As per the Editor request, I am hereby providing my short report on the paper “Does the explanatory power of the OLI approach differ among sectors and business functions?”, mainly focussing on two questions:

(i) Is the contribution of the paper potentially significant?

(ii) Is the analysis correct?

(i) The paper uses interesting data on a large sample of Swiss firms, encompassing manufacturing and service industries and, most interestingly, providing information on the internationalisation of different business functions (such as production, distribution and R&D). This makes the paper promising. However, the current version of the paper does not fulfil these promises, for reasons that I will discuss here below

(ii) I have concerns both on theory and empirical model

On the theory side, the authors choose to adhere to the OLI paradigm, and make rather general statements, rather precise hypotheses about the relative suitability of OLI paradigm to explain different international activities in manufacturing and services, and across different types of business functions. I think that to do justice to the OLI paradigm, one should highlight which dimensions of the OLI paradigm would be less appropriate in some context. To be more explicit, I do not think that hypotheses like H2 are in any way testable. What does it mean “The explanatory power of the OLI model is lower in the case of services than for manufacturing?”. Is it because O-advantage do not matter, or rather it is about L, or it is because the Internalisation problem does not present itself? On top of this, I do not think that that the empirical model allows to test the OLI paradigm at all. The data used in this paper offer many dimensions of the Ownership advantage, but the structure of the data do not lend themselves to analyse neither L, nor I. In fact the data are from a survey on firms, and the L-specific variables are all self-reported by the firm, therefore they allow to investigate, for example, what type of internationalisation mode will be chosen by firms that believe that geographic distance is more an obstacle. Instead, a proper test of the OLI paradigm, would require to investigate whether firms choose different strategies for different markets, according the L-advantages of the markets. Similarly, the I-advantages need to be assess at the level of the individual transaction (such as an entry in a foreign market) to understand whether the specific circumstances (internal and external to the firm) in which the transaction take place affect the cost of internalisation. Instead, this paper measures I-advantages in terms of size of the firm, assuming that large firms will face less transaction costs. While this may be true (as well as the fact that size captures many other aspects), the actual degree of internalisation will depend on transaction-specific variables, and not only firm-specific variables. Finally, the statement that the authors make at p.12 that “I-advantages may thus also influence the choice between offshoring and exporting” is at best imprecise: the choice between offshoring and exporting is affected by O-advantages (if we assume that the two choices have different sunk costs) or by L-advantage if we are interested in the specific mode of serving a specific location.

In short, I do not think these data are fit to estimate the OLI paradigm. In my view, a more fruitful direction would be to focus on the literature on O-advantages or Firm-specific advantages (FSA), which has been extensively used to explain, for example, the propensity to export in the International Business literature, integrated by an approach à la Melitz that focuses on firm productivity and sunk costs of internationalisation modes. In this respects. It would crucial to introduce a measure of productivity among the explanatory variables.

Finally, I think that the self-reported measures of obstacles to internationalisation may lead to very ambiguous interpretations. In fact, if one thinks at the importance of distance as an obstacle, we may have a case of a firm that reports that this is not an obstacle, just because it has never even thought of doing business abroad, or may be perceived not important from a firm that has developed an efficient way to deal with it.