

The World is Not Flat!

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For nearly a decade business leaders have been influenced by the popular notion that 'the world is flat.' A metaphor based upon the assumption that every business on the planet has an equal ability to compete on the world stage. This pseudo-management theory is clearly wrong.

While academic economists can create models which make the assumption that resource, production, and consumption functions are all equal at any point on the globe, the reality is that this is simply not the case, as the world is actually subject to the 'butterfly effect' captured in the models of chaos theory. Through that lens, the global environment is dynamic, one whose components are highly sensitive to variances in their conditions, making long term predictions very hard if not impossible to determine. This implies that the world is not an isoplane, but actually tends towards its natural state, a state of disorder.

In reality, equal access globalization is a misnomer as world markets are continually subject to influences and peculiarities that change the biases. These may be through political factors such as regulations, trade blocks, and tariffs; or factors such as the location of physical resources, oil and rare earth elements for example, all of which act to change equity away from a uniform natural state.

Proponents of the flat world often attest to technology, and its ability to confer global uniform access to resources. This too is incorrect. At a basic level, relativity and the laws of physics, no matter what, are immutable. Stock market trading data travelling from Shanghai to New York is going to be slower than that from London to New York and that is itself going to be slower than data transfer from an office in Wall Street to the trading floor of the New York Stock Exchange. The speed of light cannot be changed and as such in high frequency trading the world is not flat. However, it should not be forgotten that this places the trader in New York at a similar disadvantage when placing trades in Shanghai, while the world is not flat; at least the laws of physics are equitable.

At a corporate level, technology outsourcing is another concept that is often used as an illustration that the world is flat, for example call centers in Asia or India provide convenient high quality, low cost, resources for global firms. However, while this provides economic benefit to the host nation, the relationship is actually asymmetric; for firms in the host country the marginal gain in pricing of such a function is negated by the larger gain of the firms in developed nations 'offshoring' their processes.

At a consumer level, software and equipment are frequently subject to restrictive policies and practices. This is very visible in potentially sensitive technologies such as routers and telecommunication systems. For example, infrastructure vendors Huawei and ZTE have experienced market access barriers in their attempts to deploy global footprints.

While, these examples illustrate that the world is not flat, this does not mean that a nation state or a business should give up on the idealization of equal market access and opportunity. However, in order to do so in the next decade, companies who wish to compete globally will have to rethink their “modus-operandi.” One of the largest challenges facing corporate leaders over the next decade will require them transforming their businesses from firms deploying a ‘made in’ strategy to a ‘designed in’ strategy, with manufacturing and distribution centers increasingly moving offshore and the associated need to develop a global brand recognition.

Developing a ‘designed in’ strategy and a remote manufacturing capacity is vital for Chinese firms as centers of consumption move to localized on-demand production using advanced systems. For example, North American firms such as GE are using design software that minimizes parts and assembly in conjunction with on-demand production through 3D printing. This emergent mode of manufacturing practice places emphasis on proximity to market as an advantage overcoming the previous generation of value drivers such as low cost of labor, economies of scale and even contiguous supply chain resources.

To be competitive Chinese companies will need to be more aggressive in building a global brand. My research, published in *Harvard Business Review (China Edition)*, shows that of the Global 100 brands 24% have developed a mandarin iPhone app, 20% an Android one. For the Chinese top 50 global brands 10% have apps in English on the iPhone, 5% on Android, while for native language mandarin 22% have iPhone apps 19% Android. As such, building brand equity of a global platform such as a smartphone device is a key to flattening the world and a tool every business can deploy.

While the variances of the globe’s natural resource distribution, such as Venezuelan oil reserves, South African diamonds or Chile’s copper reserves cannot be easily overcome; political and economic institutions which have the ability to influence and distort the global playing field can change. Institutions such as The World Bank, the International Monetary Fund, the G20, the G8, and the United Nations create policies that affect all global citizens.

These ‘clubs’ will undoubtedly have to evolve as the economics of the members change, China’s membership of the G20, the primary forum for financial diplomacy is significant, while many commentators view the G8 as a body that still reflects a western centric view of global power distribution and its influence. Reform is currently underway at the IMF, where voting powers have recently been reviewed in the 14th General review of Quotas to partially address the relationship between economic size and voting rights. For example, Spain whose economy is approximately a third that of Brazil’s has almost the same voting power 1.63% to 1.73%. Currently the United States has 16.75% of the total voting rights, while China has 3.61%.

At an individual level, advocates of the flat theory also propose that human capital is global due to technology and travel. This too is misguided, as it ignores the role of regulation and the policies of each nation state through restrictions on travel, Intellectual property, work permits and access to markets. They are all limiting factors.

As such, rather than being flat, the world is as lumpy as it ever was, however with careful planning and foresight, backed by national policies that help to erode resistance and which open up new passageways, businesses can navigate this terrain and still compete effectively. Unfortunately, the fact remains the only place you will find a flat world is on a map.