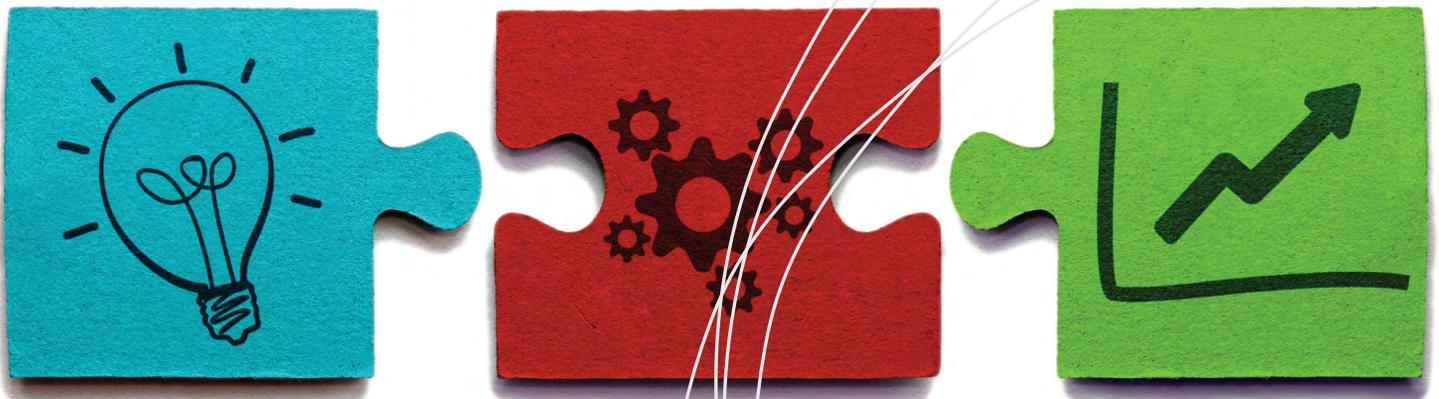




The Conference Board
of Canada

Le Conference Board
du Canada

Centre for Business Innovation.



Centre for Business Innovation
The Conference Board of Canada

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Centre for Business Innovation

Introduction

The Conference Board's Centre for Business Innovation will embrace the measurement and benchmarking mandate identified by the Coalition for Action on Innovation in Canada.

Canada is weak at business innovation. Our weakness is a major part of the reason why our national productivity performance is mediocre, year-in and year-out. Poor productivity, in turn, harms our competitive position in the world and affects our standard of living.¹

The international evidence for innovation performance consistently shows Canada, as benchmarked against its peers, ranking in the middle of the pack, or worse. Both the Conference Board's annual *Report Card on Canada* and the World Economic Forum's *World Competitiveness Report* have highlighted the fact that the problem stems largely from poor business innovation performance by firms. The case for action to transform our firm-level innovation to world-leading status is compelling.

The Coalition for Action on Innovation in Canada, in its recent report, *An Action Plan for Prosperity*, called for Canada to “... become a nation of innovators.” The report presented a 10-point plan to stimulate innovation in Canada to achieve that goal.²

To promote effective action, the Coalition recommended establishing an agency, or mandating an existing organization, to collect and analyze benchmarking and other data that would measure innovation performance and track results. This agency would “... have the capacity to conduct or commission cross-country, sector-by-sector benchmarking of Canadian business to global best practices.”³

1 The Conference Board of Canada; Expert Panel on Business Innovation of the Council of Canadian Academies (2009); Coalition for Action on Innovation in Canada (2011).

2 Coalition for Action on Innovation in Canada, *An Action Plan for Prosperity* (October 2010). www.acctcanada.ca/Documents/Coalition_for_Innovation_2010_report.pdf.

3 Ibid., 7.

Why are we not seeing more Canadian businesses investing in these technologies—especially given the strong Canadian dollar and growing global competition?

The Conference Board's Centre for Business Innovation intends to embrace that measurement and benchmarking mandate and fulfill this role as a core part of its program.

Our Approach

The Conference Board of Canada is establishing the Centre for Business Innovation (CBI) as a five-year initiative to help bring about major improvements in firm-level business innovation in Canada. The CBI's mission is to learn why Canada is not a leader in business innovation, to create insights for firms and capital markets that will improve firm-level innovation, to generate evidence and track our performance, and to formulate public policies that will successfully stimulate business innovation. Positive results will help Canada become a world leader in this area, thereby boosting its competitiveness.

The Centre will bring together a group of business, government, and academic leaders to provide guidance; review the findings of the Centre's in-depth, comprehensive, and objective research; build a shared understanding of the problems and solutions; and advise on disseminating results to firms for uptake and implementation. The core membership of this blue-ribbon advisory group will be the financial supporters of the CBI.

The Centre will seek to learn from other countries' experiences and apply them to Canada. Some peer countries have outperformed Canada in terms of business innovation, and some sectors are more innovative in countries other than Canada. Learning from the world leaders will be valuable in proposing solutions for our country.

Background

Many explanations for poor innovation performance have been proposed over the years, by academics, industry groups, think-tanks and government bodies. Most have focused on public policies such as taxation, R&D tax credits, regulations, or on market structural issues. Some organizations have argued that there is a lack of sufficient risk capital,

scientists, engineers, or qualified business managers. Others have looked at firm and entrepreneurial behaviour, such as management willingness to take risks or to build globally competitive large corporations.

But these studies have been limited by a lack of sufficient data and information.⁴ Consequently, more conclusions have been reached from beliefs and opinions than from actual evidence.

Where and how to take action? Some major attempts at solutions have already been tried. For example, great progress has been made in reducing the business tax burden in recent years. However, we have not seen hoped-for gains in business innovation performance. Is it because the tax changes were not focused on innovative firms? Did regulatory and other public policy roadblocks get in the way? Did Canadian firms fail to adapt quickly enough to the forces of globalization, by internationalizing their business through the development of global value chains and greater openness to the use of foreign direct investment? Or is it because there are internal issues within Canadian firms that are preventing them from taking advantage of lower taxes to become more innovative?

Currently, firms appear to be under investing in innovation-related technologies. For example, investments in information and communication technologies—“embodied innovations”—have lagged in Canada compared with the United States, and there is evidence that these investments boost productivity. So why are we not seeing more Canadian businesses investing in these technologies—especially given the strong Canadian dollar and growing global competition?

So far, there are no conclusive answers—or solutions—to these firm-level issues. A major roadblock for business and government is the lack of comprehensive data and information for diagnosing the

4 The lack of factual evidence is mentioned frequently by the Council of Canadian Academies in its 2009 report.

problem. Once that solid evidence is obtained, the next steps will be to create firm-level strategies and reinvigorate the policy environment to encourage firms to innovate.

Innovation Defined

The Conference Board defines innovation as a process through which economic or social value is extracted from knowledge—through the creating, diffusing, and transforming of ideas—to produce new or improved products, services, or processes.⁵

There are four major types of business innovation. (See Table 1.)

1. **Radical Change to Products and Services**

Radical or breakthrough change to products and services usually originates from R&D or other forms of formal creative activity and can be in response to unarticulated, unmet, customer needs. Often, but not exclusively, radical change is based on ideas for a new product or service stemming from research discoveries or other sources. It then evolves through a development process to eventual commercialization of new or extremely different products and services. These new products and services can drastically alter what companies sell, and generate major gains in revenue and profit.

Examples of a breakthrough product include the automobile, penicillin, Polaroid camera, laptop computer, Windows operating system, ATM machine, and the iPad. Examples of a breakthrough service include the dentist (as a certified professional), the Internet, IBM one-stop tech service model, and online shopping.

5 OECD, *Science, Technology and Industry Scorecard 2005: Towards a Knowledge-Based Economy* (Paris: OECD, 2005). This definition is similar to, but broader than, the OECD definition of business innovation with its emphasis on implementation: “The implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations.”

2. Radical Change to Processes

Radical or breakthrough change to business and management processes is based on fundamentally new ways to plan, manage, design, produce, distribute, and market products and services. These changes are rare, but when they occur they can radically alter how companies operate, and yield major gains in productivity and profit.

Examples of breakthrough improvements in processes are assembly line automobile production; Lean Manufacturing, a process for greatly reducing waste; and Six Sigma, a process for radically reducing error rates.

3. Incremental Improvement to Products and Services

Incremental improvements add or sustain value by improving existing products and services. These incremental changes can be in response to evolving customer needs, or the result of ideas emerging from research labs or elsewhere. Most product and service innovation is incremental in nature.

Examples of incremental change to products include Microsoft's Windows 7, Apple's second generation iPad, and niche food products (e.g., 10 kinds of tomato sauce). Examples of incremental change to services include online registration systems for post-secondary education courses, the spa as a one-stop source of beauty care, and same-day dry cleaning.

4. Incremental Improvement to Processes

Incremental improvements enhance the efficiency and effectiveness of existing processes and practices. They are based on improving current business and management processes, such as planning, design, manufacturing, production, marketing and administration, supply chains, and communications. Most process improvements are incremental in nature.

Examples of incremental improvements to processes include adding technology to replace people in a section of the production cycle, reducing water usage in the production of food, "de-layering" management levels to bring decision-makers closer to operations and customers, and streamlining manufacturing processes to reduce the number of steps.

Table 1
Four Types of Innovation

	Radical Change	Incremental Improvement
Products and services	<p>Radical or breakthrough changes result in new or fundamentally changed products and services that can radically alter what companies sell, and generate major gains in revenue and profit.</p> <p>Examples</p> <p>Products: Automobile, penicillin, Polaroid camera, laptop computer, Windows operating system, ATM, and iPad.</p> <p>Services: Dentistry (provided by a certified professional), the Internet, IBM's one-stop tech service model, and online shopping.</p>	<p>Incremental improvements add to or sustain the value of products and services.</p> <p>Examples</p> <p>Products: Windows 7, Apple's second generation iPad, and niche food products (such as 10 kinds of tomato sauce).</p> <p>Services: Online registration systems for post-secondary education courses, the spa as a one-stop source of beauty care, and same-day dry cleaning.</p>
Processes	<p>Radical or breakthrough changes result in new or fundamentally changed business and management processes and practices. The changes can significantly improve how firms operate, as well as productivity and profit.</p> <p>Examples</p> <p>Assembly-line automobile production; Lean Manufacturing, a process for greatly reducing waste; and Six Sigma, a process for radically reducing error rates.</p>	<p>Incremental improvements enhance the efficiency and effectiveness of existing business and management processes and practices.</p> <p>Examples</p> <p>Adding technology to replace people in part of the production cycle, reducing water usage in food production, "de-layering" management levels to bring decision-makers closer to operations and customers, and reducing the number of steps in manufacturing processes.</p>

Source: The Conference Board of Canada.

Most innovations are incremental in nature and, if implemented properly, lead to cost reductions; enhancements to existing products, business processes, or marketing approaches; and improvements to environmental or safety performance. Less frequently, breakthroughs occur that can create new markets and industries while also eliminating or transforming others. They can also radically change the way we produce, distribute, market, and sell products and services.

The amount of each type of innovation varies by sector. For example, innovations in the natural resource sectors tend to focus almost exclusively on processes and much less on products and services. But in the computer software industry, the focus is mostly on products.

Adoption Versus Origination

At the firm level, most companies often adopt rather than originate innovations themselves. (See Exhibit 1.) Whether they are break-through or incremental in nature, many innovations are new to the firm, but not to the industry (Adopters). There are other innovations that are new to the industry, but not to global markets (Industry Leaders). And, there are those few innovations that are new to global markets (Global Leaders).

Exhibit 1

Dimension of Innovation Adoption



Source: The Conference Board of Canada.

The CBI will explore in depth the nature and implications for firms, industries, and the country of origin and adoption, as elements of firm-level innovation strategies and activities.

Activities of the Centre

The Centre will focus on five areas that cover the full range of global, business, and public policy environmental factors; and firm-specific factors that drive business innovation performance.

Area 1—Business Strategies for Firms

Area 1 will cover firm-level business capacity, leadership, and culture that are essential for innovation. It will emphasize both services and goods-producing industries. It will include operational firm-level decision-making, production process improvement techniques, efficiency strategies, investment options, engagement in international business, risk assessment processes, supply chain interaction, foreign capital attraction, headquarters and head office functions, mergers and acquisitions, university and college partnerships for innovation, intellectual property development and protection, and developing internal corporate innovation culture. The impact of business size on the capacity of firms to innovate and the barriers to business growth will be explored. Quantitative analysis of firm-level data will be undertaken in diagnostics and in developing solutions for use by firms. The goal is to develop a stronger understanding of how firms make decisions on investing in innovation in order to raise awareness and stimulate more firms to innovate.

Area 2—Capital Markets

Area 2 will deal with the role and behaviour of capital markets in funding firm-level business innovation. Innovation involves risk, and capital markets finance “risky” ventures by bringing innovators together with investors who want to fund the development and commercialization of new products, services, or technologies. Highly innovative firms need risk capital to resource their new initiatives. But the nature of capital markets will determine their ability and willingness to do so, as well as the cost. Deep and efficient capital markets effectively facilitate innovation by improving the access to risk capital and by lowering its cost. All major innovation clusters (e.g., Silicon Valley) are accompanied by appropriate capital markets. Quantitative analysis of the capital markets’ activity, related to business innovation, will be carried out. The role of debt and equity investment in financing innovation activity will be examined.

Area 3—People

This area will examine all aspects of education, innovation skills development, and labour force training. It will include recruiting, retaining, and rewarding employees; innovation skills curriculum; skills assessment and testing; education programs to develop highly innovative graduates; and training for employees. Quantitative analysis of education-system and firm-level data about recruiting, training, rewarding, and promoting innovators will be undertaken in diagnostics and in developing solutions for use by firms.

Area 4—Public Policy

Area 4 will study public policy (by all levels of government) that funds, supports, encourages, inhibits, or otherwise affects firm-level innovation activity. It will include public policy and enabling taxation, laws and regulations, trade and investment policy, public procurement, and government programs to encourage and sustain firm-level innovation. This area will also address the interrelationship of innovation policy with policy in related areas such as environment, health, foreign direct investment, trade, and regional economic development. Quantitative analysis of the impacts of policies, laws, regulations, and governmental reviews and oversight (e.g., Investment Review Panel) on the innovation behaviour of firms will be undertaken.

Area 5—Performance Measurement and Macro Analysis

This area will cover innovation performance measurement and the macro analysis of business sectors, regions, provinces, country, and overall market conditions (e.g., market size, level of competition, market access to capital, foreign trade and direct investment activity, and mergers and acquisitions activity). It will incorporate broad-ranging measures of innovation performance that include new metrics for measuring innovation at the firm level, sectoral and regional analyses of business innovation, benchmarking, scenario modelling, and innovation forecasts.

Benchmarking of successful national models for supporting business innovation, such as the German model, will be conducted to identify global best performances.

Guiding Principles

A Focus on Business Innovation

We see business innovation as one of the greatest issues affecting our country. It is a mega-issue because it involves all sectors of the economy and all regions of Canada. Its direct and indirect impacts influence all aspects of our economic well-being.

A Holistic Vision

The Centre's focus will be on business innovation in the largest sense. This holistic approach will provide the Centre with an opportunity to generate a comprehensive set of diagnostics and solutions that address innovation at every stage of business activity. This all-encompassing approach to innovation will afford the Centre a highly sophisticated and integrated view that we believe is essential to overcome the obstacles that have so far inhibited business innovation.

A Short- to Long-Term Perspective

The CBI will examine issues from a 1- to 20-year perspective to identify short-term actions in response to immediate challenges, while also addressing structural issues.

An Action-Oriented Approach

The Centre will be action-oriented. It will identify steps toward achievable change that will boost Canada's business innovation performance. Centre research will be geared to providing concrete suggestions for businesses, governments, regulators, academia, and not-for-profit organizations to respond to opportunities or challenges identified by the research. The Centre's research will be grounded in the current reality of

increasing global competition, the need for greater productivity to compete in foreign markets and address international competition in Canada, the pressure of rapidly evolving information and communications technologies, and rising consumer expectations for new and improved products and services.

Inclusive, Rigorous, and Strongly Independent Research

The Centre will draw on the best information and resources available in Canada and internationally to help inform its research. Members will be heavily involved in identifying research priorities. We will also seek inputs from individuals and organizations that are not Centre members. The research conclusions will be strongly independent and based on the Conference Board's interpretation of the evidence.

A Partnership-Based Approach

The Centre for Business Innovation will seek appropriate partnerships with individuals, researchers, and institutions that can contribute to achieving the Centre's goals and mandate. Collaboration with international organizations, such as the OECD and the World Economic Forum, are planned or under way. In addition, the Centre will pursue collaborations with important Canadian initiatives, such as the Toronto Region Research Alliance's Innovative Cities Initiative and the Coalition for Action on Innovation in Canada. Links to leading university researchers in faculties of management, business, and engineering—across Canada and internationally—will also be established.

Using its existing infrastructure, the Conference Board has the critical mass of expertise and infrastructure necessary to make the CBI initiative a success.

The Conference Board Advantage

The Conference Board of Canada is uniquely suited to provide the Centre with the skills and experience required to undertake quantitative and related analysis of Canada's business innovation systems and processes. The Board is also equipped to facilitate dialogue and collaboration among the investors and stakeholders to achieve the Centre's mission. We are an independently funded, non-partisan, and non-advocacy organization with a track record of influencing the shape of national dialogue on key issues affecting our country.

The Conference Board is the largest think-tank in Canada and the Centre for Business Innovation will leverage this capacity. The Board has a strong multidisciplinary research capacity, multi-stakeholder facilitation capabilities, connections with prominent leaders, and the ability to communicate effectively to decision-makers and opinion leaders. The Conference Board is uniquely positioned as a credible, neutral third party that can advocate for business innovation based on evidence. It has the critical mass of expertise and infrastructure to make this initiative a success using its existing infrastructure.

The Conference Board's capacity to carry out a wide range of research—plus its ability to engage stakeholders at the firm, public, media, and governmental level—provide the basis for powerful, positive gains in innovation performance.

The Conference Board has the capacity to widely disseminate the CBI's research findings to business people and firms in all parts of Canada for adoption and use. Our multiple channels for dissemination include electronic outreach to a readership of more than 200,000 individuals, and to the members of our more than 40 executive networks for business leaders. We will also communicate results via partnerships with major business associations and organizations. In addition, we will employ the latest in social media strategies to further broaden our reach.

One of the Centre's goals is to change how business innovation is discussed by the public, media, political leaders, and policy-makers in Canada. Centre research is designed to clearly articulate the important connections between innovation and the challenges our country faces in ensuring our national well-being and economic sustainability.

Our ability to impact public policy stems from our capacity to communicate credible, independent research findings that link the micro strategies for firms to the macro socio-economic outcomes so that government can see the impacts that can come from public policy changes. We will leverage our long-standing partnership relationship with The Conference Board, Inc. and our work as the Canadian partner of the World Economic Forum to access international findings about these linkages.

Meetings

- The Centre will bring together its investors and partners to share and discuss research results and to seek guidance. Participants will have opportunities to access and review the detailed research findings and recommendations. And they will learn from each other, as we tackle the tough issues of business innovation.
- Centre investors will meet twice annually as a plenary group to provide guidance on research priorities, review progress, and provide ongoing advice to the research team.
- In addition, special meetings will be organized to bring together experts to discuss ideas, issues, and research findings as part of our outreach, engagement, and research quality processes.

Communications

- The CBI will release public reports so that firms and others can access the findings and recommendations.

- The Centre will advise the media when reports are released in order to broadcast more broadly the findings and recommendations. Briefings will be given to business groups, government officials, and public policy-makers.
- The ultimate purpose of the communications efforts is to help change firm-level behaviours and stimulate government policy action that will result in more business innovation growth.

Become an Investor

Investors in this major new initiative will help to fundamentally change Canada's business innovation performance. The Centre is a five-year, multimillion-dollar initiative that will devote its resources and expertise to gathering essential information (much of which does not currently exist); analyze the root causes of Canada's lagging business innovation performance; and develop firm-level solutions and public policies that will enable businesses to become more innovative. These actions will result in raising our national innovation performance and enhancing our competitiveness in global markets.

The Centre will appeal to investors from both the private and public sectors. Private sector firms want to better understand the different ways that innovation occurs, and how it can be enhanced in their workplaces. Public sector organizations have an interest in stimulating business innovation throughout Canada's economy. They are responsible for the policy and regulatory environment in which the private sector corporations operate. In addition, public sector organizations are familiar with the complexities and inter-relationships between federal departments, and among their provincial counterparts, which affect the macro environment in which businesses must operate.

We intend to fund the work of the Centre through membership fees from participating organizations. Centre members will include businesses, government representatives, and key partners from the academic and not-for-profit sectors. Investors will be asked to commit for a five-year period, at one of three annual levels. (See Exhibit 2.)

Exhibit 2

The Centre for Business Innovation Investors



Source: The Conference Board of Canada.

Champion Investors contribute \$50,000 annually, sit on the Centre’s Steering Committee for the term of their commitment, and are deeply involved with Conference Board staff in drawing up the Centre’s research plans and meeting agendas. Champions will be represented by a senior executive who will be invited to advise and participate in the overall planning, conduct, and decision-making for the Centre—through specific activities such as defining the research agenda and selecting research projects. Champion Investors will have access to Centre research results prior to public release. They will also have first priority in hosting two CBI plenary meetings to be held annually, as well as special events.

Partner Investors contribute \$30,000 annually, sit on the Centre’s Steering Committee for the term of their commitment, and work with the Conference Board and Champion Investors to develop the research plan and review the research in progress. They will have access to Centre research results prior to public release. Partner Investors will be invited to host two CBI plenary meetings to be held annually, as well as special events.

Participant Investors contribute \$12,000 annually. This is a special level for universities and associations. They sit on the Centre's Steering Committee for the term of their commitment. Participant investors are invited to participate in the two CBI plenary meetings to be held annually, as well as special events. They will have access to the detailed research findings, and they will also provide input on the choice of research and meeting topics.



About The Conference Board of Canada

We are:

- The foremost independent, not-for-profit, applied research organization in Canada.
- Objective and non-partisan. We do not lobby for specific interests.
- Funded exclusively through the fees we charge for services to the private and public sectors.
- Experts in running conferences but also at conducting, publishing, and disseminating research; helping people network; developing individual leadership skills; and building organizational capacity.
- Specialists in economic trends, as well as organizational performance and public policy issues.
- Not a government department or agency, although we are often hired to provide services for all levels of government.
- Independent from, but affiliated with, The Conference Board, Inc. of New York, which serves nearly 2,000 companies in 60 nations and has offices in Brussels and Hong Kong.

Insights. Understanding. Impact.

For More Information

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