THOUGHT LEADERSHIP

BUSINESS + HIGHER EDUCATION ROUNDTABLE

# CANADA'S PRODUCTIVITY GAP:
## A PROBLEM FOR POST-SECONDARY AND BUSINESS TO SOLVE TOGETHER

**SEPTEMBER 2024**

The financial sustainability crisis in post-secondary education in Canada is linked with the productivity and growth crisis of Canada's industries. As leading businesses and post-secondary institutions, BHER members are all grappling with these challenges in their own way. But the problem is not for either side to solve on their own. This is why we brought together nearly 70 leaders from universities, colleges, polytechnics, over a dozen industries, as well as all levels of government to share perspectives outside of their usual silos in September 2024, at TELUS Harbour.

### CONTEXT:

Canada is forecasted to have the slowest economic growth of all OECD countries for the next 35 years. Not everyone agrees that we're measuring the right things, let alone accurately, but it's shorthand for a nexus of issues that everyone agrees are problems: Canada's significant drop in revenue per employee, low production and income generated per hour worked, low R&D expenditure per GDP, increase in unemployment, and widening productivity and wage gaps with the U.S.

Canada also has one of the highest post-secondary attainment rates in the OECD. The fact that this attainment rate is not translating to economic growth or increased productivity has led to an erosion of public trust in the promise of higher education as a path to upward social mobility. Solving these problems requires post-secondary, industry, and governments to work together. But to do this effectively, post-secondary and industry need to make some big changes.

### PROBLEMS:

Post-secondary institutions have baked in resistance to change in their operational, structural, and cultural practices. **This resistance can be seen in:**

- **Overattachment to traditional teaching models** like in-person lectures, disciplinary majors, and the tenure system, which are increasingly at odds with today's social, economic, and tech needs.
- **Cleaving to "the old normal"** after the pandemic, despite the pedagogical and tech advancements made in digital-first learning. There is an aversion to what new tech can achieve, e.g. shifting away from the classical teaching model of passing down knowledge to one that teaches skills to curate and use knowledge with AI, or giving education access to far more underserved students with online open university models.
- **Tying research output to promotion**, resulting in senior faculty who are all trained in research but may not be trained in teaching or business administration. Prioritizing research over practical experience leads to a cycle of over-emphasis on research for students, especially those in advanced degrees, when what they really need is to learn how work works.
- **Leaders within institutions have little control over sources of revenue** (provincial funding and tuition rates), but they also have little control over big costs (staff salaries, tenured faculty, physical plant). Major adjustments cannot be made to prices nor costs in response to performance or market changes.

Industry in Canada, while more agile than PSIs, also faces a structural and cultural problem: Canada lacks a "get it done" mentality. Our regulatory environment puts up too many roadblocks to business investment and productivity. For example, an agriculture producer in Alberta ready to invest $100 million in building Canada's biggest biodigester has been waiting two years for approval, when a similar project with the same producer took only 60 days for approval in Kansas.

Red tape is not the only challenge. Misalignment between skills and the labour market is also closely connected to higher education issues and contributing to the productivity problem:

- Over half of highly-skilled Canadians with post-secondary qualifications are currently working in low- to medium-skilled jobs.
- And over a quarter of the immigrants who come to Canada end up in positions they are significantly over-qualified for.
- The most highly productive sectors that contribute the most growth are not the sectors for which most students get post-secondary degrees.

## POTENTIAL SOLUTIONS:

1. **Build on what's working:** Innovative solutions like student-led learning, teaching skills over teaching knowledge, experiential or work-integrated learning, are being implemented at many institutions, including our members. For example, York University's Lassonde School of Engineering is 2 launching Canada's first fully work-integrated degree program, where students will spend 80% of their learning hours on the job. WIL-based programs also help address the cost side of education, as employers and the wider community can take on more of the teaching load. In addition to lowering the cost of education, WIL contributes to changing how and what post-secondaries teach, building more productive talent pipelines, and lessening the skills mismatch. Another common recommendation is for PSIs to collaborate more with industry, but many already do, and some do extensively. For example, over half of BHER member Universite Laval's R&D budget comes from industry partners' investments. But strategies for collaboration need to be scalable across more institutions, and made more easily accessible for SMEs.

2. **Post-secondaries can act more like businesses:** To combat resistance to change, institutions should leverage insights from fields like organizational behavior and start thinking of themselves as a customer-oriented business. The focus should be on the needs of the customer, and the customer is the student —not the faculty.

With a shrinking customer base, post-secondaries need to act like any business would and expand their target market: rather than niche four-year degrees that cater to a subset of young people, they need to increase accessibility, provide more flexible options, and stackable programs that encourage returning customers for lifelong learning. The Open University of China's Seniors University for older learners is a good example of opening the market to a bigger base and using a digital- first model to serve their needs without a prohibitive cost.

Opportunities exist to expand points of entry for transfer into post-secondary institutions. And we can incentivize more returning learners with better prior learning assessment and recognition for relevant work experience. These improvements will also make it easier for individuals to pursue additional training and credentials, which can help to address Canada's low ranking among OECD countries for master's and doctoral degree attainment.

Better resourcing and support for Indigenous students and Indigenous post-secondaries is not only the right thing to do, but also makes strong business sense. There are huge 3 economic benefits to closing the education gap facing Indigenous communities: GDP gains, higher retention rates, and a talent pool that is committed to staying in Canada.

Ultimately, to be able to act more like businesses, post-secondary leaders need to have more decision-making power to respond to market conditions. Post-secondary leaders must have the ability to pursue new funding models, have a say in prices, and be empowered to adjust, cut, or reallocate costs as needed.

3. **And Canada can act more like an SME:** If the large economies of the world are like big businesses, then Canada as a small country needs to lean into the tactics that small businesses use to stay competitive.

We need to be less hierarchical and more collaborative. Businesses can get a lot done when allowed to collaborate with policymakers. For example, the federal government's commitment to expanding national childcare came in part from listening to the coalition of business and labour. We need more of these kinds of successful collaborations.

Productivity is not simply doing what we already do faster and cheaper (although that is definitely needed). It is also creating new ideas and new products that can compete in the market. And innovation also increases with collaboration: companies that collaborate with post-secondaries on average invest 80% more on innovation than those that don't.

Research partnerships between industry and post-secondary need to increase not only through traditional research models but also through WIL, making the creation of real-world products and services part of the regular training for post-secondary students at all levels.

We need to leverage and better utilize our strengths: our natural resources, a pro-immigration policy, an engaged business community, and a growing WIL ecosystem. Industry can help guide skills matching by pushing education towards fields that are more productive, but we also need to make the less productive fields that so many graduates choose more productive through technology adoption and collaborative investment.

**Ultimately,** no single sector is able to solve these problems alone. It's no coincidence that the interrelated crises we've identified here require interrelated solutions and businesses, post-secondaries, and governments to work together. BHER commits to continue creating the spaces and programs where this collaborative work gets done.


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