

# Book Review

## The World is Flat: A Brief History of the Twenty-First Century

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Author: **Thomas L. Friedman**

Publisher: Farrar, Straus, and Giroux (2005)

ISBN: 0-374-29279-5

Technology and other factors have made the world a smaller place, or as Thomas Friedman puts it, “flatter.” In his new book, *The World is Flat: A Brief History of the Twenty-first Century*, Friedman discusses how technology has made the world more competitive and explains what is needed to compete in this new “flat” world. He describes how manufacturing companies have moved plant locations overseas to take advantage of cheaper raw materials and labor in an effort to make their products more cost competitive. This outsourcing has turned to service industries as well. Friedman cites examples where United States tax returns are now being processed in India, and even McDonald’s drive-thru orders might be processed by a call center hundreds of miles away.

The book is divided into two main themes: the 10 forces that flattened the world and what this flat world means for America, developing countries, and world geopolitics. The 10 items that Friedman believes led to a flatter world include:

1. The Fall of the Berlin Wall – occurred on November 9, 1989; marked the end of the cold war; and granted access to huge new markets for labor, materials, and products.
2. The Internet – increased the ability for small companies and foreign businesses to compete with larger U.S. based businesses. Netscape developed an Internet browser that could work on several different types of computers; therefore, the ability to share information quickly and easily was greatly increased.
3. Work-Flow Software – having two common platforms (e.g., Windows® and Office®) and protocols (HTTP, HTML) allowed computers to talk with one another and allowed work to be done remotely from any computer.
4. Open-Sourcing – writing software in a way that allowed it to be easily shared and improved by any other programmer because everyone has access to the source code.
5. Outsourcing – moving lower value added functions to another firm for a lower cost, e.g., eliminating an internal payroll department and hiring an outside firm to process payroll at a lower total cost.
6. Offshoring – moving production overseas. In 2001, China joined the World Trade Organization (WTO). Joining the WTO helped to encourage foreign investment by adding an independent third party to arbitrate potential disputes. China has a huge skilled labor pool and provides incentives for U.S. firms to move their factories to China. The number of products designed and developed in China is increasing.
7. Supply-Chaining – partnering with other businesses to receive items when needed. Friedman provides an example of how Wal-Mart automatically orders stock replenishments once an item is sold. This free flow of information from one company to another automatically gives firms the ability to react quickly.
8. Insourcing – creating value horizon, e.g., United Parcel Service repairs Toshiba laptops in their Kentucky hub and returns them to the customer

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far more quickly and cost effectively than Toshiba could.

9. In-Forming – Google® and the power of Internet search engines to research any topic.
10. Information Steroids – harnessing the quadruple combination of information becoming digital, mobile, personal, and virtual. Friedman calls these items “the steroids,” and he is referring to the power of having information always at one’s fingertips through cell phones, PDAs, wireless laptops, etc.

The first part of the book is devoted to describing in detail each of these 10 factors and how they have worked to increase competition or “flatten the world.” The increase in fiber optic communications, the decrease in the cost of computers, and the availability of work-flow software were the genesis for a new technological revolution. These factors supplied the needed infrastructure to move highly skilled technical jobs from the United States to India in order to capitalize on the huge advantage in labor cost. Friedman points out that outsourcing can be beneficial for both parties involved. When a U.S. based company outsources a product or service, some jobs are lost locally, but the company remains more competitive and tends to grow the business in other areas which create additional jobs. Friedman quotes Global Insight’s (an economic consulting firm) estimate that 1,854 jobs were created in Minnesota as a result of foreign outsourcing in 2003.

The second part of the book describes the effects of flattening on the world and how we can adapt to the rapid changes this is causing. For example, Friedman describes what he calls a triple convergence—a new platform (electronic Web-enabled platform), horizontal supply-chain management systems, and a huge increase in the number of people in the global marketplace. These three forces coming together at the same time in combination with the 10 factors that worked together to flatten the world create a whole new set of geopolitical and economic issues that the author explains in detail in the remainder of the book.

*The World is Flat* is full of practical advice for those facing increased competition. Friedman suggests that workers specialize, stay anchored or in close proximity to their customers, and be flexible. According to Friedman, education will continue to be one of the most important factors related to future financial success. A quote that sums up a large part of the text is, “When I was growing up, my parents used to say to me, ‘finish your dinner –

people in China and India are starving.’ My advice to you is: finish your homework—people in China and India are starving for your jobs.” Friedman clearly describes the actions that Americans need to take now to maintain their status and place in the world. He states that Americans need to invest in their education systems and inspire new creative leaders and leadership. In addition, Americans need to realize the risks of a new energy crisis and invest in new sources of cleaner, cheaper energy.

Friedman suggests focusing educational efforts on four skill sets to help young people prepare for the increased competition they will face in the future: (a) learn how to learn, (b) develop passion and curiosity, (c) improve interpersonal skills, and (d) enhance right brain (creative) abilities. Due to the amount of new knowledge constantly being created, people must be continual learners; otherwise, they run the risk of quickly becoming outdated and obsolete. Friedman concludes that curiosity and passion combined are of greater importance than intelligence. No matter how big or how small the world becomes, people are still human beings and must be able to work together to accomplish things great or small. In a flat world, people skills could become more important than computer skills. Finally, abstract problem solving is a skill that is not easily replicated, and those who have it will be more employable than those who do not. Friedman suggests that doing work that one loves will naturally allow the more creative side of one’s personality to show. The passion one has for the work will be interpreted as higher quality and more meaningful and thus creates a differentiated product from all the rest.

Friedman presents an inspiring example of Abraham George who made his fortune in America and returned to India. India has a caste system where the lowest caste, untouchables, is doomed to a life of poverty and ignorance. Abraham started a school for children in this lowest caste, and the result is encouraging. Friedman interviewed several children at the school and asked them what they want to be when they grow up. They responded astronauts, doctors, artists, etc. Clearly, the children can imagine a brighter future.

Towards the end of the book, Friedman touches lightly on an interesting topic that can pay huge dividends for everyone—the craving people have for positive feedback. This concept is not new; however, innovative businesses are now including feedback ratings as an integral part of their business model. Friedman recounts a story in which Arthur

Levitt, former chairman of the Securities and Exchange Commission, called Meg Whitman, CFO of eBay, to tell her that he had just earned his yellow star for 10 positive feedback ratings. Every time a transaction is completed on eBay, both the buyer and seller can rate each other's performance, and the number of positive feedback ratings from other users determines the color of the star displayed by the user name. Levitt is a collector of depression-era glass and has bought and sold it on eBay. Friedman goes on to quote Whitman, "I think every human being, Arthur Levitt or the janitor or the waitress or the doctor or the professor, needs and craves validation and positive feedback. And the big misconception is to think that it has to be money."

Friedman provides hope for peace brought about in part by global supply chains. These supply chains helped India's political leadership realize the very high cost of even a brief war against their neighbor Pakistan; Friedman calls this "the Dell theory of conflict prevention." The Dell theory states that any country which is part of a global supply chain has yet to go to war against another country which is part of a similar supply chain. Craig Addison, the former Editor of *Electronic Business Asia* magazine, points out that Taiwan is protected from war against China by a silicon shield, making reference to their large exports of computer parts, components, and supplies.

A part of the book that could be improved is when the author went on a diatribe against the American government's environmental policy. The need to highlight risks to our environment is great, and the author does an admirable job of highlighting potential risks in an organized manner; however, the author crosses the line and gets into a brief spat of name calling. The effect of these acerbic remarks lessens the impact of an otherwise well thought out and logical argument.

One item to consider while reading this book is "how would my firm respond to increased competition?" Tax

returns are already outsourced to India, and I am aware of financial planning firms that are outsourcing different parts of generating a financial plan to other companies. Would your firm benefit from outsourcing, and what tasks would make sense to outsource? Friedman mentions the ability to hire an administrative assistant in India that could prepare PowerPoint® presentations, newsletters, correspondences, etc. for a fraction of what it would cost in the United States.

An implication Friedman makes that is relevant for financial planners is the concept of staying anchored, specialized, and flexible to survive increased competition. Anchoring means staying in close contact or proximity to your clients. Anchoring highlights the importance of face to face meetings, even if it involves a significant investment of time and travel. Many firms are already doing a good job of this; however, one may want to ask what makes my firm different from the competition? What specialized services or knowledge do I offer my clients that they cannot obtain from another firm? By thoughtfully answering these questions, one's business can improve its ability to remain competitive. Finally, Friedman reminds the reader that everyone wants and needs a sense of validation and positive feedback. Validation and positive feedback are essential for any business, especially financial planning firms. Not only are employees looking for these rewards, but clients are as well. Clients want to be sure they are doing the right things, and they need positive feedback and assurance in making decisions.

Although the book is lengthy, a full 600 pages, it is well worth the time invested to read it. There are very few books that can change the perspective of the world in which one lives. *The World is Flat* did just that for me. The book opened my eyes to startling statistics and the economic realities that we face today. Friedman pulls all his research and experience together in a coherent, entertaining, and easy to read format that captures the reader's imagination and attention. I highly recommend it.