What Shapes Automotive Investment Decisions in a Contemporary Global Economy?

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Dans le contexte d'un vaste débat public, des gouvernements, en Amérique du Nord, ont mis en place d'importantes mesures incitatives pour convaincre les multinationales du secteur automobile d'investir sur leur territoire. Dans cet article, nous évaluons l'importance du rôle que jouent ces mesures pour attirer des investissements au Canada. Notre évaluation comporte trois volets : une analyse des données portant sur les mesures incitatives mises en place au Canada et aux États-Unis ; une étude de cas, celle du processus qui a mené à la construction de l'usine d'assemblage de Toyota à Woodstock, en Ontario ; et une série d'entrevues menées auprès d'intervenants gouvernementaux et du secteur automobile. Nous observons ainsi que, si les coûts liés à l'emplacement d'une usine sont un élément majeur qui influence la décision d'investir, décider de construire une usine d'assemblage est, pour une entreprise, une question complexe liée à un investissement à long terme de plusieurs millions de dollars qui comporte des risques importants. En évaluant ces risques et les coûts prévus des investissements, nous avons observé de grandes différences dans ce qui influence les choix des entreprises. Même si les mesures incitatives jouent en général un rôle important, d'autres types de facteurs, moins facilement mesurables (*soft factors*), influencent aussi les décisions d'investissement : les liens structurels entre le siège social et les différentes usines ; le leadership au niveau des usines ; et les relations entre les différents acteurs, en particulier entre les responsables du siège social et ceux des usines, entre les différents paliers de gouvernement, et entre les gouvernements et les directions des entreprises. Enfin, nous montrons que la fragmentation institutionnelle, liée à la concurrence que se font différents paliers et services des gouvernements, peut nuire à l'efficacité des mesures que les gouvernements mettent en place pour attirer le capital étranger.

Mots clés : investissements dans le secteur automobile, mesures incitatives gouvernementales, leadership d'entreprise, relations gouvernement/entreprises, usine Toyota de Woodstock, politiques publiques

Amid considerable public debate, governments across North America have offered rich incentive packages to entice investment from multinational automotive corporations. This article explores the relative importance of government incentives in influencing automotive corporations' decisions to invest in Canada on the basis of a data analysis of investment incentives in Canada and the United States, a case study of Toyota's decision to invest in the Woodstock assembly plant, and a series of interviews with industry and government stakeholders. Our article concludes that although locational costs are a major determinant of investment decisions, the corporate decision to build a new assembly plant is a multimillion-dollar long-term investment with considerable risks. In assessing the risks and estimated costs of these investments, we found evidence of major variances between companies in what determined their decision. Although incentives were usually important, our research points to the influence on investment decisions of soft factors, including the structural relationship between the home office and branch plant; leadership of branch plant operations; and relationships between actors, in particular between corporate actors at headquarters and the branch plant, different levels of government, and government and corporate actors.

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Finally, we show that institutional fragmentation, including competition within and between different levels and branches of government, can erode policy effectiveness when governments attempt to attract foreign capital.

Keywords: automotive investment, government incentives, corporate leadership, government corporate relationships, Toyota Woodstock, policy

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Introduction

Since the late 1970s, governments across North America have offered rich incentive packages to entice investment from multinational automotive corporations. Within Canada, the use of such tools to attract investment has triggered public debate over the efficacy of governments using taxpayer funds to support large, profitable companies. Do those funds guarantee new jobs? Do they create sufficient economic spin-offs? Would the company have made the investment if the funds had not been made available?

Opponents of incentives argue that companies should and will invest if the market economics make good sense. According to this argument, the role of government is to lower the cost of doing business and expand opportunities for sales, domestically and beyond. Meanwhile, supporters argue that incentives are the price of entry into what has become a global competition between countries hungry for automotive investment. In Canada, the urgency of this debate has heightened as Canada's share of North American automotive production has declined (Keenan 2015).

The debate over incentives begets a broader set of questions about what determines a multinational automotive corporation's decision to invest in Canada versus another location. To begin answering these questions, we undertook a case study of Toyota's 2005 investment in Woodstock, Ontario. On the basis of this case study, which was triangulated with interviews from other automotive industry stakeholders, we explore three arguments.

First, we acknowledge that costs are a major determinant of investment decisions and, in a world of increased competition, we learn that small cost differences matter. However, because each original equipment manufacturer (OEM) assesses the risks and costs of long-term investments differently, major variances between companies arise. Second, notwithstanding the importance of cost factors, our research points to the influence of "soft" factors on investment decisions. Each branch plant's ability to attract investment is influenced by the structural relationship between the home office and branch plant, as well as by the leadership attached to the branch plant's operations. In addition, relationships between actors matter, in particular those between corporate actors at headquarters and the local affiliate, between different levels of government, and between government actors and corporate actors. We also demonstrate that not only do relationships with labour matter but that perceptions of relationships with labour are important. Third, we show that institutional fragmentation, including competition within and between different levels and branches of government, can erode policy effectiveness when governments attempt to attract foreign capital.

Through the analysis of these three areas, we conclude that incentives do affect corporate investment decision making in Canada. In addition, we show that soft factors—many previously unrecognized—are essential determinants of investment. We demonstrate that many of these additional factors are within the scope of Canadian governments and stakeholders to influence.

Understanding the Nature of Automotive Investment

Investment decisions are shaped by the cadence of automotive life cycles and by the industry supply chain. Investments in new, or the retooling and refurbishing of existing, automotive assembly operations require hundreds of millions of dollars. For example, in 2013 Ford Motor Company of Canada invested more than $700 million in retooling its Oakville, Ontario, plant, and in 2011 Volkswagen invested more than $1 billion in building its new plant in Chattanooga, Tennessee. New automotive assembly operations require 1,000 acres or more of serviced land with easy logistical access to automotive suppliers as well as markets for final assembled vehicles. To maximize the efficient use of invested technologies and facilities, they also need access to a highly trained workforce.

Automotive assembly investments are long term, with automotive factories expected to be in operation for at least 20 years. This means that making the right decision at any point in time can root the automotive company to a particular locale for decades. Once the initial investment is made, assembly operations must reinvest and upgrade technologies and production processes, generally every five to seven years, to accommodate model changeovers. Investment decisions are therefore complex risk–benefit assessment exercises, shaped by a combination of hard costs, industry trends, and soft, intangible factors (Dias 2016; Yates 2015).

Given the high level of investments associated with automotive production, attracting investment is a high-stakes game, one in which a growing number of countries compete. However, although the costs are high,

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so too are the returns. The automotive industry has very high economic multiplier effects (Centre for Spatial Economics 2015; Hill et al. 2013; Shiell and Somerville 2012). Sandra Pupatello, former CEO of the Windsor-Essex Economic Development Corporation in Ontario, described the attraction of automotive investment:

> It is one of those unique products. Besides a house, it's the most expensive thing people will buy; it comes with the most parts, made out of the most interesting processes and materials. It causes a lot of work to have to happen to make it. Every one of those steps is turning the economy. That's why everybody wants one. That's why it's so valuable, and why others are waking up and realizing "Holy cow, I can look like a complete spendthrift and throw money at this company, but that is a generational investment that will never come again." (Yates and Lewchuk 2014e)

Methodology

This article is based on empirical research on investments and incentives and on elite interviews with senior government, corporate, and union leaders. Research identifying individual OEM investments in Canada and the United States was gathered from primary and secondary sources (see the online Appendix, available at https://aprc.mcmaster.ca/research) and considered along with data describing the level and type of government incentives associated with specific projects. This research was supplemented by secondary literature and government and consultant reports. Together, this literature provides the detailed information necessary to build the Woodstock Toyota investment case study.

The authors undertook multiple interviews with stakeholders involved in investment decisions across multiple organizations. These included interviews with senior corporate leaders at Ford Motor Company of Canada, Honda of Canada Manufacturing, and Toyota Motor Manufacturing Canada and with senior government officials at the federal, provincial, and municipal levels. A site selection agent was interviewed, as was Jim Stanford, then an economist with the autoworkers union, Unifor. Semi-structured interviews were conducted in person or on the phone by both authors, and all but one was taped and transcribed. Interviewees were recruited through key contacts as well as through industry partnerships established through the Automotive Policy Research Centre. The authors then thematically organized and analyzed the interviews, mapping them onto the data collected. The authors recognize the limitations of drawing conclusions on the basis of a single case study. Our interviews with other industry stakeholders, including automakers, confirmed our broad conclusions, therefore leading us to some degree of confidence in our analysis.

Canada's Competitive Cost Profile

Automobiles are expensive items, a fact that might lead some to assume that relatively small production cost variances can be overlooked. The reality, though, is quite different. Of a vehicle market price of $30,000, only about 10%–15% is generated at the location of the final assembly plant. Profit margins are often small, a situation that translates into intense competition for production mandates, including competition within companies (Bounajm 2015). This is a change from 40 years ago when most vehicles sold in Canada were produced by one of four American automakers, all of which were unionized. At the time, the market was protected by continental trade barriers and buffeted by an interventionist policy regime (Holmes 1992). Labour costs were consistent across North America and not subject to competitive pressures from labour in other jurisdictions. Today, however, the automotive industry is global in nature, resulting in increased pressure on Canadian OEMs, suppliers, unions, and governments. The pressure to lower costs is relentless.

The literature on the cost competitiveness of Canada's automotive and manufacturing capabilities is considerable (Council of Canadian Academies 2013; Gomes 2013; Oschinski, Chan, and Kobrinsky 2014). Often, the competitive calculus is reduced to one item: labour costs, even though as Unifor and others have argued, labour costs associated with the final assembly process make up only 7 percent of total costs of producing a vehicle (but about half of the value added at a final assembly operation). Certainly, Canada's labour costs are higher than Mexico's. Where Canadian labour costs rank vis-à-vis the United States is heavily influenced by currency exchange rates (Burru, Ghansiam, and Altincekic forthcoming). Therefore, the recent decline in the value of the Canadian dollar combined with the 2015 agreement between UAW and the Detroit Three has improved the relative cost of Canadian labour compared with that of unionized plants in the United States (Linkhorn 2015).

In addition to wages, corporations look at total labour costs, including those associated with the broader social safety net in Ontario and Canada. Interviews with Toyota and Honda identified the importance of the impact of incremental social welfare improvements on total labour costs. They pointed out that relatively small cost increases associated with programs initiated by the Ontario provincial government have affected perceptions of Ontario's overall competiveness. When discussing Ontario's introduction of Family Day (a statutory holiday in February), Gilles Madore from Honda of Canada Manufacturing commented,

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> The question that they [provincial government] asked us was, "Well, what's the total impact in the labour rate?" I said, "It's about 1 percent." So I know their thinking is that it's 1 percent, so why the big deal? But if you take 1 percent of your labour rate, you take $20 on the hydro costs. . . . All of these things add up. . . . For a successful manufacturer of smaller vehicles, the return on sales is about 6 percent. (Yates and Lewchuk 2015a)

Finally, notwithstanding the historically low level of strikes over the past 10 or more years in the automotive industry and Unifor's commitment to work with corporations to secure investment, several interviewees insisted that perceptions of Unifor as a militant union linger. These perceptions continue to influence Canada's perceived desirability as an investment location. Site selection agencies, most of which are based in the United States and increasingly act as intermediaries between companies and governments seeking automotive investment, perpetuate the views of the impact of unions in Canada. According to Dennis Cuneo, former senior vice president for Toyota in North America and now employed by a US site selection agency, Canada's history of militant automotive labour dampens enthusiasm for investment in Canada:

> Michigan has right-to-work, and you have the perception, and I think the reality of tough labour relations. You've got tough unions up there. . . . So companies say, "Why do I need that?" . . . Well, the labour relations piece—you can't underestimate that. You have a pretty healthy union up there. . . . I don't claim to be an expert on Canadian unions, but it's my perception as a site selector. (Yates and Lewchuk 2014a)

Yet, several factors work to Canada's benefit in seeking new investments. The quality, dedication, and work ethic of the Canadian labour force continue to be seen as one of Canada's competitive advantages. According to our interviews, the Canadian workforce is characterized by high levels of numeracy and literacy, a strong work ethic as seen in low turnover and strong commitment to employers, and excellent skilled trades. According to Ray Tanguay, retired chairman of Toyota's operations in Canada and now the federal and Ontario government advisor on the auto industry, "The talent is everything when we talk about the quality of the workforce. Talent is what we have to sell in Ontario, especially in skilled labour" (Yates and Lewchuk 2015c). The high quality of the labour force was seen by both Toyota and Honda leadership as contributing to the success of Canadian plants in new model launches. Concerning Canada's competitiveness in securing Honda investment, Madore concluded,

> I would think one of the advantages we had here to offer at [Honda of Canada Manufacturing] was the experience we had provided and can provide for new model development and new model launches. . . . It is the biggest job you can imagine. You take 700 people's jobs; in one day, you're changing to the new tasks. It's a monumental undertaking, so it takes a long time to master that skill. (Yates and Lewchuk 2015a)

Canada also has a reputation for high-quality product output. General Motors' (GM's) facilities in Oshawa have won more J.D. Power awards for plant quality than any other GM facility (CAPC 2013). Toyota's Canadian facilities have earned similar accolades. Joe Cordiano, Ontario minister of economic development and trade at the time of the Toyota Woodstock investment, argued that Toyota was attracted to Canada because of its high quality of production (Yates and Lewchuk 2014b). This was confirmed by the former Toyota president, who stated that Toyota's plants in Canada became a benchmark for quality. The Japanese corporation's confidence in this quality led Toyota to allow Canada to build the Lexus, the first plant outside of Japan to do so.

The quality of labour alone may once have been enough to secure investment in Canada. As Jim Stanford stated in our interview with him, however, Mexican plants are improving their labour productivity and quality every day, thus eroding these competitive advantages (Yates and Lewchuk 2015b). Honda's Gilles Madore concluded,

> We know from our own experience building a factory in Mexico that this thing is not as easy as it looks. There's been a huge amount of challenge, but at the end of the day, it's still going to be a lot cheaper to produce that product there. (Yates and Lewchuk 2015a)

Three other cost areas raised in interviews were seen as becoming important in either improving or eroding Canada's competitiveness: logistics, energy, and taxes.

Interviews with Toyota, Ford, and Honda all identified problems with rail transport, especially insufficient availability of rail containers for shipping finished vehicles. Several interviews, including those with economic development officers, identified the rising cost of electricity as an important factor in reducing Ontario's competitiveness. In Ontario, these differences have become more pronounced since 2010 because electricity rates have increased, whereas those in key US states have actually declined (Oschinski et al. 2014). According to interviews, the ability to offer low-cost energy to Ontario plants has been further complicated by the lack of coordination between the generation and sale of power, a consequence of government reorganizing of Ontario

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Hydro around a devolved, competitive model. The government of Canada boasts about lower corporate taxes compared with the United States, but those savings only accrue for companies incorporated in Canada. Most American firms end up paying the US global tax rate, which eliminates the savings they might enjoy from lower Canadian corporate taxes (CAPC 2013).

Although the costs of production are important determinants, the size and long-term nature of these investments introduces uncertainty and the need to estimate investment risks. Such estimations allow other factors to shape investment decisions, including public policy, politics, and personal relationships. How these factors shape investment decisions is the focus of the following discussion.

Incentives

Over the past several years, much public and corporate attention has focused on the importance of financial incentives offered by governments to attract manufacturing investment, especially automotive. Incentives for greenfield automotive investment in North America date back to the 1960s (Anastakis 2004). By the early 1980s, when the Canadian government became concerned about the impact of Japanese-built vehicles occupying growing shares of the market, its response was to attract investment from Honda and Toyota, with a combination of pressure from non-tariff barriers and financial incentive packages. The result was the building of five new automotive assembly plants in Ontario (Molot 2005; Yates 1993).

Not until 2004 did Canadian governments respond to mounting pressure from companies and Unifor to offer incentives more broadly to attract investment for both greenfield and brownfield investments by OEMs (see the online Appendix). The environment in which the Canadian automotive industry operated changed significantly in the early 2000s. Between 2002 and 2004, Ontario saw two automotive plant closures, and in that same time period, Honda, Nissan, Toyota, and GM invested significantly in the United States. All of the states involved in these location decisions offered significant incentives to attract investments. Under pressure to support the automotive industry, the Ontario government announced its renewed automotive incentive package, which it set at 10 percent of total investment (Lyne 2004), followed shortly thereafter by the federal government's commitment to incentives also valued at up to 10 percent of the total investment. Between 2004 and 2008, Toyota, Ford, and GM were awarded incentive packages by the provincial and federal governments, Toyota for building its new plant in Woodstock and Ford and GM for upgrading existing facilities (Industry Canada 2004). Since then, government incentives in Canada have consistently been valued at between 20% and 25% of fixed capital spending. This compares with incentives in the United States that range from 20% to as much as 100% of the value of investments (Yates 2015; see online Appendix).

The specific characteristics of incentive packages differ between the two countries in four significant ways: (a) the levels of government involved, (b) what the incentive packages include, (c) the nature of the funds that are allocated, and (d) the frequency with which governments participate.

US incentive packages are assembled by state and local governments, with the federal government playing a small role. In Canada, packages are assembled by all three levels of government, with the federal and provincial governments playing a dominant role. Municipal governments cannot offer cash incentives like their US counterparts because of legislative restrictions on "bonusing" that prohibit municipalities from assisting a manufacturing enterprise by giving or lending municipal land, cash, or tax exemptions. The range and value of incentives offered by municipal governments are therefore quite small. Tracey Pringle, former economic development officer for the Windsor-Essex Economic Development Corporation, says these restrictions tie the hands of municipalities in competing with US states:

> It doesn't make any sense to me.... Let's just say our eight [automotive] municipalities could come together and say, "Okay, guys. As Windsor and Essex County, each municipality is willing to put aside a $150,000 a year to get a war chest of money of a million dollars a year for the next five years." So we've got $5 million sitting there for economic activity; for us to be able to help.... It kills me that we can't do that in this province, especially for where we are. Because that's what happens all the time. Oakland County in Michigan, oh my goodness, I think they have a $70 million war chest just for economic development activity. (Yates and Lewchuk 2014f)

Second, major differences exist between Canada and the United States in terms of what is typically officially included as part of any incentive package. In Canada, jurisdictions tend to avoid including basic infrastructure upgrades as part of any announced incentives, a tendency that understates the perceived support of Canadian jurisdictions for investment. For example, as part of Toyota's investment in Woodstock, Ontario, in 2005, commitments were made to upgrade highways, water systems, educational infrastructure, and railways. Those upgrades were worth tens of millions of dollars. Because they benefited citizens generally as well as businesses beyond Toyota, and because providing funds to corporations remains politically contentious, the costs of those upgrades were not included by government when announcements were

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made about Toyota's incentive package. In the United States, those costs tend to be included in announced incentives, making Canadian incentives appear smaller by comparison (Yates and Lewchuk 2014a).

Third, Canadian incentive packages have more strings attached than those in the United States. The provincial government offers grants for training, research and development and technology, and infrastructure. Between 2004 and 2008, the federal government offered a combination of grants and loans to automotive companies. This changed in 2008 with the Conservative government's creation of the Automotive Innovation Fund, whose mandate was to offer incentives structured as long-term or zero- or low-interest loans. Ultimately, the federal system has generated concern in two areas. First, the offer of loans, not grants, makes them less attractive to corporations. Second, the fact that they are offered at zero interest means that they are not of a commercially competitive nature, and therefore Canadian tax authorities require companies to treat them as grants, not loans. This means paying taxes on these monies (CAPC 2013). According to interviews with Honda, Toyota, and Ford, the taxable loan structure makes the federal supports unattractive. In 2014, Honda went so far as to turn down federal incentives for investment in its Alliston plant, preferring instead to take only the Ontario grant worth 10 percent of the investment.[1]

Fourth, over the past number of years a subtle but important and poorly understood shift has occurred with respect to the Canada–Ontario approach to offering incentives. This shift relates to the frequency with which incentives are offered. In the United States, incentives are available at the time of the initial plant investment. After the initial investment, government steps back. In Canada, initial incentives tend to be smaller. In recent years, however, Canada and Ontario have demonstrated a willingness to offer incentives to support retooling, model changeovers, and other subsequent upgrades.

Explaining these differences led us to examine several factors that might influence the value and structure of incentives. We posited that higher unemployment rates might influence government willingness to offer greater incentives to secure jobs and the economic spin-offs associated with automotive investment. Yet initial descriptive statistical work confirms research that finds no evidence of such an effect (Molot 2005).

Education and training levels of the resident workforce influence the value of incentives. US states offer incentives of approximately $20,000 per worker for training (Yates and Lewchuk 2014a). General upgrading in education—literacy and numeracy—is not needed in Ontario, where education levels are generally higher than in the United States and paid for through a public education system. The Ontario government offers some training support for automotive assemblers, but it is a fraction of the incentives needed to pay for training in many parts of the United States.

The geographic location of states relative to existing automotive production and supply networks and the extent to which states need to foster the creation of these production agglomerations influence the value of incentives needed to attract initial automotive assembly investments (Van Biesebroeck 2010; Woodward 2012). States without established automotive production and supply networks (e.g., South Carolina or Mississippi) arguably have to be more aggressive in their attraction of investment to compensate for their lack of supply chain and production infrastructure. Seeing the automotive industry as an engine of growth, these states see the initial outlay of incentives as a good investment for the promised economic returns to their state. This places further upward pressure on the amount they are willing to offer in incentives to secure automotive investment. Although Ontario and Michigan's well-established production and supply networks are a competitive advantage that newer states need to compensate for through incentives, the value of this competitive advantage is reduced over time because competing states build their own production supply network once they secure initial automotive assembly capacity.

Finally, the value of incentive packages is shaped by individual politicians and the differences between the Canadian and US governments' understanding of their role in attracting investment. Our interviews repeatedly pointed to national differences in politicians' orientation to incentives. Whereas US state governors and other politicians were consistently likened to salespersons, intent on selling their jurisdiction to prospective automotive investors, Canadian governments were more concerned about decision-making processes, accountability for public monies, and the restrictions associated with different jurisdictional responsibilities. Sandra Pupatello commented about Canada's incentive packages,

> They [government incentive forms and processes] are so mind-bogglingly complicated, and they're supposed to be a sales tool. They're not. . . . the government doesn't understand that this is a sales tool. When it's a sales tool, you take it and you bring it to somebody as if you're giving them a gift. . . . But what it actually is, is a bunch of bureaucrats who sit with their arms folded to say, "Look, here are the parameters of the fund. You will fill out this multi-page document with all kinds of data about your firstborn, including your blood type. If we like it, we'll let you get to the next phase, then we will proceed to spend months and months agonizing if it's truly innovation." (Yates and Lewchuk 2014e)

In Canada, governments see their role as setting the rules of the game, not actually playing the game. Yet as US states and ProMexico, the Mexican government

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agency responsible for recruiting investment to the country, increasingly enter into direct competition with each other and with Canadian jurisdictions, this role for government has come under pressure. Pringle describes one of the investments that she lost for the city of Windsor as a result of head-to-head competition from states coming up to Canada to attract investment:

> Indiana is very aggressive. Ohio is very aggressive.... They have teams of people here, in my community, knocking on doors.... The manufacturers would tell me. "Oh, yeah, last week I got Georgia, I had Ohio, I had Illinois, I had Indiana. Indiana calls me every quarter." ... I lost a deal once. We were well down the road.... We had the property scoped out; we were ready to sign the deal. And the state of Michigan and Oakland County came forward and said, "Well, here's $7 million. Does that help?" And they said, "Well, it was nice knowing you Trace. See you later." And off they went. We couldn't even come close. (Yates and Lewchuk 2014f)

Yet, notwithstanding the perception created by this quote that incentives are a primary determinant of investment decisions, this does not align with information from our interviews. Different corporations view incentives differently. For Toyota and Honda, the incentive is a sign of government's support for automotive investment—a gesture of goodwill—whereas for Ford the incentive is about closing the gap in the cost analysis of establishing a facility in Canada versus some other jurisdiction. To dig deeper into the imperatives behind government incentives, we turn to a case study of Toyota's investment in Woodstock, which reveals that OEM decision making is a complex interplay of financial data, timing, personalities, and teamwork across and between companies, cultures, and governments.

Toyota Invests in Woodstock

In 2008, Toyota completed construction of its Woodstock, Ontario, plant at a cost of $1.2 billion. This plant was the first greenfield auto investment in Canada in 20 years. Why Toyota selected Woodstock for investment over other locations provides a platform for understanding the range of factors that determine a corporation's decision to invest. Not all the factors raised in our earlier analysis were important in the Toyota case; notably, the question of unionization did not come up.

The competition for this investment was intense, with US competitors offering more lucrative incentive packages than Canadian governments, including land grants, tax relief, and cash subsidies. Those involved in bringing Toyota to Woodstock argued that it was about more than short-term financial incentives. The former mayor of Woodstock, Mike Harding, indicated,

> During this negotiation with the province, it was clear that the Americans were trying very hard, including going to Toyota in Japan to pitch.... The folks in the United States were throwing all kinds of dollars at these [Toyota] people. We knew the issue was money, but, my heavens. And Toyota ... I would say, cannot be seduced by money alone.... It's about future planning. (Yates and Lewchuk 2014d)

Notwithstanding the importance of locational costs, our interviews stressed the importance to investment decisions of a skilled labour force, productivity, and quality production and the importance of relationships in building trust and confidence. The objective of these investments is to make a profit. Although knowledge of short-term costs, such as current wage rates and incentive packages, is important, this information is insufficient for assessing the benefits and costs of a multimillion-dollar investment with a plant lifetime of 20 years or longer. The experience of Toyota's investment in Woodstock highlights this: that investment decisions are both an economic process and a social process.

Woodstock benefited from Canadian-born Ray Tanguay's prominence within Toyota's corporate management hierarchy.[2] His position allowed him to make the case for a new Canadian investment directly to management in Japan. By the time Toyota began thinking about further investment in North America, Tanguay and his management team had established a reputation for the two Cambridge, Ontario, plants as quality and productivity benchmarks for other Toyota plants in North America and even Japan. Success was recognized by the expansion of the original single plant of just more than one million square feet to two plants totalling almost three million square feet. In 2003, they began assembling the Lexus model, the only Toyota plant outside of Japan making this luxury product at that time. Tanguay's proposal to Japanese headquarters was to build a plant accessible to Cambridge—one capable of leveraging and transferring Cambridge's experience and skills and its already well-established supplier network.

Tanguay's reputation and relationship with Toyota corporate management proved critical to the decision to invest in Woodstock. His position at the time as a managing officer in Toyota meant he was part of the global organization, had access to key decision makers, and was thus able to make a pitch for investment directly to decision makers in Japan. In Tanguay's words, going through the North American corporate structure would have disadvantaged Canada and filtered out local management's passion for making a new investment work:

> I have a pretty good relationship with the decision makers in Japan. That is a very important element because if you allow everything to go through the filters, the Canadian story gets filtered a lot. It's very difficult

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> to put the passion and emotion that goes behind it. . . . I could have asked for the people in the US to try and make a case for me and that is much more challenging. If you go to the headquarters directly—like in Japan in my case—they are much more favorable toward Canada than if I go to the US. Because, if you look at the US, they have the market. They get credit for investment in the US. They get no credit for investment in Canada. . . . Plus it doesn't help them with the politicians in the US, and there's a lot of politics that dominates in the US. So if you're located in Canada here, you have to respect that there is a headquarters in the US. . . . But if I really want to make an impact, I find out who is making the decision about the next plant in Japan, right. Because they control the money. (Yates and Lewchuk 2015c)

As he notes, being a Canadian also worked to his advantage: "The point is you have to sell. If it's a Canadian that's in charge of a plant, they more than likely will have more passion and more desire to sell" (Yates and Lewchuk 2015c).

Other interviews confirmed the significance of local leadership in OEMs, pointing to the noticeable difference in GM Canada's approach to attracting investment under Steve Carlisle, a Canadian who was appointed president of GM Canada in 2014. One interviewee stated in confidence:

> You have a Canadian—Stephen Carlisle. He's working much harder to try to find a mandate for Oshawa. The previous two presidents, they were more inclined to be attracted to Mexico because they had worked in Mexico and they were just complaining about Canada. They were not going to sell "why Canada?"

Another interviewee, reflecting on the previous president of GM Canada, commented that he "couldn't open his mouth without saying something bad about Canada. He was so negative on the place from the moment he got here that he did tremendous damage."

Tanguay attributes the success of the Cambridge plant to the quality of Canadian workers, a view echoed by Joe Cordiano, provincial minister for economic development and trade at the time the province was negotiating with Toyota (Yates and Lewchuk 2014b). The licensed apprenticeship system in Ontario contributed to a pool of well-trained Canadian tradespeople who could manage more complexity and automation than skilled workers in the United States where apprenticeships are less common. Toyota had access to not only a large pool of educated and skilled workers but also to a pool of workers who arguably brought uniquely Canadian attitudes to work that complemented the production system employed by Toyota. Tanguay told us,

> We have an educated workforce and, typically, Canadians are a little bit more humble and adaptable. We're more willing to learn from others, as a general rule. We've always been next to our big cousin in the US, where we always had to play a lower profile. And I think that Canadians are a mixture of the North American culture and the European culture. We have lots of different diversity in our organization and typically they're more accepting; they're less narrow minded about these things. I think when Japan came to Cambridge, it was extremely well received; everybody wanted to work for Toyota. There was less of an attitude of, "We know best" and more of a "We want to learn." (Yates and Lewchuk 2015c)

Canadian-trained engineers were also critical to making the Toyota system work in Canada and improving on processes established in Japan, such as component delivery and the tracking of quality. As Tanguay recalled,

> I would pit our engineers and our managers against any of our plants in the US and, no questions asked, they're really good. They're really good! So, when they started Mississippi for example . . . the Canadian plant went to support it to get them started. Even today, we have a vice president in Mississippi that runs the plant; that's the second vice president that we've sent over there to Mississippi. (Yates and Lewchuk 2015c)

The Cambridge plant's successes reflected a rigorous recruitment process designed to select workers suited to the Toyota model of work organization. Toyota Cambridge implemented human resource management practices with a goal of reducing labour turnover and benefiting from the skills workers acquired through long-term service with the company.

Once hired, the Toyota system at Cambridge Ontario was designed to minimize labour turnover through a defined benefit pension plan.

> But the difference for us is that we retain people and I give credit to one thing that we had; we had defined benefits. . . . And defined benefits are the best anchor of people—engineers and professionals. . . . If you're a professional, you say, "I can go anywhere I want. I'm a professional engineer; I'm a professional in [information technology]; I'm a [chartered accountant]. I can go anywhere I want." But then you've got 10 years and say, "I've invested 10 years in this company." If you look at our retention of our people, it's incredible; we're less than 2 percent turnover.[3] (Yates and Lewchuk 2015c)

Len Magyar, the city of Woodstock development commissioner, also viewed the reputation of Canadian workers as an important advantage in attracting Toyota investment to Woodstock.

> Some of the comments we've heard in Japan is that they like Canadian employees better than American employees in some ways, because Canadians, if you teach them a system, they'll follow the system. They'll make improvements to the system when asked, or in some kind of normal fashion. (Yates and Lewchuk 2014c)

Cordiano argued that the Canadian financial incentives were smaller than those offered by other jurisdictions,

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but that the quality of the Canadian workforce was critical.

> We offered the least amount of all the competitors going after that Woodstock plant. . . . I think it was our workforce and the fact that the government continued to make the sector a key priority. . . . Because our workforce was well educated, better educated than any workforce in the US, a higher level of education, post-secondary education, training, etc. (Yates and Lewchuk 2014b)

Timing played an important role in Toyota's decision to expand in Canada. In 2005, when the decision to invest was made, positive circumstances aligned. The Canadian exchange rate was favourable at 82.5 cents to the American dollar (Antweiler 2016). Beyond that, Tanguay, with his access to decision makers in North America and Japan, was able to craft a uniquely Canadian pitch. Recognizing that Toyota's global resources were spread thin with concurrent projects in the Czech Republic, Russia, Thailand, and China and knowing that he had a well-respected Canadian team to his avail, Tanguay took his message directly to the decision makers. He boiled his whole plan down to a single piece of paper.

> So we develop on a piece of paper—eight-and-a-half by eleven. Then we said we will finance it, we will build it, we'll manage it and we're going to use the same administrative systems. We're going to create a satellite plant and then we're going to come up with the business so that we can minimize the capital investment. We're going to eliminate duplications. Then we went and we sold that concept. . . . So, economically, you could look at Canada and say, "I can get cheaper labour, high-quality labour, in Canada at a lower rate than I would do anywhere in the United States. (Yates and Lewchuk 2015c)

The reality, though, is that none of this could have come together without the leadership of a single person: a person with knowledge of corporate priorities and preoccupations; a person with the passion and fortitude to push open doors; a person with the desire to risk and spend personal capital to advance a project. Personalities and relationships matter. The Toyota case study demonstrates that they may be as important as raw economic data when decisions are made.

Relationships between political actors and Toyota management influenced Toyota's decision to invest in Woodstock. Toyota management was keenly interested in learning about and meeting local politicians. Speaking about the Japanese respect for politicians, Tanguay indicated,

> They have the utmost respect for politicians in Japan. Even to the mayor; they'll do a big deal up for the mayor. Even Dr. Toyoda, when he came to Cambridge, he wanted to meet the mayor. . . . Because this is an honourable position; they are the keeper of the community. So, yes, ministers and prime ministers, they have a lot of impact. . . . That kind of relationship is important. (Yates and Lewchuk 2015c)

At both the provincial and the federal level, key politicians developed relationships with local and corporate Toyota management. One of Joe Cordiano's first actions on becoming the Ontario minister for economic development and trade was to build a relationship with Toyota leaders:

> They [Toyota] kept saying that they had no interest in building another plant anywhere in North America. That decision was far on the horizon. So when I became a minister, the first thing I did was to visit Toyota in their New York headquarters and suggest to them that we are open for business. . . . We placed a strategic premium on the industry. The automotive sector is hugely important to this government. . . . They said, "Thank you very much. We enjoyed your presentation but you're way off base. We have no interest in building another plant. . . . I went to Tokyo. I intended to pursue whatever I could in terms of contact with them. . . . The message from the government—from me—was that this is a priority for us. Then we started the fund [Ontario Automotive Investment Strategy], and all of the attention turned back to Ontario. (Yates and Lewchuk 2014b)

A crucial visit to Japan by Prime Minister Paul Martin in 2005, which included a meeting with Toyota executives, strengthened the Canadian case for investment. Reports suggest that the company highly valued having the nation's prime minister address them directly about investment.

The respect for politicians and the desire to profit from investments interacted to create a distinct perspective on the importance of financial incentives. According to Tanguay, more important than the magnitude of the financial incentive package was its indication of Canada's commitment to and support for Toyota's investment.

> We don't need a loan. We don't need the incentive. We need the incentive to say that the government is supportive of an investment. And we kept explaining that to the government; it's not the money we're looking for. We want people to say to our shareholders, our executive in Japan, that Canada really supports the auto industries. They value the investment you make over here. They want to be partners . . . they want to help. That's what we want . . . That the Canadian government wants you. . . . It's not the money; it's the goodwill that comes with it. (Yates and Lewchuk 2015c)

This differs from Ford's analysis of incentives that are seen as critical to making a business case for investment in Canada. Caroline Hughes, vice president of government relations at Ford Motor Company of Canada, stated,

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> Governments ask, "Why do I have to give you money to succeed as a business?" … And our point was, first of all there's a gap, and that gap is also driven by the fact that Atlanta and Georgia and southern states and other states do have training incentives and tax breaks and municipal tax incentives. They create tax-free zones, they create employment zones where they provide all these different opportunities for companies to reduce their costs. And at the end of the day when you bundle those all together, those add to the cost differential. … It would cost me $200 million more to invest in Canada. Our investment at the time was $1.1 billion, the gap was $200 million, so we said to government, we have to come up with $200 million to close the gap. (Yates and Lewchuk 2016)

To be successful in attracting the investment to Woodstock, it was critical that all levels of government coordinate their activities across jurisdictions and be responsive to corporate expectations. This included Woodstock's Mayor Michael Harding, Oxford County's Warden Donald Woolcott, federal Industry Minister David Emerson, and Joe Cordiano at the provincial level (Van Alphen 2005).

Woodstock city officials used their earlier experience of competing unsuccessfully for the Cambridge investment and knowledge gleaned from local politicians in nearby automotive municipalities to prepare a plan to meet Toyota's conditions for investment. This proved essential because only a few weeks were available to assemble 1,000 acres of land and plan how the site would be serviced. Although municipalities are constrained in offering incentives by the Municipal Planning Act in Ontario, Woodstock was still able to offer Toyota reduced building permit fees and waived development fees, which saved Toyota hundreds of thousands of dollars (Yates and Lewchuk 2014c). Woodstock also revised its municipal tax rates, which penalized large-scale investments such as the one Toyota was proposing. Building on its good relationship with surrounding Oxford County, Woodstock facilitated discussions between different levels of government and company representatives and oversaw the land acquisition process. It also negotiated a revenue-sharing deal with neighbouring Blandford-Blenheim Township to effect the transfer of the property from the township to the city.

Winning the investment also required a degree of risk taking at the municipal level. Harding and his development officer Len Magyar had to be willing to assemble a large parcel of land on speculation that they might get an investment and had to do this under a cloak of secrecy that including limited information for the city's elected council (Yates and Lewchuk 2014d). They feared that too much public knowledge of Toyota's plans could scuttle the entire deal. Len Magyar had contact with both the county and the province and played a central role in coordinating the local response to Toyota. Harding suggested,

> Len becomes the de facto point of contact. And every day around 5:00, he'd be on the phone to the ministry. They would lay out their challenges, he would lay out his challenges and, meanwhile, Toyota is saying to the province, you've got to have a thousand acres of land in the next two weeks. Woodstock begins assembling the land without going to council or even knowing the plant was coming. … You really have to understand the nature of the game. This is a make-it-or-break-it deal, and I couldn't allow an individual councillor to go and leak to somebody. (Yates and Lewchuk 2014d)

In the end, the success in winning the investment for Woodstock was far more complicated than gathering data on a spreadsheet and summing up the columns. The province did provide $70 million from the Ontario Automotive Investment Strategy fund, launched in 2004, for infrastructure (Ministry of Economic Development and Trade, now the Ministry of Economic Development and Growth), and the federal government supplied $55 million from the Program for Strategic Industrial Projects (Industry Canada 2009). Those are not unsubstantial amounts, but our research also stresses the importance of relationships and non-economic factors in shaping Toyota's decision. The former mayor of Woodstock argued,

> Toyota valued work ethic. Toyota valued stable politics. Toyota valued health care. Toyota valued educational attainment. We have it all as a province. They also valued existing infrastructure. … They also value forward thinking, not calendar-quarter thinking. I mean, none of this is unusual, but they are fixated about quality. (Yates and Lewchuk, 2014d)

Finally, reflecting on how investment decisions are made, Tanguay argued,

> If you really want to get people … to come to Canada, you've got to make it that they want to come to Canada. … They won't go to a place that they don't really like, typically. If you look at most of the headquarters, they do all these site selections. At the end, the CEO or the decision maker says, "I like that place." … So if you want to sell Canada, you've got to make sure that Canada is attractive to come here. It's far more than just economics. (Yates and Lewchuk 2015c)

Government Competition, Fragmentation, and Politics

Institutional competition between government ministries and different levels of government reduces policy coordination and effectiveness in attracting investment. These problems are compounded when government programs are complex and unclear. Many of our interviewees pointed to the difficulty of assembling an incentive package that involved three levels of government

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and multiple discrete support programs within each layer of government. Such complexity contributed to delays in responding to investment opportunities, which turned into lost opportunities. At the federal level, as discussed earlier, funds from the Automotive Innovation Fund, which came in the form of a loan from one ministry, ended up being taxed by the Canada Revenue Agency, making the program both complex and unattractive to many companies. At the provincial level, Honda officials highlighted the cumulative impact on input costs of Family Day and the proposed provincial pension plan and cap and trade regulations.

Raw politics can also derail plans. For example, the Ontario Conservative party's public political hostility to incentives ended up derailing negotiations in 2014 between federal and provincial governments and Fiat-Chrysler and forced Fiat-Chrysler chief executive officer Sergio Marchionne to publicly defend his company's request for incentives (Marchionne 2014). The ripple effects of this failed set of negotiations was to reinforce the view that Canadian governments were not committed to the industry.

These problems with Canada's investment attraction policies, and conflict between levels of government, have been contrasted with the approach taken by the Mexican government since the 2007 formation of its investment arm, ProMexico. ProMexico was increasingly identified as a model for integrated policy, open access to business intelligence, and aggressive investment attraction (Piecyk, Mordue, and Yates 2016). Borrowing from lessons learned from Mexico and the United States, both the Canadian and the Ontario governments have begun working through the problems identified earlier, with the most visible evidence coming with the appointment of Ray Tanguay as special auto advisor to the Canadian and Ontario governments.

Conclusion

This article began with a simple question: What role do government incentive packages play in winning new investments in the automotive sector? Answering this question required looking beyond government incentives to the larger question of how multinational corporations make investment decisions. To gain a deeper understanding of this process, we conducted a study of recent investment decisions in Ontario and, in particular, the decision by Toyota to invest $1.2 billion to build a second assembly plant in Woodstock in 2005.

Although we have argued that factors other than economic variables shape investment decisions, it is important not to underestimate the importance of cost estimates. Cost estimates need to be sufficiently attractive to draw attention to a potential location for it to be considered for a new investment. When asked about the factors that shaped investment decisions, senior managers were keenly aware of the costs associated with a location, including labour, utilities, access to parts suppliers, logistical infrastructure, and taxes. They took into consideration labour productivity, the quality of labour, and the availability of skilled labour. In some cases, relatively small costs were given significant importance. Government incentives have become important in offsetting some of these costs and can be decisive in winning an investment. Although our research shows that incentives were valued differently by different corporations, it also demonstrates that it is now the exception for an automotive investment to happen in North America without government support. Although our research cannot determine whether the size of Canadian government incentives are sufficient to attract investment, it makes it clear that incentives are a critical part of investment competition and that Canadian jurisdictions offer fewer incentives than many other jurisdictions.

We also learned that economic variables, including government incentives, tell only part of the investment story. Automotive assembly investments are long term, with a life cycle measured in decades rather than years. They represent significant risks, and wrong decisions can be very costly. Yet despite the careful assessment of economic factors when making these decisions, corporate decisions were made in a context of incomplete information, particularly about future costs and hence the long-term profitability of a project. Competing sites present cost profiles that place them on a shortlist for a potential investment. The ultimate decision on where to invest, however, often comes down to a series of soft factors, factors that need to be considered by policymakers wanting to attract new investments. Government incentives are important in getting a location on the shortlist for an investment but are insufficient to win investments if competing jurisdictions pay more attention to these soft factors.

In addition to offering monetary incentives, governments can shape perceptions of a location's attractiveness. Perceptions, often based on popular perceptions, can shape decisions when information is incomplete. We heard from several sources that there is a general perception that Canada is a high-cost location with a difficult labour environment and a government that can be indifferent to the needs of investors. Although these characteristics were stressed, the high quality of Canadian labour, the stability of Canadian society, and the attractiveness of the current Canadian tax regime were deemphasized. One role the government can play is building a strong value proposition for investment in Canada and shaping popular perceptions by consistently articulating this value proposition. This value proposition would need to emphasize what makes Canada an attractive location for investments and challenging perceptions

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that are erroneous or less important in shaping an investment's profitability.

Within multinational corporations, chief executive officers of national operations compete for investments. Our research pointed to the importance of having a local Canadian champion secure investment. Having an unenthusiastic champion can be fatal. Local champions need to have a position within the corporate organization that allows them to be heard by key decision makers. In the case of Toyota, Ray Tanguay's relationships with senior Japanese officials and position within Toyota's corporate management allowed him to present a case for investing in Canada directly to those making the decision. Given Canada's lack of domestic OEMs and the resulting reliance of many Canadian production sites on non-Canadian senior managers, Canadian operations often lack direct access to key corporate decision makers, which disadvantages them in attracting investment.

As important as relations between local and corporate managers are to investment decisions, there was also evidence that relations between management and government representatives and between government representatives themselves are critical to building trust and confidence that a location could support a major investment during the construction phase and also in the long run. At Toyota, which is perhaps unique among large multinational companies, a direct relationship between different levels of management and with both local and national politicians proved to be important in shaping corporate management's view of the Woodstock site's potential. Our interviews contrasted Canadian officials with US politicians and government officials, who were seen as more aggressive in pursuing investments and building personal relationships with senior managers.

Automotive investments are set up as competitions between locales, each of which needs to be able to respond quickly and effectively with a site location package that includes the value of any potential incentives. The ability of municipal, provincial, and federal government representatives to work together allows governments to be timely in responding to corporate investment opportunities while also giving potential investors a sense that their concerns will be heard and that governments are committed to automotive production. The actual dollar value of a government incentive was not a primary determinant in all company decisions to invest. Incentive programs that are confusing and not designed with the needs of investors in mind can be ineffective, regardless of their dollar value. Canadian government officials at different levels of government have not always worked together effectively and in some cases have been inconsistent in their approach to investments, thus reducing the attractiveness of the site location package. This is in contrast to places such as Mexico, which has consciously created a single government framework that coordinates support of foreign investment, reducing some of the risks associated with investing in a location.

Our research raises important questions regarding the foreign investment process, providing answers to only some. Our research does, however, provide sufficient evidence to show that governments need to be players in the investment process if they want to attract investment. In a sector in which profit margins are tight and global competition is fierce, corporations force jurisdictions to compete for their investment dollars, and government policy can be decisive. Attractive tax regimes and direct financial incentives are the standard policy levers that states use to attract investments. Our research suggests that governments can enhance their chances of being successful in this competition by paying more attention to soft factors, including communicating a strong value proposition that highlights Canada's locational advantages for automotive investment, building relationships of trust and respect with senior managers, and better coordinating actions between governments so that governments are responsive to opportunity.

Notes

1 In September 2016, the federal government announced it was moving to a grant-based system to support new automotive investment (Keenan and Curry 2016).

2 Ray Tanguay was president and CEO of Toyota Motor Manufacturing Canada from 2002 to 2010 and subsequently was chairman of Toyota's Canadian operations from 2010 to 2015. His closeness to the Japanese Toyota leadership was also reflected in his role from 2011 to 2012 as a senior managing officer for Toyota Motor Co. in Japan. At one point, he was the highest ranking non-Japanese officer in the company.

3 Toyota Motor Manufacturing Canada has subsequently adjusted its pension plan so that incoming personnel are enrolled in a Defined Contribution pension plan. The Defined Benefit plan persists for personnel hired before the implementation of the Defined Contribution plan.

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