

Institute for Competitiveness & Prosperity

**Annual Report 2002-03
For the Year Ended April 30, 2003**

**Institute for Competitiveness & Prosperity
Annual Report 2002-2003**

Message from the Chair3

The Institute for Competitiveness and Prosperity in its Second Year4

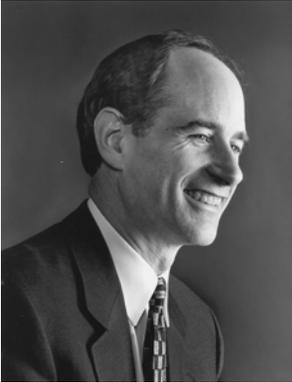
Accomplishments and Commitments7

Members of the Board of Directors of the Institute for Competitiveness & Prosperity
.....10

Members of the Task Force on Competitiveness, Productivity and Economic
Progress11

Financial Statements and Auditor’s Report13

Message from the Chair



I am pleased to present the Annual Report for 2002-03 of the Institute for Competitiveness and Prosperity. It provides an overview of our second year.

The Institute's prime purpose is to establish and maintain the Task Force on Competitiveness, Productivity and Economic Progress which was announced in Ontario's 2001 Speech from the Throne.

In 2000 Michael E. Porter and I wrote that Canada needed to take bold steps on the path of innovation. By early 2001 there were signs of increasing recognition of the need for change, the announcement of the Task Force being one such sign.

The Task Force and the Institute have played important roles in the ongoing discussion and debate throughout Ontario and Canada on issues of competitiveness and prosperity. We have identified a peer group of North American jurisdictions for Ontario against which Ontario's progress can be measured and monitored. We have set out an indicator system for Ontario's competitiveness and prosperity and have identified Ontario's "prosperity gap" within this framework. The Task Force has proposed to Ontarians a goal of eliminating our prosperity gap within ten years. In addition, the Task Force and the Institute have set out areas for action by Ontarians if we are to close this gap.

Our work has attracted the interest of economic observers and policy makers as well as the public at large. Our approach to the questions of competitiveness and prosperity has also attracted interest outside Ontario.

In our third year, 2003-04 we will continue our research and communicate our findings to Ontarians to ensure we are having a significant influence in increasing Ontario's competitiveness, productivity, and capacity for innovation.

Roger L. Martin
Chairman of the Board

The Institute for Competitiveness and Prosperity

In her April 19, 2001 Speech from the Throne, the Honourable Hilary M. Weston, Lieutenant Governor of the Province of Ontario stated:

... Economic strength and quality of life are inseparable. Only a strong economy provides the means to support important services such as accessible health care and quality education.

... Growth - growth in the economy, growth in jobs - remains your government's top priority... A new Task Force will measure and monitor Ontario's productivity, competitiveness and economic progress compared to other provinces and the U.S. states.

The independent Task Force, led by Roger Martin, Dean of the Joseph L. Rotman School of Management and one of Canada's leading experts on competitiveness, will report to the public on a regular basis.

On October 17, 2001 Premier Mike Harris, joined by Bob Runciman, Minister of Economic Development and Trade, announced the names of the members of the Task Force (see page 11). The Premier stated:

"This Task Force is about protecting our economic growth and making sure that even more people will be able to go home and say, 'I got the job'. This group will help Ontario win jobs globally and keep them locally. If a company is closing operations in four locations worldwide and leaving one open, I want that one open facility staying right here in Ontario. Ultimately, the success of this Task Force will be measured by the number of jobs it helps to create in communities across Ontario."

Minister Runciman added:

"We've improved Ontario's competitiveness by lowering taxes, supporting research and development and eliminating 1,700 unnecessary regulations. But we have more to do -- this group's work will help us be the best in the world at getting companies to come, to stay and to create jobs in our communities."

In the period between the Throne Speech and the announcement of the names of the members of the Task Force, the government approved the establishment of the Institute for Competitiveness and Prosperity whose principal purpose is to maintain the Task Force.

Administration and Governance

The Institute was incorporated in Ontario on August 28, 2001 as a not-for-profit corporation. Roger L. Martin is Chairman of the Board. The other Directors are listed on page 10 of this report.

The Institute has adopted the following Vision and Mission statements:

Vision

Through the provision of support to Ontario's Task Force on Competitiveness, Productivity and Economic Progress, the Institute measures and monitors Ontario's competitiveness compared to other provinces and the U.S. states and is respected for its regular reports to the public.

As a result, governments, firms, organizations and individuals in Ontario have access to a policy framework for increased competitiveness and prosperity that is second to none.

Mission

1. To establish and maintain a Task Force to:
 - (a) measure, analyze and report on the competitiveness, productivity and economic progress of the Province of Ontario in comparison to other jurisdictions;
 - (b) Make such recommendations for action on the part of governments, businesses and others as the Task Force may consider advisable;
 - (c) Confer and consult with the public, interested parties and experts regarding the methods for measuring, analyzing, reporting upon or making recommendations in respect of the competitiveness, productivity and economic progress of the Province of Ontario;
 - (d) Encourage, educate and build awareness of competitiveness, productivity and economic progress indicators for the Province of Ontario; and
 - (e) Conduct such other activities which are consistent with the foregoing.

2. To conduct activities and carry out such other complementary purposes as are consistent with the establishment and maintenance of the Task Force.

Core Businesses

The incorporation papers of the Institute provide the framework for identifying four core businesses which are the focus of this business plan:

1. Secretariat Function:

To establish and maintain a Task Force on competitiveness, productivity, and economic progress.

2. Economic Policy Research Function:

To create a framework to assess Ontario's competitiveness, productivity and economic progress and to develop indicators to measure Ontario's competitiveness, productivity and economic progress compared with the other provinces and the U.S. states.

3. Consultation and Communications Functions:

To consult, raise awareness and educate the public and a broad range of stakeholders in all regions of the province on competitiveness issues in general and the work of the Task Force in particular.

To publish interim, special and annual reports on behalf of the Task Force.

4. Administration Function:

To maintain an office, and to provide a range of services, in support of the functions of the Institute.

Accomplishments and Commitments

The Institute met or exceeded all of the key commitments identified in the Business Plan for 2002-03 which was approved by the Board on July 25, 2002.

Deliverables to April 2003 (Fiscal Year 2002-03):

Task Force 1st Annual Report to the public of Ontario published in November '02;

Institute 1st corporate Annual Report approved by the Board and available on ICP Web site;

Summary of outcomes of stakeholder consultation prepared for Task Force;

Working Paper #3 on cities published in June;

Working Paper #4 on attitudes to be published in September;

Research commissioned by Institute – Trefler, Baker & Florida, Gertler – published on Institute for Competitiveness & Prosperity Web site.

The Global Competitiveness Report

The Global Competitiveness Report, which has been published annually since 1979, is a worldwide research project, completed in cooperation with Harvard University's Michael Porter, Jeffrey Sachs, and John McArthur. An important part of this annual research report is the Executive Opinion Survey. Working with partner institutes around the world the World Economic Forum surveys senior executives from a cross-section of businesses in 75 countries. Results of the Executive Opinion Survey provide much richer country-specific information than is available through "hard" data sources and are key components of the competitiveness indices developed by the Forum. Effective 2002, the Institute for Competitiveness and Prosperity, in partnership with the University of Toronto's Rotman School of Management, is the Canadian partner for the World Economic Forum's Global Competitiveness Report.

The Institute conducted the Canadian surveys for the 2002-03 report and publicized the results in Canada when they were released in November 2002.

Core Business	2002-03 Commitments	Results
Maintain a Task Force	<p>Membership of 15 high profile members willing to serve on Task Force maintained.</p> <p>Five Task Force Meetings held.</p> <p>High profile release of first Annual Report successfully completed by Oct 2002.</p>	<p>14 members in place at year end.</p> <p>Meetings held May 10th, Jul 23rd, Sept 25th, Dec 5th & Apr 3rd.</p> <p>Annual Report released at Minister Flaherty's Innovation Summit November 5, 2002.</p>
Economic policy research	<p>Research to map Ontario's clusters of traded industries completed and updates to the first working paper posted on Web site by August 2002.</p> <p>Research to identify competitiveness indicators completed and initial data collected.</p> <p>External evaluation of research provided to Board by April 2003.</p>	<p>Cluster specific research reports posted on ICP Web site throughout the year.</p> <p>Research completed and results released in Working Paper 2 – Measuring Ontario's Prosperity: Developing an Economic Indicator System.</p> <p>N/A</p>
Consultation and Communications	<p>First round of stakeholder consultations completed and analyzed.</p> <p>Web site expanded as principal communications medium.</p> <p>Quarterly electronic newsletter launched.</p> <p>Seminar series continued: three seminars presented/sponsored.</p>	<p>Analysis presented at 4th Task Force meeting on July 23, 2002.</p> <p>Working Papers, Annual Report, and all research conducted for Institute distributed via ICP Web site.</p> <p>N/A</p> <p>Regional seminars held in Sudbury, Mississauga, and Niagara-on-the-Lake.</p>

Core Business	2002-03 Commitments	Results
	<p>Two working papers published (summer 2002 and winter 2003).</p> <p>Public interest in Task Force and its members documented through Web site metrics and summary of media coverage.</p>	<p>Working Paper 2 published in August '02; Working Paper 3 published June '03.</p> <p>Reports issued quarterly to Task Force.</p>
Administration	<p>2002-03 Business plan approved by Board by the end of May 2002.</p> <p>Financial statements audited and Annual Report approved by Board by end of July 2002.</p> <p>First Annual General Meeting held by September 2002.</p> <p>First annual Performance evaluations completed in October 2002.</p> <p>Training & Development plans updated as part of second annual cycle of performance management.</p>	<p>Approved at July '02 Board meeting.</p> <p>Approved at July '02 Board meeting.</p> <p>Held July 25, '02.</p> <p>Performance evaluations completed by Oct '02.</p> <p>Training & Development plans updated by Oct '02.</p>

Members of the Board of Directors of the Institute for Competitiveness & Prosperity

Roger L. Martin Chairman of the Board	University of Toronto
Martha Tory Treasurer	Ernst & Young
Michael Akkawi Member	Torys
Suzanne Spragge Member	University of Toronto
Chris Riddle Member	Independent consultant, and former Executive Director of the Institute

TERM: Each board member's term runs until the second Annual General Meeting, to be held by September 2003.

Members of the Task Force on Competitiveness, Productivity and Economic Progress

Roger L. Martin (Chairman): Dean of the Joseph L. Rotman School of Management at the University of Toronto.

James L. Balsillie: Chairman and Co-Chief Executive Officer of Research in Motion Limited.

Timothy D. Dattels

Lisa de Wilde

David Folk: Managing General Partner of Jefferson Partners.

Suzanne Fortier: Vice-Principal (Academic) at Queen's University in Kingston, Ontario.

Gordon Homer: Deputy Chairman of Scotia Capital, the corporate and investment banking division of The Bank of Nova Scotia.

David Johnston: President of the University of Waterloo.

David Keddie: President of National Compressed Air in Lively, Ontario.

Mark Mullins: President of MSG Hedge Corporation.

William Orovan: Professor and Chair of the Department of Surgery at McMaster University.

Timothy H. Penner: President of Procter & Gamble Inc.

Belinda Stronach: President and Chief Executive Officer of Magna International Inc.

Daniel Trefler: Research Associate at the Institute for Policy Analysis, University of Toronto, and Canadian Pacific Fellow at the Canadian Institute for Advanced Research.

Staff of the Institute:

Mr. Jim Milway, Executive Director
Ms. Claudelle Poole, Researcher & Office Manager
Mr. Robert Sinclair, Researcher
Ms. Jennifer Stewart, Researcher

Contact Information:

Address: 180 Bloor Street West, Suite 1100
Toronto, Ontario M5S 2V6, Canada
Website: www.CompeteProsper.ca
Phone: 416-920-1921
Facsimile: 416-920-1922

Sponsoring Ministry:

Ontario Ministry of Economic Development and Trade
(September 2001 - April 2002)
Ontario Ministry of Enterprise, Opportunity and Innovation
(effective April 2002)

Partner Institutions and Organizations

Institute for Strategy and Competitiveness:

Harvard Business School

Ontario Science and Innovation Council

Statistics Canada:

Microeconomic Analysis Division &
Science, Innovation and Electronic Information Division

Ontario Network on the Regional Innovation System

Geomatics Services Centre:

Ontario Ministry of Natural Resources.

Financial Statements and Auditor's Report

See inserted statements.

**INSTITUTE FOR COMPETITIVENESS
AND PROSPERITY**

FINANCIAL STATEMENTS

APRIL 30, 2003

AUDITORS' REPORT

To the Members,
Institute for Competitiveness and Prosperity

We have audited the statement of financial position of Institute for Competitiveness and Prosperity as at April 30, 2003 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Institute as at April 30, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

June 10, 2003
Toronto, Ontario

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

STATEMENT OF FINANCIAL POSITION

AS AT APRIL 30, 2003

	2003	2002
ASSETS		
Current assets		
Cash	\$ 259,890	\$ 320,996
Accounts receivable	31,984	18,110
Prepaid expenses	<u>7,231</u>	<u>9,654</u>
	299,105	348,760
Property and equipment (note 3)	<u>174,677</u>	<u>228,017</u>
	<u>\$ 473,782</u>	<u>\$ 576,777</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 30,571	\$ 33,399
Prepaid contract research fees	2,000	
Deferred operating grant (note 4)	<u>266,534</u>	<u>315,361</u>
	299,105	348,760
Deferred capital grant (note 5)	<u>174,677</u>	<u>228,017</u>
	<u>473,782</u>	<u>576,777</u>
Net assets		
Invested in property and equipment	nil	nil
Unrestricted	<u>nil</u>	<u>nil</u>
	<u>nil</u>	<u>nil</u>
	<u>\$ 473,782</u>	<u>\$ 576,777</u>

Approved on behalf of the Board:

_____, Director

_____, Director

see accompanying notes

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

STATEMENT OF OPERATIONS AND NET ASSETS

FOR THE YEAR ENDED APRIL 30, 2003

(with comparative amounts for the period August 28, 2001 to April 30, 2002)

	2003	2002
REVENUE		
Government funding (note 6)	\$ 852,167	\$ 706,622
Contract research and other fees	23,400	
Interest	<u>3,058</u>	<u>992</u>
	<u>878,625</u>	<u>707,614</u>
EXPENSES		
Personnel	469,913	269,676
Other services (note 3)	178,348	41,440
Communication supplies and services	97,639	149,702
Supplies (note 3)	53,301	92,439
Occupancy costs	30,040	26,895
Consulting fees	25,845	105,187
Travel	22,995	19,859
Training and development	<u>544</u>	<u>2,416</u>
	<u>878,625</u>	<u>707,614</u>
EXCESS OF REVENUE OVER EXPENSES FOR THE PERIOD	nil	nil
Net assets, beginning of period	<u>nil</u>	<u>nil</u>
NET ASSETS, END OF PERIOD	<u>\$ nil</u>	<u>\$ nil</u>

see accompanying notes

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED APRIL 30, 2003

(with comparative amounts for the period August 28, 2001 to April 30, 2002)

	2003	2002
OPERATIONS		
Cash received for operations:		
Government funding	\$ 738,943	\$ 1,001,815
Contract research and other	<u>14,584</u>	<u>992</u>
	<u>753,527</u>	<u>1,002,807</u>
Cash used for operations:		
Personnel	(469,913)	(254,676)
Consulting fees	(149,360)	(100,187)
Communication supplies and services	(165,320)	(143,851)
Occupancy and other	<u>(30,040)</u>	<u>(183,097)</u>
	<u>(814,633)</u>	<u>(681,811)</u>
Net cash generated from (used for) operations	<u>(61,106)</u>	<u>320,996</u>
INVESTMENTS		
Purchase of other property and equipment	(11,057)	(89,105)
Software licence acquired	<u> </u>	<u>(159,080)</u>
Net cash used for investments	<u>(11,057)</u>	<u>(248,185)</u>
FINANCING		
Capital grants received	<u>11,057</u>	<u>248,185</u>
NET CASH RECEIVED (USED) IN THE PERIOD	(61,106)	320,996
Cash, beginning of period	<u>320,996</u>	<u>nil</u>
CASH, END OF PERIOD	<u>\$ 259,890</u>	<u>\$ 320,996</u>

see accompanying notes

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2003

1. THE ORGANIZATION

The Institute for Competitiveness and Prosperity (the "Institute") is a not-for-profit organization incorporated in the Province of Ontario without share capital.

Through the provision of support to Ontario's Task Force on Competitiveness, Productivity and Economic Progress, the Institute measures and monitors Ontario's competitiveness compared to other Canadian provinces and the U.S. states.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Institute are in accordance with Canadian generally accepted accounting principles. Outlined below are those policies considered particularly significant:

Revenue Recognition

The Institute follows the deferral method of revenue recognition. Under the deferral method, grants received in the year for expenses to be incurred in the following year are recorded as deferred revenue.

Government assistance related to current expenditures is reflected in the accounts as a revenue item in the current year. Assistance related to the purchase of property and equipment is recorded as revenue in the same period the related property and equipment is charged to operations.

Property and Equipment

Property and equipment is recorded at cost. Amortization is provided annually at rates calculated to write-off the assets over their estimated useful lives as follows:

Office equipment and furniture	- 3 years straight line basis
Computer equipment	- 3 years straight line basis
Computer software	- 3 years straight line basis
Software licence agreement	- 5 years straight line basis

3. PROPERTY AND EQUIPMENT

Property and equipment, recorded at cost, is as follows:

	Cost	Accumulated Amortization	2003 Net	2002 Net
Office equipment and furniture	\$ 56,250	\$ (28,125)	\$ 28,125	\$ 46,875
Computer equipment	39,072	(18,500)	20,572	27,379
Computer software	<u>4,840</u>	<u>(807)</u>	<u>4,033</u>	<u>nil</u>
	<u>\$ 100,162</u>	<u>\$ (47,432)</u>	52,730	74,254
Software licence agreement, net			<u>121,947</u>	<u>153,763</u>
			<u>\$ 174,677</u>	<u>\$ 228,017</u>

Supplies includes a charge for amortization of furniture and equipment of \$32,581 and other services includes a charge for amortization of the software licence agreement of \$31,816.

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2003

4. DEFERRED OPERATING GRANT

The deferred operating grant represents funds received from the Ontario Ministry of Enterprise, Opportunity and Innovation (formerly the Ontario Ministry of Economic Development and Trade) that are available to cover operating expenses of future periods.

5. DEFERRED CAPITAL GRANT

The deferred capital grant represents the unamortized portion of the Ontario Ministry of Enterprise, Opportunity and Innovation funds used for acquisition of the long-term software licence agreement and for purchase of property and equipment.

Continuity of the deferred capital grant for the period is as follows:

	2003	2002
Deferred capital grant, beginning of period	\$ 228,017	\$ nil
Add cash received from government funding for property and equipment	11,057	248,185
Less capital grant recognized in period (note 6)	<u>(64,397)</u>	<u>(20,168)</u>
Deferred capital grant, end of period	<u>\$ 174,677</u>	<u>\$ 228,017</u>

6. GOVERNMENT FUNDING

The Institute has entered into a funding agreement with the Ontario Ministry of Enterprise, Opportunity and Innovation through April 30, 2004. Any excess of grants received over eligible expenses at the end of the funding period is repayable to the Ontario Ministry of Enterprise, Opportunity and Innovation.

Funding from the Ontario Ministry of Enterprise, Opportunity and Innovation received in the period is recognized in these financial statements as follows:

	2003	2002
Government funding recognized as revenue in the period:		
Non-capital portion	\$ 787,770	\$ 686,454
Capital portion	<u>64,397</u>	<u>20,168</u>
Total government funding recognized as revenue in the period	<u>852,167</u>	<u>706,622</u>
Increase (decrease) in government funding deferred in the period:		
Deferred operating grant	(48,827)	315,361
Deferred capital grant	<u>(53,340)</u>	<u>228,017</u>
Total increase (decrease) in government funding deferred	<u>(102,167)</u>	<u>543,378</u>
Cash received from government funding for property and equipment and operations in period	<u>\$ 750,000</u>	<u>\$ 1,250,000</u>

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2003

7. LEASE COMMITMENTS

The Institute rents office space under a lease agreement to July 31, 2004. Lease payments over the term of the lease, including the Institute's estimated share of property tax and utilities, are as follows:

2004	\$ 30,900
2005	<u>8,000</u>
	<u>\$ 38,900</u>

8. INCOME TAX STATUS

The Institute is exempt from income tax in Canada as a not-for-profit organization under Section 149(1)(L) of the Income Tax Act (Canada).