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Productivity is about fixing your processes

Do Canadian firms see the value in constantly improving the way they work?

With some notable exceptions, Canadian firms on the whole appear slower to change their processes than their major foreign competitors. This increasingly widely acknowledged fact is the basis of growing Canadian preoccupation – at least at the macro and policy level – with productivity and innovation.

“At the sectoral level there is a fairly wide dispersion in productivity performance within and across sectors in Canada, and more so than in the U.S. This suggests both faster adaptation of new technologies and processes by U.S. business, and likely more competition.”

- Kevin Lynch, *Are we ready to really compete?*, 2010

Productivity in the U.S. retail sector, for example, increased rapidly in the late 1990s through the “Wal-Mart effect.”

Wal-Mart is recognized as the industry leader

in lowering costs by adopting new technology and systems to manage inventory. Their business process innovations created pressure for other retailers to change or disappear. Rarely, if ever, has a firm in the Canadian marketplace set the benchmark in that manner for an industry. The question is why.

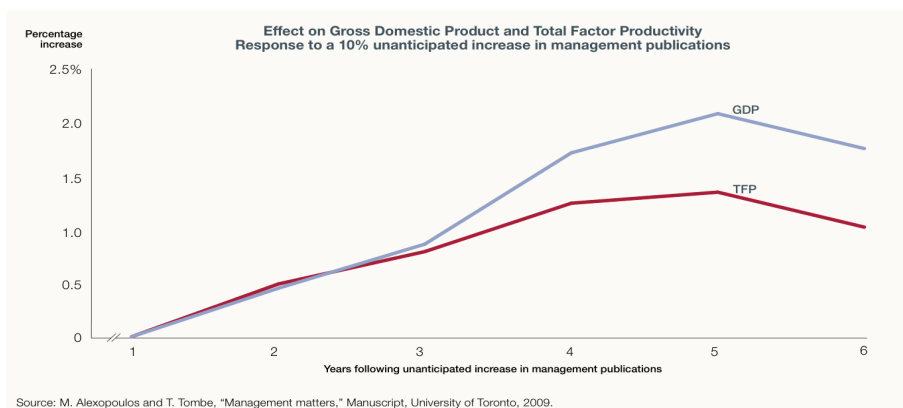
Case Study: Harlequin – innovative by design.

Harlequin, long a market leader in the romance novel niche, realized it could cut its costs by making every book the same format and page length. For a firm publishing more than 120 titles each month, even a few cents saved on the printing and shipping of each book quickly adds up to big savings. Harlequin has also developed mail-order book clubs, lowering distribution costs, and was one of the first and most aggressive entrants into digital publishing. Harlequin, based in Toronto, was named 2009 Publishing Innovator of the Year by the U.S. Book Business magazine.

Part of the answer may be that too many Canadian firms do not look to their business processes as potential sources of productivity gains. Simple changes – such as better supply-chain management – can produce dramatic value and productivity gains.

Even in well-established industries, constant improvement of goods and services and implementation of best practices leads to incremental innovation, and therefore productivity growth.

Figure 1. Introducing new management techniques leads to increased productivity and prosperity



Source: Institute for Competitiveness and Prosperity, 2009.

Pathways to Productivity

ECONOMIC SYMPOSIUM

While “disruptive” innovation appears to be the ideal, creating products that open whole new markets, incremental innovation is just as important, if not more so.

As to why it is not as widespread in Canada as it might be, several studies, such as those listed in the Resources section of this backgrounder, point to an educational system and public policies that undervalue business, technology and applied learning. Researchers at the Centre for Productivity and Prosperity at the Ecole des Hautes Etudes Commerciales in Montreal also point to stricter labour market legislation, less competition, and an older workforce in explaining delays in adopting new ideas.

Many of these experts highlight the need for promoting the development of balanced skills – not only hard science and engineering, but also problem-solving

and management.

While there may be intense competition among Canadian and Ontarian companies with respect to invention of the sort that sometimes leads to disruptive innovation, a whole field of process competition is largely absent from the marketplace.

There is no single explanation as to

why. But improved business strategy – the mechanism that embeds innovative practices and attitudes into companies – might be one answer.

“... firms in many industries could improve their productivity by simply adopting the best practices used across the world. The large gap in business sector productivity between key industries in Canada and the United States suggests that Canadian firms could immediately improve their productivity by mimicking American firms.”

-TD Economics: The Productivity Puzzle, 2010

“Continuing the development of new management techniques, such as just-in-time logistics and lean manufacturing and retailing, can lead to economy-wide growth in productivity and prosperity.”

-Institute for Competitiveness & Prosperity, 2010

Lean: a best-practice operating strategy that maximizes efficiency by simplifying work processes to eliminate wasted effort, time, materials, and motion.

- Reduce non-value adding activities
- Improve overall operating flow
- Continually improve operations and processes
- Closely track operations to identify problems
- Identify improvement opportunities on an ongoing basis.

Case Study: Grand & Toy – going “green,” strategically.

Going “green” can also mean going “lean.” In pursuing that strategy, business supply retailer Grand & Toy did things like move to double-sided printing (reducing paper consumption by 26% nationwide), switched from a paper-based delivery management system to one that allows customers to sign for shipments electronically and instructing drivers to map the most efficient routes for delivery in order to reduce gas consumption and emissions.

Case Study: Cirque du Soleil – rethinking the circus.

In approaching the concept of a circus experience in a completely different way, Cirque du Soleil created a whole new entertainment market. By dramatically outperforming circus-goers’ expectations, Cirque du Soleil now had a far higher-value product.

Source: Council of Canadian Academies

Resources:

- Council of Canadian Academies: Innovation and Business Strategy: Why Canada Falls Short. Report of the Expert Panel on Business and Innovation
- Institute for Competitiveness & Prosperity: Management Matters in Retail - Working Paper 13
- Institute for Competitiveness & Prosperity: Today's Innovation, Tomorrow's Prosperity
- Kevin Lynch: Are We Ready to Really Compete?
- Globe and Mail: “Maple Leaf’s vision: A leaner, meaner meat packer”