Strategic view of internationalization process, a case study

Prof. Dr. Sertif DEMİR
Faculty of Management
University of Turkish Aeronautical Association
Email: sertifd@thk.edu.tr or sertifdemir@gmail.com
Orcid ID: https://orcid.org/0000-0001-8329-8735
Turkey

Associate Prof. Dr. R. Dilek KOÇAK
Faculty of Management
University of Turkish Aeronautical Association
Email: dkocak@thk.edu.tr
https://orcid.org/0000-0002-3077-0706
Turkey

ABSTRACT

This study aims at examining the Slovenian airdrome multinational corporation construction Company, in OLI paradigm factors, notably focusing on how the OLI paradigm can be utilized to explain the course of the company for the decision of internationalization production. The major outcome of this study demonstrates that among the OLI paradigm, ownership and location advantages can best explain the Company’s internationalization of production as the Company has the monopolistic advantage in production airdrome in Balkans, at old Soviets countries, and the Middle East and those regions present locational advantage because of their effective demand capacity, low labor costs, free entry markets.

Keywords: Dunning’s eclectic paradigm emerging markets, international business foreign direct investment, joint venture.

JEL classification: M10, M 16, F 21, F23

Introduction

Multinational corporations (MNCs) or multinational enterprises (MNEs) are generally considered as providing the dynamics for trade internationalization. The core characteristic of an MNC is that although the owners and managerial staff are based in one country, they conduct economic activities in foreign countries. A multinational organization is a business organization working in more than two countries. (Lazarus, 2001, 0197) Foreign direct investments (FDI) by MNCs are a critical factor in trade internationalization because there is a close relationship between countries’ development and direct investment. More specifically, at the beginning of the twentieth century, most of the world’s infrastructures first began to develop through direct investments (IFC, 1997, 11).

An MNC results from a cycle of development that expands the Company’s borders beyond home states (Dunning and Lundan, 2008). Notably, the US’s economic progress during the Second World War led to firms emerging with a capacity that extended beyond the US. In response, scholars have investigated MNCs/MNEs from various perspectives. The key focus has been to determine the motives behind the firms’ decisions to invest in other countries. This has made the internationalization of production an intensively researched topic in international business and the international economy. Many theories have been developed to conceptualize FDI in terms of its scope, functions, roles, aims, and motives.

Determining the motivations, enablers, and diverse types of MNE investments across the globe has become a critical research focus. The theory founded by Dunning (1973, 1979; Dunning and Lundan, 2008), received significant global support from all the theories on international business (Sharmiladevi, 2017, 47). Dunning’s eclectic theory has been considered the most inclusive for explaining the decisions that MNCs/MNEs make regarding investment abroad. It provides a major tool for explaining investment across various sectors and types of activities. Its simplicity and generality also make it compatible with several schools of economic and managerial thought. (Cantwell and Narula, 2001, 155-156) It is based on three significant concepts, Ownership, Location, and Internalization, which together explain the activities of MNCs, their FDI decisions for overseas investment, and their preference for FDI over other types of internationalization (Sharmiladevi, 2017, 47). In this regard, scholars have examined the activities of many MNCs within the OLI...
paradigm. Overall, their results indicate that OLI is a valid theory that can be applied to various economic fields to explain the internalization of firms.

In line with this research, the present study examines one Slovenian construction Company, using the OLI paradigm. The company was established in Slovenia in 1992 to produce one product that sells worldwide. With 27 years of experience in 40 countries, it has become a technological and market leader for air dome systems. More specifically, the Company designs, manufactures, and installs unique and versatile membrane structures. It is an expert in air-assisted (pneumatic) structures, prefabricated light metal or wood structures, and tension membrane structures. Its most well-known building product is the Company Building System for air-assisted building systems. It has quickly become a global industry leader with more than 1,200 projects across Europe, Asia, the Middle East, Africa, and South America.

This paper uses the OLI model to explain the Company’s internationalization decision. OLI provides a suitable theoretical framework for this research due to its flexibility (Narula 2006) as it can be extended to describe various international business sectors and business activities (Cantwell and Narula, 2001). The study shows which OLI parameter(s) helped determine Company’s decision to internationalize its production.

Regarding the order of the analysis, this study first presents the reviewing theories of FDI. Then, it will scrutinize Dunning’s paradigm. Subsequently, the Dunning paradigm is then applied to explain Company’s decision to internationalize its production. Finally, Company’s queries are analyzed and evaluated in terms of ownership, localization, and internalization.

The major outcome of this study demonstrates that among the OLI paradigm, ownership and location advantages can best explain the Company’s internationalization of production decision as the Company has the monopolistic advantage in production air dome in the Balkans, at old Soviets countries, and the Middle East and those regions present locational advantage because of their effective demand capacity, low labor costs, free entry markets.

A brief literature review of FDI theories

Various theories have aimed at postulating the development of MNCs/MNEs and FDI with diverse views and suggestions. These theories verifiably conceptualize how national firms decide to invest in foreign countries. However, no FDI theory can postulate all aspects of foreign production. Every FDI tries to formulate a certain trait of foreign production determinants. O the other hand, the FDI theories can be classified according to some reflections such as market and competition conditions (perfect and imperfect), micro/macroeconomic scale perspectives. This study aims at classifying FDI theories from macro/micro perspectives bearing in mind that some theories have both macro and micro linkages.

Micro FDI theories

**Firm-specific advantage FDI theory:** Hymer (1976) was the first scholar to elaborate the FDI in imperfect market conditions with firm-specific advantage (FSA) theory. He asserts that firms invest across countries because they observe specific advantages in the host nation such as availability of natural resources, access to raw materials, cheap labor costs, and economies of scale. He also claimed that MNEs are the creatures of market imperfections through their ability to gain FSAs in imperfect markets (Dunning and Rugman, 1985, 230; Kindleberger, 1987, 24; Monica Oehler-Şîncăi, 2011, 35-42). This theory is also labeled as the Industrial organization approach (Nayak and Choudhury, 2014)

**Firm monopolistic advantage FDI theory:** Hymer (1976) also conceptualized FDI based on monopolistic theory in imperfect markets which asserts that monopoly power is a global phenomenon, particularly through possession of superior technology. He asserted the US investment in post-war Europe through the US technological supremacy. The theory further suggests that the advantages of MNCs are only useful under market conditions of imperfect competition. Hymer’s theory, however, failed to include internal transaction costs. Charles Kindleberger, Hymer’s supervisor, later popularized this proposition before including further advantages to Hymer’s monopolistic advantage, such as superior access to capital (Buckley & Casson, 2009, 1563-1580), sophisticated technology, managerial expertise, patents, etc. Later, Caves and Aliber suggested further monopolistic advantages. In this standpoint, Caves (1971) proposed adding brands monopoly while Aliber (1970, 1971) proposed a non-monopolistic advantage from currency premiums (Buckley & Casson, 2009, 1563–1580) to explain the rise of MNEs in terms of financial market relations (Aliber, 1970). That is, a company may invest in a foreign country when the financial market allows it to profit from that host country’s companies. Consequently, MNEs may move from strong currency areas to weak currency areas (Kuşluvan, 1998, 167).

**FDI theory of internal transactions:** Afterward, the theory of internalization explains the growth of the transnational companies and their reasons for FDI in imperfect markets. Buckley and Casson (1976) contributed to the FDI concept with their suggestion of internal transactions, stressing that the value of internal transactions is below that of stock exchanges. They argued that any market imperfection can force a Company to internationalize. Both highlighted that internalization generally reveals the limits of MNEs, starting from the premise of rational choice. (Hymer 1976; Denisia, 2010; Nayak and Choudhury, 2014).

**Firm oligopolistic advantage FDI theory:** Knickerbocker (1973) developed the oligopolistic theory of FDI through imperfect market conditions. He offers a model in which two
imaginary foreign investors, one manufactures intermediate, other manufacture final products. These investors decide independently on whether or not they will enter a certain country. Knickerbocker states that oligopolistic response increases with the level of concentration and decreases with product diversification in the market (Nayak and Choudhury, 2014; Makhoba, 2018).

**Strategic theory:** Since the 1990s, economists have focused increasingly on Company competitiveness (Porter, 1990). In his Strategic Theory, Porter claims that MNCs have entered a period of strategic management in which international business has a value chain of activities from mining through development to marketing. Each Company must therefore determine which practices it wishes to pursue and in which locations around the globe. These decisions depend on the Company's overall competitive strategy.

### Macro FDI Theories

**The theory of the capital market:** Capital market theory claims that FDI is mainly determined by the interest rates of the country (Das, 2007).

**The macroeconomic FDI theory:** The market size has been proved to be one of the most important determinants of FDI by numerous past empirical studies. It indicates that an increase in market size is associated with an increase in FDI inflows into host economies. (Yil, Idris and Lily, 2019).

**The economic geography theory:** The economic geography theory of FDI illuminates the factors that affect the formation of international production (Das, 2007). The theory of modern economic geography was first formulated in 1991 by Krugman. Other scholars have further expanded the theory by introducing new dimensions such as scale returns, monopoly rivalry due to scale returns, transportation costs, and technical externalities between businesses (Popovici and Călin, 2014).

**FDI theory of gravity:** On the other hand, the FDI theory of gravity emphasizes that higher flows of FDI can take place in nations that are relatively close to each other in geographic, economic, and cultural perspectives. According to this theory, the gravity variables can contain the development situation, size, distance, common language, shareholder protection, and openness to foreign investment (Makhoba, 2018; Das, 2007).

**The FDI institutional theory:** Likewise, the FDI institutional theory explains the role of the institutional structure in FDI among countries. Among others, the country’s political stability is seen critical component for constructive institutional structure. Besides, government, education, markets, and social culture are seen as key components of the institutional structure of FDI flow (Das, 2007; Makhoba, 2018).

**Eclectic paradigm:** Dunning (1981) suggested an eclectic paradigm focusing on what drives firms to make FDI in imperfect market conditions. He listed several additional benefits of multinational ownership in the Ownership-Location-Internalization (OLI) context, defining the three specific categories of MNC benefits. According to this paradigm, FDI is driven by three advantages, control, position, and internalization (Dunning, 1981; Monica Oehler-Şincăi, 2011, 35-42; Alfaro and Chauvin, 2017, 7).

**Product Cycle Theory:** Taking into account the FDI theories related to international trade, Vernon (1971) had proposed the product cycle theory, which suggests that every product follows a life cycle from innovation through maturity to decline and obsolescence (Vernon, 1966, 190-207; Vernon 1979, 255-267; Dunning & Lundan, 2008, 8). The theory also suggests that every consumer follows a life cycle from invention through maturity to obsolescence (Vernon 1971). Vernon argued that his theory also exhibits country-specific characteristics. For instance, US enterprises' competitive or ownership advantages particularly their ability and capacity to implement new products and processes – are determined by the structure and nature of the endowments, institutions, and markets of their home countries. (Dunning & Lundan 2008, 85; Vernon, 1966, 1979).

**Country-Specific Advantages FDI theory:** Alan Rugman (1981) created a matrix for FSA and country-specific advantages (CSA). According to Rugman, FSA is one reason for FDI in another country, such as land, technology, expertise, and managerial or marketing skills. Somewhat differently, he also claimed that CSA covers natural resources, the quality and size of the labor force, cultural factors, tariff and non-tariff barriers, and public policies. Another theory that accounts for FDI is the theory of exchange rates on imperfect capital markets.

**Flying geese FDI theory:** Another theory explaining FDI is called the flying geese paradigm created by two Japanese researchers, Kojima and Ozawa. This theory became famous after Vernon (1966) popularized the product-cycle theory, the neoclassical theory of international trade. Kojima and Ozawa developed a model to describe both international trade and foreign direct investments. They argued that FDI takes place when a country has a comparative disadvantage in manufacturing a commodity when comparative advantage is focused on foreign trade (Kojima and Ozawa, 1984).

**Neo-Keynesian FDI theory:** Keynesian theory asserts that an increase in FDI will, through the multiplier effect, cause output, consumption, and employment levels to rise. FDI is thus believed to bring about economic growth and development, and thus increase income for all. New Keynesianism attempts to build Keynesian arguments based on rational expectations and microeconomic foundations. This theorem also includes the information asymmetry, adverse selection, and moral hazards in FDI decisions. It also tries to expound why MNCs are constrained and/or inclined to adjust their investments due to financial market imperfections. (Hjalmarsson, 2013).
FDI theories on developing countries: So far, the explained FDI theories mostly analyzed the international production from developed countries to developed or developing countries. In the last two decades, FDI theories have also focused on international production from developing countries to other countries as their economies have enlarged at the globalization age (Nayak and Choudhury, 2014).

This section has outlined the major MNC theories except for Dunung’s OLI paradigm. The following section will scrutinize the latter and its application to Company’s decision to internationalize its production.

Case Study, The OLI paradigm and Company’s Decision to Internationalize Production

Case Study Methodology

Employing qualitative method, this case study explored how the Company’s internationalization of production decision will be explained according to Dunung’s OLI paradigm. The methodology covered analysis of empirical data obtained from the Company through inquiry questions expressed below and face-to-face discussions via visiting the Company in Turkey and Slovenia to analyze with Dunung’s OLI paradigm. Information gathered from various sources, such as academic journals, books, booklets, and eBooks, was also integrated with the authors’ assessments.

Conceptual Framework

Companies invest in foreign countries following success in their national markets. They may internationalize for a wide variety of reasons, such as searching for new markets, establishing production facilities nearer to raw material sources, benefiting from the hosting country’s cost advantages, acquiring new information and technologies, or searching for political security. To be successful, firms must have certain competitive advantages in international trade. These include scale economic capacity, management and marketing ability, advanced technology, financial power, product variety, and competitiveness in national markets.

There are various methods of conducting foreign trade, such as exporting, forming strategic alliances, outsourcing component production, licensing agreements, joint ventures, and direct investment. Dunung (1980) divided international activities into three categories, exports, direct investment, and licensing agreements. The prerequisite for these international activities is ownership advantages, including skills such as trademarks, production techniques, and entrepreneurship. A Company with ownership advantages can enter into license agreements whereas location advantages are important for direct investment. A firm with internalization advantages can export to foreign markets through a subsidiary. Based on transaction costs, internalization theory explains the integration of the markets operating in the system. FDIs and joint ventures are two intermediary stages in that a joint venture links a multinational and a local partner in final good development (Gattai, 2005).

Various dynamics have affected the increase in FDI, macro-dynamics from a country perspective, and micro dynamics from a Company perspective. Table 1 summarizes the dynamics behind direct investment acceleration from these two perspectives. These dynamics account for the motives, drivers, and conditions that lead firms to decide to internationalize production.

Table 1. Dynamics of Direct Investment Acceleration

| Country Perspective                                      | Company Perspective                                      |
|---------------------------------------------------------|---------------------------------------------------------|
| Liberal market mechanism                                | Increasing need to access global markets                 |
| Economic globalization                                   | Competitive pressures to use the cheapest sources available|
| Increased mobility of economically valuable assets      | More investments seeking greater efficiency due to regional integration |
| Increasing the number of incoming firms’ countries during the take-off stage of hosting country | Lower transportation costs and increased ease of cross-border communication |
| Convergence of economic structures of developed and some newly industrializing countries | Rise of oligopolistic competition among leading companies |
| Convergence of economic structures of developed and some newly industrializing countries | Emergence of new spatial opportunities for direct investment |
| Better assessment of the costs and benefits of direct investment | Source, prepared based on Dunung (1979, 1981, 2000, 2001, 2003) and authors’ own elaboration. |

1The data obtained from DUOL Company with the following questions:
- For what reason do you decide to become a multinational company?
- Which country or countries does your company invest in, and if you initiate a joint venture, in which country you invest, and what is your partnership share?
- Does your company have any partnership with any foreign company in Slovenia?
- Do you see the advantages of your company’s foreign joint venture in Slovenia and foreign joint venture abroad (two-way multinational company structure)?
- What are the reasons for choosing the country that you invest?
- What are the reasons for making a foreign investment decision? What are the benefits of your investment decision in a foreign country?
- How do you assess the advantages you have in terms of Slovenia (guest country) and the conditions in the country where you have invested (host country)?
- What kind of competitive advantages do you have against local or third-country companies in the country (s) you are investing in?
- What are the property advantages of your company in the hosting country?
- Do you have any product strategies in the country where you invest? If you have, how do you develop the product strategy?
Dunning’s OLI paradigm or Eclectic Theory tries to explain FDI from many perspectives. The OLI paradigm emphasizes that technology is a major dynamic in MNC evolution. Rapid, radical improvements in connections between societies and countries have enabled firms to establish business activities around the globe. The theory suggests that the astonishing economic achievements of MNCs have given them significant advantages over domestic corporations, specifically ownership, location, and internalization.

Dunning (1993) developed previous theories and eclectic theories, claiming that companies invest abroad if they have proprietary assets, such as technology, expertise, or management and organizational skills (firm-specific ownership [O] advantages). They want to exploit their benefits in foreign countries where they can find the appropriate country-specific locational [L] benefits by internalizing [I] their assets to lower transaction costs and gain strategic benefits (Akcaoglu and Erol, 2011, 71-86).

Competitive advantage derives from investors’ ownership of companies seeking to participate in FDI (or increase their current FDI) (Dunning 2000, 164). Firms that can use their capacity and know-how have an ownership advantage for FDI activities. The locational advantage is based on the value-adding activities of MNEs, such as the still, natural, or created resources that companies need to use, together with their competitive advantages. Internalization advantages concern the creation and exploitation of companies’ core competencies based on the location advantages of different markets. Such modalities range from non-equity arrangements (such as exports and imports) to the acquisition of foreign firms (Dunning, 2000, 164). If location benefits are not available, an export strategy may be preferable to FDI. If the firm has no location or internalization advantages, licenses or franchises would be preferable. In short, ownership advantage is a prerequisite for FDI activities (Sakr and Jordaany, 2016, 12; Pedersen, 2001).

Dunning also describes the precise nature of the hybrid model that reflects on both the financial and political characteristics of the investing firm's country or region, and the country or area they intend to invest in. The industry and the characteristics of the value-added business in which firms are engaged can explain the FDI decision (Dunning, 2000, 164).

According to Dunning, a Company's production abroad depends on three conditions,

i. The Company must have material or intangible goods and skills to compete with domestic companies with national knowledge and experience in the country to be invested in.

ii. Production in the target country should become more profitable than producing in and exporting from the country of origin.

iii. FDI should be more profitable than selling, leasing, or licensing the firm’s skills.

Various motivations may explain why MNCs invest in foreign countries. Drawing on Behrman (1972), most scholars agree that there are four types of MNE motivation (Dunning & Lundan 2008, 68-69). First, natural resource researchers invest overseas to obtain unique or higher quality products at lower real costs than they can at home. Oil companies investing in oil-rich countries are the best example of this type. Second, market seekers invest in a country or region to supply goods or services to markets there or in adjacent countries. Third, efficiency seekers invest in foreign countries to benefit from economies of scale and scope, and to diversify risk. Finally, strategic asset or resource seekers invest in long-term strategic objectives, especially to maintain or advance their global competitiveness.

Companies may also search for efficiency, strategic assets, or resources to serve their home country market rather than local or regional markets. Most MNCs already engage in FDI that combines two or more of these groups, as they have overlapping goals (Dunning and Lundan 2008).

As Caves points out, the ownership and internalization benefits of FDI illustrate why businesses are prepared to bear high costs and risks. He also argues that maintaining control over monopolistic advantages like a trademark or know-how gives these companies market power and the ability to extract rents. This internalization goal can be best achieved through FDI and establishing subsidiaries controlled by the parent Company in other economies. Oligopolistic firms tend to maintain corporate advantages within the secure limits of the Company and beyond competition companies through the development of greenfield plants or the acquisition of wholly-owned foreign subsidiaries, which are exclusively controlled.

Many MNCs have locational advantages because they have access to development factors worldwide and can therefore use country-specific advantages, such as low-cost access to skilled labor or other unique local resources. Considered in terms of the international trade Heckscher-Ohlin model, these businesses can flexibly take advantage of the competitive advantages of other economies to offer them significant advantages over domestic firms. Thus, even if the MNCs’ home economy may lose comparative advantage in its industry sector, the MNC itself can retain its competitive industrial position through FDI in economies with a comparative advantage in this industry (Gilpin 2011, 285-286). Technological developments have significantly reduced payment and other internationalization costs. Firms may also decide to enter foreign markets if certain triggering factors are present.
Table II. Entry Decision Factors Within the OLI Framework

| Ownership                        | Location                                      | Internalization                                      |
|----------------------------------|-----------------------------------------------|-----------------------------------------------------|
| Financial capacity               | Attitude and intervention of host country government | Availability of project funds                        |
| International experience         | Market profit potential, attractiveness       | Contract types, procurement methods                 |
| Track record, competitive advantages | Anticipated economic risks                   | Client types                                        |
| Level of knowledge and R&D       | Diplomatic relationships between home and host countries | Strict project quality requirements                |
| Performance (ROI-Sales-Assets)   | Host government control                       | Variety of distribution channels                     |
| Superior management              | Anticipated non-economic risks                | Product guarantees                                  |
| Management of quality            | Construction demand                           |                                                    |
| Management of risk attitude      | Market intensity of competition               |                                                    |
| Reputation                        | Financial support from home country banks     |                                                    |
| International business network   | Geographical proximity                        |                                                    |
| Long-term strategic orientation and objectives |                                    |                                                    |
| Logistics                         |                                               |                                                    |
| Quality of products              |                                               |                                                    |
| Monopoly of technology           |                                               |                                                    |
| Speed of sales                   |                                               |                                                    |

**Source**: prepared based on the Dunning’s 1979, 1981, 1998, 2000, 2001, 2003 publications.

Table II summarizes the entry decision factors within the OLI paradigm. These factors form the basis for examining Company’s decision-making within the OLI framework. As seen from the table, OLI factors have been analyzed according to their qualifications.

Finally, Knickerbocker’s (1973) oligopolistic reaction theory proposes that a Company’s FDI decision is independent of the behavior of its competitors. That is, when deciding to invest in a foreign location, companies scrutinize the internationalization activities of their competitors. According to Porter’s Strategic Theory, MNCs have entered an era of pragmatic leadership. Porter believes that international business is currently distinguished by the value chain of operations from development to sales. In developing the strategic management theory, Porter builds upon the concept of the inherent benefits of MNCs found in eclectic theory. Like a domestic Company, an MNC can transfer all of its operations to the most productive location anywhere in the world.

**Analysis of Company’s FDI within the OLI Paradigm**

Based on Dunning’s three conditions, three points can be made regarding Company’s foreign investment decisions. First, Company’s superior skills and technology enable it to compete with domestic companies in 27 host countries. It has also developed knowledge and experience from these investment countries since 1992. Second, Company only has one joint venture whereas it has branches in 26 other countries because it is more profitable to produce in these host countries than produce in the Company’s country of origin and then export. Third, as demonstrated by Company’s rising profits, installation of sports halls (air-supported structures), sports floors, sports equipment, sports stadiums, and indoor football and golf course. Its best-known product is the Company Building System for air-assisted buildings. It has quickly become a global industry leader with more than 1,200 applications worldwide in Europe, Asia, the Middle East, Africa, and South America. Its only joint venture so far is with a Company in Italy, withholding a 30% share. Such projects are defined as an associate type joint venture when the foreign investor controls a share of 10-50% of the local firm. Apart from this project in Italy, Company uses a branch-style FDI structure, meaning a wholly-owned unincorporated enterprise. It conducts its FDI business through representatives owned by Company.

**Company Analysis - Company profile**

The Slovenian construction Company was established in 1992 to become a technology and market leader of air dome systems. It produces one product that it can deliver worldwide. It has 27 years of experience in 40 countries, with its main investment markets being the European Union, former Soviet Union republics, the Middle East, and now Australia. Company has become one of the leading fabric structure suppliers, specializing in engineering, production, and
FDI is more profitable than selling, leasing, or licensing its skills to the 27 host countries.

Regarding Company’s ownership advantage, Denning (1993) argued that a firm-specific advantage (FSA) is an essential feature. The company has proprietary assets, including its technology, and is a market leader in Europe’s air dome system market. These FSAs in technology, know-how, and managerial and organizational capabilities give it a competitive advantage that enables it to invest abroad.

The survey results indicated that the major motive for internationalizing Company’s production is that the very small Slovenian market lacks effective demand. Company needs markets with sufficient capacity can meet its sales capacity. Additionally, it wants to exploit its monopolistic advantage in Slovenia abroad. The company is, therefore, prepared to absorb high costs and take risks internationally to benefit from the proprietary advantage of owning its unique products. The Company has a competitive power and the ability to gain rents while keeping its proprietary advantages, such as brand and know-how, in its own hands. In short, it possesses the theoretical prerequisites for international activities, namely, ownership advantages, including, production techniques, and entrepreneurship.

Dunning’s location advantage includes a country-specific advantage (CSA) that appeals to investors. FDI is theorized as having four major locational drivers, raw materials, cheap labor, untapped markets, and transportation costs (Buckley, 1985; Kusluvan, 1998, 65). In Company’s case, because Italy offers a CSA as the birthplace of the tensile materials, cheap labor, untapped markets, and transportation advantage. The company has a monopolistic advantage in the production of air domes and auxiliary parts. Therefore, instead of licensing or exporting its production, the Company preferred a joint venture in Italy and a branch-style structure in other countries. The company has tried to maintain its product-specific advantages within the secure boundaries of the Company and out of the reach of rival companies by establishing greenfield production centers that it solely operates. It prioritizes high capital returns. The company’s other internalized advantages are product quality, experience, and R&D activities.

The third Dunning’s eclectic paradigm is the advantage of internalizing, based on Buckley and Casson (1976). The best means of achieving internalization is through FDI and creating subsidiary companies owned by the parent company. It can also be analyzed in terms of its internalization advantage. The company has a monopolistic advantage in the production of air domes and auxiliary parts. Therefore, instead of licensing or exporting its production, the Company preferred a joint venture in Italy and a branch-style structure in other countries. The company has tried to maintain its product-specific advantages within the secure boundaries of the Company and out of the reach of rival companies by establishing greenfield production centers that it solely operates. It prioritizes high capital returns. The company’s other internalized advantages are product quality, experience, and R&D activities.

The preceding analysis is summarized in Table 3. Overall, ownership and location seem to have more influence on Company’s overseas’ FDI decisions. As Table 3 shows, the main ownership advantages are level of knowledge and R&D, performance (ROI-Sales-Assets), management of quality, international business network, quality of products, and monopoly of technology. The location advantages are market profit potential and attractiveness, and construction demand.

| Ownership advantage | Company | Location advantage | Company | Internalization advantage | Company |
|---------------------|---------|--------------------|---------|--------------------------|---------|
| Financial capacity  | ++      | Attitude and intervention of host country government | +       | Availability of project funds | +       |
| International experience | ++      | Market profit potential-attractiveness | +++     | Contract types-procurement methods | +       |
| Track record-competitive advantages | +       | Anticipated economic risks | +       | Strict project quality requirements | +       |
| Level of knowledge and R&D | +++     | Diplomatic relationships between home and host countries | +       | Variety of distribution channels | +       |
| Performance (ROI-Sales-Assets) | ++      | Host government control | ++      | Product guarantees | +       |
| Superior management | ++      | Anticipated non- | +       | | |
Regarding the Company’s increasing use of FDI, Table IV indicates that liberal market mechanisms, economic globalization, and better assessment of costs and benefits of FDI account for the country perspective. That is, Company has enlarged its FDI capacity since the 1990s when globalization and liberal market conditions began to encourage FDI. Other factors seem not to have influenced Company’s FDI decisions.

Table IV. Dynamics of Company’s Direct Investment Acceleration

| Country Perspective                  | COMPANY     | Company Perspective | COMPANY     |
|--------------------------------------|-------------|----------------------|-------------|
| Liberal market mechanisms            | +++         | Increasing need to access global markets | +++         |
| Economic globalization                | +++         | Competitive pressures to supply input from cheapest available sources | ++          |
| Increased mobility of economically valuable assets | +++         | Acceleration of investments seeking more efficiency due to regional integration | ++          |
| Increasing number of arrival countries during take-off stage of hosting country | -           | Lower transportation costs and easier cross-border communication | +++         |
| Convergence of economic structures of developed and some new industrializing countries | -           | Rise of oligopolistic competition among leading companies | -           |
| Better assessment of costs and benefits of direct investment | ++         | Emergence of new opportunities for direct investment | +++         |

Source: Prepared from authors’ own elaborations using data from Company. The + and – signals indicate at what degree or level Direct Investment Acceleration are effective for Company.

Dunning categorizes FDI motivations into four main groups, market seeking, efficiency-seeking, searching for resources, and searching for strategic assets. All these FDI groups apply to Company’s case except for resource seeking. This Company is a market seeker as it invests to supply goods or services to customers in the host countries. It is also an efficiency seeker as the markets of the countries it invests in to enable it to benefit from economies of scale and scope, and risk diversification. Finally, Company is a strategic asset or capacity seeker as it aims to support its long-term strategic objectives notably to sustain or advance its competitiveness globally (Dunning & Lundan, 2008, 72).

Regarding the way that Company’s FDI has evolved, both push and pull factors are involved. As shown in Table 5, the push factors include minimizing transportation costs, significant differences in factor prices, liberalization and free
that lack a large market in their country of origin, search for FDI opportunities. Accordingly, because Company does not have a large market in Slovenia for its air dome business, it looks for FDI opportunities by considering these pull and push factors.

| Pull Factors (Exogenous Determinants) | Company | Push Factors (Determinants from host countries) | Company |
|--------------------------------------|---------|-----------------------------------------------|---------|
| Minimizing transportation costs       | +++     | Need for capital                                | +       |
| Significant differences in factor prices | +++     | Need for new technology                        | +++     |
| Slowing growth rates in developed countries | +       | Desire for know-how and R&D development         | +       |
| Liberalization and free environment for FDI | +++     | Reducing currency insufficiency                | +       |
| Globalization                        | ++      | Reducing unemployment                           | ++      |

Source: Table prepared based on authors’ own elaborations based on data from Company.

The + and – signals indicate at what level or degree pull/push factors are effective for Company.

Michael Porter’s (1980, 1985, 1990) analytical approach (competitive strategy and the diamond framework) are also relevant to this case study. Companies compete with their rivals to evaluate the dynamics of the market and industry, as well as the strengths and weaknesses of their competitors to determine the best strategic measures available in each external environment (Porter, 1990). An MNC that is considering investing in a location should also carefully evaluate locational factors to determine if it can improve the Company’s competitiveness (Akcaoglu & Erol, 2011, 75-76). In line with this theory, COMPANY develops a distinct competitive strategy for each market.

Apart from its FDI project in Italy, which was a brownfield investment through an M&A with an Italian Company), the company prefers greenfield investments by establishing new facilities. The company increasingly invests in developing countries as air-supported structures provide cost-effective solutions that are often used in these countries. In some cases, the Company has projects in developing countries in corporations with investors from other foreign countries.

Analyzing the Company’s FDI in terms of Caves’ horizontal, vertical, and complex conglomerate categorization, it is firstly horizontal since its foreign affiliates abroad represent its main business activity. Secondly, the majority of the Company’s foreign subsidiaries or branches are sales agencies, which reflects vertical integration, the capital invested in them is small as defined by Caves (1971, 3).

Major Findings-Results

The major findings of this study are that Company’s decision to internationalize its production can best be explained by ownership and location advantages within the OLI paradigm, given that the Company has a monopolistic advantage in air dome production within the Balkans, former Soviet republics, and the Middle East. In addition, these regions provide a locational advantage because of their effective demand capacity, low labor costs, and free entry markets. Finally, the internalizing factor plays only a partial role in Company’s decision to invest abroad as its proprietary asset capacity cannot provide lower transaction costs or strategic gains. That is, its capacity is not strong enough to internalize international production.

On the other hand, this case study has also demonstrated that Dunning’s OLI paradigm is still a viable option to analyze MNCs and their FDI decision. Indeed, this paper can lead other researchers to conduct such studies on similar MNCs’ decisions of internationalization production via the OLI paradigm or via other FDI theories. Thus, it will enable to open new exploration perspectives for FDI studies in the 21st century.
Conclusion

MNCs/MNEs emerge by growing beyond the borders of their country of origin. They may invest in many countries since foreign direct investment is more profitable than domestic production, depending on various motives, factors, conditions, and resources. Many theories have been developed to conceptualize FDI in terms of its scope, functions, roles, aims, and motives. Dunning’s eclectic theory is considered the most inclusive for explaining the FDI decisions of MNCs/MNEs. Its simplicity and generality make it compatible with several schools of economic and managerial thought. Dunning identified three broad classes of MNC advantage, ownership, location, and internalization.

This study examined the Slovenian air dome construction Company, using OLI paradigm factors to explain the evolution of the Company’s FDI decisions. The versatile nature of OLI made it a suitable analytical framework for this research. The major finding was that ownership and location advantages best explain Company’s decision to internationalize its production decision, given that the Company has a monopolistic advantage in air dome production within the Balkans, former Soviets republics, and the Middle East. In addition, these regions provide a locational advantage because of their effective demand capacity, low labor costs, and free entry markets. Regarding ownership advantage, Company’s FDI decisions are particularly influenced by its level of knowledge and R&D, performance (ROI-Sales-Assets), management of quality, international business network, quality of products, and monopoly of technology. Regarding location advantage, the most influential factors are market potential-attractiveness and construction demand.

In contrast, the internalizing factor plays only a partial role in COMPANY’s decision to invest abroad as its proprietary asset capacity cannot provide lower transaction costs or strategic gains. That is, its capacity is not strong enough to internalize international production.

The last but not least, this case study tries to illustrate Company’s FDI process and decision through one theory, the OLI paradigm, which is the most comprehensive and appropriate one for microeconomics analysis. Therefore, it is hardly possible to arrive at a generalized result through one case study based on one theoretical perspective. However, this case study can lead other researchers to conduct such studies on similar MNCs’ decisions of internationalization production via the OLI paradigm or via other FDI theories.

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We confirm that this work is original and has not been published elsewhere, nor is it currently under consideration for publication elsewhere. We believe that this manuscript is appropriate for publication by Eurasian Business Review.

Disclosure statement

We have no conflicts of interest to disclose regarding any competing financial, professional, or personal interests from other parties. The company has answered our inquiry questions.

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