1. ABSTRACT

2. INTRODUCTION
The introduction of Information Technology has changed numerable sectors and even created new ones too. The effects of Information Technology have been widely suggested and investigated, indicating that it changed the world as we knew it. It is often indicated as a game changer of processes in industries. However, the moderating effect of Information Technology on processes has not been investigated yet. Besides this, research on Information Technology in International business also lacks presence. The studies regarding LoF
mainly focused on its conceptual development (Denk et al., 2012) but less on the specific influence of current developments. One of the most surprisingly missing current development in the theory of LoF is the influence of information technology. Several studies touched upon this subject stating that it is an important aspect in LoF but it has not been studied ever since (Aharoni & Brock, 2010; Denk et al., 2012; Nachum & Zaheer, 2005). Information technology is considered to be a global phenomenon which changes the world (Deans & Ricks, 1993; Djordjevic-Boljanovic et al., 2014; Palvia, Whitworth, Williams, & Aasheim, 2004), and should therefore be studied from a LoF perspective. This raises the question of the moderating effect of Information Technology on the Internationalisation process. To further clarify the motive for this study, the ..... company is taken as an example.

3. LITERATURE REVIEW

The development of LoF and CDBA

LoF is a phenomenon which is known in the international MNE business literature for several decades now. It started with Hymer who was the first to mention the Cost of Doing Business Abroad (CDBA) in his study of foreign direct investment (FDI), and thereby formed the fundamentals of the LoF theory. Hymer identified CDBA as the additional costs of an MNE in becoming a foreign entrant. This could be the result of a ‘lack of integration’ in the foreign market, meaning that the MNE faces costs in entering (and integrating) in a foreign market. Another reason could be in the legislation of both the foreign and home country. The foreign country could protect already integrated/home firms by means of legislative barriers whereas the home country could have nationalist aspects, like control and taxation of the home government, to prevent the home MNEs from moving. The last reason given by Hymer is the transfer problem. These are identified as costs of the unsynchronized transferring of foreign currencies, the MNE faces foreign exchange risks which it would not face in the home country. A MNE therefore needs competitive advantages to leverage these challenges in becoming successful abroad (Hymer, 1960, 1976).

After Hymer’s work, several researchers focussed on overcoming the costs of CDBA for MNEs but only after CDBA remained untouched for several years (Eden & Miller, 2001). Zaheer, however, was the first to mention the CDBA and introduced the notion of the LoF back in 1995. She defined LoF as the additional tacit and social costs that foreign firms face in a host country, lowering its profitability and changes of survival, which a domestic firm does not face. The initial idea was to reframe the CDBA into LoF and explain LoF by four sources (Zaheer, 2002). These sources are identified as 1) cost of spatial distance, 2) cost based on unfamiliarity, 3) cost from the host country environment & 4) cost from the home country environment. These sources are proven to influence the level of LoF (Zaheer, 1995). Bringing the CDBA and LoF together resulted in a situation in which they are (logically) used besides each other. In both cases (CDBA and LoF) the authors speak about costs of the local firm in a foreign context, implying that they are similar to each other. To the question “Are the two concepts interchangeable?” Eden & Miller argue “…they are not.” (Eden & Miller, 2001, p. 1), their reasoning is explained later on.

After Zaheer, numerous studies have been conducted to further examine and understand the phenomenon of LoF. A more recent study on the sources of LoF found evidence to suggest three different drivers which leads to LoF, namely: 1) Unfamiliarity hazards, 2) Relational hazards, and 3) Discrimination hazards (Eden & Miller, 2004), and thereby ‘updated’ the basic principles given by Zaheer. The dynamic aspect of LoF indicates that the firms’ internationalization challenges decreases over the years, implying that LoF decreases by increasing existence and experience of the MNE (Zaheer & Mosakowski, 1997). This study contributed to a better understanding of the LoF concept since it was one of the first longitudinal studies regarding its existence. Besides proving its existence and the dynamic effect of LoF, it also examined the effect of technology adaption and non-hierarchical modes of control, and its competitiveness.

Other drivers of LoF have been identified as cultural and spatial distances, a lack of embeddedness, international experience, high foreign competition and insufficient host-market knowledge (Denk, Kaufmann, & Roesch, 2012). This shows the extensiveness of the studies regarding the drivers of LoF. Nevertheless, these drivers are typically for the magnitude and use of LoF as a whole. Another way of improving the understanding of LoF was to dedicate several studies to the identification of the characteristics of LoF. The characteristics can be measured to determine the level of LoF and have been defined as the 1) Effect on business impact, 2) The way organizations internationalize & 3) Interactions among international business
However Zaheer was the first to use the concept of CDBA and LoF interchangeably (referring to Eden & Miller, 2004), it is not considered to be the same. Several studies touched upon the delineation or relation between CDBA and LoF by suggesting 1) CDBA to be an antecedent of LoF, 2) CDBA being part of LoF and 3) CDBA being identically the same to LoF (Sethi & Judge, 2009). Zaheer even reconsidered her earlier findings in ‘Liability of Foreignness, Redux: A Commentary’ (2002). She deliberately choose to use CDBA and LoF for the same purpose since she “… started with the idea that the liabilities of foreignness was closely related to if not completely synonymous with the cost of doing business abroad”. However, in 2002 she believed that the two concepts are dissimilar and needed to be investigated more deeply (Zaheer, 2002). Eden & Miller already touched upon the differences between LoF and CDBA by then, by suggesting that CDBA is a broader concepts which includes LoF, instead of it being similar to each other (Eden & Miller, 2001, pp. 1–2). It is argued that the CDBA is a broader concept since it should also encompass 1) the cost of managing operations at a distance and 2) the cost of doing business abroad could be viewed from two different point of views. Both factors do not include LoF since LoF is solely about being a stranger in a strange country (Eden & Miller, 2001). The first reason given (cost of managing at a distance) implies the cost of managing a host subsidiary from a home country. The second reason given (the costs reviewed from two point of views) refers to the benchmark of the cost comparison. The first and most used point of view is the benchmark of the national firm to the host country. This point of view is mentioned and further elaborated by both Hymer and Zaheer (Eden & Miller, 2001). The more unknown point of view is referred to the benchmark for comparison as the cost of doing business at home and has been investigated less. The CDBA is defined as the 1) the relative production costs, 2) relational hazards, 3) managing operations at a distance, and 4) liability of foreignness whereas the fourth factor (liability of foreignness) is referred to as unfamiliarity hazards and discrimination hazards. This indicated the first awareness of a clear delineation between CDBA and LoF, where LoF is seen as being a part of CDBA (Eden & Miller, 2001). Despite the early work of Eden & Miller on the delineation between CDBA and LoF, the first holistic framework dates from 2009. It is argued that the conservative view of CDBA (introduced by Hymer, 1960) needed to be updated due to the development of FDI flows. CDBA includes cost in the host-country’s context which was believed to be sufficient to encompass LoF too. However, the development of FDI leads to interdependent global economies in which costs occur outside the host-country’s context too, thus not fully enclosing LoF anymore. Therefore the CDBA and LoF concepts need to be updated (Sethi & Judge, 2009). The conservative view of CDBA and LoF only focussed on the costs of a transaction whereas MNEs evaluate both the benefits and the costs in current transactions. According to the literature, the benefits would be included into the Firm Specific Advantages and would therefore leverage some of the costs (Sethi & Judge, 2009, p. 405). However, to create a more holistic framework, both the benefits and costs should have been included. The holistic framework of Sethi & Judge is characterized by a 2 x 2 matrix and takes both the costs and benefits into consideration. The holistic framework delineates the cost and the benefits of doing business abroad. The cost of doing business abroad are characterized by two quadrants. The first quadrant is indicated as the LoF and the second quadrant is indicated as the Liability of Multinationality (LoM). This clearly indicates the delineation between the CDBA and subsequent LoF. The benefits of doing business abroad are characterized by quadrants 3 and 4, respectively. The third quadrant is indicated as Assets of Foreignness (AoF) and the fourth quadrant is indicated as Assets of Multinationality (AoM) (Sethi & Judge, 2009). The delineation between CDBA and LoF as indicated by the studies of Eden & Miller and Sethi & Judge will be used meaning that LoF will be seen as a part of CDBA. Antecedents of LoF

As has been mentioned before, several studies have been dedicated in identifying the antecedents of LoF. The antecedents of LoF are believed to determine the level of LoF. It was first believed that the antecedents of spatial distance, unfamiliarity, host country environment and home country environment influence the level of LoF. This could be both interdependently as relational (Zaheer, 1995). The first antecedent of spatial distance encompasses the costs of overcoming the physical distance by means of transportation, travel costs and coordination over distance and time zones. Implying that the greater the distance, the greater the costs of spatial distance and therefore and increase in the LoF. The second antecedent of unfamiliarity encompasses the costs of a company raised by the unfamiliarity and lack of roots in the foreign market.
Again, implying that a higher level of unfamiliarity leads to an increased level of LoF. The third antecedent of host country environment encompasses the costs as a result of foreign legislation and economic nationalism of the foreign country. Again implying that an increased level of host country environment leads to an increased level of LoF due to the additional costs of overcoming it. The last antecedent home country environment encompasses economic nationalism of the home country. This would for example indicate the protection of the home companies by the home country in leaving the market or in setting rules which prevents the home company from entering specific countries with a technology. The same mechanism of costs applies for this antecedent, implying that an increased level of home country environment leads to an increased level of LoF (Zaheer, 1995).

Due to the delineation of the CDBA and LoF, the need arose to re-examine the antecedents of LoF as have been identified by Zaheer in 1995. The fundaments of the new antecedents have been laid in ‘Opening the Black Box: Multinationals and the Cost of Doing Business Abroad’ by Eden & Miller (2001). This research separates the CDBA from LoF and introduces two new costs as antecedents of the LoF. The first antecedent is referred to as the unfamiliarity hazards whereas the second antecedent is referred to as the discrimination hazards. Both antecedents have been used to determine the level of LoF, whereas the level of CDBA is also determined by the level of managing operations at a distance, the level of relational hazards and the relative production costs.

This concepts has elaborated more thoroughly in 2004. It is suggested that antecedents of LoF consist out of the earlier mentioned unfamiliarity hazards and discrimination hazards and the (later added) relational hazards (Eden & Miller, 2004). The unfamiliarity hazards encompass the absence of knowledge and experience in the host country which lead to a competitive shortcoming with the local firms. For the unfamiliarity hazards, it is believed that only experience in the host country can overcome this. The lack of experience causes the level of unfamiliarity to rise which are measured by the extra costs the firm faces to gain the same level of knowledge (by experience) as the local firm. This knowledge can be gained by “… local production, investment in marketing, previous experiences in similar countries, taking on a local joint venture partner etc.” (Eden & Miller, 2004, p. 196).

The discrimination hazards encompass differential treatments of the company by governments, consumers or the population in both the home and host country. These differential treatments may be the result of political or customer challenges in the host country and can only be overcome by obtaining legitimacy in the foreign market (Eden & Miller, 2004).

The antecedent Relational Hazards encompass the costs which occur in managing the relationships between parties which are involved in international business. The literature differentiates the Relational Hazards into two subcategories. The first subcategory is identified as the intra-organizational relational hazards and refers to the increased transaction costs which occur when managing high-complex operations at a distance. This is typically the case in starting a local subsidiary in a host market. The second subcategory refers to the inter-organizational relational hazards and refers to the costs of creating and maintaining an international relationship between firms. In the case of LoF, mostly between the domestic firm and a focal firm. An increased level of trust will decrease the level of inter-organizational relational hazards since it will facilitate the long-term relationship between the firms (Eden & Miller, 2004).

To summarize, the antecedents of LoF as identified by Eden & Miller are the Unfamiliarity hazards, Discrimination hazards and the Relational hazards. The relational hazards is the only antecedent with two subcategories which are the inter- and intra-organizational relational hazards. These hazards will be used as the antecedents of LoF in this study since they are widely acknowledged as legitimate. This is approved and legitimized by the acceptation and application of the antecedents in further LoF research (Aharoni & Brock, 2010; Denk et al., 2012; Elango, 2009).

Whereas the three aforementioned antecedents of Eden & Miller (2001, 2004) will be used to identify the level of LoF. On the other hand, the outcomes of LoF can be measured by the three variables mentioned by Denk et al. (2012), which have been based on the study of Seno-Alday (2010), namely: 1) effect on business impact, 2) the way organizations internationalize & 3) interactions among international business players. The first outcome refers to the success or failure of a firm in the host country. Various performance measures like growth profit, return on assets, return on sales can be used to determine the level of LoF on the business impact. The second outcome, the way organizations internationalize refers to the influence of LoF in the
intra-organizational processes. This means that a high level of LoF decreases the level of knowledge transfers and the level of local resource commitment. The third outcome, interactions among international business players, refers to the inter-relationships between firms. This describes the success of the relationship between the firm and the host environment (Denk et al., 2012; Seno-Alday, 2010). These three outcomes will be used to determine the effect of LoF on the business since it gives a complete representation of the possible ways that LoF can influence the business' performance.

What is Information Technology?

Numerous scholars have been dedicated to the theory of Information Technology (IT) and its application in International Business (IB), despite the fact that IT is considered to be a relatively young development (Brynjolfsson & Hitt, 2000; Lal, 1999). Combining IT to the field of IB was first suggested in 1993 where an “agenda for research linking Information Systems and International Business” emphasized the potential importance of IT in IB. The upcoming power of the IT was recognized, and its applicability to the field of IB was questioned (Deans & Ricks, 1993). Whereas IT is mostly only given credit in its ability of crunching numbers, it is way more than this. It is referred to as being a symbol processors. This means that it can be used in helping most managers and professionals in their thinking. The main reason for this is that the computational power will have the capability of inventing new processes, procedures and organizational structures which can support managers and other individuals in their activities. It has been widely proven that the adoption of IT in a company has the ability to improve its overall performance (Brynjolfsson & Hitt, 2000; Lal, 1999; Palvia, 1997). IT has the power to “... reduce the cost of coordination, communication technology and information processing” (Brynjolfsson & Hitt, 2000, p. 24) and therefore contributes to the product/service quality and differentiation, making it able to compete on a global scale (Lal, 1999).

The importance of IT has been widely recognized by all types of firms in all types of industries and in both developing and developed countries. The application of IT, however, differs between firms. Whereas IT in developed countries is used for productivity improvement, it is used in developing countries to improve the product quality and manufacturing processes. Besides this, differences in the application of IT between firms within the same industry are also present, characterizing the possibilities and applicability of IT (Lal, 1999). IT in IB has developed over the years. Whereas Deans & Ricks and Lal indicated it as being limited supportive to the operations and strategy of a firm, it is now indicated as being able to coordinate the activities of customers, suppliers and globally dispersed teams, increase effectiveness and efficiency of product processes, manage data and transfer knowledge internationally. The impact of IT is constantly increasing thanks to its increasing computational power and applications. It is believed that the use of IT can reduce the time and distance and therefore facilitate international activities. The facilitation of international activities can be done by the application of sharing expertise and knowledge and by providing an infrastructure to generate a competitive advantage (Palvia, Whitworth, Williams, & Aasheim, 2004).

The global application of IT is referred to as Global Information Technology (GIT). GIT applications are defined as applications that are internationally used, already starting when it is used in two or more countries or regions across the world (Palvia et al., 2004). The application of GIT make it possible for firms to be competitive in the global environment. Despite the fact that GIT refers to IT in a global context, many scholars have used the definition of IT in a global context too, harming the definition of GIT. Since this study assumes that a firm uses IT in reducing LoF, and most scholars refer to IT instead of GIT, IT will therefore be presumed in this study too.

The definition of IT by Palvia et al. will be used in this study since it is believed to be complete and still up-to-date in the present. Besides this, Palvia et al. show a clear understanding of Information Technology which resulted in the following thorough definition: “IT includes all aspects of computing and communication including the hardware and software for: management information system applications, office support, transaction processing systems, decision support and executive information systems, telecommunication networks, Internet, multimedia applications, databases and data warehouses.” (Palvia et al., 2004, pp. 69–70).

More recently, it has been shown that the development of IT and its applications have a significant impact on the people, culture and economy at a global level (Djordjevic-Boljanovic, Vukasinovic, & Veinovic, 2014). Despite the fact that the effect of IT has been studied in the field of IB for the last 20 year, the effect of IT on LoF or CDBA nearly remained untouched. The main reason of this is already been given in 1993 where it is stated that combining the interdisciplinary fields of IB (and in this case LoF) with IT is extremely difficult since
the researcher requires knowledge, theoretical foundations, methodological strictness and applications of both the disciplines to apply to each other (Deans & Ricks, 1993, p. 6).

How does everything relate?
The influence of IT on IB is suggested much earlier by the IT theory than the influence of IT on LoF by the IB theory, as indicated before. The impact of IT on the IB, and therefore its importance to further elaborate on this subject, is stated by several scholars throughout the years (Deans & Ricks, 1993; Djordjevic-Boljanovic et al., 2014; Mithas & Rust, 2016; Palvia et al., 2004). It is even suggested that organizations need to develop and adapt new business strategies because of IT. Communications and other barriers between companies and their partners are disappearing which result in the possibility to participate internationally and create new products and services to improve the firm’s competitive advantage (Djordjevic-Boljanovic et al., 2014). It could therefore be said that the applicability of IT to IB was recognized early by the IT theory whereas it took some time for the IB theory to adopt this idea.

The influence of IT on LoF lacks appearance until 2005. From a business perspective, the effect of information technology on lowering the cost of LoF is first mentioned by Nachum & Zaheer (2005). It even found evidence to suggest that IT does not significantly reduce LoF when investing in foreign markets because firms still have to invest in a foreign market to claim their resources. This would still confront the company with the typical challenges of doing business abroad and would therefore leverage the costs of LoF.

Other studies, however, indicate the opposite. IT is able to reduce the unfamiliarity hazards of an MNE, and thereby reducing LoF (Elango, 2009). This statement is exemplified by suggesting that information systems and other technological advances give managers of firms the possibility to collect information to deal with the unfamiliarity hazards (Aharoni & Brock, 2010). Despite the fact that both Elango and Aharoni & Brock mention the aspect of information technology on LoF, no further research have been initiated. Abovementioned authors are not exceptional by mentioning the effect of information technology on LoF. Further research, focussed on the impact of information technology on LoF, is desired after reviewing six years of LoF studies (Denk et al., 2012; Mahmood & Mann, 2000; Seno-Alday, 2010).

Information technology has the ability to increase the organizational performance in terms of higher productivity and lower costs (Brynjolfsson & Hitt, 2000; Mahmood & Mann, 2000; Palvia et al., 2004). Or even have the ability of fundamentally changing the firms’ internationalisation process (Petersen, Pedersen, & Sharma, 2003). These findings are in line with the findings of other studies regarding LoF, indicating that IT might reduce the unfamiliarity hazards (Aharoni & Brock, 2010; Elango, 2009). It is therefore likely that IT has the ability to reduce the costs of LoF since it becomes easier to access information and prepare a foreign market entry. This leads to the question of the effect of IT on the antecedents of LoF and LoF itself. Due to earlier works (Brynjolfsson & Hitt, 2000; Denk et al., 2012; Elango, 2009; Palvia, 1997; Petersen et al., 2003; Shirani, 2009), it is suggested that IT might have a moderating effect on these factors.

Figure 1 – Graphic representation of the research model
This study is expected to influence both academia and the professional practice in the following ways. The influence of information technology on LoF will contribute to the academia because this study is the first to investigate the effects of information technology on LoF. This will add a new dimension to the theory which will increase the understanding of this issue. This will thereby contribute to the academia. The professional practice will be influenced by this study because the effect of information technology will be mapped. This will result in a better understanding by which the professional practice will be able to deal with the effects of information technology, decreasing the level of LoF.

In the next section, propositions have been formed to further identify the moderating effect of IT on the antecedents and outcomes of LoF.

Propositions
5. CONCLUSION/DISCUSSION
6. BIBLIOGRAPHY


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