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Canadian Competitiveness: The Public Sector Factor

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Executive Summary

"For small, open economies like Canada's, the key to success is to ensure that governments, at all levels, and business are pulling together as a team."

Government and business are responding to changing global business conditions. Much has been written about how business is responding, much less has been written about the government response. This paper seeks to redress that imbalance by focusing on the federal government response, which many in the private sector tend to overlook — much as they sometimes overlook the potential for a positive impact of government activities on their competitiveness. Other things being equal, it is the relevance of the service that government provides, and the quality of its relationship with the private sector that can make a difference. In a globalized economy, governments of all nations compete for jobs and investment on the basis of the attractiveness of the overall business climate.

The federal government has undertaken the job of re-making itself so that it is a competitive plus for Canada. This paper discusses the evolution of its role in the last few years and its direction in the future and goes on to describe federal analysis of the competitive impact of its regulations, policies and practices.

The federal government has responded to calls from business groups and others to reduce grants and subsidies. This paper suggests that there are other more effective tools to support our business in a global economy. It describes the increasing emphasis the federal government places on information and analysis to support Canadian business in market development, application of technology, research and development, and investment. Timely information and analysis are a critical resource in this economy and the federal government is in a unique position to gather, add value to and disseminate it to support business planning and activity at home and abroad.

The challenge is for the public sector to eliminate duplication and overlap, within government, between levels of government, and the private sector. The paper suggests that the governments of our companies' competitors are already acting to improve their services, thereby improving their competitive climates, and argues that we in Canada must do no less.

The paper suggests that both business and government stand to gain from greater collaboration. It describes two projects that illustrate the value of closer collaboration among private and public sector partners. First is the Canada Business Service Centre pilot project in Winnipeg, launched in January. Second, development of the Second Annual International Trade Business Plan, which is intended to help both business and government work more effectively in developing new and existing markets. These are only illustrations of the direction in which the federal government is moving. It is no more than a beginning — but a promising one.

Industry associations need to respond to a changing business environment. The federal role outlined is to help business understand the need and options for change to make our industry associations more effective. Transforming associations is not an end in itself, but the paper suggests that experience in other nations shows that Canada's industries might benefit from stronger industry associations.

The paper says that the goal is to transform government from a hurdle into a spring-board for Canadian business success. For small, open economies like Canada's, the key to success is to ensure that governments, at all levels, and business are pulling together as a team. That is our goal and we are making progress toward it.

Introduction

... government cheques don't buy competitiveness — not the sustainable kind. More often than not, government subsidies distort business decisions, making them misallocate scarce resources and substitute bureaucratic rules for market signals. This view is one that has been widely supported in the business community.

This paper highlights some aspects of the changing role of government in Canada in the 1990s. It focuses on the impact of the changes wrought by the information revolution and the globalization of the economy on the critical role the public sector plays in building Canada's economic success.

In a nation that once honoured public service, government is today often held up as an example of waste and inefficiency. Why? The business community has made many of the painful adjustments that are needed to remain competitive in the global marketplace. However, during this transition, many felt that the public sector was not following suit. This paper is about some of the ways that the public sector is now responding to the changing competitive climate.

There was a time in the past, when many Canadians — including some of those in government — felt that government was best positioned to know and protect the national interest and that the private sector simply had to accommodate itself to public sector decisions. Perhaps it is because of this outmoded perspective that people in business tend to overlook the potential for a positive impact of government activities on their competitiveness. The conventional view among many in the business community was that governments should regulate where necessary (preferably your competitor, but not yourself!) write cheques when required; provide essential social services, like Medicare, which enhance competitiveness; take care of some of the trade issues; and stay out of the way the rest of the time.

Public service teaches one that life is not that simple. Business has to run the race itself. But, other things being equal, it is the relevance of the service that government provides, and the quality of its relationship with the private sector that can make a difference at the finish line.

In a globalized economy, governments, particularly those of relatively small nations compete for jobs and investment on the basis of the attractiveness of the overall business climate. This means that our social and economic well-being as a people is dependent on whether Canadians and other investors see this country as a good place to do business. This reality has helped to shape the policies of the federal government over the last eight and a half years.

During that period, the federal government has been moving on many fronts to make Canada competitive. We have secured access to the vital North American market. We have created a more positive climate for investment. We have made government less intrusive and more supportive. We have brought interest rates and inflation down, and we've made progress on the deficit. All of these, according to the Organization for Economic Co-operation and Development (OECD), are creating momentum in the right direction.

They are the factors the OECD and the International Monetary Fund (IMF) considered when they recently concluded that Canada will enjoy the highest rate of economic growth among industrialized nations this year and next. And it contributed to the IMF's calculation that Canada would enjoy the highest rate of employment growth in the G-7 over the same period. These are all key factors contributing to our competitive success as a country.

We have also made a start on the job of remaking Canada's federal government so that it is a competitive plus for Canada. This paper will also discuss the evolution of its role in the last few years and its direction in the future.

The changing nature of the support that government gives to businesses is a good starting point. In this area one can sum up the change in direction simply: the federal government is writing fewer cheques to business. That's happening partly because the money isn't there. But that's only the minor reason we have been reducing direct subsidies. A more basic reason is that government cheques don't buy competitiveness — not the sustainable kind. More often than not, government subsidies distort business decisions, making them misallocate scarce resources and substitute bureaucratic rules for market signals. This view is one that has been widely supported in the business community.

No one summed it up better than Matthew Barrett of the Bank of Montreal when he asked at his last shareholders meeting rhetorically, "Where might governments look for savings? They could begin," he said, "by taking a hard-nosed approach to business subsidies." The question we need to ask each time, he added, is this: "Does the subsidy constitute the best use of scarce resources for the economy as a whole? If the answer is no, then it must not be granted. A business should be able to stand on its own two feet." The Chamber of Commerce has also gone on record with a statement that governments should eliminate all subsidies to business other than those for research and development. And these people aren't just praising the virtues of a cold shower before the tap is turned on. The cold water has been running for the better part of a decade.

Between 1984-85 and 1992-93, federal subsidies to business have been falling at an annual rate of about 5.7 percent — but this doesn't tell the whole story. In fact, since we have increased support for R&D, by nearly 50 percent over the same period, traditional direct business subsidies have fallen even faster — by over 9 percent a year. This net reduction in direct subsidies to business contributed to holding our real program spending growth to 0.1 percent per year in the last eight years. This has allowed us to turn a substantial operating deficit, when we took over in 1984, into an operating surplus — which means we are paying all our current expenses and some of the cost of debt service from annual revenues.

Another significant outcome of this trend is that it clears the way for the redeployment of limited resources and skilled people in the public service, to support other kinds of activities that, in the long run will do far more for competitiveness.

To illustrate this point, let us take three examples of activities that are particularly relevant to this discussion. One could call the first item "economic consciousness-raising in government."

The second change has to do with government's role in keeping Canadian business up to date on changing conditions. In other words, giving our million strong small and medium-sized businesses the information they need to take on the world.

The third change is using the information to work with business and other governments to develop the kind of strategic thinking which will help prepare Canadians to compete in a rapidly changing world, instead of playing catch-up.

Understanding the Impact of the Public Sector on the Business Climate

For some time now, right across the federal government, we have been reviewing regulations and their impact on competitiveness. Those that aren't right in their present form are being amended. Those that no longer serve a useful purpose are being dropped.

To expand on these activities for a moment, we should start with the "economic consciousness-raising in government." In other words, increasing our understanding of the impact of our policies on the business climate mentioned earlier. In moving into its new role, the federal government must equip itself with the sensitive sounding systems it needs to detect the impact of its own policies and actions.

The relationship of our counterparts in Europe and Japan with their companies is far more sensitive, not only to the public interest but also to the problems of the companies.

Because of this intimate relationship, these governments are very much aware of the impact their policies have on the ability of their companies to compete in a global marketplace. We in Canada have not always given this factor the attention it needs. And until all levels of government in Canada do, we are, to a dangerous extent, flying blind.

So far as the federal government is concerned, we have made substantial progress in improving our performance in this regard, but more remains to be done. From now on, before we introduce new policies, procedures or regulations, we will know what they will do to our competitive position. And the impacts will be estimated not just for the economy as a whole, but for sectors and industries.

We need to understand the impact of all policies, procedures and regulations on competitiveness — including those that are still on the drawing board. We are now reviewing their impact sector by sector. We have made a start in this area, but much remains to be done.

For some time now, right across the federal government, we have been reviewing regulations and their impact on competitiveness. Those that aren't right in their present form are being amended. Those that no longer serve a useful purpose are being dropped. The current estimate is that one in four regulations now on the books will be eliminated. We are also making sure that when regulations need changing, they don't linger on like an unrepaired knock in the engine, but get amended quickly.

This kind of action, when fully implemented, will contribute more to Canadian competitiveness than government cheques ever could. But in order to deliver it sufficiently, government will need to widen its field of vision — the second activity referred to earlier.

Public Sector Business-related Intelligence Activities

But like many other assets, information, if warehoused, is valueless. The challenge for governments around the world is to respond by exploiting their talent for collecting information and turning it into something useful to the business community.

We live in an age where information is both a precious and a perishable commodity — this is the essence of the information revolution. For hundreds of years governments have honed a phenomenal capacity to collect and assimilate information. For most of that time they kept the data to themselves. But like many other assets, information, if warehoused, is valueless. The challenge for governments around the world is to respond by exploiting their talent for collecting information and turning it into something useful to the business community.

In the model of government we're working toward, less time and talent will be tied up processing applications for funding. More effort will be devoted to the generation, analysis and delivery of information about market opportunities around the world. And we will be making every effort to ensure that this intelligence is both timely and useful for business.

In the past, talented, well-trained public servants spent most of their days figuring whether the criteria of this or that program apply to a specific company's needs. Now, the federal government's role is undergoing a fundamental shift from program delivery to information production and delivery. At the same time, we will be making more logical use of our people. By engaging the skills and training of public servants to collect and add value to strategic information, the federal government will be providing a unique service to business — and one that can be done only in this sector.

The federal government has an immense unexploited ability to be a resource centre for Canadian industry. Statistics Canada, for example, is recognized internationally as one of the world's most thorough and reliable statistical agencies. And the information gathered by the federal government extends well beyond basic domestic statistical data. Every day, our posts abroad and departments and agencies here in Canada gather critical information about market trends, technological developments, trade, technology and investment opportunities across Canada and around the world. Having this capacity available to policy makers is important, but if the information isn't also used by Canada's private sector, it will not support our competitiveness or secure our prosperity. Since these are our goals, our challenge now is to help business make the most effective use of the information we develop.

This federal government capability, although still under exploited, is unique in Canada. No other organization has the Canada-wide presence or the worldwide network of listening posts to collect, analyze and feed-back information on domestic trends in productivity, technology and other measures.

In short, if the Government of Canada doesn't gear up to do this job, it won't get done, and our overall competitiveness and standard of living, would be the poorer for it. And it must get done if our companies are going to compete on even terms, with companies from countries where government agencies have been established sources of strategic market intelligence for a long time.

Better information will pave the way for the third basic improvement in the public sector and the private — long-term strategic planning.

For too long Canadian business and government have focused on the next quarter or the next election. Unfortunately, critical issues like ensuring we have enough skilled people to take on the jobs of the future cannot be solved by a dedicated effort over a few months. Training, market development, export readiness, R&D — all these are critical to our success in the knowledge-based economy of the future. And success in each of these fields requires sustained effort over the long-term in a consistent direction. This means that success in five or 10 years time depends on companies and governments planning for success today, which in turn depends on good market intelligence. So better, more timely information is not only essential to winning contracts tomorrow, it is also critical to an organization's ability to set long-term priorities that will help Canadians adjust successfully to the changes wrought by the global market.

The best way to explain this change is by comparing the way things are now with the way they will be in the future. Labour and multi-factor productivity growth rates stalled in the 1980s in Canada — with predictable results for our competitiveness and standard of living. Ever since, experts inside and outside government have been trying to decide what went wrong. The sequence of events leading up to the stall have been graphically described. Learned studies have been written to explain what happened and how to avoid it in the future.

But all of this has been like an accident investigation — the focus is on what happened *after* it happened. In the way things ought to be, and will be when we get where we want to be, the federal government will be the radar station, not the accident investigation unit. On the national screen, it would track productivity in Canada, sector by sector. On the larger screen it would watch and report on global trends. And the information wouldn't be stored away for future reference in a vault, but made immediately available for use on the flight deck.

Collaboration: Getting the Public Sector Working Together More Effectively

We have to ensure that the entire range of programs and services offered by all levels of government and by trade associations are complementary and useful to business.

Like any well-organized flight crew, organizations — public as well as private — tend to section off tasks and attack them separately. That makes sense so far as it goes, but imagine what it would mean if the navigator wouldn't talk to the pilot and the engineer won't speak to anyone but the maintenance supervisor on the ground. This situation would quickly become life-threatening. True, duplication of government services to business isn't likely to be life-threatening. Still, it can be very detrimental to the capacity of our companies to compete. So the challenge for the public sector is to eliminate counter-productive duplication and overlap both within governments and between levels of government. We have to ensure that the entire range of programs and services offered by all levels of government and by trade associations are complementary and useful to business.

On an organization chart, activities like trade development, the application of technology, investment and human resource management may fit neatly into separate boxes. In the federal government alone there are over nine departments and agencies with a mandate to help build the competitiveness of Canadian business. Given this number of organizations trying to help, it might be comforting to think that the world fits into neat little boxes. Anyone with the benefit of private sector experience knows that the world doesn't work that way. So this collection of diverse mandates needs to be refocused.

In days gone by, agencies like Statistics Canada and the Export Development Corporation, the Canadian Space Agency, might at first

glance, have appeared to have little in common with most of the hundreds of thousands of businesses in this country, or with the other agencies with which they were intended to work in support of Canadian business competitiveness. However, each has an impact on certain sectors of Canadian business.

In the past, Industry, Science and Technology Canada, Investment Canada and International Trade Canada have sometimes appeared to work with little regard for each other's activities. Likewise, the National Research Council and the Natural Sciences and Engineering Research Council might have sometimes been seen to pursue objectives too far removed from the realities of most businesses. While this may have been the perception in the past, more and more it is no longer the reality today.

Refocusing each of these organizations on support for Canadian business excellence and success has been a challenging task — one which responded to the demands of Canadian business. In a world in which private sector organizations are streamlining their organizations, public sector must likewise reorganize to become leaner and more effective. Success in today's business world depends on sound, quality information and outstanding performance in delivering goods and services on time, wherever the customer wants them. Businesses that are successful in that climate will have little patience for the bureaucratic runaround from organizations that are ostensibly on their side. While they may expect it from foreign governments, they certainly don't deserve it

from their own. So, our goal in refocusing federal support for business competitiveness is to ensure easy access to timely information, analysis and advice by our companies.

While governments do not compete directly in the global market, the business climates they establish certainly do. As indicated earlier, these climates are a major determining factor in myriad business decisions which, in turn, determine the competitiveness of individual firms in the global marketplace. The governments of our companies' competitors are already acting to improve their services. So we in Canada must also develop integrated and comprehensive programs that provide the most effective support for Canadian competitiveness.

This is the way of the future, and it is being adopted on an increasing scale within the federal government. As it takes hold, it will deliver tangible benefits to the users of government services. This would begin to break down the traditional business suspicion of government, which would, in turn, provide benefits for both parties. If the government could gain a better understanding of the information and service requirements of successful business, it could constantly improve the effectiveness of its services.

If business came to have a more positive attitude toward government services, they would come to see public servants as their eyes and ears in the markets of the world. This would ensure that a more effective, rapid and relevant flow of information could form an essential part of their planning. In this way, the government would not simply be seen as regulator,

tax collector or, at worst, purveyor of bail-outs. It would also take a role as a sort of strategic partner.

So much for the theory and the objectives behind this initiative. To give an everyday example, if the official you reach on a first inquiry has not been tasked to think about your particular problem, he or she probably will have to redirect you. With over 200 000 public servants, each working on their own files, the possibility for misdirection is staggering. The individual public servant can hardly be blamed for this situation — but is simply delivering services that the public has demanded. Neither should the diversity of this array of services be an impediment to would-be clients.

In the future as it should unfold, government services will be planned and delivered in accordance with the old rule of thumb in retail service that's known as K I S S: Keep it simple, stupid. Afterall, the service requirements of government and those of department stores are not all that different, once you get to basics.

It's not the responsibility of the customer looking for shoes and socks to become an expert in the layout of a business. It's up to the proprietors to make things easy — to let you know where the different items are, to have the goods plainly displayed on the shelf, to give you a cart to move the stuff around in, and, in case you get stuck, to have someone at the courtesy desk who can answer questions. So it should be with government services. Making useful services available to business won't do much good if potential customers have to mount a

research project every time they want to use them. We are still far from being a user-friendly government. But we have made some progress. One project in particular captures what will be the look of the future.

Over the past 18 months, the federal government, along with other partners, created an exciting concept: The Canada Business Service Centre (CBSC). The concept is simple. If you need information about some government program and you don't know who's in charge, you don't have to call 20 or 30 numbers to find out. You call one number. At the other end you'll get a person who has been specially trained to direct you to the right source. You get connected with the right person right away, instead of having to wander through the maze of government yourself.

This is a collaborative initiative. In January 1993, ISTC launched its contribution to the CBSC concept. A pilot project was established in Winnipeg by the 17 partners involved. The pilot includes a number of federal departments and provincial government agencies, the Winnipeg and Manitoba Chambers of Commerce, the Canadian Manufacturers' Association and the University of Manitoba.

The Winnipeg Centre and the other pilot projects in Halifax and Edmonton are a good beginning — but only a beginning. The federal government has committed to working with others toward the establishment of similar centres in at least one major urban centre in each province. The Winnipeg Centre exemplifies the direction we want to go in developing a customer service oriented approach

to government. It is where we want to be, not where we are today.

Another good model for the future is the Second Annual International Trade Business Plan launched by the federal government two months ago. This plan is intended to help both business and government work more effectively in developing new and existing markets. In this regard, it is an excellent example of the third kind of activity outlined earlier — namely, strategic planning. This plan pulls together into one package an analysis of market opportunities and what government is doing. It provides a description of the international market support operations of 15 federal government departments and agencies broken down into 22 industrial sectors. By drawing together our efforts into one comprehensive plan, we can easily see where any areas of potential duplication might occur. In this case, the collaborators are the federal government and three major industry associations — the Canadian Exporters' Association, the Canadian Chamber of Commerce and the Canadian Manufacturers' Association.

We hope to engage the provinces to participate in this plan next year. If they do participate, in a few short years we will have developed an overall "Team Canada" approach, which will support Canadian business in foreign markets as never before. This has to be our objective!

These changes will clear the way for a new, more productive relationship between business and government. The federal government is changing and adapting to the new market realities, as are Canadian companies.

Implications for Industry Associations

Companies based in different countries arrive at the global race-track with differing levels of fitness. They are either helped or handicapped by the effectiveness of their public sectors and their industry associations. ...The firms that show up in the winner's circle most regularly come from countries that have noted the relationship between competitive success and a supportive public sector — and have acted on it.

Other essential contributions to Canadian business competitiveness would be ignored if we did not include industry associations. There are some activities that neither government nor the individual firm is best positioned to handle. If both government and business are moving to respond to a changing business environment, so too must industry associations.

If the internal improvements the federal government is undertaking are to translate into better competitiveness, changes will be required within Canadian business, and industry associations in particular will need to rethink their missions and perhaps their structures.

Canadian and American associations do not play as direct a role in the operation of their respective economies as their opposite numbers in, for instance, western Europe and Japan.

As the Prosperity Steering Group noted in its report last fall, partnerships like industry associations are products of their native habitat. You can't simply transplant them from one culture to another. But we can and should learn from experiences around the world in developing our own home-grown Canadian models.

There are at least 500 industry associations in this country — in other words, a lot more associations than there are sectors. The problem inherent in this fragmentation is that a multitude of small associations will not be able to provide the quality and depth of service to members that fewer, stronger ones could do.

Ottawa's role will include sharing information on alternative models and demonstrating the need for change. It won't include directing associations on how to adapt to these new conditions. Together we can and must develop strong, uniquely Canadian industry association models. ISTC has launched a study of industry association best practices and structures and is consulting Canadian industry about ways that Canadian industry associations can become more effective contributors to our competitiveness. As part of this work, ISTC will review experiences in other countries to compare them with our own circumstances. We hope this project will foster new thinking on the part of industry associations and individual businesses alike.

Transforming associations is not an end in itself. Nor do we need to change our traditional ways simply because others are doing so. However, the experience of other nations suggests that small industries can be more successful in world markets if they pool their talents. The leading-edge industries in Canada, and those creating most of the jobs, are small and medium-sized, knowledge-based companies. The experience of countries like Germany suggests that such Canadian industries can be more successful if they have the support of both government and strong industry associations.

Our competitors have associations that are strong advocates for industry in the public policy-making process — as many Canadian associations are today. But they also have industry associations that support industrial competitiveness in other important ways. For example, many play an active role in the planning and training of industry workers, developing new markets, supporting and directing pre-competitive industrial R&D, and in developing industry standards. As the role of the public sector changes, Canada will need a strong phalanx of industry associations to support our businesses. That is why the federal government has been urging forward-looking business leaders to think about making more effective use of this critical resource.

Companies based in different countries arrive at the global race-track with differing levels of fitness. They are either helped or handicapped by the effectiveness of their public sectors and their industry associations. How well companies do in the race is determined by their drive and the number of hurdles they have to overcome before the finish. The role of the public sector and industry associations is to help them over as many hurdles as possible.

The firms that show up in the winner's circle most regularly come from countries that have noted the relationship between competitive success and a supportive public sector — and who have acted on it.

They understand the vital role of the public sector in the functioning of modern economies. They understand that the services that governments provide are a factor in the equation of success. They realize that the effectiveness of the public sector/private sector relationship is a factor in competitiveness. They have a candid and businesslike relationship with government. They rely on the expertise and capability marshalled in that sector to help them negotiate the hurdles. In short, they understand the importance of the public sector factor. Canada is beginning to understand it too — and we are acting on that knowledge.

Conclusion

We aim to provide the most effective and positive support of a government committed to the success of Canadian business at home and abroad. With that kind of support and teamwork, we can secure a prosperous future for Canadian business and for all those whose prosperity depends on its success.

A closing though. Our goal is to transform government from a hurdle into a springboard for Canadian business success. As a federal government, we can lead by example and work with business and our provincial counterparts to ensure that this transformation spreads beyond the confines of the federal government. However, this transformation will have to be an interactive process. Government won't be bringing any tablets down from the mountain or delivering sermons to industry on what to do.

It is much more a process of sharing information and constantly improving services by asking questions. The process must depend on industry focusing on emerging trends affecting its future competitiveness. By working together, we can develop the best strategic responses. In the end, of course, individual companies will have to make their own decisions. The role government can play in their decision making is a three-part process. First, to make available the finest, most relevant and up-to-date information. Second, to encourage industries to think and to act long term on issues of importance to their future, like the application of technology, training, R&D, new market development and investment, and so forth. Third, to bring individual firms with shared interests together to act jointly — where this makes sense.

Canada has some of the brightest and most talented public servants in the world. They are responding to the twin challenges posed by the information revolution and the globalization of markets. They are making the changes that the public and the

business community are demanding and they are also encouraging leadership for change in Canada's industries. They are moving to respond to the challenge of providing more information and advice than cheques and regulations. There is no doubt that this is a challenging evolution for them — no less so than a similar transformation has been for the firms that have had to respond to rapidly changing competitive conditions.

Public servants engineering the transformation of federal government support for business success are working in an exciting time. They have a chance that is seldom given to anyone. They have the chance to redefine their jobs and to ensure that they make more sense and are more effective. They have the chance to design their country's economic success — a chance to be the architects of their own future.

For small, open economies like Canada's, the key to success is to ensure that governments at all levels and business are pulling together as a team. That is our goal. We aim to provide the most effective and positive support of a government committed to the success of Canadian business at home and abroad. With that kind of support and teamwork, we can secure a prosperous future for Canadian business and for all those whose prosperity depends on its success.