

Global success for Canadian companies depends on prior R&D investment, receptiveness to new learning

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Canadian companies that go international are known to be more productive and successful than those that don't.

New research has quantified the reasons why. It shows that about 80 percent of global companies' [productivity](#) is due to what they did before going abroad—namely, making themselves more competitive, including by investing in research and development. The other 20 percent is due to what companies learned from their exposure to [international markets](#).

The findings show that going global on its own is no guarantee of higher productivity, says lead researcher Walid Hejazi.

"A company has to be prepared, it has to be much, much better in Canada before it can be successful abroad," says Prof. Hejazi, an associate professor of economic analysis and policy at the University of Toronto's Rotman School of Management and an expert on Canadian companies' global competitiveness.

That preparation is required because a company needs processes and technologies in place that enable it to absorb and integrate what it learns once it has entered a foreign [market](#).

Companies that have not yet reached a certain productivity threshold can still benefit from going global, however. The researchers found that the minimum required level of productivity represented a range, rather than being a fixed number.

"If a company is prepared well enough, it can still go abroad and then through learning, rise above the threshold that it needs," says Prof. Hejazi. Overall, global Canadian companies were found to be 60 to 76 percent more productive than those that stayed home. About 20 percent of their investment moved through offshore financial centers.

Companies have the best chance of learning when they locate to countries with a similar language—aiding in communication—and with strong legal and [government institutions](#), the researchers found.

If that's not the case, companies can still position themselves to take advantage of foreign market learning opportunities by assembling a culturally literate management team, with experience in the new market, says Prof. Hejazi.

The findings are drawn from advanced statistical analyses that Prof. Hejazi and his co-researchers conducted on confidential data from Statistics Canada about every Canadian [company](#) between 2000 and 2014. The research responds to the Canadian government's interest in better understanding the ingredients for international success among Canadian companies.

Given that Canadian companies still lag many other countries for R&D spending, the study's results underscore the importance of government and Canadian business working together to promote innovation and advancement to the global stage, says Prof. Hejazi.

More information: Walid Hejazi et al, Selection, learning, and productivity at the firm level: Evidence from Canadian outward FDI, *Journal of International Business Studies* (2020). [DOI: 10.1057/s41267-020-00343-9](#)

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