



**Certified
Management
Accountants™**

**Pre-Budget Submission to the
House of Commons Standing Committee on Finance**

August 2011



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EXECUTIVE SUMMARY

Certified Management Accountants of Canada (CMA Canada) has consistently advocated policies that would improve Canada's productivity, which in turn would enhance our competitiveness and increase Canadians' standard of living. In this submission, CMA Canada focuses on innovation, or what we call creativity, a key driver of productivity. We believe that focusing on innovation would aid in achieving a sustained economic recovery and help to create quality sustainable jobs, two objectives guiding the work of the Committee as it considers its advice to the Minister of Finance for Budget 2012.

We believe that Canada's business community must be the primary innovator; but nevertheless, governments can play an important role as catalysts of innovation and creativity. To that end, CMA Canada recommends that the Committee direct its attention to commercialization – transforming Canadians' knowledge into products and services for the global marketplace, improving Canada's keynote research and development program, and investing in basic skills training to help drive greater productivity.

Specifically we recommend:

1. The following two initiatives to further advance the government's objectives for commercializing innovation:
 - a. Program of repayable grants to assist innovative small and medium-sized enterprises (SMEs) in developing a new product, process or service to be taken to market. Applicants for a repayable grant would be required to match the funding on a 50:50 basis; and
 - b. To promote greater interaction between the business community, governments and universities and colleges when it comes to commercialization, consider how the federally-funded granting councils might lever their grants to encourage universities and colleges to adopt a creator-ownership policy permitting professors and students to own their creations and encouraging them to commercialize their research.
2. Extending the refundability provision of the SR&ED tax credit currently available only to smaller businesses to claimants of all sizes; and, expanding the tax credit for collaborative research and development, further encouraging cooperation between universities, colleges and the business sector.
3. Investing further in literacy, numeracy and problem-solving skills programs, either directly or in partnership with provincial and territorial governments, as well as in collaboration with private sector partners.

INTRODUCTION

Certified Management Accountants of Canada (CMA Canada) is pleased to present its views regarding Canada's economic and fiscal policy to the House of Commons Standing Committee on Finance as the Committee engages in its annual pre-budget consultations. We have consistently supported and advocated policies that would improve Canada's productivity, which in turn would enhance our competitiveness and increase Canadians' standard of living. In this submission, CMA Canada focuses on innovation, or what we call creativity. Why? As stated by the 2008 Competition Policy Review Panel, "Innovation drives productivity and competitiveness in the 21st century."¹

We believe that focusing on innovation would aid in achieving a sustained economic recovery and help to create quality sustainable jobs, two objectives guiding the work of the Committee as it considers its advice to the Minister of Finance for Budget 2012.

WHO WE ARE AND WHAT WE DO

Certified Management Accountants (CMAs) are strategic management accounting[®] professionals who combine accounting expertise and business acumen with professional management skills to provide leadership, innovation and an integrating perspective to organizational decision-making. They apply contemporary and emerging best management practices in a wide array of business functions, including strategic planning, sales and marketing, information technology, human resources, finance, and operations. CMAs bring a strong market focus to strategic management accounting and resource deployment, synthesizing and analyzing financial and non-financial information to identify new market opportunities, ensure corporate accountability, and help organizations maintain a competitive advantage.

CMA Canada has more than 50,000 members ranging from senior level managers in the public and private sectors, to sole practitioners operating as consultants and auditors.

PRODUCTIVITY: CANADA'S TRACK RECORD

The story of Canada's lagging productivity record has been well documented for years. Improving productivity continues to be one of our top economic challenges. As noted by Tiff Macklem, Senior Deputy Governor of the Bank of Canada, in a speech to Productivity Alberta earlier this year,

"But since 2001, productivity growth in Canada has slowed to historically low rates. It has languished well below U.S. rates, and has been at the low end compared with our competitors in the U.S. market. This is showing up in our international rankings across a range of competitiveness measures."²

Why can a nation's productivity performance be such a major concern? As stated in a paper published recently by the C.D. Howe Institute, "In the long run, the most important determinant of national income is labour productivity growth, and on that score Canada has some catching up to do."³ We devote special attention to creativity/innovation in addressing Canada's productivity challenge because, as stated succinctly in a McKinsey Quarterly paper,

¹ Compete to Win, Final Report, 2008. Competition Policy Review Panel, page 92.

² Canada's Competitive Imperative: Investing in Productivity Gains. Speech to Productivity Alberta by Tiff Macklem, Senior Deputy Governor, Bank of Canada, February 1, 2011.

³ Lagging Behind: Productivity and the Good Fortune of Canadian Provinces, Serge Coulombe, C.D. Howe Institute Commentary No. 331, June 2011, page 1.

PRODUCTIVITY: CANADA'S TRACK RECORD (continued)

“But in the end, the real game changers will be breakthrough innovations created by companies: history shows that a majority of productivity growth – more than two-thirds – comes from product and process innovation.”⁴

We agree that Canada's business community must be the primary innovator; nevertheless, governments can play an important role as catalysts of innovation and creativity.

RECOMMENDATIONS

We applaud the Government of Canada for introducing a number of sound initiatives to promote productivity in several of its recent budgets. This year, CMA Canada recommends that the Committee direct its attention to commercialization, investment in research and development, and basic skills training to help drive greater productivity in Canada, thereby contributing to a sustained economic recovery and high-quality jobs.

A. Commercialization

One of the keys to capitalizing on the creativity of Canadians is transforming their knowledge into products and services for the global marketplace i.e., commercialization. Canada's Science, Technology and Innovation Council (STIC) put it best in its *State of the Nation 2010* report: “It takes a well-functioning integrated system to move ideas from imagination to innovation to markets.”⁵

Budget 2011 introduced initiatives to foster commercialization and business innovation. Moreover, we understand that the Government of Canada is a partner in the recently launched National Commercialization Study. These are positive developments. CMA Canada believes that the following two initiatives could further advance the government's objectives for commercializing innovation.

1. The Government of Australia has recently established Commercialisation Australia, a merit-based assistance program providing funding and resources to accelerate commercialization in that country. We understand that in the current fiscal and economic climate, such a robust program may not be appropriate for Canada. However, at least one component of the Australian program merits serious consideration.

We recommend that the Committee consider a program of repayable grants to assist innovative small and medium-sized enterprises (SMEs) in developing a new product, process or service to be taken to market. Applicants for a repayable grant would be required to match the funding on a 50:50 basis.

2. There is merit in promoting greater interaction between the business community, governments and universities and colleges when it comes to commercialization. The University of Waterloo has a unique creator-ownership policy permitting professors and students to own their creations and encouraging them to commercialize their research.⁶ CMA Canada believes there is merit in considering how the federally-funded granting councils might lever their grants to encourage other universities and colleges to adopt a similar policy.

⁴The Productivity Imperative, Peter Bisson, Elizabeth Stephenson, and S. Patrick Viguerie, McKinsey Quarterly, June 2010.

⁵State of the Nation 2010, Canada's Science, Technology and Innovation System, Science, Technology and Innovation Council, page 1.

⁶See, University of Waterloo, Policy 73 – Intellectual Property Rights, established October 18, 1997.

B. Investment in Research and Development

CMA Canada submitted a written brief to the government's review of federal support to research and development, launched in December 2010. We look forward to seeing the outcome of this consultation in due course. In the meantime, we encourage the Committee to consider recommendations to enhance the recognized role of research and development in promoting productivity.⁷

A key public policy tool encouraging investment in innovation is the Scientific Research and Experimental Development Tax Credit (SR&ED). Over \$3 billion in tax assistance was provided through this program in 2009.⁸ Despite the popularity of the SR&ED tax credit, Canada's record of business expenditure on R&D (BERD) is not strong. According to STIC,

"Most countries show an increase in BERD intensity over these years (1998, 2003, and 2008), while the intensity in Canada has declined. This is not just the result of faster GDP growth in Canada, but also declining aggregate business performance in R&D."⁹

While some of the relatively poor R&D performance of Canada's business sector can be attributed to structural characteristics – comparatively small scale of Canadian firms, significant foreign ownership – the design of the SR&ED program is another contributor. Most R&D in Canada is performed by large companies.¹⁰ The SR&ED tax credit is, however, only marginally effective for large firms.

We believe, therefore, that the program would be improved by extending the refundability provision of the SR&ED tax credit currently available only to smaller businesses to claimants of all sizes. This would have the twin benefits of encouraging smaller businesses to grow and recognizing the innovation advantage of larger companies. In addition, consideration should be given to expanding the tax credit for collaborative research and development, further encouraging cooperation between universities, colleges and the business sector.

C. Basic Skills Training

As many as forty percent of working Canadians lack the basic literacy skills needed to participate in a knowledge economy.¹¹ Research indicates that productivity can be improved by bringing the low-productivity segment of the workforce closer to the median.¹² Basic and intermediate numeracy skills, as well as problem-solving skills, are essential to expanding creative capacity. Poor basic skills act as a drag on economic growth.

We were pleased to see that the imperative of basic skills training was recognized in Budget 2011 with the investment of \$9 million over two years to expand adult basic education programming in Canada's north. CMA Canada encourages more of the same in 2012. We recommend that the Government of Canada continue to invest, either directly or in partnership with provincial and territorial governments, as well as in collaboration with private sector partners, in literacy, numeracy and problem-solving skills programs across the country.

⁷ [State of the Nation 2010, Canada's Science, Technology and Innovation System](#), page 28.

⁸ [Budget 2010: Leading the Way on Growth](#), Department of Finance Canada, page 86.

⁹ [State of the Nation 2010, Canada's Science, Technology and Innovation System](#), page 27.

¹⁰ [Ibid.](#), page 31.

¹¹ [Connecting the Dots...Linking Training to Business Outcomes and the Economy](#), Allan Bailey, Canadian Council on Learning, April 2007; page 6.

¹² [From Productivity to Well-Being: Keep the Focus on Basic Skills](#), Pierre Fortin, International Productivity Monitor, Number 11, Fall 2005.

CONCLUSION

Improving Canada's productivity performance – and in particular enhancing our national creative capacity – can achieve a sustained economic recovery and help to create quality sustainable jobs in the years ahead. CMA Canada recommends initiatives that advance the government's objectives for commercializing innovation, further encourage the business community to invest in research and development, and that provide basic skills training to ensure that Canada's workforce is poised to participate in an innovative and prosperous future.