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## **Chapter I**

# **Information Technology and the Internationalization of the Firm**

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### **ABSTRACT**

*A key concern for all multinationals is where to find a suitable location for their business activities, bearing in mind that they must find the right balance between global integration and local responsiveness. This article contributes to the internationalization debate by asking: in what sense will information technology enable globalization? We focus on the sourcing process, an area where globalization is often claimed to be the case. Re-examination of empirical evidence shows that global sourcing is not as generally predominant as is claimed. Consequently inhibitors to global integration exist and we classify these inhibitors into three categories: geographical, relational and environmental inhibitors. We then analyze the role information technology plays in reducing these inhibitors and formulate propositions that are then illustrated in two case studies. Information technology is proposed to reduce the geographical and relational inhibitors, but it will have no effect on environmental inhibitors. However, the latter category of inhibitors will become more prominent in the future. Information technology thus shifts the balance towards global integration, but simultaneously creates new problems in managing internationalization.*

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## INTRODUCTION

New information technology is widely seen as one of the key triggers governing the globalization of firms. The growth of the Internet has spurred global start-ups and the ability to act as if the world were borderless, so it is claimed. However, in reality most firms still operate in local environments with local partners (Rangan, 2000). While we do not question that IT potentially, and actually, influences the process of internationalization of the firm, we aim to refine this thesis beyond the simple notion that IT stimulates internationalization. We therefore focus on the underlying mechanisms that influence internationalization and analyze IT's role in those. Global sourcing strategy has been chosen as the testing ground.

It has been suggested that firms ought to search globally for the best possible source available (Quinn & Hilmer, 1994), yet not all sourcing is global. One reason may be that the overall business strategy is only compatible with a local sourcing strategy. Another reason may be that even though a global sourcing strategy is compatible with the overall business strategy, such a sourcing strategy is not feasible due to the presence of inhibitors to globalization. Thus it is important to note that a sourcing strategy does not exist in a vacuum, but rather is shaped in part by the overall business strategy. The overall business strategy, such as cost leadership or product differentiation, puts boundaries on the set of feasible sourcing strategies. The business strategy, however, is a higher level of analysis than the one we pursue in this article. Our level of analysis is the sourcing strategy level and in particular the international aspects. The key question addressed in this article is how information technology helps to overcome these inhibitors to global sourcing.

This chapter starts by highlighting two different views on internationalization, one focusing on global integration and one focusing on local responsiveness. These two views are reflected in the literature on international sourcing as well. Some authors speak of global sourcing as a desirable strategy (e.g., Kotabe, 1992) while others stress the advantages of local networks (Nishiguchi, 1994). In the next paragraph, we review the empirical evidence from the literature and find that it reflects these two views, i.e., there is a balance between pressures to focus on global integration and pressures to enhance local responsiveness. We identify three categories of factors that determine this balance: geographical, relational and environmental factors. We then go on to analyze the role that information technology plays in changing these factors and illustrate our propositions with two firm examples. Finally, the conclusions will expand upon some of the managerial demands imposed by increased globalization.

## LOCATION PARADOX

Two perspectives can be distinguished throughout the literature on internationalization of the firm, which disagree about the importance of location. One perspective posits the convergence of business models and the global integration of firms around the world, which, following Prahalad and Doz (1987), we will refer to as *the global integration view*. The other perspective is far more skeptical about the extent to which firms are heading towards one business model and denies that the global integration of

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