Deloitte.

CANADA'S BEST MANAGED COMPANIES 25 YEARS

Outlast and outperform

Insights from Canada's most successful companies

CANADA AT 175

Executive summary

Deloitte believes that over the next 25 years, Canada can become the world's undisputed best place to live and work. We also believe that our nation's private companies are central to this effort. In Canada, only a few thousand of our 1.2 million firms are publicly traded, and private businesses—which are often family-owned—produce approximately 70 percent of all corporate profits.[1] Canada's prosperity is tightly intertwined with the success of these companies.

However, achieving long-term business success is difficult. This has been especially true in recent decades, which have been challenging for private business in Canada. Only about 55 percent of the companies that existed five years ago are still in business today, and even when firms survive, they often struggle to grow.[2]

While the coming years promise to be filled with significant change, opportunity, and uncertainty, the past 25 years have been no less eventful. As we prepare for the future, a study of private businesses that have been successful over this period might have something to teach us. Following a **rewind**, **pause**, **fast–forward** approach, this report looks at the past, present, and future of private Canadian companies and draws lessons about success from those that have not only managed to survive, but thrive.

Rewind: reflect on the last 25 years in Canadian business

This report examines the winners of the Canada's Best Managed Companies program—a select group of our most successful and enduring private companies—to understand the factors behind their long-term success.

Data shows that since the program's inception in 1993, organizations in the Deloitte-run Canada's Best Managed companies program have outperformed the average Canadian company on a number of lifespan indicators.

If we compare the results from 1993 to 2017 of the Best Managed companies to a group of randomly selected Canadian companies, we see radically different outcomes:

58% of Best Managed winners are still in business as private companies compared to **27%** of typical Canadian firms.

72% **5%**

of average Canadian firms have gone out of business.

of Best Managed companies during this time period have gone out of business.

34% of Best Managed companies have been acquired, or **30x** the estimated Canadian average.

3.4% of Best Managed firms have gone public as compared to **<1%** of Canadian firms: **34 times** the national average.

We need more companies like the Best Managed to drive Canada's future prosperity.

Pause: understand what sets successful companies apart

Using the Best Managed winners as a microcosm of successful private business in Canada, we conducted a survey and interviews to understand what makes these organizations so different from the average company in this country.

Best Managed companies are already preparing for the future because they know it will be challenging.
Our analysis revealed that Best Managed companies set themselves apart in four key ways: they possess a deeply ingrained focus on the long term, a relentless focus on their people, intentional approaches to innovation that are rooted in meeting the needs of customers, and a strong global orientation. When we spoke to Best Managed companies about why they make these investments, it became clear their strong vision and focus on the future means they're taking action today to prepare for the challenges of tomorrow.

Our research also threw into sharp relief the need for other Canadian businesses to adopt future-oriented attitudes.
Canadian companies still seem to be ignoring the changes on the horizon. In a world that promises to be characterized by intense competition for ideas and know-how, few companies are recognizing the central role that talent will play in their future success. The innovation capacities of Canadian companies remain weak and few businesses deliberately plan for how they will compete in the future.

What makes Best Managed companies unique?

A deeply ingrained focus on the long term

Best Managed companies bring a long-term lens to all their decisions, thinking deliberately about what the future may hold and making multi-year investments in preparation for it.

19

67

Only **19** percent of Canadian companies are developing comprehensive plans for a range of future challenges, as compared to **67** percent of Best Managed businesses.

44

76

Best Managed companies are more likely to describe their leaders as "forward thinking" and say their leaders "set a clear vision." **76** percent of Best Managed companies say this as compared to only **44** percent of Canadian companies.

A relentless focus on people

Best Managed companies see their people as the single most important determinant of their success, and talent as their undisputed top priority.

21

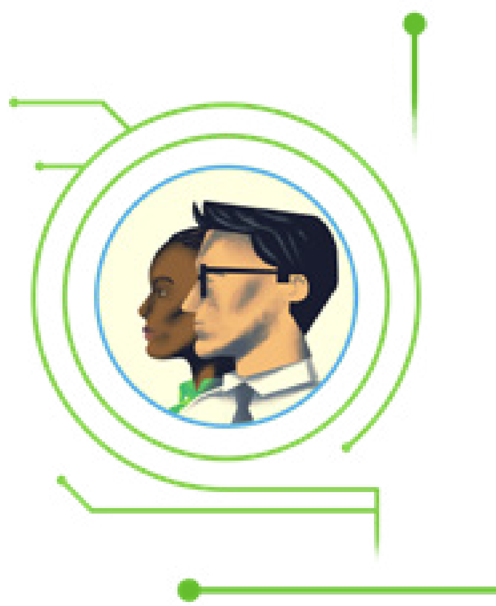
44

44 percent of Best Managed companies report leading and motivating their people as their leaders' top time priority, versus only **21** percent of average businesses.

28

82

Just **28** percent of Canadian companies report they intend to make large investments to improve talent acquisition and retention over the next five years. In contrast, **82** percent of Best Managed companies plan to invest heavily over the same time span.



An intentional approach to innovation

These successful companies innovate deliberately, systematically, and across their entire business.

33

71

71 percent of Best Managed companies report having formal processes in place to encourage new ideas and say their organization is likely to implement them when they occur (only **33** percent of Canadian businesses report the same).

6

15

Only **6** percent of all Canadian companies possess the full set of capabilities necessary for deliberate and systemic innovation. Even though Best Managed companies outperform the typical business across all measures of innovation capability only **15** percent of the Best Managed cohort, can claim to have innovation embedded into their organization's DNA.

A strong global orientation

By looking beyond Canada for opportunities, successful private companies grow faster, become more productive, and reduce risk through geographic diversification.

9

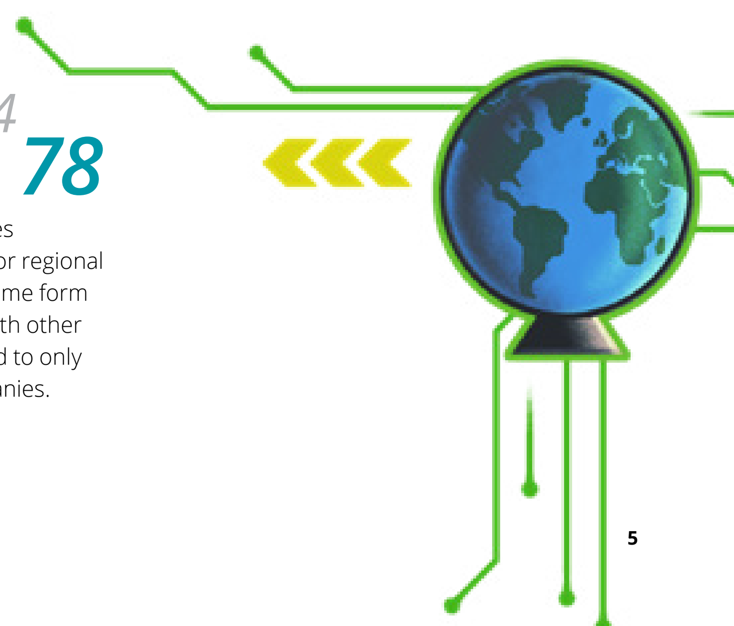
37

The Best Managed winners are more likely to embed themselves in global value chains, looking abroad for both suppliers and sales (**37** percent of Best Managed versus **9** percent of Canadian companies).

44

78

Many Best Managed companies collaborate with international or regional partners. **78** percent report some form of international partnership with other countries/regions as compared to only **44** percent of Canadian companies.



Fast forward: prepare for tomorrow by taking action today

If Canada is to become the undisputed best place to live and work in the next quarter century, our businesses must do more. Learning from Best Managed companies to drive adaptability, productivity, and profitability will allow companies to succeed in a time of rapid change.

Recommendations for Canadian business

Create future-focused organizations

Businesses that consider market trends, understand their possible implications, and make the right decisions today are more likely to succeed.

Lead with purpose. Leaders of future-focused organizations articulate their company's core purpose and reason for existence, uniting their organization's people around a strategic direction and common objective.

Plan for what comes next. Deliberately looking ahead should be part of every leader's day-to-day activities and should inform organizational decision-making. Long-term strategic plans can help companies focus on trends and goals.

Put people at the core of your business

In an economy that prizes know-how, a business's success depends on its people. As economic disruption accelerates, the advantages for companies that invest in their people will only grow.

Invest in top talent. The most successful private companies work hard to attract, develop, and retain the best people. Creative initiatives like partnerships with educational institutions serve to build employees' skillsets. Most critically, they actively maintain a pipeline of future leaders.

Start at the top. Leaders play a key role in creating environments of mutual trust, clear purpose, and accountability to draw the best from their people.

Innovate intentionally
Businesses that pursue innovation deliberately and purposefully, rather than as a series of ad-hoc initiatives, tend to outperform others.

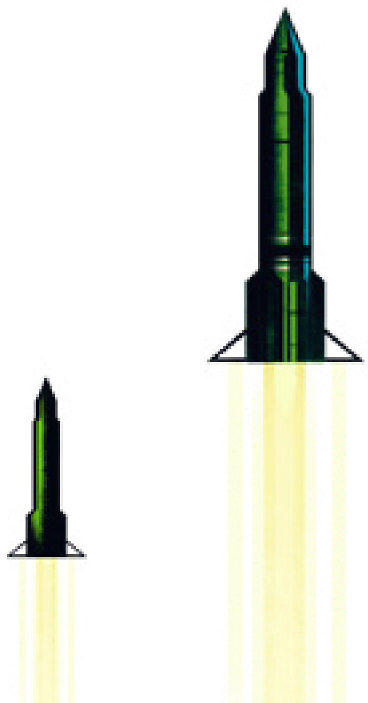
Take steps to embed innovation capacity. Innovation requires a supportive environment and a deliberate approach. By putting in place a culture conducive to new ideas, and creating the processes and supporting organizational infrastructure that so many firms lack (e.g., technology tools, incentives, talent), Canadian companies can significantly increase the odds of success of their initiatives.

Pursue innovation to support clear goals. The Best Managed companies point to two clear drivers of innovation: changing customer needs and their organizational purpose (e.g., promoting sustainability). In both cases, a clear goal focuses innovation efforts and unites the organization around them.

Look beyond our borders
Companies with global exposure tend to be more productive, resilient, and profitable.[3] Internationally oriented firms have access to talent and ideas that may not be available to those that don't look outside Canada's borders. Even small companies can begin to globalize by looking outward for suppliers or following their existing clients abroad.

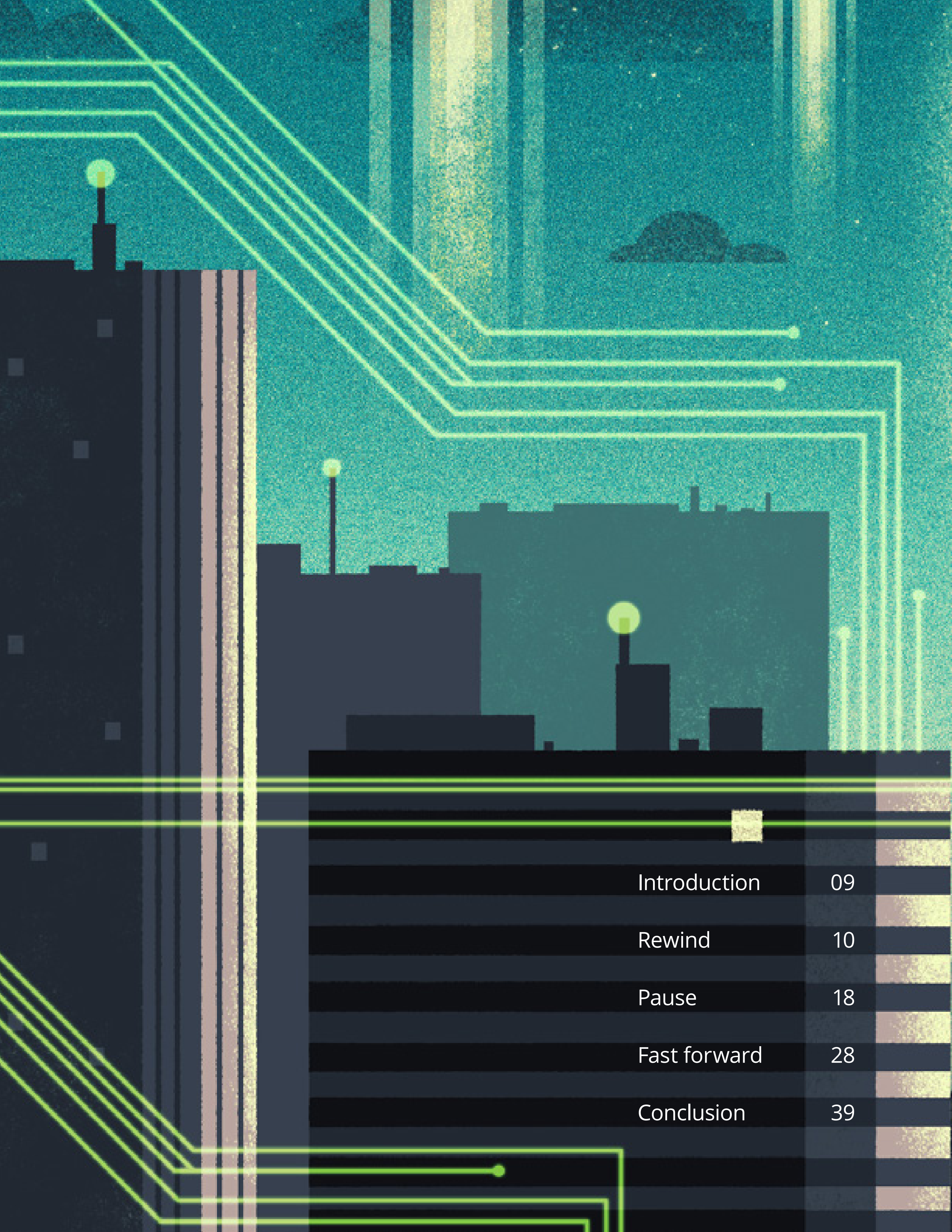
Seek out international partnerships. International diversification reduces risk and provides new opportunities for growth. Companies pursuing this avenue should work closely with local partners, who can provide market intelligence and cultural guidance that would otherwise be unavailable.

Capitalize on Canada's unique talent potential at home and abroad. Businesses should think of the world as their talent pool. By rotating employees to different countries and looking abroad when filling vacancies, companies can better understand different markets and fill their positions with true global leaders.



Seize the future

Most of our companies are not ready for the future—but they can be. Canada has the potential to become the undisputed leader—the best place in the world to live and work—but we will only reach those heights if our companies make the necessary choices with clarity and courage. Taking lessons from Best Managed companies, Canadian private business must prepare for tomorrow by taking bold action today.



Introduction

Deloitte believes the decisions that leaders of our private businesses make today have an impact—not only on their own organization, but on the future of our country. We believe that over the next 25 years, Canada can become the undisputed best place to live and work, and that the success of our businesses is crucial to realizing this goal.

The story of Canadian business is largely one of private companies. Only a few thousand of our country's 1.2 million firms are publicly traded, and private businesses—which are often family-owned—produce approximately 70 percent of all corporate profits.[4] The key to prosperous times ahead can be found in how these businesses approach the problems of the day and position themselves to tackle the challenges sure to come.

But are Canada's private businesses well-positioned to navigate what the future might hold?

To imagine what the business landscape in Canada might look like 25 years from now, we must first **rewind** and consider how it has shifted and evolved over the last 25. Looking back, it's easy to point to companies that lost the battle; in fact, most businesses fail to live for long. However, there are examples of businesses that fought through tough economic times to emerge stronger than they were before. Clearly, there are differences between organizations that fold and those that flourish. What specifically are these differences? And how can other companies learn from these successful companies and become the market leaders they could be?

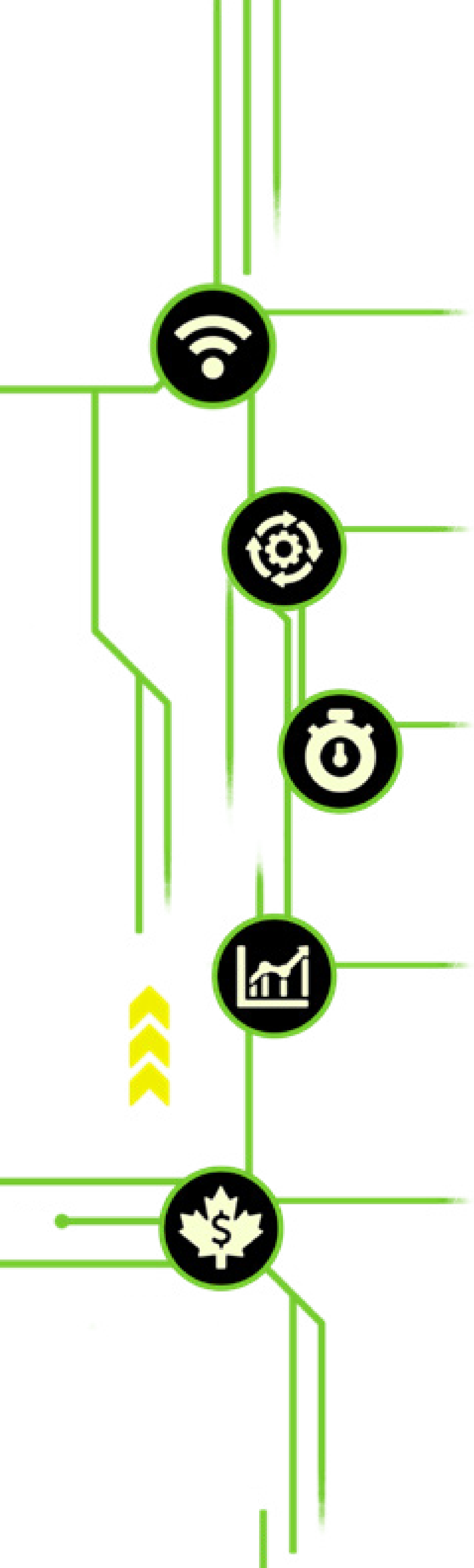
This report examines the winners of the Canada's Best Managed Companies program—a select group of Canada's most successful and enduring private companies—to understand the factors behind their success. Each year, up to 50 privately held companies that demonstrate exceptional strategy, capability, commitment, and return on investment are named Best Managed winners. Data shows that since 1993, organizations in the Best Managed companies program have outperformed the average Canadian company in many important ways. It is only by taking a moment to **pause** and compare these two groups of businesses that we can see what vital differences exist between a company that possesses both the fuel and direction to reach great heights and one that never leaves the ground.

When Canadian companies have the courage to learn from the success of others, they can **fast-forward** through potential upsets and roadblocks. These once-average companies can then leave their competitors behind, forging onward to more successful and prosperous frontiers.

Deloitte believes that all Canadian businesses have the potential for lasting success and that our country has what it takes to build a thriving future. If Canada and its private businesses take courageous action today, we may be just in time to grasp a brighter and more prosperous tomorrow.

Rewind: reflect on the last 25 years in Canadian business

As today's businesses prepare to face tomorrow's challenges, they can look to those that have already successfully navigated uncertainty in a rapidly transforming economy. Over the last quarter century, companies witnessed the world rapidly digitize, rode the highs and lows of the business cycle, struggled with consistently low productivity, and adapted to structural changes in capital markets and the economy.



Rapid digitization

The trend toward digitization accelerated in the 1990s with the rise of the personal computer and the first commercial web browsers. Businesses now routinely do once-unthinkable things like use massive datasets to accurately predict customers' behaviour and to automate an ever-growing range of tasks.[5]

Business cycle highs and lows

After entering the 1990s in a tough economy, businesses adapted in short order to NAFTA, federal deficit reduction efforts, the dot-com boom and bust, currency fluctuations, and a financial crisis followed by the most severe recession in decades.

Lagging productivity

For decades, Canadian productivity has lagged that of its peers. In previous reports, Deloitte identified many reasons for this, including chronic underinvestment in research and development, technology, and capital assets, a lack of global exposure, and widespread aversion to risk.[6] Productivity matters: its slow growth affects our economy, stifling revenue and increasing costs.

Shifting capital markets

As regulations tightened for public companies and loosened for institutional investors over the past two decades, private capital became a fixture of financial markets.[7] Private equity firms, which barely existed in the 1980s, invested $16.9 billion in Canada in 2016 alone.[8] It's easier than ever for businesses to raise funds while avoiding the restructuring and disclosures that initial public offerings require.

Structural changes in the economy and workplace

Canada's economy and our ways of working have shifted significantly over the past 25 years. Increasing automation and globalization sharply reduced the share of the workforce employed in goods-producing industries, while the service sector rapidly expanded.[9] Equally dramatic changes have recently taken place in the Canadian labour market, with the rise of the gig economy and technology-enabled remote work fundamentally changing the relationship between employee and employer.

A journey through the past 25 years

The past 25 years have included some major challenges and societal milestones, with turning points like NAFTA, a major recession, four prime ministers, and the entry of the digital age making their mark. Looking back, we can see just how much has changed and how far we've come.

1990

A rough start to the decade. Canadian firms grapple with tight monetary policy, high inflation, low commodity prices, and a large national debt, all of which depress investment and cause employment and wages to stagnate.[10]

Only 33 percent of employees use a computer; those who do only use it an average of 16.2 hours each week.[11]

1993

The Best Managed companies program begins with a cohort of 50 private companies.

Dawn of the internet era. Web browsers become commercially available.[12]

Jean Chrétien is elected prime minister.

1994

Boston Pizza, Brandt Industries, Engineered Air, Fountain Tire, Groupe Deschênes, and PCL Construction become Best Managed companies. All six companies are 2018 program winners.

NAFTA enacted. This will spur a 64 percent rise in Canada-USA trade by 2016, with an especially large impact on manufacturers and farmers.[13] Cross-border supply chains are more integrated than ever, with work-in-progress goods often crossing borders multiple times. Agricultural trade with the US will triple.[14]

1995

Windows 95 launches.

Net public debt nears 104 percent of GDP.[15]

1996

Increasing connectivity. 7.4 percent of Canadian households are connected to the internet. By 2016, 87 percent will be connected.[16]

New Brunswick, Nova Scotia, and Newfoundland and Labrador implement the "blended sales tax", later known as the Harmonized Sales Tax (HST).

2002

Exchange rate volatility. The Canadian dollar becomes increasingly volatile as the loonie begins to climb from its record low of US$0.62.[25] Importers and exporters alike struggle to make long-term plans in the face of fluctuating revenues and costs.

Figure 1: CAD/USD exchange rate, 1993-2017

2001

The 9/11 attacks usher in the Afghanistan War and the US "War on Terror".

2000

The dot-com bubble bursts; the TSX loses $70 billion in a single day.[23]

57 percent of workers use a computer.[24]

Nortel at its peak. Stocks of the Canadian tech giant reach $124.50; the company's value accounts for 33 percent of the TSE 300's performance.

1999

After years of fiscal reform, net public debt sits at 80 percent of GDP.[21]

2.7 percent labour productivity growth is recorded: its highest rate in any year from 1993 to today.[22]

1998

After years of debt-reduction efforts spurred by the 1992 downgrade of Canada's credit rating, the federal fiscal deficit is eliminated.[19]

Research in Motion launches the first BlackBerry.[20]

1997

Stock prices of internet-based companies begin a precipitous rise.[17]

Goods producers (i.e., manufacturers) provide 26 percent of jobs and 35 percent of GDP.[18]

2003

55 percent of Canadian households are connected to the internet.[26]

Paul Martin elected prime minister.

2005

Rise of the smartphone. Oprah's endorsement of the BlackBerry 7100 series marks the smartphone's explosion into the general consumer market.[27]

2006

Stephen Harper elected prime minister.

2007

The loonie hits a record high of US$1.10.[28]

Apple releases the first iPhone.[29]

2008

Oil hits record high of $147 USD per barrel.[30]

The fall of Lehman Brothers marks the start of the financial crisis in the United States, which spreads globally.

GST lowered to 5 percent.

1.7 million Canadians work from home at least once a week.[31]

2009

The Great Recession. The 2009 recession presents extreme difficulties for Canadian businesses. GDP falls 2.5 percent and unemployment rises from 6.2 percent to 8.3 percent.[32] Canada fares better than many of its peers, such as the United Kingdom, where GDP falls 5 percent. This is due largely to prudent financial regulation and business leaders' tendency to reduce employees' hours rather than lay them off.[33]

The loonie hits a trough at US$0.76, down 34 cents from its 2007 peak.[34]

Nortel files for protection from creditors, taking the first step toward its eventual wind-up.

2010

80 percent of Canadian households are connected to the internet.[35]

The loonie once again reaches parity with the US dollar.[36]

Ontario and British Columbia implement HST.

2011

BC rejects HST by referendum.

2017

- Manufacturers employ 300,000 fewer people than in the mid-1990s.[49]
- Canada's GDP growth outperforms that of its G7 peers.[50]
- TSX corporate listings are down 30 percent from 2008.[51]

2018

- Canada's Best Managed Companies program celebrates its 25th anniversary.

2016

- Goods producers provide only 22 percent of jobs and 30 percent of GDP.[43]
- 87 percent of Canadian households are connected to the internet.[44]
- 18 years after the BlackBerry's release, 76 percent of Canadians own a smartphone.[45]
- Oil falls below US$27 per barrel.[46]
- The loonie finishes the year at US$0.75.[47]
- Since 1993, labour productivity has grown at an anemic compound annual rate of just 1.8 percent.[48]

2015

- Justin Trudeau elected prime minister.

2014

- Only 50 percent of Canadian businesses have a website.[42]

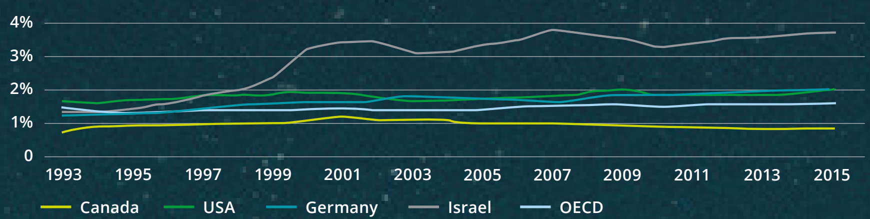
2013

- The Royal Canadian Mint ceases the distribution of pennies.[41]

2012

- Private equity firms have over $100 billion invested in Canada.[37]
- 81 percent of Canadian households are connected to the internet.[38]
- In its worst year since 1986, labour productivity falls 1 percent.[39] Canadian businesses' relative R&D expenditure continues its steady decline.[40]

Figure 2: Business expenditure on R&D as percentage of GDP



How did Best Managed companies perform over the past 25 years?

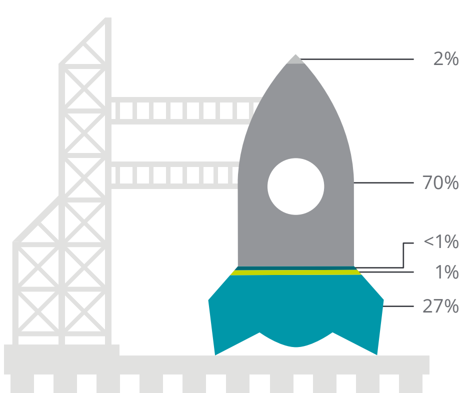
We examined the 952 companies that entered the Best Managed program between 1993 and 2017. Their track record shows they've dramatically outperformed the average Canadian company on a number of lifespan indicators. These companies last longer, experience strong growth, are more likely to go public or be acquired, and are less likely to go bankrupt or close their doors.

Figure 3: The Best Managed companies outperform Canadian private businesses

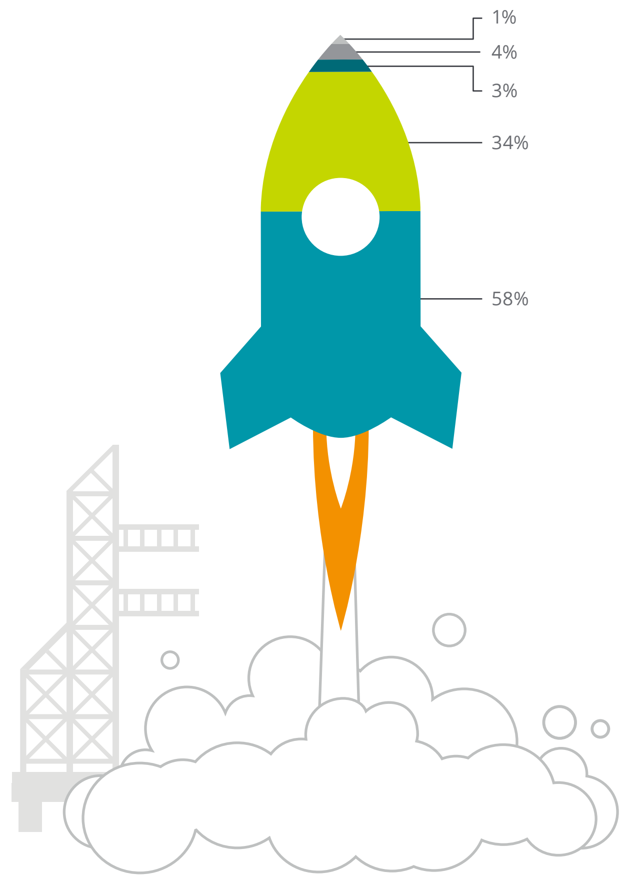
Where are they now?

If we compare the results from 1993 to 2017 of the Best Managed companies to a group of randomly selected Canadian companies, we see radically different outcomes:[52]

- Still in business as a private company
- Acquired
- Went public
- Closed for other reasons
- Bankrupt



Canadian private companies



Best Managed companies

Source: Deloitte analysis based on publicly available and Best Managed program data.

5%

In total, only **5 percent** of companies that have ever won a Best Managed award have gone out of business, compared to an estimated **72 percent** of average Canadian firms.

34%

of Best Managed companies have been acquired, a full **30 times** of what we'd expect the Canadian average to be.

58%

of the Best Managed are still in business as private companies, more than double the **27 percent** of what we'd expect from typical Canadian firms.

43%

were acquired by domestic companies and **57 percent** by international organizations. In contrast, about **20 percent** of acquired average Canadian companies are bought by foreign firms.

Canada needs more companies like the Best Managed to drive our future prosperity.[53] Larger and more mature high-growth firms contribute disproportionately to job creation and economic growth. Best Managed companies are a valuable proxy for the types of companies—often family- or founder-led—that have grown to become the successful mid-sized to large private businesses that are vital to our economy. It is clear from their ongoing success and their high rates of acquisition that these companies are creating much more value than the average business. The how and why of their success is worth examining.

Canada's Best Managed Companies:
Recognizing excellence in Canadian business

Since 1993, the Best Managed program has showcased Canada's most successful and visionary privately owned businesses. Each year, up to 50 companies that have demonstrated exceptional strategy, capability, commitment, and return on investment are named Best Managed winners. Those that remain in the program for four consecutive years are awarded Gold Standard status, while seven years brings a company into an exclusive group of Platinum Club winners.

Like the successful companies it recognizes, the Best Managed program continues to grow. On the cusp of its 25th anniversary, the program has already expanded into several countries and will reach 20 countries by 2020.

Pause: understand what sets successful companies apart

Why do some companies flounder while others profit? To find out, we surveyed over 600 businesses from across the country to assess how Best Managed firms performed against the average Canadian business on a number of theories and best practices linked to organizational success.[54]

Our analysis revealed that the attitudes and behaviours of Best Managed companies stood out from the average business in four key areas:

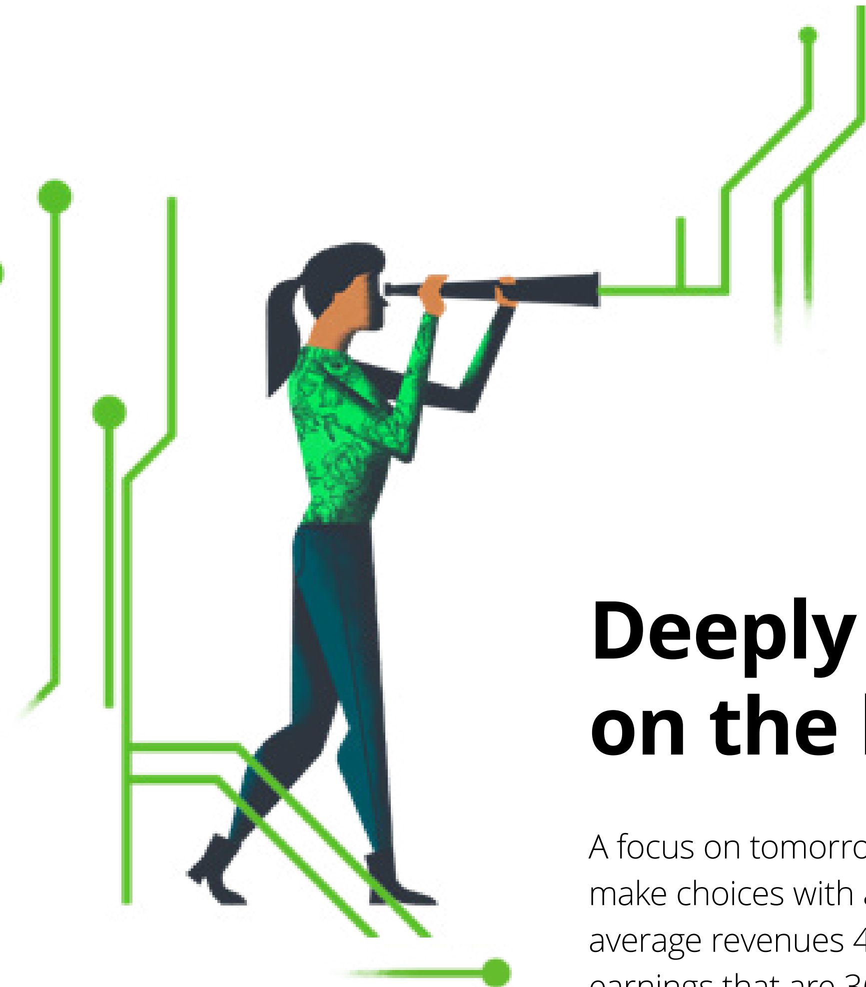
Deeply ingrained focus on the long term

Relentless focus on people

Intentional approach to innovation

Strong global orientation

Our approach
Our results compare the attitudes, practices, and perspectives of 132 Best Managed businesses to a panel of 476 businesses designed to represent the Canadian business community. All differences are statistically significant to a 95 percent confidence interval, both as presented here and after controlling for company size and age. To supplement our analysis, we also conducted several interviews with leaders at Best Managed companies to garner their insights and outlook on the future of Canadian private businesses.



Deeply ingrained focus on the long term

A focus on tomorrow can drive results today. Companies that make choices with a view toward their long-term success have average revenues 47 percent higher than those that do not, earnings that are 36 percent higher, and market capitalization that's 58 percent higher.[55]

Like these businesses, Best Managed companies have successfully embedded a deep focus on the future in their planning, culture, and day-to-day decision-making. When we looked at the extent to which companies think about and plan for the future, we found that only 19 percent of typical firms are comprehensively preparing for a range of future challenges. In contrast, Best Managed companies have a deeply ingrained focus on the long term—67 percent of them are thinking about and preparing for what lies ahead.

Why do they do this? Best Managed companies recognize the future won't be easy. They assume trends will affect them, and take action accordingly. We asked companies about the extent to which they think their business will be affected over the long term by various challenges (e.g., availability of talent, regulatory risks). Sixty-seven percent of Best Managed companies reported they expect future challenges to affect their business in a number of ways.

This forward-looking perspective starts at the top. Leaders of Best Managed firms are far more likely to think deliberately about the future and more apt to formulate and communicate a clear vision for their company. These two traits work in tandem, uniting an organization's people around a common purpose while outlining a path to attain it. Furthermore, they also ensure success today; executives who are able to inspire their people to reach a shared goal are more likely to command the confidence of their investors and boards.[56]

Figure 4: Planning for the future

Comprehensive planners report having robust plans for a wide range of long-term challenges.

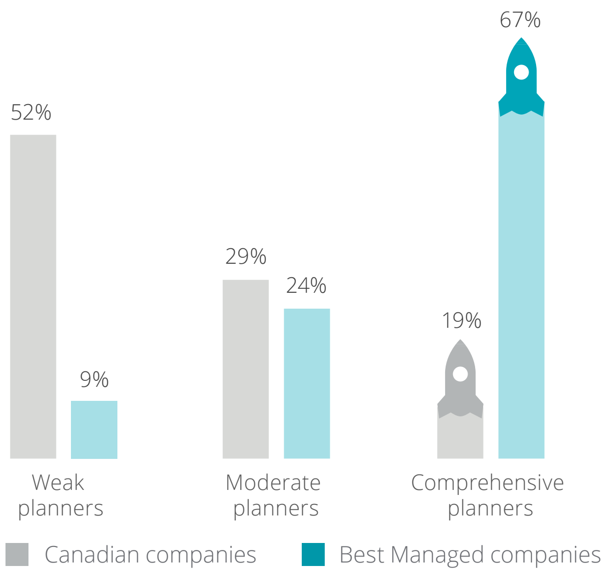


Figure 5: Expected impact of future challenges

Perceived difficulty of the future depends on the extent to which a company believes it will be affected by a number of long-term challenges.

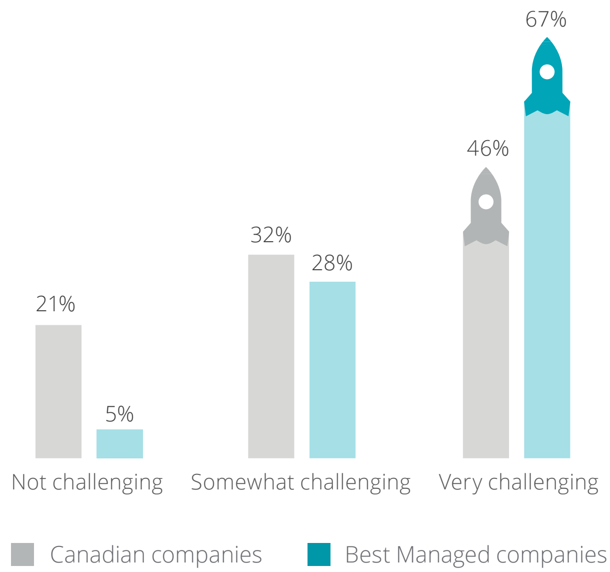


Figure 6: Leaders' long-term orientation

How accurately does "forward thinking or takes the long view" describe the executive leadership team at your firm?

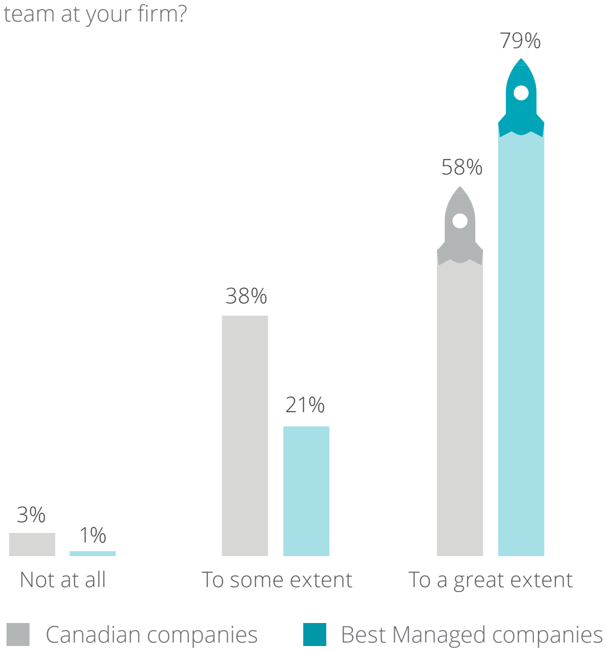
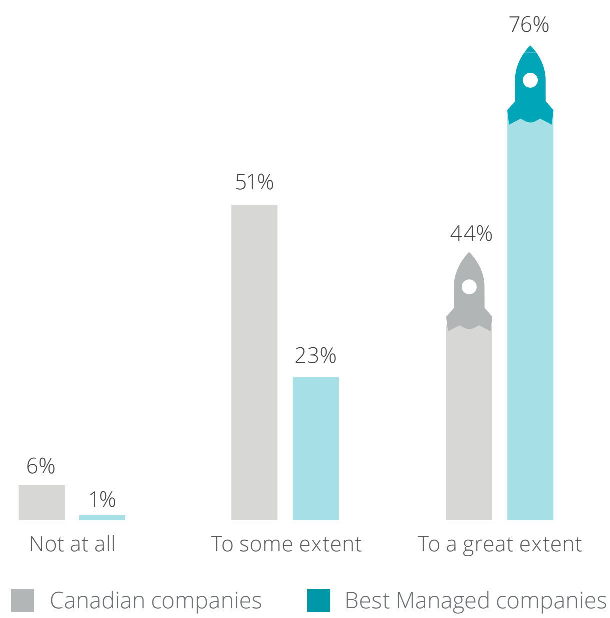


Figure 7: Leaders' vision

How accurately does "sets a clear vision" describe the executive leadership team at your firm?



Relentless focus on people

Successful private companies put people at the core of their business. The Best Managed companies recognize their people are not simply one input among many but are vital to their organization's success.

A focus on people starts at the top. One key difference between Best Managed and average companies is the extent to which their leaders embody a people-focused attitude and value building the best team. Research shows that people-oriented CEOs tend to outperform their peers.[57] Nearly half of Best Managed companies describe leading and motivating people as their executives' top priority.

They are also much more likely to be investing heavily in attracting top talent. Just 23 percent of Canadian firms report large investments in improving talent acquisition and retention over the past five years, and only 28 percent intend to invest generously in this area in the next five. In contrast, many Best Managed companies have embraced a people-centric approach—68 percent report having made large investments in talent acquisition and retention over the past five years, and 82 percent plan to invest heavily over the next five.

Specific management practices further help top companies realize their potential. Best Managed companies are far more likely to formally track employees' performance, and they frequently challenge their best people with stretch assignments. Furthermore, 69 percent of the Best Managed respondents invest heavily in developing current and future leaders (in contrast to only 31 percent of other Canadian firms), and 70 percent invest intensely in training (versus 40 percent of Canadian companies).

Effective talent management provides a hard-to-replicate competitive advantage, and is linked to both productivity and profitability.[58] Its importance will only grow in the future. As digitization accelerates, teams that are able to learn continuously, work with technology, and exercise hard-to-automate human qualities like empathy and judgment will leap ahead of those that can't.

Figure 8: Leaders' top time priorities

On which activity does your firm's executive leadership spend the most time? (Top 3 only)

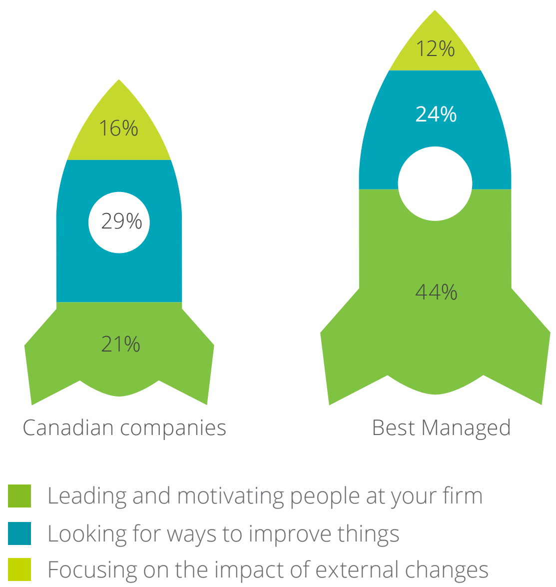


Figure 9: Investing in top talent

To what extent does your firm invest in attracting top talent?

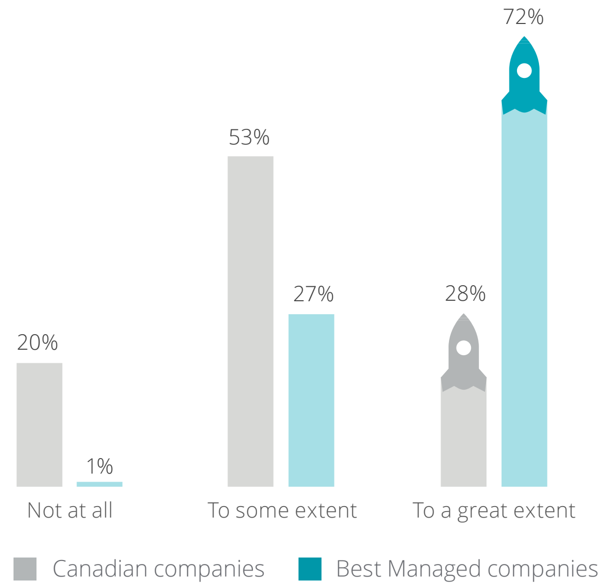


Figure 10: Past investment in people

Over the past five years, to what extent has your firm invested in improved talent acquisition and retention, to adapt to long-term challenges?

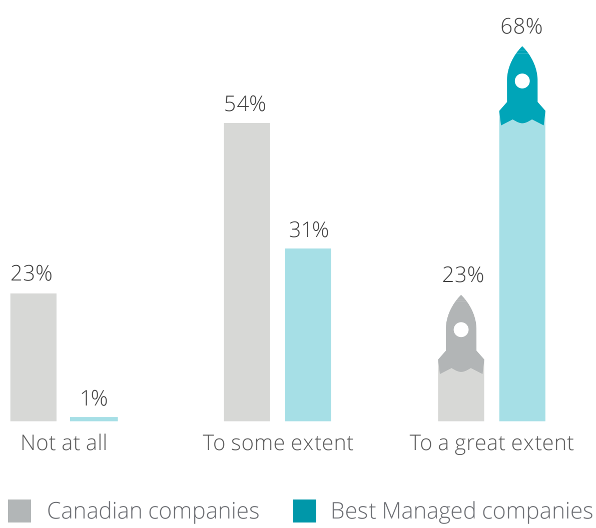
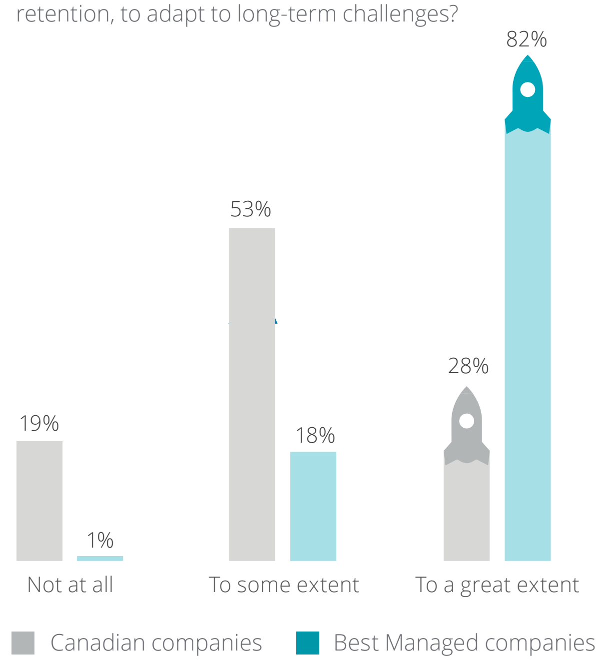


Figure 11: Future investment in people

Over the next five years, to what extent do you expect your firm to invest in improved talent acquisition and retention, to adapt to long-term challenges?



An intentional approach to innovation

The most successful companies innovate deliberately, systematically, and across their entire business. The world's most productive organizations possess more patents and are better at harnessing cutting-edge technology in pursuit of their goals.[59]

Also, companies that drive multiple dimensions of innovation—for example, with regard to their profit model, structure, processes, channel, and brand—outperform the S&P index by 30 percent.[60] In a changing world, only those who innovate will prosper.

Innovating intentionally requires the belief that innovation matters and that necessity is often the mother of invention. Perhaps due to their belief that the future will be challenging, Best Managed companies are much more likely to invest in innovation than typical companies. For example, 71 percent of Best Managed companies invest in developing and implementing new ideas, while only 45 percent of other firms do so. However, allocating resources is not enough to produce results. Doblin, Deloitte's innovation consultancy, has identified key functions that allow organizations to develop innovation as a capacity and become truly innovative.[61]

- **Set an agenda:** articulate clear innovation goals and focal points.
- **Manage the portfolio:** define metrics to guide innovation decisions, develop governance structures, and provide adequate resources.
- **Design and scale innovations:** develop processes to frame, design, pilot, launch, and scale innovative initiatives.
- **Fuel innovation:** ensure that senior leadership, talent management, incentives, tools, infrastructure, and partnerships work in concert to support innovation efforts.

All Canadian business leaders should be concerned. Even though Best Managed companies outperformed typical businesses across these four measures of innovation capability, very few companies can claim to have innovation embedded into their organization's DNA. Only six percent of Canadian companies and 15 percent of Best Managed winners possess the full set of capabilities necessary for deliberate and systemic innovation.

Figure 12: Companies with strong innovation capacities

Companies with embedded innovation capabilities are strong across all four key building blocks below.

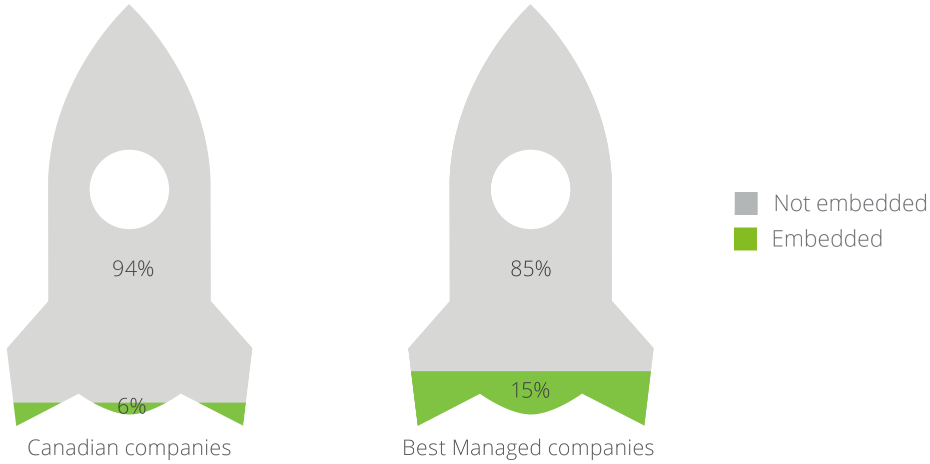


Figure 13: Setting an agenda

Firms with strong innovation agendas identify areas where innovation is needed and set clear idea-generation goals.

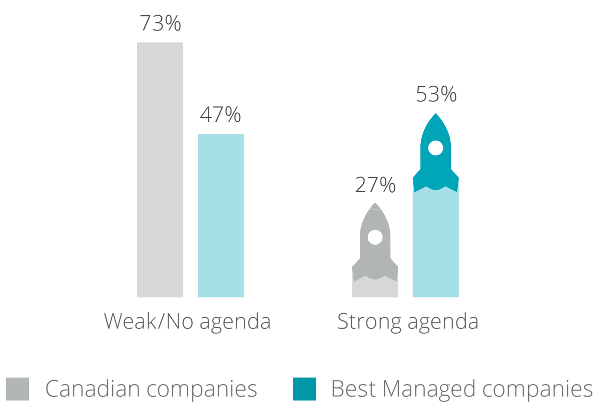


Figure 14: Managing the portfolio

Firms with strong portfolio management provide resources to develop new ideas and use metrics to track their success.

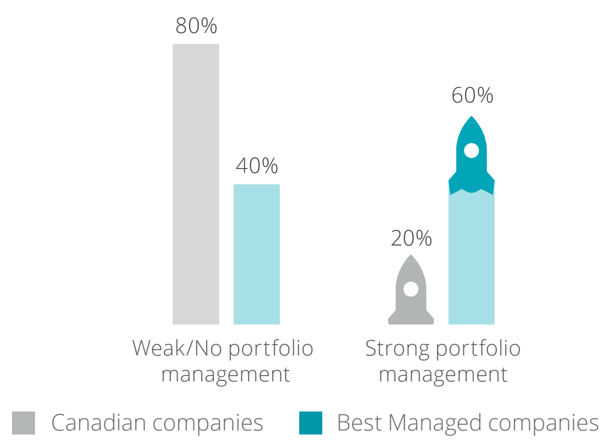


Figure 15: Designing and scaling innovation

Firms with strong design and scale capacities have formal processes to encourage new ideas, and are likely to implement good ideas.

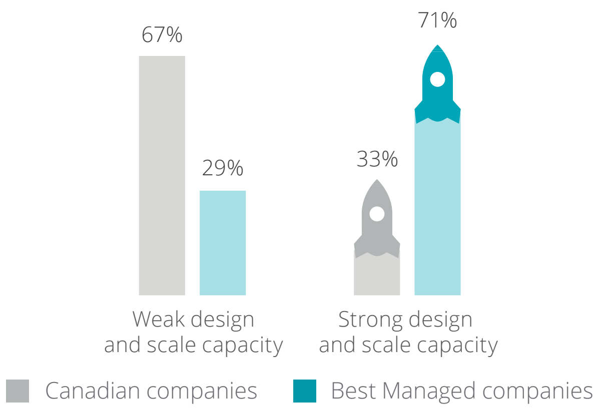
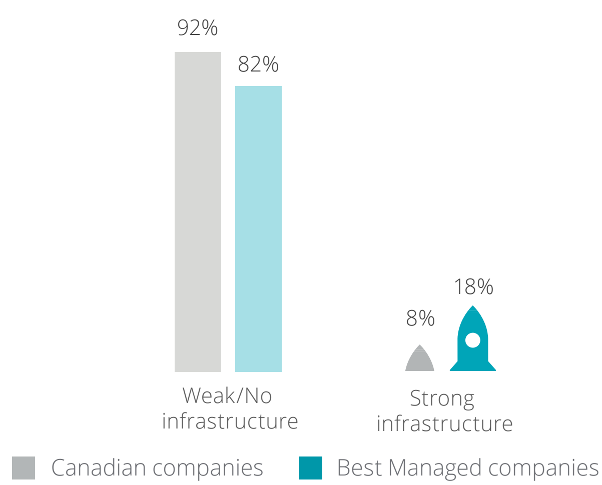


Figure 16: Fuelling innovation

Firms with strong infrastructure attract talent to spur new ideas, incentivize innovation, and collaborate with external partners.



Strong global orientation

Companies that compete globally are more productive. Looking abroad provides additional growth opportunities, exposure to leading practices, and risk-reducing geographic diversification.[62]

The growing gap between the most and least economically productive firms makes a global orientation more important than ever, but only 3.6 percent of our businesses export.[63] Faced with growing competition, Canada's most successful businesses are turning to the world for opportunities—66 percent are actively looking abroad for sales.

They often don't look for sales alone. Best Managed companies are more likely to embed themselves in global value chains, looking abroad for both suppliers and sales (37 percent versus nine percent). Knowing the value of on-the-ground intelligence and insight into the local culture and business environment, many collaborate with international partners to make their efforts more effective. Looking boldly outward to the world has helped Best Managed companies to thrive at home and abroad.

Figure 17: Presence in global value chains

Companies that participate in global value chains look to the United States or other countries for sales and find suppliers most of the time or always.

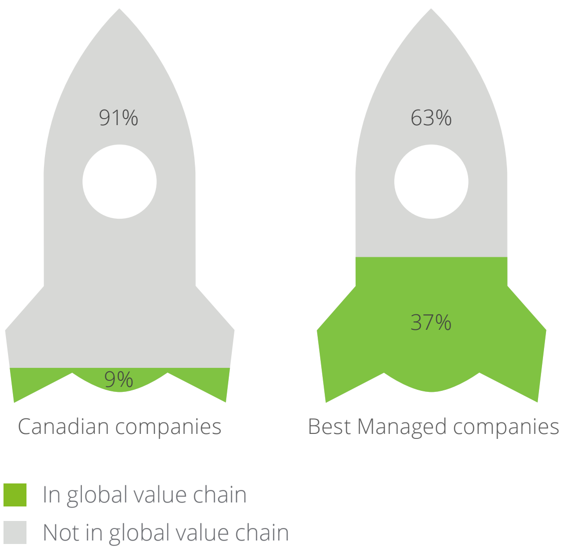


Figure 18: Selling abroad

How often does your company look to other countries for sales opportunities?

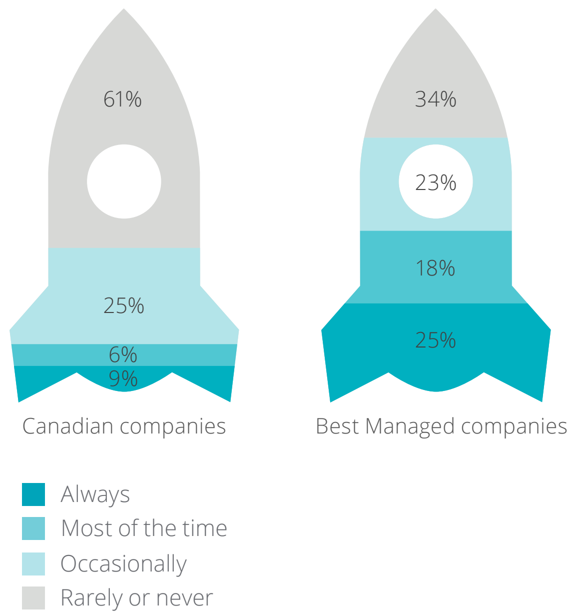


Figure 19: Finding suppliers abroad

How often does your company look to other countries for suppliers?

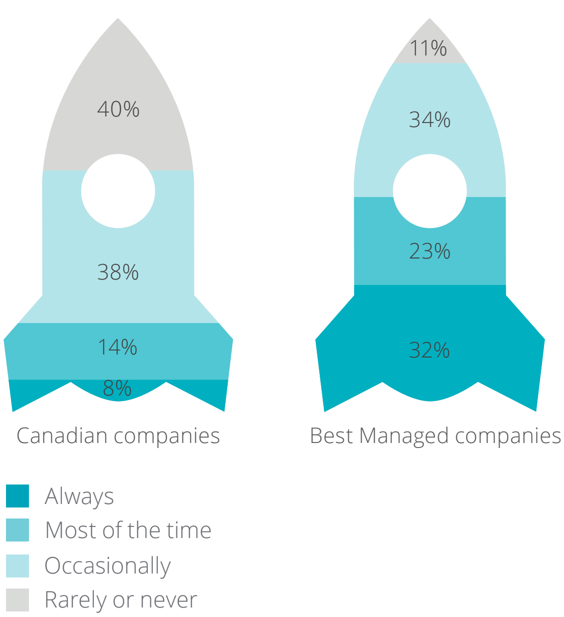
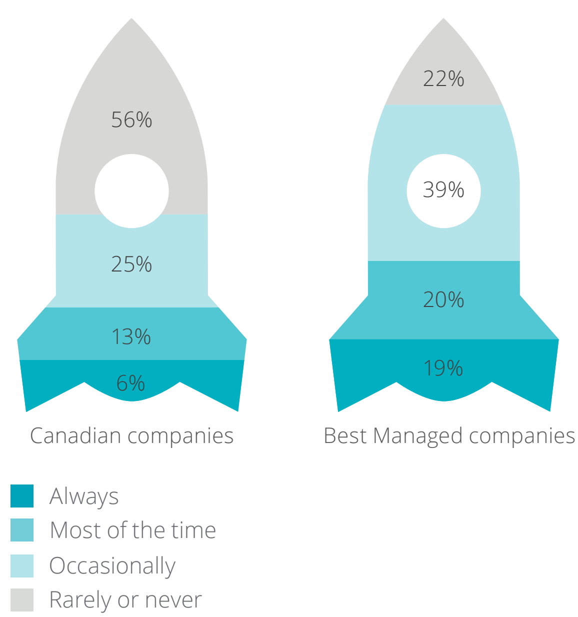


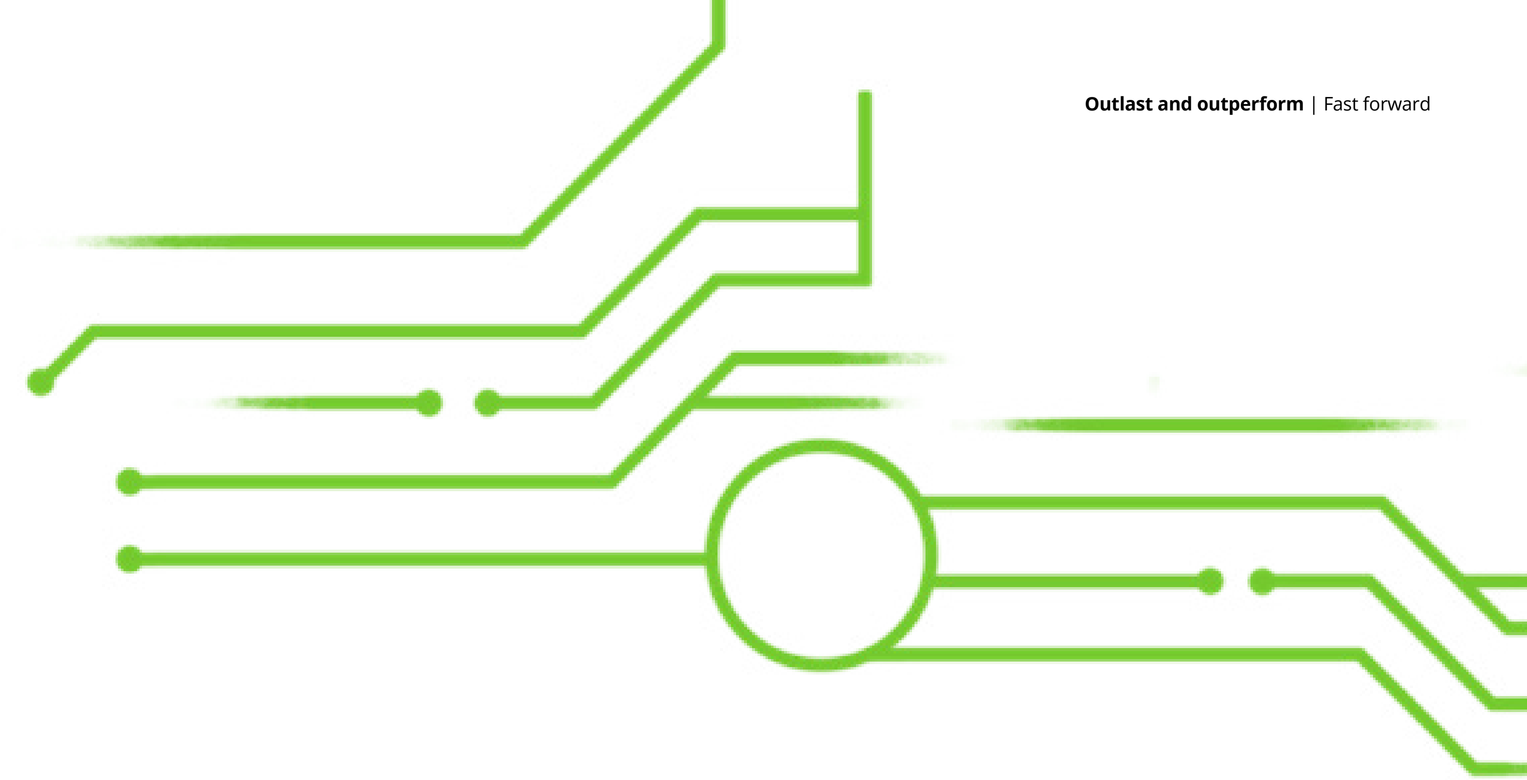
Figure 20: Forging partnerships abroad

How often does your company look to other countries/regions to collaborate with other firms or organizations (e.g., joint ventures, partnerships)?



Fast forward: prepare for tomorrow by taking action today

A relentless focus on putting people at the core of the business, a mature and intentional approach to innovation, a strong global orientation, and a deeply ingrained focus on the long term make Best Managed companies unique. What drives companies to make these kinds of strategic investments?



Best Managed leaders told us their company's vision and their focus on the future are what guide their actions today. This long-term view and strong sense of purpose explain much about how they differ from other firms across a wide range of dimensions.

Whether describing their company's approach to technology, unique leadership model, or global expansion to grow their company's revenue from $730 million to $1 billion, leaders often referred to their company's founding vision or values as being the guide to their decision-making. It's clear these companies are thinking about what the future might hold, tying it back to where they came from, and then taking action.

Best Managed companies are realistic about what the future might hold and take action as a result. This is in stark contrast to the majority of Canadian companies, only 19 percent of which are thinking comprehensively about the future. In fact, some of our findings suggest that many Canadian businesses are choosing to ignore what's on the horizon.

For example, despite ubiquitous coverage of the global race for talent, our country's much-discussed people advantage, and the growing body of evidence that suggests businesses that capitalize on the strengths of all their people get ahead, most Canadian firms are not taking advantage of and investing in their people. And despite the fact they claim obtaining the right people is their top challenge, only 23 percent have invested heavily in improving talent acquisition and retention over the past five years, and only 28 percent plan to do so over the next five.

In contrast, 68 percent of Best Managed companies have invested in acquiring and retaining top talent over the past five years, for the specific purpose of dealing with long-term challenges. They even intend to ramp up this investment, with 82 percent planning extensive investments in people over the next five years. In fact, analysis of our survey indicates the more challenging a company expects the future to be, the more it tends to invest in acquiring and retaining top talent.

Similarly, despite years of Deloitte research reports into Canada's productivity challenges and the importance of innovation to prepare for disruptive economic forces, Canadian companies still need to up their innovation game. Only six percent of the general business population, and 15 percent of the Best Managed, have matured their innovation capabilities to the point they have become a systemic competence. These findings are troubling in the context of an ever-competitive global economy.

To prepare for the future, private businesses must recognize that the old ways of doing business are no longer enough. Canadian businesses cannot afford to rest. The exponential pace of change is affecting economies globally, and Canada is no exception. While the world looked radically different 25 years ago, the changes we've seen so far will likely pale in comparison to those we can expect by 2042.

Recommendations

Create future-focused organizations

As companies grapple with seismic shifts in the economic landscape and a frenetic pace of technological change, only those able to look far into the future, understand its implications, and make investments that may not pay off for years will succeed.

Lead with purpose

Leaders of future-focused organizations not only scan for trends, challenges, and opportunities, but also seek to clarify and articulate their company's core purpose and reason for existence. Leaders told us that simply developing a long-term vision statement and conducting strategic planning is not enough. They must constantly reinforce and diffuse the company goals and messages throughout the company's to ensure strategic direction and buy-in from all their people.

Plan for what comes next

Don't avoid taking action just because the future seems uncertain or difficult. Deliberately looking ahead must be part of every leader's daily activities, and a long-term perspective should underpin organizational decision-making. Companies can facilitate this by developing a long-term strategic plan that takes into account external challenges, trends, client feedback, and the company's core purpose, and then regularly reviewing and modifying it as needed (e.g., using the *Playing to Win* strategy).[64] Use foresighting and scenario techniques to build a plan that is resilient for different scenarios in the future, not just one. To be effective, long-term planning does not have to be complicated, but it does need to be deliberate and regular (See *Oppy*.)

Since its 1858 founding, fresh produce supplier Oppenheimer has paired an agile and forward-looking perspective with long-term partnerships and a relentless global orientation. A prime example: it first struck up a relationship with Japanese orange growers in 1891—a partnership the company has maintained for well over a century. Today, Oppenheimer both imports and exports with over 27 countries. This far-flung network of operations enables fast pivots toward different geographies in response to price fluctuations, and a widely dispersed network of suppliers insulates the firm from risks like adverse weather and crop failure.

To plan for the future in a notoriously fast-moving and unpredictable industry, Oppenheimer uses a simple yet powerful annual planning process. Each year, the company seeks input from its top customers and suppliers on how it's doing and where it should be going next. Oppy's "Champions of Change" employee group also provides strategic insight into what members see on the ground by collecting insights from employees around the globe. Senior executives incorporate these inputs and synthesize the information into just a few strategic themes for the year. Oppy tracks progress against each theme, identifying and addressing major challenges and opportunities throughout the year. The simple process and a focus on doing a few things well allows Oppy to innovate and evolve while retaining its nimble focus. Its strategy has paid off; revenues have grown from $730 million in 2014 to over $1 billion today.

"We want people to have a say in the direction the company is going."

John Anderson, CEO
Oppenheimer Group

Put people at the core of your business

In an economy driven by ideas and know-how, companies should recognize that a focus on their people is no longer a nice-to-have but a must-have.

Accelerating economic disruption means the advantages accrued to companies that invest in their people will become even more pronounced.

Invest in top talent

Don't be afraid to invest resources in developing your talent function. Attracting, developing, and retaining the best people is central to a company's success. Best Managed firms tend to carefully consider candidates for competency and fit for the role, then work hard to build their employees' skills through creative initiatives like partnerships with local educational institutions and purpose-built mentorship programs. An emphasis on common goals, empowerment, development opportunities, and competitive compensation also serve to retain the best people.

To enable your people, start at the top

Maximizing your company's talent potential is more than simply hiring people with the right mix of technical and soft skills. Nothing happens without the right leadership team in place. Leaders have a role to play in creating an environment that draws on the best of its people. They must empower and motivate their people by creating sufficient clarity of purpose, mutual trust, and accountability to get the job done.

Building a pipeline of future leaders is especially important to a company's long-term success. We found that family-owned firms are most mindful of this, but all the Best Managed companies understand that strong leadership enables prosperity. (See *Fountain Tire.*)

Previous research from Bersin by Deloitte has shown that many organizations still rely solely on traditional leadership development programs to develop future leaders, despite the fact that these programs alone are not enough to produce results.[65] Companies should work to make leadership development an everyday occurrence. A simple first step is asking questions like: 'How does our culture enable leadership growth?' and 'How do our structure and work coordination facilitate the development of our people?' Next, set expectations about the behaviours leaders are expected to exhibit on a daily basis—not just once a year in anticipation of a promotion or performance review.

Fountain Tire

Fountain Tire's focus on its people is built into its business model. The tire dealer relies on a network of local dealers who split ownership of their store 50/50 with the company. This ownership model forces both parties to agree on major decisions, requiring significant mutual trust. Fountain Tire makes a decision to invest in these entrepreneurs through mentorship programs, and in-house leadership and business courses to cement the partnership.

The company knows it needs to constantly elevate the people upon whom its success depends. It therefore continually pursues creative approaches to personal development, such as collaborating with local educational institutions to design and provide training programs. Fountain Tire sees talented people as the key determinant of its future success, and prioritizes them accordingly.

"Creating talented business owners is our top priority—even above immediate financial returns."

Brent Hesje, CEO, Fountain Tire

Innovate intentionally, but not just for the sake of it

Successful organizations work to develop an adaptive and innovative culture because they know the future will be challenging.

Most critically, our interviews with leaders reinforced that innovation cannot happen simply from the desire for innovation alone. Instead, a company's focus on customer needs and overall vision has the most significant impact on its innovation efforts. Relying on the old ways of doing things will not be enough in the future.

Take steps to embed innovation capacity

To boost innovation, Canadian companies should invest in creating a culture of innovation in their organization. Research by Doblin, Deloitte's global innovation practice, shows that businesses that focus on building innovation as a systemic competency, rather than a series of ad-hoc initiatives, perform better. This includes setting an agenda and goals, defining success metrics, developing governance systems and business processes to design, test, and scale initiatives, and putting in place a supporting organizational infrastructure to fuel innovation.

Of Doblin's innovation competencies, both average Canadian companies and Best Managed were least likely to have invested in creating the culture and organizational infrastructure needed to fuel innovation (only eight percent of Canadian firms and 18 percent of Best Managed companies have effectively done so). Few companies sought to ensure their employee culture, technology tools, focus on attracting innovation talent, and developing partnerships all worked in concert to support new initiatives. Businesses need to make sure that all aspects of their organization are helping to encourage, develop, and scale new ideas. For companies like Artopex, this involves creating a deliberate system that incentivizes innovation from the bottom up (See *Artopex*.)

Pursue innovation to support clear goals

Businesses should orient their innovation efforts around the problem they're trying to solve. Our interviews reinforced that innovation for the sake of innovation will not be successful. Best Managed leaders pointed to two key sources of inspiration for their efforts: their organization's purpose and their customers' needs. For example, fluid-flow solutions provider Armstrong Fluid Technology describes itself as a values-based company and orients all its product development toward creating a more environmentally sustainable world. Others, like office furniture maker Artopex, look at their customers' work-life needs, both obvious and unexpressed, and reflect on how to improve their customers' lives.

artopex®

Office furniture maker Artopex continues to embody the spirit of founder Daniel Pelletier, who sees innovation as a key differentiator and the path to growth in a competitive industry. The organization has a number of programs and processes in place to encourage innovation. To drive its growth and stimulate the market, the company has committed to developing new products every six months. New innovations are considered based on four categories—potential impact on brand positioning, cost of R&D, tooling and sales potential. Customer surveys and reviews of products' post-purchase modifications also highlight opportunities for improvement, upon which Artopex rapidly acts.

Underpinning this is a culture that encourages new ideas and thinking that goes beyond products to consider customers' real needs and entire workplace experience. Artopex aims to preserve this unique perspective as it grows, to the point of considering only acquisition targets that embody these principles.

"Innovation differentiates us and underpins our growth strategy."

Francis Pelletier, Director of Client Experience, Artopex

Look beyond our borders

Companies with global exposure tend to be more productive and resilient, and outperform their less outward-oriented peers. As the age of economic disruption accelerates, establishing an international presence will become even more critical for companies to gain access to talent and ideas and, ultimately, to create quality products and services.

Unless Canadian businesses look abroad for opportunities, they will be less likely to compete. These recommendations don't only apply to large firms. Small companies can take steps to globalize by searching for their next supplier or top talent in other countries, or by following their clients as the latter build a global presence.

Seek out international partnerships

Far too many firms still underestimate the risk of remaining confined to one marketplace, and overestimate the risks of venturing abroad. Even among Best Managed winners, we found a lower proportion of businesses with a global focus than we would hope—only 66 percent have some revenues outside Canada. As Deloitte outlined in the *The future of productivity: Smart exporting for Canadian companies* report, there are a number of steps companies can take to boost their global presence.[66]

To start, they can win abroad by reflecting on what makes their business world-class. Developing a strong understanding of a company's value proposition—and how it measures up on the global stage—is important. Participation in detailed market assessments can help companies develop an understanding of the competitive marketplace and better articulate what they have to offer.

Secondly, the benefits of geographic diversification and growth opportunities flow from the courage and willingness to work across cultures and borders. Companies should seek out mentors and 'people on the ground' who can provide invaluable insights about new markets and share their experiences. Customers or suppliers already operating in a market can share local insights, facilitate referrals, and even serve as initial partners in the market (See *Hatch*.)

Capitalize on Canada's unique talent potential both at home and abroad

Think of the world as your talent pool. Canada is home to one of the world's most highly educated and diverse workforces, and recent changes to Canada's Express Entry visa program make bringing valuable global talent here easier than ever. Companies should use both of these to maximum advantage. Sending local talent for rotations abroad can help companies maintain a unified culture, better understand their markets, and bring Canadian education and cultural competency to bear on new problems. Similarly, looking beyond Canada's borders whenever a job opens up, instead of only when no local choice is available, means that businesses will more often hire the best possible candidate. The freer movement of people will help Canadian businesses to compete in an increasingly global era.

HATCH

Engineering consultancy Hatch has grown from its Canadian roots by following its clients abroad. "As our clients went global, we realized the 'quintessentially Canadian' challenges we solve and the skillsets we've developed are just as applicable to global problems as they were to Canadian ones."

Hatch describes its business model as "entrepreneurship with a technical soul." To come up with innovative engineering solutions, the company encourages its people to "think like owners" on a global scale. This means having a culture of collaboration, client focus, and non-hierarchical structures in place. Hatch's leadership development model reinforces this way of thinking. Ten to 15 percent of its workforce owns the company and these equity associates are selected in part for their ability to think like entrepreneurs and drive a future-focused perspective through all levels of the firm.

As Hatch expands geographically, sustaining the company's culture while meeting local needs is a challenge. Its leadership believes that finding and developing like–minded leaders in each jurisdiction is crucial. To develop local leadership and ensure the organization's culture, Hatch offers leaders short- to medium-term assignments in other regions. The company also take pains to tie work back to the "why" by constantly finding ways to communicate and reinforce its vision, strategy, and plan throughout the organization.

> "If you follow your clients and support them globally, you're typically successful."
>
> **John Bianchini, CEO, Hatch**

It's time to make courageous choices to reach new heights

"I wasn't destined to be an astronaut. I had to turn myself into one."

Chris Hadfield, in *An Astronaut's Guide to Life on Earth*[67]

Canadian businesses must turn themselves into resilient, thriving, highly productive companies. The past 25 years saw the business landscape shift underneath our feet, and the next 25 promise even greater change. Unless the majority of our business community acts now, our country may never realize its full potential.

By studying what makes Best Managed companies stand out from the pack, we've identified winning attitudes and practices. We've seen that when companies recognize people as the engine of their business, they can quickly adapt to weather oncoming storms. If they invest in systemic innovation, lofty goals come within reach. By looking beyond Canada's borders, companies gain new opportunities and diversify their operations so that no single strike can deliver a fatal blow. Finally, by focusing on the long term, businesses can develop the agility and foresight to identify and capitalize on new opportunities.

When we refuse to learn from the past and fail to act in the present, we blind ourselves to the future. At a time when digitization is accelerating and foreign markets are finding their way to our doorstep, burying our head in the sand is dangerous.

The majority of companies in Canada are not future-ready—but they can be.
The time to act is now. The pace of change is accelerating faster than it ever has. Canada could become an undisputed leader—the best place in the world to live and work—but we will reach those heights only if Canadian business makes the necessary choices with clarity and courage.

Their companies, our economy, and the future of Canada hangs in the balance.

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