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Economy Lab

## There are better ways to cut business support in Ontario

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Last month the Ontario government released the Drummond Report -- a 500-page tome that carves out a path to sustainability and excellence for Ontario's public services. With sublime irony, Chapter 11 focuses on business support programs, and makes the provocative suggestion to eliminate all such programs in March, 2013. Specifically, its most pertinent recommendations are:

- 1) Terminate all business support programs, both the \$1.3-billion funded directly, and the \$2.3-billion in tax credits, at the end of March, 2013.

2) At a later date, create a limited number of new programs that are justified on the basis of economic theory and evidence.

3) In the future, grant all programs four-year mandates with renewal contingent on the demonstration of merit after three years.

Certainly it's not hard to see how an economist inclined towards fiscal discipline would be troubled by the fact that the government had difficulty even identifying its business support programs, let alone the associated benefits. And the suggestion to begin by eliminating all programs will appeal to some. This is the most expedient way to ensure the elimination of low performing, but highly entrenched legacy programs. But terminating all programs will also ensure the elimination of those that are high performing, whose benefits to the Ontario economy exceed their costs.

I'm suggesting two modifications to the Drummond recommendations: First, to cut only half the spending on business support programs by March, 2013; and, second, to measure program effectiveness before making elimination decisions. Together, these two modifications will provide several benefits leading to more effective support to Ontario's companies.

Most obviously, this approach enables the retention of the best programs. There's a reason for the carpenter's adage 'measure twice, cut once'. Do we really want to reduce funding for Communitel just when it's demonstrating its ability to leverage the momentum in Waterloo?

Second, this approach will incent the right behaviours. Program managers will be motivated to demonstrate program effectiveness, rather than to seek out alternative employment in the face of certain program elimination.

Third, measuring the effectiveness of existing programs will generate knowledge that will serve in the design of better programs in the future. Program effectiveness is not just a consequence of program adherence to economic theory. It may also be contingent on the nature of the client company, the nature of the program, or the nature of the client-program engagement. What more will we know about designing business support programs a few years from now if we don't now make the investment in learning what works and what doesn't?

Finally, it will allow us to improve our capacity to measure program effectiveness, to absorb the knowledge generated, and take action based on the results. This positive learning cycle will not emerge without a concerted effort to develop it. Benchmarking the innovativeness of a province or nation is one thing; developing the capacity to make evidence-based adjustments in government interventions in the interests of improved innovative capacity is quite another. Governments need to be committed to hearing the truth, even if the truth is that they have made an investment in an ineffective program.

An important benefit of the capacity to measure program effectiveness is that it responds to the need for accountability without requiring a reduction in program diversity. If there's one thing we've learned from research on the impact of business support programs, it's that companies of different sizes and growth aspirations, and in different industries and regions, require different services and support.

Companies are more than just the sum of their parts, they are social systems that take time to develop. Many are started by young or inexperienced entrepreneurs, in some cases by technical experts with little in the way of business skills or experience. All jurisdictions have programs to support such companies, and Drummond is right -- Ontario should strive to have the best such programs. We must begin by determining which programs deliver the greatest benefit today, in the interest of designing high impact programs for tomorrow.

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