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Is Canada hollowing out?

Actually, it's a world beater:
Foreign takeovers of household names haven't hurt country's global heft: study
By Heather Scoffield

Canada's world-class companies are significantly larger and more numerous than they were 20 years ago, according to new research that debunks fears about the hollowing out of Corporate Canada. In 1985, Canada claimed 33 companies that ranked among the top five in the world in their particular business, according to research by the University of Toronto business school. Now, Canada has more than doubled its global heft, with 72 companies that lead the world.

In a study to be released early next year, the U of T's Institute for Competitiveness and Prosperity also found that average annual revenue for Canada's leading companies is $3.7-billion, up from $2.0-billion in 1985, after adjusting for inflation.

Canadians worried about "hollowing out" bemoan the foreign takeover of household names such as Hiram Walker, Hudson's Bay Co., and more recently, Inco and Falconbridge. But James Milway, the institute's director, argued that those critics frequently don't notice the ascendance of global players such as auto parts maker Linamar and health sciences giant MDS Inc.

"There's a lot of renewal and churn going on in Corporate Canada," he said. "We ought not to get fixated on the big announcements." The conclusions are the result of an extensive examination of all the ups and downs of Canada's leading companies over the past 20 years.

Rather than dwelling on companies that have been taken over by foreign investors, business and political leaders should focus on fostering new world-class entities to take their place, added Roger Martin, dean of the U of T's Rotman School of Management and head of the institute.

"The most important thing for prosperity in the future is growing internationally competitive companies. It's the defining thing." Mr. Martin acknowledges today's global companies are different than those of 20 years ago.
While firms may be bigger in revenue, often their market niches are narrower.

Twenty years ago, Canadian firms led in easy-to-grasp fields such as spirits and wines, nickel, asbestos, solid waste management and real estate. Today, according to the study, Canadians lead in environmental compliance technology, postage stamps, gastrointestinal products and wollastonite, a mineral fibre used in ceramics, auto parts and concrete. That trend will likely persist into the future, Mr. Martin said. As globalization speeds up, big countries with big markets produce global companies that gobble their smaller competitors — unless the smaller competitors develop dominance in their own market niche, he said.

That seems to be the trend in Canada, he said — companies are specializing and doing it well.
"What's happening is an industrial revolution-like transformation . . . a global rearrangement of industries," Mr. Martin said. "Some of each nation's companies are going out and buying companies and going global, and some are getting bought up. That's just the nature of the beast." Chemtrade Logistics Income Fund is in the midst of the global churn. Since the Toronto-based company became an income trust in 2001, it has bought interests in Switzerland and the United States. It is now a global leader in sulphuric acid, liquid sulphur dioxide, and sodium hydrosulphite.
But it is not a leader in the global chemical industry writ large, chief executive officer Mark Davis said.
"We're a minnow as far as the chemical industry is concerned."

His company is increasingly vulnerable, he added, mainly because Ottawa has decided to tax income trusts. The current trust structure allows small companies like his easy access to financing for expansion, Mr. Davis said.
"The uncertainty created by the announcement and the subsequent reduction in the value of our shares makes it very difficult to raise the capital to keep growing," he said. "In the chemical industry, size and scale are an important aspect of competition."

Mr. Martin and Mr. Milway argue that government should not try to cure a hollowing-out problem that, according to their research, does not exist. But they agree with Mr. Davis that governments should not make decisions that hamper Canadian companies. Rather, they said, governments should foster competition, lower tax on investment and deregulate.

Canada has lost 17 world-class companies since 1985, and the number of global leaders has actually fallen since 2003, the researchers say. But it's not fair to blame just public policy for the losses, they add. Instead, they point to global consolidation (such as the takeover of Zenon Environmental by General Electric Co.), poor management (blamed for the demise of Inco and Falconbridge), and simply losing steam (Intrawest and Masonite).

While public policy may have stymied the financial services sector from growing globally, government has not stood in the way of energy companies, Mr. Martin points out. And yet, despite Canada's budding reputation as an energy superpower, no Canadian energy company makes his list as a global leader.

With increasing globalization, he warned, "you either go out and play the game or have the game brought to you."

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Canadian global leaders, then and now

Fears that Corporate Canada is being hollowed out and taken over by big international firms may be overstated, according to a new study. Whereas 20 years ago, only 33 companies ranked among the top five in their sector, that number has more than doubled, with 72 companies leading the world

Hiram Walker & Sons Ltd.
Niche: distilled spirits
Head office: Toronto
Revenue (1985): $3.8-billion
What happened: In 1986, the Reichmann family's Olympia and York Enterprises Ltd. launched a hostile takeover of Walker, which resulted in the liquor subsidiary being sold for $2.6-billion to Allied-Lyons PLC of Britain. A court battle ensued, resulting in an agreement to divide ownership of the liquor business between Allied and Reichmann-controlled Gulf Canada.

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ATI Technologies Inc.
Niche: 3-D graphics
Head office: Thornhill, Ont.
Revenue (2003): $1.3-billion
What happened: After 20 years at the forefront of the graphics chip business, in July of this year, ATI accepted a $5.4-billion (U.S.) cash-and-stock bid from U.S. giant Advanced Micro Devices Inc., the world's second-largest maker of computer chips.

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Linamar Corp.
Niche: camshafts, scissor-type elevating platforms
Head office: Guelph, Ont.
Revenue: $2.2-billion
What happened: Founded in 1966 by Frank Hasenfratz in his garage, the company is now the country's second-largest auto parts maker. It operates more than 35 plants in Canada, China, Germany, Hungary, South Korea, Mexico and the U.S.

SOURCE: INSTITUTE FOR COMPETITIVENESS AND PROSPERITY, STAFF