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Business culture and productivity

Canada's business past shows that many of the factors for success have always been there. There's just one problem – and it may be one of geography, not history.

Does Canada's business history hold lessons that could help meet the challenges of today?

As Figure 1 shows, many respondents in a recent survey identified risk aversion and complacency as potential sources of the productivity gap between Canada and the U.S. Is there a link to Canada's history? As TD Economics speculated in the *Productivity Puzzle* report, "key elements of Canada's history and industrial structure may have nurtured a complacent business culture."

"94% of Canadian millionaires made their own fortunes instead of inheriting them"

- The Globe and Mail, 2011

But the problem may be one of geography, not history. It could simply be that living next door to the world's biggest and, most would argue, most competitive economy has distorted Canadians' views. Against a global background, Canadians may actually fall in the middle of the pack as risk-takers, and be more entrepreneurial than they think.

That means Canada has one of the four interactive elements that, according to the Diamond model of innovation, drive a successful economy – the presence of enterprising entrepreneurs. The others are good public policy, a strong financial sector, and sophisticated managers.

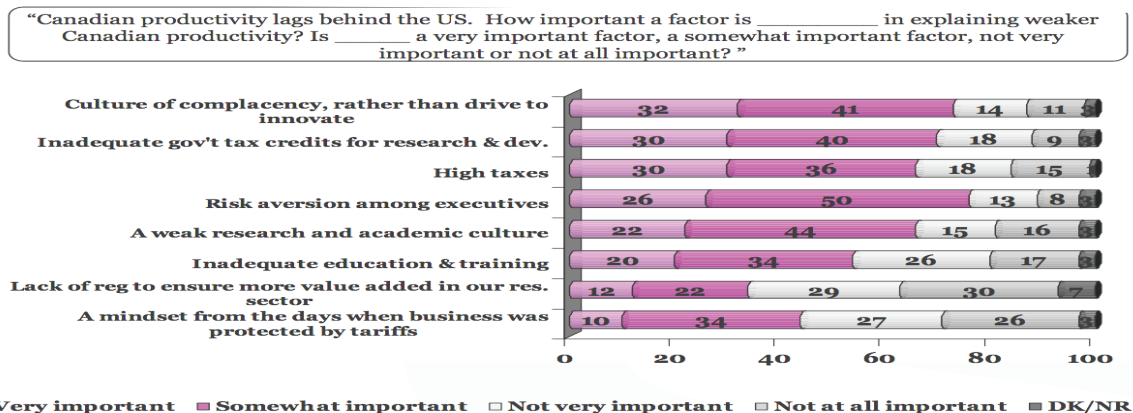
By international standards, Canada meets the policy and financial sector benchmarks, as well. But what about the fourth element – management? Time to turn to the past.

The market avoidance problem

With a small market and limited pool of capital, Canada's economy has never been big enough to nurture a large pool of global companies. That's a problem, because staying small hampers productivity.

The obvious move would seem to have been jumping across the border to the U.S. But Canadian business owners and managers have always been timid about making that leap. In the past, for example, major farm equipment producers expanded into Europe rather than go head-to-head with their U.S. rivals.

Figure 1. Canadians understand the productivity problem. Or do they?



Source: Gandalf Group for C-Suite, 2010

Pathways to Productivity

ECONOMIC SYMPOSIUM

Failing to enter that bustling U.S. economy may have meant forgoing the productivity gains and innovation that only occur with economies of scale that happen when competition heats up.

There is no clear answer as to why the U.S. was consistently shunned in favour of a small domestic market or other trading partners.

But today, trying to measure up in the U.S. market is more essential than ever. There is a strong argument that Canadian businesses must see their domestic market as all of North America -- and consider it just a stepping stone to opening markets in China and elsewhere. Without that view, they risk being left in the footsteps of history.

Factors that influence business innovation decisions

- Characteristics of firm's sector
- State of competition
- Climate for new ventures
- Public policies that encourage or inhibit innovation
- Business ambition, entrepreneurial aggressiveness and growth orientation

Source: Council of Canadian Academies, 2009

Resources:

- Joe Martin: Relentless Change: A Casebook for the Study of Canadian Business History
- Kevin Lynch: Are We Ready to Really Compete?
- TD Economics: The Productivity Puzzle
- Canadian Federation of Business School Deans: Management Education and Productivity in Canada
- Institute for Competitiveness and Prosperity Working Paper: Management Matters in Retail
- Council of Canadian Academies: Innovation and Business Strategy, Why Canada Falls Short, Chapter 9—Business Ambition
- The 20th Century C-Suite Survey: Canada-US Economic Outlook, Productivity and Innovation
- Statistics Canada: Update on Economic Analysis: Multinationals