

Information technologies and the future of the multinational enterprise[☆]

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Abstract

In this paper, we highlight the pervasive influence of information technologies on multinational enterprise (MNE) operations, strategies and structures. The democratization of information technologies has diminished geographic distance and compressed response times for MNEs. In turn, this has led to an increased and simultaneous emphasis on both global efficiencies and local responsiveness. We explore the consequences of this change in emphasis for MNE strategic and structural orientations as established by Bartlett and Ghoshal's typology of MNE strategies. Our conclusion is that the distinctions between the four strategic orientations are becoming increasingly blurred and MNE structures are becoming more organic in nature. In addition to discussing these changes, we also highlight emerging challenges that MNEs face in an increasingly borderless, time compressed world.

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1. Introduction

Since the late 1980s, the world economy has undergone tectonic shifts due to two interrelated yet distinct forces: globalization and information technology (IT). With the globalization of the world economy, it became impossible for multinational enterprises (MNEs) to survive only by leveraging economies of scale, size, command and control management, multidomestic strategies, and an export orientation (Economist, 1995). Instead, MNEs had to address the challenges of efficiency in current operations, management of risks and the need for global learning and innovation (Ghoshal, 1987).

To face these challenges, MNEs adopted an organizational system consisting of (1) the dispersal of the company's various activities and functions in the value chain and their location in different parts of the world to take advantages of national differences, and (2) a reintegration of the dispersed activities and functions to benefit from scale and scope economies (Phatak, 1996). Correspondingly, MNEs responded by moving from a simple integration system that was appropriate for a multidomestic strategy to a more complex mode of integration that requires locating activities according to the logic of the market and dispersing decision-making throughout the world.

In doing so, the MNEs have also become the primary vehicle through which the diffusion of IT is taking place globally (Kogut, 2003). MNEs serve to diffuse IT through two powerful mechanisms. First, they seek new opportunities both in terms of entering new markets and fulfilling sourcing requirements. Second, they diffuse IT as part of their communication networks in the worldwide coordination of far-flung subsidiaries, suppliers, and customers (Kogut, 2003).

Even though globalization and the diffusion of IT have gone hand in hand with the growing market power and geographic reach of MNEs, the Internet and innovations in various web related technologies (such as XML, SSL, digital signature, digital watermarking) have changed the very rules by which these MNEs have to play. The 'new' rules of the game include restructuring to foster a 'glocal' outlook, nimbleness, empowerment of local managers/employees and the management of knowledge. IT enables MNEs to globalize production and finance by reducing the cost and time of communications. In turn, globalization spurs technology by intensifying competition and hastening the diffusion of technology through foreign direct investment.

What are the consequences of these mutually reinforcing cycles of globalization and IT diffusion for MNEs? Specifically, how is IT influencing the strategies and structures of MNEs? What are the new challenges and issues that MNEs face in an increasingly borderless, time compressed world? These are the questions that we explore in this paper. In doing so, we use the Bartlett and Ghoshal's (1989) typology of MNE strategies as our inquiry frame that provides the context for the changes that have occurred due to the influence of IT.

2. Typology of MNE strategies in the pre-IT era

The integrative/responsiveness framework is the centerpiece of the theoretical literature on MNEs (Prahalad and Doz, 1987). As the name indicates, the development

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