Globalisation requires the adoption of open innovation theme

Globalisation has unlocked vast opportunities for many countries, but the pervasiveness of the recent financial crisis has highlighted that economic interdependence does not come without risks.


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However, companies should not be scared away by the risks, but need to ensure policies and commercial strategies - especially as they relate to the value chain - embrace the theme of open innovation.

"This means companies need to realise they can't do it all themselves. Leaders need to be able to say: We don't own all the knowledge. They need to harness the best skills and solutions they can to support them in their respective corporate journeys - and this includes ensuring they are increasingly agile by utilising technology that is fit for purpose," says Karl Gotte of Commercial Banking at Standard Bank.

Globalisation also creates 'a lot of flak' if these are not taken up quickly. "Many companies are not agile enough and those which have not adopted an open innovation theme are being left behind as competitors are so quick to move in and take business away from them," says Gotte.

Allocation of resources

According to a recent report by the Organisation for Economic Co-operation and Development (OECD), globalisation results in a more efficient allocation of resources across countries and generates important welfare effects, including higher productivity and efficiency, increased average incomes and wages, greater competition, lower prices and increased product variety and quality. At the same time, the process of globalisation also raises concerns in many countries, and needs to be well managed to ensure its benefits are widely distributed.

"The important point is the recent economic crisis has underscored the power of globalisation but has also shown the vulnerability of the global economic system," says Gotte.

Global linkages have increased the economic interdependence between countries and it could be argued this facilitated the spread of the crisis. What started as a financial crisis in the US turned rapidly into a global economic crisis, leading to a dramatic collapse of international trade and foreign direct investment.

According to the OECD, global value chains in particular are believed to have played an important role in the spread of the crisis. Its research has found that production processes have become increasingly fragmented as goods are produced sequentially in stages in different countries in so-called global value chains.

Supply chain

"It is becoming increasingly important for companies to understand the supply chain in detail. This is where the themes of agility, working with the right partners and employing the right digital solutions will help improve efficiencies by helping smooth the supply chain to maximise efficiencies across borders," says Gotte.

If companies get it right there will be opportunities out there and they can leverage off the productivity improvements they make. "There is so much room to grow and new markets to be created yet at the moment there is not a lot of deal-making - those that do could get a decent break," says Gotte.

The World Bank says the trade policy agenda has evolved significantly since the early 1990s when trade liberalisation was the focus of the debate. Now, countries worldwide have relatively low import tariffs, and new challenges have emerged. Non-tariff measures have increased sharply, sometimes because governments hope to protect domestic industries.

Restrictiveness to trade in services and limited competition in services markets remains pervasive among developing countries, reducing the scope for integration in services. Finally, the proliferation of regional and bilateral preferential trade agreements complicate the trade policy landscape.

Indirect factors

Developing countries are also seen as struggling with indirect factors that hinder their access to global markets, such as anti-competitive business practices, regulatory environments that are unfavourable to business growth and investment, or limited infrastructure capacity.

According to the World Bank even a country with liberal and transparent trade policy suffers if its markets are not connected, and many of the 'bottom billion' live in countries - or regions of countries - that are landlocked, remote, or otherwise ill-served by international trade links.

Gotte says a lot more needs to be done to make industries more competitive by understanding how to leverage the advantages of an inter-connected marketplace.

"One of the consequences of globalisation is countries implement some form of protectionism and those countries then become uncompetitive, as labour becomes too expensive. Over time there will be more pressure to reduce protectionism," he concludes.