

Canada's Innovation Imperative

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FORMING THE FUTURE OF FINANCE

A 20 year look back: “Canada at the Crossroads”

- **1991 Study co-sponsored by the Government of Canada and the Business Council on National Issues (now the CCCE)**
- **Applied the framework from Porter’s “Competitive Advantage of Nations”**
 - **Factor Conditions**
 - **Demand Conditions**
 - **Related and Supporting Industries**
 - **Firm Strategy, Structure and Rivalry**
- **Focused on both macro-economic and micro-economic factors**

Our findings were not hopeful...

- **Canada was at an economic “crossroads”**
- **Prosperity was at risk**
- **Proximity to the US and a history of insulation from international competition had combined to allow enviable economic performance**

However..

- **These same factors had led to an array of policies, strategies and attitudes that left the economy in many respects ill-equipped to respond to a changing competitive environment**

We identified issues along two dimensions...

- **Significant barriers to upgrading in Canadian industry that would make the move to more significant sources of advantage more difficult**
 - In fundamental areas such as science, technology, education and training, among others
- **The macro-economic environment was not supportive of investment**
 - Chronic deficits
 - Total debt/GDP was the third worst in OECD



In short, we were facing a collective pay cut

What's happened since then: the Good News

Category	Then	Now
Debt / GDP	3 rd worst in OECD	13 th best of 28 OECD nations
Deficits / GDP	8%, after 8 years of deficit	3% but after surpluses in 6 of the last 10 years
Corporate Taxes (combined)	42% - Among the worst	28% going to 25% - Among the best



Governments in Canada have made progress

What's happened since then: the Bad News

Category	Then	Now
Export Diversification	77% to USA	83% to USA
Export Sophistication	52% unprocessed or barely processed	62% unprocessed or barely processed
Business Investment in R&D (% of GDP)	0.76% : 40% of US	0.99% : 49% of US
Annual ICT Investment per worker	65% of the US	50% of the US
Labour Productivity in Business Sector	86% of the US	71% of the US

What's happened since then: the Upshot...

... We did take a collective pay cut:

	<u>Then</u>	<u>Now</u>
Prosperity Gap with the US	\$6,200	\$9,500

Closing the gap: the onus has now shifted

- **In 1991 many factors inhibited innovation**
 - Fiscal situation
 - Tax policies
 - Education and training
 - Industry structure
 - Etc.
- **By 2011, many of these “foundational” factors have been vastly improved**



It is now time for firms in all sectors to move innovation to the forefront of their strategic agendas

How to do this? 4 ideas...

1. Develop strategies and approaches to serve your “hardest” customers

- Hardest is not necessarily most sophisticated
 - E.g., “Frugal Innovation”: Tata’s Nano car for \$2,200, GE’s \$1,000 ECG unit
- Requires deep understanding of customer needs and a relentless drive to serve them

How to do this? 4 ideas...

- 1. Develop strategies and approaches to serve your “hardest” customers**
- 2. Drive an innovation mindset into all levels of the organization**
 - **A corporate culture that prizes and nourishes innovation, e.g.,**
 - **3M**
 - **Google**
 - **Create ways to foster innovation, e.g.,**
 - **Cross-functional design groups at BMW**
 - **Employee brainstorming sessions at Southwest Airlines**
 - **GE’s toolkits and processes to evaluate, finance and monitor innovation**

How to do this? 4 ideas...

1. **Develop strategies and approaches to serve your “hardest” customers**
2. **Drive an innovation mindset into all levels of the organization**
3. **Connect with universities, research centers, and entrepreneurs focused on your industry**
 - **35% of P&G’s new products in market were developed at least partly outside the company**
 - **MARS Discovery District**

How to do this? 4 ideas...

1. **Develop strategies and approaches to serve your “hardest” customers**
2. **Drive an innovation mindset into all levels of the organization**
3. **Connect with universities, research centers, and entrepreneurs focused on your industry**
4. **Make innovation a board-level priority**
 - **An explicit part of the agenda around competitive advantage**
 - **Identify and review relevant metrics (e.g., percentage of revenue from new products, etc.)**

Canada's Innovation Imperative...

- **There has never been a better time for Canadian businesses to make innovation a key element of their business strategies**
- **We have great examples already, so we know it can be done**