



IdeasViewpoint

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What Innovation Advantage?

There is a romantic notion in North American business that its future lies in design and innovation, while India and China will be the home of less skilled, lower-paying operations churning out the products and services the U.S. comes up with. It is a nifty twist on David Ricardo's seminal 19th century theory of "comparative advantage," which explained why cloudy

and cool England exported woolen goods to sunny and hot Spain, which in turn exported wine to England.

The problem is that the theory didn't ring true when I rode through the streets of Hyderabad, Bombay, and Bangalore on visits to major Indian companies. At Tata Consultancy Services' 23-acre campus in Bombay, for instance, I learned about its central goal of providing customers with not just an acceptable-quality service but also a user experience that delights and surprises. To accomplish this, its tech professionals also are taught how to manage client change.

AT ANY GIVEN TIME on Satyam Computer Services Ltd.'s 120-acre campus on the outskirts of Hyderabad, 1,000 staffers are in intensive training. Plenty of the instruction is eye-glazing, info tech jargon: "J2EE Development using JBOSS." But there's also a "Finding a Better Way" sequence that includes sessions on creative problem solving and managing innovation—hardly low-end stuff. Likewise, ICICI Bank management in Bombay is obsessively assembling talent that exhibits passion, perseverance, and bias for action rather than a willingness to perform routine tasks in front of a terminal. Meanwhile, Infosys Technologies is ramping up recruiting at the world's leading business schools.

These globally oriented outfits are not entrusting all creativity, design, and innovation to "first world" opponents while they huddle over their workstations. True, they have staggering cost advantages over traditional competitors. But that doesn't mean they are incapable of design and innovation. (Their North American rivals just wish they were.) The Ricardian logic, based on so-called natural endowments, simply doesn't apply.

This is not the first time the theory has been applied with checkered results. For decades, America's Big Three carmakers reasoned that Japanese manufacturers would stick with their "natural advantage" in small, inexpensive cars and allow them to dominate the lucrative high end. But Detroit painfully learned otherwise as Japan ultimately became a fierce competitor in almost every market segment.

More recently, companies like Solectron, Flextronics, and Celestica grew spectacularly in the 1990s by making equipment designed fully by big names such as Dell, IBM, and Nortel. But they dismissed Taiwanese manufacturers like BenQ, Hon Hai Precision Industry, and HTC, which designed and built mainly low-end gear for "no-name" PC vendors, as being nothing but unskilled low-cost players. Wrong. The Taiwanese companies actually had more engineers, held more patents, and performed more research and development. And in recent years they've dominated ever-more-sophisticated segments of the industry.

Assuming that capabilities are static and advantages are permanent is a mistake. Natural endowments of climate, location, and mineral resources may be enduring, but company-generated capabilities are quite fluid. It is as much an error to assume that competitors won't attempt to develop a capability because it seemingly conflicts with an existing one—in this case low cost vs. innovation expertise. The general rule: If the opposite of a capability sounds stupid, competitors won't try to acquire it—they'll pursue the reasonable one. For example, the opposite of choosing to be "customer-oriented" is to elect to ignore your customers, a truly daft proposal.

Since lackluster design and staid conformity are obviously bad ideas, it is safe to assume that compelling design and potent innovation are going to be almost universally sought. So North American companies, many of which have pretty dreary design, are wrong if they assume their Asian rivals will pay no attention.

In the end, design is about refusing to accept apparent trade-offs and instead innovating around them to produce creative resolutions. If North American businesses genuinely want to ward off Indian and Chinese rivals, they'd better start by rejecting the notion of an apparent trade-off between low cost on one hand and design and innovation on the other. ■

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