Editorial Preface

Globalization Risks and Information Management

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The IMF publication, *Finance and Development*, recently published data about globalization that puts into perspective the dramatic advances the global trading community has made in the last century thanks to information technology. For example, in 1960 a three-minute transatlantic phone call from New York to London cost $60.42. Today, the same call costs less than half a dollar. An investment of $1,000 into a computer and related peripherals today would have cost around $1.9 million back in 1960 (and take up quite a bit more landscape). It’s hard to imagine the life of an information technology researcher back in 1960, much less anyone looking at whatever “global” IT issues may have existed then. How is it that any products or services even crossed national frontiers given the barriers to the free flow of information that existed? The risk factors in international trade and the complications in bringing buyers and sellers together in a mutually trustworthy environment were close to insurmountable. While we have come a long way since the 1960s, there still are numerous risks interfering with the seamless exchange of products, services and information across national frontiers. Lest we make the same mistake that John Kenneth Galbraith made in the 1950s when he stated that “the problem of production has been solved” - an assertion the Japanese turned on its head in the sixties, seventies and eighties-I would like to use this opportunity to comment about the risks associated with globalization and how information technology might be used to reduce some of those risks.

As Associate Editor for the journal’s manufacturing and R&D submissions, I think a lot about the implications of the globalization of manufacturing on the exchange of information across national boundaries. Two recent articles in the practitioner press provide perspective on some of the problems that confront the global manufacturer and have particular salience to those of us that examine global IT issues. The first article, by Pankaj Ghemawat, eloquently addresses the problem of distance, not only geographic distance, but also the cultural, administrative and economic distance that separates the world’s trading partners (Ghemawat, 2001). The second paper, by Barry Lynn, addresses the potential problems that may arise when the majority of the global capacity of a particular product or component is located in a potentially unstable country (Lynn, 2002). These
articles offer interesting insights into some of the major research themes that will inspire research in global information management in the coming years.

Ghemawhat’s paper is a nice complement to the Markus and Soh paper that recently appeared in *JGIM* (Markus and Soh, 2002). Where Markus and Soh argue that there is more to cross-national research in IT than the cultural differences between nation-states, Ghemawhat looks at the impact of other forms of “distance” on the global expansion efforts of the multinational enterprise. In similar fashion to Markus and Soh, culture is only one dimension to Ghemawhat’s distance framework; geographic, administrative and economic dimensions play critical roles in facilitating or discouraging global expansion. Geographic distance refers to the simple notion that as the distance between trading partners increases, the likelihood that they will trade falls. Administrative distance refers to differences in the legal and regulatory environments of the trading nations which may impede trade. National differences in IT environments, for example, can create havoc in even the best intentioned organizations trying to integrate operations. Economic distance may mean dramatic differences in the adoption and diffusion of technological innovations in some host countries. Indeed, as a greater proportion of global trade shifts to the developing world, corresponding advances in IT may diffuse more unevenly than what was experienced in the developed world. Markus and Soh’s look at e-commerce adoption in Asia provides interesting insights into this problem. Future research needs to advance this dynamic and incorporate a greater analysis of “best practices” in IT that can be used to overcome the penalties of distance and better serve the coordination needs of multinational manufacturers.

In contrast, Lynn’s essay paints a perilous picture of over-concentration of production in key intermediate product industries. He poses several intriguing questions: What happens when the majority of the world’s microchip production is being sourced from an unstable country or region? What are the countervailing forces to this potential vulnerability? Multinationals continually seek out low-cost, high-quality sources of supply to remain competitive, numerous forces are at work which may lead to the greater likelihood of supply chain disruption. With the presence of favorable combinations of labor, capital and other factor endowments, some countries may evolve to become the dominant producers of certain raw materials and components. Lynn argues that global trading relationships might be held hostage to labor unrest, political disputes or natural disasters, and that to ignore these realities is to invite disaster. Indeed, a dockworkers’ strike on the west coast of the U.S. in the fall of 2002 led to numerous delays and uncertainties in shipments destined for US warehouses in advance of the holiday selling season. The question then becomes, what is the extent to which global information management might be exploited to neutralize potential supply chain disruptions? Is the obsession with reducing supply chain inventories introducing vulnerabilities into the systems that will be difficult to eliminate? Are there alternatives to the global concentration of certain intermediate parts and components on which the world relies for critically important end-items? How can the IT function help to minimize these risks? For example, can Internet-mediated exchanges allow buyers to find alternative supply sources when traditional supply chains shut down?

We are far from solving these problems and mitigating these risks. Perhaps there are no solutions other than to maintain reliable sources of supply in locations close to the final destination. This would reduce the costs and risks associated with distance and supply concentration, but would
simultaneously introduce higher sourcing costs into the supply chain at the expense of the end user. However, any globalization advantages would be neutralized by the increased cost of this “safety stock” and would be a competitive drag on an organization’s performance. As the search for new locations to exploit comparative advantages across different sovereign political contexts continues, it becomes increasingly evident that dispersal of the global supply chain will increase both the risks associated with “distance” and the risk that some natural or human-made calamity could cause economic havoc in the developed world. This increased vulnerability to supply chain disruptions is an unfortunate consequence of globalization. Managing these risks will be one of the more important management challenges of the 21st century.

REFERENCES


