



Leonardo DiCaprio and Kate Winslet in *Titanic*, directed by Canadian James Cameron. Many Canadians are world leaders in their fields. Our companies, however, are another story.

**W**hy do Canadians as individuals outperform Canadian firms in the global economy?

James Cameron, director of the world's top-grossing movie of all time; Alanis Morissette, creator of the top-selling album in the United States in the past decade; John Polanyi, winner of the 1986 Nobel Prize for chemistry; Jeffrey Skoll, co-founder of eBay, the world's largest auction site; Bob Young, founder of the world's premier Linux supplier. The list of individual Canadians who can be counted among the world's outstanding leaders in their chosen endeavours goes on and on.

But what about Canadian companies leading the world in their chosen endeavours? Very few come to mind: McCain in frozen French fries; CAE in flight simulators; Bombardier in regional jets.

What is it about Canada that enables us to consistently produce outstanding individuals who confidently take their place as leaders on the world stage, while only sporadically producing firms that lead in the global economy? What can be done to enhance the success of our firms?

Like most things, this perplexing outcome did not take shape overnight, but is a culmination of a century of choices that have shaped the environment in which our firms grow and develop.

In many ways, the seminal choice was that of Sir John A. Macdonald, who launched the National Policy in 1879, ushering in a hundred years of Canadian protectionism. Macdonald hoped to broaden the base of the economy by protecting Canadian manufacturers with high tariffs. Rather than providing them with the pressure to continuously upgrade their capabilities, the National Policy encouraged Canadian firms to operate behind the tariff wall, creating an environment that was increasingly surreal and out of step with the world economy.

Later, in 1904, a hopeful Sir Wilfrid Laurier predicted that the 20th century would belong to Canada. He cited an abundance of natural resources and Canada's position as an emerging liberal democracy within the British Empire as competitive advantages in the new world economy. But while an abundance of natural resources helped to underpin Canada's prosperity, it also helped reinforce the problematic aspects of the National Policy. Able to export effectively and finance our imports by harvesting our plentiful and cheap natural resources, we tended not to build internationally competitive firms in the manufacturing and service sectors, or even globally oriented firms in the resource sector.

With tariff policies relieving the pressure of international competition, and with abundant natural resources driving export revenue, what could possibly compel our firms to innovate? Perhaps demanding customers. Unfortunately, a combination of our legendary Canadian politeness and the absence of choice due to tariff barriers caused Canadians to be less demanding consumers. Too often, we have accepted inferior quality rather than

## A great crew, but the ship's sinking

*At the root of our decline in prosperity is an economy that replicates rather than innovates, argues business specialist Roger Martin*

complain and push our local firms to innovate and improve.

Further, Canada sought to keep together an uneasy coalition of provinces by encouraging regional diversification, subsidizing the spreading of industries across the country. This created an environment that did little to encourage the growth of reinforcing clusters of firms supported by specialized infrastructure and educational institutions. Isolated in their own worlds, firms such as Algoma Steel and Cape Breton Steel lacked a supportive environment in which to upgrade and innovate.

Paradoxically, Canada made choices in other areas that enabled us to create the exemplary culture from which so many exceptional and globally successful individuals have sprung. Like the United States, Canada opened itself to a wave of settlers who brought with them the entrepreneurial zeal of people so committed to creating a better life they left their home countries behind. Throughout the 20th century, Canada was a leader in educational spending, giving its citizens the thinking tools required to succeed. Canada also pursued policies aimed at encouraging a tolerant and multicultural environment.

On the cusp of a new millennium, Canada is in an intriguing position. We are valued internationally as an exemplary global citizen. Our people are succeeding abroad in foreign firms and in a variety of fields outside business. But too few of our firms are succeeding globally, and it's starting to show.

Laurier's prediction didn't take into account the impact that globalization would have on the Canadian model. Late in the 20th century, globalization began to expose long-developing weaknesses in Canadian foundations of prosperity, and laid out a challenge for us all.

In 1991, after more than 20 years of

standing third in the world in gross domestic product per capita (the best overall measure of relative prosperity), Canada slipped to fifth, and has vacillated between fifth and seventh ever since. Had we simply maintained our standing at third, every Canadian family of four would have had \$13,000 more, or about \$650 a month after tax in 1998. This represents a huge drop in standard of living relative to 1990. That drop would expand to \$30,000, with a world ranking of 15th, if the Organization for Economic Co-operation and Development judged the purchasing power of our currency at a more realistic 75 cents rather than 85 cents (U.S.).

At the root of the decline in relative prosperity is a Canadian economy that to a greater extent than other leading economies replicates rather than innovates. Presiding over a resource-rich and relatively closed economy, Canadian governments of the 20th century did not feel pressed to pursue innovative policies in the macro-economic arena or to create a vibrant micro-economic environment for business.

Rather than concentrating on creating an environment that breeds globally competitive firms, governments obsessed about how to divvy up the existing pie — between rich and poor; east, central and west; labour, shareholders and government. Faced with a micro-economic environment significantly devoid of pressures for upgrading, innovation and global expansion, Canadian firms pursued policies of replicating the strategies of others and merely expanding across Canada.

Nine years ago, after extensive research on international competitiveness, innovation and firm strategy, Harvard Business School Professor Michael Porter and I released a study, *Canada at the Crossroads*. We identified an urgent need to raise global competitiveness to the highest pri-

ority in Canadian policy. To avoid an inexorable decline in the relative Canadian standard of living, we said Canada would have to improve the micro-economic environment for business and enhance the sophistication by which our firms compete. It hasn't happened yet. And it must.

The micro-economic environment must feature a combination of pressure from strong rivalry and sophisticated and demanding customers. And it must offer support from specialized infrastructure, skilled people, and the presence of related and supporting industries.

Key policy changes such as the difficult and critical decisions to pursue free-trade agreements have sharpened our game. And I'm encouraged by emerging industrial clusters — telecommunications equipment in Ontario's Kanata area and automotive parts in the Kitchener-Waterloo/Cambridge area. Here, significant aspects of the required pressure and support are present.

Governments must promote the attractiveness of the micro-economic environment for business through a competition policy that would force firms to compete; strong consumer and environmental protection; and heavy investment in specialized education, especially education that feeds skilled graduates into the emerging clusters.

To back this up, we'll need macro-economic policies that maintain low and stable inflation and low taxation of work and investment. There's plenty of room for creativity and innovation in tax policy as Canadian governments face the challenge of converting a decidedly inferior and counter-competitive tax structure into an innovative, leading-edge structure that protects Canada's policy objectives and spurs a new wave of innovation and upgrading. We won't get the boost we need if we merely copy tax policies employed elsewhere.

Finally, and perhaps most important, our firms must become obsessed with innovation rather than replication, and with global success rather than Canadian success. Relentless innovation and upgrading of productivity are the keys to international competitiveness in the modern economy. Nortel and JDS Uniphase in telecommunications, or Four Seasons Hotels and Butterfield & Robinson in travel and hospitality show it certainly can be done. They compete globally and on the basis of unique products and processes. Not one of them would say it is easy — but the rewards will be many.

Only when both businesses and governments choose to challenge themselves to new ways of thinking and competing will we fulfill the hopes of Sir Wilfrid Laurier, and christen a century that truly belongs to Canada. If we start work now, the 21st century could be ours, but only if it belongs equally to its individuals and its firms.

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