct Investment and Governments*, Routledge: London: 1-41.
- Dunning, J.H. and Rugman, A.M. (1985) 'The influence of Hymer's dissertation on the theory of foreign direct investment', *American Economic Review - Papers and Proceedings*, 75 (2): 228-232.
- Hennart, J.F. (1986) 'Internalization in practice: early foreign direct investments in Malaysian tin mining', *Journal of International Business Studies* 17(2): 131-143.
- Hymer, S.H. (1960) 'The international operations of national firms: A study of direct foreign investment'. PhD. Thesis, Massachusetts Institute of Technology.
- Hymer, S.H. (1968) 'The large multinational corporation: an analysis of some motives for the international integration of business', *Revue Economique* 19 (6): 949-73.
- Itaki, M. (1991) 'Critical assessment of the eclectic paradigm of the MNE', *Journal of International Business Studies* 22: 445-60.
- Jones, G. (2005) *Renewing Unilever: Transformation and Tradition*, Oxford University Press: Oxford.
- Jones, G. (2010) *Beauty Imagined – A History of the Global Beauty Business*, Oxford University Press: Oxford.
- Jones, G. and Galvez-Munoz, L. (eds.) (2002) *Foreign Multinationals in the United States*, Routledge: London.
- Jones, G. and Khanna, T. (2006) 'Bringing history (back) into international business', *Journal of International Business Studies* 37(4): 453-468.
- Kogut, B. (1984) 'Normative observations on the international value-added chain and strategic groups', *Journal of International Business Studies* 15 (2): 151-167.
- Lopes, T.S. (2002) 'Brands and the evolution of multinationals in alcoholic beverages', *Business History* 44 (3): 1-30.
- Lopes, T.S. (2007) *Global Brands*, Cambridge University Press: New York.
- Lopes, T.S. and Casson, M. (2007) 'Entrepreneurship and the development of global brands', *Business History Review* 81: 651-680.
- Penrose, E. (1959, 1995) *The Theory of the Growth of the Firm*, Oxford University Press: Oxford.
- Pollard, S. (1997), *The International Economy Since 1945*, Routledge: London.
- Porter, M.E. (1990) *The Competitive Advantage of Nations*, Free Press: New York.
- Rugman, A.M. (1981) *Inside the Multinationals*, Crook Helm: London.

Rugman, A.M. (2009) *Rugman Reviews International Business*, Palgrave Macmillan: New York.

Rugman, A.M. (2010) 'Reconciling internalization theory and the eclectic paradigm', *Journal of Multinational Business*, 18 (1).

Rugman, A.M. and Collinson, S. (2006) *International Business*, Prentice Hall: London, 4<sup>th</sup> Ed.

Rugman, A.M. and Verbeke, A. (1993) 'Foreign subsidiaries and multinational strategic management: an extension and correction of Porter's single diamond framework', *Management International Review* 33 (2): 71-84.

Rugman, A.M. and Verbeke, A. (2003). 'Extending the theory of the multinational enterprise: internalization and strategic management perspectives', *Journal of International Business Studies*, 34 (2): 125-137.

Schumpeter, J.A. (1947). 'The creative response in economic history', *Journal of Economic History* VII (2): 149-59.

Verbeke, A. (2009) *International Business Strategy*, Cambridge University Press: Cambridge.

Vernon, R. (1966) 'International investment and international trade in the product cycle', *Quarterly Journal of Economics*, 80 (2):190-207.

Wilkins, M. (1988) 'Business history as a discipline', *Business and Economic History* 17: 1-7.