

A literature Review of Global Economy and Globalization Era

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Abstract: Globalization presents opportunities to increase prosperity and ensure better jobs. For consumers, it brings a wider product range to choose from and lower prices. For firms, it brings opportunities for higher efficiency gains and productivity growth. But globalization also poses challenges. In Europe and the other OECD countries the demand for a highly educated workforce will be increasing, while the demand for some low skilled will be decreasing. In this globalization era, innovation plays an important role in the organizational success and firms and organization should aware of the importance of innovation. The aim of this paper is to study the global economy and innovation in the area of management.

Keywords: innovation; innovation management; global economy

1. Introduction

Globalization processes are inextricably tied to competitiveness. In a global economy the pursuit of national competitiveness grows in line with the global system, putting this theoretical perspective in a privileged position to analyze current trends. However, because of its focus on historical evolution in the long run, the school has failed to capitalize on this advantage. It argues that evolution of this global system has led to the existing nations, including those in the Third World, and each has found its relative position in the international hierarchy.

From the sociological perspectives, the existing world system school has come closer to predicting the general trend of events during the past quarter-century. The founder of the school, Immanuel Wallerstein, and his followers never tried to argue that the real capitalist world economy, which originated within the system of the European state in the sixteenth century and came to transcend the entire world, was the only unit of analysis. For them, newly industrializing countries are concerned

with new formalization with their competitors as well as formal laws to gain a competitive advantage in their production in more regulated areas of the world's economy (Castells and Portes, 1989). Globality, convergence and competitiveness are cooperative principles of the new paradigm of economic globalization.

According to Edquist (1997), technological innovations are regarded as the introduction into the economy of new knowledge or new combinations of existing knowledge. This means that innovations are looked upon mainly as the result of interactive learning processes (Manuel, 2008).

According to Fagerberg, Mowery et al (2005), an important distinction is normally made between invention and innovation. According to their authors, invention is the first occurrence of an idea for a new product or process, while innovation is the first attempt to carry it out into practice. Sometimes, invention and innovation are closely linked to the extent that it is hard to distinguish one from another (biotechnology for instance) (Manuel, 2008).

This paper aims to study the global economy first and then the innovation literature review comes as well.

2. The global economy as an emerging phenomenon

One way to analyze the phenomenon of development in the era of globalization is through an approach involving interaction of the economic and the political. The political economy tries to connect economic analysis with practical policy to address problems related to development. It does so through the study of the social processes of institutional economic and political groups and their election decisions, regulatory power and influence over the allocation of resources.

The globalizing market economy is not a homogeneous structure. It seeks the emergence of a decentralized regulation of markets coupled with a cosmopolitan and liberal democracy provided by transnational institutions. Cosmopolitan nations only work with a cosmopolitan democracy that moves towards globalization but also reaches down to social local organizations. This cosmopolitan democracy expands to regulate the efficiency of the global economy. The global economy, as it is today, is a complex and contradictory set of global markets, national development strategies and competitive corporate strategies (Borras and Zysman, 1997). Here, it makes little sense to talk of national development if what is actually involved is the capitalist world economy.

3. Analysis of the results and effects of the global economy.

The processes of globalization are yielding contrasting results between accelerated growth of the global economy and a growing polarization of social inequality. The model of the global economy - as understood and practised by the multilateral agencies such as the International Monetary Fund and World Bank among others - does not necessarily promote democratic development, or conditions of fairness and justice for the companies because the model is imposed, not proposed and accepted.

Ireland and Hitt (1999) claim that indications of the incredible breadth and depth of the effects of the global economy lead them to predict that nation states will lose their sovereignty in the twenty-first century.

The current globalization processes are dominated by the neoliberalism of the decalogue of the Washington Consensus, which generates inequality in trade competition and rapid acceleration of knowledge and technological development. Signs of the exhaustion of neoliberalism are visible in the regional financial crises that began in 1994 and the chaos caused by the dynamics of the new economy that was attributed to the Mexican crisis. The global economy entered into crisis in 2001.

Perhaps the concept of hegemony in the world economy described in terms of centre, periphery and semi periphery is inappropriate to explain the dynamism of the rule with an emphasis on mastery by force. The U.S. imperial strategy to reverse the trend of the decline of hegemonic capitalism has caused more instability in the global economy, and thus, has led to some geopolitical arrangements that portend the imminent collapse of the imperial hegemony of capitalism. On the other hand, among these regimes there is a trend of growing discontent in the working classes, who have received few benefits. There is also discontent among critics from the right-wing regimes and their allies in the armed forces, who fear that even the limited democracy taking place in Latin America has gone too far.

The levels of disparity in growth rates and income distribution are growing. There is a serious concern to civilize and humanize the global economy. This concern is expressed by the same multinational agencies who falsely suggest the need for further liberalization processes by consolidating the so-called first-generation

reforms and promoting second-generation reforms aimed at the strengthening of the institutions, the formulation and implementation of active social policies and the creation of social safety networks. If a globalized world economy is defined in terms of aims other than the maximization of wealth in the system, then efficiency based on profits must be considered inefficient with regard to that purpose.

3. The challenges of the global economy

The global economy is at a crossroads. The impact of the financial crisis around the world has taken many people by surprise, and the full extent of the macroeconomic impact is not yet known. What is certain, however, is that few countries, industries, or businesses will be left unaffected and the accountancy profession has rightly come under criticism and has lessons to learn (Hudson, 2009)

The continuing economic expansion, however, has not been evenly-balanced across regions. Growth has been strong in the United States, China, and most emerging market and developing countries. Recent news from Japan has also been encouraging. The most immediate challenge facing the global economy is the marked slowdown in the U.S. economy. This slowdown involves several interconnected elements, and, given our close trade links to the United States, has very direct consequences for Canada (Jenkins, 2008). In contrast, the performance of Europe continues to disappoint, with political developments there adding even more uncertainty. Consistent with this pattern, global current account imbalances have also widened (Figaredo, 2005).

Global economic growth was strong in 2004, underpinned by accommodative macroeconomic policies, improving corporate balance sheets, and supportive financial market conditions (Figaredo, 2005).

4. Some global economy risks

Within this overall positive outlook loom some short-term risks (Figaredo, 2005).

- The future price of oil remains a possible risk variable
- Financial market conditions could tighten significantly
- The increasingly unbalanced global expansion is another risk factor

- Monetary policy management could become increasingly difficult in some emerging market economies, notably in Asia

5. Some global economy Challenges

A major challenge is therefore to ensure a higher level of education and make everyone able to keep pace with new demands. Research and development should be strengthened in order to make companies more innovative. The aim is to ensure that the globalization process is beneficial for all (Axmark, 2006).

Some global economy challenges faced some countries are (Figaredo, 2005):

- Inflexible labor and product markets in the euro area and Japan
- Corporate and financial sector weaknesses in much of emerging Asia;
- Unfavorable investment climates in Latin American countries;
- Weak banking supervision systems in central and eastern Europe; and
- For the Middle East, a need to greater develop institutional infrastructure for non-oil sector development.

Some of the most heated arguments in public discourse these days revolve around whether or not the role of government has become overly pronounced in the functioning of the global economy (Sull, 2009).

At the peak of the financial crisis, government intervention was crucial to keeping the world economic system from going into freefall. That being said, for now markets are satisfied that the crisis has passed and are pricing in a return to economic growth. The big question is how sharp the recovery will be. Will it be “V – Shaped” (sharp rebound), “U shaped” (slow laborious rebound), or “W shaped” (double dip recession). As consumers around the world focus on rebuilding their balance sheets by cutting back on consumption and increase their savings rates, governments are trying to incent them to buy cars (Cash for Clunkers), new homes (tax credits for homebuyers), and ultra low interest rates (Sull, 2009).

The institutions of the global economy need political and social legitimacy within a democratic system to settle the problems of distributional effects, and harmful social and environmental causes in order to ensure the primacy of national and local governments as the pillars of global economic governance. This means

nothing less than setting up an institution (Ordnungspolitik) for the global market to develop a global political order for a globalized economy.

Given the processes of globalization, one of the challenges facing governance is the formulation and implementation of economic policy. Jochimsen (2000: 36) defines the course of the discussion thus: The revolution in politics – the result of the triumph of markets - has been deep, leading national governments to embrace the global economy, but the agreements of the global economy can not be seen as just a group of bureaucrats and trade negotiators who are removed from the interests of the majority of the population. The common goal (...) should aim to create a global market economy that is viable in its social, economic and environmental consequences and in which players can compete effectively in clean and free markets through trade, capital, technologies, intellectual property, and currency.

In fact, the existing models of national development are dysfunctional given the new challenges posed by economic globalization processes, which are transforming the various economic, political, social and cultural aims. In contrast with predictions that emerged from the theory of dependence, which argued that dependent countries must gain, at least partially, some independence from the world economy, the priority for less developed countries is their integration into productive chains and global financial circles to avoid economic and political marginalization.

The biggest challenge facing the institutions in international governance is to reverse the trends of growing inequality that characterize the current processes of economic globalization, inequality both between different countries and within them.

According to Weaver and Rockman (1993), for countries that have recently become democratic, the responses to the challenges posed by economic development and political integration and social advancement of their peoples will significantly depend on the institutional design option. The Nation-state, organizations and administrators are players who must respond to the challenges facing existing institutions. The new power asymmetries are a key challenge for the new organizational forms.

Coordinated and coherent action in the international realm is required to ensure that the global economy is managed in everybody's interest. Coherence between international actions - national as well as local - ensures certain benefits for

developing countries through their integration into the global economy. Reforms to national governments have to be accompanied by reforms in local governments and in relevant international institutions to substantiate a more coherent international regulation.

The highly speculative activities of the financial sectors that promote the global economy require regulatory functions of the State to ensure that the volatility of emerging capital markets do not harm their investments as well as to ensure financial market stability in order to achieve the maximum return on utility investment despite financial crises. The global economy faces problems associated with the regulation of financial markets, yet it is not possible to stop the project of a democratic and equitable world order in erratic world markets.

The challenge to integrate social policy into development goals requires identifying and introducing systems and processes for representative governments and citizens to make choices, resolve differences and account for decisions. It constitutes a challenge to establish policies that will lead to the provision of services to ensure equitable and quality access, according to minimum standards based on the needs and demands of users. Social policy must seek practices and innovations that will strengthen the capabilities of users to articulate and negotiate their demands, improve access to social services and monitor results.

Faced with the gradual decline in the number of contemporary welfare state societies, one of the main challenges is the empowerment of social and community organizations so that they can play an active role in their development processes. The biggest challenge facing civil society is the development of the powers to administer the society's own specific regulation of rights and obligations. In addition, neo-liberal market reforms are another factor that guides the reforms of the traditional Welfare State, which is an element within the national project. It is therefore, one of the main challenges facing the international political order.

To face the diversity of the socio-cultural challenges of a globalized economy, it is necessary to develop skills to manage this diversity to handle uncertainty and identity. The operation of the uncertainty can be anything from an integrated approach to a coordination standpoint, although both approaches have a common need for principles based on statutory criteria to avoid conflict. Therefore, economic and cultural differences are representative of major global cities. People increasingly experience greater cultural differences due to glocalization, and fragmentation creates challenges of identity, insecurity, anxiety, and uncertainty.

Within the competitive challenges posed by global markets of the nation-states and organizations, forces of increasing complexity and intensity are being identified. Nation-states and organizations use this knowledge to adapt to change and develop processes to identify the characteristics of their global competitors, taking into account their associated competitive advantages. Both entities, as do the new institutions, need to be endowed with powers and abilities to coexist in turbulent environments.

Hitt, Keats and De Maria (1998) argue that companies moving into new markets have many opportunities but also many challenges to overcome. They show how there are increased incentives for innovation and improvement opportunities to gain returns on this innovation. However, international expansion activities complicate operations in various environments. To take advantage of opportunities through positioning regional economies, companies must learn effective ways to coordinate operations across many countries' borders. The region can continue to increase integration in the global capitalist economy in the same way under the continuing influence of neo-liberal ideology and civil moderate right-wing regimes.

The challenge remains the urgent need to develop new social technologies capable of incorporating the informal sectors of the economy so that they can benefit from economic globalization processes. This is in clear contradiction with the current hegemonic development model. The pace, magnitude and direction of change caused by globalization will continue to progress rapidly through technology transfer. It will join societies and cultures, change community values, and widen the gap between the rich and the poor. But it will also create opportunities and challenges for companies and organizations. Managing the change of dynamic management (Dowbor, 2001) requires an ongoing process of adjustment of different segments of social reproduction.

6. Innovation

Innovation is the main source of economic growth (Mokyr, 2002) and a key source of new employment opportunities as well as providing potential for realising environmental benefits (Foxona et al., 2005). One of the most important arguments is that, in the global economy, where economic actions can be more cheaply carried out in the low-wage economies such as China, the main way in which the

other economies can compete and survive, is to find new and better products and processes, In other words, to innovate (Storey and Salaman, 2005).

6.1 Definition

According to the Oxford Dictionary of Economics ‘innovation refers to the economic application of a new idea. Product innovation involves a new or modified product; process innovation involves a new or modified way of making a product’ (Black, 1997). According to Afuah (2003) innovation is the employing of new knowledge to provide a new product or service that the customers want. In another words, it is invention + commercialization. Van de Ven (1986) describes innovation in terms of a new idea, which may be a recombination of old ideas, a plan that challenges the present order, a formula, or an exclusive method which is perceived as new by the involved individuals.

6.2 Different Types of Innovation

Literature provides different categories of innovation classified by type, degree, competence, impact, and ownership (Narvekar and Jain, 2006). Innovation can be considered in both manufacturing and service sectors of different sizes (small, medium and large). Although there is a difference between these two sectors, the general definition and process of innovation are the same. Services have their own characteristics different from manufacturing. For instance, services are intangible, perishable and heterogeneous (Johne and Storey, 1997; Song et al., 1999).

Tidd et al. (2005) says innovation is not just about opening up new markets; it can also present new ways of serving older and established ones. He classifies the innovation into 4 groups (Product, Process, Position and Paradigm) each of which can happen along an axis, running from incremental through radical change. Incremental product innovation entails the introduction of an improved product, which, compared with its predecessor, has at least one additional desirable characteristic or is efficient with the same characteristics. In contrast, radical or fundamental product innovation takes place when a new market has opened up and the innovator begins to satisfy a hidden demand (Ferguson and Ferguson, 1994).

By considering the different three kinds of innovation. First one is based on kind of company (manufacturing or service).The other one considers the innovation based

on product or service. Among different kinds of innovation which are mentioned in the literature like marketing, organization, position, paradigm and so on, the product and process were selected. Since it seems in general point of view all of these different kinds of innovation can be categorized based on these two dimensions (product and process). Also these two kinds of innovation are more common in comparison with other ones. The last dimension assesses the innovation according to incremental or radical. The degree of novelty has an affect on this dimension. It means if the degree of novelty increases (based on the national or international consideration), the dimension is moving from incremental to radical situation.

In general, the kind of risk management is more related to incremental or radical dimension. Radical innovation has high risk in comparison with incremental which has a low risk. So for managing the risk in the radical one (which some times this innovation is new in the world or country) the more complex risk management methods (e.g.: Risk Standard Model) are needed. In incremental situation that are like the improvement, the simple risk methods (e.g.: risk log) can be used. It should be paid attention that the size of company can affect on amount and kind of risk management.

For example one small company may spend a lot of time and uses the different and precise method for managing the risk in one incremental innovation project, since it has a limited resources but a big company just uses the one and simple method for the same project. In this paper the proposal method -Risk Standard Model- for managing the risk in radical innovation will be explained.

6.3 Different Stages of Innovation

It is suggested by several studies that there is usually a formal process for developing new products and services in firms with high performance in innovation (Griffin, 1997; Tatikonda and Rosenthal, 2000 and Shaw et al., 2001). In service firms, however, it does not appear to be common to use the formal process (Mitchell Madison Group, 1995). This formal process includes 'creativity and ideas management, selection and portfolio management and implementation management' (Oke, 2007). Tidd et al. (2005) argue that innovation is a general activity associated with growth and survival and a common fundamental process

can be seen in all firms, which involve: Searching, Selecting, Implementing and Learning.

A stage-gate approach for managing the process of innovation (which has been adopted by many firms) is recommended by Cooper (1999); it allows the firms to manage, direct and control their innovation efforts. However, there is a major critique of Cooper's stage-gate approach, which focuses mainly on process factors. Other organizational factors which have an impact on innovation performance need to be considered.

Results

A global economy centered in the United States is unsustainable due to the deep asymmetries and imbalances that exist among countries in the world. Despite the hegemony of the capitalist system, which has continued to grow in the last two decades, the global economy is in continuous deflation. This endangers large investments and imperial U.S. hegemonic interests. Capitalists, already in tension and confrontation for a locus of power, are under pressure to maintain a leading edge that allows them to accelerate capital accumulation.

While the logic of a global economy prevails in the market, the logic of the state prevails in the political. Government has taken the overall dual logic of the nation state in a global economy. (Robinson, 2000). Stiglitz (2002) conceptualizes the current process of globalization as a comprehensive management system without a global government. Institutions like the World Trade Organization, IMF, the World Bank, and others make up a system of global management, but this is far from being a global government and it lacks a democratic mechanism of accountability.

And in the summarizing of innovation notion it should be note that in spite of having many models of the technological innovation process in literature, the process is not vivid (Narvekar and Jain, 2006). Innovations vary widely in terms of nature, scale, degree of novelty etc. However it can be seen that the same basic process is operating in each case (Tidd et al., 2005). In summary, each innovation projects (in all manufacturing or service industry) may have five following stages:

1- Creativity

Searching the external and internal environment and processing relevant signals about threats, opportunities and also ideation.

2- Selection

Preliminary assessment and deciding by considering a strategic view of how the organization can be best developed; to know which of these signals to respond to.

3- Incubation

Transacting to the actual product development and producing the prototype production.

4- Implementation

Translating the potential idea into something new and launching it in an external or internal market.

5- Learning

Learning from progressing and building their knowledge base and improving the ways in which the process is managed.

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