



Sharpening Canada's Competitive Edge

Response to the Competition Policy Review Panel

About Misys

Misys is a leading global application software and services provider focused on delivering value to our customers through integrated and comprehensive solutions.

Misys is a customer-centric organisation with 4,500 employees serving customers in more than 120 countries, passionate about delivering world class products and services that deliver significant benefits for customers- now and in future. The Misys aim is to apply our experience to deliver market leading solutions that drive real measurable results for our customers.

Misys has experience in dealing in a number of comparable markets across the world which has given us very clear insight into the necessary conditions that form the basis of an environment conducive to business and economic success.

About the Authors:

Peter McCullagh

Peter McCullagh is Executive Vice President and Chief Marketing Officer of Misys plc, a FTSE 250 company. He advises senior executives and their Board of Directors in countries all over the world. Peter is a proud Canadian national, and has a distinguished business career including stints at the Bank of Nova Scotia, Siebel Systems, PricewaterhouseCoopers, and CEO at e-chemicals. He has published papers on leadership, strategy, financial management and the internet and is recognized as creating the value based selling/delivery approaches used today by major software companies including SAP, Cognos and Oracle. Of particular interest, Peter served as project leader and author of "Moving Forward; The Vision of BC Business" (ISBN 0-9698540-0-5) published in 1994, and has served as an adviser to the Canadian Government on issues such as immigration.

Sir Robin Young

Sir Robin Young was Permanent Secretary at the Department of Trade and Industry for the UK Government until 2005. Robin was educated at Fettes College, Edinburgh and University College, Oxford, and joined the Department of the Environment in 1973. He was promoted to Assistant Secretary in 1984, working on local government finance. Robin was promoted to Under Secretary in 1989 and in 1994 he became Deputy Secretary and first Regional Director of the Government Office for London. He transferred to the Cabinet Office in July 1997, where he headed the Economic and Domestic Affairs Secretariat. He was Permanent Secretary at the Department for Culture, Media and Sport from April 1998 to June 2001, and then Permanent Secretary at the Department of Trade and Industry for 4 years.

He left the Civil Service aged 56 in April 2005 to start a new portfolio career. He is currently Deputy Chairman of Dr Foster Ltd, Chairman of Dr Foster Intelligence Ltd, and Chairman of EuroRSCG Apex Communications Ltd where he provides policy advice to Misys plc.

Our Response:

We welcome the opportunity to respond to the Consultation paper developed by the Competition Policy Review Panel.

Misys is a leading player in the software and services market, serving customers in over 120 different countries across the globe, and as such we are an exemplar of the kind of high skilled, high-value added industry that should be likely to form the bedrock of Canada's economic growth for at least the next two decades.

Our experience in dealing in a number of comparable markets across the world has given us very clear insight into the necessary conditions that form the basis of an environment conducive to business and economic success.

It is our contention that the questions set out in the formal consultation are not complete; that they will not generate the comprehensive answers needed to address the fundamental issues that will drive competitive advantage for Canada.

In our response we do not feel the need to be constrained by the questions set out in the consultation, and instead we set out our view of the essential components needed to stimulate productivity and competitiveness, which allows Canada to compete in a global market place more effectively, providing for economic growth and subsequently allowing Canada to continue to improve the standard of living of its people. We see a direct causal relationship between Productivity and Competitiveness (the cause) and Economic Growth (the effect) and between Economic Growth (the cause) and Standards of Living (the effect). The next three sections we will refer to later as the Core Drivers section.

The Drivers of Productivity:

Productivity growth results when ideas are translated into valued goods and services.

Growth in productivity is linked to 3 primary causes:

1. quantity of plant, equipment and technology
2. quality of labour input
3. ability to learn and improve

The Drivers of Competition:

Competition is driven by 9 key factors*¹:

1. Rivalry among competitors
2. Bargaining Power of Customers
3. Bargaining Power of Suppliers
4. Threat of New Entrants
5. Pressure from Substitutes
6. Technology change and adoption
7. Government and Regulatory Intervention
8. Growth and Volatility of Market Demand
9. Extent of Globalization

¹ Porter's Five Forces

Day and Reibstein's Forces Influencing Arena Attractiveness

Author's additions/adaptations

The Drivers of Economic Growth:

Data point to 6 important characteristics influencing economic growth:

1. the extent of domestic competition
2. the extent of a country's openness to trade and integration with the world economy
3. the quality of a country's economic institutions:
 - a. state enforced property rights
 - b. a free, stable, independent press
 - c. a competitive marketplace that is free to adjust to economic shocks
 - d. a resilience in the people to adjust to shocks
 - e. trust in the words of others
 - f. education and health systems
4. the extent of innovation present in the country
5. the degree of personal initiative of a country's people
6. the success of a country's policy/law makers to implement measures necessary for economic stability

As you can see from this list, Competition is the primary driver of economic growth and, therefore, standards of living.

The Drivers of Canada's Success

While we are certain that you will receive a number of responses directly tied to the questions you asked. We hope that our “lens” provides a helpful and unique way to quickly get to action so that improvement can be made in the short term.

When we review the Core Drivers section of our report, we believe the following five areas should be prioritized and acted upon. In each of the areas we will highlight the importance of the issue and recommendations for the committee. Following the specific recommendations in each area, we offer four “watchouts” as important items that need further study, investigation and possible consideration for inclusion in the Drivers of Canada's Success.

The five drivers of success: skills and talent, competition, innovation, government transparency, and healthcare

1. Skills and Talent:

2 of the 3 Drivers of Productivity are related to skills and talent; quality of labour input and ability to learn and improve

Canada has a high per capita supply of institutions of higher learning, a commitment to higher education, high enrollment per capita in schools, colleges and universities and, in turn, an available supply of high-skilled workers. It also ranks high in international studies as indicated by the OECD study enclosed.

The usual suspects
Mean score on the OECD PISA mathematics scale
Selected countries, 2003

Finland	544	New Zealand	524
South Korea	542	France	511
Japan	534	Germany	503
Canada	533	Spain	485
Australia	524	United States	483

Source: OECD

However, there appears to be a fundamental disconnect between this advantage and the country's high end work place culture.

Canada finds itself possessed of somewhat lower education levels in high end industries than is the case in the U.S.

This seems to indicate that when Canadians leave high school they are some of the best equipped in the world. It is when Canadians are compared in post secondary and senior management skills that she appears to fall short.

Findings suggest that Canada does not have enough competent senior managers or generally individuals possessed of good management skills.

In short the education system is not creating the numbers of graduates with the skills that businesses like Misys are demanding. This in turn has been masked by an influx of skilled migrants in recent decades.

A recent McKinsey study² gives Canada credit but also issues a simple set of directives for improving the education and talent of a country; “Schools need to do three things: get the best teachers; get the best out of teachers; and step in when pupils start to lag behind”. Canada should pay heed to these directives and institute them nation-wide by reviewing the practices of the leading countries and adopting national overall guidelines tied to funding the Provincial education programs. This will provide a solid base upon which the country can build.

We recommend that immediate action is taken to develop joint industry and education programs, to ensure that school leavers are equipped with the skills that employers need to ensure that they remain competitive and can compete in a global market place.

With a declining population, Canada must take immediate action to ensure that it has a skills base for the future. We recommend that Canada adopt a skills based immigration policy. Welcoming new workers based on their skills and abilities, rather than on high wealth value or family connections. With the ageing population of Canada, the country must view immigrants as a talent pool. With a few basic safeguards in place, new workers can help provide the Country with a highly skilled workforce, targeted in areas that best fit Canada’s short and long term needs. Approaching immigration as a competitive differentiator will allow Canada to stay competitive and industrious. It should be noted that many countries have already begun similar approaches to attracting the world’s best talent and Canada must “sell” its quality of life and ease of (targeted) immigration to the world’s best talent.

² How to be tops in Education, Oct 18th 2007, *The Economist*

2. Competition:

Competition is the primary driver of economic growth and, therefore, standards of living

Canada has seen a decline in manufacturing as a percentage of GDP and a commensurate increase in services.

This is a trend that is likely to continue and accelerate, as the Canadian service sector rapidly increases in volume of output whilst traditional manufacturing either declines or stays at a constant level.

Canada has the third highest tax on business investment amongst the 30 OECD countries. Canada must reform its tax laws if it is to attract Multinational Head Offices and position itself as an attractive place for businesses to locate, and invest.

Canadians will also have to create a framework of policies in each of the key areas which will enhance global competitiveness and foster the best possible environment for high skill high tech, high added value business.

Canada's membership of and commitment to NAFTA and GATT is a step in the right direction. However, Canada has some internal barriers to trade. Canada must remove the barriers to free trade. It is preposterous that internal competition barriers (between Provinces) exist today. Canada cannot compete in an open global market place, when it still imposes internal barriers to competition.

It also lacks diversity in her export industries this is particularly true at a regional level.

Resource and manufacturing sectors remain the dominant engines of export but these are typically larger enterprises and are no longer a vibrant source of job growth.

Improved export preparedness by regional authorities, comprised of greater diversity in products and services exported and in the external markets served, will be integral to Canada's overall competitiveness and sustainable export-based job growth.

3. Innovation

the extent of innovation present in a country is one of the core drivers of economic growth

Canada does have some excellent Science and Technology resources and its tax treatment of R&D expenditure is comparably favourable to many other developed states, such as the USA.

However, studies also point out several fundamental technology-related challenges face Canada, including relatively low tertiary science enrolment, a low private sector investment in R&D expenditures and an overall low rating in technology management. This compares poorly with for example Germany or Australia.

Perhaps the biggest barrier to innovation is Canada's ability to attract global leaders. Without the talent base, Canada will not be able to create the environment in which capital formation grows at rates higher than other nations.

A shift change in culture is required to attract world class talent which rewards achievement and celebrates success.

Risk-taking drives innovation and is strongly correlated to the economic and social rewards systems in a country. Canadians are generally considered more risk averse than Americans, British or Australians.

Risk taking should be encouraged with tax incentives if Canada wants its companies to be "takeover-ers" rather than the "takeover-ees".

4. Government Transparency

**the quality of a country's economic institutions
is a key driver of economic growth**

A recent Wall Street Journal³ article highlights the one of the most pressing issues as it relates to a fundamental premise of democracy; that the government needs to represent the interests of its people first and foremost. While this may seem like a simple statement, the reality is that many governments in "democratic" countries have a special interest group leaning and in essence require the funds that the interest group's lobbyists can bring to their campaigns; they need the money to get elected.

The current presidential election in the USA is expected to require that EACH candidate from the 2 main parties will have to spend \$1B, and that the remaining congressional and senatorial candidates up for election will have to spend another \$1B, to get elected. To raise \$3B for one election cycle requires that these candidates "play" to special interests if they are to be elected. This demands the kinds of behaviours from elected officials that are not necessarily in the best interests of the people of the country but, instead are in the interest of the special interest groups who "pay to play". The USA has 25,000 registered lobbyists and 9,200 registered political action committees in Washington, DC.

Canada must expunge itself of these sorts of decision for the special interests and ensure that the government represents the people of the country. The government should enact laws which outlaw these practices.

³ Lender Lobbying Blitz Abetted Mortgage Mess
Ameriquest Pressed For Changes in Laws; A Battle in New Jersey
By GLENN R. SIMPSON
December 31, 2007; Page A1

5. Healthcare:

As the following chart shows, Canada has done a relatively good job of providing healthcare for its citizens. Healthcare is a key attractant for talent and is also a huge potential engine of economic growth (neither of which Canada has taken advantage of).

Healthcare is a key driver of economic growth and stability

The country needs to use free market forces to eliminate unnecessary costs (such as automating much of the “back-end” processes) so that it is competitive with Britain and Australia. It must also improve upon mistakes/errors and availability of healthcare as both of these are significant “draws” on the productivity and competitiveness of the country. Much of this can be accomplished by using automation/technology and should be pushed by the government.

How Health Care Stacks Up

	Australia	Britain	Canada	Germany	Holland	N' Zealand	US
National Stats							
HC spending as % GDP	9.5%	8.3%	9.8%	10.7%	9.2%	9.0%	16.0%
Life expectancy in years	80.6	78.7	80.3	79	79.8	79	77.
Infant mortality/1000 births	4.6	5	4.6	4.1	5.04	5.7	6.8
What patients say							
System needs to be rebuilt completely	18%	15%	12%	27%	9%	17%	34%
Have experienced medical mistakes in past 2 years	26%	24%	28%	16%	25%	22%	32%
Appointment same/next day when sick	62%	58%	36%	65%	70%	75%	49%

Source: Commonwealth Fund, Centers for Disease Control, Businessweek

Four Watchouts

Sovereign wealth funds

Sovereign wealth funds control more money than that of Hedge Funds. Morgan Stanley currently estimate Sovereign wealth funds of China, Middle East and Russia combined control \$2.8 trillion, compared to \$1.7 trillion of Hedge Funds. Merrill Lynch estimates that these funds will control \$11 Trillion by 2011, an amount equal to the entire US economy today.

The possibility of investment by Sovereign Funds could provide mixed blessings for Canada. On the positive side there is a huge investment opportunity which could be made by Asian and Middle Eastern government-owned investment pools. However, it is our contention that they also pose significant risks:

- There is anxiety about globalization, and the creeping ownership of significant assets by foreign government controlled funds; and the inability of politicians to react to undemocratic governments buying up whole companies.
- Economic issues; capitalism and markets operate in open markets to serve customers and shareholders. There is a fundamental worry that sovereign wealth funds may not be in it just for the money, but may harbor hidden agendas.

Personal initiative

As a Canadian living in the US and travelling globally for almost 20 years, it is my observation that Canadians must continue to show the drive and ambition, and make the commitment and related sacrifices, to out-smart and out-hustle their global competitors.

While improving, Canadians need to adjust their thinking when it comes to wealth creation. It is still common in Canada that the accumulation of wealth is seen as unseemly and unattractive. I often find the classic difference in mind-set between the US and Britain with Canada: in the former, if you are wealthy you are generally admired and many people see you as a role model to exemplify. In Canada, if you are wealthy, you are generally thought of as a crook.

A recent UN International Labour Organization study⁴ found that the US is falling behind when it comes to taking initiative to “out-hustle” the competition. The study, while focused on defining excessive working hours in developing nations, (excessive defined as total work hours in excess of 48 hours per week) highlighted the simple fact that, as we become wealthier, we move up Maslow’s hierarchy of needs, and are able to spend more time on “higher order” items in our lives.

⁴ *Working Time Around the World: Trends in working hours, laws and policies in a global comparative perspective, UN ILO*

The study found that “In developed countries, where working hours are typically shorter, the United Kingdom stood at 25.7 per cent, Israel at 25.5 per cent, Australia at 20.4 per cent, Switzerland at 19.2 per cent, and the United States at 18.1 per cent”. In developing countries the percentages are higher. This means that the percentage of people that work more than 48 hours in a week is declining in developed countries, and in the case of the US, is the lowest percentage.

While Canada is not specifically mentioned in this summary report, historically, Canada has averaged hours worked and productivity that is significantly less than the USA. This would place Canada at the bottom of the list in virtually any scenario.

There is a direct correlation between hours worked and output, and there is a direct correlation between entrepreneurs and business executives’ success and their respective hours worked. As a senior executive, I can tell you that the most successful in creating business growth have to work both smart and hard.

This means that the downside of what many may see as a positive, a lowering of the percentage of the population working “hard”, is that we lose the exact mindset that drives the most basic of innovation and job growth; hard working, passionate business people.

In the end this may be telling us that we are seeing a lessening of the type of people who drive innovation and job growth as we become “fatter, dumber and happier” because of our assumed right to a quality of living. Canadians must understand that their quality of life is driven by those passionate workaholics who create the lion’s share of economic growth, and that a lessening of hard workers across the population is not a positive sign for the future. Government should do everything it can encourage the growth of the most valuable asset a country can have: hard working, passionate business people.

Government’s ability to implement

There have been many previous government studies on how to improve Productivity and Competitiveness. It appears that few of the recommendations of these previous studies have been implemented. The government needs to commit the resources and time necessary to implement the recommendations that come out of this effort. Failure to do so will only increase the public’s scepticism of government’s effectiveness.

Government's ability to live within its means

Canada continues to do a stellar job of creating surpluses and using those surpluses to improve many current challenges. Going forward, Canada must commit itself to using large portions of today's surpluses to pay off the country's debt. A financially stable, highly regarded debt rating will help ensure that Canada can borrow in times of need at rates and conditions that are favourable to it. In addition, the government should introduce legislation that requires that it pays for any increase in spending with reductions in spending in other areas – in short – it must live within its' means on an on-going basis.

Conclusions:

Canada needs to use its bounty of natural resources, including its share of the Arctic, to transform into a highly educated, highly motivated and highly sought out, destination for talent, and therefore, investment.

The international comparisons provided by OECD and Government studies place Canada's competitiveness on economic and social factors in the mid/higher range of industrial countries.

Canada's social, infrastructural, financial systems and human factors are sound and benefit its competitive position; they are comparable and in some cases superior to those of most advanced countries.

The country's economic foundations are generally strong but there are factors which we have identified which limit Canada's capability to advance/enhance its global position.

On the positive side, Canada's weaknesses are in areas which can be addressed relatively swiftly by effective economic policies aimed at fine tuning her performance in key areas; whereas her competitive assets are the foundations that other nations find it difficult to acquire.

Canada's standard of living over the next 20 years depends on the rate of productivity growth and increasing competitiveness. Productivity and competitiveness in turn depend on a set of key drivers which we have attempted to identify and apply to Canada's current situation.

For a nation to achieve sustained productivity growth it needs to continually retune its economy. Its companies must increase their productivity in existing industries by improving product quality, adding new and attractive features, using new product technology and raising production efficiency. In addition an economy which is adjusting in this manner must develop the capability to compete in new and more sophisticated industries, where productivity and added value is generally higher.

The goal for the private sector in partnership with the state must be to develop the products and services that command premium prices in international markets and which can support high wages to which Canadian Citizens and their Government aspire.

It is imperative that Canada recognizes that she has a comparative advantage in knowledge-intensive industries, and that she continues to build a strategy based on openness, flexibility and investment in knowledge and skills that enhances that comparative advantage. This strategy will enable Canadian companies to produce more knowledge-intensive goods and services and move more quickly into the new knowledge-intensive industries.

We strongly advise that policy makers adopt the recommendations which will be made in due course by the Competition Policy Review Panel. Procrastination will only delay the implementation of the drivers and policy needed to ensure that Canada attract inward investment, and compete globally.

We welcome any feedback from the Panel and would be delighted to speak to members of the Panel should our ideas be useful.