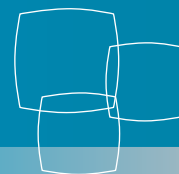




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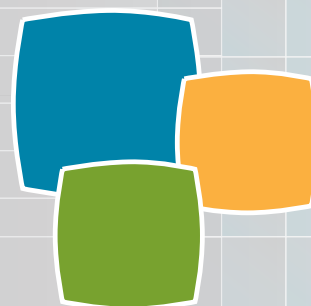
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SURVEY OF INNOVATION AND BUSINESS STRATEGY 2009



Profile on Management Practices —

Key findings from the *Survey of Innovation and Business Strategy 2009*



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Profile on Management Practices

Key findings from the *Survey of Innovation and Business Strategy 2009*

This profile presents a short summary of management practices used by enterprises operating in Canada in 2009. The results are based on data from the *Survey of Innovation and Business Strategy 2009* (SIBS - see Annex for a short description of the survey). SIBS data provide some of the first enterprise-level empirical evidence about management practices using a large sample of enterprises in Canada.

A number of recent reports by industry observers suggest that “business complacency” is one of the major causes of Canada’s lagging productivity growth behind the United States. In particular, Drummond and Bentley (2010)¹ suggest that enterprises in Canada do not adopt best practices from around the world that could enhance their productivity. A different but complementary view is that enterprises in Canada have solid assets to build on, but are not making the most of these assets.²

“Business complacency” can be interpreted in different ways, but one popular view in the economic literature is in terms of the management practices of firms. Management practices include human resource practices, the organization of the enterprise, and other “intangible” value-creating activities. Since strong management is a critical element in the innovativeness of Canada’s economy, and hence its productivity and prosperity,³ it is important to better understand how enterprises in Canada are managed.

One key finding reported in this profile is the absence of any clear pattern of differences in the management practices of manufacturing and non-manufacturing enterprises. Within manufacturing, however, large enterprises consistently report a higher incidence and intensity of using human resource management practices and monitoring production performance relative to medium and small enterprises.⁴

Use of human resources management practices

Training programs

Figure 1 indicates that manufacturing and non-manufacturing enterprises were equally likely to offer training programs to increase employee promotability or to teach them how to perform their job. With regard to enterprise size, a higher percentage of large manufacturing enterprises offered some kind of formal training to their employees in 2009 than either medium or small manufacturing enterprises. Figure 1 also suggests that the main objective of training for

¹ Drummond, D. and Bentley, A. (2010) “The Productivity Puzzle: Why is the Canadian Record so Poor and What can be done about it?” *TD Economics Special Report*.

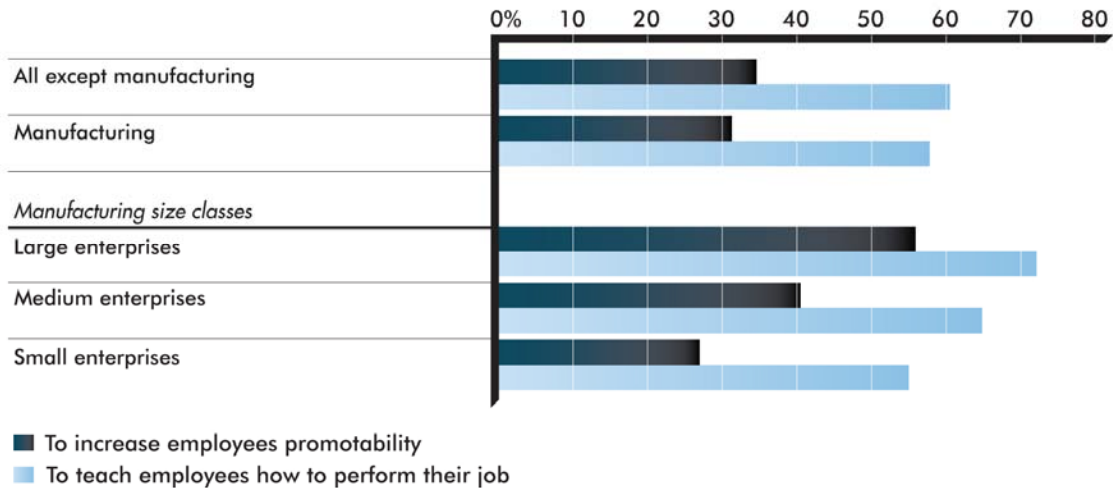
² The Institute for Competitiveness and Prosperity, “Management Matters”, March 2009, Toronto, p.4.

³ Ibid, p.4.

⁴ Due to differences in sampling, the precision of estimates from non-manufacturing industries is lower than in the manufacturing sector. Although the data quality is sufficient for analysis using this industry aggregate, an extended analysis comparing enterprise size classes was not possible for non-manufacturing enterprises. As a result, the analysis comparing enterprise size classes is limited to the manufacturing sector.

enterprises in Canada was to teach their employees how to perform their job, rather than to increase their promotability.

Figure 1: Use of formal training in the enterprise in 2009
Percentage of enterprises



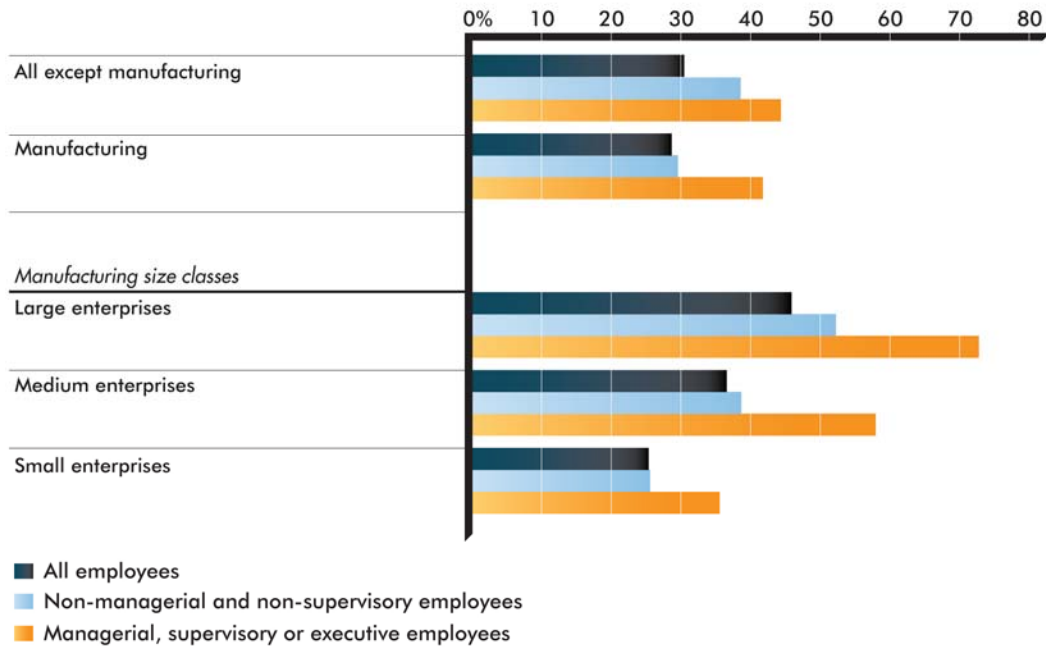
Source: Survey of Innovation and Business Strategy, 2009

Work incentives

Financial incentives, such as employee stock ownership, profit-sharing, gain-sharing and merit bonuses, are widely used by enterprises in Canada. Figure 2 shows that a higher percentage of non-manufacturing enterprises offered at least one of these programs to non-managerial or non-supervisory employees relative to manufacturing enterprises. However, similar proportions of enterprises in both sectors offered one of these programs to employees in managerial, supervisory or executive positions. Within manufacturing, large enterprises were more likely than small and medium enterprises to offer at least one of these incentives to employees in each category.

Involving employees in the decision-making process could also have a positive impact on the quality of the work they do. About 55% of manufacturing enterprises and 62% of non-manufacturing enterprises reported that their employees are involved in the decision-making process on task allocation, but in contrast to several other SIBS results on management practices, there was little difference across enterprise size (not shown in figures).

Figure 2: Use of incentives programs in the enterprise by type of employee in 2009
Percentage of enterprises

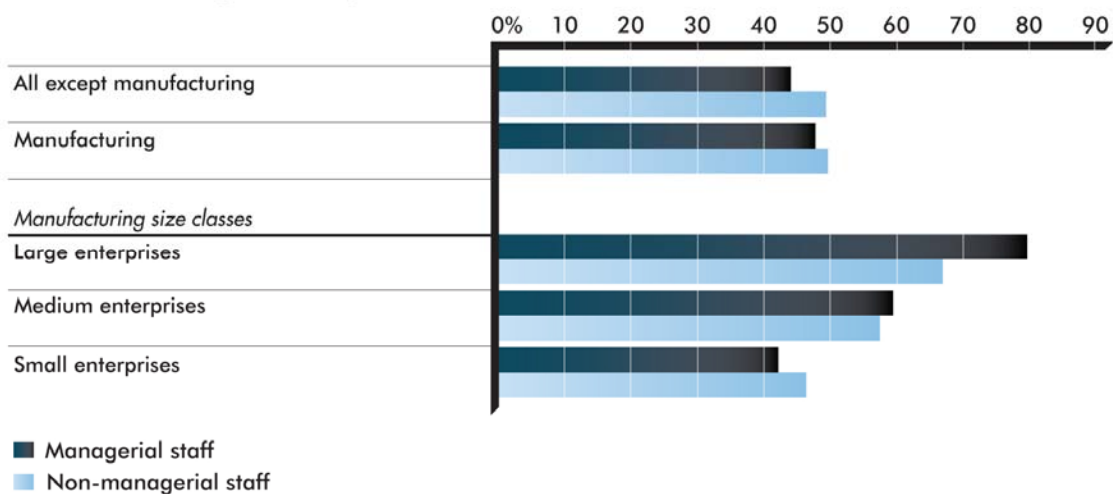


Source: Survey of Innovation and Business Strategy, 2009.

Appraisal and promotion processes

Figure 3 shows that the percentage of enterprises utilizing formal annual appraisals for either managerial or non-managerial employees was similar across the manufacturing and non-manufacturing sectors in 2009. However, the figure also indicates that a formal annual appraisal was used more often in large manufacturing enterprises than in medium and small manufacturing enterprises.

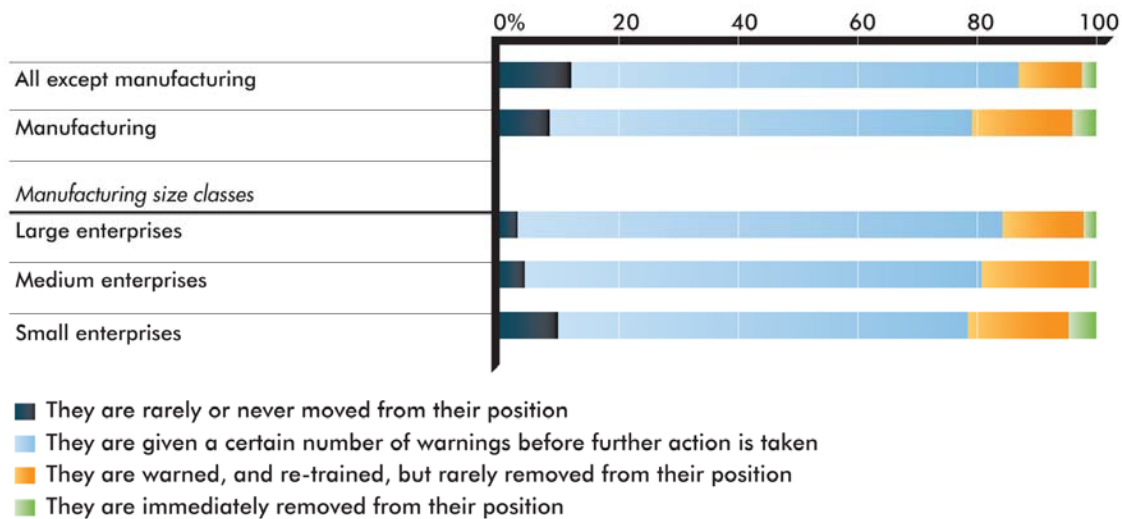
Figure 3: Use of formal annual appraisal in the enterprise by type of employee in 2009
Percentage of enterprises



Source: Survey of Innovation and Business Strategy, 2009

When employees do not meet expectations, a majority of manufacturing enterprises (71%) and non-manufacturing enterprises (75%) reported that they give the employee a certain number of warnings before further action is taken (Figure 4). More extreme policies—either immediately removing the employee from his or her position or rarely if ever removing the employee—are less prevalent. However, small manufacturing enterprises were more likely to have one of the extreme policies than large manufacturing enterprises.

Figure 4: Enterprise main policy to deal with employees not meeting expectations in 2009
Percentage of enterprises



Source: Survey of Innovation and Business Strategy, 2009

Finally, manufacturing enterprises (58%) were almost as likely to promote employees based solely on effort and ability as non-manufacturing enterprises (62%) in 2009 (not shown in figures). Of the remaining enterprises, most used a promotion process based on a mix of effort and other factors such as tenure.

Monitoring of production performance indicators

In 2009, a higher percentage of manufacturing enterprises (68%) than of non-manufacturing enterprises (42%) had a systematic process or procedure to resolve problems associated with the production of goods or provision of services.

Large manufacturing enterprises were more likely to monitor production performance indicators (*e.g.*, for quality, for efficiency, for safety, *etc.*) relative to smaller manufacturing enterprises. In 2009, 96% of large manufacturing enterprises monitored at least one production performance indicator at a higher proportion than medium (92%) and small (77%) manufacturing enterprises. On average, large manufacturing enterprises monitored more production performance indicators (18.5 indicators) than medium-sized enterprises (9.4 indicators).

Figure 5 reports whether these performance indicators were shown to manufacturing enterprises' management or employees on a monthly, weekly or daily basis in 2009. Large enterprises were more likely than small and medium enterprises to show the indicators to their employees for all frequencies considered.

Top and middle managers of manufacturing enterprises were more likely to review performance indicators although with different frequencies; 67% of manufacturing enterprises that monitored at least one indicator reported that senior managers reviewed them continually and 30% that they reviewed them periodically (not shown in the figure).

Figure 5: Frequency at which performance indicators were shown in the enterprise by type of employee and enterprise size in 2009
Percentage of manufacturing enterprises that monitored at least one indicator

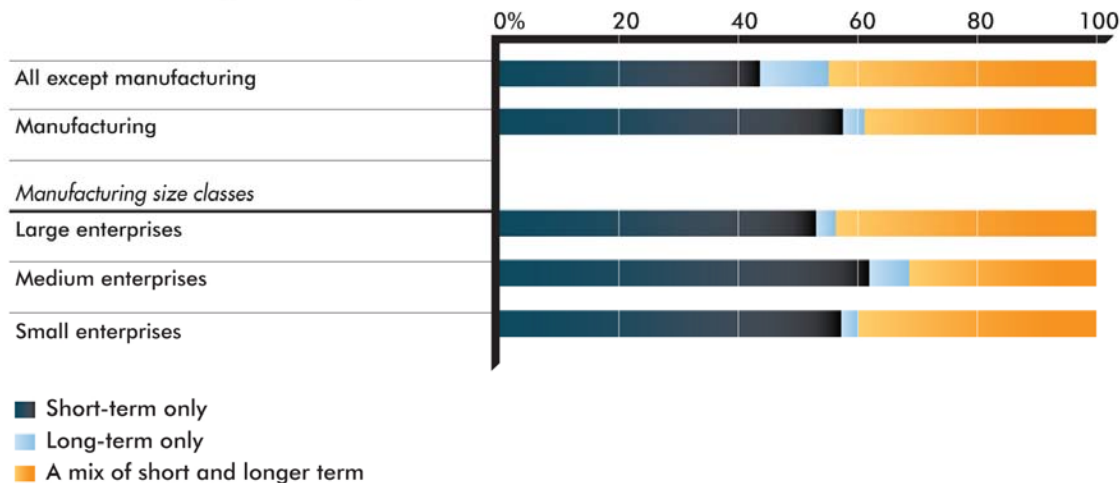


Source: Survey of Innovation and Business Strategy, 2009.

Lastly, Figure 6 shows that manufacturing and non-manufacturing enterprises were similar regarding their time frame for production performance targets. Approximately 40% of enterprises in both sectors reported that they employ a mix of short and longer-term production performance targets. The management performance literature views a mix of short and long term targets as being preferable to solely adopting either a short or long-term focus. Under a mixed strategy, “long-term goals [can be] translated into specific short-term targets so that short-term targets become a staircase to reach their long-term goals”.⁵ In this respect, Figure 6 shows that large and small manufacturing enterprises were more likely than medium-sized enterprises to adopt a mix of short and long-term strategy.

⁵ Bloom and Van Reenen (2007), “Measuring and Explaining Management Practices Across Firms and Countries”, Center for Economic Performance Discussion Paper No. 716, p.42.

Figure 6: Time frame for enterprise production performance targets for its main product in 2009
Percentage of enterprises that monitored at least one indicator



The percentages are re-calculated to exclude the "no performance targets" category.

Source: Survey of Innovation and Business Strategy, 2009

Final remark

Future research at Industry Canada will assess whether the use of sophisticated management practices is associated with higher productivity, business innovation and enterprise growth. The development of similar data in the U.S. would also enable the undertaking of comparative Canada-U.S. studies.

Annex – Description of SIBS

SIBS is a joint project undertaken by Industry Canada, Foreign Affairs and International Trade Canada and Statistics Canada to better understand the market and policy factors that encourage or discourage the adoption of entrepreneurial and innovation-oriented business strategies. In addition to detailed information about management practices, the SIBS provides information about the various business strategies, innovation activities, international involvement, competitive environments and marketplaces of enterprises in Canada. Analysis of each of these topics is available in the Industry Canada report, "[Business Innovation and Strategy: A Canadian Perspective](#)".

A sample of 6,233 enterprises in Canada, each with more than 20 employees, and spanning 67 industries were surveyed. As a result, SIBS results are representative of all enterprises in Canada with more than 20 employees and revenues of at least \$250,000 in the selected industries. The overall survey response rate was 70%. A more detailed description of the SIBS is available on the websites of [Industry Canada](#) and [Statistics Canada](#).