Seminar 1 — The Multinational Firm

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Companion to the Day 1 lecture — Student sheet

Scope. This seminar uses *lecture* material only: what a multinational enterprise (MNE) is; globalization vs internationalization; firm- and country-specific advantages (FSA–CSA); the eclectic paradigm (OLI); motives and the Uppsala process; the CAGE distance dimensions and gravity; the proximity–concentration trade-off; entry modes and internalisation; born-global and asset-light firms; the resource-based view (RBV) and VRIO; and dynamic capabilities.

Part 1. Multiple choice (10 questions)

Choose the single best answer.

1. Which best distinguishes **internationalization** from **globalization**?

(a) They are interchangeable.
(b) Internationalization is the cross-border activity of individual firms; globalization is the deepening interdependence of markets.
(c) Globalization is purely cultural; internationalization purely political.
(d) Internationalization applies only to services.

2. In OLI, the "**O**" asks whether the firm:

(a) can find cheap inputs abroad
(b) holds a proprietary advantage (technology, brand, know-how) rivals lack
(c) should license rather than produce
(d) is state-owned

3. The advantage a firm gains specifically from a **physical presence** in a foreign country is:

(a) ownership-specific
(b) location-specific
(c) internalization
(d) transactional

4. The "**I**" in OLI is answered by comparing:

(a) exporting vs producing abroad
(b) using the advantage *inside* the firm vs licensing it to an outside party
(c) debt vs equity
(d) greenfield vs brownfield

5. An equity stake is classified as **FDI** rather than portfolio investment once it reaches at least:

(a) 1%
(b) 10%
(c) 25%
(d) 50%

6. The **Uppsala** model predicts firms internationalize:

(a) fastest where profits are highest
(b) incrementally, from psychically close to distant markets as they learn
(c) only by acquisition
(d) in all markets at once

7. In the Helpman–Melitz–Yeaple sorting by productivity, the **most** productive firms tend to:

(a) serve only the home market
(b) export only
(c) license technology
(d) undertake FDI

8. Which is **NOT** a VRIO question?

(a) Is it valuable?
(b) Is it rare?
(c) Is it costly to imitate?
(d) Is it cheap to acquire?

9. IMF researchers estimate the share of global FDI that is "**phantom**" (routed through empty holding companies) at roughly:

(a) 4%
(b) 15%
(c) 40%
(d) 75%

10. An **asset-light**, born-global entrant (streaming, software) differs from a classic manufacturer mainly because:

(a) it faces no competition
(b) its marginal cost of serving another country is very low, so it can enter many markets almost at once
(c) it never adapts locally
(d) it cannot be an MNE

Part 2. Discussion questions (10)

Short, open questions for the table; talking points follow each.

1. **Dynamics of globalization.** What forces drive globalization, and is it now stalling or reversing ("slowbalisation")? What evidence would settle the question?

2. **Regional vs global MNEs.** "Most large multinationals are truly global." Evaluate using Rugman's evidence, and say what makes the rare exceptions (e.g. Canon) possible.

3. **Phantom FDI.** If roughly 40% of measured FDI is "phantom" capital routed through empty holding companies, what do FDI league tables actually measure — and who benefits from not fixing them?

4. **FSA–CSA interaction.** Why does competitiveness come from the *interaction* of firm- and country-specific advantages, not either alone? Give a case where a strong FSA failed because the CSA did not fit.

5. **Why firms become MNEs (the motives).** State the four classic motives, give an example of each, and argue which dominates for today's largest firms.

6. **Uppsala vs born-global.** Has cheap technology killed the stages model? Contrast the asset-heavy path with the born-global path and say what the model still gets right.

7. **Distance in a "flat" world.** Reconcile the flat-world narrative with gravity and CAGE evidence that distance still predicts trade. Which kinds of distance has technology shrunk, and which not?

8. **Make-or-license (internalisation).** Using Buckley–Casson/Coase, when should a firm *own* an activity abroad rather than license or contract it? Give conditions and an example each side.

9. **Dynamic capabilities vs VRIO.** VRIO says advantage can be "sustained", yet most advantages erode. How do dynamic capabilities reconcile the two, and what does this imply for investment?

10. **Outsourcing, offshoring, nearshoring, reshoring.** Distinguish the four. What has driven the recent shift from far-shoring toward nearshoring/reshoring, and how does it connect to the make-or-buy decision?

Part 3. Analytical questions (5)

Structured, exam-style problems; some have several parts. Full model answers follow.

1. **The FSA–CSA framework.** Explain firm- and country-specific advantages, draw the 2×2 matrix, state what each cell implies for strategy, and give a real firm for two cells.

2. **OLI as a decision.** A European premium-appliance maker holds a patented low-noise motor. To serve a large, fast-growing Asian market it may (i) export, (ii) license a local producer, or (iii) build a wholly owned plant. State the condition making each optimal, and name the single OLI letter most likely to tip the choice to the plant.

3. **Gravity model (with a calculation).** (i) Write a simple gravity model and explain each term. (ii) Country A (GDP 2000) trades with B (GDP 500, distance 1000) and C (GDP 1000, distance 4000). Compute predicted A–B and A–C trade and their ratio; then add a common-language multiplier of 1.5 for A–C and recompute. (iii) Interpret, and list the empirical "add-ons".

4. **Location advantages and CAGE.** (i) List the main *types* of location (country-specific) advantage. (ii) Map a European food retailer's Asian entry onto the four CAGE dimensions. (iii) Which dimension binds hardest, and why?

5. **Entry modes: advantages and disadvantages.** Rank the main entry modes from low to high commitment, giving the chief advantage and disadvantage of each, and state when each is optimal (link to OLI, Uppsala and proximity–concentration).

Part 4. Case studies

Case A — IKEA in Japan: enter, fail, exit, return

IKEA built the world's largest furniture retailer (over 420 stores in 50+ countries) on one formula: low-priced, flat-packed, self-assembled furniture designed in-house and sold in large out-of-town stores. Early expansion was cautious and regional — Norway (1963), Denmark (1969), then Switzerland and Germany (1973) — before a large leap: **Japan in 1974, through a joint venture** chosen to limit risk in an unfamiliar market. The entry failed: Japanese consumers of the 1970s did not embrace do-it-yourself assembly; the standard range did not fit small apartments; and the large-basket, car-based model suited neither the transport system nor the retail culture. After years of weak sales, IKEA **exited in 1986**. It **re-entered in 2006** through **wholly owned stores**, with roughly 7,500 items re-sized for Japanese homes, home-delivery and assembly (its *Tebura de box*, "empty-handed", delivery for customers arriving by train), and two decades of know-how from serving small-space urban customers in New York, Paris and London.

Questions.

1. Trace IKEA's 1963–1974 expansion through the **Uppsala model**. Where does it fit, and where does the 1974 Japan entry already deviate?
2. Use **OLI** to explain the 1974 JV, the 1986 exit, and the 2006 wholly owned re-entry. Which OLI letter changed most?
3. "IKEA's Japanese exit was a failure." Argue *against* this using **exit as information** and the real-options view of entry.

Case B — Netflix expands into Mexico: the asset-light entry

Netflix (founded 1997) moved from DVD-by-mail to streaming and reached hundreds of millions of subscribers worldwide with a workforce a fraction the size of a comparable manufacturer. Its international growth — including Mexico — required no plants and no joint ventures: the service switches on wherever the internet reaches. It localises through *content*: self-produced titles (*La casa de las flores*), material commissioned from local studios, co-productions with broadcasters, and licensing of already-successful local titles. What resists Netflix abroad is not distance but regulation and the culture of content — local-content rules, payment infrastructure, and pricing calibrated to local incomes.

Questions.

1. Contrast Netflix's Mexico entry with IKEA's Japan entry using the **asset-light** idea. What "travels" in each case, and what resists?
2. Netflix's four content channels (own studio, commissioned, co-production, licensing) are four positions on the **internalisation** spectrum. Map them, and explain why Netflix uses all four at once.
3. Run Netflix's recommendation-and-data capability through **VRIO**. Which letter is most fragile, and why?

Note. Case adapted from Collinson, Narula, Qamar & Rugman, *International Business*, 9th ed. (Pearson, 2024) and the instructor's seminar handouts; multiple-choice and analytical items follow the Warwick Summer School written-exam format. Set `\answerstrue` for the answer key.