

Deloitte.



The future belongs to the bold
Canada needs more courage

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It can be done.
It just takes the
will to act and
the grit to see
it through.

Executive summary

As the country nears its one hundred and fiftieth anniversary, Canada finds itself at a pivotal moment—and facing major challenges. Our resource industries are under significant strain. Our exporters' fortunes still depend on the ups and downs of the US economy. Our companies, large and small, face the constant threat of technology-driven disruption. And our governments are operating with greater fiscal restraint as public debt levels grow higher.

We emerged from the Great Recession bruised but unbowed, yet we still haven't regained peak form. Why? After six years of studying Canada's economy, Deloitte Canada has come to believe it's because too many Canadian businesses lack an essential, game-changing quality: **courage**.

Our study reveals most Canadian businesses lack courage

Over the past year, Deloitte surveyed 1,200 business leaders from across the country to better understand the courageousness of Canadian organizations. We developed a framework that allowed us to assess their responses against five key elements of courage: *be provocative and challenge the status quo; take calculated risks; do what's right; start with yourself; and unite to include.*

Our analysis revealed a startling fact: most Canadian businesses lack courage.

- Only 11 percent of the companies we surveyed can be considered **truly courageous**.
- 30 percent are **evolving** into courageous organizations, but fall short in at least one area.
- 43 percent are **hesitant** at best, not performing particularly well in any area.
- 15 percent — more than one in eight Canadian businesses—can be considered **fearful**, demonstrating few if any of the qualities of a courageous business.

At a time when Canada needs its businesses to be bolder and more courageous than ever before, almost 90 percent aren't up to the task. This lack of courage has serious implications for these organizations and the Canadian economy overall.

Courage really does make a difference

While our research uncovered some startling truths about Canada's business courage, it also provided insights into the tremendous impact courage can have on an organization's success.

Courageous businesses achieve better results

Courageous businesses deliver superior revenue growth and employ more people. Courage brings growth.

- 69 percent of courageous businesses saw revenues rise last year, compared to only 46 percent of fearful businesses.
- 34 percent of fearful businesses reported falling revenues last year.
- Fearful businesses were twice as likely to experience revenue decreases compared to their courageous peers.
- Courageous businesses were most likely to report rising employee headcount over the past year. Fearful businesses were most likely to report reductions.

Courageous businesses pursue growth more aggressively

Courageous businesses use deliberate decision-making and focused innovation investment to aggressively pursue better outcomes. Fearful businesses stagnate, while courageous businesses continually explore new ideas.

- 67 percent of courageous businesses intend to increase their R&D investment over the next five years, compared to 22 percent of fearful organizations.
- 49 percent of courageous businesses introduced significant amounts of new products or services over the past five years, compared to just 23 percent of fearful businesses.
- Fearful businesses are most likely to have brought few, if any, new offerings to the market over the same period.

Closing the courage perception gap

Our prior research over the years has continually found that Canadian businesses and their leaders display a tendency to overestimate their capabilities, investments, and overall readiness for change. The same is true this year. While only 11 percent of Canadian businesses can be considered truly courageous, nearly half of respondents overall (44 percent) **believed** themselves to be courageous organizations.

Because these companies suffer from such an inaccurate self-perception, they continually fail to see the need to take corrective action. As a result, they fail to make important investments, explore new ideas, or pursue promising opportunities—and fall further and further behind their competitors.

Only 11 percent of the companies we surveyed can be considered truly courageous.

Closing the courage gap: Recommendations

Canada's "courage gap" is preventing businesses from thriving in an intensely competitive, constantly changing world. Canadian business leaders must take action to close this gap. Courage can be developed through diligent, disciplined, and deliberate activities—and by learning from those businesses whose courage has enabled them to make great leaps forward to become more competitive, more productive, more innovative, and more successful.

Be provocative and challenge the status quo

Courageous companies and business leaders articulate points of view that may run counter to convention. They're more likely to embrace disruption—or even actively pursue it. Courageous businesses are more likely to defy industry norms or existing best practices even in the face of outside criticism.

Understand your company's value proposition in its simplest form.

Hone in on the core value that underlies the product or service you offer and look for opportunities to deliver that value in new and innovative ways.

Change your customers' understanding of what they need.

Courageous businesses offer solutions to problems that customers don't even realize they have. They take a holistic approach to understanding their customers and can anticipate their needs, or recognize when a need is not being fulfilled in another area and act before competitors do.

Seek out opposing views. People tend to avoid information that runs counter to their existing set of beliefs or convictions. Courageous leaders actively look for and encourage opposing viewpoints as a means of fostering sounder, more objective decision-making.

Take calculated risks

Courageous businesses use rational analysis to develop new ideas, investments, and innovations both adjacent and transformational to current business. They understand their risks clearly—and are more likely to look for opportunities where the risks appear greater and the rewards smaller. Importantly, courageous businesses' decision-making is founded on thorough analysis and grounded in data.

Reframe risk as a positive indicator of courageous decision-making.

Businesses as a rule discuss risk as something to be carefully managed and measured. While thorough analysis and understanding of risk is essential to decision making, courageous businesses treat risk-taking as a positive and exciting aspect of pursuing growth.

Incentivize courageous risk-taking.

Once an organization has been primed for courageous behaviours, it's critical to reinforce these behaviours through reward and recognition. Financial incentives aren't necessarily the only solution; sometimes simple acknowledgement from a manager or member of the executive team can be enough.

Let business imperatives—not fear—dictate your risk threshold.

Businesses with high levels of courage have a greater appetite for risk. Companies should make sure their risk appetite matches the expected returns on those risks.

Do what's right

Courageous businesses take actions that generate positive, long-term impacts for their firms, their people and, ultimately, their country. They'll often defer short-term gains in order to ensure long-term success, and place a greater value on non-monetary organizational goals.

Share your strengths. Leverage the skills and capabilities that have made you successful in your field to give back to your community. By clearly aligning your corporate social responsibility and charity activities with your business model and capabilities, you can generate a longer-lasting impact that can help your community grow and flourish.

Become a partner in building the kind of economy Canada needs.

By supporting economic growth through partnerships or investments in new businesses, skills training for new or underemployed workers, and social programming, we can build a more prosperous, equitable society with greater opportunities for social mobility and economic empowerment for Canadians from all walks of life.

Focus on long term growth and market leadership.

While all businesses must generate a return to cover their cost of capital, business that are able to focus on long-term sustainable growth are better positioned to deliver long-term value for shareholders, their employees, and the country.

Start with yourself

Courageous business leaders are guided by their passion and are more likely to be perceived as authentic. They have a strong moral compass, which they use to inform their organization's decisions. These leaders are more likely to take personal accountability for organizational failures—and share the credit for the company's successes.

Let your vision and mission guide you.

Trust that by acting according to these beliefs, your organization will benefit in the long term. Effective leaders create an atmosphere where employees understand the organization's mission and work to enable it.

Take responsibility for the actions you care about.

A leader's personal involvement can help move an issue or action along. Courageous leaders embody a sense of responsibility to themselves and society—and act on it.

Hold yourself accountable. Leaders can face transformative pressure from inside and outside their organization as they try to bring change. Seek out continual feedback from those around you to ensure you have not lost your passion and values on your journey.

A time for courage—a time for change

This report is a call to action and, we hope, the start of an important dialogue among Canada's business community.

We need more courage in Canadian business. At a time when Canada's economy is struggling to gain momentum in a highly uncertain global economic climate, our current lack of courage puts our national prosperity at risk. Canada's businesses and other organizations must find and unleash their courage. They must face their fears, take risks, and overcome challenges. Invest in innovation. Make bold decisions to do the right thing. And engage their employees to capitalize on the potential inherent in their people's diverse perspectives and boundless energy.

It can be done. It just takes the will to act and the grit to see it through.

Unite to include

Courageous business leaders surround themselves with diverse thinkers from different backgrounds. These leaders understand the value—and importance—of establishing formal processes to solicit and incorporate input and feedback from people at all levels of their organizations.

Start a dialogue with employees at all levels of the organization.

Courageous leaders proactively create spaces for employees to contribute their ideas to help chart the organization's course. Engaged employees are more productive, are more satisfied with their work, drive better outcomes, and contribute to higher growth.

Make inclusion a priority.

Inclusion initiatives are more likely to succeed when they are given support—financial and otherwise—from leadership. Engaging senior leaders and making them responsible for the success of inclusion demonstrates its value and importance to the organization.

Recognize the ripple effect of your network. By making and demonstrating positive change you can drive surrounding communities, competitors, clients, and suppliers to follow your lead, bringing greater change through your network.



The courage imperative

Deloitte is deeply committed to Canada's success as a country. We believe that Canadian businesses play a profound and vital role in creating a prosperous and vibrant future for all Canadians.

They are the driving force of our economy, the engine that propels our country's economy forward. When they reach peak performance, we all benefit.

Yet far too many Canadian businesses are unable to reach peak performance. Some are unwilling to make the effort or face the risks involved. Others are content with the success they've achieved. And still others mistakenly believe they have achieved peak performance already. Why is this? And what is needed to get Canadian businesses to push past their barriers and accomplish their full potential?

Over the past six years, Deloitte has studied many issues that affect Canadian businesses and Canada's economy in an effort to uncover what is holding our companies back—and how to overcome those obstacles. We've investigated productivity from many angles. We've explored the impacts of exporting. Last year, we looked at the extent to which Canadian companies are prepared to withstand the wave of disruption heading our way thanks to innovative, advanced technologies. In each case, we discovered specific and important obstacles to overcome, and offered ideas on how to do so.

However, in all our prior studies, we could not shake the sense that we had overlooked something, some key factor driving all of

the behaviours we've seen to date, some vital quality that's lacking in many Canadian businesses. This year, we've found it.

It's courage. And we need more of it.

Far too many Canadian businesses lack the courage necessary to make bold decisions in the face of uncertainty and risk. They shy away from making key investments and executing dynamic strategies, unwilling to accept short-term challenge for long-term opportunity. As a result, they—and Canada's economy—remain in low gear.

But we know we can change this. We know that every Canadian business can become more courageous. We know that companies can develop, nurture, and harness courage at every level of their organizations. And we know that companies who approach each day with boldness, vision, and courage achieve more. They create more jobs. They grow faster. They innovate and bring exciting new products to the market. They make their mark in today's intensely competitive global market. And they help Canada build the dynamic, thriving economy we need in an uncertain world.

Canada needs more courage. It's time for Canadian businesses to show what they're really made of.

What is courage?

How do we define courage? What does it mean to be courageous? There's no single answer, but over the years a consensus has emerged around the traits that are integral to the idea of courage.

In the course of our research, we've found that three elements are essential for an act to be considered courageous:

- **A morally worthy goal.** For an act or decision to be considered truly courageous, it requires an important—or *moral*—outcome. In this way, courage can be seen as a means to advance the collective interest.
- **Intentional action.** Deliberate intent is vital for an act or decision to be seen as courageous. In terms of organizational decision-making, companies exhibit courage through intentional action in the face of risks.
- **Perceived risks, threats, or obstacles.** Risk and fear are integral to any definition of courage. Courage can only exist when fear is also present. In business terms, this means deciding to take action—or not—despite the potential risks. However, it's important to note that these risks must still be assessed rationally as part of the decision-making process.

For the purposes of our study, we've used these three elements to help us zero in on a convenient way to define courage: Courage is doing the right thing—the hard thing—for the greater good, despite being filled with fear, doubt, or uncertainty. Courage is taking a stand when doing so is difficult, not when it's easy.

Organizational courage

Canadians admire courage. We have long seen courage as one of the greatest virtues a person can possess, like wisdom or compassion. Yet, over the years, the way we think about courage has changed along with the way we structure our lives.

In recent years, the way in which we discuss and build organizational courage has shifted. Rather than being the domain of business leaders alone, courage is increasingly seen as an embedded quality diffused throughout an organization's culture. And many who study organizational courage believe that we can not only identify obstacles to courageous behaviour, but teach courage as well.

From brand-new start-ups to businesses that can trace their history to Confederation and beyond, the courage of the whole is formed from the sum of its parts.

A lack of courage, especially among leadership, can drive fearful decision-making, leave organizations plagued by doubt, and even contribute to high turnover. Courageous executives, on the other hand, inspire those around them to be their best, and build enduring teams through their words and actions. Communication plays an immense role in the everyday lives of courageous executives. Empathetic, respectful communication strengthens relationships between leaders and employees, and accountability and feedback can promote more open dialogue and help drive better results.

Many who have studied organizational courage have noted that tools such as checklists can be used to foster courage among leaders and their people. Situational assessments, for example, can help leaders determine the obstacles and challenges they might face and help identify the decision points along the way. Knowing what decisions lie ahead can help leaders muster the courage they'll need long before the moment arrives.

To foster courage among their organizations, leaders must start with themselves. Courageous leaders are those who are

bold enough to change direction—to look forward, identify their new destination, decide on a plan, communicate it, and execute it. And the courageous actions of leaders and managers can play a key role in improving their organizations and our society overall.

Yet above all else, the courage of a business is fundamentally tied to the courage of the individuals who make up the ranks of any organization. From brand-new start-ups to businesses that can trace their history to Confederation and beyond, the courage of the whole is formed from the sum of its parts. It's true that process and strategy can support an organization's efforts to act with courage, but our research and experience has shown us that employees' attitudes and perceptions will make an organization more or less courageous. If courage can truly be taught, learned and replicated, then surely we can grow businesses that look and feel more like the ones we know should exist in our country.

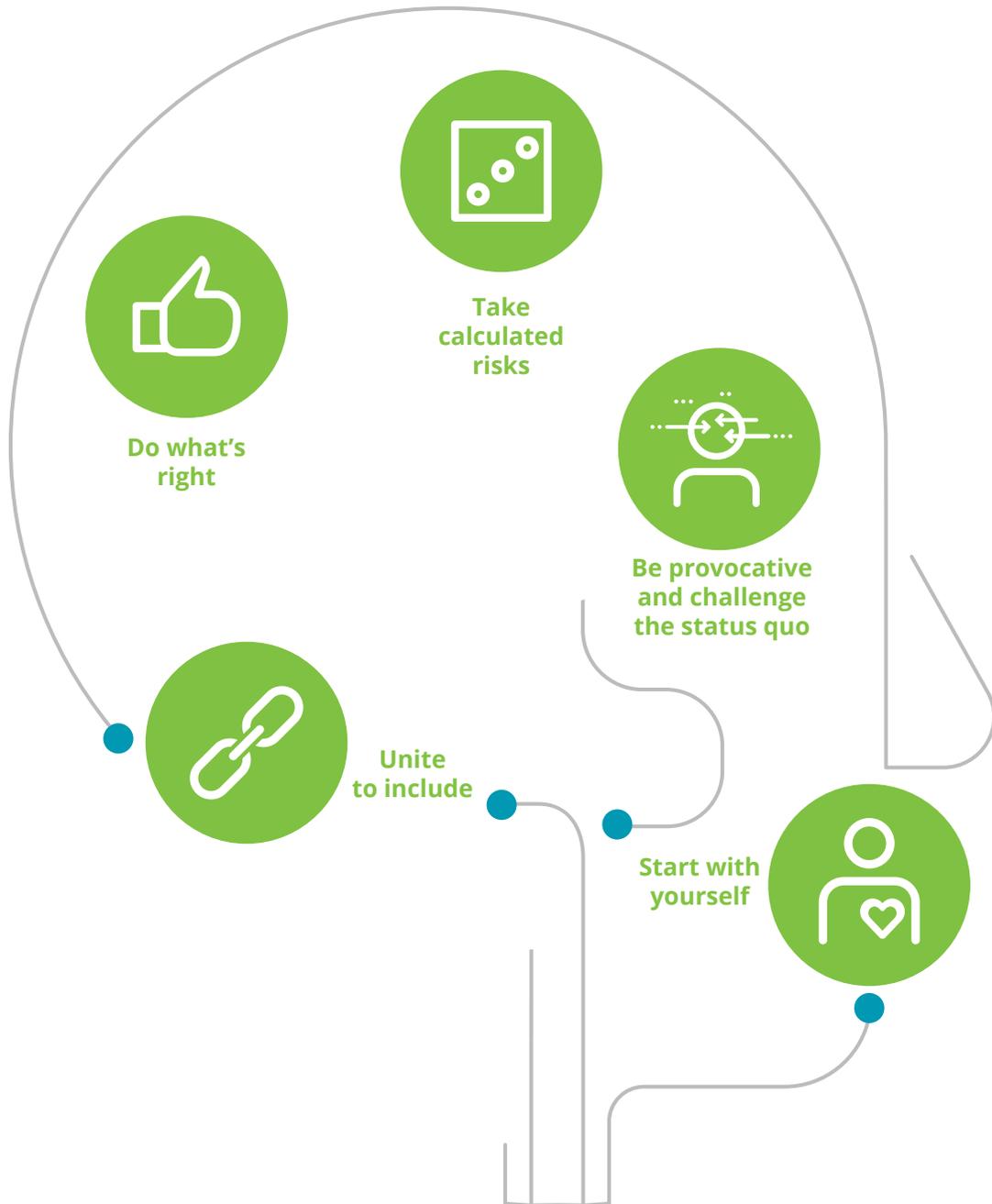
Courage in business: five elements

In the abstract, courage can be understood in black and white terms: you're either courageous or you're not. When it comes to courage in businesses and other organizations, however, courage is in fact a combination of behaviours and personal beliefs that form the greater whole. As we distilled our thoughts and others' perspectives, we honed in on five elements that inform courageous decision-making

and action in a business context. These elements, described in the following pages, are crucial—because understanding them can illuminate how a person or business might be more courageous. Indeed, these elements should be seen as the starting point on a road map to helping companies across Canada develop more courage and find even greater success.

Courage is doing the right thing—the hard thing—for the greater good, despite being filled with fear, doubt or uncertainty. Courage is taking a stand when doing so is difficult, not when it's easy.

The elements of courage





Be provocative and challenge the status quo

A fundamental component of courage is the need for individuals and businesses to think and act beyond the status quo. Courageous companies and business leaders articulate points of view that may run counter to convention. They are more likely to embrace disruption—and even actively pursue it. Courageous businesses are more likely to defy industry norms or existing practices even in the face of outside criticism.

Why it matters

Especially in our era of ever-accelerating change and ongoing disruption to established industries once believed “safe,” it is clear that the future belongs to those who push boundaries. By thinking and acting provocatively, by being disruptive and relentlessly imagining what is possible, firms ensure they not only survive, but thrive.

Case study: Loblaw acquires Shoppers Drug Mart

In 2013, Empire Company Ltd., the owner of the Sobeys supermarket chain, purchased Safeway for \$5.8 billion, significantly increasing competition in the Canadian grocery market.¹ At the same time, retailers like Walmart and other non-traditional players had begun to expend into fresh food retail.

Facing growing competition in an already ruthless sector, Loblaw felt the need to act. In July 2013, Loblaw acquired pharmacy chain Shoppers Drug Mart for \$12.4 billion—an unexpected, provocative move championed by the company’s executive chairman, Galen Weston Jr.² The deal offered Loblaw numerous advantages: increased purchasing power and a reduction in pharmaceutical costs, improved access to new markets in smaller centres and urban cores, and back office efficiencies.

As with its previous bold moves, such as the 1998 launch of PC Financial and the 2006 establishment of clothing retailer Joe Fresh, Loblaw achieved significant growth from its Shoppers acquisition. Loblaw’s net income rose 117 percent in 2015, which analysts attribute to the Shoppers deal.³



Take calculated risks

Closely related to the need to be provocative is the need to make strategic, thoughtful bets on an uncertain future. Courageous businesses use thorough, rational analysis grounded in data to develop new ideas, investments and innovations both adjacent and transformational to current business. They use analysis to see opportunities where others see challenges or unchangeable customs.

Why it matters

If rapid change is the only constant of the 21st century, then organizations that continually evaluate possibilities and reinvent themselves will find new and exciting ways to succeed. We're not suggesting that firms pursue risks for risk's sake—just the opposite. Yet it's important to note that taking no action and staying the course isn't a risk-free choice, either. Companies that experiment and invest in areas of their business that show promise but aren't yet proven are increasingly the ones that succeed. While Google or Apple might be the most obvious examples, they aren't the only ones taking calculated risks and finding success.

Case study: Economical Insurance launches Sonnet

Economical Insurance is a 145-year-old Canadian property and casualty (P&C) insurer with over one million customers across Canada.⁴ The company has ambitions of becoming the country's leading P&C insurer (it's currently ninth).⁵

Motivated by changing consumer expectations and stiffer competition in the P&C space, in May 2016 the company launched Sonnet—a direct digital platform that offers personal home insurance policies. Commencing in August 2016, Sonnet also started to offer personal auto insurance through its direct digital platform. The platform is one of the first digital, direct-to-customer P&C solutions in Canada, providing customers with customized, instant quotes along with the ability to bind that policy through a customer-focused digital portal.

Investing in the development of this technology was a bold move, but Economical wanted to offer more choice in the market, and to target consumers who are looking to purchase through direct channels.⁶ With those considerations in mind, it is clear that the company took a risk that was well-supported by rational analysis.



Do what's right

Deloitte believes that Canada's businesses are the country's economic engine and our most powerful driver of growth and success. Canadian companies' choices and actions also have a significant impact on our society's moral and ethical fabric. Truly courageous businesses take actions that generate positive, long-term impacts for their firms, their people and, ultimately, their country. They'll often defer short-term gains in order to ensure long-term success, and place greater value on non-monetary organizational goals. The best among us understand that when you do what's right, the long-term gains outweigh any potential short-term trade-offs.

Why it matters

There are those who might take for granted that "doing the right thing" is a fundamental part of finding success in business and life in Canada. However, our research shows that if considered deeply, holding ourselves to higher ethical and moral standards has a long-term positive impact on our people, our companies, and ultimately our country. In business terms, this is about organizations that think beyond tomorrow's bottom line and consider how to engage and harness their people's potential. Simultaneously, these organizations see that they are one piece of a larger ecosystem that must thrive collectively in order for them to find long-term success individually.

Case study:

TD Bank supports the LGBTQA community

TD Bank Group is a global leader in financial services with approximately \$1.2 trillion in assets and 10.8 million active customers worldwide.⁷

In 2014, TD celebrated the 10th anniversary of its dedicated support for the lesbian, gay, bisexual, transgender, and allies (LGBTQA) community across North America. The firm formally established this priority in 2005, when it formed a team to develop initiatives that create an inclusive environment for LGBTQA employees, customers, and community members. In 2014 alone, TD supported 42 Pride festivals across Canada and the United States.⁸

For TD, supporting the LGBTQA community has never been about checking a box. TD was the first bank in North America to provide spousal benefits to same-sex couples back in 1994 – this is a commitment to accepting, welcoming, and supporting people both within the organization and in the community that has spanned over two decades.⁹ Before it was popular, TD knew that taking a bold stance on this issue was simply the right thing to do – for its people, and for the country.



Start with yourself

The old adage “start with a single act” is as important in business as it is in life. Leaders who are willing to evaluate their own choices and actions first, and then choose to stand up and embody those convictions, can bring others along that journey with them. Courageous business leaders are guided by their passion and are more likely to be perceived as authentic. They refuse to put off important but challenging decisions, knowing the power of individual action and the example it can set. These leaders are more likely to take personal accountability for organizational failures—and share the credit for the company’s successes.

Why it matters

Courage isn’t something that is “done to you”—it comes from within each individual in an organization. All too often, we look for someone else to make the difficult choice or pursue the challenging route—anyone but ourselves. But our research has shown us that those who look in the mirror and make important changes in themselves first find greater success, more often, over the long term.

Case study: Paramount Foods’ refugee hiring commitment

Paramount Fine Foods is a bakery and restaurant chain specializing in Lebanese, Middle Eastern, Arabic, and Mediterranean food, with 24 locations, mainly in Ontario. Moved by a visit he made to a refugee camp in Lebanon, President and CEO Mohamad Fakhri felt compelled to give back to a country that he felt had provided him with opportunities to succeed.¹⁰

In 2016, Fakhri committed each Paramount Fine Foods location to hiring and training three to five Syrian refugees by the end of the year. By partnering with Ryerson University’s Lifeline Syria Challenge and the job-matching system Magnet, Paramount Foods has so far been able to hire 45 Syrian refugees toward its goal of 120.¹¹ Fakhri’s altruistic commitment also isn’t slowing Paramount Fine Foods’ progress: the company plans to open another 20 locations.¹²



Unite to include

Canada has found great success by bringing people together from across the globe and working toward a united goal. Canada's best leaders know that by uniting many different voices, they can gain more perspectives, which can lead to better decision-making. Courageous business leaders surround themselves with diverse thinkers from different backgrounds and allow all of their people to bring their authentic, whole selves to work. These leaders understand the value—and importance—of establishing formal processes to solicit and incorporate input and feedback from people at all levels of their organizations.

Why it matters

Canada's multiculturalism is often held up as one of the country's key competitive advantages. But our success in this area is about more than simply the diversity of the groups we build. Our true strength comes from our ability to be inclusive of the different voices and perspectives around us, seeing them not as obstacles but as opportunities for learning and growth. Our best businesses are inclusive workplaces where employees feel able to bring their whole selves to work, where their differences are not only celebrated but seen as fundamental to finding collective success. When our workplaces and our country are truly inclusive, only then will everyone be able to fully contribute, reach their potential, and push this country forward.

Case study: Cargill Canada's Mentor Up program

Cargill provides food, agriculture, financial, and industrial products and services to the world. The 150-year-old company is one of North America's largest private corporations, with 149,000 employees in 70 countries—including 8,000 in Canada.^{13, 14}

Cargill's executive chairman, Greg Page, and the rest of the Cargill leadership team believe strongly that innovation can be enabled by exposure to broader perspectives and diversity of ideas. Motivated by this belief—and a desire to ensure its management reflected the company's customer base—Cargill created Mentor Up, a reverse mentoring program. Mentor Up provides senior executives with exposure to a diversity of perspectives by pairing them with middle managers who differ in terms of gender, race, ethnicity, background, or another aspect of diversity. Page himself participated in the program.^{15, 16}

In part because of its reverse mentorship program, Cargill has consistently been recognized as one of Canada's Top 100 Employers and Best Diversity Employers. The company's representation of women and visible minorities now exceeds the industry average.¹⁷



Why courage?
Why now?

For the past six years, Deloitte has studied a range of issues affecting the Canadian economy, from productivity to exports to preparedness for technology-driven disruption. Each of our studies uncovered specific challenges that must be overcome in order to move Canada's economy forward and enable us to be clear leaders on the global economic stage. In each instance, we have strongly encouraged Canadian companies to take urgent action, and provided recommendations for businesses, governments, and academia that we believe can put us on a path to improvement.

We need to get over our fear of risk to succeed

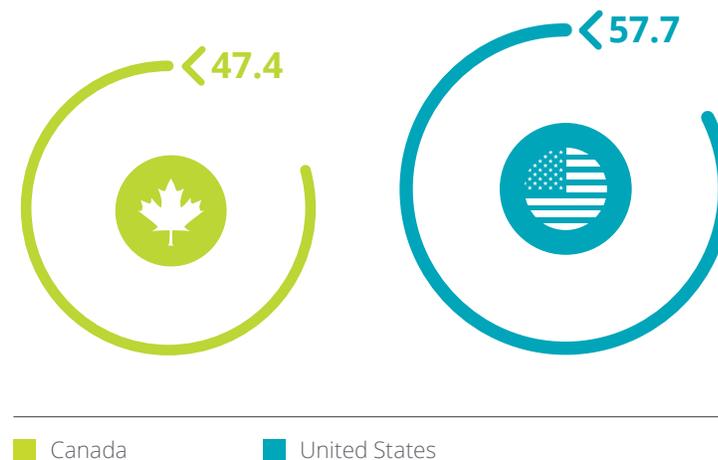
While we have typically focused on specific business choices and outcomes, an undercurrent flows through all our research that has led us, inexorably, to this discussion about courage—namely, Canada's deep cultural aversion to risk. In our 2011 report, *The future of productivity: An eight-step game plan for Canada*, our research showed that Canadian firms were significantly more risk-averse than their US counterparts (Figure 1).¹⁸

In this earlier study, we boldly asserted that, over time, firms able to undertake risk intelligently will generate higher returns

and better productivity than their more risk-averse competitors. At that point, we made several observations comparing firms with different levels of risk tolerance, and we've been considering this issue in other ways over the past six years. But, until now, we were challenged to truly identify how companies could become less risk-averse. Our latest research has shown us that risk-taking is only one element of being courageous, and that each element of courage can be a powerful means to propel a firm forward.

In 2011, Deloitte surveyed 900 Canadian and US business leaders to assess their appetite for risk; Canada scored lower on the risk behaviour index than its American counterpart, indicating higher risk aversion tendencies among Canadian businesses.

Figure 1. Deloitte Risk Behaviour Index



Note: The Deloitte risk behaviour index was constructed based on a wide array of factors representing a firm's actions, including a firm's risk evaluation practices, involvement in research, development and innovation, and dependence on government support. The index has been adjusted to account for national differences in the current/future state views on macro-economic conditions.

Canada's economy needs courageous businesses

Why should courage matter to Canadian businesses? Because courageous companies perform better—benefiting themselves, their employees, and Canada overall. More to the point, we live in an era where Canadian businesses must seize every competitive advantage they can get.

Canada's economy continues to slowly recover from the 2008 recession. The sharp drop in crude oil prices and persistent challenges in Canada's manufacturing sector have contributed to ongoing economic uncertainty.¹⁹ Canada's GDP growth has hovered near 2 percent for the past three

years and is expected to reach only 1.3 percent in 2016—compared to the projected global growth rate of 3.1 percent as of July 2016 (Figure 2).^{20,21} In the years to come, Canadian businesses will face intensifying international competition as the Canadian government continues to liberalize trade rules between Canada and emerging markets.

Compounding these economic challenges is Canadian companies' continuing underinvestment in their businesses.

Figure 2. Projected GDP growth, 2016



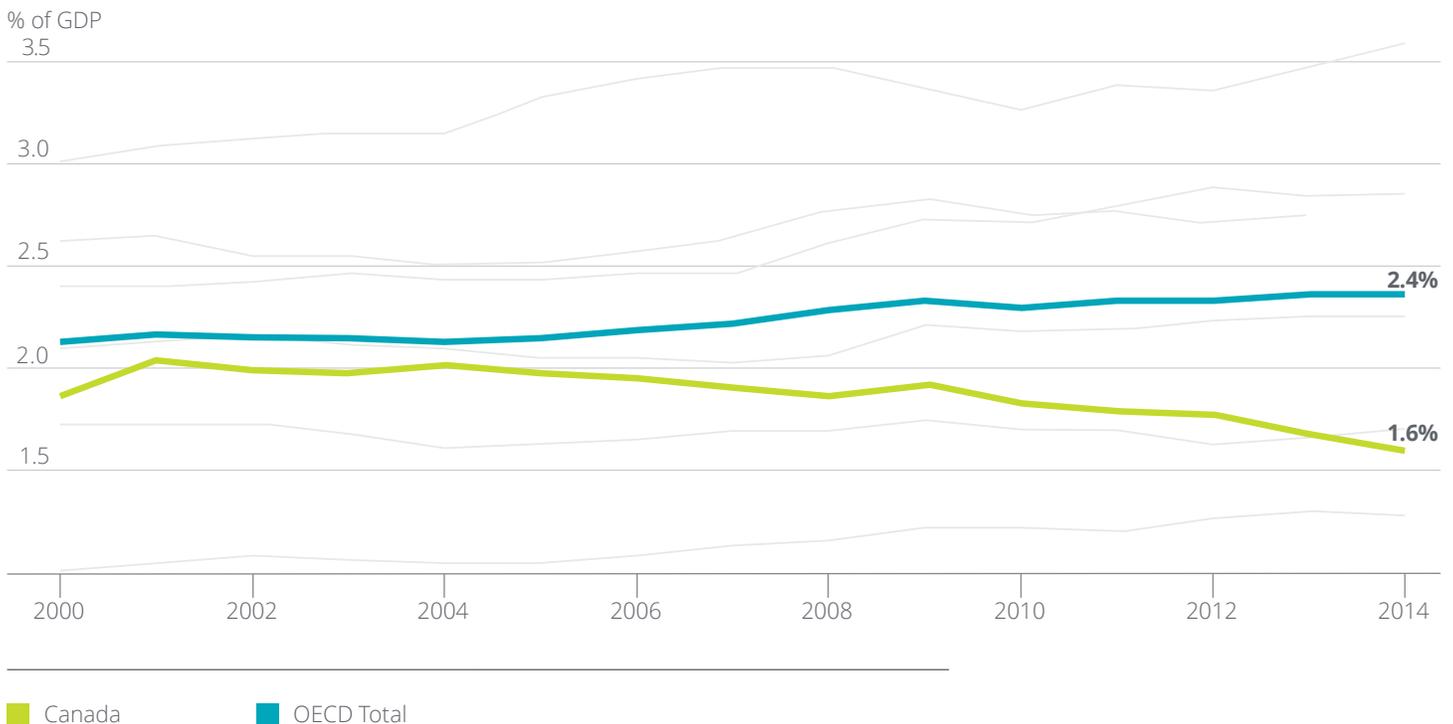
Canada's GDP growth has hovered near 2 percent for the past three years and is expected to reach only 1.3 percent in 2016—compared to the projected global growth rate of 3.1 percent as of July 2016.

Canadian companies spend less on research and development (R&D) than do their OECD counterparts—despite relatively generous government support for private-sector R&D investment (Figures 3, 4).²² And while Canada's economy has improved since the last recession, companies still aren't inclined to invest: Canada's investment in machinery and equipment as a share of GDP, a key indicator of productivity, remains among the lowest of comparable industrialized nations.²³

The underinvestment trend isn't limited to research and machinery, either. Canadian employers continue to invest less than they should in employees' skills development: in fact, Canadian companies' investments in employee training have dropped 40 percent over the last 20 years.²⁴

Taken together, these issues are a hazard to Canada's future prosperity and economic growth. As a country, we cannot be content with simply surviving the recession—we must move forward, stronger and better prepared than ever, toward an uncertain future.

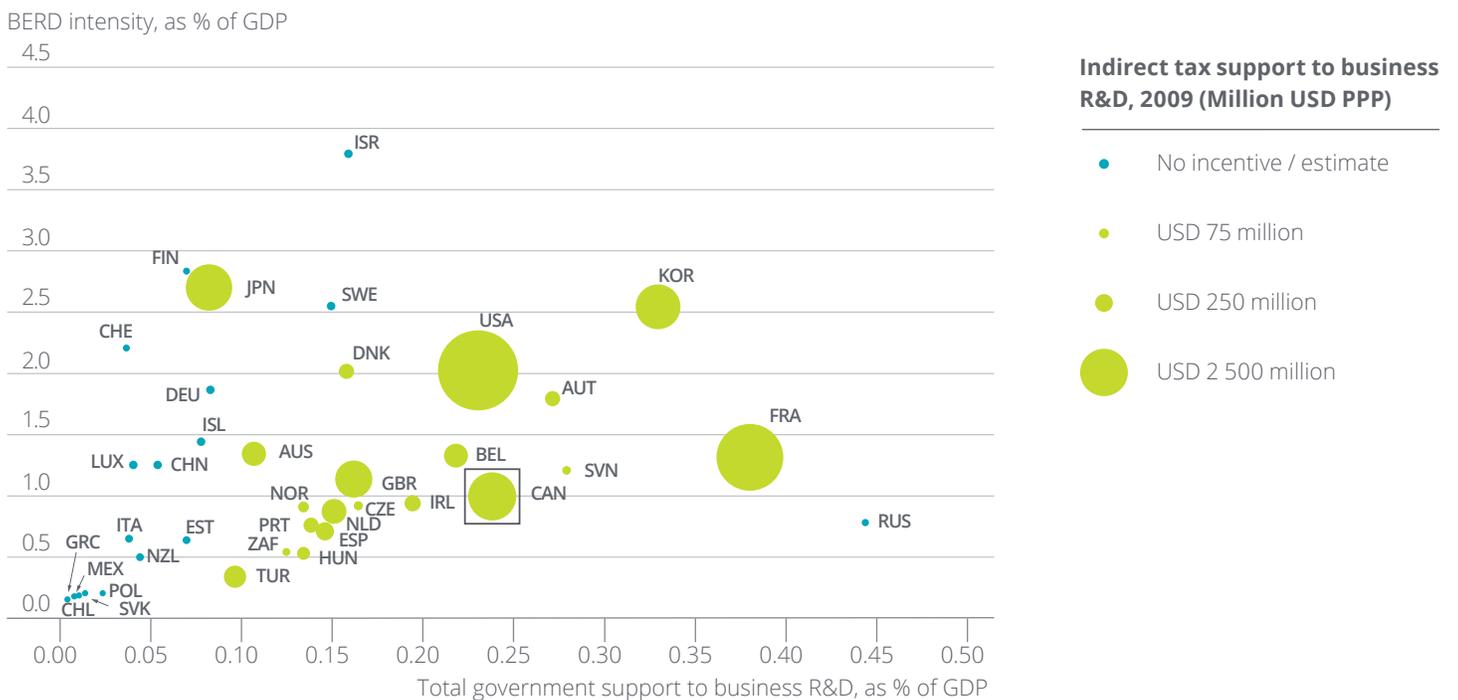
Figure 3. Gross domestic spending on R&D, 2000–2014



Source: OECD, Gross domestic spending on R&D

As a country, we cannot be content with simply surviving the recession—we must move forward, stronger and better prepared than ever, toward an uncertain future.

Figure 4. Business Enterprise R&D (BERD) spending vs. government support to business R&D, 2009



Source: OECD Science, Technology and Industry Scoreboard

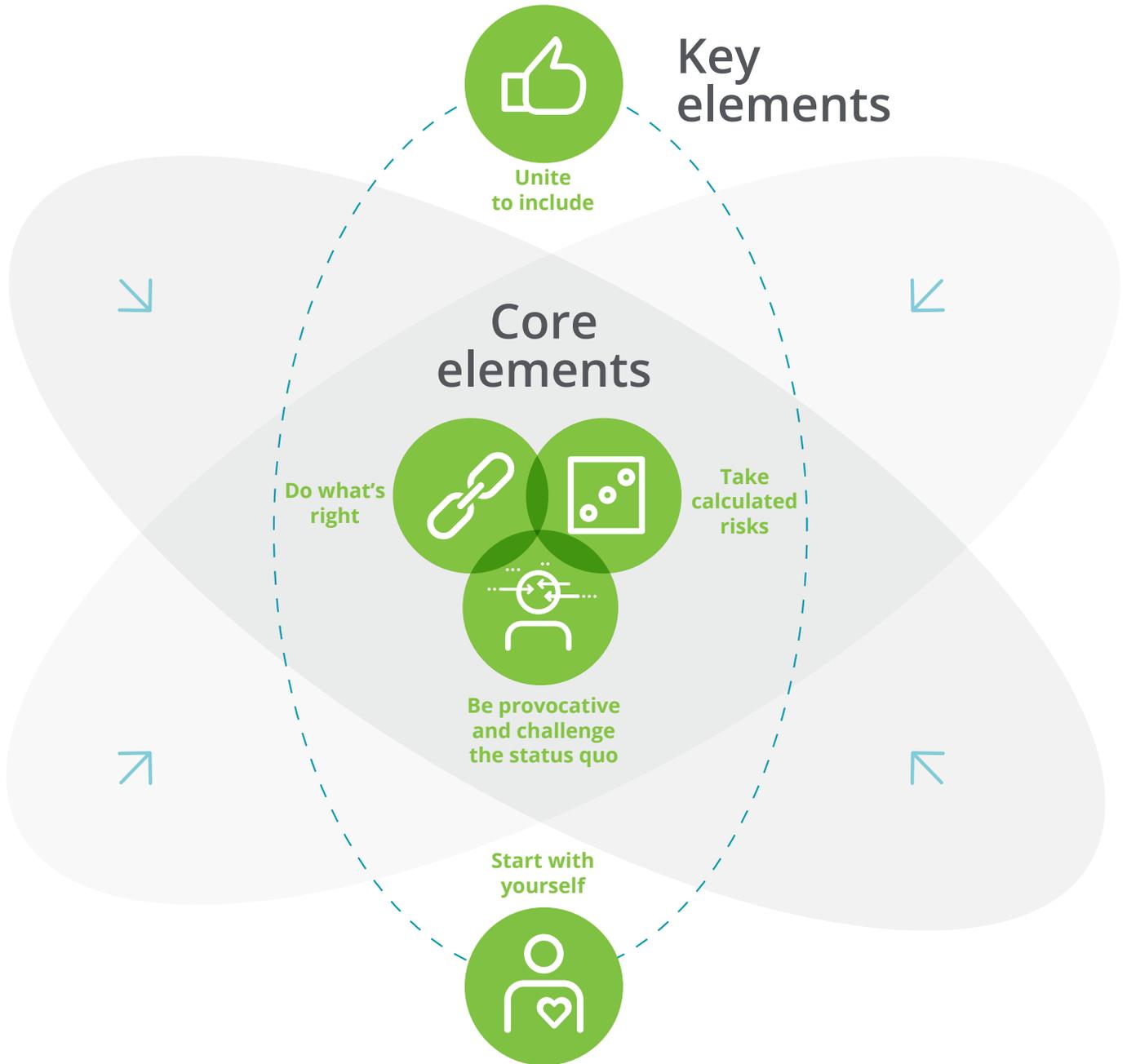
The alarming state of Canadian business courage

Canadian businesses need an abundance of courage in order to tackle the many challenges they and the Canadian economy face. Unfortunately, Canadian businesses are very reluctant to take the kinds of risks needed to propel us. So just how courageous are Canadian organizations?

To find out, we undertook a survey of 1,200 business leaders from across the country, developing a framework that assessed the extent to which their responses embodied the five elements of courage we described earlier:

- Be provocative and challenge the status quo
- Take calculated risks
- Do what's right
- Start with yourself
- Unite to include

A key early finding was that not all five elements of courage were observed in the same measure across the respondents. Through further research we came to understand that three elements could be considered "core": *be provocative and challenge the status quo*; *take calculated risks*; and *do what's right*. Without these core elements, a business would surely falter. The remaining two elements—*start with yourself* and *unite to include*—are better understood as key ingredients for success. Very few organizations excelled in these areas, but those that did and that also had a strong handle on the three core elements distinguished themselves and were most likely to find true success.



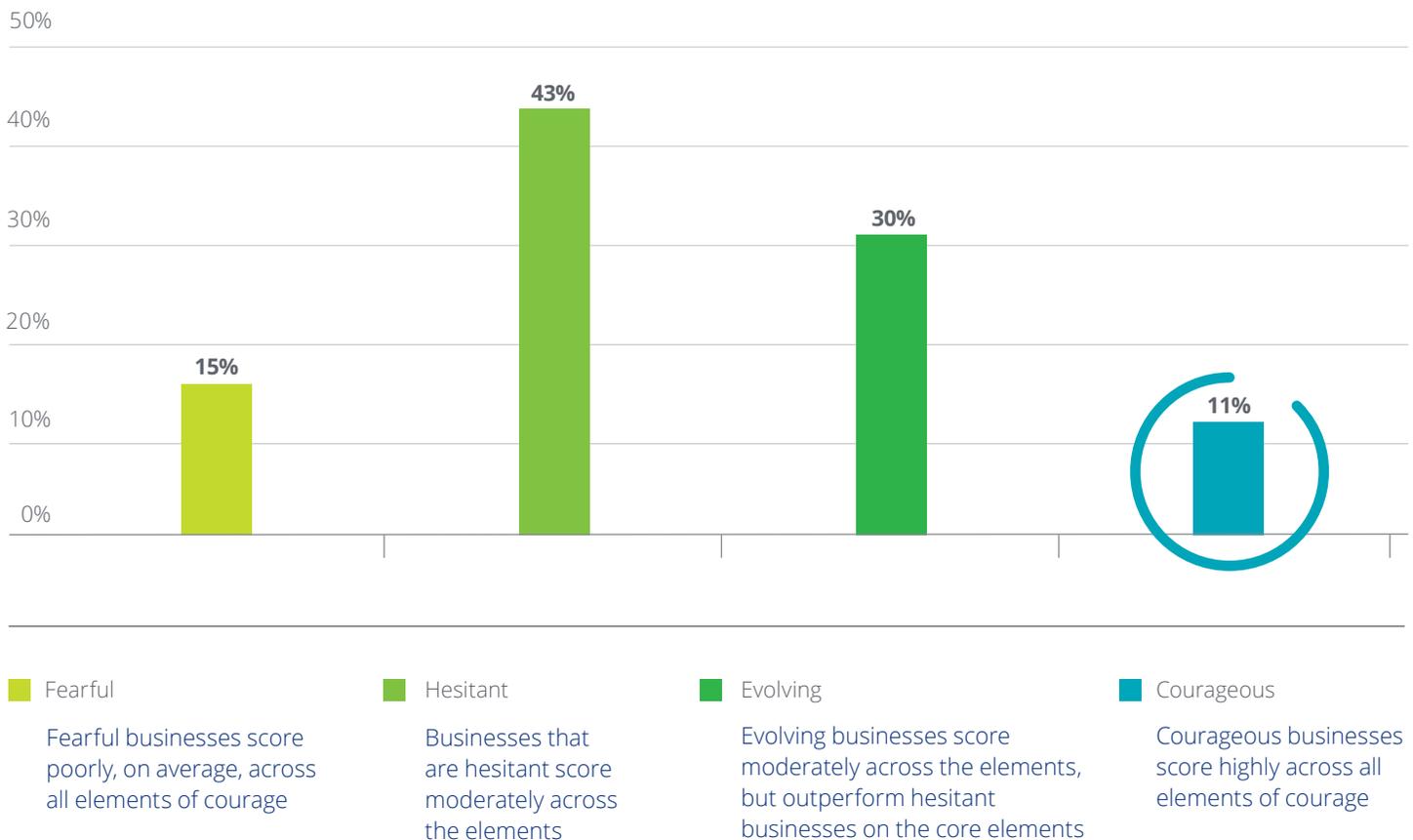
Categories of courage

Our analysis reveals that businesses fall into four distinct "categories" of courage:

- **Courageous** businesses score highly across all five elements of courage.
- **Evolving** businesses score moderately across the elements, but outperform hesitant businesses on the three core elements.
- **Hesitant** businesses score moderately across all five elements.
- **Fearful** businesses score poorly, on average, across all five elements.

Our analysis revealed a sobering truth: most Canadian businesses lack courage (Figure 5). A mere 11 percent of the companies we surveyed can be considered truly courageous—that is, they score highly in all five elements of courage. A further 30 percent are "evolving," but they fall short in at least one area. Nearly half (43 percent) are hesitant at best, not performing particularly well in in any area. And 15 percent, or more than one in eight Canadian businesses, can be considered fearful, demonstrating few if any of the qualities of a courageous business.

Figure 5: Canadian businesses by category of courage



The courage perception gap

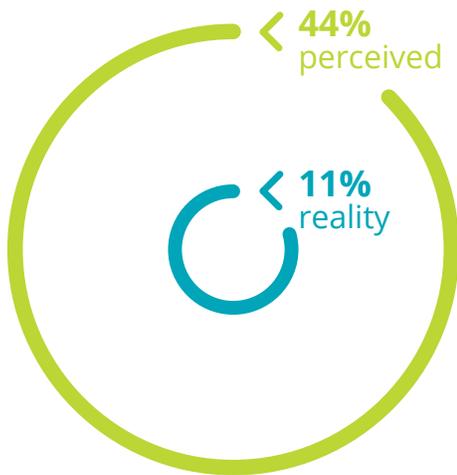
Deloitte's research in recent years has uncovered a troubling pattern among many Canadian businesses and their leaders—a tendency to overestimate their capabilities, investments, and overall readiness for change. In our 2015 report, *Age of Disruption*, Canadian respondents commonly felt they were more prepared for technology-driven disruption than they actually were.²⁵ In 2013's *A wake-up call for Canadian companies*, we found that one in three Canadian businesses were actually unaware that they were underinvesting in the levers of their productivity.²⁶

The trend continues in this year's exploration of courage among Canadian organizations. Our research found that only 11 percent of Canadian businesses can be considered truly courageous—delivering on all five elements of courage. Yet astonishingly, close to half of respondents (44 percent) believed themselves to be courageous organizations (Figure 6).

This persistent perception gap, which seems to exist no matter what aspect of Canadian business we choose to look at, is an insidious issue for Canada's business community and the country's

economic health overall. Far too many of our companies believe themselves to be something they're not—whether it's prepared, productive, or courageous. And because these companies suffer from such an inaccurate self-perception, they continually fail to see the need to take corrective action. The result? Investments aren't made. New ideas aren't explored. Opportunities aren't pursued. And Canadian companies slowly fall further and further behind.

Figure 6: Canadian businesses' perception vs. reality



This persistent perception gap, which seems to exist no matter what aspect of Canadian business we choose to look at, is an insidious issue for Canada's business community and the country's economic health overall.

■ Businesses that believe "Courageous" accurately describes their organization

■ Businesses that are truly courageous

The good news about Canadian business courage

Courageous businesses achieve better results

Courageous businesses deliver superior revenue growth and employ more people—and, as a result, contribute more to the economic wellbeing of our communities and nation overall. Sixty-nine percent of courageous businesses saw revenues rise last year, compared to only 46 percent of fearful businesses (Figure 7). More telling is that one-third (34 percent) of fearful businesses reported falling revenues last year. In fact, fearful businesses were **twice** as likely to experience revenue decreases compared to their courageous peers. Courageous businesses were also the most likely to grow in terms of employee headcount over the past year (Figure 8). Fearful businesses, on the other hand, were most likely to report workforce reductions. Courage brings growth.

Courage is not just an end in itself, but an important component of success. A company that has reached a plateau needs courage to change course and pursue new opportunities. Whether it means taking bold action or including unique perspectives in decision-making, courageous firms are more likely to bring people together and tackle difficult challenges. And while courage does **not guarantee** success, it will give a firm more of a fighting chance in an increasingly competitive global economy.

Courageous businesses pursue growth more aggressively

One of the reasons courageous businesses outperform their peers is that they aggressively pursue better outcomes through deliberate decision-making and determined investment in innovation. The more a business chooses to invest in itself, the better its situation over the long term. A company's current products and services may satisfy customers today, but there's no guarantee they will tomorrow. In our competitive market, one does not have to look far to find examples of firms that failed to innovate—and ended up failing.

As we've noted, Canadian businesses' spending on R&D and innovation has been steadily declining for several years.²⁷ Yet Canada's courageous businesses defy this trend—and stand in stark contrast to their more fearful peers. Sixty-seven percent of courageous businesses intend to increase their R&D investment over the next five years, compared to 22 percent of fearful organizations (Figure 9). It's all too easy, in difficult times, to cut spending in these areas; it takes courage to **keep** investing in the face of short-term challenges, knowing that the long-term payoff will come.

Courageous businesses' commitment to innovation investment manifests itself in

a greater likelihood of bringing new products to market. Just under half (49 percent) of courageous businesses say they have introduced significant amounts of new products or services over the past five years, compared to only 23 percent of fearful businesses (Figure 10). Fearful businesses are the most likely among all the companies we surveyed to have brought few, if any, new offerings to the market over the same period. Fearful businesses stagnate, while courageous businesses continually explore new ideas.

Figure 7. Courageousness and revenue growth

Over the past year, has your organization's revenue increased, decreased, or stayed the same?

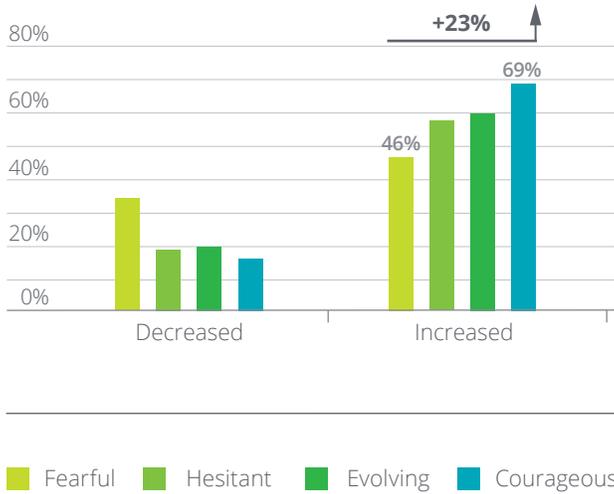


Figure 8. Courageousness and employment growth

Over the past year, has the number of employees working for your organization in Canada increased, decreased, or stayed about the same?

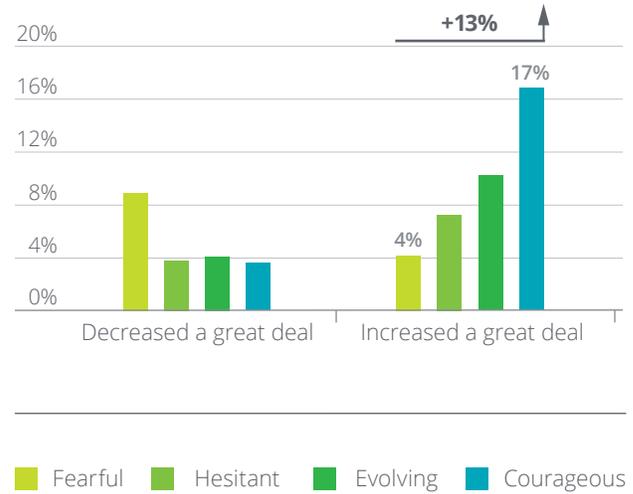


Figure 9. Courageousness and R&D investment intentions

Does your firm plan to increase or decrease spending on research and development over the next five years?

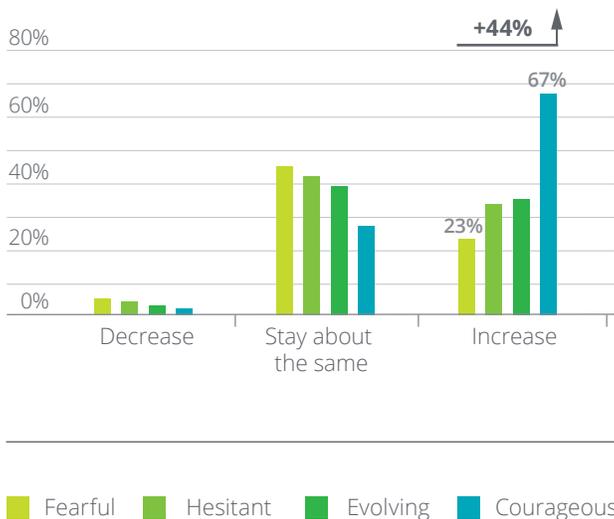
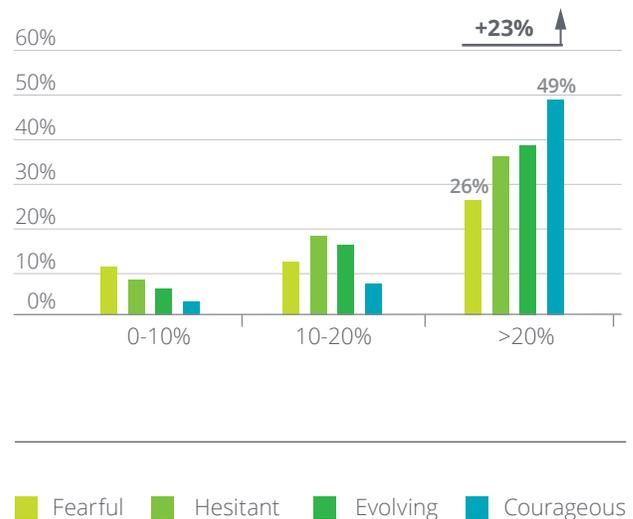


Figure 10. Courageousness and new product development

What percent of your current product / service offering was introduced in the last five years?



Building the courageous businesses of tomorrow

How can Canadian businesses overcome the risk aversion and fear that prevents so many from taking action and demonstrating the courage to boldly move forward? Our research suggests that there are two key steps to overcoming fear and building a more courageous organization: capitalize on a diversity of voices and perspectives, and nurture courage throughout the business.

The critical role of diverse perspectives

The dangers of “groupthink” were first observed in the 1950s and explored in more depth in the 1970s and 1980s. Groupthink often leads teams to make poor decisions: in one classic experiment, researchers found that, on average, one in three people will conform with a majority view even when that view is clearly incorrect. Organizations most at risk of groupthink are those whose members have similar backgrounds and outlooks, and who tend to be insulated from external or different opinions.

In recent years, we and many others have championed the need for organizations to introduce new, different—even dissenting—voices into companies’ decision-making-process to avoid the risk of groupthink. Incorporating a diversity of voices and perspectives can help ensure the group spends more time deliberating issues from a variety of perspectives, and thus making better-informed decisions that lead to better outcomes.

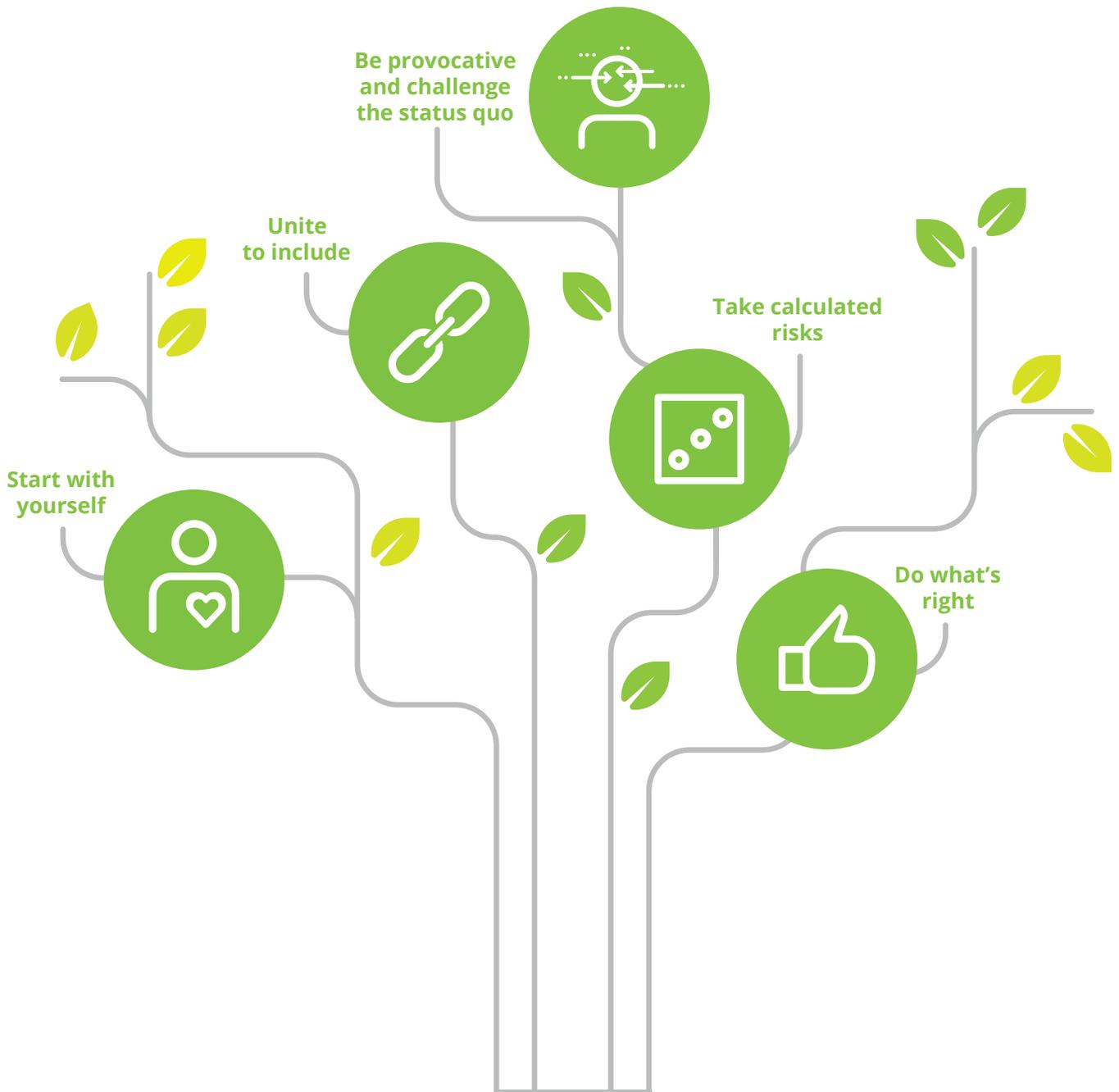
Laying the groundwork for courage

Humans are innately risk-averse. In assessing our options, we often err on the side of caution, especially during times of change and uncertainty—which is more or less the default state of our modern age. Yet it is precisely during periods of change and uncertainty that courage is most needed, to spark bold decisions that assess changes objectively and determine actions that challenge the status quo.

To reach this point, leaders must nurture courage in themselves and among their employees. The categories and elements of courage provide a roadmap for leaders to do so. Canadian businesses should start by challenging their perceptions and assessing where they truly fall on the landscape of courage. In doing this assessment, it is helpful for leaders to ask themselves how their businesses rank across the five elements. With an understanding of where they stand, and where they falter, Canadian businesses should begin to strengthen

the elements where they are weakest. As Canadian firms prioritize and strengthen the elements, our country will begin building the courage it so desperately needs.

Cultivating the five elements





Be provocative and challenge the status quo

Courageous companies and business leaders articulate points of view that may run counter to convention. They're more likely to embrace disruption—or even actively pursue it. Courageous businesses are more likely to defy industry norms or existing best practices even in the face of outside criticism.

Key takeaways

Understand your company's value proposition in its simplest form.

Hone in on the core value that underlies the product or service you offer and look for opportunities to deliver that value in new and innovative ways.

Change your customers' understanding of what they need.

Courageous businesses offer solutions to problems that customers don't even realize they have. They take a holistic approach to understanding their customers and can anticipate their needs, or recognize when a need is not being fulfilled in another area, and act before competitors do.

Seek out opposing views. People tend to avoid information that runs counter to their existing sets of beliefs or convictions. Courageous leaders actively look for and encourage opposing viewpoints as a means of fostering sounder, more objective decision-making.



Take calculated risks

Courageous businesses use rational analysis to develop new ideas, investments, and innovations both adjacent and transformational to current business. They understand their risks clearly—and are more likely to look for opportunities where the risks appear greater and the rewards smaller. Importantly, courageous businesses' decision-making is founded on thorough analysis and is grounded in data.

Key takeaways

Reframe risk as a positive indicator of courageous decision-making. Businesses as a rule discuss risk as something to be carefully managed and measured. While thorough analysis and understanding of risk is essential to decision making, courageous businesses treat risk-taking as a positive and exciting aspect of pursuing growth. Where there is no risk, the opportunity for growth and impact is limited. Thus, courageous leaders view calculated risk as a critical ingredient for business success, and frame it as such.

Incentivize courageous risk-taking. Once an organization has been primed for courageous behaviours, it's critical to reinforce these behaviours through reward and recognition. Financial incentives aren't necessarily the only solution: sometimes it can be acknowledgement from a manager or member of the executive team.

Let business imperatives —not fear— dictate your risk threshold. Businesses with high levels of courage have a greater appetite for risk. Companies should make sure their risk appetite matches the expected returns



Do what's right

Courageous businesses take actions that generate positive, long-term impacts for their firms, their people and, ultimately, their country. They'll often defer short-term gains in order to ensure long-term success, and place a greater value on non-monetary organizational goals.

Key takeaways

Share your strengths. Leverage the skills and capabilities that have made you successful in your field to give back to your community. By clearly aligning your corporate social responsibility (CSR) and charity activities with your business model and capabilities, you can generate a longer-lasting impact that can help your community grow and flourish. All businesses should provide opportunities for employees to participate and take ownership in CSR actions.

Become a partner in building the kind of economy Canada needs. By supporting economic growth through partnerships or investments in new businesses, skills training for new or underemployed workers, and social programming, we can build a more prosperous, equitable society with greater opportunities for social mobility and economic empowerment for Canadians from all walks of life. By increasing the number of Canadians employed and employable, we will all benefit from a stronger economy.

Focus on long term growth and market leadership. While all businesses must generate a return to cover their cost of capital, business that are able to focus on long term sustainable growth are better positioned to deliver long term value for shareholders, their employees, and their country. This means more closely tying compensation for workers and executives to long term performance, identifying and highlighting organizational goals outside of profit generation, and considering the impact of business decisions in the markets you serve.



Start with yourself

Courageous business leaders are guided by their passion and are more likely to be perceived as authentic. They have a strong moral compass, which they use to inform their organization's decisions. These leaders are more likely to take personal accountability for organizational failures—and share the credit for the company's successes.

Key takeaways

Let your vision and mission guide you.

Trust that, by acting according to these beliefs, your organization will benefit in the long term. Effective leaders create an atmosphere where employees understand the organization's mission and work to enable it.

Take responsibility for the actions

you care about. A leader's personal involvement can help move an issue or action along. Courageous leaders embody a sense of responsibility to themselves and society—and act on it.

Hold yourself accountable. Leaders can face transformative pressure from inside and outside their organization as they try to bring change. Seek out continual feedback from those around you to ensure you have not lost your passion and values on your journey.



Unite to include

Courageous business leaders surround themselves with diverse thinkers from different backgrounds. These leaders understand the value—and importance—of establishing formal processes to solicit and incorporate input and feedback from people at all levels of their organizations.

Key takeaways

Start a dialogue with employees at all levels of the organization. Courageous leaders proactively create spaces for employees to contribute their ideas to help chart the organization's course. Engaged employees have higher productivity, are more satisfied with their work, drive better outcomes, and contribute to higher growth. Tapping into the creative and intellectual human capital of your business is crucial for continued success.

Make inclusion a priority. Inclusion initiatives are more likely to succeed when they are given support—financial and otherwise—from leadership. Engaging senior leaders and making them responsible for the success of inclusion demonstrates its value and importance to the organization.

Recognize the ripple effect of your network. By making and demonstrating positive change you can drive surrounding communities, competitors, clients and suppliers to follow your lead, bringing greater change through your network.



A time for courage.
A time for change.

This report is a call to action—and the starting point of what we hope will be a valuable, thought-provoking conversation among Canada’s business community.

We need more courage in Canadian business. To compete successfully, to grow, to create jobs, and to contribute meaningfully to their communities, Canadian companies need to stand tall and face their fears, take risks, and overcome challenges. They need to invest in innovation even when the payoff is uncertain. They need to make bold decisions to do the right thing. They need to engage their employees and capitalize on the potential inherent in their people’s diverse perspectives and boundless energy.

Courageous Canadian companies experience better revenue and employee growth, yet our research shows that only one in 10 organizations can be considered truly courageous. Canada is actually home to more fearful companies—one in eight—and these fearful companies are seeing revenues fall and their businesses contract. At a time when Canada’s economy is struggling to gain momentum in a highly uncertain global economic climate, this lack of courage puts both companies and our country’s prosperity at risk.

The simple fact is this: Canada’s businesses and other organizations must find and unleash their courage. Our future depends on it.

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CANADA — AT — 175

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Our ambition as a nation must be bolder—we must aim to not only achieve economic prosperity, but to elevate our quality of life for our vast and diverse population.

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