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Attracting Global Mandates

Summary and Recommendations

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**LEARNING FROM PAST EXPERIENCE,
CAPITALIZING ON OUR MANY ADVANTAGES
AND ADOPTING THE APPROACHES OF OUR
BEST-PRACTICE COMPETITORS WILL ALLOW
CANADA TO SUCCESSFULLY ATTRACT THE
INVESTMENT WE NEED FOR OUR ADVANCED
MANUFACTURING SECTOR TO GROW
AND PROSPER.**

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The views expressed in this study are our own and should not be attributed to any other individual or organization. We are grateful to our *Attracting Global Mandate* Project partners, Canadian Council of Chief Executives, Canadian Imperial Bank of Commerce, Industry Canada, IBM Canada and Ontario Ministry of Economic Development, Employment and Infrastructure for their support and to the senior executives of the firms who participated in the structured interviews. Bing Feng and Sandra Octaviani provided excellent research assistance.

Introduction and Context

The *Future of Canadian Manufacturing* project is a research project that was undertaken by the Lawrence National Centre for Policy and Management to understand the current state of Canadian manufacturing and consider what manufacturers need to do to thrive in an increasingly competitive global economy.

Phase 1 of the project, entitled “Learning from Leading Firms”, used case studies to examine the strategies of nine internationally successful Canadian manufacturers and the role that governments played in supporting their success. The first phase of the project resulted in three recommendations for practical action to support the future success of the next generation of Canadian manufacturers. The first two recommendations were aimed at increasing business-to-business mentorships of firms looking to breaking into new, overseas markets and at developing partnerships with educational institutions to help businesses develop their skilled workforce and execute focused research and development (R&D). The third recommendation was for governments to raise their game on investment attraction to match best-practice jurisdictions like Mexico.

In Phase 2 of the project, entitled “Attracting Global Mandates” we again use the case study method, this time to focus on the Canadian operations of global firms. Our interest is in how Canadian managers succeed in winning the intra-firm competition for production and R&D mandates. In addition, we delve more deeply into approaches to investment attraction by best practice organizations including Pro-Mexico, Select USA and Invest HK in order to better understand the reasons for their success in attracting manufacturing investment to their jurisdictions.

As in Phase 1, Phase 2 was supported by a group of partners: Canadian Council of Chief Executives, the Canadian Imperial Bank of Commerce, IBM, Industry Canada and the Ontario Ministry of Economic Development, Employment and Infrastructure. The partners not only supported the project but helped us gain access to key decision makers in case-study firms.

This summary paper is organized as follows. We provide overviews of each of the five studies in turn:

- FDI by the Numbers
- A Framework for Understanding Investment Attraction
- Core Manufacturing
- Food and Industrial Biotechnology
- Best Practice in Investment Attraction.

We conclude the paper with a discussion of the three over-arching recommendations for action that came from the conference of partners, stakeholders and researchers that reviewed preliminary versions of our work in November 2015.

STUDY 1

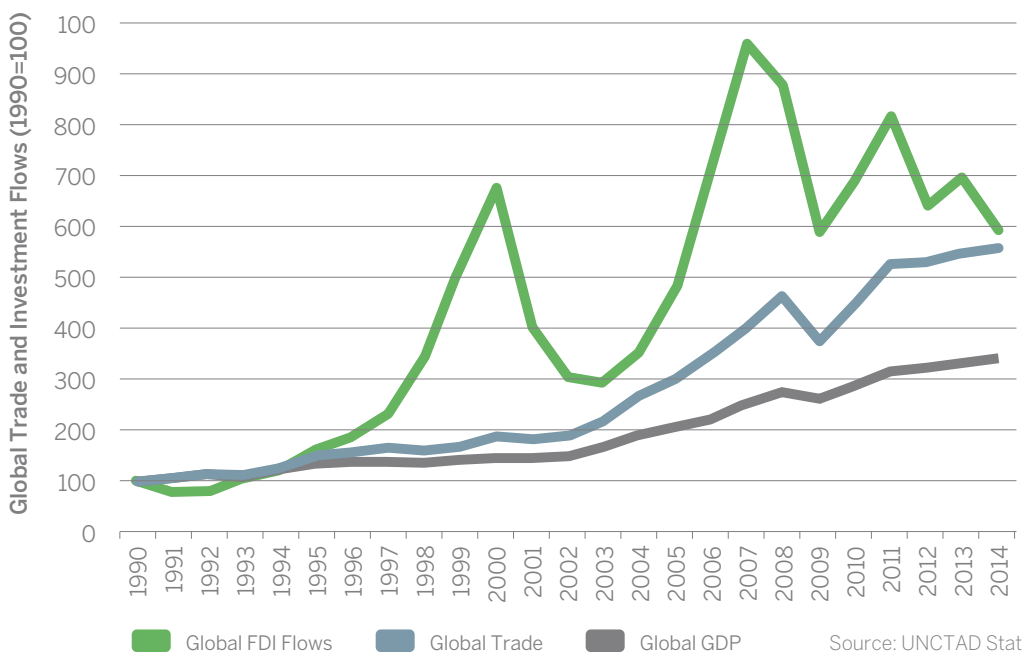
By the Numbers

The past 25 years have seen an explosion in global FDI. While global GDP grew three-fold to \$77.9 trillion USD in 2014 and global trade grew five-fold to \$23.7 trillion USD over the period, the volume of global FDI grew six-fold to \$1.6 trillion USD (see Figure 1). Authors David Moloney and Sandra Octaviani caution that the drivers of this growth are complex and must be interpreted with care. FDI includes

three separate components with distinct underlying drivers. The components are a) equity capital flows, b) reinvested earnings, and c) intra-company loans. Moreover, FDI includes distinct business 'activities', primarily capital expenditure projects and net merger and acquisition (M&A) activities, i.e. acquisitions minus divestments.

Foreign affiliates of global companies have made a significant contribution to host countries. Over the 25-year period from 1990, assets have grown from \$3.9 trillion USD to \$102 trillion USD. Employment has grown from 20.6 million workers to 75.1 million.

FIGURE 1 – GLOBAL FDI TRENDS VS TRADE AND GDP





The sales of foreign affiliates are heavily concentrated in their local markets, reflecting the world-wide trend to 'produce where you sell'. Fully 79 percent of sales are in local markets with only 21 percent being exported.

The targets of global FDI are shifting significantly as a result of the growth of developing economies. In 2014 for the first time, global FDI inflows to developing surpassed developed countries as recipients of FDI inflows. Investment in Asian economies was an important contributor to this shift.

In Canada, we have seen a robust upward trend along with great volatility in both FDI inflows and outflows. Traditionally, Canada's share of global FDI inflows have outstripped its share of global GDP and its share of FDI ranking is in line with its ranking of global GDP.

However, within the aggregate numbers, Canada has seen significant shifts in the industrial composition of FDI. Over the past 15 years, the stock of oil and gas FDI has grown four-fold, while manufacturing has seen only modest growth. Focusing on greenfield projects, while Canada has seen a doubling of announced greenfield projects over the past decade, US projects have grown from three times to four times the Canadian level. Indeed, Canada's

substantial lead in announced greenfield projects over emerging economies like Mexico has largely disappeared over the past decade. In terms of value, Mexican greenfield projects have grown from roughly half the Canadian value to almost double over the decade.

In sum, as Moloney and Octaviani observe, over the past decade Canada has fallen behind in attracting greenfield investments relative to key competitors. A large portion of Canada's FDI growth has come through expansion of the oil and gas sector. Canada has much work to do to attract a balanced portfolio of foreign investment across sectors.

STUDY 2

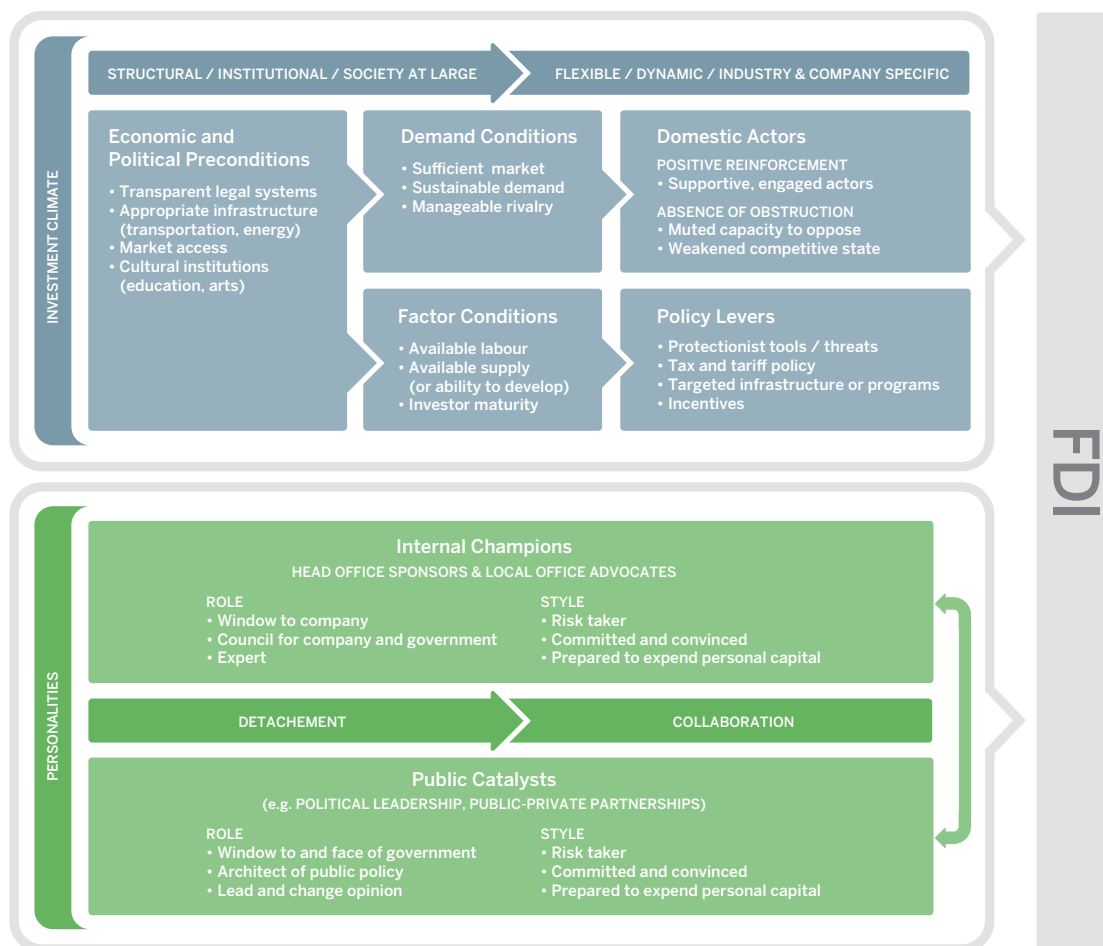
A Framework for Understanding Investment Attraction

Understanding the process of investment attraction is critical to decision makers seeking to grow their economies. In our second study, Grieg Mordue develops a framework to show the components

of the investment attraction process and the role of key actors. The framework presented in Figure 2 divides the process into two discrete parts: the investment climate component shown in

the top panel and the personalities component shown in the bottom panel. The bottom panel is further divided into private sector actors, (internal champions), and public sector actors, (public sector catalysts).

FIGURE 2 – FRAMEWORK FOR FDI ATTRACTION





Beginning with the investment climate component, Mordue observes that investors weigh a range of long-term social and economic factors when assessing investment opportunities. Some factors are tangible, including transparent legal systems, robust education and R&D systems, logistics infrastructure, proximity to markets and existing clusters of suppliers. Intangible factors such as perceptions of cultural affinity and quality of life for employees are also important to the investment decision.

The investment climate component also encompasses such factors as the availability and cost of skilled labour and other key inputs to the production process. Finally, the suite of policy measures including tax rates, market access, and general and

targeted investment incentive programs are key policy factors that must be considered. All of these factors must be weighed in attempting to ensure the ultimate success of a long-lived, relatively high-cost investment decision.

Mordue argues that, in addition to the tangible and intangible factors in the investment climate component, individual actors also play an important role in successful investment attraction. Internally, investment proposals are driven by individuals within the firm seeking to persuade senior management to give their approval. This approval will depend critically on the quality of the business case including its fit with the global firm's strategic objectives. Complementing the work of the internal champions are the public catalysts who seek both to mobilize public resources that

support the investment proposal, but also play a key role in helping to build confidence and persuade firm senior managers to approve the investment proposal.

In sum, the investment attraction framework presented by Mordue suggests a number of key questions for policy makers. First, what do they need to do in the short- and medium-term to make their jurisdiction an attractive location for manufacturing investments? Second, how do they identify and work with the internal champions who will develop proposals and sell them to their firm's senior management? Finally, who are the public catalysts that can best mobilize public sector influence and resources to support investment proposals and help internal champions gain approval for their projects?

STUDY 3

Core Manufacturing

In this study, Paul Boothe and Jean-Louis Schaan present the first of two sets of case studies looking at the successful attraction of global firms' production and R&D mandates to Canada. Intra-firm competition for these mandates can be fierce and is growing as emerging market subsidiaries of global firms join their mature market colleagues in the competition.

Using a structured-interview methodology, Boothe and Schaan looked at four cases of successful investment attraction: GE, IBM Siemens and Toyota. Interviews with senior executives focused on two overarching questions: How does the process of mandate allocation work in your firms? What was your strategy to win the mandate in question? We begin our case studies with General Electric (GE) Canada.

GE Canada is headquartered in Mississauga Ontario with 7,000 employees across Canada. Boothe and Schaan interviewed Ross Hornby, Vice President of Government Affairs and Policy regarding the establishment in 2013 of the Global Robotics, Automation and Instrumentation R&D Centre in Bromont Quebec.

The investment process begins with Canadian CEO, Elyse Allan, looking for synergies across Canadian divisions that can fill gaps in GE's global business lines. GE Canada produces an annual 'Playbook' that includes investment proposals that are pitched by division heads to headquarters. The Canadian CEO socializes the proposals with the Chair and Vice-Chair of GE and sits on the investment decision-making body – the GE Commercial Council.

Hornby identified the following key success factors for the Bromont investment:

- Access to top talent and flexible labour force
- The track record of the existing Bromont plant for quality and investment execution
- Proximity to the Montréal aerospace cluster and GE's Vermont and Ohio plants
- Government involvement: the Government of Quebec was a critical investor and federal Industrial Regional Benefit credits enhanced the attractiveness of the project to GE

IBM Canada is headquartered in Markham, Ontario with over 20,000 employees across Canada. Boothe and Schaan interviewed Pat Horgan, IBM VP of Manufacturing, Development and Operations regarding the establishment of the Southern Ontario Smart Computing Innovation Platform (SOSCIIP) launched in 2012.

IBM Canada is the only IBM subsidiary that reports directly to headquarters and the senior leadership of IBM visit Canada regularly. The project (a large scale R&D mandate) was designed to fit into IBM's global priorities for applied research and had no close competitors within the IBM family. The project required mobilization of a large number of government and post-secondary education stakeholders and identification of internal champions not only in Canada but also at headquarters. According to Horgan, public sector commitment and financial support were critical to the success of the proposal.

Siemens Canada is headquartered in Oakville, Ontario with more than 4,000 employees across Canada. Boothe and Schaan interviewed Robert Hardt, President and CEO in regard to Siemens' establishment of its Fredericton Smart Grid Centre in 2012 in partnership with NB Power.

Siemens uses a rigorous planning process to develop 'Country Opportunity Plans' to contribute to Siemens AG global priorities. It is a bottom-up process where senior executives and technical staff review and support proposals from front-line staff. Headquarters evaluates proposals in two stages: business plan due diligence and investment application.

Critical to success in the approval process were the CEO's formal and informal networks at headquarters and Siemens Canada's lean organization and track record for successful project implementation. Canada's great R&D environment was a key attractor, but Siemens Canada found government departments in Canada's federal system difficult to navigate relative to best practice jurisdictions.

Toyota Motor Manufacturing Canada (TMMC) is headquartered in Toronto with almost 14,000 Canadian employees. Boothe and Schaan interviewed Ray Tanguay (recently-retired chairman of TMMC) regarding the process that led to the establishment of the Woodstock Assembly plant in 2005. The plant currently produces the RAV 4 SUV with output of about 220,000 vehicles in 2014.

Tanguay developed a concise business plan based on Toyota's medium term needs and TMMC's reputation for manufacturing quality and execution of new projects. Governments played an important supporting role in land acquisition and salesmanship with Toyota decision makers. The role Tanguay played as internal champion for the project was key.

Looking across the firms, a number of common elements emerged. These included the role played by senior Canada-based executives as internal champions, the strong track record of existing Canadian operations, good fit with the firm's global plans and aspirations and a compelling business case. Finally, governments were committed partners in each of the successful proposals.

STUDY 4

Food and Industrial Biotechnology

In this study, David Sparling and Erin Cheney look at the location decisions of food and industrial biotechnology firms looking to invest in greenfield operations. Using a structured interview approach combined with their own background research, they focus on four international firms at different stages of development, including Ferrero, Dr. Oetker, Natra and BioAmber.

Ferrero is headquartered in Alba, Italy with 22,000 employees worldwide. It has 20 manufacturing facilities located across Europe, Asia, Australia and North and South America. Ferrero has had a presence in Canada since 1974 and is headquartered in North York, Ontario with 1,200 Canadian employees.

Ferrero was looking to locate a large-scale manufacturing facility in North America and chose Brantford in 2006 for a \$150 million greenfield investment. It added a \$50 million warehouse and distribution centre in 2012 and invested an additional \$36 million in new equipment in 2014. The Brantford facility comprises 1.5 million square feet and fixed assets in Brantford are valued at over \$450 million.

Interviews revealed that key to attracting the investment were Canada's competitive construction and operating costs, ease of access for quality, cost effective food ingredients, timely access to serviced land and workforce. Quality of life was also an important consideration – including personal tax rates, culture, democratic institutions and personal security. Government incentives were judged to be helpful, but secondary to the long-term cost structure.

Dr. Oetker is headquartered in Bielefeld, Germany with 12,800 employees worldwide and manufacturing facilities in the US, Mexico, Germany, UK and Canada. Products include baking powder, desserts and frozen pizzas. In 2012, the firm made a Canadian investment of \$150 million to build a facility located in London, Ontario to produce frozen pizzas. Government incentives totaled \$19 million.

Key factors in their choice of London were workforce, access to markets and quality ingredients, cost structure and timely access

to serviced land. Culture was also identified as an important factor as was government support with timely information on supply chain potential and financial support (including municipal land, development charges and permitting costs).

Natra is headquartered in Madrid, Spain and has about 1,000 employees worldwide. It produces chocolates and chocolate derivatives for consumer and industrial markets with six manufacturing facilities located in Spain, Belgium, France and Canada.

In 2013, Natra invested \$15 million to equip a 100,000 square foot production plant in London, Ontario and purchased adjacent land for future expansion. In addition, they established a sales and marketing office in Toronto to consolidate North American consumer sales operations. Natra needed to move quickly after winning a new supply contract. The company used a GTA-based real estate advisor to help with site selection.

Key to their decision to locate in London were input costs and access to quality ingredients. Tariffs, taxes and the cost of labour were also important factors as was a transportation network with good access to the US. Governments contributed a \$2.8 million loan from the provincial Southwestern Ontario Development Fund.

BioAmber is headquartered in Montréal, Quebec with a total of 100 employees. In 2014 they invested \$125 million in a manufacturing facility for bio-based succinic acid located in Sarnia, Ontario.

BioAmber executives visited nine North American sites, with Sarnia being the only Canadian location. While some US locations offered larger up-front incentives, BioAmber was more concerned with the long-term cost structure and security of their feedstock. The unique features of the site were key but strong support from governments in terms of grants and secured loans was also key to the selection of the Sarnia site.

Looking across the investment location decisions of these four food and industrial biotechnology companies, some common elements emerge. Canada is not always initially on the companies' radar, indicating that more could be done to profile Canada's strengths and advantages in this sector. Among those advantages are Canada's competitive long-term cost structure, secure, high quality input supply, and logistics and access to US markets.

Municipal government can help attract investments with site certainty and speed of development. Finally, governments need to be competitive on financial support and provide timely and accurate information to decision makers.

STUDY 5

Best Practice in Investment Attraction

In this final study, David Moloney and Sandra Octaviani examine the approaches of five best-practice investment attraction organizations and draw lessons for Canada.

The best-practice organizations they studied were ProMexico, Select USA, Utah's Governor's Office of Economic Development (GOED), Hong Kong's InvestHK and Singapore's Economic Development Board (EDB).

ProMexico is a Mexican government institution tasked with strengthening Mexico's international trade and investment performance. In our previous research, it was recognized by Canadian firms as a best-practice organization. ProMexico's mandate is to support the export activity of existing companies and coordinate activities to attract FDI to Mexico. ProMexico's key innovation is to use a co-investor focus to choose strategic priority sectors for Mexico and then identify firms to anchor and populate supply chains. Only anchor firms are offered direct financial support. After extensive due diligence – targeted firms are visited pro-actively – before specific opportunities are on the horizon.

ProMexico works with state governments, educational institutions and existing firms to create winning conditions for investment attraction. Account executives act as the target firm's 'concierge', facilitating meetings and coordinating partners' activities before and after the investment decision is made. The organization uses sophisticated technology roadmaps, web-based information and site selection tools to support their investment attraction activities.

SelectUSA was established as a part of the federal Department of Commerce by Presidential Executive Order to provide a centralized investment promotion infrastructure for the US. Its key functions include providing a single point of contact, coordinating the work of over 20 federal agencies, assisting state and local governments with investment attraction and engaging in high-level advocacy.

A key activity is its biennial SelectUSA Investment Summit that features participation by the President and a range of cabinet secretaries. CEOs of interest

receive personal invitations from US Ambassadors. Senior officials are engaged to help attract key investments from abroad. Like ProMexico, SelectUSA also supports a sophisticated cluster mapping tool to aid in site selection.

Utah's GOED is the economic development agency for the state of Utah. Its core mandates include facilitating the creation, growth and recruitment of companies to Utah. The Governor is a direct participant in GOED's planning and strategy development. He hosts high-profile, in-state events and travels extensively nationally and internationally to promote trade and investment.

GOED acts as a 'one-stop' contact for firms interested in investing in Utah. Its investment incentives are defined in a statute and reported on transparently along with investment milestones and results. GOED makes extensive use of existing firms as ambassadors to help attract investment to the state.

InvestHK and Singapore's EDB act as 'one-stop' contacts for firms interested in investing in their jurisdictions, coordinating the work of all other government agencies. Strategies are tailored to the specific investments they are aiming to attract. Both agencies are relatively well resourced with a significant presence in foreign locations. The EDB also leverages executives of firms already located in Singapore as strategic advisors and as ambassadors to home-country firms.

The review of activities of these best-practice investment attraction organizations offers some lessons for Canada. Canada lacks formal coordination between federal, provincial and municipal governments. A common strategy for targeting efforts is missing. High-level participation by political leaders and senior officials is generally haphazard.

The success of these best-practice competitors suggests that Canada needs to adopt a deep strategy, identifying target sectors based on close and formal coordination across federal and provincial

governments. Clear linkages between senior governments and municipalities and post-secondary institutions is needed.

More flexible investment attraction programs with transparent reporting and a clear goal of enhancing is also tax revenue needed. Efforts should extend beyond greenfield attraction to include attracting new mandates and investments in the Canadian operations of global firms by working with the Canadian CEOs who are focused on growing their business in Canada.

Practical Actions

The final session of the project conference was devoted to engaging business, government and academic participants in defining the highest-priority practical actions that could help attract investment in advanced manufacturing in Canada. Participants identified three practical steps governments could take to raise Canada's game to the level of its best-practice competitors.

The first recommendation is for all governments to make a formal commitment to act in a coordinated fashion when engaged in investment attraction. The lack of coordination between federal, provincial and municipal governments is an obvious departure from best practice and makes Canada appear disorganized and disinterested to potential investors.

The second recommendation is for governments to jointly develop an explicit business plan for investment attraction to guide the activities of all relevant parties. The lack of clear objectives, explicit actions and accountability for results is another departure from best practice. Results should be judged using a simple metric: incremental tax revenue generated.

Finally, the third recommendation is for political leaders and senior officials to become engaged in a regular and sustained way in all stages of the investment attraction process. As in best-practice jurisdictions, Prime Ministers, Premiers and Economic Development Ministers should include regular contact with potential investors and the opening of new markets as one of their key responsibilities.

Learning from past experience, capitalizing on our many advantages and adopting the approaches of our best-practice competitors will allow Canada to successfully attract the investment we need for our advanced manufacturing sector to grow and prosper.



