

**BOOK EXCERPT**

## Wanted: Stronger Canadian management talent

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### **Canada lacks sufficient sophisticated management talent**

An important opportunity for improving Canada's innovation and productivity performance lies in strengthening the management talent in our economy. Our managers generally have significantly less education than their U.S. counterparts. Only 35 per cent of our managers possess a university degree versus 53 per cent of U.S. managers.

If the link between education and innovation can be drawn, it is apparent why we are not demanding more innovation in Canada. The more educated managers are, the more likely it is that they will have been exposed to the latest advances in management techniques and technology. The lower education level of our human-capital resources means that we are less able to compete in a technology-based knowledge economy and to serve sophisticated and demanding customers in the global marketplace. At the pinnacle of Canadian corporations, we find a lower incidence of MBAs than in the United States.

Innovative firms report disadvantages in management as a key constraint. One of the most significant challenges they face in their development is gaining access to "managerial talent to hire." Importantly, this challenge is perceived to be a significant disadvantage for them against their most important competitors, who tend to be in the United States.

In 2004 we commissioned research among successful Ontario startups— firms that had been initially

funded by venture capital and became publicly held or acquired by a public firm. The sample size was small, only 27; but the results were instructive.

In the survey, we asked about 11 factors generally required in successful companies. For each factor, we asked if the company had good access to it and if it represented an advantage or disadvantage versus their principal competitor – in all cases a U.S.-based firm. Of the 11, six factors were relatively available in Canada and did not represent a major disadvantage for companies versus their competitors.

These were physical infrastructure, qualified scientific or technical talent, intellectual-property and patent laws, researchers and research labs, local technology suppliers, and suppliers of other expertise.

Two resources – government financial support and other government support – were not readily available, but did not represent a significant weakness versus competitors. Finally, three of the 11 resources were scarce and represented a major weakness versus competition.

Two of these, local customers to stimulate performance and managerial talent to hire, have not been significant targets of public policy, while the third, capital, has been a major priority. The lack of beneficial support from managerial talent is an important gap in the effort to create innovative firms in Canada.

As we have seen, Canada has significantly fewer business graduates than the United States. But this is not a reflection of the lack of demand by Canadian students. Rather, it is because it is more difficult to gain access to a university undergraduate business program than to engineering or arts and science programs.

Over all, a key part of the solution to Canada's lagging prosperity is to upgrade management talent. Management skills are a critical complement to science and engineering skills in creating a high-quality supply of innovation, driving sophisticated demand for innovation, and putting in place the required quantity and quality of financing to make the Innovation System work effectively.

Our colleague Michelle Alexopoulos at the University of Toronto developed a methodology for measuring innovation in management techniques, going as far back as Taylor's *Principles of Scientific Management* published in 1911. Her approach is built on the premise that the development and diffusion of new management techniques, such as just-in-time, lean manufacturing and management by objectives, can be tracked by counting the number of new books in each topic area.

As the number grows over time, one can infer greater development of the technique – and check for a relationship with concurrent economic growth. She concludes that increases in the publication of books on management are correlated with growth in productivity and prosperity.

Following the introduction of a new management technique that causes a 10-per-cent increase in new management books, GDP and productivity grow at statistically significant higher rates than average for approximately six years. It is not a stretch to conclude from this that improved

management can have a significant effect on a region's or nation's prosperity.

### **Canadian managers' capabilities can be improved**

At the plant level, Canadian manufacturing management is among the world's best, but like other countries we trail the United States.

Our management teams are leaders in implementing techniques in the area of lean manufacturing. They are solid performers in effecting good performance management, with some room for improvement. But, while they match management teams in other leading economies in people management, Canadian firms trail U.S. ones significantly. Canada underperforms especially in the willingness of managers to keep and promote high performers and to deal promptly with poor performers.

Our results also indicate that one of the key variables that drives – or at least is correlated with – better management is educational attainment of the plant management team. Across the countries surveyed, multinational firms outperform firms that are strictly domestic, and Canada is no exception. Moreover, Canadian-based multinationals that are market leaders globally are among the best managed in the world. Businesses that strive for international success can and do achieve great results.

Management capabilities are important contributors to national prosperity. And our manufacturing management is among the world's best. Nevertheless, our businesses can get better, especially through the advanced education of our management cadre. In fact, it is short-sighted, if not dangerous, for Canada's firms to compete globally with management skills that are not as strong as they can be.