A sure way to lose to India and China: Assume we have the advantage

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There is a romantic notion in North American business that our future lies in innovation and talent, while India and China will be the home of low-cost operations. It is a nifty twist on David Ricardo's seminal early 19th-century theory of comparative advantage, by which he explained why cloudy and cool England exported woollen goods to sunny and hot Spain, which in turn exported wine to England. It is a particularly agreeable argument, in that we each do things that make us happy and keep us comfortable. We have highly paid professionals designing innovative enhancements to products and services, while India and China have lower-skilled and much lower-paid workers crunching out the products and services we design — but happily so, because the wages are attractive by their local standards.

The problem is that, on a recent tour of India, the scenario just doesn't ring true. Instead, one finds globally oriented firms that are not, by any stretch of our imaginations, entrusting all innovation to their "First World" competitors while they huddle over their workstations.

Take **Tata Consultancy Services** in Mumbai. At TCS's gorgeous nine-hectare campus in the middle of the city formerly known as Bombay, I learned about its goal of providing customers not just with acceptable-quality service, but rather a user experience that delights and surprises. To accomplish this goal, its professionals get thorough training at the TCS Management Training Centre on understanding the customer environment, developing new solutions and managing client change.

At **ICICI Bank**, also in Mumbai, the philosophy on market share gain is a bit like the former Soviet Union's philosophy on geography: What's mine is mine and what's yours is up for grabs. ICICI is obsessed with talent — the talent necessary to dominate its market in India as well as expand its earnings from international markets. In talent, what does it look for? In order of priority, it wants passion, perseverance and bias for action — not willingness to perform routine tasks in front of a terminal.

And at any given time on **Satyam Computer Services'** 50-hectare campus on the outskirts of Hyderabad, 1,000 staff members are in intensive training. Plenty of the training is eye-glazing infotech stuff, but there is also a sequence on "Finding a Better Way," which includes creative thinking, problem solving and decision making, and managing for creativity and innovation — hardly low-end stuff.

These leading Indian firms are obsessed with finding, developing and empowering talent to fuel their missions. Each is led by a chief executive officer who is not shy about visualizing a future that could be, and creating it. Each creates prototypes and refines new services until the user is delighted; and then starts all over again.

Indeed, they have staggering cost advantages over their traditional competitors. But that does not mean they are incapable of design and innovation; their North American competitors just wish they were. The Ricardian logic doesn't apply. His theory was based on natural endowments, not talent.

Assuming that capabilities are static and advantages are permanent is a big mistake. Natural endowments of climate, location and mineral resources may be enduring, but company-generated capabilities are quite fluid. Equally, it is an error to assume that seemingly conflicting capabilities — in this case, low cost versus talent and innovation — cannot co-exist. In every industry and across industries, certain capabilities grow to be ubiquitous because they become too important to successful competition for any firm not to develop them.

It is pretty easy to tell whether your company will remain the only one to pursue the building of a particular capability and thereby automatically have an advantage. The general rule is as follows: If the opposite sounds stupid, then your competitors are already or soon will be pursuing the same capability. For example, the opposite of pursuing high quality in your product or service is to pursue low quality, something no company would intentionally pursue.

What does this mean for North American companies competing against Indian companies? It is pretty safe to assume that attention to design and innovation are going to be universally sought in their industries. Consequently, North American companies are in error if they assume they will win because their Indian competitors rely on low-cost labour. If this is not already evident, it will be soon.

That means North American companies need to fight a battle based on cost effectiveness, talent and innovation. They need to put resources behind it. Too many large North American companies have cultures that do not promote innovation. That is going to have to change or they are going to lose on both sides to India and China.

Facing up to the challenge may not feel very comfy for North American companies, but the competition will be healthy for them. It will give them a chance to determine how to better serve their customers. Indeed the dedication to the customer that I saw in Mumbai and Hyderabad was inspiring. Only if North American companies can understand their customers' needs better from up close than their competitors can from half way around the world will they deserve to win.

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Tom Grimmer will return