

An Extended Eclectic Paradigm of Dunning: Impact of New International Business Processes

D. de Matías Batalla

Abstract—This paper develops and extended eclectic paradigm to fit the firm internationalization process with the real international business world. The approach is based on Dunning's, introducing new concepts like mode of entry, international joint venture o international mergers and acquisitions. At the same time is presented a model to describe the Spanish international mergers and acquisitions in order to determinate the most important factor that influence in this type of foreign direct investment.

Keywords—Dunning, eclectic paradigm, foreign direct investment, IJV, international business, international management, multinational firms, firm internationalization process, M&A.

I. INTRODUCTION

HISTORY of the theories and models of firm internationalization process emerged in the 18th century, under assumptions of the international trade, being extended their studies in the following century by completing the assumptions that constituted the basis of the international trade explanatory. These traditional patterns of international trade are not useful to explain the causes of foreign direct investment, given that under their approaches of perfect and competitive markets, without market failures and with constant returns of scale, the possibility to obtain higher benefits by increases in production would disappear in the absence of opportunities for efficiency improvements. However, the mere existence of specific advantages for a company means that multinational firms do not operate in competitive markets [1]. However, in the business administration field, the previous is not valid because studies are based on the assumption of imperfect competition markets, where market failures exist.

The most important studies can be grouped in a series of approaches that reflected the main theories and models of firm internationalization process: international trade, economic approach, resources and capabilities approach, location approach, sequential process approach, corporate approach, globalization approach, value chain rupture and the new multinational firm approach.

In spite of all the above, the approach of the highest importance, the most complete and which picks up more fields in the internationalization firm explanation is the eclectic paradigm [2]-[5], being the contemporary reference frame of more studied in the internationalization process of firms.

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II. ECLECTIC PARADIGM

Based on the economic influence previously summarized, the eclectic paradigm was developed by the British author J.H. Dunning, which is the basis of this study. The conceptual framework given by the eclectic paradigm represents an improvement in the approximation proposed by previous authors, highlighting on all the others transactions cost theory, including in the same "business core" and location factors. Dunning justifies the integration of the others internationalization theories in his eclectic paradigm in which the previous theories are both partially correct as incorrect to explain the pattern of foreign direct investment done by multinational companies.

Eclectic literally means "taken from various sources" and the eclectic paradigm (also known as OLI model) is just an integration of the other classic theories of internationalization of firms (with date prior to 1980) summarized in the previous point of this work. However, thanks to its eclectic characteristic it has been recognized as the more relevant and complete model of firm internationalization. The OLI model explains the stages that multinational firms must complete to internationalize their activities (through foreign direct investment) represented by the obtaining of three different advantages: (1) ownerships advantages (O), (2) location advantages (L) and (3) internalization advantages (I). Dunning [6] suggests that the eclectic paradigm provides the foundations for a general explanation of the international production model, providing several types of activities carried out by multinational corporations, justifying the firm internationalization processes in any of the following strategy: (1) natural resources search, (2) market search, (3) efficiency search, (4) strategic assets search, (5) commerce and distribution and (6) staff services.

The economical implication of the companies both on the domestic and foreign markets can be explained by the provision of goods or products [7]. The production of a particular product can be located completely or partially in the proper domestic country, in a foreign country (where it is sold), in a third country or in a combination of these three possibilities. Therefore, the production to supply the domestic market itself can be made both domestically and internationally. The ability and willingness of the national companies of a country to provide both the own domestic market and overseas market to another from a third country depends on the possession or be able to acquire certain assets, which are not available in terms or favorable situations for other companies in the domestic market.

Assets refers a specific assets that multinational companies have (represented by the letter O of ownership specific assets), gaining a strategic advantage for its possession, since it is assumed that assets are unique to a company or country. An asset considered as unique and specific to a country (represented by the letter L, referring to location specific assets). Is an asset that gives a strategic advantage to a country and to the firms located in the same, as it available for all of them. The commercial pattern effects of the vertical integration or horizontal diversification of the company or about their reactions to uncertain markets or to the governmental interventions, sparsely are included in the existing literature until the 80s.

The cross-border trade is what differentiates the national market failures of international ones, which influence and distinguish domestic firms and multinational firms. Is the market inability to organize in a satisfactory manner the agreements between both parties buyers and sellers of a intermediate products, causing one or other (buyer or seller) have to choose the best way to exploit the differences in the international markets in order to find a specific sale that it benefits it from the competition. The presence of a cognitive market structure and failures in the same time causes companies to seek different strategies in order to seek the international exploitation of O and L assets [8].

III. CRITICS TO ECLECTIC PARADIGM

However, since the eclectic paradigm was accepted like the most completed manner to explain the firm internationalization process, the voices have not been missing in against [9]-[20]. The main criticism against the eclectic paradigm are focus on: (1) it does not take into account the "role" of the managers; (2) its instability to manage the dynamic evolution of multinational companies, in what it is considered very static to manage the dynamic evolution of multinational firms; (3) the excessive importance it gives to ownership advantages; (4) be limited in the negotiation with the interaction between the environmental policies and the company, managed by business strategy; (5) and it does not take into account the institution influences on the firm.

The theoretical management school proposed a paradigm based on management collecting all forgotten foundations of multinational firm researches up to date. Unlike to the British author, [21] argues that any applicable paradigm to the diversified multinational company research (DMNC) must incorporate a differentiate approach to the business and provide flexibility enough to differentiate different existing commercial transactions and between multiple dimensions that envelops the multinational firms. From a strategic point of view, the main proposal is extend the theoretical framework of the eclectic paradigm by adding the different modes of foreign market entry (export, license agreement, joint venture and direct investment) [22]. On the other hand, this approach proposed incorporate strategic variables, as the overall concentration, global synergies or strategic objectives [23]. The authors suggest three types of variables that influence on the decision of the international mode of entry: (1) strategic

variables, (2) environmental variables, and (3) specific variables for the activities transaction. A few years later, Matthew (2006) introduces his "LLL framework" (*Linkage, Leverage, Learning*) as alternative and complementary framework based on globalization processes, renowned for its dynamic conceptual framework. On the other hand, Ho, P.S, Lin, E. & Lin, Y.C. (2010) through the Uppsala model [24] introduces the dynamic variable into the eclectic paradigm, renaming the new model as *D-OLI Model*. This model is based on three internationalization stages: pre-internationality of the firm, (2) pre-multinational firm and (3) multinational firm.

By all the previous examples, along the criticism on its, Dunning [25]-[30] was forced to investigate on the new business and social phenomena that were influencing in the firm internationalization. However, none of them changed the foundations of the traditional proposal that composed his eclectic paradigm, with a few exceptions incorporating new concepts on the ownership advantages (O) and location advantages (L).

IV. FROM OLI TO OLIM

One of the more notorious extensions of the OLI model was developed by [31]. He revised the eclectic paradigm deeply and he was one of the few researchers in the business strategy field in expanding theoretically the eclectic paradigm. The new approach changes the OLI model under an optimal micro company level replacing the advantages of internationalization (I) by the modes of entry to new markets (M). In conclusion he adds a new variable (A) to adapt business processes to the environment, referring "A" what others authors call strategy. The proposed OLMA model can be discussed, in regards that it does not have the internalization variables (I) and the all its advantages. In accordance with empirical works based on transaction costs [32]-[35] the choice between a mode of entry and another can be conditioned and internalization advantages. For this reason we should not raise a firm internalization paradigm without include this variable.

One of the situations that eclectic paradigm does not consider to explain the firm internationalization process is the form in which the companies entry in the new markets, cause Dunning developed his framework under the unique perspective of the subsidiaries. The new variable that is added to the eclectic paradigm is representative of the different modes of entry, appointed by the letter "M. This new variable considers all possible modes that foreign direct investment can adopted: (1) subsidiary, (2) offshoring, (3), greenfield investment, (4) international mergers and acquisitions and (5) international joint ventures.

At this time it must be mentioned those researches from the strategic approach that defended the introduction of the strategic variable into the eclectic paradigm. It is added using letter "S" to represent the strategy influence in the firm internationalization process. The point of view of this paper is totally agrees with this research approach in order to introduce strategy in the multinational firm framework, although with a tint. The introduction of the strategy cannot be in the form of *exogenous* variable to the own paradigm [36], if not we have

to consider it into the own firm internationalization process (OLI-model) in an *endogenous* manner.

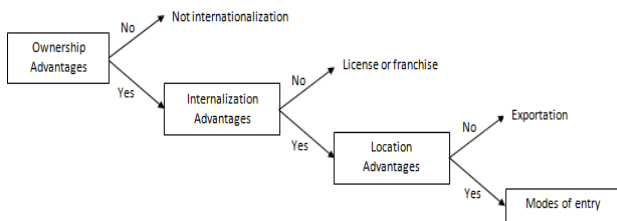


Fig. 1 OLIM-model

Instead of considering the strategy variable like exogenous to the OLI-model and that influences independently and isolated in it, the extended eclectic paradigm version interprets in a manner that the strategy is part of the firm decision – making consistently (the strategy concept is present as a basis for any action plan of the companies daily), and in this case, it is inherent in each step or necessary condition for the eclectic paradigm is formulated. The strategy is present when it is born and begins its journey (through the mission, vision and values), as well as the pursuit of ownership advantages (decisions about what product sell, if it is going to be a low cost company or elitist, corporate reputation development, recruitment...). In the same way, when the firm decides internalize their resources and capabilities, strategy plays an important role (for example, the decision to obtain economies of scale and/or scope, retention of the strategic resources and capabilities or if it decides take financial risks opening a franchise, such as Benetton). Continuing the eclectic framework development, the business strategy is present when it studies the existence or not of location advantages in international markets.

The international strategy that the company has developed influences the choice of potential markets where it wants to be established through foreign direct investment. The Spanish multinational firms and its international strategy modes are clear examples of this. They have internationalized first all its activities in a more intense manner in Latin America as a springboard to the rest of the world, avoiding major financial risk from cultural distance. In this way Spanish multinational companies obtained international experience and increase their corporate reputation to extend their activity to North America (Banco Santander), Europe (Telefónica) or Asia (Inditex), using different foreign direct investment modes of entry.

V. THE ENDOWMENT/MARKET FAILURE PARADIGM OF INTERNATIONAL VALUE ADDED ACTIVITIES

Is assumed that the company as organization wants consciously, their survival, growth and expansion, accepting therefore this is achieved through the generation of maximum benefit, in a long term and in a world with restrictions, which give an appropriate financial capital structure, maximizing the shareholder profitability [37]. The existence of international markets, mostly heterogeneous with unequal endowment of natural resources, created factors, purchasing negotiation

power and institutions between the different countries among other factors, provide an opportunity for survival and expand abroad the national activities that companies do in domestic markets.

In the current managerial environment, the companies seek the most favorable location to carry out their business activities, although it can be very difficult to know what location is the most adapted to allocate the resources and capabilities, to obtain the major performance. The alteration or the reordering of the objectives and the incorporation of others, make that the “best” economic structure intended changes. In a dynamic situation, where adjustment occurs in cost, the majority of the economists are eagerly waiting to make an assessment of the consequences or the alternatives due to the settings.

Multinational companies perform their activities within an economic structure that influence in their strategic decisions. However, in spite of the importance of this structure, there is no a consensus about *the ideal economic structure concept* because the objectives or the exchange of objectives between different companies are different, so that is not possible to get a concrete answer about the term of economic structure. This situation is further strengthened by the fact that the economic policies of different countries, which influence the multinational firms’ activities, vary widely from one country to another. At the same time, economist can identify the most important components and determinants of the economic structure and suggest reason why multinational firms can affect differently the economic structure than domestic firms.

However, the question “what produce” cannot be separated from the “how to produce”. Most of microeconomic books relating to the efficient distribution assumes that all the resources can be or are used, i.e. that there is a full employment. The question that the economist have is of “how does”. This efficient allocation is also dependent on the manner that the resources are used according to any business activity, and it is essentially the “how to produce”. Again sometimes the economists limit their responses to this question assuming that, in any case, companies cannot produce in a most efficient way; they cannot combine their factors with the lower cost; and they cannot produce in a correct scale of economy of the output.

The foundations of international production and internalization of the ownership advantages to third countries are based on market failures, distinguishing between structural market failures and transactional market failures [38]. These market failures together with the extended eclectic paradigm or OLIM-model shape the multinational firm economic structure, what is called “The endowment/market failure paradigm of international value added activities” (Fig. 2), improving the conceptual framework provided by Dunning [39], due to the Dunning paradigm does not faithfully reflects the reality in where multinational firm compete, so that it is developed a revision and extension of the framework that Dunning provided.

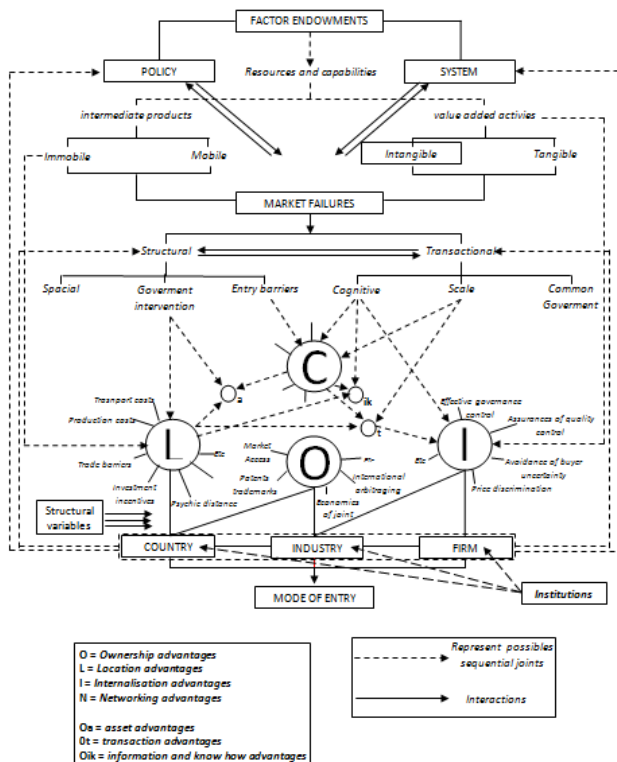


Fig. 2 The endowment/market failure paradigm of international value added activities

Instead of being based on the intermediate products to justify the international location of the multinational firm value chain, the new paradigm is based on the resources and capabilities of firms, which gives them an initial competitive advantages (ownership advantages) that allows them to compete in domestic market and offers them the opportunity to internalize this advantage to other country. Once located the most valuable resources and capabilities of the firms, there are two ways to be able to benefit from market failures in the existing international economic structure. On the other hand, through the exchange of intermediate products of which Dunning based his approach, and on the other side the value add activities of the value chain, which is what actually generates a strong competitive advantage to the company, deciding internalize these activities to third countries to obtain an economic performance. The rest of activities are outsourced or simply done by the company in the domestic country, excepting mandatory activities that are necessary to do the most valuable activities that company does not outsource. International production is conducted through the market failures mentioned by Dunning, which are influenced by institutions. These institutions are mostly public and governmental, attracting foreign direct investment flow from other countries or toward third countries.

At the time of fitting the eclectic paradigm through OLI model in the economic structure, it is joined the new variable added in the previous point with letter “M” (modes of entry). However, this is not a competitive advantage, but also

competitive advantages are obtained depending on the mode of entry chosen. Considering that internal company growth manners (offshoring, greenfield investment) don't influence directly in the new economic structure (due to their consequence on the firm competitiveness are collected by “I” and “L”), it has to be special attention the external company growth manners (international joint ventures and international mergers and acquisitions). These last two forms of foreign direct investment are differentiated from the other two mentioned above and the establishment of productive and commercial subsidiaries in what firms establish relationships with other companies, and they may take different situations that are converted in competitive advantages by multinational firms (C). Moreover, in some situations, such as is the case of China, the own institutional impositions of its government make that the only mode of entry to China through foreign direct investment is via international joint venture with national firms (saving the entry barriers imposed by Chinese government) or limiting the share acquisitions of Chinese firms.

In turn, the achievement of international joint ventures and international mergers and acquisitions provide a series of information (i) and knowledge (k) advantages that give to the multinational firms an international competitive advantage, in addition to strengthening the ownership advantages (Oa) and the internalization advantages (Ot) from one market to another. As mentioned previously, it must include the “M” of modes of entry in this international production paradigm to consider all kind of foreign direct investment, referred in the OLIM model. Therefore, as Fig. 2 shows, once have been set the characteristics of countries, industries and companies, the firms are in position to decide which kind of foreign direct investment is the most feasible in each circumstance. This latest decision is dictated by the decisions that the institutions taken in economic, financial, labor, legal, social... all of which shape the stage on which companies compete, influencing on the characteristics of firms, industries and countries.

One of the most recurrent criticisms that the eclectic paradigm has been is its lack of dynamism in a constant change environment. Well, in this extension of the paradigm, the dynamism it's introduced by linking the micro-economic level of the economic structure (the firm, by means of OLIC variables) with the macro-economic level of the same (everything external to the organization). In the short term, the environment (macro-level) changes in the day to day as a result of changes in customer needs and preferences, in laws, in employee qualification, technology development, natural disasters... what has its impact to the firm (micro-level) in the long term, depending on flexibility firm structure level and its ability to understand the environment changes and adapt to it. Therefore, everything happened at the macro level influence in different way to the company, which by means of OLIC variables is able to adapt itself to these changes and maintain, improve or create new international competitive advantages.

Finally the whole previous dynamism described will affect in the manner the company entry to international markets. Based on Dunning proposal [40] and his determination for

introducing the strategy in his paradigm and provide dynamism to it, in order to determine an investment pattern (productive and commercial subsidiaries) in different moments, now it's presented a modeling that entails a best dynamism and that attempts to explain the election of the entry mode in international markets in different time moments in the future. For example, the accumulation of assets due to the acquisition operation has effect on the mode of entry in $t_1, t_2 \dots t_k$, but not in t_0 , like the eclectic paradigm develops.

In the new paradigm can be seen that the election of the foreign direct investment (mode of entry, "M") depends on the function of the OLIC variables at that time, which are influenced by the developments at the previous period of time. As can be seen through the inclusion of "C" variable, consequences of international joint venture and international mergers and acquisitions will influence in the form of the international competitive advantage in the following period of time the completion of all the same (when company take resources and capabilities and obtain real benefit from them to decide the next mode of entry in a other international market, via O_a, O_t, O_i and O_k), unlike Dunning that based their studies in which these modes of foreign direct investment is reflected in the "O" and "I" at the same moment that these business operations occurs.

VI. INTERNATIONAL MERGERS AND ACQUISITIONS

Regardless of the legal aspects, a merger occurs when two or more companies, generally of a equivalent size, agree to joints together, creating a new firm to the troop-contributing all their resources, dissolving the primitive companies. On the other hand, the acquisition takes place when a company through various procedures, purchases a firm or at least a most of the shares that gives it the control over the firm. In the acquisition process there is the possibility that the acquirer company and the acquire firm maintain their legal personality. A third type of operation, still less common than the previous but similar is the takeover, which takes place when a company acquires another company and normally the acquired firm disappears.

These three options, from a strategy point of view do not show a clear differences in what is often study regarding them as a whole, considering all of them generally like mergers or acquisitions. The motives and reasons that justify theses business strategy operations are multiples, depending on each case individually. However, in order to have a summary, this paper selects the most popular:

- Consolidate the market share in a country or geographical area
- Introduce products, services or technologies in new markets
- Penetrate in new geographical areas
- Vertical integration
- Introduce a new business line into the firm product portfolio

The reasons for the international mergers and acquisitions can be found in different theoretical approaches raised to date:

- *Mergers and acquisitions theory*: Purchase of companies belong to decline or stagnant industries [41], [42] acquisition of assets at a lower price than the replenishing itself [43] obtaining market share through monopolies or oligopolies creation [44] among others.
- *Theory of the company growth*: from this approach, the expansion in the local market within the same sector is the most appropriate strategy for growth, but in much mature sectors it is not possible, so the direction of this growth is international seeking new opportunities beyond national borders. Penrose [45] said that there is a maximum limit within firms to recruit and train managers and this is little staff, the most feasible alternative to entry in international markets is via acquisitions.
- *Theory of imperfections in the capital markets* (agency and transaction cost): for the agency theory, acquisitions and mergers provide achieving the optimal decentralization level of balancing information costs, delegating the decision-making in the new business unit acquired in the international market [46]. On the other hand, the cost transaction costs approach assumes that this kind of business operation is based on the operational activities internalization within firm structure (even if it is through the purchase of a international company), being in this case reduced the transaction costs in marketing activities [47].

VII. METHODOLOGY

A. Population and Sample Size

The population study object is characterized by be Spanish companies internationalized under foreign direct investment (FDI) and within the same this article is focus on those that have carried out in any period on time an international merger or acquisition. The total number of Spanish firms with FDI is not possible to quantify exactly due to it does not exist a consolidate database. To obtain information and an approximate number of Spanish firms with FDI has been checked the list of Spanish companies with FDI in different countries that ICEX has published.

In this exploration, it has obtained a total of 2.750 companies, which have been sent electronically questionnaire. Of the same, 166 firms have responded in a proper manner, being these firms the article sample.

B. Object of Study

Given the new conceptual framework for the firm internationalization process study, the present work is focus on study those companies that decide to carry out international mergers and acquisitions as a international entry mode through FDI. This paper shows the most important variable that influence in the international mergers and acquisitions done by Spanish firms, providing key factor to internationalize the firm activities through this type of FDI confirming that it must be included within international value add paradigm.

C. Data Collection and Processing

Sending questionnaire took place since the end of the month of November 2013 until the beginning of the month of March 2014, among which was carried out three waves of shipments. The completed questionnaires were arriving from the beginning of the month of December 2013 until the end of the month of March 2014, obtaining 166 responded surveys correctly. Once received the surveys are stores in Google Drive automatically generating a database ready for further treatment.

In order to steer with SPSS it has been managed the database, obtaining the final database to contrast the hypothesis using descriptive and inferential statistical analysis. Empirical analysis has been realized via binary logit model with the objective to contrast the following hypothesis and discuss the results.

D. Hypotheses

H1. There is a positive relationship between the market concentration (share market) in national markets and the international mergers and acquisitions operations.

The industry characteristics to where firm compete, the economic structure as well as the existing business competitiveness in the home market are important factors that influence positively in the decision to realize international mergers and acquisitions. Although these characteristics are different from one country to another, in many cases it is possible to distinguish a location pattern in the mode traditional industries (for example manufacturing industry) and the more globalized industries influenced by the information and communication technologies [48].

H2. Companies with international shareholders will have more probabilities to invest abroad through international mergers and acquisitions than companies don't have.

The presence of international shareholders in the firms influence positively in the international presence of companies, doing more international mergers and acquisitions than companies with less international presence in its board. In addition, this kind of company export, import, cooperate internationally and invest abroad more simultaneously in the greater proportion than completed national companies [49].

H3. International mergers and acquisitions has a positive relationship with the firm size

The firm size is a key factor in both decision and performance of the international merger and acquisition as to the time to achieve the success, having mixed results in the research conducted in this area [50], [51]. On the other hand there is studies that defend the opposite [52] i.e. that the greater the firm size involved the profitability will be lower, reducing the attractiveness for this type of company.

H4. A greater investment in R&D activities will decrease the options for international mergers and acquisitions as mode of entry.

For a company to compete and survive in a market should have a competitive advantage, which among other things not to be copied with ease and be sustainable over time. Some of these advantages are achieved by innovation activities, which

can be developed the company internally. However, this practice has a certain risk for managers due to the uncertainty of whether the firm can actually obtain a competitive advantage, the necessary financial investment and the time required to maximize return on investment [53]-[56]. For this reason, an alternative to the internal development of R&D activities is the firm acquisition which has all R&D activities developed, enabling a direct penetration in the international market [57], [58].

H5. There is positive relationship between the international mergers and acquisitions and the level of indebtedness of the acquiring company.

Related to the previous hypothesis, the level of firm indebtedness affects positively to international mergers and acquisitions. A greater debt level has a negative impact on the R&D activities, to devote fewer resources to these activities, so that the company will decide acquire innovations and technology from other companies through mergers and acquisitions [59], [60].

VIII. ANALYSIS AND RESULTS

To contrast the hypothesis empirically raised have been chosen two binary logit model ($p < 0,05$). The first model contains all of the variables which are the object of study, while the second contains only those that are really statistically significant at the time to choosing international mergers and acquisitions ($y=1$) as entry mode (dependent variable). The independent variables in the first model are: (1) the market share in the domestic market, (2) the percentage of existing foreign capital in shareholders, (3) firm size, (4) the level of indebtedness and (5) the R&D investment. As Table it's showed only the (1) the market share in the domestic market, (2) the percentage of existing foreign capital in shareholders, (3) firm size are statistically significant, while (4) the level of indebtedness and (5) the R&D investment are not.

TABLE I
RESULTS MODEL 1

Variable	Coefficient value	Significance (T test)
market share	1,914	0,460
foreign capital in shareholders	7,704	0,000
firm size	2,579	0,001
level of indebtedness	0,964	0,905
R&D investment	0,876	0,488
constant	0,000	0,000

Therefore, it's proposed a second model without these last two variables, obtaining the results that displays in Tables II-IV. With this model the significance of the global model is improved at the same time that the significance of each variable individually.

TABLE II
PREVIOUS RESULTS MODEL 2

	Chi 2	-2log likelihood	R2 Cox & Shell	R2 Nagelkerke
Model 2	66,771	-0,544	0,345	-0,684

TABLE III
RESULTS MODEL 2

Variable	Coefficient value	Significance (T test)
market share	0,655	0,018
foreign capital in shareholders	1,891	0,000
firm size	0,786	0,001
constant	-7,709	0,000

The data shows us that a greater market share that firm has greater possibility to entry in international markets through international mergers and acquisitions, so it can be said that companies belonging to those industries where there is a greater business concentration will tend to choose international mergers and acquisitions as a mode of entry in new international markets, greater than those companies that compete in more perfect conditions markets.

TABLE IV
CORRELATION MATRIX MODEL 2

	Constant	Market share	Int. shareholders	Firm size
Constant	1	-0,544	-0,408	-0,684
Market share	-0,544	1	0,063	0,215
Int. shareholders	-0,408	0,063	1	-0,279
Firm size	-0,684	0,215	-0,279	1

With regard to the foreign shareholder presence in the firm board, the companies with foreign investors made more mergers and acquisitions that have not due to the previous international knowledge and the less risk that they see in international business. Finally, larger firms will be more likely to carry out international mergers and acquisitions than smaller firms, which decide entry to international markets through another foreign direct investment.

According with data analysis, the probability of this mode of entry can be model of the following manner:

$$\text{Prob (Y=1)} = -7,709 + 0,655\text{MARSHA} + 1,891\text{FCSH} + 0,786\text{SIZE}$$

IX. CONCLUSION

Given the new international environment in which multinational firms compete, the approaches of Dunning must be reviewed. The empirical and real evidences show that new forms of foreign direct investment are a mode of entry that multinational firms use to penetrate in new international markets, so they should be incorporated in the eclectic paradigm, under variable "M". In addition, the role that firms play in the economic structure of any national market is impacted by the present approach. The Dunning conceptual framework called "**The endowment/market failure paradigm of international production**" must be extended and completed by the new variables that have an important role in international business since two decades ago.

The introduction in the same of the resources and capabilities theory (about what is behind the firm ownership advantages), the modes of entry (M), competitive advantages obtained by alliances, international joint ventures and international mergers and acquisitions (C), the role of institutions in the national economic structure, the strategy and

the dynamism make the "**The endowment/market failure paradigm of international value added activities**" a conceptual framework much more completed than its predecessor.

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