New research tracks global IT's shift from cost-cutting to revenue-boosting

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Information technology is often credited for its role in helping companies cut costs. However, new research by Professor Sunil Mithas at the University of Maryland's Robert H. Smith School of Business shows that information technology actually creates increased global profits through increased revenue, not through cost cuts.

The findings add perspective to the recent Gartner forecast for global spending on IT to reach $3.5 trillion by the end of 2017.

Firms can use either a revenue-focused or a cost-focused strategy to do business in foreign markets, Mithas explains. The former is driven by investments to enhance competitive agility—to sense and respond to unique preferences and tastes of foreign customers and markets. The latter is driven by efficient supply chains. IT spending can power both strategies, but the key question facing executives, particularly when deciding how to allocate IT spending, is "which side is a greater profit -driver?"

The study, "Information Technology, Revenues, and Profits: Exploring the Role of Foreign and Domestic Operations," appears in the June 2017 issue of *Information Systems Research*.

Mithas and coauthors Jonathan Whitaker (University of Richmond) and Ali Tafti (University of Illinois-Chicago) studied approximately 300 U.S. publicly traded multinational firms and found that a $1 million increase in IT spending led to a $570,000 increase in foreign revenues and a $200,000 increase in foreign profits (these increases do not include the increases in domestic revenues and profits). Surprisingly, the increase in IT spending did not lead to a reduction in foreign costs.

"This finding suggests that foreign responsiveness plays a more important role in generating foreign profits than does value chain restructuring, even though the latter may look more tempting," Mithas says. Revenue-focused strategies pay off because they may be harder for competitors to copy, he and his coauthors say. The revenue-focused strategy may explain the success of U.S.-based high-tech firms. For example, Apple increased foreign revenue to 65 percent of total revenue in 2015, from 41 percent of total revenue in 2005.

For Google, the corresponding increase was to 54 percent in 2015, from 39 percent in 2005, and for Microsoft, to 54 percent in 2015, from 32 percent in 2005.

Mithas and his co-authors say global staffing firm Manpower also sought to improve revenue by becoming more responsive. In 2015, Manpower generated 78 percent of its total revenue in 80 countries outside the Americas. And although its IT-driven operating systems were 90 percent uniform, Manpower's director of information systems governance explained that the ability to customize the final 10 percent gave Manpower a competitive advantage in each geography.

The study also notes Mithas' related research, which lays out how a robust IT infrastructure boosts customer satisfaction and organizational capabilities that can contribute to revenue growth.

Provided by University of Maryland

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