

2017-18 TRANSITIONAL BUSINESS PLAN

JUNE 2017



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Executive Summary

SETTING THE STAGE

Innovation is key to economic growth and job creation and will be increasingly important to Alberta's competitiveness in the global economy. With the current scope and velocity of disruption and strong competitive pressures from globalization, Alberta's future prosperity will increasingly come from not only our abundant natural resources, but also the talent and entrepreneurship of our people. The continuation of the often-coined phrase "The Alberta Advantage is at risk," with the province facing tremendous challenges:

- \$10 billion provincial royalty gap
- Global innovation and skills race
- The need to demonstrate Climate Leadership
- \$20 billion and growing annual expenditure for Alberta health care.

The province's research and innovation system has a critical role to play in addressing these challenges. Alberta Innovates (AI) views challenges as opportunities and will embrace these opportunities to create a new era of prosperity for Alberta.

It was in response to this changing landscape, that the four Alberta Innovates Corporations – Bio Solutions, Energy and the Environment, Health Solutions, and Technology Futures – were consolidated on November 1, 2016. This consolidation offers an opportunity to enable greater efficiencies and effectiveness – not merely in cost savings but also increases the potential to transfer knowledge from one sector to another and streamline support services by providing a single point of entry to innovators.

Alberta Innovates' Role

To be globally competitive and to create an Alberta economy that is built to last, AI – as the province's largest research and innovation agency – must be the catalyst of an environment where invention, innovation and industry thrive. For the province to succeed, the building blocks of innovation – academia, industry, entrepreneurs, and government – must work in lockstep with each other. Only through a coordinated approach can Alberta meet the urgency of the challenges it faces today. AI's disciplined, market-oriented approach and long-standing relationships with each of these partners, enables the Corporation to play a pivotal role in the Province's research and innovation system; ensuring Alberta achieves economic, health and social benefits from the government's investment in research and innovation.

Looking Ahead

This first fiscal year is a year of transition for our newly formed Corporation – a year where we must focus on building a strong foundation. With nearly 600 employees in ten locations from the four legacy corporations – each with a unique culture, historical operating model and mandate – integration will be neither simple nor straightforward, but is critical to operating as a single, homogenous entity.

A priority area is to improve our external communications with our stakeholders. First, we will work with our partners to build AI's long-term strategic plan. This collective approach to strategic planning is founded on the belief that by focusing on mutually desired outcomes, Alberta will achieve its desired outcomes with greater speed and success. Second, AI will foster greater awareness of the successes and outcomes achieved by AI and its partners. AI realizes the onus is on the Corporation to demonstrate value to our stakeholders, and work is underway to better track and communicate outcomes.

While this critical work is underway, we will actively advance our change journey by setting down five distinct corporate goals:

1. Nimble and responsive
2. Resource allocation tied to outcomes
3. Innovation culture
4. Coordinated single entity
5. Coalition Building

The process of operationalizing these goals will be transparent, clear and realistic – and will involve all AI employees. Regular monitoring and reporting to our sole shareholder – the Government of Alberta – demonstrates AI's commitment to transparency and accountability.

The increasing pace of innovation and the impact of disruptive technologies and processes on sustainable success is clear: it is no longer enough to simply keep up. Together the foundation we lay today will pay off many times over, in years to come.

I. Mandate

Introduction

One of the key achievements of the new AI and the Ministry of Economic Development and Trade (EDT) is the development of a new Corporate Vision, mandate and values for the single consolidated entity. These were established collaboratively to reflect a common understanding of the respective roles, responsibilities and accountabilities between EDT and the Corporation. They also respond to the need for a new approach to support and enhance innovation capacity and opportunities in the province, and reflect the partnership mindset AI will pursue going forward.

Corporation Vision

The vision of Alberta Innovates is to be indisputably recognized as a leader – provincially, nationally and internationally – in catalyzing research and innovation in Alberta.

Mandate

The objective of the Corporation is to support research and innovation activities aligned with Government of Alberta priorities in the areas such as agriculture, forestry, energy, health, environment and others. In addition, fostering the development and growth of new and existing industries through research and innovation is another major objective of the Corporation.

The mandate of the Corporation is:

- **Outcomes Oriented:** accelerate progress in research and innovation with a focus on commercialization, which is particularly aligned with Alberta’s world-class strengths, contributing to tangible outcomes that offer value to Albertans, such as a more diversified economy, enhanced environmental performance and a healthier population.
- **User-Driven and Responsive:** take a responsive, market/user-driven approach that enables Alberta’s innovators across current and emerging sectors by providing a single-entry point to meet a range of needs such as:
 - Network/partners across the research and innovation continuum;
 - Funders;
 - Business/technical expertise and applied research services to de-risk and accelerate research and innovation to the next level for impactful application; and
 - Building capacity of Alberta’s next generation of innovators.
- **Collaborative:** catalyze coordinated approaches to drive outcomes through partnerships across all orders of government, the private sector (particularly entrepreneurs), academia and other research and innovation stakeholders.
- **Strategic:** advise the Government of Alberta on its policy development, bringing innovation leadership, foresight and expertise to the Government of Alberta’s overarching system strategy for research and innovation and programs, and leverages the Corporation’s strategic partnerships across stakeholders and multiple Government of Alberta ministries.
- **Transparent and Accountable:** demonstrate and communicate the tangible value of public investment in innovation to Albertans, via success stories and performance measures.

Corporate Values



Responsive



Market Oriented



Accountable



Results through partnerships

II. Operating Context

Achieving Value through Consolidation

The November 1, 2016 consolidation of the four predecessor AI corporations – Bio Solutions, Energy and the Environment Solutions, Health Solutions, and Technology Futures – was driven by the need to bring focus and improve demonstrable outcomes from the provinces’ investment in innovation. The consolidation offers the opportunity to leverage cross-sectoral expertise, formerly embedded in each corporation, and to achieve shared outcomes more efficiently. This benefits the Corporation and our partners by better leveraging research and innovation capacity and over time will streamline access to funding and other support services by providing a single point of entry to innovators.

Corporate mergers often fall short of expectations and AI’s unique complexities contribute to the challenge. With nearly 600 employees in 10 locations across four cities – as well as two subsidiaries providing applied research services to industry, legacy cultures, operating models and mandates – integration activities, and cultural transformation will be a challenging task. This business plan was developed with the pragmatic understanding that full integration of the four legacy corporations will take considerable effort and focus.

While the consolidation progresses, programs and services will continue to support our stakeholders. AI leadership will work with key partners to develop a strategic plan to offer longer term guidance on priority areas. The Board and senior management will also ensure our people, processes and technologies support the efficient execution of Alberta Innovates’ mandate.

Renewed Focus on Partnerships

Innovation cannot happen in isolation. This is an area where the provincial innovation system will need to improve for real progress in the diversification and elevation of Alberta’s economy to occur. The urgency of our challenges require that the building blocks of innovation – academia, industry, entrepreneurs, and government – work in lockstep with each other to develop user-pull, market-oriented solutions.

Elements have been identified to support this revitalized direction. AI will seek to understand the needs and objectives of our clients, clarifying roles of the various players in Alberta’s innovation ecosystem, and set clear investment objectives and targets.

The Corporation’s ability to combine seed funding for new initiatives and sustained funding for those programs showing results, with business and technical expertise and access to collaborative opportunities, is a critical differentiating factor for AI. The long-standing relationships we have with our partners is a key strength that enhances the value we deliver to our clients. To increase the amount of investment into Alberta, AI regularly leverages its seed funding programs with our relationships in the public and private sector. For example, our Entrepreneurial Investments division focuses on providing mentorship, linkages and direct funding to Alberta entrepreneurs. One such linkage is connecting entrepreneurs with our federal counterpart, the National Research Council and its Industrial Research Assistance Program (IRAP). Over a two-year timeframe, AI and NRC funded 35 projects in the province, where AI contributed approximately \$4M and IRAP contributed approximately \$5.5M to high potential entrepreneurs in the province.

Through this same division, Entrepreneurial Investments, for every \$1 funded by the Corporation, Alberta entrepreneurs raised \$9.50 of additional follow-on funding, 81 per cent of which came from the private sector.

In addition to individual partnerships, multidisciplinary coalitions involving industry, government, post-secondary institutions, and service providers are increasingly important to successful innovation. These coalitions provide AI with access to more diverse and robust research capacity, significantly enhancing its ability to achieve the ambitious goals of its mandate.

AI's partnerships are founded on the principle that our partners' success is our success. Helping our partners achieve that success. This begins with understanding their strategic goals and aligning our efforts to those needs. By focusing on mutually-desired outcomes, we achieve the strategic objectives of both our partners and the province. These relationships are a key component of AI's strategy to create a more resilient and diversified economy. AI's unique mix of expertise, seed funding and ability to build linkages and connections across diverse stakeholder groups is AI's value proposition to our partners.



Keeping pace in the 21st Century

Increasingly, innovation is a global race where the landscape and opportunities are changing at an exponential pace. A new generation of ICT technologies in areas such as big data, quantum computing, a wave of inventions in advanced materials, health, as well as new business models, are laying the foundation for profound transformations. There is an urgency to adjust to these new realities. The province has reached an inflection point where we either become global leaders in innovation or risk getting outpaced by our peers. As the province faces challenges, such as the \$10B provincial royalty gap and the need to materially reduce its carbon intensity, Alberta cannot lead this race by relying solely on our natural resources. The province must utilize the full potential of the talent and entrepreneurship of its people and institutions.

The new Alberta Innovates has inherited a proud history of achievement, but must evolve to meet current challenges and opportunities: 10 years ago, the five most valuable companies on the Standard and Poor (S&P) 500 were Exxon Mobil, General Electric, Microsoft, AT&T, and Proctor & Gamble. Today these are Apple, Alphabet (Google), Amazon, Microsoft, and Facebook. In 1960, the average lifespan of an S&P 500 company was around 56 years; by 2014, it was 15 years. It has been suggested that, in just 10 years, 40 per cent of today's Fortune 500 companies will no longer exist.¹ The increasing pace of innovation and the impact of disruptive technologies and processes on sustainable success is clear: it is no longer enough to simply keep up.

Alberta must pivot from being a resource centric economy to one which is dynamic, resilient and relevant in today's global marketplace – leveraging its existing strengths to become a high tech resource economy while also developing new economic sectors in the province. Alberta needs to establish a globally-recognized innovation brand. Steps such as the creation of a single ministry responsible for economic development and the consolidation of the four Alberta Innovates Corporations will advance this work with priorities of economic diversification, export growth, job creation, environmental sustainability and improved health. The Corporation will begin the preliminary work to build a common understanding of Alberta's Global Innovation brand in the coming year. Progress made in recent years to lay the groundwork for Alberta to be known for its global carbon leadership and health innovation will be essential in supporting the development of this brand.

Full Scope Investment Strategy

Innovation can have significant impact on a country's economic status and global competitiveness. While current economic conditions restrain the Government of Alberta's ability to ramp up investment, AI is dedicated to ensuring that every dollar invested creates meaningful returns. This will be accomplished through focused investment, clearly defined outcomes and active performance monitoring.

As a strategic partner and advisor to government, AI wants to change the discussion around public funding for research and development. The corporation believes that the provinces' investment into Alberta Innovates should be viewed as seed funding for keystone initiatives with the greatest potential benefit to the province. However, on its own, this funding will be insufficient to create the transformational changes needed to accelerate technology adoption and application in the province. AI intends to accelerate its work with government to implement new approaches, partnerships, and cultural adoption of innovation, and to increase access to investment capital with the goal of enhancing Alberta's economic prosperity.

Fostering one-on-one partnerships and developing multi-party coalitions are critical to AI's approach to executing a full scope investment strategy – one that uses all available resources, including new approaches, to accomplish its objectives. Through combining the expertise, passion, knowledge and resources of multiple parties, from both within and outside the province, a small jurisdiction like Alberta can “punch above its weight”.

One priority area of focus is the federal government. Based on Statistics Canada data from 2013, Alberta receives just \$1.11 from the federal government for every provincial dollar invested.

¹ <https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/insights-and-issues/ca-en-insights-issues-future-of-productivity-2015.pdf>

The national average is \$3.29 federal investment per provincial dollar², with British Columbia and Ontario at \$5.07 and \$6.13 respectively. Purposeful collaboration with the federal government could open significant opportunities for Alberta and greatly accelerate the investment available for technology development and application in the province. Some of this work is already well underway.

Another area of focus is to convene our partners, and develop targeted “Team Alberta” coalitions to tackle complex and systemic barriers to achieving the new 21st century version of the Alberta Advantage. One of Alberta’s greatest strengths is its entrepreneurial spirit. As opportunities present themselves, AI will bring together diverse groups from academia, industry and government to work on issues larger than the ability of one single entity to solve.

Some issues will require even broader coalitions to be formed, as well as cross-ministerial support from the Government of Alberta. An example of one such issue is education and training. Albertans know that when it comes to the high-tech jobs of the 21st century, we are competing in a global marketplace. Across the world, countries are focusing on education, with a unique emphasis on the math, engineering and science skills required for the industries of tomorrow, and we must ensure that our education system, industry and schools are keeping pace. These complex issues require multiple parties to come together and design the roadmap necessary for Alberta to maintain and increase the quality of life available to its citizens.

Unique Applied Research Expertise and Facilities

As a publicly funded innovation agency, AI is unique among its counterparts with two wholly owned subsidiaries focused on providing industry and government clients with applied research services. These two AI assets – InnoTech Alberta and C-FER Technologies – offer unique programs and services that enable accelerated outcomes and reduced risk for innovators looking to expand revenue streams and/or enter new markets. One such service is contract research for the critical industrial sectors that are the backbone of Alberta’s economy today – Energy, Agriculture and Forestry – helping these sectors to accelerate technology adoption and pursue new market opportunities. Another is to help the Government of Alberta deliver on its critical priorities such as monitoring the biodiversity and environmental quality in the province.

Through InnoTech Alberta, AI also brings together diverse groups – large industry, small business and government – into targeted consortiums focused on helping these parties to collaboratively de-risk innovation and explore new market opportunities as well to work on individual client needs. InnoTech clients vary by size, location and sector as well as the scope of services they utilize. When reviewing the size of clients served, the data shows that of all clients served in 2016-17:

- Large Industry accounted for 32%: firms with more than 200 employees operational in limited regions
- Small enterprise accounted for 31%: firms with less than 100 employees
- Multi-National Enterprise accounted for 11%: firms with global operations, markets and investments
- Medium Enterprise accounted for 6%: firms with 99 to 199 employees
- Other was 20% and comprised of Government, Post-Secondary, Not-for-Profit, Research Organizations, and Municipalities.

² <http://www.statcan.gc.ca/pub/88-221-x/2015001/t065-eng.htm>

One of AI's core values is market orientation. A strong relationship with our contract research clients and a deep understanding of the geography and profile of the province is key to AI's ability to remain nimble and responsive to emerging industry needs. This feeds directly into the efficacy of our programs, which is borne out through client feedback.

In 2016, AI surveyed InnoTech's Top 100 clients and approximately 90 per cent of clients were satisfied with the work that was performed. When asked to rank why they chose the applied research services of AI, the top three reasons were:

- Technical excellence
- Relationship with staff
- Quality results.

Furthermore, when survey clients were asked what value was gained, the top three responses were:

- Compliance with regulatory requirements
- Increased competitiveness
- Growth in revenues.

These results confirm that the technical expertise of the staff and consistency in delivering results creates a meaningful competitive advantage and value-add for clients. Looking ahead, there is an opportunity for AI to explore the role its applied research function plays relative to our post-secondary partners, including universities and polytechnics, in areas identified as high priority and where results can be measured.

Achieving Transformational Change

Canada is a leader in knowledge creation, as demonstrated by overall performance rankings from both the Global Innovation Index (GII), where we rank 15th out of 128, and the Global Competitiveness Report (GCR), where we rank 15th out of 138. However, the GI's measure of Innovation Efficiency, which compares a country's output against its input, places Canada as 57th. Similarly, the GCR ranks Canada as 25th for innovation and business sophistication. These statistics highlight a long-standing concern that Canada is underperforming and not successfully converting its knowledge and infrastructure strengths into transformative products and services.

As the province's largest agency focused on research and innovation, AI is ready to take the bold steps necessary to transform our economic future. With a new CEO and Board of Directors, the consolidated Corporation is moving ahead with a unified and clearly defined mandate and role. This essential first step must be matched by a culture that is nimble, open-minded, ready and willing to engage in new endeavors and take advantage of changing market needs and trends.

Looking ahead, AI will be taking a hard look at existing programs to identify those that deliver the greatest outcomes. In an environment of fiscal restraint, Alberta Innovates must make every dollar count. Investments generating the greatest returns will be prioritized while others will pivot to areas capable of generating better outcomes. This is likely to result in the alteration or discontinuation of some existing programs, which will ultimately result in better outcomes for the province and its people. This will be balanced with efforts to greater leverage contributions from academia, industry, the provincial and federal governments, and international partners.

It will also be important to identify gaps and challenges in the way the Government of Alberta manages its investment in research and innovation province-wide. AI will work with the government to review systemic issues within the province's innovation system that, if left unaddressed, will limit the ability to achieve our goals. AI is not the only supporting agency in this ecosystem, and it is important that we take a holistic view of programming within the province. As such, AI must ensure its programs complement and support the programs offered by other partners in the innovation system and that there is alignment for the achievement of mutually beneficial outcomes.

The Corporation will improve the way in which it measures and reports on its investments both quantitatively, such as job and revenue creation, as well as qualitatively, such as application of innovative technologies and approaches in the public and private sector. However, measuring the utility of an innovation investment portfolio is complicated, as long-term projects may not produce measurable results for many years. AI realizes the onus is on the Corporation to demonstrate value to our stakeholders, and work is underway to better track and communicate these outcomes.

The goals set before AI are aspirational, which cannot be achieved without making hard decisions and taking bold steps. Under the leadership of the new CEO and Board, AI will balance a focus on its long-term goals with appropriate flexibility in the short term to ensure Albertans are receiving the best value for their investment.

III. Legacy Areas, Outcomes and Performance Indicators

In the upcoming year, legacy programs from the four predecessor corporations will be operated by the Corporation. Currently, AI invests in three broad industry sectors – Clean Energy, Bio and Health innovation. A fourth focus area of the Corporation – Cross-Sectoral Innovation – supports the building blocks of the innovation ecosystem – industry, entrepreneurs, researchers and post-secondary institutions. The chart below highlights the four business lines inherited by the Corporation, and the desired outcomes from these business lines. These business lines may change once the deliverables presented under the Transitional Goals outlined in Section IV of this business plan are achieved, and AI develops a new long term strategic plan.

BUSINESS LINE – CROSS SECTORAL INNOVATION

Alberta Context

AI makes investments in Cross-Sectoral enablers to facilitate innovation. By offering research capacity, entrepreneurial know-how and business development infrastructure, researchers, entrepreneurs, SMEs and industry are able to advance their ideas into application.

Desired Outcomes

1. Creation of research capacity in areas which cut across multiple new & existing industrial sectors
2. De-risk and increase adoption of technology by existing Companies through AI’s two Applied Research subsidiaries
3. Provide direct coaching, connections and funding to high potential Alberta Entrepreneurs to increase the economic base in the province
4. AI will act as a conduit and establish cross-sector engagement with SME's, Large Scale Businesses and AI. The collaboration of these sectors with AI will deliver actionable and commercially viable products. Most importantly, the outcome of the partnerships will have as its key goal a first customer for the innovation.

BUSINESS LINE – HEALTH INNOVATION

Alberta Context

AI leverages Alberta’s excellence in health research, a growing health technology sector, and unique, unified health delivery system strengths. These qualities provide an opportunity for leadership in the scale and spread of health innovation, driving to better patient outcomes for Albertans and growth in the health technology economic sector.

Desired Outcomes

1. Increasing the development and adoption (within and beyond the Province) of novel service configurations and technologies to improve outcomes and efficiency of health care
 2. Catalyzing the strengths of Alberta’s research and innovation system, entrepreneurs and unified Provincial health system to accelerate the growth of the life sciences and other health-related technology industry sectors in Alberta
 3. Mobilizing health data to improve patient care and enable outcomes listed above
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BUSINESS LINE – CLEAN ENERGY

Alberta Context

Research and innovation builds on Alberta's natural advantages and experiences to lead the development of innovative energy and environmental technologies building on our natural advantages to achieve a socially responsible, environmentally sustainable energy sector that supports a diversified and prosperous economy.

Desired Outcomes

1. Alberta Innovates will contribute to Alberta's:
 - Globally competitive, low emission and value-added economy from its energy resources
 - Clean Tech Sector
 - Environmental sustainability and climate change adaptability.

BUSINESS LINE – BIO SECTOR

Alberta Context

AI makes research and innovation investments which leverages Alberta's food, fibre, forestry sectors, expertise and natural resources for a growing global population in a carbon constrained environment.

Desired Outcomes

1. Alberta Innovates will contribute to:
 - Growth and diversification of the province's agriculture and food sector
 - Strong stewardship of the province's environment and natural resources
 - Development of new uses for forest fibre and crop residue leading to bio-industrial sector growth.

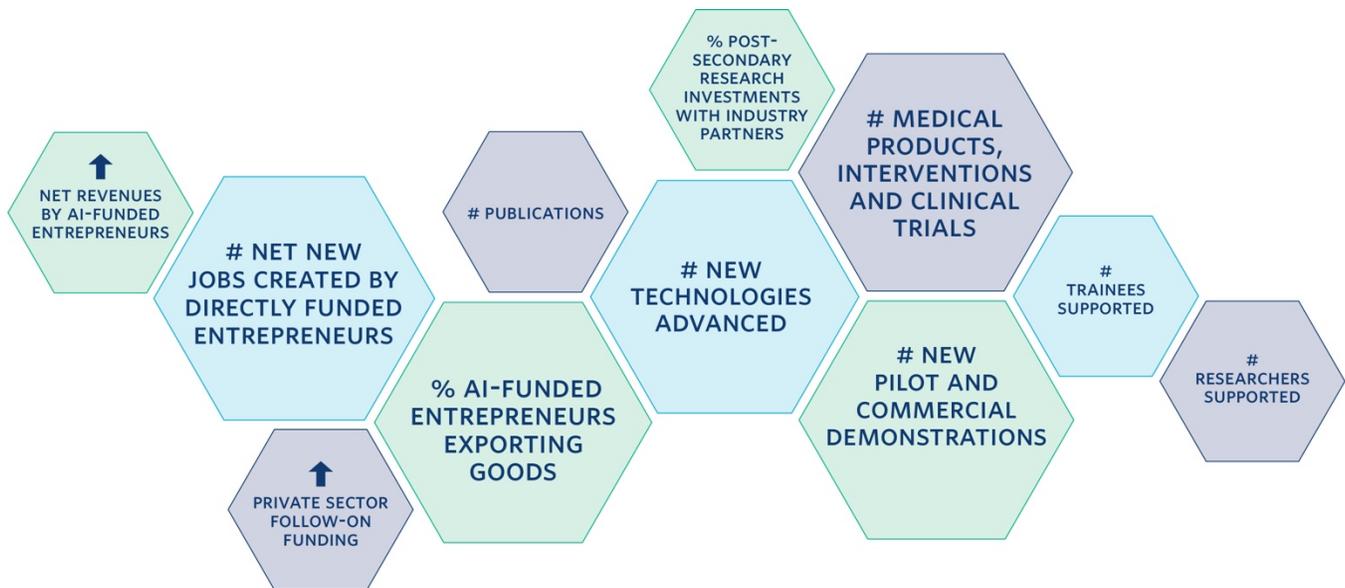
A critical priority this year is to complete a comprehensive review and assessment of its existing lines of business, and the programs and services offered within them, while in parallel also developing a long term strategic plan with key stakeholders in the Innovation System. Changes to legacy business lines, as a result of both this review, and the setting of a new strategic direction for AI may be needed. In addition, AI will need to develop a robust and consistent performance measurement framework which facilitates:

- strong and timely management oversight over the performance of AI's investment portfolio,
- tracking of progress towards its new long-term strategic plan, and
- Communication of the value and outcomes generated by the Government of Alberta's investment into AI, which are easily understood by both stakeholders in the Innovation System and Albertans.

The development of a robust performance measurement framework will be a challenging task as management must rely on the existing reporting systems of the four legacy Corporations, which differed in their approaches and maturity levels. AI must gain a consolidated view as to the available data within each of the legacy corporations and will need to address current gaps in data, processes and systems to report on meaningful and relevant performance indicators aligned to the new direction of a single consolidated Alberta Innovates.

The illustration on the next page highlights some of the performance indicators tracked by the four legacy Corporations. AI will continue to report on these performance indicators while developing its new Performance Measurement framework, assessing current business lines and programs, and comprehensive long-term strategic plan.

Legacy Performance Indicators



IV. Transitional Corporate Goals

Laying a strong foundation in a transitional year

Alberta Innovates has a proud history of achievement arising from its four predecessor corporations. However, as we move forward as a consolidated organization more will be demanded of Alberta Innovates to support Alberta’s ascent to a globally competitive innovation jurisdiction. As the Corporation develops its long-term strategic plan with its partners, efforts to build a strong foundation will be underway.

Five broad corporate goals with actionable deliverables and milestones have been developed. These will allow AI to measure progress on our journey toward transformational change, and facilitate transparency and accountability to our shareholder – the Government of Alberta.

In addition, these goals will mobilize our staff, who come from four distinct entities and cultures, to collectively build a strong foundation for future success. As a newly consolidated entity, this year is a year of transition, and as such the first four corporate goals focus on AI getting its house in order, the fifth goal moves AI forward on its new role of bringing together a “Team Alberta” approach to challenges where AI works to convene the right partners to achieve transformative change.



1. NIMBLE AND RESPONSIVE

Background

In the past, AI has not been viewed as a nimble and agile organization, responsive to both the needs of stakeholders and changing market conditions. The Corporation views this as a fundamental imperative to successfully deliver on its mandate.

While much work is now underway, reaching the desired state is not a one-year journey. AI manages a complex innovation portfolio touching all aspects of Alberta's broader innovation ecosystem in each of Alberta's key industrial sectors. The corporation must address existing processes, commitments, and cultural factors as it transitions to a nimble, responsive, and dynamic 21st century innovation agency.

Corporate Goal Statement

The new Alberta Innovates will make it easier for researchers, small and medium enterprises, Campus Alberta and industry partners to collaborate and turn challenges into opportunities by:

- (i) Making it easier to engage and partner with Alberta Innovates; and,
- (ii) Continuously assessing its innovation investment portfolio and resource allocation decisions to ensure they remain relevant in light of current market conditions and the contributions of other stakeholders.

Deliverables

- a. Review legacy grant processes and develop an action plan to improve the quality and speed of client service *by Q4*.
- b. Assess long-term programs (defined as being in operation for 5 or more years) for current market relevance *by Q4*.
- c. Implement a go-forward mechanism for completing periodic in depth reviews of programs, aligned with EDT and applicable stakeholders. This will allow all program areas to be actively reviewed and refreshed every 3 years. Mechanism and approach to be confirmed *by Q3*.
- d. Establish an Emerging Technologies action plan, aligned with EDT priorities, to allow Alberta to capitalize on new and high potential technology areas *by Q4*.
- e. All new funding partnership agreements greater than \$250,000 annually will explicitly consider the Innovation landscape (i.e., other stakeholders) and market needs prior to approval *starting in Q2*.
- f. Review the legacy allocation of internal resources, such as staff and capital, to the future needs of the organization; identify gaps and changes needed to ensure AI is nimble and responsive to the current needs of the province *by Q3*.



2. RESOURCE ALLOCATION TIED TO OUTCOMES

Background

Alberta Innovates will actively manage the allocation of its expertise and seed funding programs to post-secondary institutions, small business and entrepreneurs, industry and other partners. Investments made by the Corporation, will be market oriented with a clearly defined user-need at the onset. Sufficient short-term and intermediate outcomes will be necessary for ongoing support and funding. Where outcomes are not deemed to be sufficient, steps will be taken to make real-time adjustments and, where appropriate, to reallocate resources to higher potential initiatives.

Corporate Goal Statement

Alberta Innovates manages a limited pool of resources to achieve outcomes with its partners through providing expertise, facilitating collaborative opportunities and access, and providing seed funding to partners where appropriate. To enable the allocation of resources based on results and alignment to government priorities, the Corporation will build an enterprise view of all investments, their current performance and assessment of market orientation

Deliverables

- a. Build consolidated inventory of AIs existing programs *by Q1*, articulating the expected outcomes and how progress is tracked currently.
- b. *Starting in Q3*, all new funding partnership agreements will identify clear project milestones and performance metrics that articulate the outcomes sought, user and how performance will be assessed.
- c. Complete a current state assessment of existing investment approval/governance processes, including the criteria used to evaluate, select and approve investments. Identify clear recommendations for approval *by Q3*.
- d. Build an enterprise-wide view of AIs current investment portfolio, assess the outcomes being generated and develop a consistent process to track multi-year financial commitments *by Q4*.
- e. In concert with the development of AI's Long-Term Strategic Plan, the Corporation will articulate the results AI is trying to achieve on corporate-wide basis for the Province in terms easily understood by the general public *by Q4*.



3. INNOVATION CULTURE

Background

Culture is not created overnight. This is a multi-year journey in any size organization and will be especially challenging for AI due to the size, complexity of operations and velocity of change already experienced by the employees of the four predecessor corporations.

Building on the existing strengths and achievements of the Corporation's four predecessor corporations, AI will engage the support of its employees to define a new and common culture and articulate the path to get there. This includes the explicit consideration of executing on the new needs of the Corporation, such as catalyzing connections between industry, entrepreneurs, researchers and end users. And addressing the gaps in AI's communications both internally and externally.

Corporate Goal Statement

Success starts with culture. To execute on its ambitious mandate, Alberta innovates must harness the passion, persistence and excellence of its staff through meaningful engagement and develop a common AI culture out of four unique and well established cultures.

The corporation will foster an action-oriented culture that is nimble, forward-looking, ready to engage and participate in new endeavors, with the willingness and imperative to take advantage of changing market needs and trends. The development of the new AI culture will involve the employees of the organization as well as our partners.

AI will develop its employee communications to ensure accurate and timely information is received consistently by employees. Externally AI will build its toolset to more efficiently communicate and engage its partners.

Deliverables

- a. Launch an employee engagement survey, conducted by an independent third party, and have AI's new CEO visit all Alberta Innovates offices to engage employees, gather feedback and leverage their passion, persistence and professionalism to set a new cultural direction for AI by Q2.
- b. Identify a preliminary international identity or brand for Alberta's innovations system. Define what Alberta should be known for globally over the coming years by Q3.
- c. Design and articulate the Masterbrand approach for all AI programs, subsidiaries and services by Q2.
- d. Develop an integrated marketing and branding strategy – to foster awareness and demonstrate success by Q3. This strategy will include, but is not limited to, the use of mediums such as AI's website and social media platforms to inform and engage employees and partners by Q4.
- e. Engage employees to define AI's new culture and complete an assessment of current strengths and gaps by Q3.
- f. Launch an interim performance management process to facilitate employee line of sight to AI's Business Plan and enable all employees to strive for excellence and achieve their professional goals. Approval of a common performance management program by Q4 to facilitate achievement of AI's desired culture and strategic outcomes.
- g. By Q4, gain approval of a new consolidated HR Strategy and Internal Communications Strategy that operationalizes the creation of AI's desired culture and prioritizes the investments needed to consolidate the four predecessor Corporation's HR practices.



4. COORDINATED SINGLE ENTITY

Background

The consolidation of the four legacy corporations allows for single-door access to the many partners of Alberta Innovates.

While the potential for a consolidated single entity is great, the Corporation recognizes many mergers fall short of expectations and that much work is required to take full advantage of the consolidation given the complexities of its history and operating environment.

Corporate Goal Statement

The consolidation was a critical first step to improve the outcomes generated by the Province's investment into research and innovation. However, Alberta Innovates must now address the complex task of integrating the operations of four corporations, to deliver on the full potential of a single coordinated corporation focused on a common mandate and direction.

Deliverables

- a. AI Executive to sponsor and oversee an Integration Project to prioritize the integration of back-office functions, such as IT services, and address the change management needs and capacity of the organization. Quarterly updates will be provided to the Minister and Board to facilitate transparency on any risks or issues noted.
- b. Simplify and consolidate multiple funding processes carried over from the four predecessor corporations' partnerships with Alberta's post-secondary institutions by Q4. With over 50% of funding going to post-secondary institutions, this will enable greater efficiency, effectiveness and clarity for the research community.
- c. Determine how to integrate the technical expertise within AI's applied research subsidiaries and sector offices into AI's investment due diligence process by Q3.
- d. Review and coordinate multiple trainee programs carried forward from the four predecessor corporations to achieve better outcomes and enable greater clarity for both students and our post-secondary partners by Q4. These trainee programs are focused on nurturing the Province's knowledge capacity and are necessary for the province to be a globally competitive innovation jurisdiction.
- e. AI manages many multi-year agreements with its partners, while receiving funding on an annual basis from the Government of Alberta. To manage cash-flow risk and to enable timely and informed investment decisions, AI will refine its cash-flow modelling/ forecasting capability by Q3.
- f. Develop a plan to leverage and coordinate the expertise within existing Chair Programs funded within post-secondary institutions with other investments and expertise within AI. Identify 3 actionable opportunity areas to accelerate outcomes by Q4.



5. COALITION BUILDING

Background

Alberta has significant strength through our excellent post-secondary system, ambitious entrepreneurs, and forward looking industry. Only by coordinating the efforts of all of these parties within the larger ecosystem will we be able to successfully transform Alberta's economic future. As a key member of Alberta's innovation ecosystem, AI will work more closely with industry, entrepreneurs, academia and other government entities such as Alberta Health Services, Emissions Reduction Alberta and Sustainable Development Technology. AI will act as a convener to ensure the greatest strengths of all parties are leveraged to maximize the outcomes of investments in these areas.

Corporate Goal Statement

Alberta Innovates will work collaboratively with industry, federal and provincial partners, and post-secondary institutions to build greater coalitions and initiatives to achieve desired innovation outcomes. This ongoing work will be supported by explicit engagement of our partners in the development of AI's new long-term strategic plan.

Deliverables

- a. Develop a long-term strategic plan, in collaboration with key stakeholders within the Alberta innovation system, *by Q3*. This plan will articulate AI's priorities and the portfolio shift necessary to deliver tangible outcomes from the Province's investment into Alberta Innovates and identify the high-level change management needed to execute.
- b. Where there are opportunities to partner at that national and provincial level on furthering Alberta's innovation priorities, AI will strive to fulfill the role of a convener and bring its partners together to achieve mutually beneficial outcomes. Quarterly progress reports will be provided to the Board and Government of Alberta.
- c. Engage AI's partners to review existing "platform technology" strengths within the province and develop a deliberate approach to leverage these strengths for multiple sectors and accelerate outcomes *by Q3*.
- d. Support the creation and maintenance of strong industry clusters in the Province and identify specific platform technologies to accelerate their growth *by Q4*. Quarterly progress reports will be provided to the Board and Government of Alberta.
- e. Support Government of Alberta departments by providing access to AI's technical expertise *by Q1*. Track and report on service hours provided on a quarterly basis.

V. Consolidated Budget

Background

This consolidated statement of operations reflects the consolidation of Alberta Innovates and includes restatements for the 2015-2016 actual results and 2016-2017 budget.

Revenue is expected to be at similar levels to 2016-2017. Grant revenue associated with endowments will be restricted to the predetermined use of those endowments.

For this transition year, expenses were identified as relating to a specific sector (Bio, Energy, Health), cross-sectoral or administrative. Sector costs include both grant/program investments as well as program operations costs that are directly related those business units. The expenditure headers include the following activities:

Cross Sectoral Innovation – the former cross sectoral activities related to applied research, basic research and commercialization within the former Alberta Innovates Technology Futures.

Health Innovation – investments in highly skilled people, provincial platforms and partnered activities formerly included in Alberta Innovates Health Solutions

Clean Energy – funding related to advanced hydrocarbons, clean tech, water and tailings research and water and land programs from the former Alberta Innovates Energy and Environment.

Bio Sector – includes the Prion institute, sustainable production, bio-industrial innovation, ecosystem services and biological GHG management program from the former Bio Solutions.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

(in thousands of dollars)

2017-18	116,550
2018-19	59,174
2019-20	12,397
2020-21	5,210
2021-22	2,564
thereafter	582
TOTAL	196,477

Budgeted expenditures reflect primarily existing contractual obligations from the former AI corporations. As of December 31, 2016, Alberta Innovates had almost \$200 million of contractual obligations on grants and agreements.

Budget amounts for 2018-2019 and 2019-2020 are estimates based on existing contractual obligations and average annual spending. Any significant reductions or adjustments reflect the ending of existing programs (eg. Health Innovation has a significant program ending in 2020). Future year funding which is uncommitted or

available for new opportunities is included in the cross-sectoral line as sector specific opportunities have not yet been determined

Administrative costs include all corporate services such as finance, information services, facilities, legal, human resources, purchasing, corporate planning and reporting and performance management and evaluation. Prior years have been restated to reflect the consolidated approach to administration.

Although an accumulated surplus exists, a total expense target has been assigned to Alberta Innovate through the government budget process which limits total expenses and the use of the surplus.

An annual deficit of \$17M is budgeted for 2017-2018 which reduces the accumulated surplus to \$65.5M. The accumulated surplus was generated from timing differences on expenditures over the last few years. The accumulated surplus is expected to continue to be drawn down over the next three years.

Alberta Innovates

Consolidated Statement of Operations for the year ended March 31, 2018

(dollars in thousands)

	CONSOLIDATED TOTAL				
	2015-16 Actual	2016-17 Budget	2017-18 Budget	2018-19 Budget	2019-20 Budget
REVENUES					
Government of Alberta Transfers					
Funding from ED&T					
Base Grant	\$160,547	\$158,749	\$160,849	\$160,249	\$141,999
Deferred from Prior Years	6,867	13,051	14,072	20,407	19,407
Other Grants	28,228	31,307	28,499	28,499	23,499
Deferred Capital Contribution	-	-	1,000	1,400	2,000
Funding from Other GOA - Other Grants	15,115	12,753	3,240	3,240	3,240
Funding from Other Government Sources	4,913	5,144	4,479	4,479	4,479
External Revenue and Industry Funding	59,238	46,998	55,024	59,689	59,689
Investment Income	1,581	1,196	1,086	1,086	1,086
Other Revenue	4,086	4,104	768	768	768
TOTAL REVENUE	280,575	273,302	269,017	279,817	256,167
EXPENSES					
Cross Sectoral Innovation Enablers	139,531	137,971	135,461	135,000	150,965
Health Innovation	97,227	85,449	74,013	78,601	60,351
Clean Energy	17,031	25,827	25,645	21,895	22,071
Bio Sector	18,459	24,189	19,758	21,300	23,409
Administration	31,437	29,537	31,113	31,400	31,400
TOTAL EXPENSES	303,685	302,973	285,990	288,196	288,196
ANNUAL DEFICIT	\$(23,110)	\$(29,671)	\$(16,973)	\$(8,379)	\$(32,029)
ACCUMULATED SURPLUS, BEGINNING OF YEAR	136,195	112,182	82,511	65,538	57,159
ACCUMULATED SURPLUS, END OF YEAR	\$113,085	\$82,511	\$65,538	\$57,159	\$25,130
ADJUSTMENTS TO DEFERRED REVENUE ACCOUNTS					
Revenue Recognized During the Period	100,635	105,255	14,072	20,407	19,407
Funding Received	94,037	90,000	-	-	-
CHANGE IN TOTAL DEFERRED REVENUE					
Total Deferred Revenue, Beginning of Year	116,451	109,853	94,598	80,526	60,119
Total Deferred Revenue, End of Year	109,853	94,598	80,526	60,119	40,712
DECREASE IN TOTAL DEFERRED REVENUE	\$(6,598)	\$(15,255)	\$(14,072)	\$(20,407)	\$(19,407)

Alberta Innovates

2017 – 18 Key Outcomes

(dollars in thousands)

Business Line	Total Budget	Economic Diversification and Job Creation	Environmental Stewardship and Climate Leadership	Effective Resource Management	Engaged Individuals and Communities for a Healthy Alberta
Cross Sectoral Innovation Enablers	135,461	94,823	13,546	13,546	13,546
Health Innovation	74,013	11,102	-	-	62,911
Clean Energy	25,645	3,847	21,798	-	-
Bio Sector	19,758	2,964	-	16,794	-
TOTAL	254,877	112,736	35,344	30,340	76,457

VI. Risks

As part of AI's Enterprise Risk Management process, management actively manages the risks which could adversely impact the ability to deliver on the organization's business plan. The following significant risks were identified by senior management:

1. Impact on outcomes from declining revenue streams.

AI funds its mandate for the Province of Alberta through two revenue streams – funding from the Government of Alberta (approximately 80 per cent) and contract research for commercial enterprises and government clients (approximately 20 per cent). There decreased revenue can directly affect AI's ability to meet future funding needs of certain partners, with the potential for current programs to be canceled or overhauled. Desired outcomes of partner initiatives may not be achieved, which could add a layer of reputational risk for the Corporation. The Corporation's contract research revenue is concentrated with a relatively small pool of clients. Due to the recent economic downturn, contract research revenues have continued to decline year-over-year. While there is increasing pressure on both revenue streams, the long-term nature of research and innovation requires AI to sustain critical human and infrastructure assets in place. This is further impacted by the relatively fixed cost structure of the organization, due to factors such as significant portion of unionized and long service employees and multi-year funding agreements. The longer the current economic pressures persist, the greater the strain on the organization.

Potential impact: medium-high likelihood of occurrence: high

MITIGATION STRATEGY:

AI's business plan and budget has been developed prudently, balancing short-term fiscal pressures with the long-term demands of research and development. Budgeted discretionary expenses will be reduced and additional controls will be put in place to monitor AI's financial position month-to-month. During these challenging times, a strong focus on business development and support of our clients will be maintained. Staff has been encouraged to think of out-of-the box solutions and maintain flexibility, acknowledging current fiscal pressures while still protecting long term outcomes.

A sustained commitment to better articulate the outcomes generated by the Provinces' investment into AI will also help mitigate reductions in funding from the Government of Alberta. Goal 2 – Resource Allocation tied to Results – as well as AI's future communications, will lay the groundwork to both report on and communicate the value of the Province's investment.

2. Talent capacity

The Corporation needs the right mix of talent and capacity to deliver on its ambitious mandate and long-term strategy. With the recent consolidation, there is a lack of visibility into the existing skills and competencies of the organization. In addition, the Corporation will need new skills and expertise to fulfill its refreshed mandate and role.

Some staff at AI have highly-specialized skills and experience not easily reproduced or replaced. As a result, hiring decisions must be strategic and candidates must meet the requirements of a knowledge-based work environment. Nationally, at the university level STEM (Science Technology Engineering Math) fields represent just 24.5 per cent of all fields of study, 53.5 per cent of earned doctorates (PhDs) and 25.8 per cent among master's degrees in 2016¹. These statistics demonstrate the limited talent pool AI competes for with private industry and other government bodies and agencies. While the current downturn and layoffs has increased the pool of candidates, it is critical to note that highly-skilled professionals are also highly mobile. If uncertainty is high in Alberta, and opportunities are considered more plentiful in other regions of Canada or other countries, talent can easily migrate.

Potential impact: medium

Likelihood of occurrence: medium

MITIGATION STRATEGY:

Management will actively identify the key positions and individuals whose loss would pose the greatest risk to AI. A review of the current skills and expertise within the organization will be compared to the future needs of AI. Where possible, staff will be transferred from areas of the business that are not at full capacity to areas where the Corporation is underserved. Training and recruitment strategies will be driven by the need to meet the current talent needs of the Corporation. A focus on succession planning for key roles will help to mitigate the risk of loss of key personnel.

3. Integration of the four legacy corporations.

There are inherent challenges with any merger of distinct entities, let alone, a merger of four entities each with its own unique culture, historical operating model and legacy mandates. There can be room for miscalculations on the scale, scope and the associated change management implications of the integration and the level of assimilation required between all layers of the new Corporation. As such, there is the risk that poor execution of key organizational transitions will lead to: strain and engagement of staff, loss of key knowledge and expertise, damage to key relationships, insufficient management information systems and disruption in day-to-day business.

Potential impact: medium

Likelihood of occurrence: medium

MITIGATION STRATEGY:

This transitional business plan forms part of the approach to ensure the back-office functions are consolidated, and there is a focus on providing clear direction to all employees on the needs of AI. Five corporate goals have been developed, with the goal of ensuring that there is transparency in the overall process to have buy-in from the nearly 600 employees within AI. There will be regular monitoring of these goals as the consolidation progresses further, to ensure that there is accountability and the ability to correct course as unforeseen items arise.

4. Coordination of activities and support from partners in Alberta's innovation system.

In the last five years, the research and innovation landscape has changed significantly, and increasingly Alberta needs to take an integrated, cross-sectoral approach to respond to complex challenges such as climate change and structural shifts in our energy sector. Increased coordination amongst system players is needed to drive the outcomes required of the innovation system. Insufficient support from our partners to accept and adapt to AI's refreshed mandate, role and operating model will impact the execution of AI's desired outcomes.

Potential impact: medium

Likelihood of occurrence: medium

MITIGATION STRATEGY:

The newly formed AI is focused on improving coordination and collaboration within Alberta's innovation system, with the recognition that for the province to succeed, the building blocks of innovation – academia, industry, entrepreneurs, and government – must work in lockstep with each other. As AI develops its long-term strategic plan, this will be done in concert with these essential partners. In addition, the Corporation will focus on ensuring its granting agreements, communications strategy and day-to-day interactions with partners are clear, consistent and support the new direction of the organization to be outcome focused, market oriented, responsive and accountable to the Government of Alberta.

5. Culture.

The late business management guru, Peter Drucker, famously said “Culture eats strategy for lunch”. This statement still holds true today – both internally within the Corporation and for the broader innovation system. Culture within the Alberta research and innovation ecosystem and AI influences the system’s ability to create the transformative changes necessary for Alberta to become a globally competitive and resilient economy. The values, norms and beliefs of organizations within the system play an important role as partners engage and interact. This can either support or inhibit the achievement of the Government of Alberta’s innovation goals.

Potential impact: high

Likelihood of occurrence: medium

MITIGATION STRATEGY:

Cultural shift takes time and significant effort, however in the upcoming year AI is focused on building the strong foundation necessary to do so. Corporate Goal 3 has been created to address this pressing need, and is focused on engaging staff internally to create the cultural shift necessary. Corporate Goal 5 – Coalition Building – is focused on addressing the broader system cultural shift. Alberta Innovates will foster a culture of innovation across the system by modelling collaborative partnerships relationships and establish mutually reinforcing goals amongst system players to achieve impact. Alberta Innovates will form the necessary partnerships and convene coalitions to ensure the Alberta research and innovation landscape is positioned as “innovation ready.”