Europe 1992

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External Affairs and International Trade Canada

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Canada

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THE EXPERIENCE OF SUCCESSFUL CANADIAN COMPANIES IN EUROPE

UK - FRANCE - GERMANY

QDM Ltd for the Canadian High Commission

July 1991

The LINK '92 PROJECT:

Learning from Canadian experience in Europe

This is not another theoretical report on the slow but steady progress towards the Single European market. This is a practical document which draws lessons from the experience of Canadian companies which have successfully established themselves in European markets. It is addressed to Canadian companies on the threshold of international expansion and offers them the opportunity to learn from the experience of those who have preceded them. The views expressed are those of the companies interviewed.

The following companies generously shared their experience and lessons learnt when setting up and doing business in Europe:

- Alcan
- ANF (Atelier Nord France)
- Bank of Montreal
- Bombardier
- CAE Electronics
- Canadair
- Canadian Astronautics Ltd
- Canadian National Railways
- Canspect
- Cascades
- CCL Industries
- Com Dev
- Eicon Technology Corporation
- Labatt
- Lawson Mardon Group
- Lumonics
- McCain
- Matrox Electronic Systems Ltd
- Mobile Data International
- Moore Corporation
- Newbridge Networks
- Northern Telecom
- Ogilvie Mills
- Ogivar
- Royal Bank of Canada
- Trench Electric
- Vidéotron
- Voortman Cookies

The Commercial sections of the Canadian Embassies in Paris and Bonn and the High Commission in London gave valuable assistance in the organisation of the interview programmes as well as in reviewing the materials.

SUMMARY OF KEY CONCLUSIONS

- Opportunities in Europe are plentiful for Canadian companies who have new products to sell or can improve existing financial and management controls in their European subsidiaries.

- The opening of Eastern Europe renders the region even more attractive in terms of overall market size and new opportunities.

- Europe is not a homogeneous market. Every country in Europe is different in terms of market parameters. You will have to think carefully in which country you start and how you grow from this first entry point.

- Building a European base can take longer than you expect. Be patient and persevere.

- Although closer in many respects to Canada, UK customs, markets and business ways are not identical. Most of the companies interviewed found the use of local nationals invaluable in bridging the culture gap.

- Don't hold the reins too tightly. Balance the need for control with the necessity for local managers to have reasonable autonomy.

- Pay thorough attention to integrating European staff into your organisation and company culture. Even relatively modest "cross-fertilisation" programmes have been found to be very effective, as well as morale-boosting.

CONTENTS

The document is divided into five main sections:

1. WHY DID THEY CROSS THE ATLANTIC?

Each company had its own set of reasons to go overseas. The most important influencers were:

★ **Dissatisfaction with agents**

This was particularly the case for high tech companies whose products must or are required to be sold by people with technical expertise

★ **1992 effect**

Some companies believed in the possibility of a "Fortress Europe", and wanted to secure a seat before it is too late

★ **To exploit cross-marketing opportunities**

Sometimes it is possible to find the European counterpart to your company whose products perfectly complement your range

★ **To escape constraints on growth in domestic market**

Europe provides ready access to nearly 350 million customers

★ **To find new markets for innovative products**

Selling innovations in Europe can help amortise the sunk costs very quickly

★ **To oversee distribution of products**

Some felt the need for providing a technical and marketing assistance to their existing network of agents

★ **To export proprietary knowledge in a high national interest sector**

In such industries as defence, it is simply next to impossible to export your Canadian production without being perceived as a "local" player

★ **Opportunism**

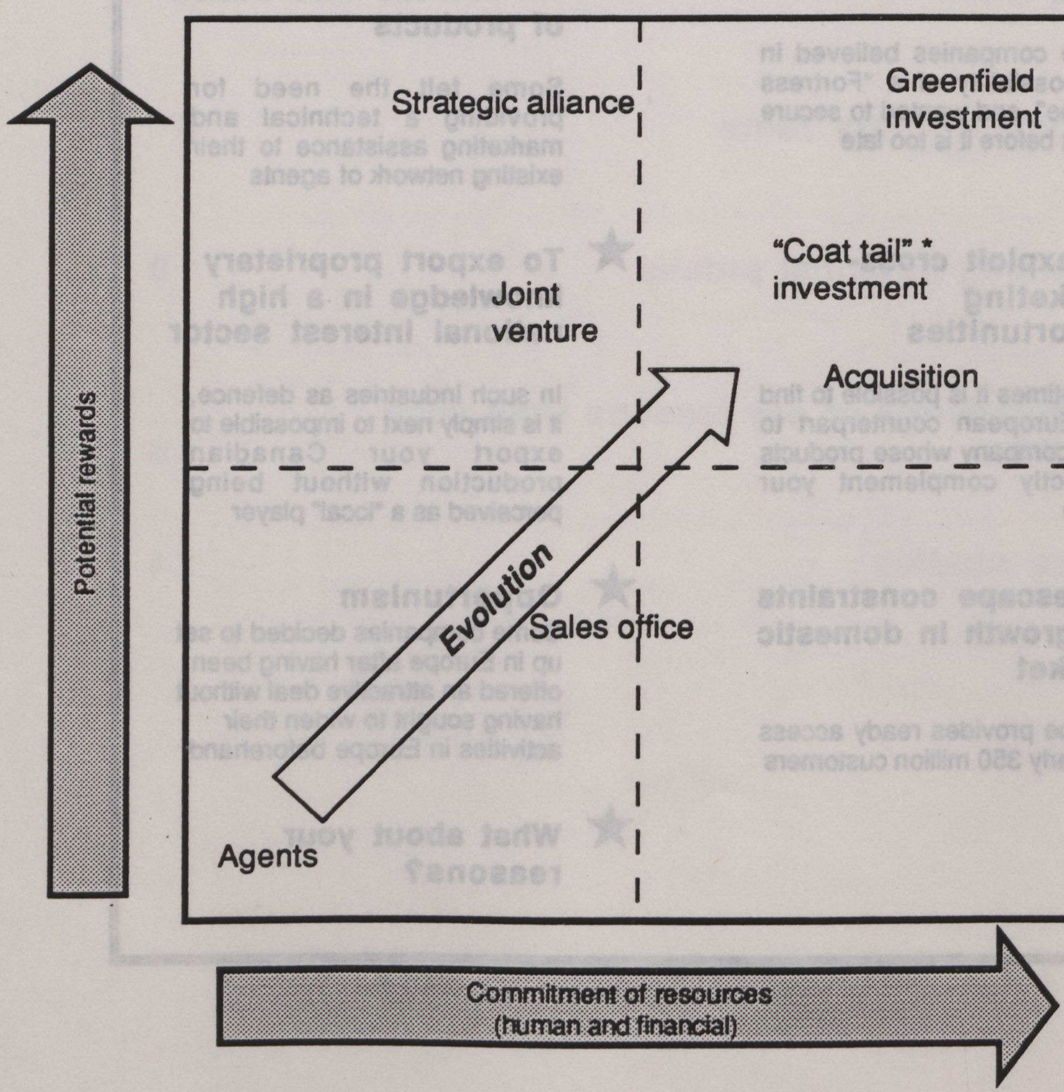
Some companies decided to set up in Europe after having been offered an attractive deal without having sought to widen their activities in Europe beforehand

★ **What about your reasons?**

2. CHOICE OF ENTRY ROUTE

There are many routes to European market entry, and seven were used by the companies studied. These routes offer different degrees of financial and human commitment, and potential rewards (other factors being equal), as indicated on the matrix below.

Some companies used agents to test the acceptance of their products in the market in a low risk way. Their presence then evolved through a sales office, and perhaps joint venture. The choice of market entry route should be thought of as a dynamic rather than a static process. Thus when choosing the first step, it is wise to have in mind the potential evolution.



*"Coat tail" investment: regular suppliers of Canadian organisations following their clients to Europe.

The most appropriate entry route for your company will depend on the characteristics of your sector, your financial constraints, and your company's organisational skills. According to the companies interviewed, each route has its intrinsic advantages and disadvantages. Some of the perceived advantages and disadvantages of each option are listed below.

PRO'S AND CON'S OF ENTRY ROUTES CHOSEN

AGENTS

Pro's	Con's
Simplicity: No responsibilities, no investment, no recruitment, no office to find, etc.	Reduced profits because of the commission that you must pay
Easy way to test acceptance of your products in a new market	Unless exclusivity deal, agents not as keen as you on selling your product, if other lines held offer higher margins
	In many cases, agents do not have the knowledge and expertise to sell high tech products

SALES OFFICE

Pro's	Con's
Good way to get familiarised with unknown market	Potential transportation and customs clearance problems
Allows expansion from single country base into other European countries for those products where transportation costs are low and buyers don't require just-in-time delivery	
Gives more control on sales than with an agent	

PRO'S AND CON'S OF ENTRY ROUTES CHOSEN (cont'd)

STRATEGIC ALLIANCE

Pro's	Con's
Gives quick and easy access to unknown, and sometimes closed, market	Much uncertainty due to looseness of the agreement
Good way to get to know a company before a more formal partnership	Risks of being spied upon by your partner

JOINT VENTURE

Pro's	Con's
Allows exploitation of synergies	Possible clash of cultures
Decreases risks of market entry into a new market/sector	Not as much control as with an independent operation
Efficient way to learn other management methods	

PRO'S AND CON'S OF ENTRY ROUTES CHOSEN (cont'd)

ACQUISITION

Pro's	Con's
Reduces much of the uncertainty linked to setting up greenfield operations in a foreign country	You buy everything: the good and the bad aspects of the company
Allows immediate gain of market share, and of goodwill	Considerable time must be spent on adapting the acquisition to parent company's management style and culture
Quick way to break into a market with high barriers to entry and established players	

"COAT TAIL" INVESTMENT

Pro's	Con's
Secured sales, "bread and butter" business	Heavy dependence on one client
Possibility to explore the market around you	

PRO'S AND CON'S OF ENTRY ROUTES CHOSEN (cont'd)

GREENFIELD INVESTMENT

Pro's	Con's
Possibility to start with newest equipment, technology	Need to find your own customers, suppliers and employees in an unknown environment
Complete freedom over location	
Possibility to make a fresh start on corporate image	

What will be your entry route?

3. AVOIDING POTENTIAL PITFALLS

Below are noted some of the potential difficulties you may encounter, together with Canadian companies' views on how to avoid or overcome them.

DEVISING YOUR ENTRY STRATEGY AND TACTICS

How best to get to know the markets?

At least start by consulting a Trade Commissioner. The overseas trade offices were found to be most useful in giving advice on the "lie of the land".

If you do your own market study, send top-level people from the parent company who are able to focus on key information more quickly and more efficiently.

If you use external consultants, make sure they understand your objectives and requirements very clearly from the start.

Take full advantage of the information you can get through trade associations, the experience of your peers, and explore the trade magazines. In the UK you will find market and company data easily, not so in the rest of Europe where you will have to rely much more on talking to people in the industry.

If you go for the acquisition process, exploit to the full the knowledge and experience of existing key staff.
Survey all European countries, not just one. Conditions could be very different next door. Also you might be able to identify scale factors across Europe for your product.

How to decide on the base country for your overseas activities?

Compare a number of countries on a 10 point scale using factors such as:

- ease of acquisition
- ease of repatriating money
- taxation level
- communications and transport facilities
- quality of labour force, etc.
- government incentives availability should be treated as a balancing factor between equal options.

The **UK** offers the advantage of a great similarity in language and culture, but will not be representative of other European markets. Indeed, the insularity of the UK is reflected in the fact that most industries are structured differently in the UK than on the Continent.
France is a welcoming country for French Canadians and is also used as a base to market to Southern Europe and Francophone Africa. But business practices are very different compared to North America.
Germany in itself is found generally as a difficult market to enter because of intrinsic rigidities in business practices. However, once established in Germany, a market position is well rewarded and relatively secure. Germany is also at the door of Eastern Europe and a number of companies use Germany as a base to market to the Middle East too.

Having decided on your entry point, bear in mind the next steps of establishing your presence in Europe.

How do I protect my products?

It is best to register your trademarks in each country in which you trade. Currently, patent protection may be applied at the national level, or alternatively, through the European Patent Convention to which all EC Member States adhere, with the exception of Denmark, Portugal and Ireland. A Community-wide patent convention will likely be established by the end of 1991.

How do I get product standards certification?

EC directives normally only lay down essential requirements for health, safety and environmental protection. In the absence of European standards, there is mutual recognition of national standards between Member States. The writing of detailed European standards has been given to European bodies such as CEN, CENELEC and ETSI whose progress has been slower than originally intended. The EC is also moving towards mutual recognition of Member States testing and certification procedures. Canada is studying a similar arrangement with the EC.

You first want to use an agent to assess the market, but how to select one ?

Look for someone offering good technical support, dedicated and operating in the same markets (size is not always a relevant criterion).

Attend trade shows to make initial contacts.

How to decrease the risks associated with a joint venture agreement with an unknown partner?

Define strictly the terms of business.

Both companies must share the same views on how to value a business.

Joint venture's management must have real authority of its own.

When considering the acquisition process: how to minimize the risks of choosing a lame duck?

Formulate very strict financial objectives by which to evaluate the company or companies.

But don't overlook "soft" issues such as morale of key staff, motivations of seller, political background and environmental liabilities.

Do a thorough due diligence search.

If the best solution is a greenfield factory with a "coat tail" arrangement, how can you reduce the possibility of your partner abandoning you?

Minimise the risks through a formal agreement with customer comprising secured order book for a period long enough to pay back the investment.

Ensure you don't get tied up in an exclusive supply agreement.

Start looking for new customers straight away.

HOW TO DESIGN AN EFFECTIVE WORKING RELATIONSHIP BETWEEN HEADQUARTERS AND THE EUROPEAN OPERATION?

How to make sure that overseas management will share your values, and will understand your management style?

Recruit people with experience of working in multinational companies. Hire people trained in North American business techniques.

For existing work-force: cross-fertilisation programmes can be useful. But they might not be willing to work in your way and never will do 100% anyway. At least establish where the differences lie in order to manage them.

Bring head office people ("right hand people") over to supervise overall functioning, but only if they speak the local language. Otherwise you will have to delegate to a local manager.

How to reconcile the need for control with the need for local initiative?

Establish rigorous financial control and reporting systems but leave marketing initiatives to the local management.

Establish clear lines of responsibility. Either have your own manager who can operate on the local market or delegate heavily on a local manager. What does not work is to have a dual leadership composed of a local manager and manager from headquarters.

Pay close attention to recruitment, to find people able to cope with uncertainty.

How to maintain efficient communications between parent company and European subsidiary?

Have a fax.

Be prepared to pay large phone bills.

European management must be prepared to stay late at the office.

Set up regular face-to-face meetings.

Don't hesitate to jump on a plane to solve a problem. And make the Europeans feel that they too can come as often as needed to headquarters. Be prepared for heavy transatlantic travel costs.

Some companies have found it useful to have dedicated staff on both sides of the Atlantic ensuring smooth communications and ready to work the hours of the other side.

Don't underestimate the need of your European team for encouragement and advice (especially if they are on their own).

OTHER SUGGESTIONS

How to minimise the taxation load and legal complications?

Get advice from international auditors who have a knowledge of international taxation laws right from the beginning. They may be more expensive than a smaller accounting firm, but the benefits to be derived from their use more than offset the additional charges.

How to reduce the financial strains on the parent company?

Get secured sales before commiting money and time.

Start exploring one market on a very small scale (one person, one telephone). (However, this solution may not be appropriate for certain industries where larger scale presence is required from the beginning.)

How to avoid the mistake of treating Europe as a homogeneous market?

Establish a sales network using a mixture of locals and your own people, before commiting yourself to more substantial investment.

Don't assume that the same products and marketing messages will work in all European countries.

How to avoid the pitfalls from considering UK as a quasi-North American market?

Remember that despite common language and historical links, business practices and cultural norms are not identical.

Hire a national with experience of the market.

Do an extensive market study beforehand.

Draw on the advice and experience of the Trade Commissioners. They have probably seen similar cases to your own.

How to minimize language problems?

You can't. Unless you stick to the UK and the Netherlands.

Hire managers who have been exposed to both sides of the Atlantic.

Have a budget for language training for the key people involved.

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How to manage exchange rate fluctuations?

Hedge the transaction or take out insurance to cover currency risk.

Accept contracts in ECUs (European Currency Unit).

4. COMPARISONS OF KEY LESSONS FROM EACH COUNTRY

Doing business in the UK

Canadians are viewed positively.
The British have a very positive view of Canada and Canadians, being seen to have the benefit of the straightforwardness of North Americans without the brashness of the American. Nevertheless, the image held can be a little dated, as underscored by the use of Mounties and lumberjacks in advertisements for Canadian products.

Some British people underestimate Canada's ties with the UK.
Some of those who are more familiar with the modern industrial Canada, and who are aware of how highly integrated the Canadian economy is with that of the US, can exaggerate the similarities of the US and Canadian business and social cultures, and underestimate the links and similarities with the UK. In particular, the Canadian legal and business cultures are much closer to the British than any other European country. To that extent it can be easier for Canadian companies to establish their corporate culture in a subsidiary based in the UK than elsewhere in Europe. Similarly management and other systems may frequently be transferable.

Overstating the similarities can lead to problems.
A number of difficulties can arise if no account is taken of national or cultural differences. While rarely serious, differences in syntax or vocabulary can lead to misunderstanding or failure to communicate effectively. The sense of humour may differ, and Canadians can be thought flippant or over-familiar. One result is that advertising and communications campaigns may need to be adapted to the UK market. Finally, Canadian HQ's should remember that the time difference can impose some strains, if UK staff are regularly required to work in the evening.

Differences in business practices should be allowed.
Canadian companies establishing and developing a subsidiary in the UK will need to take account of the following differences:

- Staff terms and conditions differ, and staff will have different expectations. In particular, holidays are longer in the UK than in Canada, and fringe benefits are more generous. On the other hand, salaries are lower than in Canada.
- Planning and building rules are more strict in the UK, and formalities will take longer to sort out.
- Decision-making and management change are slower, whether getting a buyer to commit, or changing attitudes among blue or white collar employees.

Britain's free trade tradition can be an advantage.
In common with Canada, Britain has a long tradition of free trade policy. While its membership of the EC leads to the application of tariffs and quotas as in other countries, Britain is usually at the liberal end of the argument, and this can be helpful to Canadian companies which want to establish a subsidiary which can trade throughout the Community.

Doing business in France

Canada has a positive image.
Canada benefits from a very positive image in France. Canadians are perceived to be more human in business relations than Americans. Quebec enjoys a romantic image and Quebecois are always very welcome as "long lost cousins coming back home." The French tend to view Canada as Quebec and often forget that Canadians may not speak French, and are North American in their lifestyle.

Don't forget the French are patriotic.
Foreign companies are often concerned by the degree to which there are protectionist attitudes in France. North American companies are more easily the targets of criticism, especially those that operate in sectors considered as "strategic". Canadians may be surprised by the range of sectors, such as paper manufacturing, that can be defined as strategic in order to justify some measure of protection from imports or foreign investment. The press may be quick to latch onto a foreign company making redundancies, but buyers will not be overly influenced by "buy French" arguments.

The ability to speak French is a 'must'.
Knowledge of languages is not very wide spread. As a result, one has to speak French to do business in France.

Personal relations are more formal than in Canada.

- The informal address "tu" and first names must be used with great caution. Judging when to start using these informal modes of address is an art that even French people find difficult. The best way to judge is to observe the way people talk to each other in a given environment. Inappropriate use of "tu" might irritate somebody who feels in some sense superior or deserving of a mark of respect. It might also mislead French colleagues as they would take it as a special mark of affection and might be disappointed that it is not the case.

- Another aspect of the formality of relations is the strong sense of hierarchy that prevails in most French companies. As a Canadian manager one must always bear in mind the restraint that staff will have when talking to you. It is quite difficult to implement a true "open door" policy in a French firm.

- Formality is also reflected in the way people greet each other. One must always greet people with a hand shake. A manager arriving in the morning and crossing an office might have to shake the hand of 20 people before being able to sit down. If this is not done, employees will think the manager either rude or cross.

- Similarly, although colleagues can become personal friends, it will be a long time before French colleagues invite their Canadian counterparts to their homes. And when they do it, the invitation will be very formal. It is quite common for a first invitation to be to a restaurant, rather than the home, and foreigners should not interpret this as lack of friendliness.

But business relationships are less formal than in Canada.
Surprisingly, although relations with people are generally formal, the contractual environment is rather loose. Verbal agreements are perfectly valid and common practice. If there is a problem regarding an agreement even embodied in a written contract, "on peut toujours s'arranger" and a solution will be sought outside court. Even if matters arrive in front of a court the magistrates will encourage a settlement outside court.

Don't forget the French are individualistic.
The French are not natural teamplayers. The educational system is geared to promote individual achievement and respect for hierarchy. This reflects in the way management information and decision-making systems are devised in French companies. It can be very difficult for a Canadian newcomer to impose a North American consultative team practice.

The discipline of the 'bottom line' may be new to some French business managers.
French companies tend to be much more product oriented than Canadian companies and tend to give less attention to financial control. For example, many Canadian companies are surprised to find out that their French partners are using standard costs (costs averaged over a period of time and sometimes not including a full allocation of overheads) instead of real costs. Again this is related to the education system which sends the brightest minds to engineering schools rather than to financial matters. Also, management pride will often be set on a new technological development without any consideration of its profitability. The French liking for prestige 'grands projets' in the public sector is widely understood abroad, but the phenomenon is also evident in private companies. However, when Canadian parent companies impose a stricter financial control, French executives although complaining about the extra work, generally appreciate the benefit of having more precise decision making tools. The only area of friction is regarding the perceived short-termism of financial return requirements, a feature associated in France with North American business philosophy in general.

Mixed experience of how to implement new financial controls.
Acquisition is a favoured route to market entry in Europe but Canadian acquirers have to be able to implement their financial controls in the new French subsidiaries. Experience regarding the method used has been mixed. Some Canadian acquirers have chosen a soft route introducing the new controls gradually. In this way, they hope to preserve the sensitivities of the local management and to ensure therefore a better acceptance of the new measures. Other Canadian acquirers have chosen to implement new management information systems in a block without any transition period. The reasoning is that a half implemented system is bound to have failures and therefore be an easy target for criticism from the local management. Training is always an important feature of the introduction of new controls. Whichever method has been used to introduce new controls they have been successfully accepted by French management. In conclusion, the best method of introduction depends very much on the internal culture of the Canadian acquirer rather than on peculiarities of French business culture.

Canadian products may need to be adapted to the French market.
The fact that French industry is more product oriented has as a consequence that overall specifications are more precise, more expensively engineered, and more design oriented. Products are often designed for a longer life cycle than in North America. Canadian companies have to be able to adapt their products to these new demands but can also gain from their association with French companies.

Employment practices are more restrictive.
Canadian companies should not forget that France has a very elaborate and expensive set of rules regarding the social protection of employees. The obligations of employers are so onerous that many Canadian parent companies simply do not believe their French subsidiaries when they are told of the rights and demands of employees, even after years of establishment in France. Canadian parent companies sometimes try to find a way out of these rules...but there is no way out. The French administration does not negotiate.

But French management is flexible.
While extensive employee rights may seem a restriction, French management is mobile and will accept travelling extensively and stay abroad if needed. Similarly, French agents will travel readily to visit the manufacturers of the products they sell and report on the market.

A good meal is an essential ingredient of good business.
Corporate entertaining is important but it is mostly over lunch. A good meal is essential to seal a relationship, celebrate an agreement, or just keep in touch.

Business gifts are a way of life.
Another common practice is "le cadeau d'affaires" or business gift. These can be lavish and may be expected by your counterpart. Every industry has its "rules" and it is best to ask your French collaborators. For a North American, the ethics of such gifts may be questionable but in certain industries you cannot operate without playing by the rules. The "cadeau d'affaires" does not enable you to win a contract, it is more a way of maintaining good relations and more akin to upmarket promotional gifts. Examples of such gifts would be a box of foie gras for Christmas, or a silver pen on signing a deal.

Doing business in Germany

Negative image of North America.

In contrast with France, Canadian business does not enjoy a particularly positive reputation in Germany and is not distinguished clearly from a general view of North America. This is due to a combination of the poor reputation of North American manufacturing in general, and an unshakeable belief in the superiority of German technology.

The implications are that:

- Canadian companies must be sure that any advantages their products have over existing German products are stressed. All things being equal a German product will always have preference.

- Foreign companies have to blend in much more than in other European countries. There is no question of not speaking German and it is important to employ German staff, even at senior management level.

The business environment is heavily contractual.

No verbal promise is valid unless embodied in a written contract. Contracts are rarely amended. Unlike in France, your German business partner will not seek a settlement out of court and will not hesitate to sue you. To work in Germany it is paramount to have a good lawyer who, you must be sure, works on your side.

The strict contractual environment has two major consequences:

- Because of the strictly binding effect of contracts, decisions are made much more slowly than in a North American context.
- Another effect is that your German counterpart will not enter the negotiation with an idea of 'fairness', but will try to get the maximum out of the negotiation and embody it in a contract. To counterbalance that, to stand firmly on one's position is more respected in Germany than to be flexible to the demands of a client!

When Germans talk about 'reliability' they mean continuity.

German respect continuity from their suppliers. This works at two levels.

- Firstly, most German companies are very loyal to their suppliers and value a long-term relationship. In order to protect an established relationship with a supplier, German companies will even pay a premium. Thus a company wishing to displace an established supplier needs not only to do much better on price, but also offer product and service advantages. A new supplier will also have to show constant initiative in order to have the opportunity to quote on products or services. And lastly the new entrant might just have to spend time in the market before business takes off in order to show commitment. As a result establishing a position in the German market is very costly, but in the end because of the loyalty one has gained from German clients, it is more valuable than in other countries.
- Secondly, German companies would find it suspicious and bad practice to encounter a high staff turnover in their supplier companies. One cannot have the same staff turnover as is customary in North America. This makes the decision to employ very tricky, as one may be landed with the same employees for a long period.

Importance of personal visits.
Unlike other countries where one can introduce a new service by mail or by telephone, in Germany personal visits are considered as an essential first step. German business contacts will agree relatively easily to see you personally and will set aside enough time for the visit. They will require you to be very punctual if not slightly early. They will expect a brochure and will read it thoroughly.

Lack of published marketing data.
Personal visits have another use in collecting market intelligence given the paucity of published data available. In Germany one has to use the grapevine as much as possible in order to understand a market.

Expect higher costs than in Canada.
Most costs are higher than in Canada. The largest differences concern salaries, telecommunications, and taxation levels. This implies that margins have to be higher than in Canada in order to support the extra costs.

German staff are not mobile.
Although most German executives speak fairly good English, they will be generally reluctant to move abroad. An argument put forward is that they do not want their personal routine disturbed. Another reason to refuse transfer put to Canadian employers by German staff is the attachment to their region including its natural beauty. This attitude has as a consequence that exchange programmes are rarely implemented between German subsidiaries and foreign parent companies. As a result foreign companies are disadvantaged in competing to recruit good people.

The distaste for travelling is also found amongst agents. Canadian companies who have used agents in a large number of countries often find that their German agent never comes to see them.

Personal relations are extremely formal.
Never use the familiar address form 'Du', or the first name unless you are asked to, which is extremely unlikely. Always use people's full titles such as 'Herr Doctor' with their last names. If you break these rules your German counterparts will think of you as rude and therefore inferior. You will find that colleagues having worked 20 years side by side will address each other in this formal way and may never have set a foot in each other's house.

There is little corporate entertaining.
Corporate entertaining is not an important feature of doing business. It is rarely expected for two reasons:

- The first reason is efficiency. If you have a meeting with a German business contact, a long time will be set aside for it, but small talk about the weather will not be made nor the latest sports results discussed. The meeting will start immediately with the core of the subject. Doing otherwise would be considered as a waste of time. If you are invited to have dinner with a business contact it is most probably because there is no time to see you otherwise and the conversation will be almost entirely professional.
- The second reason is the strong separation of personal from professional life. German executives guard preciously their personal life. And you will rarely be invited to a German colleague's home. This can be lonely for foreigners who will need a long time to settle in and create a social life for themselves.

Most German executives have a good working knowledge of English.
English has been taught as a second language systematically since the end of World War II and the younger generation is very influenced by American culture. However, a good working knowledge of English on the part of your German staff will not preclude misunderstandings related to language differences.

Proximity to Eastern Europe.
Germany is seen by many Canadian companies there as the best place for a company wishing to take advantage of the opening up of Eastern Europe while being based within the EC.

SOME COMPARISONS BETWEEN COUNTRIES STUDIED

Some of the themes evoked by Canadian companies interviewed in the three countries were similar. This allows some general comparisons to be drawn regarding business practices in the UK, France and Germany.

	UK	FRANCE	GERMANY
Image of Canadian Business	Neutral	Positive	Uncertain
Protectionism	None	+ + +	+ +
Importance of looking local	+	+ +	+ + +
Importance of contracts	+	+	+ + +
Formality of relations	+	+ +	+ + +
Importance of corporate entertaining	+ +	+ + +	+
Staff mobility	+ + +	+ +	+
Availability of market data	+ + +	+ +	+
General knowledge of English	+ + +	+	+ +

+, ++, +++ indicate relative importance.

5. CASE STUDIES

- ◆ UNITED KINGDOM
- ◆ FRANCE
- ◆ GERMANY

CASE STUDIES IN THE UNITED KINGDOM

CCL INDUSTRIES

How to exploit existing skills.

The Canadian operations	CCL Industries is a Canadian-based multinational corporation engaged in the custom manufacturing of consumer goods in North America and Europe, printing of labels and manufacturing of aluminium aerosol containers and tubes in North America.
Its overseas activities	Challenged by the Free Trade Pact and the forthcoming European Single Market, CCL started to push back its frontiers first by acquiring a US-based company, and then by acquiring two English companies: Osmond Aerosols in November 1989 (receivership situation), and Minipak (for its pharmaceutical expertise) in February 1990. Acquisition was preferred to any other entry route because: ● The company had no expertise in greenfield. It is, however, experienced at buying companies in trouble and turning them around. ● It is difficult to build a customer base in custom manufacturing because of extreme loyalty to suppliers. ● CCL was also taken aback by the perceived obstacles associated with starting from scratch in a foreign country.
Lessons to be drawn	The UK operations are still in their teething phase, but some conclusions can already be drawn: ● **Senior management positions were staffed by a combination of Canadian people familiar with the UK, and UK nationals from the acquired companies.** The objective was to transfer the Canadian corporate culture while preventing any major disruptions in the companies bought. ● The overall organisation of UK operations was facilitated by CCL's network of suppliers and customers with worldwide operations. ● Many of the problems involved in acquiring a company in receivership have been eased by the good reputation of the acquirer. ● **Under the guidance of experienced in-house legal staff, CCL's utilisation of local lawyers proved invaluable** because of the complexity of the deals and their extensive knowledge of UK legal framework.

✓ # COM DEV

How to make a smooth transition from agent to greenfield investment.

The Canadian operations

Privately-owned company founded in 1971, Com Dev designs and manufactures advanced microwave, millimetre wave and signal processing subsystems sold to the space, aerospace and defence markets on an OEM basis (whereby its clients name appears on its products). Its largest business area is in satellite borne subsystems.

Their 1990 turnover is around $40 million, with 80% of the Canadian production exported to USA, Europe and Japan. 1990 turnover in the UK subsidiary is about $4 million. The company employs 350 people in Canada and 30 in the UK.

Its overseas activities

In 1985, Com Dev Europe was established to provide a European base for their products. Some of their low-priced standardised products were already sold through an agent, but their entrepreneurial instinct made Com Dev's managers believe there was a niche opportunity for their value-added products. This, however, necessitated a European presence because of the tailor-made nature of their products. This European base was even more essential in view of the politics involved in selling to the European space industry.

Lessons to be drawn

The financial commitment was minimised through the following measures:

- The UK operations started very small, offering only design and marketing facilities for the first 18 months. The manufacturing was subcontracted either to the Canadian plant or to local manufacturers.
- The Canadian company provided the financing until the break-even point was reached, but insisted on a policy of self-financing for subsequent investments.

They also made it clear that their objective for the UK was to have a complete organisation covering design, selling, manufacturing and testing. In doing so, they actually conveyed the entrepreneurial spirit they perceived as being a key factor in their success.

Experienced UK national recruited as managing director. Another asset was the recruitment of a UK national with extensive experience and knowledge of the European space industry as their managing director. This was made possible through the utilisation of a headhunter.

The small size of the UK division in the first 2 years created a credibility problem. No definite solution was found, but the following tactics were seen to help:

- They sent clients to Canada to reassure them of the seriousness of the company.
- The first major European contract was signed with the Canadian company but subcontracted to the UK division in order to reassure the European customers.
- The UK company swiftly imported the parent company's processes and procedures that had contributed to its reputation.
- As soon as the level of activities allowed it, they acquired a small manufacturing capacity.
- Final establishment in Europe is now being confirmed with Com Dev Europe moving into a purpose-built facility of 13,000 sq. ft in 1990/91, representing a further investment of over $3 million.

Day-to-day freedom for UK management balanced by monthly financial reporting to headquarters.
The UK management enjoys a great deal of freedom on the day-to-day decisions, but a certain amount of control from the Canadian company is maintained through monthly financial reporting and the visit of the president or the chairman every 2-3 months.

Frequent technical exchanges viewed favourably.
On the engineering side, almost daily telephone contacts take place between the 2 companies. These exchanges are seen as a useful source of new ideas (products, techniques, marketing) for both sides. Exchanges of people to work on a particular project, for a period varying between one to several weeks, are a regular feature.

Emphasis on differences in business culture used positively.
The transfer of the Canadian culture and participative management style to the UK operations was considered an essential step. However, differences in the social landscape of the 2 countries were also taken into account. In consequence, Com Dev now offers to all their employees what they describe as a "broad level of equality". Because of the frequent contacts between the North American and the European employees, the management spent much time highlighting those differences (eg. the holidays are much longer in the UK than in Canada, fringe benefits are generally more generous in the UK, the salaries are higher in Canada, the profit sharing scheme idea is much more ingrained in Canada, etc.).

UK operations divided into 2 parts to minimise taxation load.
In order to minimise the taxation load, the UK operations were at first divided in two parts with the trading activities considered as Canadian revenues, and the capital assets activities assigned to a UK registered limited company. Through this agreement, they were able to offset the losses of UK operations against their Canadian revenues, and hence reduce their tax bill. However, as soon as the UK company began to break even, the UK trading activities came under the UK company.

This arrangement was designed by their accountants, who were chosen especially because of their knowledge of international taxation.

Greenfield investment route highlights differences between Canada and UK.
The construction of Com Dev Europe's headquarters highlights a few points to be considered when envisaging a greenfield investment:

- Much planning and time were required. In fact between the initial thought and the actual moving, 2 years had elapsed with nearly one year just to find the land.
- UK land prices are much higher than Canadian ones.
- There are very strict planning and building regulations (much tougher than in Canada).

The UK experience is seen as providing the model for expansion into other European countries.

Labatt

What's their secret?

The Canadian operations

Labatt is one of the 2 main Canadian brewers, and is also involved in other sectors in a wide range of products, mainly in the food industry.

Its overseas activities

The UK expansion was part of Labatt's decision to become a world class brewing company in order to offset the potential negative effects of the then forthcoming Canada-US Free Trade Pact.

Their UK involvement was developed in 2 phases:

- In 1985, Labatt Canada sent one sales director over, and started to export its Canadian production using 4 sales representatives. The objective was to acquire a sense of the acceptability of their products by the UK market, and to evaluate to what extent the marketing and sales techniques used in Canada could be applied in the UK.

- In 1987, 3 senior managers from the parent company moved to the UK with the objective of realising significant business in the UK by creating a strong Labatt brand.

The entry route chosen involves renting spare production capacity from UK brewers, and using their distribution network (pubs) for draught beers, while selling the bottled production through retailing channels with Labatt UK's own sales force.

This option was preferred to other entry routes because:

- A greenfield investment would have been very expensive and contrary to the minimum investment policy adopted by the parent company for its UK expansion.

- The UK beer industry had considerable spare capacity.

- The distribution characteristics of the UK beer market in which brewers control a considerable share of pub sales.

Lessons to be drawn

International market study essential for development.
In order to decide on which countries to concentrate, Labatt undertook an extensive market study of most free world countries, rating each of them on a point scale against a pre-determined set of factors (eg. beer consumption, product types, government and legal environment, profitability of the industry, repatriation of profits, etc.). The information obtained through this study was an essential, though expensive, step in the international development of Labatt. Another source of valuable information was Labatt's knowledge of the worldwide beer industry gathered through their attendance at world fairs and participation in trade associations.

Extensive advertising campaign to position products.
Dealing with a consumer product where brand awareness is a key success factor, Labatt granted enormous importance to their advertising campaign. They reckoned that to be successful on the UK market, their advertisements would have to be humorous, and would have to stress the Canadian factor to position their products as an international lager.

UK personnel introduced to corporate culture in Canada.
A cross-fertilisation programme has just begun with the objective of introducing UK nationals into the Canadian company. After a period of time they will be available to return to the UK to assume some of the senior roles currently filled by Canadian managers.

Needs of families must be taken into account.
Much importance was given to the integration of the 3 managers' families. According to the interviewee, when moving abroad, Canadian managers should be conscious of the heavy demands that will be made of them, and of the need to reconcile them with pressures from their family who must get used to a new life in a foreign country.

Each European country must be treated as separate propositions.
Though the UK was Labatt's first European target, it has not served as the prototype for other continental countries. They see each country as being very different, at least as far as the beer industry is concerned, and requiring a distinct strategic entry. For example, in Italy they bought 2 breweries.

Moore Corporation

How to become a global company through acquisition.

The Canadian operations

Moore Corporation is a multinational organisation providing products and services in the business information sector (eg. business forms, labels, computer supplies and information-management services, etc.). It operates in 54 countries with 150 manufacturing plants (major markets are located in North America, Europe, Australia, and South America). It employs more than 26,000 people worldwide.

Its overseas activities

Having built a dominant position in North and South America, Moore Corporation decided to become a global company. This objective was achieved through the acquisition of Lamson Industries, UK-based conglomerate of European, African, Australian, and Middle East companies. This was done in 3 steps with Moore buying 20% of Lamson's equity in 1964, and increasing it to 52% in 1973 and to 100% in 1977.

This entry route was preferred to any others because:

- Samuel Moore, founder of the Canadian company in 1882, was also involved in the start-up of Lamson Industries. Because of these historical links, the 2 companies maintained a good relationship throughout the years.
- Lamson was involved in markets where Moore wanted to develop a presence.

Lessons to be drawn

Though the European expansion has been taking place since 1977, valuable lessons can still be drawn from Moore's experience:

Cross-fertilisation programme seen as essential to achieving harmonious relations.
In order to transfer Moore's culture and management style, and to mitigate negative reactions following the acquisition, a cross-fertilisation programme was set up. This programme has involved sending senior managers of Lamson to North America for a period varying between 2 to 7 years, or exchanging financial and marketing people between Europe and Canada for a 2 to 6 month period.

Programme to re-group Europe-wide activities except for sales.
Over the next 3 years, the European activities will be reorganised with the objective of regrouping the various companies into a European division. However, the sales will continue to be organised on a country-basis so as to satisfy the different national idiosyncrasies.

Advertising campaign promotes awareness of company change.
An extensive advertising campaign was undertaken after the acquisition of Lamson to make customers and suppliers aware of the change in the name and ownership of the company.

Differences became apparent.
Despite their relationship with Lamson, Moore discovered some important differences between North Americans and Europeans after the acquisition:

- The process of change takes longer in Europe than in North America.
- Contrary to many North American prejudices, Europeans have reached a very high degree of technical sophistication and competence. It was particularly important for Moore to recognise this, since their North American R & D office is responsible for developing products for the European markets as well. One solution has been to have R & D people attending European trade shows.

NEWBRIDGE NETWORKS

The international entrepreneurial company.

The Canadian operations

Newbridge Networks Corporation, based in Kanata, Ontario, was founded in March 1986 by one of Mitel's co-founders. The company designs and manufactures a wide range of equipment solutions for the implementation of digital networks. After 5 years of activity, it relies on some 1,200 employees, and enjoys a turnover of over C$100 million.

Its overseas activities

At the time of the foundation of the company, it was decided to set up an international structure. This was seen as an essential step in view of the internationalisation of the telecoms industry. By July 1986, the company had opened an office in the USA, and another one in Newport, South Wales.

The UK expansion was done in 3 phases:

- From 1986 to 1988, through a sales office with the objective of assessing the market for their products.
- In 1988, they built a 30,000 sq ft production plant.
- In 1990, they doubled the size of this plant.

Greenfield investment was preferred to the acquisition route because it allowed Newbridge to build exactly what they wanted, and was therefore perceived as a more effective investment.

In addition to this greenfield investment, Newbridge has entered into 2 OEM agreements with Alcatel NV and ATT (whereby their names appear on its products). The objective is to gain access and credibility in 2 markets where the buyers, the PTTs, are very conservative, and only buy from well-known suppliers.

Lessons to be drawn

Founder's experience and contacts proved invaluable. A key success factor in Newbridge's story has been the founder's vast experience in the IT sector, and his knowledge of both the North American and UK/European environments.

The selection of the UK location was influenced by the availability of grants provided by the Welsh Development Agency and other local government bodies. Other factors were the transport and communications facilities in this area, and the fact that many contacts of the founder were already living in Wales.

Experienced UK nationals allowed for reduced involvement of corporate management.

Another essential ingredient in Newbridge's UK operations was the hiring of UK nationals with vast experience in the telecoms industry (people who were working for Mitel UK), and who were known and trusted by the corporate management. This allowed for a much reduced involvement of the corporate management in the setting up of the UK operations, since many practical decisions could be handled by the UK team.

Furthermore, because of their experience, it was not necessary to undertake an extensive market study before starting the UK operations. Market research, however, was used to supplement their information system.

Products designed to international standards from inception.

Another of Newbridge's assets was to have designed their products according to international standards from the beginning. This, in turn, was facilitated by the international experience of the management who knew what those standards were.

Use all marketing tools available to promote awareness in UK market.

Newbridge used a combination of advertising, word of mouth, and attendance at trade shows to get known by the UK market.

VIDEOTRON

How to become a player in a highly regulated market.

The Canadian operations

Vidéotron, a Montreal-based company, has been in the cable business for 26 years. It is the largest cable operator in Quebec, and the second largest in Canada. Recently, the company acquired a majority interest in the largest French-Canadian TV channel.

Its overseas activities

In order to find new markets for their Videoway innovation, Vidéotron decided to expand in Europe. After an unsuccessful attempt in France, they headed for the UK, first acquiring companies which had been awarded cable franchises, and then by applying for new franchises themselves.

Lessons to be drawn

Even though Vidéotron has just started its UK operations, some of its decisions and actions are worth noting:

Key Canadian personnel sent to UK.
In order to export and maintain the entrepreneurial culture on which most of its success has been based, Vidéotron's president sent his right-hand people to take charge of UK overall operations, and used Canadian employees to train UK workers.

Extensive marketing and financial studies pre-entry.
The company did a thorough marketing and financial study of the UK before deciding to go on. As part of this internal study, they asked Quebec House to prepare an overall picture of the market (competition, contacts, regulatory environment).

Good communications maintained despite time difference.
So far, good communications between Montreal and London have been maintained through extensive use of telephone and fax lines. UK management has accepted the necessity of staying late at the office (because of the time difference), and the need for making some decisions without being able to rely on Montreal's advice.

Furthermore, an appropriate degree of control has been achieved through monthly visits of the president.

VOORTMAN COOKIES

Coming to terms with different retail practices.

The Canadian operations	Voortman Cookies is a family business founded by 2 Dutch brothers in 1950. It started as a small bakery and expanded gradually, first in Canada, then in the USA.
Its overseas activities	Their involvement in the UK dates back to August 1987 and took the shape of a sales office started by their marketing manager (Dutchman who lived 20 years in Canada). The use of an agent was not seriously considered since a specialised distributor system was required because: ● Cookies have a short shelf life. ● Competition is very strong. ● Freshness is vital to the consumer. An agent would have been an expensive unnecessary link. Therefore the UK operations started on a very small scale with the marketing manager working from his home-office, but following a steady flow of sales a permanent office was opened. There is now a staff of 10 people operating in the UK. Recently the UK sales office has begun to explore the French market.
Lessons to be drawn	**Despite lack of forward planning, UK market entry not necessarily disastrous.** The entry of Voortman Cookies to the UK was preceded neither by a thorough market study, nor by an extensive investigation of the possible sources of difficulty. Fortunately for the company, the perseverance of their salespeople resulted in a successful market entry, but not without some pitfalls: They lost much time as initially the wrong buyers were contacted, since their method of distribution is not commonly used for cookies in the UK. They had not foreseen some differences between UK and North America: ● UK buyers tend to be concerned about possible delays in importing from outside of the EEC. ● UK buyers take longer time to decide. "Even if they like the products, they want to see your face a few times, before they make the final decision."

VOORTMAN COOKIES (cont'd)

- Contrary to the Americans, they won't buy something just because it is new.
- Consumers in the UK market are much more aware of additives and preservatives than they are in the home market.
- Fluctuating and high import duties and levies do not leave much room for profits.

Being a foreign-owned company can be a drawback in attracting staff.
They believe that their inability to attract the highest calibre people, due to being a new and unknown overseas company, slowed their initial growth.

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CASE STUDIES IN FRANCE

ALCAN

Best service to clients means local management and own operation in each country.

The Canadian operations	Alcan is world number two producer of aluminium. Alcan was born from the split of Alcoa into two parts separating its US from its international activities, a split imposed by the US antitrust regulations. Alcan represents all the international activities of the old Alcoa group. It integrated early vertically upstream with mining and extraction as well as downstream with the production of a number of aluminium consumer products. It even owns hydroelectric production units, since energy accounts for one third of the cost of producing aluminium.
Its French activities	Alcan has been in France since 1912 where it originally exploited a bauxite mine. It also transformed aluminium ingot into powder used for rocket propellant and raw material for metallic paint. In 1959, it started to produce aluminium beams destined for the transportation and construction industry. Alcan became the strongest competitor to the local group Péchiney as regards soft alloy extrusion. In 1978, Alcan bought a large distributor of aluminium building products, Technal. The mine has recently been exhausted and the extrusion presses sold to a European competitor. The building material design, fabrication and distribution activities are now the main core of business of Alcan in France. Alcan's strategy is to concentrate on this market niche and secure a large market share. It has already a significant share of the market for aluminium construction systems in Europe and thus is placed number three. Technal although based in France works all over Europe in 9 countries with an emphasis on Southern Europe due to the history of Technal, based in Toulouse. Its markets are residential as well as institutional. It employs 1800 people.
Lessons to be drawn	**Best service to the client implies local management and own operation.** One of the tools to achieve a higher market share is to promote inside the company a spirit of service to the client. This has two consequences: ● Alcan believes that clients are best served in each country by local people who speak the same language. Hence, Alcan has an overall policy to put in place a local management team in every country they operate.

- As much as possible Alcan tries to set up their own operation rather than use agents. Experience has taught them that an agent will never serve the client as readily when he is not directly interested. Also most agents have a number of product lines to promote, sometimes their own, and at some point there is always a conflict of interest. This is also the case for "strategic alliances". In the end, the notion of responsibility is never as strong as when one's name is linked to a product.

Canadian/French exchanges multiplied by "networking" communication structure within the organisation.
Exchanges with Canada are at two levels:

- The group reporting structure was considerably flattened in 1988 when there was an obligation to reduce overheads. Instead of the previous structure which had a hierarchy layered with a staff office in Paris and a subsequent European office in Geneva reporting to Canada, the present reporting system has been completely decentralised and is best described as a "maillage" or networking. Anyone in the group can contact anyone else for advice and cooperation. There is no need anymore to go through head office. Contacts between managers are fostered by regular gatherings at CEO, senior and intermediate management levels. Horizontal networking has replaced layers of hierarchy and is encouraging the setting up of "internal management group", "senior management group", etc. For example, the French subsidiary has organised a seminar in Carcassonne for the group on aluminium product development. Most of the exchanges stem from personal initiatives and concern technical or personnel matters.

- Following this decentralisation the financial reporting is also directly filed to head office in Montreal. Once approval has been given for the strategy and yearly budgets total operational autonomy is given to the subsidiaries.

Of the importance of face-to-face meetings:
Real exchanges of staff are difficult to implement. French staff demand that their job be kept for them in France and Alcan found that this was too difficult to manage. Canadian expatriates are expensive and qualifications were not always adequate to the local problems. But seminars amongst peers or around a theme is deemed extremely valuable in order to build relationships in the group.

In dealing with transatlantic relations, one should not hesitate to board a plane in order to discuss difficult subjects.

Short term financial management versus long term returns.
One of the major differences in management philosophy between France and Canada (or North America) is the emphasis on financial data in the latter. The French tend to find North American financial reporting heavy and often focusing on short-term returns to the detriment of long-term considerations. Alcan worldwide has as a target to have a return higher than the average for raw material groups. However French management recognises that the data demanded by their North American parent can also be useful to help local management decisions. It is generally not a problem to have to run two parallel financial accounting systems to comply with the French rules and the Canadian rules.

Gradual phasing of tighter financial controls.
When new companies are acquired the accounting system is phased in gradually to be homogeneous with the group's. This gradual introduction of the group's financial reporting is done in order to protect sensitivities at the acquired company. The French base has strong computer skills and will help to adapt the systems.

Canadians viewed as fair players.
Another management tool imported from Canada is the Hay method to evaluate performance of management. It is viewed by French management as a guarantee of fairness in their assessment protecting them from the discretion of one direct superior. It contributes to the general management style of Alcan which makes great efforts to emphasise its striving for fairness in all its dealings with employees and outsiders. The Canadian group has published a chart (purpose, objectives and principles) which is used as a basis for managerial ethics. Its published mission statement has been the basis for the locally developed "projet d'entreprise" outlining a five-year vision of the French business development.

But it can turn against them.
Alcan grows mostly by acquisition and in its approach to negotiations it adopts on purpose a very open attitude to the potential partner. Imported from North American management culture is the motto, STIR: Sincerity, Trust, Integrity, Rigour. This attitude has the advantage of clarity but has already frightened off potential partners who being true Europeans were suspicious of the goodwill displayed by the Alcan team!

Canada has a very friendly ("sympathique") image in France compared to the aggressive image associated with American companies. However, Alcan has not systematically tried to capitalise on this .

Other imports from Canada which have taken well in the French culture are:

- the care given to issues regarding product liability and environment,
- the heavy use of management consultants,
- the drafting of "succession plans".

A health warning on Canadian French: faux amis and excessive use of "tu".

The fact that some Canadians speak French is not an advantage in the sense that while they speak French they think North American. Many misunderstandings have arisen from faux amis between the different versions of French spoken on either side of the Atlantic. The habit of using the informal address form "tu" which is widespread in Canada puts people off very easily in France.

Atelier Nord France

By behaving "fairly" the Canadian partner gained a large capital of goodwill.

The Canadian operations

ANF is part of the Bombardier group which includes activities in railway equipment and aeroplane manufacturing.

The French activities

ANF is one of the three manufacturers in France of passenger rail wagons. In its order books are the wagons of the Eurotunnel trains. 98% of turnover is from one-off projects.

In 1988 the industry went through a restructuring phase and it became obvious that in order to survive, ANF had to ally itself to a solid partner who would give the company financial backing as well as contribute to the operation. Moreover, its shareholder, the insurance group Axa, wished to concentrate on its core activities and divest from ANF. Their main competitor in France, Alsthom, had also sought to consolidate their position through partnership and had signed an agreement with GEC.

The Axa group sought a new partner for ANF and concluded that Bombardier would be the most suitable. Indeed, Bombardier was in a healthy financial situation and therefore able to finance new developments. The two operations were also complementary and each party could bring to the alliance a valuable input. Bombardier had sophisticated operational and financial control systems in the same industry in North America and ANF could bring to the wedding basket superior technological capabilities and a long presence on the French market. The latter was important in this business which is heavily dependent on Government contracts. Moreover for both partners economies of scale were achievable with the proposed alliance.

With a view to selling off ANF, a major rejuvenation programme was undertaken. ANF made a large number of redundancies and renewed the management team, which had traditionally come from the same engineering school Polytechnique. There was a certain complacency within management as their clients in the French railway were old school mates and there was a conviction that if ANF was losing money, the shareholder would always bail them out and was somewhat obliged to do so given the "strategic" nature of the business: "L'actionnaire fera son devoir". The culture was very product driven neglecting the financial and marketing aspects of the business. It would have been very difficult politically for a foreign owner to undertake such a radical programme of redundancies and management change. The French State would have probably asked the new owner for guarantees regarding jobs. Even as a French company, ANF had to spend a lot of management time with the unions and the French government. Therefore the "sale boulot" had to be done before selling the company.

Lessons to be drawn

Great independence left to the French acquired company.
ANF trades under its own name which has a high quality reputation on the market. Overall, once strategic plans and budgets have been approved, ANF is free to implement. On ad hoc projects both organisations might pool resources to produce the best bid.

Dedication of top management to the success of the merger.
In this case, the bought company sought the buyer and therefore there is a large reserve of goodwill from the management team of the bought company. They have known Bombardier for some years of dealing with them and studying the organisation before approaching it. Because of that Bombardier insisted that the same management team stay at the top of ANF. A successful integration would not be possible without the dedication of the management team at the top of ANF being firm believers in the benefits of the merger and sending the right messages through the organisation.

Staff exchanges proved valuable.
Exchange programmes of staff have been implemented and proved very valuable for both parties to know each other and their different cultures. The French appreciated the straightforwardness of their Canadian colleagues. At any time there are about 10 Bombardier executives working in ANF. Exchanges are facilitated by the fact that both parties speak French and that Bombardier is perceived as a francophile organisation. For the non-French speakers, Bombardier has implemented 2 to 6 weeks language courses.

Canadian partner seen as "fair".
From the point of view of ANF, the goodwill towards Bombardier is enhanced by the perception amongst staff that during the negotiations Bombardier behaved in a "fair" way without attempting to take undue advantage of the desperate financial situation of ANF.

Transfer of information system was successful because bold.
The operational and financial management programmes of Bombardier were imported to ANF. These were the result of 6 years of development in Bombardier and presented the advantage of being in French. Moreover they had been designed for the same industry and were immediately usable by ANF staff. In order not to delay any further the implementation of this management system, ANF did not even bother trying to adapt the software to their existing computer system but bought the same computer as the parent company in order to run the programme smoothly. This approach sidestepped the problems and criticisms that the system would have had if implemented only half-way, or if suffering adaptation problems on a different hardware.

Differences are interpreted positively as contribution of each party to the partnership.

Differences of philosophy of their business do exist between ANF and Bombardier, but are used in a positive way as often as possible. For example, North Americans have a bottom line view of a project: "Is it going to make money?". Whereas the French can have a more technology achievement driven view of the attractiveness of a proposition: "L'art pour l'art." Financial reporting has been formalised since the acquisition and required a certain adaptation for ANF managers who were accustomed to a looser financial discipline. But the data and ratios requested by the parent company are viewed overall as useful decision tools directly related to the operational needs.

Extent of State intervention was a surprise.

Although Bombardier knew this industrial sector very well in North America, they were surprised by how different business practices are in France in the same sector. Above all the intervention of the French State concerns numerous aspects of the business which are considered as "strategic". For example: In order to sell ANF to Bombardier, approbation from the Ministry of Finance had to be obtained; the transport infrastructure in France is State owned especially the railways; redundancies have to be approved by the State.

A protectionist business climate.

In general, the business climate in France is protectionist and as a foreign company one has to tread very carefully. Also the public bid system has different rules compared to the practice in North America.

Importance of French State and its interventionist role in private business.

The Canadian operations

Cascades is a paper manufacturer specialised in turnarounds in the paper industry. It has expertise in solving technological problems and bringing in rigorous financial reporting systems.

The French activities

The involvement of Cascades in France started by chance in 1985 and did not derive from a preconceived strategy. Through an intermediary Cascades became aware of the possibility of buying out an ailing paper manufacturer in France, La Rochette. After proper market research they decided to buy the company for one symbolic franc. From then on Cascades decided to build on their strength in the French market, and in 1986 bought another company Blendecques which was in the same group as La Rochette. In 1987 Avot Vallée, producing corrugated cardboard, was added to the group. In parallel to the building up of the group in France other units were bought in Belgium and Sweden.

In 1989 Cascades started a greenfield operation in the recycling of old papers to supply raw material to one of their paper manufacturing units. Cascades at that point decided to set up a foothold in what they saw could be a fast growing market in Europe: paper recycling. In another attempt to secure supplies to their plants Cascades also invested in sawmills. The French sawmill industry, traditionally very fragmented, was concentrating. Cascades did not want to be dependent on a large sawmill group and decided to invest directly into the industry.

Cascades knew that it could bring decisive technological help to the companies they bought. The group has specialised in turnarounds in the paper industry. It has expertise in solving financial management and technical problems.

An important factor in making the decision to come to France was the package of financial and fiscal aid given by the French government.

Cascades missed an opportunity to complete the acquisition of a French newsprint company because of its foreign ownership and the French authorities` concern with the so-called strategic nature of the newsprint sector. Cascades has not had to face this kind of issue with their other European companies in Sweden and Belgium, and the experience means that they will be more cautious with expansion in France.

Cascades has received assistance from the Canadian Embassy and the Quebec Delegation in the negotiations of the fiscal advantages awarded by the French Government when Cascades bought ailing companies.

Lessons to be drawn

The Canadians bring tighter financial management.
Cascades imposes its Canadian management tools onto the companies they have bought in Europe. There has been no problem with this, and it was eased by the fact that there is always a Canadian at the top of the company who directs the turnaround.

The only difficulty encountered was in converting people to think in real costs rather than standard cost. It is not only a matter of specific methodology but also of general financial awareness.

The French bring higher quality standards.
On the other hand Canadian companies coming into France need the input of French culture in order to be able to serve French markets. In general, French management is much more product and technology oriented. In the cultural exchanges between Canada and France, the French bring an attention to detail and quality that most Canadian companies do not have at home. In France, design and conception of products is much more based on a vision of long life cycle of the products than in North America. Canadian companies have to be able to adapt to higher quality standards throughout the industry. For example, where Canadian packers use second grade cardboard the French use first class materials.

The French are not natural team players.
Another difference between the Canadian and French management cultures is the lack of training of French executives to work in teams and share information. Relations are kept formal between colleagues. This is the result of the education system which is highly individualistic. People are very conscious of hierarchy and have difficulties in taking initiative. Cascades has invested in Scandinavia and found the contrast very stark regarding management attitudes in France and in Sweden where team work is largely practised. In an attempt to remedy this situation, the Canadian management of Cascades in France has implemented an "open door" policy signifying to staff that they are always open to comments and leaving the door of their office physically opened.

Top management is Canadian.
As a principle Cascades always posts one of its own directors at the top of bought companies. This has the advantage of keeping the company better informed of developments and of assuring implementation of turnaround measures. However the personal cost to these executives and their families is very high. These paper manufacturers are situated far from big towns and it is difficult for foreigners to integrate socially especially as the French mark quite a separation between their social and work life. In addition, the fact that the Canadians are "the boss" does not help relations in this hierarchy conscious country.

Speaking French is a "must".
In France, the knowledge and use of foreign languages is not widespread. This has not created any difficulties for Cascades, given that it is a Quebec-based company. In Belgium (where there is the added dimension of Flemish) and in Sweden the Canadian top management communicates in English with the local staff. In an ideal world Cascades would send executives in Europe who can speak 3 or 4 languages because even if you are based in one country you are bound to have to deal with other countries in Europe.

Staff exchanges were found valuable.
It was found very useful to exchange staff in order to meet face-to-face and even out differences. It worked particularly well between France and Quebec.

McCAIN

Integration to the local scene is the key to successful operations.

The Canadian operations	McCain is best known for its frozen potato fries but is also active in other food sectors such as vegetables and pizzas.

Its French activities

McCain set up its operation in France in 1981. It was decided that the French market for frozen potato fries was ready for a new product. At the time there were already some very well established manufacturers of frozen food in France, such as Findus. However, McCain had a unique technology for processing potatoes.

The region chosen in France provided a combination of raw materials and skilled labour. In this mining region, it was found that ex-miners were skilled and converted easily to new jobs. The settlement of McCain was helped by the French government which provided a number of fiscal and financial incentives for companies setting up in this old mining part of France. The incentives offered by the French government was the factor that tipped the balance in favour of the North of France compared to Belgium.

McCain was already established in Europe since 1957. Its first foray into Europe was in the UK where the market for potato fries presented strong similarities with Canada. Similarity in language was also an important factor in choosing the UK as the first settlement in Europe. Then McCain set up in the Netherlands (the Dutch subsidiary also serves Germany), Spain and lastly in France. France was the last large European market entered due to the conservative mentality of French consumers regarding cooking methods. McCain reckoned that the French would be the last to adopt a new way of making fries.

Each country in Europe was found to have different tastes and habits regarding their consumption of potato fries. Therefore McCain needs to have a dedicated production and distribution facility for each market. For McCain there is no such thing as economies of scale Europe-wise.

Lessons to be drawn

Total integration to the local scene and independence from Canadian headquarters.

"Il faut boire le vin du pays". In every country where McCain sets up an operation it tries to behave as closely as possible as a local company. This has consequences for all levels of operation: all the management team is local, even the company cars are of local production. French management was brought in however after the original set-up was overseen by Canadian executives who controlled the engineering and the financial aspects. Then, French management was chosen which had previous experience in anglo saxon companies. That provided according to McCain the perfect mix of cultural affinity. Apart from the obviously anglo saxon name of the company, employees do not feel that they are working for a foreign company.

In France, the drive towards integration with the local scene is also a business imperative since the operations are closely linked to agriculture, a sector in France traditionally suspicious of foreigners. McCain therefore quickly established direct relations with the local agricultural unions. In a rural area, such as the site chosen by McCain, local government can play a key role in easing things for a newcomer and the French management of McCain ensured good working relations with the local communist municipality even though they might not agree ideologically.

Unlike the South of France, people in the North take longer to open up. Relations tend to be more cautious and formal. But once one is accepted there is very strong loyalty. This implies that top management staff cannot change too often in order not to jeopardise local ties.

As it is integrated in the local scene, each subsidiary is run as an independent profit centre and has total freedom within approved budgets to launch new products in its market. In France, McCain has identified several product lines specifically suited to the French market and has been able to launch them.

Relations between colleagues are more formal than in Canada.

French managers are surprised by the similarities between the Canadian and French cultures. The major difference seemed to be in the relations between colleagues which are much more informal in Canada. But management tools and vocabulary were found to be very similar.

Staff exchanges are not widespread.

There is very little formal exchange of staff between Canada and France, apart from a few engineers going to Canada for a short spell to look at new techniques developed by the R&D centre in Canada. This is linked to the specificity of each market and the independence of each operation which means that apart from technical matters there is often little in common between the subsidiaries in different countries. Language differences also play a significant role in minimising the usefulness of staff exchanges.

Transfer of family business values.
McCain has succeeded in transfering the family business values to the subsidiaries. The fact that the McCain brothers are very close to the operations maintains a strong loyalty from their staff. In return the company has a policy of respect for people. This has successfully fought off prejudices against North American companies which have a reputation for somewhat ruthless personnel management.

Hire the right people immediately.
As true entrepreneurs McCain set up in France with at first a very light structure. A company was bought in a week. But with hindsight mistakes could have been avoided by hiring immediately a set of qualified managers.

Flat hierarchy structure.
Although McCain in France tried to behave as closely as possible to a French company, it has adopted the flat hierarchy structure and an open door policy that is more akin to Canadian management style. This allows major decisions such as a new product launch to be taken in record time.

Canada enjoys a positive image.
Canada, in particular Quebec, has a very positive national image in France. However, McCain does not use its Canadian origin in its positioning or image-making regarding its products. Most French consumers think that it is an American company and McCain has been able to bank on its North American origin when launching "American pizzas".

NORTHERN TELECOM

Great autonomy given to local subsidiaries with a successful blend of Canadian and French corporate cultures.

The Canadian operations

Northern Telecom manufactures and distributes a wide range of telecommunications products including telephone handsets, PBX's (Private Branch Exchange), telephone exchange switching equipment, and transmission equipment.

Its French activities

Having had operations in the UK for some time, in the late 1980s Northern Telecom chose France as the country through which it would push on into continental Europe. France was chosen for three reasons. Firstly, key senior management were personally familiar with France. Secondly, France was viewed as a market with great potential in Europe, perhaps on a par with Germany. If the company could meet the demanding conditions of the French regulatory and approval authorities, then things would be easier in other countries. Thirdly, it was decided that to enter the French market the company would need to set up a French affiliate, rather than trying to develop French sales from the UK base.

In fact the company had an office in Paris from 1974, but this was only seeking to licence the production of Northern Telecom products to French manufacturers. It was the signs of liberalisation in the telecommunications market that encouraged Northern Telecom to go beyond licensing, and seek to sell its products in the market.

The company's first sales were to organisations, such as the OECD (Organisation for Econonmic Cooperation and Development), which do not need national-type approval. In 1988 Northern Telecom got type approval for its main PBX product of the time (the Meridian SL-1) on the understanding that they would set up a factory in France which they have established in Verdun in the North East of the country. Recently, the company has won prestigious contracts with major French companies such as Air France, and the airline reservation system, SITA, Michelin, L'Oréal and Le Figaro. The company now has around 350 staff in France, spread between the PBX factory, R & D, and sales and marketing.

Lessons to be drawn

European countries are all different.
While the UK was seen by Northern Telecom in Canada as a natural first location in Europe, it was recognised that because telecoms markets are critically dependent on national government policies, the approach would have to be tailored to each country. Thus, affiliates would be required in each major target market.

Affiliates need to be given a great deal of autonomy.
Because the market and public policy conditions differ so greatly between countries in Europe, latitude needs to be available to affiliates to tailor their marketing strategy to the local scene. Northern Telecom reorganised to give as few layers of hierarchy as possible, and introduced a loose reporting system, mainly based on financial controls. Strategy development is left largely to affiliates.

It is possible to marry the French and Canadian cultures.
The large majority of the affiliate's staff are French (perhaps 95%), and many of the remainder are non-Canadians. While the affiliate is felt to have a French business culture, 'company politics' are seen to be less important than in many French companies, and there is a greater openness and willingness to question the way of doing things and to strive for improvement. These latter characteristics, which are associated with the Canadian and US business culture, are appreciated by French staff. Nevertheless, French staff have a greater tolerance for ambiguity than is comfortable for many Canadians, who may become frustrated not to get a clear yes or no.

Be patient in building the business in France.
Especially in sectors where political considerations are important, Canadian companies will have to bide their time, and take the opportunities when they come. While waiting to develop sales to French companies, or government, US and Canadian companies may provide easier targets and give a good base work load. Then, it can be a good idea to target prestige French clients, in order to generate publicity. But beware - crowing about successes can excite local jealousies, and be counterproductive, particularly where political sensitivities are involved. With patience you can even win business in the public sector. French nationalised industry, while more extensive than in many other European countries, has relatively loose controls. As a result, Canadian companies should not assume that they will only buy French - some have an independent streak.

You cannot ignore the political dimension.
When doing business in France, issues can quickly find themselves in the political arena. Often this will involve concern over French jobs, and companies seeking a position in the French market are expected to make a commitment to the country. This may involve seemingly unrelated trade-offs - such as the commitment to establish a manufacturing facility in return for relaxation of protected markets.

Canadians are viewed positively in France.
However, when the French talk of Canadians they frequently mean Quebecois, and they have little awareness of and no view on English-speaking Canadians. Even with French-speaking Canadians, language can be a problem. The use of 'tu' rather than 'vous' can give an unintended impression of overfamiliarity.

OGILVIE MILLS

Don't forget that France is a country that gives extensive rights to employees.

The Canadian operations	Ogilvie Mills is one of Canada's largest flour and gluten millers and is 100% owned by Labatt.
Its French activities	The extension of Ogilvie's activities in France was more the fruit of chance than of a planned policy. In 1988, Rank McDougall one of the three shareholders of Tenstar Aquitaine, a small French mill, retired from its holding. Rank McDougall was at the receiving end of a hostile bid and retreated from all its overseas activities. The two remaining shareholders, Les Grands Moulins de Paris and Uncac (an agricultural cooperative), looked out then for another partner. Each of the three partners brought a particular competence to the venture: Les Grands Moulins were processing the wheat, the agricultural cooperative was assuring supplies and Rank McDougall brought technology to further refine the flour. The new partner would have to take Rank McDougall's place and bring similar technologies. The search for a partner who would bring technology to refine the process of wheat crushing was heightened by the trend in the gluten market towards more added value products and the fact that the existing group did not have the capacity to invest in new technology development from scratch. There are not that many mills in the world which produce starch on large scale from wheat. Indeed the largest starch producers are in North America where the vast majority of starch is produced from corn, whereas in France starch is produced from wheat as well as corn and potato. Ogilvie was one of the few who had an advanced technology to process wheat flour. Ogilvie agreed to participate but with a majority stake of 50.5%. Uncac and les Grands Moulins de Paris share the rest of the equity. The advantage of the deal for Ogilvie Mills was a foray into Europe with a ready-made production facility. The assumption was also that the market for starch would move in Europe towards a maize base in which Ogilvie had definite strengths.
Lessons to be drawn	**The EEC context can be very complex.** The Canadian buyer came into Europe without any previous knowledge of Europe and in particular of the special difficulties linked to the EEC Common Agriculture Policy. This created frictions given that the management left in the French company had to explain and justify things that they were doing routinely until then.

France is a country with strong social protection.
Another source of friction is the very protective legislation in France regarding employees rights and union powers. What surprises the Canadian is also the type of employees' demands which in France are not just regarding salary. For example, the unions have by law a budget for leisure activities and have a very important say in layout of premises. Holidays are much longer in France: 5 weeks minimum. Social security payments are heavier than in Canada and so are the redundancy payments. French employees have a right to ask for an advance on their salaries and an employer cannot refuse it. Another example of the power of the union is illustrated by the fact that the general manager had to announce the takeover of the company by Ogilvie to small groups of employees, short-circuiting the unions, in order to avoid them placing conditions on the deal that would have added difficulties to the negotiations. In short, it is a shock for North Americans to realise that France is a country with an elaborate social and workers protection system.

Staff exchanges hindered by language differences.
Exchanges of staff are not frequent. They tend to be in one direction from Canada. There is only one engineer from Canada in place in the French company helping develop new products for 2 years, a period of time which allows integration with the operation.

Exchanges between the French and the Canadian operations are not helped by the fact that the French don't speak English and Ogilvie is an English-speaking organisation. On the other hand, the Canadian president of the French operation does not speak French.

However exchanges are viewed favourably from the French side. The French are always surprised by the warm personal welcome they get in Canada.

More precise financial tools brought in by the Canadians.
Ogilvie Mills brought in more precise management tools particularly in cost accounting where the French practice was very much to use average cost factors rather than real costs. Although the financial reporting is a much heavier burden than it used to be the task has been eased by computerisation.

OGILVIE MILLS (cont'd)

Canada viewed very favourably.

The first breaking of the news that the French operation was being bought with a majority stake by a Canadian group was taken very positively by staff. Canadians and particularly French Canadians are viewed as lost cousins coming back home. The staff was also relieved to know that a large group was taking over and basically saving their jobs. But some of this positive feeling has been spoilt by the fact that know-how transfer has been slower than forecast and that the relationship with Canada has been punctuated with misunderstandings and a lack of adaptation of the Canadian management to the French ways. For example, the Canadian management refused to receive delegations of employees which is totally against custom and the law in France.

Regarding relations with clients, the acquisition by Ogilvie Mills was seen very favourably and was used extensively in their marketing. Ogilvie Mills is a prestigious name in this business.

OGIVAR

Differences in business practices can be ironed out only by meeting face-to-face. Be prepared for large transatlantic travel costs.

The Canadian operations

Ogivar is a Quebec based computer manufacturer. Its main product lines include an electronic tagging system for shops and a monitoring service for elderly people. Ogivar has also been successful in selling computer systems to the Canadian government. However, the latter is a finite market and Ogivar had to look elsewhere for growth.

Its French activities

Ogivar developed some activities in the US but suffers there from an image problem and manufactures under other brand names. In the meantime Ogivar developed a new product line which combines macro and micro characteristics. This line had to be marketed under Ogivar's name. France seemed an obvious market to try because of the language similarities. A first attempt was made with an agent. Unfortunately the level of commitment from the agent was not sufficient given that he also deals with a number of competing products. Then along came Mr Solaro, an experienced computer system marketer in France. He approached Ogivar to set up a joint venture to distribute this new line of computers. Ogivar was at first resistant to the idea of committing to a joint venture but in the end was convinced by the advantages a dedicated distributor would bring to selling and maintaining the systems. This new venture in France was the first step to a wider strategy for Europe. Plans include setting up an assembly plant in Europe in order to counter the perceived risk of future protectionist effect as well as to take advantage of opportunities stemming from the establishment of the Single Market.

The venture is barely a year old but there are a number of lessons one can draw from their experience.

Lessons to be drawn

The lessons drawn here are from the side of the French partner but they are interesting to note for the Canadians to understand the sensitivities of future partners.

It will help relations with your French partner if you have done some homework.
The Canadians were perceived to know nothing of Europe. Because Ogivar had a few contracts in USSR, Yugoslavia and Morocco before trying to enter the French market, they assimilated all these countries with Europe. This led to a number of misunderstandings on ways of doing business and on costs involved.

The French party feels irritated at having to justify what they consider as basic things and the Canadian side probably has a latent suspicion that the wool is being pulled over their eyes.

Costs are higher in France compared to Canada.
Significant differences between France and Canada were noted for the following cost items:

- Salaries are higher in Paris than in Montreal. Technicians find out about it during exchanges and although these differences can be explained by the particularities of each job market it is never completely rationalised by the lesser paid side.
- Employers liabilities regarding contributions to social security are much heavier in France compared to Canada.
- Exhibiting at international fairs is much more expensive in Europe than in North America.

Variations on foreign exchange can kill your margins.
It is important to take out insurance on foreign exchange fluctuations. For example, an 8% margin is quickly eaten up by a 15% variation in exchange rates. And one has to accept contracts in ECUs.

Different financial philosophies.
The definition of a "good" financial return seems different on both sides of the Atlantic. In this respect, Canadian businesses are perceived to follow their US counterparts in their short-termism.

Time difference can hinder communication.
Because of the time difference between France and Canada there are few hours during which one can communicate. It is vital that each side has dedicated personnel who accept working hours of business that overlap with the other side.

Face-to-face meetings to solve difficult questions.
In case of serious problems, it was found best to take the next plane over the Atlantic to discuss face-to-face.

Quebec as favourite partner.
For the French it is an advantage to be able to deal in French, and Quebec for this reason is a favourite partner.

OGIVAR

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The Canadian operations

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CASE STUDIES IN GERMANY

CAE ELECTRONICS

Technical cooperation but independent decision making has proved a successful mix.

The Canadian operations	CAE Electronics is one of the few companies world-wide who manufactures flight simulators for military and civil aeroplanes.

Its German activities	In 1961 CAE Electronics was awarded a contract from NATO to build and maintain flight simulators for Star fighter planes in all NATO countries. The contract was given to CAE as a Canadian company and was part of a non-official compensation for the fact that Canada had troops stationed in Germany without receiving any financial help from NATO. Germany was chosen as it is centrally located. In Germany, 80% of the flight simulator activities are in the military field and CAE has started to develop flight simulators for civil aircraft. The German operation also includes activities in office communications. This sector was developed in the 60's with technology transferred from the parent company. Later, this part of the business was abandoned by the parent company in Canada but remained active in Germany. Whereas the flight simulators are sold and maintained all over Europe from the German base, the office communication activities are restricted to Germany. This is due to the differences of certification amongst European countries which oblige telecommunication companies to develop different products for every country.

Lessons to be drawn	**Look as German as possible.** Until 1969, all the management team was Canadian. But it became very clear that because of the close relationship one has to build with government in order to secure business, the top management would have to be German. When pitching for business, CAE can use the arguments that although it may have a Canadian parent, it provides jobs and pays taxes in Germany. **German belief in the superiority of their own technology is a big obstacle.** Another reason for trying to appear as German as possible is the lack of trust suffered by non-German technical products. Even though CAE is a world leader in the field of flight simulators, it will never put forward in Germany the Canadian origin of the technology. In the office communication area CAE almost hides its Canadian origins. Only for some particularly large contract where CAE Germany had to show financial strength has it been useful to put forward its being part of a large group.

A successful mixture of close ties and independent decision making.

The German and Canadian operations have numerous opportunities to work together:

Links with the parent company are very close for technological developments. All the labs are in Toronto. CAE German technicians are regularly in contact with their counterparts in Canada.

Other regular links are forged with the monthly financial reporting and the bi-annual budget forecast. Differences in German and Canadian accounting procedures have been easily overcome. CAE in Germany is an autonomous profit centre and once budgets have been approved, total freedom is left to the local management to implement their forecast.

Marketing proposals are also sometimes undertaken together with the support of the Canadian parent company or with other subsidiaries of the group. For example, CAE Electronics recently bought a simulator company in the US which serves the US airforce and CAE Germany was brought in to cooperate on some bids.

Good working knowledge of English does not preclude misunderstandings.

Problems arise because of the need for bilingual staff. When CAE first set up in Germany, the shortage of English-speaking German staff was counterbalanced by hiring a large number of Dutch staff who commonly spoke English. Nowadays the ratio of Dutch staff has diminished as the new school generation in Germany is taught English systematically but misunderstandings may still occur because of language differences.

German staff are not mobile.

One issue of friction is the difference of mobility between Canadian and German staff. CAE finds that there is no problem in getting Canadian staff for several months in Germany. However, the other way is very difficult. Over 3 weeks German staff simply refuse or demand exhorbitant conditions: frequent flights back home, transfer of families with expensive housing in Canada, etc. Another unpleasant consequence of sending German employees across to Canada is that they had often come back with comparisons of living standards and claimed more from their German management! CAE does not believe that exchanges of staff are useful and have stopped altogether.

In general, German staff are believed to be much more attached to their routine than Canadians. They also do not perceive it as an advantage to join a foreign owned company which can give them the opportunity to earn experience abroad. Being a foreign employer is a handicap in the recruiting process.

Canadair

A very legalistic environment which leads people to take a long time to make decisions.

The Canadian operations

Canadair manufactures and maintains corporate jet aeroplanes. After having been taken over and bailed out by the Canadian government in 1982, it was purchased in 1988 by the Bombardier group.

After the acquisition by Bombardier, the group was structured in the following way: a manufacturing division builds and sells all the models and spare parts to four sales and maintenance organisations which are independent for each programme or family of aeroplanes. The four programmes are: Challenger, Regional jets, Military and Surveillance.

With the subsequent acquisitions of Shorts and Learjet, cooperation between Canadair and the newly acquired companies is slowly taking place.

Its German activities

In the 70's Canadair got into a distribution agreement with TAG, a Middle Eastern distributor for the Challenger programme. The sales prospects looked very promising in number but one had to be able to offer a maintenance base nearer to the Middle East than the Canadair maintenance based in Connecticut. Indeed, maintenance is a very important feature of the sales pitch of a private jet. At the same time it had a number of clients in Europe and could maintain US planes in transit in Europe.

Canadair needed to have their own maintenance base. It was felt that a third party would not have the same interest in ensuring top quality maintenance, and therefore, Canadair decided to invest directly into a maintenance operation in Europe.

The Dornier base was found to be the most compatible. Canadair had long-standing relations with Dornier and had collaborated in a number of programmes. Canadair also could not viably set up a fully fledged maintenance operation in Europe and had to subcontract mechanics while they would oversee the process. They knew that they would get the right quality of subcontracted mechanics from Dornier.

For a number of years this operation was making losses as the Middle East did not buy as many planes as expected. But in 1984 came a breakthrough with the sale of 7 Challengers to the German government.

With the opening of Eastern Europe, Canadair in Germany finds itself well placed to serve these markets. Indeed where transport infrastructure is lacking, jets tend to be a justifiable expense for companies and governments.

CANADAIR (cont'd)

Lessons to be drawn

It is vital to speak German.
One of the most important assets when trying to enter the German market is to be able to speak German. As Canadair serves clients all over Europe all their employees speak several languages. The effort is very much appreciated by customers even though the international language of aviation is English. A considerable training budget is spent on language courses and customer relationship training.

Look as German as possible.
It is important to merge as much as possible into the German business landscape: staff must all be German and the company must look to outsiders for all intents and purposes German.

A very legalistic environment.
Business practice is very legalistic in Germany, and it is of utmost importance to hire the right lawyer and be sure that the lawyer is working on your side!

Since the business environment is very legalistic and contracts are rarely renegotiated, Canadian business persons should take extra care before signing any contract.

"Keeping to your word" is the best demonstration of the excellence of the company you can provide to your German clients. Be very careful before you commit because there is no flexibility at all once a commitment has been given. You will be respected if you are firm in your statements and live by them.

Beware of internal European Customs regulations!
Trading spare parts across Europe is immensely complicated because of the number of borders to cross and the bureaucracy involved.

Higher costs should be expected.
Costs are higher in Germany than in Canada for staff. Also the corporation tax in Germany is 65-70%.

Staff exchanges do not work.
Canadair has never implemented staff exchange programmes. The staff would not welcome it. Bavarians are reputed to like their everyday comfort!

Relations are formal.
Relations with employees as well as business partners are always formal. Never call anybody by their first name. They will be hurt. There is a very definite line between friendship and business.

CANADIAN NATIONAL RAILWAYS

Personal visits are essential to market your products or services.

The Canadian operations

CNR is the state owned railway. It holds a major market share in Canada alongside its smaller competitor, Canadian Pacific Railways.

Its German activities

Even though CNR's transport activities are mostly on Canadian soil it is important to try and tie shipments to their network when the decision is taken to ship goods from Europe. 20 years ago CNR had agents in all European countries. In general, these agents were forwarding agents themselves. There are two distinct areas in shipping: containers and "conventional". Container transport is a price cutting business where there is little room to add value. However "conventional" transport which includes everything that is not packed in a container offers scope to widen the services to the exporter. Because of the tailor-made aspect of this kind of transport the exporter gives more attention to the components of the transport package. For CNR it was important to raise the awareness of their service amongst primary purchasers of conventional transport: manufacturers exporting to Canada. CNR agents endeavour to perform that task but most of their contacts are with forwarding agents, therefore the first representative of CNR was sent to Frankfurt in 1970.

From Frankfurt, the newly established team of three were to cover West Germany, the Netherlands and Scandinavia. After a few years the most important market proved to be West Germany, and in 1976 an office was opened in Hamburg. Scandinavia was then covered from Glasgow, and the Netherlands came under CNR in Antwerp. In Germany the CNR office markets both to steamship companies and directly to exporters. The CNR delegation in Hamburg will also monitor potential business originating from Eastern Europe.

The German operation is left very much under local direction. Once or twice a year the German operation will meet in London their European colleagues, with London and Montreal management also visiting Germany as the need arises.

Lessons to be drawn

Relations with people are formal

Christian names are not used in Germany as in Canada. Even after having known people for 20 years the address remains formal.

When meeting for business, only talk business. Social chats about football or the weather are regarded as a waste of time.

Personal visits are important.
It is important in Germany to call and visit people. Presenting a new service over the telephone or by mail is not enough. Take your time over the meeting as people don't like to be rushed.

But if somebody gives you some time, be sure you have something new to offer. Social visits to "keep in touch" are not appreciated. It is enough to visit your clients twice a year.

A brochure describing your business will be expected and read carefully! It must be done expertly.

Decision-making can be slow.
In general, decisions are made much more slowly than in North America or even the UK. Be patient!

Pride in German achievements is high.
Mistakes are not readily acknowledged in the business world. Try to find a way for your business partner who has made an obvious mistake to save face, especially if the rectification is coming from a foreigner.

Published market data is scarce.
Even though 20% of German manufacturers account for 80% of exports it can be very difficult to place names in front of official statistics. Moreover, marketing information is scarce in Germany. Use the grapevine to find out who does what.

To speak German is a 'must'.
CNR found it invaluable to have German employees in the Hamburg office as customers find it more comfortable to deal with nationals.

For the non-German employees it is essential to master the native language because although most German business partners understand English they would feel more comfortable to finalise a deal in German. Also the fact that foreigners make an effort to learn German is acknowledged.

The Canadian embassy will be helpful to start you off.
Help from the Canadian embassy was very useful in the beginning to get names of German industry and commerce contacts. After that it was up to CNR to get on with it!

Continuity must be preserved.
Germans respect the continuity of staff. Beware of high staff turnover.

A very contractual environment.
Doing business in Germany is very contractual. Everything is done in writing and your German counterpart will not hesitate to take legal advice with possible ensuing court action. One must have a good legal and tax counsel from the outset.

Contracts for utilities are over 5 or 10 years and cannot be broken. If you lease telephone, telex or fax equipment, it is for at least 5 years.

Employment contracts are very rigid. Be sure you have understood all the clauses.

CANSPECT

Set up now: Eastern Europe is opening up and the EEC closing.

The Canadian operations

Canspect has been operating for three years and is an offshoot of another company that was established in 1979. Canspect is an inspection company which performs quality and quantity control of procurements on behalf of buyers and sellers. It also advises clients on project expediting.

Canspect operates from its headquarters in Ottawa and through agents in 45 countries. Its other offices are in Düsseldorf, Germany and Cairo, Egypt. It is also establishing a joint venture company in Kuala Lumpur.

Its German activities

The reasons for opening an office in Germany were both the result of long term strategic thinking and chance. The long-term development of the company implied the need to have a location central to Europe and the Middle East where Canspect sees a large development potential on the existing client base. A good opportunity to set up in Düsseldorf arose when a large inspection company based in this area moved its office. This allowed Canspect to be able to hire immediately experienced staff. All this was heightened by the opening up of Eastern Europe which prompted Canspect not to wait to set up in Europe. In addition, Germany presented the advantage of being in the EEC which could be helpful in the future if 1992 meant increased protectionism.

The German office deals with buyers in the Middle East, Africa, Europe and South East Asia purchasing goods in Germany or in Europe. Gradually the operation will be spreading its activities in the rest of Europe.

Lessons to be drawn

Senior people were needed to conduct the market research.
In order to decide where the market potential was in Europe, two senior executives of Canspect conducted the initial research. Canspect felt that it was important to have senior people of the company assessing market potential. When the operation was set up in Germany, more resources were committed to research the market and included some of the new German staff. Published data was found to be very scarce, thus requiring Canspect to put more effort in the research exercise than anticipated.

Speaking German was indispensable to market share growth in Germany.
The answer to this problem was to hire German staff who could relate to headquarters in English. Anybody working in this field would have to speak English anyway so it was felt that it was not a problem to ensure contact this way.

It is difficult to hire the right people when you don't speak the language!
The major issue that was delaying the setting up of the operation in Germany was the difficulty of hiring experienced staff. From Ottawa, Canspect could not afford to have to train new staff. The difficulty was enhanced by the language barrier. Therefore, when an existing German inspection company moved, Canspect grabbed the opportunity, first to fill the market gap left, and secondly to rehire the staff who they knew had the right experience.

Get a specialist to sort out taxation matters.
Double taxation issues can be complex and Canspect found it worthwhile to hire the services of a specialist in this field.

Don't hesitate to contact the local Canadian consulates and embassies.
Canspect found the help of the Canadian consulate in Düsseldorf invaluable. They were able to help in practical matters of the installation. From the Canadian embassy, Canspect was able to get trade statistics that helped them to devise their long-term strategy.

Let the subsidiary have some independence.
It was found best to let the management in Germany run the operation totally independently right from the beginning even though the subsidiary is not treated as a separate profit centre. This is due to the fact that most of the business comes from Ottawa. The subsidiary is run by the German management who also have a free rein on their marketing activities in Europe.

One had to adapt to the local business practices.
When looking for German manufacturers to supply procurements, Canspect found that business is run in Germany in a much stiffer way than in North America. Deadlines are expected to be held much more strictly and bargaining is not as common.

Higher costs were expected.
By far the biggest difference in cost is salaries, which are much higher in Germany than in Canada. In second place come communications (telephone and telex) and in third place rent levels.

ROYAL BANK OF CANADA

Don't change boat midstream! Demonstrating continuity in your strategy is the best way of being accepted.

The Canadian operations	The 123 year old Royal Bank of Canada is the largest bank in Canada and number 2-3 in North America. It is a full service bank with retail, corporate and investment capability.
Its German activities	The Royal Bank of Canada was set up in Europe in 1908 when it opened an office in the UK. This first location was chosen in view of the historical links between Canada and the UK. Then in 1919 an office was installed in Paris in order to operate the pay-roll of Canadian troops located there after the First World War. It was only in 1969 that an operation was launched in Germany. The bank had been slow to set up in Germany, but from the late 1960s it became evident that with the intensification of trade links and the growth of the German economy, it could not avoid it anymore. It was also clear that although it was possible to serve the Netherlands and Scandinavia from London, to serve the German market one had to be on the spot. Indeed, Germans would not go to London to buy corporate financial services. In 1972, the bank started by opening a representative office in Frankfurt. Then between 1974 and 1979, the bank bought in three stages 100% of a private German bank with two main activities in investment management and stock trading. In 1979 the Bank also bought another bank in Hamburg described as a trading bank, the activities of which were mainly dealing with letters of credit, collections, and trade finance. In 1983 all the activities were consolidated under the Royal Bank of Canada AG name. In 1988 the bank decided, in line with the global international strategy, to concentrate on corporate banking in Germany. As a result the domestic private banking and securities business was sold to a Dutch bank. All remaining international private banking not sold to the Dutch bank was regrouped in the bank's office in Switzerland.
Lessons to be drawn	**Being a foreign company is a disadvantage.** It is tough to be a foreign provider of financial services in Germany. Most corporations would rather buy German. Because of a general "buy German" mentality a new entrant is more likely to get its first contracts from German companies with international activities. The commitment to the German market has to be much heavier than to other markets. One has to prove that the bank has long-term commitment to the country and simply spend time there before people will ask you to bid. On occasions, 5 years are necessary for any business to result in Germany. That means that new entrants will most often have to restrict their product offering in order to be able to support the start-up phase.

German corporations do not shop around for financial services.
There is a very strong loyalty to one's bankers even at corporate level. This is partly due to the practice of banks having significant share ownership and directorship links and partly to a low receptiveness to new ideas. As a consequence, corporations will be less tempted to switch banks because of price consideration. They will be prepared to pay more with their usual bank in order to keep the relationship. It is only by offering a superior product or a different product that clients might be tempted and this only after careful and lengthy consideration. Because it is so difficult to take clients away from local banks the best entry route is to serve them abroad first. However, once a client has moved to you, he will stay for a long time. "A franchise in Germany takes longer to build, but it is worth a lot more."

Because of their loyalty to their financial services suppliers German corporations rarely shop around, so one has to constantly take the initiative. However, these are always received with great politeness and one can be very direct in the approach.

Quality equals reliability and continuity.
When German corporations talk about the quality of a financial service they mostly mean reliability. In technical aspects the German financial market is rather unsophisticated: standard conditions from banks are accepted without any bargaining, treasury management is very cautious and SWAPs are often forbidden by company boards.

Another factor influencing the rating a company gets in Germany is continuity. Continuity encompasses not only the time the company has been active on the market but also the ability to retain the same employees. High employee turnover is regarded with suspicion by customers.

German staff are less mobile.
Staffing for foreign banks in Germany is more difficult than in North America. Indeed, Germans will not consider it an advantage to work for a foreign bank, on the contrary they would prefer a German bank where the future is perceived as more predictable. The restructuring of North American (and other foreign) banks in Germany over the past 5-10 years have given employees some grounds for concern in this area. Travelling is not seen as an attraction of the job and the quality image of foreign financial services is not as high as their German equivalent.

Higher margins will be needed to survive in Germany.
A new entrant in Germany will have to be prepared to bear extra costs compared to operations at home: staff costs are higher because they have to be bilingual, the income tax rate is 56%, and capital tax of over 1% applies regardless of income. So either the new entrant has a specific strength that none or few German companies have or the German operation brings business to the parent company. In any case, notwithstanding launch costs, the margins will have to be higher than at home to earn the same return, or more likely returns will have to be lower.

Because of the insularity of the clients and local competitors the bank had to build an operation that is uniquely destined to serve Germany.

Corporate entertaining is not expected.
Networking in Germany is relatively unknown. One talks business during working hours and one is rarely expected to socialise with business contacts.

TRENCH ELECTRIC

Look as local as possible.

The Canadian operations

Trench Electric supplies heavy duty transmission equipment to the electrical power industry. The manufacturing facilities are in Canada and the Corporate Sales office in Germany is responsible for coordination between the three Corporate Sales units covering the global market.

The company has been recently acquired by British Belt Asbestos but started with a Canadian invention for a new type of coil reactor.

Its German activities

The market for this particular technology is mostly in Europe. The North American power distribution sector works with a different technology. Historical market leaders such as GE and Westinghouse are withdrawing from this business while more recently European major companies are starting to serve the North American market out of branch offices in the US and Canada.

Trench first appointed an agent in Germany 21 years ago. However it became quickly apparent that the agent was not giving full attention to Trench Electric's products.

For these reasons, a sales office was set up in Germany to cover Europe and the rest of the world. Frankfurt was considered as a good international airport to use as a pivotal point for marketing and maintenance activities.

In 1989 Trench Electric acquired the remaining European competitor and established a dominant market position in Europe. All other competitors had previously disengaged due to the availability of highly specialised companies supplying this market niche.

Lessons to be drawn

Staff exchanges do not work.
Exchanges were tried but judged unsuccessful and too expensive. In order to help the integration process of a newly acquired company, Trench Electric spent 100k dollars in travel costs. The feedback from the exercise was negative as each side spent its time criticising the other side's methods. The most successful formula so far has been to take managers to a neutral place other than their respective offices to spend a week of brainstorming and getting to know each other. The latter solution has always been well received by participants and is cheaper with a cost of between 20 and 30k dollars.

TRENCH ELECTRIC (cont'd)

Keep communication lines simple.
A few people link up between the German sales office and the Canadian manufacturing facilities. You don't need everybody to speak to everybody.

Ignorance of European product requirements.
The image of Canadian and North American electrical power products is generally low in continental Europe. The ignorance of European product requirements which can differ markedly from established North American standards has contributed greatly to this situation. It is therefore vital to appear as local as possible. All the staff dealing with Germany are German. Similarly, every country market is dealt with through a national.

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