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.

More recently, companies like Sseed, 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.

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