



## Canadian Head Office Survey: How Do Metro Vancouver and British Columbia Stack Up?

### Highlights

- Statistics Canada's Annual Head Office Survey shows that Metro Vancouver has room for improvement if the region wants to "punch at its weight" compared to other major cities across Canada.
- Attracting new corporate offices, and growing more local firms into larger-scale businesses, would strengthen Metro Vancouver's and British Columbia's economic diversity and also create more high-paying jobs.
- Different levels of government and the business community have partnered to launch two recent initiatives aimed at increasing the corporate office presence in Metro Vancouver – and these have scored a couple of early "wins," suggesting that Metro Vancouver can compete on the world stage despite the disadvantages stemming from high housing costs and a lacklustre reputation as a global business centre.
- To build a stronger corporate sector, political, civic and business leaders need to collaborate to: establish a clear vision for the region, speak with one voice, address Metro Vancouver's reputation as a "high-cost jurisdiction" for companies, and overcome the perception in some quarters that Vancouver is "not a city for global business."

In October 2015, Statistics Canada released its Annual Head Office Survey.<sup>1</sup> Of the 2,773 head offices in Canada in 2013,<sup>2</sup> British Columbia was home to approximately 12% (in line with its share of the national population), while Alberta hosted 15%, Quebec had 20%, and Ontario boasted 40%. Quebec slightly underperformed relative to its population, Alberta out-performed, and Ontario performed in line with its share of Canada's population. This issue of *Policy Perspectives* reviews the Statistics Canada Survey,

comments on its implications for BC/Metro Vancouver, and offers a few thoughts on factors that contribute to a robust head office "ecosystem."

### 1. By the Numbers

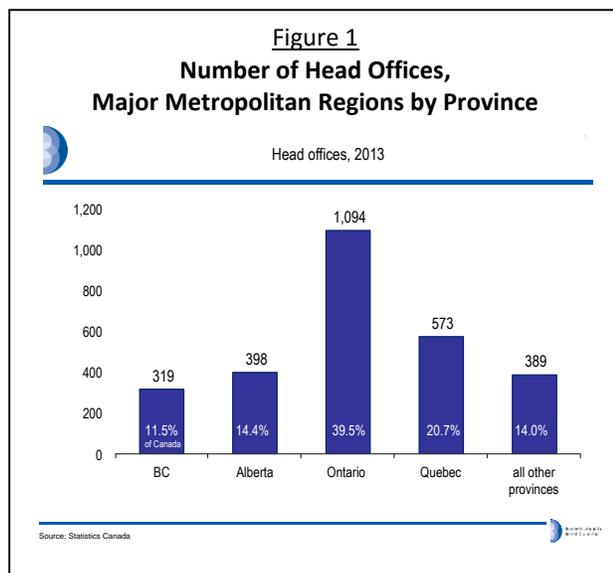
In general, the statistics on head offices don't change quickly: decisions by mid-sized and larger companies to relocate their core operations are comparatively rare. It follows that the Statistics Canada Survey, covering

<sup>1</sup> Head offices in Canada in 2013, based on 2011 census data (by Census Metropolitan Area – i.e. metro areas, not central business districts). Accessible via: <http://www.statcan.gc.ca/daily-quotidien/151026/dq151026c-eng.htm>.

<sup>2</sup> The definition of head offices in the Statistics Canada Survey is broader than the definitions used in other reports, such as the annual FP 500 publication.

head office numbers and employment from 2010 to 2013, does not point to significant shifts for any of Canada's major metropolitan regions over the period.

In terms of the main Census Metropolitan Areas (CMAs), Vancouver hosted 242 head offices in 2013, Calgary had 216, Montreal was home to 392, and Toronto had 702. As expected, head offices are concentrated in the country's leading commercial cities, although there is some dispersion around the host provinces: Metro Toronto accounted for 64% of Ontario's head offices (the lowest of the four major cities), while Metro Vancouver was home to 76% of British Columbia's head offices (highest of the four) – see Figure 1.



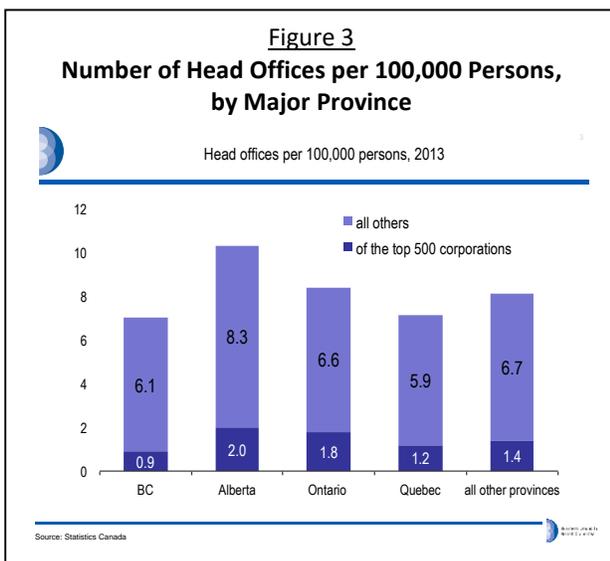
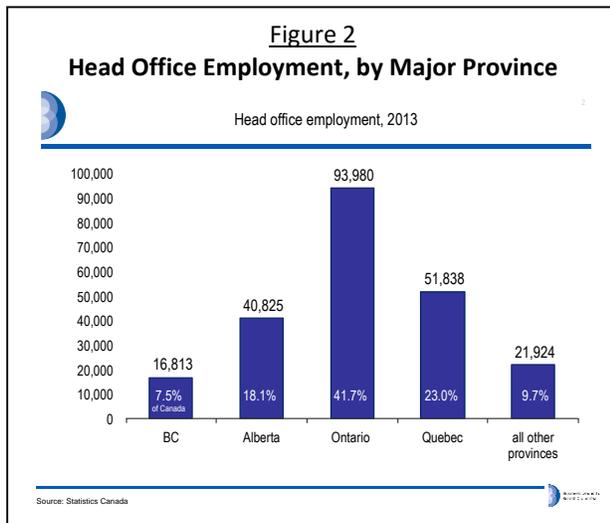
<sup>3</sup> Statistics Canada, Annual Head Office Survey, October 2015. Accessible via: <http://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=5089&Instald=113646&SurvId=97543>. Keith Head and John Ries, Sauder School of Business, University of British Columbia, "Head Office Location: Implications for Canada," 2008. Accessible via: [https://www.ic.gc.ca/eic/site/cprp-gepmc.nsf/vwaj/Head%20Ries.pdf/\\$FILE/Head%20Ries.pdf](https://www.ic.gc.ca/eic/site/cprp-gepmc.nsf/vwaj/Head%20Ries.pdf/$FILE/Head%20Ries.pdf).

### **What is a "head office"?**

For the purposes of its Survey, Statistics Canada defines a head office as "an operating entity which provides support services (accounting, legal, management, payroll, etc.) to other operating entities within the same enterprise." A broader definition is supplied in a study that was prepared for the federal government's Competition Policy Review Panel: "The role of head offices is to issue instructions to other units of a firm, coordinate production and sales activities, allocate resources, collect information, delegate tasks, and make the long-run, strategic decisions."<sup>3</sup>

Both definitions (see above box) imply that a head office is not necessarily a national or global "legal" headquarters, but rather a corporate office that supplies the support – and leadership – functions outlined above.<sup>4</sup> The breadth of these definitions, together with the geographic parameters of the overall CMA, help to explain the 200+ head offices present in Metro Vancouver in 2013. They also shape our thinking about what is achievable in terms of attracting and/or growing more head offices in the Metro Vancouver area. We suggest that the term "corporate offices" is appropriate for scoping the options that may assist in attracting new corporate jobs to Metro Vancouver.

<sup>4</sup> Combining this definition with the geographic boundaries of Census Metropolitan Areas (CMAs) used by Statistics Canada (which extend well beyond the urban core), means the net is cast wider and therefore captures more head offices. Caution should be used when comparing this data set to other sources, such as the Financial Post's previous survey of head offices, which used a narrower definition.



Head office employment varies across the country, both in raw numbers and proportionately (Figure 2). The good news is that BC head offices directly employed almost 17,000 people in 2013 (almost 15,000 in Metro Vancouver), a number that rose slowly over the 2010-2013 period (+1.5% per

year).<sup>5</sup> Unsurprisingly, Ontario led all provinces in head office employment, with ~94,000 head office jobs in 2013 (of which ~74,000 were in Metro Toronto).

The less positive news is that on head office employment, Metro Vancouver/BC noticeably lags other major provinces and metro areas. Whereas Ontario head office employment accounts for 41% of the national total – roughly in line with its share of Canada’s population – BC head office jobs amount to only 7% of the national figure, which is a full five percentage points below the province’s share of the national population.

Importantly, the Statistics Canada Survey reveals further gaps in the impact of head offices across the country: when measured as the rate of head offices per 100,000 people (Figure 3), BC punches well below its weight at seven head offices per 100,000 people, while Ontario had 8.4 and Alberta had 10.3.<sup>6</sup>

These findings affirm that British Columbia is predominantly a province of small businesses. The entrepreneurship, innovation and local economic impact that small businesses bring are beneficial to regions and local communities. However, the corporate offices of more substantial companies form the foundation of the “corporate ecosystem” that underpins most successful large cities and have a positive impact on the employment and income base

<sup>5</sup> 2010 is the first available year from this Statistics Canada data set.

<sup>6</sup> We note that the present economic setting and energy industry dynamics are sure to deal a blow to head office employment in Calgary. While we don’t expect to see a big reduction in the number of head

offices in Calgary, the energy downturn has worsened the employment picture there, which will impinge on the number of head office jobs in the city in the next few years.

of their host city-regions. Corporate offices located in urban areas typically pay quite well, attract and foster skilled workers, utilize the services and supply functions of related business and professional service firms in the jurisdiction, pay hefty taxes to all levels of government, and also contribute to the vibrancy of an urban region through philanthropy and sponsorship.<sup>7</sup> As the Conference Board of Canada has observed, the infrastructure of service providers and suppliers that develops to support significant corporate offices also fosters an economic environment in which locally-based medium-sized firms are more likely to grow and prosper.<sup>8</sup>

## 2. Factors in Attracting Head Offices – and How Metro Vancouver is Positioned

There are many economic and social reasons why civic and business leaders should want to attract new and grow existing corporate offices in Metro Vancouver. Experience from other cities and jurisdictions can be distilled to a common set of factors (or hosting conditions) that are necessary for a city-region to be successful in luring new – and growing local – corporate offices. Research by McKinsey & Company, the Conference Board of Canada, Industry Canada and others suggests that the most important factors include the following:

- A clear regional vision and well-defined and -executed investment attraction strategy.
- Aligned leadership by local business and civic leaders, acting as ambassadors for the city-region.
- A competitive overall business environment (tax burden, regulatory complexity, and immigration rules).
- Political and regulatory stability/certainty.
- World-class infrastructure (transport and telecommunications links), a high quality of life, and availability of good educational, health and financial/professional services.
- An effective investment promotion/attraction agency (ideally, a one-stop shop to communicate comparative advantage and facilitate investment).
- An available skilled workforce.<sup>9</sup>

Based on the Statistics Canada Survey results, and judged against the above list of factors, Metro Vancouver has some ground to make up if it wants to at least “punch at its weight” compared to major cities across Canada as well as in the United States.<sup>10</sup> Comparative data should be used carefully, as each city-region has unique character-

<sup>7</sup> Institute for Competitiveness and Prosperity, 2008. “Assessing the Economic Impact of Head Offices in City Regions.” Accessible via: [https://www.ic.gc.ca/eic/site/cprp-gepmc.nsf/vwapj/Institute\\_Competitiveness\\_Prosperty.pdf/\\$file/Institute\\_Competitiveness\\_Prosperty.pdf](https://www.ic.gc.ca/eic/site/cprp-gepmc.nsf/vwapj/Institute_Competitiveness_Prosperty.pdf/$file/Institute_Competitiveness_Prosperty.pdf).

<sup>8</sup> Conference Board of Canada, 2011. “Valuing Headquarters (HQ): Analysis of the Role, Value and Benefit of HQs in Global Value Chains.” Accessible via: <http://www.international.gc.ca/economist->

[economiste/assets/pdfs/research/TPR\\_2011\\_GVC/10\\_Bloom\\_and\\_Grant\\_e\\_FINAL.pdf](economiste/assets/pdfs/research/TPR_2011_GVC/10_Bloom_and_Grant_e_FINAL.pdf).

<sup>9</sup> McKinsey & Company, proprietary research, 2015; Conference Board of Canada, 2015, “A Head for Finance: Growing Financial Services Headquarters in Toronto.” Abstract accessible via: <http://www.conferenceboard.ca/e-library/abstract.aspx?did=6432>.

<sup>10</sup> Research has compared Metro Vancouver against a peer group (similar size cities in the western US,

istics – which in turn should be identified and promoted to highlight its comparative advantages. While Metro Vancouver scores quite well on some factors known to attract corporate offices (a high quality of life, solid infrastructure, a skilled workforce), there are several impediments as well. In our view, these include:

- A fragmented regional governance structure (including over the regional transportation network), which in practice has made it very hard to articulate and promote a clear regional vision that can appeal to local corporate decision-makers as well as to those elsewhere who might consider investing in the region.
- A complex tax structure, which in some respects is nonetheless reasonably competitive against other provinces in Canada.<sup>11</sup>
- A cumbersome immigration system that results in frustrating delays for permanent immigration classes (recent changes appear to be alleviating some of the backlog, and the Provincial Nominee Program has provided welcome and effective relief for some employers and prospective employees).
- A reputation as a high-cost jurisdiction for some sectors, compounded by the

perception that Vancouver is “not a city for global business.”

- A high cost of living, especially for housing, that hurts Metro Vancouver’s reputation in the eyes of many businesses and current/prospective employees.

These factors and others combine to inhibit Metro Vancouver’s appeal as a jurisdiction for head and other significant corporate offices. Some estimates put the value of the “opportunity lost” to the region in the tens or even hundreds of billions of dollars. Realizing even a small share of this potential value would strengthen Metro Vancouver’s economy and help to grow more high-paying jobs in the region.

### 3. What Steps Are Being Taken to Increase Head Offices/Corporate Offices in Metro Vancouver?

Fortunately, various levels of government and the province’s business community are alive to the economic and social benefits that come from expanding the corporate office presence in Metro Vancouver<sup>12</sup> and have collaborated to launch two recent initiatives:

- *HQ Vancouver* has a mandate to provide a one-stop shop to position Metro Vancouver as a desirable corporate

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plus Calgary, Montreal and Toronto) and found that Vancouver ranked last on market capitalization of its largest publicly traded company (in CAD).

Additionally, it found that Vancouver’s composition today limits head office employment growth because many locally-based companies are resource firms with limited local operations, while others have a split presence with other cities.

<sup>11</sup> Corporate and payroll taxes in BC/Metro Vancouver are quite competitive with other

jurisdictions. But sales taxes (including on capital inputs) and energy input taxes are generally higher in BC.

<sup>12</sup> While our focus here is on head/corporate office attraction to Metro Vancouver, other agencies such as *AdvantageBC* have operated for some time to attract international business in general to British Columbia.

office location, and to market and attract more business from the Asia-Pacific region.

- *Vancouver International Maritime Centre* (VIMC) has a more focused mandate to promote Metro Vancouver's advantages as a global shipping hub and attract international shipping interests to the city-region.

Both initiatives have had early "wins" in securing new corporate offices. Over time, they may help to position Metro Vancouver on the global stage as a competitive and appealing place to establish (and grow) a corporate presence in certain industries.

The early successes of HQ Vancouver and VIMC suggest that Metro Vancouver can compete on the world stage as a location for head and other corporate offices. To fully capitalize on the opportunity, political, civic and business leaders should work to address the impediments listed above. Resolving (or mitigating) some of these impediments would bolster Metro Vancouver's ability to attract more corporate offices from elsewhere. As importantly, tackling the barriers to new corporate investment would also improve economic conditions so that as local small and medium-sized businesses grow into larger ones, more of them will want to keep their head offices and core management teams here at home.

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