



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



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