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Getting back to basics: Part 1 of 5

Business is about making money, period!

William C.T. Polushin, Financial Post



National Post

In this, the first of FP Executive's five-part series on competing to win in the global economy, William C.T. Polushin looks at the fundamental question of business.

On July 12, 2007, the federal ministers of industry and finance announced the creation of what was called the Competition Policy

Review Panel. Their mandate: to review Canada's competition and foreign-investment policies and make recommendations to the federal government that will help make Canadian business more competitive in an increasingly global marketplace.

The panel's final report, *Compete to Win*, was about one simple proposition: Raising Canada's overall economic performance through greater competition will provide Canadians with a higher standard of living. Toward this end, the panel sought policies that would sustain a robust economic legacy for future generations of Canadians.

This five-part article series builds on the work completed by the Competition Policy Review Panel, but instead of tackling Canada's competitiveness agenda from the policy perspective, my focus will be on what I see as the central figure for wealth creation in Western and newly industrialized markets -- the enterprise.

In market-oriented economies such as Canada, the United States, the European Union, Japan and Australia, it is the enterprise, represented by its owners, managers and employees, that has to compete in the global economy. If a particular enterprise -- Canadian or otherwise -- does not possess the necessary knowledge or capacity to compete at a level that is dictated by world markets, it will not realize sustainable sales and profit growth. The result: diminished or negative job and wealth-creating capacity and, with that, limited contributions to national prosperity.

So, how does an enterprise/business/ company/firm compete and win in a world that is being reshaped by technology, economic globalization, demographic shifts, ever-evolving labour markets and

the rise of Brazil, Russia, India and China on the world stage? Not surprisingly, there is no one simple answer to this question, but in the first of this five-part series, let's start developing a solid response by going back to the basics.

THE FUNDAMENTAL QUESTION OF BUSINESS

Over the past 20-plus years, I have had the opportunity to develop business in Canada, the United States, Mexico, South America, Asia and Europe for Canadian and/or foreign enterprises. While each market and company is distinct, there are a number of underlying business principles that are common across region, firm and industry. I will touch upon two of them.

The first pertains to the nature of business itself. In my lectures to MBA and bachelor of commerce students at the Desautels Faculty of Management at McGill University, or when I'm advising a company on how to grow or compete in Canada or abroad, I like to explore this topic with them by asking the question: What is business all about?

The answers I receive, which invariably differ, provide me with insight into the mindset and experience of my audience. In its most basic form, though, there is only one reasonable response to this question. Business is about making money, period! The type of business you choose to manage, start or work for may vary; your motivation for managing, starting or joining a particular enterprise may vary; the specific financial targets your firm sets for itself may vary; and the approach your company takes to making money may vary; but at the end of the day, if your business is not generating revenue and realizing profits, it will not survive.

Building on this premise leads us to the second of my business principles, or what I refer to as the Fundamental Question of Business.

Like my first query, I invariably receive a multitude of answers from my students or clients when I ask them to tell me what this question is, ranging from how do we keep our customers satisfied? to what is our competitive advantage? to how do we maximize shareholder wealth? On the whole, these are all sound responses, but we need to drill down a little further to uncover the most basic of business questions. If our primary objective is to make money, then we absolutely need to understand how to develop and maintain business flow. In other words, we need to answer this fundamental question:

Why me?

Or, taken from the point of view of the enterprise, why us?

A simple question, yes, but the real trick is coming up with an effective response. Whether you are one-man accounting practice in Edmonton, a mid-sized construction contractor in Winnipeg or an industry-leading transportation manufacturer based in Montreal, your challenge is to determine how to sell your products or services on a sustainable and profitable basis. This is not just about building

your brand, or innovating, or putting a customer relationship management system in place, or sourcing materials at a lower cost from China. It is about knowing how to compete and win in your market and industry.

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• Next Tuesday, May 18, Mr. Polushin will discuss the 10 Cs of global competitiveness.

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FINANCIAL POST

Tuesday, May 18, 2010

Part 2 of 5: What you need to win

Luck alone is not enough

William Polushin, Financial Post



Ted Rhodes/Canwest News Service

In this, the second of FP Executive's five-part series on competing to win in the global economy, William Polushin looks at the 10 C's of global competitiveness.

I have worked with, competed against, or analyzed hundreds of companies in Canada and abroad. While each enterprise, industry, and market is unique in its own right, there is a set of factors that are common to all that impact directly the ability of the enterprise to realize revenue and earnings growth. I refer to these factors as the 10 C's of global competitiveness:

1. **Competitive Products and Services** Price, quality, commercial and delivery terms, customer service support -- the list goes on -- are all component parts of a buying decision. Whether a company is selling goods or services domestically, or to clients abroad, they must have a clearly defined value proposition that meets or exceeds their customer's requirements.
2. **Critical Mass** Canada is a nation of small and medium-sized enterprises. Of the approximately 1.1 million employee businesses in this country, more than 99% are small and medium-sized enterprises (SMEs; defined by Industry Canada as companies having fewer than 500 employees). To compete effectively over the long term means having sufficient human and financial resources to do so.
3. **Commitment** In this case, commitment refers to the demonstrated commitment by management and employees in planning for and implementing commercial activities. If the director of business development in a company, for example, is spending more time selling the benefits of a new market to his/her superiors versus selling the company's products or services to prospective clients in that market, the chances of the company succeeding in the new market are limited.
4. **Capital** The availability of, and access to, capital is a critical element in building a healthy and viable enterprise. Not surprisingly, one of the main areas always cited by SMEs as being a particular challenge in their operating environment is access to financing. This challenge will impede business growth -- domestically and internationally.

5. Connected Connected in this case has two component parts:

a) Business connections/networks.

b) IT readiness or "connectedness."

6. Country Acumen As an exporter, importer or direct investor, it is important to have more than a superficial understanding of the country that your company is doing business with or in. Successful management of business risks and the ability to effectively penetrate a particular market requires in-depth knowledge and appreciation of the country's history, culture, political and economic structure and direction, industrial profile etc.

7. Company Plan The plan is the foundation upon which the company will successfully grow. It will also vary, depending on what the specific commercial objectives and goals are of a particular enterprise.

For each new market that a company is planning to enter, in Canada or abroad, a market-specific plan should be developed.

8. Continuous Innovation Innovation is a key driver in creating productivity. In the case of the 10 C's of global competitiveness, this translates into sustained and profitable sales. In the global economy, the speed at which business takes place is accelerating, so Canadian companies must keep the wheels of innovation rolling if they hope to remain competitive.

9. Competence Competitive advantage is driven by knowledge that goes well beyond the acquisition of information to include tacit knowledge or know-how. In this case, the issue of competence starts at the managerial level and flows downward. If a company's leadership does not have the necessary skills and acumen to compete at a world-class level, the company will not be positioned to realize sustainable and profitable sales.

10. Confidence The management and employees of the company must have an unwavering belief in the company's ability to compete at a world-class level. This belief is not based on blind faith. It is confidence that is created as a result of the nine other C's coming together. While a particular enterprise may have limited to no experience in competing internationally, it can create the winning conditions for commercial success.

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- Next Tuesday, May 25, Mr. Polushin will present *Entrepreneurs not Managers*. Part 1 of the series can be read at financialpost.com/executive

FINANCIAL POST

Tuesday, May 25, 2010

Canada needs entrepreneurs

Canadian companies have no choice but to re-evaluate how they do business

William Polushin, Financial Post



Fotolia

In this, the third of FP Executive's five-part series on competing to win in the global economy, William Polushin looks at the need for entrepreneurs, not managers.

In *The Wealth of Nations* (1776), Adam Smith argued that individuals will promote public or social interest simply by trying to maximize their own gain, as though they were guided by an invisible hand.

Smith's focus on trade and entrepreneurship as the principal means through which wealth is created is as pertinent now as it was 234 years ago. In fact, as the transition from a G8 to G20 world takes shape, and we further advance into the Digital Age, I would argue even more so.

CANADA: A TRADING NATION, BUT NOT A NATION OF TRADERS

International trade is a critical element in Canada's economic well-being. With the exception of Germany, we are the most trade-dependent nation in the Group of Seven (G7) industrialized nations.

In 2009, Canada's gross domestic product (GDP at market prices, expenditure-based) was \$1.53-trillion. Exports and imports of goods and services were \$438-billion and \$464-billion, respectively, or 28.9% and 30.4% of GDP.

While total trade was down a staggering 17.9% from 2008 (as a result of the global economic downturn and associated softness in the U.S. and European markets), the combined value of our exports and imports was still more than \$900-billion, or 59.3% of GDP.

These numbers reflect the importance of international trade in Canada's economy. What they don't tell you, though, is that Canadian companies are facing increasing levels of competition in both our domestic and international markets from foreign enterprises, and this is a trend that will only continue as China, India, Brazil, Russia, Mexico and other rapidly developing nations command a greater share of world economic output.

Gone are the good ol' days where we can assume that even our closest, and by far the largest, trading partner, the

United States, will be a relatively easy target for our goods and services. In 2007, China overtook Canada as the number one supplier to the U.S. and we can expect Mexico to start challenging us for the Number 2 spot in the coming years.

In such an environment, Canadian companies have no choice but to re-evaluate how they do business in Canada and abroad if they hope to realize sustainable and profitable sales.

From a competitiveness perspective, this means Canada has to go beyond being just a trading nation, but also a nation of traders. In other words, our companies--small, medium and large, and across industry -- need to not only understand the forces driving economic globalization, they must also possess the dynamic capacity to anticipate and effectively exploit market opportunities in an increasingly integrated and global economy.

The latter pertains to the 10 Cs of Global Competitiveness I presented last week, the former to entrepreneurial spirit.

RISE OF THE ENTREPRENEUR

As defined by the Merriam-Webster dictionary, an entrepreneur is one who organizes, manages, and assumes the risks of a business or enterprise. The key word in this definition, in the context of our discussions on competing to win in the global economy, is risk.

We are not a nation of risk takers. We are a nation of good managers and policymakers. And while this profile has been an important element in Canada's ability to weather the economic and financial crisis better than our western industrial peers from the U.S., Europe and Japan, our economic growth and prosperity is absolutely tied to our ability to not only assume, but welcome risk, in a rapidly changing business environment.

Don't get me wrong. All enterprises -- whether they are a medium-sized farming operation in Bluffton, Alta., or a large auto-parts company based in Southern Ontario, or a start-up software firm in Laval, Que. -- must effectively manage their operations to ensure long-term stability and profitability, but wealth creation in the global economy requires a strong entrepreneurial base that can quickly and competitively respond to market opportunities.

Our challenge in Canada is to create a culture and system that truly embraces and supports entrepreneurial effort. This is the responsibility of all actors in the private and public sectors.

- At the federal level, that means putting significantly more financial resources into play into organizations such as the National Research Council and Business Development Bank of Canada to help finance new and innovative ventures.
- For our uber conservative banking sector, that means changing the criteria under which credit flows to young, but yet unproven, enterprises.
- For our secondary and postsecondary institutions, that means making entrepreneurial and management studies

core courses in our students' academic studies.

The list goes on. In this case, though, there is no room for invisible hands!

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Next Tuesday, June 1, Mr. Polushin will discuss the rise of the global value chain.

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FINANCIAL POST

Tuesday, June 1, 2010

It's all about value: Part 4 of 5

The challenge we face is that our competition isn't just the U.S., the E.U. and Japan

William Polushin, *Financial Post*



Reuters

In this, the fourth of FP Executive's five-part series on competing to win in the global economy, William Polushin looks at the rise of the global value chain.

Managers and entrepreneurs who want to effectively compete in and profit from the global economy must clearly understand two interrelated economic phenomena that have been reshaping the business environment at home and

abroad these past 25 years: globalization and global value chains.

Globalization Globalization is a process of interaction and integration among the people, companies and governments of different nations, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world.

While globalization itself has existed for centuries, trade liberalization, foreign direct investment flows and unprecedented advances in information, communication and transportation infrastructure around the world since the 1980s have had a dramatic impact on the speed with which globalization is taking place. The velocity at which the 2007 financial crisis in the United States turned into a global economic crisis in 2008/2009 and the swiftness with which the European Union has had to take decisive action to maintain calm in international financial markets as a result of the Greece debt crisis are but two examples of how quickly events in one country in our increasingly integrated world have an economic, social and political impact on other nations and regions.

At a business level, globalization has meant that companies, across industry, have had to contend with a rapidly changing and increasingly competitive operating environment. One of the more notable factors that has contributed to this change is the rise of the global value chain.

Beyond The Supply Chain The value chain is a concept first introduced by Harvard professor Michael Porter in his book *Competitive Advantage: Creating and Sustaining Superior Performance* (1985). It describes the combination of value-added activities in a firm -- from R&D to logistics, to production, to marketing and sales, to customer service -- that work together to provide value to customers. In this case, value is defined as the amount buyers are willing to pay for what a firm provides.

In its basic form, the value chain is specific to the individual firm and is either limited to a single geographic location or spread over a wider area. With globalization, the emergence of the BRIC (Brazil, Russia, India and China) and other developing economies on the world stage, and the relentless pursuit of revenue and profit growth by transnational corporations from Western industrialized nations -- such as Boeing, GE, Apple, Proctor & Gamble, Roche, etc.--we have witnessed the evolution of the value chain to have a truly global footprint, with value-added activities being shared among multiple, complementary firms.

The rise of the global value chain has had, and continues to have, significant implications for Canada's goods and services-producing industries across sectors -- from aerospace to automotive, to electronics, to engineering-construction, to telecommunications. In order to remain competitive in their own right, Canadian multinationals (e. g. Bombardier or Magna) and foreign multinationals based in Canada (e. g. Flextronics or Pratt & Whitney) are spreading their research, procurement and/or production activities around the world. Canadian suppliers to these corporations, the vast majority of which are small and medium-sized enterprises, must respond to these changes if they hope to retain their positions as approved vendors now and into the future.

In the world of global value chains, the three key words to remember are "value," "customer" and "global." What is my enterprise doing that is providing unique value to my customer in Canada or abroad? Or, put another way, is my enterprise having a positive and sustainable impact on the top or bottom line of my client that exceeds what my competition is doing?

As I stated in my first article, business is about making money, but in the fiercely competitive global economy we must first answer that most fundamental of questions: Why me?/Why us?

The challenge we face today, though, is that our competition isn't just the usual suspects from the United States, Europe or Japan. It now includes companies with unusual-sounding (at least to our Western ears) names such as Bimbo (Mexico), Hyundai (South Korea), Huawei (China) and Suzlon (India).

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-Next Tuesday, June 8, Mr. Polushin will discuss Creating Wealth and Prosperity in the Google Age.

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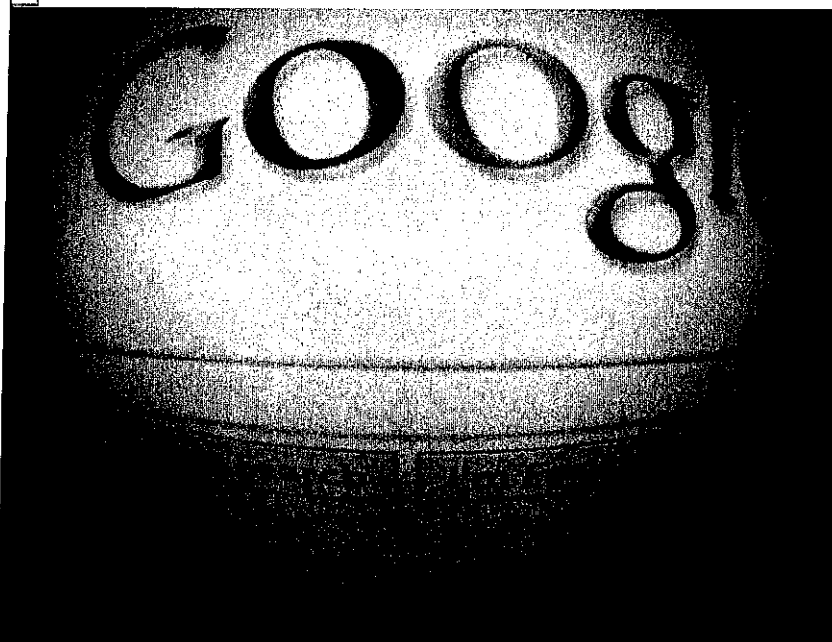
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Executive

Creating wealth in the Google Age: Part 5 of 5

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The world is changing ... and fast. Are you ready?

Getty Images

William Polushin, *Financial Post* · Tuesday, Jun. 8, 2010

In this, the fifth of FP Executive's five-part series on Competing to Win in the Global Economy, William Polushin discusses creating wealth and prosperity in the Google Age.

The ground rules of the global economy have changed. Advances in communications technology, reduced trade barriers and declining transportation costs, among other factors, have helped change the world.

People, jobs and investment capital move more rapidly across the globe than ever before. As recognized by Jim Flaherty, Minister of Finance, in Advantage Canada -- the government of Canada's economic blueprint -- talented, motivated people have become the world's most valuable resource.

For innovation-driven economies like Canada, the capacity to generate wealth and economic prosperity is inextricably linked to the quality and development of our entrepreneurs, managers, employees, students, policy-makers and leaders.

Put another way, the realization of competitive advantage in Canada and other industrialized nations goes beyond the research and development and innovation imperatives that are widely cited as the catalysts for economic competitiveness and productivity growth.

Competitive advantage in the global economy is driven by knowledge.

More specifically, knowledge that is based on a composite of:

- Know-what (e. g. the quantification of Canada's productivity and prosperity gap with the United States);
- Know-why (e. g. the need for more R&D and innovation in Canada to reduce those gaps);

- Know-how (e. g. the skills and acumen to compete at a world-class level); and
- Know-who (e. g. competitive intelligence and the use of business or research networks).

So what does this mean for our central figure -- the enterprise -- for wealth creation in our economy?

Essentially, the path to commercial success in business goes beyond the process of developing new and improved products and services, or implementing the latest quality-control system. The enterprise/company/firm, or more specifically, the people who develop, manage or work for the enterprise/company/ firm, must possess the:

- Knowledge and understanding of the competitive dynamics driving the enterprise's industry now and into the future;
- Knowledge and understanding of government policy and programs affecting the enterprise (in whichever country it operates);
- Knowledge and understanding of the economic forces -- globalization, technology, demographic shifts and labour market constraints --impacting government and industry now and into the future; and
- Knowledge of how to respond to these factors in a manner that will enable the enterprise to compete at a world-class level.

It is this advanced and comprehensive knowledge that drives effective innovation and productivity, which in turn leads to greater, sustainable company/firm sales and earnings.

Netscape Who? To put this in context, and to illustrate the dynamic character of the business today, consider the number of more newsworthy business and economic events of the past four decades that have had, are having, or will have, a transformative effect on our enterprises/companies/ firms:

- **1969** The Internet, then known as ARPANET, was born.
- **1977** Launch of the personal computer (Apple II and Commodore PET).
- **1983** Microsoft announces the development of Windows.
- **1991** Launch of the World Wide Web.
- **1993** The European Union (EU) comes into force.
- **1994** NAFTA comes into force.
- **1995** The World Trade Organization (WTO) commences operations.
- **1997** The Kyoto Protocol is signed.
- **1998** Google Inc. is founded.
- **2001** China joins the World Trade Organization (WTO).
- **2001** 9/11.
- **2002/2003** Social networking hits main street.
- **2010** China supercomputer named world's second-fastest.
- **2010** G20 replaces G8 as the main economic council of wealthy nations.

In the past 15 years alone, we have seen Internet pioneers like Mosaic and Netscape come and go, we have seen Big Blue (IBM) sell off its PC business to Lenovo (China), we have seen Toyota overtake GM as the world's largest automobile producer, we have seen the rise (e. g. Barrick and Bombardier) and fall (e. g. Nortel) of Canadian giants on the world stage, we have seen the rise of the BRIC countries, and so on, and so on, and so on.

The world is changing ... and fast. Are you ready?!

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