

**Results of JETRO's 2014 Survey on  
Business Conditions of Japanese-Affiliated Firms  
in Canada**

**January, 2015**

**Japan External Trade Organization (JETRO)**

**Overseas Research Department**

**North America Division**

## About the Survey

This survey has been conducted since 1989 by the JETRO Canada office, with this being the 25th implementation (there was no survey conducted in 2004.)

### 1. Purpose

To survey and analyze the state of Japanese-affiliated companies in Canada (business confidence, performance, management challenges, etc.) with the aim of facilitating business activities and management strategy planning for Japanese-affiliated companies.

### 2. Survey coverage

The definition of a “Japanese-affiliated company” is one for which “the investment from the Japanese parent company is at least 10%,” including both direct and indirect investments. For example, consider a Company A, which is an American subsidiary with a Japanese parent company that holds a 20% share. If Company A itself holds a 50% share of a subsidiary, Company B, then the parent Japanese company for Company A owns a 10% share of Company B ( $0.2 \times 0.5 \times 100$ ), so that Company B would also be regarded as a “Japanese-affiliated company.” (Company B is a sub-subsubsidiary of the parent Japanese company.) The same type of calculation applies to sub-subsubsidiaries as well.

### 3. Method

The target companies were informed by the Toronto office of an Internet address (URL) where the questionnaire was posted. Respondents entered their answers directly onto the survey form on this website.

### 4. Period

September 3 to October 17, 2014

### 5. Response rates

The requests were made to 233 Japan-affiliated companies in Canada, with responses received from 136, for a response rate of 58.4%.

Note: The number of companies responding is an aggregate based on the cooperation of each company, using information sources regarded as reliable by the JETRO office, but the absolute accuracy and completeness of the information cannot be guaranteed.

## 1. Business Conditions

- The indicator of business confidence for 2014 (DI value 21.8) improved in comparison to the previous year (DI 14.3). Since there was an increase in product demand, there were many responses indicating that “it feels like the economy is recovering” and “the economy seems stable.”
- The diffusion index (DI) that indicates business confidence (proportion of businesses reporting increased operating profits minus those reporting decreased operating profits compared to the previous year) was 21.8 for 2014 (Fig. 1). There were many companies indicated that they expected improvement in the categories of processed food, agricultural or fishery products, and the key industries of transportation machines (cars and motorcycles) and parts for these machines.
  - With regard to the operating profit for 2014, 42.9% reported an increase compared to 2013, with 36.1% reporting that it would remain the same, and 21.1% expecting a decrease (Fig. 2). In addition, 74.4% of the companies indicated that they are expecting to be profitable in 2014 (Fig. 5). The reasons given for the improvement, in order of frequency (multiple answers permitted) were “Sales increase in local markets” (78.6%), “Sales increase due to export expansion” (21.4%), and “Effects of exchange rate fluctuation” (19.6%) (Fig. 3). In comparison, the main reasons given for worse results were “Sales decrease in local markets” (59.3%), and “Sales decrease due to export slowdown” (18.5%) (Fig. 4).
  - The answers about forecasts for operating profit in 2015 compared to 2014 show that slightly more companies expect an increase (45.1%) rather than remaining the same (44.4%) (Fig. 2). The reasons for the improvement, in order of frequency (multiple answers permitted) were “Sales increase in local markets” (70.0%), “Improvement of sales efficiency” (20.0%), and “Sales increase due to export expansion” (16.7%) (Fig. 6). Reasons for an expected decrease were “Sales decrease in local markets” (57.1%) and “Increase of other expenditures (e.g., administrative/utility/fuel costs)” (21.4%) (Fig. 7).
- <Performance is strong, particularly in the automotive industries. Many view that the economy is now strong and stable>
- \* The comments indicated by arrowhead bullet points in the main text (type of industry indicated in parentheses) are quotes from interviews with the firms that responded to the questionnaire, and, in part, comments on the survey questionnaire.
- The economy seems strong because overall demand is growing for car sales. [Transportation machines (cars and motorcycles)]
  - There is a feeling that the economy is recovering in the aluminum industry. [Metal goods (including plated products)]

- The industry is maturing for cameras/ business-related equipment. For Canada as a whole, however, things vary in different business categories, but there are industries looking for growth. With the influx of immigrants, and the low yet continuing growth of GDP, the economy is considered to be stable. [Electric machines and electronics]
- Although there is no feeling of an economic downturn, it does not seem to be better than the economic situation in the U.S. [Trading]

## 2. Future Business Plan

○ With regard to future business expansion, nearly 50% indicated that they would remain the same, and the percentage of those expecting to expand is higher than in the previous year.

- Regarding the directions for business development in the next one or two years, 49.3% indicated that they expect things to remain the same, while 46.3% expect to expand, which is higher than last year (38.9%) (Fig. 8). The reasons for expected expansion, in order of frequency (multiple answers permitted), include “Sales increase” (85.5%), “High growth potential” (43.5%), and “High receptivity for high-value added products” (19.4%) (Fig. 9). The specific functions that respondents want to expand are “Sales functions” (67.2%), “Production (high-value added products)” (29.5%), and “Production (ubiquitous products)” (21.3%) (Fig. 10). Reasons given for future reduction, location transfer, or withdrawal were “Sales decreases” (66.7%) and “Low growth potential” (33.3%).

○ On the question of issues faced in promoting management localization, the answers concentrated on “Little progress in delegating authority from headquarters to the local offices” and “Difficulty recruiting local candidates for executive positions.” There is a concern about communication with the headquarters, and how to secure the talented personnel who can become future management candidates.

- Measures being implemented to encourage localization of management, in order of frequency (multiple answers permitted) include “To strengthen system to train/cultivate local human resources by focusing on localization of corporate management” (52.2%), “To assign local staff to a general manager/manager position” (44.0%), and “To encourage mid-level hiring activities to obtain competent local staff by focusing on localization of corporate management” (41.0%) (Fig. 11). On the question of issues faced in promoting management localization, the indicated issues with headquarters/Japan side were “Little progress in delegating authority from

the headquarters to local offices” (17.6%), “Difficulty in reducing the number of Japanese expatriate staff” (17.6%), and “Inadequate language skills of the Japanese expatriate staff (English and local languages)” (16.8%) (Fig. 12). Issues on the local side include “Difficulty in recruiting local candidates for executive positions” (35.9%), “Insufficient performance/awareness among local staff” (29.0%), and “Insufficient capabilities for local planning and marketing” (12.2%) (Fig.12).

- Over the last year, 31.1% of the respondents indicated that the number of local employees had increased, and 51.5% said there was no change. There were 17.4% indicating a decrease. With regard to future plans on the number of local employees, 34.9% said they planned to increase the number, 56.6% had no changes planned, and 8.5% expect to decrease (Fig. 13).
- For the Japanese expatriate staff, 75.6% of the companies indicated that there was no change since last year. For the future as well, 76.2% indicated that no changes were planned (Fig. 14).

<There are still issues with communication with the head office in Japan affecting the promotion of delegation of authority to local personnel>

- More than a difficulty in recruiting people, it seems to be harder to effectively plan human resource development under the Canadian system where there is no fixed retirement age. [Transportation machines (cars and motorcycles)]
- Our problem is that the systems at the head office in Japan have not kept up with the localization of the subsidiary. There has been improvement in the conversations and e-mail with the local staff in English, but it is still not sufficient, and communication through expatriate staff is still needed. [Transportation machines (cars and motorcycles)]
- We have no problem with delegation of authority. We have tried hiring and training executive candidates, but the turnover is pretty severe. The more talented the people are, the more likely it is that they leave during training. [Transportation machines (cars and motorcycles)]
- We have local employees in more than half of the management positions, so I think our localization is more advanced. With regard to the difficulty with hiring executive candidates, I think we can only continue to be proactive in all areas, and diligently work on hiring, education/training, evaluation and compensation. [Electric machines and electronics]

### 3. Sales and Procurement

- |   |
|---|
| ○ Approximately 60% of products manufactured in Canada were sold domestically, while around 20% were exported for sales to the U.S. Regarding future direction of |
|---|

sales policy, “maintaining the present conditions” accounted for the majority of responses.

- 63.5% of products manufactured in Canada were sold domestically (Fig. 15). Followed by the U.S. (19.4%) and Japan (12.5%).
- For future sales policy, 37.3% of the companies indicated that they intend to expand in Canada. Overall, the most selected answer was “stay the same” (Fig. 16).

<In many cases, the Canadian corporation does not have the authority to decide to engage in sales in other regions>

- Since group sales companies have jurisdiction in other countries, like Mexico and Central/South America, we don't have any plans to expand. [Electric or electronic machines]
- Our company buys finished products from a U.S. company and sells them in the Canadian market. We only sell in Canada. Any expansion of sales destinations is handled by the U.S. company. [Transportation machines (cars and motorcycles)]

○ For the procurement of raw materials and parts, 38.5% are procured within Canada, followed by 32.8% from the U.S., and 16.7% from Japan. Many of the respondents indicated that they planned to expand procurement from Asia.

- For the breakdown of procurement sources for raw materials and components, 38.5% is procured from within Canada (9.0% from Japanese-affiliated local companies, 28.4% local companies, and 1.1% other foreign-affiliated companies). Other main sources are the U.S. (32.8%) and Japan (16.7%) (Fig. 17).
- Target countries often indicated by those planning to expand their procurement sources include the currently low procurement source level regions of ASEAN (71.4%), and Taiwan/Korea/Hong Kong (44.4%) (Fig. 18).

<There are many companies in Canada that procure materials and components from U.S. entities and their Japan headquarters. Some Canadian companies also indicated that there is no intent to change the procurement policies.>

- Basically, the products we are selling are almost all obtained from our group companies, and most are purchased through the Japan headquarters. We have no plans to shift our suppliers. [Electric machines and electronics]

#### 4. Management Challenges

○ As general managerial issues, “recruiting executive officers and general staff” was ranked at the top. Primary factors of increasing costs included “Increase in labor costs including salaries and bonuses” and “foreign exchange risks of the Canadian and the U.S. dollar.” On the other hand, as key factors suppressing sales, many firms stated the

same reasons as last year, such as “severity in price competition” and “difficulty in developing differentiated products.”

- General management issues indicated, in order of frequency (multiple answers permitted) were “Recruiting workers for management positions” (33.1%), “Recruiting regular workers” (32.2%), and “Retention of workers” (27.1%) (Fig. 19). For Japanese-affiliated companies in Canada, the big issues appear to be securing and managing employees.
- The factors contributing to rising costs in order of frequency (multiple answers permitted) were “Increase in labor costs (including salaries and bonuses)” (65.4%), “Foreign exchange risks (Canadian dollar/U.S. dollar)” (50.4%), and “Increase in raw material, natural resource and commodity prices” (35.4%) (Fig. 20).
- Factors attributed to contributing to weaker sales, like the previous year were “Severity in price competition” (79.8%), “Difficulty differentiating ourselves from competitors” (45.4%), and “Popular products from competitors” (38.7%) (Fig. 21).

<Although there are many job-seekers, it is difficult to find quality personnel>

- There is no concern about personnel shortages, but the aging of employees is an issue. [Parts for transportation machines (cars and motorcycles)]
- There tends to be insufficient human resources in Calgary where the economy continues to be strong. [Non-ferrous metals]
- Many of the expatriate staff who have experiences working in other countries consider the Canadian workers to be honest and reliable. The issues with securing general staff are less about a lack of ability, and more about high attrition rates related to compensation, such as working hours and salary. [Electric machines and electronics]
- On the subject of securing management and executive level personnel, there is always a lot of competition for the talented people, but when the business environment is changing significantly, it is necessary to respond immediately to the uncertainties and changes, further increasing the demand for even higher quality and activity of the leaders. This is what is behind the accelerating competition for human resources. [Electric machines and electronics]

<As a measure to handle personnel costs, early retirement schemes are also being introduced>

- (As a labor cost policy) Wage increases are kept at about the same level as the inflation rate, and wage levels are set as needed for each post, with consideration of the levels in other industries. [Transportation machines (cars and motorcycles)]
- Since they (employees) try to continue working indefinitely, we have created an

early retirement program offering incentives of about one year's worth of salary to gradually induce people to retire. This is contributing to a decrease in labor costs.

[Other manufacturing]

- Reduction of personnel requirements through improved operations efficiency. [Transportation machines (cars and motorcycles)]

<Since many of the Japanese-affiliated companies in Canada settle their accounts in U.S. dollars, the Canadian dollar/U.S. dollar exchange rate fluctuations impact the bottom line.>

- Products from the U.S. companies are purchased with U.S. dollars, and sold to Canadian customers priced in Canadian dollars, so there is an impact from the exchange rate. [Parts for transportation machines (cars and motorcycles)]
- The prices for feed grains used as a raw material and for the pork for export that constitutes a large portion of the products are quoted in U.S. dollars, so the exchange rates have a big influence on the business. [Processed food, agricultural or fishery products]
- Since purchases are made in U.S. dollars, there is a certain influence from changes in the exchange rate. We recognize that handling exchange rate fluctuations is a management issue. [Electric machines and electronics]

<Intensifying price competition puts pressure on business operations. Factors include competition from Asian companies and industry maturation >

- Our main competitors are Japanese makers. The products themselves have been commoditized, leading to large price drops. [Precision machines and apparatuses]
- There is very little competition from Asian companies. The competition for our products (pork) mainly comes from the U.S., Japan and parts of Europe. [Processed food, agricultural or fishery products]
- Although sales are increasing, there is intensifying competition from Korean auto makers using pricing as their advantage to expand sales. [Transportation machines (cars and motorcycles)]
- The main factor behind the intensifying price competition is the maturation of the industry. [Electric machines and electronics]

## 5. Capital Investment

- About 60% of the respondents indicated that capital investment remained the same in 2014 in comparison to 2013. However, the percentage indicating an increase over the previous year was higher.



- For the comparison of capital investment in 2013 and 2014, 58.9% responded that it remained the same (Fig. 22). However, the percentage of those indicating an increase over the previous year was higher (28.8% this year, 19.8% in 2013). The main uses of the capital investments in order of frequency (multiple answers permitted) were “Modernization and efficiency improvement of the plant (include expanding or renewing of machines and facilities)” (53.1%) and “Enhancement of technology and R&D” (23.4%) (Fig. 23).

## 6. Changing Business Environment

○ With regard to the effects of the shale revolution, 19.4% indicated that the effects were positive, far exceeding the number indicating a negative effect (6.0%). However, answers of “no effect” and “effect unknown” accounted for more than half of the responses. For the specific effects, in addition to “Increase of product demands,” negative effects like “Increase of raw material prices (including crude oil-related)” were also cited.

○ With respect to utilization of FTAs, high use rates were indicated for import/export activities with the U.S. and Mexico, who are NAFTA members.

○ The fields most expected to have market growth in the next few years (multiple answers permitted) include Shale gas, Environment, Health, and Medical.

○ Effects of the shale revolution in North America

- With regard to the effects of the shale revolution, 19.4% indicated that the effects were positive, far exceeding the number indicating a negative effect (6.0%) (Fig. 24). However, 39.6% responded that there was no effect and 35.1% said “effect unknown,” which accounted for more than half of the responses. Specific effects cited, in order of frequency, included “Increase in product demands” (45.5%), “Increase in raw material (including crude oil-related) prices” (12.1%), and “Decrease in fuel costs” (9.1%) (Fig. 25). There seems to be some negative impact from the shale development, such as rising prices for raw materials.

<There is expected to be growth in the businesses related to shale development >

➤ (Shale development) is expected to lead to greater business opportunities, like construction of liquefied natural gas (LNG)-related facilities. [Trading company]

➤ For B to B transactions, focusing mainly on office equipment, the growth of Canadian business (accompanying shale development) is a business opportunity for us. [Electric machines and electronics]

○ Utilization of bilateral or multilateral FTAs

- For trade with the U.S. and Mexico, both NAFTA members, companies indicated that high utilization of FTAs. For the U.S. they are used for export 55.6% and import 56.3%. With Mexico the utilization rates are export 57.1% and import 53.8% (Fig. 26).

<There were comments indicating expected business expansion as a result of CETA (Comprehensive Economic and Trade Agreement) establishment between the EU and Canada>

- We are hoping that CETA will contribute to exports of aluminum to the EU. [Non-ferrous metals]
- We have high expectations for more opportunities as tariffs are reduced and restrictions are eased on the export of pork (when CETA is enacted). [Processed food, agricultural or fishery products]

\* Canada and the European Union (EU) reached an agreement for CETA in October 2013. It is planned to enter into force after being ratified in Canada.

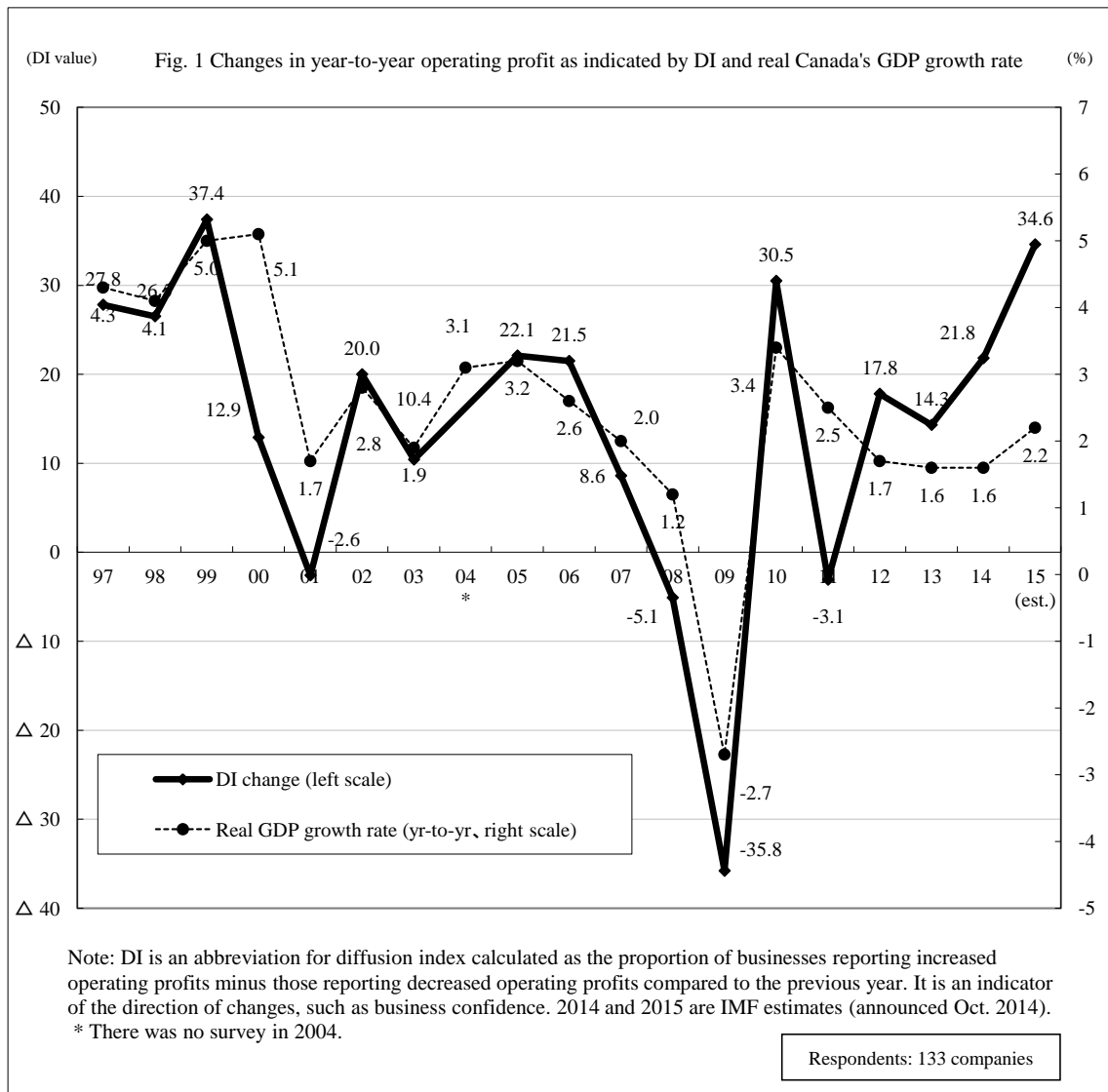
- Fields in which the markets are expected to grow in the next two or three years
- The Canadian markets expected to experience growth in the next few years selected by the respondents (up to a maximum of three fields), in order of frequency, were Shale gas/Shale oil (52.4%), Environment (42.1%), Medical (27.0%), Health (27.0%), and Cloud & mobile (storage, Big Data, mobile devices, SNS, etc.) (19.8%) (Fig. 27).

<There are signs that demand for environmentally-friendly products is growing in Canada>

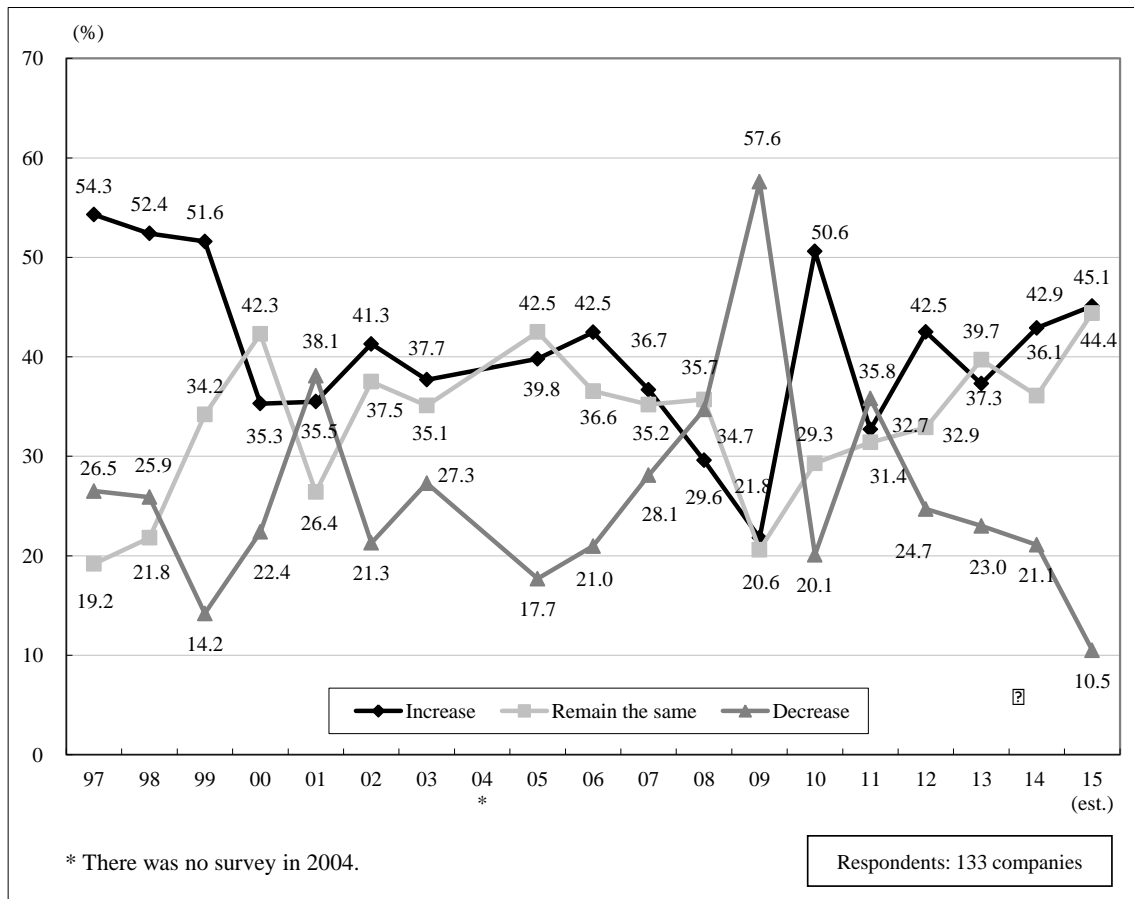
- The environmental standards for products have become stricter recently, so there seems to be a stronger demand (for environmentally-friendly products). [Precision machines and apparatuses]
- The keywords for the automotive industry are safety and peace of mind, so I think the demand for environmentally-conscious products is growing. [Transportation machines (cars and motorcycles)]
- The characteristics of aluminum make it something that contributes a lot to “eco” products. For example, the lighter cars have really increased demand, so we can see the increased demand for environmentally-conscious products. [Non-ferrous metals]
- There seems to be potential for eco-products, but the reality is that we are not there yet. [Processed food, agricultural or fishery products]
- At this point we don’t recognize any increased environmental consideration for automobiles. Of course the cars with good gas mileage sell, but that is directly related to gasoline prices. I don’t think there is any growing concern for the environment in Canada. [Transportation machines (cars and motorcycles)]



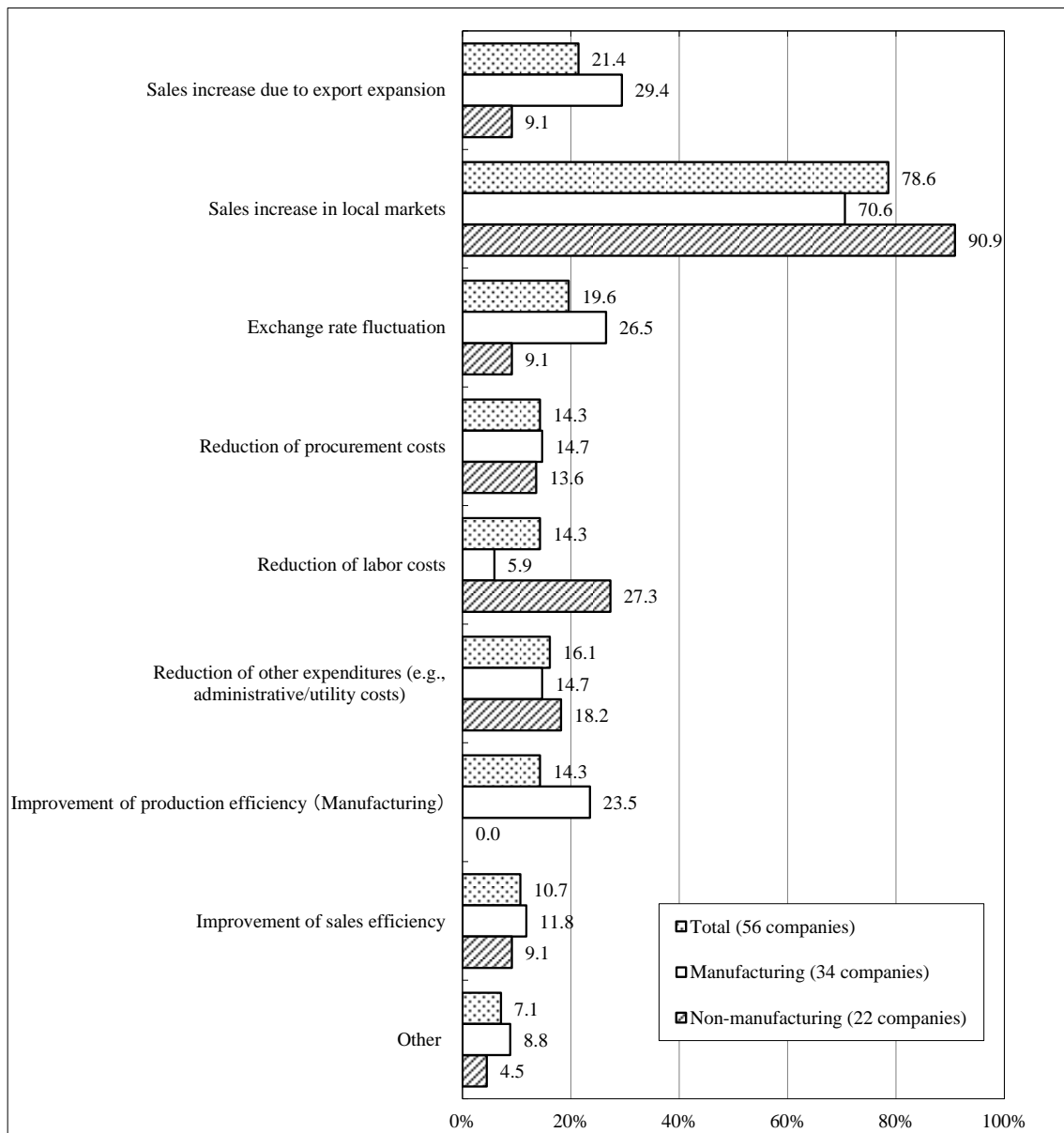
**Fig. 1: Changes in year-to-year operating profit as indicated by DI and real Canada's GDP growth rate**



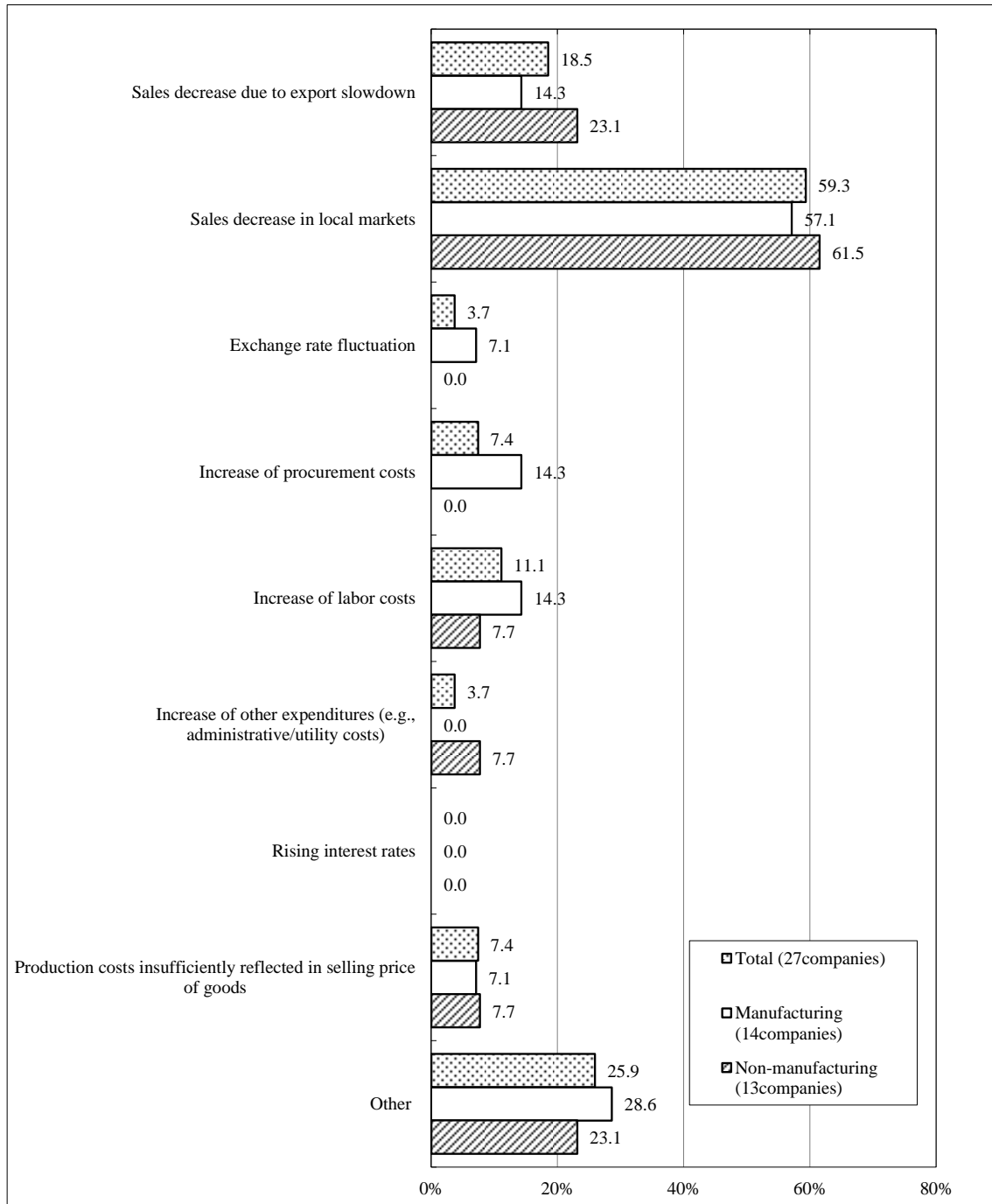
**Fig. 2: Year-to-year operating profit changes**



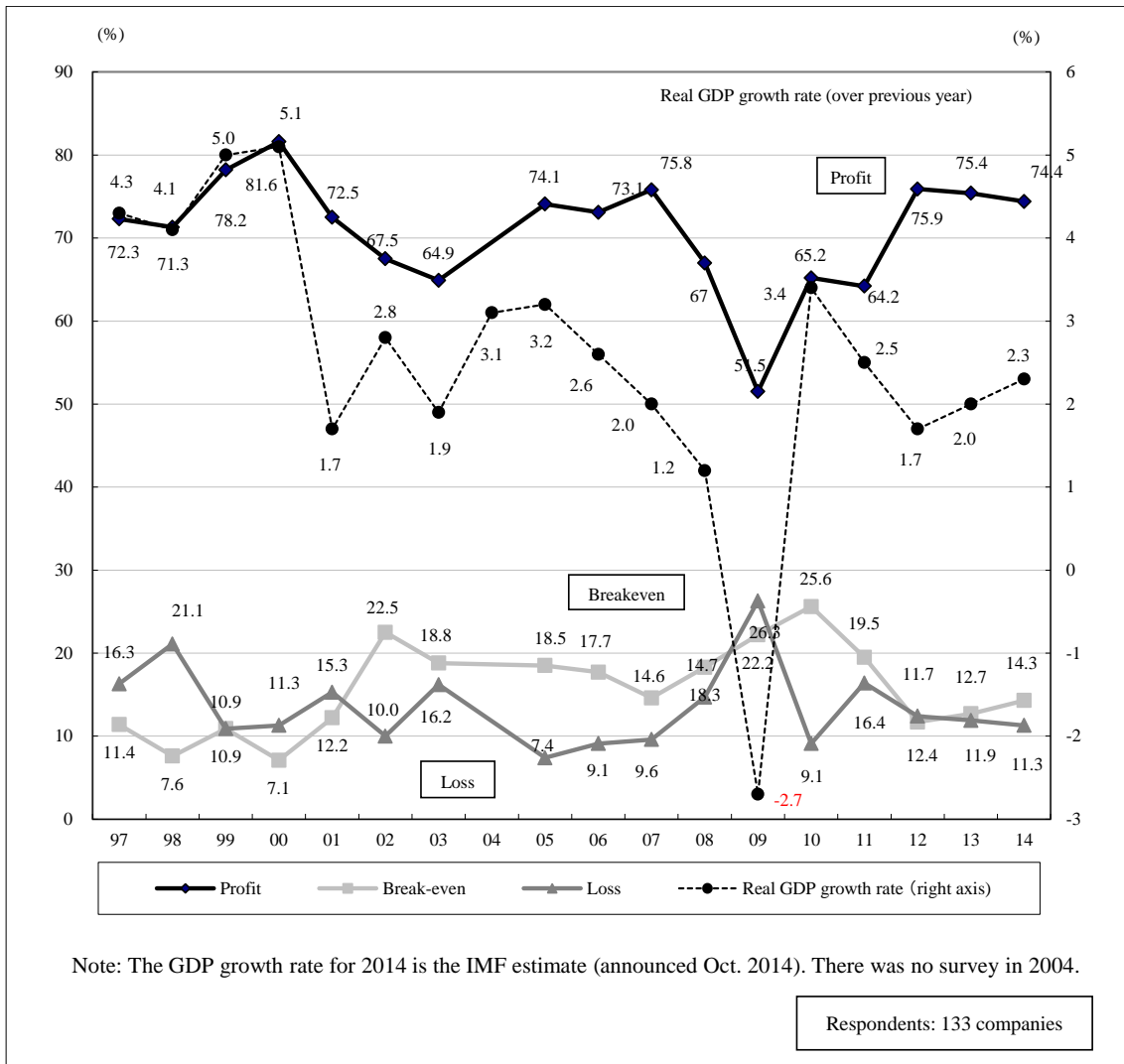
**Fig. 3: Reasons for increased operating profits forecast for 2014 (Multiple answers)**



**Fig. 4: Reasons for decreased operating profits forecast for 2014 (Multiple answers)**

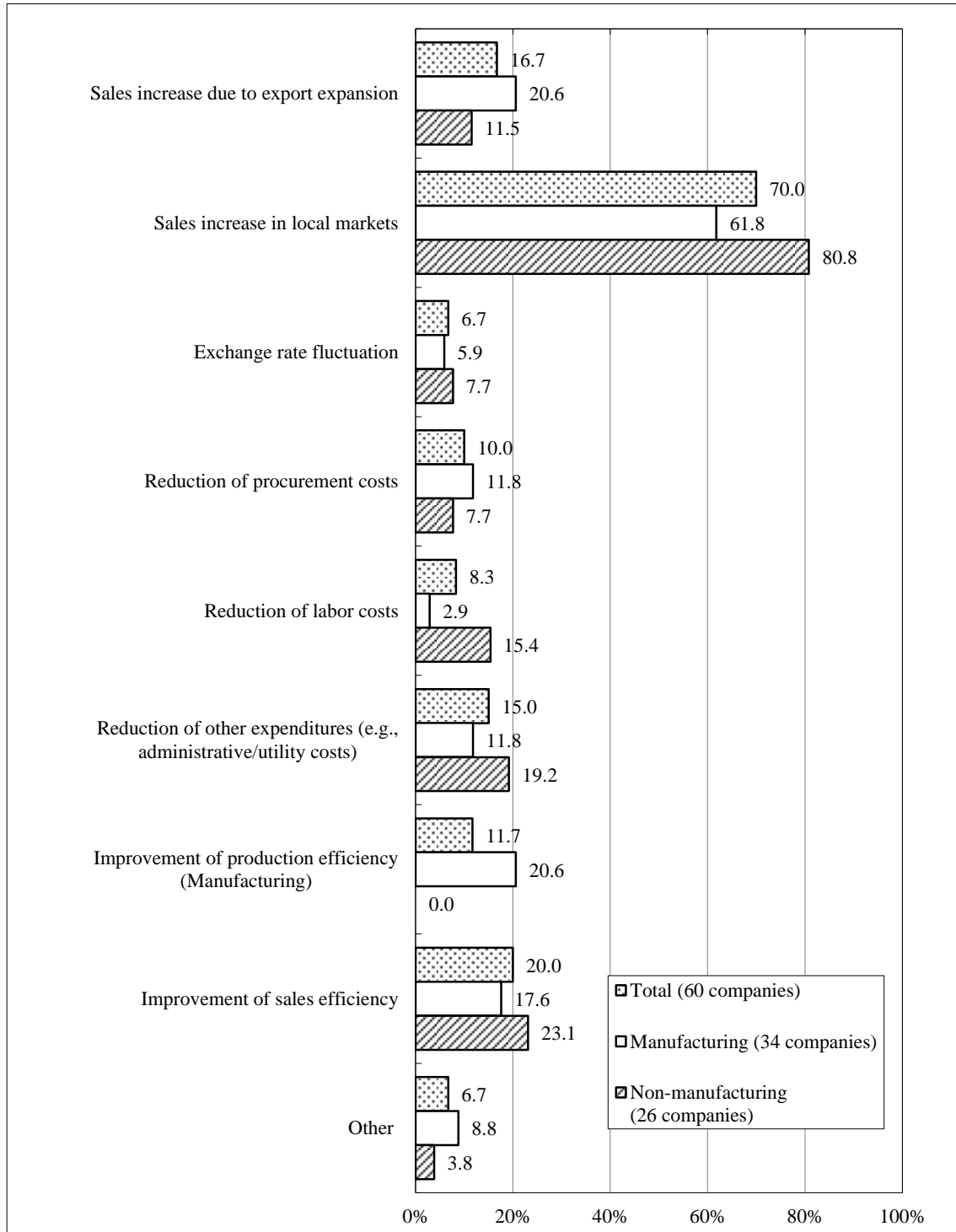


**Fig. 5: Changes in operating profit and Canada's real GDP growth rate**

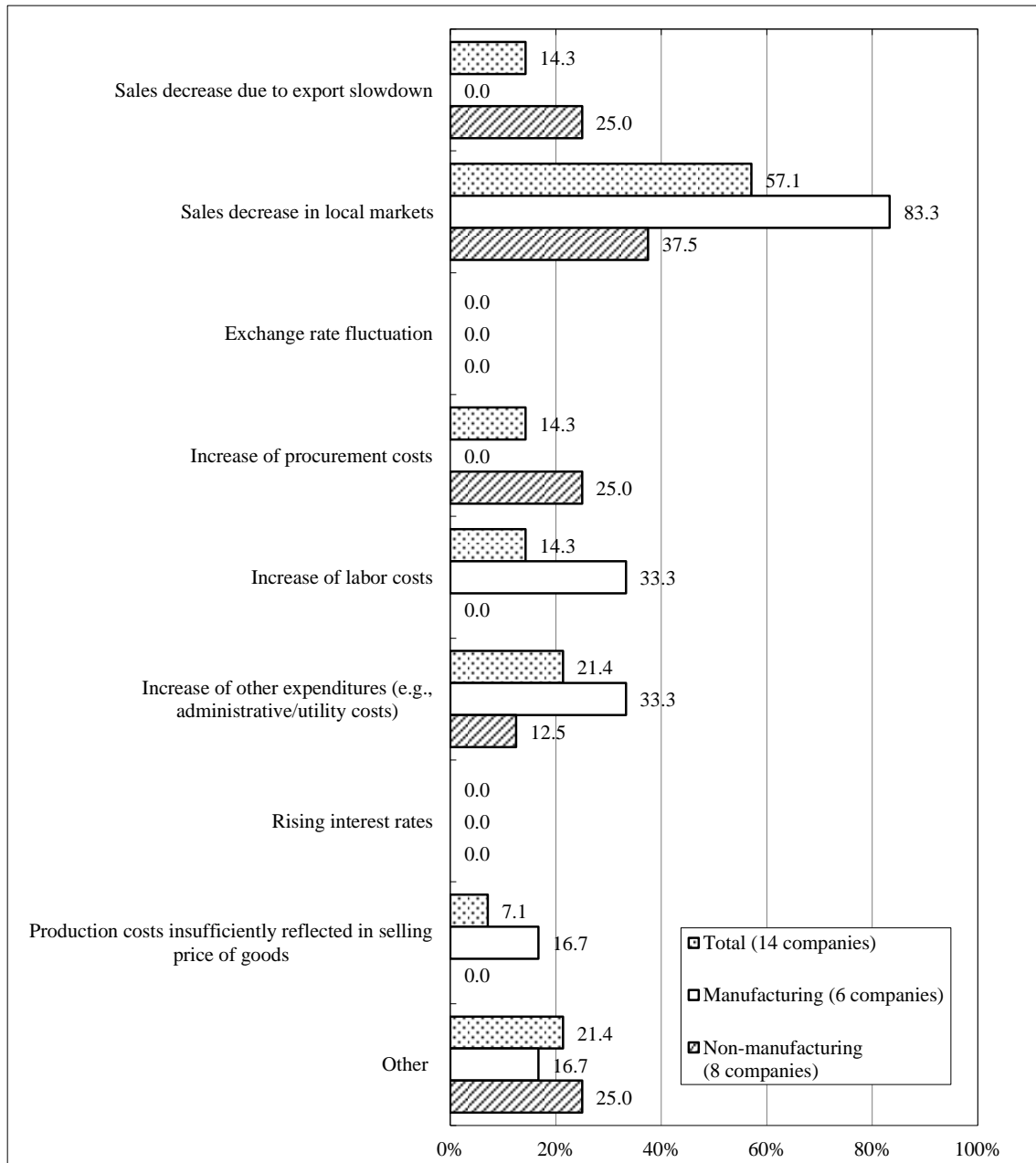




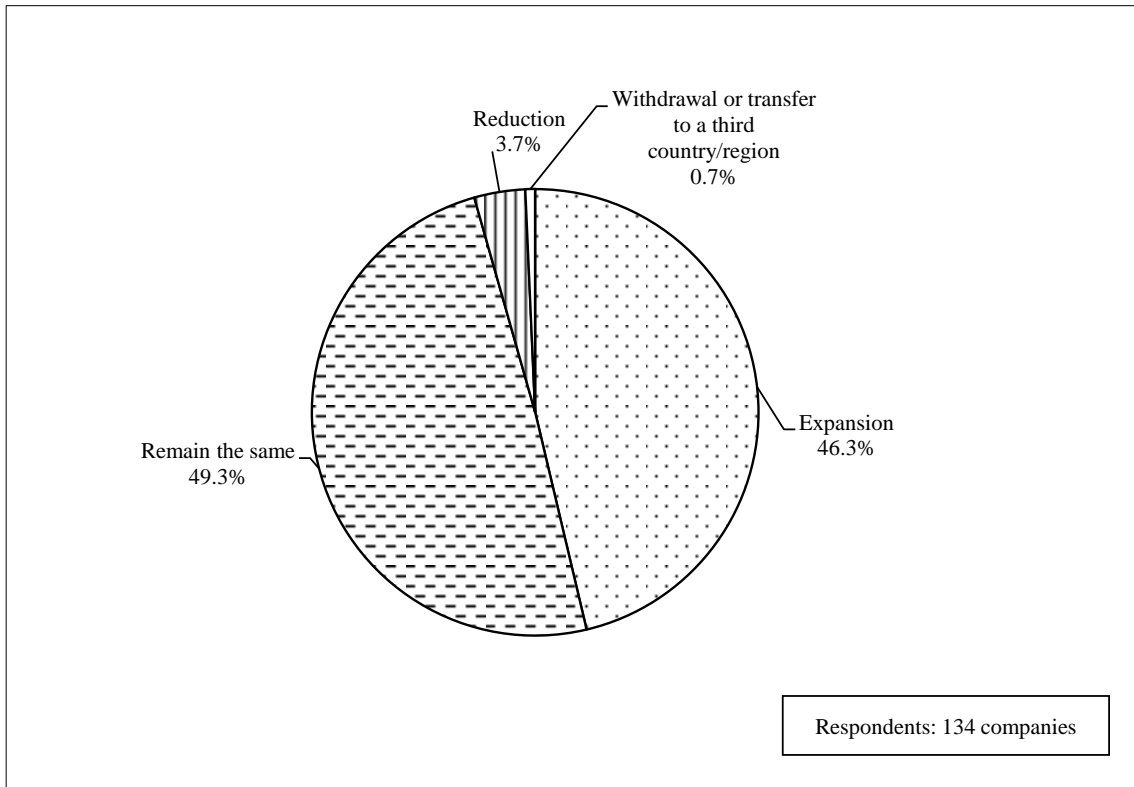
**Fig. 6: Reasons for increased operating profits forecast for 2015 (Multiple answers)**



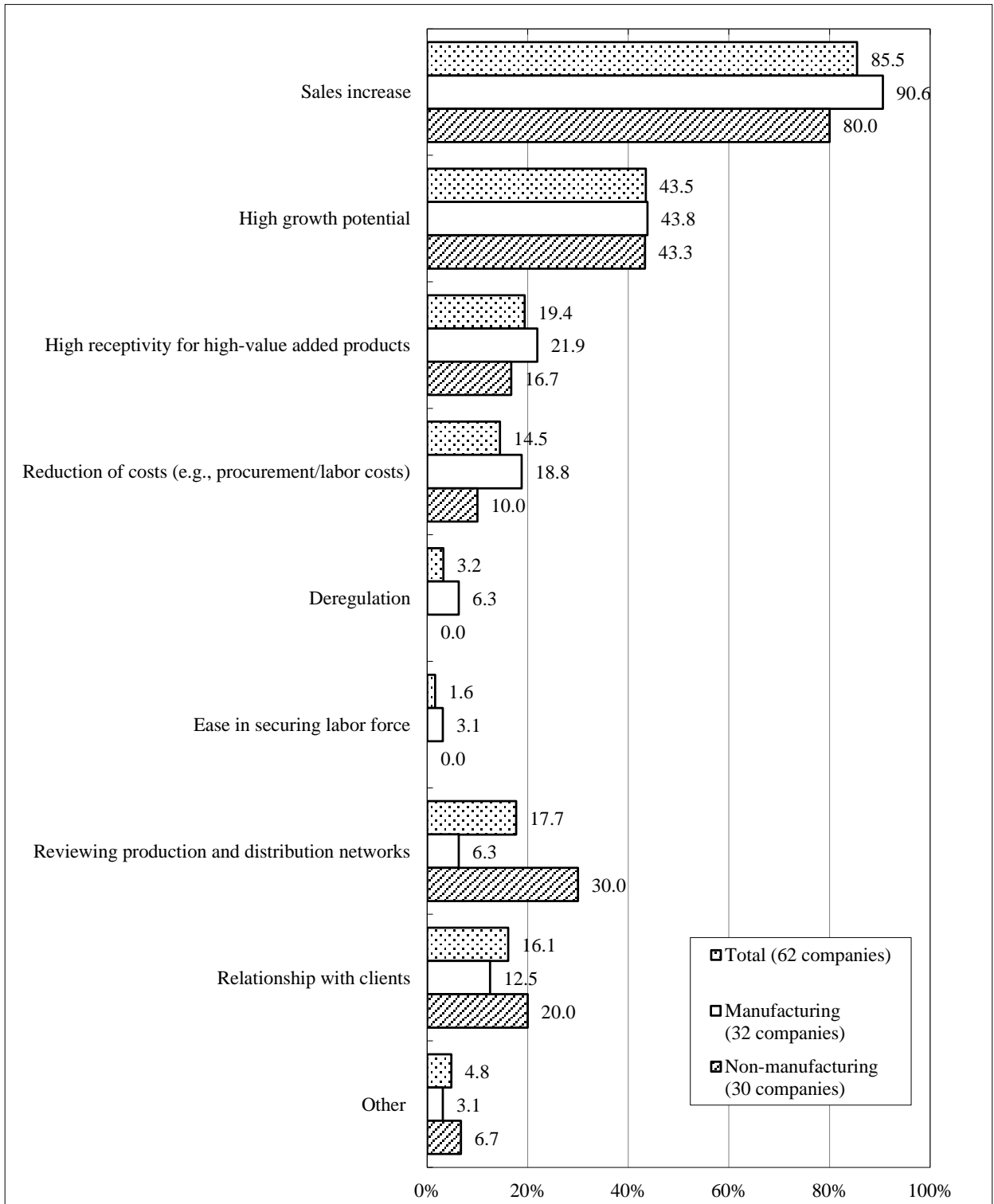
**Fig. 7: Reasons for decreased operating profits forecast for 2015 (Multiple answers)**



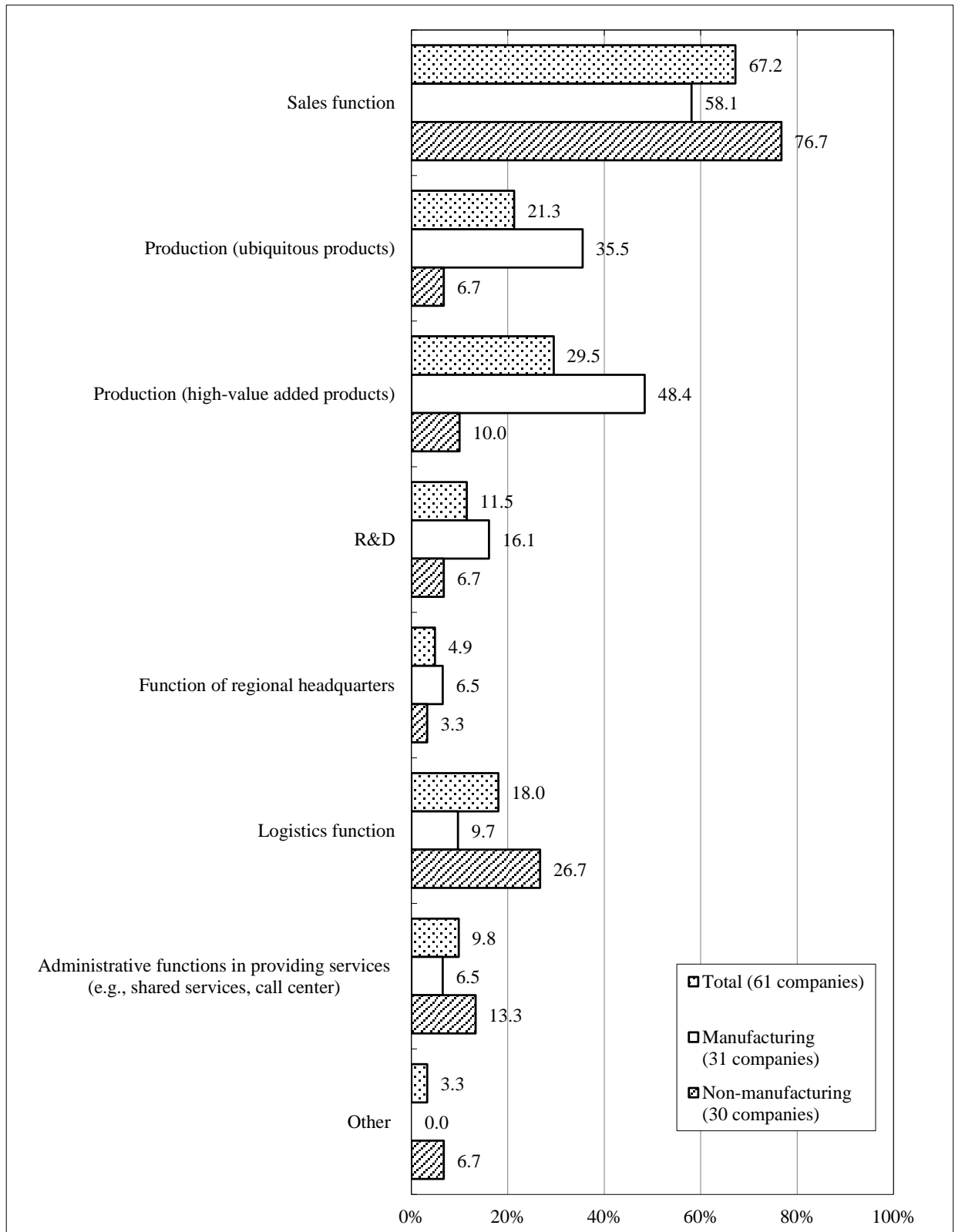
**Fig. 8: Business development in the next one or two years**



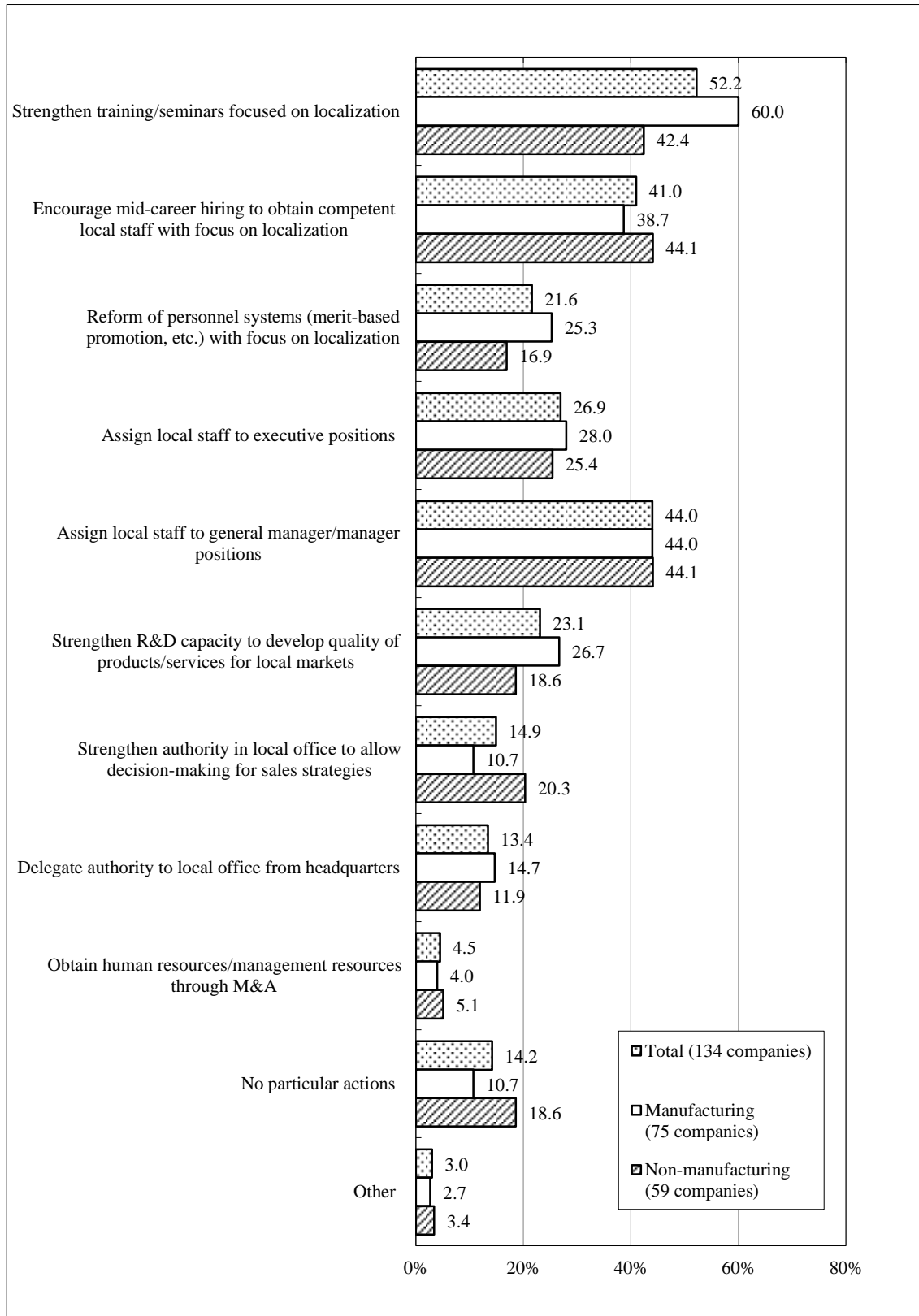
**Fig. 9: Reasons for the future business expansion in the next one or two years (Multiple answers)**



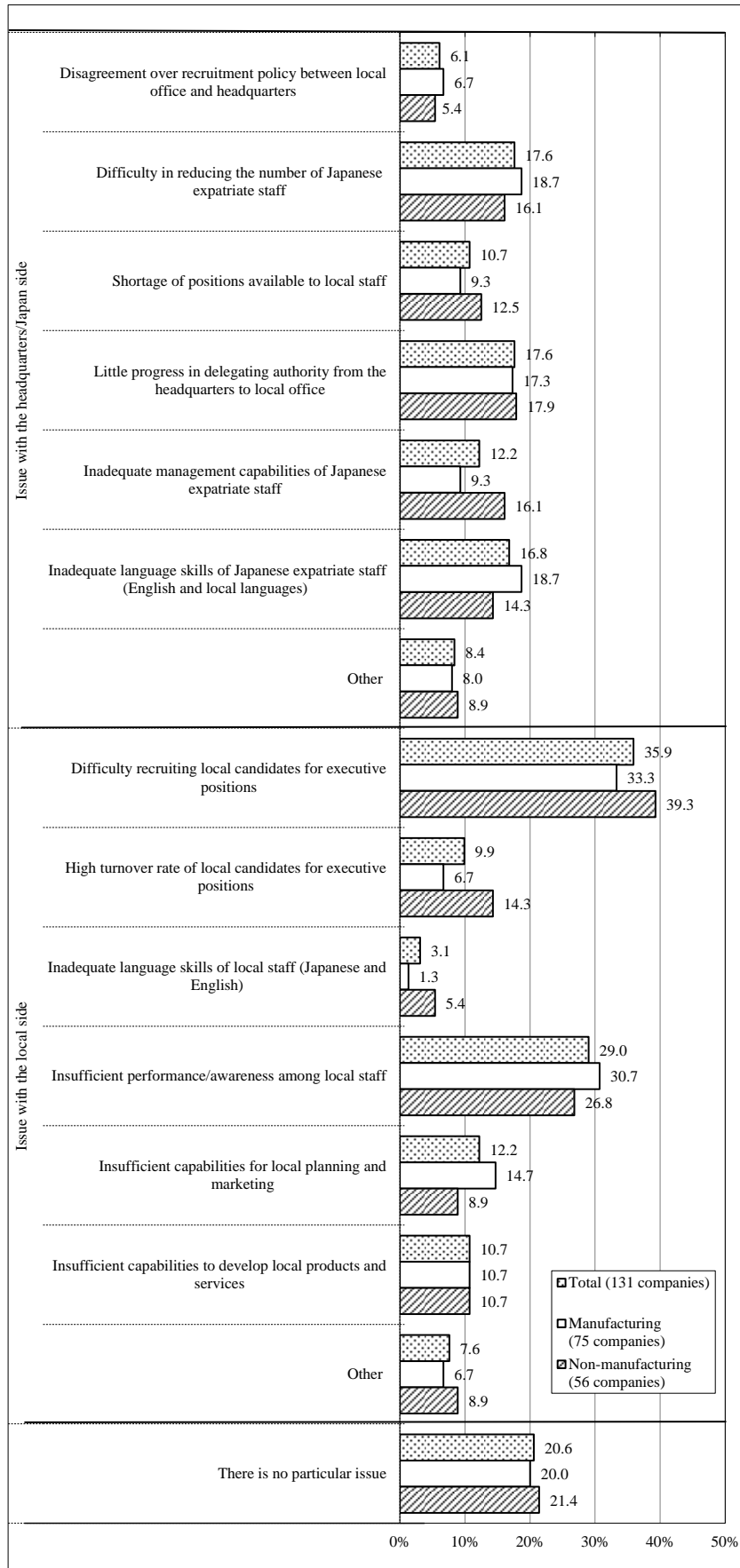
**Fig. 10: Expanding functions in case of business expansion in the next one or two years  
(Multiple answers)**



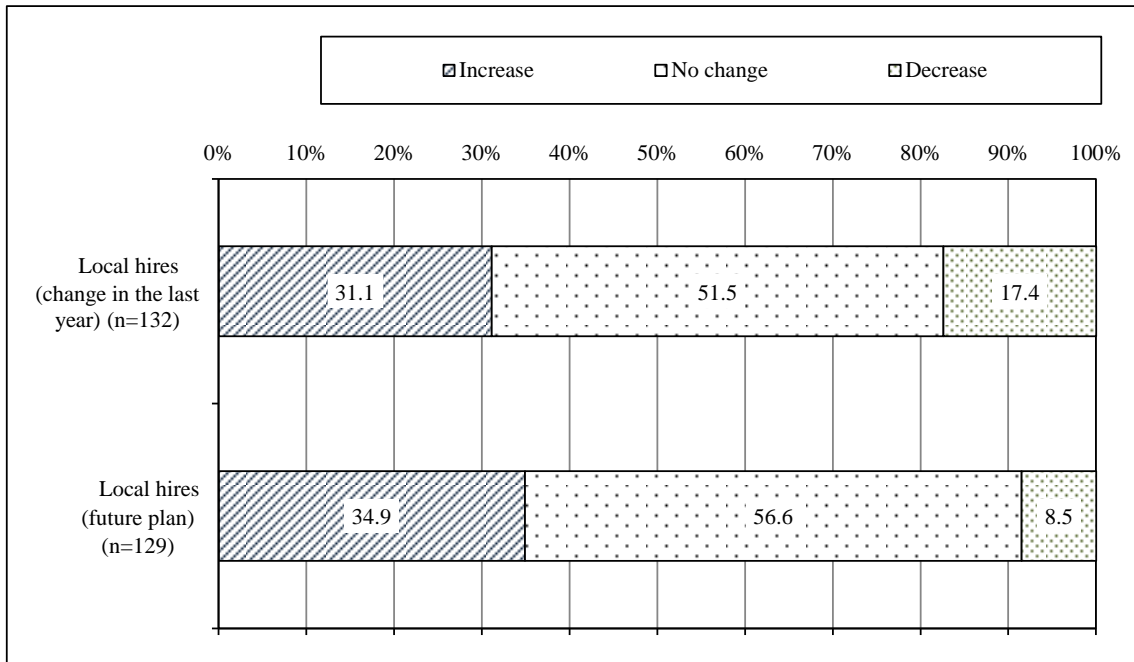
**Fig. 11: Measures to encourage localization of corporate management (Multiple answers)**



**Fig. 12: Issues faced in promoting management localization (Multiple answers)**

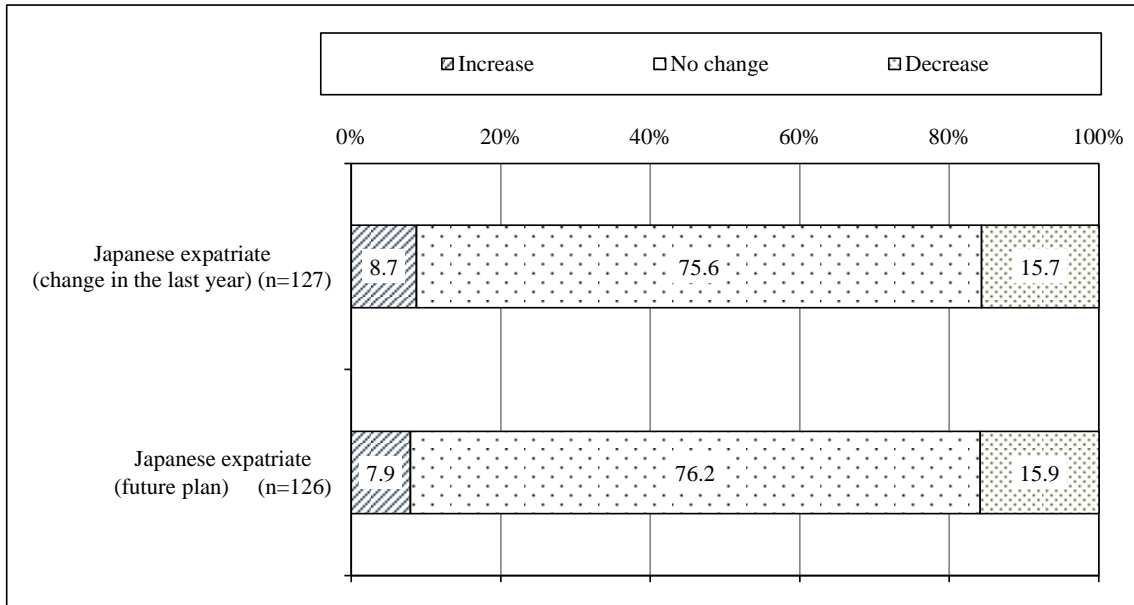


**Fig. 13: Changes in the last year and future plans for number of local employees**





**Fig. 14: Changes in the last year and future plans for number of Japanese expatriate staff**



**Fig. 15: Breakdown of product sale destinations (By country/region and industry)**

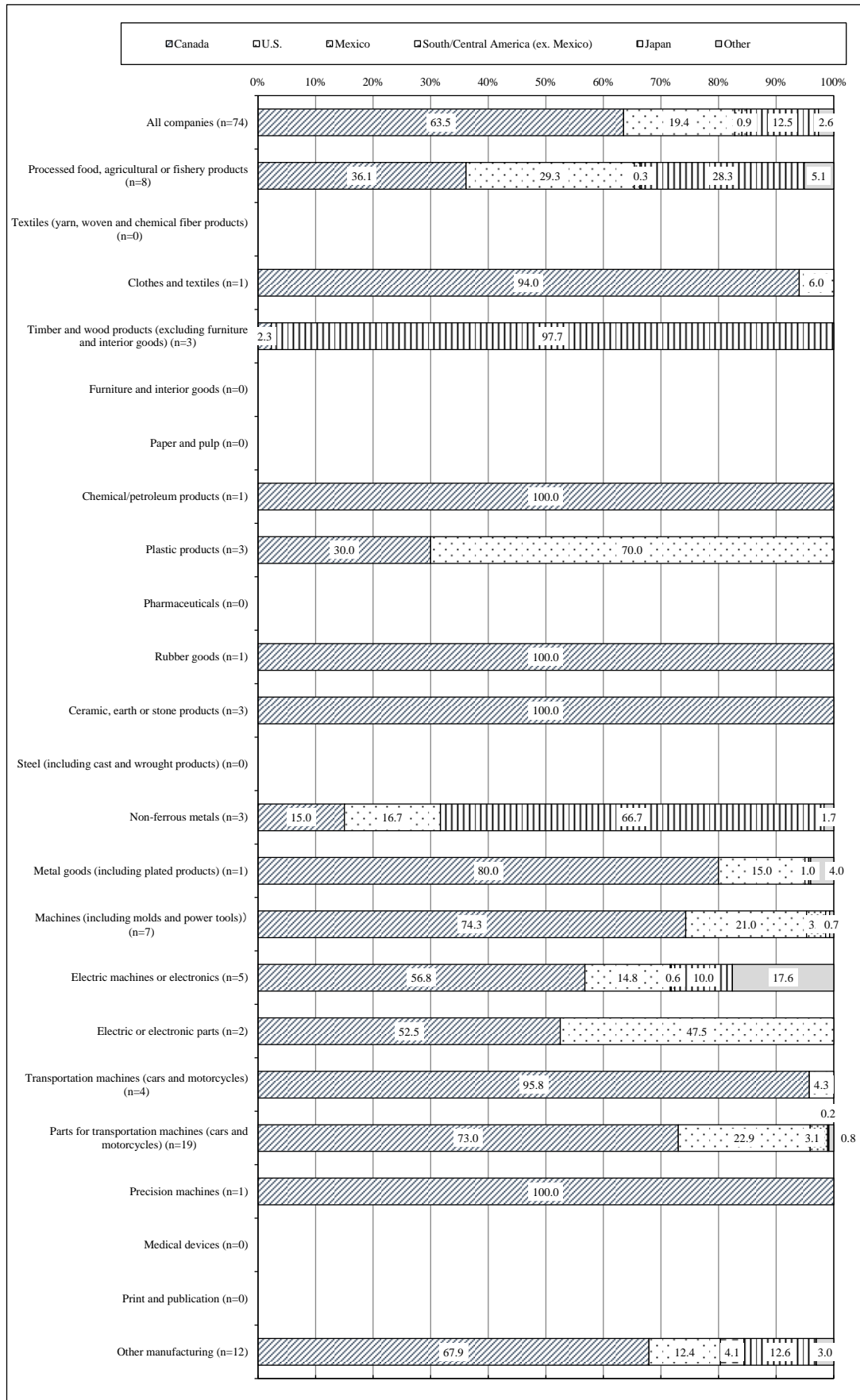
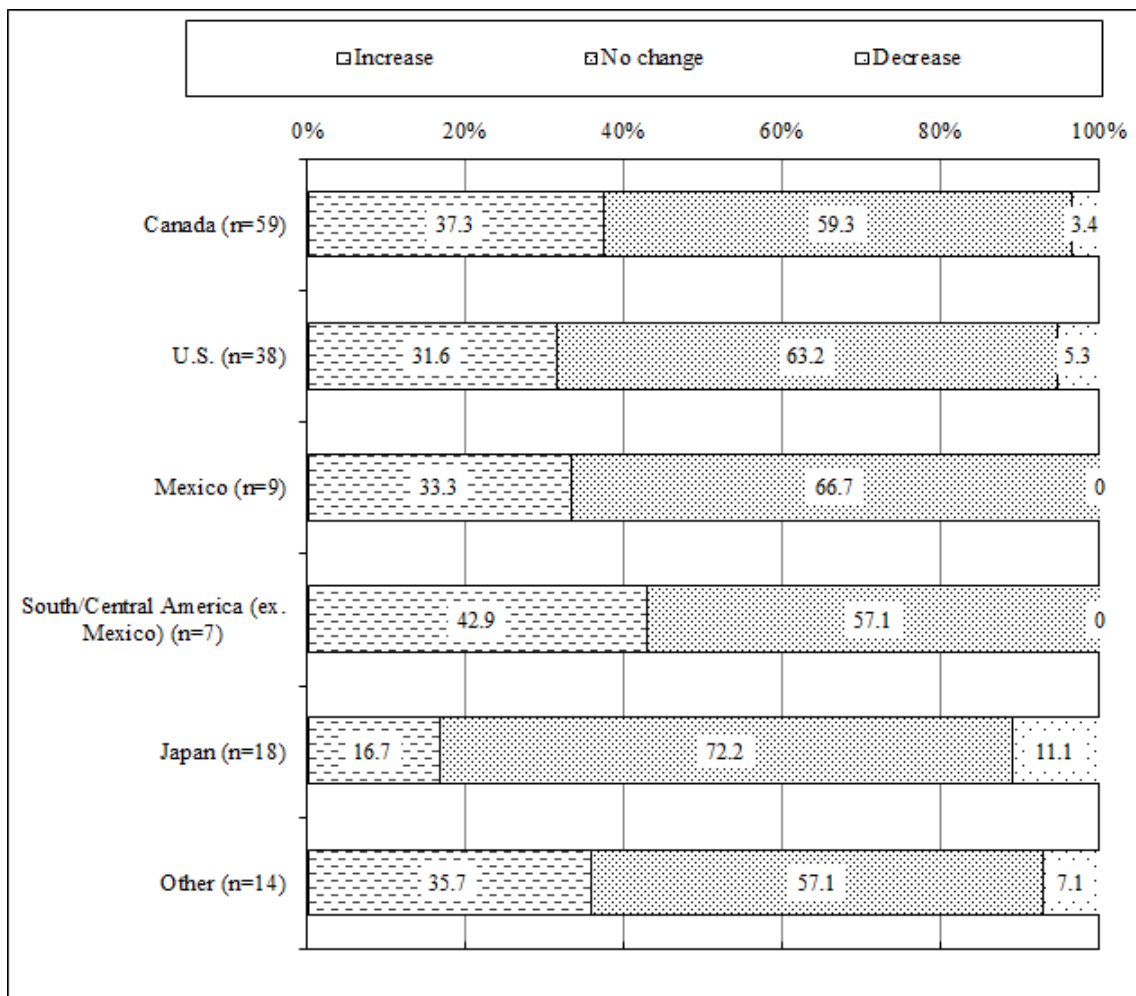
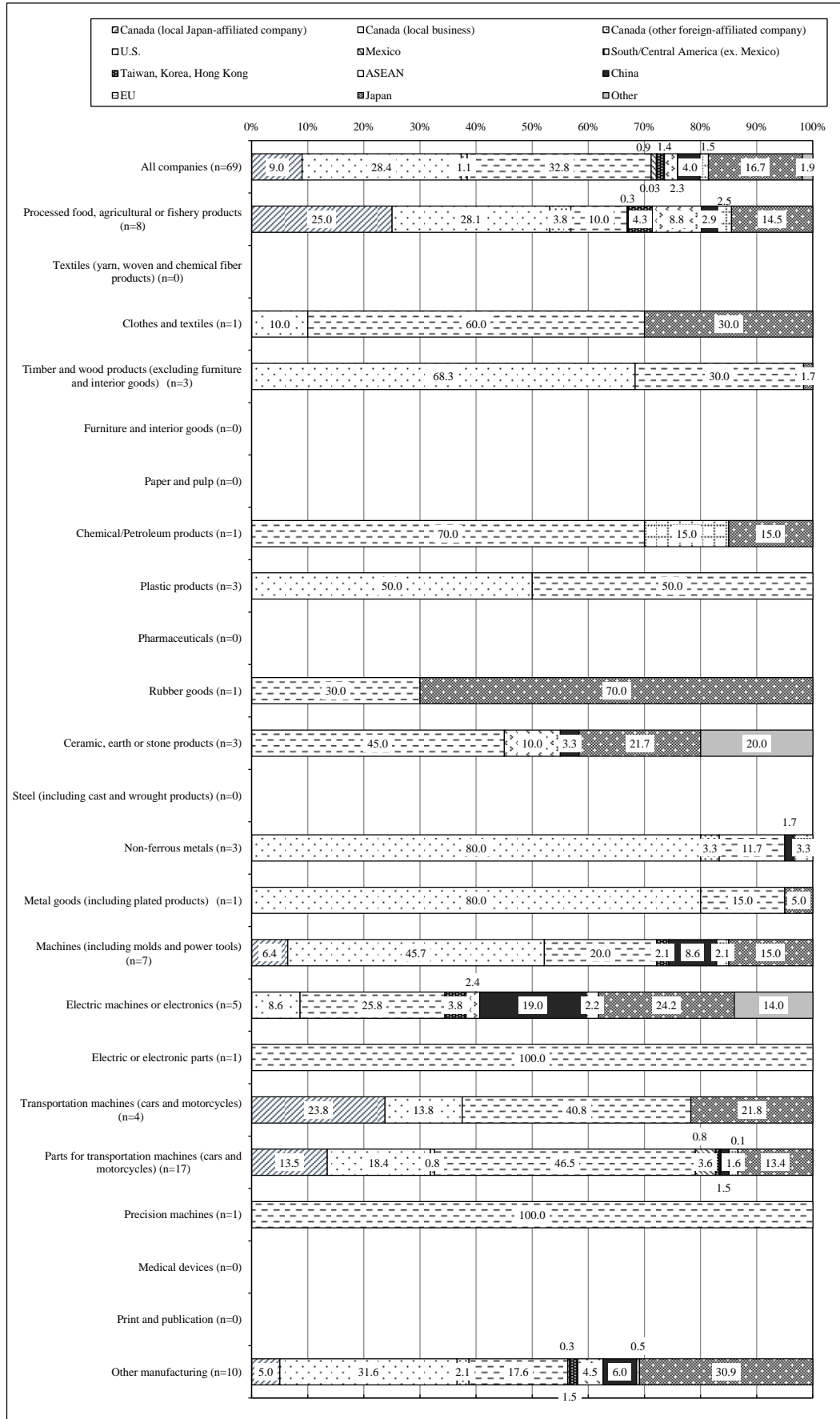


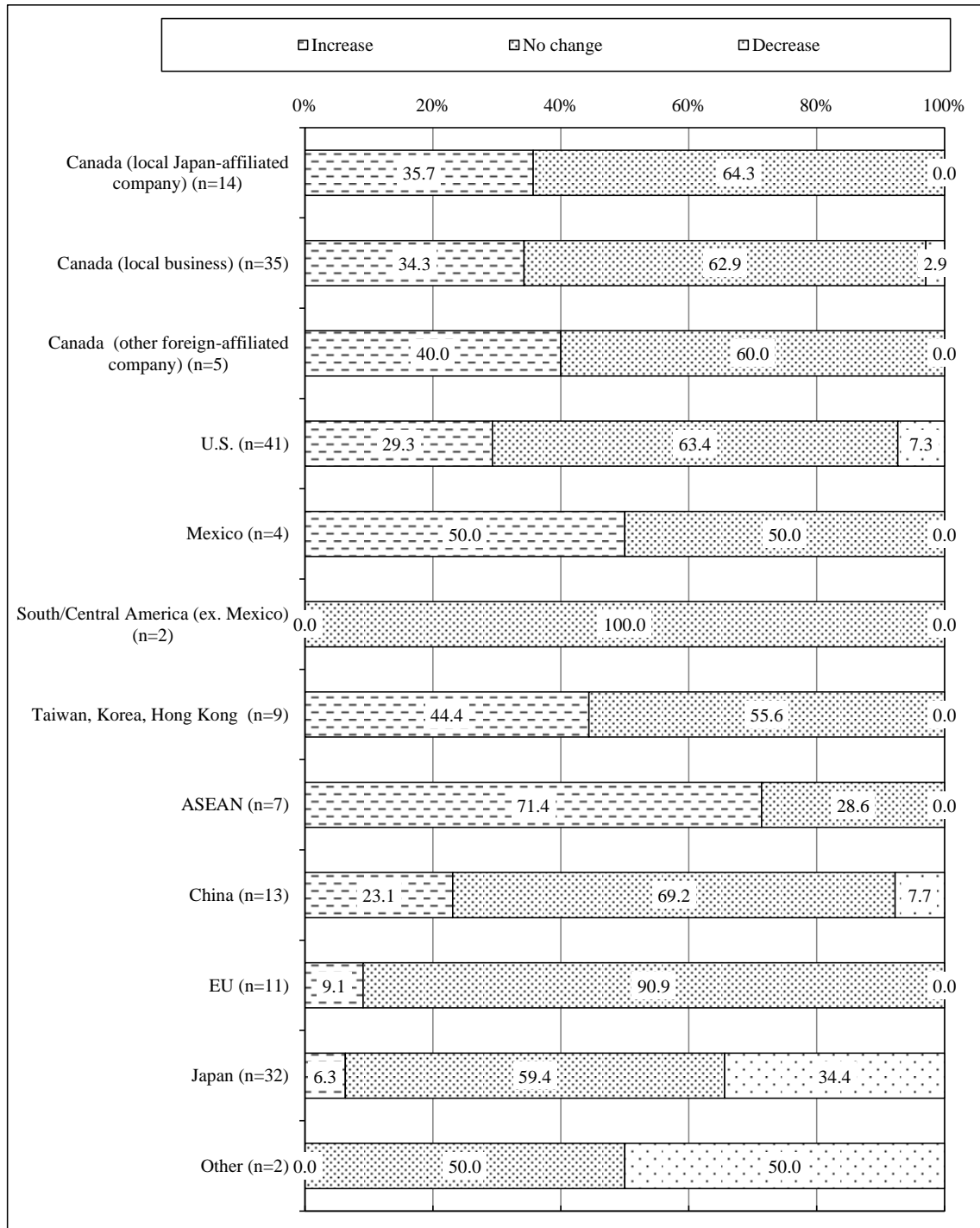
Fig. 16: Future plans for changes in product procurement destinations (by country/region)



**Fig. 17: Breakdown of material/parts procurement sources (By country/region and industry)**



**Fig. 18: Future plans for material/parts procurement sources (By country/region)**



**Fig. 19: Management challenges: Management problems in general (Multiple answers)**

Rank	Item	Respondents (118)	Rate (%)
1	Recruiting workers for management positions	39	33.1
2	Recruiting regular workers	38	32.2
3	Retention of workers	32	27.1
4	Recruiting engineers	26	22.0
5	Acquiring work visas for Japanese expats	23	19.5
6	Employment procedures	11	9.3
7	Labor union related disputes including strikes	6	5.1
8	Safety measures (for automobiles, food, medicines, etc.)	5	4.2
9	Assisting Japanese expats (e.g. acquiring driver's licenses, etc.)	3	2.5
10	Antitrust measures	2	1.7
	Other	27	22.9

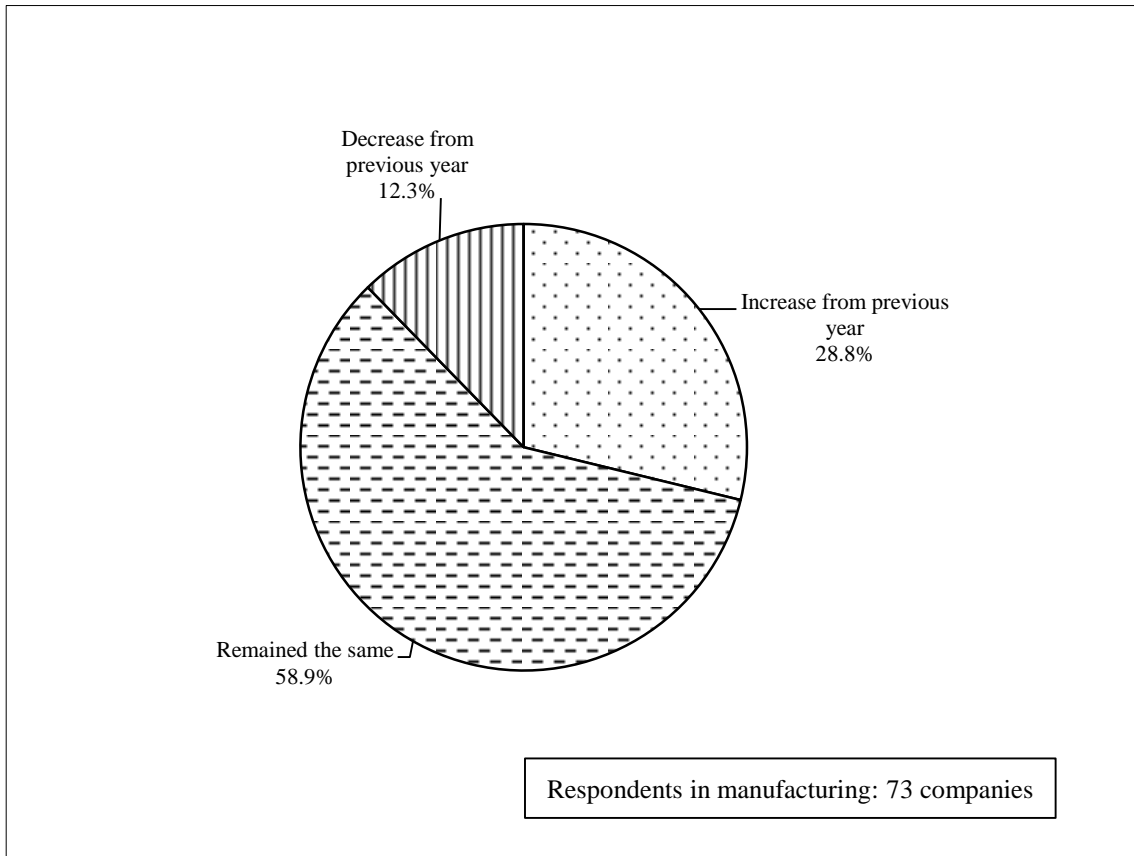
**Fig. 20: Management challenges: Factors for cost increases (Multiple answers)**

Rank	Item	Respondents (127)	Rate (%)
1	Increase in labor costs (including salaries and bonuses)	83	65.4
2	Canadian dollar/U.S. dollar exchange risk	64	50.4
3	Increase in raw material, natural resource and commodity prices	45	35.4
4	Increase in transportation costs (including gasoline price)	42	33.1
5	Yen/Canadian dollar exchange risk	31	24.4
6	Increase in healthcare costs	18	14.2
7	Increase in costs due to tightened regulations on distribution/logistics	14	11.0
8	Increase in financing costs	13	10.2
9	Legal work-related costs (compliance-related matters)	12	9.4
10	Increase in tax	8	6.3
11	Visa application costs	7	5.5
12	Labor management costs (labor disputes/lawsuits)	4	3.1
	Other	9	7.1

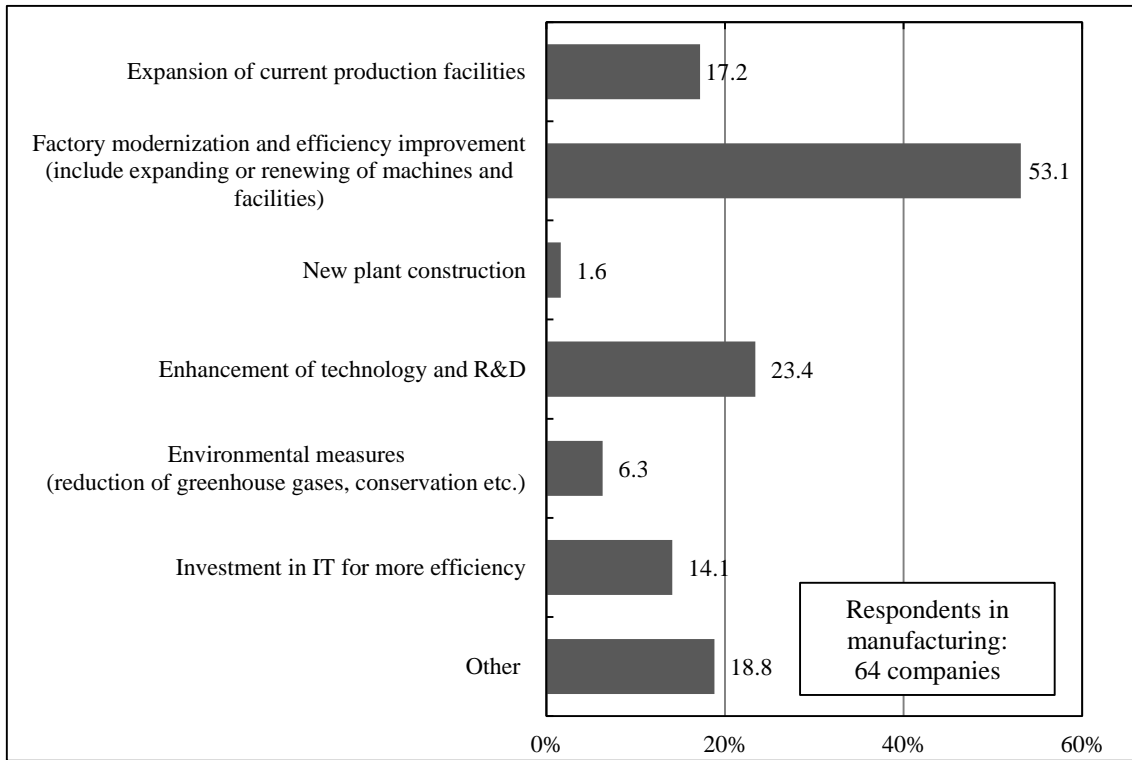
**Fig. 21: Management challenges: Factors for weak sales (Multiple answers)**

Rank	Item	Respondents (119)	Rate (%)
1	Severe price competition	95	79.8
2	Difficulty in differentiation from competitors	54	45.4
3	Popular products from competitors	46	38.7
4	Difficulty expanding sales channels	40	33.6
5	Low awareness of company's products and technologies	16	13.4
6	Approval and authorization system for product sales in Canada (e.g., safety standards, the Buy Canadian rules)	11	9.2
7	Increase in prices of products exported to the U.S. due to strong Canadian dollar	10	8.4
8	Pirated or counterfeit products	9	7.6
9	Decrease in sales and disruption of distribution channels due to natural disasters	4	3.4
10	Approval and authorization system for product sales in the U.S. (e.g., safety standards, the Buy American rules)	1	0.8
	Other	7	5.9

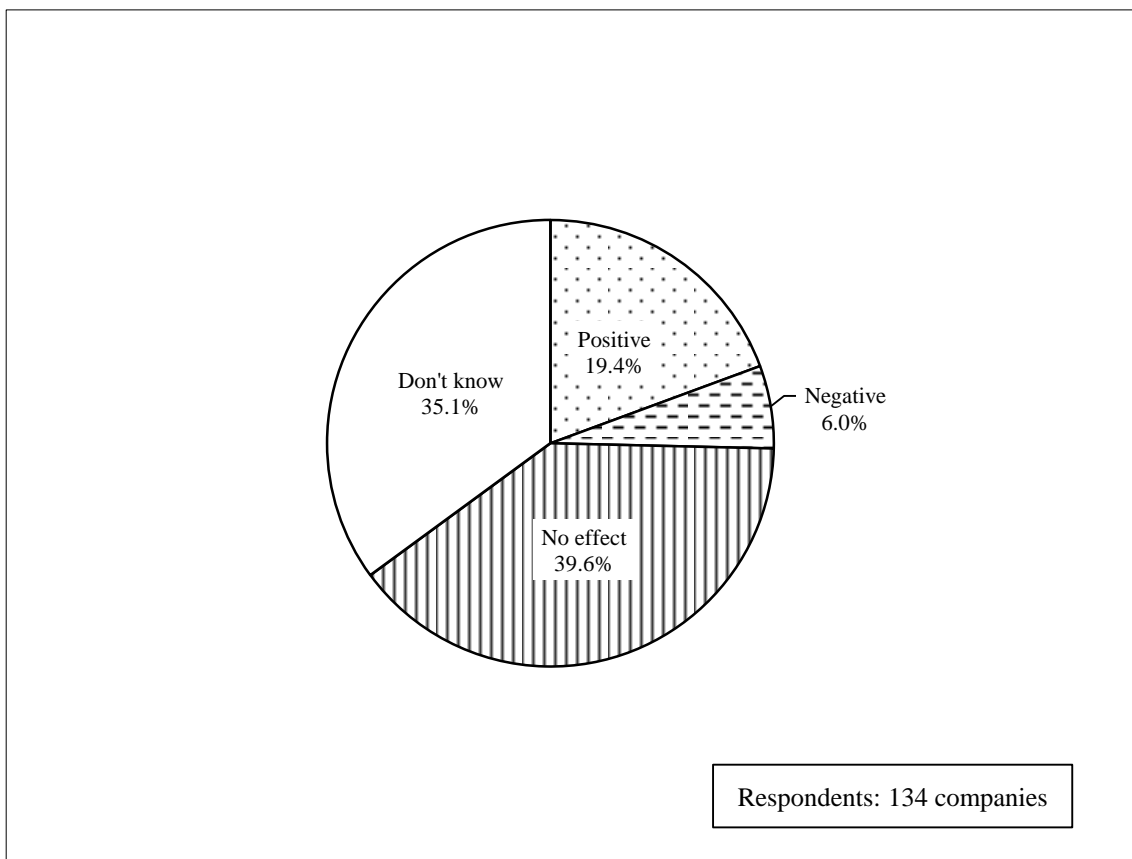
**Fig. 22: Changes in capital investment in 2014, compared to 2013**



**Fig. 23: Usage of capital investment in 2014 (Multiple answers)**

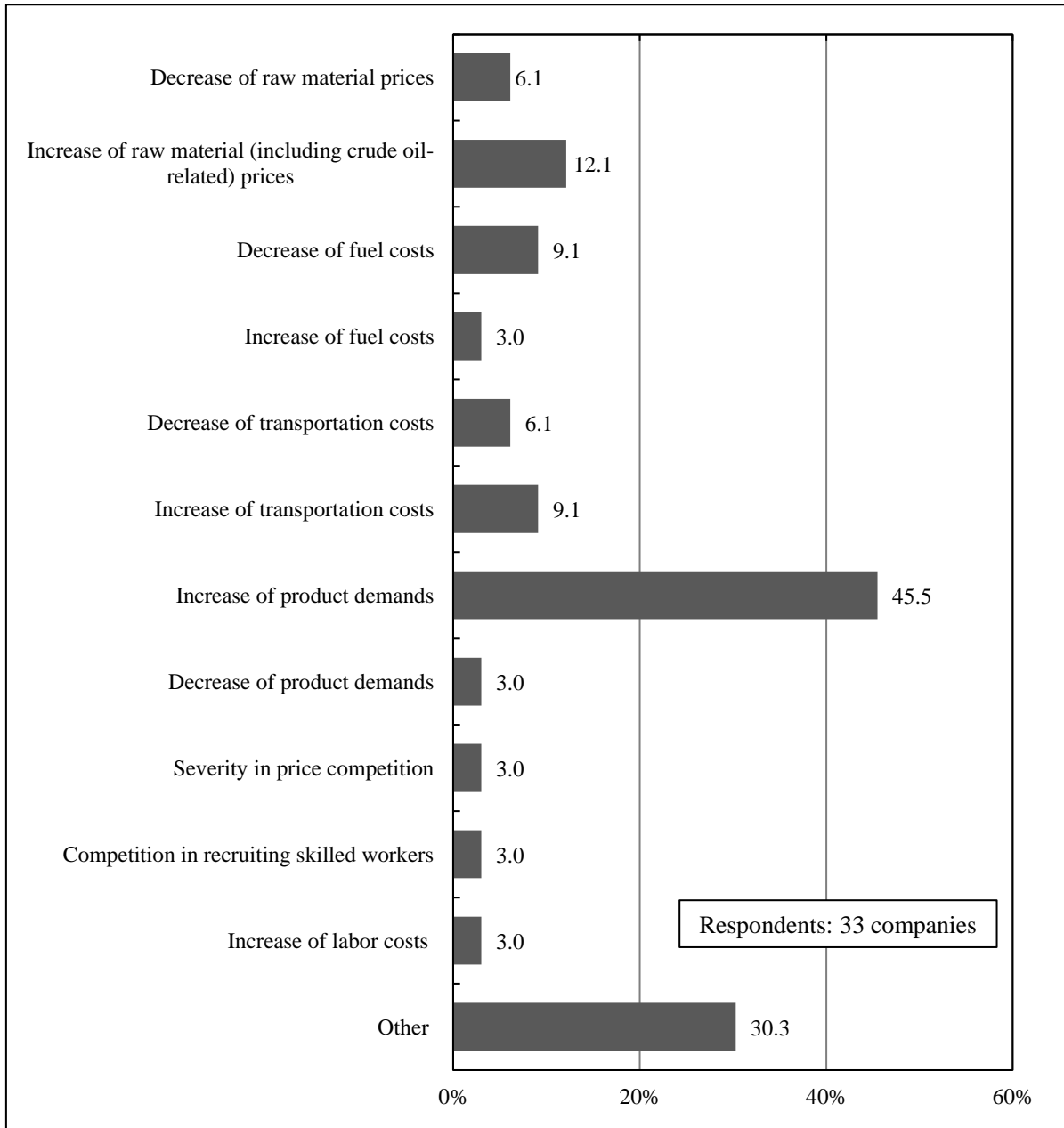


**Fig. 24: Effect of the North American shale revolution on business**





**Fig. 25: Specific effect of the shale revolution on business (Multiple answers)**



**Fig. 26: Bilateral/Multilateral FTA utilization**

	For <b>Exports</b> , do you make use of /are you investigating the use of FTA preferential tariffs?				For <b>Imports</b> , do you make use of /are you investigating the use of FTA preferential tariffs?			
	No. of valid responses	Using	Studying use	Not using (not planned)	No. of valid responses	Using	Studying use	Not using (not planned)
U.S.	54	30 <b>55.6%</b>	5 <b>9.3%</b>	19 <b>35.2%</b>	64	36 <b>56.3%</b>	9 <b>14.1%</b>	19 <b>29.7%</b>
Mexico	14	8 <b>57.1%</b>	0 <b>0.0%</b>	6 <b>42.9%</b>	13	7 <b>53.8%</b>	2 <b>15.4%</b>	4 <b>30.8%</b>
Chile	5	2 <b>40.0%</b>	0 <b>0.0%</b>	3 <b>60.0%</b>	2	0 <b>0.0%</b>	0 <b>0.0%</b>	2 <b>100.0%</b>
Costa Rica	1	1 <b>100.0%</b>	0 <b>0.0%</b>	0 <b>0.0%</b>	0	0	0	0
Peru	2	0 <b>0.0%</b>	0 <b>0.0%</b>	2 <b>100.0%</b>	2	0 <b>0.0%</b>	0 <b>0.0%</b>	2 <b>100.0%</b>
Colombia	3	1 <b>33.3%</b>	0 <b>0.0%</b>	2 <b>66.7%</b>	1	0 <b>0.0%</b>	0 <b>0.0%</b>	1 <b>100.0%</b>
EFTA	0	0	0	0	2	2 100.0%	0 0.0%	0 0.0%
Panama	1	1 <b>100.0%</b>	0 <b>0.0%</b>	0 <b>0.0%</b>	0	0	0	0
Israel	2	0 <b>0.0%</b>	0 <b>0.0%</b>	2 <b>100.0%</b>	0	0	0	0
Jordan	0	0	0	0	0	0	0	0

\* U.S. and Mexico are member states of the North American Free Trade Agreement (NAFTA)

\* European Free Trade Association (EFTA) = Iceland, Norway, Switzerland, Liechtenstein

**Fig. 27: Industries for which the market is most likely to grow in the next few years  
(Max. 3 answers)**

