Canada in a globalized economy: an investment perspective

An Economist Intelligence Unit research program sponsored by Ernst & Young LLP

Ernst & Young
Quality In Everything We Do

About the survey

In August and September 2011, the Economist Intelligence Unit conducted a global survey, sponsored by Ernst & Young LLP, of 195 Canadian and non-Canadian executives, to ascertain and compare their attitudes towards expanding abroad and to determine which factors drive their investment decisions. All the survey respondents are thoroughly familiar with their companies' foreign investment plans. Almost two-thirds (63%) are board members or C-level executives, and around 40% are CEOs. In keeping with the survey's geographic orientation, the bulk of the respondents are from North America (66%). The remainder are from Asia-Pacific (16%), Western Europe (11%), the Middle East and Africa (5%), Latin America (2%) and Eastern Europe (1%). More than half of the respondents (60%) work for companies whose annual global revenue is US$500 million or less. Nineteen industries are represented, including financial services (15%), information technology (IT) and technology (15%), energy and natural resources (9%), education (8%), manufacturing (8%) and professional services (8%).

Executive summary

The 2008 financial crisis and ensuing recession accelerated a shift in global economic gravity from the developed to the developing world. As Canada, the US and Europe grapple with debt problems and stagnant growth, major emerging markets, such as Brazil, China and India, are prospering conspicuously. How does this changing climate affect Canada's future as a favoured investment destination?

Figures from the United Nations Conference on Trade and Development (UNCTAD) indicate that emerging markets' share grew to more than half of all global foreign direct investment (FDI) in 2010 — a trend likely to continue. The Economist Intelligence Unit conducted a global survey of 195 Canadian and non-Canadian senior executives to understand their perspectives on investment, and found that a sizable share (38%) of respondents do intend to shift FDI from developed to developing markets within five years.

However, Canada also faces competition from its southern neighbour, despite slow growth and political stalemate in the US. Entrepreneurship is one area in which Canada is not perceived to be performing particularly strongly, despite the country's push to be recognized as a leader in this field. This was further confirmed by interviews with Canadian high-growth companies that find more opportunity in markets outside their home country.

This report explores the implications of changing investment patterns for Canada, identifies the key drivers of investment, and assesses the importance of a country's reputation for entrepreneurship in attracting investment.

The report's key findings include the following:

- Executives recognize the importance of emerging markets, but not all are rushing to invest in them. One-quarter of the survey participants, Canadians and non-Canadians alike, expect to shift some future foreign investments from developed countries to emerging markets this coming year, and nearly 40% will do so in the next five years. Still, despite a volatile macroeconomic climate, more than one-third of respondents say there will be no shift in investment between emerging and developed markets for their companies.
- To the benefit of developed markets, a favourable business operating environment remains an important determinant of investment. For most survey participants, a critical criterion for evaluating FDI targets was a favourable business operating environment, which can still give developed countries an advantage over developing countries in attracting investors.
- While appreciating its political and economic stability, few regard Canada as offering a strong entrepreneurial culture. Non-Canadian respondents ranked Canada a respectable fourth as an investment destination, chiefly because of its perceived political and economic stability. This undoubtedly reflects the US-tilt of the demographics among survey respondents. However, only one-third regarded Canada as having superior market-growth prospects, and very few respondents, including Canadians, felt it had an especially strong entrepreneurial culture.
- Country "branding" can pay off by spurring inward investment. Ninety percent of survey participants endorsed branding efforts by governments to boost inward foreign investment. However, they also acknowledge that these efforts cannot compensate for unattractive business conditions.

Introduction: The world economy's seismic shift

In a world turned topsy-turvy, Organisation for Economic Co-operation and Development (OECD) countries' real economic growth will be just 1.7% in 2011 and 1.6% in 2012, according to our forecasts. Even Canada, which fared relatively well in the financial crisis, has not escaped the slowdown; we expect GDP growth of just 2% in 2012. By contrast, emerging markets as a group are set to expand by more than 6% in both 2011 and 2012.

Table 1: The attractive and the slow

	Population (m)	Real GDP growth rate (%)		
	2010	2010 (actual)	2011 (estimates)	2012 (forecasts)
Developed markets				
OECD Countries		2.9%	1.6%	1.3%
Canada	34	3.2%	2.2%	2.0%
UK	62.3	1.4%	0.9%	0.9%
US	310.2	3.0%	1.7%	2.0%
Developing markets				
Brazil	190.8	7.5%	3.6%	3.8%
Chile	17.1	5.2%	6.7%	4.8%
China	1,312	10.4%	9.0%	8.6%
India	1,184	8.8%	7.9%	8.2%
Mexico	112.5	5.4%	3.4%	3.1%
Vietnam	87.8	6.8%	6.0%	6.6%

Source: Economist Intelligence Unit, 2011 figures.

Unsurprisingly, strong growth prospects will have great implications for investment. "The most important determinants for foreign direct investment are market size and market growth," argues Karl P. Sauvant, Founder and Executive Director of the Vale Columbia Center on Sustainable International Investment at Columbia University. "And for emerging markets, expectations are that their dynamic growth will continue."

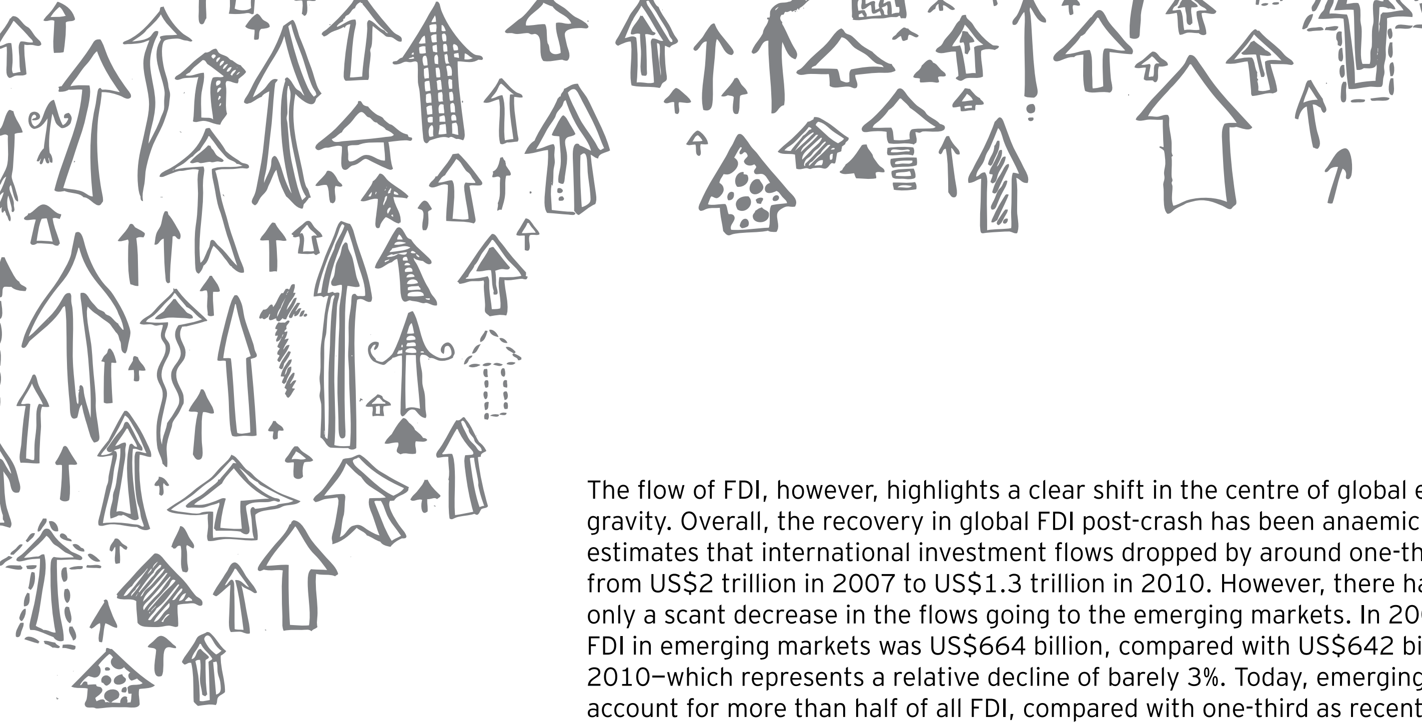
Companies are already factoring this new order into their thinking on foreign investment. Of Canadian respondents, nearly 40% indicated that they would shift foreign investments from mature to emerging markets within five years. However, one-third of all respondents still say they will not change investment between emerging and developed markets within five years, either implying confidence in markets in which they are currently investing, or a perceived lack of attractive markets (either emerging or developed) to lure investors.

Table 2: A clear global shift

Do you expect your company to shift its foreign investments from emerging to developed markets, or vice versa?

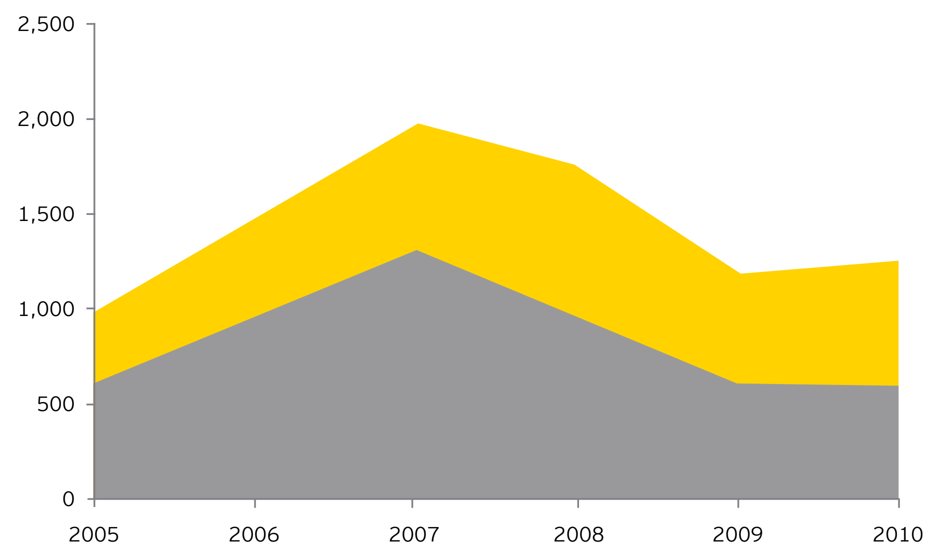
	This year	Next five years
Yes, my company seeks to shift its investments from developed to emerging markets.	25%	38 %
Yes, my company seeks to shift its investments from emerging to developed markets.	11%	14 %
No, there will be no shift in investments between emerging and developed markets.	52%	34 %

Source: Economist Intelligence Unit survey, 2011.



The flow of FDI, however, highlights a clear shift in the centre of global economic gravity. Overall, the recovery in global FDI post-crash has been anaemic. UNCTAD estimates that international investment flows dropped by around one-third from US$2 trillion in 2007 to US$1.3 trillion in 2010. However, there has been only a scant decrease in the flows going to the emerging markets. In 2007, the FDI in emerging markets was US$664 billion, compared with US$642 billion in 2010—which represents a relative decline of barely 3%. Today, emerging markets account for more than half of all FDI, compared with one-third as recently as 2007 (see chart, below).

Chart 1: Global FDI flows by country groups (US$ billions): 2005–10



Our survey respondents — both Canadian and non-Canadian — who already invest abroad expect palpable benefits from doing so, and nearly 40% of those polled said they expect their companies' foreign earnings to increase substantially (by 20% or more) over the next five years. Among survey participants overall, close to one-fifth anticipate a 20% or greater boost in foreign-derived profits this year, and 44% see a substantial gain over the next five years, compared with the previous five. In an environment in which Canadian and foreign companies estimate greater return from investment in emerging markets, Canada faces tough competition to lure investors.

Factors driving investment decisions abroad

Although reasons for investing abroad certainly vary across companies, there are two primary drivers pushing corporate investors into emerging markets: the decision to efficiently outsource production and the desire to tap fresh markets. "You look for lower cost for the same output or more output for the same cost," points out Steven N. Kaplan, Neubauer Family Professor of Entrepreneurship and Finance at the University of Chicago. Cost-effectiveness is likely to weigh heavily into any investment decision.

Additionally, with a burgeoning middle class, emerging markets' fast-growing retail and wholesale sectors are especially enticing for companies seeking to grow their sales. Indeed, most Canadian executives in the survey cite larger markets (60%) and growth markets (52%) as the primary benefits of investing abroad. Yet, when asked what they value most in an investment decision, Canadian executives cited a favourable business operating environment as their top choice (34%), followed by large market size (29%). Non-Canadian respondents agree: they consider a favourable business environment (cited by 42%) as the most valuable characteristic of an investment destination, followed by a large market size (30%).

Indeed, while high-growth in foreign markets may be a reason to venture abroad, it may not be enough to keep investors in if a business environment poses regular hurdles. Luckily, this offers a potential opportunity for developed markets to lure investors in a climate that is otherwise favouring emerging markets.

Table 3: Labour productivity growth in selected countries*

Country	2005	2006	2007	2008	2009	2010	2011
Canada	1.8%	0.7%	0.1%	-1.0%	-1.2%	1.7%	0.6%
China	10.4%	11.8%	13.3%	8.9%	8.5%	9.7%	8.5%
US	1.3%	0.7%	0.8%	0.1%	0.3%	3.6%	1.2%
UK	1.1%	1.9%	2.0%	-0.8%	-3.3%	1.1%	0.2%
Vietnam	5.8%	5.3%	5.9%	3.6%	3.3%	4.5%	3.9%

Source: Economist Intelligence Unit.

* Defined by the EIU as the efficiency of labour measured in terms of output per worker (that is, real GDP per person employed).

Hitting a BRIC wall: Canada's competition

With their home markets sluggish, more developed-country companies have come to rely on foreign markets to spur growth. For instance, when Vodafone PLC reported in July 2011 that its revenue had risen by 3.5% in the first quarter despite a stagnant UK economy, it credited emerging-market sales, especially in Turkey, India and South Africa. Indeed, this optimism regarding emerging markets — BRIC countries (Brazil, Russia, India and China) in particular — is reflected in top investment destinations cited by both non-Canadian and Canadian respondents in our survey.

Table 4: Top five investment destinations

FDI inflow in 2010: UNCTAD report	Non-Canadians in Economist Intelligence Unit survey 2011	Canadians in Economist Intelligence Unit survey 2011
US	China	Canada
China	India	US
Hong Kong SAR	US	China
Belgium	Canada	India
Brazil	Vietnam	Brazil

Source: UNCTAD; Economist Intelligence Unit survey, 2011.

For the non-Canadians in the survey, the most appealing foreign investment locales were generally no great surprise. Less predictable was that 16% would make Vietnam — a country that ranks 30th on UNCTAD's FDI flow tabulations — their top choice, tying it with Brazil. This likely reflects the "China plus one" strategy adopted by many companies, particularly manufacturers, to diversify overseas operations in Asia to counter climbing labour costs in China.

As Vietnam surges in popularity, other firms are beginning to recognize that this country of 90 million people has attractive features beyond its close proximity to China. The prospect that Asian emerging markets, whose young populations enjoy mounting purchasing power, will cultivate a generation of consumers has inspired some interesting investments.
In April 2011 Kohlberg Kravis Roberts & Co., a US private equity firm, took a 10% stake in Masan Consumer Corp., Vietnam's leading producer of fish, soy, chili sauce and branded noodles, in the country's largest-ever deal of this type, valued at US$159 million.

Meanwhile, the home bias of Canadian companies in particular who ranked their country as the top investment destination was striking — although 87% of all survey participants did patriotically describe their home countries as good places to invest. Understandably, much of this support for the "home team" can be attributed to Canada's stable business environment — cited by both domestic and foreign investors. Yet the survey suggests that this tendency also stems in part from an uneasiness regarding investing overseas.

For one-quarter of the Canadian executives, political instability was the greatest concern about expanding abroad, while 28% of Canadian respondents cited macroeconomic instability as a challenge. On an operations level, 29% cited doubts about being able to find a qualified workforce. And as a deal-breaker, nearly one-third expressed skepticism about being able to earn a high enough return on investment to make the whole endeavour worthwhile. Yet, while most of these challenges have long been common to many emerging markets, some are also a growing problem in parts of the developed world. Meanwhile, the opportunities developing markets offer are substantial. While their home country still ranks highly as one of the primary investment destinations among Canadian firms, there is no doubt that competition from BRICs will continue.

Why developed markets can still have an edge

Emerging markets may be the leading contenders in the battle for FDI, but certain developed countries, such as Canada, should not be discounted. Revealingly, the largest share of survey respondents (42%) declared that the single most valuable characteristic of a foreign investment destination was a favourable business operating environment. Although a majority (60%) of respondents who indicated this hail from North America, 20% of these respondents are based in Asia-Pacific.

OECD countries can still have a distinct advantage, given their sizable local markets, high income levels, well-developed infrastructures, established legal and financial systems, sophisticated business support services (including an educated workforce) and (comparative) political stability. Canada scores highly in all categories of our business environment ranking. Overall, Canada places fourth out of 82 countries, ahead of the 11th-ranked US and far ahead of China (50th). Hence, the sheer speed of a foreign market's growth may not be the dominant investment criterion, even for companies that prioritize rapid growth (See sidebar 2, " Why should high-growth tech firms accept borders?").

However, expanding into developed markets is not without its own set of challenges, as the survey attests. For one thing, a mature business infrastructure can be as much a curse as a blessing, especially if it entails a rigid labour market, stiff taxes and strict regulation. And an unfavourable business climate of course stifles entrepreneurship, a pivotal consideration for companies hoping to develop and grow their businesses.

A mere 6% of survey participants described Western Europe, whose labour laws are considered to be particularly onerous, as "highly entrepreneurial"; a similar number of respondents deemed the Middle East and Africa to be an entrepreneurial region. North America and Asia fared far better, with 47% and 37% of survey participants, respectively, rating them as "highly entrepreneurial." By no coincidence, these regions are the favoured investment targets of both Canadian and non-Canadian executives.

The continuing case for investing in Canada

Some developed markets are notably better than others at attracting foreign investors. That has been true, up to a point, of Canada; roughly one-fifth of its business assets are foreign-controlled (chiefly by US companies). Among the non-Canadians in our survey (a group that, admittedly, includes a hefty contingent from the neighbouring US), the country ranked fourth for "most-preferred" investment destination (selected by 21%). More than one-third of non-Canadian survey respondents (37%) were "positive" about Canada as a place to invest, and 28% were "very positive."

Canada's considerable attractions for foreign companies (including its neighbours across the border) include a long legacy of welcoming foreign investors (although not always with open arms); a record of brisker growth than any other G7 country; moderate corporate income taxes (of 15% as of 2012); advanced R&D facilities; a healthy tech sector; a well-educated workforce; an abundance of natural resources; a high-quality lifestyle; and convenient proximity to the large market the US offers, ready access to which is assured by the NAFTA. (Canada's assorted attributes are such that UNCTAD ranks it 14th out of 141 countries in terms of FDI potential.) Canada can even boast a strong entrepreneurial ethos, according to the 2010 Global Entrepreneurship and Development Index (GEDI), which placed Canada second, one place ahead of the US.

Although they do not recognize Canada as having a particularly strong entrepreneurial environment, our survey respondents agree with much of the above assessment. In addition to macroeconomic and political stability, non-Canadians point to infrastructure (70%), availability of qualified labour (61%) and business climate (49%) as benefits of investing in the country.

Nevertheless, Canada, like other developed countries, has lost ground in attracting foreign investors to emerging markets over the years. In UNCTAD's list of top country recipients of FDI, Canada placed third in 1980, eighth in 1990, fifth in 2000, and fell off the top-ten list completely in 2010. This was in spite of a 2.6% year-on-year gain in inward FDI, to CDN$561.6 billion, largely linked to the global commodities boom.

The Conference Board of Canada, warning that diminished FDI is damaging the country's productivity and economic performance, has urgently recommended that more be done to entice foreign investors. In a telling analysis published in April 2011, the board used an "inward FDI performance index" — the ratio of a country's share of global FDI to its share of global GDP — to determine that the ratio of Canada's inward FDI to its share of global GDP has hovered between 1.1 and 1.2 since 1995. That is, the country punches slightly above its weight globally in inward FDI. Contrast that performance, however, with Canada's ratio of an astonishing 6 in 1970 — a gauge of just how alluring the country once was to foreign capital.

Canada's shortcomings as an investment destination

Thirty-nine percent of foreign investors in the survey say the primary benefit of investing in Canada is that it provides easier access to North America. Indeed, despite the relative volatility of the US compared to the more consistent performance of its less vocal northern neighbour, the US still invites a feeling of confidence. Joe Overdevest, a portfolio manager at Pyramis Global Advisors, asserts that foreign corporate investors feel comfortable in Canada because the accounting system is the same as in the US. Moreover, Mr. Overdevest says, "The capital markets are connected to the US, as well as to the UK." Close links with two of the largest financial centres in the world is certainly a plus.

A particular striking outcome of the survey was the low degree to which respondents regarded Canada as having a highly entrepreneurial environment — a factor that more than two-thirds of respondents agreed was very important or important to their company's foreign investment decision. While 83% of all respondents indicate that North America offers a strong entrepreneurship environment, this may be an attribute limited to the US.

Despite Canadian prime minister Stephen Harper's proclamation that 2011 was the "Year of the Entrepreneur" in Canada, and notwithstanding the country's high GEDI ranking, just 10% of the Canadian executives surveyed — most of whom say they invest in their domestic market — felt that the country was "much" better than other nations at encouraging entrepreneurship.

The proportion of the non-Canadians canvassed who agreed with that assessment was even smaller, at 6%. However, 33% of Canadian respondents and 32% of non-Canadian respondents did acknowledge that Canada was better than other potential investment destinations in nurturing entrepreneurship — although this still means that half of all respondents regard Canada as average or worse in this area.

Table 5: Non-Canadian respondents' perceptions of Canada

In your opinion, relative to other prospective investment destinations for your company, what is your perception of Canada in the following areas? Rate on a scale of 1 to 5.

	1 Canada is much stronger than other countries	2	3 Canada is about the same compared to other countries	4	5 Canada is much weaker than other countries	Don't know	Total
Entrepreneurship	6 %	32 %	43 %	7 %	4 %	8 %	100 %
Business operating environment (including taxes and regulation)	14 %	35 %	30 %	8 %	6 %	7 %	100 %
Market-growth opportunities	2 %	33 %	31 %	19 %	6 %	8 %	100 %
Macroeconomic Stability	30 %	48 %	14 %	6 %	0 %	2 %	100 %

Source: Economist Intelligence Unit survey, 2011.

Dan Shimmerman, CEO of Toronto-based Varicent Software, calls Mr. Harper's program to promote entrepreneurship "well-intentioned" and agrees that "branding will galvanize people." Nevertheless, he remains cautious. "[The program] runs the risk of not solving the real problem, which is more deeply rooted," he says.

As Mr. Shimmerman sees it, the issue is cultural. "We are a nation built on natural resources, and we're passive-aggressive when it comes to other areas, such as technology." He claims it is extremely frustrating to start and expand a tech enterprise in Canada (Varicent has offices in eight countries and does business in over 30 countries), and points to a lack of would-be entrepreneurs who are focused on long-term growth and value creation, as well as a dearth of investors to help fund these endeavours.

Table 6: Canadian respondents' perceptions of Canada

In your opinion, relative to other prospective investment destinations for your company, what is your perception of Canada in the following areas? Rate on a scale of 1 to 5.

	1 Canada is much stronger than other countries	2	3 Canada is about the same compared to other countries	4	5 Canada is much weaker than other countries	Don't know	Total
Entrepreneurship	10 %	33 %	31 %	19 %	6 %	1 %	100 %
Business operating environment (including taxes and regulation)	22 %	38 %	24 %	11 %	5 %	1 %	100 %
Market-growth opportunities	9 %	28 %	34 %	20 %	8 %	1 %	100 %
Macroeconomic Stability	60 %	28 %	10 %	2 %	0 %	0 %	100 %

Source: Economist Intelligence Unit survey, 2011.

Considering the competition from the US, which attracts foreign investors through a strong tradition of free enterprise and skilled labour, Canada is relatively weak in the field of entrepreneurship. Canada's shortcomings are many compared with the US: strict labour regulations; expensive living costs; a smaller market; higher taxes; and a lack of ready venture-capital financing. Many of these have been acknowledged by Mr. Harper himself. Competing with the US will remain a challenge and, as emerging markets take strides in improving their business environment, Canada must do more to lure in investors.

Canada has much to offer beyond its convenient location north of and privileged access to the US market. The country has performed well post-2008 compared to other OECD countries and its stable political environment, large skills base, well-developed infrastructure and welcoming attitude towards foreign investment continue to entice investors. Although Canada's entrepreneurship environment remains strong by some measures, judging by our survey respondents, it must respond to barriers perceived by investors and high-growth companies. In today's climate, Canada must rebrand itself. (See sidebar 1, "Like companies, countries need a strong brand.")

Conclusion

Although emerging markets may yet face hurdles on their road to development, there is no doubt that a fundamental realignment is underway in the global economy, reflected in an ongoing shift in investment flows from the developed to the emerging world. Both developed and developing markets offer businesses opportunities for growth and expansion, depending on what companies deem important to their overall strategy. How does a company, then, make the most of this sea change? Here are a few recommendations deriving from the survey and related research:

- Seize the decade: Burgeoning emerging markets offer a great opportunity to capture real revenue growth and/or bolster manufacturing margins — especially for companies domiciled in developed countries with sluggish growth. In order to seize these opportunities, companies should not underestimate the value of first-mover advantage. As Rupert Murdoch observed, "The world is changing very fast. Big will not beat small anymore. It will be the fast beating the slow."
- Pick your spot. Not all emerging markets are created equal. In the current frenzy to invest, this truism can be forgotten. But companies that grasp the underlying nature of today's global economic transformation will have an advantage. Significantly, the 63% of Canadians in the survey who regard their companies as stronger at foreign investing than their competitors give Asia as their top investment destination, compared with 49% for all other survey participants.
- Match your market. No algorithm for how to approach foreign investing would work for all companies. But one common principle that is overlooked remarkably often is that you have to sell overseas customers something they actually want to buy. Or, as the University of Chicago's Dr. Kaplan puts it, "Smart companies expand where there is a market for their products." And this means that the one metric that ultimately matters is sales.

Like companies, countries need a strong brand

Just as companies use branding to market their products to consumers, countries increasingly use branding to market themselves to foreign investors. Around 90% of the executives polled agreed with the proposition that government efforts play an important part in providing a positive brand image for their countries as a place to invest. In the same vein, 82% asserted that countries ought deliberately to cultivate a brand to attract foreign investment.

But do such marketing campaigns really work? In the June 2011 issue of the Economic Journal, two Oxford University economists, Torfinn Harding and Beata S. Javorcik, review data from 124 countries and conclude that investment promotion can indeed lead to heightened foreign-investment inflows. However, the results vary widely. Investment-promotion activities appear to be most fruitful for countries seeking to counteract a negative impression about business conditions. Perhaps that is why the study found that investment promotion seems to work best for developing, rather than developed states. The strategy appears to pay off in particular for emerging markets that are seen as being ensnared in red tape and mired in misinformation.

Investment-promotion agencies (IPAs) have scored noteworthy coups. Dr. Sauvant notes that one ploy is for a developing country to entice a flagship company to become a direct investor and thereby provide an unofficial seal of approval and attract other investors.

For example, Costa Rica, an en vogue tourist destination for backpackers, succeeded in 1996 in persuading Intel to build a US$300 million semi-conductor plant in the tiny Central American country. Almost a decade later, the World Bank's Multilateral Investment Guarantee Agency, which promotes investment in developing countries, found that the project had delivered large direct and indirect economic benefits to Costa Rica, including elevating its global standing as a worthy site for foreign investment.

Canada, of course, has many more in-built attractions for investors than Costa Rica, yet it also appreciates the value of strategic brand marketing. Invest in Canada, which operates a network of foreign-investor recruitment offices that

- Do not dismiss developed markets. Emerging markets' soaring growth and shining prospects may dazzle some CEOs, but more risk-averse investors are hesitant. In this regard, some slower-growing established nations still offer benefits: political and economic stability, developed infrastructures, educated workers, R&D facilities, affluent consumers — the list goes on. It may be worth checking those off before shifting too much investment to emerging markets. China, notably, more than doubled its own investment in Canada from CDN$5.7 billion in 2008 to CDN$14.1billion last year.
- Take advantage of investment-promotion agencies. For a start, they can supply data and context to help to take some of the "foreign-ness" out of foreign markets when mulling an investment decision. Moreover, as Columbia University's Dr. Sauvant notes, amid intense global competition for FDI, "More than ever, investment locations have to be on their toes in terms of providing an interesting investment opportunity." It can pay off, literally, to check with the agencies (See sidebar 1).

spans 150 cities around the world, is a slick marketer of Canada's charms to foreign corporations. Moreover, all ten of Canada's provinces and several of its major cities now have their own IPAs that tout the business attractions of their respective locales.

However, for all their successes, IPAs can only do so much. "Promotional efforts can make people take a look, but, at the end of the day, it's all about the numbers," contends Dr. Kaplan. As much as they advocate promotional efforts, the survey participants tend to concur. A decent majority (60%) acknowledges that market data, such as size and growth, ultimately trump branding razzle-dazzle.

In any event, IPAs are now confronted by the same conundrum as product merchandisers: brand saturation. As Dr. Sauvant notes, "Efforts to attract investment have increased globally, both through national investment promotion agencies and sub-national units, so the world investment market has become much more competitive." That is all the more reason that, if a country has a good story to tell, as Canada does, it is worth telling it well.

Why should high-growth firms accept borders?

"If you play in a high-growth [technology] sector, such as digital media, the world is your oyster, because you're not constrained by the global economy," argues Peter Conrod, Vice-President of Client & Business Strategy for Royal Bank of Canada. This is one oyster, moreover, that can be shucked open different ways, as the foreign investing experiences of a dynamic pair of Canadian high-tech enterprises illustrate. As the producers of an inherently "disruptive," game-changing product, they, surprisingly, do not feel constrained by convention.

Varicent Software, fourth on PROFIT magazine's list of Canada's 200 fastest-growing companies, makes an innovative online compensation-and-sales-performance management tool. "Even in tough economic times, our solution does well because it addresses a business need," says CEO Dan Shimmerman.

Nor does Varicent confine its ingenuity to software. Although based in Toronto, the company started out selling its product in the US and followed with expansion into Europe and Asia. Not until four years after it was founded did it start selling its software in its home Canadian market.

"We don't spend too much time on analysis to determine which markets to go to," Mr. Shimmerman confides. Instead, the company makes "calculated bets." This is not as casual a process as Mr. Shimmerman makes it sound. "We set clear expectations and watch [sales] milestones," he says. If the firm fails to meet them, it will modify its plans or pull out of a country. Currently, Varicent has a presence in eight countries.

One example of Mr. Shimmerman's intuitive decision-making style is the way he chose to establish a regional headquarters in Asia. To him, it simply made sense for the firm to open an outpost in this booming region. So, the only question became whether to locate it in Hong Kong or Singapore. He chose Hong Kong.

Edmonton-based Yardstick Software Inc., 17th on the PROFIT list of rapid growers, offers web-based testing services for certification and licensing. Chris LaBossiere, the co-founder and co-CEO, does not even bother to look at such traditional metrics as market size and growth rate when making foreign-investment decisions.

"We sell the product where the regulatory environment creates a market for it," he explains. And that may well be in a developed country with technologically advanced customers, whose language, culture and laws make them suitable candidates for Yardstick's services. So, rather than venturing into emerging markets, Yardstick has targeted Australia, New Zealand, Singapore, the UK and the US.

Although their approaches to foreign investing may seem rather unorthodox, these high-growth companies follow the opportunities they see. "No doubt, that's one reason these are high-growth companies to begin with," suggests Royal Bank's Mr. Conrod.

Contact us

To learn more about our services for entrepreneurial companies, please contact one of the following professionals.

Colleen McMorrow
Canada Strategic Growth
Markets Leader
416 943 2718
colleen.m.mcmorrow@ca.ey.com

Western Canada

Joe Healey
204 954 5568 |
joe.a.healey@ca.ey.com

Bruce Picton
780 638 6640
bruce.picton@ca.ey.com

David Van Dyke
403 206 5177
dave.a.vandyke@ca.ey.com

Ron Voyer
604 684 7598
ron.a.voyer@ca.ey.com

Central Canada

Colleen McMorrow
416 943 2718
colleen.m.mcmorrow@ca.ey.com

Greg McCauley
519 571 3319
greg.j.mccauley@ca.ey.com

Eastern Canada

Luc Charbonneau
514 879 2638
luc.charbonneau@ca.ey.com

Sandy Goldberg
613 598 4810
sandy.goldberg@ca.ey.com

Lynn Healey
709 570 8866
Lynn.healey@ca.ey.com

Andre Vezina
418 640 5127
andre.vezina@ca.ey.com

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit ey.com/ca

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

ey.com/ca

1110-1294652