DP 2015-67: *Reply* to the (anonymous) Invited Reader Comment

Thank you for your comments. We may remind the reader that the objective of our purely empirical paper is a) to investigate whether the OLI approach developed by Dunning is valid not only for manufacturing but for services as well, and, in case the latter holds true, b) to identify the most important differences between the two sectors with respect to the pattern of explanation. Additionally, the paper analyses the relevance of the OLI model for explaining the internationalisation of specific business functions.

Your comments refer to the empirical specification (*operationalisation*) of the OLI model. First, you have some doubts on whether our approach takes account of the motives of FDI distinguished in the literature (efficiency seeking, resource-seeking, etc.). This argument is surprising as we use a whole set of L-variables (to which you do not refer to at all) which clearly captures such motives. Efficiency-seeking advantages are accounted for by variables representing costs in the narrow sense as well as institutional/regulatory restrictions; resource-seeking FDI (in the present case, the relevant resource is “knowledge/technology”) is captured by knowledge-related O-advantages of firms, etc.

Secondly, you mention the problem of how to capture empirically I-advantages that are relevant for the decision to undertake FDI (including JV as it is argued in the paper) rather than to export goods/services. We agree, as stated in the paper, that it is difficult to specify the I-part of the model. Using the variables firm size and co-operation obviously is a very rough approximation. Nevertheless, firm size (though also representing some unspecified O-advantages such as “privileged access to capital markets”) is a variable that captures the superiority of large firms with respect to reducing transaction costs/risks of international activities. To mention are, for example, advantages of large firms with respect to co-ordinating and managing international activities; bargaining power; monitoring quality-standards to be met by affiliates; information search in general, etc. The indicators of I-advantages you propose in your comment are not really convincing. “International experience” primarily is an O-advantage and is included in our model. “Institutional quality of the host country” is an L-advantage of host countries we captured in some detail in the L-part of the model, but we admit that the variable “institutional quality” (L-variable) and transaction risks are interrelated.

All in all, though we appreciate your comments, these are not effectively helpful for investigating the main topic of the paper, i.e. the relevance of the OLI model for explaining the internationalisation of services firms (in comparison to manufacturing companies).