

“Therefore, the Earth is not flat”

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500 years since Copernicus - one of Kraków's most famous sons - first proved that the Earth is not Flat, the flourishing of the global services industry in Kraków is once again proving the point to latter day flat earthers, says Andrew Hallam.

In the world of business a theory has been taking hold that the Earth is flat. The theory describes the levelling effects of technology which have steadily eroded the economic importance of geographic place. Its main proponent is the New York Times journalist, Thomas L. Friedman, who writes, “In a flat world, you can innovate without having to emigrate.”

The real world is a little more complicated and Kraków is a case in point. Since 2004, Kraków has benefited from the levelling effects of technology. 16,000 jobs have been created in the IT and Business Process Services sectors in Kraków, industries which leverage technological advance in telecommunications to enable efficient and effective communication across borders, but which at the same time are able to take advantage of the plentiful supply of graduate talent in Kraków. To put it another way, 16,000 graduates have found work and stayed in Kraków.

Nevertheless, in the context of Kraków and our efforts to strengthen the business model for our businesses operating in Kraków, it is also worth considering the counter argument that the world is not flat but round, expressed by Richard Florida, Pankaj Ghemawat and others.

The World is spiky

Let's start with Richard Florida, Professor of Public Policy at George Mason University and author of *The Flight of the Creative Class*:

“In terms of both sheer economic horsepower and cutting edge innovation, surprisingly few regions matter in today's global economy. What's more, the tallest peaks - the cities and regions that drive the world economy - are growing ever higher...”

Florida focusses on 4 key indicators:

- Population - the explosive growth of cities and clustering of people in urban areas; in advanced countries 3 out of 4 people live in cities.
- Economic output - New York's economy alone is about the size of Russia's or Brazil's. Together, New York, Boston, Los Angeles and Chicago have a bigger economy than China.

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- Innovation - 85% of World Patents are registered by residents of just five countries (Japan, US, South Korea, Russia and Germany). In the U.S. in 2003, IBM registered 5 times more patents than China and India combined. Scientific citations are even more concentrated in a handful of cities, mostly in the US and the UK.
- Mobility - people in a small group of city-regions are often more connected than to one another than to people in their own backyards.

Florida's conclusions:

“Innovation, economic activity, and prosperity occur in those places that attract a critical mass of top creative talent...”

In short, he claims, “the world is not flat but spiky.”

So, what does this mean for Kraków and its aspirations?

Notwithstanding, that it was Kraków's most famous scientific son, Copernicus, that first proved that the earth is not flat, arguably giving rise to the technological revolution of the last 500 years (some innovation!), clearly Kraków is not one of the world's peaks. For example, although the Jagiellonian University is the top placed Polish university in the QS World University Ranking, it comes in at a lowly number 302. By comparison, UK universities occupy 4 of the top 6 places - all situated along the high-tech Oxford to Cambridge Arc - and US universities account for 30 of the top 100 ranked universities. These rankings are an accurate reflection of where the world's peaks are located.

What Florida does concede is that the world's peaks have become slightly more dispersed - and that the world's hills, the industrial and service centres that produce mature products and services have proliferated and shifted.

If not one of the world's peaks, Kraków can lay claim to have (re)emerged in the past few years as one of these hills, especially in terms of service centres.

Clearly, this is more than the result of labour arbitrage. Kraków is not cheaper than India or China or the Philipinnes. Moreover, it is not competitive on wages even within the CEE region: developing centres such as Cluj, Sofia and Bucharest are cheaper, not to mention Polish cities with significant populations yet to develop in any significant way, such as Kielce, Rzeszów, Opole.

Crossing borders

There are, however, qualities which Kraków possesses which these other locations cannot match. For this it is worth looking at another “round earth” exponent, Pankaj Ghemawat, Professor of Global Strategy at IESE Business School, and his concept of “semi-globalisation.”

In his book, “Redefining Global Strategy: Crossing Borders in a world where differences still matter,” Ghemawat describes the distances that companies have to acknowledge and react to developing their international strategies. He calls the framework CAGE.

- “C” stands for Cultural, which includes language, customs, religion;

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- “A” stands for Administrative – laws, trading blocs, currency;
- “G” is Geographic - physical distance, time zones;
- “E” is Economic - income levels, natural resources, financial resources, human resources, infrastructure.

Kraków’s recent rise escalated with European Union accession and the market it essentially serves and competes in is the European market.

Within the borders of the EU, Kraków provides cost advantages over more mature locations (Dublin, Glasgow, Barcelona) or capital cities within CEE (Prague, Warsaw, Budapest). At the same time it matches or exceeds these locations in terms of:

- Geographical proximity and connectivity - direct flight connections to 55 European cities; 8 million tourists per annum;
- Cultural proximity - large, available pool of talent with range of European language skills and European cultural sensitivity; high levels of migration within Europe.

Making places

Returning to Florida’s analysis, what is it that makes a city-region into one of the world’s peaks? The answer is clusters. This is a direct challenge to Friedman’s assertion that “in a flat world you can innovate without having to migrate.” For instance, notwithstanding the relatively small number of patents generated by Indian and Chinese companies, research conducted by Annalee Saxenian of the University of California at Berkeley indicates that Indian and Chinese entrepreneurs founded or co-founded 30% of Silicon Valley start-ups in the 1990s. That is to say, they had to travel to Silicon Valley and be absorbed into its innovative eco-system before their ideas became economically viable.

The implication for Kraków - in order to maintain and build on its status as one of the world’s hills - is to develop the eco-system which supports its hill status - its geographic, economic and cultural proximity to its markets.

At this point it is worth introducing the notion of the triple helix and the associated concept of the entrepreneurial university.

The triple helix thesis is that interaction among university-industry-government is the key to improving the conditions for innovation. The university is the source of new knowledge and technology, the generative principle of knowledge-based economies. Government provides the framework and incentives for stimulating university-industry interaction.

In terms of Kraków, however, the focus will be less on innovation per se and more on cultural proximity - languages, soft skills and business sense - and therefore a change in teaching methodology.

Other elements which support the eco-system:

Networks - the dynamic success of Silicon Valley’s economy has been fundamentally linked to the dense social networks that exist across company boundaries. In his book, *Writing on the Wall*, Will Hutton, CEO of the Work Foundation, notes from a study of 500 multinationals by Susan Berger of Massachusetts Institute that western

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companies can still compete against low-wage Asian businesses because western companies are better organised and embedded in better institutional networks.

Evidence suggests that networks have at least three beneficial effects.

First, networked businesses are likely to be more successful than non-networked business. Through networking with competitors, companies have a greater knowledge of their own strengths and weaknesses and of the industry. Mutual support networks enable their members to become more competitive through improved marketing and innovation, sharing of best practice, and access to current research, collective action and infrastructures (Besser 2006).

Second, networked firms are more innovative. A review of networking and innovation in the UK by Pittaway et al (2004) confirmed that networks and networking amongst firms plays a pivotal role in innovation and that this has become more relevant as technologies become more complex. The use of networks was crucially important during venture formation and for small growing firms.

Third, not only do individual firms benefit directly, networks act as ‘open gates’ bringing in new ideas and practices to the local economy as a whole (Eradin and Armatli-Koroglu 2005).

What does this mean for us as international businesses located in Kraków?

It means, I think, that we are better served by adjusting our focus away from what I would call “trading places” - the idea that as individual companies we can set up anywhere where the cost differential is most attractive and plough our own furrow - to “making places” - seeing ourselves as key stakeholders in those places where we are located and working together to be a strong partner to other stakeholders, working with them to strengthen the business model.

About the author:

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Links:

Richard Florida, [The World is Spiky](#)

Pankay Ghemawat, [Because the world is round it turns on strategy](#)

Primary sources:

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Richard Florida, [The World is Spiky](#), Atlantic Monthly, October 2005

Pankay Ghemawat, [Redefining Global Strategy: Crossing Borders in a world where differences still matter](#), Harvard Business School Press, September 2007

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C. Benner, [Learning Communities in a learning region: the soft infrastructure of cross-firm learning networks in Silicon Valley](#), Environment and Planning, 2003

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