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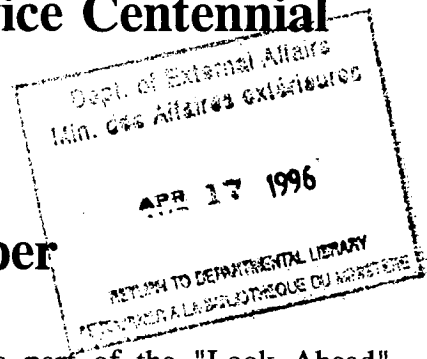
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# Trade Commissioner Service Centennial

1894 - 1994

## Discussion Paper



The attached paper has been commissioned as a part of the "Look Ahead" component of the Trade Commissioner Service Centennial. It has been designed to engender consideration and discussion of trends and issues that will effect the direction of the service as it enters its second century.

The paper is not in any way a policy paper and must not be viewed or quoted as such. The views expressed are those of the author, and not of the Department of Foreign Affairs and International Trade or any component of it.

### MARKET FAILURE AND ITS IMPLICATIONS FOR THE ROLE OF CANADA'S TRADE COMMISSIONER SERVICE

DRAFT  
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## INTRODUCTION

Government intervention in the economy is largely justified on the basis of market failure, whereby market and the 'laws' of supply and demand do not automatically produce an optimum outcome.<sup>1</sup>

In determining the future role of Canada's Trade Commissioner Service (TCS), it is first necessary to consider how well the free enterprise market is able to meet the international needs of Canadian businesses. What are the kinds of activities that the market fails to provide adequately? Focusing on this question gives us a guide to the kinds of activities that the TCS should be performing as it enters its second century.

In the past, there have been many ways in which the free enterprise market has failed to meet the international needs of Canadian businesses. From the perspective of the TCS, one of the most significant has been the provision of information concerning the economies of other countries, and information concerning the various business sectors. Frequently, Canadian firms have not been aware of potential markets, suppliers, or investment opportunities. The extent of this market failure has varied from one country to another. Canadian firms have become increasingly familiar with OECD economies. However, today many still have little knowledge about the economies of the countries in Asia, Africa, Latin America, or even Eastern Europe. The frequency of changes in these economies has meant that information that once was accurate may quickly become outdated, and this adds to the needs of Canadian businesses.

Recent changes in the ways that business activities are organized have added to these traditional needs for information. Firms are becoming more specialized, and multi-functional firms are being decomposed into smaller units. These trends are creating new opportunities for small- and medium-sized businesses (SMEs), and this sector has been expanding rapidly. Extended "value chains" are being created, with many firms participating in the chain, and with each firm adding its unique value. As a result, dramatic changes are occurring in the ways that activities among firms are coordinated. New types of joint ventures and various other kinds of investment relationships are being developed.

By its very nature, the large multinational enterprise (MNE) establishes linkages among business activities that are integrated within it. The international information needs of the MNE are largely met within the MNE itself, and for the MNE there may be no market failure concerning the provision of information. The decomposition of business, with a greater role for outsourcing, value chains, and alliances is increasing the international information needs of Canadian businesses that are not large MNEs, and it is here that the

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<sup>1</sup> From a Trading Nation to a Nation of Traders: Toward a Second Century of Canadian Trade Development (Policy Planning Staff Paper, Foreign Affairs and International Trade Canada, no. 92/5), 15.

market is particularly weak. This paper emphasizes that changes in business organizational structures, together with changes in international agreements, are creating a need for much greater knowledge by Canadian businesses, especially small- and medium-sized businesses, about the foreign businesses with which they might create new and ongoing relationships. Who will fill this need? This paper argues that the market is failing in this regard, and that Canada's Trade Commissioner Service is uniquely suited to contribute to filling this need.

### FOCUSING ON SMALL- AND MEDIUM-SIZED BUSINESSES

With its 1994 Budget, the Federal Government issued a report entitled "Growing Small Business." A variety of statistics emphasizes the major role played by small businesses in Canada's economy today. A focus of this report is the relatively minor involvement of small business in Canada's exports. While 78.2% of large manufacturing firms export, only 9% of small manufacturing firms do so:

Canada's international trade, however, remains focused on a few large firms: in 1990, 100 companies accounted for more than 60 percent of the \$141 billion of exports in that year. Only 7.6 percent of Canadian businesses exported at all. . . . Clearly, Canada has failed to build a broadly based trading culture within its private sector, despite large expenditures on trade promotion.<sup>2</sup>

This budget emphasizes the increasing degree to which changes in today's economy are requiring that Canadian firms become globally competitive. Not all elements of economic activities have adjusted readily or smoothly to our new global realities, particularly in the small business sector. It is here in particular that market failures may be dealt with by government assistance.

There likely will be a time profile to the significance of market failures. As time passes, the market may gradually respond more fully to these new needs. International consulting firms are already assisting their clients in providing information about foreign businesses that may be future customers, suppliers, investors, distributors, etc. For the foreseeable future, however, one may expect that the market will fail to provide the information necessary for international integration among the business activities of many firms. At present, there is an increasing urgency in linking Canadian businesses, particularly small- and medium-sized businesses with appropriate associates in other countries.

### "POSITIVE EXTERNALITIES" CREATED BY EXPORTS

The market may also fail in that benefits to society such as job creation may lie outside the decision making of the firm. Economists refer to such benefits as "positive externalities". The firm is not able to capture all of the benefits of its activities, and so the

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<sup>2</sup>John Manley and Paul Martin, Growing Small Businesses (Ottawa: Industry Canada, 1994), 38.

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profit motive in a free enterprise market fails to provide adequate incentive to undertake activities that are desirable from the perspective of the Canadian economy as a whole. Exporting is frequently perceived as such an activity. It is often argued, for example, that government assistance in exporting is necessary in order to strengthen Canadian competitiveness and job creation, from which all Canadians gain. Without government assistance, these benefits to Canada will not be achieved to the degree that is optimal for the nation.

This type of market failure may be addressed through a wide variety of government programs. The assistance offered by the TCS is only one possibility; others include financing of R&D, retraining, and export sales. The degree to which government expenditures to support TCS activities can be justified on the basis of this kind of market failure depends upon comparisons among the costs and benefits of alternative programs--a subject not addressed in this paper, although crucial for determining the extent of future TCS activities.

What guidelines should the TCS pursue in deciding how it should respond to these failures in the market mechanisms? On what basis should the TCS role be defined? A recent Policy Planning Staff Paper has emphasized that the TCS role should vary among countries and among sectors.

Trade development programs face a paradox: large developed markets of the OECD, of greatest interest to the private sector, require less government support than developing markets, of secondary importance, where government support is crucial to success. A global presence cannot, as a result, be uniform across all markets; on the contrary, it must match specific characteristics of individual markets with appropriate presence, programs, and priorities. Moreover, this global presence must identify where government assistance is necessary and provides significant value-added on a market and sector specific basis.<sup>3</sup>

Later in this paper the question is discussed whether fee-for-service might serve as a guide in determining the future role and purpose of the TCS. The volume of revenues obtained from alternative types of activities in alternative countries would provide indicators as to how and where the TCS should be expanding its activities. Fee-for-service would automatically suggest limits to TCS involvement in activities where benefits are less than costs. However, because of the positive externality benefits discussed above, the fee-for-service concept should not be aimed at full cost recovery. Rather, a fee schedule set at a percentage of marginal costs should be adopted, with costs being shared between the TCS

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<sup>3</sup> From a Trading Nation to a Nation of Traders: Toward a Second Century of Canadian Trade Development (Policy Planning Staff Paper, Department of Foreign Affairs and International Trade, no. 92/5), 23.

and its clients. The percentage should vary among activities and business clients, depending upon the extent of positive externalities generated by the activities.

### **THE DECOMPOSITION OF THE FIRM: WHICH FIRMS ARE "CANADIAN," AND SO DESERVE SUPPORT?**

The basic structure of the firm is changing. Traditionally, a firm was involved in a wide variety of activities necessary to create a line of products. Components and semi-finished products were purchased from outside the firm, but the process within the firm consisted of a long series of stages, each of which added value to the product. However, new corporate strategies have contracted out a growing proportion of the activities that previously were conducted within the corporate structure. For many firms, new corporate strategies entail the division of the company into separate units. These divisions may be based on many concepts, such as structures, geographical areas being covered, alternative product components being manufactured, and various types of production activities.

A driving force in this international decomposition of the firm has been the substantial wage differential among nations. For a Canadian business, it is now necessary to examine each activity to determine whether it would be profitable to shift the activity to a lower-wage nation. Many businesses are now prepared to locate each corporate function wherever the component or activity can be built or conducted at least cost. For many Canadian businesses, this has meant a shift from making all the components of a product in their Canadian location to making fewer of the components in Canada, or even just assembling the components that are imported from other countries. As a result, a "Canadian" business may still have responsibility for designing and marketing the product, but a narrower range of activities may be conducted within Canada.

This decomposition of the firm has implications for the divergence of interests between the business shareholders on the one hand, and the various other stakeholder groups such as employees, community, and general public on the other hand. While profits may increase and shareholders may become better off, there may also be permanent unemployment for many existing workers, a reduction of taxes paid in Canada, and a smaller role in support of community activities. This decomposition of the firm and the establishment of new international relationships casts doubt in many cases on the appropriateness of referring to the firm as having any particular nationality. It is no longer as clear as it once was, whether a particular business is a "Canadian" business. And so an important question for the future TCS role is: Which businesses are "Canadian," and so deserve TCS assistance? While emphasizing the significance of this question, this paper does not explore the implications of alternative answers.

### **THE NEED FOR ONGOING MARKET INTELLIGENCE**

In much of the traditional economics literature, managers were seen as responding to cost functions that were based upon a static technology. In that environment, sector reports

could readily analyze market information. In recent years, Japanese competitiveness has focused attention on quality, and this has culminated in the pervasive movement towards total quality management. From this perspective, attention is devoted to provision of goods and services that are modified in accordance with the specific needs of each customer. Quality is not just a matter of ensuring minimal defects, but also of continually modifying the product to make it better suit each customer, and to adjust to new customer needs. Innovation is an integral element of this continuous improvement, and innovation has become a joint activity of all those firms that are linked in each value chain. Consequently, Canadian businesses now need much more than the traditional introductions of principals of one firm to those of another. Canadian businesses need ongoing assistance to facilitate relationships that are continually changing. The need exists for a far more sophisticated "market intelligence" than used to be necessary.

The "competitive advantage" literature discusses the ability of firms to innovate both in terms of cost reduction and in terms of quality modifications. Analyses of authors like Michael Porter focus on future, continually changing cost structures, and they analyze the ability of businesses to alter the way they operate. Closely related is the ability of businesses to shift from one product or component to another as the demand for each changes. This feature is often referred to as "economies of scope," and it deals with the efficiency with which a business can alter its products to suit particular customers, thereby satisfying the limited market demands for each version of its products.

Vertical integration is now occurring through various kinds of alliances as well as the traditional corporate "take-over". The retail sector as well as the manufacturing sector is relying increasingly on such integration. The success of the retailer, even if only a small local retailer, depends to a major degree on an ability to deal appropriately with suppliers in a wide variety of nations. The pursuit of suppliers throughout the world has meant that even the small local retailer is part of the global marketplace. The search for partners in a value chain increasingly involves the search for suppliers of components rather than suppliers of the product as a whole. Here the retailer has an opportunity to become truly creative in the design of its own unique product. This trend is blurring the distinction between retail as a service sector and manufacturing as an industrial operation. The retailer may also be tempted to participate directly in the ownership and the operation of the manufacturing process itself, particularly in assembling the various components into the final product.

These dramatic changes in the way that business is conducted are putting additional strains on the exchange of information in the market place. Each Canadian business now looks at a vast number of possible suppliers and customers, with each of which there is the potential for a wide range of ongoing relationships. No longer is it adequate to send a sample of a product in the expectation that a foreign company will be able to reach a decision with regard to a business deal. The marketing function is changing, becoming an ongoing task that is more complex than it once was. At issue now is the ability of each Canadian business to understand the needs and interests of each foreign company--located throughout the world--with which it might usefully establish new linkages, knowing that the

nature of the products and services exchanged will be continually modified. This is increasing the sophistication and complexity of the tasks faced by the TCS, requiring ongoing market intelligence rather than periodic factual material and occasional introductions.

### **FACILITATING NEW TYPES OF BUSINESS ALLIANCES**

In the 1970s and 1980s, Canadians were frequently exposed to the view that foreign investment in Canada could be undesirable. Many authors referred to the foreign-owned Canadian subsidiary as a "truncated" branch plant. Management responsibilities were retained in the foreign head office, together with research and development and perhaps marketing. The Canadian plant's product mix mirrored that of the parent, and it offered jobs of a relatively low-skill and low-pay nature. Many such businesses extracted natural resources and shipped products that involved relatively low value-added activities, with relatively small benefits for Canadians. From this perspective, the foreign-owned Canadian subsidiary could even be described as exploiting Canada. In the past, other nations have shared this negative view of foreign investment.

The concepts of modern competitiveness emphasize a new and valuable role that foreign investors can play in strengthening Canadian business. An essential Canadian objective is access to a world-wide marketing network. Since a successful network often has to involve face-to-face communication concerning product development and new customer services, the Canadian small business may find the transition to international competitiveness simply too difficult on its own. Entry into strategic alliances with foreign enterprises may be a solution. With such alliances, foreign ownership may make a positive contribution to international competitiveness.

The need for international alliances rests also upon the persistence of non-tariff barriers in foreign markets. For certain sectors, foreign legislation may involve an explicit preference for domestic production, and this can prevent Canadian sales to government and government agencies. For example, the U.S. Surface Transportation Act requires U.S. government agencies to give preference to U.S. suppliers of transportation equipment. However, the concept of domestic preferences extends far beyond explicit legislation. Canadian firms can encounter informal domestic preferences in sales to foreign governments and their agencies. These are very difficult to pinpoint since they may involve the modification of product or service specifications in unique bidding packages that prevent a precise comparison between two bids. In the non-governmental sector of the United States, there also appears to be a strong "Buy American" sentiment. Here again, the small firm may find advantages in a strategic alliance with a foreign company, particularly one that has a location in the U.S., so that it can present itself as being American. For the TCS, this involves an expansion from trade assistance to investment assistance, requiring new skills and knowledge on the part of the TCS.

The GATT, the FTA and NAFTA are commonly perceived as trade agreements, and it is true that the changes discussed above are being intensified by the reduction of trade



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barriers. It is important to also recognize that these are investment agreements, opening the markets of the signatories to a wide range of investments and alliances that were not possible previously. Both the FTA and NAFTA have included chapters devoted to the removal of investment restrictions. Very significant are the removal of such restrictions to investment in Mexico. For the TCS, these reductions in investment restrictions will lead to a great expansion of business queries concerning investment opportunities and potential corporate "partnerships" that can facilitate international investment. In a real sense, the Trade Commissioner Service is becoming a Trade and Investment Commissioner Service. Perhaps even the name should be changed to reflect this new role.

### **HELPING FIRMS BECOME "EXPORT-READY"**

Many Canadian businesses have not yet developed the skills and/or product mix that could enable them to participate in the global economy in the ways discussed above. Some are simply at too early a stage in their growth to have constructed a "global corporate strategy." Some have too small a management team to be able to handle the extensive and necessary dialogue with foreign firms. Many have no experience in international trade and investment, and must gradually move along a "learning curve." What should be the role of the TCS in providing assistance to these firms?

What firms need in order to become export ready ranges over the entire set of management skills. Some need engineering and production advice; others need marketing assistance; still others need information about the business practices in other countries. What, if any, is the area where TCS has an advantage in helping firms to strengthen the capabilities that would make them export-ready?

A temptation exists to suggest that agencies that are solely domestic in their mandate should focus on strengthening the pre-international competitiveness of Canadian businesses. Many firms may never develop the requisite skills and/or product mix. Would TCS assistance not be wasted on such firms? It can be argued that the special advantage of the TCS lies in its ability to link Canadian businesses with firms abroad. From this perspective, one might see a role for TCS only at the final state of export readiness, once all necessary systems have been put in place. However, the above discussion suggests that becoming export ready requires many changes throughout an organization and that the ultimate purpose determines the nature of these. This view might argue for a TCS involvement even at early stages of change--with guidance along the entire path of corporate growth. Collaboration with other government agencies devoted to facilitating small business development would offer, in this view, the necessary sense of direction for preliminary changes in management behaviour and organizational structure.

### **THE FUTURE STRUCTURE OF THE TCS: FROM HUB-AND-SPOKE TO GRID**

The TCS is the only Canadian organization with representatives stationed permanently in each country. It is the only Canadian organization able to respond to all Canadian

businesses, rather than working for a restricted membership. With a market failure that relates to the establishment of linkages among domestic and foreign firms, the TCS is the only organization in a position to facilitate all such potential linkages. Consequently, it is crucial that the TCS structure its activities so as to best fulfil this role.

It is appropriate to evaluate the structure of Canada's TCS from this perspective. In the past, communications have largely been uni-directional, consisting either of requests from Ottawa or reports to Ottawa. For the coming years, consideration should now be given to the establishment of organizational and communications "grids". The new kinds of relationships described above will often involve firms in many countries; they will be continually changing; and they will involve the exploration of potential business associates throughout the world. The organizational and communications grids could include Canadian provincial governments as well as foreign postings. They might include Canadian private sector organizations. They might also include foreign government agencies and private sector organizations in other countries. It is likely that the creation of new "grids" will replace the traditional "hub-and-spoke" relationships that placed Ottawa at the centre of TCS activities. The need for rapid and direct communications will likely result in the circumvention of the Ottawa "hub," and this will require new reporting structures and practices. Like many firms in the private sector in the 1980s and 1990s, the TCS will likely face a decentralization of responsibility and a downsizing of middle-management. How can the structural reorganization of the TCS be undertaken most effectively?

### **FEE-FOR-SERVICE**

Where can the line be drawn between private sector intermediation and the role of Canada's TCS? International business consulting firms will inevitably regard the TCS as unfair competition, particularly since the latter need not charge a fee for its services and need not operate at a profit. This perspective raises the question whether in fact the TCS should operate on a fee-for-service basis. To the degree that the above discussion is accurate and Canadian businesses will find it profitable to establish new international linkages, the TCS will be providing a financially valuable service. Operation on a fee-for-service basis would provide the TCS with market signals concerning the appropriate nature and extent of its business assistance.

Universal access to government trade development programs and services, in effect as a public or common consumption good, can result in excessive use. Just as increased road or air traffic may result in increased travel time and greater risk of accidents, increased use of trade development resources may result in poorer quality of service as more and more companies require market intelligence and related services. The request by an individual company for assistance may reduce the

average level of assistance available to all companies.<sup>4</sup>

Free for service

A fee-for-service structure would automatically serve as a mechanism for rationing the available TCS staff and facilities. One could argue that some mechanism is necessary in view of the inevitably increasing requests for assistance as a result of the factors discussed above. And one could argue that a fee-for-service structure would, in fact, be the best such mechanism. Of course, as an alternative, the TCS could conduct a myriad of cost/benefit analyses to determine which services should be provided. These analyses could be repeated regularly, as circumstances changed. A fee-for-service structure would allow businesses to conduct these evaluations on an everyday, ongoing basis rather than relying upon periodic political decisions. If businesses reached a time when they were not receiving adequate benefit to cover the cost of certain services, then their decision to stop buying these services would translate into an immediate decrease in revenues. A signal would be given automatically that the TCS should curtail the services. Meanwhile, experiments in providing new services in new locales could be readily evaluated. As revenues rose, an experiment could be expanded; if revenues failed to expand, the experiment could be curtailed. No massive compilation of reports would be necessary to ration TCS services or to determine changes in TCS activities.

### CONTINUALLY CHANGING THE TCS ROLE OVER TIME

The types and extent of market failures will likely change over time. It is possible that private sector organizations--like the Chamber of Commerce, the Business Council on National Issues, the Canadian Federation of Independent Business, or the Canadian Council of International Business--may expand their activities to include the kind of linkage assistance discussed above. Private sector corporations may specialize in the provision of certain types of linkage assistance. Recently the private sector Business Cooperation Network (BC Net) has begun to offer such assistance through telecommunication linkages with data bases that describe the activities and needs of businesses around the world. As these changes occur, the role of the TCS in this regard may be diminished.

In recent years, several private sector firms have come to offer detailed analyses of each country's economy. This has reduced the need for "country reports" to be sent to Ottawa from each post. This experience with "country reports" illustrates the way in which government responsibilities can diminish as private sector capabilities expand. With fee-for-service, revenue from any particular activity would fall as alternative private arrangements grew. The market might no longer fail for such an activity, and declining TCS revenue would indicate that the TCS role should be reduced. Here as well, the fee-for-service basis has the advantage that the role would automatically be modified and reduced as private sector alternatives become available.

<sup>4</sup> From a Trading Nation to a Nation of Traders: Towards a Second Century of Canadian Trade Development (Policy Planning Staff Paper no. 92/5, March, 1992), 16.

Apart from its role in rationing TCS staff and facilities in a manner that would direct them to their most effective use, the fee-for-service mechanism would also provide funding in the times of financial constraint that lie ahead. This funding may be a crucial issue if a political leadership decides to cut expenditures abruptly in the context of Canada's deficits. Ontario Premier Bob Rae, for example, saw the closure of Ontario consulates as a way of reducing expenditures. A fee-for-service structure could prevent such precipitous action, in that closure would not result in cost savings to the same degree as it would under our present structure of providing assistance free of charge. Furthermore, the general public and the political leadership would be more readily convinced of the concrete benefits that the TCS provides if businesses were in fact willing to pay for these benefits.

An additional argument in favour of the fee-for-service concept is the international nature of the firms that receive the benefits provided. To an increasing degree, the kinds of associations and linkages described above are eliminating the nationality of the firm and the product. It may not be possible to separate the gains accruing to Canadian firms from those accruing to foreign firms. Should Canada's TCS be providing services free of charge to a value chain that includes both Canadian and foreign firms?

In the past, a corporation's success had a direct impact upon the job security of its employees and the financial well-being of the particular community in which it operated. Consequently, one could argue that to assist a Canadian business meant assisting the Canadian economy. The changes that have been described above are resulting in the internationalization of many business activities. In some cases, this will mean the substitution of imports for the domestic production of certain components or elements of a product line. In some cases, this will mean shifting certain production activities from a Canadian location to a foreign location, with the creation of new facilities in that foreign location to replace Canadian facilities. These kinds of corporate restructuring are undertaken from the perspective of maximizing the return to shareholder's equity.

While profits may increase as a result of these kinds of corporate restructuring, Canadian employees and Canadian communities may be hurt in the process. This increasing divergence between the interests of shareholders and the interests of domestic employees and domestic communities may bring with it a need to deal with businesses on a different basis than in the past. In particular, it may no longer be appropriate to regard Canadian businesses as Canadian taxpayers who deserve government service free of charge.

### **THE STRUCTURE OF A FEE SCHEDULE**

Unlike private sector providers of intermediation services, the TCS serves a public purpose. No private sector organization is required to include externalities in determining its role. Hence, the existence of such externalities is a central feature in defining the role of government. In view of this, a first step in determining a fee schedule is to consider the degree to which the fee schedule should be less than full-cost recovery, with this gap representing the externalities or social benefits gained by Canadian society as a whole. It is

only on the basis of such positive externalities that one can argue for less than full-cost recovery.

Consequently, if positive externalities cannot be identified or if they cannot be valued, then an argument might be made that the fee schedule should simply be based upon full-cost recovery. Alternatively, it might be appropriate to choose some overall percentage reduction in the fee schedule below cost to reflect these social benefits. It might be argued, for example, that a fifty percent reduction below cost is a reasonable approximation to the positive externalities involved in TCS activities. Or some other percentage reduction could be chosen as the basis for cost sharing between each business and the taxpaying public. To encourage the involvement of firms that are just entering the global market, a contingency fee schedule might be devised, with payments based upon the results actually achieved.

It may be necessary to decide whether such a discount below full-cost recovery should be offered to all businesses that have a Canadian location. One might argue that a discount should only be applied on services provided to businesses that are defined as being Canadian, in accordance with some set of standards. The above discussion has suggested the difficulty of arriving at such a set of standards in view of the complex value chain, with its myriad of investment relationships, that is coming to permeate modern business.

Private sector organizations generally include a profit margin on top of the estimated costs in arriving at the fee schedule. In partnerships, profit derived in this manner is generally distributed as an annual dividend to partners. The question arises whether the TCS should include a similar margin in order to be seen as a fair competitor, and in order to provide correct market signals to prospective clients and to the TCS itself. However, it is likely that this margin in private sector organizations is of a such a relatively small percentage compared with total revenue that it need not be a major concern.

Finally, how can one determine the costs that should be included in the basic fee schedule? Here, reference to large accounting and legal firms may be helpful. Such firms face the same kinds of questions that the TCS would face in analyzing this question. Basically, the approach of such firms is to charge a certain amount per hour, or portion thereof, for each employee's time, with the amount per hour varying in accordance with the job category of the employee. The hourly fee is established at a level such that a reasonable work load for the employee will cover not only the individual's personal remuneration but also the overhead and office costs related to that employee. The reality that multinational accounting and legal firms are able to develop such a fee schedule suggests the feasibility of this for the TCS.

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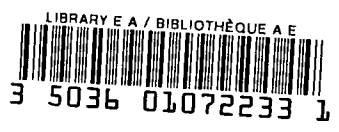
## CONCLUSION

The thrust of this paper is that the changing nature of business is giving rise to market failures which indicate the future role that the TCS should be addressing. The time has come to define the role and structure of the TCS more precisely in accordance with the extent and nature of such failures in the marketplace. One mechanism to utilize for this purpose might be a fee-for-service structure. It might now be useful to focus on the establishment of a fee-for-service structure, and to allow revenues derived from it to serve as a guide in determining the extent and nature of TCS activities. Meanwhile, a series of issues raised in this paper may deserve consideration, particularly the following:

- The increasing complexity of market intelligence, as opposed to traditional country reports and sector reports
- The decomposition of business activities, with increasing and varied types of international linkages
- The increasing difficulty of labelling a firm as Canadian and so deserving of support
- The special needs of small- and medium-sized businesses
- More precise calculation of the positive externalities created by exports
- The need to facilitate new types of business alliances, extending the TCS to include various types of investments
- Responsibilities in helping firms become export-ready
- Changing the structure of the TCS from hub-and-spoke to grid
- Implementing a fee-for-service structure as a guide to appropriate functions
- The need to continually change the TCS role over time as the types and extent of market failures change

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