



Developing a Community-Based Response to Economic Restructuring

The Challenge of Global Competition

by Gerald Pisarzowski and Sandy Baroudi

The world-wide appeal of the Sony Walkman and Coca Cola Classic are but two examples of the decline in product differences between countries. Responding to the demand for quality products at an affordable price, multinationals are organizing production according to an international division of labour. Simple products and parts are manufactured where wages are low while complex components are manufactured by skilled workers utilizing complex production systems where wages are high.

During the nineties, more and more companies will face the challenge of global competition by rethinking their products and production systems. Those companies that succeed will provide their shareholders with good profits and their communities with high quality jobs. Those that fail will hurt their shareholders and bankers and devastate their communities.

To increase competitiveness, successful Canadian producers will help their workers become more productive and increase the quality of their products. Very often this will mean changing the way in which workers carry out their functions, for example, combining self-managing work groups with flexible manufacturing equipment and systems. If these technologies are to work, companies will not only provide their workers with technical training but will help them to develop leadership and interpersonal skills. Finally, companies and their employees will increasingly conduct their business in an environmentally-sustainable manner.

THE IMPACT OF GLOBALIZATION ON COMMUNITY DEVELOPMENT

Economic globalization is changing the ground rules for communities in Ontario. Those that rely on resource-based and mature manufacturing sectors for jobs are finding that as firms become more competitive they are demanding workers with better skills. Companies striving for continuous productivity improvements or attempting to develop and produce unique products that command price premiums will ratchet up minimum acceptable skill levels making it more difficult for less-educated workers to find jobs. At INCO, for example, the introduction of more sophisticated, computer-controlled mining equipment has driven minimum entry level requirements for an underground miner from Grade 10 to Grade 12. If the company expects to remain competitive over the long-term, a community college degree will soon become the entry requirement for some positions.

Many employment issues that communities face today are the result of industry's need to become more competitive. Labour reducing devices and systems like robots, programmable controllers and automation combined with less capital intensive processes increase productivity and enhance quality. Innovations that break down traditionally-accepted production methods typify the "new twists" that firms will use to gain a competitive advantage.

Communities also find that the service



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sector, touted by many as the primary generator of employment, must also restructure. Increasingly, manufacturing companies are out-sourcing their business support functions to highly qualified service companies. Bell Canada, for example, contracts customer billings to a company in Florida. These service companies are being pressured to continually improve their productivity, enhance the quality and range of their services and pass on the savings and improvements to their customers.

Social services like health care and education are not immune to these same pressures, due to competition for scarce public resources. Even tourism is subject to some of these pressures, driven by a more demanding and environmentally conscious consumer, who increasingly has less to spend. Employment in the service sector, therefore, is becoming increasingly polarized between high and low skill jobs and as technology becomes more pervasive, low wage/low skill jobs will

gradually disappear.

A community's survival increasingly depends on its ability to implement strategies that:

- retain and expand the existing industrial base;
- enhance the skills of the labour force;
- develop an environmentally sustainable economy; and
- build on the ideas and determination of residents.

RETAINING AND EXPANDING THE EXISTING INDUSTRIAL BASE

Retaining the existing industrial base is a major challenge for Economic Development Professionals (EDP's) operating in Ontario. Many, witnessing an exodus of firms and jobs to the U.S. and Mexico, are only too aware of the advantages of manufacturing south of the border and the impact this is having on their communities. Between April, 1990 and June, 1992, 14 major firms relocated to the U.S. and Mexico from Eastern Ontario. This represents an irreplaceable loss of over 1200 jobs (Employment and Immigration Canada, Eastern Ontario Regional Economist's Office).

In a recent article entitled "Turning the Tide" (June 1992), the Report on Business Magazine, quoting government statistics, indicated that 45 of the 162 plants that closed in the Province between November, 1990 and October, 1991 relocated in the U.S. Some were recession-hit branch plants consolidating with U.S. parents. Others were attracted by lower labour costs and corporate taxes, cheaper industrial land, mortgage interest deductibility, government-sponsored training programs, and the absence of personal state income tax in eight states. Many companies have been pressured by U.S. customers, convinced that the recently approved pro-union amendments to the Labour Relations Act make Ontario a strike-prone environment.

Too many firms, driven by short-term considerations alone, seem to lose sight of the key competitive levers in their industry. In certain instances, manufacturing in Ontario makes good business sense. Firms like Fleck Manufacturing Inc., I.S.E. Limited, Inter-City Products Corp., Fasco Motors Ltd. and Westinghouse Canada Inc., disillusioned

with manufacturing in the U.S. and Mexico, have come back to Ontario. Some cite supplier problems, the high cost of health care, cross-cultural misunderstandings, poorly trained workers, high defect rates, and border crossing delays as reasons for moving back. Some customers, annoyed with high defect rates, have encouraged manufacturers to move back to Canada or U.S., even when it means paying more for the product. Companies find that while it may be less expensive to operate south of the border, lower effi-

duce its footloose nature and link it more firmly to their community. But EDP's must remember that they cannot hope to achieve success in all sectors. They must identify opportunities, build on strengths, define and target the market and reassess their strategy at regular intervals to ensure its relevance. Initiatives in these areas require meetings at the highest level between those in industry responsible for corporate planning and those in the community responsible for economic development.

Table 1: Level of Dissatisfaction with Newly Hired Workers*

Basic Skill Category	1985	1989
Reading	21%	39%
Mathematics	25%	45%

*Source: Premier's Council Report, *People and Skills in the New Global Economy*, Appendix D, Training and Technological Change in the Automotive Parts Industry, 1990.

ciency and product-quality reduces profits.

Communities must apply innovative approaches to keep key industries. Strategic alliances, for example, can provide firms with access to new process or product technology, expanded market opportunities or better production efficiencies. These types of ventures can stimulate employment and industry expansion within a community. Alternatively, supporting the formation of a strategic alliance could mean helping a company locate the production of a simple product to a region where wages are low. This may not immediately benefit job creation in the community, but it can provide a successful firm with the necessary financial resources to stabilize or expand its current core business.

Solutions require different strategies for local and foreign-owned companies. Communities have a better chance of influencing companies whose key decisions are made locally, but foreign-owned companies should not be ignored. Communities must keep informed, maintain contact with local plant managers, help resolve local concerns and learn to understand the competitive issues facing these firms. Attempts should be made to become acquainted with those who develop corporate strategy for foreign-owned firms within the community.

EDP's that are proactive and help industry to become more competitive re-

ENHANCING THE SKILLS OF THE LABOUR FORCE

Developing a skilled workforce is critical to diversifying or realigning a community's economy. For many companies, access to qualified and trainable workers has become the main criterion for location decisions in the nineties. Whether the objective is to adopt new technology or develop a process innovation, a skilled workforce is pivotal to achieving success.

Skilled workers unlock technology's full potential. While manual skills are important, technical literacy, the ability to readily learn how to use new technologies, is increasingly being required of all employees. Computer-driven equipment operators, for example, require conceptual skills to monitor output and analyze operating data, as well as to control operations. With the introduction of statistical process control, many jobs previously classified as "unskilled" now require literacy and numeracy skills, as well as more on-the-job training. Analytical skills are required to solve production problems and improve quality and interpersonal skills are necessary to facilitate group problem solving and participative management.

Technology is changing so rapidly that it is becoming less important for workers to acquire specific skills than to possess the ability to study and think independently, to learn quickly, to be flexible, and

to work well with others. Workers can no longer function with the knowledge of one single skill. They must learn how to integrate data, trouble-shoot problems, and understand the relationship between increasingly complicated and expensive equipment.

Many companies, find that the basic skills of their newly-hired workers are often inadequate. Surveys of companies engaged in automotive parts manufacturing indicated that the level of dissatisfaction with newly hired workers almost doubled in only four years

(See Table 1). During this period, the level of technological sophistication had risen substantially in these same companies. Communities must respond by seeking ways of upgrading the skills of their residents.

Basic skills upgrading is a necessary prerequisite for advanced skills training and long-term job maintenance. The YES Canada Program is especially well-thought-out, simple and effective. Since 1992, 2800 associates have participated in the program, with 80 percent graduating to find a job or return to school (YES Canada Inc.).

The program is designed around a computer-managed learning system, augmented by the use of textbooks, written exercises and educational videos. It offers associates self-paced, individualized learning, in a private, non-threatening and business-like environment. In a relatively short period of 12 weeks, individuals master basic reading, writing and math skills and gain exposure to life-survival, pre-employment and job development training. The average cost of about \$3,500 per associate is extremely competitive with other programs. At the present time, the program is delivered only in four communities: Halifax, St. Catharines, Winnipeg and Vancouver.

DEVELOPING AN ENVIRONMENTALLY SUSTAINABLE ECONOMY

Economic development departments must convince industry that responsible environmental decision-making is one of the keys to competitive advantage. Companies will have to be encouraged to link economic growth and environmental conservation by:

- recognizing environmental factors in all investment decisions;

- accepting sustainable development as the foremost goal for economic growth
- securing sustainable yields from resources for long-term competitive advantage.

Already many companies recognize that their commitment to the environment is a key factor in attracting capital. More investors are demanding that brokers channel their money into environmentally-responsible companies. Financial institutions assess companies with poor environmental programs as unattractive investment risks. Sectors such as petrochemicals, pulp and paper and metal processing are increasingly influenced by more stringent environmental legislation, making it more difficult for them to attract investment. Companies like DuPont and Lever Brothers have responded by adopting aggressive programs that often go beyond the requirements of existing legislation.

Waste for many companies has become an economic opportunity. Edgar Woolard, DuPont's Chairman and Chief Executive Officer sees waste reduction as a way to achieve competitive advantage in the market place. George Franzen, President of Lever Brothers says that his company has cut production waste by half, with resulting cost efficiencies. This positive contribution to profits has linked the environment with the economy as never before.

For those EDP's reluctant to encourage their resident companies to "work smarter", the experience of DuPont is worth noting. Company engineers argued that reducing pollution in a particular plant would be too expensive, but subsequently found they could reduce waste by two-thirds simply by adjusting the production process to use less of one raw material. Yields went up, wastes went down and the plant saved \$1 million a year. This example is by no means unique. There are hundreds of companies rethinking their operations, achieving significant reductions in pollution and significant improvement in the bottom-line often with minimal capital investment.

EDP's must examine their constituency carefully and identify those firms that have a high impact on the environment. They can help those firms hone their competitive advantage by working closely with them to achieve the following objectives (See Table 2).

Firms that refuse to recognize the importance of pollution reduction run the risk of being treated unfavourably by potential investors. Both the community and the business will lose.

BUILDING ON THE SKILLS AND DETERMINATION OF RESIDENTS

Communities must build more on their internal resources, the skills and determination of their residents. All communities contain individuals, who, if given the proper encouragement and nurturing, can develop successful businesses that will contribute to employment, the tax base and diversification. A number of investigations have pointed out the important role of small business in generating employment and diversifying the economy. Many analysts hold that it is easier for a company to grow from 5 to 20 employees than it is to grow from 500 to 2000. Encouraging existing companies to expand, while stimulating the formation of new companies in selected sectors, can facilitate a structural change within a community. Developing and nurturing small business can be an effective way to achieve greater economic diversity.

Recognizing the importance of small business and entrepreneurship, governments have introduced a variety of programs and mechanisms to stimulate their formation and maintenance. The YMCA Enterprise Centre Program is a cost-effective vehicle for creating new small business that can help revitalize local economies. In Glace Bay, Nova Scotia, for example, between 1987 and 1991, the Centre helped 133 entrepreneurs establish their own business at a total cost of \$3.4 million or \$25,000 per new business created. Initially, this generated 325 jobs, 157 of which still remained at the end of 1991. As of March 1992, 68 percent of the businesses were still in operation (the Glace Bay Enterprise Centre).

EDP's interested in fostering entrepreneurs can begin by focusing on them prior to business start-up and by assisting them to refine their ideas, evaluate markets and develop business plans. Developing a small business support network in the community identifies individuals who can act as mentors for residents interested in starting their own business. Local high schools, community colleges and univer-

Table 2: Corporate Issues in Sustainable Development

Issue Area	Objectives
Manufacturing Process	<ul style="list-style-type: none">· Become less intensive in terms of resource, energy and water consumption.· Reduce the contaminant content of resource inputs· Reduce the quantity of gaseous and liquid effluents and solid waste to landfill· Develop useful applications for the remaining wastes· Increase plant productivity and profitability
Manufactured Products	<ul style="list-style-type: none">· Recycle and improve product recovery and transportation· Reuse, substitution and reduced product packaging· Develop business alliances between waste management companies and product manufacturers· Adopt the "cradle-to-grave" approach to products where appropriate
Extractive, Harvesting, Construction and Services	<ul style="list-style-type: none">· Aspects of process and product modifications apply to these types of firms.
Entrepreneurship	<ul style="list-style-type: none">· Recognize those types of entrepreneurs on whom society depends to create new business· Recognize and encourage those employees of existing companies, who, through their innovation make plants more productive and products more competitive

sities can stimulate interest at the grass roots level by offering programmes on small business formation. The objective is to identify realistic business opportunities and eliminate business failures.

This clearly represents a long-term strategy and may not appeal to all communities. But at a time when footloose companies are increasingly difficult and expensive to corral, the importance of developing businesses with strong community roots should not be overlooked.

CONCLUSION

There are no quick fixes to the challenges posed by restructuring. Solutions involve innovative and sometimes risky ventures which take time, energy, and commitment in order to succeed. Businessmen, labour representatives, politicians, community leaders and other stakeholders must engage in a concensual planning process, each pooling their resources towards a common objective. During this period of restructuring and intense competition those communities that are aggressive in developing economic plans which build on their own

unique inheritance will thrive on the challenges of the nineties.