Friedman versus Ghemawat - How Flat is the World Really?

Even considering the impressive credentials of its Pulitzer Prize winning author, the success of Thomas Friedman's bestseller "The World is Flat – A Brief History of the Globalized World in the Twenty-First Century" is nothing short of astonishing. First published in 2005, The World Is Flat has sold over 4 million copies and picked up numerous accolades along the way, including a Business Book of the Year award from The Financial Times and Goldman Sachs as well as endorsements from such globalization luminaries as Joseph Stiglitz and Fareed Zakaria.

Friedman's thesis has not gone uncontested, however, especially in academic circles. Pankaj Ghemawat, a well-known business school professor, has been particularly vocal in his criticism, starting with an acerbic Foreign Policy article in 2007, followed by a veritable anti-Friedman campaign of books, articles, and speeches over the last five years. He has even introduced a new Global Connectedness Index, which, not surprisingly, suggests that the earth is far from flat, and which appears to have been developed as an antidote to counteract the hallucinating effects of a condition Ghemawat calls "globaloney", meaning "the exaggerated perception that the world is flat."

So, who is right? How flat is the world really?

Strictly speaking, Ghemawat wins the argument hands-down. While Friedman certainly writes with his customary flair, he nevertheless falls well short of supporting his provocative thesis with convincing data and analysis. Instead, The World Is Flat consists mainly of personal observations and anecdotes, which have been grouped into 10 structural changes (called "flatteners" in Friedman's terminology), such as outsourcing, offshoring, and supply chaining, as well as the related adoption of more collaborative business processes, and, finally, the addition of 3 billion Chinese and Indian consumers to the global market place. It is this "Triple Convergence" that, according to Friedman, has flattened the world over the last twenty years and changed the rules of the game forever. However, he offers virtually no hard data in support, despite the addition of another 164 pages to the book's most recent incarnation, which, at almost 700 pages, now easily exceeds even Homer's Odyssee in length.

By contrast, Ghemawat backs up his contrarian view that the real world is actually only about 10 to 25 percent globalized with a fascinating set of statistics. For example, who knew that cross-border telephone calls represent at most 6 percent of all voice calling minutes, or that first-generation immigrants only account for about 3% of the world's population, or, more significantly, that FDI typically accounts for less than 10 percent of all investment in a given year? Nevertheless, one can't help but feel that Ghemawat is not being entirely fair in his critique:

> First, no reasonable person who has actually read The World Is Flat could come away thinking that Friedman truly believes the world is, in fact, flat today. More importantly, it is quite clear that the business leaders interviewed in the book don't believe so either.
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> Second, while much of the supporting evidence is indeed anecdotal, Friedman's thesis still reflects the collective experience of numerous senior business leaders, and is clearly very relevant to the issues these executives are grappling with on a daily basis.

Third, there is a similar degree of arbitrariness to Ghemawat's statistics, especially since they don't necessarily contradict Mr. Friedman's flatteners directly. For example, is the local nature of telephone calls and internet traffic really inconsistent with Friedman's offshoring and outsourcing trends? Does the domestic volume of social networking activity truly negate the impact of uploading as an important flattener?

Friedman doesn't get off scot-free, however, because what tends to get lost in Ghemawat's overly literal interpretation and abundance of data is that the real issue with The World Is Flat is not so much that it overstates – even considerably – the flatness of today's world, but rather that it far too easily assumes that the days of a truly flat earth aren't all that far away. The crucial conceptual error in Friedman's thesis is that he simply assumes his 10 flatteners will automatically, and rapidly, lead to a more interconnected, and, therefore, flat world, when the opposite is often the case. In reality, the empirical evidence suggests that the global economy is increasingly driven by urban clusters, and, if anything, becoming more, instead of less, curved.

So, the danger of Friedman's flat world thesis is that it may cause executives to misinterpret the trends they observe in their own businesses and make potentially serious strategic errors. For example, instead of pursuing an aggressive localization strategy, executives from multinational firms often decide to "wait it out" in emerging markets, such as China and India, in the mistaken believe that demand and supply-side conditions will soon flatten and converge with those in the developed markets. They may, for instance, believe that China's retail environment will consolidate relatively quickly, and, as a result, fail to invest in localized distribution channels that are more appropriate for today's market conditions, when, in reality, such consolidation is highly unlikely to occur within any reasonable planning horizon. The impact of such wishful thinking is far from trivial, as it may not only result in missed profit opportunities, but also cause multinationals to fail to check the advance of competitors from these emerging markets until it is too late.

In conclusion, the world is still far from flat today, and, in many industries, likely to retain its curvature for quite some time to come. Instead of relying too much on Friedman's superficially persuasive, but seriously flawed, evidence, firms would do well to adopt a more analytical approach for evaluating how flat their world actually is, now and in the future, and how to best manage the curvature that is expected to remain. This will require a deep, fact-based, understanding of the specific flatteners in each business as well as a careful consideration of whether to ignore, adapt to, or try to shape those drivers.

On balance then, Mr. Ghemawat is the clear winner.