INNOVATION AND GLOBALIZATION: WHERE VALUE IS CREATED

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Abstract

Driven by more demanding customers, global competition, and slow-growth economies and industries, many organizations search for new ways to achieve and retain a competitive advantage. Past attempts have largely looked internally within the organization for improvement, such as reflected by quality management, reengineering, downsizing, and restructuring. The next major source for competitive advantage will be innovation.

Kewords:

Innovation, globalization, value, management, reengineering.

Introduction

Innovation involves the development of new products or processes and the know-how that begets them. There are three levels of innovation: high-level, midlevel and ground-level. New products can take the form of high-level building blocks or raw materials (for example, microprocessors or the silicon of which they are made), midlevel intermediate goods (motherboards with components such as microprocessors), and ground-level final products (such as computers). Similarly, the underlying know-how for new products includes high-level general principles, midlevel technologies, and ground-level, context-specific rules of thumb. For microprocessors, this know-how includes the laws of solid-state physics (high level), circuit designs and chip layouts (midlevel), and the tweaking of conditions in semiconductor fabrication plants to maximize yields and quality (ground level).

Technological innovations, especially high-level ones, usually have limited economic or commercial importance unless complemented by lower-level innovations. Breakthroughs in solid-state physics, for example, have value for the semiconductor industry only if accompanied by new microprocessor designs, which themselves may be largely useless without plant-level tweaks that make it possible to produce these components in large quantities. A new microprocessor's value may be impossible to realize without new motherboards and computers, as well.

New know-how and products also require interconnected, nontechnological innovations on a number of levels. A new diskless (thin-client) computer, for instance, generates revenue for its producer and value for its users only if it is marketed effectively and deployed properly. Marketing and organizational innovations are usually needed; for example, such a computer may force its manufacturer to develop a new sales pitch and materials and its users to reorganize their IT departments.

Arguing about which innovations or innovators make the greatest contribution to economic prosperity, however, isn't helpful, for they all play necessary and complementary roles. Innovations that sustain prosperity are developed and used in a huge game involving many players working on many levels over many years.

They oversimplify globalization as well – for example, by assuming that high-level ideas and know-how rarely if ever cross national borders and that only the final products made with it are traded. Actually, ideas and technologies move from country to country quite easily, but much final output, especially in the service sector, does not. The findings of science are available – for the price of learned books and journals – to any country that can use them. Advanced technology, by contrast, does have commercial value because it can be patented, but patent owners generally don't charge higher fees to foreigners.

Consider an instantly growing service sector: particularly important aspect of it is use of innovations in information technology. It simply doesn't matter where they were developed; the benefits accrue mainly to workers and consumers where services are consumed, in contrast to manufacturing. Suppose that IT researchers in, say, Germany create an application that helps retailers to cut inventories. Many of international companies have shown conclusively that they are much more

likely to use such technologies than retailers in, for example, Germany, where regulations and a preference for picturesque but inefficient small-scale shops discourage companies from taking a chance on anything new. That is among the main reasons why since the mid-1990s, productivity and incomes have grown faster in the United States than in Europe and Japan.

Since innovation is not a zero-sum game and high-level science and engineering are no more important than the ability to use them in mid- and ground-level innovations, the managers should reverse policies that favor the one over the other.

Innovation is generally seen as a strong contributor to organic growth. Actually to attempt organic growth can't be met without reinventing our 100-year-old management model. Throughout history, technological innovation has always preceded organizational and management innovation. And just as technologies have *S* curves life cycle, the technology of management also has an *S* curve. Modern management itself was basically an effort to deal with the aftershocks of factories, which were created over 100 years before Frederick Taylor was born.

In other words, the companies are in the early stages of a very long innovation of organizational design that will eventually go to places they can't yet see. But executives can see enough to identify huge opportunities for companies to take advantage of what is already known. Innovation in organization is occurring all over the place, but a lot of those innovations go nowhere. There's lots of experimentation going on, but organizational barriers prevent the adoption of good innovations throughout the company.

To become inspired management innovators, today's executives must learn how to think explicitly about the management orthodoxies that bound their thinking – the habits, dogmas, and conceits they've never taken the trouble to challenge.

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