

A remedy for Canada's competitiveness problem

Firms must be more innovative, global for country to be prosperous

PERSONAL VIEW

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The concept of a "brain drain" has been useful in highlighting Canada's economic predicament and has created a lively discussion. At the same time, it has obscured the bigger issue, which is that Canada has a major international competitiveness problem. Unless we solve that problem by embracing innovation and global competitiveness, Canada's relative prosperity — which has fallen dramatically during the 1990s — will continue to decline.

Canada's problem can be understood by looking first at its shortage of strong global "clusters," which are increasingly taking centre stage. Clusters are self-reinforcing groupings of competing firms, supporting suppliers, educational institutions, specialized infrastructure and sophisticated buyers that take shape in specific geographic areas and attract the best human capital from around the globe. Clusters can take shape anywhere, not just in the United States.

California's Hollywood movie business and Silicon Valley are two famous examples. But equally prominent clusters include Dutch cut flowers, Italian footwear, German printing presses, Japanese consumer electronics, Swiss pharmaceuticals and Canadian telecommunications equipment. Lesser-known clusters are located in Grand Rapids, Mich., the global hotbed of office and institutional furniture design, and Carlsbad, Calif., home of the world's leading golf equipment manufacturers.

Firms in these clusters face intense, unrelenting pressure to invest in upgrading their products and processes, and to innovate. Sophisticated consumers pull them along while fierce competition from other cluster rivals pushes them. No investment in uniqueness and innovation is too great.

Within the boundaries of these competitive clusters, people with specialized skills are valued more highly than they are anywhere else in the world. As a result, firms in these clusters draw skilled workers from around the world to their location to help them outdo their rivals.

The clusters are producing a global brain rearrangement more than a brain drain. And, most importantly, they are producing global competitiveness, enhanced productivity and rising standards of living wherever they exist.

In 1991, Michael Porter, John Armstrong and I studied Canada's competitiveness and found Canada's clusters to be shallow and weak, with firms not geared suffi-

ciently at creating global positions.

The old economic order in Canada had led to an array of policies, strategies and attitudes on the part of governments, business, labour and individuals that left our economy ill-equipped for the changes sweeping across the global economy.

We described Canada as a country at a significant crossroads, facing a pivotal decision as to whether — and how — to compete. Eight years later, improvements can be seen, but there have not been enough. Canada's relative prosperity has slipped dramatically. In 1990, we were third among significant countries in the fundamental measure of standard of living — gross domestic product per capita — but by 1997 we had fallen to sixth, passed by Norway, Denmark and Japan.

Had we maintained third place over these seven years, every family of four in Canada would have an additional \$8,600 (U.S.) in income per year — a significant difference in standard of living. Initial numbers for 1998 indicate a further slip to ninth place globally and a reduction in family income of \$9,000.

Why is Canada's relative prosperity falling so precipitously? Moreso than any other reason, it is because Canadian companies have not created unique products using a distinctive system of activities. Partly because of the economy's commodity bias and partly because of long-standing tariff protection, Canadian firms have not pursued strategies of uniqueness and innovation.

For many years, replicating the strategies of firms in the United States and elsewhere, using lower raw material and labour costs, was sufficient to maintain Canada's relative prosperity, but it is no longer enough and this is threatening Canada's prosperity.

Since 1990, our replication economy has cost every family of four \$500 to \$600 a month after taxes in standard of living. And worse, increasingly it is making our very best people significantly more valuable to firms in clusters elsewhere.

What we require is a new generation of Canadian business leaders totally dedicated to innovation and global competitiveness. This generation will understand that replication will not create pow-

erful competitive clusters and that paying local salaries will make it a no-brainer for foreign clusters to bid away our best talent. Canadian managers succeed individually in firms all around the world. We simply need more Canadians to take the helm of Canadian institutions and aim much higher — to be the best in the world, not just the best in Canada. And we need it now, not 10 years from now, because then it will be too costly.

Firms will lead the way, but governments must help. First, governments must recognize that innovation includes business innovation, not just technology innovation. For instance, Dell Computer Corp. represents business innovation, while Intel Corp. represents technology innovation. Canadian governments have stepped up their support for technological education, but have done nothing to support specialized education for a generation of business leaders that must lead in a manner inconsistent with traditional Canadian business practices. We don't have enough such leaders, nor are we producing them at a fast enough rate.

Second, governments must support our clusters and their emergence by creating the infrastructure they need to compete, including specialized education and physical infrastructure, rather than straight subsidies.

Third, governments must subject themselves to the same pressure for innovation as Canada's corporations. Replication won't work for them either. Creativity and innovation on the tax front is particularly critical.

Reduction of capital gains tax and the taxation of options are absolute necessities. And corporate income taxes must come down.

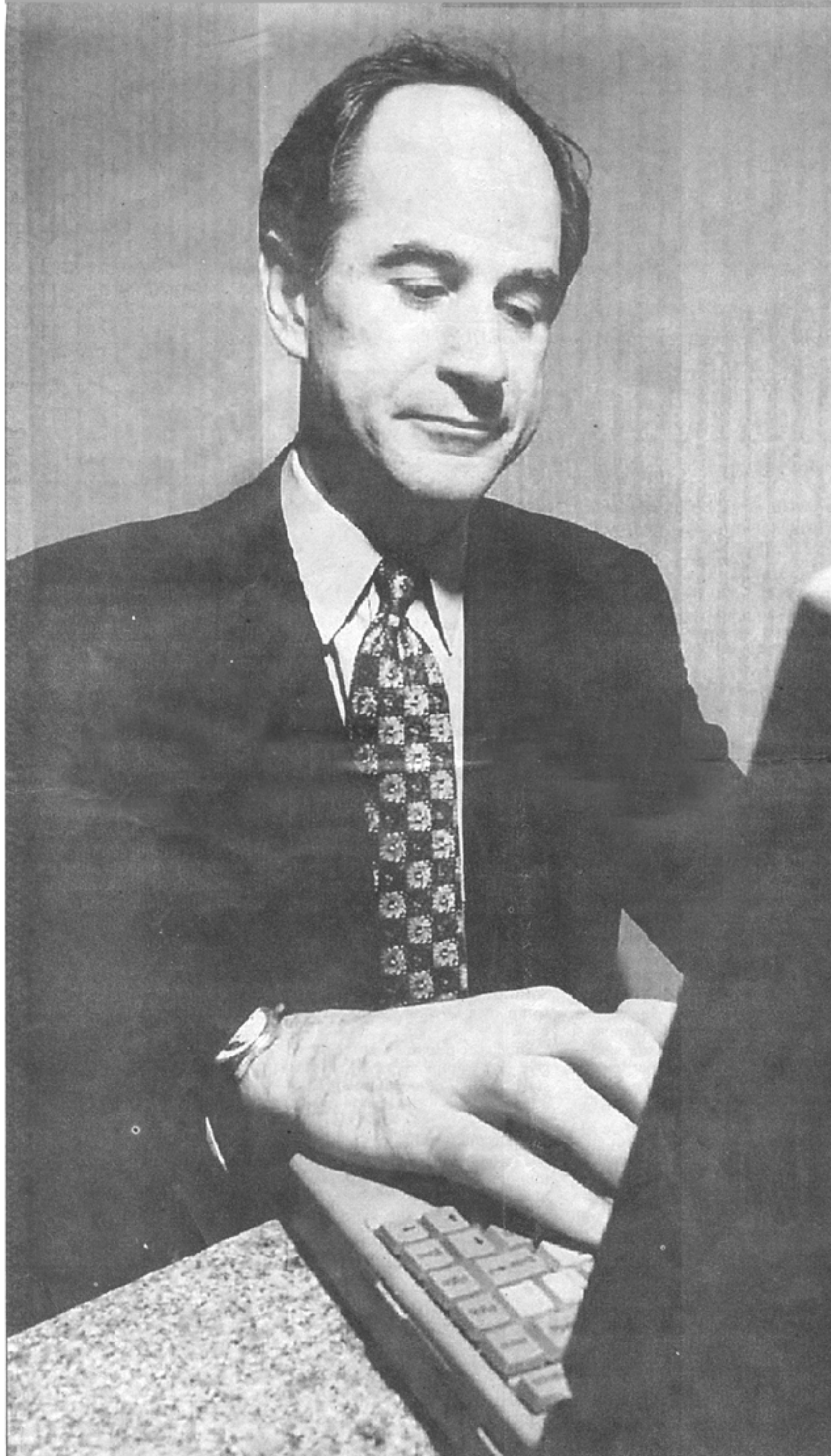
Only if Canadian business and government leaders embrace innovation and global competitiveness can we overcome the challenge of lagging prosperity and, in doing so, render the brain drain a distant memory.

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Report on Business welcomes submissions of 800 to 900 words for its Personal View guest column. Those interested can leave a phone message at (416) 585-5432 or send a fax to (416) 585-5695. The electronic mail address is jbrooke@globeandmail.ca



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