

In global market, keep innovation close to home

The United States could be on the cusp of the greatest economic challenge in its history. You may wonder what else is new. But consider the latest wave: outsourcing innovation.

In its March 21 cover story, *Business Week* offered a host of examples to illustrate the following thesis: Most Western corporations that outsourced manufacturing in the '80s and '90s insisted that important research and development would remain in-house. That pledge is now passé.

Current R&D spending isn't yielding enough bang for the buck. Relentless downward pressure on prices means companies will either have to cut R&D costs or increase marketable output.

This has led to rethinking what, if anything, has to be done in-house. The current model calls for guarding a sustainable competitive advantage in the form of control over the latest technologies, the look and feel of new products, and customer relations.

A line is being drawn between "core intellectual property" and "commodity technology." Tasks based on artistry, creativity and empathy with the customer

are above the line. Tasks that are routine, computer-like and can be boiled down to a spec sheet are migrating offshore.



Guest
Opinion

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The divide between mission-critical R&D and commodity work is sliding each year, and the downside of getting the balance wrong is steep. Risks include fostering new competitors that begin producing their own designs, and brand-name companies' loss of incentives to keep investing in new technology.

The latter risk sends a message to investors. Ownership of design strikes close to the heart of a corporation's intrinsic value. "If innovation starts residing in the suppliers, you could incrementalize yourself to the point where there isn't much left," notes Boston Consulting Group Senior Vice President Jim Andrew.

Reflecting this, it is taboo for brand-name companies to talk openly about outsourcing design. Ominously, price competition is causing these companies to take the product directly from firms in Taiwan, China and India rather than participating in the design.

As in previous waves of outsourcing, optimists believe large Western firms

can remain leaders in design and innovation by directing a collaborative process and orchestrating global networks. "Yet," concludes *Business Week*, "if they lose their technology edge and their touch with customers, they could be tomorrow's great shrinking conglomerates."

What to do — and not do? With regard to the latter, *The New York Times'* foreign affairs columnist Thomas Friedman noted recently that the president and Congress cut the National Science Foundation budget by \$105 million. Friedman quoted U.S. Rep. Vern Ehlers of Michigan, one of the few dissenting Republicans:

"This decision shows dangerous disregard for our nation's future at a time when other nations continue to surpass our students in math and science and consistently increase their funding of basic research. We cannot hope to fight jobs lost to international competition without a well-trained and educated work force."

What to do? Consider this:

Intel Corp. just named 40 high school finalists in its annual Science Talent Search. Each of the 40 will receive a scholarship. Run by Westinghouse before 1998, STS named winners who went on to gain six Nobel prizes, three Medal of Science awards, and 10 "genius grants" from the MacArthur Foundation.

It would be hard to find a stronger talent pool as a sample of our future capacity to innovate. Here are fields of study gaining the highest response rates from the Intel top 40:

- alternative energy sources (37 percent);
- stem cell research (30 percent);
- environmental protection technology (28 percent);
- sustainable development technology and strategy (27 percent); and
- nanotechnology (21 percent).

Arguably, there is no better place than the United States for bright minds to home in on tomorrow's priorities. The fields named by the top 40 are tough to beat as target areas where the United States might sustain a leadership role in developing products that will command a global market.

We continue to have a competitive advantage in innovation, but our competition is smart. We must be equally intentional and strategic if we want to keep our edge in the new era of collaborative advantage.

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