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## THE FIRM-SPECIFIC ADVANTAGES OF CANADIAN MULTINATIONALS

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Canada's largest multinational enterprises have developed a successful value-added chain in the harvesting, processing and marketing of resource-based products and services. They have secured competitive advantages by the effective management of a set of entry and exit barriers. These include either timber leases or mineral resource rights, vertical integration, cheap energy inputs, marketing skills, brand name products and customized production. The precise set of firm-specific advantages varies by firm, but the great majority of Canada's multinationals do not rely solely on a technological advantage. The marketing skills of Canada's mature, resource-based multinationals provide an interesting strategic contrast to the mainly technological advantages of traditional large multinationals from other nations.

### 1. Introduction

This paper has as its focus an interesting, indeed unique, set of multinational enterprises (MNEs) based in a small, open economy, Canada. The structure and performance of the largest Canadian industrial MNEs is analyzed and from this research the special firm-specific advantages (FSAs) of each of the MNEs are identified.

It is discovered that the great majority of the Canadian MNEs have FSAs in the production, distribution and trading of resource based products. Indeed, only two of the MNEs possess the knowledge or technologically based FSAs of the typical U.S., European or Japanese MNEs. Thus the Canadian FSAs are related to the country-specific advantage (CSA) of Canada in resources. Yet, since these MNEs are engaged in foreign direct investment (FDI) rather than exporting or licensing it is apparent that significant environmental constraints determine FDI as the foreign entry mode. The reasons for FDI and the manner in which the CSAs are internalized by the Canadian MNEs is studied in the paper, as are the implications for strategic planning of these MNEs in a world of increasing global competition.

This paper is organized in the following manner. Following the Introduction, in Section 2 the largest Canadian-owned MNEs are identified and their recent financial performance is reviewed. The nature of their international operations is examined. In Section 3 some generalizations are drawn about the FSAs of four groups of Canadian MNEs; those active respectively in the pulp and paper industry, the bever-

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ages and spirits industry, the mining industry, and a miscellaneous group of MNEs. Several key FSAs of these MNEs are identified and their strength relative to foreign rival MNEs is assessed. In Section 4 there is a more detailed examination of the individual corporate structure and strategies of these Canadian MNEs.

The theoretical background for this work comes from a combination of two areas of analysis of the corporate enterprise. First, the work of Rugman (1980, 1981) on the theory of internalization is used as a basis for identification of the FSAs of each MNE. In this work it has been shown that each MNE has internalized, i.e. secured property rights over, a special differential advantage. Frequently this is in the form of a knowledge advantage (based on R and D expenditures which have generated a technological edge), but it may also occur due to marketing advantages, as in the possession of a well-established and respected distribution network, or even in more intangible aspects of the skills of the company management. The second strand of theory used is the work by Michael Porter (1980) on competitive analysis, which is readily applicable in an international dimension. Here his emphasis on entry and exit barriers and the analysis of competitive forces as they influence the strategic planning of the corporation is applied in a global context.

In Porter's model the firm needs to assess the environment in which it operates, especially the industry or industries in which it competes. Competition in the industry depends on five competitive forces; rivalry among existing firms, the threat of new entrants, the threat of substitution, and the bargaining power of suppliers and buyers. The goal of competitive analysis is to assess the strength of such competitive forces in order to determine the best strategy to adopt.

Insight as to the strength of each force is available through analysis of entry and exit barriers in the industry. The key entry barriers are: scale economies whereby existing firms enjoy production and cost advantages over new entrants; product differentiation as rivals must break the barrier of existing brand loyalties; huge capital requirements involved in entering a new industry; switching costs necessary to change suppliers; access to distribution channels where established firms already have control of the distributors; and government regulation which may bar entry or impose licensing requirements on a new firm.

Exit barriers include: the existence of equipment which is of such a highly technical nature that it has low marketability; fixed costs associated with settlements of contractual arrangements with workers and low productivity once it is known that liquidation will take place; strategic barriers if the business is fundamental to the firm's strategy and image; informational barriers where the absence of clear and accurate information makes it impossible to assess performance; emotional barriers associated with managerial pride in the company and the fear of loss of status; and government which may prevent a firm from exiting in order to preserve jobs or for other social reasons.

## **2. Identification of the Canadian Multinationals**

The 24 largest Canadian-owned companies are identified in Table 1. The firms are an inclusive set from the 1982 *Fortune* International 500, a listing of the world's largest non-U.S. industrial firms. Ten foreign-owned subsidiaries also make the *Fortune* list but are excluded from Table 1. A Canadian MNE is defined as a firm

with a foreign operating subsidiary in at least one foreign country and a minimum foreign to total sales ratio (F/T) of 25 percent. These criteria reduced the set to a group of 16 MNEs, as shown in Table 2.

Canadian Pacific, the largest industrial corporation in Canada, is deleted since it is a holding company. Instead one of its subsidiaries, AMCA International is

**Table 1**  
**The 24 Largest Canadian-Owned Companies – 1982**

Fortune Rank	Firm Name	1982 Sales (billions Cdn. dollars) <sup>1</sup>
36	Canadian Pacific	12.288
102	Alcan Aluminium	5.729
145	Canada Development Corp.	4.001
165	NOVA, AN ALBERTA CORP.	3.501
172	Petro-Canada	3.329
191	Hiram-Walker Resources	3.085
198	Northern Telecom	3.035
201	Canada Packers	3.019
208	Dome Petroleum	2.929
211	International Thomson	2.879
219	Noranda Mines	2.793
239	Massey Ferguson	2.539
255	Seagram	2.364
261	Moore	2.279
289	Stelco	2.020
311	John Labatt	1.864
315	MacMillan Bloedel	1.843
331	Genstar	1.761
339	Domtar	1.686
351	Abitibi-Price	1.635
365	Molson	1.578
377	Inco	1.525
389	Dofasco	1.485
398	Consolidated-Bathurst	1.424

Note 1. Converted from U.S. dollars at \$1.2337 Cdn.: U.S.

Source: "The Fortune International 500", *Fortune*, August 22, 1983.

included. AMCA (formerly Dominion Bridge) is the largest multinational subsidiary of Canadian Pacific and its sales are large enough to have it included on the *Fortune* listing were it not a subsidiary. AMCA is a diversified MNE engaged in manufacturing, engineering and construction.

The 16 Canadian MNEs are almost all resource based. The industrial mix is as

**Table 2**  
**The 16 Largest Canadian Industrial Multinationals 1978–1982**

Firm	Average Sales 1978–1982 (billions)	F/T	S/T	ROE	S.D.
Alcan	5.169	na <sup>2</sup>	77	11.5	7.7
Seagram	2.991	92	92	10.4	2.8
Massey-Ferguson	2.688	93	93	6.5	6.5
Noranda	2.578	60	28	13.1	8.6
Hiram Walker	2.565	na	47	11.7	2.5
Northern Telecom	2.214	61	48	14.9	5.8
MacMillan Bloedel	2.135	88 <sup>1</sup>	39 <sup>1</sup>	8.9	7.6
Moore	1.991	90	90	17.3	1.9
NOVA	1.990	na	34	12.1	2.2
Inco	1.636	82	42	9.7	7.6
Genstar	1.584	na	52	14.4	5.6
Domtar	1.568	29 <sup>1</sup>	8 <sup>1</sup>	12.6	7.5
Abitibi-Price	1.505	66	14	13.4	5.5
AMCA	1.403	na	78	15.8	2.8
Consolidated-Bathurst	1.323	54	20	16.6	7.7
Molson	1.235	na	27	15.5	2.1
Mean	2.161	72	49	12.8	5.3

1. 1981.

2. not available.

Source: Corporate Annual Reports.

Notes: a) F/T is defined as the rate of foreign (F) to total (T) sales.

S/T is defined as the rate of sales by subsidiaries (S) to total sales.

The difference between F and S is exports (E) from the home country nation.

b) ROE is the mean return on equity, i.e. the ratio of net income after tax and before extraordinary items divided by the average net worth (value of shareholder's equity).

c) S.D. means standard deviation.

follows: pulp and paper – 4; mining and metal manufacturing – 3; beverages – 3 and six other single industry categories. The special cases include: NOVA, a petroleum resource MNE; Massey-Ferguson, the farm machinery manufacturer; Moore, the world's largest producer of business forms; Genstar, a vertically integrated construction materials and mining resource MNE; and AMCA, the steel related equipment manufacturer specializing in resource extraction and processing equipment. The only non-resource based Canadian MNE is Northern Telecom. It is the second largest manufacturer of telecommunications equipment in North America and is

widely considered to have the most technologically advanced telephone switching equipment available.

In terms of sales, the Canadian MNEs are smaller than their U.S. or European counterparts. The average size (from Table 2, converted to U.S. dollars) is \$1.752 billion. The largest 50 U.S. and European MNEs by contrast have average sales of \$16 and \$12.4 billion respectively (Rugman 1983).

The Canadian MNEs financial performance as measured by the return-on-equity (ROE) over the last ten years is 12.8 percent compared to 14.3 and 8.5 for U.S. and European MNEs respectively. The ROE for European MNEs is biased downward by the significant presence of state-owned enterprises, see Rugman (1983). The risk of these returns as proxied by one standard deviation (S.D.), is 5.3, 3.6 and 5.2 respectively for Canadian, U.S. and European MNEs. In short, the Canadian MNEs earn comparable returns to U.S. MNEs but at greater risk, while earning higher returns at the same risk level relative to European MNEs.

### 3. Firm-Specific Advantages of Canadian Multinationals

The special nature of the FSA of Canadian MNEs is that it is usually based upon Canada's country-specific advantage in resources. As a relatively small nation of 25 million people spread out across one of the largest land masses in the world, Canada has an abundance of resources, ranging from timber, minerals, and fish to energy sources based on hydroelectric power, oil and natural gas. Traditionally, Canada has been able to market its resources by exports, especially to its close neighbor, the United States. The interesting question is why does Canada now need to service foreign markets by FDI rather than by exporting? There are two answers to this question, based on the analysis of the determinants of FDI in Rugman (1981).

First, there are "natural" market imperfections which make it necessary for firms to retain knowledge about their FSA within the network of the MNE rather than risk its dissipation on open markets. This by now classic explanation of the need for internalization is, however, somewhat weak in the Canadian context since relatively few Canadian MNEs have an FSA in production know-how. Indeed, only Northern Telecom has the typical knowledge-based FSA of most of the U.S., European, and Japanese MNEs. Yet, when the concept of internalization is extended to include control over the marketing function, as well as over production, then it becomes clearer that many of the Canadian MNEs benefit from such control. The brand name products marketed by Seagram and other beverage-based MNEs, the long-established clients of the pulp and paper MNEs and the distribution network of Massey-Ferguson, all serve to illustrate the critical value of internal ownership of the marketing function.

Second, there are "unnatural" market imperfections, that is, regulations and controls imposed by governments. These serve to increase the cost of exporting. Sometimes exports from Canada are restricted, as when there are tariffs. Since tariffs on resource imports, especially by the United States, are minimal, it is necessary to look to non-tariff barriers to understand why trading is being replaced by FDI. In recent years a veritable galaxy of federal, state and municipal regulations have arisen, often for good reasons of their own, to protect domestic workers and industries threatened by trade. To break down these barriers to trade Canadian firms

**Table 3**  
**Firm-Specific Advantages of Canadian MNEs**

Firm	Firm-Specific Advantage
Abitibi-Price	World leader in newsprint sales; timberland leases; good and long-standing customer relationships.
Consolidated-Bathurst	Experience in the production, management and marketing of diversified pulp and paper products; vertical integration; timberland leases.
Domtar	Product diversification; long-term leases and holdings of natural resources.
MacMillan Bloedel	Access to and control over high quality coastal timber; vertical integration.
Seagram	Internationally recognized brand name products; marketing; network of affiliated dealers.
Hiram Walker	Internationally recognized brand name products; well-established marketing relationships with agents; ownership of oil and gas resources.
Molson	Brand names in beverage production; marketing expertise; product diversification.
Alcan	Vertical integration; ownership of cheap hydroelectric power.
Inco	Quality, location and size of proprietary mineral holdings; experience and market knowledge; cheap hydroelectric power.
Noranda	Ownership of mineral resources; product diversification; vertical integration.
Massey-Ferguson	World-wide distribution, sales and service network; well-known standardized products.
AMCA (Dominion Bridge)	Experience and expertise in the design, engineering and marketing of resource-related equipment; product diversification; vertical integration.
Genstar	Vertical integration in construction; diversification.
NOVA	Provincial monopoly over gas transmission; expertise and experience; vertical integration; financial strength.
Northern Telecom	R&D technology in digital telephone switching equipment using semiconductors; aggressive world-wide marketing; efficient production; protected home market with Bell Canada.
Moore	Marketing network; innovative and adaptive to changing technology in office support systems; corporate culture; financial strength.

have turned to FDI to substitute for exporting.

Together, the natural and unnatural market imperfections have acted as a strong incentive for Canadian MNEs to develop and replace exporting. In the process, the Canadian firms have often become more sophisticated in their international operations, and more aware of the need for strategic planning in the face of rivalry from powerful global competitors.

The special characteristics of each key MNE, or group of Canadian MNEs, is now examined and their FSAs are identified. Table 3 is a summary of the FSAs of the largest 16 Canadian MNEs, arranged by industry group. Following this there is a section in which the nature of the FSA is related to the organizational structure and strategic planning of each of these MNEs.

#### **4. Entry and Exit Barriers of Canadian Multinationals**

##### **a) Canadian Pulp and Paper Multinationals**

The ability of the largest Canadian forest products companies to internalize Canada's CSA in timber resources is a major reason why these firms are competitive in domestic and global markets. The majority of Canada's timber resources are owned by the provincial governments. Generally, Canadian forest product companies control and manage these timber resources on the basis of long-term leases from provincial governments. These leases, and a feeling of nationalism, provide Canadian pulp and paper MNEs with a sufficient supply of secure resources to compete in global markets. While the leases themselves are not formal entry barriers to foreign competition, the Canadian system is sufficiently different from that of the United States to deter foreign competition for Canada's timber resource. American rivals prefer the security which accompanies private ownership of the forest.

Canadian pulp and paper MNEs also benefit from vertical integration which facilitates the development of manufacturing and marketing expertise, most notably in the production and marketing of newsprint. These advantages enable them to compete effectively in foreign markets, especially in the vital nearby U.S. market. The Canadian firms have established long-standing relationships with major customers which act as switching barriers to entry for rivals. Recently, to avoid environmental and political risks they have entered into joint ventures with purchasers (newspaper companies) which further helps to strengthen the degree of vertical integration.

An important exit barrier for the largest Canadian pulp and paper MNEs is the specialized assets which they control, again the most important of which is the vast timber reserves of Canada. Furthermore, many of their production facilities are highly capital-intensive and these specialized investments also represent significant entry and exit barriers. A final exit barrier is the dependence of many of these firms on the U.S. market. Once the pulp and paper firms establish production facilities in the United States the scale of their U.S. operations tends to lock the firms into this market. Since the U.S. market is ten times the size of that in Canada, a Canadian MNE finds investment in the United States to be a larger entry and exit barrier than would a U.S. firm investing in the relatively smaller Canadian market.



## **b) Liquor and Beer Multinationals**

In the liquor industry, where scale economies, capital requirements and government regulations are relatively insignificant barriers to entry, Seagram and Hiram Walker have used strong FSAs to effectively restrict competition. Potential rivals may have only limited difficulty in financing entry into the industry and subsequently achieving scale economies in production, especially if they are able to acquire an established operation. However, rivals are unable to compete effectively without access to distribution channels.

Seagram and Hiram Walker have both established extensive networks of distributors, agents and affiliates which enable the firms to maintain market shares and respond quickly to market changes and opportunities. Control over these networks amounts to a tremendous entry barrier to potential and existing rivals. It also creates high switching costs. Internationally recognized brand names facilitate product differentiation and are instrumental in retaining loyalty in the distribution network.

Both MNEs have also attempted portfolio diversification strategies. Recent activities on the part of Hiram Walker to diversify into oil and gas and lessen its dependence on liquor are evidence of relatively low exit barriers. Hiram Walker has gone as far as to contract out many of its distilling and aging operations in the United States. This move is also evidence of confidence in its brand reputation and distribution networks. Hiram Walker has thus used its liquor operations as a cash cow to finance diversification into oil (Home Oil) and gas (Consumers' Gas).

Seagram, although also diversifying, continues to concentrate on its liquor businesses due to strong strategic and emotional exit barriers. The liquor business is fundamental to the firm's strategy and image as Seagram attempts to be the world leader in most brands. The long-standing Bronfman family association also reinforces the commitment of the company to the business. Management at Hiram Walker, on the other hand, does not have such a strong emotional commitment to the liquor business.

Molson's FSA in marketing experience and expertise has resulted in a high entry barrier in that its brand names are well-differentiated and enjoy high market acceptance. This is a strong barrier in the mature and competitive brewing industry. Through brand diversification Molson has enhanced its already significant barriers to entry. Potential rivals would have to make a tremendous capital investment, not only to achieve the economies of scale enjoyed by Molson, but also to enter the many regional markets as government regulation prohibits the interprovincial sale of beer. With established facilities in each of the regional markets Molson has been able to distribute its brands nationally and effectively shield itself from new national competition.

Like the liquor multinationals, Molson faces significant exit barriers. Strategic and emotional barriers are the key deterrents to exiting. While government and social interests and specialized assets are normally exit barriers, the competitive nature of the industry would render the assets highly marketable and stifle government and social objections as few jobs would be lost.

## **c) Mining Multinationals**

An increasing level of world competition in the 1970s and early 1980s is partial

evidence of a shortage of effective barriers to entry in world mineral resource markets. In the past, Canadian mining multinationals have enjoyed a competitive advantage due to economies of scale and ownership of the mineral resource. The small size of the domestic market necessitates global competition for these firms. The capital intensity of the business, the immense size of the required investment and the lack of known resource deposits were at one time sufficient entry barriers. However, the discovery and subsequent development of rich ore deposits in third world nations has helped to erode these barriers. Government sponsorship and state ownership have all but eliminated capital cost and scale economies as barriers for rivals in such nations.

The increase in worldwide productive capacity has led to an oversupply of both ores and processed products. The increase in the availability of raw materials and smelted metals means that potential entrants no longer face huge capital investments which were once necessary in order to achieve scale economies in extraction and smelting. New rivals may now proceed directly into fabrication. Competition is now at an intense level with cost and efficiency the key factors.

Canadian mining MNEs retain some competitive advantages, however, and their FSAs have resulted in new entry barriers. Vertical integration in extraction, processing and marketing yield a cost advantage. The firm-specific advantages of Alcan, Inco and Noranda in experience and expertise in extraction and processing also help to promote cost efficiency. New rivals initially lack such knowledge. Vertical integration through the ownership of natural resources also ensures stable supplies, thereby reducing the bargaining power of suppliers and reliance on the cyclical primary and speculative secondary markets.

Through extension to the marketing function, vertical integration in mining helps to stabilize demand and reduce the bargaining power of buyers. It also creates a barrier by closing markets to rivals and creating switching costs. The related FSAs in marketing experience and market knowledge help to close distribution channels. Switching costs are created as the Canadian firms benefit from long-standing relationships and long-term contracts with customers.

An important firm-specific advantage and barrier to entry is inexpensive hydroelectric power, particularly for Alcan and, to a lesser extent, Inco. Smelting and processing are very energy intense. Thus, through ownership of the hydroelectric generating facilities and access to relatively cheap Canadian energy, Canadian mining MNEs enjoy a significant cost advantage independent of scale.

These barriers have not been very effective in barring competition from plastic, carbon fibre and new alloy substitutes. Nor have they been effective against competitors who merely fabricate smelted metal purchased on the open market. Consequently, Alcan, Inco and Noranda have all intensified R and D and product and market development. They have also expanded fabrication and concentration on market niches in order to combat substitute competition.

While entry barriers are only moderately high, exit barriers are very strong. The presence of specialized assets, coupled with overcapacity in the industry, reduces the firm's value and marketability. There are also high fixed costs associated with liquidation and tremendous government and social barriers as these firms are the key employers in many regions of Canada. Strategic exit barriers and emotional barriers are also quite powerful.

#### **d) Other Multinationals**

##### **Massey-Ferguson**

Massey-Ferguson at one time benefitted from FSAs in the efficient production of tractors and combines. In recent years the absence of technological innovation in farm machinery, coupled with relatively low entry barriers in this mature and competitive industry, have forced Massey-Ferguson to rely on its well-established international marketing and distribution network. Today this is still its main FSA. The standardization of farm machinery products has resulted in little product differentiation and brand loyalty. Consequently, there are low switching costs as many distributors carry the lines of many manufacturers. Capital requirements and scale economies are not necessarily restrictive, especially to an established company diversifying into farm machinery by concentrating on a market niche.

Massey-Ferguson's marketing and distribution network creates switching costs and prevents new rivals from gaining access to the distribution network. Toyota was forced to join with Massey-Ferguson in order to market and distribute a line of small tractors. This FSA also reduces the bargaining power of buyers. Exit barriers are quite significant; otherwise Massey-Ferguson might well have left the business during its crisis years early in the 1980s. While the presence of specialized assets may have been partly responsible for this decision, strategic, emotional, social and government exit barriers were also very important.

##### **AMCA and Genstar**

AMCA and Genstar are each involved in several industries. However, they have differentiated themselves in that they are two of the few firms who can complete turnkey commercial and industrial projects. They also have FSAs in design and engineering expertise and vertical integration in all aspects of a project. Thus, rivals are faced with high switching costs, huge capital requirements and scale economies in attempting to compete with them. Vertical integration reduces the bargaining power of both suppliers and buyers and rivalry from both potential entrants and established competitors. AMCA and Genstar face high exit barriers in the ownership of specialized assets, the high fixed costs of liquidation and strategic and emotional barriers.

##### **NOVA**

NOVA's most important FSA is its government-granted monopoly over gas transmission in the province of Alberta. NOVA used the related experience, expertise and cash flows to expand its transmission business and to diversify into petrochemicals and petroleum. Vertical integration in all three of its main businesses reduces the bargaining power of buyers and suppliers and ensures stability of markets and supplies. NOVA faces strong exit barriers, particularly provincial legislation which specifically outlines its authorized businesses. Strategic exit barriers are also present along with highly specialized assets.

##### **Northern Telecom**

Nortel's FSA is based upon R and D and proprietary technology in telephone switching equipment. It is dependent upon one product line (and its variants) for most of its revenues, but is still able to expand sales into new markets as the product line has not yet matured. There are few entry barriers in the industry, thus FSAs

must be guarded from potential dissipation. Recent regulations in both Canada and the United States have created an opportunity for new competition. There are many firms who are presently engaged in silicon chip technology and a new discovery could quickly destroy Nortel's technological advantage. Furthermore, many high-tech firms possess both the financial strength and the ability to achieve the necessary scale economies once the technology is acquired.

Nortel has other FSAs which help deter competition. Its aggressive worldwide marketing creates switching costs and differentiates its product. Its association with Bell Canada protects its home market from competition. Nortel also creates switching costs in that it sells a total system, whereas new and existing rivals are often unable to do so. Nortel needs to expand its product lines and diversify into other areas of information processing and communications due to the shortage of significantly high entry barriers. Exit barriers are relatively low, but they do exist. Strategic and emotional barriers are significant and the government takes great pride in promoting Canadian high-tech.

#### **Moore**

Moore's primary FSA is its extensive world-wide marketing network which allow it to monitor and respond to the changing needs of business and industry and the latest innovations in office systems. Thus, Moore is both innovative and adaptive. Moore has used its FSAs to create strong entry barriers for anyone wishing to compete on a global basis. The strength of these barriers is evidenced by a complete absence of global competition.

Rivals are faced with tremendous capital requirements in trying to emulate Moore's distribution network and corporate culture. Moore also has vast financial resources capable of withstanding or initiating intense price and/or marketing and service competition. Market knowledge and customer service have differentiated Moore's products and services and created switching costs for rivals. The main exit barriers confronting Moore are strategic and emotional. However, these barriers loss most of their impact due to the limited scope of global competition.

### **5. Conclusions: Lessons for Strategic Management**

In today's world of increasing global competition, large U.S., European and Japanese multinationals compete aggressively for market share and profits in every corner of the world. The battles are fought over product lines that shift quickly as the tides of technological innovation ebb and flow between rival corporations. Yet, Canadian multinationals have been surprisingly successful global competitors despite the intensity of competition and the relatively small size of the open Canadian economy.

In this paper, analysis of the sixteen largest Canadian multinationals suggests a variety of reasons for this success. Three important implications for the strategic management of international business in Canada are generated.

First, successful multinationals need not be in the traditional American, Japanese and European mold, i.e. with advantages in proprietary knowledge and the embodiment of high technology. The Canadian pulp and paper, mining and liquor multinationals are non-traditional, yet successful multinationals. Furthermore,

Moore Corporation is an example of a Canadian firm which developed FSAs to complement high technology rather than to rely upon it, as did Northern Telecom. Competitive analysis can lead to strategies which foster the growth of Canadian multinationals, whereas participation in high-tech industries in, of and by itself need not guarantee success.

Second, Canadian multinationals demonstrate that the FSA of the multinational can be in marketing and experience. The efficient marketing of resource-based product lines is the primary strength of many Canadian MNEs. Seagram, Moore and Massey-Ferguson are examples of the critical importance of marketing and distribution. Each has an extensive distribution network which given it a distinct advantage over its competitors. In Massey-Ferguson's case, it is one of the few advantages which the firm continues to enjoy. These relationships help to reduce the environmental costs, especially the political risk, which is part and parcel of any foreign involvement. Effective distribution networks, market knowledge and experience result in favourable barriers to entry and the reduction of competitive forces. Switching costs, product differentiation and control of the distribution channels are effective even when cost, scale and government barriers do not exist.

Third, the FSAs of Canadian multinationals often build upon Canada's country-specific advantages (CSAs). The firms either own mineral deposits, have established long-term leases for timber rights, or own energy resources which are cheap and abundant relative to foreign rivals. In short, Canadian multinationals have internalized Canada's CSAs in resources, which in turn leads to special firm-specific advantages. The only non-resource based Canadian multinational in the top 16 is Northern Telecom and, perhaps, Moore. FSAs which build upon CSAs can form formidable barriers to entry. Such FSAs give Canadian multinationals access not only to important sources of raw materials, but also to cheap Canadian hydroelectric power. Nationalism can also be of importance since favoured Canadian firms may receive preferential access to the resource from the responsible governments. Canadian multinationals also benefit from links with provincial governments which reduce information costs and political risk.

The Canadian MNEs studied in this paper are an object lesson for strategic managers. They demonstrate the success of managerial strategies aimed at the marketing end of the business rather than on the production end. Canadian MNEs are successful because they build on the resource strength of their home nation but process and distribute product lines in an aggressive manner on a world-wide basis. The Canadian MNEs are examples of the fallacy of over-reliance on technological strength. Resource-based MNEs are just as good, if not better, than high tech MNEs.

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#### Notes on Sources and Acknowledgements

While much of the analysis used here is based on the above published sources, especially company Annual Reports, 10Ks, company histories and press reports, additional vital information was provided by leading company executives. Interviews were conducted with officers involved in corporate planning or other aspects of strategic decision making in each of the multinationals. The interpretation and analysis made of information from these interviews is the sole responsibility of the author and statements in this study should not be attributed to these executives. The author gratefully acknowledges the contribution of these experts to this research project.