Economic impact of foreign subsidiaries in Québec

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Objectives

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

• Online survey of subsidiaries:
  – Respondents:

• Generalization of results based on Investissement Québec and partner database:
Indicators used

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

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

- 59% of jobs located in the greater Montréal region
- 33% of jobs are away from the greater Montréal and Québec City areas
Variable territorial responsibility

- 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

- 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

70% of subsidiaries

Cost centres
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
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

 Québécois 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.

<table>
<thead>
<tr>
<th>Sample (n=213)</th>
<th>Average</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of subsidiaries’ Québec suppliers in 2015</td>
<td>135</td>
<td>10</td>
</tr>
<tr>
<td>Total purchases from Québec suppliers in 2015, $M</td>
<td>14.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Value per supplier</td>
<td>$169,016</td>
<td>$52,621</td>
</tr>
<tr>
<td>Ratio of contract value / subsidiary wages</td>
<td>162%</td>
<td>42%</td>
</tr>
</tbody>
</table>

| Subsidiaries (n=1,644)                              |         |        |
| Total purchases from Québec suppliers in 2015, $M   | 15,794  |        |

Projection based on GDP
Comparison with activity sectors

• **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

• 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

- 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

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
<th>Median</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Lower CI</th>
<th>Upper CI</th>
</tr>
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<tbody>
<tr>
<td>Total / 100</td>
<td>29.4</td>
<td>25.0</td>
<td>5.0</td>
<td>75.0</td>
<td>26.1</td>
<td>32.7</td>
</tr>
<tr>
<td>Based on size (jobs)</td>
<td></td>
<td></td>
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<tr>
<td>0-99</td>
<td>22.1</td>
<td>21.6</td>
<td>5.0</td>
<td>69.4</td>
<td>18.8</td>
<td>25.4</td>
</tr>
<tr>
<td>100 - 499</td>
<td>31.2</td>
<td>25.0</td>
<td>12.5</td>
<td>75.0</td>
<td>27.9</td>
<td>34.5</td>
</tr>
<tr>
<td>500 +</td>
<td>40.7</td>
<td>40.0</td>
<td>12.5</td>
<td>75.0</td>
<td>37.4</td>
<td>44.0</td>
</tr>
<tr>
<td>Based on sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>31.8</td>
<td>26.3</td>
<td>5.0</td>
<td>75.0</td>
<td>28.5</td>
<td>35.1</td>
</tr>
</tbody>
</table>
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

![Market risks chart]

- Decreased demand: 24% (Negligible: 5%, Low: 9%, Moderate: 41%, High: 15%, Very high: 6%)
- Product risk: 32% (Negligible: 9%, Low: 39%, Moderate: 33%, High: 43%, Very high: 1%)
- Increased external competition: 10% (Negligible: 10%, Low: 33%, Moderate: 33%, High: 43%, Very high: 1%)
Financial markets under observation

Financial risks

- Variable profitability: 4% Negligible, 28% Low, 46% Moderate, 22% High, 10% Very high
- Subsidiary debt: 3% Negligible, 19% Low, 46% Moderate, 24% High, 4% Very high
- Financial markets (exchange rate, inflation): 3% Negligible, 4% Low, 6% Moderate, 22% High, 7% Very high
- Access to financing – parent company: 7% Negligible, 12% Low, 29% Moderate, 22% High, 4% Very high
- Access to financing – self-financing: 4% Negligible, 12% Low, 28% Moderate, 30% High, 26% Very high
Shared operational risks

Operational risks

- Workforce availability and qualifications: 6% negligible, 24% low, 45% moderate, 21% high, 4% very high
- Workforce retention: 6% negligible, 18% low, 41% moderate, 7% high, 0% very high
- Level of productivity: 5% negligible, 15% low, 48% moderate, 5% high, 0% very high
- Raw material availability and cost: 5% negligible, 22% low, 43% moderate, 17% high, 0% very high
Regulations and tax policies: Source of concern for subsidiaries

![Bar chart showing regulatory and legal risks]

- Quebec rules and standards: Low: 39%, Moderate: 24%, High: 9%, Very high: 9%
- International rules and standards: Low: 39%, Moderate: 39%, High: 10%, Very high: 10%
- Taxes and income tax: Low: 46%, Moderate: 27%, High: 5%, Very high: 5%
- Legal proceedings: Negligible: 44%, Low: 20%, Moderate: 20%, High: 5%, Very high: 5%
Conclusions

• 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