Open innovation, agility needed to navigate stormy global waters

Globalisation has ushered in major benefits for many countries, including in Africa, but the pervasiveness of the recent financial crisis has highlighted that economic inter-dependence does not come without risks.

According to Standard Bank's Commercial Banking division, 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, Commercial Banking at Standard Bank.

Globalisation may open the door to a lot of opportunities, but it 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 Mr Gotte.

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 Mr 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 United States 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.
“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 Mr 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 Mr Gotte.
The World Bank says the trade policy agenda has evolved significantly since the early 1990s when trade liberalization was the focus of the debate. Now, countries world-wide 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.
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.
Mr 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.”
According to reports, the textile industry in South Africa is an example of how quickly business can lose ground if the balance between policy and pricing is not well understood. This once strong industry went from employing 180,000 people in 2002 to just 80,000 in 2013 as it could no longer compete with cheap imports from Asia.
In its first formal Trade Strategy, the World Bank Group lays out priorities that, in the last decade, have moved away from programmes anchored in trade liberalization towards supporting diversification, lowering transport and other trade-related costs, improving access to trade finance, and assessing the poverty-related impacts of trade and trade policies.
“Access to finance is definitely a critical component, but it is generally linked to productivity gains and competitive advantages. Of course, what is now being realised across Africa is that more diversified economies are needed to handle the pressure of the global marketplace. Standard Bank, with its extensive footprint across the continent, will continue to partner with and support commercial businesses to seize opportunities and to employ best practice in navigating these often stormy global waters,” says Mr Gotte.