The State of Manufacturing in Canada

An Annual BDO Dunwoody/COMPAS Research Report

Save Me From My Friends

Just about every Canadian business executive has probably heard of Parkinson’s Law about work expanding to fill the time available or the Peter Principle about individuals rising to their level of incompetence.

Professors Parkinson and Peter have become icons and their books, best-sellers.

By contrast, who has ever heard of Claude Villars (1653 - 1734)? The name of France’s brilliant general and crafty statesman would draw a blank today, perhaps even in France itself.

Yet Villars left behind a phrase that resonates with Canadian manufacturers when they think of their biggest business challenges – “God save me from my friends, I can protect myself from my enemies.” That is to say, Canadian manufacturers see their own government as a greater problem than foreign competition.

CEOs and senior executives of Canada’s manufacturing companies do not want to move their operations overseas

Canadian manufacturers love Canada and want to stay here. According to the leaders in the manufacturing industry, competing internationally does not have to mean changes geographically. Respondents in the State of Manufacturing in Canada Study, commissioned by BDO Dunwoody LLP and conducted by COMPAS, are unabashedly enthusiastic about the virtues of living here but nonetheless frustrated by some of the impediments to doing business here.

CEOs and senior executives of Canada’s manufacturing companies do not want to move their operations overseas. Rather, they would like government to help create a more internationally competitive environment here, retaining what’s best about Canada – stable society, great place to live, high ethical standards, a country where you can trust people’s word, an educated people, clean environment – and reforming the greatest impediments – taxes, red tape, and excessive regulation.
Home Sweet Home

If Canadian manufacturers have mixed feelings about Ottawa, there is nothing ambivalent about their feelings about Canada. They’re not just proud of Canada. They love it. They love living, working, and raising their families here.

Manufacturing executives’ enthusiasm for their country comes through loud and clear when asked about the advantages of doing business here. A minority, about a fifth, interpret the question narrowly, saying that they cannot think of a particular tax, regulatory, or customer-related advantage of working in Canada.

Among the majority offering an answer, 45% readily assert that Canada is a wonderful country for a wide variety of reasons – stable society, great place to live, high ethical standards, a country where you can trust people’s word, an educated society, a good people, etc.

In their own words:
• Canadians, we’re nice guys;
• I am just concerned about providing good service for good, honest, local people. I don’t want to compete on the world market. Canada allows me to deal with wholesome people;
• People in Canada are generally more polite and reliable business people;
• Both customers and suppliers are honest and easy to deal with. Canada is a good place to live. That is why we established the business here;
• We have a good reputation within the world. We’re more agreeable. People believe we’re honest. We have a good diverse population.

In second place, 17% praise our general business climate, including the clarity and fairness of rules, the ease of transactions, and the legal system. “I like doing business here because of our stable business investment climate and an experienced skilled work force. We also have a stable social structure and of course the advantages of the B.C. climate.”

A number of respondents make explicit comparisons between doing business in Canada and the U.S. Some say that it is simpler and cheaper to do business here while others praise U.S. companies for being able to make clear-cut purchasing decisions more quickly than do Canadian firms.

The quality of our workforce places third as an advantage of doing business in Canada (15%).

The fourth and fifth most frequently volunteered advantages are proximity to U.S. markets (11%) and quality of Canadian products (10%).

Please, Oh Please, Let Us Stay

Canadian manufacturing executives want help from Ottawa to stay, as opposed to offers from Shanghai and Bombay to move.

On balance, Canada’s manufacturing executives say their challenge is to be competitive from Canada as opposed to dealing with competition from overseas. This comes through loud and clear in responses to questions that COMPAS asked 500 senior manufacturing executives in the Spring, 2005 survey for BDO Dunwoody.

In practice, half of Canadian manufacturing executives view competition from Asia as no challenge at all. Only 17% see it as a significant challenge, as shown in Figure 1.

The cost and availability of labour is often seen as one of the greatest advantages of doing business overseas. But fewer than one in five volunteer any type of labour issue as a drawback to operating in Canada, as shown in Figure 2. When they do bring up labour issues, it is often about a need for specialized skills or a flexible workforce rather than primarily about the cost of wages.

Admittedly, some of those who worry about Asia are truly concerned. As one CEO put it, “China’s [low wages] will dramatically affect Canada one day.” Several senior executives expressed concern that some Canadian manufacturers are threatened by Chinese competitors buoyed by cheap steel, low wages, weak labour laws, and lax environmental laws.

However, the number of executives concerned about Beijing or Delhi subsidizing their competitors is dwarfed by the number who worry about Ottawa as a burden to bear.

Figure 1: How Serious a Challenge is Competition from Countries like China and India to Firms like Your Own?

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Significant challenge</td>
<td>17%</td>
</tr>
<tr>
<td>Moderate challenge</td>
<td>28%</td>
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<tr>
<td>Negligible or no challenge</td>
<td>51%</td>
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Taxes, Taxes, and Red Tape

While Canada is Canada’s main advantage for doing business, taxes and red tape are its main disadvantages. As one CEO said, “Canada’s a nice place to live, but a mediocre place to do business.”

Almost two-thirds of manufacturing executives point to tax and regulatory burden as their main concern. As many as 38% say that high taxes are the main disadvantage of doing business in Canada with another 26% pointing to red tape, excessive regulation, and poor management of trade relations with the U.S.

When manufacturers do express their feelings about government, their feelings are practical and down-to-earth reasons, as shown in the following comments:

• My firm’s biggest problem is trying to survive after paying so many taxes;
• We’re just swamped by government regulation and red tape;
• Government is effectively our biggest competitor—everything they do drives up our costs;
• Our biggest challenge is government spending because they just keep wasting our tax dollars;
• Tax rates are high at all levels, and small business is really hurt;
• Paperwork! We spend 25% of our time on red tape.

The heads of several export-oriented firms zeroed in on government failures to improve Canada-U.S. relations and protect access to the American market. “The U.S. doesn’t want to deal with Canadian suppliers like they did before 9/11,” explains one respondent. “We need better diplomacy but we’re not getting it. Canada needs the U.S. market,” echoes another executive.

A few executives of Canadian manufacturing firms want government to help upgrade workforce skills or use tariffs to block Asian imports. But most want Ottawa above all to cut taxes. Ten times as many executives want taxes cut as want more government investment in skills development, as shown in Figure 3.

Figure 3: The Greatest Change Government Could Make to Help Manufacturing
No Return to the Dirty ’30s

While manufacturers want less intrusive government and especially less taxing government, few want no government at all.

Respondents were asked how they felt about a wide range of policy changes intended to help business – from cutting taxes on manufacturers and corporate taxes generally to improving access to the U.S. market, loosening labour laws, and loosening environmental regulation.

Given that respondents were repeatedly volunteering a need for tax cuts, we weren’t surprised by the immense majorities favouring tax cuts when we specifically asked about them, as shown in Figure 4. More than three-quarters thought that tax cuts would do a lot of good. Many likewise believed that better access to south of the 49th parallel would be beneficial.

By contrast, a majority believe that weakening environmental regulations would do very little good for business. They want Canada to be as clean as it is or cleaner. Canadian manufacturers don’t want their country emulating the environmental laxity of China’s Special Economic Zones.

On balance, manufacturers favour some loosening of labour laws. Few oppose unions in principle or believe that workers should have no right to negotiate. But a number of executives are concerned that they have to deal with workforce rigidities that are not a problem for their offshore competitors, who can innovate more quickly as a result.

Markets and Marketing – The Key

If manufacturers could get the government off their metaphorical backs, they would feel free to tackle what they really want to deal with – conquering new markets. A clear majority (56%) see marketing and advertising as their strategic priority, as shown in Figure 5.

Figure 5: Key Elements of Manufacturers’ Growth Strategy

- Find new markets/spend on ads and marketing: 56%
- Hire more skilled labour: 14%
- Improve customer service: 13%
- New product introduction: 13%
- Invest in equipment/capital: 12%
- Reduce costs/prices/increase efficiencies: 8%
- Increase production: 8%
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In distant second, third, and fourth positions are hiring more skilled labour (14%), better customer service (13%), launching new product (13%), and investing in new equipment (12%).

The bottom line for Canadian manufacturers is that they love their country. They want to remain, they don’t want to move their plants offshore, and they don’t want to return to the Dirty ’30s of weak labour laws and environmental laxity, but they need Ottawa’s help – lower taxes, less red tape, better Can-Am relations, and possibly more flexibility in labour laws.

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