Competing in a Flat World
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The Big Idea

Competing in a Flat World isn't a theoretical exploration of what a business should be, it is a practical explanation of how a business has become at the top of its game. Based on the extraordinary experience of Li and Fung—the world's largest sourcing company and today's pre-eminent example of a "flat world" business—top Wharton professor, consultant, and author, Jerry Wind with Li and Fung executives Victor and William Fung show how to redesign your business to succeed in this radically new era.

This book reveals business secrets that helped Li and Fung grow to $7B in annual revenue with just 7,000 employees, and earned this century-old enterprise a spot on the "Wired 40" right alongside Google. Core to the book's benefits is its description and roadmap for the most important organizational skill flat enterprise leaders and companies will need: the ability to orchestrate a loosely-linked network of organizations operating fluidly at the edge of chaos.

You will discover how to:

- Balance centralized control with local empowerment; specialization with integration; stability with renewal; firm-centric and network-centric views of your business
- Learn to compete "network vs. network," create "big-small" companies that combine scale and agility; and sell direct to the source by bridging marketing with operations

Learn how to respond to flat enterprise's core challenges, including supply chain disruption, nation-state politics, and other "bumps" in this not-quite-100% flat world—from politics to terrorism

Why You Need This Book

The authors skillfully weave theory and practice to provide a compelling perspective on a critical new management imperative—network orchestration. This is essential reading for anyone seeking to compete—and succeed—in the flat world, offering practical advise on the operational and strategic approaches to not only survive but prosper in this strange world with new business practices and considerations that affect numerous decision-making processes. By challenging many traditional notions of control and what constitutes a business, the authors offer new insights based upon their own highly perilous journey to make their business survive, transform and enjoy an incredible amount of success in this 'flat world'.

The Orchestration Imperative
The principles of ‘network orchestration’ developed at Li & Fung can be applied to many different industries and networks. Network orchestration is a particular type of coordination that takes a broader view of the entire supply chain. The network orchestrator designs the overall supply chain by drawing together multiple factories in different regions to collaborate on a single product, optimizing global networks and collaboration. What the discipline of management was to the old vertically integrated, hierarchical firm, network orchestration is to the company working in the ‘flat world’.

The book takes after Thomas Friedman’s three periods of globalization. The first period started with the Columbus’s journey to the New World, signaling the need for advances in transportation and other technologies to connect different parts of the world. The second period paved the way for the rise of the multinational company and the global economy. The third period—which concerns the book—is the current shrinking of the planet from “a size small to a size tiny”. With computing and the internet making more rabid connections across the globe, making it possible for outsourced labor, offshore industries and other processes that take advantage of the world’s new ‘flatness’.

These circumstances call for a more pressing need for network orchestrators, a new breed of managers who will not supervise fixed factories but will make the most out of fluid, global networks. In the flat world, the traditional principles of management need to be augmented with skills in network orchestration. These skills include:

1. Design and manage networks
2. Control through empowerment
3. Create value through integration

The more organizations move toward orchestration, the more they need to be able to build and capture value across the network, making their company an important figure in the networked enterprise.

Orchestrator The Network
In a flat world, traditional management control can reduce flexibility. While there are a lot of compelling arguments for keeping production under one roof, other considerations have stemmed up recently to challenge what used to be a time-tested formula.

At the very core of orchestration is rethinking the concept of ownership. Ownership has grown to imply a commitment to fixed assets and investments. Orchestration, on the other hand, is an asset-light model that is more flexible. This explains why a majority of global companies are in a continuum right now, shifting their capacity towards orchestration. When production facilities are owned, your concern becomes utilizing your capacity rather than answering a customer need. The network orchestrator, on the other hand, identifies a customer need and builds a manufacturing supply chain or service value chain to meet this need.

Orchestrators are tasked with the need to design their network. Networks have varying degrees of flexibility. Fixed networks create what Oliver Williamson refers to as “idiosyncratic investments” in the network. It is difficult to permeate partly because partners inside this network rely on each other for the distinctive capabilities they have built together. Bringing in new partners imply bringing them up to speed. Flexible networks are those that see idiosyncratic investments as less important and are filled with suppliers or partners with a sufficient level of quality and are interchangeable.
Compete Network Against Network
Companies used to think that competition rests against competing firms. In a flat world, competition is against networks, between a group of supply and production chains working against other groups maximizing the benefits of spreading their operations across the globe.

Companies with access to the best networks do not only outperform their competitors at the moment, they are also acquiring the flexibility to outperform them in the future. The real challenge in the flat world is to balance the benefits of being part of a single cluster of networks with the benefit of being part of a multiple clusters. The strength of a network rests not just on how strong their members are; it also draws strength from how they are organized and interact. While quotas and cost saving were the primary drivers that determined the decision to shift manufacturing to global networks, they also provide access to the following:

1. The best-in-world capabilities
2. Increasing resilience, boosting speed and collaboration
3. Navigating global trade restrictions
4. Increasing responsivenes
5. Discovering new resources
6. Creating standards

Take Responsibility For the Whole Chain (Whether You Own it or Not)
In a flat world, rising demands for corporate social responsibility means that the media and consumers will now be critical of corporate violations long before the company itself, calling attention to retailers and network orchestrators’ responsibility to pay attention to operations from the other side of the world.

It is crucial for managers to take responsibility for the whole chain of operations in their networks and to have a pulse of what is going on if only to protect their own operations. Consumers are growing aware of their collective power and control over what products to buy and from whom to buy them. While the growing networks may suggest a loosely linked supply chain, compliance systems have grown significantly tighter, calling the need for rigorous monitoring of the network, anticipating potential problems and ensuring accountability in each step of the way.

Environmental problems, human rights problems and other pressing issues do not just make for good press but also pose real concerns that can affect the entire network. Once they affect one node in the network, its consequences can ripple and affect the entire system.

Empower "Little John Waynes“ to Create a Big-small Company
This chapter discusses the possibility of running large companies entrepreneurially and flexibly without necessarily losing control. Using John Wayne—the quintessential cowboy defending the American frontier—as a metaphor, big companies can take advantage of flat world opportunities through independent managers who explore new business frontiers.

The ‘John Wayne’ managers infuse big companies with small-time entrepreneurial spirit, often increasing the flexibility of the company through the following opportunities:

1. Rethinking incentives, hiring policies and corporate culture
2. Adopting plug-and-play approaches allowing for growth and integration for new business or network parts
3. Reorganizing control over operations
Establish the Three-year Stretch to Balance Stability and Renewal
While it is true that companies need the flexibility to respond quickly to changes in a flat world, they also need enough stability to offer enough insight to gauge their success or their failure.

Each company has its share of moving targets for a fixed period of time, and most corporate policies do not allow the attainment of these targets. Plans are often projected for the next five years but yearly budgets are too short to build anything meaningful.

Li & Fung’s three-year plan combines the best of Chinese central planning and Western planning theory. This builds around their ‘John Wayne’ theory of small business units, minimizing the need for ambitious long-term goals that are seldom met and replacing them with more attainable targets resulting to tremendous gains in performance.

Build the Company Around the Customer
Companies can afford to put the customer at the center without necessarily giving up their identity, organization and profitability. Since network orchestrators are freed from the constraints of owning factories, they can orchestrate the supply chain and the business around the customer. Of course, this creates new challenges for governance, further challenging the flexibility of any company to rise to the occasion of ever-changing consumer demands.

Customer needs change considerably, and a flexible network must be able to reconfigure itself to meet such changes. Knowing the market ensures increasing the ability to meet customer expectations. At the core of these expectations are increased customization expected at different cross-sections of the market.

Building the network around the potential needs of customers will ensure stable relationships with them, as customer-centric operations do not only respond to their needs but anticipate them. Human relationships in business are still fundamental to success so it is still important to build thick connections with customers.

While modern technology has taken center stage in the last century, it needs to be placed in the service of business, and not the other way around. Customers are the new axis of the flat world, and business practices should consider setting practices up with their needs and offer them viable solutions.

Follow the 30/70 Rule to Create Loose-tight Organizations
In a closely secured network, how do you keep your partners engaged in your work without owning them? The book suggests the 30/70 rule: set a target of having more than 30 percent of their business but not more than 70 percent. The goal behind this principle is to ensure commitment from a supplier who will find great stakes behind his part of the network, while at the same time ensuring your own flexibility and room for growth.

As such, the network orchestrator needs to learn how to leverage learning through research and development and constant upgrades in market trends and design innovation. The dispersed network allows for a capital-light strategy that ensures increased performance. Finally, suppliers can also realize many benefits in being part of the network, including benefits in aggregated demand, access to customers, access to knowledge, demand smoothing and financing.

All these strategies require the building and constant expansion of relationships with suppliers. It pays to know the strengths of the different suppliers in order to build the capacity of the network. Forging communications with them would mean maximizing the most sophisticated communication technologies while being able to operate the most primitive ones.
Capture the "Soft $3" by Looking Beyond the Factory

Companies need to balance building value through functional excellence and specialization within the firm, and building value through integration across the total supply chain and different functions within the firm.

As manufacturing processes have improved drastically in the last few years, biggest cost improvements have shifted out of the factory as more and more value is added to the product outside the factory. A stuffed toy produced for $1 at the factory can be sold for $4 outside. Value is added or costs are incurred at every end of the supply chain between the end of the assembly line and the retail shelf.

By looking across the entire supply chain, opportunities arise to realize the soft dollars through more efficient processes or by taking on greater responsibility for other parts of the chain. Boosting efficiency, improving coordination, creatively rethinking and taking more of the supply chain can help create opportunities to capture the soft dollar in the network beyond your core business.

Sell to The Source by Bridging Marketing and Operations

The development of factories in emerging markets often precedes the rapid growth of consumer markets. These markets can be sourced not just for products but also valuable insights to the knowledge of marketing and operations that can be leveraged in sourcing activities in emerging markets.

Companies in a flat world obtain "on-the-ground insights" that are strategic in developing these markets which they can use to sell to the source. Once a source of cheaper labor and production, Asia is now gaining considerable ground in expanding the market of big companies such as Citibank and IBM. Emerging nations are the markets of the future and provide valuable case studies that effectively provide models for breaking down walls between marketing and operations. The potential is demonstrated well by China, which registered increased retail sales of 2,685 percent from 1979 to 2006. Markets follow factories. Companies sourcing emerging markets may already know their potential future customers.

Ultimately, the problem also rests not just in knowing where opportunities are but also when to seize them. This entails riding the wave of consumer growth without getting too far ahead or behind. To take advantage of such opportunities at the right place and time, it helps to know:

1. Regulations and policy – government policies directly affect growth in emerging markets. Knowing when these policies take effect and their resulting impact on a particular market can result to a profitable expansion.

2. Risks – specific regions or cities have certain risks involved. Know these risks to give your company more flexibility.

3. Knowledge of competition – a market presence helps to understand the competitive environment.

4. Detailed local market knowledge – a city or region is not a single market in itself but a collection of specific local markets determined by a number of factors that should be considered.

5. Market shifts – emerging markets are constantly changing. Sourcing operations can give detailed insights into the speed and direction of these changes.
In a flat world, an important challenge is to bring worlds together. Knowing where your next big market opportunities are can help boost business and guarantee your company’s survival for the long haul.

**Policy: Building a Borderless Business in a World of Nation-states**
The emerging flat world offers implications for different policymakers and managers who have to operate in this world. The main challenge is to build a borderless business in a world constrained by barriers between nation-states.

This translates to a modern supply chain that can perform with unprecedented precision and efficiency. While the technology and knowledge is there to create such machinery, such efforts are hampered by numerous regulations all over the world that slow the progress of supply chain improvements. In order to navigate this bureaucratic terrain, business leaders need know the following ideas about policy:

First, there are always ‘New Silk Roads’. Ancient China’s routes for trade can be reinvented in different ways in our time. Numerous activities and links between products and customers provide different ways of reconfiguring the old silk route. Knowing your ‘Regulatory Mountains’ and your ‘New Superhighways’ as well as recognizing the increasing complexity and bilateral agreements between countries can help you in reconfiguring the silk route.

Second, it pays to recognize the advantages to nations. While nations seem like the traditional building blocks for opening up a network, they can also be viewed as an invaluable resource. Political forces are working determinedly to keep the world lumpy, establishing new mountain ranges and building tunnels and superhighways for favored trading partners.

**Practice: A Lever to Move the World**
Network orchestration and a broad view of business can be applied in many different industries and organizations. The flat world offers managers the challenge to rethink models of the old round world with the opportunities and breakthrough approaches of the flat world.

Rethinking business practices is at the core of these breakthroughs, orchestrating networks of customers, researchers and suppliers in the process of achieving rapid growth and high performance.

The vertically integrated firm has disintegrated. But this doesn’t mean that someone shouldn’t stand out in front to lead and coordinate between numerous players in the process. Many opportunities arise to apply the insights of network orchestration to businesses beyond manufacturing resulting to innovative orchestrations in the last couple of decades such as

1. Broader view of business like Google’s Bus Network
2. The building of collaborative networks
3. Orchestrating consumer and social networks
4. Creating innovative combinations like Nike and iPod

Knowing one’s position in the network helps as well in balancing your own business in the larger orchestrated network.
Are You Ready to Compete Flat Out?
Shifting from viewing the company as the center of the universe to looking at the network can prove invaluable. Companies don't compete against other companies these days, it is the network that compete against networks.

In a world in which orchestrators do not own the means of production, they need a different kind of leadership and control. A dispersed global network can devolve into chaos. Network orchestrators rely on incentives and rewards but also upon a combination of empowerment and trust, as well as training and certification, to manage the network that it does not own.

Orchestrators have a different way of creating value. They create it from integration, bridging borders as well as leveraging the company's value and intellectual property across the network. This integration also means spanning borders between functions within the company, such as looking at manufacturing in developing markets to identify new opportunities for marketing and sales.