



# The future of productivity

An eight-step game plan for Canada

Presentation to the Institute for Competitiveness  
and Prosperity

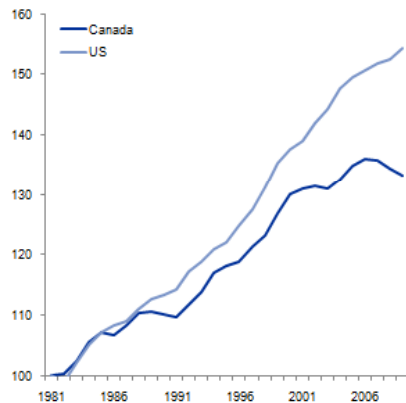
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# Deloitte has invested significant time and energy in the study of Canadian productivity

Over the last year Deloitte has dedicated resources to three streams of analysis to help inform our understanding of Canadian productivity and its primary drivers:

## Secondary Research & Analysis



- Reviewed productivity-related materials from leading academics, economists, researchers and think-tanks
- Conducted analysis on publicly available and proprietary datasets to provide additional insight into potential issues

## Interviews



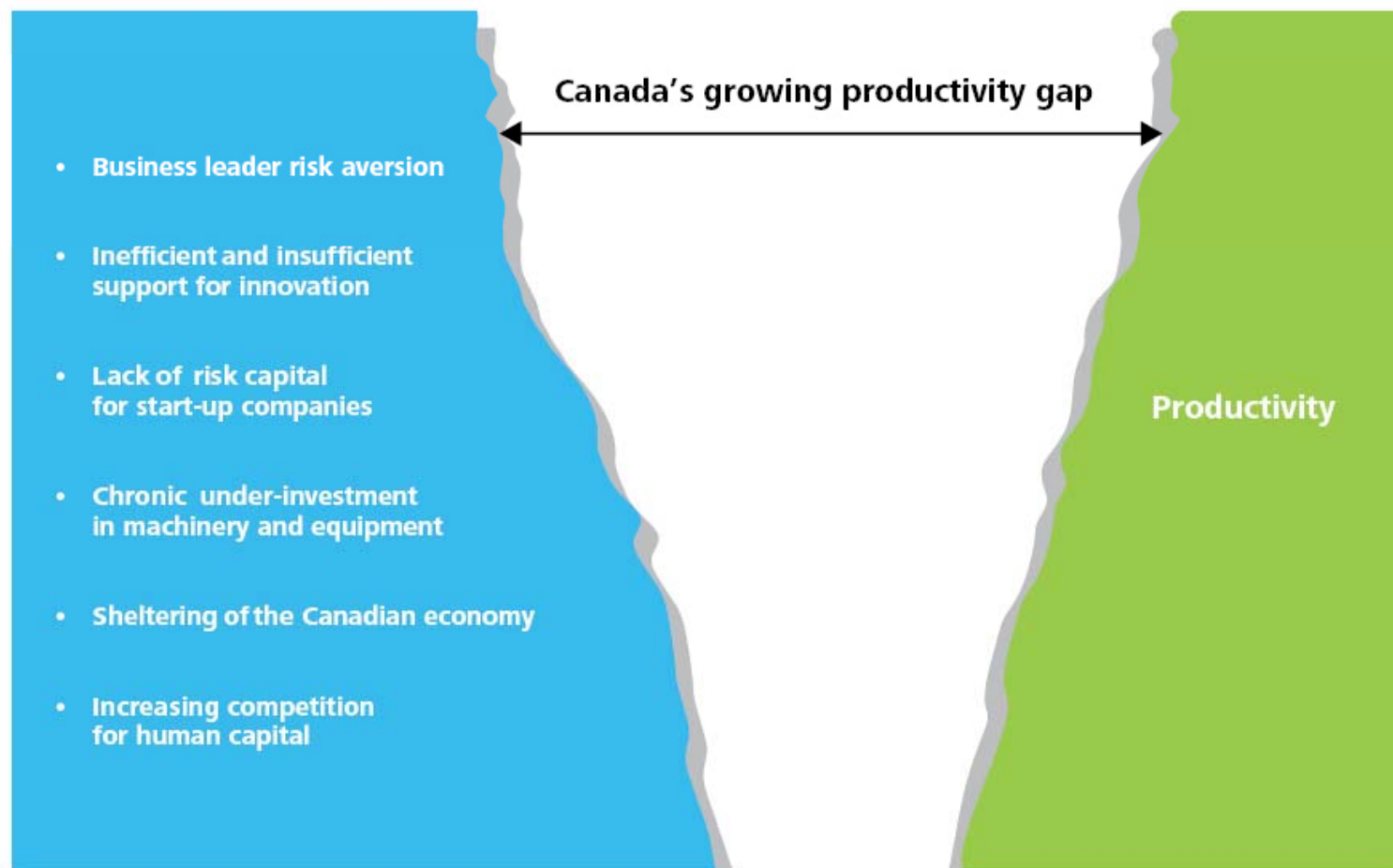
- Interviewed leaders in the Canadian start-up, angel and venture capital communities
- Interviewed selected Technology Transfers Offices in Canada and the United States
- Interviewed selected Canadian academics

## Primary Research

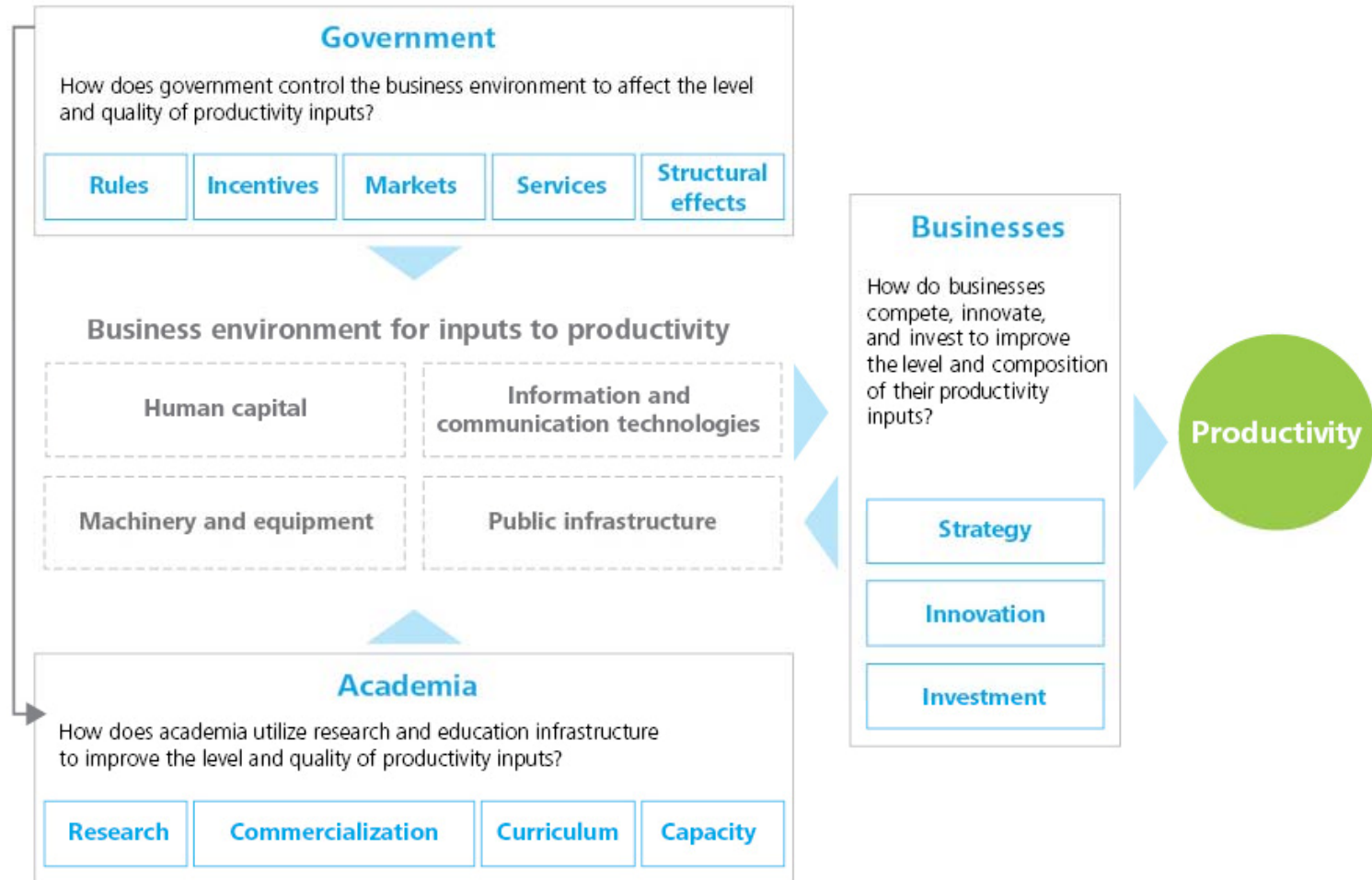


- Engaged a leading market research firm to conduct a survey of Canadian and American business leaders
- Focused survey on identifying attitudinal differences towards risk and innovation

## We have identified six issues that Canada should focus on addressing in order to close the productivity gap

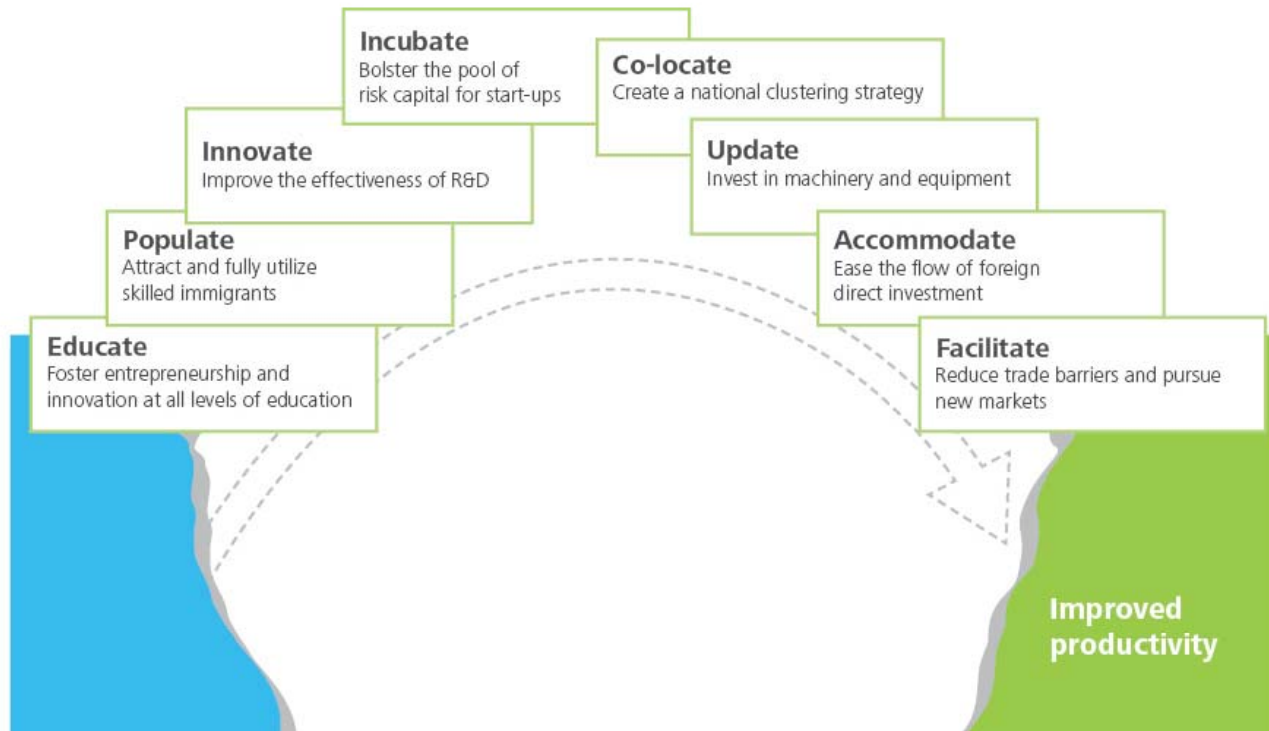


# We believe that to address the issue of productivity businesses, academia and government must act in a deliberate and collaborative fashion



# Deloitte has put forward eight recommendations we believe are necessary to improve Canada's productivity in the near-term, and to foster ongoing productivity growth

In order to achieve meaningful impacts on Canadian productivity, businesses, academia and government will need to act in a deliberate and collaborative manner across eight key recommendations:



Each recommendation enables the success of others creating a self-reinforcing system for driving improvement in Canada's productivity

# Educate: Ensure our education system fosters entrepreneurship and innovation at all levels

In order to foster greater general business and managerial skills in the broader population, Deloitte recommends the following:

**Ensure K-12 education provides students with general business, managerial, and risk evaluation skills**



Skills
Business
Managerial
Risk

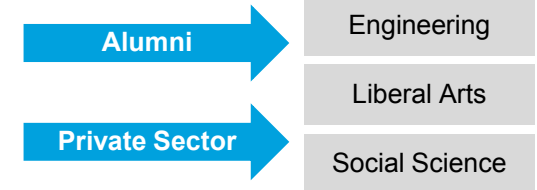
- Equips the next generation with an expanded awareness of entrepreneurial opportunities and seeds the skills to intelligently measure and manage risk

**Encourage post-secondary students to combine their specializations with business and managerial study**



- University and college students are able to augment their skills by integrating their field of specialization with enhanced business knowledge

**Leverage alumni and businesses to enrich the education experience**



- Provides mentorship to students and practical illustrations of potential career paths to leverage studies across various specializations

## Key Considerations

- It is important to ensure the continued availability and accessibility of post secondary education, particularly in the fields of math, science, engineering and business; this accessibility must include continued promotion of the return on investment from post-secondary education
- Leveraging alumni and business through mentorship will support the development of quality relationships that can form the foundation for increased collaboration between business and academia

# Populate: Re-tool the immigration system to attract and fully utilize skilled immigrants

In order to attract and utilize skilled immigrant talent, Deloitte believes the immigration process will need to be recalibrated in the following ways:

**Streamline the process for, and targeting of highly desirable economic immigrants**



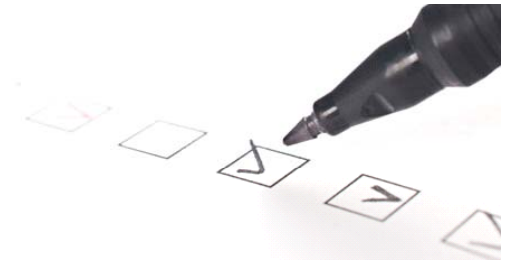
- Ensures Canadian regions and businesses have timely access to immigrants with desired skills

**Improve foreign credential recognition**



- Allows Canada to fully utilize the skills and credentials of immigrants admitted to Canada

**Align immigration entrance criteria to the credential recognition standards**



- Coordinates the criteria used to evaluate economic class immigrants with the skills they will be able to practice in Canada

## Key Considerations

- Trade and professional associations will need to be engaged in order to ensure that clear standards and /or processes exist for the accreditation of qualified immigrants
- Citizenship and Immigration's backlog of over 800,000 applications must be cleared in order to accelerate processing times
- The standardization of professional and trade certification criteria across provinces would greatly improve mobility of Canadians and simplify credential recognition for immigrants

# Innovate: Improve the effectiveness of R&D

In order to improve the level and efficacy of Canadian research and development, Deloitte recommends the following:

**Ensure that adequate support exists for the development of Canadian research**



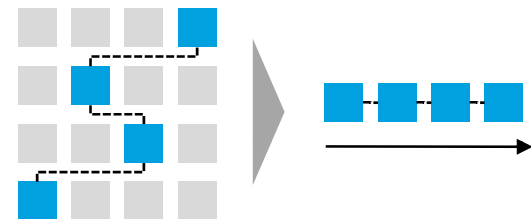
- Ensures the necessary patenting, development and marketing are in place to build on the strong research foundations of Canadian Universities and government labs

**Align tax credits and grants maximize business expenditure on R&D and commercialization**



- Ensures that R&D support is designed to meet the needs of firms at different stages of the innovation lifecycle and is accessible to firms of all sizes

**Streamline bureaucracy for start-ups and small businesses accessing government funds and services**



- Allows startups and small companies to spend more time managing their business rather than navigating government programs

## Key Considerations

- It is also incumbent upon businesses and academic institutions to ensure appropriate mechanisms exist for the private sector to identify needs which can then be connected with relevant university research
- Government funding programs should be permitted to manage their portfolio of projects strategically. Programs should be provided longer-term funding commitments, and permitted to carry funds year-over-year where appropriate

# Incubate: Bolster the pool of risk capital for start-ups

In order to increase the availability of risk capital, Deloitte recommends the following:

## Create an Angel Investment tax credit



- Stimulates capital investment in seed stage and early-stage start-ups through a comprehensive federal tax credit program

## Support growth in the pool of available venture capital



- Supports the growth and sustainability of an active Canadian early stage capital community

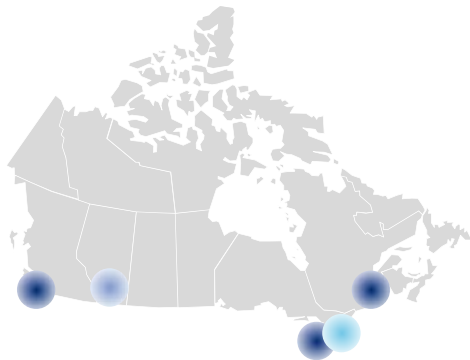
## Key Considerations

- Where governments choose to invest in or support early stage funds they must ensure that any conditions they place on this support does not limit the ability of these funds to maximize returns and be globally competitive
- Mechanisms should be developed to encourage and facilitate cash inflows, whether from government, foreign, or retail investors
- Consideration should be given to creating a vehicle that compliments, rather than competes with existing funds (e.g., a government administered fund of funds which invests in private VCs rather than businesses)

## Co-locate: Create a national clustering strategy

Deloitte believes that a national clustering strategy is required in order to increase productivity and drive innovation in key fields.

**A national strategy will enable Canada to realize the benefits of clustering**



- Clustering supports the growth of high productivity, high innovation areas where related firms can actively collaborate

**Cluster development must be led by local businesses, governments and academia...**



- Local stakeholders must collaborate to develop strategies to support the emergence or growth of clusters

**... their strategies must be supported by Federal and Provincial governments**



- Federal and provincial governments must provide the necessary resources and infrastructure to support local cluster strategies

### Key Considerations

- Cluster development requires a long term vision, with the growth of world class clusters measured in decades, not years
- There must be a strong rationale for each cluster that builds on existing talents, industries and or natural advantages (e.g. geography)

# Update: Invest in machinery and equipment

Deloitte believes Canadian businesses must invest in machinery and equipment now to capitalize on positive market conditions.

**Low pre-inflationary prices due to the recession**



- Due to recessionary effects, prices continue to be low, but may rise due to inflationary pressures during the recovery

**Strong Canadian dollar**



- The Canadian dollar is at parity with the U.S. dollar making the cost to acquire equipment produced in the United States less expensive

**Government tax incentives on capital investments**

**20.5%**

**Marginal Effective Tax Rate on Capital Investments in 2010\***

- Tax reform in Canada has reduced the marginal effective tax rate on capital investments making it the lowest in the G7

## Key Considerations

- Canadian managers must consider not only investments in both plant and equipment but also information and communication technologies which have been dramatically underinvested in
- As demographic shifts reduce the proportion of working age Canadians the price of labour is expected to rise making high levels of M&E investment even more important to the competitiveness of Canadian businesses

\* Source: University of Calgary

# Accommodate: Encourage the flow of foreign direct investment

Deloitte believes that changes are required to ease the flow of foreign direct investment into Canada:

**Increase the transparency of the net benefit test**



- Provides clarity to acquirers and acquirees on the terms and conditions of foreign direct investment in Canada

**Explicitly identify any “strategic” industries or companies that the government intends to protect**



- Reduces the cost and potential brand damage to businesses (both Canadian and international) and Canada from blocked investments

**Expose “strategic” and protected industries and companies to competitive market forces**



- Ensures that all Canadian industries are adequately exposed to competitive forces for the benefit of end consumers

## Key Considerations

- Despite the low number of transactions that have been rejected under the Investment Canada Act, the high profile nature of these cases has fostered an impression that Canada may not be “open for business”
- If acquisitions in certain sectors are to be subject to more rigorous review processes, clarity should exist regarding the industries, companies, and intellectual properties to be designated strategic under the ICA, and to what additional rigours transactions will be subject to
- Canada should also conduct regular reviews of sector specific limitations on foreign ownership to ensure that legislation protecting telecommunications, banking, broadcasting, etc. continue to serve the best interests of Canadians

## Facilitate: Reduce trade barriers and pursue new markets

In order to enhance Canada's global competitive positioning, Deloitte recommends the following:

**Businesses need to reframe their point of reference and look beyond the Canadian market**



- Allows Canadian businesses to target markets of a sufficient size through the pursuit of global consumer markets, rather than limiting their visions to Canada

**The Canadian government must reduce barriers to trade and establish trade agreements with emerging economies**



- Creates the opportunity for Canadian businesses compete more easily in developed and developing economies around the world

**Existing protectionist policies must be continually re-examined**



- Guarantees that the government considers the impact protectionist policies may have on inhibiting the creation of additional free trade agreements

### Key Considerations

- There is a backlog of free trade agreements which the government is currently negotiating, several of which are delayed due to interprovincial trade barriers, subsidies, tariffs, and / or other industry protections
- With the growing strength of non-US economies, the government must ensure free access for Canadian businesses to emerging economies
- It is important not to overlook those barriers to trade that exist within our own country, and as such provincial governments should also look to reduce inter-provincial trade barriers

**Deloitte.**