

The hollowing out of corporate Canada is a myth

The term “hollowing out” has gained currency in the past few years. The proponents of the hollowing out “crisis” have created a nearly universal belief that corporate Canada is being eviscerated by the foreign takeover of our corporations and the export of their head office functions with a loss of our autonomy. As a result, they claim, we are heading toward an economy of branch offices, which is one of the depressing future results of foreign control. For them, the only question now on the table is what our government should do to slow this ownership exodus.

To be sure, some significant Canadian firms have recently been taken over by foreign firms – Inco, Falconbridge, Zenon Environmental – to name a few. But do these visible changes really signal a hollowing out of our corporate infrastructure? Or are they just getting noticed more now, just like the attention

paid to large scale layoffs, even though these are being more than offset by the unannounced, unpublicized creation of new jobs?

In the Institute’s Working Paper 5, *Strengthening structures*, we identified companies that were Canada’s global leaders in 2003. We focused on the globally competitive companies, because the most critical firms to Canada’s long-term prosperity are those that compete successfully in the global arena. We defined a Canadian global leader as a Canadian-owned corporation ranked in the top five of its particular product or service category globally by sales revenue or assets. We started with the *National Post FP500* and the *Report on Business Top 1,000 Companies* and identified those public and private companies with sales greater than \$100 million that claimed top-five status in a market niche. To do this,

we reviewed companies’ public filings and checked with company officials, where necessary.

In 2006 the Institute updated this list of global leaders. And to shed light on the hollowing out issue, we went back to 1985 to determine how many companies were global leaders back then, using the same criteria – except to lower the sales revenue hurdle to \$50 million to account for inflation.

By our count, we had 33 global leaders in 1985 (*Exhibit B*). The list includes such firms as Hiram Walker, McCain’s, Northern Telecom, Canada Malting, Alcan, Inco, Abitibi-Price, Bombardier, and Laidlaw. The hollowing out thesis holds that we currently have markedly and worrisomely fewer such firms today because of foreign takeovers, such as those of 1985 leaders Falconbridge, Moore Corp, Seagram’s, and Hiram Walker.

Exhibit B Of Canada’s 33 global leaders in 1985, only 16 remain

33 Global Leaders in 1985

Abitibi-Price	Harlequin	Northern Telecom
Alcan	<i>Hiram Walker</i>	<i>Scott’s Hospitality</i>
AMCA	HBC fur auction (now North American Fur Auctions)	<i>Seagram Co.</i>
<i>Asbestos Corporation Ltd.</i>	<i>Inco</i>	SNC*
Atco Ltd.	<i>Laidlaw</i>	Teck-Cominco
Bombardier	Lavalin*	Tembec
<i>Canada Malting</i>	<i>Lumonics</i>	<i>Thomson Travel</i>
CCL Industries	McCain	Timminco
<i>Falconbridge</i>	Mitel	Trimac
Finning International	<i>Moore Corporation Ltd.</i>	<i>Trizec</i>
<i>Geac Computers</i>	<i>National Business Systems</i>	<i>Unican Security Systems</i>

16 departures and 1 merger (*): loss of 17 global leaders since 1985

Source: Institute for Competitiveness & Prosperity analysis.

The results of our research were surprising. We now have 72 – or more than twice as many global leaders as in 1985 (*Exhibit C*). In fact, we are growing globally competitive Canadian firms at a rate that wildly exceeds the rate of foreign acquisition. Net, we simply are not being hollowed out. We are thickening up.

Where are the new global leaders coming from? They come from many sectors: high tech (e.g., Automation Tooling Systems, CAE, Celestica, Open Text, Research In Motion), retail (e.g., Couche-Tard), manufacturing (Gildan, Husky Injection Molding), financial services (Manulife Financial), information (Thomson), and health care (TLC Vision), to name but a few. And the average size of Canada's global leaders today is nearly twice as large as the 1985 leaders (86 percent bigger) as defined by sales revenue in constant dollars.

What then are the policy implications? Clearly, we would love both to keep our current globally competitive corporations and to build new ones. No committed Canadian wants to see our globally competitive companies taken over. But we should not stand in the way of foreign investors who are prepared to buy Canadian companies that have not aggressively capitalized on opportunities in their own business. Nor should we be afraid to admit that sometimes our Canadian management teams are not up to the challenge of global competition and that new, foreign-based management is needed to face it. And we must recognize, if reluctantly, that anything we do that would have the effect of slowing the creation of new globally competitive corporations in order to staunch the takeover of existing corporations would do real harm to Canada's prosperity.

There is no single silver bullet to prevent the takeover of Canadian companies. Peter Munk, who put Barrick onto the current list of Canada's global leaders, is probably correct when he asserts that Canadian company executives have to show more fortitude in going global.^a But they need the help of the Canadian capital markets, which systematically underestimate the risk of Canadian firms staying domestic and overestimate the risk of Canadian firms going global. And they need the help of provincial and federal governments, whose tax policies make capital investment by businesses among the most heavily taxed in the industrialized world.

For Canadians, it is distressing to see companies like ATI, Masonite, and Zenon bought by foreigners. But that simply raises the stakes for creating the appropriate balance of pressure and support for innovative, growing companies – our global leaders of the future.

Exhibit C Canada has created 56 new global leaders since 1985

72 Global Leaders Currently (*since 1985*)

Abitibi Consolidated	<i>Cinram</i>	<i>Magellan Aerospace</i>	<i>Ritchie Bros. Auctioneers</i>
<i>Agrium</i>	<i>CN Rail</i>	<i>Magna</i>	<i>Scotia Mocatta</i>
Alcan	<i>Connors Bros.</i>	<i>Major Drilling</i>	<i>Shawcor Ltd.</i>
<i>Ashton-Potter</i>	<i>Coolbrands</i>	<i>Manulife Financial</i>	<i>Sierra Wireless</i>
Atco Ltd.	<i>Cott</i>	<i>Marsulex</i>	SNC-Lavalin
<i>ATS</i>	<i>Couche-Tard</i>	McCain	<i>Spectra Premium Industries</i>
<i>Axcan Pharma</i>	<i>Dalsa</i>	<i>MDS</i>	<i>SunGro Horticulture</i>
<i>Barrick Gold</i>	Finning International	<i>Methanex</i>	<i>TD Waterhouse/Ameritrade</i>
Bombardier	<i>Fording</i>	Mitel	Teck-Cominco
<i>CAE</i>	<i>Four Seasons*</i>	N. American Fur Auctions	Tembec
<i>Cameco</i>	<i>Gildan</i>	Northern Telecom	<i>Thomson Corp.</i>
<i>Canam Steel</i>	Harlequin	<i>NOVA Chemicals</i>	Timminco
<i>Canfor</i>	<i>Husky Injection Molding</i>	<i>Open Text</i>	<i>TLC Vision</i>
CCL Industries	<i>Imax</i>	<i>Patheon</i>	<i>Tree Island Industries</i>
<i>Celestica</i>	<i>Jim Pattison Group</i>	<i>Peerless Clothing</i>	Trimac
<i>CHC Helicopter</i>	<i>Linamar</i>	<i>PotashCorp</i>	<i>Westcast Industries</i>
<i>Chemtrade Logistics</i>	<i>Maax</i>	<i>Quebecor World</i>	<i>Weston Foods</i>
<i>CGI</i>	<i>MacDonald Dettwiler</i>	<i>Research in Motion</i>	<i>Zarlink</i>

*Four Seasons will become foreign owned in 2007.
Source: Institute for Competitiveness & Prosperity analysis.

^a Ian Austen, "Canada Wonders Why It's the Bought and Not the Buyer," *The New York Times*, October 24, 2006.