

# EMPLOYMENT PRACTICES in MULTINATIONAL COMPANIES in CANADA: Building Organizational Capabilities & Institutions for Innovation

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*The Future Perspectives of Multinationals in Canada* project is the result of a unique collaboration between a CRIMT research team and the Conference Board of Canada's Canada Project. Funded by a special initiative of the Social Sciences and Humanities Research Council of Canada, the CRIMT research team's study of MNC practices in Canada is part of a broader study of employment practices in MNCs across the globe involving teams from the U.K., Ireland, Spain, Mexico, Australia and Canada. This international study seeks to understand the changing organizational structure of MNCs within global value chains, innovation and employment policies, and the influence of public policy on the practices and policies of MNCs. This report is based on an extensive survey of senior HR managers in multinational companies in Canada. The interactive follow-up to the study will bring together leading HR managers in multinational firms in Canada, international academic expertise, key public policy makers and the broader community into a dialogue on leading edge HR practices in multinational companies, public policies and the place of Canada in the global economy.

**The Interuniversity Research Centre on Globalization and Work (CRIMT)** is a Quebec-based interuniversity research centre located at Université de Montréal, Université Laval and HEC Montréal. CRIMT is a centre of excellence in research and graduate training in industrial relations, labour law, management, sociology and economics. It is made up of roughly sixty university researchers: twenty-five from the province of Quebec, fifteen from other Canadian provinces and more than twenty researchers in other countries. CRIMT pursues an interdisciplinary, interuniversity and international research program on the theoretical and practical challenges of institutional renewal for work and employment in a global era. The central question is how to achieve both organizational efficiency and economic well-being in an increasingly international age. The CRIMT research program is funded by major grants from the Social Sciences and Humanities Research Council of Canada and from the Fonds de recherche sur la société et la culture du Québec (FQRSC) as well as a variety of institutional and labour market partners.

The CRIMT MNC (multinational company) research team includes Jacques Bélanger at Université Laval, Christian Lévesque at HEC Montréal, and Pierre-Antoine Harvey, Patrice Jalette and Gregor Murray at Université de Montréal. This research team is linked to researchers at Warwick University, De Montfort University and King's College London in the United Kingdom, the University of Limerick in Ireland, El Colegio de la Frontera Norte in Mexico, IESE Business School in Spain and several Australian universities in a larger international research program on employment practices in multinational firms.

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# Chapter 1

## Introduction

The world economy is experiencing tremendous change. Systems of production and distribution are being relocated between and within global regions, bringing new opportunities to enhance standards of living as well as economic and social dislocation on an epochal scale. Multinational companies (MNCs) are at the heart of the movement of capital, productive capacity and know-how and jobs across borders and within international supply chains.

Scarcely a day goes by when the news is not about human resource (HR) and employment issues: the capacity to innovate and the transfer of innovations across borders, productivity gaps between Canada and its major competitors, the acquisition of Canadian firms by foreign capital and the impact of such sales on the development of the Canadian economy, skills and skills shortages, the consequences of an appreciating Canadian dollar, the relevance of subsidies and other benefits to induce firms to locate their activities in Canada, the outsourcing and the offshoring of jobs, and putative trade-offs between labour flexibility and worker well-being. All of these issues raise the question of whether citizens are being left behind in the race to a globalized world? Surely the most revealing aspect of this never-ending story is that it is as easily applicable in Western Europe relative to Eastern Europe, as it is for Canada and the U.S. relative to Mexico, or as it is for Mexico relative to China and even for China relative to Vietnam, and so on.

What are the key HR trends in multinational firms in Canada? How do HR and employment considerations affect decisions to expand or retract activities in Canada? Are the Canadian operations of MNCs innovators or adapters, i.e. are they developing new practices and diffusing them in other parts of their global operations or are they simply implementing, in a Canadian context, what is being driven from the headquarters of their worldwide company and being done elsewhere in their firm? And how do MNC managers view the policy and HR environments in Canada and to what extent do these environments impact on decisions made by their worldwide company?

This report draws on a major study of the experience of multinational companies in Canada (both foreign- and Canadian-controlled) in order to tackle these questions. An in-depth survey of the most senior human resource and employment managers of these multinational companies in Canada allows us to bring a unique perspective on the conditions for securing innovation in the Canadian operations of these firms (see box, Methodological Overview) .

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Three sets of questions on the role of Canadian operations within global firms structure this presentation of our findings. First, what do they choose to produce and in what sectors of employment do they choose to invest in Canada? This relates to the diversity of organizational configurations of MNCs in Canada (Chapter 3) and to their position within the global value chains of their firms (Chapter 4). Second, what is the autonomy and discretion of managers within the Canadian operations of foreign-controlled multinationals in devising HR and employment policies and practices (Chapter 5)? In particular, what are the key trends in employment practices in these firms and to what extent and in which direction are innovations being diffused across borders (Chapter 6)? Third, what aspects of the Canadian institutional environment and of their own organizations make a difference for the behaviour of these firms (Chapter 7)? The major message running through the report is that it takes both organizational capabilities and institutional capacity to promote innovative employment practices in the Canadian operations of multinational companies. We believe that this report sets out a number of avenues as to how to achieve this critical blend. We first turn to some of the key issues in thinking about the role of and challenges for the Canadian subsidiaries of global firms (Chapter 2).

Our study is the result of a unique collaboration between the Interuniversity Research Centre on Globalization and Work (CRIMT-Université de Montréal, Université Laval, HEC Montréal) and the Canada Project of the Conference Board of Canada. The research was financed by a special program in the New Economy Initiative of the Social Sciences and Humanities Research Council of Canada (SSHRC) as well as by a Major Collaborative Research Initiatives grant from the SSHRC. It should be clear that the views expressed in this report are not those of the Conference Board of Canada and that the CRIMT research team is solely responsible for the content, interpretation and any errors or omissions. This report is the first of a series of results stemming from a larger international project on employment practices in multinational companies.

### **Methodological Overview**

The survey questionnaire was sent to all the Canadian-controlled or foreign-controlled MNCs having at least 500 employees worldwide, with a minimum of 100 employees in Canada and also a minimum of 100 employees in other countries. The complex process of establishing this population is presented in **Appendix B** along with other methodological details. The questionnaire was personally addressed to the most senior HR manager, i.e. the person ultimately responsible for the management of all the firm's employees in Canada. Respondents were offered the possibility to answer by mail or directly through a Web version of the survey.

The results presented in this report are based on 168 valid questionnaires. The overall characteristics of our respondents are similar to those of the population of MNCs in Canada (see Appendix B).



## Chapter 2

# Multinational Companies in the Canadian Context: What's at Stake?

### *Chapter Summary*

- *Global economic changes are associated with significant changes in the structures and strategies of MNCs.*
- *Firms and economies are not converging around common models but rather exploiting specific synergies in their interactions with their institutional environments.*
- *There is much superficial information on MNC activities in Canada but a dearth of detailed empirical analysis of what these firms actually do.*
- *It is vital to get a firmer grasp of the different configurations of MNCs and their activities in Canada and to make the links between these configurations and their organizational capabilities and institutional environments.*

Multinational companies (MNCs) play a central role in the internationalization of economic relations. Understanding their evolving structures and strategies represents a particular challenge. Of course, Canada's economic development and prosperity are uniquely linked to the history of MNCs. From the opening of our frontiers by international ventures such as the Hudson's Bay Company, to the creation of Canadian branch plants of U.S. and British firms under the tariff protections of the National Policy in the late nineteenth and early twentieth centuries, the activities of multinational companies have made Canada one of the most open economies in the globe. They have also been a vector of its economic and social development.

This interpenetration of the Canadian and U.S. economies has posed, moreover, an existential dilemma. Successive royal commissions, from Rowell-Sirois in the 1930s to MacDonald in the 1980s, have identified some of the major issues of this relationship for public policy. For instance, the jury is still out on the sensitive issue of the "hollowing out of corporate Canada" (Arthurs, 2000; Baldwin, Beckstead and Brown, 2003; Baldwin and Brown, 2005; Beckstead and Brown, 2006; Carroll, 2004). Similarly, as regards another pressing political issue, the debate in the United States on job "offshoring" has particular implications for Canada, considering the degree of integration of our economies and corporate structures. The integration of corporate structures in Canada and the U.S. is by no means a new reality; but the patterns through which such integration is currently being reconfigured in a more global economy is highly relevant for practitioners, scholars and public policy makers. The ways in which subsidiaries relate to parent corporations, the type of mandates and jobs allocated to the Canadian operations

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of global firms and the leeway subsidiaries have in devising employment policies and pursuing innovation are all indicators of these patterns of development.

We know that the Canadian economy is characterized by a very high presence of U.S.-based MNCs. This is hardly news but it is a key starting point. Hence, crucially, when the ultimate control of the Canadian operations is located outside this country, what is the degree of influence and discretion of managers located here as regards strategic decision-making? Another analytical and political challenge is to understand how MNCs of different types and of different origins develop their capabilities and adjust to the Canadian environment. Do they use their Canadian operations simply to cater to a domestic market or, by extension, a U.S. market or do they seek to develop global mandates for the capabilities and know-how of their Canadian operations? And do they see the Canadian institutional framework as providing crucial levers or resources that help to build vocation in the global economy or merely as a set of constraints?

### **2.1. Converging Monoliths or Networks of Capabilities? Analyzing MNCs**

There is a long-standing debate about the convergence or divergence of the political and economic institutions of the most developed capitalist economies. In recent years, many have observed the progress of the market-oriented shareholder model associated with the United States and have suggested that this is the most “natural” and efficient response to the forces of globalization. Many ideologues, moreover, aspire to a vision of converging national markets. In contrast, there is a solid body of empirical evidence and analyses indicating that, in spite of the globalizing process, the differences between advanced societies as regards the ways they condition economic activity remain vitally important. Indeed, in spite of major structural changes in the way that goods and services are produced, these institutional differences between different national economies are not fading away.

Several approaches to the understanding of this diversity in both institutions and models of production are particularly relevant for our understanding of the operations of MNCs in Canada. The most influential is the “varieties of capitalism” model. As noted by Hall and Soskice in their influential book, “the firms located within any political economy face a set of coordinating institutions whose character is not fully under their control. These institutions offer firms a particular set of opportunities” (2001: 15). Within any given national economy, firms do, and always will, develop idiosyncratic business practices. The point is that such practices are more likely to succeed and to foster innovation within their economic community and across their supply chain if they are compatible with, or even supported by, their institutional environment. This principle applies particularly well to employment relations (Thelen, 2001; Godard, 2004; Jalette, 2006).

In a rich empirical study of Japanese and U.S. firms, Jacoby (2005: 170) makes the argument that a “globalized world economy does not inevitably produce convergence – formal or functional – at the industry or national levels.” Rather he argues that countries

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with different institutions will respond differently to similar economic conditions as long as there are not huge efficiency gaps in these different responses. Comparative advantage, in this sense, can only be understood in terms of how it is embedded in institutions and the interdependencies that characterize those institutions and national business systems. In other words, Jacoby (2005) shows how firms can find their own competitive advantage by adjusting to, and making the best of, what is distinctive in the national business systems where they operate.

From an impressive study of 500 firms in North America, Asia, and Europe conducted by the MIT Industrial Performance Center, Berger highlights “the diversity of the strategies and capabilities that companies employed to build profitable and innovative businesses” (2006: 251). Berger’s research team felt that neither the convergence nor the varieties of capitalism models could grasp the extent of diversity observed in their hundreds of interviews with MNC managers throughout the world. Not only did they observe diversity across countries but also within each of the sectors on which they focused, namely electronics and software, the auto and auto parts industry, and textile and apparel. Indeed, their key insight is that one finds *a diversity of successful approaches*, with leading and successful firms with either a dominant strategy of outsourcing or vertical integration within each of these sectors (pp. 8, 29-30). While Berger acknowledges the considerable importance of national institutions, i.e. “the characteristics imprinted in the firm’s DNA by virtue of birth in a given society” (p. 47), their more inductive approach stresses that a firm can only be understood by also considering its “dynamic legacies.” This basically refers to the human and social capital, know-how and organizational capabilities that have been shaped through the history of a given business (pp. 43-47).

The importance of organizational capability in understanding patterns of behaviour on the part of MNCs further points to the need for caution when making generalizations about MNC behaviour. There has been an implicit assumption in many studies that firms are monolithic and generally coherent entities. Drawing on a burgeoning literature on this theme, Birkinshaw (2000: 4) emphasizes instead that the firm should be viewed as “a network of relationships between sub-units, groups, and individuals, which is in turn embedded in a wider network of relationships...” Other authors have added important dimensions to this understanding in examining, for example, the distribution of power between different actors and different constituents within the firm (Ferner, 2000; T. Edwards et al., 2005). Similarly, a study of ABB highlights a “dialectic movement between corporate efforts to rationalize and optimize on a global scale and, on the other hand, efforts at the local level to do the same but according to distinct logics and drawing on local resources and opportunities” (Bélanger and Björkman, 1999: 260). In another multi-levels monograph of a multinational company, Kristensen and Zeitlin (2005) also explore this dynamic interaction and find that the degree of success of “local” actors within a given firm depends on the “capacity for collaborative action” at different levels, both inside and outside the company.

There are two key aspects to looking into the intricacies of the firm in this way. First, it is important not to jump to conclusions about how sub-units, divisions, regions

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and/or subsidiaries of MNCs behave. In the view of Birkinshaw (2000: 5) and this is certainly consistent with the sociological studies presented above, “valuable capabilities are built at multiple levels inside the firm and in the firm’s external network of relationships. It thus follows that competitive advantage can be gained by those firms that are best able to identify, build, and appropriate the value from those capabilities.”

Second, context – notably institutional context - matters. The key conclusions, in our view, of Marginson and Sisson’s (2004) illuminating study of the emergence of multi-level governance in European industrial relations concern the need to adopt a multi-level analytical perspective. This means that it is important to take account of societal differences, but also sectoral and company specific differences with a particular emphasis on understanding from the “bottom-up” in terms of the impact of decisions taken within firms. The firm thus needs “to be situated in its context. This means the sector as well as the national institutional nexus” (pp. 311-318). Multiple other studies arrive at similar conclusions. Gallagher (2005), for example, in her study of how China has succeeded in its transition to a market economy, whereas the Russian economy virtually collapsed when seeking to negotiate a similar transition, points to the importance of the maintenance of mediating institutions as a key explanatory variable. The most sophisticated studies of economic performance, moreover, now underscore the critical importance of understanding the interaction between economic actors and institutions (World Bank, 2002).

This study clearly does not see MNCs as monolithic organizations simply responding to market forces. Although they are certainly driven by market purposes and capital accumulation, MNCs also are complex organizations that adjust more or less successfully to the various institutional environments where they do business (for instance, Ferner, Quintanilla and Sánchez-Runde, 2006).

This is not to say that any combination of policies will do or that only institutions count. Rather, the analytical point of departure for our study of employment practices in the Canadian operations of multinational companies is threefold. First, institutions are important and they work in different ways in structuring firm performance. Second, not only are firms different but there is space for difference within the firm. We therefore need to understand how different firms and the sub-units of these firms are characterized by type and degree of capability. Finally, and it follows from the first two points, it is the fit between the development of particular firm capabilities and institutional contexts that is likely to provide the analytical keys for understanding innovation in employment practices.

## **2.2 What do MNCs in Canada Do?**

There is a growing body of research on various aspects of MNCs in Canada. At the one extreme is the sanguine view that the world is unfolding as it should and that more foreign control is only part of the “new economic reality,” considering that direct investment is also flowing from Canada to other countries. In essence, the process of

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“creative destruction” in which firms disappear, retract or even transmogrify into some other line of business also opens up space for new activities. In other words, such creative destruction is a source of innovation at two levels: within the firm and within the larger business climate. In contrast, there is a critical line of argument that sees this reconfiguration of structures and governance, especially among U.S. corporations which have long been operating in Canada, as a matter of major concern (Arthurs, 2000). Arthurs argues that the consolidation of corporate control and head office functions in the U.S. has weakened the position of Canada as a centre of corporate decision-making. These factors include the restructuring of global firms, free trade agreements and the increased need for local managers to please their head office masters in this new corporate environment. Arthurs’ analysis suggests that this trend is likely to have a significant negative impact on the broader political economy of the country, notably as regards economic capacity and cultural sovereignty.

What does the evidence actually tell us about MNCs in Canada? One recent study from Statistics Canada compares employment levels at the head office of foreign- and Canadian-controlled firms in manufacturing. They find, rather surprisingly given the context of downsizing in this sector of economic activity, that “foreign ownership has a positive effect on aggregate head office employment. Foreign firms are more likely to create a separate head office and they are more likely to hire more head office workers than their domestic counterparts” (Baldwin and Brown, 2005: 31). This was further confirmed in a 2006 study of employment in corporate head offices (Beckstead and Brown, 2006).

These are important findings for understanding the impact of foreign-controlled firms on employment in head offices in Canada, but this is just one indicator of the working of MNCs and not an adequate proxy for their wide range of activities. Despite the alacrity of some observers to generalize on the basis of this one indicator (for example, successive recent reports and editorials in the *Globe and Mail*), it certainly cannot tell the whole story. Indeed, another study from Statistics Canada on innovation and productivity growth at establishment level indicates some of the complexity of such matters (Baldwin and Gu, 2005). It reports that foreign-controlled plants have superior levels of productivity, innovation, technology, wages and skill than Canadian-controlled plants. But looking beyond this general tendency in Canadian manufacturing, the authors note that it is not plant ownership but rather belonging to a multinational enterprise that is the key variable: “We find that the foreign-ownership advantage in economic performance is a multinational advantage. Canadian MNEs and foreign MNEs have equally superior performance” (p. 35). Indeed, their data indicate that in terms of R&D investment and innovation, domestic MNCs actually have a better performance than foreign-controlled MNCs.

Considering the analytical background outlined in the preceding section, it is certainly our view that these analyses do not tell the whole tale. There is much literature highlighting the differences in MNCs in terms of their country of origin and, in particular, the specificity of U.S.-based MNCs relative to those emanating from other countries. Moreover, apart from categorizing variables such as foreign as opposed to domestic

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control or of the country of origin of the MNCs, it is surely also important to know what these firms actually do. Do they have different mandates? Do they exhibit different kinds of capabilities? Do they interact with their institutional environment in different ways?

To illustrate our line of analysis, it is perhaps useful to refer to the example of growth in head office employment as a proxy for trends in what MNCs are doing in Canada. As we argued above, this example is hardly sufficient from which to draw any general conclusions. Several other important questions spring to mind. First, which jobs are growing and which are contracting? Are they in knowledge production or customer servicing? Second, are these jobs uniquely focused on serving the Canadian market or are they connected to value creation throughout the global operations of the MNC? Third, do the managers in these head offices, and elsewhere in the Canadian operations, have a degree of autonomy to develop new policies and practices or must they simply do what they are told? Fourth, presuming that there is a degree of autonomy, and even if there is not, are the managers and workers in the Canadian operations innovating and are these innovations moving across borders and being picked up elsewhere in the worldwide operations? Fifth, how do these managers interact with their Canadian environment? Do they engage with local institutions through activities such as alliances with educational institutions and philanthropic activities or do they take the market share and run? Indeed, do Canadian operations of MNCs develop particular capabilities and how are these capabilities influenced by the Canadian institutional environment?

### **2.3 The Objectives of Our Study**

These questions point to a much more complex picture on which there is a dearth of empirical investigation. Through the prism of employment practices in the Canadian operations of MNCs and the factors that influence them, this study seeks to address this knowledge gap and thereby contribute to our understanding of these larger questions on which there is much at stake.

Since our study is focused on employment practices, we cannot necessarily answer all aspects of these questions but we do seek to shed more light on them by looking at trends in employment practices from a variety of perspectives, both firm-specific and in relation to local and international institutional environments. Our research strategy is therefore to focus on the firm as the key unit of analysis and to cover both Canadian- and foreign-controlled MNCs operating in Canada (see Appendix B on methodology). The design of the questionnaire has sought to embrace organizational issues (such as the evolving structure of MNCs, the distribution of influence among its various constituents, its strategic positioning in the global supply chains) as well as issues dealing with institutional infrastructure and public policy.

Our study covers five key themes. A first basic empirical question concerns the organizational forms and structures of MNCs in Canada, and the way the Canadian operations of these MNCs connect with other constituents of the worldwide company (Chapter 3). A second and intimately related issue concerns the activities (product mandates, business functions, categories of employment, recourse to outsourcing and

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offshoring) that the company pursues and intends to develop in Canada, considering its place in the worldwide company's global value chains (Chapter 4). A third key theme focuses on the autonomy and discretion of the managers located in Canada, especially on HR issues but also on other business functions, with particular attention to the country of origin of the firm because the literature tends to highlight country of origin differences or, more mundanely, U.S.-based MNC specificity (Chapter 5). This leads us to a fifth issue concerning the development and diffusion of innovation in HR and employment practices in the Canadian operations of MNCs and the way that these innovations interact with other parts of the worldwide operations of these firms (Chapter 6). Finally, and critically in terms of the lines of analysis developed above, we direct our attention to the organizational capabilities of the Canadian operations of MNCs, the ways they take part in networks and relate to their institutional environment, and their assessment of public policies (Chapter 7).

It should be emphasized that this report remains at a preliminary level of analysis. Our main focus is on the presentation of particular research themes, the descriptive results emanating from the survey and preliminary analysis of these results in terms of a selection of cross-cutting variables. These include whether the firm is foreign-controlled or Canadian-controlled, the country or region of origin, the major sector of economic activity, the degree of a firm's transnationality as measured by how employees in the worldwide company are distributed among global regions, the distribution of its activities within Canada, whether the firm has intermediary corporate structures in Canada such as head office, and the degree of internationalization of its product markets.<sup>1</sup>

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<sup>1</sup> Readers should note that the report analyzes the different activities of the Canadian operations of MNCs in relation to these cross-cutting variables and reports them when they are statistically significant ( $p < .1$ ). At this stage, we are only reporting bivariate analyses of the data.



# The Multiple Faces of Multinational Companies in Canada

### *Chapter Summary*

- *One size clearly does not fit all as the operations of multinational companies in Canada are highly diverse in nature.*
- *Despite this variety, the Canadian operations of MNCs tend to be small, from U.S.-based firms and have their employees concentrated in North America. There are few genuinely transnational firms, i.e. with significant operations in various regions across the globe.*
- *The majority of foreign-controlled multinationals have some intermediary level of decision making in Canada, i.e. beyond the establishment, in order to monitor their Canadian operations.*
- *The Canadian operations of foreign-controlled MNCs are more focused on the Canadian market while Canadian-controlled MNCs are more oriented to international markets.*
- *Geography matters as shown by significant differences not only between domestic and foreign MNCs but also between MNCs with their largest concentration of employees in different regions of Canada.*

A common vision of the role of multinational companies (MNCs) in the Canadian economy portrays these as branch plants able to sell locally goods and services developed elsewhere in the worldwide company and thereby gather economic rents in the Canadian market from their development of products and technologies. Canada, according to this view, is little more than a northern extension of the U.S. market and the importance of the presence of a corporate entity in Canada will inevitably diminish as North American free trade means that location in Canada is no longer essential for access to the Canadian market. After all, what's the difficulty in running the Canadian operations of an MNC out of Connecticut or Delaware or Chicago? This query applies equally to both U.S.-based MNCs and to MNCs from other countries whose primary focus is on the North American market.

Another vision sees MNC presence in Canada as focused on securing access to scarce global commodities. Canadian geography, rather than know-how, makes our economy an attractive destination for global investment and, as the current high level of foreign interest in Canadian resource companies would suggest, this is likely to become even more important in the coming years.

Such views are much too simple to reflect reality. For instance, Carroll's sociological study (2004) does not support the thesis of Canada being seen as a "rich dependency" of the United States. Part of the problem, as noted in Chapter 2, is a tendency to portray MNCs as monolithic and stateless actors, and to overestimate their size and overwhelming power, hence misunderstanding how they respond to market, public policy and other institutional signals. The data presented in this chapter offer an overview of the multiple faces of MNCs in Canada.

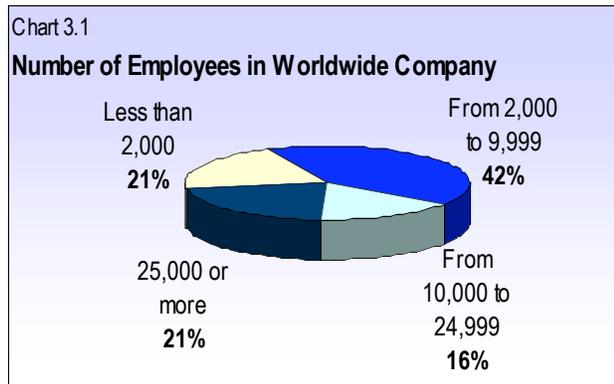
An analysis of the formal structures that characterize the relationship between the Canadian operations of multinational companies and their operations beyond our borders thus provides a first set of keys for understanding the contours and multiple dimensions of MNCs. What are the evolving structures and organizational contours of MNC activities in Canada in terms of foreign control, country of origin, degree of transnationality, presence of a head office or regional office in Canada, size, major sector of economic activity, concentration of the largest proportion of employees in different regions within the country, and market orientation?

The assumption is that these organizational contours are changing as the earlier generations of multinational corporate structures give way to new types of global network structures. In short, the increasing integration of world regional markets (as in NAFTA, the EU, etc.), the decline of commercial barriers (through the World Trade Organization), the greater mobility of capital and of access to capital markets, the need and possibility to exploit scale efficiencies and knowledge flow through new information and communications technologies, and the possibility of exploiting cost and knowledge advantages may have fundamentally transformed the dynamics of corporate structures (Bartlett and Ghoshal, 1989; Micklethwait and Wooldridge, 2003).

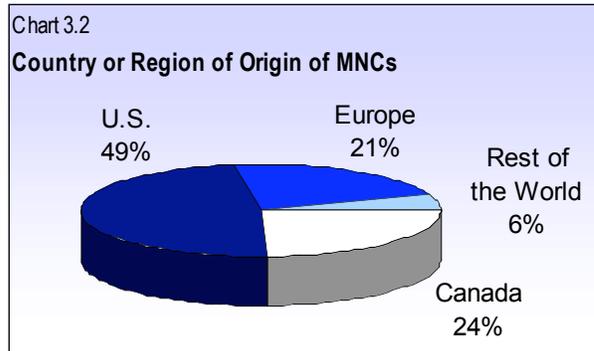
While subsequent chapters will return to the consequences of this theme for detailed MNC strategies, a first empirical task is to look more closely at the nature of multinational companies located in Canada. This will be accomplished by drawing on our survey results from 168 multinational firms with operations in Canada (see Appendix B).

### 3.1 The Global Dimensions of MNCs in Canada

The worldwide companies of which the Canadian operations studied are part are quite varied in size (see Chart 3.1). Roughly a fifth of companies are located at either end of a continuum with either less than 2,000 employees or more than 25,000 employees worldwide; the other firms are situated somewhere in between, with the largest proportion (42 per cent) between 2,000 and 10,000 employees worldwide.



It should not come as a surprise that the overwhelming presence of MNCs in Canada, according to our survey, is that of U.S.-controlled firms. In terms of the country of origin of the foreign MNCs located in Canada, 64 per cent are U.S.-based while 28 per cent are European and 8 per cent come from elsewhere in the world, mainly Asia.

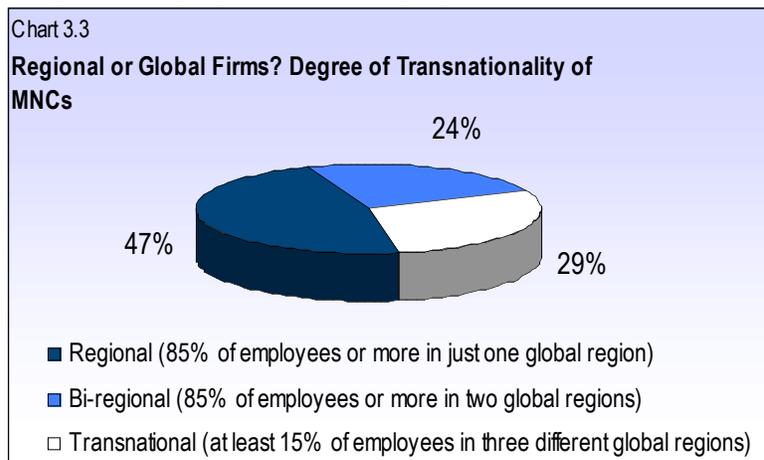


When Canadian-controlled MNCs are included in this portrait (see Chart 3.2), U.S.-based multinationals represent roughly half of the respondents, domestic MNCs account for another quarter and those from Europe and other regions for the final quarter.

Beyond the question of the country of origin of the multinationals is the key issue of the extent to which these firms are regional or global. While there is much discussion of globalization, the reality on the ground is often closer to what might be called “regional” firms inasmuch as their operations are concentrated in one global region. Practically, in the Canadian case, this means that such regional firms focus their operations primarily in North America.

Two characteristics of our survey respondents lend credence to this view. First, 43 per cent of the firms are North America-centred, with as many as 85 per cent of the employees in their worldwide company located in this region. As one might expect, Canadian-controlled MNCs (61 per cent) and MNCs from the U.S. (53 per cent) are more likely to fall into the category of North American-centred organizations than those that are based in Europe (3 per cent).

Second, we attempted to gauge the degree of transnationality of companies by looking at the number of regions (North America, Europe and rest-of-the world) in which a significant proportion of employees in the worldwide company are located. Chart 3.3



indicates that roughly half of the MNCs in our study are in fact entirely regional: 47 per cent report that 85 per cent or more of their employees are located in just one global region. In terms of their degree of transnationality, we label these MNCs as *regional*. Another quarter of MNCs are *bi-regional* in that 85

per cent or more of their employees are located in two global regions. Finally, 29 per cent of the firms can be labelled as *transnational* because their employees are distributed more

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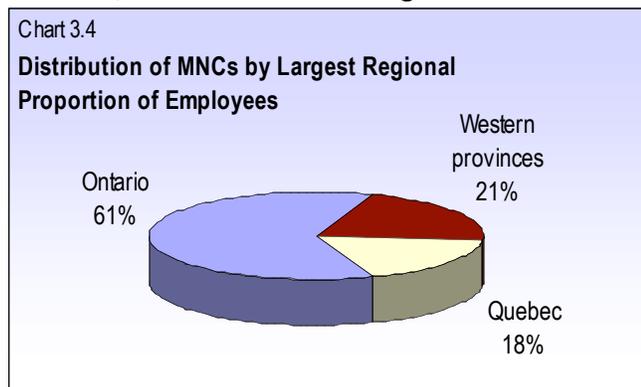
evenly through the world's different regions. These transnational firms have at least 15 per cent of the employees of their worldwide company located in each of the three global regions that we used for the purpose of this classification. It should be noted that European-based MNCs and firms originating in the rest of the world (83 per cent in both cases) are much more likely to be present in two or three global regions than domestic (38 per cent) and U.S.-based MNCs (46 per cent), which more often report that their employees are concentrated in just one global region.

These results help us to understand what's really still quite regional and what's entirely global in the operations of multinationals in Canada. The world trading environment is, of course, quite regional in nature and the patterns identified in our study drive home this reality for the Canadian operations of multinational firms.

### 3.2 The Canadian Operations of MNCs

Among our survey respondents, where are the major concentrations of employment within Canada? As one might expect (see Chart 3.4), more than half of MNCs (61 per cent) report that their major concentration of employment is in Ontario, whereas 21 per cent have the largest proportion of their employees in the Western provinces and 18 per cent in Quebec. That said, there is an interesting contrast between

Canadian- and foreign-controlled multinationals: 68 per cent of the foreign MNCs have the largest proportion of their employees in Ontario, a percentage that drops to 39 for the domestic companies. A notable proportion of the domestic MNCs (36 per cent) have the largest concentration of their workforce in the Western provinces, while 26 per cent have the largest proportion of their employees located in Quebec.



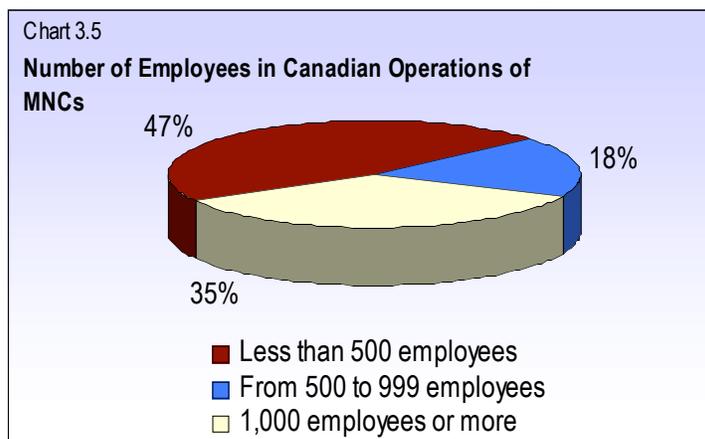
These results certainly highlight a continuing shift in the dynamics of firm location. Further analysis of the MNCs in our study reveals two trends. First, firms from all regions of origin are likely to report that their largest concentration of employment is in Ontario. However, this varies considerably by region of origin: 90 per cent of firms from the rest of the world; 69 per cent of U.S.-based firms; 58 per cent of European-based firms; and 39 per cent of Canadian-based MNCs. In fact, the domestic MNCs are quite evenly spread between the regions in terms of the major concentration of employment: 39 per cent in Ontario, 36 per cent in the Western provinces and 26 per cent in Quebec. Second, and this is a corollary of the first trend, U.S.-based MNCs make up a larger proportion of MNCs in Ontario (55 per cent) as compared with Quebec (37 per cent) and the Western provinces (38 per cent). Quebec, in particular, is distinctive

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because of the high proportion of European-based firms (30 per cent), while the largest group of MNCs in the Western provinces are domestic firms (41 per cent).

This differential distribution of the regional concentrations of employment within Canada on the part of foreign-controlled MNCs certainly suggests some interesting avenues for further analysis. The rich diversity across Canadian regions in terms of culture and institutions raises the issue of firm capabilities and the way that managers and workers seek to leverage these differences in institutional context for the development of their Canadian operations. We shall return to these questions in Chapter 7.

An important feature of our study is its ability to take account of the realities of smaller MNCs (with our minimum threshold of 500 employees worldwide, see Appendix B), which often do not feature extensively in the literature. The Canadian operations of



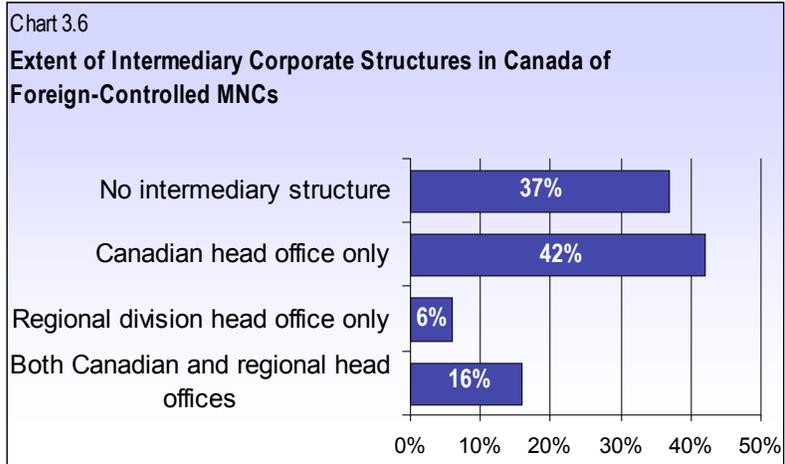
MNCs are indeed quite varied in size. They are not necessarily that large, and tend to be either small or large. In our survey population (see Chart 3.5), roughly half of the MNCs (47 per cent) had less than 500 employees in their Canadian operations, whereas more than a third (35 per cent) had 1,000 employees or more.

### 3.3 Corporate Organization

The complexity of the structures of MNCs in Canada varies greatly. A first dimension concerns the number of sites with ten or more employees. Firms with a single site in Canada are quite exceptional. Only 14 per cent of the MNCs operating in Canada report a single site whereas 34 per cent have two to five sites and half the firms have six sites or more.

While it is well documented that domestic MNCs are more likely to maintain a head office in Canada (a proportion of 3 to 1 according to Beckstead and Brown, 2006), there is altogether less information about the kinds of corporate structures that foreign-controlled firms adopt in Canada. It is especially important to assess to what degree foreign MNCs maintain some form of intermediary structure in Canada, in an era when major developments in information and communication technologies make it easier to keep track of and monitor foreign operations from the home country, ostensibly without the use of such intermediary structures.

We therefore examined the presence of both a Canadian head office and a global regional division office in Canada. On the latter point, we wanted to assess to what degree firms might use their Canadian operations as a bridgehead for the North American market (see Chart 3.6). Among the foreign-controlled MNCs, 37 per cent did not have any of these intermediary structures for their Canadian operations. In contrast, 62 per cent of foreign-controlled MNCs did have such structures, distributed between Canadian head offices (42 per cent), a



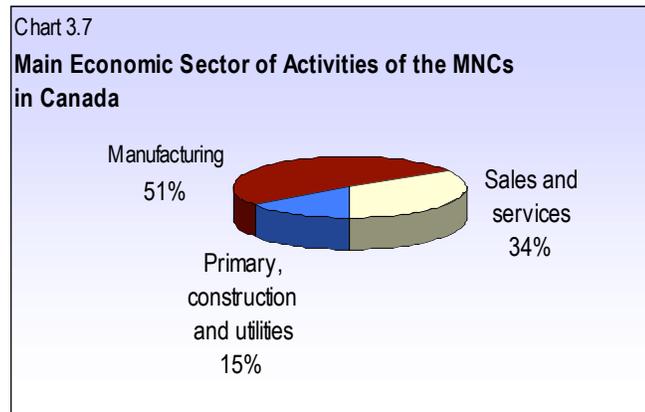
Canadian regional head office (6 per cent) and MNCs where both of these intermediary structures are present (16 per cent). When foreign-controlled MNCs do have a regional division office, 34 per cent reported that it was located in Canada, 55 per cent in the U.S., and 11 per cent in a third country. Not surprisingly, the regional

division head office for the Canadian operations of domestic MNCs is most often located in Canada (75 per cent), with much smaller proportions reporting that this intermediary structure was located in the U.S. (10 per cent) or in another country (15 per cent). We can thus conclude that while a majority of foreign-controlled MNCs maintain some form of intermediary structure in Canada, they are less likely to do so than domestic MNCs.

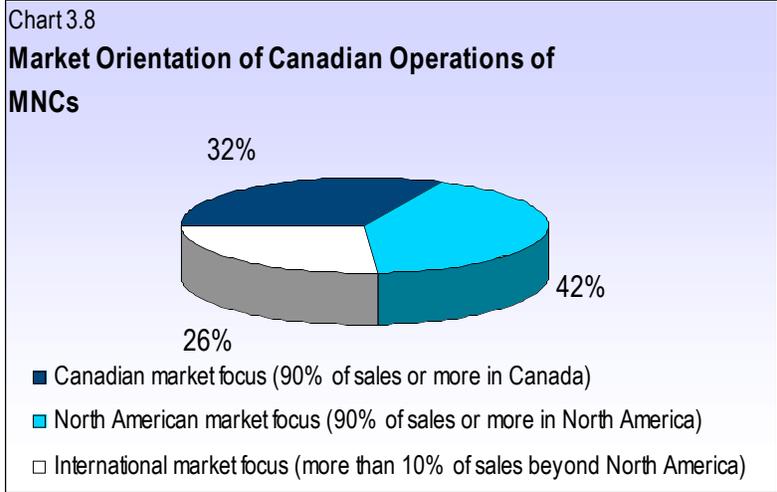
### 3.4 Sector and Market Orientations

In what industry do multinationals mainly operate in Canada? What is their market orientation? Do they see the Canadian market as their unique objective or do they also target the U.S. market? Indeed, do they export beyond the North American region?

The major sector of economic endeavour of more than half of the MNCs (51 per cent) in our survey population is manufacturing, while 34 per cent of the firms are concentrated in sales and services and 15 per cent in the primary sector and construction and utilities (Chart 3.7). This focus on manufacturing is fairly similar for foreign- and Canadian-controlled MNCs but the latter are more likely to be in the primary sector and construction and utilities (29 per cent) whereas the foreign companies are more likely to be in sales and services (37 per cent) than domestic MNCs (24 per cent).



Are the Canadian operations more focused on the Canadian market, regional markets within North America or international markets beyond the North American region? Chart 3.8 gives an overview of the firms surveyed. It shows that 32 per cent of the Canadian operations of MNCs focus on the national market (90 per cent or more of their sales come from Canada), 42 per cent target the North American market (90 per cent or more of their sales come from North America) and 26 per cent focus on an international market as well as the continental market (more than 10 per cent of their sales are outside of the North American region). It is hardly surprising that few of the domestic MNCs in our study (only 3 per cent) are exclusively focused on the Canadian market; otherwise, they would probably not qualify as multinationals. It is, however, important to point out that they are much more likely to be exporting to the rest of North American region (62 per cent) and internationally (35 per cent) relative to the foreign-controlled firms. The revenues of the Canadian operations of foreign MNCs come in highest proportion from the Canadian market (42 per cent) than from the North American market (36 per cent) or beyond the North American market (22 per cent). In other words, the Canadian-controlled firms are more likely to have a broader market reach, whereas a significant proportion of the foreign firms are predominantly focused on the Canadian market.



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### 3.5 No One Size Fits All But Strong Geographical Patterns

To summarize, no one pattern fits all. Multinational companies in Canada have multiple faces. They are big and small. They operate in a wide variety of economic sectors. Their employees are concentrated in different regions of the country. Some have more elaborate corporate structures in Canada, whereas others do not. While the number of firms participating in our study requires some caution in interpretation, there are several trends worthy of further emphasis.

In terms of understanding the differences between the Canadian operations of foreign- and Canadian-controlled MNCs, the latter are more likely to report that their major sector of economic activity is the primary sector and construction and utilities than are the foreign-controlled companies. While most MNCs have their largest proportion of employees concentrated in Ontario, foreign-controlled MNCs make up a much higher proportion of MNCs in that province than in the other Canadian regions. In contrast, Canadian-controlled MNCs represent 33 per cent of MNCs in Quebec and 41 per cent of

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MNCs in the Western provinces of the firms having the largest proportion of their workforce located in these provinces respectively.

The Canadian operations of the foreign-controlled firms are also less likely to have an international market orientation and more likely to be focused on the Canadian market, although it should be emphasized that the majority of foreign-controlled firms (58 per cent) do report either a North American market orientation or at least 10 per cent of sales beyond the North American market. Canadian-controlled firms are more likely to have their employees concentrated in just one global region. For example, 61 per cent of domestic MNCs have their major concentration of employment in the North American region as opposed to 36 per cent of foreign-controlled firms.

However, in contrast to the differences observed between foreign- and Canadian-controlled MNCs, and with the obvious exception of the MNC's major concentration of employment, the country of origin of the MNC does not account for significant differences in the structural configurations of their Canadian operations. On the surface at least, in terms of sector of economic activity, regional variations in employment within Canada, market orientation, and the presence of intermediary structures, European-based, U.S.-based and rest-of-the-world MNCs are not significantly different. As we shall see in subsequent chapters, however, the country-of-origin differences take on a greater importance in other aspects of MNC activities in Canada.

A second important geography-related difference is that the firms with concentrations of employment in Ontario (56 per cent) and Quebec (50 per cent) are more likely to be in manufacturing. While manufacturing still constitutes the largest proportion of MNCs with concentrations of employment in the Western provinces (38 per cent), these firms are much more important in the primary sector and construction and utilities (32 per cent) than those with concentrations of employment in Ontario and Quebec (10 per cent in both cases).

Finally, companies with their major concentration of employment in the Western provinces are more likely to be generating their sales from the North American region (64 per cent of these firms) whereas those with concentrations of employment in Ontario are more often focused almost exclusively on the Canadian market (44 per cent of the MNCs with their largest concentration of employment in Ontario). The remainder of the multinationals in the Western provinces and Ontario are roughly evenly divided between the two other market orientations. Quebec constitutes an intermediary case where 54 per cent of the MNCs with their highest concentration of employment in that province focus their sales on the North American region (as opposed to just 13 per cent on the Canadian market and 33 per cent on the international market beyond North America). In other words, among our population of the Canadian operations of MNCs, firms with concentrations of employment in the Western provinces are more strongly integrated into continental markets, firms with the largest concentration of employment in Quebec are most likely to be integrated into North American and world markets and firms in Ontario are more likely to be limited to the Canadian market.



# Chapter 4

## Canada in the Global Value Chain

### *Chapter Summary*

- *Changes in tariff structures, transportation infrastructure and new technologies are reshaping the global division of labour between and within transnational firms.*
- *R&D remains the weak link in the chain of value creation in the Canadian operations of many firms. Nevertheless, Canadian-controlled MNCs and those foreign-controlled MNCs with an international market orientation are more likely to undertake R&D in Canada.*
- *A significant proportion of the Canadian operations of MNCs hold international product mandates, either for the North American region or for global markets.*
- *Employment is buoyant for the vast majority of firms but the pressures on manufacturing jobs are much stronger.*
- *There is much cross-border and inter-organizational movement in employment but the tendency to outsource is stronger than to offshore.*

The movements in international trade and investment and the increasing sophistication and cost-effective use of new technologies for information and communication are associated with the globalization of “the value chain.” The value chain refers to the sequence of value-added activities that lead to and support the end use of a set of related products and services (Sturgeon, 2001). In the past, firms often sought to integrate vertically within their own organization as much of this sequence of activities as they could control and, as the history of so many modern corporations reveals, there were great economies to be derived from the effective use of such mechanisms of internal coordination (see, for example, Chandler, 1977).

Sophisticated information technology, improved transportation infrastructure and liberalized tariff structures permit multinational companies to rethink organizational design as it is less costly for them to fragment, externalize and delocalize production. This process implies that multinational companies (MNCs) must ascertain where and with whom they locate their high value-added activities and where and with whom lower value-added activities will be located (see, for example, Roberts 2004). The globalization of production means that national frontiers are increasingly blurred for any given product: customer service can be performed in India for products conceived in North America and manufactured in China. The frontiers of the firm are also blurred by unceasing movement

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in what is subcontracted, offshored, joint-ventured and so on, the architecture of which can be thought of as the value chain.

The place of Canada and, more particularly, of the Canadian operations of multinational companies (MNCs) in this new global division of labour gives rise to contrasting visions. According to a somewhat apocalyptic scenario, the movement towards free trade, the dismantling of the tariff structures that supported Canadian manufacturing during the hundred years of Canada's National Policy and the emergence of low-cost producers in the countries of the South (notably Mexico in the NAFTA region, and China and India in Asia) will seal the gloomy fate of many manufacturing and customer service operations in high-cost countries like Canada. A more optimistic vision points to the emergence of a high-skill, high capability economy in which a combination of its high quality of workers, its natural locational advantages and the strength of its institutions make Canada a competitive destination for both the development of new economic activities and the expansion of mandates in existing facilities.

So where is Canada in this new international division of labour? What is its place in the value chain? Is it moving towards a more knowledge and service based economy? Or does its rich geography, which will continue to make it an attractive destination for investment in natural resources, predestine the Canadian economy to a role of "hewer of wood and drawer of water"? Do MNCs in Canada increasingly have recourse to outsourcing and offshoring for their core operations? Do they send more jobs abroad than they are creating in Canada? Are the Canadian operations of MNCs limited to a role of branch plant for the Canadian market or can they aspire to compete in world markets? Even if these polarizations are sometimes overly simplistic, the underlying questions are of great importance for understanding the role of the Canadian operations in the global value chains for their worldwide companies. In essence, what is the nature and direction of these complex transformations under way and how can they be understood in light of the different characteristics of MNCs in Canada?

Our study offers unique insights in response to these questions. In contrast to macro-data sources and to studies focused on changes at establishment level, the ability to follow movements for the whole of Canadian operations of MNCs permits us to see how senior managers in major companies in Canada see their changing role. Grounded in the day-to-day strategy-making of their Canadian operations, these managers provide valuable insights into the composition of employment, the nature of product mandates and trends in the location of the Canadian operations within the larger value chains of these worldwide firms.

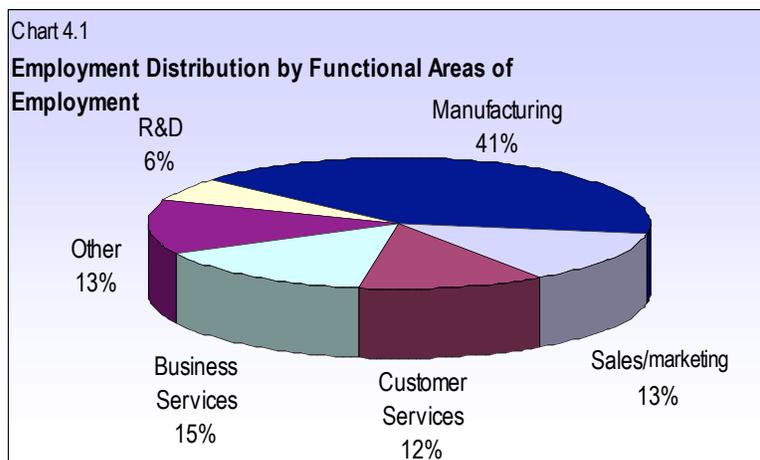
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## 4.1 Who Does What? Employment, Business Functions and Value Chains

### *The Composition of Employment in Canada*

What do MNCs do in Canada? One way to tackle this issue is to look at the composition of their labour force in this country. Chart 4.1 depicts the average distribution of employment within the MNCs participating in our study. The largest proportion of the labour force is concentrated in manufacturing activities (41 per cent), while the smallest proportion is in research and development (6 per cent). Other categories of employment include business services (15 per cent), sales and marketing (13 per cent) and customer services (12 per cent).

The presence of R&D (research and development) is seen as a key indicator for innovation and the role of knowledge within firms. It is significant that 42 per cent of the companies in our study do not have any R&D employees in Canada and that 31 per cent of firms that employ R&D people in Canada have one per cent or fewer employees in this category. In contrast, 31 per cent of respondents report no manufacturing employee in their Canadian operations and 16 per cent no employee in customer services. While firms



report that, on average, 6 per cent of their employees work in research and development, this figure varies greatly from one firm to the next. Roughly 10 per cent of firms report that their Canadian operations have 15 per cent or more of their employees working in R&D.

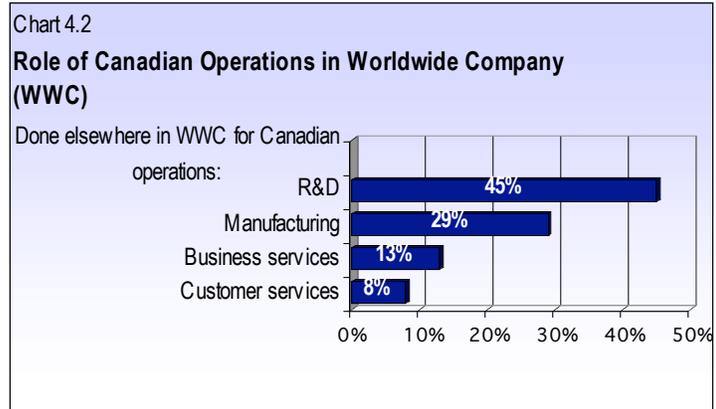
The degree of transnationality of the worldwide firm seems to be linked to the type of employees found in Canada. Bi-regional MNCs, i.e. those that have a significant proportion of employees in two regions of the globe, reported that, on average, 13 per cent of their employees work in R&D. This contrasts with an average of 5 per cent of employees in R&D for MNCs whose employees are concentrated in a single global region and an average of only 2 per cent for the most transnational MNCs, i.e. those who report significant proportions of employees in three global regions.

The degree of transnationality is also linked to the presence of other categories of employee. The starkest contrast is between MNCs operating in a single region and those who have a significant presence in three regions. In essence, the greater the transnationality of the worldwide firm, the greater the proportion of employees in sales and in marketing in the Canadian operations (20 per cent for the most transnational companies as opposed to 7 per cent for MNCs whose employees are centred in a single

region) and the lesser the proportion of employees engaged in manufacturing activities in the Canadian operations (30 per cent in the most transnational as opposed to 53 per cent for companies whose employees are concentrated in a single region).

### *Business Functions in Canada and Abroad*

The different orientations of foreign- and Canadian-controlled MNCs emerge clearly when respondents are asked if these functions are performed elsewhere in the worldwide company. Chart 4.2 exhibits the extent to which different core business functions in the Canadian operations are performed elsewhere in the company, i.e. outside of Canada. Respondents are most likely to report that R&D is performed elsewhere



(45 per cent) as opposed to manufacturing activities (29 per cent), business services (13 per cent) and customer services (8 per cent). In other words, R&D is the business activity most likely to take place elsewhere in the worldwide company. Some Canadian operations also undertake R&D used elsewhere in their worldwide company as 43 per cent of respondents indicate that this is the case.

Does this pattern of accomplishing core business functions outside of Canada correspond to a particular type or market orientation of MNCs? At the outset, and this confirms our understanding of why it is important to have domestic MNCs, there are marked differences between the operations of foreign- and Canadian-controlled companies. Most strikingly, 6 per cent of the domestic MNCs indicate that their R&D is performed outside of Canada whereas 55 per cent of foreign MNCs report that it is the case. If this is not seen as a surprising result, it is nonetheless of considerable importance in thinking about the transition to a knowledge economy. It should also be noted that European-based MNCs were less likely to indicate that the R&D for their Canadian operations is done elsewhere. Whereas 37 per cent of the European-based firms indicated that the R&D for their Canadian operations was done elsewhere, this was the case for 61 per cent of U.S.-based MNCs and 67 per cent of rest-of-the-world MNCs. In other words, the region of origin appears to have a marked influence on the extent to which R&D is accomplished in or outside of Canada for their Canadian operations. Domestic MNCs come out on top of the list of R&D accomplished in Canada, followed by European-based MNCs and, much further down the list, U.S.-based and rest-of-the-world MNCs.

If we look at sectors of economic activity, the Canadian operations of MNCs in manufacturing and the primary sector, construction and utilities are more likely to do R&D in Canada for elsewhere in their worldwide company. Similarly, Canadian operations with an international market focus — North America (53 per cent) and beyond

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North America (41 per cent) — are more likely to be undertaking R&D in Canada to be used elsewhere in their worldwide companies, as opposed to companies focused largely on the Canadian market (28 per cent). In other words, R&D, be it for the Canadian operations or for operations of worldwide companies outside of Canada, is being driven by sector of economic activity, country of origin and market orientation factors.

The decision to manufacture abroad is related to both foreign control and country of origin. Foreign-controlled MNCs are more likely than domestic MNCs to distribute in Canada products manufactured elsewhere in their worldwide company (37 versus 6 per cent) and this is especially prevalent in the case of rest-of-world companies, i.e. those headquartered outside of Europe and North America (60 per cent). This tendency also reflects an exclusive focus on the Canadian market, as opposed to a North American or international focus.

Finally, in contrast to R&D and manufacturing activities, the Canadian operations of MNCs have much less tendency to integrate business and customer services accomplished elsewhere in their worldwide companies. The decision to do so does not reflect any of the foreign control, country of origin, degree of transnationalization, market orientation or other factors that contributed to our understanding of trends in manufacturing and R&D activities within the Canadian operations of MNCs.

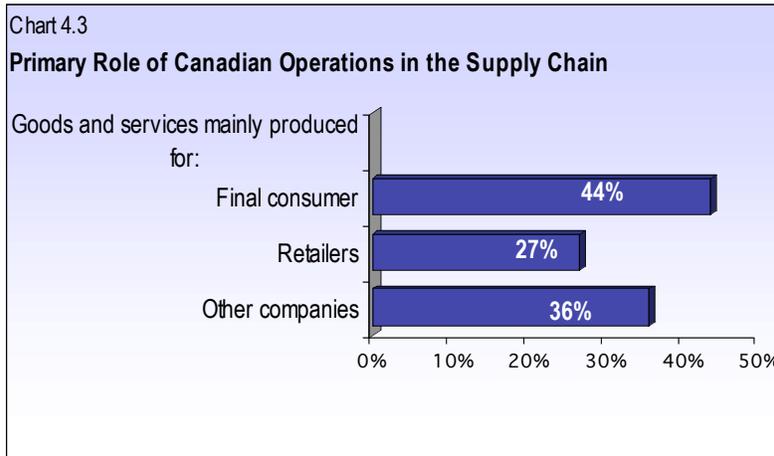
The policy implications of these results are especially important in the context of current debates about the impact of foreign acquisitions in Canada. In particular, as we argued in Chapter 2, they highlight the need to shy away from overly simplistic explanations that the acquisition of Canadian-controlled firms by foreign-controlled MNCs has little impact. First, they strongly suggest that the country or region of origin of the company is an important variable in looking at the composition of the activities undertaken by its Canadian operations. Second, U.S.-based and rest-of-world firms whose Canadian operations cater exclusively to the Canadian market do not appear to drive the development of R&D in this country. Third, a concentration in certain types of sectors (the manufacturing and primary sectors) and a more international market orientation, i.e. not on an exclusive focus on the Canadian market, tend to be associated with a greater level of R&D activity in the overall division and sequence of business operations.

### *Canadian Links in their Global Value Chains*

Another way of ascertaining the role of Canada in global value chains is to look at the place of the Canadian operations in the sequence of operations of their worldwide company. Two questions arise here. First, what is the primary focus of the activities of the Canadian operations? Second, what is the interdependence of the Canadian sites of a given company with its sites located elsewhere in the world?

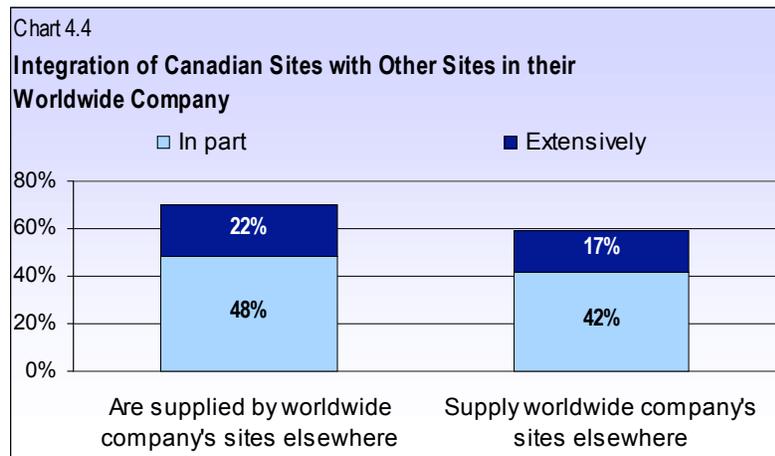
Chart 4.3 exhibits the different roles played by the Canadian operations of the MNCs with regard to whether they produce or deliver finished goods or services that go to the final consumer or to retailers, or goods or services destined to other companies.

The survey respondents divide into three roles: those producing goods and services for the final consumer (44 per cent), those supplying retailers (27 per cent) and those supplying other companies (36 per cent). It should be understood that the Canadian operations of firms often include multiple roles and that these results translate primary emphasis as opposed to an exclusive vocation.



These roles are generally not sensitive to considerations of foreign control, the distribution of employment within Canada, degree of transnationality or economic sector. The only exception is the role of supplier for other companies which is a more likely vocation for Canadian operations with an international market orientation and for which employment is not concentrated in North America.

There are two dimensions to the integration of operations between sites in the worldwide company: the extent to which the Canadian operations supply other sites and the extent to which they are supplied by sites of their worldwide company in other countries. On this first dimension (see Chart 4.4), 59 per cent of our respondents indicate that they supply, at least to some degree, other sites of their worldwide companies and 17 per cent indicate that they do so extensively or fairly extensively. Similarly, 70 per cent of the Canadian operations of MNCs indicate that they are supplied to some degree by other sites of their worldwide company and 22 per cent of these operations are supplied extensively or fairly extensively in this way. When these two dimensions are combined into a single indicator of the degree of integration of Canadian operations in the worldwide company value chain, 45 per cent of Canadian operations of MNCs are extensively integrated in their worldwide company, as a supplier or as an internal client of other sites elsewhere in the world.



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Canadian operations that are engaged principally in manufacturing activities or that sell a greater proportion of their goods and services outside of Canada and North America are more likely to be providing goods and services to other sites of their worldwide company. In contrast, those with a primary focus on sales and services or companies focused exclusively on the Canadian market are also, not surprisingly, less likely to be supplying goods and services to sites of their worldwide company outside of Canada.

The degree to which Canadian operations are supplied by sites of their worldwide company is sensitive to the region of origin and to the market orientation. In essence, the Canadian operations of domestic MNCs are less likely to be supplied by sites of their worldwide company than are the Canadian operations of U.S.-based and rest-of-the-world MNCs. In contrast, firms focused exclusively on the Canadian market are more likely to be supplied from other sites of their worldwide company than are firms with a North American or global market focus.

The overall degree of integration of Canadian operations in the worldwide company is greater for Canadian-controlled (56 per cent) than for foreign-controlled firms (41 per cent). Furthermore, the integration of the production varies according to market orientation: the Canadian operations of MNCs with international market orientation are more integrated into the worldwide operations of their MNC (68 per cent) than those with a regional (43 per cent) or a local (31 per cent) market orientation.

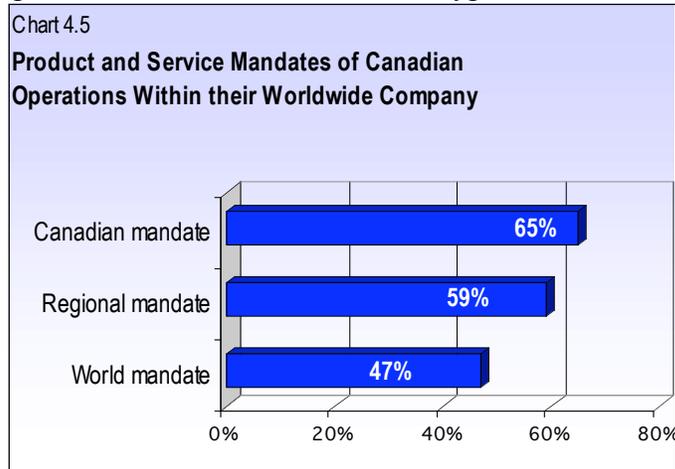
Overall, these results have two important consequences for our understanding of the role of the Canadian operations of MNCs. First, they demonstrate the high degree of interdependence between sites of MNCs and the importance of intra-firm relationships in the value chain. Second, there is an important pattern in evidence where the Canadian operations of U.S.-based and rest-of-the-world MNCs, with an almost exclusive focus on the Canadian market, are less likely to be supplying sites of their worldwide company in other countries and more likely to be supplied by other sites of their worldwide company. In such cases, it is likely that the most value-added operations in the value chain are being effected beyond Canadian borders.

The outstanding question, of course, is the degree to which the Canadian operations of MNCs are able to build these intra- and inter-firm networks. At first glance, they seem to do so extensively. However, it also appears that foreign control, country of origin and market factors play a role in the degree to which they are able to weave these relationships. Once again, foreign-controlled MNCs with an exclusive focus on the Canadian market seem less likely to create space for two-way relationships than do Canadian-controlled MNCs with an international market orientation. This result is an important addition to our understanding of the value-chain sequence and points to the need to look at a range of factors when considering the impact of foreign acquisitions of Canadian firms.

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## 4.2 Local or International Product Mandates?

A key question in the changing trade environment concerns the nature of the product mandates of the Canadian operations of MNCs. Chart 4.5 shows that Canadian operations are not confined to one type of mandate. A Canadian mandate for one or more



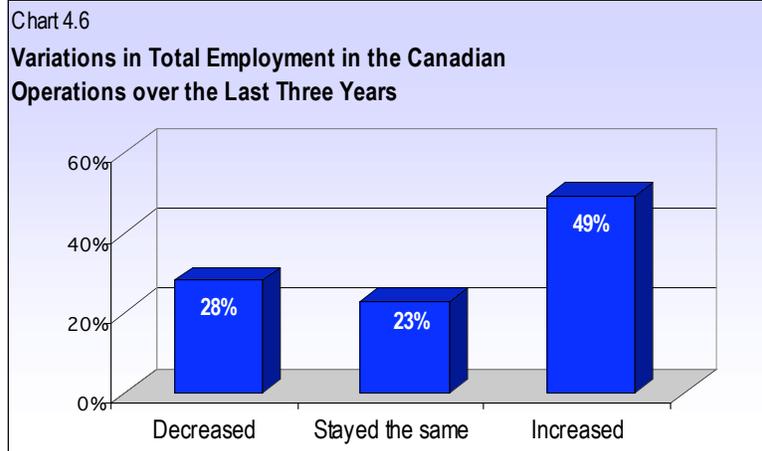
products or services of the worldwide company is, of course, most likely with 65 per cent of Canadian operations reporting that they had such a mandate. This proportion decreases to 59 per cent as regards regional mandates, for example a region such as North America within the worldwide company, and to 47 per cent for a world mandate for one or more products or services.

To understand better the ability of Canadian operations to secure international product mandates, we combined the measures of those MNCs reporting that their Canadian operations held either a regional or a world product mandate. This represents 67 per cent of respondents. Such international mandates are more prevalent in firms with a primary focus on the manufacturing sector (74 per cent) and on primary production (68 per cent) than in sales and services (56 per cent). International mandates are also much more in evidence in firms with an international product market orientation, notably beyond the North American region (82 per cent) but also limited to this region (75 per cent), as opposed to firms with a primary focus on the Canadian market (50 per cent). The Canadian operations of bi-regional MNCs, i.e. where there are significant concentrations of employment in two global regions, are more likely to have international mandates (81 per cent) than those of MNCs where employment is either concentrated in a single region (66 per cent) or, as in the case of the most transnational firms, distributed in three or more global regions (59 per cent).

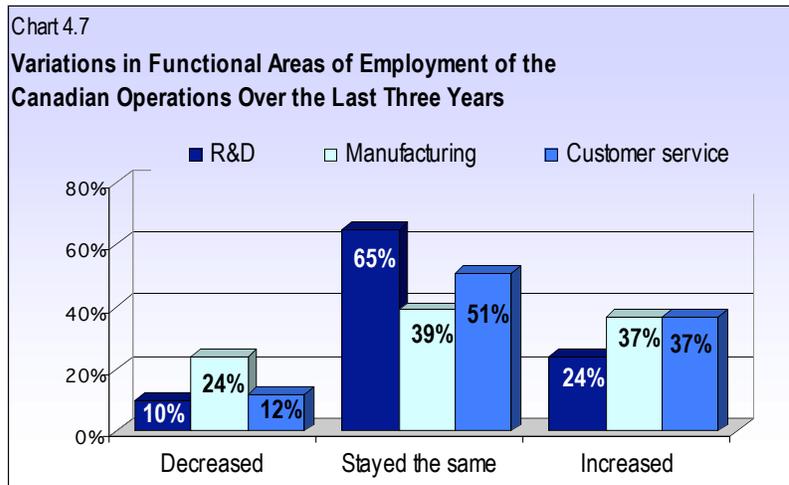
## 4.3 Changes in the Composition of Employment

How does this more turbulent international environment translate into the management of employment and job location within these firms? We first look at the general trends in the composition of employment and then, in the following section, consider how jobs are moving within and between firms as well as onshore and offshore.

Chart 4.6 exhibits the broad trends for employment over the last three years. Nearly half of respondents (49 per cent) report that the total headcount in their Canadian operations has increased over the last three years, as opposed to 28 per cent who have experienced a decrease in the total number of employees. This result is consistent with the buoyancy of the Canadian economy over the last several years. This expansion of employment in the Canadian operations of MNCs appears to be generalized as it is not associated with particular variations in the sector of activity, foreign control, market orientation or other firm characteristics.



In terms of the movement of employment, Chart 4.7 shows the performance by different job categories (at least when that category of job was present in the Canadian operations of the MNC). Over the last three years, expansion was greater than contraction in each of the targeted job categories in the Canadian operations of MNCs: R&D, where 24 per cent of the firms report an increase as opposed to 10 per cent who experienced a decrease; manufacturing jobs, where 37 per cent reported an increase as opposed to 24 per cent a decrease; and customer service, where 37 per cent reported an increase as

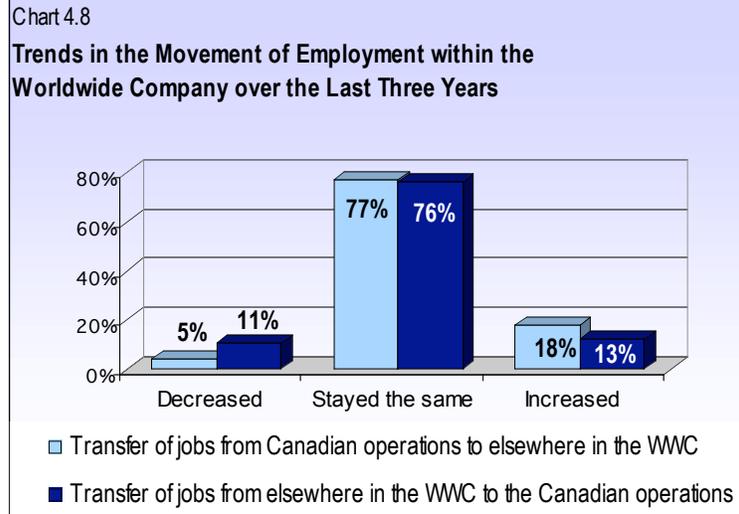


opposed to 12 per cent a decrease. Despite the overall expansion of employment, it is apparent that a greater proportion of firms report growth in manufacturing activities and customer services than in R&D but this trend is not associated with the specific characteristics of the MNCs.

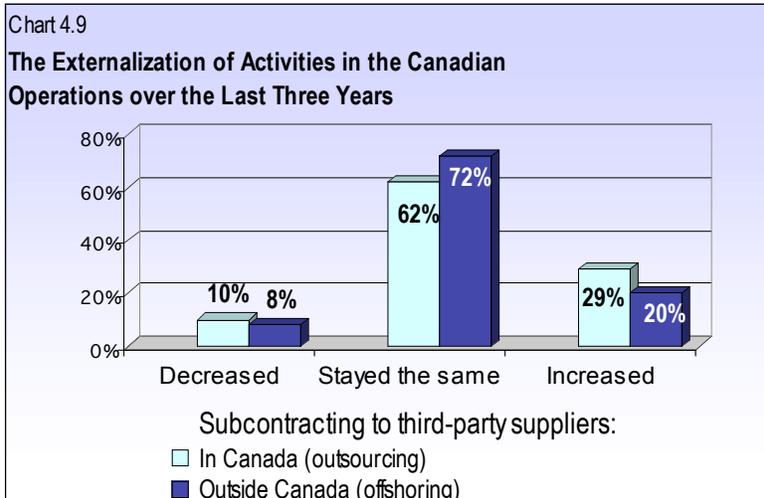
#### 4.4: In House or Outsourced? Onshore or Offshore?

Another way of capturing movement in the sequence of activities of the Canadian operations of MNCs is to track increases and decreases in the movement of jobs across Canadian borders within the company. As shown in Chart 4.8, the offshoring option

found more support among our respondents (18 per cent) than the idea of job repatriation or onshoring (12 per cent). Job transfer from Canada to elsewhere in the worldwide company and from the worldwide company to Canada both increased more than decreased. This is a manifestation of the growing movement of goods and services within MNCs. However, the transfer of jobs elsewhere in the MNC was more pronounced.



A final aspect of movements in MNC global value chains concerns trends in both what is being outsourced or done “out of house” as opposed to what is being done “in house” and what is being done onshore, in Canada, as opposed to abroad or offshore.



In Chart 4.9, we examine the externalization of the activities of the Canadian operations of MNCs. Are these firms giving activities to third-party suppliers located in Canada (outsourcing) or outside of Canada (offshoring)?

We note movements in both ways, but the predominant trend is towards an increase in outsourcing (29 per cent) as opposed to offshoring (20 per cent). The increase in outsourcing is almost three times greater than the decrease and the increase in offshoring is more than two times greater than the decrease. These results confirm, to some degree at least, the notion of a vertical disintegration of the production process favouring the development of cross-firm networks in lieu of a complete integration of the production process inside the same firm on the same territory.

The increased recourse to outsourcing has been more pronounced in foreign-controlled MNCs (31 per cent) than in domestic MNCs (22 per cent). An international market orientation is much more likely to be associated with an increase in outsourcing (between 35 and 40 per cent of these firms), whereas a focus on the Canadian domestic

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market is associated with decreases in outsourcing. Although the overall trend line is towards an increase in offshoring for the Canadian operations of MNCs, and this is true irrespective of the region of origin, offshoring is also more likely to have decreased in European-based MNCs as opposed to firms from other regions of origin. This upward trend toward offshoring was also more visible in the Canadian operations of firms whose employment is centred in Quebec (35 per cent), as opposed to Ontario (17 per cent) and the Western provinces (6 per cent). While this result might be associated with the type of activities undertaken in these different Canadian regions, the trend is not associated with the sector of economic activity.

#### **4.5 The Dynamics of Value Chains**

Our results underscore a number of significant observations with regard to the role of the Canadian operations in the global value chains of MNCs located in Canada. The situation is clearly a dynamic one characterized by buoyancy in employment and considerable movement between and within firms, both inside Canada and across Canadian boundaries to other sites of these worldwide companies. In this sense, offshoring is a real phenomenon in the companies covered by our study but their levels of employment are also increasing and outsourcing is a more significant trend.

Research and development is in many ways the weak link in the Canadian activities of the firms covered in this survey. Canadian-controlled MNCs and the Canadian operations of MNCs with an international market orientation are more likely to be engaged in R&D activities, including for other sites of their worldwide companies. In contrast, there is another reality associated with some international firms, especially the U.S.-based and rest-of-the world MNCs primarily focused on the Canadian market. The Canadian operations of these firms do not appear to be driving R&D activity. Moreover, despite encouraging signs of the internationalization of product mandates in many firms, there is no evidence in our study that this situation of weak R&D activity is being reversed. It is also important to stress that, although these are strong trends, the Canadian operations of individual firms exhibit a variety of patterns of behaviour.

These results raise both strategic and policy considerations. First, it is important to note that the questions related to the debate on the “hollowing out” of corporate Canada mentioned in Chapter 2 are entirely relevant in the light of our results. It is essential to look at a broad range of indicators as to what firms do and do not do and not simply to single indicator explanations. That’s why it is so important to look at the composition of employment, the ability to secure international product mandates and the type of integration of the Canadian operations into the worldwide firm. Second, while the question of how to develop particular R&D capabilities within the Canadian operations of MNCs goes beyond the mandate of this study, we can point to the importance of certain economic sectors, country of origin factors and market orientations that seem to make a difference. It is vital to have a better “inside-the-box” understanding of the levers that contribute to the development of R&D capabilities, both inside the firm and in relation to

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organizational capabilities, external networks, institutions and public policies. We will consider at least some of these broader policy issues in Chapter 7.



## Chapter 5

# The Autonomy of Canadian Managers: Agents or Active Players?

### *Chapter Summary*

- *Managers in MNCs located in Canada have considerable leeway over HR policy and employment practices but it is distributed unevenly. They tend to have greater autonomy over issues related to employee involvement and employee representation and consultation but less autonomy over pay and performance management and training and development.*
- *The degree of discretion over HR and employment issues in the Canadian operations of foreign-controlled MNCs varies according to their country of origin. U.S.-based MNCs concede less discretion to their managers in Canada than do other foreign-controlled companies.*
- *Canadian-controlled MNCs also have a tendency to control rather tightly the discretion of their individual sites in Canada over HR issues.*
- *The degree of discretion observed in the area of HR tends to reflect the degree of autonomy afforded to managers in other areas of the business, thus confirming the existence of different models of coordination within multinationals.*

Almost half of our survey respondents operate within U.S.-based multinational companies (MNCs) and another quarter within European-based and rest-of-world MNCs. The key analytical question concerns the extent to which the managers in these foreign-controlled companies have the autonomy to evolve as active players who can conjugate local capabilities with global opportunities. In others words, are the decisions over HR policy being taken elsewhere or are they being taken in Canada?

This chapter assesses the degree of influence and the extent of discretion of the Canadian operations within global firms. Are managers within foreign-controlled MNCs merely agents of global firms – simple executors of strategies crafted elsewhere – or are they strategic players, with the autonomy to adjust to local contexts and to develop visions of the activities of their firms that supersede original MNC strategies?

The literature on MNCs has traditionally highlighted the contrast between the centralizing ethnocentric model and the decentralizing polycentric model. Some publications also suggest that the forms that have hitherto dominated the organizational design of MNCs are now giving way to integrated network models that operate with many centres of influence (Dunning, 2001; Bartlett and Ghoshal, 1989). Is this happening in the case of the Canadian operations of MNCs? Are the patterns observed, as some of

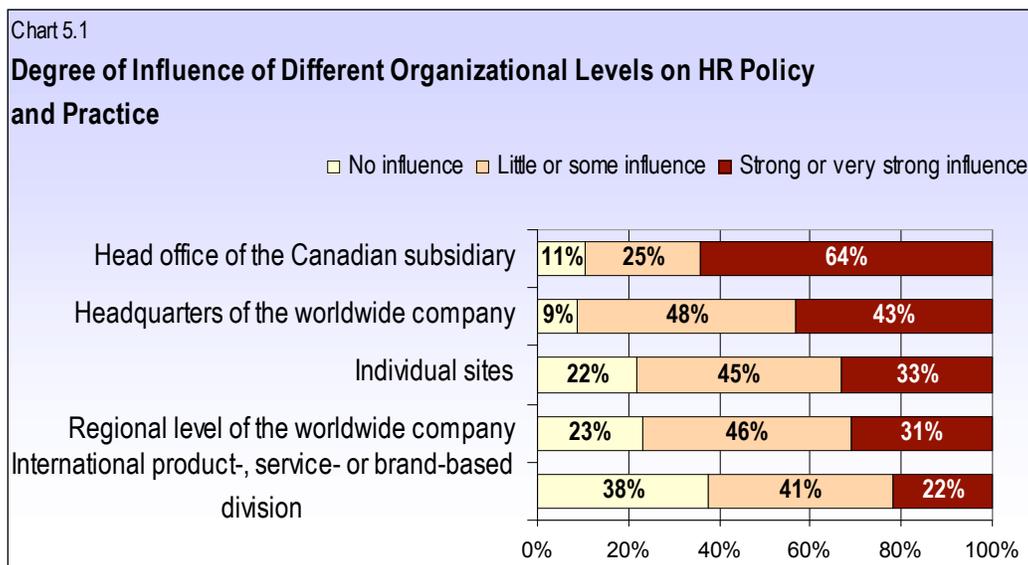
the literature suggests, an expression of the country or region of origin of the firms? This chapter assesses the distinctiveness of the patterns of influence and discretion within the MNCs operating in Canada.

In order to do so, it addresses three sets of questions. First, what are the patterns of influence and discretion of the Canadian operations within foreign-controlled MNCs? In particular, what is the overall influence of different organizational levels on HR policies and how does the discretion of managers vary in different HR policy areas? Second, are these patterns of influence and discretion on HR issues idiosyncratic or do they correspond to the degree of autonomy managers have in other areas of the business? Third, are Canadian-controlled MNCs similar or different from the foreign-controlled MNCs as regards the way they coordinate the autonomy of individual sites in their Canadian operations?

### 5.1 HR Policy Influence and Discretion in Foreign-Controlled MNCs

There are contrasting depictions of patterns of influence within MNCs. Some portray them as highly centralized organizations, coordinated by powerful headquarters that command and control the operations of their subsidiaries spread across the world. In contrast, others see multinationals as a loose coalition of actors competing and cooperating over scarce resources within a more or less self-regulating mechanism founded on the functioning of internal markets within the MNC. So how do foreign-controlled MNCs in Canada fit into these patterns?

Respondents were asked, on a scale ranging from one (no influence) to five (very strong influence), to assess the overall influence of different organizational levels on HR policy in Canada. Chart 5.1 exhibits the influence attributed to each of the five following organizational levels: the headquarters of the worldwide company, the regional level of the worldwide company, the international product division, the Canadian head office or



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subsidiary, and the individual sites of the Canadian operations.<sup>2</sup>

The Canadian head office or subsidiary appears to be the most influential level. About 64 per cent of the respondents considered that the Canadian head office or subsidiary has a strong or very strong influence over HR policy and practice in the Canadian operations. To put this percentage in perspective, only 43 per cent of the respondents report that the headquarters of the worldwide company has a strong or very strong influence and less than a third estimate that the other organizational levels have such an influence. These preliminary results do not therefore support general claims as regards the diminishing influence of Canadian head offices. In fact, the head office of the Canadian operations or the Canadian subsidiary seems to be an influential actor in HR policy-making.

To get a better picture of the distribution of influence over HR policy and practice, we isolated the organizational levels with strong and very strong influence. This simple procedure enables us to distinguish three patterns of influence among the foreign-controlled MNCs: centralized, decentralized and network patterns.

The *centralized pattern* bears a resemblance to the ethnocentric model referred to above, in which the influence is concentrated at a higher level outside of Canada. In such a pattern, managers of host country operations do not have much influence while either the headquarters of the worldwide company or another intermediary level (regional level or international division) have strong or very strong influence. Such a centralized pattern is in evidence in 25 per cent of the foreign-controlled MNCs in this study.

The *decentralized pattern* corresponds to the situation in 37 per cent of the foreign-controlled MNCs. This reflects the polycentric model, in which influence (strong or very strong) is concentrated at the subsidiary or Canadian head office level or at the level of individual sites. Managers within the Canadian operations are more influential than actors at all other organizational levels of the MNC, notably those located at the headquarters of the worldwide company.

The *network pattern* brings together firms where the influence is distributed quite evenly amongst several levels of decision-making within the MNC. In particular, managers from the Canadian operations and from either the headquarters or the regional levels of the worldwide company are all identified as exercising a strong or very strong influence over HR policy and practice. Within the network pattern, several organizational levels have influence over HR policy as opposed to the centralized and decentralized patterns where influence is either concentrated at the top or the bottom of the organization. This network pattern characterizes 38 per cent of our foreign-controlled MNCs.

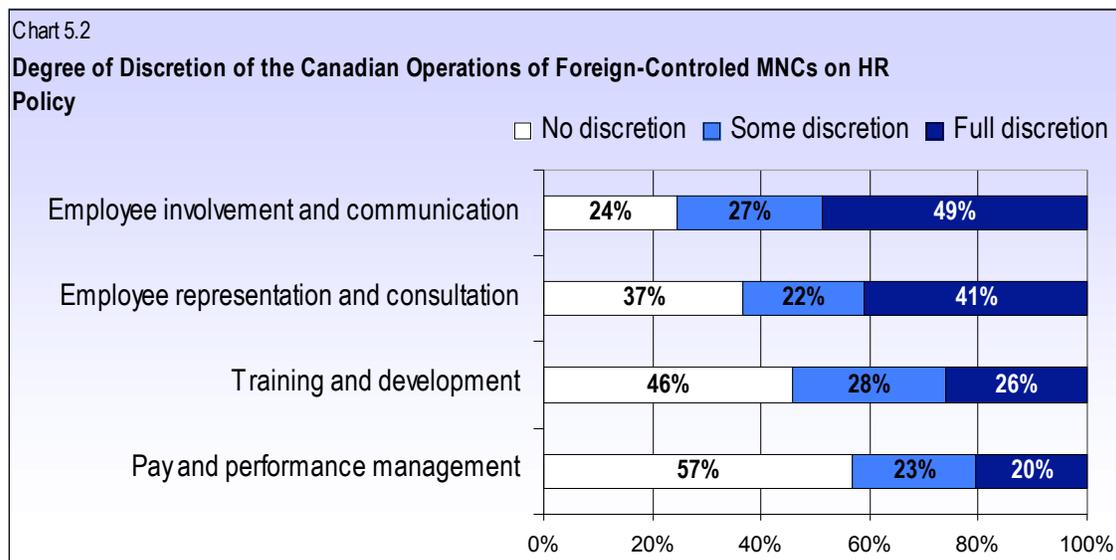
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<sup>2</sup> By *individual site*, we mean the establishment level, or more precisely the individual unit of production or services, as opposed to the overall operations of the MNC in Canada. Unless otherwise specified, our survey data and analyses relate to the overall Canadian operations of the MNC.

To summarize, at least as regards HR policy and employment practices, managers located in foreign-controlled MNCs, at least in terms of their own self-assessment, are not simple agents of global firms executing strategies crafted elsewhere. When the decentralized and the network patterns are combined, 75 per cent of the respondents report that the Canadian operations have a strong degree of influence over HR policy.

*Management Discretion over Specific HR Policy Areas*

Does this largely positive evaluation of the influence of the Canadian operations translate into real discretion over HR decisions? In other words, does this strong assessment of influence wielded by managers located in foreign-controlled MNCs mean that they can set their own policy over substantive HR policy areas? Chart 5.2 presents the degree of discretion of the Canadian operations in foreign-controlled MNCs over four substantive HR policy areas. These are pay and performance management, training and development, employee involvement, and employee representation and consultation. Respondents were asked to assess the degree of discretion of the Canadian operations over particular policies in each of these areas. Must they implement the policy set by a higher organizational level outside Canada (no discretion), develop their own policy within the guidelines or framework set by a higher organizational level (some discretion) or can they set their own policy (full discretion)?



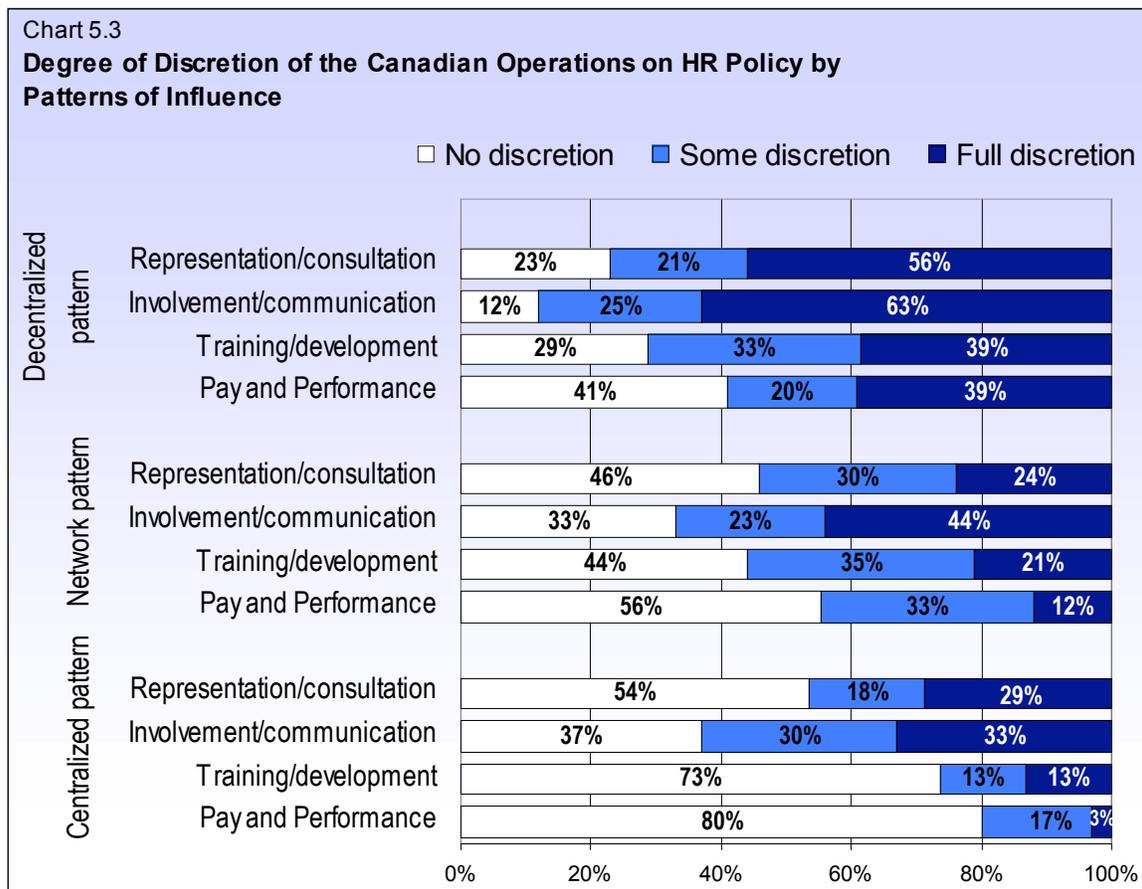
Our data indicate that most managers have some degree of discretion over HR policy. The majority of respondents report that they either set their own policy or can develop policy within the guidelines set by a higher level over employee representation and consultation, training and development and employee involvement. More precisely, slightly less than half of respondents reveal that they can set their own policy over employee involvement (49 per cent) and employee representation and consultation (41 per cent). However, their degree of discretion over pay and performance management is much lower: 20 per cent report that they can set their own policy on this matter, 23 per cent assess that they can develop their own policy within the guidelines set by a higher

level and 57 per cent indicate that they must implement the policy set by a higher organizational level outside Canada.

*Influence or Discretion or Both: Paradox or New Organizational Form?*

The results above indicate that respondents attribute a strong influence to the Canadian operations, at least in the decentralized and network patterns, and also consider that the managers in foreign-controlled MNCs have discretion over HR policy. But do these general patterns of influence fit with the degree of discretion ascribed to the Canadian operations? In other words, do senior managers have influence or discretion or both? More specifically, what are the implications for discretion over HR policy if the Canadian operations are in an MNC characterized by a decentralized, centralized or network pattern?

Chart 5.3 reports the association between patterns of influence and the extent of discretion of the Canadian operations over the substantive HR policy areas. It emerges clearly from this analysis that the degree of discretion over each substantive area of HR varies according to the pattern of influence. On the whole, Canadian operations in a decentralized pattern have more discretion than those in centralized or network patterns. In the decentralized pattern, the majority of respondents indicate that they either set their own policy or can develop policy within the guidelines set by a higher level over employee representation and consultation, training and development and employee



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involvement. Moreover, 39 per cent assess that they have high discretion over pay and performance management.

In contrast, respondents in the centralized pattern systematically report that they have less discretion, which is consistent with the fact that they judge that the worldwide headquarters has the strongest influence over HR policy. The majority of the respondents consider that they do not have much discretion over training and development and pay and performance management. However, the majority report that they have some leeway over employee involvement and employee representation and consultation.

The network pattern offers an analytical puzzle. Respondents in this pattern feel that, like a number of other organizational levels within the worldwide company, managers within the Canadian operations exercise influence over HR policy. These managers consider that they have more discretion over training and development than the respondents in the centralized pattern, but less than the respondents in the decentralized pattern. However, their degree of discretion over the other substantive areas of HR policy is quite similar to the respondents in a centralized pattern. In other words, managers in the network pattern report that the Canadian operations have influence, but this influence does not necessarily translate into the decision-making process as regards HR and employment practices.

This apparent paradox may reflect the fact that the link between discretion and influence is not linear. In this case, influence is not just an expression of discretion in policy-making processes within an MNC but also refers to the capacity of managers to mobilize other sources of power such as expertise and knowledge, networks and institutional resources. Accordingly, actors in the Canadian operations can draw on different sources of power to enhance their influence within the firm.

This paradox also provides a compelling entry into ongoing debates about emerging organizational forms within multinational corporations. Encapsulated by labels such as network organisations, “heterarchical network” and so on (see, for example, Birkinshaw and Hagström, 2000), there is much controversy over the distribution of influence and discretion within these new organizational forms. Some consider that they operate smoothly, create space for all actors and produce creative tension through different coordinating mechanisms, such as task forces and project teams. In contrast, other observers focus on the ambiguous roles and overlapping responsibilities, which can exacerbate conflict and reinforce inertia. Although more detailed exploration of this issue is beyond the scope of this report, our findings suggest that network patterns of influence can take on quite distinct shapes that, in turn, generate greater or lesser degrees of discretion for the Canadian operations within the worldwide company.

#### *Understanding Patterns of Influence and Discretion in HR Policy*

Our results show that there is no uniform pattern of influence and discretion over HR issues within foreign-controlled MNCs in Canada. In some Canadian operations, such as those in the decentralized pattern, managers have considerable leeway in the

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development of HR policy. Others, notably those in the centralized pattern, have much less discretion over such decisions. What factors account for such variations? Our preliminary analysis highlights three key explanatory factors: the sector of economic activity, the type of market orientation and the country of origin of the firm.

First, the sector of economic activity of the Canadian operations is associated with the degree of discretion over pay and performance and employee consultation and representation. In each of these areas, Canadian operations in the manufacturing sector have the least discretion over HR policies. More precisely, a higher proportion of respondents in sales and services indicate that they have leeway on pay and performance (40 per cent) in comparison to their counterparts in the primary (23 per cent) and manufacturing (6 per cent) sectors. With regard to employee representation and consultation, Canadian operations in the primary sector (77 per cent) have more discretion than those in the sales and services (47 per cent) and the manufacturing (30 per cent) sectors.

Second, the type of market orientation of the Canadian operations is linked to the discretion of managers over pay and performance. Canadian operations that are exclusively focused on the Canadian market have more discretion over pay and performance: 37 per cent of the respondents in these companies report that they have high discretion over this area, a percentage that drops to 18 per cent for those that also focus on markets beyond North America and to 1 per cent for firms with an exclusive focus on North American markets.

Finally, the country of origin of the MNC is associated with the degree of discretion of the Canadian operations over pay and performance, employee involvement, and employee consultation and representation. In general, U.S.-based MNCs confer less discretion on their Canadian operations in comparison with companies from other regions of origin. Hence, two-thirds of the respondents from European-based MNCs report that they have discretion over employee representation and consultation, a percentage that drops to 40 per cent in U.S.-based companies and to 31 per cent for MNCs from the rest of the world. We observed the same trend in the case of employee involvement issues: 72 per cent of the respondents from European-based firms report that they have discretion over this policy area, while 60 per cent from rest-of-the world MNCs and 37 per cent from U.S.-based MNCs report that they have discretion. The Canadian operations of U.S.-based MNCs also have little discretion over pay and performance management as only 12 per cent of these firms assess that they have discretion. In contrast, this proportion reaches 33 per cent for the Canadian operations of European-based firms and 40 per cent for MNCs from the rest of the world.

While further analysis is needed to disentangle the links between these variables, it is readily apparent that these results are consistent with a number of other studies suggesting that U.S.-based MNCs are more centralized and offer less discretion to their operations in host countries (Ferner et al., 2004; Almond et al., 2005).

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## 5.2 HR and Business Policy Discretion among Foreign-Controlled MNCs

It is generally assumed that local managers have a greater degree of autonomy in the realm of employment practices than in other areas of business decision-making. This section examines the validity of this claim by comparing the degree of discretion of the Canadian operations of foreign-controlled MNCs on HR issues with other business issues such as major price changes, major technological changes, choice of suppliers, choice of market segments and changes in goods and services offered.

First, we examined whether there are any links between the degree of discretion over HR and other business issues. The results indicate that the discretion in HR and other areas of the business are highly correlated ( $r = .66$ ). Thus it appears that the decision-making process in HR is not idiosyncratic and corresponds to a larger organizational logic of the MNC. Second, we combined the level of discretion in each area in order to assess whether managers have more discretion in HR or in other business areas. This enables us to distinguish four scenarios.

In the first scenario, which covers 25 per cent of foreign-controlled MNCs, Canadian operations have high and similar levels of discretion over both HR issues and production and market issues. They either set their own policy or develop it within the guidelines set by a higher organizational level. In the second scenario, which represents 43 per cent of respondents, Canadian operations have more discretion over HR than over production and market decisions. They either set their own policy or develop it within the guidelines set by a higher organizational level in the realm of HR, whereas in the production and marketing area, they either develop their policies within the guidelines set by a higher organizational level or implement a policy set from above. In the third scenario, which covers 15 per cent of foreign-controlled MNCs, Canadian operations have more discretion over production and market decisions than over HR issues. In the fourth scenario, which accounts for the remaining 16 per cent, the Canadian operations have little discretion over both HR and production and market issues. They generally have to implement a policy set by a higher organizational level outside of Canada.

This fourth scenario, in which the Canadian operations have little or no discretion over both HR and production and market decisions, is more prevalent in the manufacturing sector (27 per cent) than in the primary sector (0 per cent) and sales and services (6 per cent). It is also more common in U.S.-based MNCs than in European-based MNCs. In 23 per cent of US-based MNCs, the Canadian operations do not have discretion over both HR and production and market decisions, a percentage that drops significantly in the case of European MNCs (to 6 per cent) and in MNCs from another country (to 0 per cent).

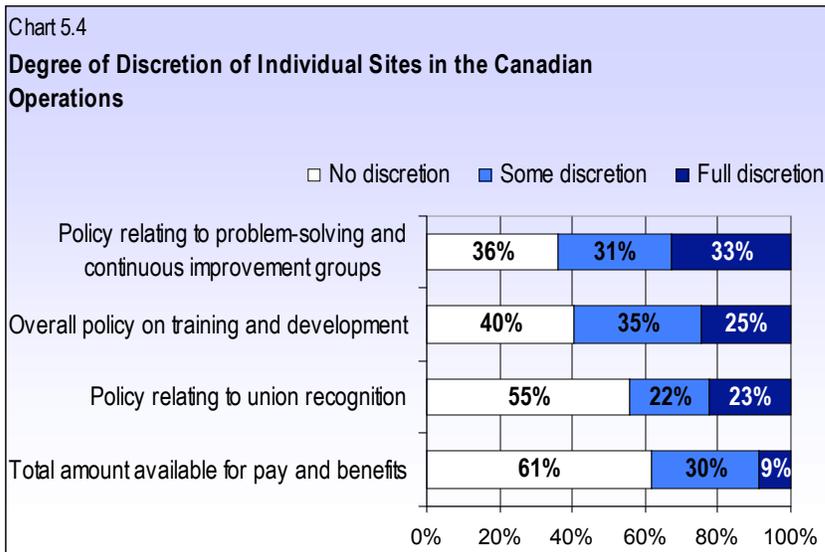
## 5.3 Are Canadian MNCs Different? The Discretion of Individual Sites

The findings presented thus far in this chapter suggest that the patterns of influence and the degree of discretion of Canadian operations vary considerably and,

more particularly, in relation to the country of origin of the foreign-controlled MNCs. U.S.-based MNCs seem to develop an approach whereby their Canadian operations have less discretion when compared with European-based MNCs. This observation applies to both employment practices and other business issues related to production and market decisions.

The question of how to assess the degree of discretion afforded to senior managers of the Canadian operations of Canadian-controlled MNCs presented particular difficulties in the design of the study, given that many senior managers of domestic MNCs cannot readily distinguish their Canadian operations from their worldwide company. We therefore asked both foreign- and Canadian-controlled MNCs to assess how they deal with their individual sites located in Canada. In essence, do Canadian-controlled companies favour the centralized approach characterizing the U.S.-based MNCs or do they seek to foster greater local involvement in policy issues, like the pattern that is more prevalent in the European-based MNCs? We asked our respondents to assess the degree of discretion of individual sites in their Canadian operations with regard to four key issues. These are the total amount available for pay and benefits, the overall policy on training and development, the policy relating to union recognition and the policy relating to problem-solving and continuous improvement groups. We asked if individual sites can set their own policy, develop a policy within the guidelines set by a higher organizational level, or implement policy set by a higher organizational level.

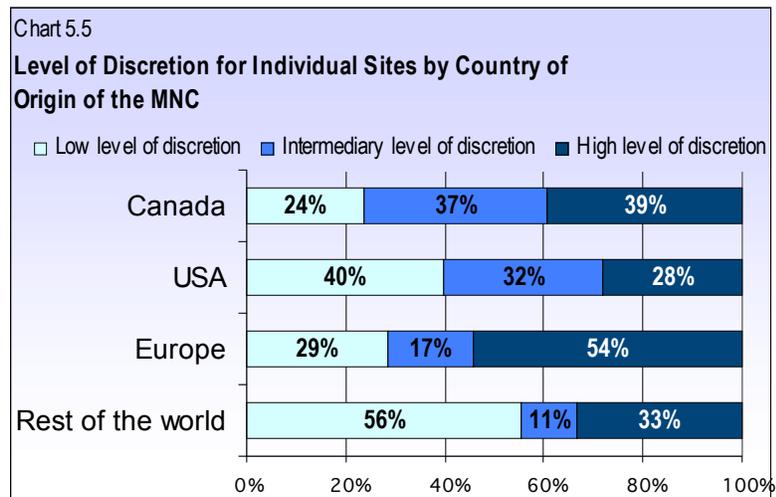
Chart 5.4 shows that, by and large, individual sites do not have much discretion over HR policy. They either must implement the policy set by a higher level or develop a policy within the guidelines set by a higher level. Some individual sites have more discretion than others, particularly on policy relating to employee involvement where about a third of the respondents report that individual sites can set their own policy. However, the majority of the respondents indicate that individual sites do not have any say on the total amount available for pay and benefits.



When these four measures of discretion are combined, we can distinguish three patterns: a low level of discretion (35 per cent) where individual sites must implement the policy set by a higher level in all the policy areas; an intermediary level of discretion (29

per cent) where individual sites have greater autonomy over several areas since they can develop their own policy within the guidelines developed by a higher level; and a high level of discretion (36 per cent) where individual sites can set their own policy over some areas, except on the total amount available for pay and benefits.

Chart 5.5 reports the distribution of these three patterns of discretion according to the country of origin of the MNC. These results confirm that European-based MNCs tend to have a more decentralized approach in the management of their employment practices. More than half of these respondents indicate that their individual sites have a high degree of discretion over HR and employment policy. It is also clear that the Canadian operations of U.S.-based MNCs have a more centralized approach, which limits the degree of discretion for their sites. For example, only 28 per cent of these respondents report that individual sites have a high level of discretion while 40 per cent consider that they have a low level of discretion. Finally, the Canadian-controlled MNCs are closer to the pattern of U.S.-based than to that of European-based MNCs as regards the level of discretion afforded to individual sites in their Canadian operations. Close to 40 per cent of the respondents from the domestic MNCs report that individual sites have a high level of discretion. As such, Canadian-controlled MNCs appear to be less centralized than U.S.-based but not as decentralized as European-based firms.



#### 5.4 What Drives Discretion?

This chapter has sought to disentangle the patterns of influence and discretion within MNCs. Our preliminary findings can be summed up under three headings.

First, the notion of “hollowing out” of corporate Canada generates debate in policy, academic and business circles. Our results suggest that the Canadian operations of some MNCs do not have much control over their destiny. In about 25 per cent of foreign-controlled MNCs, managers do not have much discretion over HR policy. This situation seems to be more prevalent within U.S.-based MNCs. However, in a much larger proportion of foreign-controlled MNCs, managers do appear to have discretion over HR policy. This means that they have autonomy to make decisions over HR policy.

Second, our results show that MNC operations in Canada can be embedded in quite different patterns of influence. These patterns certainly shape the degree of

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discretion, which is much higher in the decentralized pattern and lower in the centralized pattern. However, in the network pattern, the degree of discretion is not simply the result of the pattern of influence. Actor capabilities matter and it is important to understand better how particular capabilities — be they in terms of knowledge, expertise or access to networks and institutional resources — expand or reduce the degree of discretion afforded to managers in the Canadian operations of foreign-controlled MNCs.

Finally, the country of origin of the firm has a structuring effect on the way patterns of influence and discretion are related. European-based MNCs appear to create more space for their operations in Canada, whereas U.S.-based companies foster a more centralized approach, characterized by lower levels of discretion. The Canadian-controlled MNCs fall somewhere in between these two approaches but are much closer to the U.S.-based MNCs as regards the latitude given to individual sites over HR and employment policy.



# Chapter 6

## Developing and Diffusing HR and Employment Practices

### *Chapter Summary*

- *The Canadian operations of MNCs are experimenting with new practices in HR and employment relations to the extent that the traditional model is no longer dominant.*
- *Most non-unionized employees have access to complaints mechanisms but do not have any other form of collective representation.*
- *Joint regulation by unions and management is more prevalent among Canadian-controlled MNCs and in the primary sector.*
- *Career planning and staffing decisions for managers are generally made in Canada.*
- *On the whole, employment practices of the Canadian operations of MNCs are not taken up elsewhere in the worldwide company. Firms that are more transnational or whose Canadian operations have an international market orientation are more likely to be developing employment practices that are taken up elsewhere in their worldwide operations.*

In the previous chapter, we saw that managers in the Canadian operations of multinational companies (MNCs) have a significant degree of discretion over a range of employment policies and practices. This chapter is about what these managers actually do with that discretion. Companies operating in global markets are often seen to have to implement innovative employment practices. When these practices are grouped together, they are often known as high-performance work systems (HPWS). Much of current thinking in the area of innovation in employment practices is concerned with different configurations of these practices and with the conditions that facilitate or hinder their implementation. Many see these practices as a key element of international competitive performance and they certainly feature prominently on the change agenda of employment practices across the globe. Companies that are better able to negotiate the implementation of HPWS are seen to be at the forefront of international competitiveness. Similarly, national subsidiaries that are better able to ensure the implementation of such practices are generally seen to be in a better position to secure new investments and product mandates from their worldwide company.

What HR and employment relations practices are being put in place in the Canadian operations of the companies surveyed in our study? Can they be described as innovative or traditional? Is employment relations an area of innovation in the Canadian operations

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of multinational companies? Are innovations in employment relations being diffused across borders, and what types of innovations are being diffused?

In order to answer these questions, we first examine whether and to what extent HPWS are disseminated within the Canadian operations of Canadian- and foreign-controlled MNCs. Second, we focus on the development of mechanisms that ensure employee voice and representation at work. Third, we turn our attention to managers and the degree to which the Canadian operations of MNCs are developing practices to enhance their capabilities. Finally, we examine whether the Canadian operations of MNCs are innovators or adaptors in the realm of employment practices.

### **6.1 The Diffusion of High-Performance Work Systems**

A key question in current debates about the future of the Canadian economy is whether Canada is able to negotiate the transition to a high-road economy that fosters high-wage and high-skill jobs. This is clearly an important issue when thinking about the role and potential vocation of the Canadian operations within global firms and the larger place of Canada within global value chains. This section tries to shed some light into this debate by looking at HR and work organization practices. We focus primarily on the practices associated with high-performance work systems (HPWS) (71 per cent) Appelbaum et al, 2000; Way, 2002). According to this stream of research, firms developing HPWS are more likely to implement participatory forms of work organization, group bonus or financial incentives tied to performance, mechanisms for information sharing and training for front-line employees. This range of practices often tends to be seen as complementary and make up a cluster of employment practices known as an HPWS.

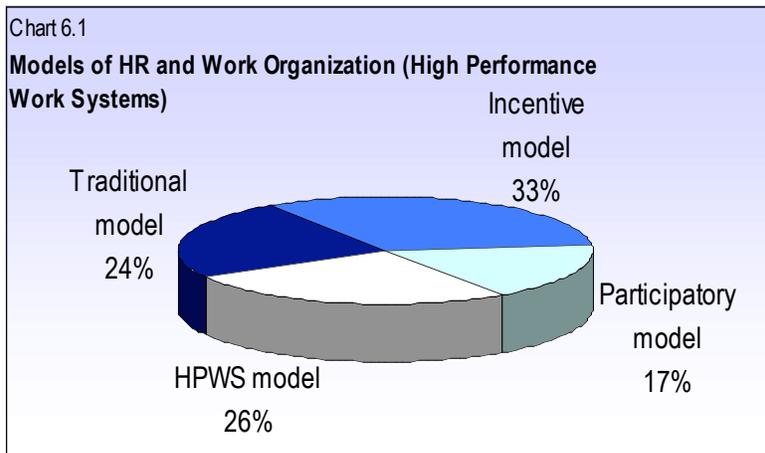
What is the picture that emerges from the Canadian operations of the MNCs in our study? First, the practices associated with the implementation of a more participatory organization of work are quite widespread. When asked to specify the extent to which participatory practices have been implemented among the largest occupational group in their Canadian occupations, seven respondents out of ten indicate that they have implemented groups of employees who get together to discuss problems related to quality, production or service delivery, such as continuous improvement groups. Teamwork is however less prevalent among this same occupational group. Four respondents out of ten report that they have introduced teamwork, i.e. formally designated teams in which employees have the responsibility for organizing their work and carrying out a set of tasks. On average, among those firms implementing teamwork, half of the employees of the largest occupational group are involved in such teams.

Second, the majority of our respondents have introduced group bonus or financial incentives tied to performance. Indeed, 60 per cent of the Canadian operations have implemented some form of variable pay for their largest non-managerial group of employees. Variable pay in these companies represents an average of 17 per cent of the annual pay bill of these employees. The training provided to employees is however much

less developed than one might anticipate for companies that would seek to differentiate their business activities at the knowledge and high value-added end of the continuum. Indeed, only 19 per cent of respondents report that their operations provide more than a week of training per year to their largest occupational group of employees, while 46 per cent provide two days or less of training per year and 35 per cent between three to five days.

Third, a large proportion of companies have introduced mechanisms to communicate with their employees. A majority of the companies use attitude surveys (60 per cent) and suggestions schemes (52 per cent) to obtain information and ideas from their employees. More than 50 per cent of the survey respondents also share information regularly with their employees about the financial position of the worldwide company and of the Canadian operations. MNCs are however much less likely to provide information to their employees on investment (25 per cent) and staffing plans (24 per cent) of the Canadian operations. In other words, only a small proportion of firms share strategic information with their Canadian employees about their operations in Canada.

Two key elements are widely used in the international literature to characterize the extent of HPWS. These are contingent or variable pay and teamwork. In order to get a clearer picture of the extent of HPWS, we combined these two elements into a single measure of the extent of HPWS practices. This enables us to distinguish four models: traditional, incentive, participatory and HPWS (see Chart 6.1). In the *traditional* model (24 per cent of respondents), the Canadian operations have not implemented either teamwork or variable pay. In the *incentive* model (33 per cent of respondents), there is variable pay but teamwork has not been introduced. In the *participatory* model (17 per cent), work organization has been modified by the introduction of teamwork but there is no variable pay. Finally, the *HPWS* model (26 per cent) features both teamwork and variable pay.



This distribution gives rise to two interpretations. On the one hand, it can be said that two-thirds of the Canadian operations are experimenting with new models of HR practices and work organization. On the other hand, roughly one-quarter of respondents correspond to what is seen as the *HPWS* model.

There is considerable debate over the outcomes of *HPWS* for workers. Several studies suggest that these new models are associated with a series of positive outcomes for workers, such as access to more information, mechanisms for soliciting employee feedback, increased training, and higher wages (Appelbaum et al., 2000; Cappelli and Neumark, 2001), while other studies highlight the negative or mixed effect of *HPWS* on

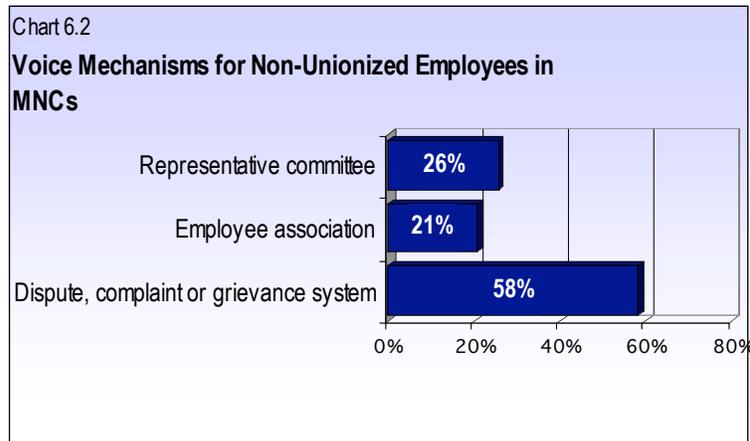
workers (Edwards et al, 2002; Osterman, 2000). Our data indicate that HPWS either have a positive or a mixed effect. Firms with an HPWS are more likely to provide information regularly to their employees on the investment plans for their Canadian operations (46 per cent) than firms with the incentive model (31 per cent), the traditional model (16 per cent) or the participatory model (13 per cent). Firms with either an HPWS (65 per cent) or participatory work organization (76 per cent) or the incentive model (64 per cent) are also more inclined to use attitude surveys than firms with traditional models (30 per cent). We did not, however, observe any significant difference between the models as regards the amount of training provided to employees, the increase in employment or the utilization of temporary workers.

It is also generally assumed that several of these HPWS practices are associated with the country of origin of the MNC. In particular, several studies suggest that U.S.-based MNCs develop a distinct model and are notably more likely to use variable pay. Such a distinction was not confirmed by our findings, but the diffusion of HPWS is associated with the degree of transnationality of MNCs. Transnational MNCs are more likely to have HPWS (38 per cent) than bi-regional (27 per cent) or regional MNCs (20 per cent).

## 6.2 Employee Voice, Representation and Partnerships

There is growing evidence that the capacity to develop and sustain collaborative action within a site is a strategic capability that can enhance the competitive position of a firm (Kristensen and Zeitlin, 2005). More specifically, the question is whether employees and management can develop a common project and establish relations based on some form of mutual arrangement or even partnership in which employees can have a say in decisions regarding working conditions, the organization of work and even larger issues facing the business.

To address this question we first look at the types of voice mechanisms put in place for non-unionized employees. The data presented in Chart 6.2 show that in the majority of the companies, non-unionized employees do not have access to any form of collective representation. In a minority of MNCs, employees have an employee association (21 per cent) or some form of committee or other structure of representation (26 per cent). Dispute, complaint or grievance systems for non-unionized employees are, however, quite widespread as 58 per cent of respondents indicate the presence of such

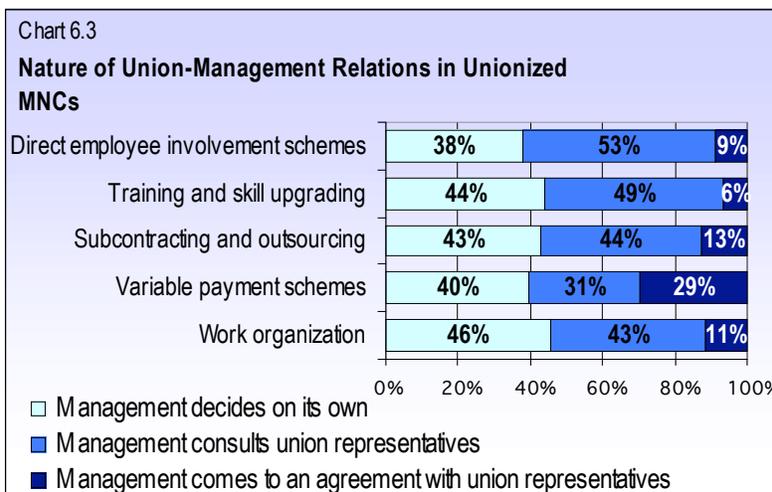


mechanisms. The presence or absence of these various employee voice mechanisms does not appear to correspond to any particular firm characteristics.

Unions also represent an important avenue for the expression of employee voice which we evaluate through an analysis of union-management relations. Roughly half (49 per cent) of the companies in our study report that there is at least one union certified for the purpose of collective bargaining in their Canadian operations. Moreover, when there is at least one unionized establishment in their Canadian operations, the majority of employees in the largest occupational group in all of their Canadian establishments tend to be unionized. In other words, the Canadian operations are either unionized or not, presumably with few examples of a patchwork of both unionized and non-unionized establishments.

Among these companies reporting union membership in their Canadian operations, we then sought to assess the extent to which union representatives are involved in decision-making on different issues. These include work organization, variable pay, subcontracting and outsourcing, training and skill upgrading and direct employee involvement schemes. For each of these decision-making areas, we asked respondents to assess whether management decides on its own, consults union representatives or comes to an agreement with union representatives.

Our results (Chart 6.3) indicate that managers are not extensively involved in formal partnership arrangements with their union representatives. Only around 10 per cent of respondents indicate that training, work organization, direct employee involvement schemes and subcontracting or outsourcing issues are subject to an agreement with union representatives. The only exception in these substantive areas of employment practices is variable payment schemes, which result from a joint agreement in 30 per cent of the companies where union representation exists. There is however a fair amount of consultation between union representatives and management. A high



proportion of our respondents (between 43 and 53 per cent) report that management consults union representatives on training, work organization, direct employee involvement schemes and subcontracting and outsourcing issues. However, these results also confirm that a large proportion of MNCs take these decisions unilaterally.

We combined these substantive areas of employment practices in order to get a more comprehensive picture of union-management relations and the extent of joint

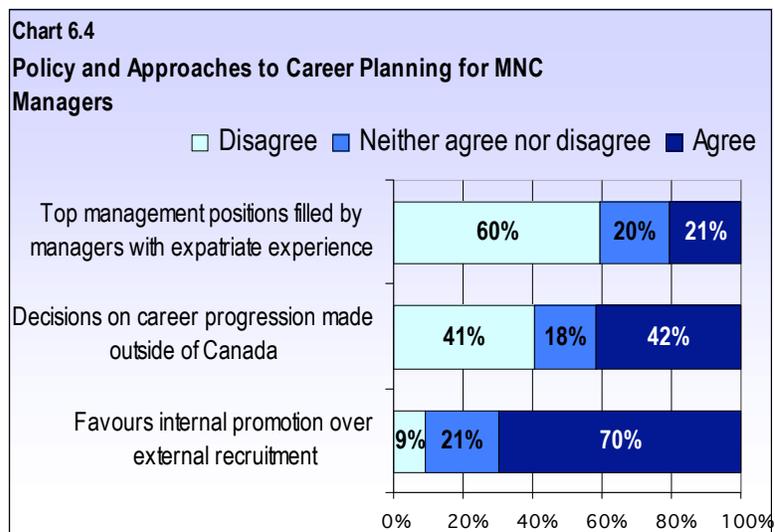
regulation and partnership. The results point to three patterns of relations. In roughly a third of the Canadian operations (34 per cent), unions are involved in some kind of joint regulation with management. In 23 per cent of the firms, decisions seem to be taken unilaterally by management. Finally, in 43 per cent of the firms, the union plays a consultative role since respondents indicate that union representatives are consulted at some point during the decision-making process.

Two factors are associated with an increased level of joint regulation between union and management. First, and it is important to keep in mind that we are referring to companies that report union membership in their Canadian operations, firms that are concentrated in the primary, construction and utilities sector (56 per cent) are far more likely to develop joint regulation with unions than firms in the manufacturing sector (32 per cent) or in the sales and services sector (19 per cent). Second, 50 per cent of the Canadian-controlled MNCs develop forms of joint regulation with unions, a percentage that drops to 28 per cent in the case of the foreign-controlled MNCs.

### 6.3 Managing Managers

This section examines two interrelated questions. First, it looks at MNC policy and approaches to career planning for managers. In particular, do foreign-controlled firms favour internal promotion or external recruitment to fill managerial positions in their Canadian operations and to what extent the top executive positions in their Canadian operations are filled by expatriate as opposed to “Canadian” managers? Second, what mechanisms are used by Canadian operations to develop and diffuse new skills and competencies among senior managers?

Chart 6.4 presents MNC policy and approaches to career planning for managers. The majority of foreign-controlled MNCs (70 per cent) favour internal promotion over external recruitment. For 58 per cent of foreign-controlled MNCs, the decisions concerning the career progression of senior management in the Canadian operations are taken in Canada. This tendency is however more prevalent in MNCs that have their major concentration of employment in Ontario (66 per cent) than in MNCs that have their major concentration of employment in Quebec (47 per cent) and in the Western provinces (37 per cent). In other words, for the majority of the MNCs that have their major concentration of employment in Quebec and in the Western provinces, the decisions about the career progression of senior management in the Canadian operations are made outside of Canada.

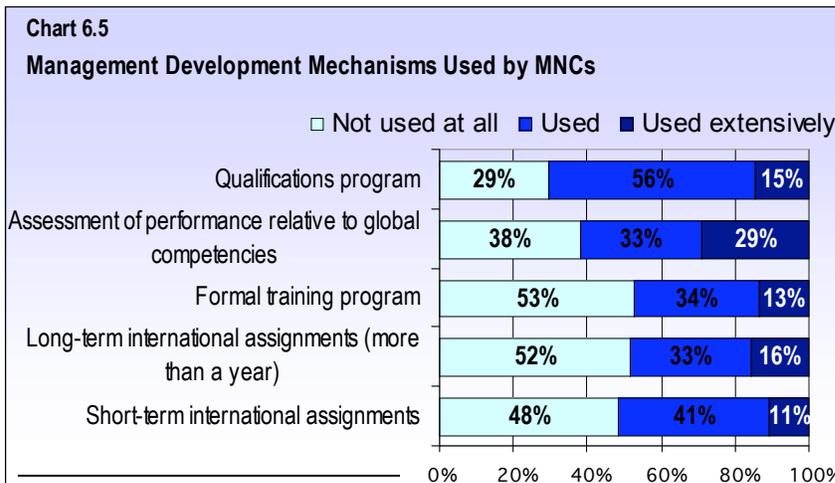


Among foreign-controlled MNCs, the presence of expatriate managers, or at least managers who have an experience of working for the MNC in its home country, is not as widespread as might be expected.<sup>3</sup> Only 21 per cent of these respondents estimate that the top positions in their Canadian operations are filled by managers who previously worked for the worldwide company in its home country. The use of managers with experience in the home country of their worldwide company appears less widespread in U.S.-based MNCs. Only 13 per cent of the Canadian operations of U.S.-based MNCs report that the top position in their Canadian operations is filled by a manager with expatriate experience in the United States. This proportion rises to 29 per cent in European-based MNCs and to 50 per cent in MNCs from the rest of the world.

These results suggest that a significant proportion of respondents think that the Canadian operations of foreign-controlled MNCs have considerable leeway in the “management” of their managers. The use of managers with expatriate experience in the home country is, however, more widespread in MNCs that have their major concentration of employment in Quebec (37 per cent) and in the Western provinces (32 per cent), as opposed to Ontario (15 per cent) where a stronger proportion of MNCs are U.S.-based.

The same pattern emerges from the Canadian-controlled MNCs. The majority of respondents (83 per cent) assess that their company favours internal promotion over external recruitment and 36 per cent indicate that the top positions in their foreign operations are filled by managers who previously worked for the worldwide company in Canada.

Our second line of inquiry about the management of managers concerns the mechanisms used by Canadian- and foreign-controlled MNCs to develop and diffuse new skills and capabilities for senior management. Respondents were asked to indicate the extent to which their Canadian operations used several types of mechanisms to develop “high potentials” or senior management potential among their staff. The data displayed in Chart 6.5 show that these mechanisms are not used extensively. Among those that are practised, it is the assessment of performance against a set of global management competencies and qualifications program that is most frequently used, followed by a formal training program on global management, and



<sup>3</sup> We used an experience of working for the foreign-controlled MNC in its home country as a proxy because, in a country characterized by high levels of international migration and immigration, it becomes difficult to determine at what point a once “expatriate” manager is no longer an “expatriate”.

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long-term and short-term international assignments. A significant proportion (20 per cent) of MNCs does not use any of these mechanisms, while another 20 per cent make use of most of these practices.

Several factors seem to favour the utilization of these management development mechanisms. First, and this speaks to the important role of domestic MNCs, Canadian-controlled MNC are more likely to use long-term as well as short-term international assignments than foreign-controlled firms. However, Canadian-controlled, U.S.-based MNCs and MNCs from the rest of the world are less likely than European-based MNCs to use qualifications programs.

Second, the market orientation of the Canadian operations of an MNC is also associated with the use of these mechanisms. Canadian operations focusing on international markets are more likely to use short- and long-term international assignments as well as formal training programs on global management. In contrast, Canadian operations oriented primarily towards the Canadian market are less likely to use these mechanisms. In other words, the Canadian operations of firms that have to compete in global markets adopt a more comprehensive set of innovations to manage their managers than do firms that simply service the Canadian market.

Third, the degree of transnationality of the worldwide company also supports this more general trend. Indeed, fully transnational firms, inasmuch as a significant proportion of their employment can be found in more than two global regions, are more likely to use long-term international assignments, formal training programs on global management, assessment of performance and qualifications program for their managers. In contrast, the Canadian operations of MNCs where employment is largely concentrated in a single region — primarily North America in the case of our survey respondents — are less likely to use these mechanisms, in particular long-term international assignments, formal training programs on global management and assessment of performance against a set of global management competencies.

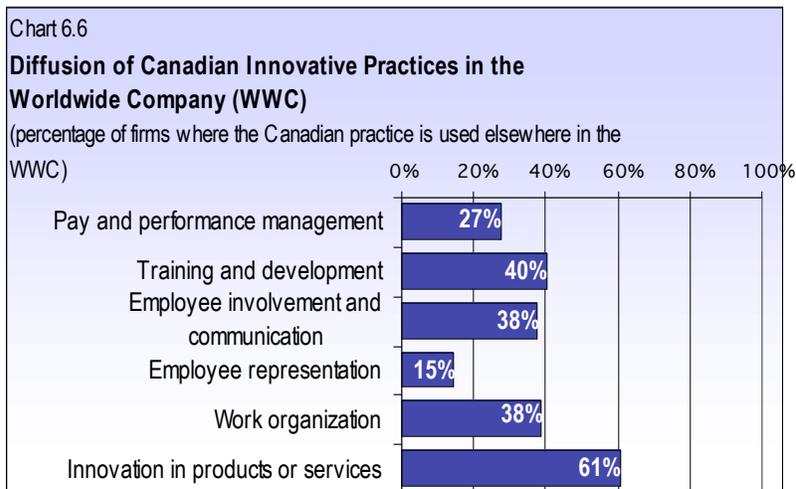
Finally, the utilization of these mechanisms is also linked to the concentration of employment in Canada. Qualifications programs are used more extensively in MNCs that have their major concentration of employment in Quebec, which also tends to have a higher proportion of European-based MNCs. In contrast, long-term assignments and formal training programs are more widespread in companies that have their major concentration of employment in the Western provinces and in Ontario.

To summarize, the diffusion of innovations in management development are favoured by both the presence of Canadian-controlled MNCs and the international orientation of the Canadian operations, be it in terms of market orientation (a larger proportion of sales beyond the North American market) or the degree of transnationality of the worldwide company as measured by significant pockets of employment in more than two global regions.

## 6.4 The Diffusion of Innovation

The findings reported so far suggest that the diffusion of innovative practices is unevenly distributed among the firms in our study. Nevertheless, the majority of the survey respondents are experimenting with new ways of managing their workforce. Some of them have implemented innovative practices in pay and performance, while others are introducing new forms of work organization. These results raise the question as to whether the Canadian operations of MNCs can be described as innovators or adapters. In other words, are they companies that are developing and implementing new practices or companies that tend to adapt models developed elsewhere in their worldwide operations? This is, of course, a key question in terms of the capacity of Canadian operations to develop innovative practices that distinguish their business in Canada.

To address this question, we asked our respondents from the foreign-controlled MNCs whether the Canadian operations provided any new HR and work organization practices that have been taken up elsewhere in the worldwide company. The results presented in Chart 6.6 show that the majority of respondents indicate that their Canadian operations have not provided any practices that have been taken up elsewhere in their worldwide company. More specifically, only a small proportion of respondents indicate that pay and performance management (27 per cent) and employee representation (15 per cent) practices have been taken up elsewhere in the worldwide company. A larger proportion of respondents indicate that employee involvement and communication practices (38 per cent), training and development (40 per cent), and work organization (38 per cent) have been taken up elsewhere in the worldwide company. It thus seems that for the

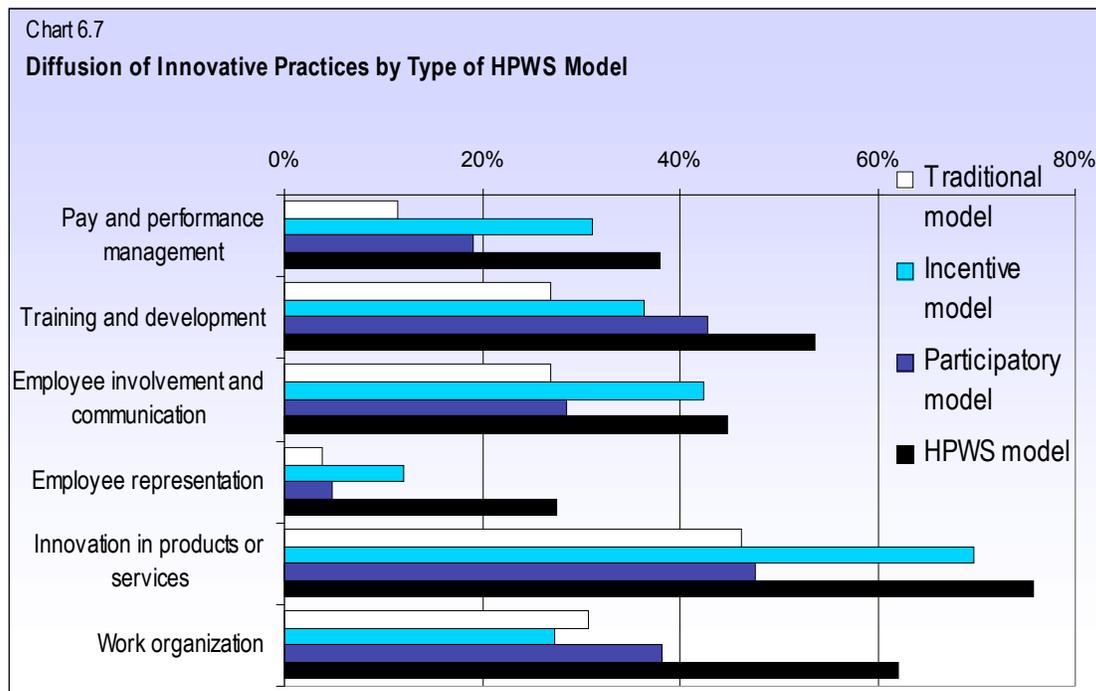


majority of the foreign-controlled MNCs, the employment and HR practices developed in this country are not transferred or diffused to other parts of their company. In contrast, in the area of products and services, the Canadian operations of MNCs appear to do better. Indeed, 61 per cent of the Canadian operations in our study report that innovations in products and services have been diffused in some other part of their worldwide company.

These results may suggest that innovations in HR and employment practices are harder to transfer from one country to another than innovations in products and services. While this may be true, it should also be kept in mind that the capacity to transfer innovations is undoubtedly linked to the capacity of the Canadian operations to innovate. In other words, in order to diffuse innovative practices, Canadian operations have to develop and to implement such practices. In order to understand better the link between

the capacity to innovate in the employment practices of Canadian operations and the transfer of innovations across borders to other parts of the worldwide company, we now examine the link between the two.

Chart 6.7 shows that the capacity to transfer innovative practices is associated with the diffusion of HPWS. Companies with HPWS practices (62 per cent) are more likely to be using work organization practices that have been taken up elsewhere in the worldwide company in comparison with companies that are characterized by the traditional model (31 per cent), participatory work organization (38 per cent) or the incentive model (27 per cent). They are also more likely to diffuse employee



representation practices: 28 per cent of firms that have adopted the HPWS model have diffused employee representation practices, as opposed to only 4 per cent in the case of the traditional model, 5 per cent in the case of participatory work organization and 12 per cent in the case of the incentive model. This pattern is also observed in the case of innovations relating to products and services where 76 per cent of firms with an HPWS model and 70 per cent for the incentive model have diffused products and services to other parts of the worldwide company, as opposed to 46 per cent in the case of the traditional model and 48 per cent in the case of participatory work organization.

This is an important finding. In Chapter 5, we found that the Canadian operations of MNCs have a significant degree of autonomy in their employment relations policies. This would suggest that many companies afford sufficient discretion to pursue innovative practices in this area of their activities. However, as reported above, while the Canadian operations of many companies are certainly experimenting with HPWS practices, only a quarter of them are implementing them in any comprehensive way. When they do so, their practices are more likely to be picked up elsewhere in their worldwide operations.

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These results suggest that there is considerable scope for improvement in the Canadian operations of global firms in the realm of employment practices.

The capacity to diffuse practices is also related to the environment in which the Canadian operations are embedded. Canadian operations that are part of transnational or bi-regional MNCs are more likely to provide employment practices for other parts of their worldwide company than the Canadian operations of a regional MNC. This is particularly the case as regards practices related to pay and performance (transnational, 36 per cent; bi-regional, 56 per cent; regional 9 per cent), training and development (transnational, 50 per cent; bi-regional, 56 per cent; regional, 27 per cent) and innovation in products or services (transnational, 65 per cent; bi-regional, 83 per cent; regional, 49 per cent). Furthermore, it seems that firms with an international market focus are more likely to provide practices on training and development that have been taken up elsewhere in the worldwide company, in contrast to MNCs that focus on a continental or national market (international, 68 per cent; North America only, 32 per cent; domestic market only, 37 per cent).

Although these results must be interpreted with caution, they certainly highlight that the capacity to diffuse practices across a worldwide company is related to the internal capacity of the Canadian operations and their integration into global markets. There is clearly scope to innovate but there would also appear to be much unrealized potential for innovation. The operations of Canadian-controlled MNCs are more likely to be innovating in a number of areas of employment practices, notably labour-management partnerships and managing managers. The Canadian operations of transnational and bi-regional firms and of firms with an international market orientation are more likely to be exporting innovative employment practices to elsewhere in the world wide company, across a range of practices. There would also appear to be a significant proportion of MNCs in Canada that are less inclined to be innovating in the realm of employment practice and not diffusing their practices elsewhere in their worldwide companies. This may be due to constraints related to firm characteristics, inasmuch as they have less scope to innovate locally. Given the underutilized potential to innovate highlighted in this chapter, it would also appear likely that it is linked to lack of internal capabilities which reflects both mechanisms that foster the development of internal capabilities and the effective use of institutional levers that could facilitate these processes. Our final chapter turns to these organizational and institutional environments.



# Chapter 7

## Organizational Capabilities, Institutional Environment and Canadian Competitiveness

### *Chapter Summary*

- *Senior MNC managers have a consistently positive evaluation of the quality of the workforce in their Canadian operations.*
- *Key firm capabilities for making the case for new investments and product and service mandates include the ability of senior managers to make the case for the Canadian operations, the capacity to innovate in the development of goods, services and processes, the concentration of special competencies and skills and the capacity to achieve labour flexibility.*
- *Respondents tend to participate more in traditional areas of local network building, such as industry associations and forums for labour market training, and much less in other areas of civil society engagement such as partnerships with educational institutions. Canadian-controlled firms, foreign-controlled firms with intermediary corporate structures and firms with an international market orientation are all much more likely to engage in local network building.*
- *MNCs in Canada can recruit the specialist skills they require and seek to safeguard jobs but they are also driven by the need to maximize returns over the short term.*
- *While some public policy factors do not appear to exert much effect on the capacity of Canadian operations to obtain new investments and mandates from their worldwide company, free trade within NAFTA, subsidies and tax credits for research and development, the quality of public services and government support for workforce training all have a markedly positive impact.*

It was noted in Chapter 2 that while multinational companies (MNCs) are mainly driven by business and market opportunities, there are many strategic ways leading to efficiency, whatever the industrial sector or the market segments in which firms are operating. We also underlined a rather well-established proposition in social science, namely that the extent to which the firm's operations in a given country are adapted to the networks and institutions of this environment represents a highly favourable condition for success.

These lines of analysis are of particular relevance for the understanding of MNCs. First, multinational corporations play a leading role in the process of globalization, and their activities raise many questions regarding public policy and international competitiveness. Second, the characteristic feature of MNCs — much more

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than sheer size — is that they operate in different institutional environments. For the most part, this is a power resource that is often used in rather blunt ways, including switching investment abroad or threats to do so, offshoring of jobs and corporate functions, etc. But differences in institutional environment can also be a constraint when subsidiaries operate in environments with which corporate managers are not familiar. In other words, while multinationals can sometimes structure their institutional environments, they also have to “adapt” and “adjust.”

A firm’s capacity to operate successfully in a given environment is conditioned by access to a skilled workforce, to an adequate chain of suppliers, to strategic networks, etc. These factors, and indeed the subjective assessment of decision-makers on such matters, have an influence on the firm’s capacity to meet the standards of international competition from a given national location. In essence, global firms are far from stateless: they need to produce in specific locations, they need access to markets and they must develop capabilities and nest in specific institutional configurations (Bélanger and Edwards, 2006). In other words, we increasingly understand that firms that are better able to manage the fit between the development of their own specific capabilities and their economic and institutional environments are more likely to be drivers rather than followers in the global economy.

Some of the results presented in this chapter have to do with institutional features and public policy, but other questions seek to go beyond formal institutions. Indeed, the key issue for developing organizational capabilities has to do with the ways firms relate to, and take part in, the activities of social and economic networks, public agencies, universities and colleges, etc., in order to find the necessary know-how and strategic resources. In a rich longitudinal study of three subsidiaries of a British-owned MNC, in Denmark, the USA and England, Kristensen and Zeitlin (2005) explore the varied degrees of success of these “local” actors in playing “global games.” They find that success depends on the “development of a capacity for collaborative action” at each of three distinct levels of action: first, within the site (with employees and union); second, within the local community (with supplier firms, supporting institutions, etc.); and, third, within the various constituents of the MNC of which they are part (Kristensen and Zeitlin, 2005: 171-177). A key implication is that we should not only look at national institutions as complementary resources for supporting local managers’ strategies, but also at the ways local actors make use of the resources provided by institutions as levers to improve their strategic capabilities in terms of product development and access to broader market opportunities.

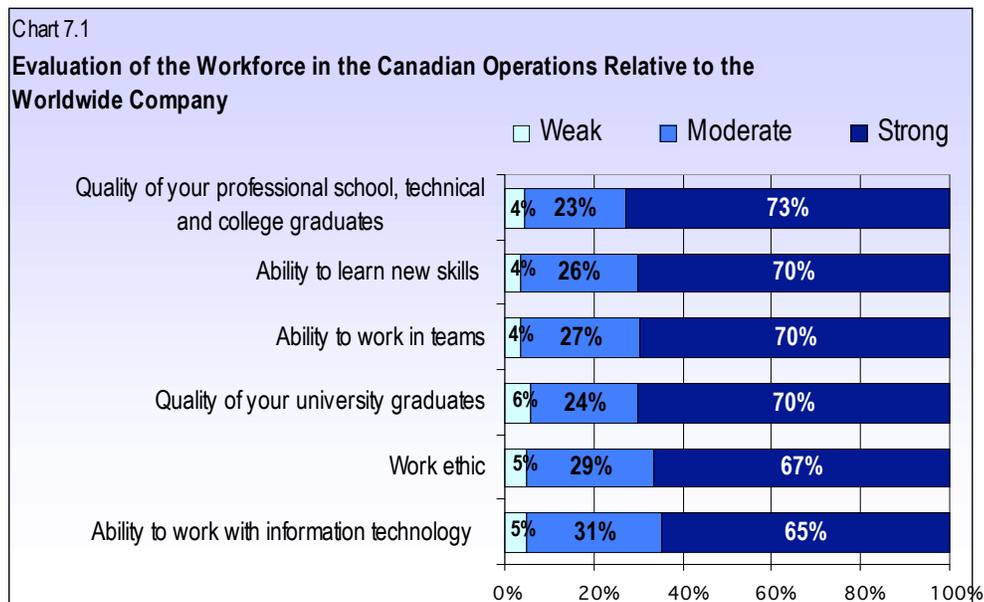
When considering public policy, a key underlying question concerns the factors that drive MNC decisions as regards location and direct investment in a given country or, especially in Canada’s decentralized federation, region of the country. Is it proximity to markets, the quality of human capital, the nature of public infrastructure, proximity to scarce natural resources, the availability of capital markets, regulatory environment or direct government support that drive locational decisions and new investments? Although the answers to these questions are likely to vary from one industry or sector to another and, indeed, from one firm to another, they do contribute to our understanding of vital

issues for economic development. What is the current picture, and what are the key constraints and opportunities as regards the development of R&D and of higher-valued products and services in this country? What role do public policies play in fostering these types of high-performance practices and employment opportunities?

What are the implications of these ideas on the operations of MNCs in Canada? It flows from these considerations that we need to look at whether and how managers of the Canadian operations of global firms assess their own capabilities, assess the quality of their workforce, and invest in local networks and institutions. We also must evaluate how Canadian institutions and public policies contribute to the development of MNC activities in Canada. In particular, this line of analysis underscores the importance both of developing the capacity of institutional environments and understanding how the organizational features of the economic actors interact with the institutional environment.

### 7.1 Evaluating the Canadian Workforce

How do senior managers in the Canadian operations of global firms characterize the quality of their Canadian workforce? In what we see as rather straightforward results, the respondents give a consistently high assessment of the quality of the workforce in their Canadian operations. As shown in Chart 7.1, when asked to rank different aspects of the workforce in their Canadian operations relative to their worldwide company, the



results are systematically around the 70 per cent mark. Indeed, there is little variation, whether it be in terms of the quality of university graduates, the quality of professional school, technical and college graduates, employees' ability to learn new skills or to work

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with information technology or to work in teams. Indeed, respondents who rated their Canadian employees as very high in one aspect were likely to do so for all aspects.<sup>4</sup>

These evaluations tended to be grouped into “hard” qualifications, as encapsulated by the quality of graduates from formal educational training, and “soft” skills, in terms of the ability to learn new skills, to work with information technology, to work in teams and employee work ethic.

On the qualifications side of this assessment, we observed little variation in the evaluations of the quality of university and technical school graduates working in the Canadian operations according to particular MNC characteristics. The only exception concerned the quality of professional and technical school and junior college graduates. MNCs with their largest concentration of employment in Quebec were slightly less inclined to rate their professional and technical schools graduates as strong (53 per cent), as opposed to MNCs with their largest concentration of employment in Ontario (76 per cent) and the Western provinces (82 per cent).

In terms of soft skills, there was again little difference between types of MNCs. Firms with a substantial presence in two global regions were more likely to have an exceptionally strong evaluation of the ability of their employees to learn new skills (89 per cent of respondents), as opposed to MNCs with a presence in only one region (63 per cent) or in three global regions (66 per cent). There was also some difference by sector of activity in the evaluation of the work ethic of their employees where MNCs with a primary vocation in sales and services were more likely to indicate that the work ethic of employees in their Canadian operations is very strong (79 per cent) in relation to the still very positive evaluations in the primary sector (64 per cent) and manufacturing (59 per cent).

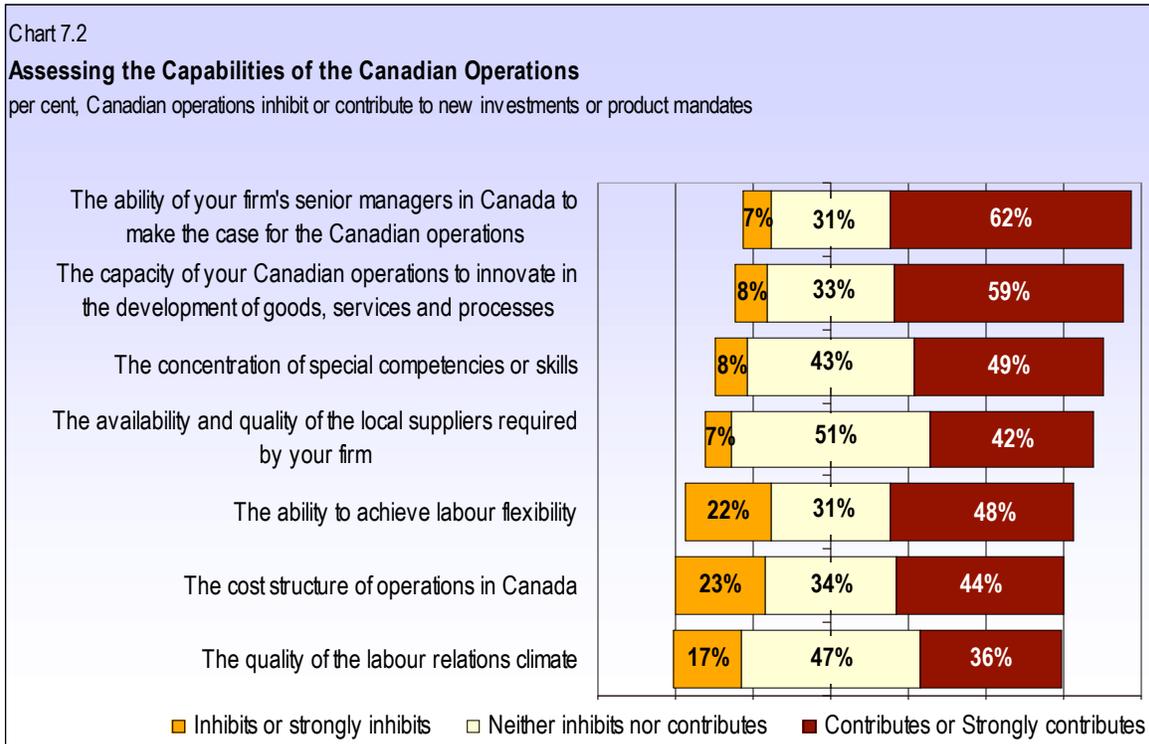
## **7.2 Capabilities of the Canadian Operations**

An important dimension of the increasing internationalization in the organization of production and services concerns how managers in national subsidiaries make the case for investing in their particular corner of the globe. Local managers seek to develop specific capabilities within their sites and to ensure that international managers are aware of them. The assessment of these organizational capabilities is therefore at the heart of decisions international managers make to invest or allocate product mandates in a given country or specific site. With this in mind, we asked the survey respondents about how they viewed the capabilities of their Canadian operations. Chart 7.2 reports their quite positive evaluation of the extent to which the specific attributes of their Canadian operations inhibit or contribute to obtaining new investment in or product and service mandates.

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<sup>4</sup> The Alpha Cronbach score is .833, which indicates a high degree of correlation between the responses to this workforce evaluation question.

A number of capabilities emerge as strong contributors to securing investment mandates. At the top of the list is the ability of senior managers in Canada to make the case for the Canadian operations, which is seen by 62 per cent of respondents as contributing or strongly contributing to new investment and product mandates. Another key factor is the capacity to innovate in the development of goods, services and processes, which is judged as an important contributing factor by 59 per cent of firms. Other important factors include the concentration of special competencies and skills in the Canadian operations (49 per cent of respondents), the capacity to achieve labour flexibility (48 per cent), the cost structure of the Canadian operations (44 per cent) and the quality and availability of local suppliers (42 per cent).



There are two factors that do not appear to be as important because, among the possible choices, respondents were most likely to indicate that this factor neither inhibits nor contributes to new investments or product mandates (see Chart 7.2). These include the quality and availability of local suppliers (51 per cent) and the quality of the labour relations climate (47 per cent). Of course, these are also important contributory factors for a large number of firms.

Finally, the most important negative factors for investment and product mandates are the cost structure of the Canadian operations (23 per cent), the ability to achieve labour flexibility (22 per cent) and the labour relations climate (17 per cent), which were identified by roughly a fifth of respondents as inhibiting factors. However, despite this negative evaluation on the part of some firms, just under half of the firms surveyed indicated that cost structure and labour flexibility were in fact contributory factors to new

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investment and product mandates and 36 per cent saw the labour relations climate as a contributory factor.

Are there particular MNC characteristics associated with a positive evaluation of firm capabilities in securing investment and product service mandates? Foreign-controlled firms are much more likely to report a range of positive factors with regard to the special generic capabilities of their Canadian operations than are the Canadian-controlled firms. Intriguingly, this ranges from the ability of the firm's senior managers in Canada to make the case for their operations in this country, to innovations in the development of goods, services and processes and to the ability to achieve labour flexibility. In other words, foreign-controlled firms have a much more positive assessment of these key capabilities of their Canadian operations than do Canadian-controlled firms. A similar trend is also related to the region of origin of the MNC, with U.S.- and European-based firms more likely to highlight the capacity to make the case and to innovate and to achieve a favourable cost structure in their Canadian operations than firms from both the rest of the world and from Canada.

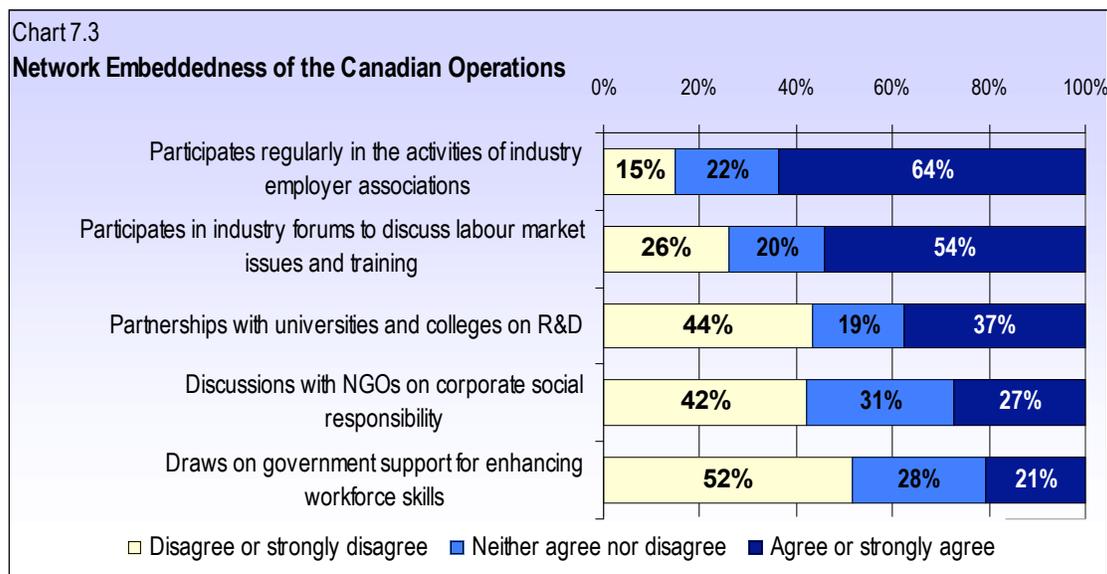
There are also notable regional differences within Canada in terms of the assessment of firm capabilities in Canada. Senior managers in firms with the largest concentration of employees in Ontario (70 per cent) seem to make a better case for investment and mandates than do those in Quebec (48 per cent) and the Western provinces (53 per cent). This is also the case with senior managers whose firms are either more international in market orientation (76 per cent) or focused largely on the Canadian market (74 per cent), as opposed to those whose primary market focus is North America (52 per cent). It also seems to be easier to achieve labour flexibility and an advantageous cost structure when employment is concentrated in Ontario (56 and 47 per cent) and Quebec (45 and 41 per cent) than in the Western provinces (22 and 31 per cent).

The identification of inhibiting factors to securing investment and product mandates, particularly cost structure and labour flexibility of the Canadian operations, is related to the economic sector of activity, to the region of origin of the MNC and to the distribution of employment within Canada. Firms with a focus on the primary sector (43 per cent) and in the Western provinces (38 per cent) are much more likely to see labour relations as an inhibiting factor. U.S.-based (30 per cent) and Canadian-controlled MNCs (24 per cent) are more likely to see the cost structure in Canada as an issue than are European- and rest-of-the-world based firms (respectively 9 and 10 per cent).

### **7.3 Building Local Networks**

The international literature points to the need for MNC managers to use the resources afforded by national and local institutions and to participate in various organizations and networks. In order to document this, we sought to assess the network and institutional embeddedness of the managers of the Canadian operations. Chart 7.3 indicates to what extent the Canadian operations of MNCs engage in different facets of network building in Canada.

Two results come across rather clearly. First, a very high proportion of respondents participate regularly in the activities of industry employer associations (64 per cent), and in industry forums to discuss labour market issues and training (54 per cent). Second, a much smaller proportion of Canadian operations of MNCs engage in partnerships with universities and colleges for research and development (37 per cent), engage in discussions with non-governmental organizations on acceptable standards for corporate social responsibility (27 per cent) and draw on government support for enhancing workforce skills (21 per cent). Indeed, on each of these latter items, there is a higher proportion of firms reporting that they do not engage in these activities. In other words, while these firms exhibit fairly strong network-building capabilities in the traditional domain of business coalitions, this is much less the case in other areas of their engagement with Canadian institutions.



Do we observe any important variations between different companies with regard to network and institutional embeddedness? First, Canadian-controlled MNCs are much more likely to participate in industry forums to discuss labour market issues and training: 70 per cent of them report that they do so, as opposed to 49 per cent of foreign-controlled MNCs. The type of corporate intermediary structure also appears to play a role in the case of foreign-controlled MNCs as 55 per cent of firms with a Canadian subsidiary or regional head office participate in industry forums, as opposed to just 40 per cent in the absence of such intermediary structures. Corporate intermediary structures would appear to be an important resource in terms of the capacity of firms to develop links with their environment.

Second, this difference between foreign- and Canadian-controlled MNCs with regard to institutional embeddedness emerges very clearly in the development of partnerships with universities and colleges on research and development. Whereas 63 per cent of Canadian-owned MNCs report that they engage in such partnerships, only 29 per cent of foreign-owned firms indicate that they do so. Country or region of origin also

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plays a role as firms from the rest of the world, as opposed to U.S.- and European-based firms are even less likely (10 per cent) to become involved in the development of educational partnerships. The importance of knowledge alliances with universities and colleges is also clearly linked to the market orientation of MNCs in Canada. Those firms with an exclusive focus on the Canadian market (21 per cent) are least likely to construct partnerships with universities and colleges for research and development, whereas the Canadian operations of MNCs with an international market orientation – be it the North American market (40 per cent) or markets outside of North America (61 per cent) – are much more likely to engage in such partnerships. Intermediary corporate structures also play a role in these alliances as firms without such intermediary structures (18 per cent) are much less likely to engage in educational partnerships than are firms with intermediary structures in Canada (36 per cent). This would suggest that corporate “hollowing out”, if and when it is occurring, has real consequences for the way that the Canadian operations of MNCs are able to build local networks in Canada. Among foreign-controlled multinationals, the presence of intermediary structures would once again appear to play an enabling role in the development of educational partnerships.

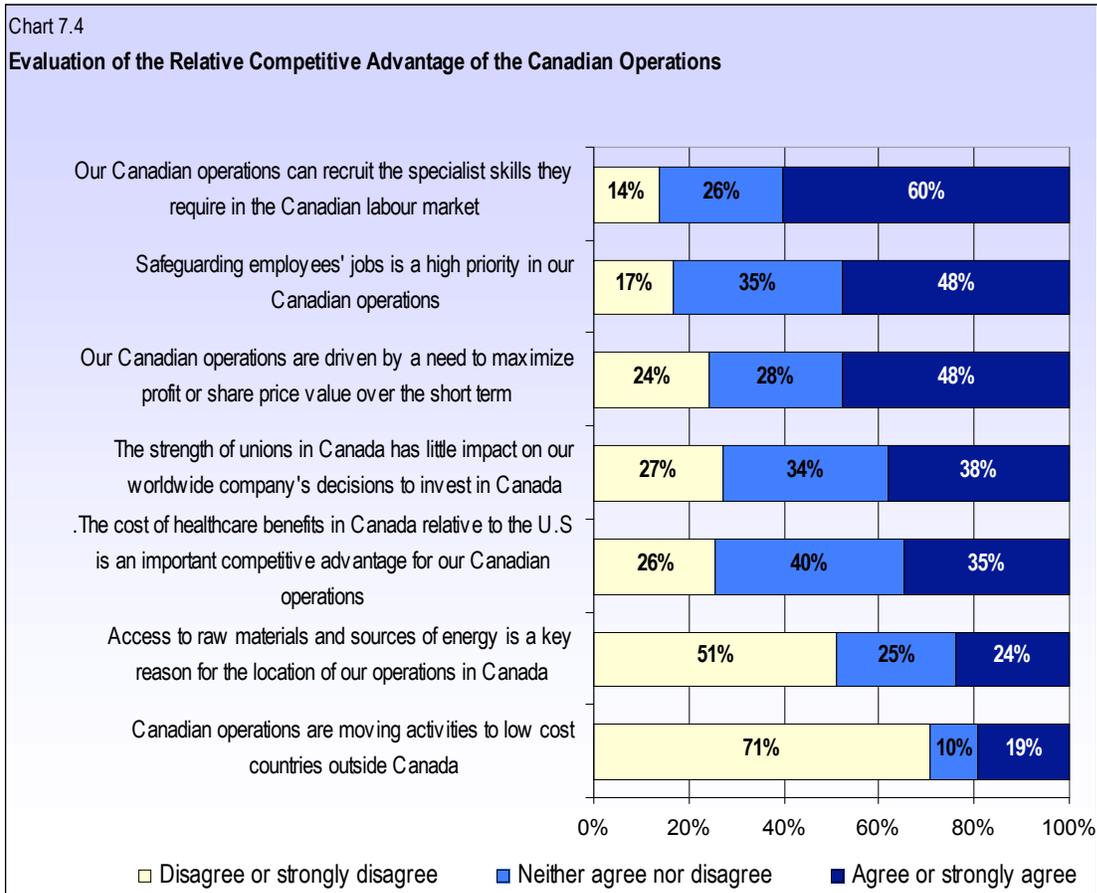
Third, engagement with civil society is clearly influenced by a firm’s economic sector. Whereas firms in sales and services (19 per cent) and manufacturing (25 per cent) are less likely to engage in discussions with non-governmental organizations on acceptable standards for corporate social responsibility, the Canadian operations of firms in the primary sector (57 per cent) are much more likely to do so. This difference in the sector of economic activity is also related to the distribution of employment within Canada. Firms with their concentration of employment in the Western provinces are more likely to engage in discussions with NGOs on corporate social responsibility (39 per cent as opposed to 26 per cent in Quebec and 21 per cent in Ontario). Firms with a concentration of employment in Quebec are the least likely to do so as 71 per cent indicate that they do not engage in such discussions with NGOs. In contrast, only 38 per cent of firms with a concentration of employment in Ontario and 30 per cent in the Western provinces report that they have not engaged in such discussions.

Finally, the ability of firms to draw on government resources for enhancing work force skills is primarily a manifestation of the sector of activity on which the Canadian operations of the firm are focused. Firms with a focus on manufacturing are much more likely to draw on government support for workforce training (28 per cent) than are firms in the primary sector (13 per cent) and sales and service (12 per cent).

#### **7.4 Sources of Canadian Competitive Advantage**

How do the Canadian operations of MNCs assess the Canadian institutional environment? We asked respondents to assess the relative competitive advantages of their Canadian operations. There is clearly a risk of “social desirability” on the part of the respondents but managers are at the same time compelled to make continual evaluations of the strengths and weaknesses of their business.

The results in Chart 7.4 show that Canadian operations can by and large recruit the specialist skills they require in the Canadian labour market, on which 60 per cent of respondents agree or strongly agree. Safeguarding jobs in Canada also appears to be a high priority for the managers of Canadian MNCs, which is no doubt made easier by the overall buoyancy of employment, as 48 per cent of respondents agree that this is a high priority and only 17 per cent indicate that this is not the case. At the same time, and this is more a manifestation of the organizational environment, 48 per cent of respondents report that their Canadian operations are driven by a need to maximize profit or share price value over the short term, as opposed to 24 per cent who disagree that this is the situation of their Canadian operations.



There are also a number of factors that have fairly mixed assessments. The largest proportion of respondents either agree that the strength of unions in Canada has little impact on worldwide company decisions to invest in Canada (38 per cent) or neither agree nor disagree with this assessment (34 per cent). However, a significant group of respondents (27 per cent) do indicate that this is a consideration. Similarly, while 35 per cent of respondents indicate that the cost of health care benefits in Canada relative to the U.S. is a competitive advantage for their Canadian operations, 26 per cent report that this is not the case and 40 per cent neither agree nor disagree. Finally, and these are certainly significant results in thinking about some of the myths of MNC presence in Canada, only a small proportion of respondents indicate that their Canadian operations are driven by

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the need for access to raw materials or that they are moving to low-cost countries outside of Canada.

While the assessment of the sources of competitiveness in their Canadian operations tends to be quite firm specific, there are a few variations by MNC characteristics that merit further consideration. Some are related to the natural environment while others are more directly linked to the institutional and organizational environments of the firms studied.

The importance of access to raw materials is certainly related to sector of economic activity. Not surprisingly, such access is more important for firms in primary goods and manufacturing than in sales). It is also a much more important consideration for firms with their largest concentration of employment in the Western provinces (44 per cent) and Quebec (32 per cent) as opposed to Ontario (15 per cent). Access to raw materials is also related to market orientation. Firms that focus on international markets (35 per cent) and the continental market (30 per cent) deem the access to raw materials a more important competitive advantage for their Canadian operations than firms that focus exclusively on the Canadian market (5 per cent). It is also a more important factor for bi-regional MNCs than for regional and transnational MNCs.

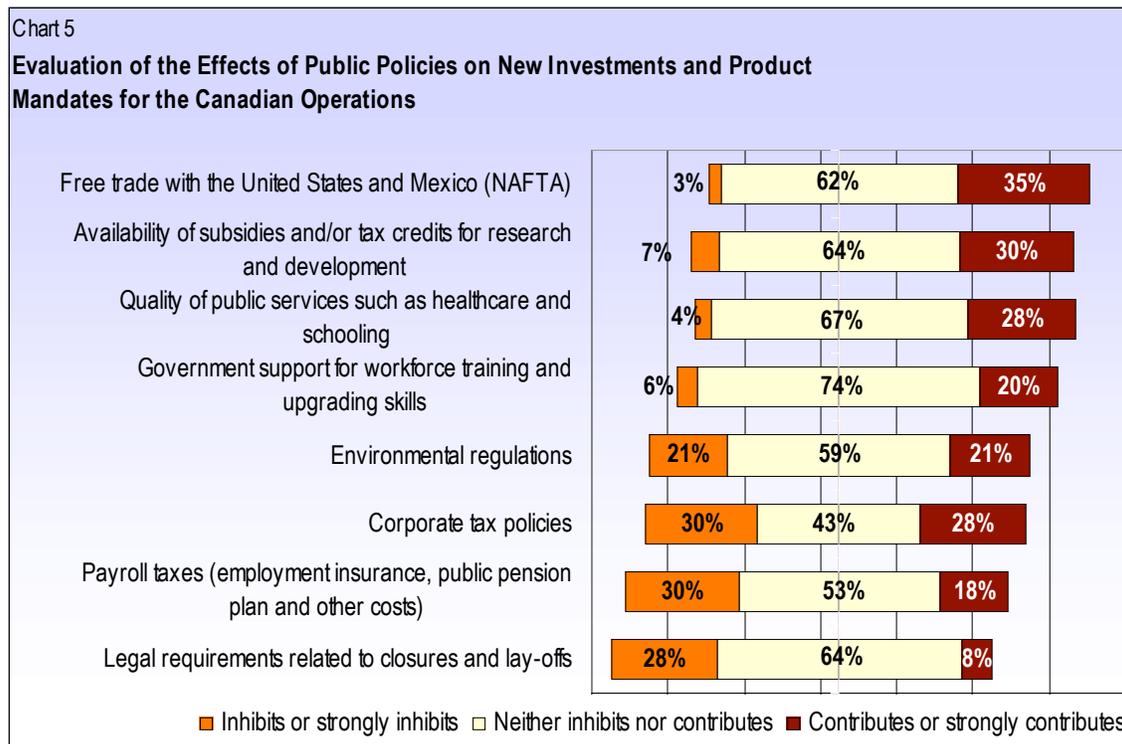
The institutional environment is also an important consideration for different types of firms. For example, the public provision of health care is seen as a competitive cost advantage relative to the U.S. for firms that have their greatest concentration of employees outside of North America (37 per cent). The recruitment of specialist skills is also deemed to be an important source of competitive advantage for MNCs in sales and services. Managers in these firms are more likely to report that they can recruit the specialists that they need (72 per cent), as opposed to firms in manufacturing (55 per cent) and the primary sector (54 per cent). While MNCs concentrated in different Canadian regions are equally likely to agree that the strength of unions has little impact on their decisions to invest, managers in Quebec (32 per cent) and the Western provinces (27 per cent) are more likely to disagree with this idea than those in Ontario (8 per cent).

The organizational environment is also a key feature of the assessment of sources of competitive advantage. Intriguingly, the importance of safeguarding jobs is more likely to be seen as of great importance in foreign-controlled firms (53 per cent) than in Canadian-controlled firms (32 per cent). This tendency is also more pronounced in firms with an intermediary corporate structure in Canada (58 per cent) than in foreign-controlled firms without such a structure (42 per cent). It might be thought that these latter firms are less engaged in the institutional environment of their Canadian operations and that this translates into organizational capacity. A distinguishing feature of the Canadian operations of those MNCs who report that they are moving activities towards low-cost countries outside of Canada is that their market focus is not on the North American region. It is both firms with an international product market orientation and firms concentrated exclusively in the Canadian market that are more likely to be offshoring jobs.

## 7.5 Public Policy Drivers and Inhibitors

Finally, how do Canadian subsidiaries of MNCs evaluate their institutional environment? What are the public policy drivers and inhibitors in securing new investments in or mandates for their Canadian operations? Chart 7.5 reports the results of this evaluation of a range of public policy factors.

A first striking result is that the “neither contributes nor inhibits” is the most prevalent evaluation for all the public factors considered. Indeed, the majority of MNC respondents for all factors, except corporate tax policies, are inclined to respond “neither



contributes nor inhibits.” The corporate tax policy issue, to which we shall return below, is particularly interesting because the respondents are evenly divided between those who judge that corporate tax policies contribute to new investments and mandates and those who feel that corporate tax policies inhibit new investments and mandates.

Four public policy factors, however, do score much higher in terms of their positive than their negative influence on investments and product mandates for the Canadian operations of MNCs. These are free trade with the United States and Mexico, the availability of subsidies and/or tax credits for research and development, the quality of public services such as health care and schooling, and government support for workforce training. For each issue, a significant group of MNCs, ranging from 35 per cent in the case of free trade to 20 per cent in the case of government support for workforce training, indicate that this policy aspect of their Canadian institutional environment contributes to new investments and product mandates, whereas only 3 to 7

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per cent of respondents judge that these same issues inhibit new investments in and mandates for their Canadian operations. NAFTA appears to be a particularly important policy consideration – inasmuch as it strongly contributes to investments and product mandates – in firms with a North American market orientation (46 per cent) and firms in the primary sector (46 per cent). Government support for training also appears to be an inhibiting factor for MNCs from the rest of the world.

There are two policy issues where the positive and negative evaluations are roughly equivalent, namely environmental regulations and corporate tax policies. In each case, roughly the same proportion of respondents identify the policy issue as contributing and as inhibiting new investments and product mandates. This is an especially interesting result because there is a public narrative that these policy issues are significant impediments to new investment. Environmental regulations represent a good case study because it is firms in the primary sector and with their employment concentrated in the Western provinces that are most likely to identify Canadian environmental regulations as an inhibiting factor. Corporate tax policies also offer interesting variations inasmuch as manufacturing firms are more likely to see such policies as a negative factor whereas the Canadian operations of firms focused in the primary sector are likely to see corporate tax policies as a positive influence on investment and the ability to secure new product mandates.

Finally, there are two policy issues on which the negatives outweigh the positives. These are payroll taxes and legal requirements related to closures and layoffs. The absence of variations by firm characteristics points to different possibilities for interpretation of these two issues. One is that concern is quite pervasive on the negative effects of public policy on these two issues and that MNC managers are particularly sensitive to factors that affect the cost structure of their Canadian operations. Another would point to a generalized public policy narrative, for which the sentiment is quite real, but does not relate to particular institutional constraints. If this latter interpretation is equally plausible, it is because direct payroll taxes and legal requirements for closures and layoffs are not necessarily more onerous in Canada than in other advanced industrial economies.

## **7.6 Mastering the Interface between Organizational Capabilities and Institutional Environment**

Overall, one interpretation of these results, especially those dealing directly with public policy issues, may simply be a confirmation that while public policies are important, more classic business and market factors remain the driving force of MNC strategic decisions. Another interpretation may be that, in spite of the rhetoric about the limitations of public policy, all things considered, the Canadian public policy environment represents a fairly level playing field, with most respondents having some difficulty to point out what actually constitutes an obstacle and what constitutes an institutional advantage.

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Both of these interpretations contribute in a modest way to deflate the myth of an overregulated Canadian economy. In addition to a positive assessment of some policy issues, many of our respondents see both positives and negatives in their institutional environment. We clearly need a better understanding of the interface between three types of factor: first, organizational characteristics such as location in a particular economic sector and the product market orientation of the firm; second, specific firm capabilities and sources of competitive advantage of the type that we considered in earlier sections of this chapter; and, third, the public policy framework that we explored in this section of the chapter.

Organizational characteristics appear to exert an important influence. Location in particular sectors of economic activity obviously has an impact on how the firm interacts with its environment. More importantly again, in this chapter, we were able to identify the importance of intermediary corporate structures in the capacity of firms to engage with their institutional environments. Market orientation, especially an international market orientation, also played a role in pushing firms towards greater levels of institutional engagement whereas an exclusive focus on the Canadian market did not. This suggests that competing in global markets requires more sophisticated forms of interaction between particular firms and the local networks in which they might invest. While managers may feel too busy to do so, our results suggest that firms that do compete in international markets feel compelled to invest in such networks.

Specific firm capabilities are also essential. Management commitment to safeguarding jobs and the ability of senior managers to make the case for their Canadian operations are clearly specific to the firm. So too are the capacity to innovate in the development of goods and services and processes and the ability to achieve labour flexibility. Both are identified as key firm capabilities and both point to the need to develop alliances and partnerships within the firm. As we saw in Chapter 6, however, this is often not the case in terms of employee relations. These capabilities are also manifested in the way that managers develop partnerships outside the firm, as is the case with educational alliances.

Finally, the public policy framework is highly relevant to the firms in this study. Free trade with the United States and Mexico, the availability of subsidies and/or tax credits for research and development, the quality of public services such as health care and schooling, and government support for workforce training are all identified as public policy facilitators. This also applies to the ability to recruit specialist skills and to the importance of the quality of graduates from universities and colleges. There are also public policies that generate more ambivalent or entirely negative assessments, especially, as in the case of payroll taxes, when they are perceived to have a significant impact on the overall cost structure of the Canadian operations. There are also other policies which seem to stimulate both negative and positive assessments, such as corporate taxes and environmental regulations, and these responses need to be understood in the way that they interact with specific organizational characteristics and firm capabilities.

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As noted at the outset of this chapter in the light of recent studies of MNC strategies and their interface with different institutional environments, and our results throughout this chapter certainly lend support to this interpretation, public policy makers would be wise to resist simplistic recipes that do not seek to take account of the complexity of the interactions between these three types of factor. Chapter 3 made the point that one size does not fit all in the case of MNCs. This is readily apparent in the results throughout this chapter: the Canadian operations of MNCs manifest quite different capabilities and different orientations to the institutional resources in their environment. There is, moreover, ample evidence in our study of the considerable variation in the interface between firm capabilities and institutional resources. An important research issue over the coming years will be to gain a better understanding of some of the key drivers of this interface and to understand what helps local managers of MNCs to better negotiate this interface.



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## Chapter 8

# Conclusion

Although we must emphasize the preliminary nature of these conclusions because much analysis still remains to be accomplished in understanding fully the rich data yielded by our respondents in this study, this report was guided by three sets of questions about the role of the Canadian operations of multinational companies (MNCs) within their worldwide firms.

First, we looked at the diversity of organizational configurations of MNCs in Canada (Chapter 3) and their position within the global value chains of these firms (Chapter 4). It was quite clear, and this was a key intuition in the original design of the study, that “one size does not fit all.” We observe considerable diversity in the types, organizational forms and market orientations of MNCs in Canada. One important conclusion, however, is that Canadian-controlled MNCs are more likely to have an international market orientation than are foreign-controlled MNCs, but that the majority of the foreign-controlled MNCs also sell in foreign markets, more typically in North America than other regions of the world. In terms of positioning within global value chains, the Canadian operations are significantly integrated into the sequence of activities within their global firms. An important question, however, is whether this integration is uni- or bi-directional. There are many firms, catering primarily to the Canadian market, that do little or no R&D in Canada; nor are their Canadian operations accomplishing activities for other parts of their worldwide company. In contrast, there are firms that undertake considerable R&D in Canada and are engaged in substantial two-way exchanges within their MNC in terms of the sequence and degree of integration of their activities. It tends to be Canadian-controlled MNCs, European-based MNCs and all MNCs that are competing in global markets that are doing more R&D in their Canadian operations. Patterns of outsourcing and offshoring vary considerably, with foreign-controlled firms more likely to increase their recourse to outsourcing and European-based firms more likely to decrease their use of offshoring. Despite strong trends related to firm characteristics, this diversity of outcomes observed points to the importance of the capacity of the Canadian operations to construct intra-firm relationships that make the case for the role of the Canadian operations within the worldwide company.

Second, we focused on both the autonomy and discretion of managers within the Canadian operations of foreign-controlled multinationals in devising HR and employment policies and practices (Chapter 5) and the key trends in innovations in employment practices and the degree to which such innovations are being diffused across borders (Chapter 6). Contrary to the often prevalent image of the omniscient and hyper-centralized MNC, and in keeping with much of the detailed literature on how firms

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actually work, our results do suggest that managers and employees in the Canadian operations of MNCs have a fair degree of autonomy to develop both new products and processes and, in terms of the key focus in this study, employment policies and practices. The degree of latitude varies, of course, and U.S.-based firms, which constitute almost two-thirds of the foreign-controlled MNCs in Canada, and firms in manufacturing tend to grant less autonomy, while European-based firms are characterized by a higher degree of autonomy. However, we observed both decentralized and more complex network configurations where managers and employees seem to have scope to develop their particular practices, albeit less so in the case of payment and performance systems.

Once this high degree of autonomy in the area of employment practices is in evidence, the question then arises as to what managers in the Canadian operations are doing with that autonomy. We, in fact, observe a range of innovations in employment practices. However, if we were to expect that MNCs are all at the leading edge of so-called high-performance work systems (HPWS), this is not the case. It would appear that there are many paths to pursuing business strategies in employment practices and that the performance of MNCs is quite variegated and often below possible expectations in terms of developing innovative employment practices and forms of work organization, including mechanisms for management development. Canadian-controlled MNCs are more likely to be engaging their unionized employees on a range of employment issues. Canadian-controlled MNCs, highly transnational firms and the Canadian operations of MNCs that are competing in international markets are most likely to be at the forefront of management development. A telling observation here is the degree to which practices developed in the Canadian operations are taken up elsewhere in the worldwide company. On the whole, this is not the case. Once again, the most transnational firms, Canadian-controlled MNCs and Canadian operations competing in international markets are more likely to have their innovations emulated in other parts of their worldwide firms. A key conclusion then relates to the development of capabilities within the Canadian operations. While there appears to be sufficient autonomy in the Canadian operations of MNCs to innovate in the realm of employment practices, it would appear to be underutilized and we need to understand better the mechanisms that foster and stimulate innovation in these practices.

Third, we looked at the interactions between MNCs and their Canadian institutional environment (Chapter 7). An important initial observation is that MNCs tend to have a very positive evaluation of the Canadian workforce, notably in terms of a range of qualitative or soft skill attributes such as work ethic, ability to work in teams and use technology. This positive evaluation also applies to a range of firm capabilities in Canada, such as the ability to make the case for new investment and product mandates, the concentration of special competencies and skills in their Canadian operations and the ability to achieve labour flexibility. Intriguingly, possibly an affirmation of the maxim that it is difficult to be a prophet in one's own land, foreign-controlled MNCs are much more effusive about the key capabilities of their Canadian operations than are Canadian-controlled MNCs. There is much more variation observed in the network-building capabilities of Canadian operations as regards both traditional networks such as industry associations and forums for labour market training and newer areas of engagement such

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as educational alliances and standards for corporate conduct. Canadian-controlled firms, foreign-controlled firms with intermediary corporate structures in Canada and firms with an international market orientation are all more likely to be building local networks. Contrary to specious calls to downgrade the importance of public policy as a lever for firm development, a number of public policy issues clearly emerge as being important attributes for the competitiveness of the Canadian operations of MNCs. Free trade, notably NAFTA, the availability of subsidies or tax credits for research and development, the quality of public services such as health care and schooling, and government support for workforce training are all identified as public policy facilitators. While there are also public policy inhibitors, with the exception of direct labour cost issues, the evaluation of factors such as corporate taxation and environmental regulation tends to be quite mixed and speaks to the variability in the situations of firms and the way that they interact with their public policy frameworks. It would appear likely, and further analysis is required here, that firms better able to develop local networks and use the resources and leverage afforded by their institutional environments are also able to reinforce the depth and nature of their firm specific capabilities that seem so important in differentiating and reinforcing their role within their worldwide company.

While keeping in mind the persistent variety of the MNCs that emerges from our study, there are two contrasting images of the Canadian operations of MNCs that run through this analysis. Although stereotypical, each of these images is grounded in the data produced by our study.

The first image is that of the MNC that is primarily focused on the Canadian market and, not surprisingly perhaps, does little or no R&D in its Canadian operations. This firm is also likely to fit in the highly centralized pattern of control identified in Chapter 5 as managers feel that they have, comparatively speaking, little autonomy to innovate in the areas of HR and employment policy. This firm is also likely not to be at the forefront in terms of the development of new forms of work organization and employment practices and, consequently, not exporting these practices to other parts of their worldwide company. It is also this firm that is less likely to have developed substantial links with networks in Canada, particularly in terms of partnerships with educational institutions or discussing acceptable standards of corporate conduct with groups from the civil society. It is also this firm that is less likely to have corporate intermediary structures that can act as an enabler in its interactions with different networks and institutions in Canada.

Our second and contrasting image is that of an MNC whose Canadian operations do seek to penetrate international markets. This firm does engage in R&D activities in Canada. It is also likely to exhibit either a decentralized or network pattern of influence in which managers in Canada feel that they have higher degrees of autonomy and can develop HR and employment policy in Canada. This firm is also likely to be innovating in the areas of HR and employment practice, including partnerships with its own employees, because presence in global markets seems to make these kinds of innovations an essential pre-requisite for the capacity to compete at this level. Moreover, these innovations are being picked up by other parts of their worldwide operations. This firm is

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also likely to have developed significant organizational capabilities, in terms of the ability to innovate and make the case for its Canadian operations within its larger firm. It is also a firm that probably sees opportunities in its institutional environment and has developed, for example, links with educational institutions and is able to leverage public policy resources in pursuit of its business strategy. It is also likely to be a firm that is open to greater community scrutiny, as for example through the discussion of corporate standards with outside civil society groups. Such a firm would typically also have more significant intermediary structures in Canada that help with the negotiation of the interface between its particular firm characteristics and capabilities and the institutional environment.

The business models of these two contrasting images are most likely to be quite viable inasmuch as they are much in evidence and presumably ensure a return on investment. It is even possible to come to the conclusion that the first model is a tightly focused strategy designed to realize a return in the Canadian market. However, there can be little doubt as to the differential potential of these two business models for the development of Canadian prosperity and well-being. The key policy question then becomes how to favour the development of the second of these two prototypes. Our response, at least in light of our still preliminary analysis, suggests two avenues.

First, it is clear that, in contrast to the first image, the second image of the Canadian operations of an MNC is the antithesis of a hollowed-out firm. It has corporate intermediary structures and is fully engaged in a range of behaviour in Canadian society that allows it to leverage the benefits of the network and institutional infrastructures in order to play a more significant role within the operations of its worldwide company. A key conclusion that stems from this avenue of analysis is that our understanding of so-called hollowing out must be related to a wide and not a narrow range of indicators. The important point is to look at what firms actually do, be it in terms of research and development, using their existing autonomy to innovate in practices that are then transferred elsewhere in the worldwide company and in developing firm specific capabilities that leverage their relationship with their workforce, with local networks and institutional environments in Canada to play a more significant role in their worldwide company.

Second, there needs to be much organizational and policy work done to understand better the drivers that help firms move from the first image to the second. Our argument is that there is a degree of autonomy to do so. However, actually doing so suggests that managers and employees are aware of these possibilities and they are focused on the importance of firm-specific capabilities that can differentiate their role within their worldwide company. It also suggests that public policy is one of the drivers in developing such capabilities. In other words, the role of public policy is not that of a cheerleader on the sidelines. Public policy constitutes an important resource in this “global game” and needs to be thought of and developed as such.

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# Appendix A

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# Appendix B

## Study Methodology

### **B.1 Constitution of the Population**

This research is based on what we believe to be a fairly comprehensive population listing of MNCs in Canada. Most surveys or studies of multinationals borrow their sample from either a single corporate database, company rankings by financial magazines or a list of foreign-owned companies. To estimate the population of multinational companies corresponding to our criteria, we purchased a database from the world's largest corporate data provider (Dun & Bradstreet). This initial list was validated against several other company databases (Lexis-Nexis, Mergent Online, Fortune's Global 500, Financial Post 500 and other company rankings). Case-by-case verification through Internet searches, perusal of annual reports or by direct inquiry was also conducted in order to settle a large number of uncertain cases. Attempts to verify the representativeness of our list by comparison with data from the Business Register of Statistics Canada failed because the statistical agency does not gather information on the international subsidiaries of the firms registered.

For the purpose of the survey, we considered a "multinational" any company with operations and employees in more than one country. To put aside the tens of thousand of micro MNCs (see UNCTAD, 2004), we established minimal size criteria. Our survey population includes all the Canadian-controlled or foreign-controlled MNCs having at least 500 employees worldwide, with a minimum of 100 employees in Canada and a minimum of 100 employees in other countries. These criteria are consistent with those developed in companion surveys in the U.K., Spain, Ireland and Mexico, with which our research team is associated.

A telephone screening was conducted by a polling company, Echo Sondage, to verify the data in our list of companies and to establish the contact information for the appropriate respondent for the survey questionnaire in each company (i.e. the most senior HR manager who is ultimately responsible for all the employees of the firm in Canada).

This complex process provided us with a population of 1,403 MNCs with activities in Canada that correspond to our size criteria. Of that list of companies, 310 have their headquarters in Canada (Canadian-controlled) and the other 1,093 are foreign-controlled.

### **B.2 Survey Design and Administration**

We designed two slightly different versions of the questionnaire in order to capture the organizational realities of foreign-controlled and Canadian-controlled MNCs.

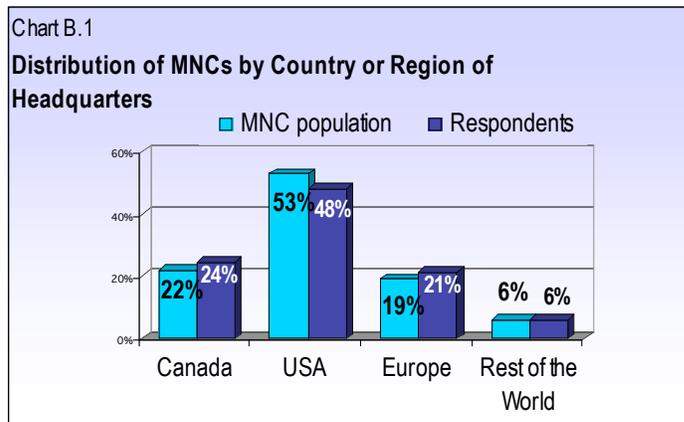
The survey questionnaire was constructed in close collaboration with a team of researchers from De Montfort University, King's College London and Warwick University in the United Kingdom who are conducting a similar study in their country. The British and Canadian teams worked closely in the development of the survey instruments but the Canadian questionnaire had a somewhat different focus incorporating value chains and public policy issues.

A paper copy of the questionnaire was sent by mail to every company in our database. Respondents were also offered the possibility to complete the questionnaire directly through a Web site; about half of the respondents completed their questionnaire this way. Several follow-up letters, e-mail and telephone reminders were made during the following months. By August 2006, we received 170 questionnaires, of which only two were unusable, leaving us with 168 valid survey respondents. Out of this total, 127 respondents are from foreign-controlled companies and 41 from Canadian-controlled companies.

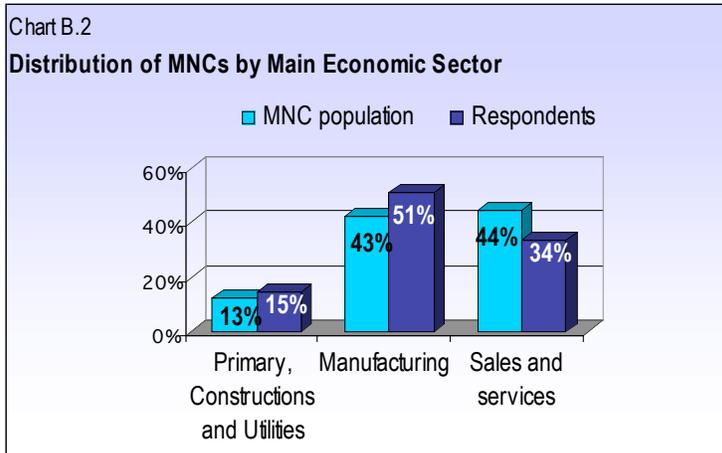
Since this survey is part of a broader study of employment practices in MNCs across the globe also involving teams from the U.K., Ireland, Spain, Mexico, and Australia, a further stage of the study will permit the different research teams to make international comparisons. For this objective, the CRIMT research team continues to work with MNCs in Canada to enhance the number of respondents.

### B.3 Representativeness of the Survey Respondents

If we compare the main characteristics of our survey respondents (n=168) to the population (N=1,403), it appears that our respondents provide a good representation of MNCs in Canada. A comparison of respondents with the population by country of origin shows very similar patterns. In the population, 22 per cent of the companies are based in Canada, 53 per cent in the United States, 19 per cent in Europe and 6 per cent in other countries (see chart B.1). Among survey respondents, 24 per cent are based in Canada, 48 per cent in the United States, 21 per cent in Europe and 6 per cent in other countries.

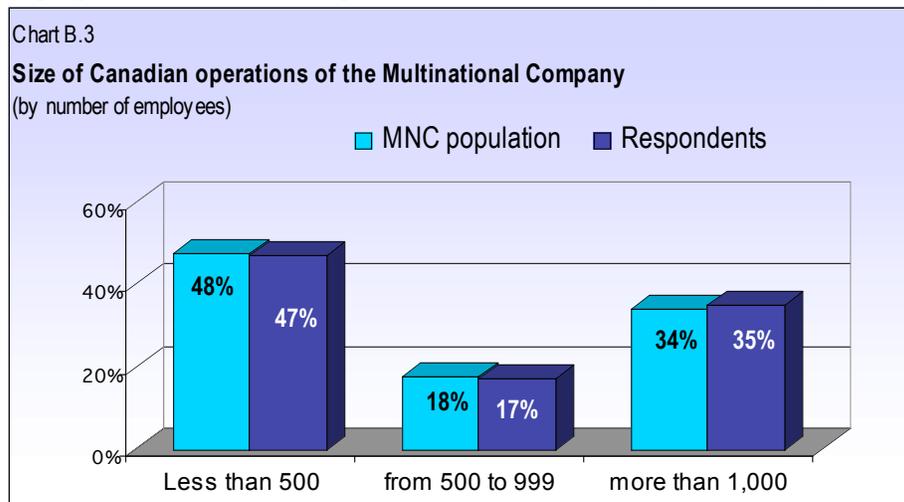


The main sector of economic activity of the MNCs in the complete database (the population) is distributed as follows: 13 per cent in primary industries, construction and utilities, 43 per cent in manufacturing and 44 per cent in sales and services. Among survey respondents, the sales and services sector is underrepresented, with only 34 per



cent of companies, compared with 15 per cent in primary industries and 51 per cent in manufacturing (see chart B.2).

As regards size, the data on the number of employees in the Canadian operations of our survey respondents also reflect the overall portrait of MNCs in the population. The distribution follows a similar pattern in both cases: 47 per cent of companies have less than 500 employees in Canada, approximately 35 per cent have more than 1000 employees, and around 17 per cent are in between (see chart B.3).



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