



GLOBAL CONNECTION

VIEWS ON GLOBALIZATION, THE DIGITAL REVOLUTION, AND LEADERSHIP

Size Still Matters

Internet mavens agree: The corporation of the future will be much smaller. But is bigger actually better?

Technology zealots argue that thanks to ubiquitous networks, business processes—even those that cross company boundaries—can be streamlined as never before. As a result, corporations will perform only the tasks at which they are superlative; everything else will be handled by a complex web of business partners.

In fact, maybe the corporation will disappear completely. Maybe the economy of the future will be composed of nothing but self-employed specialists, scattered across the world. Sales specialists will create demand and take orders. They will use computerized search engines to find desirable fulfillment specialists. Chain reactions of automatic production and transportation transactions will follow, mobilizing the remaining self-employed specialists necessary to complete delivery. Interconnected logistics, payment, and accounting systems will manage delivery, transfer funds, and tally results for each of the involved parties, all with minimal handling and delay.

The journey to this economic nirvana will deliver unprecedented growth in productivity. We will at last be freed from mundane, ancillary activities, such as searching, negotiating, tracking, and accounting, so we can focus strictly on producing and consuming.

The economy will be incredibly flexible. As the world changes—embracing new technologies, varied tastes, and greater wealth—complex webs of business relationships will appear and dissolve, keeping supply and demand perfectly matched.

Unimpressed? Perhaps this utopian vision is one that appeals only to economists. Perhaps you've read so much Internet hype that you are numb to such puffery.

Still, many executive movers and shakers continue to subscribe to the notion of the virtual corporation. But some rather unpleasant discoveries await them. In fact, we may be on the cusp of a backlash in which vertical integration enjoys a renewed popularity. There are three reasons for this.

The first reason follows from a bedrock principle of business strategy. When business entities work together to deliver a product or service, the greatest profits accrue to the owner of the scarce resource. Of course, as industries evolve, the advantageous position associated with the scarce resource shifts. The problem for strategists today is that the Internet is causing

COMING SOON:

Russell T. Lewis, CEO of The New York Times Company, and Michael Dolan, CEO of Young & Rubicam, will speak at the Tuck School this fall as part of the Center for Global Leadership's CEO Speaker Series. For highlights visit our website at: www.tuck.dartmouth.edu/cgl.

many industry structures to shift quickly in unpredictable ways. For example, in some industries there are new intermediaries, while in others there are new disintermediaries. So the scarce resource of the future can be remarkably difficult to identify. Is this a time to focus or a time to vertically integrate?

The second reason follows from an exception to the bedrock principle. As do many economic theories, the principle presumes business people are perfectly informed. But as any negotiator will recognize, power—and therefore profits—can often be shifted away from the owner of the scarce resource by keeping information hidden. That means that in any given industry, any number of players see a distinct disadvantage to building futuristic networks that make information more transparent. Despite the industry-wide productivity gains made possible by cooperating to build these networks, many players will choose instead to protect their current profitability. Leaders of the drive to maximize the efficiency of the industry will be quickly frustrated. Will acquisition be the only route to cooperation?

Finally, industries often change too quickly for the construction of industry-wide networks to be economical. Projects to streamline processes across corporate boundaries are similar to internal reengineering projects. They take one to two years, involve precise definition of tasks and information flows, and usually require at least some creation of custom software. They are costly and may take several additional years to pay off. Unfortunately, industry structure and industry relationships are less stable than the organizations within corporate walls. The company that invests most heavily in building a superefficient, industry-wide computer network risks a substantial loss on an investment that quickly obsolesces. Does the stability of the vertical conglomerate now look attractive?

Perhaps information technology will, in fact, continue to bring us ever closer to an economy of virtual corporations, even those involving single individuals. The potential for productivity gains are alluring. But the probability of losing money while chasing those gains seems unrecognized or underestimated. As a result, the trend could be reversed. ■

The author, Chris Trimble, is the Executive Director of the William F. Ahtmeyer Center for Global Leadership at the Tuck School of Business at Dartmouth.

Global Connection is published by the William F. Ahtmeyer Center for Global Leadership. The center is dedicated to building and sharing expertise on the specific practices, processes, and organizational models that enable mature, global corporations to continually create, grow, and profit from innovative approaches to doing business.



WILLIAM F. ACHTMEYER
CENTER FOR
GLOBAL LEADERSHIP

**TUCK SCHOOL OF BUSINESS
AT DARTMOUTH**

100 Tuck Hall, Hanover, NH 03755 USA
Phone: 603-646-0898 Fax: 603-646-1308
glcenter@dartmouth.edu
www.tuck.dartmouth.edu/cgl

© 2001 Trustees of Dartmouth College.
All rights reserved.