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THE IMPACT OF CROSS-BORDER ACQUISITIONS ON HEADQUARTER AND HEADQUARTER-RELATED ACTIVITIES IN CANADA

Ronald Hirshhorn, Hirshhorn Consulting, Canada

Working Paper 2008-14

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Abstract

In this study we attempt to assess the impact of cross-border acquisitions by applying an understanding of the factors influencing the organizational decisions of multinational enterprises (MNEs). Through a review of the relevant literature and an examination of a number of specific recent transactions, we investigate the factors underlying the choice of headquarters and the delegation of management responsibilities by multinationals. These findings are then applied to help understand the effects of recent merger and acquisition activity. The available evidence does not point to any hollowing-out of corporate Canada. The consolidation of administrative activities that occurs when a company is acquired may result in some initial job losses. But, over time, affiliate offices benefit from the overall growth of the corporation. Acquired Canadian-based companies by foreign-based firms, like other foreign-owned firms in Canada, generally compare favourably with domestic firms in terms of research and development (R&D) investment. Multinationals are unlikely to transfer R&D operations following acquisitions as they risk losing highly skilled workers or disrupting the important links that affiliates have developed with local universities and research groups.

Key words: mergers and acquisitions, cross-border acquisitions, multinational enterprises, headquarter functions

Résumé

Dans cette étude, nous tentons d'évaluer les effets des acquisitions transfrontalières en appliquant ce que nous comprenons des facteurs qui influent sur les décisions organisationnelles des multinationales. Nous passons en revue la documentation pertinente et examinons certaines transactions récentes précises afin d'étudier les facteurs sur lesquels les multinationales se fondent pour choisir l'emplacement de leur siège social et déléguer les responsabilités de gestion. À l'aide des résultats de cet examen, nous essayons ensuite de comprendre les effets de l'activité de fusion et d'acquisition récente. Rien dans les données disponibles ne laisse croire à un dépouillement des entreprises canadiennes. Au moment de l'acquisition d'une entreprise, le regroupement des activités administratives peut d'abord entraîner des pertes d'emplois. Toutefois, au fil du temps, les affiliées bénéficieront de la croissance globale de la société. De manière générale, les entreprises canadiennes acquises par des entreprises étrangères, à l'instar des autres entreprises étrangères établies au Canada, soutiennent la comparaison avec les entreprises nationales au chapitre de l'investissement en R-D. Les multinationales ne transféreront probablement pas leurs activités de R-D après une acquisition, car elles risqueraient de perdre des compétences de pointe ou de perturber les liens importants que les affiliées ont tissés avec les universités et les groupes de chercheurs locaux.

Mots clés : fusions et acquisitions, acquisitions transfrontalières, multinationales, fonctions du siège social

TABLE OF CONTENTS

EXECUTIVE SUMMARY

MNE Headquarter Location Decisions

Headquarters are responsible for directing and overseeing corporate activities. In the multidivisional or "M-Form" structure that has been adopted by most large corporations, the main direction and oversight responsibilities are divided between managers at central headquarters and the managers of divisions and business units within these divisions. The preferred location for all types of head offices is urban centres where there is ample availability of business services, a large pool of skilled workers, and access to business intelligence.

To assess Canada's ability to attract head offices with significant management responsibilities, it is necessary to understand how locational factors interact with other factors affecting the structure and location of management functions. Studies suggest that subsidiaries are likely to enjoy greater autonomy if they are knowledge creating organizations, as distinct from "Implementors" that are heavily dependent on knowledge inflows from central headquarters or other subsidiaries. MNEs are also likely to establish a head office with significant management responsibilities where the subsidiary produces a unique product or serves a market with special needs or subject to special risks. Significant responsibilities will, as well be delegated to the management of larger subsidiaries that account for an important share of corporate activity. In all these cases, a decentralized structure helps in adapting the MNE's firm-specific advantages to the local economy and/or in leveraging the country-specific advantages of the location where the subsidiary operates.

Takeovers and Headquarter Location Decisions

Takeovers can be examined from Canada's vantage point as a target and as a source of M&A activity. With regard to takeovers of Canadian firms, impacts will depend on the strategy of the acquiring firm. Distinctions can be made, for example, between M&As that focus on achieving investment gains, consolidating industry production, acquiring R&D capabilities, and gaining market access. The strategy will determine whether the Canadian target is to be integrated into the MNEs global operations, and, if so, how it is to be integrated. Depending on the M&A strategy, the Canadian affiliate may or may not end up as a knowledge-creating organization, a major regional or global producer, or an organization possessing the other characteristics associated with a significant delegation of management responsibilities.

As a home of MNEs, Canada has an interest in whether a foreign takeover will lead to the relocation of a Canadian company's central headquarters. While there may be pressures for this to occur when transactions result in a major shift in the company's production and/or customer base to other countries, such relocations are the exception. MNEs have a strong attachment to their home countries. A foreign acquisition may lead to the establishment of a new regional headquarters, but will also result in an expansion in the activities subject to top-level oversight and direction from Canadian-based managers.

Case Studies

Case studies were undertaken of eight major (over $1 billion) transactions in which Canadian-based firms were involved as either the target or the acquirer. The transactions were in different sectors and occurred for a variety of reasons – to acquire resources, gain a new market, and acquire technological capabilities. A number of common findings emerged about headquarter and headquarter-related impacts:

- All acquisitions involved a consolidation process in which the new owner standardized some aspects of management practice and, at the same time, pursued available administrative cost savings.

- The offices of target companies lost their status as central headquarters, but most remained in existence as affiliate head offices.

- The MNEs in the study all have a strong attachment to their home countries and, according to respondents, are unlikely to relocate their central headquarters in the foreseeable future.

- The consolidation of administrative functions often resulted in employment declines at affiliate head offices immediately following a takeover, but, with corporate growth, employment subsequently expanded to above its pre-acquisition level.

- Takeovers resulted in a shift of decision-making authority from the acquired to the acquiring company, but affiliate managers generally retained a high degree of responsibility, including considerable influence over strategic decisions affecting their area of operations.

- Following a takeover, research activities did not decline and, all acquired companies had a better opportunity to innovate.

- While the consolidation of administrative functions reduced some affiliates' requirements for outsourced services, corporate growth subsequently benefited service providers in the locations where subsidiary offices are located.

- Acquisitions did not lead to a reduction in corporate support for the community in which the acquired company was located.

Case studies undertaken as part of a recent report by the Conference Board came to generally similar conclusions about the governance and management impacts of takeovers, their positive influence on the growth of acquired companies and the likelihood that contributions to the local community will be sustained following a takeover. Other case studies document the significant responsibilities delegated by MNEs to Canadian affiliates that have proven their distinctive competencies. In the case of acquired companies, this proof has often come through their performance as independent entities.

Application to Recent Acquisitions

While Canadian acquisitions abroad have consistently exceeded the number of foreign acquisitions of Canadian corporations, in recent years, the average value of foreign acquisitions has been much higher. Recent data reflect the strong influence of a number of mega-transactions. In addition, a number of special drivers, including favourable credit conditions and strong commodity prices, underlie recent M&A activity and the high demand for Canadian corporate assets.

Evidence suggests that foreign takeovers are likely to have a positive impact on head office employment in Canada. While the consolidation of administrative activities that occurs when a company is acquired may result in some initial job losses, over time, affiliate offices will benefit from the local operation's increased competitiveness and better growth prospects. In addition, when a company is acquired, financial and entrepreneurial resources are freed up to be deployed in new ventures. Canadian acquisitions abroad will also impact positively on head office employment in Canada.

Top-level management responsibilities increase at those Canadian MNEs that expand abroad and decrease at Canadian firms that have been the target of foreign takeovers. The managers of acquired Canadian companies, however, often retain a high degree of responsibility. In some cases, this is because there is no imperative to integrate the acquired business with the MNE's other operations. In the case of manufacturing and processing firms, it is because, in the current environment, the pressure is to focus on the acquisition of Canadian businesses that can take on major responsibilities to support the MNE's regional or global network. Unlike the truncated branch plants established in earlier years, affiliates created through recent acquisitions have the characteristics that are associated with a significant delegation of management responsibilities.

Acquired companies, like foreign-owned firms generally, compare favourably with domestic firms in terms of R&D investment and innovation. While research activities at the acquired company could be reduced to eliminate duplication, this tends to be the exception. MNEs, which have been decentralizing their R&D, are more likely to focus on ensuring the successful transfer of the acquired company's innovative capabilities.

While foreign-owned corporations are sometimes viewed as being less connected to their communities than domestically-owned companies, available evidence does not support this view. Major MNEs have well developed programs to support local causes and encourage community engagement by their employees. Based on the limited available data, their activities compare very favourably with domestic firms.

Management and professional employment overall is little influenced by the head office changes resulting from M&As. Other factors also play a more influential role in the growth of high-value added employment in major Canadian cities. In general, the headquarter and headquarter-related impacts of M&A activity are appropriately viewed as an aspect of the adjustments that must occur for Canadians to benefit from the important productivity growth that comes from the reallocation of resources from less successful to more successful producers.

A. INTRODUCTION

Along with the large flows of foreign direct investment that have become an accepted feature of the global economy, the recent period has been marked by a significant rise in the importance of that type of foreign investment that occurs by way of mergers and acquisitions. Canada, which invests more abroad than it receives through inward investment, has itself become a significant source of M&A investment. The growth in Canadian outward investment and the expansion of Canadian multinationals has added to the top-level decision-making responsibilities of head office executives within Canada. Public attention, however, has focused on the recent wave of large-scale acquisitions of Canadian companies and how this is impacting on the location of corporate offices and on the demand for corporate services within Canada. A number of observers have voiced concern that that corporate Canada is being hollowed out as head offices are moved abroad and Canadian cities lose a significant source of high valued-added activity and employment.

There are a number of factors that influence the way in which corporations organize their management functions. Whether or not an acquisition of a Canadian firm results in the elimination of a head office and the transfer of management functions will depend on how the new activity fits within the MNE's overall corporate structure. Similarly an acquisition by a Canadian MNE will increase the functions of Canadian head office staff to a greater or lesser degree, depending on how centralized an organizational structure is adopted. The broad issue of how multinationals organize their corporate activities and allocate their decision-making functions has been the subject of a significant academic literature, but one that has not, to any significant extent, informed the current debate on the impact of acquisitions on head office employment and activities in Canada.

In this study we attempt to assess the impact of cross-border acquisitions by applying an understanding of the factors influencing the organizational decisions of MNEs. Through a review of the relevant literature and an examination of a number of specific acquisitions of Canadian-based firms and by Canadian-based firms, we investigate the factors underlying the choice of headquarters and the delegation of management responsibilities by multinationals. These findings are then applied to understanding the effects of recent M&A activity.

In the next section of the paper, we review empirical evidence on headquarter location decisions and the findings of studies that have investigated the factors driving headquarters decisions. Section C examines some additional considerations that apply in the case of acquisitions, where the delegation of management responsibilities will be influenced by the particular M&A strategy of the firm making the acquisition. The case studies in Section D provide some additional insights that are of relevance to assessing the impact of takeovers in Canada and takeovers by Canadian-based firms. In Section E, these findings, along with available Canadian data and evidence, are used to assess the impact of recent M&A activity on headquarters and headquarter-related activity in Canada.

B. MNE HEADQUARTER LOCATION DECISIONS

1. Role and Activities of Headquarters

Headquarters are responsible for directing and overseeing corporate activities. *Direction* involves the delegation of decision-making responsibilities and the allocation of resources, human and financial, within the organization. *Oversight* involves monitoring to ensure employees are effectively carrying out the responsibilities they have been delegated. Headquarters is also the location where central functions, including IT, accounting, legal, marketing and R&D are sometimes carried out, but these activities can and often do occur outside of headquarters and, to an increasing extent, are being outsourced to independent suppliers.

Direction and oversight can occur at different levels. Plant managers that organize and control activities within individual production facilities are involved in direction and oversight at one level. What distinguishes headquarters' decisions are their greater scope and longer-term consequences. Strategic decisions about where to market a firm's products or how to position a business within its industry involve a large commitment of resources and are likely to significantly affect corporate profitability for a number of years. Similarly, profits are significantly impacted by the effectiveness of the mechanisms in place to monitor the performance of corporate divisions.

In the multidivisional or "M-Form" structure that has been adopted by most large corporations, the main direction and oversight responsibilities are divided between managers at central headquarters and the managers of divisions and business units. Divisional managers direct and control activities relating to the product, brand or geographic region under their responsibility. Central headquarter managers monitor the activities of divisional offices and develop strategies to maximize the performance of the overall organization. At the highest level, direction is an "entrepreneurial" activity that, in the words of Chandler (1991), requires managers "to determine strategies to maintain and then utilize for the long-term the firm's organizational skills, facilities, and capital and to allocate resources – capital, and product-specific technical and managerial skills – to pursue these strategies".

2. Evidence on Division and Location of Headquarter Functions

There is a limited amount of empirical information on the division of management functions and the location of headquarters. The importance of the M-Form within MNEs was documented some time ago in the business literature.[1] The multidivisional structure has freed the top management of MNEs to concentrate on broad strategic decisions and allowed them to make these decisions in a neutral environment, removed from the special interests representing different business units. More recently, UNCTAD has noted that while MNEs are increasingly restructuring and relocating their headquarters, the popularity of the multidivisional structure remains intact. Between January 2002 and March 2003, 829 headquarter operations were

[1] Studies include Stopford and Wells (1972), Egelhoff (1982) and Hill and Pickering (1986).

established or relocated worldwide, with most of these involving the establishment of regional headquarters.[2]

Another finding of significance is that the organizational structure of major corporations is becoming flatter. Using a unique database tracking reporting relationships and compensation in 300 large U.S. firms over the 1986 to 1999 period, Rajan and Wulf (2003) find that the number of positions between divisional heads and the CEO have declined and, over the 13 years, the number of division heads reporting directly to the CEO has tripled. Greater authority is being given to divisional managers, who are more frequently being appointed officers of the company and being compensated to a greater degree through long term incentives, as in partnership arrangements.

Empirical studies relating to the location of headquarters have highlighted the importance of agglomeration economies and diseconomies. The benefits that firms stand to realize from clustering their activities in urban centres include better access to business services, the availability of a larger pool of skilled workers, and improved intelligence relating to markets and technologies. The diseconomies include increased competition and the "big city problems" of higher rents, more congestion and higher crime rates. While interest initially focused on agglomeration economies at the plant level, there is now significant evidence that agglomeration effects are also leading to the concentration of headquarters. U.S. studies document the comparative advantage of large metropolitan areas with specialized business and financial services and good air connections in hosting headquarters of Fortune 500 companies. During the 1990s, however, the greatest growth in headquarters has occurred not in the largest cities, but in medium-sized metropolitan areas experiencing rapid population growth.[3] New York, which was home to 28% of all Fortune 500 companies in 1955 (when the first Fortune list was compiled), saw its share decline to 17% by 1999,[4] presumably reflecting the influence of urban diseconomies and, also, the contribution of advances in telecommunications and travel in improving the relative attractiveness of smaller cities.

Evidence points to a similar concentration of headquarters activity in Canada. Data for all Canadian companies compiled in Statistics Canada's Business Register show the preeminent position of Toronto, Montreal, Calgary and Vancouver. In 2005, these 4 cities, which represented 38% of Canada's population, accounted for 73% of head office employment. Using Dun & Bradstreet data, Meyer and Green (2003) find that the importance of these four cities is even more pronounced when it comes to Canadian-based multinationals.[5] Both sources highlight the role of Toronto as the leading head office location, followed by Montreal and, then, Calgary. Meyer and Green also establish that there are significant differences in the industrial focus of head offices in different metropolitan areas, with the distinctions largely reflecting regional differences in economic activity.

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[2] UNCTAD Press Release, 21/07/03.

[3] Klier and Testa (2002) find that Southern U.S. cities, such as Atlanta, Houston and Nashville that have experienced strong market growth and, at the same time, matured as commercial centres enjoyed the most rapid increase in headquarters share over the 1990s.

[4] Horst and Koropecki (2001).

[5] They found that, in 2001, 81.1% of all subsidiaries controlled by Canadian MNEs had offices in either Toronto, Montreal, Calgary or Vancouver.

Studies of the city characteristics affecting headquarter location decisions have identified the influence of good airport facilities, low corporate taxes, high levels of business services, same industry specialization and agglomeration of headquarters in the same sector.[6] The choice of an international location depends on additional factors that often include market size and "proximity to clients".[7] According to UNCTAD,[8] the main factors required to attract headquarters include:

- Excellent international accessibility
- A skilled workforce, especially with multilingual skills
- High quality of life to attract international staff
- Low corporate and personal taxes
- Excellent information and communication technology infrastructure
- Well-developed business support services (legal, accounting, public relations)
- Low risk
- Proximity of customers, especially for smaller companies.

3. Factors Driving Headquarter Decisions

The factors affecting the choice of a MNE's central headquarters will differ from the influences on the selection of its divisional and business unit headquarters. As a basis for understanding the impact of takeovers, however, it is useful, initially, to focus on the latter issue. In particular, under what conditions is a foreign MNE likely to establish an affiliate headquarters in Canada with significant product or regional responsibilities? While locational influences provide part of the answer, a full explanation requires an understanding of how locational factors interact with the other factors affecting the structure and location of management functions.

The structure of headquarter activities within MNEs has received considerable attention in the management literature. Bartlett and Ghoshal (1989), for example, propose a typology under which MNEs can be classified according to the independence of their subsidiaries and their decentralization of management responsibilities. Companies were found to have different organizational structures due to their administrative heritage and because of the pressures to match firm capabilities to the particular strategic demands of their business. Forsgren, Holm and Johanson (1995) contend that organizational structure is less a result of rational planning than of a political process in which different actors within the MNE struggle to advance their own interests. In other studies, organizational structure and the role of divisional headquarters is related to the nature of agency costs;[9] national differences in the way MNEs approach regional management issues;[10] and industry-specific factors.[11]

Accepting that the organizational structure of MNEs is likely to be marked by considerable diversity reflecting differences in historical approach, management perspectives and management personalities, it is still reasonable to expect that patterns can be identified related to

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[6] For example, Davis and Henderson (2004) and Strauss-Kahn and Vives (2005).
[7] This factor is highlighted in Ernst & Young (2005).
[8] UNCTAD Press Release, 21/07/03
[9] For example, S. O'Donnell (2000).
[10] For example, Hennart and Larimo (1998).
[11] This is identified as a distinguishing characteristic affecting headquarters location decisions in Holt, Purcell, Gray and Pedersen (2006).

the different costs and benefits from the decentralization of management functions. When firms decentralize, it is more difficult and costly to co-ordinate activities and potentially significant costs may arise in ensuring the managers of subsidiaries make decisions consistent with the wishes of central headquarters. Since MNEs are able to mitigate agency costs through financial and non-financial incentives and various other social control mechanisms,[12] the highest costs will often result from the reduced capacity for central direction. These costs must be balanced against the benefits from decentralization. A divisional headquarters with significant autonomy will typically be better positioned to respond to local needs and opportunities, have a greater ability and stronger incentive to draw upon local knowledge and inventiveness,[13] and serve a symbolic purpose by demonstrating to employees and outside stakeholders that the firm is global in its outlook.[14]

Aside from the last factor, which is likely to become more important as the share of the MNE's activities in a location increases, the benefits of decentralization relate to the establishment of decision-making units that can adapt the MNE's firm-specific advantages to the local economy and/or leverage the country-specific advantages of the location where they operate. According to the literature on MNEs, firm-specific advantages may stem from one or more company assets or capabilities relating to innovation, production, marketing or organization and control. Knowledge management plays a major part in the development and utilization of these assets, and this has become even more so over the last two decades with rapid growth in the knowledge intensity of production. Moreover, there has been an increasing recognition that knowledge management extends not only to the knowledge collected within central headquarters, but also that acquired by subsidiaries and developed from the information collected in different host countries.[15]

This view of the MNE as a network which derives much of its advantage from knowledge flows and tailors its organizational structure to exploit these flows features in a number of management studies. A study by Harzing and Nooderhaven (2005) that builds on an earlier paper by Gupta and Govindarajan (1991) develops and tests a typology in which subsidiaries are classified according to the size and direction of their knowledge inflows and outflows. There is agreement among the two studies that the least autonomy tends to be accorded to "Implementors", subsidiaries that are mainly receivers of knowledge and heavily dependent on knowledge inflows from central headquarters or other subsidiaries. The studies are also in agreement that knowledge-creating organizations belong in the high autonomy categories. The more autonomous subsidiaries include "Local Innovators", subsidiaries with idiosyncratic activities and requirements that do not receive knowledge from the rest of the organization and create knowledge primarily for their own purposes; and "Global Innovators", which develop new knowledge and skills and are a source of large net knowledge outflows to central headquarters and other subsidiaries.

[12] As discussed O'Donnell (2000).
[13] Zahra, Dharwadkar and George (2000) find that entrepreneurship within MNEs correlates with the degree of autonomy given subsidiaries.
[14] This is discussed in Birkenshaw et al. (2006).
[15] This is discussed in Rugman and Verbeke (2001).

The delegation of responsibilities to divisional headquarters can help mitigate the transmission losses that accompany knowledge flows. Transmission is most difficult where knowledge is tacit rather than codified in instructions, manuals, etc. Knowledge that is tacit cannot be understood and effectively applied without learning and experience. It is because much technological knowledge has a large tacit component and involves a process of learning that tends to be cumulative (and is thereby subject to increasing returns) that technologies often diffuse slowly. Considerable economic evidence shows that technological advantages developed by specific firms and regions tend to persist over long periods of time.[16] MNEs must have affiliates within the countries and/or regions that have developed the underlying technological competencies to gain exposure this type of knowledge. Moreover, they must provide these subsidiaries with the freedom and incentive to engage in the acquisition and transmission of knowledge. By establishing an organizational structure in which Harzing and Nooderhaven's "Global Innovators" are afforded a high degree of autonomy, multinational firms promote the development of skills and knowledge and the transfer of this knowledge to central headquarters and other subsidiaries.[17]

These considerations help explain the findings of surveys into the factors influencing headquarters location along with the results of studies examining the factors affecting organizational structure.[18] In the case of a foreign multinational with Canadian operations, the determination of whether to establish a business unit headquarters in Canada, where to locate it and how much autonomy to grant it are all interrelated and will be made to realize the opportunities created by various company-specific and location-specific factors. A MNE is more likely to establish a head office and delegate significant product/or regional responsibilities to the managers where:

- *The subsidiary serves a market with special needs or subject to special conditions and risks*

  Managers need flexibility to respond to these unique market conditions. Evidence gathered by Rajan and Wulf (2003) suggests that organizations do indeed accord greater autonomy to the divisional managers of businesses subject to greater volatility.

- *The subsidiary produces a unique product*

  Under these circumstances, the gains from providing the subsidiary with incentives to adopt new product-related innovations increase and the losses from reduced central office coordination diminish. Harzing and Nooderhaven's results show that "Local Innovators" do enjoy a high level of autonomy.

- *The subsidiary is a source of specialized knowledge that derives from the competencies of its employees and/or of the competencies of the country or region where it is located.*

[16] A good overview of this literature is provided in Orsenigo (2000).
[17] Along with autonomy, there is a need for incentive arrangements and social control mechanisms – as discussed in O'Donnell (2000) – that encourage subsidiary managers to pursue the MNE's corporate objectives.
[18] These include Harzing and Nooderhaven (2006), Birkenshaw et al. (2006) Holt et al. (2006) and a Canadian study by Baldwin and Brown (2005).

As Harzing and Nooderhaven (2006) discuss, subsidiaries that are a source of knowledge outflows need a high level of autonomy. Klier and Testa (2002), among others, show that the headquarter offices of such knowledge-creating entities often cluster in cities and regions that have emerged as a central base of operations for particular industries or activities.

- *The subsidiary accounts for an important share of the MNEs business activities*

  As Birkinshaw et al (2005) point out, there are likely to be efficiency gains from situating those managers with substantial responsibility closer to the centre of gravity of the business. In addition, with the presence of a major operation, there is a greater payoff from establishing a headquarters office that can demonstrate the company's global orientation. Accordingly, one might expect that larger subsidiaries would have a larger number of head office employees, which is what Baldwin and Brown (2005) find for Canada.[19]

- *The subsidiary is located in or can be effectively managed from a city having good access to business and financial services and high quality transportation and telecommunications infrastructure.*

  A number of studies – for example, Strauss-Kahn and Vives (2005) – and surveys – for example UNCTAD – point to the influence of business services and infrastructure, especially air connections, in the selection of a headquarters location. While Canada has a number of locations with desired characteristics, firms that have a single plant in Canada and want to take advantage of the savings from locating management functions and production activities at the same site, would be reluctant move their management office. As Baldwin and Brown (2005) point out, where firms operate a number of plants in Canada, there is much less of a constraint to establishing a separate headquarters office at a well-serviced major centre.

- *The subsidiary is located in or can be effectively managed from a city that is attractive to professionals and the leadership of the firm.*

  The importance of the personal preferences of managers in the choice of headquarters location has been identified in a number studies and emerges as an especially influential factor in a Canadian survey by Hynes (2001). A country may be viewed as an undesirable location for a major divisional headquarters because it ranks relatively poorly on factors such as quality of life, level of personal taxes, and business friendly political environment.[20] The problem may be due, however, not to the characteristics of the host economy, but to the disadvantages of the location within the country where management activities are being carried out. As with the previous factor, for firms with a single operation in Canada, the pursuit of management economies may dictate a headquarters location that is poorly suited to the establishment of a major business unit office.

[19] They also find, however, that, because there are economies in head office employment, larger firms have a lower head office ratio than smaller firms.

[20] There are reports, for example, that high personal taxes have lead to an exodus of headquarters from Sweden.

C. TAKEOVERS AND HEADQUARTER LOCATION DECISIONS

1. Acquisitions of Canadian Firms

From the previous discussion, the impact of a foreign takeover on headquarter activity and employment in Canada can be expected to depend on the nature and importance of production in Canada, the size and distinctiveness of the Canadian market, the significance of the knowledge outflows from the Canadian subsidiary, combined with the relative attractiveness of the current management location or alternative locations from which Canadian operations could be managed. These factors are likely to vary across sectors and among different types of takeovers.

Takeovers can be distinguished according to the strategies of the acquiring corporation. Based on an in-depth examination of major acquisitions involving U.S. firms over 1997- 1999, Bower (2001) divides M&As into 6 categories:

1. *The Overcapacity M&A*
   Management deals with overcapacity through consolidation.
2. *The Geographic Roll-up M&A*
   Management uses acquisitions to "roll up" competitors in geographically fragmented industries.
3. *The Product or Market Extension M&A*
   The company acquires another firm to extend its product line or international coverage.
4. *The M&A as R&D*
   Management uses acquisitions as a substitute for R&D to build a market position more quickly.
5. *The Industry Convergence M&A*
   Management diverts resources from existing industries into a new emerging industry.
6. *The Investor M&A*
   Managers of multibusiness companies sell a division to a financial acquirer.

Of the U.S. M&A deals over $500 million between 1997 and 1999, Bower finds the largest proportion (37%) were Overcapacity M&As, followed closely by Product or Market Extension M&As (36%). The third-largest category (13%) was the Investor M&A. Geographic roll-ups, which are intended to realize the scale economies from combining small local enterprises and pertain mainly to within country acquisitions, came fourth. Industry Convergence and R&D M&As were less common (accounting for 4% and 1% respectively), although in the case of R&D-related acquisitions, this was partly because most transactions would have fallen below the $500 million threshold used in the analysis.

Each of these M&As involves different types of restructuring and has different implications for the nature and significance of the production that occurs at the acquired company. Different M&A strategies will result in the creation of subsidiaries that are characterized by differences in the factors identified as having a major influence on organizational and management structure.

In an Overcapacity M&A, the strategy of the acquiring firm is driven by the need to reduce industry production capacity and realize increased efficiencies. In these types of transactions, which tend to occur in older, capital-intensive sectors, the acquiring firm "closes the less competitive facilities, eliminates the less effective managers, and rationalizes administrative processes".[21] A company that is subject to an Overcapacity M&A will often experience a cutback in operations. The local headquarters of an acquired company may be closed in the pursuit of cost savings or the company may end up with a management team that is smaller in size and now subject to substantial direction and control from the MNE's regional or central headquarters.

The outcome should be very different for an M&A that is undertaken as a substitute for R&D. High-tech and biotech companies that take this route in response to shrinking product life cycles and the pressure to build market position quickly will want to retain the key individuals and organizational elements that are responsible for successful knowledge creation at the acquired company. They will not want to introduce changes that could lead to the departure of key researchers or impair the R&D incentive structure within the company. In their study of foreign acquisitions of UK companies, Child, Faulkner and Pitkelthy (2001) accordingly find that when the acquired company was a significant source of knowledge, the foreign MNE gave importance to preserving the relevant skills and was "not willing to take the risk involved in meddling with the management of its new acquisition".[22]

Industry Convergence and Investor M&As are also likely to result in the retention of significant management capacity at the acquired company. Both types of takeovers involve the acquisition of a company that is engaged in a distinct set of activities and can only be integrated to a limited extent into the acquiring firm's overall operation. In Industry Convergence M&As, the aim is to realize possible synergies from linking what appear to be completely disparate entities. The acquiring company would want to shed those activities of the new firm that do not mesh with its strategic objectives. It is also likely to install certain corporate-wide processes in areas such as accounting, cost control and human resource management. Beyond these initial adjustments, however, there is little to be gained from central direction and oversight. Considerable reliance is instead likely to be placed on local managers who have much better knowledge about the specific activities in which the acquired firm is engaged.[23]

Similarly, with Investor M&As the new owners will typically be dependent on the operating knowledge that resides within the acquired company. As part of their efforts to extract greater value from their acquired assets, private equity investors may bring in new management, sell some under-performing segments of the business, and establish tighter cost controls. Typically, private equity firms will introduce compensation packages that tie executive compensation very closely to performance. Boards are also likely to be changed to bring in experts who can help management create and execute strategy.[24] However, there would generally remain a need for a local headquarters office with major responsibilities for directing and controlling the operations of the acquired company. So long as investors' pursuit of quick returns does not lead to a major

[21] Bower (2001, p. 95)
[22] Child, Faulkner and Pitkelthy (2001), p. 78.
[23] This draws on Bower (2001).
[24] This is discussed in G. Colvin and R. Charan, "Private Equity, Private Lives," *Fortune*, November 27, 2006.

dismantling of assets, a significant management team is likely to remain in charge of operations at the acquired company.

Product or Market Extension M&As comprise a broad and important category. Within this grouping, a distinction can be drawn between those investments that are “market-seeking” and those that are also, to a significant degree, motivated by the pursuit of strategic assets. For those takeovers that are primarily market-driven, there will often be little incentive to situate a management office with major responsibilities in Canada. For most producers in this group, there is nothing distinct about the Canadian market; it is part of their North American market, for which the centre of gravity is located in the U.S. Exceptions exist, where the need to adapt production to unique market or regulatory requirements necessitates an increased delegation of responsibilities to the Canadian subsidiary. The delivery of many services, for example, involves knowledge activities that are best managed at the local level. With most market-seeking acquisitions, however, the Canadian market would be viewed as part of North American market, and the logical place for a corporation to establish its North American headquarters is in the U.S, where it can be close to the firm’s major activities and main internal and external stakeholders. The acquisition will not change the economic reality for most firms, which is that they can minimize the combination of production and transport costs by concentrating activities, including their main management functions, in the larger U.S. economy.

A different outcome is likely where a Product or Market Extension M&A is in significant part motivated by the potential efficiency gains from taking advantage of the acquired firm’s competencies or location-specific advantages. While a subsidiary that is acquired solely to gain market entry is likely to fill the role of an Implementor, a newly acquired firm that is a source of specialized knowledge and skills may become a Local or Global Innovator. The latter subsidiaries can be expected to have greater autonomy so that they have the freedom and incentive to pursue knowledge activities. Moreover, where the Canadian firm’s skill advantages are of sufficient importance, they can offset the pressures to centralize production in the U.S. Canadian subsidiaries that have attained the position of specialized providers of inputs or final products for a MNEs’ North American or global market are likely to be headed by managers with significant decision-making responsibilities.

Therefore, when a Canadian firm is acquired, the results will depend on the strategy of the acquiring firm. The strategy will determine whether the Canadian business is to be integrated into the company’s global operations or maintained as a relatively independent operation. If the company is to be integrated, the strategy will determine if this is to occur through a cutback in operations or a rationalization of production that leads to the transformation of the Canadian firm into a major producer of a specific product. These decisions will determine how well the Canadian subsidiary ends up being positioned in terms of those factors highlighted in Section B that influence the size and responsibilities of the local head office.

2. Acquisitions by Canadian Firms

A very different set of factors come into play when the Canadian firm is the acquirer as distinct from the takeover target. In many cases, a Canadian takeover will have only a small impact on the Canadian headquarters. While pressures may arise for the relocation of a firm's central headquarters following a major acquisition (or a number of foreign acquisitions), such relocations are the exception. The range of activities subject to senior management oversight and direction will increase, but to the extent the added demands can be met by exploiting administrative economies, there will not be a need to expand the size of the Canadian head office.

In the view of Birkinshaw et al. (2006), corporations will have an incentive to shift their central offices when external stakeholders are located outside their home country and there are pressures to locate near these stakeholders. External stakeholders include investors, financial institutions, international customers and competitors. Situating senior management close to these stakeholders offers a number of potential benefits. It may allow more direct communication with analysts and institutional shareholders; signal to investors that the MNE is a player in global financial markets; help senior executives build stronger relationships with large important customers; and increase the company's profile as a global player within its industry. In addition, as Brean and Schwanen (2007) point out, for a Canadian company that is dependant on the large U.S. market, there may be pressure to move its head office south so that can exercise its "voice" in the U.S. and help influence policies that affect its access to the U.S. market.

One notable example of the influence of such pressures is Thomson Corporation's relocation of its headquarters from Toronto to Stamford Connecticut. But while there are indications that firms are somewhat more open to relocating their headquarters than in the past,[25] history, culture and home country loyalty continue to exert a strong stabilizing influence. From its examination of headquarter relocations by MNEs over the January 2002 to the March 2003 period, UNCTAD found that the movement of a parent firm's headquarters from one country to another "is still rare". Birkinshaw et al. (2006) analyzed the Fortune 500 lists over the entire 1990s and came up with only 23 cases in which an MNE had shifted its central headquarters overseas.

An alternative possibility is that Canadian firms will shift specific functional activities to offices in another country. To be closer to the U.S. financial centre, for example, a company could move its corporate finance activities to New York, as Nokia did in 2004. Or a firm may open a new regional office to be closer to the new operations and/or customer base it has gained as part of its purchase. Following its acquisition of Illinois Central in 1998, for example, CN established a regional office in Homewood, Illinois, with sales and operational responsibility for the firm's southern route that extends down to the Gulf of Mexico.

Gabriel et al (2002) studied the internationalization patterns of MNEs from small open economies by examining the largest companies in Denmark, Finland and Norway over the 1990 to 1999 period. While all the companies had internationalized operational activities, they tended to concentrate strategic activities at home. With respect to headquarters functions, R&D and other strategic activities, the researchers find evidence of a strong home country "embeddedness" that is the result of "strong linkages to government and to state and local authorities, of cultural

[25] This is discussed by Birkinshaw et al. (2006).

affinity, the existence of well-developed and well-functioning national innovation systems and infrastructure, and the existence of strong industrial and local clusters". [26] There were differences, however, between the firms from the three countries. Centripetal forces were somewhat weaker in Norway than Denmark and Finland, which Gabriel et al. attribute to Norwegian firm's desire to overcome the country's "outsider status" vis-à-vis the European Union and to the less developed system of industry clusters within Norway.

Therefore, while a foreign takeover will generally not lead to the relocation of a Canadian company's central headquarters, the probability of this occurring is higher when transactions result in a major shift in the company's production and/or customer base to other countries. A takeover may result in the establishment of a new regional headquarters with responsibility for overseeing the newly acquired operations. And, in particular instances, where foreign locations have very strong advantages, Canadian firms could come under pressure to transfer corporate finance, investor relations and other functions normally situated at central headquarters to offices outside of Canada. In most cases, the most significant result will be that senior management residing at the Canadian headquarters will need to address new strategic issues and take on the other added functions involved in providing top-level oversight and direction to a larger organization.

[26] Gabriel et al. (2002) p. 75.

D. CASE STUDY RESULTS

1. Case Studies

A number of Canadian and U.S. companies were interviewed to gather specific information on how acquisitions have impacted on headquarters and management activities. The interviews covered firms in different sectors and included transactions in which Canadian-based firms were both targets and acquirers. The focus was on large transactions, over one billion dollars. Most of the interviews pertained to transactions in which there has been ample time for adjustments to occur, but some more recent acquisitions were included where it was difficult to find suitable candidates with adequate corporate memory.

The transactions that were examined and companies that were interviewed are identified in Table 1. In six of the cases, the companies provided permission to have the descriptions of their experience included in the report. These case studies, which were all reviewed by the senior executives who provided the initial information, are contained in the Annex to this report.

Table 1 **Transactions Examined**

Acquired Co.	Acquirer	Amount *($ Billion)*	Transaction Date	Industry	Company Interviewed
Canadian-Based Companies Acquired by Foreign Companies					
Gulf Canada	Conoco	6.7	2001	Energy	ConocoPhilips
Westcoast Energy Inc. *	Duke Energy	8.5	2001	Energy	Spectra Energy
ATI Technologies *	Advanced Micro Devices	5.4	2006	Information Technology	Advanced Micro Devices
Sears Canada Credit Card & Financial Services *	JP Morgan Chase	2.3	2005	Financial Services	JP Morgan Chase
Canadian-Based Companies Acquiring Foreign Companies					
Georgia-Pacific Paper Mills	Domtar +	1.65	2001	Forest Products	Domtar +
Pechiney *	Alcan	6.3	2003	Aluminum	Alcan
Tom Brown Inc.*	Encana	3.6	2004	Energy	Encana
John Hancock *	Manulife	15.0	2003	Financial Services	Manulife

* Denotes existence of case study description in Annex
+ The interview also covered Domtar's recent merger with Weyerhauser

Note: Most of the Canadian-based companies were also Canadian-controlled when the transactions of interest occurred. The exception is Sears Canada, which was majority-owned by Sears Holdings of the U.S. at the time of the JP Morgan Chase acquisition. Since the transactions, Alcan has been acquired by Rio Tinto Inc. and renamed Rio Tinto Alcan; and Domtar has merged its assets with those of Weyerhauser fine paper division to create a new entity that is majority-owned by Weyerhauser shareholders.

The examined transactions occurred for a variety of reasons. In some of the cases, the main motivation was to acquire resources (Gulf Canada, Tom Brown,), while, in others, it was to gain a new market or improve the firm's market position (John Hancock, Sears Canada, and Westcoast Energy). In a few of the cases, a main attraction was the target firm's technology or technological capabilities (ATI, Pechiney). While there were common processes that all the MNEs followed to integrate their newly acquired subsidiary's management and administrative functions, in some situations, the reorganization of management functions was linked to a broader effort to rationalize the production process. The case studies did not include all the M&A types discussed in Part C., but the examples suggest that head office changes are influenced by the strategic objectives of the acquiring firm. They also provide examples of how knowledge activities, market differences and other factors identified in Part B influence corporate organization. No differences were identified in the approach of Canadian-based and foreign-based firms, although the possibility of differences in approach cannot be dismissed.[27] The main findings of the case studies on the management, headquarters and headquarter-related impacts of M&As are discussed below.

Consolidation and Restructuring

In all the case studies, the acquisition involved a consolidation process in which the new owner standardized some aspects of management practice and, at the same time, pursued available administrative cost savings. The acquired company was typically required to adopt the MNE's accounting system and cost controls, its approach to investment planning and evaluation and its general human resource policies and compensation guidelines. All MNEs took advantage of the synergies that could be realized from centralizing functions in the areas of accounting, legal, IT, corporate communication and investor relations. While they were never the reason for the acquisition, cost savings, often amounting to several hundred million dollars, were generally seen as one of the important and more immediate benefits of the transaction.

Subsidiaries were most significantly affected where the acquisition was accompanied by the need for rationalization and restructuring. When Alcan acquired Pechiney, one of the priorities was to achieve efficiencies that could help it contend with a long term downtrend in the real price of aluminum. The recent merger between Domtar and Weyerhauser's fine paper division is an Overcapacity M&A undertaken in response to the decline in demand for uncoated freesheet paper. In addition to integrating the two organizations' management teams, the new Domtar must control and optimize production among mills with different efficiencies and geographically situated at different distances from major markets.[28] Advanced Micro Devices acquisition of ATI created a different type of challenge, involving the harnessing of the Canadian firm's capabilities to meet AMD's requirement for a new range of products incorporating graphic technology.

[27] Other studies have identified significant differences in the approach of US-based and European-based MNEs towards their subsidiaries. See, for example, Child, Faulkner and Pitkelthy (2001) and Bélanger et al. (2006).
[28] From W. Mies, "Royer Creates White Paper Giant," *Pulp and Paper,* October 2007.

Head Office Location: Subsidiaries

In the takeovers that were examined, the offices of target companies lost their status as central headquarters, but most remained in existence as affiliate head offices. In explaining the decision to maintain a local presence, respondents cited the factors discussed in Sections B and C – the need to be near major production and processing facilities, the importance of being close to markets, the recognition that a move could lead to the loss of high-valued employees. Manulife maintains offices in 19 countries so it is well positioned to respond to the distinct financial service needs of customers in Canada, the U.S. and different parts of Asia. For Specra, the Houston-based natural gas infrastructure company, having offices in Canada allows it be close to an important customer base, but also to more closely oversee and manage its huge infrastructure investments in Ontario and western Canada, along with its interest in the Maritimes Northeast Pipeline in Nova Scotia and New Brunswick

In choosing a location for their affiliate offices, companies recognized the importance of being in a major centre near firms involved in similar activities. This could generally be achieved by situating their office in the same location where the companies they acquired had their headquarters. Calgary was the natural location for ConocoPhilips and Spectra to establish their main Canadian offices, as it was for Gulf and Westcoast Energy, the Canadian corporations their predecessor companies (Conoco and Duke) purchased.

Headquarters Location: Parent Companies

Company executives were asked whether they could conceive of conditions under which their firm would relocate its central headquarters. Excluding Alcan, which had lost parent company status as a result of its recent acquisition by Rio Tinto, none of the respondents thought that the relocation of their company's central office was a possibility in the foreseeable future. Consistent with the findings in Section C, the MNEs that were studied all have a strong attachment to their home countries.

Headquarters Employment

In almost all cases, respondents reported that the impact of the acquisition on headquarters employment was modest. While, in a number of cases, there were short-term losses at the acquired company as a result of the consolidation of administrative functions, these tended to be small. Generally, with the growth in activity that took place following the acquisition, employment subsequently expanded to above its pre-acquisition level. Similarly, at the headquarter offices of acquiring companies, little or no change in employment took place at the time of the transactions, but increases have since occurred among those companies that have been successful in growing their businesses.

All the companies attempted to absorb the headquarters staff of their new subsidiary (with the exception of those whose jobs had been eliminated in the consolidation process) and some companies made special efforts to retain highly skilled and difficult-to-replace workers. The latter was the situation for the research workers and managers AMD acquired with its takeover of ATI and the experienced geologists, geophysicists and engineers that Encana inherited when it took over Tom Brown and Conoco gained when it purchased Gulf Canada. Most often, the top executives of the acquired companies left, either to take on another senior position or to become involved in a new venture.[29] While in some cases, new managers were brought from outside the country, in other cases, host country nationals were appointed to management positions in the newly acquired affiliate.

Management Functions

Takeovers resulted in a shift of decision-making authority from the acquired to the acquiring company. The responsibilities of Canadian managers and boards increased when Canadian MNEs made a foreign acquisition. When Canadian firms were the targets of a foreign acquisition, the Canadian head office was transformed into a divisional or regional office or a country office that fell directly or indirectly under the umbrella of the MNE's divisional or regional headquarters. In some major MNEs, such as JP Morgan Chase, each major business division consists of a number of business lines with operations spread around the globe. Since the JP Morgan acquisition, the Canadian-based manager of Sears Canada reports operationally to the head of the JP Morgan's retail credit cards, which is a business line within Card Services, one of the company's 6 major business divisions.

In most interviews, respondents claimed that the managers of the acquired operations retained a high degree of responsibility. It might be expected that a company, such as Manulife, providing customer-focused services would adopt a decentralized structure in which individual country business units have considerable autonomy. But in the examined resource and manufacturing companies, affiliate managers often had not only operational responsibilities, but also substantial influence on strategic decisions with respect to matters such as investment, the production process, product design and market positioning. In areas such as human resources, where company-wide policies exist, affiliates generally had significant discretion to determine their own practices and procedures within the established guidelines. In almost all cases, affiliate managers' compensation was linked to the performance of the operation they headed. As a result of the reorganization and growth that occurred following the acquisition, the managers of a number of the target companies had responsibilities for an operation that was now significantly larger than before. The managers in charge of exploration and development for ConocoPhilips in Canada and for Encana in the U.S. have the authority to make larger spending than they did when the Canadian operations were under the control of Gulf Canada and the U.S. operations were owned by Tom Brown Inc.

Innovation and R&D

The reorganization of functions that occurred following the acquisition did not result in any reduction in research or innovation at the target companies that were examined. On the contrary, acquired companies generally had a greater opportunity for innovation. The executives that were interviewed almost all commented on how affiliates were encouraged to come up with new product and process innovations and share their findings with others in the corporation. At

[29] In some cases, top managers accepted senior positions with the acquiring company and left shortly afterward. After ATI was acquired, for example, its CEO was, for a short period, executive vice-president of Visual and Media Businesses at AMD.

Encana, professionals belong to communities of practice that meet on a regular basis to share information about leading developments in oil and gas exploration and development. Employees in Manulife's country offices are encouraged to develop new financial service products tailored to their local markets - although, before being introduced, new products must be vetted and approved by the company's head office in Canada. At ATI, which had a major commitment to R&D, the takeover by AMD was focused on combining the two companies' complementary technologies. Under its new owners, the Canadian operation continues to rank fifth in spending among all corporations doing R&D in Canada.

Purchases of Professional Services

There is considerable variation in companies' reliance on outsourced services. At some of the target companies, the consolidation of administrative functions that occurred following an acquisition led to a decline in demand by the affiliate for outsourced professional services. Even where operations were consolidated, however, affiliates often need to use local firms to adapt solutions to their specific requirements. In a number of companies, affiliates retained responsibilities for ensuring company practices comply with country legal and regulatory requirements and, where necessary, obtaining the required outside expertise. In the companies that have been expanding, the growth in activities has benefited service providers not only at the head office, but also in the centres where the companies' subsidiary offices are located.

Community Activities

All of the subsidiaries in the study are covered by the community support policies of their parent companies. The acquisition of these companies and the transformation of their headquarters into a country office or business unit headquarters did not result in a loss of support for local communities. The locations where subsidiaries are located continue to benefit from corporate donations, generally tied to employees' contributions, along, in many cases, with corporate programs to encourage voluntary activities and to support specific local causes. Encana, for example, supports science and technology training, while Manulife places importance on helping hospitals and health charities in the communities where it operates. In a few cases, respondents believed that support for the local community was greater than it had been prior to the takeover.

2. Other Case Evidence

As part of a recent study of corporate takeovers, The Conference Board (2008) undertook a number of case studies of cross-border and domestic acquisitions. The case studies show that, as one would expect, cross-border takeovers reduce the role of directors and managers from the target firm's home country. Consistent with the findings above, governance and management changes were found to be negative for Canada when Canadian firms were the target, and positive when Canadian firms were the acquirers. The Conference Board also finds evidence of the positive impact of cross-border takeovers on the growth of newly acquired affiliates, which is again consistent with the message from the above case studies. The most significant result for acquired Canadian companies was the increase in capital (including R&D) spending. Interestingly, a difference was found between cross-border and domestic acquisitions, with the latter appearing to have less of a positive impact on the activities of the target company. One of the main beneficiaries of takeovers, both domestic and foreign, are the acquired company's shareholders, who are estimated to have received premiums for their shares averaging more than 25 percent.

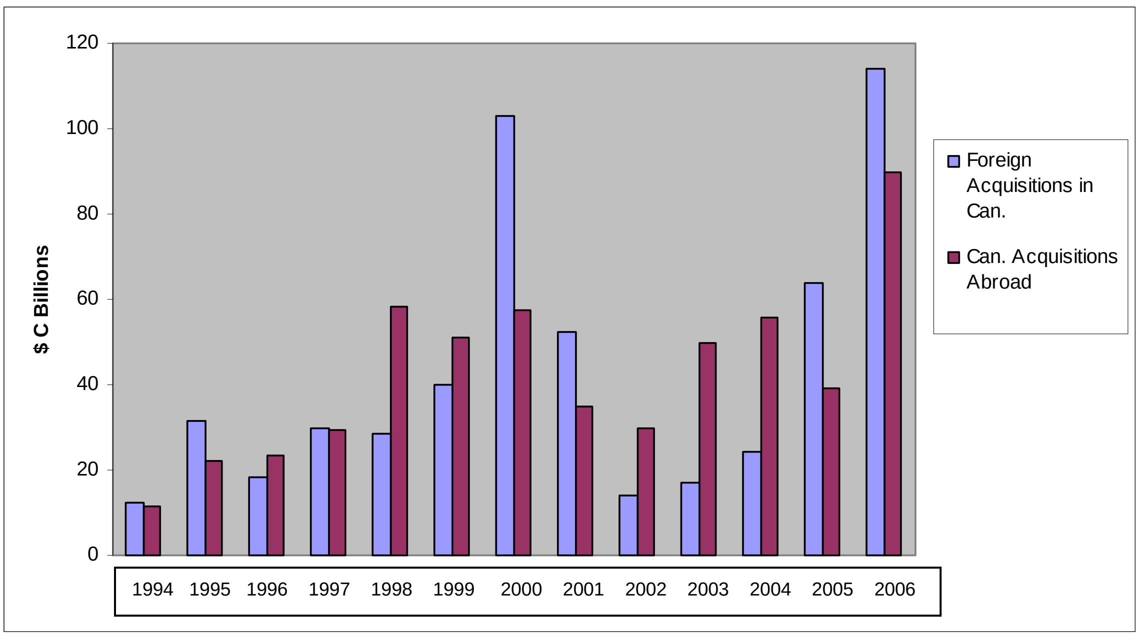
It is more difficult to find evidence on the reorganization of management functions that occurs following a takeover, but case studies of Canadian affiliates that have gained a position as regional or global providers of certain value added activities are instructive. Moore (2007) points to the example of Proctor & Gamble's Canadian plants in Belleville and Brockville, which have acquired regional and international responsibilities for selected products because of their proven track record of success. Moore's conclusion that subsidiaries must earn the right to international responsibilities echoes the results of an earlier study of Canadian affiliates by Birkinshaw (1995). In keeping with other research cited above (in Section B), these studies find, first, that the responsibilities of Canadian managers are greater when Canadian affiliates have specified global or, more likely, regional responsibilities and, second, that to gain these responsibilities, affiliates must prove that they have distinctive competencies that give them a competitive advantage performing the relevant activities. These conclusions were based on an examination of manufacturing MNEs that stand to achieve gains from integrating operations; they are not relevant to those takeovers in which there is little or no imperative for integration. In addition, the above case studies suggest that an alteration to these conclusions is required in the case of acquired companies, which have often already established their competencies through their performance as independent businesses.

E. APPLICATION TO RECENT ACQUISITIONS

1. Interpreting Recent M&A Activity

Current concerns stem in part from the recent growth in the value of foreign acquisitions and the large disparity between the value of acquisitions in Canada and Canadian acquisitions abroad. Over recent years, Canadian acquisitions of foreign corporations have exceeded foreign acquisitions of Canadian corporations in number, as they have over the entire 1994-2007 period, but the value of foreign acquisitions has been much higher. The latter is shown in Figure 1, using M&A data published by Financial Post Crosbie. SECOR Consulting (2008) observes that Canada is only one of three countries that has been a strong net seller of corporate assets since 2000 and that Canada is a bigger net seller than the other two countries, the U.S. and U.K., when the deficit in the value of transactions is measured as percentage of market capitalization.[30]

Figure 1 Foreign Acquisitions in Canada and Canadian Acquisitions Abroad



Source: Financial Post Crosbie, Mergers and Acquisitions in Canada Database

Mergers and acquisitions are an especially volatile component of foreign direct investment. Figure 2 shows acquisitions of Canadian firms since 1985 as compiled by Investment Canada. While the Investment Canada data cover acquisitions in which foreign ownership exceeds 50 percent, as opposed to the 10 percent ownership threshold used by Financial Post Crosbie, the two sources show similar trends over periods in which their coverage overlaps. The 20 year period has been marked by sharp year-to-year changes in both the number and value of M&As, with the fluctuations in dollar value becoming especially marked since 1998.

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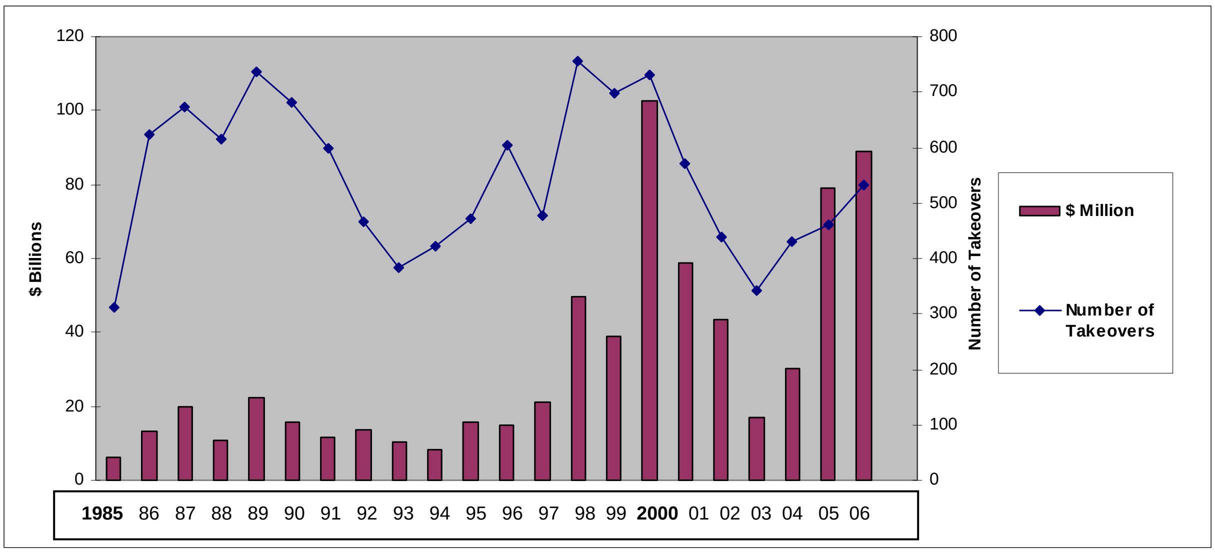
[30] This based on an analysis of deals over US$ 1 billion, using information on the value of completed transactions contained in the Bloomberg database.

Recent volatility partly reflects the influence of a small number of mega deals. Tables 2 and 3 list the M&As in Canada with a value of $500 million or more over 1998-2001 and from 2005 to March 2007, the two peak periods of acquisition activity (in terms of dollar value). In the first period - when Vivendi acquired Seagrams, Alcatel acquired Newbridge and ConocoPhilips acquired Gulf Canada – there were 24 deals over $1 billion and these mega deals, representing 2.7% of the purchase transactions, accounted for just over 50% of the value of all foreign acquisitions in Canada. Over 2005 and 2006, the 28 deals over $1 billion accounted for 8.3% of the number and over 44% of the value of foreign acquisitions.

Figure 2 Acquisitions of Canada Corporations, 1985 - 2006



Source: Investment Canada Database

In interpreting the data, there is also a need to take note of a number of special factors that underlie the recent rise in M&A activity. The increase in acquisitions of Canadian companies is in part related to the global increase in cross-border M&A activity, which was driven by strong stock markets, rising corporate profits, and low debt-financing costs.[31] Strong profits raised the value of corporate assets and also increased the purchasing power of investors. The beneficiaries of low-debt financing costs included private equity funds, which have become more important participants in Canadian as well as global M&A activity.[32]

[31] This is discussed in UNCTAD (2007).
[32] As discussed in UNCTAD (2007), in recent years, private equity funds such as KKR, Apollo Management and Blackstone have also raised funds by listing their own shares on stock exchanges.

Table 2 Major Foreign Acquisitions, 1998 - 2001

Target Company	Acquirer	Amount In $ C Billion	Percent Acquired
2001			
Gulf Canada Resources Ltd.	Conoco Inc.	6.7	100
Westcoast Energy Inc.	Duke Energy Corp.	8.5	100
Anderson Exploration Ltd.	Devon Energy Corp.	5.3	100
C-MAC Industries Inc.	Solectron Corp.	4.1	100
Encal Energy Ltd.	Calpine Corp.	1.3	100
Electric power transmission system (TransAlta)	Trans-Elect Inc.	.85	100
Business services (Telus)	Verizon Communications Inc.	.81	100
Alliance Forest Products Inc.	Bowater Inc.	.79	100
Future Shop Ltd.	Best Buy Co.	.58	100
2000			
Seagram Co. Ltd.	Vivendi SA	41.7	100
Newbridge Networks Corp.	Alcatel SA	10.9	100
BioChem Pharma Inc.	Shire Pharmaceuticals Group PLC	5.9	100
Trimark Financial Corp.	Amvescap PLC	2.7	100
Rio Algom Limited	Billiton PLC	1.7	100
Solect Technology Group Inc.	Amdocs Ltd.	1.7	100
Janna Systems Inc.	Siebel Systems Inc.	1.4	100
St. Laurent Paperboard Inc.	Smurfit-Stone Container Corp.	1.4	100
Berkley Petroleum Corp.	Anadarko Petroleum Corp.	1.2	100
Natural gas assets (TransCanada Pipelines)	Williams Cos. Inc.	1.2	
Westburne Inc.	Rexel SA	.99	100
Abatis Systems Corp.	Redback Networks Inc.	.92	100
Direct Energy Marketing Ltd.	Centrica PLC	.91	100
Unican Security Systems Ltd.	Kaba Holding AG	.75	100
Prudential Steel Ltd.	Maverick Tube Corp.	.71	100

Electrical utility assets (TransAlta)	Utilicorp United Inc.	.70	
Western Star Trucks Holdings Ltd.	DaimlerChrysler AG	.67	100
STS Systems Ltd.	NSB Retail Systems PLC	.60	100
PixStream Inc.	Cisco Systems Inc.	.55	100
Teklogix International Inc.	Psion PLC	.55	100
Agra Inc.	AMEC PLC	.51	100
MasterCard credit card operations (CT Financial Services)	First Data Corp.	.50	
1999			
Bell Canada (BCE)	Ameritech Corp.	5.1	20
Newcourt Credit Group Inc.	CIT Group Inc.	3.6	100
MacMillan Bloedel Ltd.	Weyerhaeuser Co.	3.6	100
Poco Petroleums Ltd.	Burlington Resources Inc.	2.6	100
Rogers Cantel Mobile Communications Inc.	AT&T Corp.	1.4	33
Imasco Ltd.	British American Tobacco PLC	1.1	58.5
Groupe Forex Inc.	Louisiana Pacific Corp.	.76	100
Oil assets (Shell Canada)	Apache Corp.	.76	
DocSpace Co.	Critical Path Inc.	.74	100
Ipex Inc. (Scepter Holdings)	Glynwed International PLC	.52	100
1998			
Avenor Inc.	Bowater Inc.	1.8	100
Midland Walwyn Inc.	Merrill Lynch & Co.	1.3	100
Tarragon Oil & Gas Ltd.	USX Marathon Group	1.0	100
Northstar Energy Corp.	Devon Energy Corp.	.83	100
Discreet Logic Inc.	Autodesk Inc.	.63	100

Source: Financial Post Crosbie, Mergers and Acquistions in Canada Database

Table 3 Major Foreign Acquisitions, 2005 - 2007

Target Company	Acquirer	Amount in $ C Billion	Percent Acquired
2007			
Inco Limited	Companhia Vale do Rio Doce	19,9	100
Shell Canada Limited	Royal Dutch Shell plc	8.7	22
Novelis Inc.	Hindalco Industries Limited	7.0	100
Four Seasons Hotels Inc.	Cascade Investment, LLC	4.2	100
Summit Real Estate Investment Trust	ING Groep N.V.	3.3	100
Sunrise Senior Living Real Estate Investment Trust	Ventas, Inc.	2.3	100
Hub International Limited (Northbridge Financial Corporation)	Morgan Stanley	2.2	100
Algoma Steel Inc.	Essar Global Limited	1.9	100
Harris Steel Group Inc.	Nucor Corporation	1.3	100
Centurion Energy International Inc.	Dana Gas PJSC	1.0	100
Calpine Power Income Fund	Harbinger Capital Partners	.88	100
KCP Income Fund	Caxton-Iseman Capital, Inc.	.80	100
La Senza Corporation	Limited Brands, Inc.	.71	100
Great Lakes Carbon Income Fund	Oxbow Carbon & Minerals Holdings, Inc.	.53	100
2006			
Falconbridge Limited	Xstrata plc	19.2	80
ATI Technologies Inc.	Advanced Micro Devices, Inc.	6.2	100
Dofasco Inc.	Arcelor S.A.	5.6	100
Fairmont Hotels & Resorts Inc.	Colony Capital, LLC.	4.5	100
Intrawest Corporation	Fortress Investment Group LLC	3.1	100
Natural gas storage facilities (EnCana)	Carlyle/Riverstone Global Energy and Power Fund	1.7	100
Royal Group Technologies Limited	Georgia Gulf Corporation	1.7	100
Vincor International Inc.	Constellation Brands, Inc.	1.6	100
Atlas Tube Inc.	The Carlyle Group	1.4	100
Western Silver Corporation	Glamis Gold Ltd.	1.2	100
Geac Computer Corporation Limited	Golden Gate Capital	1.2	100
Hudson's Bay Company	Maple Leaf Heritage Investments Acquisition Corporation	1.1	81.2

Sears Canada Inc.	Sears Holdings Corporation	.90	46.2
Valkyries Petroleum Corp.	Lundin Petroleum AB	.78	100
ZENON Environmental Inc.	General Electric Company	.76	100
AnorMED Inc.	Genzyme Corporation	.65	100
Atlas Cold Storage Income Trust	Avion Group hf	.58	100
2005			
Terasen Inc.	Kinder Morgan Inc.	6.9	100
PetroKazakhstan Inc.	China National Petroleum Corporation	5.1	100
Masonite International Corporation	Kohlberg Kravis Roberts & Co.	3.3	100
International contract drilling division (Precision Drilling Corporation)	Weatherford International Inc.	2.8	100
Credit and Financial Services business (Sears Canada)	J.P. Morgan Chase & Co.	2.3	100
ID Biomedical Corporation	GlaxoSmithKline plc	1.8	100
Deer Creek Energy Limited	Total S.A.	1.7	100
Creo Inc.	Eastman Kodak Company	1.2	100
Canico Resource Corp.	Companhia Vale do Rio Doce	.93	100
Leitch Technology Corporation	Harris Corporation	.59	100

Source: Financial Post Crosbie, Mergers and Acquisitions in Canada Database

In addition, recent foreign acquisitions in Canada are a result of major resource companies' efforts to take advantage of strong commodity prices and favourable financing conditions to strengthen their position in global markets. For companies such as CVRD, Xstrata and Rio Tinto, which made major acquisitions in Canada over 2006 and 2007, recent market conditions provided an opportunity to consolidate their positions in particular market segments and better exploit available global economies.

The business environment has already changed significantly from the recent period of high takeover activity. Corporate profits are down and stock market indices have declined form their peaks in mid-2007. In the resource sector, commodity prices have weakened and attractive candidates for major takeovers have become scarcer. As well, financing conditions have become less favourable, with credit markets tightening substantially and the risk premium between corporate and government debt increasing.

The recent rise in the value of the Canadian dollar may also limit foreign acquisitions. Although, as Schembri (2002) points out, a stronger dollar will not affect the return foreigners receive on their Canadian investments,[33] it will reduce the purchasing power of companies that depend on cash flows, denominated in foreign currencies, to finance a significant part of their acquisitions.

[33] While a stronger dollar makes Canadian assets more expensive, it also increases the value of the returns foreigners derive from the purchase of Canadian assets. The rate of return from the investment will therefore be unaffected.

A stronger Canadian dollar adds to the financing difficulties these firms face during a period of tight credit conditions.

In the future, as in the past, large transactions may boost the dollar value of foreign acquisitions in individual years. The recent surge in foreign acquisitions, however, has been due to the influence of a number of special factors and these drivers of M&A activity have already begun to dissipate.

2. The Impact of M&A Activity

Headquarter Offices and Employment

Tables 4A and 4B provide data on head offices and head office employment in Canada compiled from Statistics Canada's Business Register. The latter has some limitations,[34] a main one being that it only covers head offices that are located separately from a firm's production facilities. Head offices of the many smaller enterprises that do not have distinct headquarter facilities are not included in the numbers provided in the table. The Business Register, however, does convey the trend over time in head offices numbers and employment among the larger multi-unit enterprises that have been a major target of foreign acquisitions as well as the main agents for Canadian acquisitions abroad.

The data, which have been smoothed using a moving average,[35] show that over the recent period, when the value of foreign acquisitions has greatly outpaced the value of Canadian acquisitions abroad, the number of head offices has changed very little and head office employment in Canada has increased by almost 10%. The results vary considerably by province. British Columbia, which has been severely impacted by the consolidation of the forestry sector, saw head office employment decline by 25% over the 1999 -2007 period.[36] At the other extreme, the booming Alberta economy experienced a 42% increase in head office employment.

The specific influence of takeovers on head offices and head office employment in Canada was examined by Beckstead and Brown (2006a) using Business Register data for the 1999 to 2005 period. Consistent with the suggestive results of the case studies, they find that overall impact of foreign takeovers on number of head offices and head office employment in Canada has been relatively modest. Over the 1999 to 2005, slightly more head offices were added than closed in firms undergoing a change in ownership and there was a slight increase in employment in head offices that were maintained by the firms' new foreign owners.

[34] This is discussed in M. Brown, "A Guide to the Use of Head Office Counts and Employment from Statistics Canada's Business Register," mimeo.
[35] As discussed in Brown, smoothing mitigates the impact of any error that may exist in the collected data and lags that occur in updating the data.
[36] Another possible cause has been the high cost of land and office space in Greater Vancouver. This, and other possible contributors are discussed by the BC Business Council at:
http://www.gvrd.bc.ca/growth/keyfacts/firms.htm

Table 4A

Head Office Counts and Employment by Province, 1999-2007 (Business Sector): Smoothed

Panel A: Count of Head Office Units

	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Atlantic Prov.	x	x	x	x	x	x	x	x	x
Québec	879	874	869	868	864	845	818	782	770
Ontario	1,317	1,314	1,322	1,353	1,392	1,430	1,444	1,427	1,412
Manitoba	138	138	141	148	152	155	153	150	148
Saskatchewan	108	108	108	112	116	118	117	113	112
Alberta	485	485	486	493	507	530	541	544	540
British Columbia	471	469	463	464	463	457	443	426	420
Territories	x	x	x	x	x	x	x	x	x
Canada	***3,612***	***3,607***	***3,615***	***3,669***	***3,726***	***3,769***	***3,753***	***3,674***	***3,633***

Note: x denotes data that been withheld to preserve confidentiality.
* Estimates as of December 2007.
Source: Statistics Canada, Special tabulations from Business Registry.

Table 4B

Head Office Counts and Employment by Province, 1999-2007 (Business Sector): Smoothed

Panel B: Head Office Employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Atlantic Prov.	x	x	x	x	x	x	x	x	x
Québec	40,471	40,071	39,745	40,116	41,154	42,236	42,526	42,828	42,719
Ontario	64,796	65,443	67,029	70,001	70,846	72,849	73,149	73,591	73,087
Manitoba	7,882	7,939	7,654	7,319	7,094	7,181	7,266	7,135	7,114
Saskatchewan	2,564	2,519	2,461	2,497	2,850	3,276	3,598	3,648	3,622
Alberta	16,654	17,043	18,402	19,582	20,999	22,297	22,923	23,593	23,696
British Columbia	17,421	16,922	15,868	15,526	15,023	14,285	13,584	13,100	13,002
Territories	x	x	x	x	x	x	x	x	x
Canada	***156,764***	***156,727***	***157,933***	***162,176***	***165,729***	***170,153***	***171,130***	***171,794***	***171,051***

Note: x denotes data that been withheld to preserve confidentiality.
* Estimates as of December 2007.
Source: Statistics Canada, Special tabulations from Business Registry.

The case studies suggest that where foreign acquirers maintain an existing headquarters or establish a new one, which, based on Beckstead and Brown (2006a), is the situation in the majority of cases, the trend in head office employment is linked to the performance of the firm's Canadian operations. The consolidation of administrative functions that occurs in the immediate aftermath of a takeover, will often result in some short-term job losses, but, where a foreign firm is successful in growing operations, employment at the Canadian headquarters will also grow –

albeit, more slowly than output, because of economies in management. To fully capture the impact of an acquisition, it is necessary to compare the change in employment since the takeover with what would have occurred if the firm instead remained under domestic control. Where the alternative is a poorly performing Canadian firm, the baseline for comparison may be a head office that has closed or contracted significantly since the date of takeover.[37] The takeover may not lead to more head office employment, but it may establish jobs that are more enduring. In addition, the impact depends on how the funds paid to owners of the acquired company are reinvested within the Canadian economy. Payments to existing owners and the freeing up of entrepreneurial talent within the acquired companies can contribute to new ventures that are the seeds for the development of significant new Canadian head offices.

All of this suggests that the question of how foreign takeovers impact on head office numbers and head office employment over the longer term is tied up with the more general question of whether these takeovers are part of a healthy process of economic renewal involving the transfer of market share from declining to growing firms. At the international level, the evidence suggests this is the case. From its review of a large body of empirical evidence, the OECD (2007. pp. 17-18) concludes that "the effects on the enterprises that are themselves the target of a cross-border M&A are largely beneficial" and that most target companies "enjoy a significant increase in operational efficiency and, as a corollary, in international competitiveness". Evidence for Canada is consistent with the international findings. Baldwin and Caves (1991) document the positive influence of foreign acquisitions on productivity in Canadian manufacturing. Studies have found that foreign-owned firms, including those that are the result of acquisitions, have much higher levels of labour and total factor productivity than Canadian-controlled domestically oriented firms.[38] The superior performance of MNEs is also reflected in their greater use of advanced technology and skilled labor and their higher rates of innovation.[39]

There are no data on the new head offices that have been created through redeployment of the funds and the entrepreneurial talent in acquired enterprises, but anecdotal evidence points to the significance of this in the resource sector in Calgary and the high-tech sectors in Toronto and Ottawa. General evidence on the process of business creation suggests that this aspect of the dynamic process is functioning reasonably well in Canada. According to the Global Entrepreneurship Monitor compiled at London Business School, early stage entrepreneurship in Canada compares favourably with rates in Europe and Japan, although it is significantly lower than in the U.S.[40] Counts of the number of firms in Canada over 1991-2003 show that the strongest rates of business formation have been in Alberta, B.C. and Ontario, the provinces

[37] The recent merger of Domtar and Weyerhauser's fine paper division, for example, is seen by analysts as significantly improving the outlook for a company that had an uncertain future due to the strong Canadian dollar and the weak uncoated freesheet market. *Pulp and Paper*, October 2007.
[38] Baldwin and Gu (2005) provide evidence of the superior performance of multinational plants in general, including both foreign and Canadian-controlled, in the manufacturing sector. Rao and Tang (2005) find that the total factor productivity level of foreign-controlled firms is 20 percent higher than that of Canadian-controlled after controlling for firm and industry characteristics.
[39] Ibid.
[40] Bosma and Harding (2006)

subject to highest takeover activity.[41] Many of these new firms are small enterprises that do not meet the separate head office requirement for inclusion in the Business Register.

Given the volatility of M&A activity, in particular years, head office employment could decline because of one or more major acquisitions by foreign firms that have closed or downsized the Canadian office. But measured over time, with account taken of the resulting redeployment of resources, and with a realistic counterfactual benchmark of the situation in the absence of the transaction, the impact of foreign takeovers on head offices and head office employment is more likely to be positive than negative. In addition, since Canadian MNEs tend to have firm roots at home, Canadian acquisitions abroad are also likely to impact positively on head office employment, although, again because of management economies, the employment gains from the expansion of Canadian-based firms will be relatively gradual.

Management Responsibilities

Since Canadian firms have been important sources as well as major recipients of M&A investment, corporate Canada as a whole has experienced both sides of the shift in decision-making authority that accompanies a takeover. Top-level management responsibilities have increased at those Canadian MNEs that have been using acquisitions to acquire new products or expand into new markets. On the other hand, managers at acquired Canadian firms, who previously required approval only from a board of directors, must now report to executives situated at head offices outside of the country.

This general picture, however, is marked by considerable diversity in organizational patterns. The case studies suggest that the managers of acquired companies often retain a high degree of responsibility. Even on matters of strategy and investment, decision-making at the examined companies was generally not characterized by top-down direction, but by a process that started with planning by managers of the corporations' individual business units. The authority of affiliate managers was generally sufficient that their compensation could be significantly tied to the performance of their business unit. These results may partly reflect the general flattening of corporate management identified by Rajan and Wulf (2003). The findings pertaining to Canadian targets could be unique, but there is reason to believe that this is not the case and the gathered evidence captures the situation for two large groups of acquired companies. For different reasons, the Canadian-based managers in both of these groups are likely to retain a substantial degree of decision-making authority.

In the first group, acquired companies have been left with significant autonomy because there are no significant pressures to integrate Canadian operations with other parts of the organization. This may be because the acquired activity is characterized by limited economies of scale and specialization. With consulting and some financial services, for example, economies are limited because of the highly differentiated services firms provide to individual customers. Even for a company like Manulife, for instance, that can achieve economies in areas such as product development and risk assessment, a decentralized organizational structure is preferred because it

[41] From S. Kanagarajah, *Business Dynamics in Canada 2003*, Statistics Canada, Cat. # 61-534-XIE. The study looks at net additions to the number of firms in Canada and the provinces. Between 1991 and 2003, the number of firms grew by 12% in Canada, 38% in Alberta, 20% in B.C., and 14% in Ontario.

serves the corporation's need to be responsive to the different client requirements and different laws and regulations in its diverse markets.

This first group also includes companies that are acquired as a result of Industry Convergence and Investor M&As. As discussed in Section C, generally, these transactions are not undertaken to acquire an operation that can be integrated with other businesses. From Tables 2 and 3 it can be seen that investors and private equity firms – Morgan Stanley, Harbinger Capital Partners, Colony Capital, Maple Leaf Holdings, Fortress investments – which use their control to ensure an acceptable management team and board are in place but limit their own involvement in management, have been major participants in the recent round of foreign takeovers.

In the second group of acquired companies, there are pressures to integrate operations but in a way that allows a significant role for managers of the Canadian subsidiary. This group comprises manufacturing and resource companies that are subject to significant economies of scale. While producing for the small Canadian market has always entailed relatively high costs, firms in these sectors now must adjust their calculations to take account of three important additional factors: the decline in trade barriers in Canada and other countries; a substantial reduction in transport costs; and the intensification of international competition and the associated pressure for firms to fully exploit available economies of scale. While, historically, much of Canada's inward foreign direct investment was aimed at penetrating a market protected by tariffs, in the current environment of low trade barriers, much reduced transport costs and intense international competition, it will seldom be sensible for MNEs in manufacturing and processing to acquire a Canadian firm for purely market-seeking reasons.[42]

The strength of these new economic forces can be seen in the efforts of Canadian manufacturing firms to restructure to take advantage of available scale economies. The proportion of Canada's trade with the U.S. that consists of products at different stages of production within the same industry has been increasing for some time and now accounts for more than half of Canada's trade.[43] There is also direct evidence that manufacturing plants in Canada, and especially foreign-controlled plants, are being re-engineered to realize the savings from increased specialization and longer production runs.[44] Accordingly, in the current economic environment, major manufacturing and processing firms are likely to focus their acquisitions on Canadian companies that can contribute to the MNE's global business either as a specialized producer of intermediate or final products or as a centre of R&D and source of ideas and knowledge.

As discussed in Sections B and C, it is in such circumstances, where subsidiaries are generators of knowledge and important sources of production, that an MNE is likely to establish a significant divisional or country head office and delegate substantial responsibilities to the managers of the subsidiary operation. This conclusion is supported by a recent survey of

[42] The exceptions include situations in which there are significant barriers to entry into the Canadian market; tastes and standards are sufficiently different to justify establishment of distinct production facilities; and the combination of scale economies that are exhausted at a relatively low output and and/or continued high transport costs make production for the Canadian market economic.
[43] From Foreign Affairs and International Trade Canada, *Seventh Annual Report on Canada's State of Trade – Trade and Investment Update 2007*.
[44] Baldwin, Beckstead and Caves (2002).

employment practices of MNEs operating in Canada undertaken for the Conference Board.[45] From the responses of 168 senior human resource managers, a clear difference emerged between firms that cater primarily to the Canadian market and firms that have an international market orientation. In the subsidiaries that had an international focus, the Canadian headquarters tended to be more significant and managers had greater autonomy and were more innovative in their employment practices.

The takeover of Canadian companies does lead to a loss in the authority of top-level decision-makers, but the corporate offices that remain are far from hollowed-out shells. The latter description may have had some justification at one time, but organizational structures have flattened and the Canadian head offices resulting from recent takeovers do not resemble the offices that oversaw the truncated branch plants established in earlier years to overcome the Canadian tariff.

Research and Development and Innovation

One of the concerns of those who have raised the alarm about foreign acquisitions is that, by losing a central headquarters, Canada will also experience a loss of R&D. Canada does not attract as much R&D spending as many other countries that host multinational affiliates. U.S. data, for example, show that the country's majority-owned foreign affiliates spend a substantially smaller proportion of their value added on R&D in Canada than in countries such as Israel, Sweden, Singapore, China and India.[46] This is largely a reflection of the less research intensive nature of the activities foreign-owned corporations undertake in Canada. Compared to Canadian-owned firms, however, foreign-controlled firms in Canada are more likely to engage in R&D, and to have an ongoing R&D program.[47] While foreign-owned firms benefit from technology transfers within the multinational network, the evidence indicates that they also invest significantly in building their innovative capabilities through R&D and by networking with universities and local research organizations.[48] The probability of engaging in ongoing R&D increases with firm size, but Baldwin and Gu (2005) find that even after holding firm size constant and standardizing for industry differences at the two digit level, foreign controlled multinationals are more likely to engage in ongoing R&D in Canada than purely domestic firms.[49]

The favourable R&D performance of foreign-controlled firms compared to domestic companies is partly a result of their greater resources and the related benefits from being able to spread R&D investments over a greater output. These same advantages apply to that sub-group of subsidiaries that are the result of foreign acquisitions. So, for example, one result of the takeover of Gulf Canada in 2001 is that the considerable resources of ConocoPhilips are now available to develop technologies to commercially exploit the oil sands formerly leased (but left largely

[45] Bélanger et al (2006).
[46] This is from the US Department of Commerce, *Survey of Current Business,* March 2007. In 2004, the ratio of R&D expenditures to value added for U.S. foreign affiliates was 2.9 in Canada, as compared to 3.9 for Europe and 3.3 for all countries. The ratio was 53.2 for Israel, 37.1 for Sweden, and 25.9 for Sweden.
[47] Baldwin and Hanel (2000).
[48] Ibid.
[49] Baldwin and Gu (2005) find that this innovation gap applies only to purely domestic firms. There is no innovation gap between foreign and Canadian MNEs.

undeveloped) by Gulf. Some R&D occurs at the company's technology development centre in Oklahoma but significant oil sands development work also occurs at ConocoPhilips facilities in Western Canada. As a result of its recent purchase by AMD, ATI is expanding its graphic technology research to respond to the need for more integrated platforms in various product areas and to help AMD meet its goal of developing microprocessors that incorporate graphics technology.

When takeovers occur, companies could cut back on research activities at the acquired company to eliminate duplication. This is a possible result with Overcapacity M&As aimed at rationalizing industry production in high technology sectors. Evidence from the case studies and the literature, however, suggests that, more typically, companies will take steps to ensure the successful transfer of research capabilities. They will leave R&D operations at their existing location to avoid the risk of losing highly skilled workers or of disrupting the important links that have been developed with local universities and research groups. In a recent empirical study of the impact of cross-border M&As on R&D, Bertrand and Zuniga (2006) indeed find that over 1990 to 1999 target firms in OECD host countries tended to benefit from M&A. More generally, UNCTAD (2005) reports that MNEs have been internationalizing their R&D to tap into foreign knowledge centres and gain access to highly specialized researchers. For MNEs that are under increased competitive pressures to develop new products and processes, it is important to take advantage of subsidiaries' innovative capabilities. At the same time, improvements in information and communication technologies and new research techniques allowing greater "fragmentation" of R&D have facilitated the decentralization of R&D.

These considerations also have implications for the R&D activities of Canadian firms that make foreign acquisitions. While Canadian firms are under the same pressure as other MNEs to take advantage of newly acquired affiliates' innovative capabilities, they are also subject to the risks that accompany efforts to transfer existing R&D activities to a new location. Hence, Canadian MNEs, which are a significant source of domestic R&D spending, are unlikely to relocate their Canadian research and development facilities when they make foreign acquisitions.

Community Involvement

Foreign-owned corporations are seen by some as being less connected to their communities than domestically-owned companies. When Canadian corporations are acquired, there is a concern that the company's employees and managers will become less committed to community activities and corporate charitable donations will decline. There is an absence of data in this area. From the corporate reports of major MNEs with subsidiaries in Canada, however, it can be seen that most have well developed programs to support local causes and encourage community engagement by their employees. In the interviews, respondents emphasized the importance they placed on initiatives to fulfill the company's social obligations and build a positive image that would help in their dealings with customers, governments, and prospective employees. In addition to donation programs – under which, many MNEs match their employees' charitable contributions up to a specified amount, and initiatives to encourage local volunteering, some of the examined companies have funding programs to support local causes of special interest. Similarly, the case studies undertaken by the Conference Board (2008) do not support the presumption that a takeover of a Canadian firm will result in a reduced commitment to the community.[50]

A recent examination of charitable donations using tax data found that only 3% of Canadian businesses claimed charitable donations on their 2003 tax returns.[51] In a study of business support for employee volunteering, just over a third of the 990 surveyed Canadian businesses reported that they accommodate employee volunteer activities during working hours and only 18% indicated that they encourage employees to volunteer during working hours.[52] As with charitable donations, there are significant differences between smaller and larger organizations. Large businesses were found to be more supportive of employee volunteering and more likely to have programs targeting specific causes.

Available studies do not distinguish between the charitable and volunteer support activities of Canadian and foreign-owned companies. There are no data to compare community investments before and after Canadian companies are acquired. What available information does suggest is that corporate size has an important influence on community support and that foreign-owned firms tend to fit within the category of larger firms that are characterized by well-developed policies for community support and their more generous charitable contributions and greater support for employee volunteering.

3. The Larger Picture

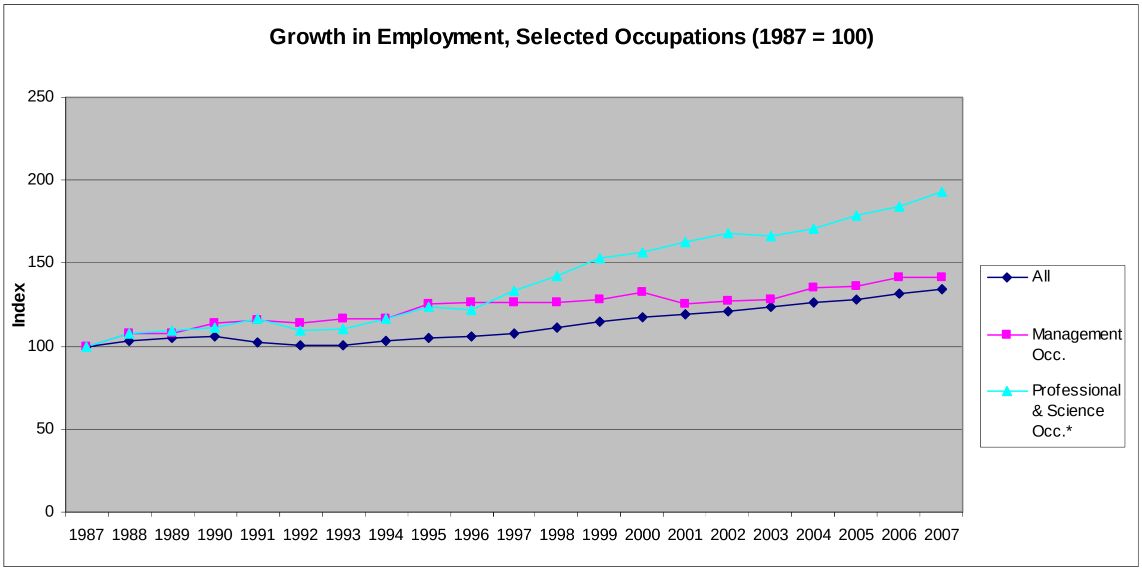
In assessing the headquarter impacts of M&A activity, it is important to have a sense of the significance of headquarter activities within the overall economy. Canadian head offices measured by the Business Register are small establishments, employing 45 staff on average over 1999 to 2007. Employment in these head offices accounts for only 1.2% of full-time employment in the Canadian economy. Even if expansions and contractions in head offices are much larger than those estimated to have occurred as a result of recent cross-border M&As, they will tend have very little direct effect on overall employment in the economy. They are also likely to impact only slightly on the total number of skilled, high value-added jobs in the economy. Figure 3 depicts employment growth in management occupations, defined broadly, and in professional occupations in business and finance and the natural and applied sciences. Head office employment represents only 5.6% of total management and professional employment, as measured by these occupational categories. Irrespective of the changes caused by M&As, management and professional employment has trended upwards and at a faster pace than total employment in the economy. Professional employment, which is less affected than management employment by fluctuations in economic activity, experienced especially strong growth over the 1987 to 2007 period.

[50] The Conference Board also considered whether takeovers of Canadian companies would impact on communities by reducing the number of senior executives who can take on leadership roles in major campaigns. Since there is no shortage of senior executives to provide leadership to philanthropic causes, however, it concluded that this is not a major issue.

[51] Easwaramoorthy, Barr, Gumulka and Hartford (2006).

[52] Easwaramoorthy, Barr, Runte and Basil (2006).

Figure 3



Note: * Professional Occupations in Business & Finance and Natural & Applied Science & Related Occupations
Source: Statistics Canada

Other data also confirm the general message that, whatever changes are occurring at head offices, Canada continues to perform favourably as a centre of high value-added activities and employment. This country ranks well, for example, in its ability to attract the skilled workers that are critical in a knowledge-based economy. A recent study finds that, compared to other major OECD countries, Canada attracts more internationally mobile skilled workers than might be regarded as its share based on national income.[53]

In major Canadian cities, where head offices are concentrated and the impact of takeovers has been of particular concern, the evidence also suggests that M&As do not feature very significantly among the range of factors affecting high-value added employment. As the Conference Board (2008) observes, over 1999 to 2005, Calgary achieved the greatest growth among Canadian cities in head office employment while experiencing a high rate of M&As (domestic and foreign), and over 1999 to 2001, Montreal suffered a loss in head office jobs despite a low rate of large M&A transactions. In part, these results highlight the fact that M&As are only one of a number of factors leading to corporate turnovers and resulting in the creation or expansion and contraction or closing of head offices. Moreover, head office jobs are only one source of high value-added employment in Canadian cities. While 2006 Census data are not yet available, a recent analysis using the 2001 Census finds that Canada compares favourably with the U.S. in terms of the relative size of the science and engineering workforces in its metropolitan centres.[54] Between 1981 and 2001, employment in science and engineering (S&E) increased at a faster pace in Canadian cities, and in 2001, Canadian cities ranked well when their S&E employment shares were compared with U.S. cities of comparable size.

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[53] Gera and Songsakul (2007)
[54] Beckstead and Brown (2006b)

A broad perspective that takes account of significant longer-term structural forces within the economy is also useful in assessing the impact of head office relocation on the demand for commercial services. The growth in services trade is weakening the link at the local level between head office activity and commercial service production. While MNEs continue to rely heavily on local suppliers for certain outsourced requirements, such as legal and accounting, they are increasingly turning to suppliers in other countries, including low-wage countries such as India, for many of their commercial service requirements. The flip side of the increasing internationalization of services is that Canadian service firms are also now less dependent on the demand from offices in their locality. Canada enjoys a significant trade surplus in architectural and engineering services and computer services, indicating that at least some Canadian providers of commercial services are taking advantage of the opportunities in export markets.

F. CONCLUSION

Head offices are important centres of decision-making and a source of high value-added activities and high-paying jobs for many cities. While concerns about the exodus of head offices are understandable, available evidence does not point to a hollowing out of corporate Canada. M&A activity tends to be highly volatile and the recent surge in foreign takeovers of Canadian companies has been driven by rising corporate profits, strong commodity prices and highly favourable credit conditions, factors that have also been behind the sharp rise in global M&A activity. Conditions have already turned much less favourable for foreign acquisitions. Moreover, Canada has been a major source as well as an important destination for foreign direct investment. While acquisitions of Canadian firms have reduced the authority of Canadian managers, the continuing international expansion of Canadian multinationals, partly through acquisitions abroad, has added to the top-level decision-making responsibilities of head office executives within Canada.

The evidence suggests takeovers are, for the most part, a healthy phenomenon that constitutes one of the processes through which market share is transferred from declining to growing firms. While the consolidation of administrative activities that occurs when a company is acquired may result in some initial job losses, over time, affiliate offices will benefit from the overall growth of the corporation. In addition, when a company is acquired, financial and entrepreneurial resources are freed up to be deployed in new ventures. Anecdotal evidence suggests that this has been a notable source of new business enterprises in some Canadian centres and an additional, albeit minor source, of head office jobs.

There is considerable diversity in the organizational arrangements of multinationals, but most MNEs have adopted a multidivisional structure in which top management is freed to concentrate on broad strategic decisions and significant responsibilities are delegated to managers of divisions and business units within these divisions. Studies suggest that affiliates will have greater autonomy where they serve an important market, produce a distinctive product or account for a significant share of corporate activity, and where they are a significant source of ideas and knowledge. The branch plants that were established in earlier years to overcome the Canadian tariff were largely Implementors that did not qualify for a significant delegation of responsibility. Acquisitions made in the current environment of low trade barriers, substantially reduced transport costs and intense international competition tend to be very different. Manufacturing and processing firms are acquiring companies that can contribute to their global business either as a specialized producer of intermediate or final products or as a centre of R&D and source of knowledge. In such circumstances, an MNE is likely to establish a significant head office and delegate substantial responsibilities to the managers of the subsidiary operation.

There are different types of M&As and, in some transactions, there is limited scope to integrate the acquired business with the MNE's other operations. This is the case in some service activities where providers must be responsive to different customer needs and different legal and regulatory requirements in the markets they serve. This is also a feature of the acquisitions made by private equity investors, who were important participants in the recent wave of M&As. In these situations where there is no imperative to integrate Canadian operations with other parts of the organization, managers of the acquired companies will also tend to have significant decision-making responsibilities.

While concerns have been raised about the impact of takeovers on R&D, the evidence indicates that acquired companies, like foreign-owned firms generally, compare favourably with domestic firms in terms of R&D investment and innovation. Multinationals are unlikely to transfer R&D operations and risk losing highly skilled workers or of disrupting the important links that affiliates have developed with local universities and research groups.

Available information suggests concerns that firms will become less engaged in their communities following a foreign takeover are also unfounded. Case studies and corporate reports indicate that major MNEs have well developed programs of support for the communities in which they operate, which is unlike the situation for many domestic firms. Charitable activity tends to vary by firm size and foreign-owned firms fit mainly within the category of larger Canadian firms that are characterized by their more significant charitable contributions and greater support for employee volunteering.

In assessing the impact of acquisitions, it is important to appreciate that head offices account for just over one percent of full-time employment in the economy. Management and professional employment overall which, over the past two decades, has been growing at a much faster pace than overall employment in the economy, is little influenced by the head office changes resulting from M&As. Available data also suggest that M&As do not feature very significantly among the range of factors affecting high-value added employment in major Canadian cities.

In general, while M&A activity has some mixed effects on headquarters and headquarter-related activities, most of the impacts are more modest and benign than would be surmised from the public attention they have received. These impacts are appropriately viewed as one aspect of the adjustments that must occur for Canadians to benefit from a dynamic economy in which productivity growth is supported by the ongoing shift of resources from less successful to more successful producers.

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ANNEX

CASE STUDIES

ALCAN ACQUISITION of PECHINEY

Alcan Inc., which was recently acquired (October 2007) by the Anglo-Australian mining giant Rio Tinto PLC, was a major Canadian publicly-traded aluminum company in 2003 when it successfully acquired Pechiney SA in a $6.25 billion (Can.) takeover. In 2002, Alcan had celebrated 100 years of operation. By 2003, following a number of acquisitions, including especially its 2000 acquisition of Alusuisse, a major Swiss producer of aluminum and packaging products, Alcan consolidated its position as the world's second largest aluminum company. In the fiscal year prior to the Pechiney acquisition, Alcan had revenues of around US$ 12.5 billion and employed 54,000 employees in 42 countries.[55] With its takeover of Pechiney, Alcan acquired a major French aluminum and packaging production company, with revenues of almost $US 11.5 billion, 34,000 workers, and manufacturing and sales facilities in 50 countries.[56]

The acquisition of Pechiney was part of a process of consolidation that had been underway within the sector globally as producers looked for efficiencies to help contend with a long term downtrend in the real price of aluminum. Pechiney was a diversified producer similar to Alcan and the merging of the two companies offered synergies in a number of areas, including administrative and corporate activities, purchasing, manufacturing and R&D. In a 2004 report, Alcan estimated the savings in operating costs at $C 360 million per year - $100 million over the initial projections.[57] A main benefit of the takeover was to gain control the French company's Pechiney AP technology, an advanced electrolytic smelting process. The new technology added to the advantages Alcan had as a result of its ownership of hydroelectric facilities in British Columbia and Quebec and reinforced its position as a leading low-cost metal producer. Pechiney's strategic advantages also included its strong market position as a supplier of applications to the aerospace industry and as a producer of specialty packaging products. The acquisition secured Alcan's entry into the market for engineered products for the aerospace sector and moved the company into a leadership position in flexible, cosmetics and pharmaceutical packaging.

Pechiney was integrated into Alcan's main divisions or "Business Groups": Bauxite and Alumina, Primary Metal, Engineered Products, Packaging, Rolled Products Americas and Asia, and Rolled Products Europe. The rolled products divisions were spun off into a separate company in 2005 (Novelis Inc.) and its shares were distributed to Alcan shareholders.[58] Of the remaining divisions, Bauxite and Alumina and Primary Metal have been headquartered in Montreal, where Alcan's corporate head office was also located, while Engineered Products and Packaging have been headquartered in Paris.[59] Each of the four divisions is headed by a Business Group President, who reports to Alcan's President and CEO. There are a number of business units within each division, each of which is headed by a managing director. Composites, for

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[55] This is based on Alcan's 425 Report to the SEC filed October 28, 2003.
[56] Ibid.
[57] Alcan Sustainability Report, 2004.
[58] In 2007, Novelis was acquired by Hindalco Industries Ltd., which is part of the Aditya Birla Group, a multinational conglomerate headquartered in India.
[59] The maintenance of Paris headquarters was noted by the French Treasury Department when it granted clearance to the acquisition.

example, one of the business units within the Engineering Division is headed by a managing director, who has responsibility for overseeing operations in various places around the globe.

Prior to its recent acquisition by Rio Tinto, Alcan had 65,000 employees worldwide and about 11,000 employees in Canada. While Canada only accounted for about 17% of employment, a significant majority of corporate employees were situated at the corporate headquarters at Maison Alcan in Montreal together with the two divisional offices. Overall employment levels increased while the Pechiney acquisition was being implemented, but, at the end of 2006, head office employment in Canada was similar to prior to the Pechiney takeover. In France, though, loss of head office jobs occurred as consolidation took place and corporate functions, such as accounting, legal, corporate development, information technology, investor and corporate relations and corporate secretarial were centralized in Montreal. As well, outsourced legal, accounting and other professional services were now purchased in Canada, rather than France. While satellite offices were retained in Europe for functions such as treasury and human resources management to ensure the corporation was adhering to local rules and practices, economies from combining administrative tasks were realized where possible.

Despite the shift of central offices functions to Montreal, Paris has continued to serve as a major corporate centre for Alcan. The Packaging and Engineered Products divisions that are headquartered in Paris accounted for about 60% of 2005 revenues and the presidents in charge have had considerable autonomy running these divisions. Divisions must utilize the corporate system of cost controls and adhere to corporate objectives with respect to environment, health and safety. Proposals for major capital spending must be submitted to central headquarters where they will be examined in relation to updated rate of return targets and against competing spending proposals. Divisional presidents, however, are responsible for the financial performance of their businesses and are subject to long term incentives in which rewards are based on their division's performance. Divisions have considerable autonomy in decisions relating to the manufacturing process, product design, marketing and product pricing. Divisional presidents are also Senior Vice-Presidents of Alcan and members of the corporation's executive management team.

Advanced Micro Devices Inc. Acquisition of ATI

AMD's acquisition of ATI in a $C 5.4 billion transaction that was completed in August 2006, resulted in the marriage of a leading Canadian digital media and technology company and a global semiconductor company. ATI was a major supplier of graphics processing units, motherboard chipsets and video display cards as well as media and image processors for digital televisions and handheld devices. AMD supplies microprocessor and related technologies to the computer, communications and consumer electronics industries. It operates in 80 countries, has approximately 16,500 employees and, in 2006, generated revenues of $U.S. 5.6 billion.

The acquisition was motivated by the perceived benefits from combining complementary technologies. AMD was attracted by the possibilities for offering more integrated platforms to serve key markets, including commercial applications, mobile computing, gaming and media computing. With ATI, the company would be better positioned over the longer term to compete with its main competitor Intel, which has the capability to offer PC makers a package of processors, chipsets and other hardware. The merger also fit with AMD's plans to pursue the development of next-generation microprocessor solutions termed "Fusion". In this new technology, microprocessors, graphics processors and video processors are being combined to produce multi-core microprocessors for specialized uses.

Following the acquisition, AMD retained the ATI name, logos and trademarks. Most ATI employees now work for AMD and ATI's headquarters in Markham Ontario has become the head office for AMD Canada.   ATI was a fabless company that conducted its own R&D and marketing, but outsourced manufacturing to a company in Taiwan. Most of the employees in the company's Markham facility were involved in R&D. For AMD, ATI's most valuable assets were its intellectual property and R&D capabilities and an important part of the integration process involved the development of incentive packages to retain key employees and successfully absorb ATI's R&D capabilities.

Prior to the acquisition ATI had 4400 employees worldwide, about half of whom were located in Canada. The acquisition allowed some savings on the administration side, which is estimated to have resulted in about a 3 percent reduction in AMD staff. This was spread throughout AMD's operations, so that AMD's Canadian employees still stand around 2200, all of whom work in Markham with the exception of a small design team based in Ottawa.

AMD's global operations are organized around three broad product groups: Graphics Products, Computing Products and Consumer Electronics. When ATI was acquired, AMD initially established a new organizational unit, Visual and Media Businesses, headed by the former President and CEO of ATI. The company's Canadian activities are now located within AMD's Graphics Group, which includes 3D graphics, video and multimedia products, and chipsets sold by ATI prior to the acquisition; and the Consumer Electronics Groups, which includes products used in mobile phones, PDAs, digital televisions and other consumer products. The Senior VP and General Manager of Consumer Electronics is located at the Markham site and is also President of AMD Canada. The Senior VP and General manager of the Graphics Group resides at AMD's central headquarters in Sunnyvale, California.

With ATI now fully integrated into AMD, Canadian operations are governed by corporate policies on accounting, investment, human resources and other matters. Operations are also guided by AMD's strategies for Graphics and Consumer Electronics. The significant R&D facilities in Canada, however, have considerable operating independence. AMD spends almost $C 500 million annually on R&D in Canada and ranks fifth in spending among all corporations doing R&D in this country.[60] Research managers within Canada have considerable freedom and strong financial incentives to maximize the return from this research investment.

AMD Canada was established to address the special needs and distinct cultural issues that arise within Canada. At the time of the acquisition, it was apparent that of the two companies, AMD had historically dedicated more time and effort to community-related activities. Immediately after the acquisition, AMD made special efforts to strengthen ties with the town of Markham, home to its main Canadian operations. AMD matches charitable donations of Canadian employees up to $3,000 per employee per year and provides grants to organizations based on the time employees devote to volunteering.

[60] R&D spending is about the same as it was under ATI, but accounting adjustments have occurred to satisfy reporting requirements under Canadian and U.S. tax law.

EnCana Acquisition of Tom Brown Inc.

Tom Brown Inc. was an independent oil and gas exploration and production company headquartered in Denver Colorado when it was acquired by EnCana in 2004. The transaction involved a $C 3.6 billion payment (made by paying $US 48 a share and assuming Tom Brown debt) for the company's gas production (about 325 million cubic feet equivalent per day) and its resource assets in Wyoming, Colorado, Utah, west Texas, Southwestern New Mexico and east Texas. Tom Brown's primary attraction was its long-life natural gas reserves and its promising undeveloped resources located in unconventional U.S. gas basins. The firm's long-life resource play assets formed an excellent strategic fit with EnCana's own U.S. Rockies asset base. With its proven success in applying advanced technology to unlock the potential of unconventional assets, EnCana's management was confident it could economically grow reserves and production from the newly acquired properties.

EnCana is a leading North American natural gas producer and one of the largest holders of onshore oil and gas resources in North America. It has 7100 full-time and contract employees worldwide, 75% of whom work in Canada. The company has now largely divested itself of operations abroad and is a North American company with the remaining 25% of its employees all in the U.S.

EnCana's Canadian head office staff totals 700, all but a small number of whom work at the company's main headquarters in Calgary. Operational responsibilities at the company are divided among 6 divisions: Integrated Oil Sands, Canadian Foothills, Midstream & Marketing, Offshore & International, Canadian Plains, and USA. U.S. operations are headquartered in Denver. All other divisions and the company's corporate groups (strategic planning, finance, communications, business development, corporate services, and corporate secretary) work out of the company's Calgary headquarters.

EnCana's U.S. workforce includes the employees it inherited with its acquisition of Tom Brown. Experienced geologists, geophysicists, engineers, and field workers are in high demand and EnCana was especially pleased to bring on board workers who had familiarity with its new U.S. gas plays. While some senior executives left to pursue new ventures, almost all other Tom Brown workers found jobs with EnCana. Moreover, since the acquisition, as EnCana has invested in exploration and development, the number of workers at the acquired sites has increased. Corporate employment has also grown and with 450 employees at its offices in Denver and Dallas, EnCana now has some 20% more administrative workers than the company it acquired.

EnCana's operating divisions have a high degree of autonomy. They must abide by cost controls, apply corporate investment metrics, and comply with guidelines relating to human resource practices, worker health and safety, environmental impacts and community service. Subject to these requirements they have wide discretion in managing exploration and development activities. Divisions make their own purchasing and hiring decisions and divisional presidents have signing authority for capital expenditures up to the Board approved budget amounts for their divisions. In the case of the United States division, this would total some US $2.5 billion.

Like other divisions, EnCana's U.S.A Division enjoys high degree autonomy and its President is an Executive Vice President of Encana and member of the company's senior management team. While U.S. managers are now subject to directives from Calgary rather than Denver, as part of a bigger organization and one that is highly decentralized, they have responsibility for larger spending decisions than they did working for Tom Brown. EnCana's size and its growth have also worked to the advantage of U.S. firms that provide independent professional services. While most of the company's direct dealings are with local service providers, Canadian legal and other firms will team up with a U.S. partner on issues involving EnCana's U.S. operations. And over recent years, requirements for outside services have grown significantly.

EnCana does not invest in research, but relies on its workers to keep abreast of leading edge developments in oil and gas exploration and development. Workers in various parts of the organization are encouraged to share their knowledge and professionals within the company belong to "communities of practice" that meet on a regular basis. As compared to the situation prior to the takeover, U.S. employees have improved access to information on new technological developments in their fields.

In the U.S., as elsewhere, employees must adhere to company policies that promote benchmark practices in safety, environment stewardship and community responsibility. EnCana encourages workers to become involved in their communities and matches employee charitable donations up to the amount of $25,000 per employee per year. The U.S. cities where Tom Brown had been operating now benefit from EnCana's community investments, including its support for science and technology training and its bursary program for students embarking on post-secondary studies in engineering, geology and geophysics.

JP Morgan Chase Acquisition of Sears Canada Credit and Financial Services

JP Morgan Chase and Company's purchase of Sears Canada's credit card business in 2005 occurred at a time when a number of financial companies were using acquisitions to help cope with a general slowdown in credit card market growth.[61] For $C 3.4 billion, consisting of a cash payment of $2.2 billion and the assumption of over $1 billion in debt, JP Morgan acquired operations under both the Sears Card and the Sears MasterCard. These operations, consisting of 10 million accounts and $2.5 billion of receivables, represented the third largest credit card portfolio in the country.

While Sears Canada is headquartered in Toronto and trades on the Toronto Stock Exchange, its controlling shareholder is Sears Holdings, the U.S. parent company formed in March 2005 following the merger of Kmart and Sears, Roebuck and Co. Sears Holdings owned around 54% of the common shares of Sears Canada when the credit card operations were sold, but has since increased stake to around 70%. With the JP Morgan acquisition, Sears Card and Sears MasterCard operations became the responsibility of a global financial services firm with operations in more than 50 countries, more than 170,000 employees and assets that are now up to $1.5 trillion.

Prior to the takeover, JP Morgan Chase had 650 employees in Canada, spread among its investment and banking operations in Toronto, Vancouver and Montreal, its call centre in Surrey B.C. and technology support offices in Windsor. With the acquisition of Sears Credit and Financial Services, employment in Canada rose to 1600, a level which has subsequently been sustained. Sears Canada credit card employees, including the Sears management team, were hired by JP Morgan Chase to continue to service Canadian credit card customers.[62] While some synergies were achieved - by, for example, integrating some credit functions into the company's existing call centre operations in Surrey B.C., the new Canadian credit card business was maintained as a distinct operation. A Canadian administrative office continued to be required, in part, to satisfy Canada's distinct legal and requirements.

The manager of Canadian credit card operations now reports to the Managing Director of JP Morgan Chase Canada on regulatory and compliance matters and to the Director of retail credit cards with respect to operational performance. Retail credit cards comprise one of 5 sub-businesses within JP Morgan Chase's Card Services business, which, in turn, comprises one of the company's 6 major business lines.[63] As part of Card Services, the Canadian operation is situated within a business unit that includes Chase Card Services, one of the largest credit card providers in the U.S. with 154 million cards in circulation, and private-label cards with Circuit City, Kohl's and BP.

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[61] Other deals around the same time include Bank of America's acquisition of MBNA, Washington Mutual's purchase of Providian and HSBC Holdings acquisition of Metris Companies.

[62] The main exception was the head of Sears Canada Credit and Financial Services, who was offered a position with JP Morgan Chase but chose to go elsewhere. .

[63] The other businesses are: Retail financial Services, Investment Banking, Asset Management, Treasury and Securities Services and Commercial Banking.

While Sears credit cards are a relatively minor component of JP Morgan Chase's broad portfolio of financial services, the Canadian-based managers have significant autonomy. It is up to them to develop a strategic plan for their business, including an investment budget, which senior managers within JP Morgan can then review alongside competing investment proposals. The Canadian managers are responsible for the performance of their business and are rewarded accordingly. Some 50 to 75 percent of managers' compensation is variable and depends on 4 factors: (i) the global performance of JP Morgan; (ii) the performance of the company's Card Services; (iii) the performance of the Canadian credit card operation; and (iv), achievements with respect to a number of longer-term strategic objectives, such as the retention of key employees, the improvement in market position, etc.

As with most major corporations, JP Morgan Chase has developed a set of principles to standardize practice in certain areas. Managers must adhere to corporate costing and financial reporting practices. They must formulate their plans subject to corporate investment objectives and return on capital requirements. In the human resource area, managers must follow specified practices and utilize the compensation and benefit schedules established for employees within various functional categories.

Subject to the general principles, however, managers are encouraged to take initiative and come up with innovations that will improve performance and increase profitability. Enhancements to the 20-year old Sears Club announced in April 2007 are an example of an innovation that originated within Canada and subsequently received approval by the executives in charge of Card Services.[64] There is no group specifically dedicated to R&D, but employees are encouraged to share ideas and best practices both within and across business lines.

Since the acquisition, the Canadian credit card business has remained about the same size but has increased in profitability. Along with maintaining employment, the company continues to draw on the services of Canadian legal and accounting firms to support its Sears Cards operations. JP Morgan supports the charitable giving and voluntary activities of its employees and allocates an amount to Canadian causes based on the size of its Canadian business and Canadian workforce.

[64] The enhancements include a lower minimum redemption threshold, an automatic redemption option mailed directly to members and a new consumer website.

Manulife Acquisition of John Hancock

Manulife Financial Corporation's $15 billion acquisition of John Hancock Financial Services Inc., including its Canadian subsidiary Maritime Life, represents one of the largest foreign takeovers on record by a Canadian company. When the transaction, involving a stock-for-stock exchange, was completed in April 2004, Manulife became the largest life insurance in company in Canada, the second largest in North America and the fifth largest in the world, based on market capitalization. With the takeover, U.S. sales increased substantially in importance, rising to about one-half of Manulife's business from one-third previously. The Canadian and Asian (including Japanese) markets now each account for approximately another quarter of the company's business.

Manulife characterized the transaction as a "growth story". The acquisition of John Hancock provided the company with a highly respected brand, which rated extremely high in U.S. consumer awareness,[65] and a well developed U.S. marketing and distribution system. It also allowed Manulife to expand into 4 new countries, building on its strong base in Hong Kong, China, Japan and Southeast Asia.

Worldwide, the company is now situated in 19 countries. Manulife gained life insurance and wealth management products that were complementary to those in its own portfolio and could be added to the financial services marketed in Canada and Asia.[66] At the same time, by adding its own successful products to the portfolio of services offered under the John Hancock name, it was able to strengthen the company's position in the U.S. market.

Manulife's oversight and administrative functions, including legal affairs, investor relations, finance, financial control, risk management, information technology and investment are housed at the company's corporate headquarters in Toronto. The company has a U.S. headquarters in Boston, where John Hancock's central office had been located, and regional headquarter offices for Japan and Asia, the latter located in Hong Kong. In addition, there are local offices in each country where the firm operates.

The company is highly decentralized and the individual country business units that operate within each region have considerable autonomy in recruitment of personnel, product development and the sale and marketing of Manulife products. Country offices can implement price changes and product changes or new service offerings that are tailored to the local market, although all such changes are vetted and approved by the head office in Canada.

The introduction of variable annuities in Asia is an example of Manulife's ability to leverage new products across the enterprise. The regional offices recognized the opportunity presented by this very successful U.S. product and subsequently took the lead in tailoring the product to meet the needs of their local markets.

[65] Based on SEC 425 Report filed Sept.30, 2003.
[66] Ibid.

Manulife has over 21,000 employees worldwide, not including the agents that are involved in the sale of the company's products. About half of the company's employees are located in Canada, primarily at central headquarters in Toronto and at the company's Canadian head office in Kitchener-Waterloo. While the acquisition of John Hancock was aimed at expanding market opportunities, not at cutting costs, cost synergies were achieved from the consolidation of duplicated functions. Savings were later estimated at $US 400 million, above the initial projection of $U.S. 255 million. Employment in Boston has been sustained, however, as a result of the growth of the company's U.S. operations.

The transaction resulted in a transfer of corporate-level decision-making responsibility from Boston to Toronto. As the U.S. headquarters, however, the Boston office continues to have oversight responsibilities for the U.S. operations. It retains significant administrative operations, including C-suite responsibilities, and houses the manager of Manulife's global compliance function. The President and CEO of John Hancock Financial Services and the head of U.S. Wealth Management are members of Manulife's Executive Committee and the Canadian division reports to John Hancock's CEO.

While there was a corresponding expansion in responsibilities at Manulife's central headquarters, the acquisition did not result in any significant change in employment within Canada. Since the takeover, however, employment across the company has grown significantly. The company's growth has also benefited service providers in Toronto and other cities where Manulife offices are located.

Manulife has maintained strong relations with the local communities where it has taken over operations from John Hancock. Under the company's decentralized model of corporate philanthropy, local managers identify the projects to be supported and the company provides support through donations and encouragement of employee giving and volunteering. In Boston, the company has continued John Hancock's long tradition of supporting programs that protect and educate children. In 2005, Manulife provided nearly $CDN 10 million in grants, sponsorships and matching gifts and company associates contributed 5000 hours to Boston community organizations.

Duke Energy Acquisition of Westcoast Energy

When Duke Energy completed its acquisition of Westcoast Energy in March 2002, Duke was a diversified energy company based in Charlotte, North Carolina, with a portfolio of natural gas and electric businesses that served customers across North America and internationally. Through this $US 8 billion transaction, Duke acquired Westcoast's natural gas gathering, processing, transmission, distribution, storage, marketing and electric power generation assets both in North America and internationally. While Duke has since sold Westcoast's former electric power generation, natural gas and power marketing and international businesses as well as minority interests in a number of natural gas pipelines in North America, it has retained its significant gathering, processing and transmission facilities in Western Canada, including its federally regulated interprovincial pipeline system largely located in British Columbia, the distribution, storage and transmission business of Union Gas in Ontario and its significant interest in the Maritimes Northeast Pipeline in Nova Scotia and New Brunswick. In addition in 2005, Duke acquired, through Westcoast, a large natural gas liquids business that included a natural gas liquids extraction and fractionation plant located at Empress, Alberta, an interprovincial natural gas liquids pipeline extending from Empress, Alberta to Winnipeg, Manitoba and a related natural gas liquids marketing business based in Calgary, Alberta. It also acquired a number of midstream natural gas gathering and processing facilities located in Alberta and British Columbia which were later rolled into a publicly traded income trust known as Spectra Energy Income Fund. The acquisition of Westcoast by Duke complemented the other energy assets in Duke's portfolio and provided the company with new opportunities to expand its North American business.

In January 2007 Duke Energy separated its natural gas businesses from its electric power business, by spinning it off into a new, publicly traded company called Spectra Energy Corp. Spectra, which owns the assets Duke had acquired through the Westcoast acquisition, is one of North America's leading natural gas infrastructure companies. The company is headquartered in Houston and employs approximately 5,100 workers in the Spectra Energy Transmission business unit, of whom 3,330 work in Canada. Spectra's infrastructure assets include 17,500 miles of transmission pipeline and about 265 billion cubic feet of storage capacity in the U.S. and Canada.

Spectra has offices in Vancouver, Calgary, Chatham and Halifax, with Calgary being the business centre for its Western Canada businesses and Chatham being the headquarters for Union Gas. When Duke acquired Westcoast, it eliminated approximately 330 positions in Canada mainly at the Vancouver offices as Duke pursued economies by consolidating treasury, accounting, business development, investor relations and other functions at its central headquarters in the U.S. While savings were achieved through the elimination of these positions and functions at in Canada as part of the acquisition, none of the Canadian offices were closed or eliminated as Duke recognized, and Spectra continues to recognize, that the Canadian business units require a significant management and employee base in Canada to oversee and operate the multi-billions of dollars of fixed assets in Canada.

Since 2002, Duke (and Spectra) has significantly expanded its infrastructure in western Canada, Ontario and the Maritimes. Spectra's strong financial position has facilitated the financing of number of major projects and the resulting growth in the company's Canadian businesses has created the need for additional staff. The employees at Spectra's Canadian offices have a different skill mix than before, but employment is as high, if not higher, than it was prior to the Duke acquisition.

The executive of the western Canadian business units and Union Gas have considerable freedom in managing their operations. The plans setting out the strategic direction for these divisions and capital spending budgets must be submitted for head office approval, but divisional managers have significant spending authority and full responsibility over a range of matters, including operations and marketing, services offerings, pricing, and the structure of their organizations. Managers' compensation is influenced by short-term incentives and long-term incentives that relate to the company's stock performance. Short-term incentive payments, which are based on the performance of both the business unit and the corporation, can comprise 20 to 30 percent of managers' salary.

The Canadian offices continue to employ legal and accounting staff to meet Canadian reporting and regulatory requirements and to compile reports and financial results on Canadian operations required by Spectra head office functions and to comply with continuing disclosure and reporting obligations under Canadian and U.S. securities laws. Significant IT departments in Calgary, Vancouver and Chatham manage the systems that are responsible for internal back and front office operations and management information systems. While general human resource policies are established at the U.S. headquarters, the Canadian divisions have some discretion to determine their own practices and procedures within these policy guidelines. A portion of the Canadian offices' professional legal, engineering and accounting requirements (as well as other functions) are outsourced to local firms.

Spectra supports the Canadian communities where its field and business offices are located through a variety of initiatives. It matches employees' contributions to the United Way and also provides matching funds to specific charities its employees and retirees support. The company encourages voluntary projects by its employees and, through the Spectra Energy Foundation, provides funding to various nonprofit organizations and community programs.