

The Multinational Firm: Theories, Frameworks and Entry

Day 1

Dr. Ernil Sabaj

Warwick Summer School
International Business and Finance

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International Business and Finance: the firm that operates across borders.

- The subject sits where **strategy**, **economics** and **finance** meet: why firms cross borders, how they organise, and how they compete and price once they do.
- One method runs through every day: **a framework first, then the evidence**. Each morning's theory is taken to 40+ years of firm-level data in the afternoon — and the data is allowed to talk back.
- The textbook (Collinson, Narula, Qamar & Rugman, *International Business*, 9th ed., 2024) is the spine; the practicals go where the book does not.

You leave able to *use* the frameworks — and to *test* them.

Learning outcomes — by Friday you will be able to...

- **Apply the core frameworks** of international business — OLI, FSA–CSA, Porter's five forces and diamond, VRIO — to real firms and countries.
- **Read the international environment:** institutions, political and legal risk, corruption, culture, and the sources of national competitive advantage.
- **Analyse strategy and market structure:** entry, organisation, competition, concentration, pricing, and strategic interaction.
- **Confront theory with data:** run and interpret regressions on firm-level panels, and judge when a framework survives contact with the evidence.

The week at a glance

Mon 20	Day 1	The multinational firm : theories, frameworks, entry
Tue 21	Day 2	Countries : institutions, political risk, national advantage
Thu 23	Day 3	Strategy , organisation, market structure
Fri 24	Day 4	Pricing and strategic interaction

Each day: **two hours lecture**, then a **one-hour practical** that takes the morning's claims to firm-level data and tests — often *breaks* — them.

The thread all week: a framework, then the evidence. Today the unit of analysis is the **firm**.

Today: aims and the three hours

By the end of the day you should be able to:

- say **what** an MNE is, and why the firm — not the country — is the right unit;
- use the two core toolkits, **OLI** (the eclectic paradigm) and **FSA–CSA**;
- explain **why** and **how** firms go abroad (motives, entry modes, the productivity sort);
- connect resources, innovation and **sustained** advantage — and treat “sustained” as a measurable claim.

The three hours: two of lecture (this deck) + one of practical. Hour 3 = **Practical 1**: you will estimate the firm-size distribution, the persistence of profits, and the foreign-vs-domestic valuation gap on 40 years of US-listed firms. Laptop welcome; no prior Stata needed.

Today (Day 1): the roadmap

- I. **The multinational firm** — what it is, how big, the myths, and where FDI actually goes.
- II. **Two frameworks** — ownership/location/internalisation (OLI) and the FSA–CSA matrix.
- III. **Why and how firms go abroad** — motives, the internationalisation process, entry modes, and the productivity sort that decides who becomes an MNE.
- IV. **Resources, innovation and competitive advantage** — RBV, VRIO, the intangible economy, and the MNE as an internal capital market.

Each block ends where the textbook stops — at a number we can estimate this afternoon.

Core

- Collinson, Narula, Qamar & Rugman, *International Business*, **9th ed.**, Pearson, 2024 — Chs 1–3, 8–10.
- Lipczynski, Goddard & Wilson, *Industrial Organization*, 5th ed., Pearson, 2017 (market structure, weeks 3–4).
- Sloman et al., *Economics for Business*, 9th ed., Pearson, 2024 (background micro).

Optional / for the analytical slides

- Dunning (2000) on OLI; Rugman & Verbeke (2001) on FSA–CSA and subsidiary advantages.
- Melitz (2003) and Helpman–Melitz–Yeaple (2004) — the firm-heterogeneity sort behind entry.
- Head & Mayer (2014) — gravity, “workhorse, toolkit, cookbook”.

Full citations on the References slide.

PART I

The multinational firm

What is international business?

The study of transactions across national borders — and of the firms that run them.

- Classical view: trade — exporting and importing.
- The 20th-century change: firms with **directly controlled** foreign affiliates — MNEs.
- MNEs run over half of world trade; much of it moves *within* the same firm.
- Not only giants: most MNEs are SMEs.

The unit of analysis this week is the firm, not the country.

Reasons to internationalize

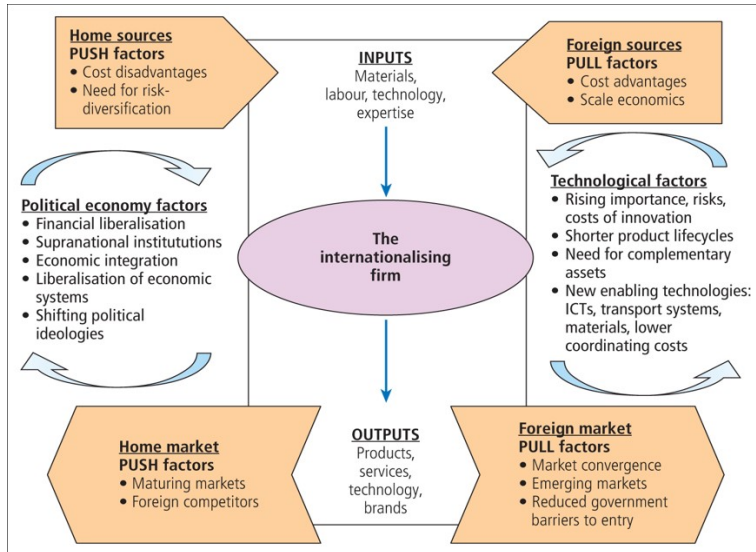


Economic globalization: the growing interdependence of locations and economic actors.

- A vague word — we treat it as an ongoing *process*, not an event, and take no side in the pro/anti debate.
- So we say “international firm” or “MNE”, not “global firm”.
- Interdependence of *what*? Three layers: **markets** (prices co-move across borders), **firms** (value chains: your supplier’s supplier is your problem), and **locations** (regions specialise, so each depends on the others’ demand).
- Internationalisation $\neq$ globalisation: the test is whether that interdependence runs *both ways*.

Interdependence is what lets shocks travel — Tuesday’s whole topic.

The dynamics of globalization



Driving forces run both ways: technology and policy lower the cost of coordinating across borders; interdependence then raises the cost of any border going back up.

“A firm with value-added activities in two or more countries, actively coordinated by one or more headquarters.”

- MNE $\neq$ FDI alone: coordination also runs through production networks and value chains — sometimes several headquarters.
- The defining act is **control** of activity abroad, not merely owning foreign assets.
- This is the object the rest of the week dissects.

Keep the definition in view — half the “misconceptions” come from forgetting the word *coordinated*.

Where is this firm “from”? The question barely has an answer.

- South African roots and management; **UK** domicile; **London** listing; operations in 80 countries.
- Acquired 2015 by AB InBev for **\$107bn** — itself Ambev (BRA) + Interbrew (BEL) + Anheuser-Busch (USA), HQ Belgium.
- Post-merger: ~28% of world beer — trimmed by competition authorities.

Dispersed headquarters are normal at the top: Unilever ran two until 2020.

Meet the animals: the ten largest US-listed firms, FY2024

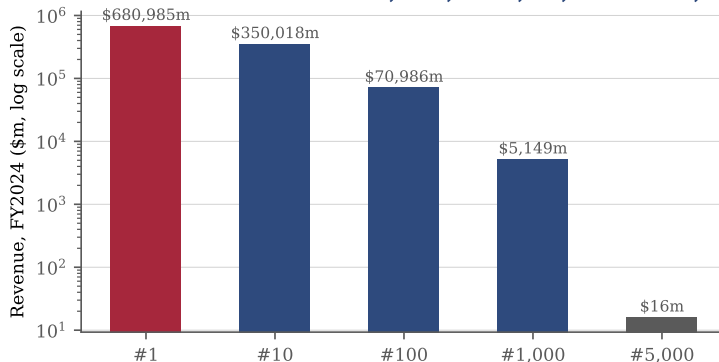
	HQ	Sector	Revenue \$bn	Mkt cap \$bn	Op. margin
Walmart	USA	Staples	681	788	4.3%
Amazon	USA	Cons. Disc.	638	2,324	11.0%
Berkshire Hathaway	USA	Financials	424	978	27.0%
Sinopec	CHN	Energy	421	64	1.9%
PetroChina	CHN	Energy	403	141	7.8%
UnitedHealth	USA	Health	400	463	8.1%
Apple	USA	Tech	391	3,522	31.5%
CVS Health	USA	Health	373	57	2.7%
McKesson	USA	Health	359	84	1.4%
Alphabet	USA	Comms	350	2,312	32.3%

- Sinopec and Apple sell similar amounts; Apple is worth **55× more**. Margins and control do the work.
- Three of ten are health middlemen on razor margins — size $\neq$ power.

Own calculations, Compustat, fiscal 2024.

Five orders of magnitude: the size ladder

The size ladder: revenue of the #1, #10, #100, #1,000 and #5,000 firm



From #1 to #5,000 is a factor of **40,000**. This afternoon's Zipf regression will formalise it — and show why “a few giant MNEs” is the *generic* outcome, not an accident.

Own calculations, Compustat, fiscal 2024, full-year firms.

Common misconceptions about MNEs:

- MNEs have far-flung operations or **earn most of their revenues overseas**.
- MNEs are globally monolithic and excessively powerful in political terms.
- MNEs produce **homogeneous products for the world market** and dominate local markets everywhere through efficient techniques.

Three claims that sound obvious — and the data next door refuses all three.

Big, but not the economy; global reach, but a home-region core.

- *Myth:* they earn most revenue overseas and sell one product worldwide. *Fact:* most revenue is **home-region**; products are **locally adapted**.
- *Myth:* they dwarf the economy. *Fact:* the largest MNEs employ ~75m directly (2014) — about **2%** of global employment.
- Competition is **regional more than global**; the top 500 cluster in the triad. Most MNEs still come from developed home countries.

Rugman's home-region thesis is the one big claim our data can't test — Compustat has no segment data.

The MNEs the classic theory wasn't written for

The classic story: you go abroad to exploit an advantage you already have. Two big classes don't fit.

- **State giants:** Aramco earned \$100bn+ around its 2019 IPO — objectives beyond the FSA story. (Sinopec: \$421bn revenue, \$64bn value.)
- **EMNEs** — *emerging-market multinationals*, firms from countries like China, India or Brazil going global: Lenovo, Tata, Geely went abroad to *acquire* capabilities (ThinkPad, JLR, Volvo).
- Two named playbooks describe them — the **springboard** and **linkage–leverage–learning** (decoded on the next slide).

A refutation of the classic theory — or just its “asset-seeking” motive at work?
Live debate; Part II formalises both sides.

The latecomer playbooks, decoded

- **Asset-seeking FDI** (Dunning's fourth motive): investing abroad to *obtain* capabilities you lack — technology, brands, distribution — rather than to exploit ones you have. Lenovo buying ThinkPad is the textbook case.
- **The springboard** (Luo & Tung 2007): emerging-market MNEs use aggressive foreign acquisitions as a *springboard* — leapfrogging capability gaps and escaping home-market constraints — not as the last step of a slow climb.
- **Linkage–leverage–learning** (Mathews 2006): *link* to incumbents through partnerships and contracts; *leverage* those links to access the incumbents' resources; *learn* until the borrowed capability becomes your own advantage. Repeat.

Same direction of travel in all three: the advantage is the *destination* of going abroad, not its precondition.

The multinationals came to us: foreign firms on US exchanges



From 4.3% of US listings in 1980 to **15.8%** in 2024 — one in six “US-listed firms” is run from abroad. The waves are political as much as economic.

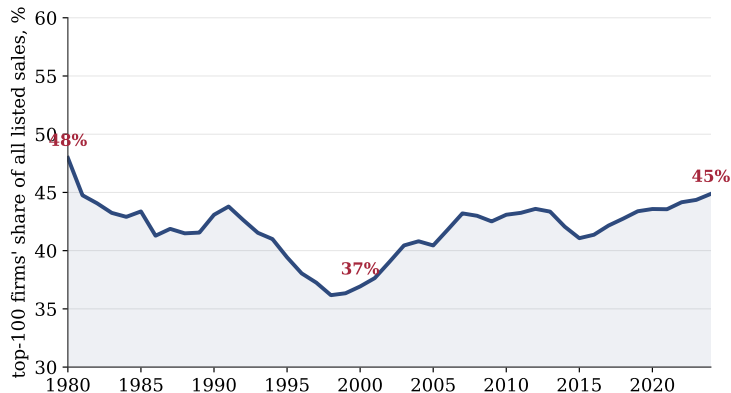
Own calculations, Compustat quarterly; firms with headquarters outside the US.

Trade and FDI — both dominated by the largest 500 MNEs.

- **Trade:** they conduct over half of it. **FDI:** roughly 80%.
- FDI = equity invested across borders to control assets.
- **Inward:** flows into host-country subsidiaries. **Outward:** from home-country parents abroad.

You saw why on the size ladder: firm sizes are so skewed that a handful of giants *are* the aggregate. This afternoon you estimate the law behind that (Zipf's law) yourself.

How concentrated is the corporate world? The top-100 share



The 100 largest firms book **45%** of all US-listed sales in 2024 — and the share is a U: 48% in 1980, diluted to 39% by the 1990s listing boom, re-concentrating since. Firm sizes follow **Zipf's law**: at every size, doubling the size roughly halves the number of firms that big. With a tail that fat, aggregate movements come from a handful of firms (“granularity”, Gabaix 2011). You estimate the law this afternoon.

Own calculations, Compustat via `ib_panel.dta`, full-year firms with positive sales. Regenerate: `python/06_new_lecture_figures.py`.

FDI = cross-border equity taken to control (conventionally $\geq 10\%$).

- **Two forms.** Greenfield: build new abroad. Brownfield (M&A): buy what exists.
- **Two directions.** Inward: into host-country subsidiaries. Outward: from home-country parents.
- **Not FDI:** *portfolio* investment (FPI) — stocks and bonds held *without* control.
- The 10% line is the accounting border between *controlling* and merely *holding*.

Greenfield builds capacity; brownfield transfers it. Same capital, different effect on the host.

The FDI map is not a map of production.

- Tiny economies top the recipient tables: **Luxembourg** and the **Netherlands** host FDI far larger than their GDP.
- Damgaard, Elkjaer & Johannesen (IMF, 2019): about **40%** of global FDI is *phantom* — equity passing through empty holding companies for tax reasons, financing no real plant.
- The driver is the same transfer-pricing/internal-finance logic we return to Friday.

When you see “top FDI destination”, ask: production, or a tax address? Source: IMF,

“The World’s Top Recipients of FDI” (2021); Damgaard et al. (2019).

From the 1990s, firms learned to fine-slice activities and source the slices anywhere.

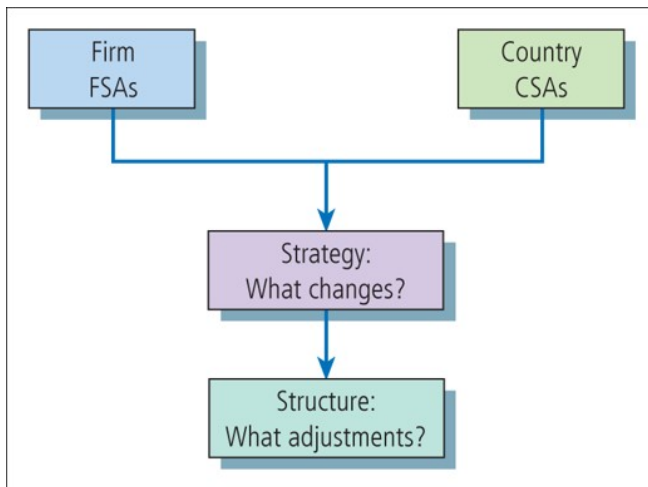
- Back office, call centres, accounting, software → India, Philippines, Egypt, Mauritius, South Africa (Asia $\approx$ 65% of IT/BPO export revenue).
- **Outsourcing** (the traditional kind): buy parts, assemble in-house.
- Toyota makes under **30%** of a car's value; independent suppliers provide the rest.
- The GVC boom is this logic at world scale.

Thursday: where the value sits along the sliced chain — the smile curve.

PART II

Two frameworks: OLI and FSA–CSA

The basic components of international business



Two ingredients recur: what the **firm** owns (FSAs) and what the **country** offers (CSAs). The frameworks below are just disciplined ways of combining them.

To profit abroad a firm needs transferable assets — and a place worth deploying them.

- **FSAs** (a.k.a. ownership / O advantages): proprietary, hard-to-imitate capabilities — technology, brands, management, distribution.
- **CSAs**: a nation's factor endowments — resources, labour, and the variables in its aggregate production function.
- Competitive advantage = FSAs *efficiently combined* with value-creating activity in the right location.

Everything in Part II is a way of asking: which asset, in which country, held how?

Why can a foreign firm beat locals on their own turf?

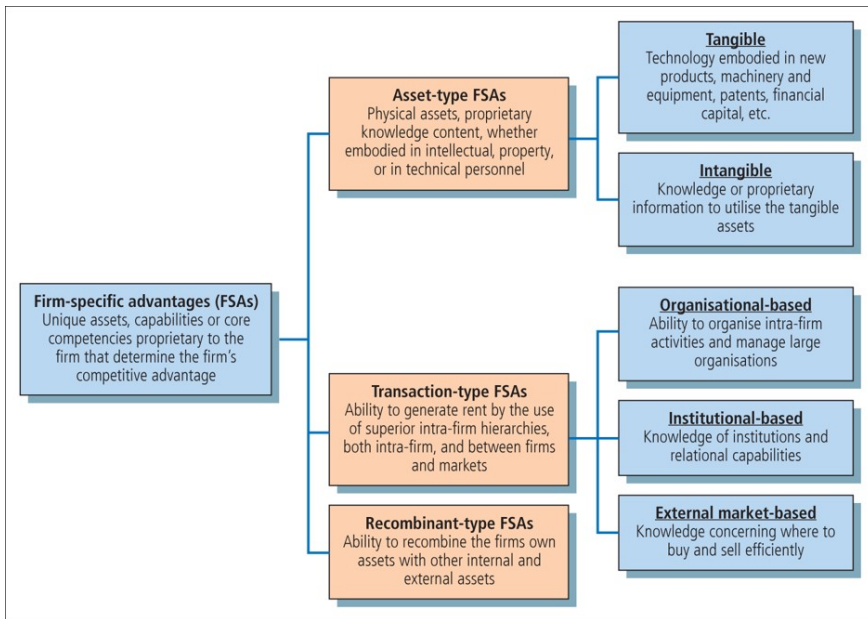
- **Hymer (1976)**: neoclassical theory couldn't explain it — so the MNE must carry a **bundle of monopolistic advantages** (technology, management) either unavailable to locals or simply better.
- Three types of O advantage: **asset** (what you own), **transaction** (rent from superior internal hierarchies), **recombinant** (ability to recombine own and external assets).

The advantage must *travel* and be *defensible* — or there is no MNE, just an exporter.

Firm-specific assets: three types of O advantage

- **Firm-specific assets (FSAs):** a unique capability proprietary to the organisation — built on product or process technology, marketing, or distribution.
- Three types of ownership (O) advantage:
 - **Asset-type:** physical assets and proprietary knowledge (embodied in IP or in people).
 - **Transaction-type:** rent from superior intra-firm hierarchies — within the firm, and between firm and market.
 - **Recombinant-type:** the ability to recombine own assets with other internal and external assets.

Classes of FSA / ownership (O) advantages



In principle L advantages are open to all — in practice they are not.

- CSAs: natural endowments, the labour force and its cultural factors, infrastructure, institutions.
- Why access is unequal: (1) information about a location is incomplete; (2) even known, it is costly to obtain; (3) **governments** grant or deny access with policy.

L advantages set the stage; whether a firm can *use* them is an O-and-institutions question — Tuesday's material.

Location advantages: the anatomy

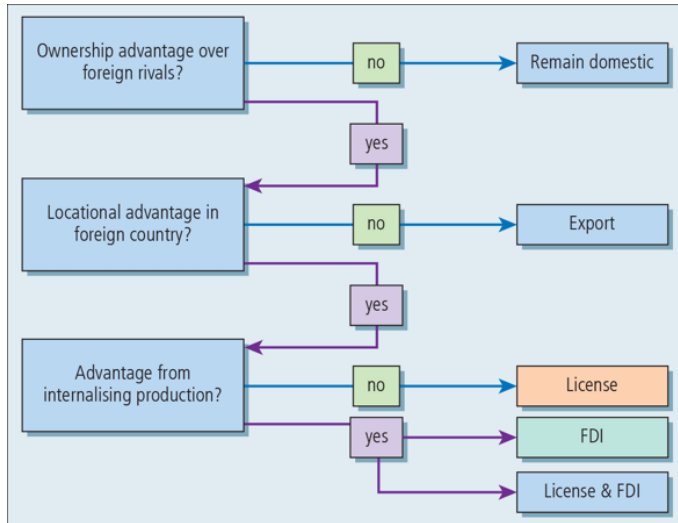
		TYPE OF L ADVANTAGES	SOURCES OF L ADVANTAGES	EXAMPLE OF L ADVANTAGES
Macro-region/country level L advantages	Exogenous L advantages		These derive from natural assets (independent of development stage)	- Sociological/anthropological - Culture, norms, religion, political stability. - Land availability, rainfall, climate, extractive resources, basic population - Proximity and accessibility to other markets - Membership in a regional integration scheme
	Fundamental L advantages		Basic infrastructure	- Primary schools - Health care - Transport (roads, railways) - Utilities (electricity, water) - Telecoms - Ports - Efficient bureaucracy - Public transport
			Legal infrastructure	- Legal system - Security and police - Tariff system - Property rights - Tax and excise
			Regulation and policy	- Incentives - Subsidies - Tax holidays - Regulatory agencies - Industrial policy - Competition policy - Capacity to enforce regulation
			Financial infrastructure	- Banking, insurance, stock exchange
Industry-level L advantages	Knowledge asset L-advantages		Knowledge infrastructure	- Tertiary education, universities - Public research institutes
	Structural L advantages		Market and demand structure	- Income level and distribution - Size of potential market - Consumer sophistication - Wage rates - Skilled employee availability - Distribution channels

Three conditions must hold at once for FDI to make sense.

- **O**wnership: the firm has an FSA worth exploiting abroad.
- **L**ocation: it is better to *produce* in the foreign country than export to it.
- **I**nternalisation: it is better to *own* the activity than license or contract it out.
- O and I are, in practice, integrated features of FSA management — not cleanly separable in strategy.

Drop any one leg and you get exporting, or licensing — not an MNE.

OLI as a decision model



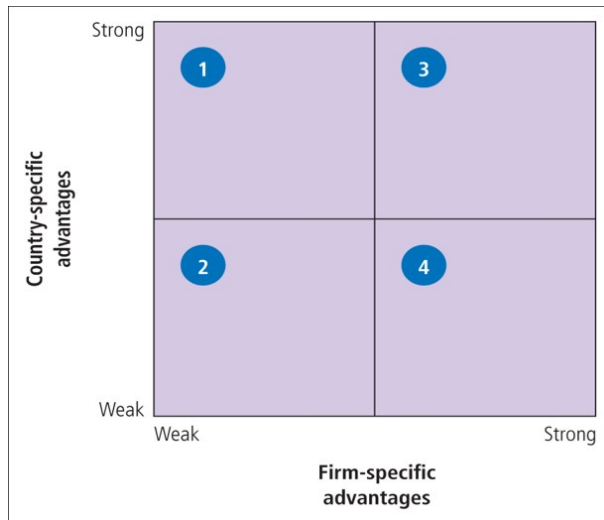
The three tests, run in sequence: own an advantage → locate abroad → internalise.

Same skeleton, different reach.

- OLI is the general **toolbox**: country, industry and firm level; usable by policymakers.
- FSA–CSA is sharpest for **firm strategy**.
- Shared legs: O = FSA, L = CSA; **Internalisation** is implicit in FSA–CSA.

OLI asks why the MNE exists; FSA–CSA asks what this firm should do.

The FSA–CSA matrix



The quadrants map (imperfectly) onto Porter's generics — **cost leadership**, **differentiation**, **focus**. Quadrant with strong FSAs but weak home CSAs $\Rightarrow$ home base is not essential long-run; weak FSAs $\Rightarrow$ compete on **cost and price**. We reuse this axis on Thursday.

PART III

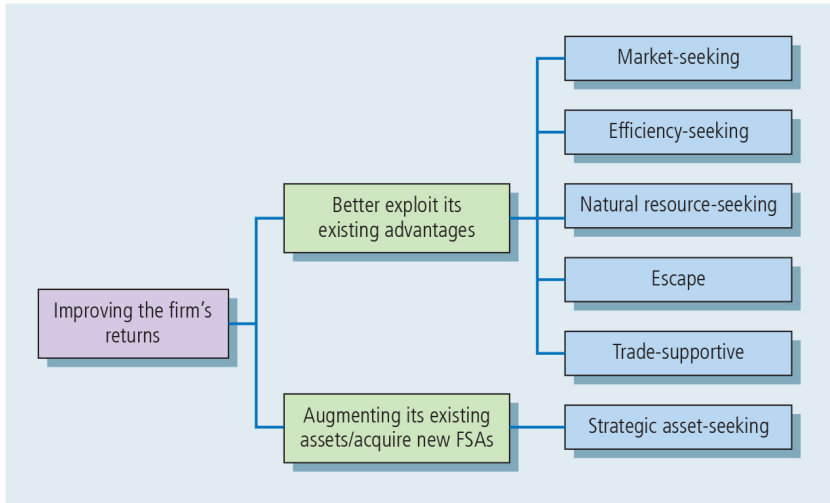
Why and how firms go abroad

Why firms become MNEs: a typology of motives

Types (adapted from Dunning, 1993)	Objectives/ Motives (inspired by and updated from Dunning, 1993)	The Cuervo-Cazurra et al. motives
Natural resource seeking	To acquire particular and specific resources of a higher quality at a lower real cost than could be obtained in their home country (e.g. Physical resources, un-skilled (or semi-skilled) labour, technological/managerial expertise, etc.)	"Buy better"
Market seeking	To supply goods or services to a particular country or region (from existing markets to new markets)	"Sell more"
Efficiency seeking	To rationalise the structure of established resource-based or market seeking investment in such a way that the investing firm can gain from the common governance of geographically dispersed activities (e.g. economies of scale and scope)	"Buy better" and "Sell more"
Strategic asset seeking	To promote long-term strategic objectives – especially that of sustaining or advancing global competitiveness (e.g. augmentation of global portfolio of physical assets and human competences, which they perceive will either sustain or strengthen their ownership-specific advantages or weaken those of competitors)	"Upgrade"
Escape investment	To escape restrictive legislation, institutional voids, or macro-organisational policies by home governments (e.g. round-tripping investment, escaping from high levels of taxation or austere environmental regulation, etc.)	"Escape"
Trade-supportive investment	To promote and facilitate the exports and imports of goods and services from the investing (or other) firm	"Buy better" and "Sell more"
Finance-supportive investment	To support and assist in the purchasing of foreign-produced goods and services from investing (or other) firm To establish domicile in specific location for regulatory and tax reasons	"Buy better" and "Sell more"
Management-supportive investment	To support the control and coordination function on behalf of MNE headquarters (e.g. regional office, branch offices)	"Upgrade"
Passive investment	To arbitrage by buying and selling firms or assets with some involvement of direct managerial inputs (e.g. private equity capital firm, asset stripping, etc.)	"Buy better" and "Sell more"

Source: A. Cuervo-Cazurra and R. Narula, 'A set of motives to unite them all? Revisiting the principles and typology of internationalization motives', *Multinational Business Review*, vol. 23, no. 1 (2015).

The motives of internationalisation: a decision model

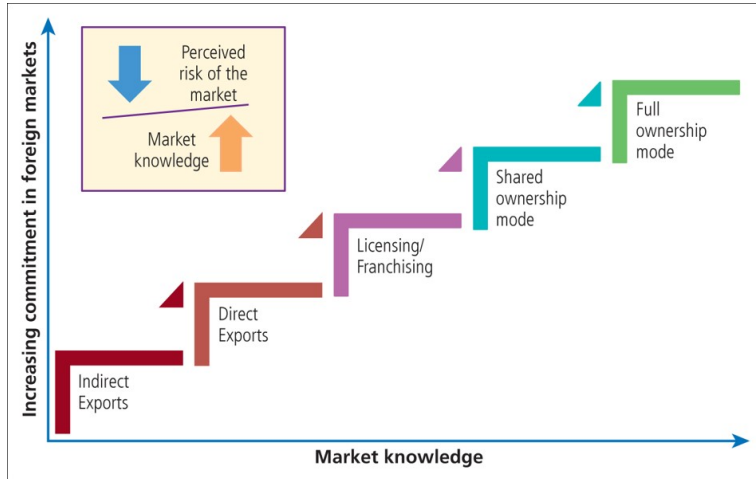


A wholly owned subsidiary is usually the last step, not the first.

- Internationalisation = the process by which a firm enters a foreign market.
- Not all international business is done by MNEs — and firms wait before committing capital.
- Why wait? **Foreign markets are risky**, and knowledge is acquired by doing.

Two classic answers to “how fast?” — Uppsala (gradual) and born-global (immediate).

The Uppsala model



Firms expand into “nearby” markets first — but *nearby* means psychic, not just geographic, distance. Commitment rises as market knowledge accumulates and perceived risk falls.

Distance still matters: the CAGE dimensions

	<i>Cultural Distance</i>	<i>Administrative Distance</i>	<i>Geographic Distance</i>	<i>Economic Distance</i>
<i>What creates distance?</i>	- Language differences - Ethnicity differences and lack of social and local networks - Different religious backgrounds - Potential lack of trust - Differences in values, norms, and habits	- Potential lack of colonial ties - No existing regional trading block - No common currency - Political hostility and difficult past	- Physical distance (e.g. in miles/km) - No shared borders - Different time zones - Different climates	- Differences in monetary wealth - Differences in capital markets - Differences in GDP per capita and living costs - Differences in physical infrastructure - Differences in sourcing talent
<i>What industries or products are affected by distance?</i>	Cultural differences are especially important when: - products heavily rely on linguistics (e.g. TV, Netflix) - products are subject to consumers' cultural or national identity (e.g. food) - product characteristics vary in terms of size and packaging - products are defined by country-specific quality associations (e.g. wine)	Government involvement affects industries characterised by: - sellers of staple goods (e.g. electricity) - producers of pharmaceuticals - important (i.e. large) employers - national champions (e.g. airlines) - importance to national security (e.g. telecommunications, military) - high sunk costs (e.g. infrastructure)	Geography is highly important when: - products are sold in bulk at a low unit cost (e.g. cement) - products are fragile or perishable (e.g. glass or meat) - communication and interaction are highly relevant (e.g. professional services) - there is a need for local supervision and operational complexity is high	Economic differences matter the most when: - income levels impact levels of demand (e.g. cars) - economies of standardization or scale are limited (e.g. cement) - labour costs differ substantially (e.g. fashion) - distribution and business systems vary (e.g. insurance)

Adapted from Ghemawat (2001, 2017), via Collinson et al. (2024).

Gravity: the formula, element by element

Bilateral trade behaves like Newton's gravity:

$$X_{ij} = G \frac{Y_i Y_j}{\text{Dist}_{ij}^\theta}$$

- X_{ij} : exports from country i to country j — the flow we want to explain.
- Y_i, Y_j : the two countries' GDPs — economic *mass*. Bigger economies produce more, and buy more.
- Dist_{ij} : the distance between them — standing in for transport costs, time, information frictions, trust.
- θ : the **distance elasticity**; G : a constant. In logs,
 $\ln X_{ij} = \ln G + \ln Y_i + \ln Y_j - \theta \ln \text{Dist}_{ij}$ — so every coefficient reads as an elasticity: a 1% rise in distance cuts trade by $\theta\%$.
- Estimated thousands of times (Head & Mayer's survey): $\hat{\theta} \approx 1$ — **double the distance, halve the trade** — and it has *not* fallen in the internet era.

Reading gravity: an example, the add-ons, and the “null model”

- **Worked example:** Germany and Australia are economies of broadly similar size, but Germany is roughly twenty times closer to the UK. With $\theta \approx 1$, gravity predicts an order of magnitude more UK–Germany trade — and that is what the data shows.
- **The augmented version** adds the CAGE frictions as dummy variables: a shared border, common language, colonial history and common currency each carry large, stable coefficients. “Distance still matters” is a regression result, not a slogan.
- The same equation fits FDI, migration, phone traffic and bank lending — frictions bind everything bilateral.
- **“Gravity is the null model”** means: it is the *baseline to beat*. Before crediting strategy, culture or policy for any trade pattern, first ask what size and distance alone predict — only the *deviation* from gravity needs a further explanation.

An entry forecast that ignores gravity is arguing with the best-replicated finding in the field.

Who goes abroad? A prediction you can test

Firms sort by productivity φ (Melitz 2003; Helpman–Melitz–Yeaple 2004).

Productivity φ = how efficiently a firm turns inputs into output — a more productive firm makes the same product at lower cost. The three cutoffs are the *minimum efficiency* needed to (i) survive at home (φ_D), (ii) cover the extra cost of exporting (φ_X), (iii) cover the much larger cost of building abroad (φ_I).

$$\underbrace{\varphi < \varphi_D}_{\text{exit}} < \underbrace{\varphi_D \leq \varphi < \varphi_X}_{\text{domestic only}} < \underbrace{\varphi_X \leq \varphi < \varphi_I}_{\text{export}} < \underbrace{\varphi \geq \varphi_I}_{\text{FDI}}$$

- MNEs are the **largest, most productive** firms in any industry; exporters sit in between.
- The export/FDI margin moves with trade costs — the proximity–concentration trade-off, next.
- Confirmed in US data. This afternoon: the size distribution that makes “a few giant MNEs” generic.

Scale says export from one plant. Trade costs say build plants abroad.

- Brainard (1997): FDI displaces exports where trade costs are high and plant-scale economies low.
- **Tariff-jumping FDI**: build the plant *inside* the tariff wall, so the product never crosses it — Japanese car plants in 1980s America; battery plants after the IRA.
- Add firm heterogeneity $\Rightarrow$ the Helpman–Melitz–Yeaple (HMY) cutoffs from two slides ago: only the most productive firms find the fixed cost of a foreign plant worth paying.

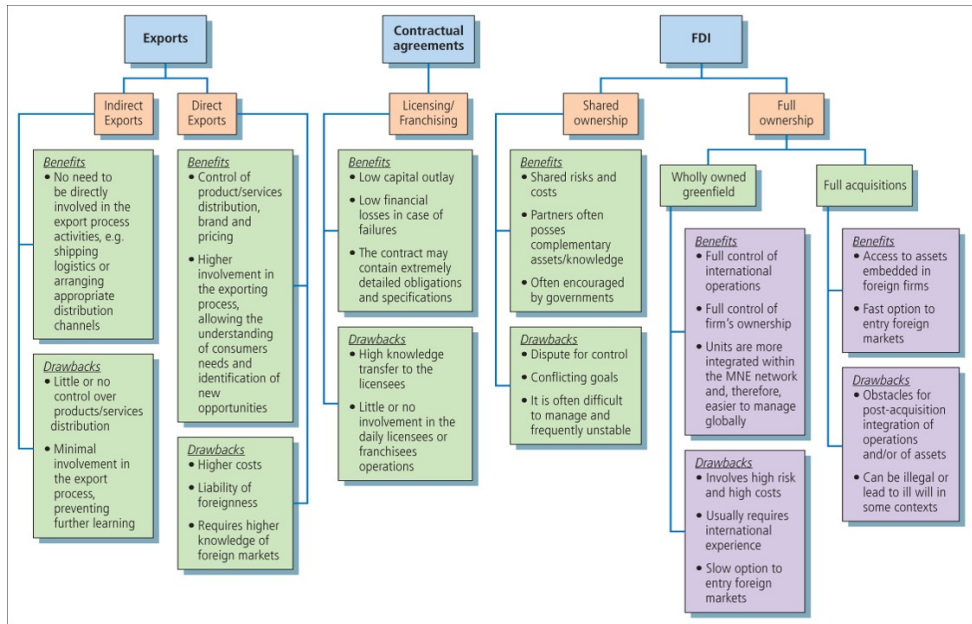
Say it out loud: protection buys factories — that is exactly its cost.

The first choice is non-equity vs equity.

- **Non-equity** first, to limit exposure to unknown markets: exports, licensing, franchising, contracts.
- **Equity** later, as knowledge grows: partial or full acquisition, JVs, greenfield — higher commitment, higher control.
- Read the ladder as a **make–buy–ally** frontier, not a fixed sequence.

More control costs more capital and more risk — the trade-off, not a free lunch.

Equity entry modes: benefits and drawbacks



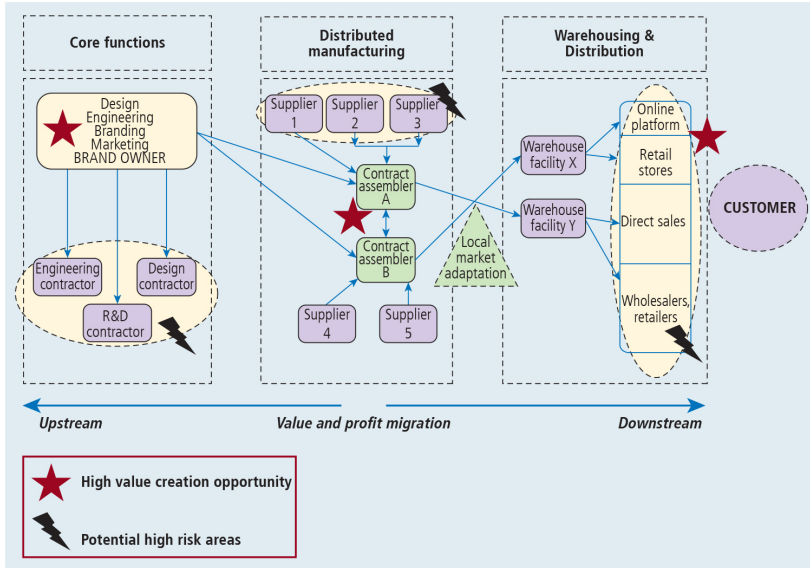
A cross-border acquisition is an NPV decision about control.

NPV (net present value): the value *today* of all the future cash flows a decision will bring in, minus what it costs today. Positive NPV = worth doing. Here the “purchase” is control of another firm.

- Roughly a third to half of world FDI is M&A, not greenfield.
- Targets capture the gains; acquirer returns ≈ 0 . Overpaying has a name: **hubris** (Roll 1986) — overconfident managers overestimate the synergies and bid the premium past them.
- Distance, culture, institutions all raise integration cost.
- Every entry is a **make–buy–ally** choice: *make* it yourself (greenfield), *buy* it (acquisition), or *ally* (joint venture or alliance — shared control).

This afternoon's data: about half of US delistings are acquisitions — “buy” is how most listed firms end.

Global value chains: combining entry modes



One product, many modes: Apple *owns* design in California, *contracts* assembly to Foxconn, *licenses* its brand at retail — a different make-buy-ally choice at every stage.

Some firms are international from day one.

- A.k.a. international new ventures (INVs).
- Immediately dependent on foreign inputs or foreign customers for advantage.
- What powers them: a single *portable* FSA — a technology, unique product or capability — exploited across many borders at once; often acting as **brokers** connecting buyers and sellers across locations.

Uppsala says learn-then-leap; born-globals leap first. Selection decides which you observe.

Netflix entered 190+ countries in one announcement — no plants, no JVs.

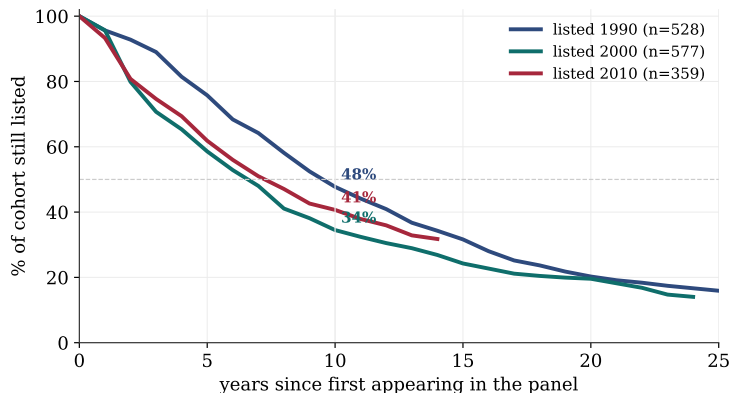
- What travels: code, brand, data — the intangibles displacing PP&E on the balance sheet (55% → 36%).
- What bites back: content quotas, data-localisation, gig-labour law, app-store rules.
- The regulatory border replaces the tariff border.

New internalisation puzzle: with near-zero replication cost, why is anything still licensed out?

PART IV

Resources, innovation and competitive advantage

Before any theory of sustained advantage: how long do firms even last?



Of firms first listed in **2000**, only **34%** were still listed ten years on; the 1990 and 2010 cohorts fare little better. Exit — acquisition, bankruptcy, delisting — is the default fate. Keep this curve in mind through VRIO: “sustained” has to beat it.

Own calculations, Compustat via `ib_panel.dta`. Exit here = leaving the panel for any reason; Practical 1's transition matrix separates the reasons. Regenerate: `python/06_new_lecture_figures.py`.

Advantage comes from resources rivals cannot cheaply copy or buy.

- RBV: the **idiosyncratic, immobile** resources a firm controls are its source of competitive advantage.
- **Resources** are the raw material that creates value; **capabilities** are the ability to create, reconfigure and leverage them.
- Resources need not be firm-specific — **capabilities are**, and they are the basis of FSAs.

RBV is the “O” of OLI, examined from the inside.

Firm-specific resources and capabilities

Resources	
Tangible resources	Financial assets: cash, stocks, loans Physical assets: land, buildings, equipment, natural resources Human capital: knowledge, skills, managerial know-how
Intangible resources	Intellectual property: R&D knowledge, patents, copyrights, trademarks Reputation: brand, corporate goodwill, formal and informal networks and relationships Customer/supplier portfolio: exclusive contracts Organisational culture: values, norms, tradition
Capabilities	
R&D and innovation capabilities	R&D skills in new product and service development Innovative organisational skills
Operational capabilities	Process efficiency: Six Sigma, just in time, lean manufacturing
Marketing capabilities	Market knowledge and responsiveness Product development Communication
Sales and distribution capabilities	Sales skills and knowledge Innovative sales channels Efficient distribution model
Corporate management capabilities	Strategy development and implementation structure Leadership Risk management
Dynamic capabilities	Organisational ability to respond and adjust to internal and external shifts

The VRIO framework, built on the resource-based view, identifies the sources of **sustained** competitive advantage by asking four questions of a resource or capability:

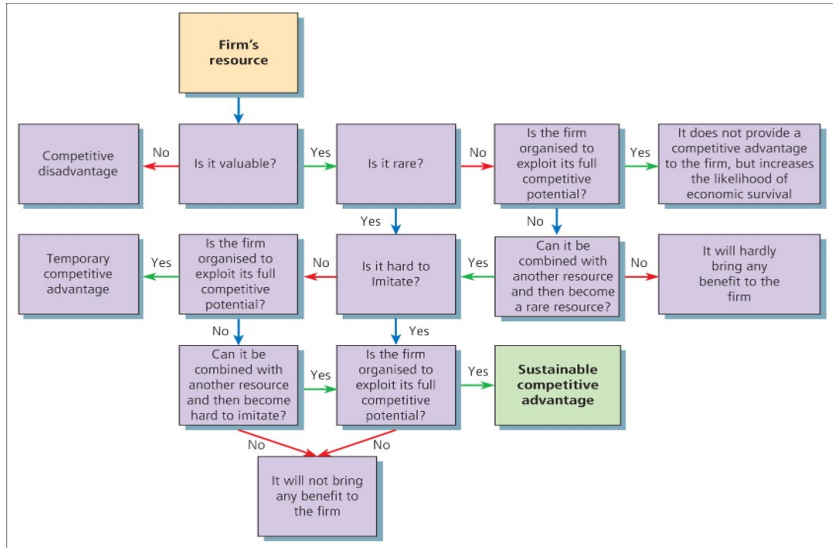
- Does it add **value** — exploit opportunities or neutralise threats?
- Is it **rare** — how many rivals already possess it?
- Is it costly to **imitate** — do firms without it face a cost disadvantage?
- Is the firm **organised** to exploit its full potential?

Four questions decide whether a resource can sustain advantage.

- **Valuable:** does it exploit opportunities or neutralise threats?
- **Rare:** how many rivals already have it?
- **Imperfectly imitable:** is it costly for others to obtain?
- **Organised:** is the firm set up to exploit it?

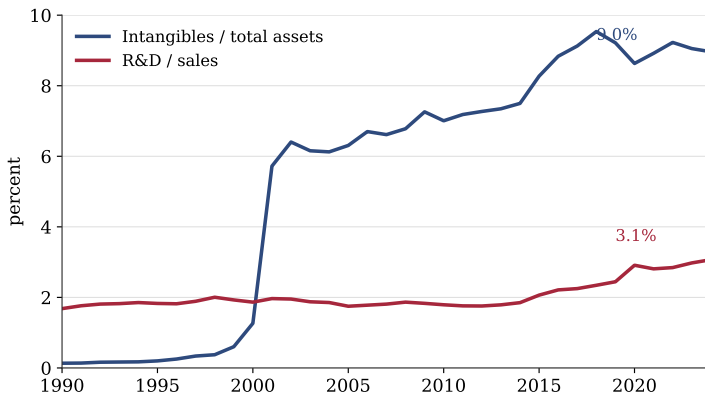
“Sustained” is an *empirical* claim — this afternoon we measure how long advantage actually lasts.

VRIO as a decision process



Adapted from J. Barney, "Firm resources and sustained competitive advantage," *Journal of Management* 17 (1991); "Looking inside for competitive advantage," *Academy of Management Executive* 9(4) (1995).

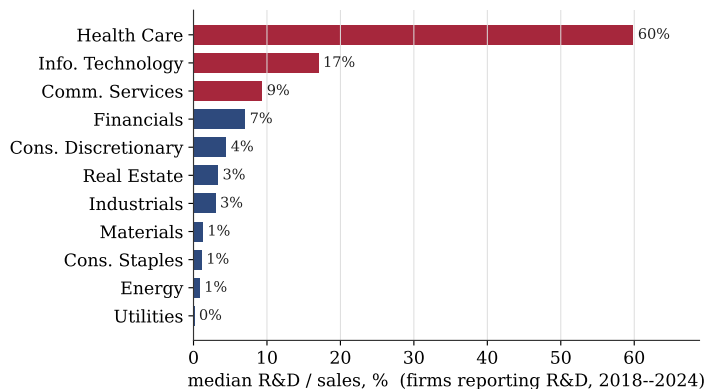
Innovation and competitiveness: the intangible economy



The FSA has changed *shape*. On US-listed firms, intangibles rose from ~0% of assets in 1990 to **9%** in 2024, while R&D/sales roughly doubled to **3.1%**. The “bundle of advantages” Hymer described is now literally on the balance sheet.

Own calculations, Compustat, aggregate ratios, full-year firms.

Who innovates? R&D intensity by sector



R&D intensity is wildly uneven: median **Health Care** firm spends 60% of sales on R&D (tiny-revenue biotech), **IT** 17%, most other sectors under 5%. Innovation-based FSAs are concentrated where imitation is hardest — exactly VRIO's prediction.

Own calculations, Compustat, firms reporting R&D, 2018–2024.

An advantage left unchanged (“static”) decays — rivals imitate, demand moves. The meta-capability is the ability to rebuild it.

- Teece, Pisano & Shuen (1997) — the paper that coined **dynamic capabilities**: the capacity to integrate, build and **reconfigure** competences as the environment shifts, through fast learning, absorbing new assets, and transforming existing ones.
- In Thursday’s semiconductor data: Intel’s operating margin fell from +28% to –9% while NVIDIA’s rose from 16% to 62% — **same industry, same five forces**. What differed was who reconfigured (toward GPUs and AI) and who did not.

The afternoon’s persistence estimate is the test: an unrenewed advantage halves within a few years — renewal is not optional.

An “internal capital market”: headquarters pools the group’s cash and allocates investment across subsidiaries — playing bank for its own divisions.

- **Bright side:** the parent substitutes for missing local finance (Stein 1997).
- **Dark side:** allocation is political — “corporate socialism” (Scharfstein–Stein 2000).
- The proof it is real — Lamont (1997): when the 1986 oil-price collapse hit oil conglomerates, they cut investment even in their *non-oil* divisions. Head office’s budget, not each division’s own prospects, was setting investment.

FSAs explain why the MNE exists. The internal capital market decides if being *one* firm adds value.

Today, the firm. We defined the MNE, sized it (a few giants, by design), and built two toolkits — OLI and FSA–CSA — then used them to explain *why* and *how* firms go abroad, and where advantage comes from and whether it lasts.

The seam we kept hitting. Location advantages, phantom FDI, tariff-jumping, the regulatory border — every one of them is about the **country**, not the firm.

Tuesday we change the unit of analysis: institutions, political risk and national advantage — what makes a location worth entering, and what makes it dangerous.

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