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Analysis of American and Canadian Cross Border Business Expansion in the Pacific Northwest

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ABSTRACT

American and Canadian markets rely on each other greatly, given the volume of trade that exists between the two nations. Companies of both nationalities see opportunity in business growth by accessing the market and establishing a physical presence in the other country. American firms which expanded into the Lower Mainland in British Columbia and Canadian firms which expanded into Whatcom County in Washington State were surveyed to identify reasons for, and obstacles to expansion. Canadian companies cited strategic value and benefits of proximity to British Columbia. American companies cited strategic positioning and labor availability as benefits in the expansion process. Obstacles for Canadian expansion included hiring and securing a quality workforce and issues with crossing the border. American companies experienced issues with Canadian government regulations, although these issues were not severe. Other obstacles provided a similar level of difficulty for both nationalities. Economic impact of these expansions is significant. Extrapolating from the sample data collected, calculations for all the Canadian expansions suggest they provide approximately US\$409 million in gross sales and employ approximately 3,900 people in Whatcom County. Again extrapolating from the sample data, calculations for all the American expansions show they generate approximately US\$705 million in gross sales and employ approximately 9,100 people in the Lower Mainland.

INTRODUCTION

A common border is shared by Whatcom County, in the northwest corner of the state of Washington, and the Lower Mainland of British Columbia. The U.S. and Canada share commonalities in beliefs and backgrounds allowing for cross border relations to flourish. Furthermore, there are no natural barriers separating the two geographic regions, which has enabled significant growth to occur, resulting in considerable integration in the cross border region.

A number of events have taken place recently to affect cross border businesses in Canada and the U.S., the most notable being the September 11th terrorist attacks in 2001, which caused a revamp of security measures on North American borders. Other events include several border programs designed to aid in expediting border crossings. NEXUS and FAST are such programs, which allow access to restricted lanes or make arrangements for faster cargo inspection. The Canada-U.S. Free Trade Agreement was implemented in 1989, followed by the

North American Free Trade Agreement (NAFTA) in 1994, allowing for businesses to establish more efficient trade between North American countries by eliminating tariffs and duties collected on goods passing over the border. The Canada-U.S. Free Trade Agreement induced an increase in Canadian and American business direct investment in each other's country. As of 1998, most trade tariffs had been eliminated between the U.S. and Canada.

Canada is a vital trading partner for the U.S., as is the U.S. for Canada. Both countries are each other's largest trading partner. Geographical proximity and similar values make for a highly compatible relationship. In 2006, exports from Canada to the U.S. amounted to US\$316,794 million and imports amounted to US\$191,863 million. In comparison, during that same year, the combined trade of Canada with all other countries except the U.S. amounted to US\$71,336 million in exports and US\$157,797 million in imports. [1]

A business must see significant value in international expansion to pursue this course of action. The primary question concerning expansion across a border is what a foreign business expanding into a host country can do that a native business within that host country cannot. International business expansion is certainly not easy to pursue. Determination of the "tipping point" where a company sees potential value

beyond the expected difficulty and cost would be a valuable tool for estimating how much business can be expected to locate across an international border.

The next step is to quantify the impact to the local area when a foreign business does expand across the border. The region would experience an increase in employment opportunities and augmented tax revenues. Ancillary businesses offering products and services to the company and its employees would also benefit from the increase in spending on goods and services.

Public policy will need to be shaped to best manage this type of growth. Understanding the obstacles to and reasons behind international business expansion is important to formulating policies that will be effective and beneficial. Extra factors need to be addressed, specifically in regard to border crossings for employees and cargo. Impeding legitimate business activities can be damaging to economies as well as damaging to international relations between the U.S. and Canada. Given that each country is a major trading partner to the other, relations need to be harmonious for mutual benefit.

PREVIOUS RESEARCH

Several research projects have studied companies doing business across the Canada/U.S. border in the mid-west and eastern regions of North America.

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One study examined American and Canadian businesses importing raw material and exporting finished product. MacPherson and McConnell examined the flow of products over the border in the Niagara Frontier region of Southern Ontario and Western New York. [2] The results of this survey suggest Canadian companies have been more negatively impacted than U.S. companies by border security efforts. Areas of effect include "...negative export effects, increased import prices, additional security compliance costs, and trade disruption (e.g., traffic diversion)." Three-fourths of Canadian companies claimed the border security measures created negative export effects while only a fourth of American companies made the same claim.

A second study focused on the border itself preceding and following the 9/11 terrorist attacks. Globerman and Storer discussed how border policy can affect the amount of trade across the border. [3] They conclude that the effect of increased border security imposes higher costs on moving goods over the border while slowing transport. This "benefit" of increased security causes economic issues given the amount of trade between Canada and the U.S. Additional barriers placed on the border to slow or impede trade would negatively affect the economies of both countries, although Canada's economy would experience a more negative effect than the U.S. economy.

A third study examined Canadian investment within the U.S. Kasoff, Benedict, and Lauer performed a survey of Canadian owned manufacturing firms in Ohio. [4] Findings in the survey showed an increase in investment since 1972, and acceleration in the rate of investment after passage of the Canada-U.S. Free Trade Agreement in 1988. Additionally, nearly three-fourths of the investment companies have experienced increased employment since the initial start-up of operations. This study suggests the important investment considerations for a Canadian company planning to invest in a U.S. company are nature of the industry, proximity of the parent firm, and size of the firm. Close proximity is important, especially for small to medium sized firms, where the parent company can more readily provide support to the expansion operation located in the U.S.

Further research into Canadian investment within the U.S. was conducted by Gandhi and Glass. [5] Their research took the form of a mailed survey to 243 Canadian-owned companies within the U.S. The companies chosen were located in the states of New York (116), Vermont (14), Ohio (98) and Washington (14). The questionnaire inquired about the demographics of the company, the attractiveness of the expansion site, satisfaction with the expansion, and attitude of Canadians towards the U.S. Companies cited access to the U.S.

market as the most important reason for expansion at the macro level. Proximity to the main office in Canada was the second most cited reason. A micro level analysis showed proximity to the parent organization and access to highways as the main reasons for expansion. Incentives offered for business growth in the host states were questionable as to their effectiveness. Gandhi and Glass advised economic development agencies to re-evaluate their incentives to attract Canadian companies to the area. Proximity is an important factor in international growth and should be considered a key variable in terms of criteria important in attracting Canadian investment.

These studies suggest Canadian direct investment within the U.S. brings revenue and employment to the expansion sites. Border policy between the U.S. and Canada has a definite impact on trade and expansion between the two countries. Recent changes to border policy have affected Canadian companies more adversely than American companies. Additional security measures at the border add costs that must be accounted for either by reducing company margins or by a price increase. Employees are also affected by border policy, as companies will send personnel to subsidiaries in training or consulting roles. Proximity to the home country is a consideration (more so for small and medium size companies), as

it is easier for employees to travel shorter distances when taking on supporting roles to subsidiaries.

PURPOSE AND SCOPE

This study will examine the expansion of U.S. companies into the Lower Mainland of British Columbia, and expansion of Canadian companies into Whatcom County, located in the northwest corner of Washington State. These geographic regions are adjacent to one another on the west coast and are separated only by the 49th parallel, which does not coincide with significant natural boundaries such as a river or mountain range. There are three specific objectives of the study:

- Identify initial reasons for expansion
- Determine obstacles to the expansion process
- Compile company demographics of businesses that have expanded and determine economic impact

The initial reasoning behind the business growth is important for determining the driving force for expansion. Obstacles that deter expansion will work against international geographic business growth. Identification of the rationale will assist in better predicting when expansion opportunities are present. A point must exist where the

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advantages to the business outweigh the disadvantages of expansion, making the growth opportunity attractive. Finally, company demographics will be examined to look for any factors that may influence the expansion process.

The scope of this project includes only manufacturing, wholesaling, and warehousing companies. These companies are more readily identifiable and offer a more concrete filter when considering which companies to include in the survey. An eligible company for the project is defined as a U.S. owned manufacturing and/or warehousing company that has manufacturing and/or warehousing facilities in the Lower Mainland of British Columbia, or a Canadian based manufacturing and/or warehousing company that has manufacturing and/or warehousing facilities in Whatcom County, Washington. Manufacturing and warehousing companies are more readily identifiable and would have experienced greater efforts to set up operations than other categories of business. The nationality of a company will refer to the nationality of the owning entity. Therefore, a subsidiary in Canada that has been created by a company in the U.S. will be referred to as an American company. The converse is true of subsidiaries located in the U.S.

METHODOLOGY

The project began with acquiring and

composing lists of eligible companies. These lists were compiled through the efforts of the Research Department of the Small Business Development Center at Western Washington University, as well as through interviews with prominent people who work with these types of companies. Further companies were identified based upon past economic development projects. Additionally, a press release was drafted and put out to local media in an attempt to gain even more business participation, as well as notify companies of the project.

The validity of the list was verified through phone calls and web-site searches to ensure the prospective companies were still in operation and met the criteria set above. The final list resulted in 130 total companies. Sixty-four were American businesses and sixty-six were Canadian businesses.

The data gathering method to achieve the project objectives took the form of a survey. A rough draft survey was prepared and then reviewed by professors from Western Washington University's College of Business and Economics. Dr. Hart Hodges, Dr. Tom Roehl, and Dr. Paul Storer provided valuable insight to the order and wording of the questions, as well as suggestions for additional questions. Previous research was also examined in an attempt to see what questions were asked in similar studies. Additionally, two professors were contacted regarding their previous work on

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this topic. Dr. Christine Drennen, Canadian Studies Center at Bowling Green State University, and Dr. Prem Gandhi, Canadian Studies Department at Plattsburgh State University of New York, both had experience in this type of project. Each reviewed the survey, and their feedback was reflected in the final survey. The end product was a 36 question survey consisting of 12 Likert Scale questions, 10 demographic questions, 2 free-form short answer questions, and 12 multiple choice/fill-in-the-blank questions with options to include additional notes. Two nearly identical forms of this survey were created, one for Canadian companies and the other for American. The Canadian survey is present in the appendix.

Three companies were selected for field testing the survey. Feedback from these test runs helped determine whether questions were worded appropriately and whether biases in wording were minimized. Adjustments were made and the survey was finalized.

A phone script was developed to guide researchers through initial phone contact. An outside consulting organization was utilized to further refine the survey and phone scripts. Companies were then contacted through phone calls to gain participation of the most appropriate person in the organization. They were informed that the survey was a research project on behalf of the Border Policy Research Institute at Western

Washington University. Furthermore, participation in the survey and specific answers given would be kept strictly confidential. All were given the option of skipping any questions they did not wish to answer. Completing the survey could be accomplished in one of five different methods. The options for participation in the survey were:

- E-mail survey
- Phone interview
- Personal interview
- Mail survey
- Fax survey

E-mail was the most popular option amongst survey participants, which provided fast access to the survey, ease of completing the survey, and a simple method to return the survey. Participants merely needed to open the MS Word document containing the survey and type in answers. Some respondents were more technically inclined and placed the survey into Adobe formats prior to returning it via e-mail attachment. This method allowed for free-form comments given that any input could be typed next to the appropriate question. Several participants took advantage of this flexibility.

Nearly all contacts accepted an e-mail survey. If the e-mail survey was not returned, follow up activities were conducted. The first reminder came through e-mail followed by phone calls

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if necessary. If the survey was not returned after these two points of contact, the survey was mailed out with a return envelope. The final action was to make a personal visit to the business. All participants taking the survey received a gift card as a thank-you for participation. Notification of this reward was not made until after receipt of a completed survey. The reasoning behind revealing the gift card after the survey was to foster a sense of good will without “buying” the survey.

RESULTS

Twenty-nine of the sixty-six eligible Canadian subsidiaries completed surveys, for a 43.9% response rate. Fifteen of the sixty-four eligible U.S. subsidiaries completed surveys, yielding a 23.4% response rate. Overall, the response rate for the project was 33.8%. Geographic proximity of Western Washington University to prospective participants in the U.S. did assist in higher response rates, as contacts were more likely to be familiar with and trusting of a known university.

The majority of American subsidiaries in the Lower Mainland were acquisitions made by parent companies located throughout the U.S. Lower Mainland employees typically did not fully know the reasoning for the acquisition and referred researchers to distant corporate headquarters in the U.S. Success rates dropped substantially when attempting

to gain participation from such corporate offices.

Another negative effect upon survey participation is the potential benefit derived compared to the possible cost incurred by the company. The benefit to the company is to provide a voice for companies in this situation that will hopefully be heard by makers and implementers of public policy. The cost can be far greater than the benefit, should valuable company information leak out to competitors. This underlying thought was an obstacle to data collection, as several businesses declined to partake in the survey, citing corporate policy or bad experiences with past research projects.

The most cited reason for expansion across the border was access to the host country's market. This was much more pronounced for Canadian businesses expanding into Whatcom County, where twenty-three of twenty-nine companies reported expanding for access to market. Seven out of fifteen American businesses cited access to market as a reason for expansion. The next most selected reason for expansion for both American and Canadian owned businesses was to establish a presence in the host country. Ten of the twenty-nine Canadian companies and five of the fifteen American companies cited this reason. The third most reported reason for expansion was lower costs, cited by the same percentage for both American and Canadian

companies.

The benefits reported for each location did show some divergence. Strategic value was the top reason for American business expansion. Ten of the fifteen American companies cited the strategic value of Lower Mainland locations, where ten of the twenty-nine Canadian companies cited the strategic value of Whatcom County. Labor availability was the second most reported reason for American expansion. For Canadian expansion, proximity to B.C. was cited the most often, followed by strategic value. Labor and land availability were tied for the third most reported benefit for Canadian subsidiaries, while proximity to the U.S. and lifestyle in the Lower Mainland was tied for the third most reported benefit for American subsidiaries.

There was no notable difference in the difficulty of establishment of manufacturing and warehousing facilities in the neighboring country. What proved “easy” for American expansion also proved “easy” for Canadian expansion. This section of the survey put forward a number of activities associated with establishment of operations across the border and asked the participant to rate the level of difficulty of each activity as “easy,” “medium,” “hard,” or “not applicable.” The majority of U.S. expansion into the Lower Mainland was as a result of acquisition. Expansion through acquisition eliminates activities such as finding a suitable site for operations,

setting up facilities, hiring employees, and so forth. Therefore, most activities were reported as “not applicable” or “easy.” Transferring employees to the expansion site was the most difficult for American subsidiaries, although only three businesses reported this as being applicable. Twelve Canadian businesses reported transferring employees as being “hard” and seven reported this activity as “not applicable.” While most of the surveyed companies did not engage in the transfer of employees to the new site, when it did occur it was a difficult endeavor.

Many external organizations exist to assist in the creation of new business enterprises, and they can be helpful for international expansion. Checkboxes with potential organization names were listed, allowing participants to select from the list. Space was provided to allow for any other organization that might have been used. Three American subsidiaries and fifteen Canadian subsidiaries reported using external organizations to aid in their expansion activities. Private organizations appeared to be much more heavily utilized than government organizations. For American business expansion, real estate agencies, immigration attorneys, accounting firms, and the local chambers of commerce were used. For Canadian business expansion, immigration attorneys were most reported. Nine of the twenty-nine companies used an immigration attorney. Eight reported using

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accounting firms and the local chamber of commerce.

Crossing the border can be both a personnel- and a goods-related issue, as employees commute over the border to work, and shipments go between facilities located on opposite sides of the border. Problem descriptions were provided to participants, and they were asked to rate each as “no problem,” “minor problem,” or “major problem.” American subsidiaries reported little issue with border crossings. Taxes and long personal and shipping delays were the most common border problems reported by Americans. The mean response for these factors ranged between “no problem” and “minor problem,” with a lean more towards “minor problem.” Problems encountered by Canadians were reported to be more severe. The largest obstacle to border crossing was clearance for both personnel and shipments. This ranged between “minor problem” and “major problem,” with a lean towards “minor problem.” Long delays were the second largest reported problem, hovering just above “minor problem.” The documentation process was significantly more of a problem for Canadian subsidiaries than American subsidiaries after running t-tests assuming unequal variances. Results were significant at the one percent level with the assumption of unequal variances. Long border delays were also a larger problem for Canadian expansion. T-tests were

significant at the five percent level with the assumption of unequal variances.

Once companies have established themselves in the new location, problems do come up that might interfere with business operations. A similar question format as the one used for border issues was used to query about recurring problems experienced by companies that have expanded. Labor force quality was identified as the most difficult problem for Canadian subsidiaries, and is a much more significant problem for them than for U.S. subsidiaries as shown through t-tests showing a significant difference at the one percent level for assumptions of unequal variation. Qualitative answers supported the conclusion that Canadian companies are having problems with securing a quality labor force. Eight of the twenty-nine Canadian companies surveyed indicated “no problem” in this area, eleven indicated a “minor problem,” and ten indicated a “major problem.” No U.S. companies reported “major problems” with labor. Six reported a “minor problem” and seven reported “no problem.” Two U.S. companies elected not to answer the question. The relationship between management and labor was also a problem for Canadian expansions, albeit not as severe, and was significantly more so than for U.S. expansions. The t-test assuming unequal variances was significant at the five percent level. The largest reported problem for U.S. expansions was with the Cana-

dian federal government, although this was not severe. The difference between Canadian and U.S. levels of difficulty in dealing with the respective federal governments was significant at the five percent level with the assumption of unequal variances. Other problem area descriptions were experienced at the same level of difficulty for both nationalities. Levels of severity were fairly low for these potential issues.

The next section of the survey included twelve Likert scale questions. The answer set for the questions was "Strongly disagree," "Somewhat disagree," "No opinion," "Somewhat agree," and "Strongly agree." Answers were coded ranging from 0 for "Strongly disagree" to 4 for "Strongly agree." Median and mean values were reasonably close upon computation given the tight range of acceptable answers. Table 1 shows the mean answers for each of the questions, with significant differences shown in bold.

Major differences in means are present in question 17 relating to the tax structure and question 24 related to border crossing programs. Both U.S. and Canadian companies report preferring the tax structure of the U.S. for business purposes. This difference is significant at the one percent level after running a t-test assuming unequal variances. Border crossing programs were also significantly different at the one percent level running the same type of test, where Ca-

nadian subsidiaries deem border crossing programs as more important than American subsidiaries. Proximity to the home municipality was also reported as more important to Canadian subsidiaries than to American subsidiaries, with this difference being significant at the five percent level assuming unequal variances. The effect of the currency exchange rate on the company also was significantly different at the five percent level, where U.S. companies reported a higher level of agreement than the Canadian companies.

To explore the demographics of companies, questions were included regarding gross annual sales in U.S. dollars for the entire company, percentage of sales attributed to expansion operations, number of manufacturing and warehouse locations both subsidiary and company wide, number of employees both for the subsidiary and company wide, and percentage of the management and administrative workforce that has the nationality of the home country. As shown in Figure 1, gross sales for U.S. subsidiaries tended to be on the higher end of the surveyed range, showing sales in excess of US\$20 million per company. Two companies did not disclose gross sales data. The percent of overall sales attributed to Lower Mainland manufacturing operations lay at the extremes, with four companies reporting expansion operations contributing less than 10%, and four

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Table 1

	U.S. Companies	Canadian Companies
13. Company expansion relies on production inputs from host country	1.867	1.786
14. Company relies on access to host country market	3.000	3.552
15. Securing and maintaining quality employees is challenging	2.733	2.621
16. Expansion efforts were not greatly hindered by governmental border laws	2.667	2.345
17. Tax structure of host country is preferable to home country	1.533	2.483
18. Quick border crossing is vital to business activities	3.333	3.345
19. Border security at U.S./Canadian border is unobtrusive and operates efficiently	2.000	1.828
20. Currency exchange rate greatly affects the company	3.333	2.690
21. Physical environment in host country is important to quality of life for employees	3.067	2.897
22. Proximity to home county/province is important	2.000	2.828
23. September 11 terrorist attacks have greatly affected border crossing activities	2.800	2.897
24. Border crossing programs are important for smooth business operations	2.400	3.483

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companies reporting contributions in excess of 50%. One company reported contributions between 11 and 25%, and three companies did not disclose or did not know this information. Canadian companies were more evenly distributed across the categories of sales (Figure 2), with twenty of the twenty-nine companies disclosing sales data. Six reported that Whatcom County operations contributed less than 10% of company sales, two reported between 11 and 25%, five reported between 26 and 50% and five reported in excess of 50%. Two companies did not know or disclose this information.

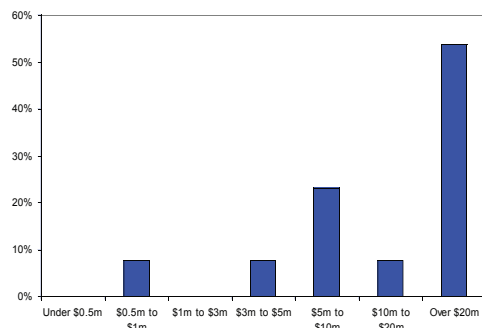
Data collected on the number of manufacturing and warehouse locations was more uniform between the two nationalities. As shown in Figures 3 and 5, the overall number of company locations gradually decreased from one location to five or more locations across the graph. Overall company locations did show concentrations on the extremes at 1 location and 5 or more

locations although the Canadian companies had more representation for 2 and 3 locations. Fourteen U.S. companies answered these questions, with one company declining to answer, and twenty-eight Canadian companies answered these questions, with one company declining to answer.

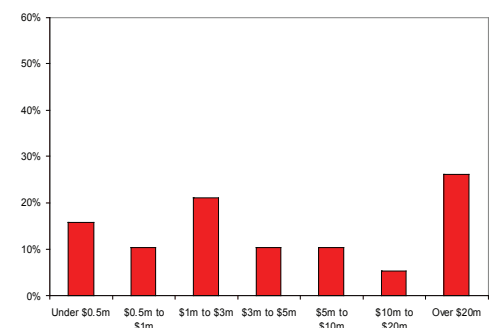
Overall employee-count for U.S. businesses generally demonstrated larger company sizes, with 8 companies indicating 100 employees or more. Five U.S. companies indicated having less than 100 employees overall, and two U.S. companies declined to answer the question. U.S. expansion operations reported generally lower figures for number of employees. Ten of the companies reported having fewer than 100 employees, three reported having 100 or greater employees, and two companies declined to answer. See Figures 7 and 8.

Overall employee-count for Canadian companies was more uniformly distributed. Canadian expansion operations reported no company having more

**Figure 1:
U.S. Subsidiary Gross Sales**

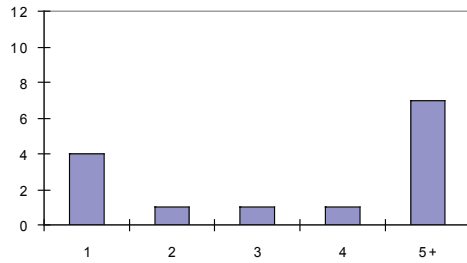


**Figure 2:
Canadian Subsidiary Gross Sales**

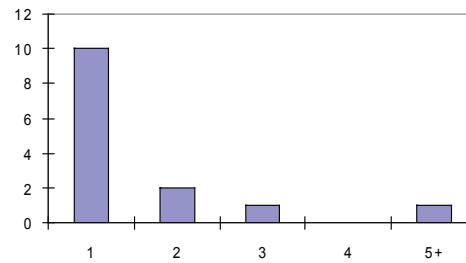


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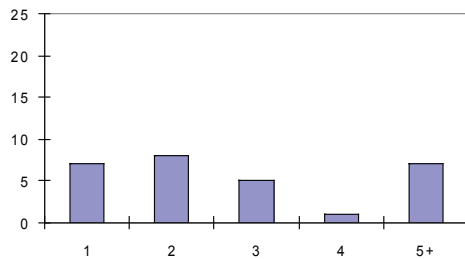
**Figure 3:
Overall Number of U.S. Locations**



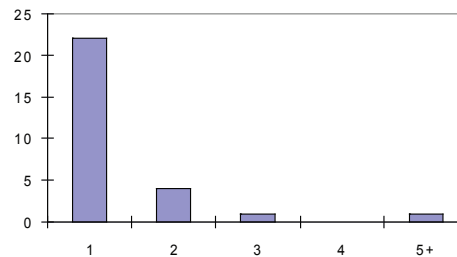
**Figure 4:
U.S. Locations in Lower Mainland**



**Figure 5: Overall Number
of Canadian Locations**



**Figure 6: Canadian Locations
in Whatcom County**



than 250 employees. Five companies had between 100 and 249 employees with the remaining twenty-four companies reporting less than 100 employees. All Canadian companies answered

Survey participation broken down by industry classification is displayed in Figures 11 and 12.

The survey sample distribution amongst industrial classifications is displayed in Figure 13. Wood product and machinery manufacturing are the largest categories in the overall sample with representation from both nationalities.

CONCLUSION

As cited by both nationalities, the reasons for expanding across the border are to access the host country market and establish a presence in the host country. Businesses that do expand see value in establishing a subsidiary across the border in the belief that they have a competitive advantage over local area businesses or will gain an advantage through expansion over companies that operate solely in one country.

The data shows that the companies

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Figure 7: Overall U.S. Company Employees

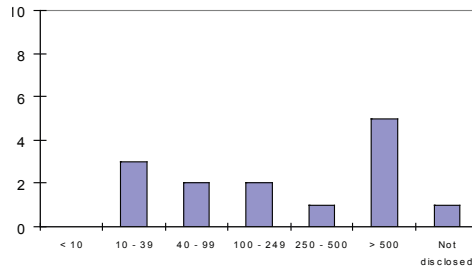


Figure 8: U.S. Employees in the Lower Mainland

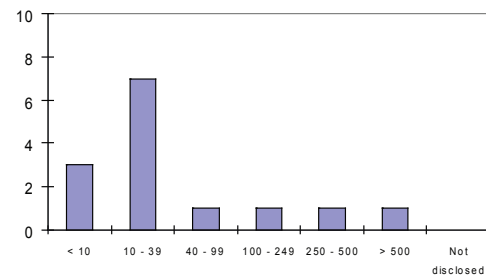


Figure 9: Overall Canadian Company Employees

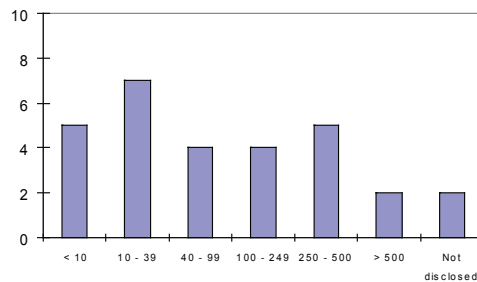
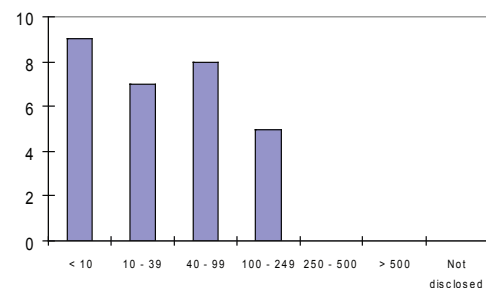


Figure 10: Canadian Employees in Whatcom County



surveyed do have some basic differences. American expansion efforts in the Lower Mainland generally took place through acquisition, whereas Canadian expansion efforts in Whatcom County occurred through construction or relocation of equipment. Because of this difference, obstacles and impediments to the expansion process and to ensuing business operations is different. Strategic value through location and/or product is the chief benefit derived from acquisition activities for U.S. companies. Readily available labor is another benefit for acquiring an established company.

The majority of U.S. expansions took place earlier than Canadian expansions in the study. Figures 14 and 15 display the timeframes of expansions.

The two graphs appear to be mirror images of one another, suggesting that expansion opportunities that are more desirable for one nationality at a particular time are less desirable or unattractive for the other nationality at the same point in time. The exchange rate would be one possible indicator for level of desirability of expansion across the border. The importance of the U.S./Canadian exchange rate did show a high level of

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Figure 11: American Survey Participation by Industry

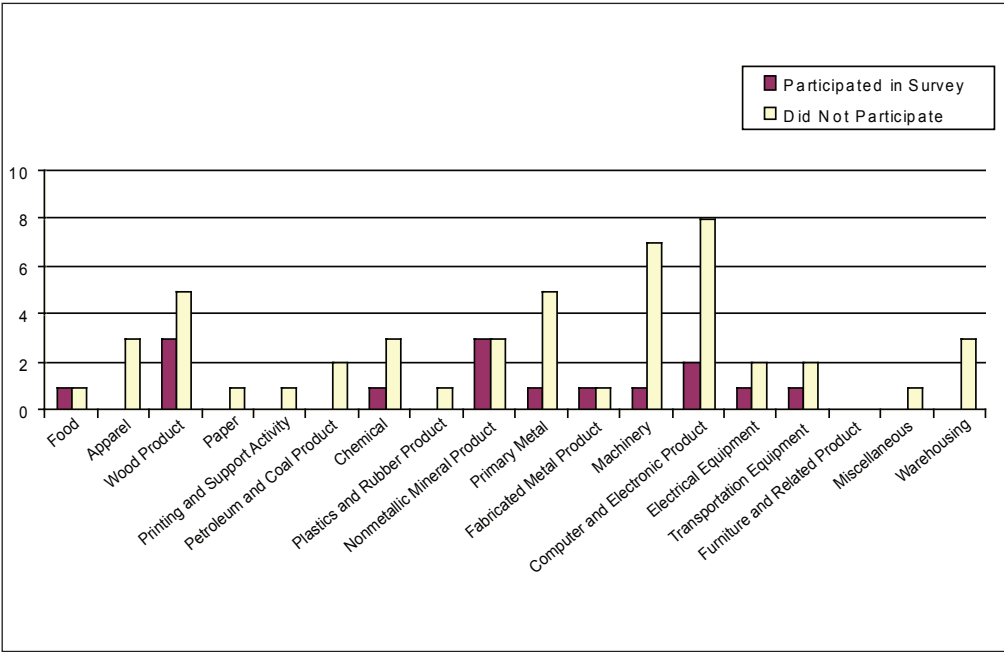


Figure 12: Canadian Survey Participation by Industry

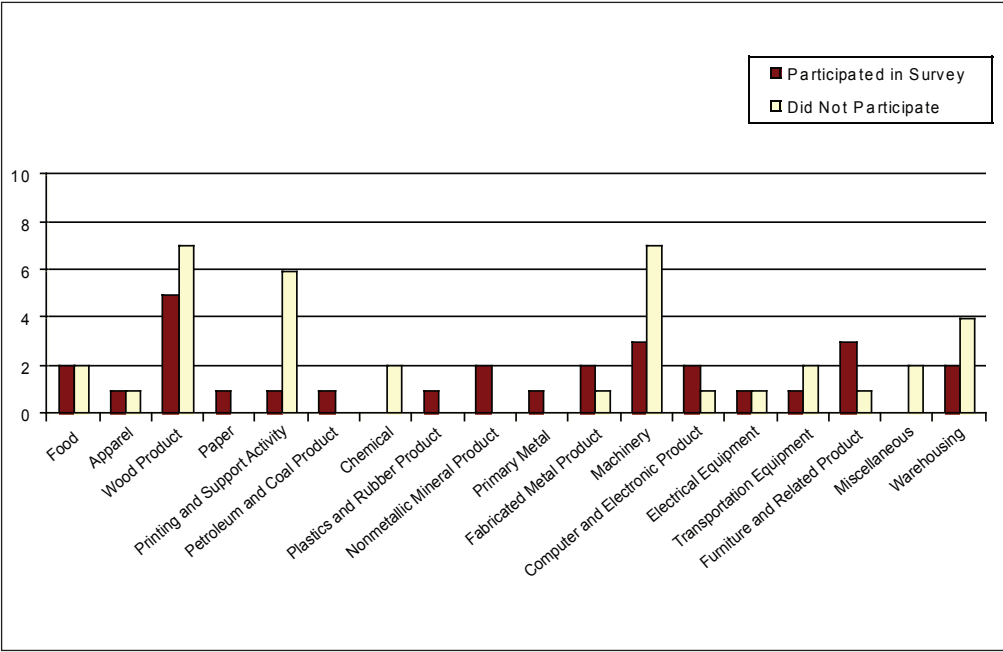
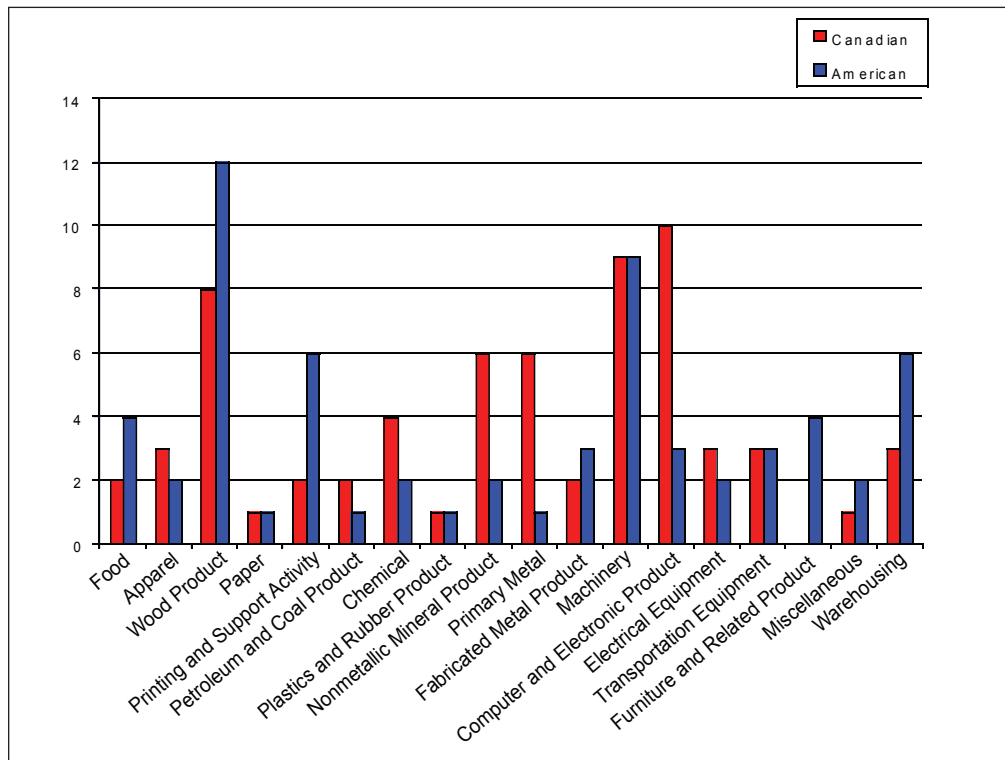


Figure 13: Survey Sample Classification by Industry



agreement in the Likert questions, indicating the currency exchange rate is something that business decision makers take into consideration for both expansion and current business activities. Analysis examining a relation between the exchange rate and year of expansion yielded a very weak positive correlation for American expansion activities and no relationship for Canadian expansion activities. This suggests exchange rate is not a good predictor of business expansion activity on its own.

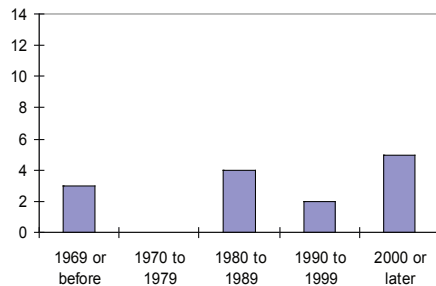
Proximity to home was the number one benefit for Canadian businesses in Whatcom County. Tied to this, Cana-

dian businesses cited the availability of land and labor as a benefit of expansion, supporting the notion that expansion from Canada to Whatcom County is keyed to acquisition of physical labor and/or construction efforts instead of a financial acquisition. What occurs is a local business, albeit of foreign nationality, coming across the border to establish a presence in the U.S. and to access the market. Qualitative answers given during interviews provide further support of this notion.

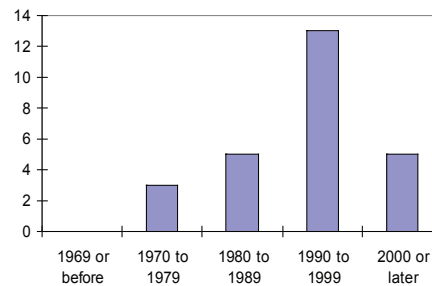
Given that Canadian expansion for this survey was generally found to be localized to the immediate geographic

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**Figure 14: U.S. Expansion
into Lower Mainland**



**Figure 15: Canadian Expansion
into Whatcom County**



area (i.e., from Lower Mainland into Whatcom County), border crossing issues are of high importance, as shown through the associated Likert question on the importance of quick border crossing. “Level of obtrusiveness” issues related to border security yielded a result of “no opinion,” indicating they were not remarkable in a negative or positive way. Both employees and shipments are regularly moving across the border between locations. Delays or restrictions implemented at the border cause disruptions in these types of businesses, which can be costly. The participants in the survey of both nationalities realize and accept the need for border security, as stated in several personal interviews. In some instances, border security measures provide additional efficiency in the case of increased capacity for border crossing points and expedited cargo shipping. However, the border is the first point of contact with officials of the host country. Comments from

several participants indicated the belief that more experienced inspection officers allow for a smooth flow of people and material while establishing positive relations. Less experienced officers can be adversarial, creating animosity in those who seek to bring their businesses to the country or are already operating in the country. This suggests a training issue where more experienced officers can lend their expertise to the newer officers to allow for better flow and relations across the border.

As is the case with any business, issues do arise once expansion facilities are in place and operational. Canadian companies locating in Whatcom County stated their biggest issue is securing and retaining a qualified labor force. The difference between nationalities on this topic is significant. One possible factor is the size of Whatcom County in terms of population. U.S. Census Bureau figures for 2006 place the population of Whatcom County at 185,953, with a la-

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bor force of approximately 123,000. [6] This is quite small when compared to larger cities in the area, such as Seattle and Vancouver. A smaller labor pool makes hiring more difficult. A second factor is the method of expansion. U.S. companies in this dataset mainly acquired existing companies which had a qualified labor force from the onset of the business acquisition. Therefore, the process of assembling a viable team of employees had been done and the parent company only needed to maintain the workforce. Canadian subsidiaries surveyed generally built from the ground up and experienced the trouble of initially hiring employees and forming them into a cohesive unit.

U.S. subsidiaries cite issues with the Canadian federal government as their largest obstacle to business operations. Taxes may be one factor. Respondents from both nationalities favored the U.S. tax structure when compared to the Canadian tax structure. Companies lo-

cated in the U.S. pay less in taxes than companies located in Canada. [7] The perceived benefits derived from such tax payments were not measured.

The demographic characteristics of Canadian subsidiaries are quite similar to those of the general population of manufacturing companies in Whatcom County. The category of number of employees in a company follows the same general decrease in both the survey set and the population graphs, as shown in Figures 17 and 18. Gross sales demonstrate a similar pattern as well, including an upturn to the right of the graph, as shown in Figures 19 and 20. Canadian companies included in the survey employ between 900 and 2,400 people and generate sales of approximately US\$180 million, which represents roughly 3.5% of manufacturing sales in Whatcom County. Extrapolating from the sample to the complete list of Canadian subsidiaries, gross sales of US\$409 million and employment of almost 4,000 people are

Figure 17: Employees per Company in Manufacturing in Whatcom County

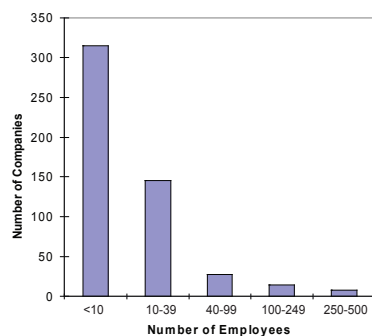
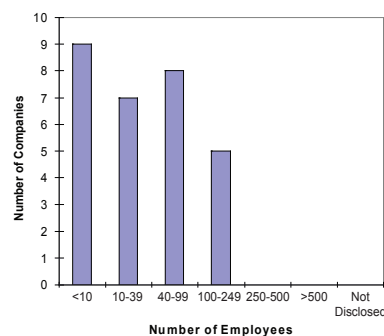


Figure 18: Canadian Subsidiary Employees per Company in Whatcom County



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Figure 19: Gross Sales 2006 for Whatcom Manufacturing

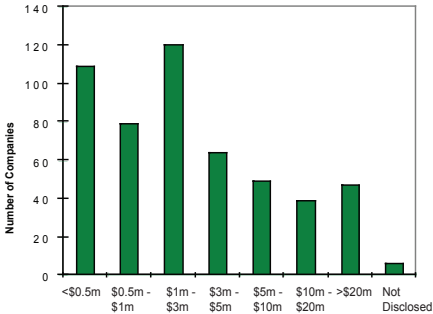


Figure 20: Gross Sales 2006 for Canadian Manufacturing Subsidiaries in Whatcom County

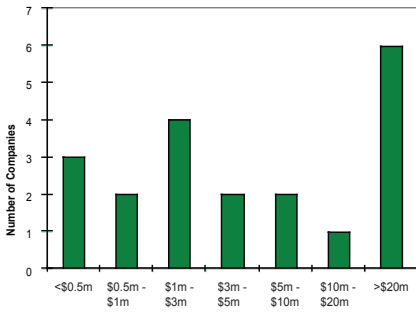


Figure 21: Gross Sales 2006 for Lower Mainland Manufacturing

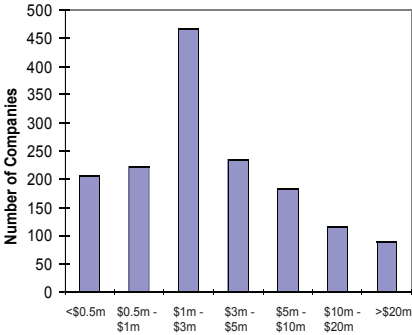


Figure 22: Gross Sales 2006 for U.S. Manufacturing Subsidiaries in the Lower Mainland

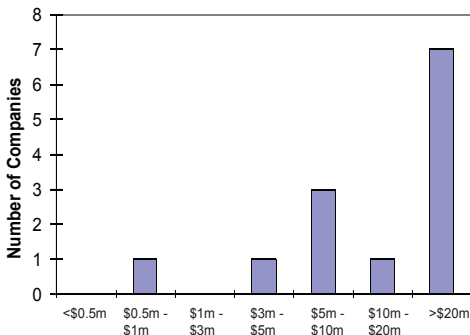


Figure 23: Employees per Manufacturing Company in the Lower Mainland

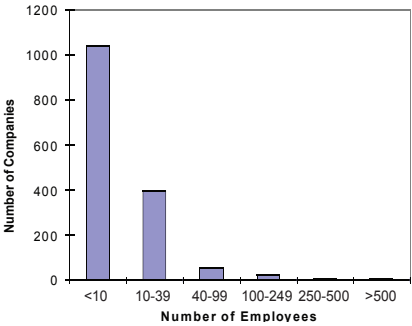
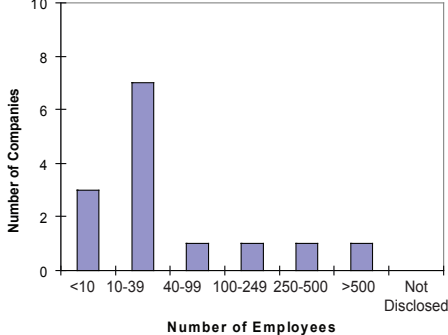


Figure 24: American Subsidiary Employees per Company in the Lower Mainland



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attributable to Canadian companies in Whatcom County.

Similar analysis of American expansion (Figures 21 and 22) shows the U.S. survey sample to have a large number of firms reporting gross sales in excess of US\$20 million, as compared to manufacturing companies in the Lower Mainland as a whole. Each of the companies surveyed generated gross sales in excess of US\$3 million. Number of employees per company is closer to the Lower Mainland distribution, as seen in Figures 23 and 24. This pattern might be attributable to the acquisition-based method of expansion, as successful companies are much more likely to be acquired than companies experiencing fundamental business issues. More data would be necessary to determine if this pattern is indeed valid. American companies partaking in the survey employ between 950 and 2,150 people and generate gross sales of approximately US\$139 million. Extrapolating to include the entire list of companies, American expansions employ approximately 9,100 people and generate over US\$700 million in gross sales.

RECOMMENDATIONS FOR FURTHER RESEARCH

The aim of this project was to identify the reasons for, obstacles to, and economic impact of cross border expansions. Both data sets were within the

range of participation to be valid when compared with other research projects. More data would certainly aid in developing a clearer picture by providing additional inputs, especially for U.S. expansions.

Why some companies expand and others in the same industry do not is a prime question worthy of additional research. Specifically, why would a company expand for the reasons of market access and establishment of a presence, when exporting to the host country is a valid competitive strategy given the reduction of barriers to trade with the passage of the 1989 and 1994 free trade agreements? The timing of expansions does seem to suggest that when expansion for American companies is good, expansion for Canadian companies is not favorable. Exchange rate does seem to have some influence, although the survey for this project did not gather sufficient detail to determine the level of influence on an expansion decision. One possible answer may lie in the ability to hedge production costs by utilizing a facility on one side of the border in lieu of a facility on the other side. Another possibility could be to get closer to customers. Shipping can be expensive, adds no value to manufactured products, and can disrupt and damage product flow.

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[5] Gandhi, P. and Glass, W. "Canadian Investment in the United States: A Regional Perspective", *Research in Global Strategic Management*, 2004. Vol. 10, 193-209

[6] "Whatcom County Census Figures", *U.S. Census Bureau*. URL: <http://quickfacts.census.gov/qfd/states/53/53073.html> (July 9, 2007)

[7] Perry, D.B. "International Tax Comparisons", *Canadian Tax Journal*. Toronto: 2000. Vol. 48, Iss.2; 531

APPENDIX: SURVEY USED FOR CANADIAN COMPANIES IN WHATCOM COUNTY

1. Is the company affiliated with any Canadian company? **Yes** **No**
2. Is the company's head office located in Canada? **Yes** **No**
3. Is the company owned by a **Canadian company**, **Canadian citizens**, or **both** (Circle one)?
4. Approximately what percentage of the company is Canadian owned?
- Less than 10%
 - 11 to 25%
 - 26 to 50%
 - Greater than 50%
 - Not publicly disclosed
 - Unknown
5. What year did the company first establish manufacturing and/or warehousing facilities in Whatcom County? (This does not include outsourcing activities. Only include facilities operated by company employees.)
Beginning year: _____
6. What are the initial reasons for establishing manufacturing and/or warehousing facilities the U.S.? (Check all that apply)
- Affordable inventory storage (warehousing)
 - Easier access to U.S. market
 - Favorable tax structure
 - Foreign currency hedge
 - Access to U.S. workforce
 - Favorable government regulation
 - Other (Please explain)

 - "Insurance" against border flow disruptions such as border closures
 - Establish presence in the U.S. (Products are "Made in USA")
 - Availability of production inputs (raw materials, sub-components, etc.)
 - Favorable labor environment (unions, laws)
 - Lower cost to do business than in Canada
- 7a. What U.S. locations were considered for establishing manufacturing and/or warehousing facilities outside of Whatcom County?

- 7b. Were any of those locations actually used for establishing manufacturing and/or warehousing operations? **Yes** **No**
- 7c. If **Yes** to 7b, which U.S. locations besides Whatcom County did the company establish manufacturing and/or warehousing facilities?

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8. What benefits does Whatcom County offer to your company? (Check all that apply)

- Availability of labor force
- Availability of land
- Strategic positioning
- Lower business costs
- Cost of living in Whatcom
- Other (Please explain)

- Close to home (proximity to British Columbia)
- Appealing lifestyle (culture, colleges, nice area)
- Environmental factors relevant to manufacturing and/or warehousing (ambient temperature, humidity, wind patterns)

9. During the establishment of manufacturing and/or warehousing facilities into the U.S., how difficult, on a scale of easy, medium or hard, were the following activities?

Securing financing for expansion	Easy	Medium	Hard	N/A
Locating a suitable site	Easy	Medium	Hard	N/A
Setting up operations	Easy	Medium	Hard	N/A
Hiring local employees	Easy	Medium	Hard	N/A
Transferring Canadian employees to U.S. site	Easy	Medium	Hard	N/A
Gaining support of economic service providers	Easy	Medium	Hard	N/A
Acquiring permits and licenses	Easy	Medium	Hard	N/A
Managing governmental regulations	Easy	Medium	Hard	N/A
Other (Please explain) _____	Easy	Medium	Hard	N

10a. Were the services of any external organizations used in expansion? Yes No

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and Canadian Cross
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10b. If yes, which resources were useful in expansion efforts? (Check all that apply)

- | | |
|--|---|
| <input type="radio"/> Chamber of Commerce | <input type="radio"/> U.S. Department of Labor |
| <input type="radio"/> Accounting Firms | <input type="radio"/> Western Washington University Small Business Development Center |
| <input type="radio"/> Immigration attorney | <input type="radio"/> Economic Development Council |
| <input type="radio"/> Port of Bellingham | <input type="radio"/> Elected officials |
| <input type="radio"/> U.S. Small Business Administration (SBA) | <input type="radio"/> State of Washington Community Trade and Economic Development (CTED) |
| <input type="radio"/> U.S. Customs | <input type="radio"/> Other (Please describe) |
| <input type="radio"/> Real estate companies | |

11. Of the problems listed below, which has the company consistently faced at the border? Please indicate severity of problem as minor or major.

Problem Descriptions	No Problem	Minor	Major
Employees facing long delays at the border			
Intrusive personal searches			
Permitting process (visas, customs documentation)			
Shipping delays			
Lengthy detention and search of shipments			
Overly restrictive government limits on product and raw material allowed into the country			
Taxes (Duty) imposed			
Other (Please explain briefly) _____			

12a. In reference to doing business in Whatcom County, are there any on-going issues currently interfering with business activities on a daily basis that would not be present doing business in your home country? **Yes** **No**

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12b. What current issues continue to interfere with business activities? (Check all that apply)

Problem Descriptions	No Problem	Minor	Major
Federal government (Trade agreements, USDA)			
Local government (permits, licenses)			
Labor relations and regulations			
Utilities (water, electricity, sewage, garbage)			
Securing and retaining a qualified labor force			
American and Canadian business culture clash			
Financing/access to capital			
Management of benefit structures (401K, pension, insurance)			
Differing accounting practices/standard			
Taxes			
Other (Please explain briefly) _____			

For questions 13 to 24, please respond by how strongly you agree or disagree with the statement.

13. The company relies on the U.S. for availability of production inputs (raw materials, sub-assemblies).

Strongly Disagree Somewhat Disagree No Opinion Somewhat Agree Strongly Agree

14. The company relies on access to the U.S. market.

Strongly Disagree Somewhat Disagree No Opinion Somewhat Agree Strongly Agree

15. Securing and maintaining quality employees in U.S. manufacturing and/or warehousing operations is challenging.

Strongly Disagree Somewhat Disagree No Opinion Somewhat Agree Strongly Agree

16. Expansion efforts were not greatly hindered by governmental border laws and restrictions.

Strongly Disagree Somewhat Disagree No Opinion Somewhat Agree Strongly Agree

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17. The tax structure in the U.S. is preferable to that of Canada.

Strongly Disagree	Somewhat Disagree	No Opinion	Somewhat Agree	Strongly Agree
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18. Quick border crossing is vital to business activities.

Strongly Disagree	Somewhat Disagree	No Opinion	Somewhat Agree	Strongly Agree
----------------------	----------------------	------------	-------------------	-------------------

19. Border security at the U.S./ Canadian border is unobtrusive and operates efficiently.

Strongly Disagree	Somewhat Disagree	No Opinion	Somewhat Agree	Strongly Agree
----------------------	----------------------	------------	-------------------	-------------------

20. The currency exchange rate greatly affects the company.

Strongly Disagree	Somewhat Disagree	No Opinion	Somewhat Agree	Strongly Agree
----------------------	----------------------	------------	-------------------	-------------------

21. The physical environment in Whatcom county is important to the quality of life for employees.

Strongly Disagree	Somewhat Disagree	No Opinion	Somewhat Agree	Strongly Agree
----------------------	----------------------	------------	-------------------	-------------------

22. Proximity to British Columbia is important for U.S. based operations.

Strongly Disagree	Somewhat Disagree	No Opinion	Somewhat Agree	Strongly Agree
----------------------	----------------------	------------	-------------------	-------------------

23. The September 11 terrorist attacks have greatly affected border crossing activities.

Strongly Disagree	Somewhat Disagree	No Opinion	Somewhat Agree	Strongly Agree
----------------------	----------------------	------------	-------------------	-------------------

24. Border crossing programs such as NEXUS, CANPASS and PAR are important for smooth business operations.

Strongly Disagree	Somewhat Disagree	No Opinion	Somewhat Agree	Strongly Agree
----------------------	----------------------	------------	-------------------	-------------------

25. What improvements in the form of rules, regulations and policy have been made recently (approximately in the last three years) from external sources to improve cross border business? _____

26. What future government policies, rules or regulations would be beneficial to the company? _____

27. What are the company's gross annual sales?

- | | |
|--|--|
| <input type="radio"/> Under \$500,000 | <input type="radio"/> \$5,000,000 to \$10,000,000 |
| <input type="radio"/> \$500,000 to \$1,000,000 | <input type="radio"/> \$10,000,000 to \$20,000,000 |
| <input type="radio"/> \$1,000,000 to \$3,000,000 | <input type="radio"/> Over \$20,000,000 |
| <input type="radio"/> \$3,000,000 to \$5,000,000 | <input type="radio"/> Not publicly disclosed |

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28. How many total manufacturing and/or warehousing locations is the company managing?

- 1 2 3 4 5 or more (___)

29. How many manufacturing and/or warehousing locations are in the U.S. and managed by the company?

- 1 2 3 4 5 or more (___)

30. How many employees work for the company overall?

- Less than 10 250 to 500
 10 to 39 More than 500
 40 to 99 Not publicly disclosed
 100 to 249

31. How many employees work in Whatcom County in manufacturing and/or warehousing facilities?

- Less than 10 250 to 500
 10 to 39 More than 500
 40 to 99 Not publicly disclosed
 100 to 249

32. Considering the management and administrative team working in Whatcom County, what percentage of that team were transferred from Canada to staff these operations?

- Less than 10% Greater than 50%
 11 to 25% Not publicly disclosed
 26 to 50% Unknown

33. What percentage of the management and administrative team in the Whatcom County operations are Canadian citizens?

- Less than 10% Greater than 50%
 11 to 25% Not publicly disclosed
 26 to 50% Unknown

34. Is the following North American Industry Classification System (NAICS) description accurate for the company's activities?

NAICS Description: _____
NAICS Code: _____

35. What products are manufactured by the company overall?

36a. Are there manufacturing operations in Whatcom County? **Yes** **No**

*** If answer to **36a** is **No**, stop here. ***

36b. What products are manufactured in Whatcom County?

36c. Of the company's sales, what percentage is attributed to Whatcom County operations?

- | | |
|-------------------------------------|--|
| <input type="radio"/> Less than 10% | <input type="radio"/> Greater than 50% |
| <input type="radio"/> 11 to 25% | <input type="radio"/> Not publicly disclosed |
| <input type="radio"/> 26 to 50% | <input type="radio"/> Unknown |

36d. What percentage of product is manufactured in Whatcom County?

- | | |
|-------------------------------------|--|
| <input type="radio"/> Less than 10% | <input type="radio"/> Greater than 50% |
| <input type="radio"/> 11 to 25% | <input type="radio"/> Not publicly disclosed |
| <input type="radio"/> 26 to 50% | <input type="radio"/> Unknown |

36e. What percentage of production inputs for Whatcom County operations originate from Canada?

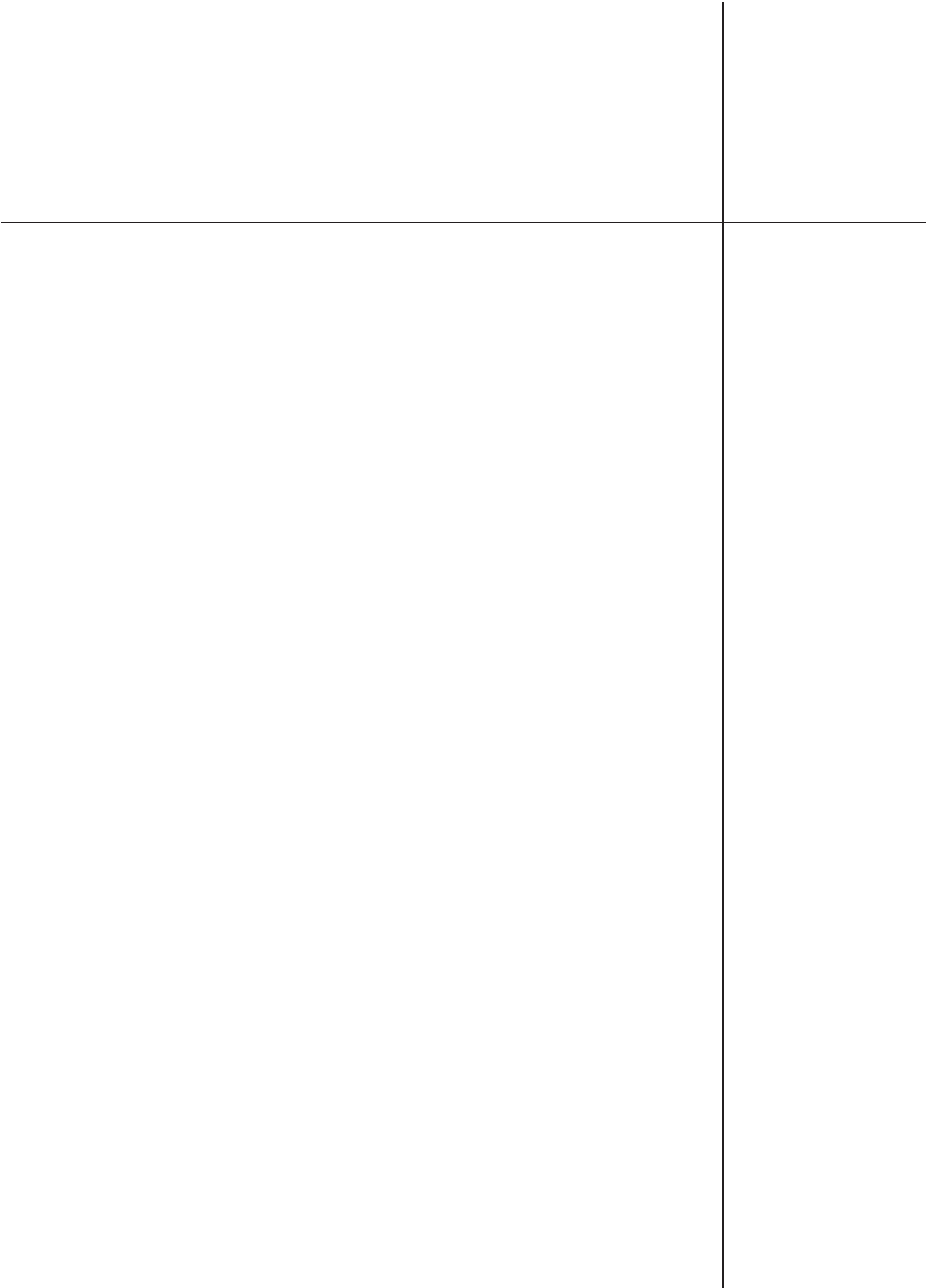
- | | |
|-------------------------------------|--|
| <input type="radio"/> Less than 10% | <input type="radio"/> Greater than 50% |
| <input type="radio"/> 11 to 25% | <input type="radio"/> Not publicly disclosed |
| <input type="radio"/> 26 to 50% | <input type="radio"/> Unknown |

36f. What percentage of production inputs for Whatcom County operations originate from the U.S.?

- | | |
|-------------------------------------|--|
| <input type="radio"/> Less than 10% | <input type="radio"/> Greater than 50% |
| <input type="radio"/> 11 to 25% | <input type="radio"/> Not publicly disclosed |
| <input type="radio"/> 26 to 50% | <input type="radio"/> Unknown |

36g. What percentage of output is shipped to Canada from Whatcom County operations?

- | | |
|-------------------------------------|--|
| <input type="radio"/> Less than 10% | <input type="radio"/> Greater than 50% |
| <input type="radio"/> 11 to 25% | <input type="radio"/> Not publicly disclosed |
| <input type="radio"/> 26 to 50% | <input type="radio"/> Unknown |



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