

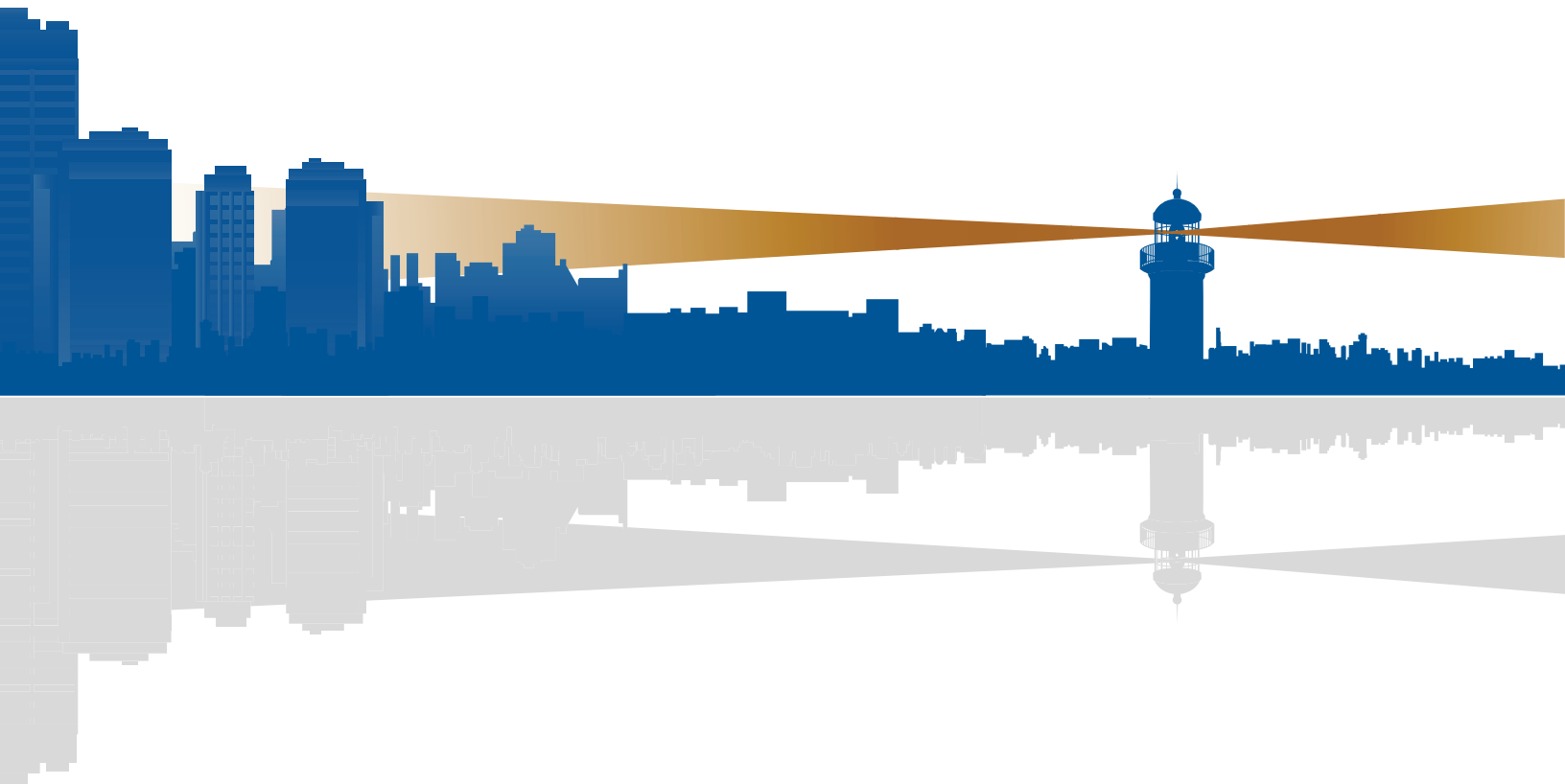


THE BEACON GROUP

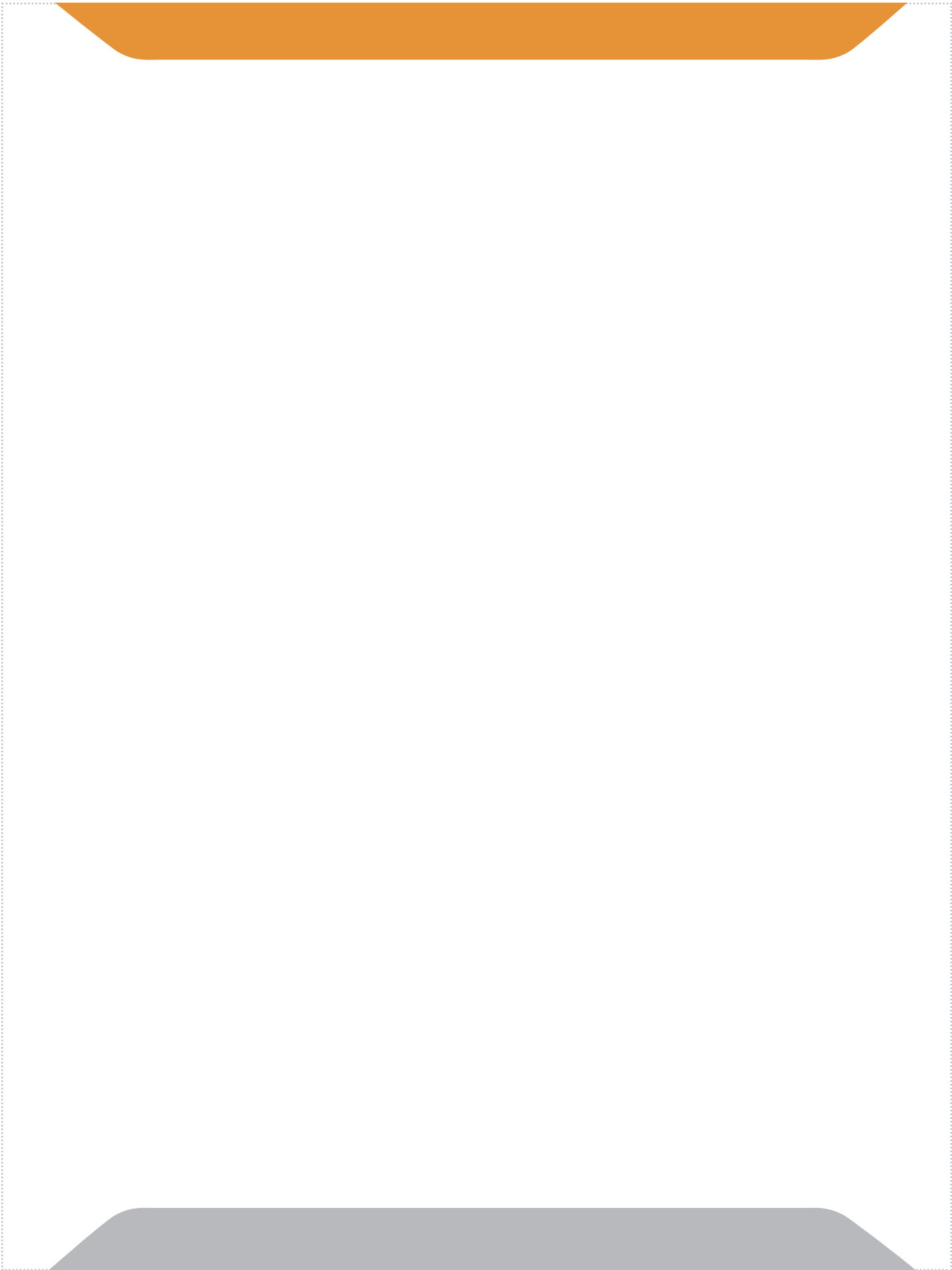
## Navigate the Future™

# "Solving Canada's Business Crisis – The Brutal Facts"

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Executive Report on Leadership & Business Strategy





## In Our View ...

It has become increasingly obvious, to those who watch the global economic scene, that Canada is at serious risk of becoming a marginal player on the world business stage. There are many complex and historical reasons for this, but chief amongst them is the fact our long standing "deficit of ambition" has finally caught up with us. Our luck and good fortune have evaporated, and complacency has conspired to put us at a disadvantage in a world where drive, innovation and urgency have become the touchstones for business and economic success.

In my new book "*Straight Talk on Leadership - Solving Canada's Business Crisis*", I provide both a diagnosis as well as a prescription for this predicament. In this edition of *Navigate*, I draw upon data and research which not only reinforces my concern, but sharpens the perspective and adds weight to my arguments - for those who might otherwise reject the core premise.

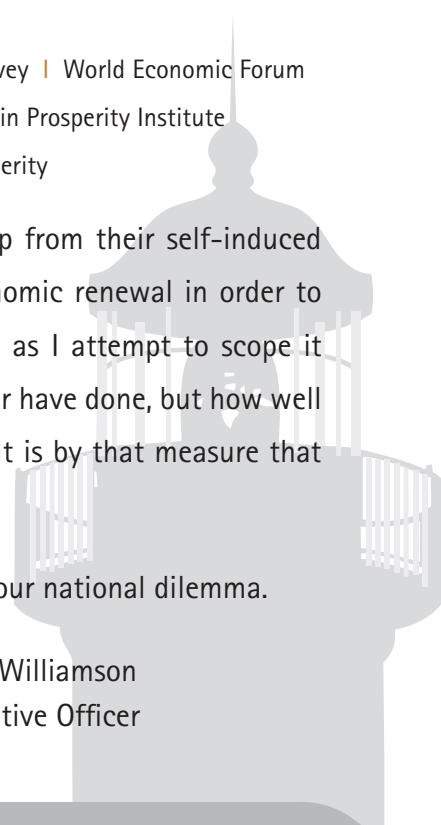
Amongst those who have arrived at virtually the same conclusion are:

Deloitte - The Future of Productivity Report | OECD - Economic Survey | World Economic Forum  
Conference Board of Canada - How Canada Performs | Martin Prosperity Institute  
The Institute for Competitiveness and Prosperity


Canada desperately needs its business leaders to wake up from their self-induced slumber, and join together in a dialogue of national economic renewal in order to chart a national economic plan for the future. The issue, as I attempt to scope it here, is not so much a criticism of how well we are doing, or have done, but how well we are living up to our potential to perform even better. It is by that measure that virtually all experts agree we are in decline.

It is our competitiveness gap. It is our prosperity gap. It is our national dilemma.

R. Douglas Williamson  
Chief Executive Officer



## The Productivity Challenge ...



When it comes to their own businesses, leaders generally understand the minute details and special dynamics of organizational productivity. They intuitively appreciate how the various interrelated inputs lead to the eventual outputs. They understand how paying careful attention to each part of the value chain can impact the bottom line. Somehow, when it comes to the national economy, the pursuit of our collective long-term interests, and improving the overall performance of the consolidated Balance Sheet and P & L, we fall victim to a severe case of "best practice amnesia". Productivity improvement suddenly becomes an unspoken, complex mystery we choose to ignore rather than address.

There is no shortage of reputable business leaders and organizations sounding the alarm bell about the decline in relative productivity we have allowed the country to fall victim to.

Here are just a few quotes from Deloitte's "The Future of Productivity Report".

*"A finite window of opportunity is presented by today's promising economic conditions. To capitalize on this window of opportunity, business leaders must fundamentally re-examine their attitudes towards intelligent risk to ensure their future competitiveness."*

*"A significant portion of Canadian firms mistakenly believe they are making competitive levels of investment when they are not - causing them to slip behind their peers."*

Canadian business leaders must wake up to the crisis we have created and work hard to overcome our national "deficit of ambition" which is causing us to cruise on auto pilot when we should be surging forward with fierce resolve and boundless energy.

## Declining Advantage ...

There will be many Canadians (and no doubt many business leaders) who will read this and deny the existence of any problem whatsoever. They will charge hyperbole, exaggeration and overstatement. They will point to how well Canada came through the recent global economic crisis, the strength of our banking system, and the fact our national budget deficit would be the envy of many. In fact, they may not take kindly to any suggestion at all that Canada is falling in global presence and relevance.

### Canada's Comparative Productivity vs. the U.S.A.

Mid - 1980's	91%
Today	80%

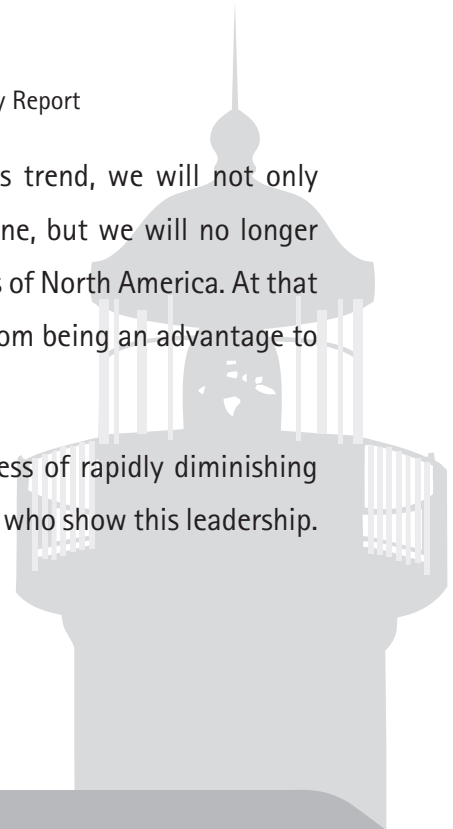
### Average Workers Contribution to GDP per hour

USA	\$60.77
Canada	\$47.66

Source: Deloitte - The Future of Productivity Report

Unless we take aggressive steps, right now, to reverse this trend, we will not only become even less competitive on the expanding global scene, but we will no longer even be able to compete within the slowly shrinking confines of North America. At that point, our proximity to the vast US market will have gone from being an advantage to becoming our biggest curse.

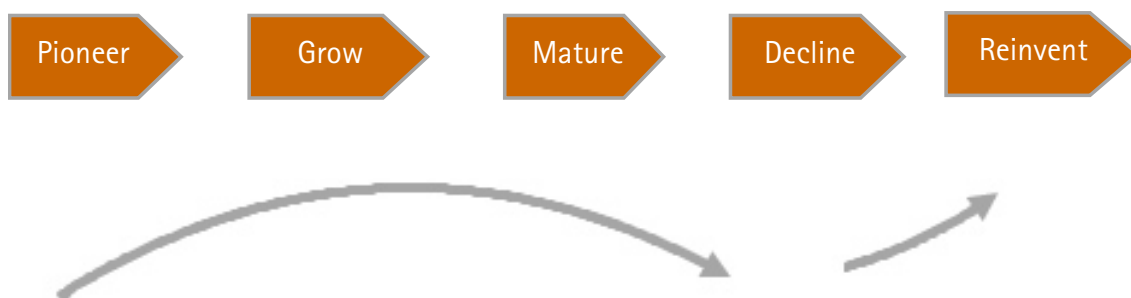
We need the courage to lead ourselves out of the wilderness of rapidly diminishing relevance, and it must be business leaders, not governments, who show this leadership.



# The New Creative Destruction



It was back in the 1930's the expression "creative destruction" was coined to describe the natural process of economic renewal and regeneration which underpins the passage from one economic era to another. Joseph Schumpeter's principle showed how organizations (and also countries) move along a continuum on which, as they mature. They eventually come to a point where they have a choice to make - adapt, transform, reinvent or die!



In the case of Canada, the evidence would seem to indicate that forces have conspired against us. It's time for business leaders to heed the call of the mounting evidence, and shift from chronic mediocrity to hypercompetitiveness.

Factor	Past	Today
Demographics	Labour force growing, hours worked on the rise	Aging population, work hours reducing
C \$	Low dollar was an advantage to us	Falling US dollar eroding advantage
Access to USA	NAFTA gave us access to big US market	Non-US markets are more important
Global Markets	Mature economies dominated	Developing economies are on the rise

Source: Deloitte - The Future of Productivity Report

## The Yanks and Us and Others ...

Sleeping next to a giant has both its benefits and its disadvantages. It has been Canada's good fortune, during a period of American economic dominance, that we could easily trade with our cousins to the south without any of the cultural, linguistic or other barriers the rest of the world might put in our way. We rode the American jet stream for all it was worth, and for Canadian businesses, it provided a comfortable, reliable source of growth.

Growth is not so easy to achieve in the new world order, and it will certainly not just come to us, we will have to go out and get it - the hard way! While it can be tiresome to constantly benchmark ourselves against the USA, it does offer a sharp contrast to sober our reality, especially when it comes to labour productivity growth.

This measure of relative competitiveness has been in decline for many years. In the early 1980's, the US and Canada were in an almost dead heat when it came to productivity. However, for 30 years now, the rate of growth in GDP generated per hour in Canada has been slower than in the US, and the gap has consistently widened.

Today, our productivity per worker is only 78.3% of the USA.

### GDP per hour (2012)

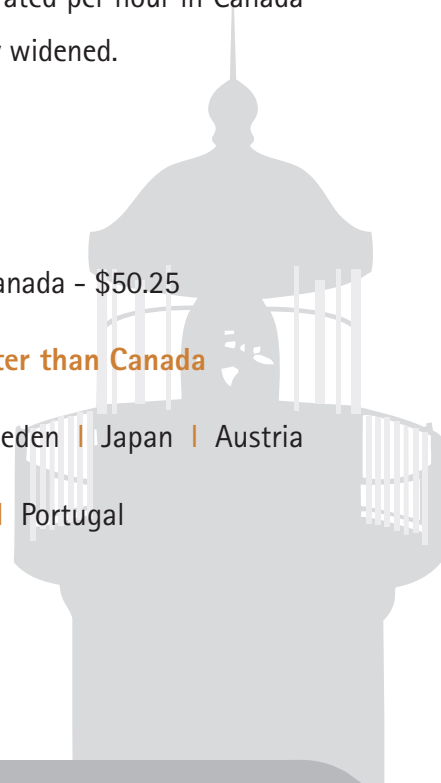
Norway - \$74.88 | USA - \$63.22 | Australia - \$54.86 | Canada - \$50.25

### Countries with Labour Productivity Growth greater than Canada

Korea | Russia | Czech Republic | Hungary | USA | Sweden | Japan | Austria

Finland | Israel | UK | Australia | Spain | Portugal

France | Belgium | Germany



## The Widening Investment Gap ...

Canadian companies appear to be afraid of growth or, at a minimum, simply don't know how to chase it or maintain it as a necessary part of sustainable business success. According to The World Bank, it is easier to start a business in Canada than almost anywhere else in the world (except New Zealand and Australia). However, the evidence suggests we have a huge challenge when it comes to growing our businesses into significant size and scale.

Deloitte's "The Future of Productivity Report" puts it very well (if all too painfully) when they suggest our problem is the fact we seem to excel at "turning our gazelles into water buffaloes". According to Statistics Canada (June 2011), this inability to grow from a small to a medium sized business in Canada is most starkly revealed in the underperformance of our medium sized companies. While our large and small businesses do their share to contribute to GDP, it is the nascent medium sized businesses that are letting us down.

### Contribution to GDP by firm size

Large Business - 45.7% | Small Business - 41.9% | Medium Business - 12.4%

A study of companies who have crossed the five year threshold of existence shows that, amongst the OECD countries, only 2.66% of all our Services firms and 3.16% of our Manufacturing firms would be considered high growth by world standards.

This dismal result places us squarely in the bottom quartile of all OECD countries.

Services firms Considered high growth		Manufacturing firms Considered high growth	
Canada	2.66%	Canada	3.16%
Netherlands	3.66%	Israel	4.50%
Sweden	4.91%	USA	5.71%



## The Importance of SME's ...

Canadians are not as well informed as they should be about the composition of our national business foundation. This leads to misconceptions and misunderstandings about what actually makes business tick in our country. We are too easily influenced, and perhaps enamored, by the big companies which make the headlines (BlackBerry, most recently) or by the huge profits of the big banks (every Quarter). The fact of the matter is, Canada is actually more a nation of shopkeepers and small business operators than of corporate giants of global repute.

The difference is important in terms of understanding how employment is created, how export trade is done and how policy is set to encourage growth and investment.

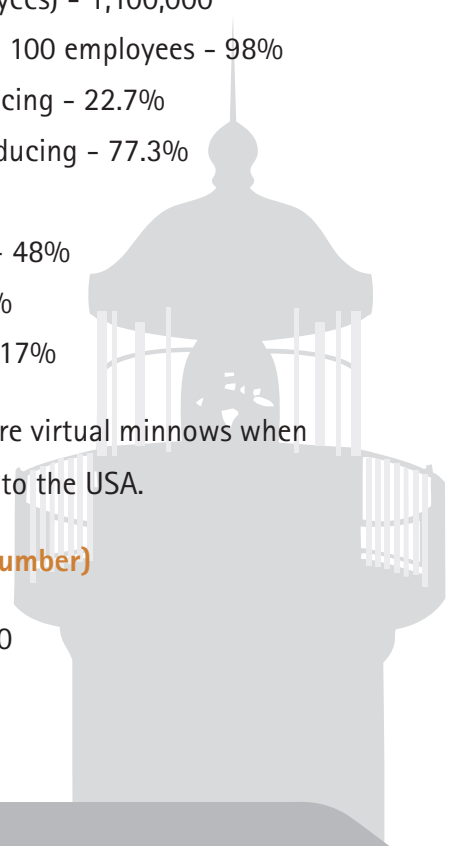
Here are some key statistics from StatsCan and Industry Canada as at July 2012:

- Number of employer businesses - 1,122,000
- Number of small businesses (fewer than 100 employees) - 1,100,000
- Percentage of Canadian businesses with fewer than 100 employees - 98%
- Percentage of all businesses considered Good Producing - 22.7%
- Percentage of all businesses considered Service Producing - 77.3%
- Small business contribution to GDP - 30%
- Percentage of total Labour Force in small business - 48%
- Survival rate of small businesses after 5 years - 51%
- Percentage of small businesses owned by women - 17%

At the top end of the market, even our largest companies are virtual minnows when it comes to the number of employees they have compared to the USA.

### Top 50 Firms by Employees (Average Number)

Canada - 43,000 | USA - 249,000



## Entrepreneurship in Canada ...

It has long been felt Canadians are more risk averse than our American cousins and, when it comes to business, the evidence is compelling. Two bits of data support this.

### **Deloitte's Executive Risk Behaviour Index**

(Measuring the relative risk appetite of business leaders)

Canada 47.4%

USA 57.7%

In short, we abhor risk and hate uncertainty, and wonder why our success is tempered!

### **StatsCan / Industry Canada Survey of Business – 2011**

(Noting the most frequently cited obstacles to innovation)

Risk and Uncertainty - 47%

Lack of Skills - 28%

External Financing - 25%

Regulatory issues - 18%

Interestingly, the most popularly reported barriers to business success (lack of access to financing and the burden of regulatory compliance), when combined, still comprise less of a burden than does plain, simple, old fashioned fear of risk and uncertainty. In a world where risk and uncertainty are on the rise, it is hard to imagine how Canadian business can survive, let alone thrive, unless we stiffen our spine and begin to develop a tolerance for ambiguity.

Canada's fear of global trade, which can be measured by the comparatively few Trade Agreements we have entered into, is another factor holding us back.

### **Number of Free Trade Agreements in Place**

European Union Countries - 70 | Chile - 52 | Mexico - 44

Singapore - 24 | USA - 17

Canada - 10

## Death by Starvation ....

It seems, from the OECD Report on Research and Development, that Canadian business invests less in business R & D than the OECD average. In fact, our fear of the unknown and love of certainty, result in us investing less than 1% of GDP, when the OECD average is 1.6%.

This means we rank behind the following countries:

Israel 3.4% | Korea 2.8% | Finland 2.7% | Denmark 2.1%

USA 1.9% | Belgium 1.3% | Australia 1.3%

It also means we are in the bottom quartile, along with countries such as:

Italy .7% | Hungary .7% | Portugal .7% | Estonia .8%

Another revealing fact, from the same OECD Report, shows the rate of R & D investment (when compared to the 27 OECD countries) actually gets worse by size of company. In other words, our ranking falls the bigger the company size.

- Small firms (fewer than 50 employees) - Canada ranks 8th out of 27
- Medium sized firms (50 - 250 employees) - Canada ranks 15th out of 27
- Large firms (more than 250 employees) - Canada ranks 16th out of 27

This tells us the bigger we get, the more we starve ourselves to death!



## Steps to Take :: Actions to Consider

We have much to be grateful for in Canada. No one can take that away from us. We remain a sought after destination for many less fortunate in their homelands, who choose to come to our shores in search of opportunity, tolerance and justice. Unfortunately, the lustre is off the promise and, in relative terms, we are slipping backwards. In the words of Deloitte's "The Future of Productivity Report", "Canadian companies accept the traditional progression as inevitable, blaming their eventual decline on circumstances beyond their control". It need not be that way!

### Wake-up Canada

We need to banish our overconfidence and complacency. According to Deloitte's report, a stunning 36% of Canadian companies actually believe they are doing better than they really are, while another 17% know they are underperforming and don't care. Somewhere along the line, we need to enter into an adult conversation with ourselves, bereft of clouded judgment, over confidence, delusion and naiveté.

### Think Fast Forward

The past is no guarantee of success, especially in a world shaken by new forces, both economic and social. While the rose coloured glasses of nostalgia may provide some comfort on a cold night, they will not help us envision a path forward. We are going to live in the future whether we like it or not, so better we design the future than become captives to someone else's design.

### The World is our Oyster

The Canadian brand resonates everywhere in the world, but if we don't leverage our brand, the inherent value will be lost. It's time for Canadian business to be bold and venture off the safe confines of North America. We will find friends and customers elsewhere, waiting to accept us as partners in shared success and growth.



## Build Global Leaders

The world of business is a global business, and Canada needs to develop young leaders who are both willing and capable of innovating and being as comfortable in Dubai as Detroit, Mumbai as Miami, and Hong Kong as Hollywood. We have not done a good job of preparing for the global economy when it comes to our leadership bench strength and, while it is overdue, it's not too late.

## Plan the Attack

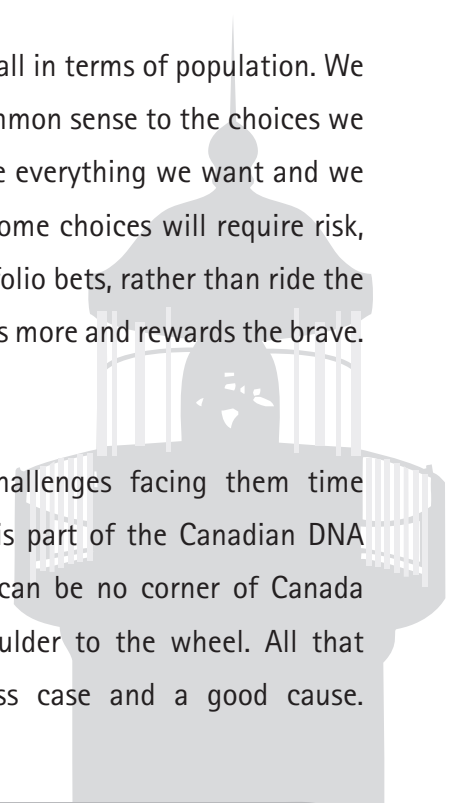
Canada needs a Strategic Plan. We have outsourced our national economic future to elected officials and bureaucrats who maybe well intentioned, but are even less qualified than our business leaders. The country has good minds and original thinkers and it's time to harness them, for the sake of our country, and ask them to put the future of their nation ahead of their self interest. It will not be easy, but then nothing worthwhile ever is!

## Place Smart Bets

While Canada is large in terms of geography, we are small in terms of population. We have to conserve our resources, and apply logic and common sense to the choices we make. Like every Canadian family, we can't always have everything we want and we have to make choices. No one has a crystal ball, and some choices will require risk, but we are better to place a select number of wise portfolio bets, rather than ride the risk free route to average results in a world that demands more and rewards the brave.

## Execute with Brutal Determination

Throughout history, Canadians have risen to the challenges facing them time and time again. We will have to do it once more. It is part of the Canadian DNA to dig in and fight when the chips are down. There can be no corner of Canada left behind. We need all Canadians to put their shoulder to the wheel. All that remains is for someone to give us a solid business case and a good cause.





## The Beacon Group is ...

The Beacon Group is a Canadian-based professional services firm supporting clients throughout North America and around the world. We work with organizations in all sectors and industries in the development of their business strategies and in leveraging their investment in human capital. Our full line of service offerings ensures we are not only able to help leaders understand the strengths, weaknesses and opportunities of their organization, but also develop and deliver programs that address their key areas of concern.



### Our Core Values

In all aspects of our client relationships we commit to being:

**Progressive** - Forward thinking | Pragmatically radical

**Thought Leaders** - Innovative | Audacious

**Responsive** - Fast acting | In touch

**Agile** - Enthusiastic | Nimble

**Passionate** - Loving what we do | Creating passion in others

**Customer Driven** - Dedicated, involved | Totally committed



The Beacon Group is represented by a diverse group of talented individuals who come from a wide variety of professional backgrounds. This breadth of knowledge and experience is what we believe sets us apart.

Our essential goal is to assist senior leadership teams in their efforts to:

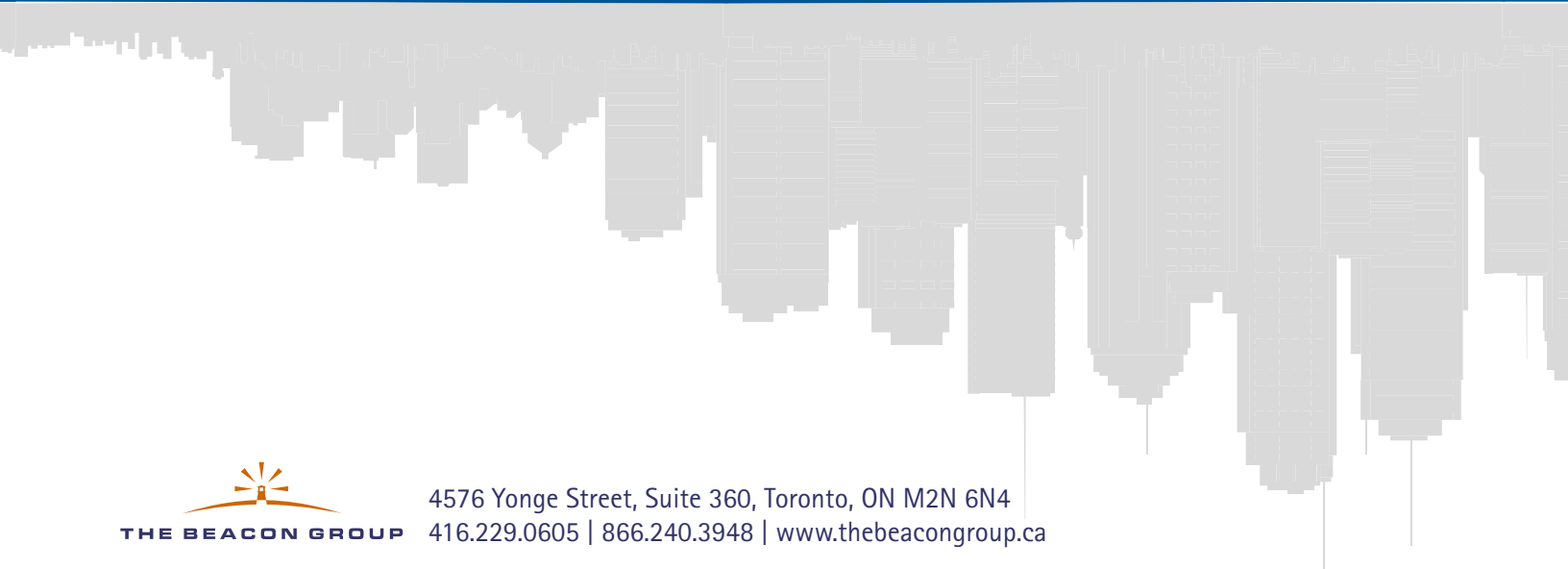
- **Optimize** – their strategic positioning and market opportunities.
- **Maximize** – long-term organizational health and effectiveness.
- **Develop** – overall leadership competency and fitness.
- **Create** – sustainable levels of superior performance.

We do this by partnering closely with our clients to ensure their strategic business objectives are fully and adequately aligned with the capacity and capability of their people.

Our ultimate aim is to ensure leaders, at all levels within an organization, are better able to understand the world in which they live, better able to make sense of the conditions they face and better equipped to deal with challenges as they arise. As a result, we ensure they are better able to influence their future and realize their potential.



Strategy | Culture | Talent | Leadership



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