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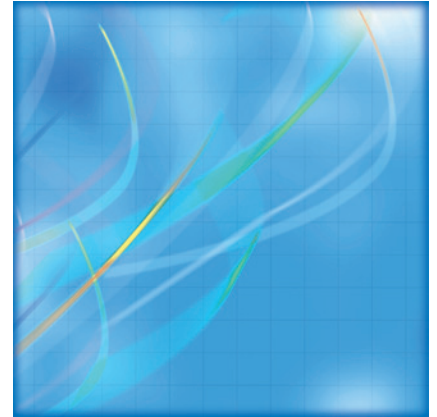
Insights on the Canadian Economy

Head Office Employment in Canada, 1999 to 2005

by Desmond Beckstead and W. Mark Brown

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Note of appreciation

Canada owes the success of its statistical system to a long-standing partnership between Statistics Canada, the citizens of Canada, its businesses, governments and other institutions. Accurate and timely statistical information could not be produced without their continued cooperation and goodwill.

Abstract

This paper provides an analysis of trends in business sector head office employment in Canada from 1999 to 2005. It investigates changes in the number of head offices and head office employment over this period. The paper also examines the effect of foreign ownership on head office employment. It asks how much foreign-controlled firms contribute to Canadian head office employment and employment growth and what happens to head office employment when control of a firm changes from domestic to foreign. The paper also looks at the rate at which head offices enter and exit over time with a view to ascertaining whether the loss of a head office is a rare occurrence or a relatively common event. Finally, the paper presents trends in head office employment across metropolitan areas over the past six years.

Introduction

In the late 1990s and early 2000s, concern had emerged in Canada that a rising number of foreign takeovers of Canadian companies was resulting in the ‘hollowing-out’ of Canadian corporations. As a result, it was alleged that corporations would no longer demand the services of financial markets or key business services. Since financial and business service industries are among the fastest growing and highest paying sectors, this phenomenon was seen to decrease Canada’s growth prospects. Recently, this concern has re-emerged with a second wave of takeovers.¹

Hollowing-out is also perceived to be associated with the decline of the management function. In particular, it is related to the movement of head office employment out of Canada, especially senior management functions. In this paper, we ask once again whether the statistical evidence supports the contention that the head office function is in decline.

In our previous study,² we provided an analysis of head office employment from 1999 to 2002. It showed head office employment increased over the period, suggesting head offices were not decamping en masse. In this study, we extend our previous work by adding three years of data. This provides a better perspective on longer term trends, while also providing a more up-to-date picture of head office employment in Canada.

In addition to looking at longer term trends, this study examines the effect of foreign ownership on head office employment. Much of the concern expressed in the past about the alleged hollowing-out of corporate Canada centred on the influence of rising foreign ownership on head office employment. It was hypothesized that foreign firms would consolidate in their home countries the management functions of their newly purchased Canadian operations. In this paper, we test this proposition directly. We ask what happens to head office employment when control changes from domestic to foreign. We also examine the extent to which foreign firms contribute to head office employment and head office employment growth.

1. Erman (2006).

2. Baldwin, Beckstead and Brown (2003).

Concerns about head office employment extend from the national down to the local scale as cities are often anxious to expand their head office base. This interest stems from three factors. First, head offices are thought to bring with them prestige that adds to a city's image. Second, head offices generate demand for financial and business services, which form an increasingly important part of urban economies. Finally, head offices provide relatively high paying jobs that add to a city's economic base.³

Because of these interests, concern is often generated when a city loses a head office. But whether a city should view the loss of a single head office as a significant event depends on the frequency of the entry and exit of head offices. If head offices enter and exit only rarely, then a lost head office might not be replaced. On the other hand, if head offices enter and exit regularly, then a new head office is likely to emerge to replace any lost head office. In order to assess the importance of head office turnover, we measure rates of entry and exit of head offices.

Since head office employment in Canada tends to be concentrated in a few key metropolitan areas—Toronto, Montréal, Calgary and Vancouver—we also provide evidence of the evolution of their head office employment. Our previous research identified distinct trends in head office employment across Canada's major head office cities between 1999 and 2002. In Eastern Canada, Toronto's head office employment steadily rose while Montréal's declined. In Western Canada, Calgary had emerged as the most important head office centre, supplanting Vancouver, which experienced declining head office employment.

There are many questions about how these head office centres have performed in the intervening years since these results were published. Has Vancouver continued its decline or has its recent boom led to a revival? Has Toronto's growth visibly slowed in the face of Calgary's rapid growth? Has Montréal continued its slide or has its relatively buoyant economy led to a revival in its head office sector?

The remainder of the paper is organized as follows. The next section outlines the nature of the data source used for the analysis. This is followed by an analysis of national trends in head office employment. The performance (in terms of employment and head office counts) of domestically- and foreign-controlled head offices are then compared, as well as how head offices performed after control of the firm switches from domestic to foreign. Next, the analysis looks at the entry and exit of head offices. It asks whether these are rare occurrences or whether they occur quite often. Finally, the paper looks at trends in head office employment across Canada's major head office centres. The paper ends with a brief conclusion.

3. Klier and Testa (2002).

Data

In order to address the research questions outlined above, we make use of Statistics Canada's Business Register (BR). The BR keeps track of Canada's companies and their respective production units. For each production unit, the BR also keeps track of employment levels.

In the BR, head offices are treated as a type of production unit. A head office is only recognized as a production unit if it is located in a separate physical location. A head office that is co-located with a production unit (e.g., a manufacturing plant) would not be counted as a separate unit.⁴ Given that most enterprises in Canada are small, encompassing one production unit, most do not have separate head offices. Therefore, the analysis presented below includes predominately large, multi-unit enterprises.

With the implementation of the North American Industrial Classification System (NAICS), the BR now contains a more accurate picture of head office units. Greater attention has been paid both to establishing the existence of head office units and in providing an estimate of their economic performance, as measured by employment. For this reason, this paper focuses on the period from 1999 to 2005.

Despite these improvements, it should be recognized that we are using the BR data for purposes for which they were not originally designed. A register does not always provide a real-time picture of changes. The operational composition of many firms is updated annually, but others are updated over a longer period of time. Consequently, there will be lags in the updating of some information on the register.

In addition to providing information on employment in head offices, the BR includes information on the location of head offices. Hence, it is possible to identify the metropolitan area in which a head office is located. For this analysis, we use Census Metropolitan Areas (CMAs) to define metropolitan areas.

Throughout the paper, we restrict our analysis to the sub-sample of head offices that operate in the business sector. This is a more restrictive sample than that used in our previous study because all public sector industries have been excluded.⁵

Finally, the BR contains information on the enterprise with which head offices are associated. This includes information on the country of control of the enterprise, which allows for the identification of domestically- and foreign-controlled enterprises and their respective head offices. As a result, the BR is able to track the number of, and employment in, foreign- and domestically-controlled head offices. Most importantly, because the BR follows enterprises and their head offices over time, it is possible to identify the effect of a change of control from domestic to foreign, and visa versa, on head offices.

4. Armstrong (1996).

5. See Baldwin, Beckstead and Brown (2003).

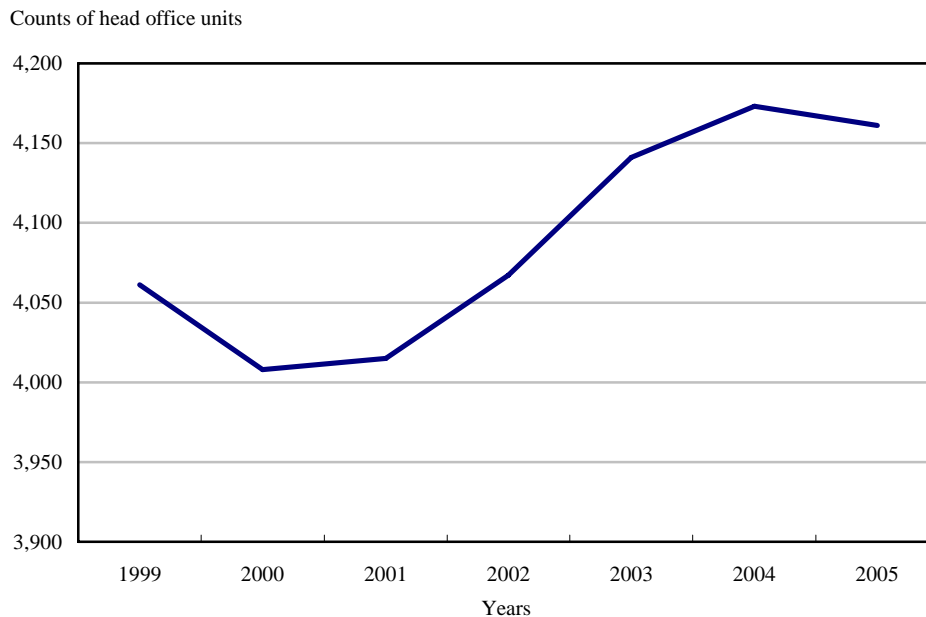
National trends in head office counts and employment

One of the questions we are seeking to answer is how Canada's head office sector has performed over the past six years. Head office employment may be increasing because the economy is growing or because technological change allows firms to consolidate their management functions in their head offices rather than dispersed across their production units (e.g., manufacturing plants). Alternatively, head office employment might be in decline as investments in new information technologies help to streamline the management function and/or because head office jobs are being moved abroad.

The head office function continues to grow in Canada, be it measured in terms of counts of head offices or employment in head offices. After a decline in the number of head offices between 1999 and 2000, the number of head offices has risen since, albeit with a slight decline between 2004 and 2005 (see Figure 1). Counts of head offices grew by 4.2% between 1999 and 2005.

Head office employment followed a similar pattern to head office counts (see Figure 2). Like head office counts, employment fell between 1999 and 2000 and then grew afterwards. However, unlike head office counts, there is no apparent slowdown in head office employment in 2004 and 2005. Employment grew by 11% between 1999 and 2005. This is slightly less than the growth in business sector jobs over the same period (14%).⁶

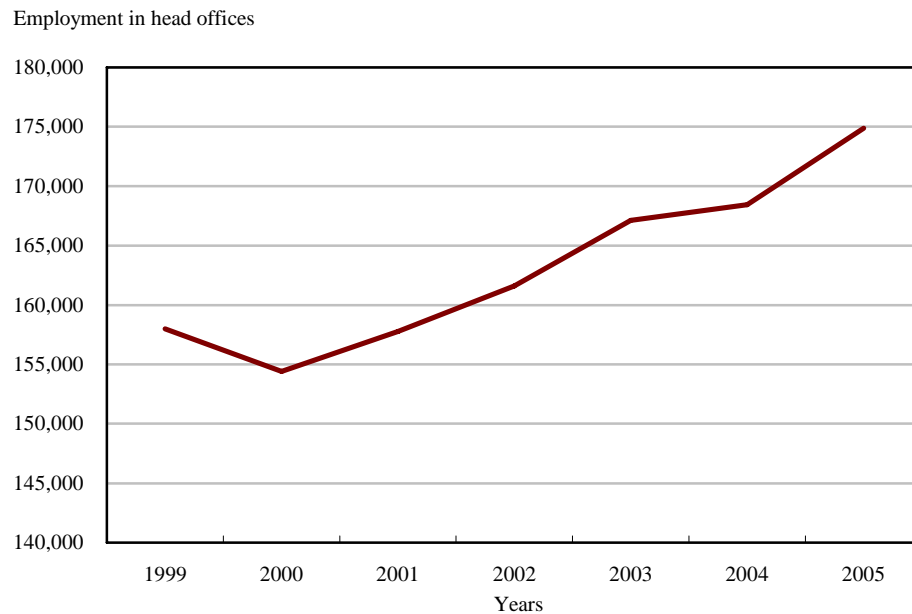
Figure 1 Counts of head office units in Canada, 1999 to 2005



Source: Special tabulation of the Business Register, Statistics Canada.

6. CANSIM Table 383-0008, Indexes of labour productivity, unit labour costs and related variables, seasonally adjusted, quarterly (index, 1997=100).

Figure 2 Head office employment in Canada, 1999 to 2005



Source: Special tabulation of the Business Register, Statistics Canada.

Trends in foreign- and domestically-controlled head offices

There continues to be interest among analysts as to whether foreign control is associated with the hollowing-out of Canadian corporations. In particular, concerns have been raised that, as Canadian firms are taken over by foreign firms, the management functions of these firms are being moved abroad, resulting in the loss of head office employment.

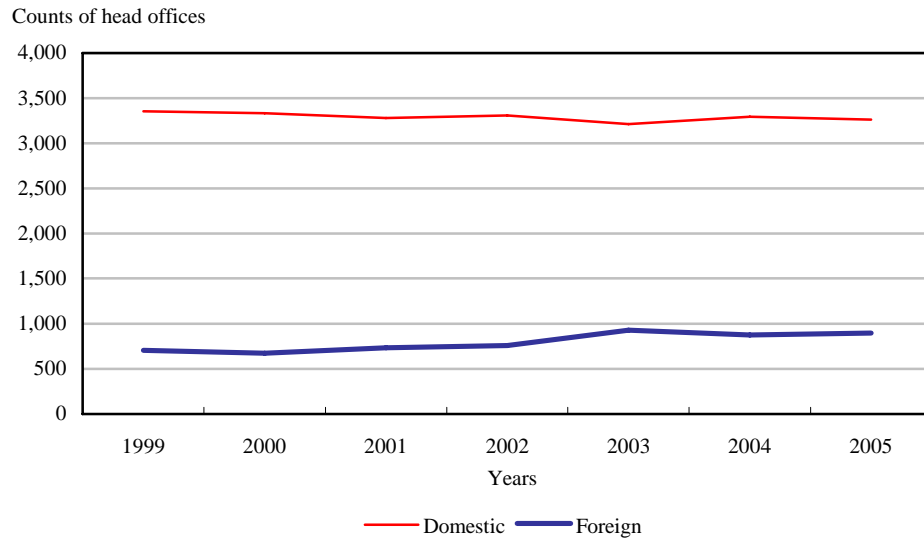
We examine the effects of foreign ownership on head office employment by examining trends in the number of, and employment in, foreign- and domestically-controlled head offices over time.⁷ Figure 3 plots counts of head offices by domestic and foreign status.

Domestically-controlled head offices outnumber foreign-controlled head offices by a ratio of just over three to one. The number of head offices of domestic firms fell slightly over the period, while counts of foreign head offices rose. The gains in counts of head offices observed nationally resulted entirely from an increasing number of head offices of foreign-controlled firms.

Figure 4 plots employment in domestic- and foreign-controlled head offices over the study period. Much of the gains made in head office employment since 1999 were generated by foreign-controlled firms. The head office employment of domestically-controlled firms increased by 6%, while the head office employment of foreign-controlled firms increased by 21%. As a result, about 63% of employment gained over the period was in foreign-controlled head offices.

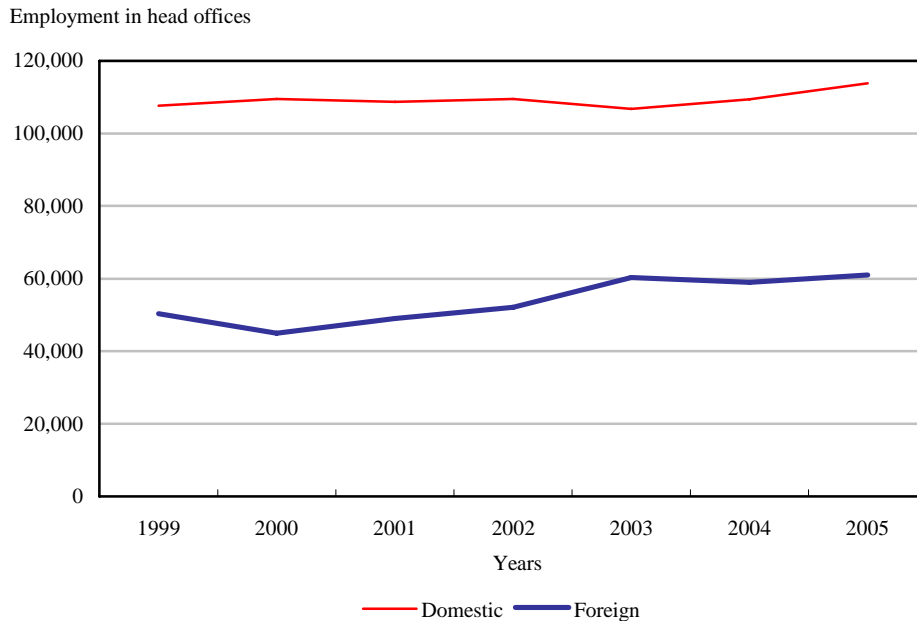
7. For a more in-depth analysis of the effect of foreign ownership on head office employment in manufacturing industries, see Baldwin and Brown (2005).

Figure 3 Counts of head office by domestic- and foreign-controlled firms, 1999 to 2005



Source: Special tabulation of the Business Register, Statistics Canada.

Figure 4 Head office employment by domestic- and foreign-controlled firms, 1999 to 2005



Source: Special tabulation of the Business Register, Statistics Canada.

There was relatively little change in the size of head offices of foreign and domestic firms over the period. The average level of employment in foreign head offices fell slightly from 71 in 1999 to 68 in 2005, while the average size of domestic head offices increased modestly from 32 to 35.

From 1999 to 2005, foreign firms accounted for all of the growth in the number of head offices in Canada and the majority of the gains in head office employment. This growth might have arisen from two quite different sources. On the one hand, growing numbers of, and employment in, foreign head offices might be the result of internal organic growth. The number of foreign head offices may have grown because foreign firms are establishing new head offices. Similarly, the strong employment gains in foreign head offices might have resulted from these new head offices and/or employment growth in foreign head offices that were present all along. On the other hand, the growing importance of foreign head offices might have come from the takeover of domestic firms. Head offices may have been merely switched from domestic to foreign status, swelling the number of foreign head offices and their employment.

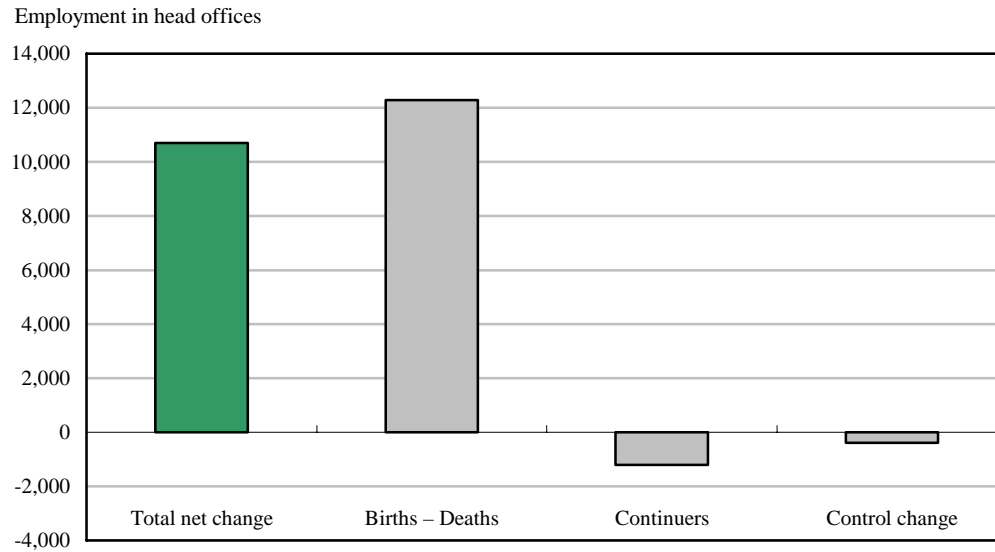
Between 1999 and 2005, the net gain in foreign head offices was 191. Most of these gains resulted from births of new foreign head offices exceeding exits. Over the period, 281 foreign head offices exited, while 419 entered. This net gain was 138 head offices or about 70% of the total gain in head offices. The remaining gains in head offices (53) resulted from more head offices switching from domestic- to foreign-controlled (130) than those switching from foreign- to domestically-controlled (77).

Foreign-controlled head offices increased their employment by about 11,000 workers between 1999 and 2005. These gains can arise from three sources: (1) employment in entering foreign head offices exceeded employment in exiting head offices (births-deaths); (2) net gains in employment for foreign head offices that continued over the period (continuers); and (3) from the switching of head offices from domestic to foreign control (control change). Figure 5 presents the division of the total net change in the level of employment in foreign-controlled head offices into these three components.

All of the net employment gains in foreign-controlled head offices were the result of employment additions from head office births exceeding employment losses from head office deaths (see Figure 5). Continuing foreign head offices lost employment and the net effect of changes in control was also negative. The latter requires some explanation.

Employment in head offices whose firms switched from foreign to domestic control (1999 employment = 8,138) was greater than that of those head offices that switched from domestic to foreign control (2005 employment = 7,751), resulting in a small negative effect for control change.

Figure 5 Sources of gains in head office employment in foreign-controlled firms, 1999 to 2005



Source: Special tabulation of the Business Register, Statistics Canada.

Despite the fact that the foreign-controlled sector appears to have been more dynamic than the domestically-controlled sector, in terms of the creation of head offices and head office employment, it remains unclear what we should conclude about the effect of changes of control from domestic to foreign on aggregate head office employment. Does the takeover of domestic firms result in the loss of head offices and head office employment as management functions are consolidated in the foreign firm's home country?

The takeover of a domestically-controlled firm can have several effects. It can cause the closure of the once domestic firm's head offices. This would occur if the management function were consolidated in the foreign firm's home base. On the other hand, a takeover may also signal a period of growth. The growth process is often complicated, requiring considerable management expertise. If this were the case, then the foreign firm might keep a Canadian head office or, if there was no head office, establish a new one to manage its expanding Canadian operations.

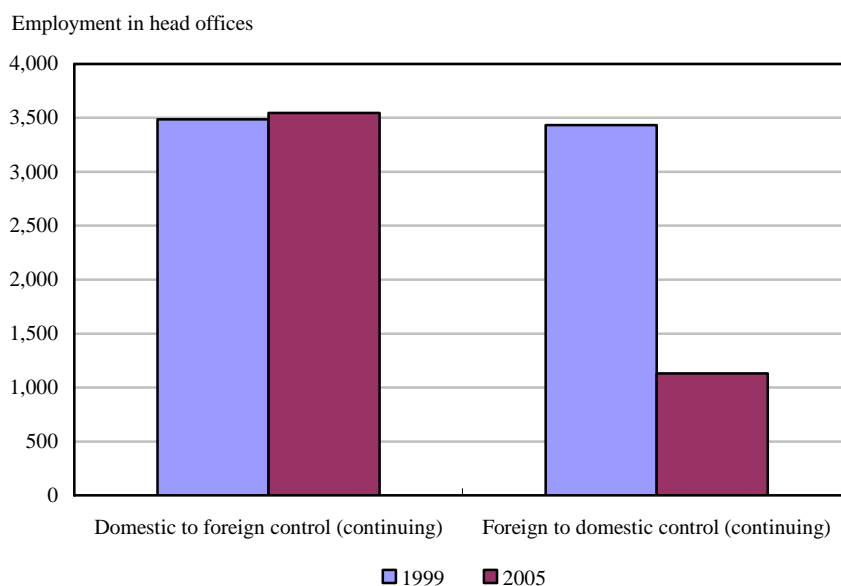
We can test the effect of control change by asking what happens to head offices when control shifts from domestic to foreign (and visa versa). We do so by observing whether control changes are associated with an increase in the rate at which head offices are closed and by observing whether employment grew or declined in those head offices that remained.

Of the 164 head offices that switched from domestic to foreign control between 1999 and 2005, 21% (34) were closed, resulting in a loss of 1,709 jobs. It should also be noted that 38 head offices were added when firms switched from domestic to foreign control, resulting in 2,346 additional jobs. As a result of a change in control from domestic to foreign, more head offices were created than lost and they employed more workers than those head offices that were lost.

Of course, as foreign firms take over Canadian operations, they may not close down their newly acquired Canadian head office completely, but rather they may reduce employment levels as

only a portion of management functions are moved abroad. Alternatively, they may expand their management function in Canada to manage their growing operations. Figure 6 shows employment in continuing head offices that switched from domestic to foreign control between 1999 and 2005. Employment in these head offices increased slightly over the period. In contrast, those firms that switched from foreign to domestic control experienced a fall in head office employment. These results suggest foreign firms, on average, maintained head office employment. They also suggest that foreign firms were divesting themselves of less dynamic firms, which experienced a significant drop in head office employment during the period when control was transferred.

Figure 6 Employment in head offices of firms that change control status, 1999 and 2005



Source: Special tabulation of the Business Register, Statistics Canada.

Firms that shifted from domestic to foreign control opened more head offices than they closed, the net result of which was an increase in head office employment. The same category of firms also maintained the level of employment, on average, in continuing head offices. These results do not support the assertion that the takeover of Canadian firms by foreign firms is associated with the reduction of head office employment. On a case by case basis, a head office might be downsized or closed after a takeover by a foreign firm. However, it is just as likely, or even more likely, that a foreign firm might establish a new head office or expand its existing head office after the takeover.

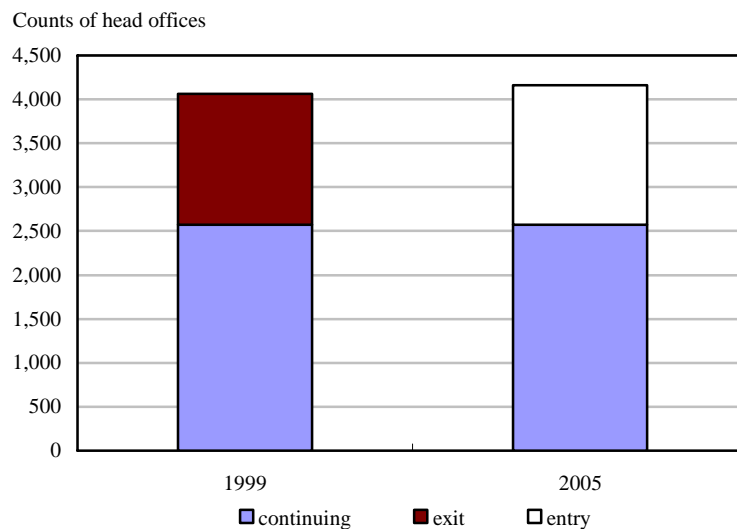
Turnover in head office employment

The loss of a head office in a city or community can generate considerable concern, which stems from the fact that the loss is often seen as rare and of considerable importance to the local economy. The perspective is frequently taken that when a head office is lost, it is unlikely that a replacement will emerge. This raises the obvious question: How often do head offices enter and exit the economy? Are these rare occurrences or do they take place regularly? Does the occasional newspaper article reporting of a high profile departure miss the fact that one event does not establish a trend, especially when entry and exit occurs frequently?

We can measure the likelihood that a head office will close by asking what proportion of head offices in 1999 were no longer in operation by 2005. Similarly, we can measure the likelihood that a new head office will emerge by calculating the proportion of head offices in 2005 that were not present in 1999. The proportions are outlined in Figure 7.

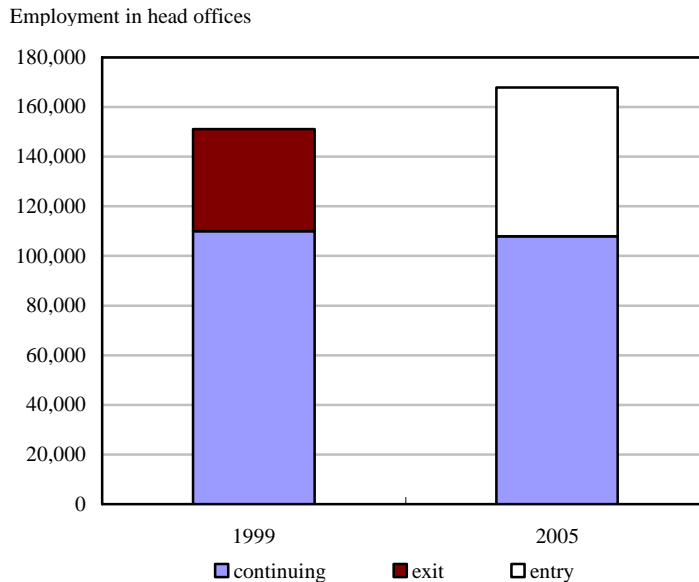
Turnover in head offices was considerable over the 1999 to 2005 period. Of the 4,061 head offices present in 1999, fully 1,489 or 37% had exited by 2005. These lost head offices, however, were replaced by new entries. Of the 4,161 head offices present in 2005, 1,589 or 38% did not exist in 1999. The emergence of new head offices was strong enough to renew the head office sector. The remaining head offices were present in both 1999 and 2005 (continuing).

Figure 7 Entry and exit of head offices, 1999 and 2005



Source: Special tabulation of the Business Register, Statistics Canada.

Figure 8 Job turnover in head offices, 1999 and 2005



Source: Special tabulation of the Business Register, Statistics Canada.

High rates of turnover, in terms of counts of head offices, may not matter much if the head offices are relatively small. High rates of turnover in small head offices may not translate into a larger turnover in employment across head offices. Figure 8 shows the proportion of jobs in head offices in 1999 that were lost by 2005 and the proportion of jobs in 2005 that had been created since 1999. Of the head office jobs present in 1999, fully 27% were lost by 2005 due to the exits of head offices. This is less than the proportion of head offices in 1999 that were closed, but still a significant loss of jobs. In 2005, 36% of jobs were in head offices that had entered since 1999. There was no appreciable change in the aggregate employment in the continuing subset of head offices.

The closure of a head office or the opening of a new one is not rare, it occurs all the time. Moreover, these entries and exits account for a significant share of the net change head office employment.

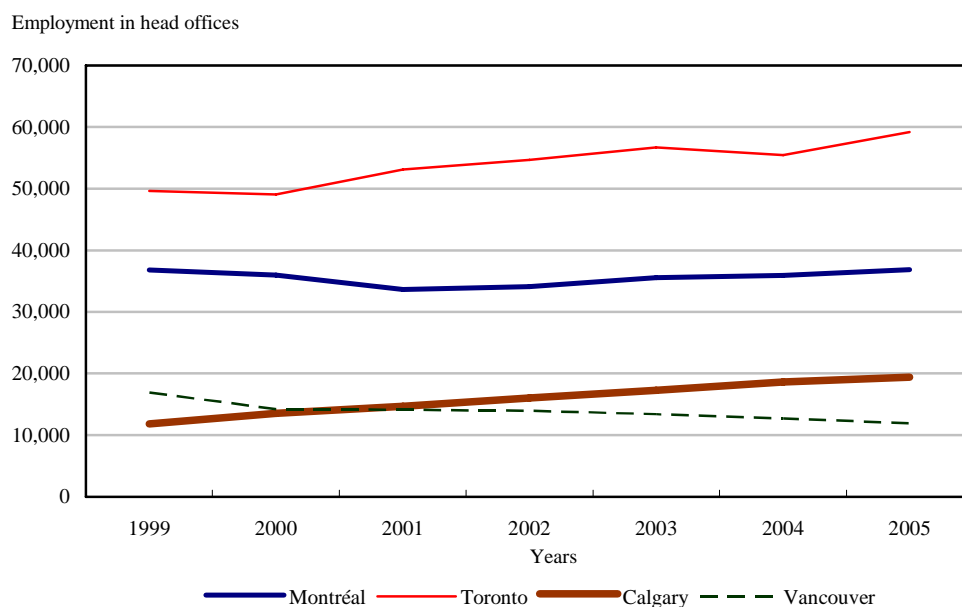
Head office employment in cities

Canada's head office employment is concentrated in four major metropolitan areas—Toronto, Montréal, Calgary and Vancouver. While accounting for 38% of Canada's population in 2005, these four cities made up 73% of Canada's head office employment in the same year. Although these four metropolitan areas maintained their share of head office employment throughout the period, their individual performances varied widely.

As we noted in the introduction, between 1999 and 2002 Toronto and Calgary increased their head office employment, while Vancouver and, to a lesser degree, Montréal faltered. The question at hand is how they have performed since. Has Vancouver continued its decline as a

head office center or has Vancouver's recent boom led to a revival? Has Toronto's growth visibly slowed in the face of Calgary's rapid rise? Has Montréal continued its slide or has its recently revitalized economy revived in its head office sector? Figure 9 outlines the level of head office employment for these four metropolitan areas over the 1999 to 2005 period.

Figure 9 Head office employment in Canada's major head office centres, 1999 to 2005



Source: Special tabulation of the Business Register, Statistics Canada.

Toronto continues to be Canada's most important head office centre. Head office employment in Toronto grew by 19% over the period, and this led to a rise in Toronto's share of head office employment from 31% in 1999 to 34% in 2005. There was also no apparent slowdown in the growth of Toronto's head office employment over the period, despite the rise of Calgary as an important head office employment centre.

Calgary's rise as a major head office centre over the past six years has been remarkable. Head office employment in Calgary increased by 64% over the period. This is a rate of growth three times that of Toronto, the second fastest growing head office centre of the big four.

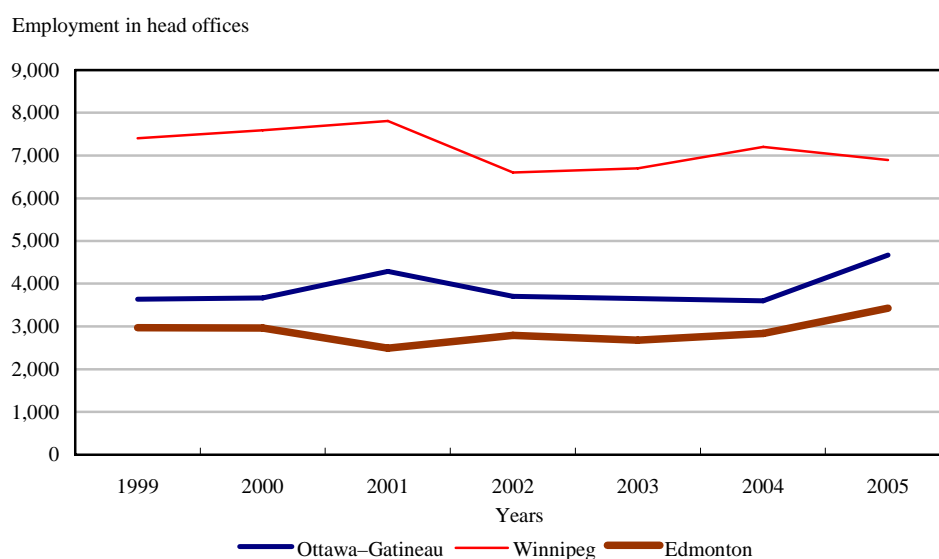
Calgary's rise puts Vancouver's decline into even sharper relief. Despite Vancouver's buoyant economy, head office employment continues to decline. In 1999, Vancouver was Western Canada's most important head office centre, with employment levels well above Calgary's. In the ensuing years, Vancouver's head office employment declined. With Calgary's strong growth, this has led to a reversal of positions. Calgary is now Western Canada's most important head office centre.

Montréal has been and continues to be Canada's second most important head office centre, as measured by employment. Between 1999 and 2001 head office employment in Montréal

declined, but since 2001 these losses have been fully recovered. Montréal's recent economic revival appears to be reflected in its head office employment. Yet Montréal's head office revival was not strong enough for it to regain its 1999 share of head office employment. Montréal, in 2005, had a 21% share of head office employment, which was lower than its 23% share in 1999.

Ottawa–Gatineau, Winnipeg and Edmonton make up a second tier of head office centres (see Figure 10). Head office employment in Ottawa–Gatineau and Edmonton was flat earlier on, with gains in head office employment occurring at the end of the period. Winnipeg experienced a decline in its head office employment, with its losses occurring in the middle of the period.

Figure 10 Head office employment in Canada's second tier head office centres, 1999 to 2005



Conclusion

Despite continuing concerns that rising levels of foreign investment might lead to the hollowing-out of corporate Canada, we find little evidence that this is occurring in terms of head office counts or employment. The number of head offices in Canada and the employment found therein continue to rise.

Much of the dynamism in Canada's head office sector actually comes from foreign-controlled firms. The head offices of foreign-controlled firms contributed to all of the gains in the number of head offices over the past 6 years and accounted for 6 out of 10 new jobs created. The effect of foreign takeovers has not been to reduce the number of head offices in Canada nor head office employment. As a result of foreign takeovers, more new head offices were created than lost and employment in head offices was as high after the takeovers had occurred than before. Given

these facts, it is difficult to argue that foreign ownership of Canadian firms is associated with falling numbers of head offices and declining head office employment.

The loss of a head office or the entry of a new head office is not a rare occurrence. In 2005, over one-third of all head offices did not exist in 1999 and over a quarter of all head office employment is in head offices that are new. Despite the fact that on a national scale head office closings are replaced by new entries, at the urban scale it is apparent that some metropolitan areas have performed better than others. Calgary has continued to assert itself as an important centre of corporate control. Nevertheless, Montréal remains Canada's second most important head office centre and Toronto continues to experience above average head office employment growth. It is Vancouver that has experienced a serious decline in its head office sector, despite the relative buoyancy of its economy in recent years.⁸

Vancouver's example helps to put some perspective on how head office employment should be viewed. A strong and growing head office sector is only one among many factors that contribute to economic growth.

8. See White, Michalowski and Cross (2006).

Appendix A: Head office counts and employment across provinces and Census Metropolitan Areas

Table A1 Selected Census Metropolitan Area head office counts, employment and average size, 1999 to 2005 (business sector)

	1999	2000	2001	2002	2003	2004	2005
Panel A: Number of head office units							
Montréal	596	581	566	567	573	562	536
Ottawa–Gatineau	100	98	96	101	104	103	101
Toronto	826	809	817	840	866	893	918
Winnipeg	114	110	120	123	131	129	129
Calgary	279	283	274	272	286	299	316
Edmonton	139	136	141	139	143	150	157
Vancouver	355	344	344	342	355	342	335
Panel B: Head office employment							
Montréal	36,763	35,959	33,643	34,061	35,584	35,905	36,893
Ottawa–Gatineau	3,634	3,671	4,288	3,709	3,649	3,599	4,667
Toronto	49,649	49,060	53,102	54,668	56,695	55,403	59,163
Winnipeg	7,410	7,588	7,814	6,597	6,705	7,199	6,890
Calgary	11,815	13,541	14,682	16,055	17,259	18,639	19,428
Edmonton	2,972	2,966	2,488	2,788	2,680	2,832	3,428
Vancouver	16,894	14,224	14,106	13,994	13,414	12,677	11,938
Panel C: Average employment per head office unit							
Montréal	62	62	59	60	62	64	69
Ottawa–Gatineau	36	37	45	37	35	35	46
Toronto	60	61	65	65	65	62	64
Winnipeg	65	69	65	54	51	56	53
Calgary	42	48	54	59	60	62	61
Edmonton	21	22	18	20	19	19	22
Vancouver	48	41	41	41	38	37	36

Note: Counts of head offices are restricted to businesses with employees.

Source: Special tabulation of the Business Register, Statistics Canada.

Table A2 Provincial head office counts, employment and average size, 1999 to 2005 (business sector)

	1999	2000	2001	2002	2003	2004	2005
Panel A: Count of head office units							
Atlantic	x	x	x	x	x	x	x
Québec	888	873	862	872	869	852	815
Ontario	1,327	1,305	1,311	1,350	1,399	1,428	1,464
Manitoba	139	134	142	147	156	153	155
Saskatchewan	109	106	108	111	118	119	117
Alberta	484	485	487	487	506	527	556
British Columbia	476	466	464	460	469	459	443
Territories	x	x	x	x	x	x	x
Canada	3,633	3,583	3,604	3,657	3,747	3,775	3,784
Panel B: Head office employment							
Atlantic	x	x	x	x	x	x	x
Québec	41,022	40,571	38,620	40,044	41,684	41,734	43,291
Ontario	64,567	63,309	68,454	69,325	72,224	70,989	75,335
Manitoba	7,765	7,942	8,111	6,908	6,938	7,435	7,169
Saskatchewan	2,641	2,544	2,372	2,467	2,652	3,432	3,744
Alberta	15,710	17,378	18,040	19,788	20,917	22,293	23,682
British Columbia	18,817	16,128	15,820	15,655	15,102	14,311	13,441
Territories	x	x	x	x	x	x	x
Canada	157,994	154,412	157,775	161,611	167,141	168,436	174,882
Panel C: Average employment per head office unit							
Atlantic	x	x	x	x	x	x	x
Québec	46	46	45	46	48	49	53
Ontario	49	49	52	51	52	50	51
Manitoba	56	59	57	47	44	49	46
Saskatchewan	24	24	22	22	22	29	32
Alberta	32	36	37	41	41	42	43
British Columbia	40	35	34	34	32	31	30
Territories	x	x	x	x	x	x	x
Canada	43	43	44	44	45	45	46

Notes: Counts of head offices are restricted to businesses with employees and so will not equal the national totals presented in the body of the paper. An 'x' denotes an observation that has been suppressed to preserve the confidentiality of information provided by individual firms.

Source: Special tabulation of the Business Register, Statistics Canada.

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