



Desjardins

NOTES FOR A SPEECH BY

MS. MONIQUE F. LEROUX,
CHAIR OF THE BOARD, PRESIDENT AND
CHIEF EXECUTIVE OFFICER OF DESJARDINS GROUP

TO THE CANADIAN CLUB OF MONTREAL

“TAKING INNOVATIVE ACTION FOR SUSTAINABLE PROSPERITY”

MONTREAL, SEPTEMBER 22, 2009

(Actual speech may differ from this text)

Distinguished Guests,
Ladies and Gentlemen,

It is a pleasure to be here this afternoon and I want to thank the Canadian Club of Montreal leaders for their kind invitation.

I would like to take this opportunity to share some of my observations on the challenges facing Québec today, as well as on the conditions needed to implement sustainable prosperity at home.

I also want to assure you that Desjardins Group, as an organization that is concerned about these issues, intends to actively contribute to resolving them.

Economic recovery is beginning to take root, but risks remain

We remain in the midst of difficult economic times. A year ago, on September 15, 2008, the Lehman Brothers commercial bank declared bankruptcy, unleashing a massive loss of investor confidence across financial markets and dragging the global economy into a recession. One year later, confidence is back and many signs point to the beginning of a recovery. We can anticipate a gradual improvement of the situation.

In the latest forecast updates, our economists are acknowledging that a gradual renewal of consumer and corporate confidence, an upturn in stock markets and easing in financial markets are basic elements that would support a rebuilding of the economy, although many challenges still lie ahead.

We need to recognize that it is only through the collaboration and cooperation of governments and monetary authorities around the world that we have been able to re-establish a measure of stability, although certain risks remain a concern and we must continue to be vigilant.

Neither the banking sector nor the mortgage market has yet stabilized for our neighbours to the South. Government indebtedness has reached alarming levels and it is also feared that all the liquidities injected into the markets and the economy over the past year could result in inflation or in the creation of new financial bubbles. Similarly, a new outbreak of the H1N1 Flu Virus world-wide could also “infect” and hamper recovery. We must therefore remain cautious and watchful.

In Québec, the Desjardins Forecasting Index predicts economic behaviour. After spending several months in negative territory, the index registered its fourth consecutive monthly gain in July, suggesting a turnaround for the provincial economy, with mild growth in the fourth quarter.

After a setback of 1.8% in 2009, the Québec GDP is expected to grow by 1.6% in 2010.

However, since a certain lag is commonly observed between economic and job recovery, the labour market slump is expected to continue. The unemployment rate, currently at 9.1%, is expected to continue to rise to around 10% by early 2010—a significant deterioration from the 6.8% recorded in January 2008.

If we compare the current recession with the one that affected Québec in 1990-1991, two positive factors should enable domestic demand to pull itself out of its doldrums. On the one hand, low interest rates will help consumers get back on track. On the other hand, the public sector will have an active part in the economic comeback thanks to the federal government's recovery plan and the Québec government's infrastructure investment program.

However, the economic comeback in Québec will suffer one flaw: international exports. A high Canadian dollar, greater protectionist measures and major structural adjustments within the American economy are major challenges in the current context. As such, Québec companies will need to be very competitive.

Furthermore, the restructuring of the forestry sector and the industries that depend on it has yet to be completed. This sector will have to remain under tight surveillance and will require a strong collaboration by private and governmental stakeholders.

Unavoidable demographic consequences

We also need to be vigilant in view of other major changes that are looming.

The most fundamental of these challenges, and the one likely to have an impact on almost all the others, is a demographic issue. In the coming decade, the rapid aging of the population and the resulting decrease in the number of active participants on the job market will affect the entire dynamic of Québec's economic growth and make the management of public finances rather delicate.

Compared to other provinces and countries, where the aging population is also a concern, Québec's post-war baby boom was extremely high, while the next generation saw birth rates plummet dramatically. It is this marked contrast, which was even more pronounced here than elsewhere, that will lead to major challenges for us in the years to come.

As René Vézina recently commented in the weekly publication *Les Affaires*, “Aging is not the end of the world, we can easily get used to that. Problems arise when an entire society ages at the same time.”

Why should this cause problems? Because for the last decade, the potential for economic growth has been based on two main factors: the growth of the working population and productivity gains. However, with a decreased working-age population beginning in 2014, economic growth threatens to slow considerably.

Productivity is key to economic prosperity in Québec

In the *Economic Viewpoint* bulletin published today, Desjardins economists stress that, when it comes to future demographic progress over time, increased productivity gains will help prevent overly pronounced declines in economic activity.

If, in the next decade, productivity growth maintains the same pace as it has in the past 10 years—about 1% on average annually—the decrease in the working population will drag the potential of economic growth under 1% by 2020. All signs show that this trend would continue over the following decade.

In comparison, the growth potential of the Québec economy was 2.1% annually between 2003 and 2008. This issue is therefore of vital importance for Québec, as growth below 1% is equivalent to near-stagnation of the economy and a stall in wealth creation. Japan, which has been dealing with this for the last ten years, experienced significant problems in this respect, particularly an alarming increase in public debt.

Increased production will be the cornerstone of our future prosperity, and we must act now. This is especially important as our already fragile public finances will be experiencing added pressures.

Increased productivity benefits everyone

I understand that, for many people, hearing about productivity and performance ignites suspicion rather than enthusiasm. Some associate productivity with a purely economics-oriented logic. Many believe that this opposes our social values of solidarity and compassion. And numerous people also associate productivity with the need to work harder.

The dictionary defines productivity as the association between the quantitative or qualitative results of an activity and the resources or production factors assigned to the activity.

In fact, increased productivity benefits all economic agents. When productivity increases, business profits follow, which generally results in increased wages and capital investments. In the end, government revenues climb as well, thereby maintaining the quality of public services.

Productivity gains are therefore the foundation of the whole dynamic between economic growth, community enrichment and a higher standard of living. In the long run, countries with the highest increases in collective wealth top the list for productivity gains. And with collective wealth comes the possibility of redistributing this wealth according to our priorities and social values. Because the truth is that we first have to create wealth before we can redistribute it!

Striving for sustainable prosperity also implies long-term vision. In addition to their economic initiatives, businesses and governments must remain aware of their social and environmental responsibilities.

Placing productivity and generous social values at opposite ends of the spectrum is therefore not entirely fair. In reality, we must increase productivity so that we can continue to support the social values that Quebecers hold dear.

Focusing on productivity means focusing on growth. It allows us to generate more income with less effort; although, as some studies have painfully shown, Québec is less productive than Ontario and clearly trails the United States. If nothing changes, our lifestyle and wealth standards will certainly suffer and, in the long term, will affect the quality of life of our society as a whole.

Innovation: The driver behind productivity growth

Numerous factors influence productivity, and we need to join forces to tackle each one of them. Among the most important are the level and quality of education, workforce training, capital investments, as well as our tax framework and regulations.

A report published in July by the Council of Canadian Academies, however, pinpointed innovation as being the most determining factor in terms of productivity. While the previously mentioned factors are important and necessary, innovation is first and foremost what allows the economy to increase the production value of goods and services from quantities of fixed resources. Through innovation, we discover new and better ways to create this value. By being more efficient and innovative with their resources, companies strengthen their ability to compete.

Innovation is defined as bringing something new and as-yet unknown to something that already exists. Given this definition, as well as various studies on the issue, we are led to understand that innovation is not only limited to new discoveries or to launching new products—it can also be about doing things differently.

This is what Cirque du Soleil did, for instance, by completely transforming the traditional circus experience. By eliminating certain aspects associated with the old model (animals, the circus ring, bleacher seating for spectators) and introducing new ones (theatrical touches, original music and costumes, comfortable seating, etc.), the Cirque did not invent a completely new product, but rather transformed and enriched something that already existed. And we all know how immensely successful it has been in doing so.

In the same way, when Alphonse Desjardins developed the caisse populaire business model, financial services already existed. But the founder of Desjardins Group saw that there were needs that were not being addressed by existing institutions. After carefully studying the solutions that had been produced in Europe in response to similar needs, he eventually came up with a new proposal. Alphonse Desjardins proposed a caisse model that existed nowhere else—a model that was adapted to the reality and needs of the local population. And ever since this original innovation, Desjardins Group has never stopped growing.

We can therefore see that innovation can take on a variety of forms. All the processes within a business can be improved and can give way to innovation, from the supply of raw materials to after-sales service.

But, to fully realize its potential, innovation must be combined with a strong entrepreneurial capacity and a considerable dose of individual and group initiative.

Necessity is the mother of innovation

The Council of Canadian Academies report which I referred to earlier is interesting in its focus on factors that promote the adoption of strategies based on innovation for businesses. The report shows that, if Canada and Québec have some catching up to do in terms of innovation, it is because businesses have been profitable without needing to innovate much. This can be due to various factors: Canada's colonial past and its role as a provider of raw materials, its small domestic market, and its economic dependence on the United States, where it has been able to do business for a long time while benefiting from a very weak Canadian dollar.

On the flip side, innovation is a pressing necessity, and its benefits are mostly seen in countries where competition is much more intense or where the industry is based on the highly competitive export markets. The United States, in the former case, and certain smaller countries like Sweden and Finland, in the latter case, are clear examples.

That being said, we must face the fact that the world we live in has changed. Innovation has become an important issue today, as much in Canada as in Québec with our businesses now having to face increased competition from emerging countries, both domestically and on the export markets. For example, after having gradually caught up to Canada during the past decade, China is now in a tight race with us as the largest exporter of goods into the United States. Given the strength of the Canadian dollar, the businesses most exposed to this new competition will only be able to survive and grow by becoming a great deal more productive.

In this new context, our businesses will have to focus their strategies on innovation. It is by doing this that they will become known as the best in their sector. Then, and only then, will we be able to collectively meet the productivity challenge and aspire to sustainable prosperity.

Nothing is more collective than innovation

Rising to this challenge will require the contribution of both the public and the private sectors. Governments must make sure they create an environment that fosters high-quality education and investments in capital and R&D, as well as an offer of venture capital. They must also encourage collaboration among businesses, research centres and universities.

By creating and spreading knowledge, universities play a crucial role in increasing the economy's productivity. In fact, by choosing education as a springboard for innovation, we are going forward with an eye to the future.

Businesses must also provide continuous training for their employees, use efficient and productive equipment and keep up with the most current practices in their field. They must work relentlessly to improve their work organization and business processes. Indeed, innovation cannot happen without knowledgeable and creative human capital.

Above all else, innovation requires the commitment and leadership of a company's senior management. But it also has a lot to do with the style of that leadership. The incessant speed at which technology is developing, along with the pace of change in today's global business environment, demand a more flexible, more agile management style. We are no longer managing stability but rapid and perpetual change.

It is hard for innovation to be effective in a framework of outdated management models, based on a rigid hierarchy. To innovate, we need to know how to get employees involved and persuade them to voice their opinions and ideas, which are often enriched thanks to their contact with clients. Employees must be encouraged to identify what they think could be changed or improved to make their work more efficient and enhance the quality or originality of products.

In short, we have to know how to combine talent and technology within our organizations and create a stimulating work environment, with efficient and effective processes that foster creativity, while still maintaining rigour and discipline. This is how we become more productive.

The role of businesses is therefore crucial because, at the end of the day, it is their initiatives that will make the difference. Establishing a framework that allows new ideas to emerge and employee creativity to shine through can make all the difference between strong productivity and weaker productivity.

I would also add that, as a community, we must give more value to individual and collective initiative and become more open in general. We cannot innovate if we are not prepared to move out of our status quo comfort zone.

It is therefore as one, with conviction and in full awareness of our respective responsibilities that we must tackle these problems and opportunities that are so fundamental for our future.

Desjardins and Innovation

Today, Desjardins Group identifies with these major collective challenges. That is why, instead of being satisfied with the status quo, we are once again choosing growth and openness towards the future. In this, we are inspired by the words and actions of our Group's founder, Alphonse Desjardins.

Several years before establishing the caisses, when he was actively involved in the Lévis Chamber of Commerce, at a time when the city and its surrounding region were undergoing all kinds of difficulties, Alphonse Desjardins wrote, in the very newspaper he had himself founded:

“What is it that we are missing in order to be a prosperous, industrial centre? What we are missing—let’s not hide the fact—is a little more initiative, together with a dose of audacity, combined with common prudence and wisdom. What is missing—let us say it quite frankly, without false shame and without fear—is a more thorough understanding of the incomparable advantages that we possess and that we are allowing to lie dormant in a very shameful bout of inactivity.”

Alphonse Desjardins later answered this call for initiative and innovation himself, by founding the first caisse with his fellow citizens of Lévis and by encouraging and helping over a hundred communities in Québec, Ontario and the United States to do the same.

Today we want to continue to innovate, which is why we are currently in the midst of a major process of transformation and change at Desjardins Group.

We are simplifying our overall management structure for greater cohesion within Desjardins, as well as improved proximity between the caisses and their members. This will make us even better positioned to help meet their needs. We want a Desjardins that is closer to its caisses, and caisses that are closer to their members.

By undertaking a thorough review of business processes and technology, by simplifying our internal processes and improving communications throughout Desjardins Group—in other words, by better combining our strengths, skills and expertise—we will be able to offer our members and our clients the best of Desjardins Group.

We want this Group, of which we are so proud, to be more cohesive and flexible so as to better face the challenges of the years ahead by finding an innovative response to society's needs. This is the spirit in which we are preparing for the 20th Desjardins Group Officers' Congress, to be held in November.

We also want to combine our ability to innovate with our ability to act over the long term, so we can make this a vehicle for sustainable prosperity. That is why we also strive to meet high standards of practice in a wide range of fields: democracy and governance, human resource management, investment, community involvement, the environment and human rights.

In fact, our Social Responsibility and Cooperative Report describes our achievements in this regard. The most recent edition of this report will be published on our Web site to coincide with Cooperation Week, which this year runs from October 11 to 17. I encourage you to read it.

Conclusion

To meet the challenges of productivity and sustainable prosperity together, we must demonstrate willingness, perseverance, a greater sense of our collective responsibilities and a true desire for cooperation.

Let us not forget that in Québec, we have assets and strengths that many other countries should find enviable: a diversified economy, considerable natural resources, electricity, abundant water sources, a solid service sector, strong democratic values and a long tradition of solidarity, collaboration and cooperation.

To rephrase the words of Alphonse Desjardins, let us not allow these incomparable advantages that we possess to lie dormant in a shameful bout of inactivity. It is up to us to innovate to develop these advantages even further and grow the heritage we will pass along to our children for their future.

* * *