CANADA'S PUBLIC POLICY FORUM DES POLITIQUES PUBLIQUES DU CANADA

Winning Global Mandates: Lessons from Canadian Leaders

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The Public Policy Forum is an independent, not-for-profit organization dedicated to improving the quality of government in Canada through enhanced dialogue among the public, private and voluntary sectors. The Forum's members, drawn from business, federal, provincial and territorial governments, the voluntary sector and organized labour, share a belief that an efficient and effective public service is important in ensuring Canada's competitiveness abroad and quality of life at home.

Established in 1987, the Forum has earned a reputation as a trusted, nonpartisan facilitator, capable of bringing together a wide range of stakeholders in productive dialogue. Its research program provides a neutral base to inform collective decision making. By promoting information sharing and greater links between governments and other sectors, the Forum helps ensure public policy in our country is dynamic, coordinated and responsive to future challenges and opportunities.

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A LETTER FROM THE PRESIDENT & CEO

Over the past decade, Canada has not fared well relative to peer countries in the global race for corporate mandates. This disparity has persisted despite the introduction of new trade agreements, lower corporate tax rates and R&D incentive programs. Following the 2008 global recession, multi-national enterprises (MNEs) diverted high-value operations away from Canada to more competitive jurisdictions.

Faced with a new global reality and lost economic opportunities, Canadian leaders called for appropriate policy responses and actions to lead our country toward a more competitive future. Governments, think tanks and academic institutions across our country issued numerous reports to shed light on the factors that were discouraging MNEs from investing in Canada. In 2011, the Public Policy Forum advanced the dialogue on how to enhance the Canadian business environment through our Attracting Global Mandates and Investing in Canada project. Such studies helped identify the chronic issues that negatively impact our economic competitiveness and how governments could respond.

Nonetheless, fundamental questions about how the private sector can better compete for mandates in a global business environment or adapt successful strategies from other industries were either overlooked or not adequately addressed. In our subsequent conversations with leaders from across the country, it became clear that more needed to be done to illuminate how we can learn from each other in order to effectively respond to these issues.

Over the past year, the Forum engaged leaders of Canadian subsidiaries, government representatives and members of the research community in a series of interviews and a roundtable convened in Toronto. The insights from these discussions helped provide answers for how Canadian subsidiaries can better influence investment decisions within their own corporations. They also provided a unique opportunity to re-examine how governments, small and medium enterprises and researchers can best support subsidiaries in these efforts. This report synthesizes the interview and roundtable findings and seeks to provide guidance for those competing to win global mandates for our country.

I wish to thank our project partners, Sanofi Pasteur, United Technologies, Mitacs, Industry Canada, Export Development Canada and the Governments of Alberta and Ontario. Their support made this initiative possible.

I also acknowledge the efforts of my team at the Public Policy Forum for managing this important project, including Sébastien Goupil, James McLean, Julie Cafley, Sara Caverley, Dianne Gravel-Normand, Mathias Schoemer and Isabelle Couture.

Sincerely,

David Mitchell
President & CEO
Public Policy Forum

WITH THANKS TO OUR PARTNERS

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Participants of the *Winning Global Mandates* roundtable discussion on January 29th in Toronto. From Left to Right: **Perrin Beatty**, President & CEO, Canadian Chamber of Commerce; **Dan Ouimet**, Director, Government Relations, ConocoPhillips Canada; **Ross Hornby**, Vice President, Government Relations and Policy, GE Canada; **Eric Bosco**, Chief Business Development and Partnerships Officer, Mitacs.

EXECUTIVE SUMMARY

A country's economic strength is enhanced by its ability to win investment from multi-national enterprises (MNEs). Global corporate mandates bestow subsidiaries with resources that are essential for establishing and expanding operations. They also help to spur positive spin-off benefits, including innovation and job growth that benefit stakeholders across industries and sectors. Canadian leaders who understand the factors that drive MNE investment decisions are better positioned for success.

Canada enjoys a number of advantages that have made our country a primary destination for global corporate investments. A highly-skilled workforce, low corporate tax rates and the prevalence of multi-sector partnerships have contributed to building a strong business environment. Elected representatives have become ardent champions of key business sectors. These factors can help foster new relationships with Canadian subsidiaries and small-medium enterprises (SMEs), academic institutions and research centres. They can also help establish confidence for MNEs that Canada is committed to supporting existing and proposed operations. As a result, Canadian subsidiaries are often well positioned to convince their global headquarters to invest.

At the same time, Canadian business leaders continue to be confronted by shortcomings that are negatively impacting their ability to compete with global peers. While each Canadian operation faces its own unique set of challenges, the following issues frequently limit subsidiaries' ability to win mandates in Canada:

- Aversion to risk for ambitious projects and R&D initiatives
- Canada's brain drain
- High labour and work arrangement costs
- Misaligned and burdensome regulation
- Outdated post-secondary education curricula, particularly in ICT and engineering
- Ageing infrastructure
- Lack of corporate support for SMEs and academic institutions.

Over the past year, the Public Policy Forum interviewed leaders in 5 key business sectors and convened an executive discussion to explore how Canadian decision-makers can overcome these challenges.

The following opportunities were identified to help make Canada's business environment more competitive in the race for global mandates:

- **Opportunities for Canadian subsidiaries:** Business leaders should consider developing a multi-sector strategy that outlines how they will engage stakeholders in their pursuit to bring mandates to Canada. For example, subsidiaries could seek to work with the public sector to reduce burdensome red tape, enhance government R&D incentives and improve infrastructure. Establishing programs to support local SMEs helps to build the type of industrial capacity that can attract additional attention from governments and corporate decision-makers. And, fostering relationships with community leaders should be incorporated into business plans to earn public confidence and make it more compelling for elected officials to support operations and activities.

  While showing a positive return on investment at the beginning of a mandate can be challenging, developing allies allows Canadian subsidiaries to build relationships, share costs, and expand their influence.

- **Opportunities for governments:** According to study participants, governments need to move beyond the short-term decision-making that has become so commonplace. Developing a longer-term strategic approach for Canada's key industrial sectors can help focus attention and resources towards broader economic goals.

  Government leaders should also continually seek to make it easier for subsidiaries to attract mandates. For example, concluding additional trade agreements and removing bureaucratic impediments could make it easier for subsidiaries to do business in expanding global markets. Developing new programs that share upfront capital costs can help incentivize corporate R&D spending and advanced manufacturing. Creating an intergovernmental innovation agency may be worth considering to help subsidiaries navigate Canada's various regulatory regimes and for developing relationships with decision makers.

- **Opportunities for academic institutions:** The research community also needs to be strategic in how it can help facilitate and benefit from attracting global mandates to Canada. By better communicating their expertise and identifying resources, academic and research leaders will be better positioned to develop effective partnerships with multi-national companies. Participants also suggested that Canadian subsidiaries competing for mandates could benefit from research centres that better embrace commercialization, help reduce bureaucratic delays and update training programs and education curricula in ways that meet current and future market needs.

  Over the course of our study, participants from across sectors and regions agreed that all stakeholders–subsidiaries, governments, SMEs and academic institutions–share a common interest in strengthening Canada's investment environment. By working together to break down barriers and generate new opportunities, Canada will be better positioned to compete and win the race for global mandates.

Rosemary Chapdelaine President & General Manager, Lockheed Martin Canada; **Mark Lievonen**, President & CEO, Sanofi Pasteur Limited.

RÉSUMÉ

La capacité d'un pays à attirer des investissements d'entreprises multinationales contribue à accroître sa puissance économique. Les mandats d'entreprises mondiales confèrent aux filiales des ressources essentielles pour s'installer et développer leurs activités. Ils contribuent en outre à générer des retombées positives, notamment en matière d'innovation et de création d'emplois, en faveur d'intervenants issus de différents marchés et secteurs. Les leaders canadiens qui comprennent les facteurs décisionnels d'investissement des multinationales sont mieux placés pour réussir.

Le Canada possède de nombreux atouts faisant de notre pays une destination privilégiée pour les investisseurs mondiaux. La main-d'œuvre hautement qualifiée, les faibles taux d'imposition des entreprises et la prévalence de partenariats multisectoriels ont contribué à créer un bon climat d'affaires. Les représentants élus sont devenus d'ardents défenseurs des principaux secteurs commerciaux. Ces facteurs peuvent favoriser l'établissement de nouvelles relations entre les filiales canadiennes et les petites et moyennes entreprises (PME), les établissements universitaires et les centres de recherche. Ils peuvent également permettre d'inspirer confiance aux multinationales quant à l'engagement du Canada de soutenir des opérations actuelles des projets futurs. Par conséquent, les filiales canadiennes sont généralement bien positionnées pour convaincre leur siège mondial d'investir.

Pourtant, les dirigeants canadiens sont encore confrontés à des enjeux ayant un impact négatif sur leur capacité à concurrencer leurs homologues mondiaux. Certes, chaque opération canadienne implique des défis qui lui sont propres. Voici cependant les difficultés fréquemment rencontrées par les filiales, lesquelles limitent leur capacité à gagner des mandats au Canada :

- Aversion au risque liée aux initiatives de R&D et à des projets ambitieux.
- Fuite des cerveaux du Canada.
- Coûts élevés de la main-d'œuvre et de l'organisation du travail.
- Règlementation inadaptée et pesante.
- Programme d'enseignement postsecondaire obsolète, particulièrement dans les domaines des TIC et de l'ingénierie.
- Infrastructure vieillissante.
- Absence de soutien des entreprises pour les PME et les établissements universitaires.

Au cours de l'année passée, le Forum des politiques publiques s'est entretenu avec des leaders de cinq principaux secteurs et a organisé une discussion afin de réfléchir à la manière dont les décideurs pourraient surmonter ces défis.

Les opportunités susceptibles d'accroître la compétitivité des sociétés canadiennes dans la course aux mandats mondiaux sont présentées ci-dessous :

- **Opportunités pour les filiales canadiennes :** les dirigeants d'entreprises devraient envisager l'établissement d'une stratégie multisectorielle définissant la manière d'obtenir l'appui des intervenants dans la quête de mandats pour le Canada. Par exemple, des filiales pourraient chercher à coopérer avec le secteur public afin d'alléger le fardeau administratif, de favoriser la prise de mesures incitatives en termes de R&D et d'améliorer les infrastructures. L'établissement de programmes de soutien en faveur des PME locales permettrait de développer le type de capacité industrielle susceptible d'attirer davantage l'attention des gouvernements et des décideurs d'entreprises. Par ailleurs, il conviendrait d'intégrer dans les plans d'affaires le renforcement des relations avec les leaders communautaires, de manière à renforcer la confiance du public, y compris pour permettre aux élus d'offrir plus légitimement leur soutien aux opérations et aux activités des filiales canadiennes.

Certes, l'obtention d'un retour sur l'investissement peut représenter un défi au début d'un mandat. Cependant, la conquête de nouveaux alliés permettra aux filiales canadiennes de nouer des relations, de profiter du partage des coûts et d'étendre leur influence.

- **Opportunités pour les gouvernements :** Selon les participants à l'étude, les gouvernements doivent aller au-delà d'un processus décisionnel à court terme; une pratique devenue courante. Le développement d'une approche stratégique à plus long terme pour les principaux secteurs industriels canadiens peut aider à concentrer l'attention et les ressources sur des objectifs économiques plus vastes.

  Les responsables gouvernementaux devraient en outre chercher continuellement à rendre l'obtention de mandats plus facile pour les filiales, ceci en favorisant, par exemple, la conclusion des accords commerciaux supplémentaire et en éliminant les entraves bureaucratiques, de sorte que les filiales puissent opérer sans difficulté sur des marchés mondiaux en expansion. L'établissement de nouveaux programmes permettant le partage des coûts initiaux pourrait stimuler les dépenses en R&D des entreprises et la fabrication de pointe. Il pourrait être opportun d'envisager la création d'une agence intergouvernementale de l'innovation, afin d'aider les filiales à s'y retrouver dans les différents régimes de règlementation sur l'investissement et l'innovation canadiens et à établir des relations avec les décideurs.

- **Opportunités pour les établissements universitaires :** La communauté scientifique doit également devenir plus stratégique si elle souhaite aider le Canada à attirer des mandats mondiaux, tout en en bénéficiant elle-même. Grâce à une meilleure communication de leur savoir-faire et à une meilleure identification des ressources, les responsables universitaires et scientifiques seront plus à même de développer efficacement des partenariats avec des sociétés multinationales. Les participants ont également suggéré que les filiales canadiennes en quête de mandats pourraient tirer avantage de centres de recherche qui intègreraient davantage la commercialisation, qui favoriseraient l'accélération des démarches administratives et qui adapteraient les programmes de formation et d'enseignement en fonction des impératifs actuels et futurs du marché.

Au cours de notre étude, les participants issus de divers secteurs et régions sont arrivés au constat que l'ensemble des intervenants (filiales, gouvernements, PME et établissements universitaires) ont tous intérêt à contribuer au renforcement du climat d'investissement canadien. Une coopération apte à éliminer les barrières et à générer de nouvelles opportunités placera le Canada dans une meilleure position concurrentielle pour remporter la course aux mandats mondiaux.

Alain Beaudoin, Vice-président, Politique, partenariats et gestion du rendement | Vice President, Policy Partnerships & Performance, FedDev Ontario

WINNING GLOBAL MANDATES: SUMMARY OF STUDY FINDINGS

Canada’s global advantages

- A highly-skilled workforce
- Competitive business environment
- Multi-sector partnerships

Challenges and shortcomings

- Aversion to risk for ambitious projects and R&D initiatives
- Canada’s brain drain
- High labour and work arrangement costs
- Misaligned and burdensome regulation
- Outdated post-secondary curricula, particularly in ICT and engineering
- Ageing infrastructure
- Lack of corporate support for SMEs, academic institutions and research centres

Opportunities for Canadian subsidiaries

- Be proactive, develop a plan and engage potential partners
- Seek to anticipate potential opportunities and global trends
- Foster multi-sector collaboration and partnerships
- Show success early
- Find ways to support and grow your industry at the SME level
- Develop sustainable connections with community leaders
- Find ways to establish yourself as a “Canadian” company

Opportunities for governments

- Develop a long-term strategic approach for Canada’s key industrial sectors
- Prioritize trade agreements
- Mobilize political champions
- Provide direct incentives and help share upfront capital costs
- Seek to continuously simplify regulation and reduce red tape
- Develop an intergovernmental innovation and investment agency

Opportunities for academic institutions

- Develop strategies and tools to make expertise and resources better known
- Work closely with industry leaders to update post-secondary curricula
- Embrace commercialization
- Reduce bureaucratic delays and costs

1. INTRODUCTION

In today's interconnected global economy, the fiercest competition for resources and market-share occurs not among multi-national corporations but *within* them. Increasingly, corporate leaders award high value mandates to country offices that have the right conditions to generate the greatest return on investment. And there is a lot at stake in these internal competitions: leaders who successfully win capital for their operations enjoy more resources, job growth and influence within the global organization.

A number of key factors have made Canada a strong player in this competition for investment, including: an educated workforce, low corporate tax rates, innovation and research parks, and close proximity to the American marketplace. In 2014, Forbes recognized these qualities when it ranked Canada 6th in its "Best Countries for Business" index, ahead of 13th place Great Britain and 18th place United States.[1] As the best place to do business in the G7, Canada has cultivated an environment that is rich for winning new investment opportunities.

Nevertheless, translating these advantages into accomplishments has proven challenging. Those seeking to leverage our country's pro-business environment aren't always able to win mandates and investment. In part, this is because the decisions that drive firms to invest in a particular region or country are not well communicated. When corporate leaders are successful in bringing global mandates to Canada, the strategies, tactics and decisions that have led to these accomplishments are not widely shared or understood. As a result, essential lessons are often lost and must be re-learned in each region, industry and sector.

Recent developments in key markets have made addressing this information gap a pressing priority. The resurgent American economy, driven by a vibrant manufacturing industry and government incentives, is once again a competitive destination for high-value business functions. Over the past five years, America's business-friendly environment has inspired a macro-economic shift that is seeing the United States "reshore" jobs and infrastructure from Asia.

Emerging markets are also leveraging their unique competitive advantages – including lower wages, direct financial and fiscal incentives as well as weaker regulatory standards – to attract investment from global corporations. Mexico has made significant improvements to its business climate, leading to an exponential increase in the size of its auto-manufacturing sector. Singapore has also enjoyed great success in winning global mandates by offering highly-prized incentives, such as government-funded research and manufacturing infrastructure.

Announcements that Cisco, Microsoft, Airbus, Pratt & Whitney, Ford Motor Company and Honda will be expanding operations within Canada are an encouraging sign that Canadian subsidiaries are having some success in bringing capital to our country.[2] However, Canada cannot afford to rest comfortably on these successes. Instead, a focused and concerted effort is required to better understand how Canadian subsidiaries successfully compete against their international counterparts to win mandates, and whether there are lessons that could be applied across sectors and industries.

Over the past decade, numerous studies have been released that identify issues that are limiting Canada's ability to attract foreign investment. Rather than replicate these findings, the Public Policy Forum launched the *Winning Global Mandates* initiative to identify the strategies and principles that have allowed Canadian subsidiaries to overcome these challenges and win mandates for Canada. Through a series of executive interviews and a roundtable discussion, the Forum gathered insights from leaders in the natural resources, manufacturing, aerospace, pharmaceuticals and information and communication technology (ICT) industries to shed light on successful business case elements and lessons learned. It is our intention to achieve two key objectives:

- Provide subsidiaries with insights into practices and strategies that have been successful in bringing investment to Canada under the existing regulatory and economic environment; and

- Offer direction to the federal and provincial governments, as well as leaders in academic institutions and research centres, on how they can better support subsidiaries in their bid to expand operations in Canada.

2. BUSINESS PERSPECTIVES ON CANADA'S INVESTMENT ENVIRONMENT

Canada's global advantages

A highly-skilled workforce: During the interviews and roundtable discussion, executive leaders across industries praised Canada's educated, highly-skilled workforce as a valuable competitive advantage. Compared to many other Western countries, post-secondary education in Canada is relatively accessible and affordable. Canadian workers are also well-trained and highly productive, making it relatively easy for subsidiaries to locate and recruit talent. As a result, industry leaders suggested that the quality of high-skilled talent in our country is as attractive as in other major jurisdictions, including France, Germany and the United States.

The ability to partner with world-class researchers, especially on early R&D development, also creates a strong business case for investing in Canada. This is particularly crucial in the pharmaceutical and aerospace industries. Since medicinal and aeronautical products can take years or even decades to develop, one participant suggested that Canada provides "a stable and flexible environment that allows companies to conduct complicated research over long periods of time."

While the cost of labour in Canada is significantly higher than in some developing countries, "externalities," such as subsidized healthcare and social support systems, can make up for this lack of wage competitiveness. Indeed, these social programs can have significant benefits for the wellbeing and morale of employees, factors that directly impact business productivity. According to one of the CEOs interviewed, the correlation between employees' wellbeing and output has meant that the quality of social programs influence MNEs' investment decisions. With world-class health and social care systems, Canada has a distinct advantage over many emerging countries.

Robust immigration and multiculturalism policies were also cited as strong assets that have led MNEs to enhance their presence in Canada. The ability to bring talent to new jurisdictions quickly and efficiently is essential for large companies with global operations. Moreover, a country's openness to other cultures is a crucial factor for MNES that routinely move talent across international borders. Interview participants agreed that Canada's inclusiveness has direct financial benefits for business operations since "employees that can make the transition easily are happier and more productive."

Competitive business environment: Canada is highly regarded for its attractive tax regime and transparent regulatory standards. Low corporate tax rates, the streamlined HST system, federal R&D programs and provincial grants make it easy for many MNEs to justify investing in Canada.

Most Canadian governments have made capital and resources more easily available to the organizations that support and sustain MNEs operations. For example, the federal government offers a series of programs that provide direct and indirect support to SMEs, including the National Research Council Industrial Research Assistance Program and growth capital offered through Business Development Canada and regional economic development agencies. These programs allow SMEs and other organizations to offer new services to MNEs that reduce costs and create jobs.

"Canada punches way above our weight in advanced research. Our firm conducts upwards of 12% of global R&D in Canada but only makes 3% revenue here."

– Pharmaceutical industry executive

In addition, Canada's stable economy was cited as a key factor that has helped subsidiaries attract capital. Prudent banking and fiscal policy, as demonstrated during the 2008 global recession, helped give Canada a reputation as a safe place to do business. According to one interviewee, "the way the federal and provincial governments reacted to the Great Recession generated confidence in investors around the world. Canadian subsidiaries have benefited from it ever since."

Multi-sector partnerships: Coordination between government, business and academic leaders has led to a network of public-private arrangements that have helped keep key business areas competitive, particularly the natural resources, aerospace, manufacturing and technology industries.

Through multi-sector partnerships, business leaders gain timely access to government decision-makers, providing important opportunities to identify industry concerns and work collaboratively to overcome them. Greater coordination also allows stakeholders to leverage expertise and share costs. Canadian governments and post-secondary institutions that are open to genuine partnerships and contribute resources, time and effort to improving industry competitiveness foster confidence among global business leaders. These factors have been important for bringing mandates to Canada

Challenges and shortcomings

Aversion to risk for ambitious projects and R&D initiatives: According to some executive interviewees, Canadian governments and business leaders are often reluctant to commit resources to ambitious projects and R&D initiatives when upfront costs are required. In part, this is due to Canada's relatively small market that can make it difficult for subsidiaries to generate a reasonable return on investment through sales to Canadian governments or the general public. Governments' hesitancy to fund or incent unproven initiatives has also stymied innovation and been a source of frustration. Together, public-private aversion to risk has acted as a significant barrier to investment and has limited Canada's potential for growth. As one executive interviewee suggested, "our country faces a self-made investment crisis that is rooted in attitude and ambition."

Burdensome government practices and policies: *Bureaucratic delays:* Canadian government processes are often complex, time-consuming and expensive. In some business areas, including the natural resources and aerospace industries, established procedures lead to disruptions in large projects. In others, bureaucratic issues have led to lost investments that have cost the Canadian economy thousands of jobs and countless spin-off benefits. For example, an executive of a global manufacturer suggested that lengthy approval and funding processes led their global headquarters to redirect investment away from Ontario to Europe. This development negatively impacted the Canadian operation's reputation to secure government support, and cost Southern Ontario approximately 1,000 jobs. Over the course of the Global Mandates study, most participants related similar stories, highlighting how important opportunities for the Canadian economy were compromised by burdensome government policies.

Import/export regulations: Regulations must adapt to new realities. For companies with global operations, the abolition of import/export tariffs in specific areas would be greatly beneficial for helping Canadian operations expand and compete globally. For example, Canadian laws that govern the import and export of medicine do not recognize that various stages of production and manufacturing occur in several countries. As a result, the imposition of tariffs can make it costly for Canadian drug subsidiaries to participate in their own global supply chains. Finding ways to adjust regulatory standards to better accommodate current business practices could make it easier for Canadian subsidiaries to do business and, potentially, expand within the country.

"The approvals for Nissan's second plant in Aguascalientes [Mexico], were made so quickly that it went up in 19 months, a record for Nissan's global operations. Typically, approval and construction of assembly plants in Ontario and in U.S. states [can] take 30 months to three years."

– Greg Keenan, Mexico Shifts into Overdrive, *The Globe and Mail*, February 14, 2015

Intellectual Property: Canada's weak protection and enforcement of intellectual property rights are a consistent source of concern for many MNEs. Despite the introduction of some tighter rules over the past decade, executives across industries suggested that Canada's reputation as an "IP laggard" often dissuades their global headquarters from conducting cutting-edge R&D in our country.

Perrin Beatty, President & CEO, Canadian Chamber of Commerce

Further, study participants expressed concern that some Canadian governments and universities are requesting ownership of intellectual property in procurement contracts. This is creating significant issues for some Canadian business operations and could negatively impact R&D potential in Canada.

Numerous regulatory frameworks: Canada's 14 federal/provincial/territorial regulatory frameworks are more complex and disjointed than other comparable jurisdictions, including the United States. Different commerce and labour laws inhibit the mobility of goods, services, labour and capital across provincial boundaries. Study participants suggested that overall, they can manage Canada's regulatory matrix relatively well, but the process slows down projects and has an impact on investment decisions. As one executive suggested, "It's difficult to explain to our global headquarters why they should invest in markets where misaligned regulations, language laws and tax systems create significant barriers to expansion."

Canada's brain drain: Skilled leaders, innovators and other employees are crucial to the success of Canadian subsidiaries. However, Canada faces a series of important human capital challenges that have limited our country's attractiveness as an investment destination. For example, leaders in the pharmaceutical industry suggested that our country is experiencing an "accelerating brain drain" of individuals trained in the science, technology, engineering and mathematics (STEM) fields. Drawn by higher salaries and valuable mentorship programs in the United States and Europe, Canada is increasingly being treated as a training ground for professionals who pursue their careers elsewhere.

To their credit, some Canadian subsidiaries, particularly in the ICT industry, have made attempts to provide greater opportunities and incentives in Canada to retain skilled employees. For example, one technology company's retention strategy focuses on building an optimal workplace environment based on a culture of engagement. By offering objective performance appraisals and new learning opportunities, the company is actively seeking new ways to improve the workplace experience.

Nevertheless, interviewees agreed that industry-wide employee-retention strategies, developed between business leaders and government representatives, may be needed to reverse the outflow of high-skilled Canadians in key business sectors.

High labour and work arrangement costs: High wage costs are one of Canada's biggest disadvantages in the global marketplace. Leaders across industries indicated that their global headquarters place significant consideration on labour expenditures when making investment decisions, which has meant that resources are directed to developing countries with lower wages and weaker employment laws.

Ageing infrastructure: Study participants across industries cited ageing and inadequate infrastructure as barriers that limit their ability to get goods to market. In many cities, highway and transit construction have not kept pace with growing populations. The resulting congestion can raise costs and cause significant delays for Canadian subsidiaries, negatively impacting productivity and overall competitiveness. There are key regions that lack the industry-specific infrastructure Canadian firms need to expand operations or ship products in a timely and cost-efficient way. Examples include pipelines to move crude oil out of Alberta or telecommunications connectivity in remote communities. Electricity affordability was also cited as key concerns for subsidiaries with operations in Ontario. For a country as geographically diverse as Canada, a subsidiary's success depends on its ability to utilize infrastructure to move goods and people to where they are needed most.

Outdated post-secondary curricula, particularly in ICT and engineering: Providing training on cutting-edge technology and trends is crucial for developing the type of talent that attracts interest and investment from global corporations. According to study participants, post-secondary curricula in engineering and computer programming are outdated and do not provide students with the skills they need to navigate within industries that are in a constant state of transformation. As a result, Canadian subsidiaries often must recruit talent from outside the country.

Lack of corporate support for SMEs and academic institutions: Canadian companies have a mixed record on supporting external stakeholders working in their industry. According to some interviewees, direct financial stimulus is difficult to access because corporate programs are not well communicated to the SME or research communities.

A country that fosters innovation clusters, comprised of subsidiaries, SMEs and research institutions, helps attract investment from large global companies. Study participants suggested that corporate leaders could be doing more to support the development and growth of organizations that can improve their R&D and supply chain capabilities.

"It is truly regrettable that we have to fill Canadian jobs with non-Canadians. Unfortunately, our universities and colleges have not been receptive to the type of change that is needed to keep pace with the ever-changing technology world. Today, many Canadian institutions teach skills that were valuable 10 years ago, but are of little use today."

– ICT industry executive

Canada's global advantages

- Highly-skilled workforce
- Competitive business environment
- Multi-sector partnerships

Challenges and shortcomings

- Aversion to risk for ambitious projects and R&D initiatives
- Canada's brain drain
- High labour and work arrangement costs
- Misaligned and burdensome regulation
- Outdated post-secondary curricula, particularly in ICT and engineering
- Ageing infrastructure
- Lack of corporate support for SMEs, academic institutions and research centres

3. OPPORTUNITIES FOR CANADIAN SUBSIDIARIES

During the Forum's executive interviews and roundtable discussion, participants identified a series of lessons that Canadian subsidiaries industries can use to compete for global mandates.

1. Be proactive, develop a plan and engage potential partners: Too often Canadian subsidiaries make the mistake of waiting on governments to improve their business case for investing in Canada. In some instances, business proposals have placed unrealistic emphasis on public sector funding or involvement. Interviewees suggested that this approach has contributed to under-investment and lost opportunities in our country.

Governments across Canada have indicated their willingness to work closely with subsidiaries to improve their competitiveness and growth potential. However, they need guidance from business leaders on how they can best utilize resources and networks to greatest effect in light of fiscal and political realities.

Study participants suggested that Canadian subsidiaries need to develop an ambitious yet realistic strategy that identifies how they can better partner with governments and research institutions. Such a plan should be flexible enough to accommodate the needs and restrictions of potential partners. Moreover, engaging public and academic leaders early in the process will be essential for establishing realistic expectations, roles and responsibilities. By being proactive and strategic about when and how to engage outside stakeholders, Canadian subsidiaries will be better positioned to leverage Canada's strengths and overcome its weaknesses as they compete for global mandates.

2. Anticipate potential opportunities and global trends: The key to succeeding as a subsidiary in Canada is positioning operations so they can respond quickly to new trends. Canadian subsidiaries may wish to create an internal coordinating unit that fosters partnerships with stakeholders and identifies opportunities (i.e. mergers, acquisitions, etc.) that could be leveraged to win mandates. Such a horizontal, inter-departmental unit could also help Canadian subsidiaries study where their international counterparts are succeeding and seek to replicate and improve upon those practices. This approach could also be useful for providing recommendations to senior management on how the subsidiary might respond to new technologies and global developments.

Practical Application:

Proactive foresight and government engagement were essential for developing the Xerox Research Centre of Canada, a 21st century, state-of-the-art integrated research facility based in Oakville, Ontario.

Early into their Canadian mandate, Xerox's Global CEO approached federal and Ontario ministers in charge of business development and suggested that Xerox could contribute to cultivating Canada's knowledge infrastructure. Taking a flexible approach, Xerox developed a strategy that clearly identified where government could provide the greatest value add. "The government didn't come knocking on Xerox's door asking for us to invest here," said Eme Onuoha, Vice President, Global Government Affairs at Xerox Canada. "Xerox developed an approach for building facilities in Canada and then took this plan to government to get their input on how the plan could be improved. It was an enterprise-led undertaking with government playing a support role."

Since opening its doors 40 years ago, the Xerox Research Centre of Canada has become a global hub for patenting technology. This centre gives Xerox the capability to conduct primary research, pilot some of the technologies that have been developed, and enhance the capacity to scale-up manufacturing. It is a one of a kind facility in Canada, and has made Xerox one of the only technology MNEs that is creating value-added research and engineering in our country.

Source: Interview with Eme Onuoha, Vice President, Global Government Affairs, Xerox Canada, 2014; Xerox Research Centre of Canada (2015). About Us. **Accessed online at: http://xrcc.external.xerox.com/about-us**

Practical Application:

Canada's advanced technological capability has allowed some natural resources companies to apply organizational optimization techniques to resolve challenges and capitalize on opportunities. For example, a natural resource subsidiary that participated in this study is seeking to overcome sector-specific challenges by finding ways to retain skilled employees; engaging individual service companies to build relationships; and finding innovative ways to enhanced respect Canada's environment. In fact, the firm now seeks to be a leader in the development of new, environmentally-friendly techniques, recognizing that this can have positive economic benefits for the company and the country as a whole.

Practical Application:

According to Lockheed Martin Canada, leaders in Nova Scotia have developed a successful model for working with Canadian subsidiaries. Both government and academic institutions actively seek to establish working relationships with defence contractors. For example, the provincial government has offered valuable tax credits, grants, capital rebates and R&D partnerships to support Lockheed's operations. In addition, academic leaders provide research support to the defence firm and have made it easier for Lockheed to find and recruit new employees in the region.

United Technologies has also developed a strong multi-sector network that has allowed the firm to expand its manufacturing operations in Canada. After receiving investment from the Government of Quebec, United Technologies began working closely with Quebec-based universities and SMEs to conduct advanced manufacturing techniques to develop unique parts for Pratt & Whitney US.

In Manitoba, United Technologies, Rolls-Royce, Western Economic Diversification Canada and some local research centres similarly leveraged their combined expertise and resources to build one of the most modern de-icing facilities in the world. By working across sectors to save costs and share risks, United Technologies was able to build a world-class facility that helped them acquire the global mandate to test Pratt & Whitney's largest aeronautical engines.

Source: Interview with Rosemary Chapdelaine, President & CEO, Lockheed Martin Canada; Interview with Richard Bertrand, Vice President, Government Affairs, United Technologies

3. Foster multi-stakeholder collaboration and partnerships: Canadian subsidiaries should consider establishing an intelligent and sustained conversation with government, academic, SME and labour leaders. Developing connections with governments and researchers provides opportunities to identify common interests, as well as areas to streamline regulation, leverage expertise and generate innovation. It is also essential for building the close relationships that foster trust and information sharing. For example, as Microsoft Canada began to frame its strategy for a research centre in Vancouver, it initiated respectful discussions with governments that helped clarify roles, responsibilities and expectations.[3] It also allowed Microsoft Canada to keep governments apprised of the benefits of the project and provided a direct line of communication that helped resolve challenges. Some study participants suggested that Canadian subsidiaries should focus on developing internal talents and competencies that allow them to foster close relationships with governments and other stakeholders.

Canadian subsidiaries should also develop relationships with all government departments and ministries that directly or indirectly impact their operations. One participant from the manufacturing sector noted that while they work closely with government entities charged with economic development, they have failed in the past to connect with ministries and departments working on environmental issues. As a result, their organization lost important opportunities to share vital information to help inform policymaking. Canadian operations that adopt a whole-of-government approach to outreach are often better positioned to break through public sector silos, coordinate their efforts and realize new opportunities. Close cooperation with governments can also provide the public service with useful feedback on their programs and tax incentives.

Canadian subsidiaries may also wish to consider partnering with other subsidiaries, including competitors, to share risk and attract government support. According to some executive leaders, collaboration among Canadian subsidiaries has been particularly strong in the natural resources and aerospace industries. In fact, one participant noted that leading aerospace firms have begun working together to achieve a series of shared goals, including establishing innovation clusters, developing research centres and working with post-secondary institutions to update curricula and training programs.

4. Show success early: Canadian business leaders need to exercise patience and manage expectations with their global headquarters. Realizing returns on major investments takes time, especially for new subsidiaries that must build brand awareness and loyalty. While showing a return on investment is important over the long-term, speed of execution and meeting immediate milestones is essential for proving to the global headquarters that local operations are capable of managing mandates. Study participants agreed that Canadian subsidiaries should focus on achieving realistic goals early in order to cultivate credibility for future projects.

> **"When our firm established its research mandate in the 1970s, it only developed two patents in its first year. The future didn't look very bright in those early days, but last year we generated 165 developed patent ideas; a record for us. It takes time for a company to hit its stride."**
>
> – ICT industry executive

5. Support and grow your industry at the SME level: Canadian subsidiaries can do a better job of supporting SMEs by establishing partnerships, grants, funding opportunities and research centres that grow the industry from the inside. More than just an act of altruism, this type of investment can yield significant financial benefits and opportunities that might not otherwise be possible. Enhancing the industry provides access to a unique network of organizations that can improve subsidiaries' competitiveness and capabilities. As the industry expands, so too will its importance and influence in the Canadian economy. According to some interviewees, this will help attract attention from governments and research centres that will be interested in developing partnerships that make it easier for industry leaders to succeed.

Where possible, Canadian subsidiaries and governments should also seek to assist SMEs' access to global supply chains, a business element that is essential to their development.

Practical Application:

IBM Canada has developed Centres of Excellence that bring together leading experts from across sectors and regions to conduct leading-edge research. These collaborative R&D institutions provide seven universities with the opportunity to work with IBM, SMEs and each other on innovation-related activities. The Centres have one of the largest super computers in the country, which can be used to mine big data and to conduct big analytics on the global cloud network.

Research has been extensive across a broad range of issues, but the Centres have made positive advances in healthcare, water, cities and urban issues. Through these centres IBM Canada has helped expand the capacity of the technology industry in our country, providing valuable new opportunities for partnership and acquisition.

The second phase of this initiative will expand the reach of the Centres to include additional universities as well as some colleges on areas that include cyber security, mining and advanced manufacturing, which are of keen interest to business leaders in Canada and around the world.

Source: Interview with Patrick Horgan, Vice President, Manufacturing, Development & Operations, IBM Canada, 2014

Practical Application:

Creating organizational capacity around stakeholder engagement and sustainable development is important for fostering community buy-in. Over the past two decades, ConocoPhillips has sought consistent and regular engagement with local populations through establishing a stakeholder group, utilizing local content, and accommodating the concerns of residents living close to major projects. The company makes a commitment to respect the local community's economic, health and social wellbeing. Examples of their efforts include meeting with local leaders, driving slowly through communities, reducing garbage, and providing updates on projects and job opportunities.

The company has also developed an Aboriginal stakeholder group to determine community needs and how local populations might better engage on projects. This group has helped advise ConocoPhillips on its Aboriginal apprenticeship and university partnership programs. These initiatives accommodate local practices and customs to ensure Aboriginal peoples can work with the company in ways that are consistent with their culture.

Source: Interview with Ken Lueers, President & CEO, ConocoPhillips Canada, 2014

Practical Application:

Despite operating as Canadian corporations for over 75 and 100 years, respectively, Lockheed Martin and Sanofi Pasteur have found it difficult to identify themselves as Canadian companies in the minds of many people. In response, organizations with similar experiences have employed a number of steps to increase understanding of their role and operations. These include:

- Acquisition – By purchasing and managing Canadian SMEs, subsidiaries can expand their presence in ways that employ more Canadians and generate benefits across regions.
- Unique product development – Developing unique products that are widely used and recognized in global markets can help increase visibility and public appreciation for Canadian operations.
- Strengthening external relations – Many leaders are actively engaging with government decision-makers and the general public to explain how their organizations are contributing to the Canadian economy and society. Consistent, creative outreach builds familiarity, trust, loyalty and new opportunities for Canadian subsidiaries.
- Partnering with other Canadian organizations – Working closely with other Canadian businesses, especially SMEs, and post-secondary institutions demonstrates a desire to develop "Made-in-Canada" products and services.

Source: Interview with Rosemary Chapdelaine, President & CEO, Lockheed Martin Canada, 2014; Interview with Mark Lievonen, President & CEO, Sanofi Pasteur Limited, 2014.

6. Develop sustainable connections with community leaders: Executives across industries agreed that how subsidiaries connect and work with local leaders will have profound implications for their operations. By engaging local communities and bringing them into key decision-making processes, consultations, and information campaigns, Canadian leaders could find it much easier to remove harmful misconceptions that can lead to political challenges and regulatory delays. Businesses that recruit and provide workplace training to the resident population are also able to acquire valuable, local knowledge that can save effort and money. It also helps to build the local economy, which in turn can attract investment from other organizations and SMEs.

While many organizations have launched campaigns to connect with the public, few subsidiaries build these activities into their core business practices. As a result, sustainable dialogue and engagement are often inconsistent, which can lead to resentment between business leaders and the local population. Finding ways to develop long-term engagement strategies with people affected by operational activities is essential for building public confidence and developing the caliber of talent that can benefit all stakeholders.

7. Find ways to establish yourself as a "Canadian" company: Although some Canadian subsidiaries have been operating in Canada for decades, they are not always viewed by many in government, the news media or the general population as being "Canadian" companies. According to one interviewee, Canadian subsidiaries that fail to champion their contributions to our country can find it more difficult to secure brand loyalty, government support and other benefits.

Study participants suggested that Canadian subsidiaries should seek to improve their efforts to inform government leaders and the general public about their positive social and economic contributions to Canada. By clearly demonstrating the value they add, subsidiaries may make it easier for Canadians to relate to, and support, their operations. They also cautioned that being recognized as a Canadian company is a political issue. As a result, Canadian subsidiaries must continually find ways to make it easier for governments to embrace and support their activities.

Opportunities for Canadian subsidiaries

- **Be proactive, develop a plan and engage potential partners**
- **Anticipate potential opportunities and global trends**
- **Foster multi-sector collaboration and partnerships**
- **Show success early**
- **Support and grow your industry at the SME level**
- **Develop sustainable connections with community leaders**
- **Find ways to establish yourself as a "Canadian" company**

4. OPPORTUNITIES FOR GOVERNMENT

1. Develop a long-term strategic approach for Canada's key industrial sectors: According to some study participants, governments need to identify the industries that are essential to their jurisdiction's future prosperity. Being open and clear about who their primary industries are can help focus attention and resources in ways that lead to better outcomes. Conversely, the failure to clearly identify primary business areas can lead to confusion and uncertainty among stakeholders. For example, some business leaders suggested that it is unclear whether governments still view manufacturing as an essential component in the Canadian economy. Ambiguity of this nature helps to sow doubt about our country's commitment to supporting industry development. It also raises questions about whether governments are willing to expend political capital to help Canadian subsidiaries win investment from their global headquarters.

Some Canadian governments have taken a leadership approach in developing long-term industrial strategies. For example, the Government of Quebec recently established the Québec Aeronautical Industry Development Strategy that leverages the province's "numerous competitive advantages in the aeronautical sector, including skilled workers, research and development, the expertise of prime contractors, equipment manufacturers and a network of some 220 SMEs, and the quality of its educational institutions."[4]

According to Quebec's Ministère de l'Économie, de l'Innovation et des Exportations, the Strategy includes five key principles:

1. Support prime contractors and equipment manufacturers;
2. Support the development of Quebec SMEs;
3. Maintain a pool of qualified workers;
4. Support innovation and productivity; and
5. Strengthen the partnership with the federal government.

Similarly, the Government of Alberta has developed a multi-faceted, long-term plan for its oil and gas industry based on engagement, transparency and innovation. Using a comprehensive approach that meets business needs, as well as social and environmental concerns, the province is seeking to ensure that current investment barriers are addressed in an efficient and responsible manner. The government's *Responsible Actions: A Plan for Alberta's Oil Sands* outlines the following strategies:

- Develop Alberta's oil sands in an environmentally friendly way;
- Promote healthy communities and a quality of life that attracts and retains individuals, families and businesses;
- Maximize long-term value for all Albertans through economic growth, stability, and resource optimization;
- Strengthen [their] proactive approach to Aboriginal consultation with a view on reconciling interests;
- Maximize research and innovation to support sustainable development and unlock the potential of Alberta's oil sands; and
- Increase available information, development measurement systems, and enhance accountability in the management of the oil sands.

These strategies could serve as a useful guide for other provinces that have a robust aerospace industry (i.e. Ontario) and oil and gas sector (i.e. British Columbia, Saskatchewan and Newfoundland and Labrador). Since many of these principles are transferable, they could also be useful for establishing strategies in other key business areas, such as manufacturing, pharmaceuticals and ICT.

Some study participants also suggested that policymakers should consider harmonizing their industrial strategies across departments and governments, particularly when operations span jurisdictions. Such an approach would allow government leaders to better align interests, goals, rules and resources in key industries.

2. Exercise leadership at all levels. After speaking with leaders across sectors, it seems that the federal and provincial governments could be playing a more constructive role in supporting subsidiaries that are seeking investment. As discussed above, some jurisdictions have made encouraging progress in charting long-term industry strategies. In others, elected officials play an important role in securing investment by acting as industry "champions." Such approaches help to focus attention, direct resources and better engage stakeholders.

Nevertheless, study participants suggested that governments' ability to drive real change is often frustrated by internal divisions. Disparate goals and inadequate information sharing, coordination and planning across government departments make it difficult to coordinate efforts around even the most important policy objectives. To overcome these issues, federal and provincial leaders should consider implementing the following practices:

- **Foster a common approach across government departments:** When a government deems an industry to be vital to its economy, this designation needs to be communicated and supported across all branches of government. Identifying vital industries helps to elevate the conversation among senior decision-makers, leading to whole-of-government strategic planning that can align resources, streamline regulation and reduce bureaucratic delays.

- **Use your unique convening ability:** Perhaps one of the most under-utilized assets governments have is their ability to bring stakeholders together to identify policy challenges and solutions. Study participants suggested that the federal government in particular should leverage its broad reach to convene industry representatives to identify how governments can best support subsidiaries operating in Canada. By bringing industry representatives together, the federal government could also help build relationships that could lead to new economic partnerships and improved policy-making in Canada.

J. Richard Bertrand, Vice President, Government Affairs, United Technologies

3. Mobilize political champions: Political champions can make a significant difference in helping subsidiaries win global mandates. Elected officials who appreciate the value and concerns of a particular industry may be more inclined to reduce regulatory burdens and improve government incentives. They may also be motivated to use their influence to champion the industry abroad, providing Canadian subsidiaries with greater opportunities for investment.

According to one study participant, this is an area where the Government of France has excelled in recent years. After developing a reputation as a poor place to do business, the French president and prime minister convened a select group of global CEOs in Paris to identify the steps the government could take to improve France's corporate environment. Senior leaders within the French bureaucracy were then appointed to make changes based on the CEOs' feedback. A short time later, the CEOs were once again convened in France to review the considerable progress that had been made on the issues they identified. This initiative clearly demonstrated France's commitment to becoming a world-class investment destination and is a model that could be adopted by Canadian governments.

Over the past two decades, provincial governments have also increased their efforts to champion specific industries and sectors. Recent foreign trips by Canadian premiers have been instrumental in removing trade barriers and improving labour mobility. These developments are encouraging and generate confidence in key business areas.

Saskatchewan provides a useful example of a Canadian government that aggressively and consistently champions local industry. In 2013, China and India represented Saskatchewan's largest consumers of uranium and potash, and the Philippines provided the province with more skilled workers than any other foreign jurisdiction. To help provide better service and attention to these important partners, each year, leaders in the Government of Saskatchewan travel to South and South-East Asia to deepen connections, identify trade challenges and find ways of working more collaboratively. To support these efforts, the province established the Saskatchewan-Asia Advisory Council in 2013 to provide timely advice and long-term strategies for enhancing trade in the Pacific market.

To be sure, most Canadian provinces have engaged in trade missions to big markets to help champion their local industries. However, Saskatchewan's establishment of consistent missions to key trade partners, buoyed by an internal advisory council, has allowed the province to establish trust and familiarity, making it easier for its Saskatchewan-based subsidiaries to expand and recruit talent in key markets.

Further, some roundtable participants suggested that governments need to consider appointing industry champions within the public service to improve awareness and coordinate resources across departments, ministries and agencies.

4. Prioritize trade agreements: A country's ability to move goods to key markets is often the difference between winning and losing mandates. Leaders in the pharmaceutical, manufacturing and aerospace industries indicated that Canada needs to speed up its free trade discussions with emerging countries. The inability of some Canadian operations to export their products duty-free to emerging markets in Eastern Europe, Asia and South America has caused investment to be directed to jurisdictions that do have such arrangements in place. According to Thomas Karig, Vice President of Corporate Relations for Volkswagen in Mexico: "Mexico has [a] free-trade agreement with many [emerging markets] – 45 in total – that allow automakers to ship duty-free. By contrast, Canada, as a competitor with Mexico for investments from global automakers, does not have similar links [but] the assembly industry in Canada is designed to feed the massive U.S. market, not markets around the world."[5] Further, governments need to enforce rules against currency manipulation, a practice that was described by one study participant as "one of the biggest risks for manufacturers in North America."

Caroline Hughes, Vice President, Government Relations, Ford Motor Company of Canada

5. Provide direct incentives and help share upfront capital costs: For Canadian subsidiaries, winning mandates is often determined by how easily capital is available. However, participants suggested that Canada's tax incentives are insufficient in attracting the level of investment our country is seeking.

The current tax framework does not benefit Canadian subsidiaries that fund research within universities and research centres. This is of particular concern for the pharmaceutical industry, which invests heavily in Canadian research hubs but has limited access to R&D tax credits. The federal government should consider reassessing the changes made to the SR&ED tax credit, which served to dissuade some firms in the pharmaceutical, aerospace and manufacturing sectors from conducting high-value R&D in Canada. Moreover, some government leaders may wish to examine Nova Scotia's R&D approach, which was cited by the aerospace and manufacturing sector as a model that should be replicated across Canada. In addition to providing tax incentives and rebates for large projects, the Nova Scotia government works closely with subsidiaries to facilitate connections with researchers and potential employees. In April 2014, Nova Scotia's Ministry of Economic and Rural Development and Tourism also established the Invest Nova Scotia Board to provide direct monetary and other support for key industries in the province. This new institution will have a mandate to "provide economic development incentives. for sector development or economic diversification, workforce skills for competitiveness, applied research and development and pilot projects, trade, gateway and economic infrastructure, leveraging significant investments in new technologies or expansions and regional development with emphasis on high-unemployment areas."[6]

"In Canada, the federal and Ontario governments typically contribute about 20 per cent of project costs, with Ottawa offering repayable loans and Ontario giving grants. Mexico's offer of hundreds of millions of dollars' worth of incentives helped convince Ford earlier [in 2015] to invest in that country instead of Windsor, Ont., for a new generation of small engines."

– Greg Keenan, *Mexico Shifts into Overdrive*, *The Globe and Mail,* February 14, 2015

"Loans are useless to Canadian subsidiaries. They go on the balance sheet as a liability and if you're a small company, it will be hard to get funding from banks."

– Aerospace industry executive

In addition to tax credits, direct incentives that can be clearly quantified may also be needed. Executive interviewees suggested that providing funding for new research centres, advanced manufacturing or investing in university R&D and skilled training could be far more useful in attracting MNE investment. Equipping third-party institutions with research centres and tools reduces the need for global headquarters to build infrastructure, making it easier and more affordable to locate investment here.

Similarily, the federal government should seek to provide grants and other direct funding opportunities, rather than repayable loans. According to participants, the lack of grants "suggests to global headquarters that Ottawa isn't serious about competing against other jurisdictions for investment." For most MNEs, repayable loans offered by the federal government represent nothing more than liabilities on their corporate balance sheets.

6. Continuously simplify regulation and reduce red tape: The public sector needs to be faster, more flexible and agile. Since "regulation becomes reputation," federal, provincial, territorial and municipal governments need to find ways to streamline regulations and conduct impact reviews on how policy affects investment. There are important models within Canada that decision-makers may wish to consult and replicate.

For example, in 2012, the Government of Alberta's Red Tape Reduction Task Force released their report, *Focusing on What Matters*, which provided direction on how the province can remove overly-burdensome regulation. To help achieve this goal, the Task Force issued four specific recommendations:

- Develop a small business strategy that acknowledges and responds to the needs of Alberta's small businesses;
- Strengthen Alberta government processes for making, amending and reviewing regulations;
- Work with other governments and related bodies to streamline business regulations; and
- Encourage a service delivery culture in government that is collaborative, user-focused and ensures greater accountability.[7]

According to some study participants, Alberta's Red Tape Task Force serves as an important and successful example where industry engagement led directly to greater investment and interest from multi-national firms. In seeking to make their bureaucracies more business-friendly, governments across Canada may wish to study and adapt some of these examples.

7. **Develop an intergovernmental innovation and investment agency:** Some executive interviewees suggested that government decision makers need to develop an independent, intergovernmental agency that can help subsidiaries navigate Canada's complex programming, policy and regulatory frameworks. Such an agency could provide valuable recommendations to governments on where policies and standards could be streamlined. Acting as a primary contact point, the agency could help reduce confusion, effort and costs that subsidiaries consistently experience in Canada.

"The Government of Alberta is working with industry leaders to re-write regulations in ways that allow greater competition and profitability, while ensuring that the environment and Canadians are protected to the highest degree possible."

– Resources industry executive

This intergovernmental model has been used with great effect by Mexico where the ProMéxico agency simplifies investment requirements and connects subsidiaries with senior government leaders. Established in 2007, ProMéxico has offices in 48 key markets worldwide, in addition to 30 within Mexico, to provide support to potential and existing business operations. The organization also helps business leaders navigate federal, state and local regulations, and is active in branding Mexico as a prime destination for investment, using international events, advertising and technology to win high-value business operations. For example, the Mexico Investment Map (MIM) provides a variety of economic indicators that make it easy for MNEs to effortlessly evaluate the business case for investing in a particular region or state.

"Quebec is one of the most responsive governments in terms of working with business leaders. They are very cooperative. It was easy to coordinate with the Quebec government to set up our mandate there, but in Ontario, it took four years to establish a smaller mandate. The bureaucratic red tape leads to slowdowns in approvals, which makes it difficult for us to secure investments."

– Aerospace industry executive

In Canada, the Government of Quebec has established a similar agency that provides investors with valuable information on taxation, business plan development and investment capital. Investissement Québec works closely with subsidiaries and other enterprises to simplify government requirements and services. Executive interviewees praised the organization's personal service and suggested that having someone assigned to their corporation made it straightforward and cost efficient to conduct business in Quebec.

Given Mexico and Quebec's success in attracting global investments, particularly in the manufacturing, aerospace and pharmaceuticals industries, Canadian governments should pay special attention to the methods used in these jurisdictions to reduce obstructive rules. Similar intergovernmental agencies used in Great Britain and the United States could also provide Canadian leaders with some key lessons that could be applied here at home.

Opportunities for governments

- **Develop a long-term strategic approach for Canada's key industrial sectors**
- **Exercise leadership at all levels**
- **Mobilize political champions**
- **Prioritize trade agreements**
- **Provide direct incentives and help share upfront capital costs**
- **Continuously simplify regulation and reduce red tape**
- **Develop an intergovernmental innovation and investment agency**

5. OPPORTUNITIES FOR ACADEMIC INSTITUTIONS

1. Develop strategies and tools to make expertise and resources better known: One of the most common challenges Canadian subsidiaries face is having to quickly identify individuals who are conducting cutting-edge research in their field. With the plethora of new start-up organizations emerging from innovation hubs and universities, it can be difficult to identify potential opportunities for partnership or acquisition.

To help address this challenge, SMEs, academics and other experts may need to think beyond the traditional academic research model that relies on funding from grants, endowments and sponsorships. Executive interviewees suggested that academics and SMEs should engage the business community to clearly outline how all stakeholders can best leverage their expertise and resources. By taking the initiative and developing a collaborative framework, researchers will help bring attention to their work while creating a business case for partnership.

This approach was applied by a Canada Research Chair in British Columbia who actively worked to build a relationship with Pratt & Whitney Canada based on a shared interest in advanced aeronautical research and development. After years of close collaboration, the Research Chair received support for his work while Pratt & Whitney Canada was able to leverage expertise from a world-class expert. In addition, Pratt & Whitney gained access to a new team of talented researchers from the university, many of whom now work for the Canadian subsidiary.

Those wishing to work closely with subsidiaries should consider developing an online, easily-accessible concierge system that would allow business leaders to easily access information on SME and researchers' expertise and capabilities. Such a tool should be user-friendly by incorporating the Boolean search, filters and details on the organization and research focus. Utilizing crowd-sourcing technologies, such as Wikis, should also be considered since it allows researchers to update information instantly and distribute the burden of uploading content. Designers should also determine whether it might be possible to bridge the disparate concierge systems that currently exist. By providing a "one-stop-shop" that pools information on SMEs, academics and researchers into one central location, it would be easier for Canadian subsidiaries to identify potential partners.

2. Work closely with industry leaders to update post-secondary curricula: The speed with which technology, practices and government regulations change means that university and college administrators need to consistently update their curricula. One potential option for meeting this challenge is for academic institutions to initiate close partnerships with governments and Canadian subsidiaries that are driving change in the economy. According to some executive interviewees, Alberta's post-secondary institutions have been especially strong in this regard. By working closely with oil and gas companies to update programs, Alberta's academic community has become a leader in providing students with knowledge and skills that are relevant and in demand in that province.

Research institutions may also wish to consider developing an interchange program that invites industry leaders to teach classes and interact with students. This type of coordination helps to ensure that our post-secondary institutions continue to act as relevant and valuable innovation and training centres for future Canadian workers.

3. Embrace commercialization: Academic institutions that encourage their researchers to collaborate across disciplines and translate theory into applied research are better positioned to attract interest and partnerships from MNEs.

Dominique Anglade, President & CEO, Montreal International

Some Canadian universities and colleges have expanded their applied research departments and established commercialization centres over the past decade. Again, Alberta provides a useful example that SMEs, academic institutions and research centres may wish to consider. Executive interviewees noted that much of the innovation and research that occurs in the oil sands is conducted “on the ground” by researchers in response to practical challenges. As a result, new patents are developed and subsidiaries are able to address issues as they rise, creating higher demand for academic partnerships.

Further, the University of Waterloo actively encourages collaboration across disciplines in order to generate innovation in key business areas. Collaboration between the geoscience, mathematics and engineering departments has allowed the development of new models, methods and tools to help spur innovation in the shale oil and gas field. According to some industry partners, the University of Waterloo’s model, based on collaboration and individual IP ownership, fosters an environment that is conducive to innovation and risk-sharing.

4. Reduce bureaucratic delays and costs: Much like some governments, academic institutions often have expansive bureaucracies that oversee vital administrative functions, such as research and external relations. Unfortunately, the costs and time required to navigate multiple branches of the academic bureaucracy have deterred some business leaders from investing or partnering with Canadian post-secondary institutions. Moreover, interview participants noted that they prefer to work directly with individual professors and researchers, rather than through institutions. In part, this is due to time delays and the significant percentage of private sector R&D funding that is used to cover over-head costs rather than research.

Finding ways to reduce bureaucratic delays and costs is a pressing priority for the academic community. By working closely with industry leaders, it might be possible to identify where the barriers to partnership and investment exist, and how they might be overcome. Conducting internal reviews may also be necessary to ensure that programs, services and regulations are conducive to collaboration and coordination with third-party organizations. Establishing a central office or representative that can steer subsidiaries through the bureaucracy would help address the time and cost barriers that inhibit investment.

Opportunities for academic institutions and research centres

- **Develop strategies and tools to make expertise and resources better known**
- **Work closely with industry leaders to update post-secondary curricula**
- **Embrace commercialization**
- **Reduce bureaucratic delays and costs**

6. CONCLUSION

Canada is one of the world's most competitive investment destinations. Buoyed by a favourable business environment, vibrant social systems, and an abundance of high-skilled labour, our country is a potential leader in the global race for high-value mandates.

However, the executive leaders who participated in the Public Policy Forum's interviews for this project indicated that more work needs to be done to ensure that Canada remains competitive in the 21st century. Countries such as the United States, China, India, Mexico and Singapore have cheaper labour, better financial incentives and access to larger markets than Canada. These competitive advantages are very attractive to multinational enterprises, especially when complemented with political support and government resources.

Remaining relevant in this dynamic global marketplace will require coordinated action from stakeholders across sectors and regions. Canadian subsidiaries need to be proactive in developing a strategy for growth, clearly identifying how governments, SMEs and academic institutions can help them achieve it. Partnerships and multisector collaboration should be embraced to make it easier to anticipate new opportunities and global trends that are crucial to a subsidiary's success.

Further, achieving success early in a mandate imbues confidence by demonstrating that the subsidiary is capable of meeting expectations and enhancing corporate assets. According to study participants, subsidiary leaders should consider implementing the following strategies:

- Build up the local industry to create new partners and leverage expertise, share risk and attract government support;
- Develop deep and sustainable connections with global headquarters to help understand internal decision-making;
- Foster relationships with community leaders to earn public confidence and make it easier for elected officials to support subsidiary operations and activities; and
- Build a rapport with the public to help reduce suspicion and uncertainty around the organization's objectives and "Canadian-ness."

Federal, provincial, territorial and municipal leaders also have an important role to play in supporting Canadian subsidiaries' bid for global mandates. By developing a long-term, strategic approach, governments will be better positioned to identify clear areas of focus, timelines, and the partnerships required to meet their objectives. Such a measured approach can act as a powerful signal to MNEs that government leaders can plan beyond the short term and commit to improving Canada's investment environment. Elected officials should also build on efforts to enhance the visibility of key business sectors. Political champions can be valuable for gaining access to new markets and demonstrating to MNEs a willingness to support the industry's growth. While Canada has made some important advances in this area, stakeholders might benefit from adapting best practices used in other jurisdictions and aligning efforts and initiatives across governments.

Governments across Canada should also seek new ways to reduce upfront capital costs and regulatory burdens that inhibit the competitiveness of Canadian subsidiaries. Creating an intergovernmental innovation agency, modelled on Investissement Québec, ProMéxico and other horizontal organizations, may be useful in helping subsidiaries navigate Canada's various regulatory regimes and develop relationships with decision-makers. This could also be helpful in providing government leaders with advice on how to reduce unnecessary red tape.

In addition, SMEs, academic institutions and research centres should consider developing strategies and tools that will increase their visibility and their ability to partner with Canadian subsidiaries. Post-secondary institutions should also seek to engage with subsidiaries to find ways to ensure training programs and education curricula remain relevant and to reduce bureaucratic barriers that inhibit investment. By being assertive and building a business case that demonstrates the benefits of collaboration, these organizations will be better positioned to win the investment and partnerships that can foster innovation.

Executive leaders who participated in this study agreed that all stakeholders – subsidiaries, governments, SMEs, academic institutions and research centres – share a common interest in strengthening Canada's investment environment. By working together to break down barriers and generate new opportunities, Canada will be better positioned to compete and win the race for global mandates.

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APPENDIX: INTERVIEW AND ROUNDTABLE PARTICIPANTS

Elyse Allan
President, CEO & Chair of the Board
General Electric Canada

Dominique Anglade
President & CEO
Montréal International

Perrin Beatty
President & CEO
Canadian Chamber of Commerce

Alain Beaudoin
Vice-President, Policy, Partnerships & Performance
Federal Economic Development Agency for Southern Ontario

J. Richard Bertrand
Vice President, Government Affairs
United Technologies

Eric Bosco
Chief Business Development and Partnerships Officer
Mitacs

Rosemary Chapdelaine
President & General Manager
Lockheed Martin Canada

Dianne Craig
President
Ford Motor Company of Canada

Shawn Cruise
Country Manager
Adobe Canada

Robert Fernandez
Executive Director
Alberta Economic Development Authority

Sean Forkan
Vice President & General Manager
Symantec Canada (Corporation)

Giles Gherson
Deputy Minister
Ontario Ministry of Economic Development, Employment and Infrastructure

Darren Gilmour
Vice President
Canada's Public Policy Forum

Sébastien Goupil
Vice President
Canada's Public Policy Forum

Robert Hardt
President & CEO
Siemens Canada

Patrick Horgan
Vice President, Manufacturing, Development & Operations
IBM Canada Ltd.

Caroline Hughes
Vice President, Government Relations
Ford Motor Company of Canada

Ross Hornby
Vice President, Government Relations and Policy
General Electric Canada

Stephen Johns
Director, Corporate Member & Association Relations
Canadian Chamber of Commerce

Barry Kohler
President
Bell Helicopter

Christian Lauterbach
President & CEO
Bayer Canada

Mark Lievonen
President
Sanofi Pasteur Ltd.

Ken Lueers
President
ConocoPhillips Canada

James McLean
Project Lead
Canada's Public Policy Forum

David Mitchell
President & CEO
Canada's Public Policy Forum

Ronnie Miller
President & CEO
Roche

Dragan Nerandzic
Chief Technology Officer and Head of EP Canada
Ericsson Canada Inc.

Eme Onuoha
Vice President, Global Affairs, Canada
Xerox Canada

Dan Ouimet
Director, Government Relations
ConocoPhillips

Gerard Peets
Director General, Industry Sector
Industry Canada

François Provencher
Director, Office of technological collaboration
Pratt & Whitney

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Louise Thiboutot
Senior Director, Business Development
Montréal International

Mike Tremblay
Vice President, Public Sector
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Valerie Walker
Director of Policy
Mitacs

Todd Winterhalt
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