

INVESTING IN CANADA

Vol. 2, No. 2 — Fall 1988

A NEWSLETTER ON CANADA'S INVESTMENT CLIMATE



INVESTMENT IN CANADA —

FOCUS ON THE U.S.A.

Canada and the United States are linked by history, geography, and economics. Each is the other's most important trading and investment partner, by a large margin. This issue of Investing In Canada focusses on recent investment by U.S. businesses into Canada, especially in the form of joint ventures and strategic alliances.

Two-way direct and portfolio investment is now well in excess of C\$100 billion. In 1987, direct U.S. investment in Canada was approximately two-thirds of the total foreign direct investment which entered the country that year. By the end of 1987, the cumulative value of direct U.S. investment in Canada stood at about C\$75 billion, almost three-quarters of the total stock of C\$103 billion of foreign direct investment in the country. Some 3,500 U.S. corporations have Canadian subsidiaries — the largest concentration of U.S. foreign subsidiaries in any country in the world.

In the other direction, of the C\$9.3 billion of Canadian direct investment flows abroad in 1987, around two-thirds went to the United States. The total stock of Canadian direct investment abroad in 1987 was C\$60 billion; C\$43 billion of this, or 72%, was in the U.S.

Canada has always been a profitable place for Americans to do business. In 1987, corporate after-tax profits were 10.1% of the gross domestic product (GDP), up from 6.5% in 1983. Over the same period, equivalent profits in the U.S. declined from 4.6% to 4.2%.

Both domestic (see page 4) and foreign direct investment (FDI) in Canada have shown strong growth in 1987. There's been a dramatic increase in the gross inflow of FDI, from \$8.4 billion in 1986 to \$10.2 billion in 1987. This strong investment spending is, in effect, a vote of confidence by foreign business in the strength of the Canadian economy.

A combination of factors, ranging from economic policies to recent economic developments and long-term strengths, have produced this situation. On the policy front, the government of Canada has introduced initiatives to encourage investment, deregulate certain industries, reform taxation, improve patent protection and licensing arrangements, modernize competition legislation, and reduce the deficit. Combined with the unfolding Canada-U.S. free trade agreement, these policies are having a positive effect on the economic climate. The Canadian Department of Finance, for ➤



HIGH-TECH
INNOVATION

Is Big Better?

The following research study was presented by Russell M. Knight, Associate Professor of Business Administration, University of Western Ontario, at the Second Canadian Conference on Entrepreneurial Studies, Kingston, Ontario, in November 1987.

Is research and development more efficient in small firms or in larger firms? Can they work together?

The following study compares 124 independent, entrepreneurial, growth-oriented high-technology companies with 112 large corporations from among Canada's 500 biggest firms, which are involved in developing and introducing high-tech innovations across Canada. It investigates the general management and technical problems faced by these two kinds of innovators and contrasts their approaches to such issues as market research, financing, operations and moving from prototype to mass production.

In general, the independent entrepreneurs were technically trained, usually in engineering, and ➤ p. 7

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INVESTMENT
CANADA

INVESTISSEMENT
CANADA

**Admit it.
Isn't this how you see
Canada's natural resources?**



example, predicts that the agreement will increase business investment in Canada by 4%, in real terms, by 1993.

The fact that the Canadian economy is the fastest growing of the world's seven largest market economies is another reason for investor interest. The country's real GDP grew at a compound annual rate of 4.4% from 1983-1987 compared to the U.S. rate of 3.9%. For 14 of the last 18 years, the Canadian economy has grown faster than the American one.

Canada offers American investors a number of cost advantages. Labour costs are lower – in 1987, U.S. wage rates were 12.3% higher – and comprehensive medical and pension coverage lowers the cost of fringe benefits to employers. The workforce is skilled and highly educated.

Prices for energy and land are generally lower in Canada. A 1986 study by the Montreal Urban Community found industrial electricity costs were the lowest of those in 14 world centres; in Chicago they were twice those of Toronto and in New York they were three times higher.

Canada's major banks rank among the world's largest. The Toronto Stock Exchange is the second largest by volume and the fourth by value in North America.

As well, Canada offers a well developed transportation system, a highly advanced telecommunications system, political stability – and the seventh largest market in the world, of over 25 million people. Over 151 million people live within one trucking day of the Canada-U.S. border, and an additional 60 million live within two trucking days. Combined, the U.S./Canadian market comprises 266 million consumers.

Today's business environment, characterized by global market orientation and

technology-intensive production, is highly competitive. New investment is the key to improving productivity, reducing costs, and reaching new markets. Through federal bodies such as Investment Canada, the Department of Regional Industrial Expansion, and External Affairs, the government welcomes and promotes new investment into Canada.

Investment Canada was established in 1985 with the specific mandate of promoting beneficial investment in Canada by Canadians and non-Canadians. The Agency offers various forms of investment development support to interested companies.

A network of officers, charged with specific responsibility for investment prospecting, work from External Affairs posts abroad, including consulates and the Canadian Embassy, in major centres across the U.S. (see page 6). These officers provide a range of information

**Be honest.
Isn't this how you picture
Canada's transportation
system?**



and services to potential investors, and also undertake development activities such as seminars, information booths at trade fairs, media and marketing campaigns, and missions of interested business people to Canada. The heart of investment development, however, lies in the several thousand day-by-day one-on-one contacts which these posts make and follow up each year with U.S. firms and individuals, seeking out prospective investors and answering enquiries about doing business in Canada. Serious investment leads may be brought to the attention of likely host regional, municipal, provincial and federal agencies.

In Canada, the Agency provides comprehensive investment-related information, gathers strategic business intelligence, provides direct counselling, and engages in matchmaking, especially for joint ventures, technology transfers and new businesses.

Canada is not only open for business. It is an active, welcoming and knowledgeable partner with concrete advantages to offer. Strategically, for both Canada and the United States, in today's intensely competitive environment, working together simply makes sense.

Investment Snapshots

Canadian Consulates General across the United States and the Canadian Embassy in Washington work with Investment Canada among others to promote investment development between Canada and the U.S. Following are some recent activities and targets for the coming year.

ATLANTA

The Atlanta consulate has had success in the last year with an advertising campaign "that played on southern myths about Canada as a place of eternal snow," in the words of Assistant Trade Commissioner Audrey Turner. The advertisements, targeted to small and medium-sized growth firms in the southeastern U.S., generated over a hundred investment leads.

In May the post sponsored an Ocean Technologies Opportunities Seminar in Biloxi, Mississippi, endorsed by NASA's National Space Technology Lab, which led to a number of new opportunities for Canada/U.S. collaboration and investment. Participation in the American Society for Microbiology Annual Meeting and Trade Show in Miami Beach, Florida – an international show which attracted 13,000 business people – led to several hundred potential investment contacts, and participation in the International Woodworking Machinery

**Tell the truth.
Isn't this your idea
of the Canadian market?**



Extracts from Atlanta's recent print media advertising campaign.

and Furniture Supply Fair (IWF '88) also resulted in a number of excellent leads. Plans include a defence/high-tech investment seminar to be held in Florida.

BOSTON

"The major manufacturing companies headquartered in New England – for example, Digital Equipment, Raytheon, Textron, Data General – already have extensive operations in Canada," says Senior Trade Commissioner Bernard Giroux. Therefore, the post concentrates on small and medium-sized companies which are good prospects for joint research and development activities, minority shareholding, and transfer-of-technology agreements. Investment information seminars and development activities are scheduled for the coming year in biotechnology, informatics, software and medical devices.

BUFFALO

"Doing Business With Canada" seminars "got the message through" says Paul Desbiens, Senior Trade Commissioner, and led to new and increased investments from Ingram Software, Greater Buffalo Press, Niagara Paper, Sonitrol (security service), Zee Medical (first aid mobile units), Computer Task Group, and Marine Midland Bank, among others. A new wave of interest was created by the announcement of the free trade agreement, says Desbiens.

Good Earth Organics Corporation (New York, Buffalo) opened a peat moss plant in Pt. Escuminac, New Brunswick in September 1987. Guenter H. Burkhardt, President, notes that "the Canadian Consulate in Buffalo was extremely helpful in locating this most valuable deposit of Canadian sphagnum peat moss. It also helped make the project possible by assisting Good Earth in obtaining an Industrial Regional Development Program Grant worth \$400,000."

CHICAGO

Sector-specific trade shows and seminars, for example in electronics, the food industry, and technology transfer "draw in an industrial and commercial audience," says Trade Commissioner Ron Bollman, "and they're always a success story." In recent investments, Zenith Electronics Corporation, Glenview, Illinois entered this spring into a joint venture agreement with Les Entreprises Videoway Ltée, Québec, (Le Groupe Videotron) to produce Videoway cable terminals for a new cable and telecommunications system being launched in Canada and the U.S. – "the first system of its kind in the world," ac-

ording to Michel Dufresne, Videoway's president.

In July 1988, Motorola Canada Ltd., Illinois (Motorola Inc.), a leading electronics manufacturer, acquired MDI Mobile Data International Inc. of Richmond, British Columbia.

Dixon Automatic Tool Incorporated of Rockford, Illinois, has had a manufacturing facility for automated assembly machines in Stony Creek, Ontario, since 1981. John H. Dixon, President, says "We're servicing about 270 customers from Vancouver to Quebec – American companies as well as Canadian ones. Our sales in Canada have been growing at about 18% a year." Dixon is enthusiastic about government employment training programs. "The government has been very helpful. We've had good success, especially with the student-work programs. Altogether, we're

market The Advisor 2, an on-line colour graphics computer instruction set and software developed by Dynapro, Vancouver.

In other investments, Centimark Corporation, Pittsburgh, established an office in Etobicoke to install roofing materials. Burton Rubber, Burton, Ohio, established a manufacturing plant in Tillsonburg, Ontario. Hilltop Research, Cincinnati, established a facility in Winnipeg, Manitoba for testing soaps and lotions in cool environments. The Lens Crafter Division of U.S. Shoe is establishing eye-wear stores in Calgary and Toronto with 15 more planned. And Hofman Process Inc. of Pittsburgh, entered into a joint venture with Slegers Machining in Toronto to produce heat exchangers.



Rody Salas, VP and General Manager, Industrial Computer Division, Allen-Bradley, Rockwell International (right), with Larry Lederman of the Canadian Consulate in Cleveland, in front of the Canadian-designed and manufactured Advisor 2.

pleased with our equipment and our company in Canada."

CLEVELAND

Larry Lederman, Head of Consular Post, says "all the firms I've visited in the last few months have expressed very positive views about the free trade agreement. Several CEOs have told me that they would expand their Canadian facilities as part of the rationalization process and economies-of-scale benefits they hope to derive from the FTA. None have said they will diminish their manufacturing activities in Canada. They say the quality of life for their employees in Canada is excellent and the commitment of employees to their jobs is exemplary."

In one recent joint venture, Allen-Bradley (Rockwell International) will

DALLAS

Ann Charles, Senior Trade Commissioner, says the greatest impact on investment prospects in the Southwest has been the change in the energy sector in the last few years. "Oil and gas companies were hit hardest by the major recession of 1986-87, but the worst is over now, and those that have survived are flush – they're sitting on money." She says the investment climate is perceived as being very favourable right now, in both fiscal and monetary regimes, partly because of the free trade agreement. "The energy industry also watched the Dome/Amoco arrangements very closely, and the Hibernia situation continues to heighten interest." Recent initiatives – include four major seminars on the FTA and a targeted mailing to the electronics sector. ➤

DETROIT

In Detroit – "the automotive capital of the world" – according to Paul Robertson, Commercial Officer, the consulate has sponsored investment semi-

nars in the last year directed at automotive parts producers, the high-tech sector, the defence industry, and the general manufacturing base. The post has received an increasing number of enquiries of late. "There obviously has been interest generated as a result of the

free trade agreement, with potential investors 'testing the waters' in contemplating future investment in Canada," says Robertson.

Recent investments include the establishment of a plant in St. Thomas, ➤

INVESTMENT BAROMETER

Domestic investment is key indicator

Domestic investment is an important indicator of the health of our economy. Right now, business is bullish. Its investment spending plans bode well for the economy during the coming year.

Business investment, in plant, machinery and equipment, is currently contributing about 13% to Canada's gross domestic product. Its importance, however, is much more pronounced when it is a major factor in fuelling a sixth consecutive year of economic growth. The 1988 mid-year economic report of the Organisation for Economic Co-operation and Development (OECD) points to this as a major reason for Canada's top ranking among the major OECD countries.

Two federal government surveys (by Statistics Canada and the Department of Regional Industrial Expansion (DRIE)), conducted this spring, support the OECD outlook. They both report strong actual and expected increases in domestic investment spending. Housing was one of the strongest areas over the past several years but is expected to level off in 1988 (see table 1).

Both surveys reveal healthy increases expected in the natural resource sectors of forestry, mining, and oil and gas, as well as in the manufacturing, utilities, and finance-insurance-real estate sectors. According to the DRIE survey, all major regions of the country are expected to experience investment increases of around 30% or more, except for Ontario, which shows intended outlays of 10.6% (see table 2).

However, Ontario still claims the lion's share of one-third of all the intended investment spending revealed in the DRIE survey.

Research by a private organisation reinforces this optimistic domestic investment picture. The results of the Conference Board of Canada's quarterly survey of *Business Attitudes & Investment Spending Intentions* (May 1988) shows that the Board's index of busi-

ness confidence is at its second-highest level in its history. ♦

– by J. William Galbraith, *Investment Canada*

Table 1
DOMESTIC INVESTMENT IN CANADA
NEW CAPITAL EXPENDITURES

INDUSTRY	1984	1985	1986	1987	1988*
(\$billion)					
Agriculture, Fishing	4.2	3.1	2.8	2.6	2.6
Forestry	0.2	0.2	0.2	0.2	0.3
Mining, Quarrying, Oil Wells	9.7	10.9	7.7	6.7	8.6
Construction	1.3	1.2	1.4	1.6	1.8
Manufacturing	9.1	11.5	14.2	15.0	18.4
Utilities	14.4	13.7	13.3	14.6	17.9
Trade	2.4	2.5	2.6	2.7	3.0
Finance, Insurance, Real Estate	4.0	5.7	7.1	7.0	9.7
Commercial Services	5.0	6.7	8.2	9.1	9.9
Institutions	2.8	3.1	3.5	3.7	3.6
Housing	12.5	21.2	25.8	32.8	32.4
Sub-Total	65.5	79.7	86.9	98.0	108.0
Government Administration	9.6	10.8	10.2	10.5	11.5
TOTAL	75.1	90.5	97.1	108.5	119.5

* Intentions at beginning of 1988.

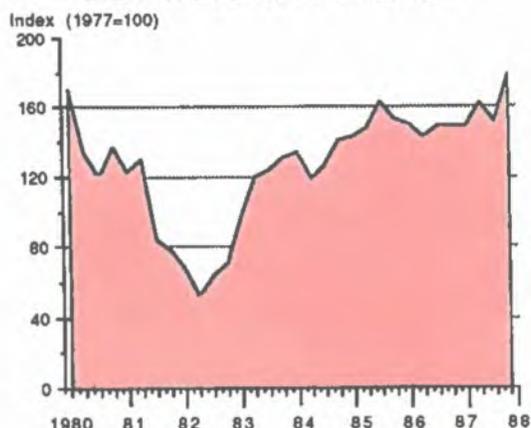
Source: Statistics Canada, *Private and Public Investment in Canada, 1988*.

Table 2
CAPITAL EXPENDITURES* OF SELECTED LARGE COMPANIES
FOR 1987 AND PLANS FOR 1988 – BY PROVINCE/REGION

PROVINCE/REGION	Actual Outlay 1987	Intended Outlay 1988	1988/87 % Change
(Current \$million)			
Newfoundland	457.1	466.4	2.0
Prince Edward Island	22.7	25.7	13.2
Nova Scotia	608.9	845.4	38.8
New Brunswick	375.8	610.6	62.4
Atlantic Region	1,547.2	2,027.7	31.0
Quebec	4,622.6	5,994.6	29.6
Ontario	9,177.2	10,154.0	10.6
Manitoba	778.6	936.6	20.2
Saskatchewan	757.0	1,100.9	45.4
Alberta	4,323.2	6,184.8	43.0
Prairie Region	6,083.6	8,546.4	40.4
British Columbia	1,911.5	2,522.8	31.9
Yukon	10.3	10.1	-2.0
Northwest Territories	132.1	170.5	29.0
British Columbia Region	2,081.2	2,770.3	33.1
CANADA	24,406.0	31,059.1	27.2

*Only the 300 firms which reported for the years 1987 (actual) and 1988 (revised intentions) have been included in this table. Source DRIE, 1988.

Index of Business Confidence



Source: Statistics Canada; The Conference Board of Canada, May 1988

Ontario, to manufacture seat recliners for the automotive industry by ITT Hancock, Jackson, Michigan.

LOS ANGELES

Biotechnology, computer-related technology, electronics and advanced industrial materials are targeted areas for investment development in this region, according to Lorne Dyke, Consul (Investment). "The advent of the Canada-U.S. free trade agreement has also brought increased interest by Southwest firms in Canada as they consider where in North America they can most competitively and efficiently produce for the North American market."

Recent investments include Rockwell International's establishment of Rockwell Ship Systems Canada, and S.W.I.'s establishment of Palatine Enterprises in Burnaby, B.C.

In late 1987, Cannell Studios of California agreed to establish a production studio in British Columbia, and in July 1988 entered into a joint venture with the Canadian company Comweb Corporation to establish North Shore Studios in North Vancouver, B.C. The new facility will be a C\$20 million TV-film studio with seven state-of-the-art sound stages and over 100,000 square feet of facilities.

In a new approach to development of airport facilities, Lockheed Air Terminal Inc. (Lockheed) of California and the Canadian firm of Huang & Danczkay Ltd. have entered into a joint venture to develop, finance, construct and operate the first major privately owned international air passenger terminal in Canada. The C\$381 million facility, Terminal 3 of the Lester B. Pearson International Airport in Toronto, "is our largest project to date," says Lockheed President Viggio M. Butler.

MINNEAPOLIS

Investment development in Minneapolis concentrates on the electronics, agri-business and medical products sectors, and includes seminars, speeches, visits, mail campaigns, and participation in trade fairs. For the several dozen current active investment enquiries, the post may provide background material, sectoral contacts or information on locations. Senior Trade Commissioner Peter W. Bélanger says that, "with so many players in the game, we must be careful not to duplicate efforts. Prospective investors have been very supportive of our efforts, and appreciate the level of confidentiality provided. We do not alert provincial governments or municipalities to specific leads unless consent has been given by the prospec-

tive investor. Companies do not rush into investment decisions, and it is vital that our assistance be perceived as helpful but unobtrusive."

NEW YORK

John Morand, Consul (Investment), says the aim of the New York office is simple: "One-stop service." The office will promote an investment in any way needed, from solving tariff problems to leasing buildings. "We've established a network of local, provincial and federal government contacts across Canada who will follow up information and match-making requests from U.S. firms." Investment leads handled through the consulate last year produced US\$509 million worth of new investment into Canada.

This includes the expansion of Champion International of Stamford, Connecticut's pulp-and-paper operation in Hinton, Alberta, which will increase production to 1200 tons daily from 600 tons.

Eastman Kodak, Rochester, New York, will construct a manufacturing facility in Toronto to produce up to 100 million pounds annually of the plastic product PET. Says Vice-President, Eastman Chemicals Division, R. Wiley Bourne, "The new facility confirms our commitment to the Canadian marketplace."

Frank B. Hall & Co. Overseas, Inc., New York, is establishing insurance offices across Canada. President R. N. Lamprecht says "The Consulate's help was invaluable. The information on the free trade agreement, the insurance market and the entire Canadian economy enabled me to put together an extremely professional report on Canada which was the key to selling our Canadian investment plan."

Robert W. Crane, Vice-president, Finance, I-Stat Corporation, Dayton, New Jersey, remembers that "we were looking for a new facility for our company when we located Siltronics in Ottawa. It was in receivership, and we were able to acquire it. That part was just businessmen eyeball-to-eyeball in hard negotiations. But doing business in Canada was not like doing business in Pennsylvania. . . . We had no idea of the amount of paperwork we would have to



The Chicago Consulate's investment promotion information booth.

do and the amount of information we would need. That was where Investment Canada came in. If it hadn't been for the help of the people at the Agency, I don't know if we would have been able to go through with this. Investment Canada deserves a pat on the back. The New York consulate also helped us when there were problems with immigration."

SAN FRANCISCO

In June 1988, Lanpar, Canada's leading DEC-compatible video terminal manufacturer, announced a technology-licensing agreement with Everex Systems, Fremont, California to make and market Lanpar video display terminals. Lanpar will use a portion of the revenues generated for continued research and development, and Everex will help the smaller company with world-wide cost reductions and components purchasing.

Senior Trade Commissioner Paul D. Donohue says that "often Canadian firms have state-of-the-art technology but lack the channel of distribution for effective entry into the U.S. market. As well, the smaller size of the Canadian market makes it difficult to purchase components in volumes large enough to be competitive. Lanpar is a case in point. Lanpar has undertaken extensive R&D programs in the last two and a half years and Everex is a strategic partner which can take the result to the world market."

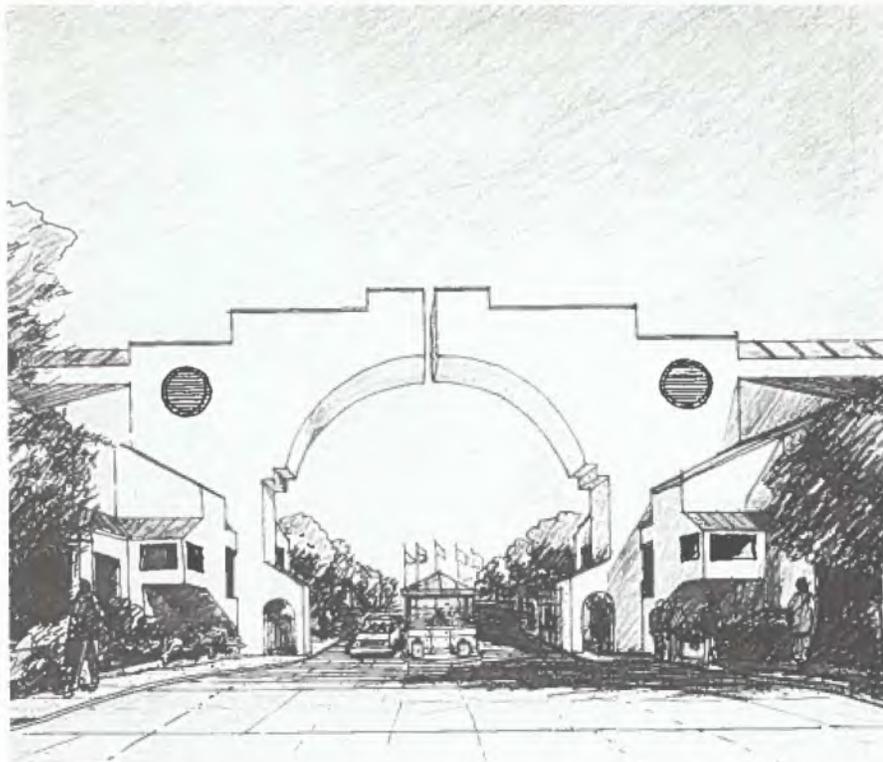
MIPS, a rapidly growing firm which designs and manufactures microprocessors for Reduced Instruction Set Computers (RISC), recently opened an office in Canada. Lanpar and MIPS are two examples of investment development as a result of active promotion by the consulate of joint ventures and partnerships. ▶

SEATTLE

In the Pacific Northwest, investment prospecting takes the form of targeted presentations, visits and mailings. Senior Trade Commissioner A.S. Poole says: "The benefit of these activities has generally come from an enhanced awareness of the role of this office, or the planting of a seed for the future." For example, following a recent mail campaign two companies contacted the post to advise it that labour or taxation problems would necessitate the closure of Canadian operations. "Our intervention subsequently reversed the course of action."

In recent investments, Hecla Mining Company of Canada (Hecla Mining Company, Coeur d'Alene, Idaho) has entered into a joint venture agreement with Highwood Resources of Vancouver to explore development of a mineral property in Thor Lake, Northwest Territories. Maverick Microsystem International, Mukilteo, Washington, has sales offices in Canada and is considering establishing manufacturing facilities. J. E. Findley, CEO, says "We're looking at Canada as a stepping off point for the U.K., Europe, Australia, India - a way to avoid the excessive duties we pay if we ship from the U.S. However, with the new free trade agreement, we don't know if this will still be a viable solution. We're still collecting data." The consulate has been a focal point for their investigations: "They've been good friends, one of the best."

Artist's rendition of the planned North Shore Studios in Vancouver.



WASHINGTON

Brian Oak, Commercial Counsellor, notes that the post is in its first year of investment prospecting and, to date, most investment development has consisted of tracking enquiries and investment possibilities. Enquiries in the last year have come, typically, from small to medium-sized companies in services or light industry. "Among large companies," says Oak, "the impending free trade agreement has been a definite motivational force in investment strategies north of the border. The same has not been true for smaller companies." He says the post is "now geared up" and an expanded program of investment development activity will be implemented in the new year. 🍀

- by Susan McMaster, Investment Canada

For further information, contact Canadian Consulates General and The Canadian Embassy. (Note: several officers have changed postings since the above interviews were conducted in July 1988.)

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The Canadian Edge Price for Software

In the last issue of *Investing In Canada*, the price for the electronic version of *The Canadian Edge* (Ottawa: Investment Canada, 1988), consisting of IBM P.C. compatible software and an instruction manual, should have read \$90 in Canada and \$108 in other countries (plus a small handling charge). Our apologies for any inconvenience this may have caused. 🍀

HIGH-TECH INNOVATION

Is Small Smarter?

(cont. from p. 1)

had no management training or experience, either themselves or on their management team. Corporate entrepreneurs were as likely to come from management backgrounds as from technical, or had people on their team with those skills.

A list of 33 obstacles to innovation success was used to compare innovation within large and small firms. The corporate innovators and the independent entrepreneurs surveyed ranked these obstacles in order of importance. The following table shows their rankings, determined by the number of respondents who felt an obstacle was an important problem in their company.

A low difference in ranking (either plus or minus) indicated that corporate entrepreneurs and independent entrepreneurs ranked an obstacle of about the same importance, while a large difference meant one ranked it much higher than the other. A negative difference meant the independent entrepreneurs considered the obstacle as more important.

Both groups considered imperfect market analysis as very important, and independent entrepreneurs ranked five of the criteria in category 1, *Misreading of the Market*, as the most important obstacles in their innovation process. In other words, though both groups had problems in marketing their innovations, these were more critical for the independents, possibly because of their lack of business training and experience. They were insufficiently prepared to market their products compared to large corporations. However, large companies also viewed evaluating the market for the innovation as the chief obstacle in marketing their new items.

Both respondents ranked "Underestimation of customer's risk in supporting venture" relatively low, last of all 33 factors for the large companies. Independent entrepreneurs cited this factor only in terms of a potential risk that their firm might disappear and that customers therefore viewed them as risky suppliers of products and services compared to well established firms.

Category 2, *Corporate Support*, was not representative of the situation for the independent entrepreneurs. Their firms were usually one-product companies with a relatively small staff, and with everyone a member of the same team. Issues like commitment to the venture and fit with corporate strategy were not of

great concern, since all members were already fully committed or they wouldn't have been there. Large corporation respondents ranked "Lack of entrepreneurial talents in company" as the second most important obstacle to innovation within their companies, while it was of little concern to independent entrepreneurs. This issue showed the sharpest difference in relative ranking.

Issues in category 3, *Unrealistic Corporate Expectations*, did not much concern the independent entrepreneurs, who

did not see their ventures as being unusually risky or as having major faults. For them, corporate cost allocation was not the problem, but rather the high cost of development in general.

Inadequate Planning, category 4, was not considered critical by either group, except for "Underestimation of funds needed". Both groups raising funds within the organization felt costs tended to spiral, and that foreseeing them was very difficult and a serious obstacle to innovation. ➤

OBSTACLES TO INNOVATION			
	Rank 1 by Corporate Entrepreneurs	Rank 2 by Independent Entrepreneurs	Rank 1 minus Rank 2
CATEGORY 1 – MISREADING OF THE MARKET			
Imperfect market analysis	1	1	0
Underestimation of:			
competition	20	2	18
selling effort needed initially	29	4	25
customer's risk in supporting venture	33	29	4
barriers to entry to market	21	3	18
Unexpected customer education and training requirements	32	5	27
CATEGORY 2 – CORPORATE SUPPORT			
Lack of:			
real commitment to the venture	13	33	-20
clear mission for new unit	23	31	-8
entrepreneurial talents in company	2	32	-30
fit with corporate strategy	6	30	-24
Competition for resources inside company	9	14	-5
CATEGORY 3 – UNREALISTIC CORPORATE EXPECTATIONS			
Impatience in company to get results	12	19	-7
Unrealistic payback criteria	19	13	6
Overcontrol by corporate level	28	28	0
Excessive corporate cost allocations	25	18	7
Underestimation of riskiness of venture	14	17	-3
Refusal to acknowledge weakness	7	20	-13
CATEGORY 4 – INADEQUATE PLANNING			
Poor cost estimation	15	11	4
Underestimation of funds needed	3	6	-3
Unanticipated regulation problems	31	20	11
Lack of contingency plans	24	12	12
No clear definition of failure	17	29	-12
CATEGORY 5 – OPERATIONAL DIFFICULTIES			
Debugging time underestimated	4	7	-3
Quality control maintenance	18	9	9
Disruption of on-going operations	26	15	11
Incorporation of new unit into on-going operations	30	21	9
Venture incurred excess fixed cost	11	8	3
CATEGORY 6 – PEOPLE PROBLEMS			
Unwillingness to:			
consider alternative approaches	8	22	-14
bring needed skills on board	10	16	-6
kill an idea	5	24	-19
Innovation envy or sabotage effect	22	23	-1
Defense of turf	16	25	-9
Bandwagon effect	27	26	1

Operational Difficulties, category 5, was about equally important to both groups and of moderate importance in the innovation process.

Category 6, *People Problems*, was ranked much higher in importance by large corporations than independent entrepreneurs, because many of these issues simply did not exist within small entrepreneurial firms with few employees, all concentrating on the same objective. Large firms experienced more internal competition for funds, resources and people.

In general, big corporations seemed to have problems with finding and encouraging entrepreneurs, gaining corporate support for innovations, and internal competition, while independent entrepreneurs had difficulty with market assessment, operations, and financing.

Currently, large firms tend to frustrate and alienate their own entrepreneurs and innovators, causing them to leave and create their own independent spin-off businesses. The independents then encounter many of the obstacles described here, since the corporations they left are better equipped to handle certain aspects of the innovation process. At the same time, the corporations lose their innovators.

How can these problems be resolved? One possibility is for more joint ventures and sharing of the innovation process between large and small firms. Both groups are guilty of developing innovations based on the technology available rather than on market need, but independent entrepreneurs are especially culpable. Large companies are better

equipped to assess these needs through their marketing divisions.

Once a need for an innovation has been assessed by such a company, it should screen small independent entrepreneurial firms which have the specialized personnel to develop that innovation. When the two companies have reached an agreement for joint development, the independents can concentrate on organizing the innovation group and developing the concept on a technical level, while corporate people concentrate on the managerial aspects, such as raising financing for the venture, and planning and implementing the global strategy for manufacturing and marketing the product.

More partnerships of this kind are starting to occur. Although entrepreneurs continue to be frustrated in large companies and leave to start their own, the large companies are increasingly offering to fund part of the new ventures and receive an ownership stake in return. Usually the offer is too good to refuse. The question of course is how large the stake is. There can be problems, for example, if an entrepreneur wants to make quick autonomous decisions without needing the large corporation's approval and without being bogged down in a bureaucratic structure. It is usually best for the large corporation to hold a minority interest so that Board approval is not required for the entrepreneur to act.

Another option is for a company to help independent entrepreneurs who have new ideas to develop them, rather than to initiate innovation within the

large corporation. 3M is an example of a company which does this in a formal way.

In conclusion, independent entrepreneurial firms tend to suffer from lack of general management skills, especially in marketing, finance and manufacturing. Corporate entrepreneurs more often have problems defending their ideas to management within the corporation, obtaining funding and other resources within the firm and finding a corporate mentor to assist in such areas as fighting political battles, providing rewards and incentives for team members, and creating the right overall environment for innovation within the corporation. Through joint ventures, both corporate and independent innovators can solve problems and gain needed skills. ♦

— prepared by Réjean Lemieux,
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Complete proceedings of the conference are available from C.C.E.S., Events Management, 4 Cataragui Street, Suite 209, Kingston, Ontario, Canada K7K 1Z7, FAX (613) 545-0806.

Investment Opportunity

Data Bases Survey

Investment Canada is currently in the process of surveying investment opportunity data bases in Canada, and will feature a summary of its findings in an upcoming issue of *Investing in Canada*.

Investment opportunity data bases are computerized information systems made available to investors looking for investment opportunities and entrepreneurs who wish to find business people interested in investing capital in new, expanding or well-established businesses. Such data bases aid potential investment partners in making a match that benefits both parties.

The Agency is interested in obtaining further information about existing investment data bases from the operators and users of these systems. Your input would be greatly appreciated. Please send information to: Tammy Davies, Investment Canada, Investor Services, 235 Queen Street, 5th Floor West, P.O. Box 2800, Postal Station "D", Ottawa, Ontario, Canada, K1P 6A5, tel. (613) 995-7231. ♦

1988 International Business and Investment

Exposition

The "1988 International Business and Investment Exposition" in Vancouver, B.C., from November 22 to 24, 1988, is expected to attract over 15,000 visitors, mainly from western Canada and the U.S. "Participation from the U.S. is simply mushrooming," according to organizer John Pavlovich. "Five states and 50 companies are exhibiting to date," (as of August - ed.). Themes to be explored through 11 panel discussions and a symposium led by *The Financial Post* are Canada-U.S. free trade, opportunities in high-tech and opportunities in resource

industries - "the western Canadian economy in a nutshell," says Pavlovich.

The Exposition is aimed at U.S., Canadian and Pacific Rim companies interested in new markets and investment, business immigration, joint ventures and technology transfers in western Canada. For more information, contact: Pacific Forums Inc., Box 39, Suite 280, 815 West Hastings Street, Vancouver, B.C., Canada V6C 1B4, tel. (604)669-3818. ♦

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