

Our BERD in the Hand



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THE PRESENT CREDIT crisis has catapulted the future of our economy to the top of people's concerns; but a long-standing problem has been undermining Canada's future prosperity far more insidiously.

Government policy makers have been trying to increase Canada's industrial R&D, also referred to as Business Enterprise Research and Development, or BERD. A higher BERD is an important measure if we want to know how we're faring in the knowledge economy; but, like happiness, it's an outcome not a means. All of our attempts are failing, because our beliefs and attitudes are sadly off the mark.

Conventional wisdom in policy circles is that in a knowledge economy, scientific and technological research drives innovation, which fuels economic growth. So, the simple prescription for economic success is more research, more science, and more technology. The phrase "from ideas to market" permeates the halls of government, academia and many parts of the private sector. This belief is deeply ingrained in our culture. Yet on the evidence, it is failing us. In 2007, Canada was still languishing in 12th place as measured by GERD/GDP – six years after the Chrétien government set a goal of getting into the top five by 2010!

Policy makers want to "encourage" firms to do more R&D in the

hope that GERD/GDP will rise. They see Canada's low BERD as a lack of industry "receptor capacity" for ideas coming out of Canadian universities. This view misses the fact that firms get most of their ideas from customers and other firms. They mostly value universities for their graduates, not their research ideas.

Firms do not need "encouragement" to do R&D. If a customer has a problem that is worth solving, firms will do the R&D to solve it. That's how smart firms create value and grow revenue. Profitable revenue growth is the driver of economic growth and of BERD.

An illustrative analogy: affluent people tend to have more consumer technology in their homes than do people of modest means. Does this mean that governments can enhance the prosperity of less affluent citizens by encouraging the purchase of more consumer technology? Of course not! Help citizens become more prosperous and they will acquire more consumer products. Help companies grow and succeed, and they will do more R&D to create value for customers. Providing R&D incentives is looking through the wrong end of the telescope. Revenue supports R&D; not the reverse.

In a study of firms in Canada that applied for R&D tax credits between 1994 and 2001, we found that about 230 out of 10,000 companies were growing revenue profitably at about 13% per year. They were also growing employment and over 90% of their sales were exported. They were the only growing group. To sustain this value creation they invested about 12% of revenue in R&D. Even here we found some didn't know they had the right end of the telescope.

Interviews with CEOs in this small group indicated that succeeding in R&D intensive commerce in Canada is difficult. Postsecondary graduates have excellent technical knowledge but lack commerce skills

such as sales, marketing and management. Customer consciousness is low. CEOs experienced an anti-commerce attitude throughout Canadian educational, government and cultural institutions. Many of them felt isolated, unappreciated and not respected.

If Canadians want to prosper in the knowledge economy, we need to eliminate the "hands off" and "tax the corporate bums" attitudes that make commerce and commercial skills shunned choices. Our political leaders cannot remain content to focus on supporting public sector research and hope that commercial activity will magically emerge. The enormous reticence to help existing firms to grow needs to be replaced by a united will to succeed in global knowledge-based commerce. While the U.S. and other countries create government programs that support domestic firms through strategic procurement, industrial research grants and tax incentives, Canada refuses to compete except on tax incentives. The left of the political spectrum is anti-corporate and the right is ideologically against government playing any role, so direct support programs are eschewed or minimally used. Canada is at an enormous disadvantage.

Canada must "back its players" so that winners can emerge. By supporting a hockey league, we're not picking winners. We're supporting the players so that potential winners can become great. We need a similar approach to entrepreneurs and business. To excel in the knowledge economy, we need great companies, entrepreneurs who can grow them, and managers who can run them. They will know better than anyone else how to incorporate the R&D play. So let's work with the R&D-intensive companies we have – our BERD in the hand. Until Canadians embrace commerce and support our existing firms and entrepreneurs, Canada's future prosperity will be in jeopardy – credit crisis or not.