

Seminar 1 — The Multinational Firm

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Companion to the Day 1 lecture — ANSWER KEY

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.

Answer. (b). Internationalization is a firm-level process (exporting, FDI); globalization is the system-level integration of economies.

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

Answer. (b). O = ownership advantage; L = where to deploy it; I = whether to internalise it.

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

Answer. (b). Location advantages (market size, resources, skills, institutions) are what a physical presence unlocks.

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

Answer. (b). Internalisation is the make-or-license boundary (Coase/Buckley–Casson): internalise when the market for the advantage would fail.

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%

Answer. (b). 10% is the control threshold separating FDI from foreign portfolio investment.

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

Answer. (b). Commitment follows experiential learning; born-globals are the exception, not a refutation.

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

Answer. (d). Fixed costs rise domestic < export < FDI, so only the top of the distribution finds FDI worthwhile.

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?

Answer. (d). The fourth question is whether the firm is *Organised* to exploit it.

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%

Answer. (c) $\approx 40\%$, which is why conduit jurisdictions (Luxembourg, the Netherlands) top FDI recipient tables.

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

Answer. (b). Low replication cost breaks Uppsala's commitment assumption; what still resists is regulation and content/culture, not logistics.

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?

Answer. Drivers: falling transport and communication costs, trade liberalisation (GATT/WTO and regional agreements), enabling technology (containerisation, the internet), open capital markets, and the spread of the multinational production model. Counter-forces now: reshoring and "friend-shoring", tariffs and trade wars, geopolitical fragmentation, supply-shock lessons from the pandemic, and weaponised interdependence. Evidence to watch: the world trade-to-GDP ratio (which plateaued after 2008), FDI flows, and the intra- vs inter-regional trade split. The honest reading is "slowbalisation": integration has paused its rapid-expansion phase and is partly re-routing along political lines, not collapsing.

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.

Answer. Rugman's data show most of the largest MNEs earn the majority of sales in their *home region* of the triad; only a handful are balanced tri-regional. "Global" is largely branding. The exceptions carry portable, codified ownership advantages (patents, precision engineering) in products needing little local adaptation, built over decades of patient capability-building. The lesson: distance and region still structure activity, so strategy should be built for a region-first world, treating true globality as the exception that proves the rule.

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?

Answer. They measure the legal-financial *routing* of capital, not where production or jobs land — which is why tiny conduit economies (Luxembourg, the Netherlands, Ireland) top recipient tables. Beneficiaries of the fog: conduit jurisdictions (fees and legal-services jobs), MNEs (tax minimisation and profit-shifting), and politicians claiming "record inward investment". It connects to Day 4's transfer pricing: the same structures that route FDI relocate reported profit to low-tax jurisdictions. Better (ultimate-investor, activity-based) measures exist but threaten those rents.

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.

Answer. An FSA (technology, brand, know-how) is only valuable where a matching CSA (market size, input costs, skills, institutions) lets it be deployed profitably; a great capability aimed at the wrong place earns nothing. Equally, a strong CSA without any FSA yields commodity margins. IKEA’s flat-pack/DIY FSA failed in 1974 Japan because the local CSA — small homes, no car-based shopping, different retail norms — did not fit the format. Competitiveness is the productive *match*: ask not “is our capability good?” but “is it good *here*?”

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.

Answer. (1) *Market-seeking* — go where customers/growth are (autos in China). (2) *Resource/asset-seeking* — secure inputs (mining, oil) or strategic assets and technology. (3) *Efficiency-seeking* — exploit cost differences by relocating production (electronics assembly in Asia). (4) *Strategic-asset/knowledge-seeking* — acquire brands, patents, talent, or follow/pre-empt rivals. For today’s tech and consumer giants, market-seeking (global demand) and strategic-asset-seeking (buying capabilities, defending platforms) dominate, while classic cost-driven offshoring is partly retreating. Most large MNEs blend motives, but the mix has shifted from cost toward markets and capabilities.

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.

Answer. Uppsala says firms commit incrementally, moving from psychically close to distant markets as experiential knowledge accumulates, because commitment under uncertainty is costly. Born-globals (software, platforms) enter many markets almost at once because replication cost is near zero — so the model’s *cost-structure* assumption is broken, not its logic. What it still gets right: for asset-heavy entrants, learning and sequencing matter, and even born-globals hit non-logistical borders (regulation, payments, content culture). Selection explains what we see: only low-commitment-cost firms can leap, so leaping firms look different — they have not repealed the trade-off.

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?

Answer. Gravity: flows rise with economic size and fall sharply with distance; CAGE decomposes distance into Cultural, Administrative, Geographic and Economic. Technology has compressed *information* and some coordination costs, enabling remote services and digital trade. It has *not* removed cultural distance (taste, language, trust), administrative distance (regulation, tariffs, standards, legal systems), most physical logistics, or economic distance (income gaps). The world is flatter for bits, not for atoms or institutions — which is why most MNEs stay regional and entries fail on culture and rules, not bandwidth.

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.

Answer. Internalise (own) when the market for the advantage would fail — risk of dissipating tacit know-how, hold-up by a partner, quality/brand control, or contracts too incomplete to protect the asset. License/contract when the asset is codifiable and legally protectable, speed and low commitment matter, and a local partner adds market knowledge cheaply. Own: a pharma/tech firm keeping core R&D and IP in-house. License: a consumer brand franchising a standardised, contractible format (fast food) where recipe and manual travel safely. The firm’s boundary sits where ownership’s control benefit exceeds its cost.

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?

Answer. VRIO gives the *cross-sectional* conditions (Valuable, Rare, costly to Imitate, Organised) for advantage at a point in time; erosion is the equilibrium *rate* at which imitation and change dissolve them. Dynamic capabilities — sensing, seizing, reconfiguring the resource base (Teece) — are the machinery for rebuilding the basis of advantage faster than it decays. Implication: don’t just protect today’s VRIO resource; invest in the capacity to renew it (R&D, adjacency, organisational learning). “Sustained” is won by out-running a measured half-life, as when Canon reinvented optics into office and medical imaging.

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?

Answer. Outsourcing = buy an activity from an outside firm (*make-or-buy*); offshoring = move it to another *country* (regardless of ownership); nearshoring = offshore to a nearby country; reshoring = bring a previously offshored activity home. The axes are independent — you can offshore in-house or outsource at home. Drivers of the shift back: pandemic-exposed fragility, tariffs and geopolitical risk (US–China), rising wages in former low-cost hubs, automation eroding the labour-cost advantage, and friend-shoring to allies. It links to internalisation: firms now re-weigh not only make-vs-buy but *where*, trading some cost efficiency for resilience and political safety.

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.

Answer. FSAs = proprietary, mobile capabilities a firm carries across borders (technology, patents, brand, managerial/organisational know-how). CSAs = location-bound endowments a country offers (resources, labour cost, skills, market size, institutions, infrastructure). Competitiveness (Rugman) comes from matching them:

	Strong CSA	Weak CSA
Strong FSA	Global winner (Nestlé)	Innovate into hard markets (Netflix)
Weak FSA	Cost/resource exporter (Bangladeshi garments)	Not viable alone — ally or exit

Strong+Strong: deploy world-class capability in a favourable location (Nestlé: R&D/brand $\times$ large developed markets). *Strong FSA/Weak CSA:* enter difficult markets on the firm’s own advantage, substituting the firm for missing local endowments (Netflix into a weak-IP market on platform strength). *Weak FSA/Strong CSA:* ride a location endowment at commodity margins (garment makers on low-wage CSA). *Weak/Weak:* exit or ally to borrow a partner’s FSA/CSA. Managerial use: locate an FSA where a complementary CSA amplifies it, and read a failed entry as a *mismatch*, not necessarily a weak capability.

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.

Answer. **O** holds throughout (the motor patent). The choice is set by L and I. *Export* when L is weak — the market is not large enough to justify a plant and trade costs are low; concentrate production at home and ship (proximity–concentration: reap plant-scale economies, pay trade costs). *License* when L is strong (a market worth being inside) but I is weak — the technology is contractible, IP protection adequate, and speed/low commitment matter more than control. *Wholly owned FDI* when L is strong *and* I is strong — a licensee would risk leaking the motor know-how or degrading quality, and proximity to demand is valuable. The tipping letter is **I**: fear of dissipating the proprietary advantage (or losing quality control) through an arm’s-length partner makes ownership worth its cost; rising tariffs would reinforce FDI via tariff-jumping.

- 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”.

Answer. (i) Simple gravity: $T_{ij} \propto (\text{GDP}_i \times \text{GDP}_j) / \text{Dist}_{ij}$. Economic *mass* (the two GDPs) raises trade; *distance* (a proxy for transport, information and search costs) reduces it. In estimable log form $\ln T_{ij} = \alpha + \beta_1 \ln \text{GDP}_i + \beta_2 \ln \text{GDP}_j - \beta_3 \ln \text{Dist}_{ij} + (\text{add-ons})$, with the β ’s near 1.

(ii) A–B $\propto (2000 \times 500) / 1000 = 1,000,000 / 1000 = \mathbf{1000}$. A–C $\propto (2000 \times 1000) / 4000 = 2,000,000 / 4000 = \mathbf{500}$. Ratio A–B : A–C = 1000 : 500 = **2 : 1** — A trades *twice* as much with the smaller, closer B as with the larger, farther C. Add the language multiplier to A–C: $500 \times 1.5 = \mathbf{750}$; ratio 1000 : 750 $\approx \mathbf{1.33 : 1}$ — language narrows but does not overturn the gap.

(iii) Interpretation: doubling distance roughly halves trade here (unit distance elasticity), so C’s size advantage is outweighed by being four times farther. Empirical add-ons that *multiply* trade: a common language, a shared land border, a colonial link, a common currency, and a regional trade agreement; the model is usually estimated against a “null” (frictionless) benchmark to show how much distance and borders still bite even in a supposedly flat world.

- 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?

Answer. (i) Location advantages come in types: *natural* (resources, climate, geography), *created/factor* (skilled labour, infrastructure, technology clusters), *market* (size, growth, demand sophistication), *cost* (wages, taxes, land), and *institutional* (rule of law, IP protection, political stability, trade access). A location is attractive when its endowments complement the firm’s FSA.

(ii) CAGE mapping for the retailer: *Cultural* — shopping frequency, cuisine, fresh-vs-packaged attitudes, label language; *Administrative* — retail-zoning law, foreign-ownership limits, food-import and labelling rules, tariffs; *Geographic* — distance for perishable supply chains, urban density and transport (car vs transit); *Economic* — income level and its fit to the format’s price point.

(iii) For a physical, culturally-embedded retailer, *cultural* and *administrative* distance usually bind hardest (format fit and rules), geographic distance matters for perishables, and economic distance is often an *attraction* (enter for growth) rather than a barrier. The discipline is to rank the four for the *specific* firm and mode, because the binding dimension dictates whether to adapt the offer, take a partner, or stay out.

- 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).

Answer.

Mode	Main advantage	Main disadvantage
Exporting	low cost/risk, fast, reversible	trade costs; weak local presence/learning
Licensing	fast access, minimal investment	weak control; royalty caps upside; may breed a rival
Franchising	rapid scale, local capital & effort	brand/quality-control risk; format must be codifiable
Joint venture	local knowledge; shares risk	control conflicts; profit split; IP leakage
Wholly owned (greenfield)	full control; keeps IP	slow, capital-intensive; full local risk
Acquisition (M&A)	fast, installed base + capabilities	costly; integration/culture risk; may overpay

When each is optimal, read through OLI, Uppsala and proximity–concentration. Weak L or early on the learning curve → export/license (Uppsala’s incremental start). Strong L but a contractible advantage → license/franchise. Strong L *and* strong I (protect know-how, need control) → wholly owned FDI; if speed and existing capabilities matter, M&A; if trade costs are high, FDI jumps the tariff. Commitment should rise with market knowledge and with the value of controlling the advantage.

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?

Answer. Fits: psychic-distance ordering (Scandinavia → German-speaking Europe) and incremental commitment. Deviates: Japan 1974 is a large psychic-distance jump made early and via JV — Uppsala predicts entry only after more regional learning. The 12-year failure is the model’s warning that commitment outran market knowledge.

2. Use **OLI** to explain the 1974 JV, the 1986 exit, and the 2006 wholly owned re-entry. Which OLI letter changed most?

Answer. (a) O = design/format; L = rich, urbanising Japan; I weak, so a JV shares control and risk. (b) The O advantage did not transfer — the format clashed with local demand, so the L-test failed for *this* O. (c) By 2006 O was upgraded (small-space know-how, delivery) and I strengthened (full ownership to control the experience). The biggest change is **O**: a recombined advantage built 1986–2006.

3. “IKEA’s Japanese exit was a failure.” Argue *against* this using **exit as information** and the real-options view of entry.

Answer. Exit is a common outcome, not automatically failure. The 1986 exit produced the information (range misfit, service gaps, shopping behaviour) that made the 2006 format work — and some

innovations (empty-handed delivery) were exported elsewhere. A clean exit that preserves the option to return is a real-options success: you paid to learn and kept the option alive.

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?

Answer. IKEA moves a physical format — stores, logistics, inventory — high commitment per market, so sequencing and mode choice matter. Netflix moves code, brand and recommendation data — near-zero marginal cost of entry, many countries at once. What resists Netflix is not distance but the regulation and culture of content: local-content expectations, payment infrastructure, price-to-income calibration. The border it faces is regulatory, not logistical.

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.

Answer. Own production = full internalisation (protects data-driven creative know-how, keeps the IP); commissioning = quasi-internal (Netflix finances and owns output, production capability stays external); co-production = shared control (access to a local broadcaster’s market knowledge, shared IP); licensing = pure market transaction (fast catalogue-building, no control). The mix applies Buckley–Casson asset by asset: internalise where the advantage is at risk, buy where the asset is generic and speed matters.

3. Run Netflix’s recommendation-and-data capability through **VRIO**. Which letter is most fragile, and why?

Answer. Valuable and Rare: yes. *Imitability* is the fragile letter — rivals (Disney+, Amazon) can build comparable data assets because the input (viewer behaviour) accrues to anyone with subscribers. Organisation: strong. So the advantage is real but not durably inimitable, which is why Netflix keeps shifting the basis of advantage (DVD → streaming → originals → local originals).

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. Answer key — set \answersfalse to print the student sheet.