

Strategic opportunity and economic performance in multinational enterprises: The role and effects of information and communication technology

Torben Juul Andersen*, Nicolai Juul Foss

*Department of Management, Politics, and Philosophy, Copenhagen Business School, Blaagaardsgade 23B,
2200 Copenhagen N, Denmark*

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Abstract

Recent work on multinational enterprises (MNEs) argues that diversity in terms of the markets they serve and the environments they acquire inputs from provides strategic opportunity unavailable to purely domestic firms. However, MNEs are also exposed to higher levels of complexity and uncertainty due to the presence in different locations and confront associated needs to integrate and coordinate activities. This paper suggests that the attendant cost–benefit tradeoff can be influenced by computer-mediated communication. Based on a sample of 88 organizations in the computer products industries, we find that multinationality *in itself* does not guarantee a higher level of strategic opportunity. Instead, use of information technology to facilitate communication among managers across functional and geographical boundaries enhances coordination of multinational activities in the development of strategic opportunity, which in turn is associated with superior performance. © 2005 Elsevier Inc. All rights reserved.

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1. Introduction

The economic performance of multinational enterprises (MNEs) has been subject to intense scrutiny and debate (e.g., [Click and Harrison, 2000](#); [Annavarjula and Beldona,](#)

* Corresponding author. Tel.: +45 38153630.

E-mail addresses: tja.lpf@cbs.dk (T.J. Andersen), njf.lpf@cbs.dk (N.J. Foss).

2000; Contractor et al., 2003). However, the performance effects of multinationality remain in dispute, and, taken together, existing findings are inconclusive. Many theoretical arguments have been forwarded to suggest that multinationality can have positive performance effects. An important idea in recent work on the “differentiated MNE” posits that diversity in terms of the national markets they operate in and acquire inputs from provides MNEs with business opportunities that are not available to purely domestic firms (Hedlund, 1986; Prahalad and Doz, 1987; Kogut and Zander, 1993; Bartlett and Ghoshal, 1998; Foss and Pedersen, 2002; Mudambi, 2002). However, managing a multinational structure increases the level of complexity and uncertainty faced by MNE management due to the presence in different market environments (e.g., Rosenzweig and Singh, 1991; Zaheer, 1995). Moreover, various organizational costs are likely to be higher in the MNE structure than in a purely domestic firm. For example, because cultural and institutional diversities increase the cost of acquiring and processing information (Casson, 2000) and impose agency costs across diverse operating entities (Benito et al., 2005).

While the international business literature recognizes that multinationality imposes distinct benefits and costs on the organization, there is arguably less theoretical and empirical understanding about how MNEs can influence the attendant tradeoff so as to influence performance to their advantage. It is argued here that MNEs can use information and communication technology (ICT) in their knowledge management processes to influence this tradeoff. In particular, we argue that ICT may assist in *generating* benefits in the form of strategic opportunity, that is, “opportunities for positive NPV undertakings” (Denrell et al., 2003) and in *coordinating* the development of these opportunities across the MNE. For a number of reasons, e.g., organizational path-dependencies and differential ICT capabilities, MNEs are not equally good at managing the tradeoff between costs and benefits of multinationality to their advantage. This may help explain the rather inconclusive findings on the performance effects of multinationality.

This paper contributes to the body of work that has dealt with the performance of multinationality building on recent ideas on knowledge management in the “differentiated MNE.” The unifying theme is the possible moderating effects of information technology in the generation of strategic opportunity in the MNE. We analyze the relationships between multinationality, computer-mediated communication, strategic opportunity, and economic performance in a sample of 88 organizations operating in the computer products industries. Our overall finding is that multinationality does not guarantee the ability to generate strategic opportunity nor enhance performance per se. However, multinationality in conjunction with the internal use of ICT among managers in the organization seems to facilitate the development of strategic opportunity, which in turn is associated with higher economic performance.

2. The performance of multinational enterprises

The relationship between multinationality and performance has been subjected to theoretical considerations as well as empirical studies in a comprehensive literature. Explanations for positive performance effects of multinationality include exploitation of firm-specific assets (Caves, 1971, 1982; Vernon, 1971), internalization of geographic

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