



# Economic impact of foreign subsidiaries in Québec

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# Objectives

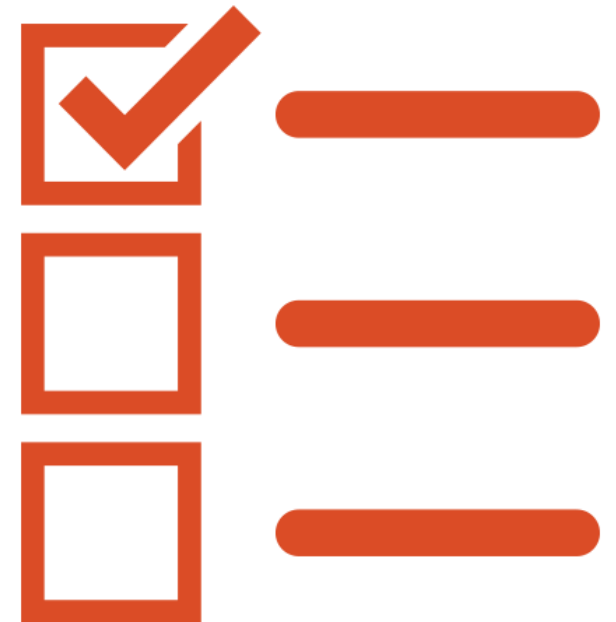
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## *Main objective*

- Assess the economic contribution of subsidiaries

## *Specific objectives*

- Present an overview of subsidiaries
- Assess their economic importance (GDP and jobs)
- Develop two economic indicators:
  - their key contribution to the economy
  - their exposure to various risks



# Methodology

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- Online survey of subsidiaries:
  - Respondents:



- Generalization of results based on Investissement Québec and partner database:



(290,000 jobs recorded)

# Indicators used

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## *Overview of subsidiaries*

- ✓ Plants and jobs in Québec
- ✓ Breakdown by region, country of origin, years in Québec
- ✓ Strategic positioning and decision-making autonomy
- ✓ Industry (NAICS 2012) and activity profile
- ✓ Profit or cost centre

# Indicators used

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## ***Importance in the economy and key contribution***

- Revenue, wages, income tax, benefits, investment
- Research and development activities (\$, type)
- 2011–2015 growth
- Interactions with Québec suppliers

## ***Economic strength***

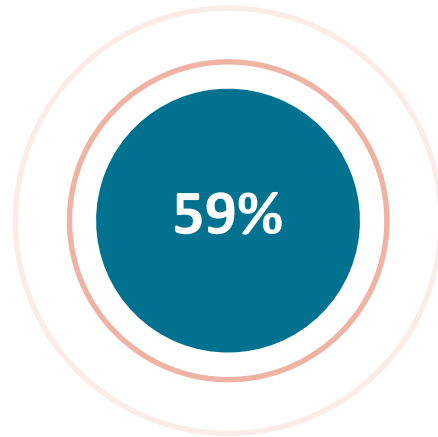
- Internal, market, financial, operational, regulatory and legal risks

# Overview of subsidiaries\*

\* Sample of 213 respondents

# Concentrated in the greater Montréal region, but also well represented in outlying areas

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of jobs located **in the  
greater Montréal region**



of jobs are **away from the greater  
Montréal and Québec City areas**

# Variable territorial responsibility

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6%

of subsidiaries manage the group's activities for **North and South America**

15%

manage **North American** activities

30%

manage **Canadian** activities

47%

operate a place of **business** in Québec



# Decision-making autonomy variable

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10%

qualify their level of decision-making autonomy as **very high to total**

39%

as **medium to high**

42%

as **low to medium**

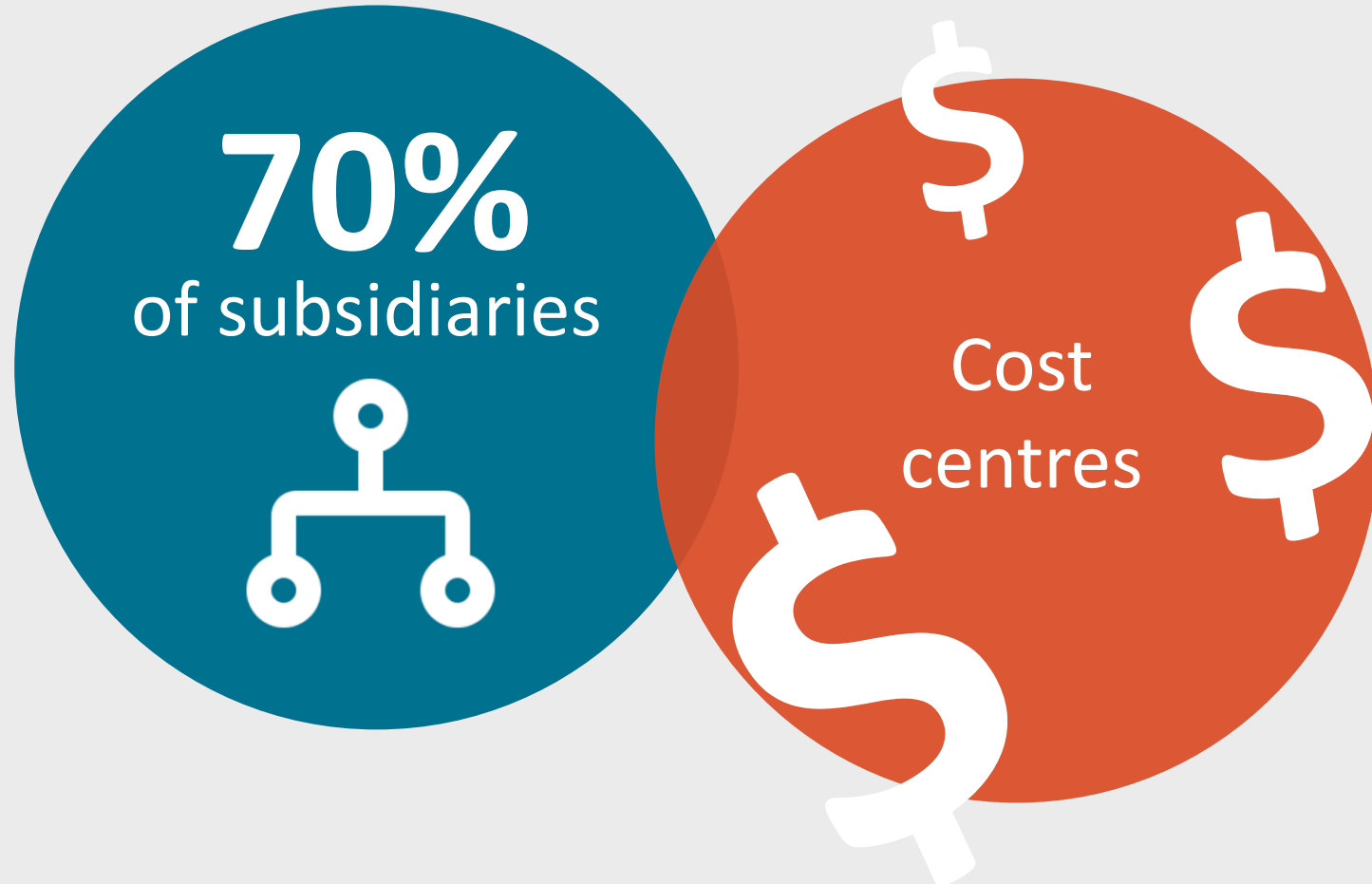
7%

as **none to low**



# Mainly cost centres

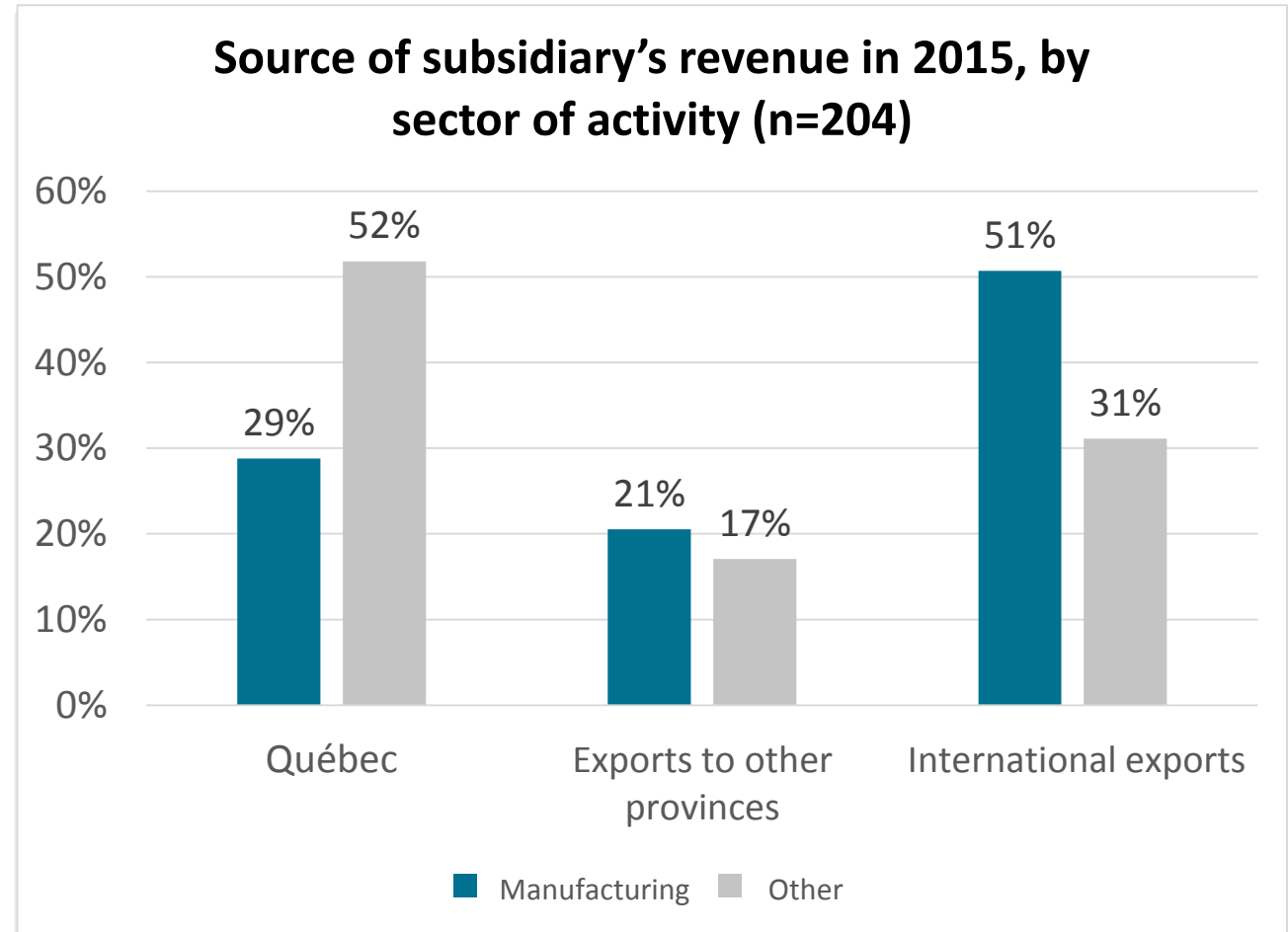
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# **Economic importance**

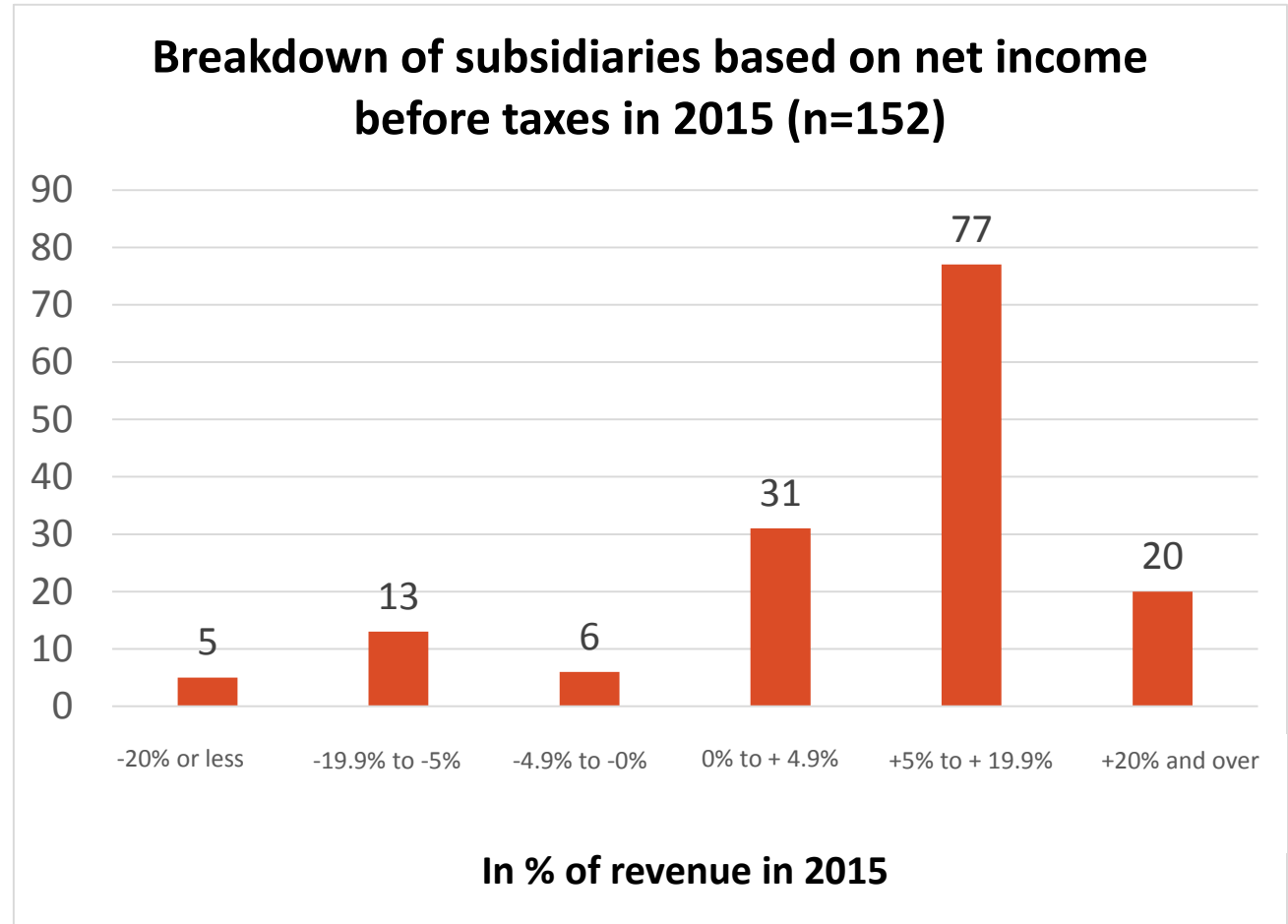
# Export-focused

- 72% of manufacturing subsidiaries' revenue comes from outside Québec, including 51% from international exports
  - 50% of revenue from outside Québec for subsidiaries from other sectors



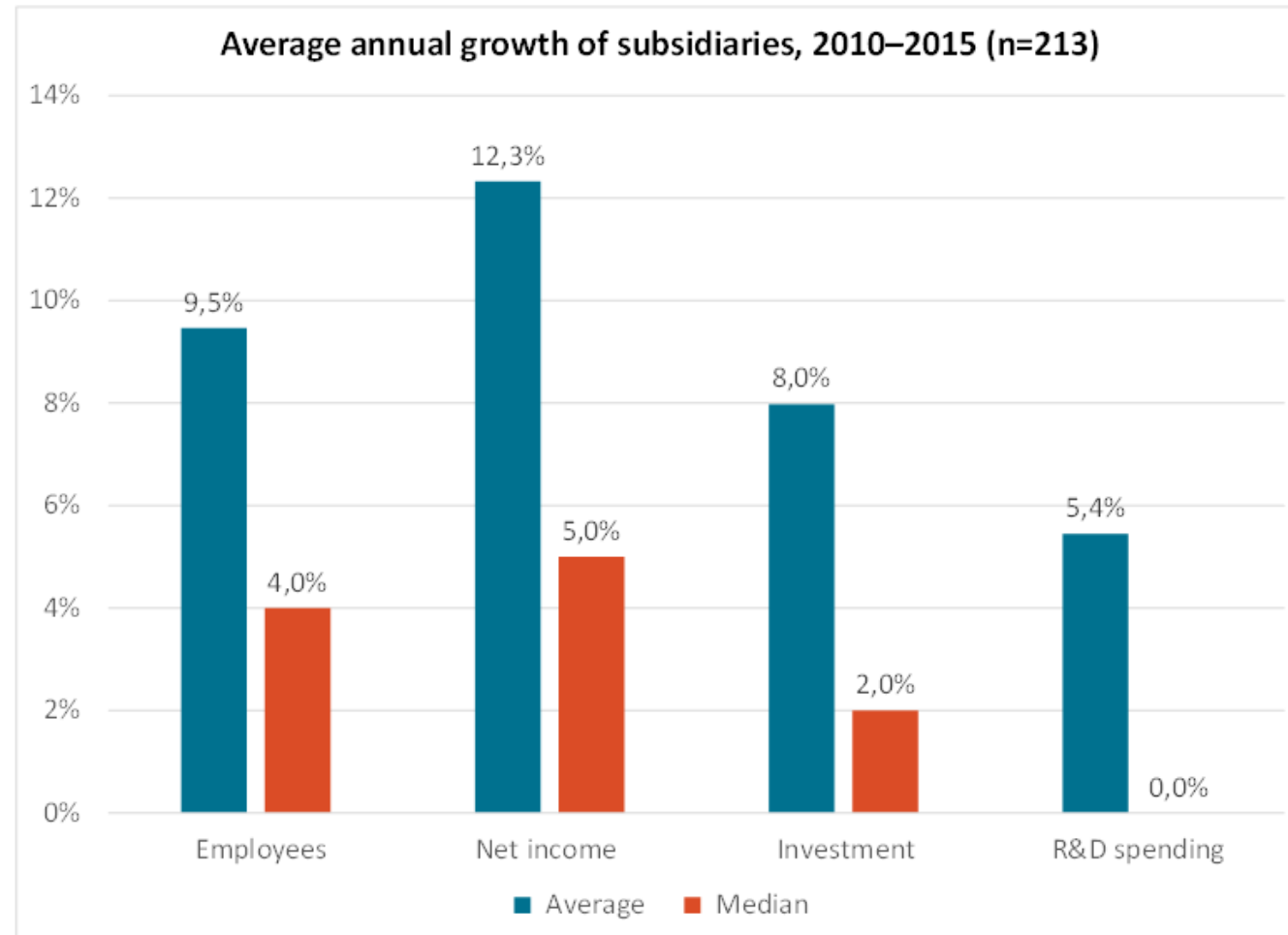
# Profitable

- Subsidiaries' average profitability is 7.6%
  - 84% were profitable in 2015



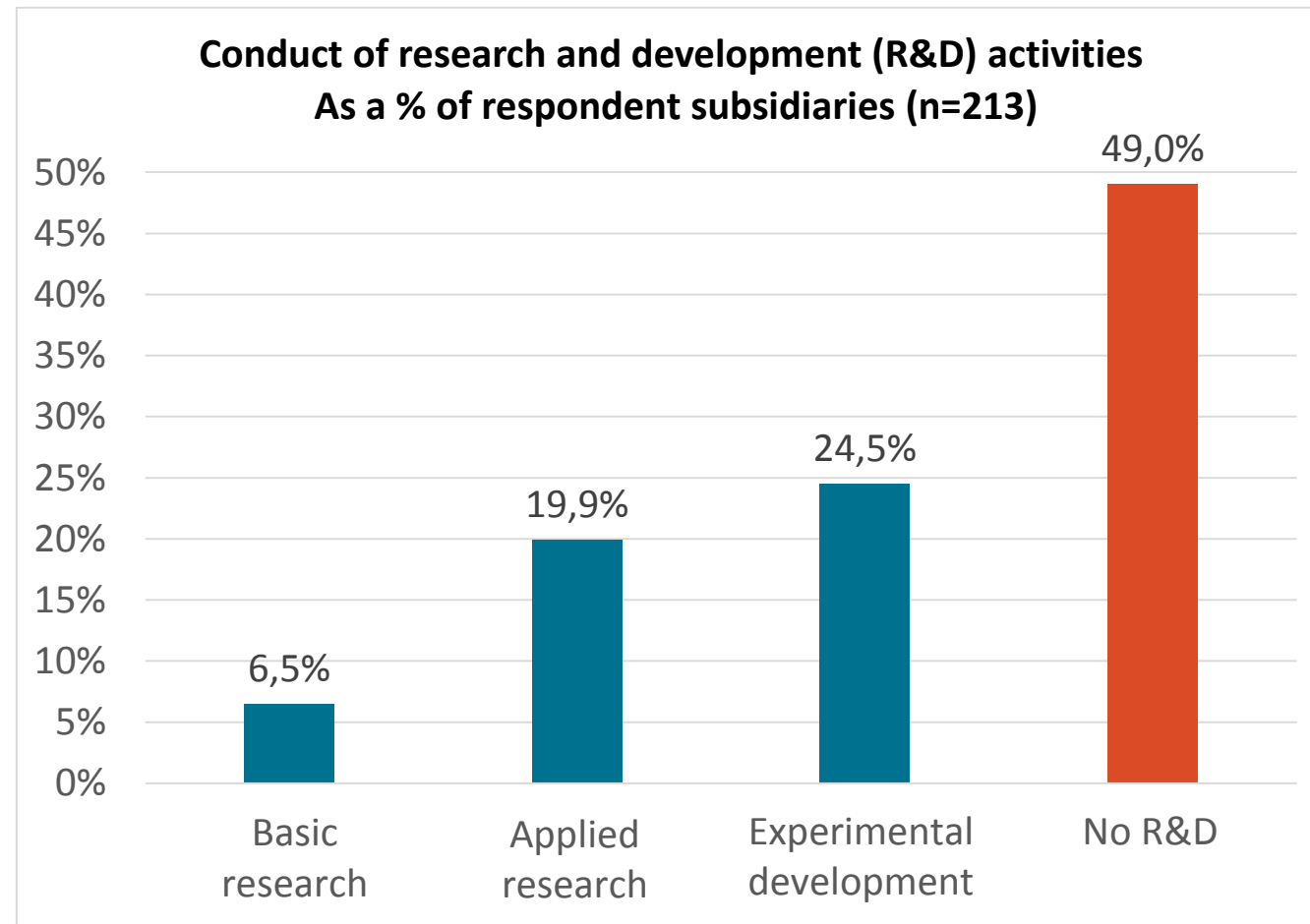
# Growing

- Subsidiaries had average growth rates of about 10% for jobs, net income and investment
  - Lower medians, indicating high variability



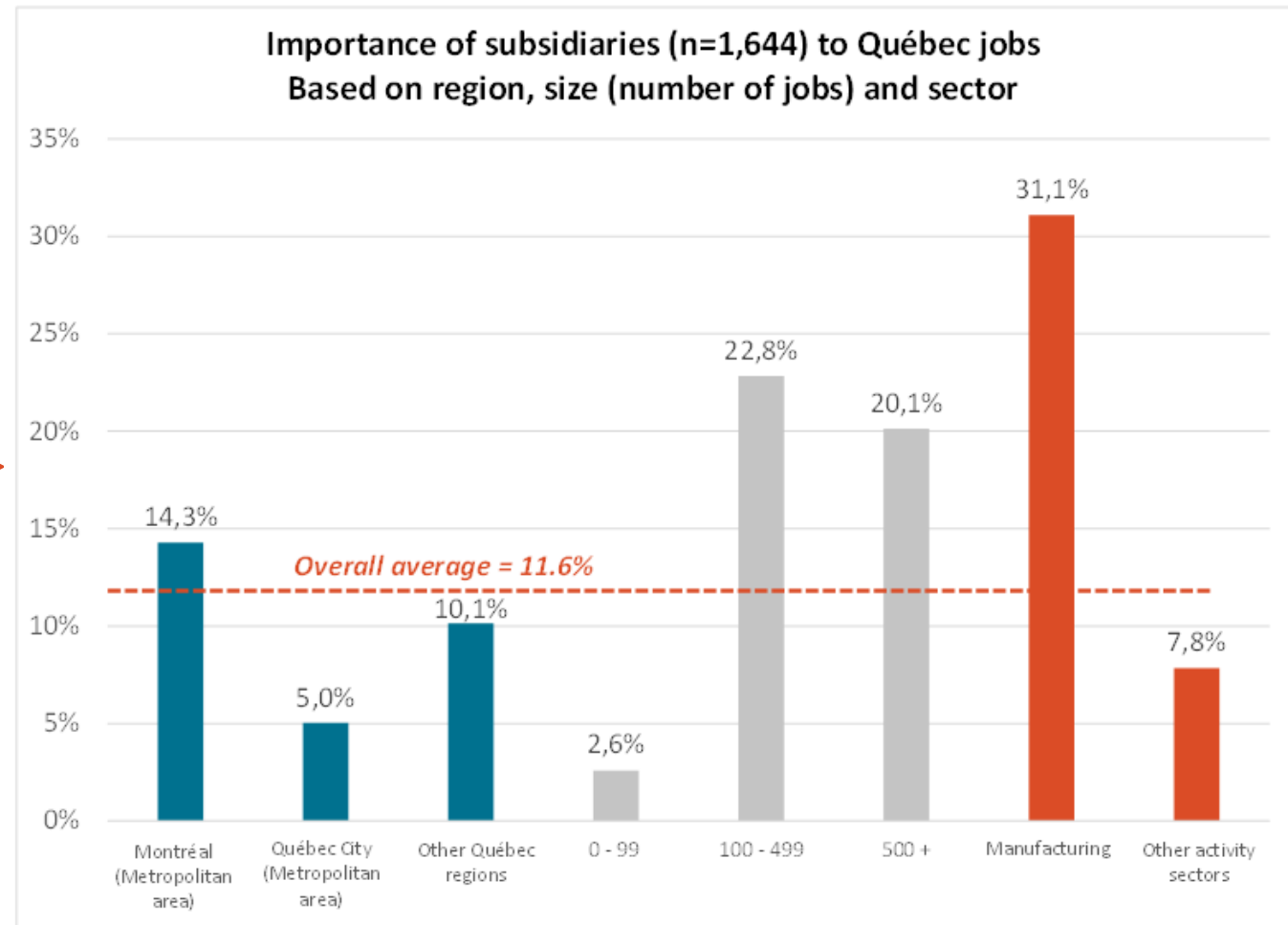
# Active in innovation

- Half of subsidiaries conduct R&D, mainly in experimental development and applied research
  - No R&D: 43% in the manufacturing sector, 62% in other sectors



# Create jobs

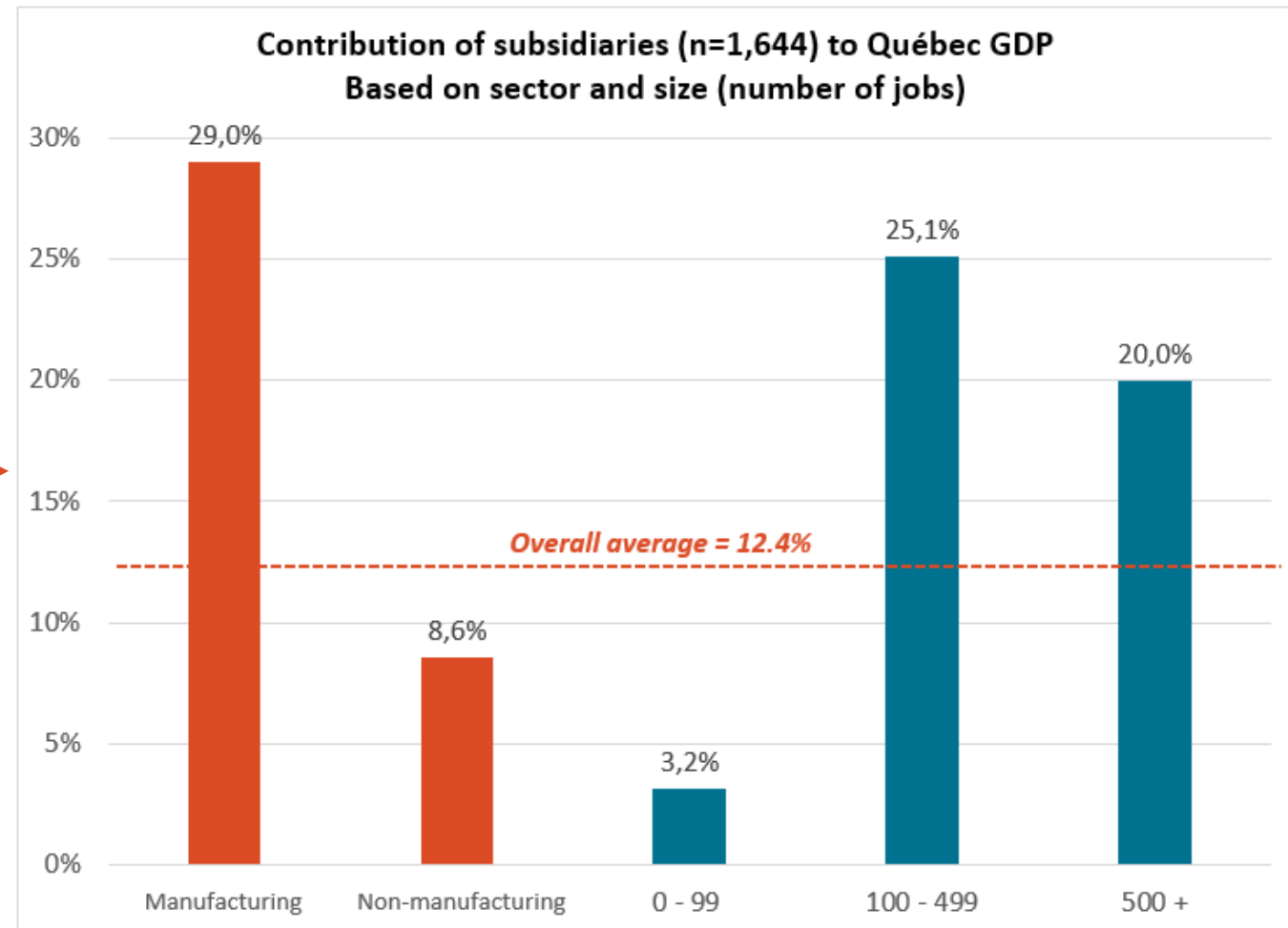
- Subsidiaries account for 11.6% of jobs in Québec
  - Stronger representation in Montréal, in medium-sized and large businesses and in the manufacturing sector





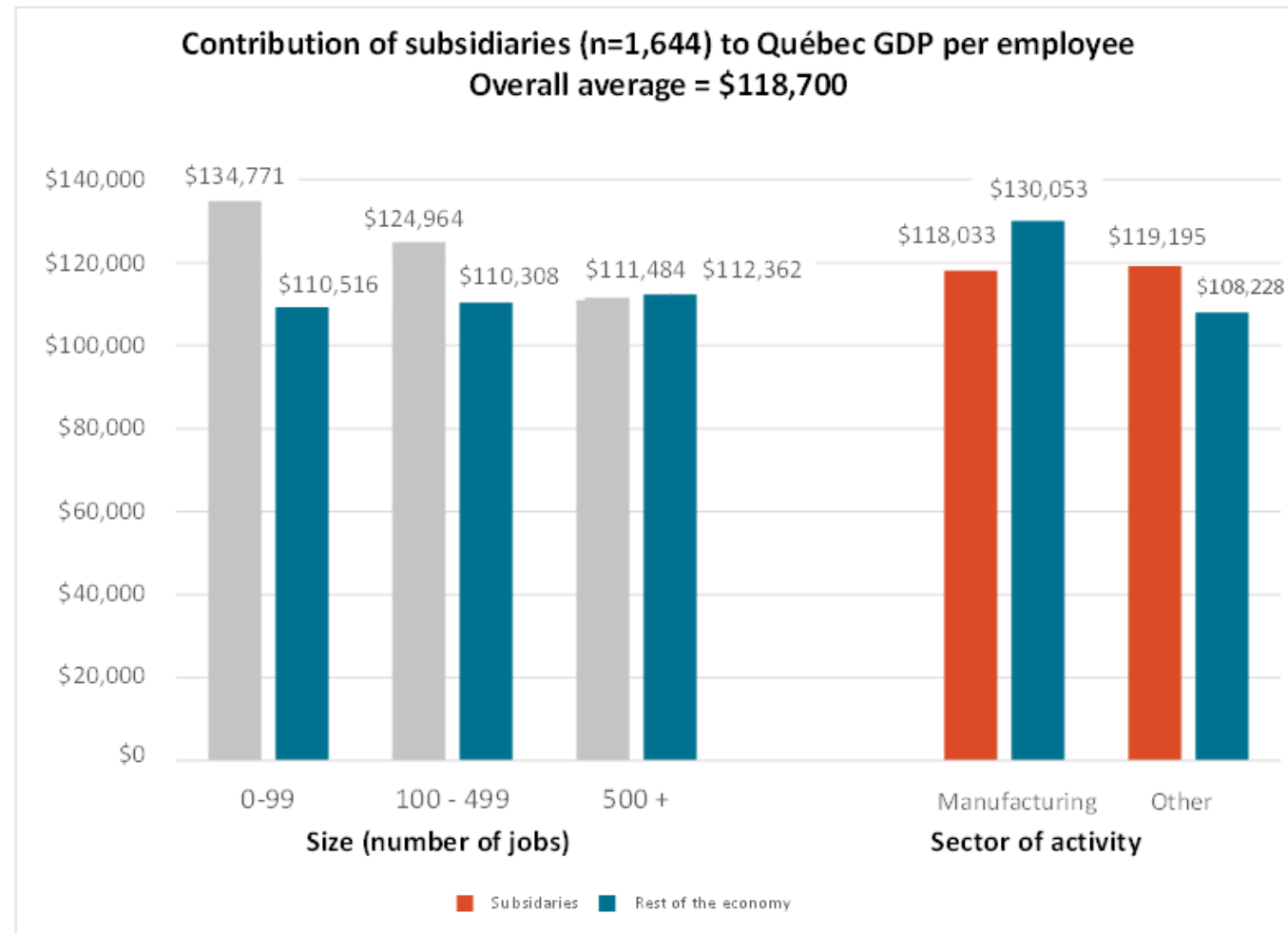
# Major economic weight

- Québec subsidiaries generate 12% of GDP.
  - Higher relative contributions: manufacturing, medium-sized and large businesses
  - This corresponds to economic spin-offs of 19% of GDP



# Contribute more to GDP

- Projected across all Québec subsidiaries, subsidiary GDP is estimated at \$118,700 per employee (+7% vs. Québec companies)
  - Slightly higher in SMBs, no sector gap



# Spin-offs for Québec suppliers

- Subsidiaries create strong bonds with Québec suppliers.
- On average, each spends almost \$15M, or close to \$170,000 per subsidiary for 135 suppliers.
- Projecting this spending across all subsidiaries represents purchases of **\$15.8B throughout Québec.**

	Average	Median
<b>Sample (n=213)</b>		
Number of subsidiaries' Québec suppliers in 2015	135	10
Total purchases from Québec suppliers in 2015, \$M	14,9	3,0
Value per supplier	\$169,016	\$52,621
Ratio of contract value / subsidiary wages	162%	42%
<b>Subsidiaries (n=1,644)</b>		
Total purchases from Québec suppliers in 2015, \$M	Projection based on GDP 15,794	

# Comparison with activity sectors

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- **GDP = \$34B**
  - Over twice the size of the information and communications technologies sector (\$16B)
  - Complete manufacturing sector: \$44B
- **Jobs = 290,000**
  - Corresponds to the total number of jobs in the Québec accommodation and food services sector
- **Exports = 51% of revenue**
  - Vs. 13% for Québec companies overall

# **Subsidiaries' key contribution**

# Variables considered

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- Subsidiary size (based on revenue)
- Key characteristics
  - Level of decision-making autonomy
  - Recent growth
  - R&D activities
  - Ratio of purchases from Québec suppliers/wages

# Results

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- Average index (sample, n=97): 29.4 points
  - Minimum: 5.0 points. Maximum: 75.0 points.
  - “CI”: confidence interval
- No significant difference between manufacturing and other sectors
- Index growing based on size, by makeup

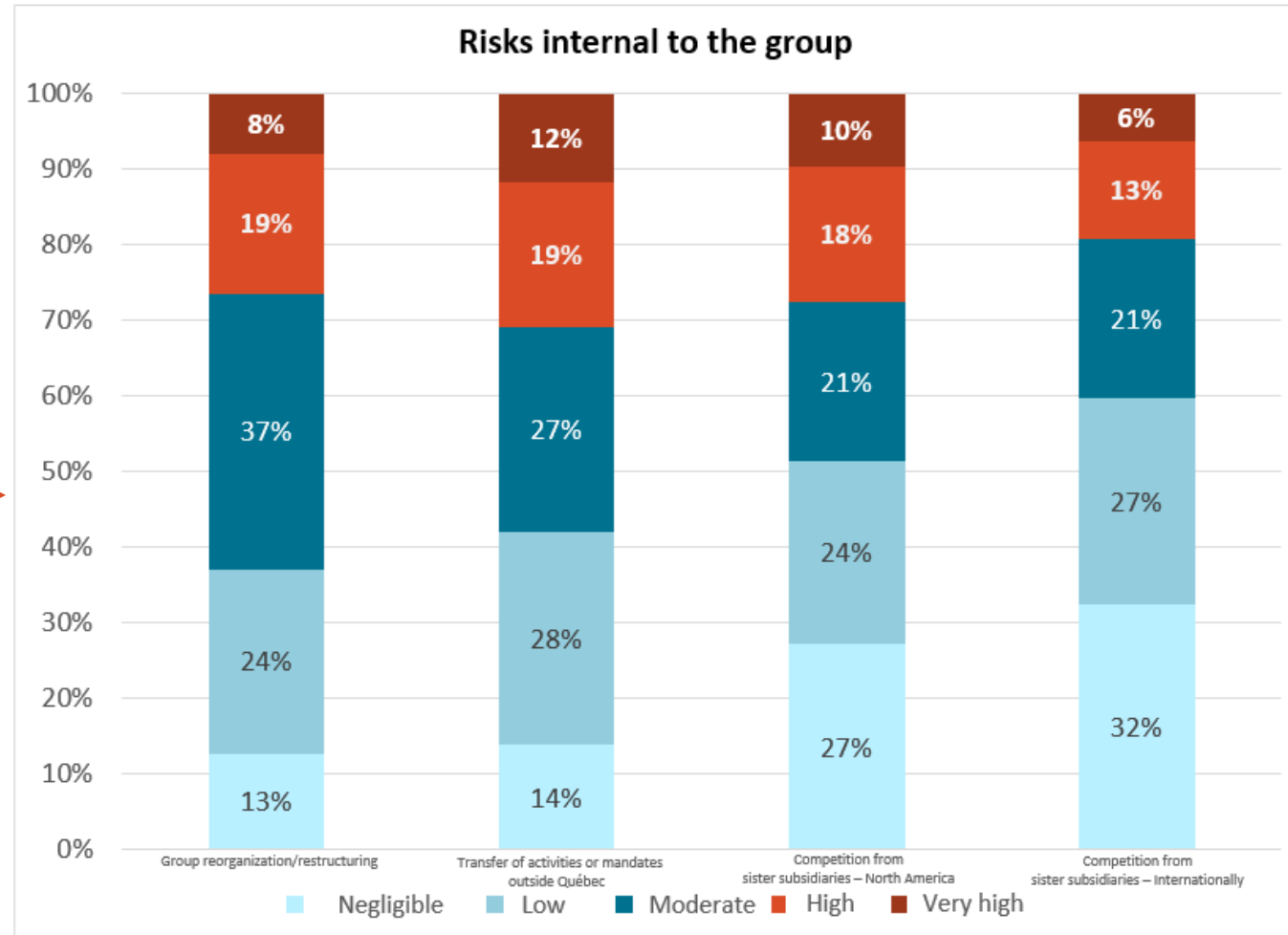
	Average	Median	Minimum	Maximum	Lower CI	Upper CI
Total / 100	29,4	25,0	5,0	75,0	26,1	32,7
Based on size (jobs)						
0-99	22,1	21,6	5,0	69,4	18,8	25,4
100 - 499	31,2	25,0	12,5	75,0	27,9	34,5
500 +	40,7	40,0	12,5	75,0	37,4	44,0
Based on sector						
Manufacturing	31,8	26,3	5,0	75,0	28,5	35,1

# **Exposure of subsidiaries to various risks**

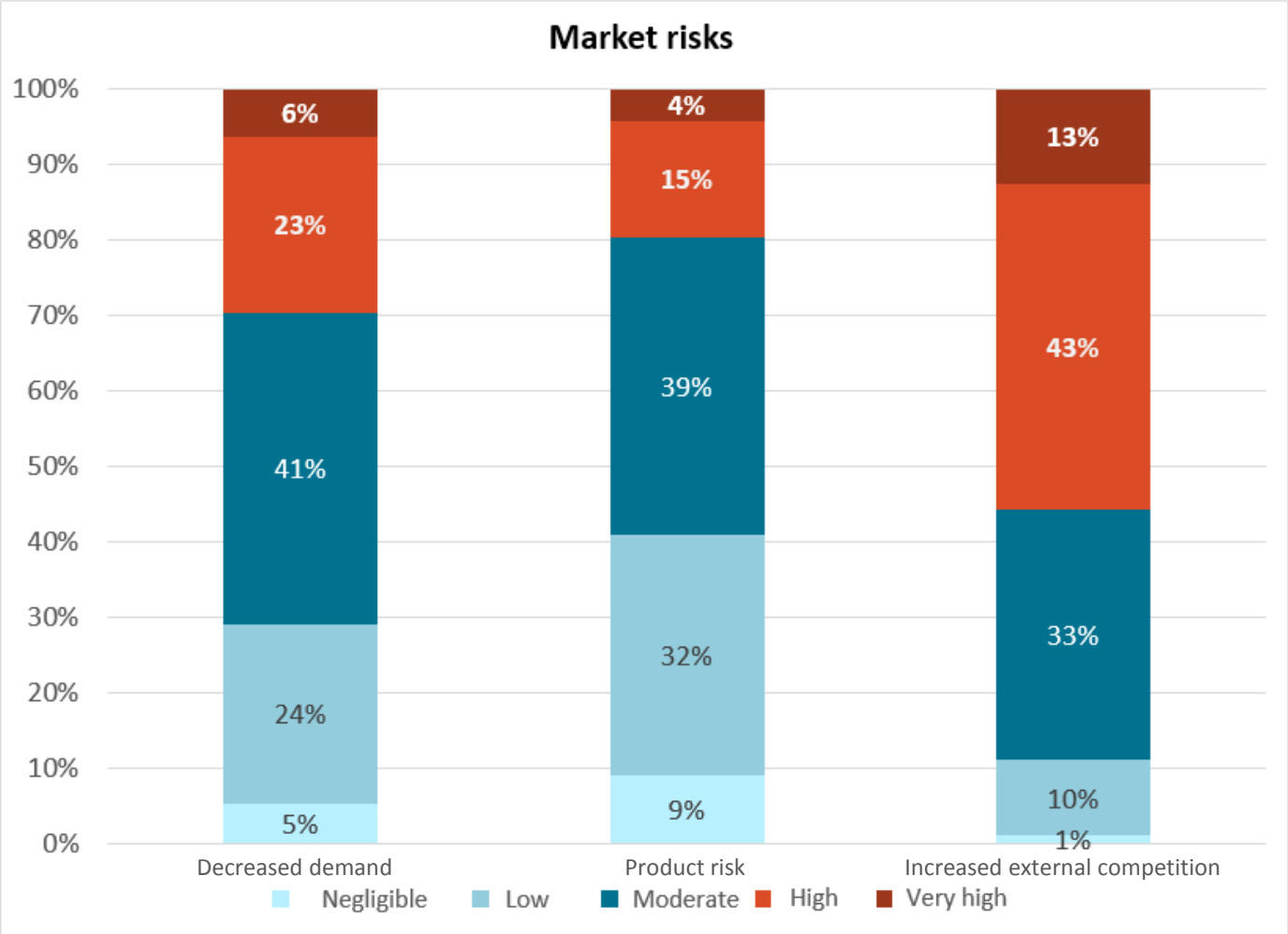


# Internal risks are very much present

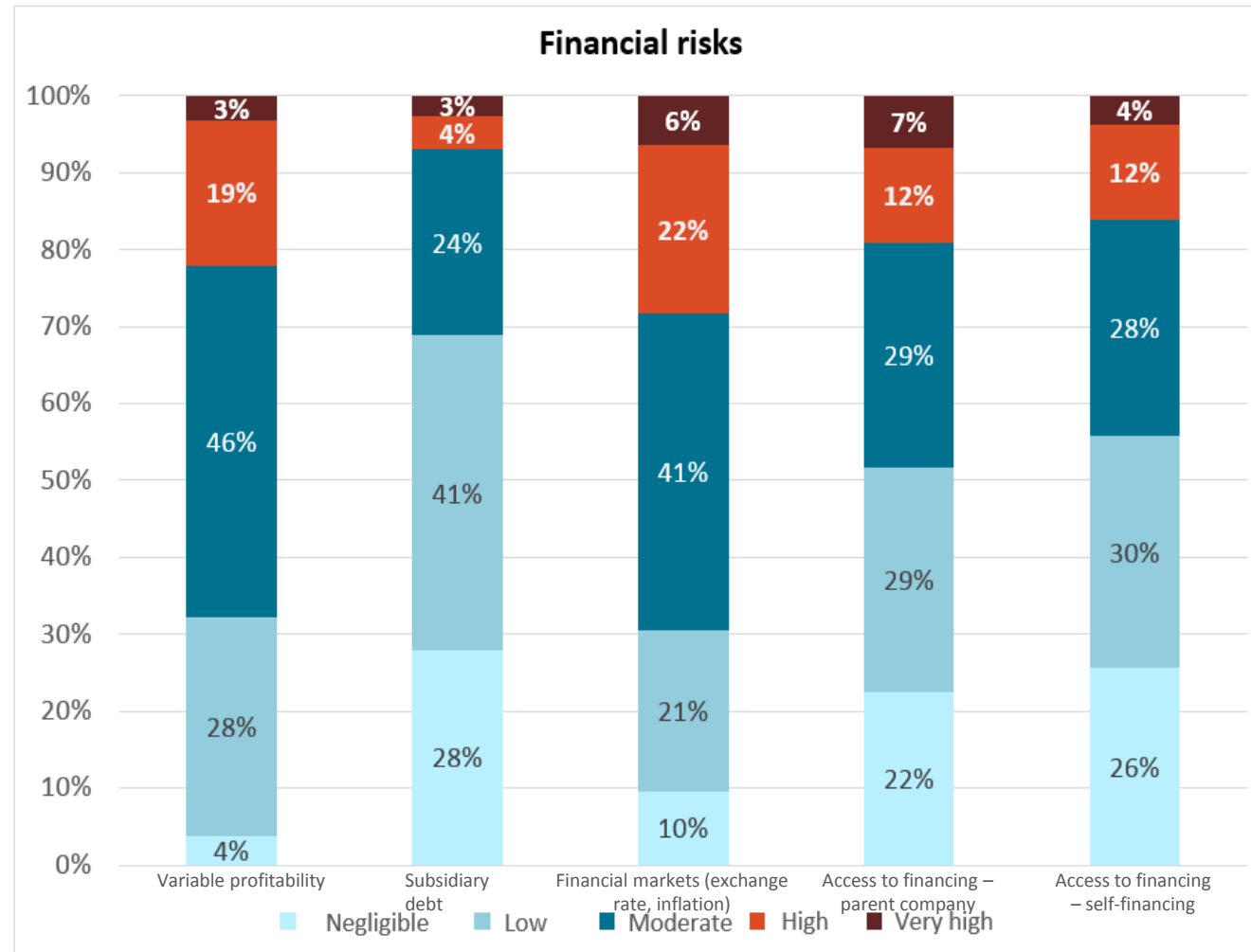
- Close to 30% answered “high or very high” for three of four risks



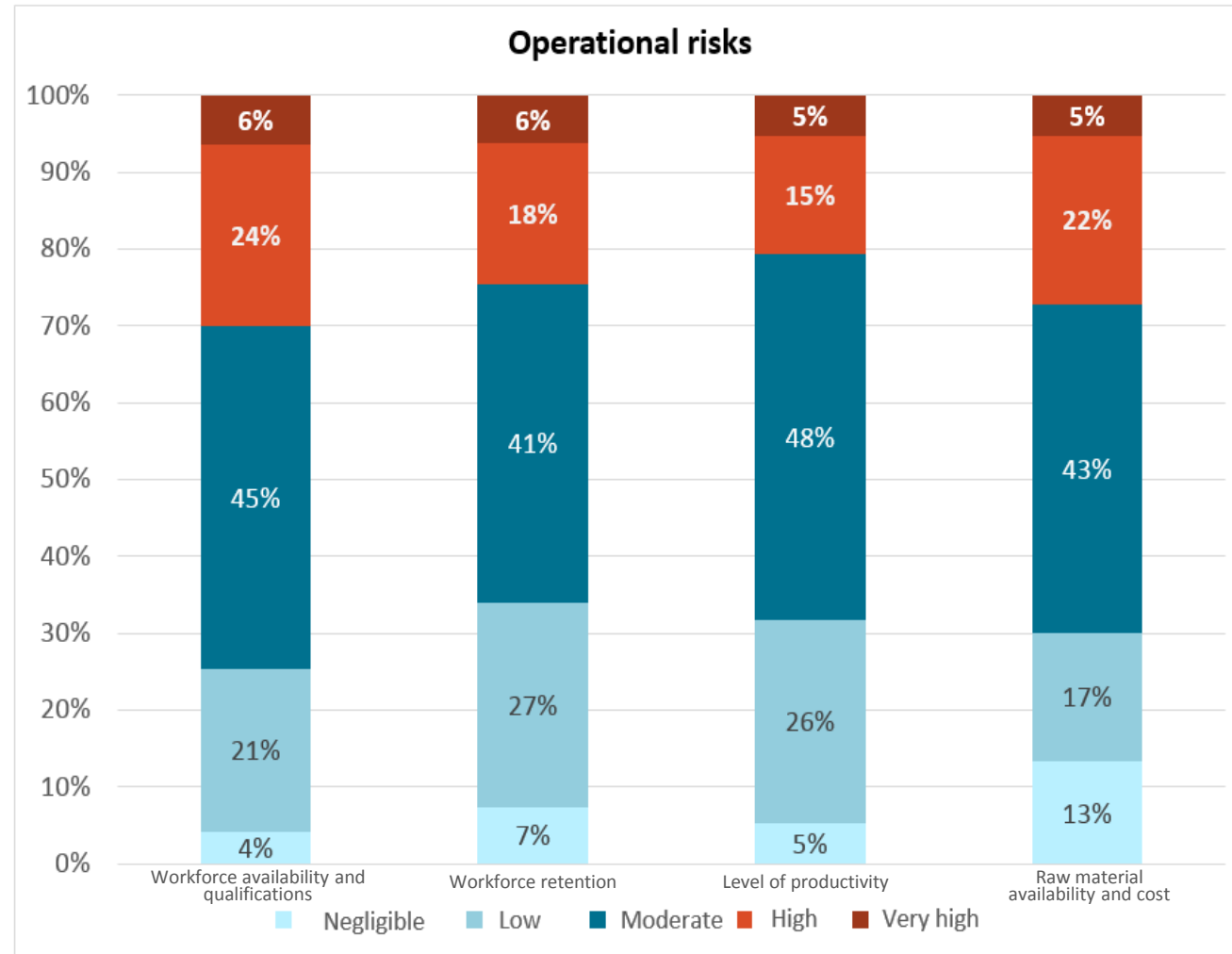
# External competition: the major risk



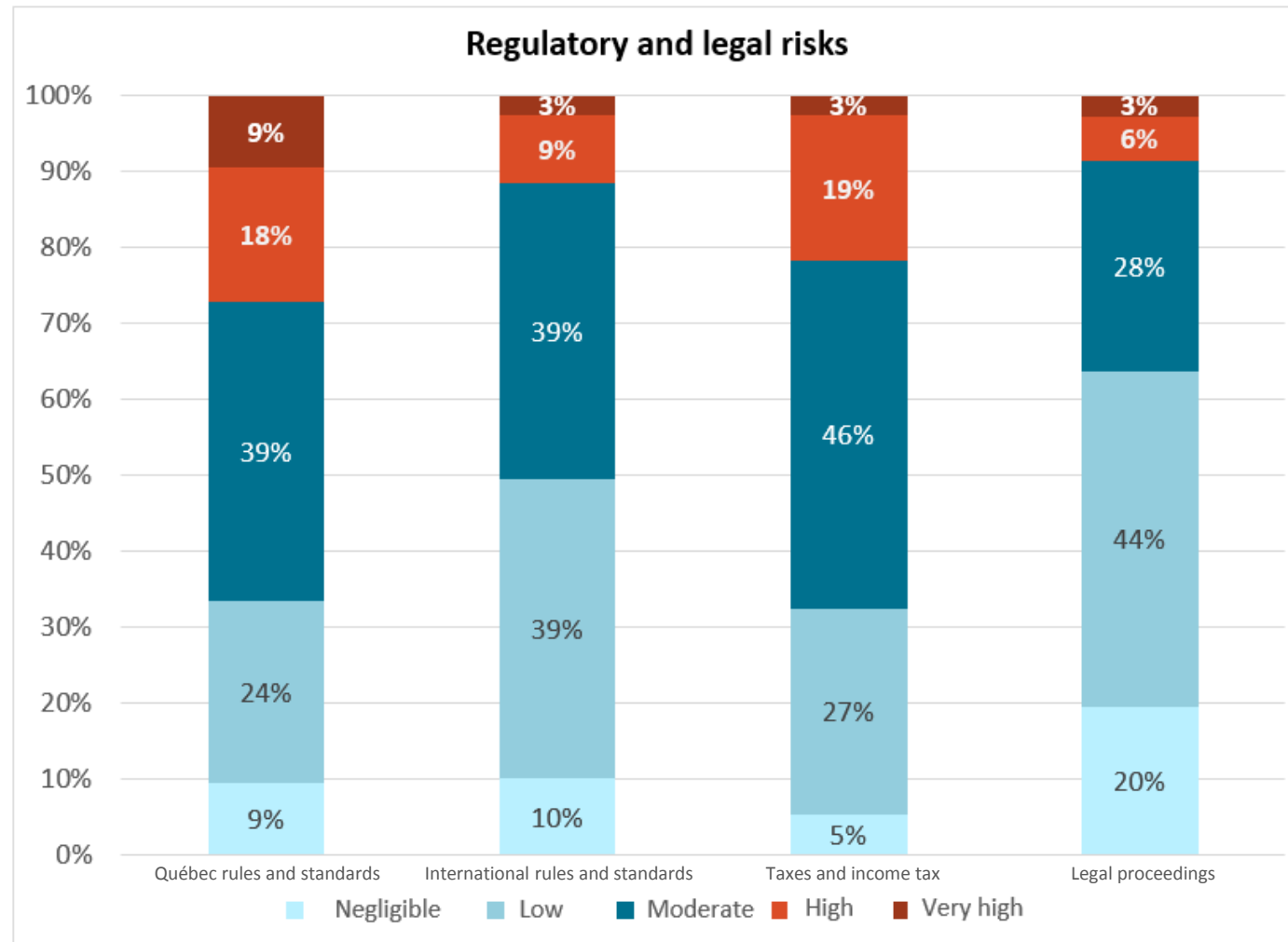
# Financial markets under observation



# Shared operational risks



# Regulations and tax policies: Source of concern for subsidiaries



# Conclusions

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- In-depth survey of 213 subsidiaries
- Objectives achieved: become more familiar with the characteristics of subsidiaries, evaluate their contribution to the economy, measure their key contribution and their exposure to economic risks
- Many fundamental observations to better understand the importance of subsidiaries, their dynamics as well as their vulnerability



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