

■ BUSINESS

# Innovation crucial to rising living standards

**I**N 1991, Michael Porter, of the Harvard Business School, and Roger Martin, then-president of the Monitor consulting group in Toronto, produced a sweeping report card on Canada's economic prospects, *Canada At The Crossroads*.

The two generated headlines at the time, warning that Canada had to become much more innovative or face a declining standard of living.

This weekend, Porter and Martin, who is now dean of the University of Toronto's Rotman School of Management, produced an update. It is not flattering, because it suggests Canada has largely wasted the 1990s.

The report is even more a criticism of Canada's business executives than of government policy-makers.

In the report, delivered yesterday to a symposium in Ottawa of the Centre for the Study of Living Standards, the two recall that in 1991 they characterized Canada as "facing a choice of whether to tackle serious weaknesses in its microeconomic fundamentals of competitiveness or accept a lower standard of living."

The past nine years, the authors say, "show that Canada pursued the latter road."

While Canada has done an excellent

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job of eliminating the budget deficit and achieving low inflation, the country has been much less effective in dealing with microeconomic issues, Porter and Martin contend.

"A favourable macroeconomic context only creates the potential," the report says. "Wealth is actually created by the microeconomic foundations of competitiveness: the workers, firms, markets and associated institutions in which competition takes place."

Human resources and investment in education, spending on fundamental and applied research and development and the state of the physical infrastructure all matter, as do the availability and quality of local suppliers and competition in the quality of

goods and services in the local market. The quality of management is also an important element of the microeconomic environment.

Porter and Martin are especially critical of Canadian business leaders for pursuing a policy of replication, or copying what others are already doing, instead of embracing uniqueness, innovation and differentiation in products or services.

"Only by migrating from a replication economy to an innovation-driven economy will Canada prosper in the 21st century," the authors warn.

Many leaders in Canada point to growing exports as a sign that Canadian companies are doing well. But nearly 90 per cent of Canada's exports go to the United States, offering little evidence that Canadian companies have adopted a global view.

Moreover, Canada's strong increase in exports could be owing to a sharply devalued dollar since 1991. As Porter and Martin emphasize: "Selling a nation's goods and services at lower prices is not the formula for producing rising prosperity."

On top of that, 44 per cent of Canada's exports still consist of natural resources, "producing products that are steadily falling in value," while the

U.S., Swiss, Danish and Japanese economies are increasingly weighted to firms competing through high-value innovation.

Uniqueness and innovation are the answers for Canada, the two experts say.

Canadian companies must attain global competitiveness, and compete effectively around the world, even if in a narrow niche. Companies must establish brands, invest heavily in R & D, own their foreign distribution and pursue global-scale economies.

Governments must be innovative as well, Porter and Martin stress.

"In public policy, matching to keep pace with another jurisdiction's tax cuts or road system is relatively easy to justify. Distinctive policies are more difficult but more rewarding."

Porter and Martin are especially concerned about government cutbacks in spending on universities and colleges.

Canada "needs to make an unprecedented level of investment in specialized education to support its industries."

The authors also urge greater government support for industry clusters, better public recognition of successful global pioneers in the business com-

munity, intelligent deregulation and corporate tax changes, such as making the marginal tax on investment in upgrading as low as possible and cutting capital gains taxes to encourage risky investments in innovation.

In the end, it is a commitment to innovation and bold strategy that will put Canada on the road to success in the 21st century, the two emphasize.

"The road will be profoundly worrisome, even frightening at times, but is necessary for Canada to prosper and not continue to slowly decline relative to other nations."

It is a tough warning for Canada.

And while Porter and Martin suggest that all Canadians will have to change their attitudes, the biggest challenge is for those who lead our governments, corporations and other institutions.

Canada's problems can be traced to inadequate leadership and management at the top. It may be that to do well, we need to retire many of those in leadership positions today and replace them with new and more energetic blood.

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