Business Council of British Columbia

Corporate Headquarters and Head Office Employment in British Columbia: 2006 Update

by

Jock Finlayson
Executive Vice President – Policy

and

Karen Graham
Senior Policy Analyst

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Suite 810
1050 West Pender St
Vancouver, BC
V6E 3S7

Telephone 604 684 3384
Facsimile 604 684 7957
info@bcbc.com
www.bcbc.com

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CORPORATE HEADQUARTERS AND HEAD OFFICE EMPLOYMENT IN BRITISH COLUMBIA: 2006 UPDATE

The 2006 edition of the Financial Post's FP500, released in June, provides an up-to-date picture of Canada's largest 500 corporations, together with the "next 300," for a total of 800 companies in all. Included in the FP500 are both privately held and publicly traded enterprises as well as government-owned Crown corporations. The FP ranking is based on annual revenues in the most recent complete year (2005). The FP report offers a useful basis for an assessment and comparison of British Columbia's position as a locale for major corporate head offices.

Figure 1 and Table 1 below summarize the breakdown by province of the head offices of the largest 800 Canadian companies.

Table 1
Canadian Corporate Head Offices by Province, 2005

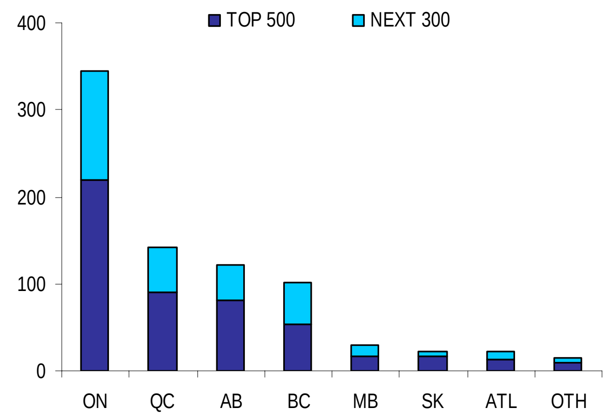
	ON	QC	AB	BC	MB	SK	ATL	OTH	TOTAL
Top 500	220	90	82	53	17	16	12	9	500*
Next 300	125	52	40	48	12	7	10	6	300
Top 800	345	142	122	101	29	23	22	15	800*
% of largest 800	*43.1%*	*17.8%*	*15.3%*	*12.8%*	*3.6%*	*2.9%*	*2.8%*	*1.9%*	

* In this report, these figures actually total 499 and 799 because one company treated as a BC-based head office in the FP500, Westcoast Energy, has been deleted.

According to the latest FP500, BC is home to 53 of the top 500 companies in Canada, down from 58 in the 2005 FP report.[1] Overall, BC accounts for 101 of the 800 biggest companies in the country (12.6%), up from 89 in 2004. BC has lost ground among the top 500, slipping from 58 in 2004 to 53 today. The increase in the number of BC head offices is concentrated in the "next 300,"where the province added 17 firms in the past year.

[1] The most recent FP500 publication actually lists 54 BC based companies among the top 500, but one of these, Westcoast Energy, no longer exists, having been acquired by US-based Duke Energy in 2002. This paper excludes Westcoast from the count of BC-based head offices.

Figure 1
Canada's Corporate Head Offices by Province, 2005



Ontario, which accounts for two-fifths of national GDP, remains the preferred location for Canadian head offices, with 220 of the top 500. It is home to more than twice as many large enterprises as second place Quebec. Of the four major provinces hosting head offices, only Alberta has increased its standing in the top 500 – it currently boasts 82 of the top 500 companies, up from 70 in the 2005 FP report (which ranked companies based on their revenues in 2004). Overall, Alberta is home to 122 of the biggest 800 Canadian enterprises, up from 104 in the previous report. Ontario, Quebec and BC have all seen slight reductions in the number of top 500 companies, while Ontario and Quebec have also experienced declines in "next 300." British Columbia and Alberta have gained ground among the "next 300" companies. Also worth noting is that although BC badly trails Alberta among the top 500 (53 versus 82 companies), it outperforms Alberta in the number of next 300 head offices (48 versus 40).

BC Head Offices: A Closer Look

Of the 53 companies from the FP top 500 that are headquartered in BC, 20 (38%) are privately held. Another 6 (11%) are Crown corporations or agencies, while the rest are public companies. The substantial proportion of privately held large and mid-sized enterprises in British Columbia sets the province apart from Ontario, Quebec and Alberta in terms of business composition. A number of high-profile corporate takeovers have helped to tilt the balance in favour of privately held BC companies in the past few years – e.g., Duke Energy's acquisition of Westcoast Energy and Tolko's takeover of Riverside Forest Products. More recently, Kinder Morgan acquired BC-based utility Terasen, Barrick Gold purchased Placer Dome, and Kodak took over Creo. These once public companies will either drop out of the BC contingent of the top 500 or else be reclassified as private companies in future FP reports. Other large BC-based companies, such as the Jim Pattison Group, HY Louie Co., Tolko Industries, and Kal Tire, have long been privately owned. Several others, including Vancouver City Savings Credit Union, Coast Capital Savings Credit Union, and Pharmasave are also classified as privately held by their members or franchisees. Some 30% of the BC companies in the top 500 that were also included last year have moved up in the rankings, while 62% have slipped. Table 2 lists all of the BC-based enterprises in the most recent FP top 500.

Table 2

BC Head Offices in the Top 500, 2005 (ranked by revenues)*

2004 Rank	2005 Rank	BC Offices in Top 500	City
34	40	Telus Corp.	Vancouver
53	59	The Jim Pattison Group	Vancouver
71	71	Finning International Inc.	Vancouver
91	82	Teck Cominco Ltd.	Vancouver
75	90	HY Louie Co. Ltd.	Burnaby
94	94	Canfor Corp.	Vancouver
93	96	Insurance Corp. of BC	Vancouver
92	97	BC Hydro & Power	Vancouver
101	100	Best Buy Canada Ltd.	Burnaby
129	101	West Fraser Timber Co. Ltd	Vancouver
n/a	127	Teekay Shipping (Canada) Ltd.	Vancouver
152	135	HSBC Bank Canada	Vancouver
130	140	Charlwood Pacific Group	Vancouver
119	141	Placer Dome Inc.	Vancouver
149	157	Intrawest Corp.	Vancouver
162	160	BC Liquor Distribution Branch	Vancouver
136	165	Methanex Corp.	Vancouver
157	170	Terasen Inc.	Vancouver
167	180	Catalyst Paper Corp.	Vancouver
269	187	Tolko Industries Ltd.	Vernon
184	191	Workers Compensation Board of BC	Vancouver
151	199	Weyerhaeuser Canada Ltd.	Vancouver
208	206	BC Lottery Corp.	Kamloops
n/a	217	Taiga Building Products Ltd.	Burnaby
265	228	Ainsworth Lumber Co. Ltd.	Vancouver
221	232	The Futura Corp.	Vancouver
262	238	Ledcor Group of Cos.	Vancouver
235	244	Univar Canada Ltd.	Richmond
600	265	Goldcorp Inc.	Vancouver
396	266	Lions Gate Entertainment Corp.	Vancouver
n/a	280	CanWel Building Materials Income Fund	Vancouver
260	282	Pharmasave Drugs (National) Ltd.	Langley
314	301	CHC Helicopter Corp.	Richmond
282	320	International Forest Products Ltd.	Vancouver
308	322	MacDonald, Dettwiler and Associates Ltd.	Richmond
280	331	Creo Inc.	Burnaby
n/a	362	Mitsubishi Canada Ltd.	Vancouver
303	367	Western Forest Products Inc.	Duncan
395	392	Golder Associates Corp.	Burnaby
388	405	Vancouver City Savings Credit Union	Vancouver
408	408	Inland Kenworth	Burnaby
415	415	Marubeni Canada Ltd.	Vancouver
401	421	A&W Food Services of Canada Inc.	Vancouver
751	432	First Quantum Minerals Ltd.	Vancouver
389	420	BC Ferry Services Inc.	Victoria
453	451	Boston Pizza International Inc.	Richmond
410	453	Thrifty Foods	Saanichton
456	460	Washington Marine Group	Vancouver
440	461	Kal Tire	Vernon
413	463	The Oppenheimer Group	Coquitlam
425	481	TimberWest Forest Corp.	Vancouver
477	493	Canaccord Capital Inc.	Vancouver
474	498	Coast Capital Savings Credit Union	Surrey

* This table excludes Westcoast Energy, which the 2005 FP report mistakenly lists as a BC-based head office.

Of the 48 BC companies in the "next 300," 42% were not ranked in 2004. This points to a pattern of strong business growth among many mid-sized BC companies. It also underscores the dynamic nature of today's business environment. Of the BC companies in the "next 300" that were also ranked in 2004, 25% improved their positions, while the other 75% slipped.

Table 3
BC Head Offices in the "Next 300", 2005 (ranked by revenues)

2004 Rank	2005 Rank	BC Offices in Next 300	City
431	510	BC Buildings Corp.	Victoria
n/a	513	Olympic Industries Inc.	Vancouver
543	515	Mark Anthony Group Ltd.	Vancouver
n/a	516	Daishowa-Marubeni International Ltd.	Vancouver
n/a	526	EuroZinc Mining Corp.	Vancouver
n/a	529	Polygon Homes Ltd.	Vancouver
n/a	536	Hardwoods Distribution Income Fund	Langley
488	539	PMC-Sierra Inc.	Burnaby
544	540	Vancouver International Airport Authority	Richmond
n/a	545	Carter Automotive Group	Burnaby
490	549	Tree Island Wire Income Fund	Richmond
494	552	Dominion Construction Co. Inc.	Vancouver
549	564	Keg Restaurants Ltd.	Richmond
554	569	Super Save Group of Cos	Surrey
n/a	575	Northland Properties Corp.	Vancouver
535	583	Itochu Canada Ltd.	Vancouver
601	587	Northgate Minerals Corp.	Vancouver
464	598	Shato Holdings Ltd.	Vancouver
579	600	Canadian Hotel Income Properties REIT	Vancouver
607	609	QLT Inc.	Vancouver
n/a	620	Black Press Ltd.	Victoria
692	622	Great Canadian Gaming Corp.	Richmond
n/a	624	Quadra Mining Ltd.	Vancouver
n/a	637	Coast Hotels & Resorts	Vancouver
612	643	Ritchie Bros. Auctioneers Inc.	Richmond
n/a	657	J.S. Jones Timber Ltd.	Surrey
598	658	OK Tire Stores Inc.	Langley
651	664	OpenRoad Auto Group Ltd.	Richmond
703	667	Angiotech Pharmaceuticals Inc.	Vancouver
n/a	677	Lundin Mining Corp.	Vancouver
n/a	684	TCG International Inc.	Burnaby
n/a	687	Atlantic Power Corp.	Vancouver
n/a	693	A&B Sound Ltd.	Richmond
n/a	697	Premium Brands Income Fund	Richmond
701	706	Versacold Income Fund	Vancouver
712	708	Creation Technologies Inc.	Burnaby
668	721	Sun Gro Horticulture Income Fund	Vancouver
745	725	Raymond James Ltd.	Vancouver
n/a	736	Intertech Construction Group	Vancouver
727	738	BC Bearing Engineers Ltd.	Burnaby
706	751	Mountain Equipment Co-operative	Vancouver
n/a	758	Welco Lumber Corp.	Vancouver
n/a	762	Fred Deeley Imports Ltd.	Richmond
673	763	Xantrex Technology Inc.	Burnaby
702	768	Credit Union Central of BC	Vancouver
631	769	Imperial Parking Corp.	Vancouver
n/a	775	Westshore Terminals Income Fund	Vancouver
773	797	Pacific Northern Gas Ltd.	Vancouver

An examination of the industry breakdown of BC-based companies in the top 800 suggests that the traditional engines of the provincial economy remain important. Using the industry categories employed in the FP report, the leading industry sector for BC head offices is specialty retail, followed by forestry and pulp/paper, wholesale and distribution, services, and then a three-way tie among transportation, utility and mining head offices. Rounding out the list are firms in a number of smaller industries, including amusement, information technology, biotechnology/life sciences, and oil field services.

British Columbia as a Head Office Location: Drilling Deeper

In July 2006, Statistics Canada published a study of trends in head office employment in Canada.[2] The definition of "head office" in this study was much broader than the one used in the FP report, which ranks the biggest 500 and 800 Canadian companies based on annual revenues. Specifically, the authors relied on Statistics Canada's Business Register, which keeps track of companies, their respective "production units," and employment levels in these units. Importantly, the Business Register treats head offices as a type of production unit. A head office is only recognized if it exists in a separate physical location from other production units of the same enterprise.

Using this approach, the Statistics Canada study counted 3,784 "head offices" in Canada as of 2005 (up slightly from 3,633 in 1999). Of these, 443 (12%) are located in British Columbia. As with the FP survey, the Statistics Canada study finds that Ontario leads the way as a head office location (39% of the total in 2005), followed by Quebec (22%), Alberta (15%), and then BC (12%). British Columbia's share of Canadian head offices in the Statistics Canada study has fallen slightly since1999 (13%).

Of greater interest, and also concern, is the trend in ***head office employment***, where British Columbia has seen a steep decline. Between 1999 and 2005, employment at the BC-based head offices included in the Statistics Canada analysis tumbled by 28.5% – going from 18,817 jobs to just 13,441. The same picture is apparent when looking at head office employment in metropolitan Vancouver (which accounts for 89% of all head office jobs in BC): it also fell by 29% over the 1999-2005 period.

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[2] Desmond Beckstead and W. Mark Brown, Head Office Employment in Canada, 1999 to 2005, Statistics Canada, Catalogue No. 11-624-MIE (July 2006).

Table 4
Percentage Change in Head Office Employment, 1999 to 2005

Province*	% change	Census Metropolitan Area	% change
BC	-29.0	Vancouver	-29.0
Manitoba	-7.6	Winnipeg	-7.0
Quebec	+5.5	Montreal	0.0
Ontario	+16.7	Toronto	+19.1
		Ottawa/Gatineau	+28.4
Alberta	+50.7	Edmonton	+15.5
		Calgary	+64.4

* Saskatchewan and Atlantic Canada are excluded due to very small numbers of head office.

Source: Statistics Canada 2006.

Other than Manitoba (which experienced a modest 7.6% decrease), BC was the only province to see head office jobs shrink over the period examined by the study. Greater Vancouver also stands out as by far the worst performer among major Canadian metropolitan areas in the trend in head office employment. Table 4 provides a summary picture.

We can only speculate here as to the reasons for BC's and Greater Vancouver's disappointing performance in head office employment. Undoubtedly, one contributing factor has been consolidation in the forestry and mining industries, which have long been prominent parts of British Columbia's corporate base. For example, in the mid-1990s, more than 20 significantly sized forest companies had operations in BC. By 2005, the figure had dropped to 12, and just 9 of these counted as head offices according to the definition used in the FP500.[3] As the number of large BC-based forest companies has declined, there has been a concomitant erosion of head office employment in the sector.

A second negative factor is the high cost of land and office space, and the paucity of available industrial land, in Greater Vancouver. This problem is becoming more serious due to the conversion of commercial to residential space in parts of the region (especially the City of Vancouver), and a related trend that has seen the encroachment of residential development into areas that traditionally have served as a base for industrial and other types business activity.

[3] Pope & Talbot, Tembec and Abitibi-Consolidated are present in BC but headquartered elsewhere.

Finally, the failure of the plethora of municipalities that make up Greater Vancouver to engage in any form of region-wide collaboration in the areas of economic development, business/investment attraction, marketing, or regulatory coordination and streamlining is another glaring weakness of the Vancouver -region that, arguably, has hindered the development of a robust head office sector.

The Importance of Head Offices

The choice of head office location carries significance for the company and host jurisdiction alike. How significant is a question of perspective. Recent foreign takeovers of Inco Ltd., Falconbridge Ltd., and Vincor International, among other Canadian firms, have served to highlight the issue of head offices on a national scale.

On one level, it can be argued that the presence of head offices has symbolic importance. The number of large company headquarters which a city or region plays host to is one metric by which to judge its commercial importance and prestige. For Canada, losing a major head office feeds into longstanding concerns about the "hollowing out" of corporate Canada. One often cited fear is that a diminishing number of large Canadian-based firms will accelerate the decline of Toronto as a major North American and global financial centre.[4] More generally, the presence of a sizable number of head offices in a city or region can help to forge a distinct "identity" or "brand" that reflects the nature and evolution of its overall business sector. Examples include Los Angeles (entertainment), Ottawa (high technology), and Houston (energy).

Symbolism can be important from the company perspective as well. Among other elements, the choice of head office location often etches a specific "corporate nationality" and style of doing business. The sale in 2004 of Glenmorangie Scottish Whisky to LVMH, a French luxury goods conglomerate, prompted the observation that despite both companies

[4] Heather Scoffield, "Takeover fears ring hollow – for now," The Globe and Mail, Toronto (June 27, 2006), p. B1; and Andrew Willis, "Street mourns loss of big caps," The Globe and Mail.,Toronto (June 27, 2006), p B8.

operating all over the world, Glenmorangie was essentially a Scottish company and LVMH a French one.[5]

Of course, the presence of head offices also matters in a substantive way, not just symbolically. "Head offices function as centres of command and control for corporations; they are often where key decision-makers are located."[6] There are sound economic reasons why cities, states and provinces are keen to host the headquarters of large firms. To begin with, head offices bring high paying jobs, both directly but also indirectly because they are an important source of demand for locally provided producer services – e.g., law, accounting, engineering, executive search, etc.[7] An analysis done for the BC government estimated that a $1 million increase in the output of the "head office sector" translates into 12 new jobs. The ratio of output/jobs is higher for head offices than for industries such as pharmaceuticals, motion picture and video production, and computer systems design.[8] Head offices act as anchors to the surrounding community by utilizing local suppliers, providing leadership and sponsorship of charitable organizations and the arts, and helping to establish business clusters of expertise and ideas.[9]

Indeed, the evidence suggests that the concentration of numerous head offices in a particular city or region often has a "cluster" effect, as corporate networks are formed, supplier industries develop tight linkages with headquarters operations, and ideas and best practices are shared among business leaders. These kinds of business clusters contribute to the development of vibrant communities.

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[5] John Kay, "The brands that are a matter of national interest," Financial Times London, UK (October 26, 2004), p. 19.
[6] John Baldwin and W. Mark Brown, Foreign Multinationals and Head Office Employment in Canadian Manufacturing Firms, Statistics Canada, catalogue 11F0022MIE—No. 034 (June 2005). p. 5.
[7] T. Klier and W. Testa, "Location Trends of Large Company Headquarters During the 1990s," Federal Reserve Bank of Chicago, Economic Perspectives (Second Quarter, 2002).
[8] PricewaterhouseCoopers, Cross Jurisdictional Survey: Report to the BC Ministry of Small Business and Economic Development. (March 31, 2005).
[9] Ian Heine, "The Loss of Head Offices in BC," International Financial Centre British Columbia Newsletter, (June 2006).

Attracting and Retaining Head Offices

According to one international benchmarking study, the top ten criteria used by companies to choose a head office location are as follows:

1. corporate tax advantages
2. availability of qualified managers
3. quality of life
4. central location
5. support of public authorities
6. personal preference of the CEO
7. international managers
8. international schools
9. labour flexibility
10. language skills

Fully 88% of respondents to the survey used to develop the above list described corporate tax advantages as a primary consideration in selecting a head office location. More than seven in ten cited the availability of qualified managers, while 69% pointed to quality of life as influential factors. Some 62% emphasized the advantages of a "central location" (which may be inferred to mean ease of access to transportation networks), while 55% referenced access to supporting services and institutions (e.g., high quality professional and business services and well functioning legal, social and economic institutions) as significant criteria in deciding where to establish a head office.[10]

These results contain useful insights for policymakers in BC and Greater Vancouver who want to encourage successful, growth-oriented businesses to locate (or keep) their head offices in the province/region. It is hard to improve on quality of life indicators, given BC's consistently high rankings in Mercer's annual worldwide Quality of Life survey as well as

[10] "Benchmarking of Global and Regional Headquarters in Switzerland – Insights into Headquarters Design and Location Selection," Arthur D. Little, 1st ed., March 2002, reported in PricewaterhouseCoopers, Cross Jurisdictional Survey: Report to the BC Ministry of Small Business and Economic Development (March 31, 2005).

surveys done by other international organizations. Although BC's corporate tax regime has become more competitive over the past few years, there is room to make additional changes that would have a positive impact on the development of a stronger head office sector.

As for the availability of human resources (qualified managers, a skilled and motivated workforce, sufficient numbers of post-secondary graduates, language skills, etc.), BC would appear to be in a reasonably good position. However, in some industries, including high technology, the difficulty of finding experienced management level personnel with key business-related skills and experience has been cited as a barrier to building successful technology companies from a British Columbia base.

The importance of having a "central location" probably means different things to different companies. A business focused on Asia-Pacific markets will be interested in well managed, accessible ports and excellent air links, while a company whose business is mainly concerned with the North American distribution of goods or services may view access to north-south telecommunications, rail and road links as more crucial. In this regard, moving ahead with the BC government's Gateway Program and its broader Gateway Strategy would likely help to foster a more attractive business climate for head offices in the Lower Mainland region. In addition, to maintain a viable central business district, the City of Vancouver would be well advised to refrain from any actions leading to a further loss of commercial office space in the downtown and adjacent areas.

Conclusion

The evident weakness of British Columbia/Greater Vancouver as a location for major corporate head offices and related employment is a concern, albeit one that is not easily addressed. The tax cuts and other policy changes implemented by the British Columbia government over the past several years have created a more competitive business climate and contributed to an impressive rebound in capital investment. Over time, the right public policies should help to convince many more BC companies to expand their operations here. That said, trying to lure back the corporate headquarters "lost" over the past 10-15 years is unlikely to be successful, for at least two reasons. First, most of these "lost" head offices have disappeared as a result of takeovers or mergers, not relocations. Second, large companies are generally wary of shifting their head offices because of the costs and disruption associated with making such a dramatic move.

There are few obvious solutions to the problem of an eroding head office sector. A necessary initial step is for public and private sector leaders to acknowledge that a problem exists. Beyond that, the provincial government should take the lead by creating a task force comprised of key business and government decision-makers to explore the issue and consider measures that might be adopted to improve the environment for the establishment and growth of head offices. A realistic strategy to strengthen and gradually re-invigorate BC/Greater Vancouver as a head office centre is likely to include a number of elements:

1) An increased focus on retaining large businesses currently based in the province/region.
2) Strategies to nurture the growth of successful mid-sized BC businesses that have the potential to reach significant size over time.
3) An assessment of how modifications in various areas of provincial tax policy could make the province a more appealing location for head office jobs.
4) Within Greater Vancouver, there is a need for initiatives aimed at marketing the region to external investors and corporate decision-makers. While several GVRD municipalities have their own economic development offices, Greater Vancouver as a whole has no region-wide activities or programs in place to promote the region a desirable location for high-value business operations, including head offices, or to compete for inbound investment by non-local firms. This is a significant competitive handicap considering the aggressive efforts being made by so many other North American urban regions – e.g., Phoenix, Houston, San Diego, Calgary, Edmonton, and Ottawa, to name only a few – to lure investment and develop new business.

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