THE HOLLOWING OUT OF CORPORATE CANADA?

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This paper is part of the public domain series exploring and mapping this incipient concept of political economy and its relevance to public policy making at a time of globalization.

The business corporation -- seldom used by 19th century business -- became the indispensable and characteristic institution of capitalism during the 20th century. In the specific context of globalization, transnational corporations hold sway as objects of admiration and fear, as repositories of vast power and wealth,[2] and especially as dominant actors in the construction and operation of markets. These corporations claim credit -- and are assigned blame -- for world-wide flows of trade, investment, technology, products and ideas and for consequential changes in society, culture, politics and the natural environment. Without the transnational corporation, globalization is almost unthinkable.[3]

The impact of globalization on specific places and populations is very much tied to the particular aspect of corporate activity with which they are associated (Storper 1993). Traditional *entrepôts* such as Singapore, the degraded *maquiladora* zones of Mexico, and born-again Welsh manufacturing towns are very different from each other and from the high-skill, high-trust production centers of Emilia-Romagna. Thus, transnational corporations can be viewed as institutions (Robé 1997; Muchlinski 1997) whose governance structures, deliberative processes, business practices and market decisions not only produce the aggregate effects which we call the global economy, but as well the Alocalized globalisms@ (Santos 1995) experienced by particular communities and their populations.

At the same time, transnational corporations are neither immune from these aggregate effects nor immutable in the face of them. New technologies of production, distribution and communication, liberalized trade regimes and deregulation are changing not only how corporations operate but how they are governed. Changes in governance structures, in turn, have particular consequences for Aglobal cities@ like London, New York or Tokyo, with their characteristic concentrations of corporate head offices and of the specialized service enterprises which support them (Sassen 1994). Moreover, the growing concentration of corporate power in these global cities has potential implications for other communities quite distant from them, which are experiencing a commensurate Ahollowing out@

of their corporate cadres. This chapter uses the experience of Canada to explore the possibility that by intensifying concentrations of economic power within and around transnational companies, globalization may directly and indirectly contribute to a Ahollowing out@ not only of business communities but of cities, regions and countries around the world.

THE CHANGING GOVERNANCE OF TRANSNATIONAL CORPORATIONS

Lawyers and economists tend to perceive the corporation as simply Aa structure through which production is made to occur,@ as a Anexus of contracts,@ as a rational economic actor or as a disembodied juridical person pursuing profit under the direction of a single intelligence (Flannigan 1995). By contrast, Galbraith argued decades ago that a corporation is Aa large and complex organization [in which] individuals align themselves with its goals in response to diverse motives@ (Galbraith 1967:149). His definition enables us to see the corporation as a site of multiple intelligences and competing Arationalities,@ of ongoing contestation and tenuous cooperation between holders of debt and equity, between shareholders and other Astakeholders@ such as workers, between management and directors, and amongst members of its Atechnostructure@ with differing degrees of influence on the central direction of the company and differing mandates and technical skills (Galbraith 1967). At some level, all these groups and individuals share a commitment to the corporation=s financial success, but they compete for power and influence within corporate structures, and favour corporate strategies which incidentally enhance their own financial prospects, careers or human capital. This insight also surfaces in studies of organizational change (Mastenbroek 1993), industrial innovation (Wiseman and Gomez-Mejia 1998), responsibility for corporate wrong-doing (Lee and Sanders 1996), labour relations (Burawoy 1979; O Connor 1997) and the effects of national culture on transnational management (Jackson 1993; Kustin and Jones 1995).

The ensuing variability and volatility in decision-making poses a special problem for large, transnational corporations. Such corporations usually comprise a *congeries* of units, each with its own history, mandate and managers. Some of these units may have been designed to deflect regulatory, anti-trust or tax laws; others may have emerged from financial manœuvres such as leveraged buy-outs; and still others may have been defined in terms of product, function or geography. Some may be organized as departments or divisions within the corporation=s Acore@ organization; others -- for various reasons: to facilitate specialization and flexibilization, to enhance accountability and competitiveness, to access particular supplies or penetrate specific markets -- may function as subsidiaries. And all of these may be linked in turn to a network of suppliers and distributors, corporate allies, franchisees and licensees, partners and co-venturers, some genuinely autonomous enterprises, others merely the *alter ego* of the firm itself.

This dispersal and complexification of corporate functions and structures obviously creates a problem of integration and coordination. In a superficial sense, the problem has been addressed by the development of advanced communications technologies which facilitate the movement of information from the corporate periphery to the center, and of detailed direction from the center to the periphery. However, technology does not invent or deploy itself. It is adopted because it performs some necessary or desired function; and once adopted, it is likely to bring about significant changes in management strategies and structures.

Thus, the ultimate resolution of the problem of coordination and integration is, indeed, found in the realm of corporate governance. Conventional wisdom once favoured the Acontrol@ model: the board and senior executives of the parent company were perceived as the directing intelligence -- the technologically-enhanced Abrain@ of the extended corporate family -- making use of defined mandates, hierarchical reporting relationships and performance measures to direct, coordinate and integrate the activities of all core and subsidiary units, as well as those of external organizations such as suppliers, vendors and partners.

By contrast, more recent management theories (Hoffman 1994) argue that technology makes possible -- and globalization makes necessary -- leaner, less hierarchical, more Ahetrarchical@ and reflexive organizations in which considerable authority is devolved to units and partners. Adherence of the components to the organization=s overall goals -- they contend -- is to be achieved by Anormative means [transmitted] through corporate culture@ (Sölvell and Zander 1995: 26) rather than by explicit commands, as in the Acontrol@ model. This more flexible model of management envisages a more Astrategic@ relationship in which corporate headquarters, widely-dispersed functional service units, subsidiaries, and outside firms are all linked through strategies of Acomplex integration@ (UNCTAD 1994: 139-140).

However, it is not at all clear whether, and to what extent, these new management theories have taken hold. Undoubtedly, flexibilization and globalization did generate a new logic of intra-firm governance. Down to the 1970s and 1980s, most subsidiaries of transnationals -- Ford (United Kingdom) or GE (Canada) -- were Alocal implementers@ or Aminiature replicas@ of the transnational itself (Birkinshaw and Morrison 1995). They produced a variety of goods and services, raised capital from local investors, reported to their own boards of directors, supported a significant management cadre responsible for functions ranging from human resources to production to marketing, and often developed their own networks of local subsidiaries and contractors. True, we must be careful not to apply too much gilt to this particular lily: for good reasons Abranch plants@ acquired a pejorative connotation in host countries such as Canada. AMiniature replica@ subsidiaries seldom undertook their own research and development (R&D), produced a full range of product lines, or enjoyed complete financial autonomy. Their presidents and senior officers -- individuals of some importance in the host country -- were not necessarily influential within the parent firm; their boards -- mostly appointees of the parent transnational, the subsidiary=s dominant shareholder -- usually had to acquiesce in decisions emanating from the parent board or its proconsul, the president of the subsidiary. Nonetheless, for all their limitations, semi-autonomous Aminiature replica@ subsidiaries were a powerful presence in the local corporate community and in the host country more generally.

More recently, however, the attraction of Aminiature replica@ subsidiaries has diminished and their numbers have dwindled. Parent transnationals have rationalized and restructured their operations in order to achieve efficiency gains through a new division of labour, by which subsidiaries each produce a narrow range of products in large numbers for world or regional markets (Morrison, Ricks, and Roth 1991), rather than many products in small numbers for local consumption. In many cases, indeed, subsidiaries were restructured, so that they could function as Aspecialized contributors@ of particular components destined to be incorporated into products made or assembled elsewhere.

By creating narrowly-mandated and Aspecialized contributor@ subsidiaries, transnationals sought greater coherence and more complex integration of local and transnational managerial functions. It could hardly be otherwise. The international division of labour implied its ultimate re-integration. The activities of Aspecialized contributors@ to an integrated product line ultimately had to be closely coordinated with those of the other contributors. Subsidiaries with world or regional product mandates had to live within them, geographically and functionally, so that they would not impinge on the mandates of other units. All parts of a transnational company had to adhere to financial targets and maintain quality standards, in order to avoid threatening the stability and reputation of the rest. For all of these reasons, transnational corporations had to seek greater coherence amongst, and integration of, their constituent units.

The new logic of globalization also required a change in the governance of what were formerly Aminiature replica@ subsidiaries. These subsidiaries were until fairly recently organized as publicly-held Anational@ companies whose relative autonomy was emphasized, symbolically and functionally, by the presence of a significant body of local shareholders, local boards of directors, and CEOs with a considerable degree of authority. But as autonomy has increasingly come to be seen as counter-productive, many of these companies have been wound-up and either closed down altogether or reconstituted as private companies wholly-owned by the foreign parent or one of its proxies. And even where economic logic or political expediency has required that the previous formal structure of a particular subsidiary should be preserved, it is likely to operate with reduced autonomy, a smaller, less powerful executive cadre, and a more limited repertoire of managerial and technical functions.

A commensurate change in the managerial culture of transnational corporations seems likely to ensure. In the new dispensation, local managers of subsidiaries must learn to become more responsive to the corporation's global aspirations, strategies and interests, and less so to those of their particular unit -- even if it means putting their own personal interests at risk. This may entail, for example, disclosing to the parent company their special knowledge of local conditions (Holm, Johanson, and Thilenius 1995) -- the source of their indispensability as managers -- or performing such self-effacing assignments as downsizing or closing their own operations. One might expect that in return the central direction of transnationals would respond more sensitively to local interests, sensibilities and ways of doing business. But the contrary is often true. With few exceptions,[4] transnational companies remain closely identified with their country of origin. Their global boards of directors continue to be almost entirely composed of appointees from the home country,[5] and very much attuned to its interests (UNCTAD 1994:146), and management styles from the home country to a surprising degree continue to shape those of foreign subsidiaries (Kustin and Jones 1995).

To recapitulate, changes in manufacturing technology and flexibilization strategies have indeed made possible the rapid adjustment of output to changing markets and new manufacturing techniques, and have facilitated cost-effective spatial and functional divisions of labour, economies of scale and the pursuit of comparative advantage; but they have also narrowed the range of activities conducted in any particular location, and subordinated each to the discipline of a collective bottom line. Changes in communications and information technology may have made possible the wider dispersal of corporate activities; but they have also extended the reach of head office control. Changes in management theory may have revealed the logic of leaner, less hierarchical, more reflexive organizations; but management practice has, in many respects, become more centralized. And the rhetoric of networks, co-ventures, alliances and partnerships has conjured up the possible dawn of a new era of corporate comity and interdependence; but the reality is that flexibilization, enshrined in onerous relational contracts, has made smaller enterprises intensely vulnerable to the variable requirements of larger ones (Macneil 1980: 72 ff; UNCTAD 1994: 138 ff; Schanze 1991; Storper 1992). In short, transnational corporations seem less to have adopted new and open management cultures or more supple, disseminated institutions of governance than to have reinforced the centripetal forces already at work within the old, hierarchical arrangements.

Why does this matter? Perhaps -- as the conventional wisdom contends -- globalization and flexibilization will enhance the profitability of transnationals, and the prosperity of at least some host communities, managers, workers and suppliers; perhaps some of that profit will drift out to the periphery of the corporation rather than accumulating at the center. But the restructuring of corporate governance, the increase of power at the center, is not a neutral fact. The enterprise as a whole may profit; some of its subsidiaries may prosper in the short- to mid-term; but the parent corporation=s directors and executives have assumed tighter control of its subsidiaries with the specific objective of generating Anew@ corporate behaviours and Aimproving@ corporate results. They are, at least to some extent, people working within different frames of reference, national and local contexts, corporate-cultural environments, and reward structures. Their notion of what is Anew@ and Aimproved@ will almost certainly differ from that of the dismissed directors and disempowered managements of restructured subsidiaries. And the effects are likely to be experienced by the host communities and countries whose fortunes wax and wane with the arrival or departure of transnational corporate activity, jobs and taxes.

THE LOCAL CONSEQUENCES OF CHANGES IN CORPORATE GOVERNANCE: THE IMPACT ON PRODUCER SERVICES

Of all the possible effects, none are more explicitly related to the restructuring of corporate governance than those involving so-called Aproducer services.@ As Sassen (1995: 778) has argued, Athe more globalized the economy becomes the higher the agglomeration of central functions.@ A limited number of cities, she says, Aconcentrate the infrastructure and the servicing that produce a capability for global control. The latter is essential if geographic dispersal of economic activity ... is to take place under continued concentration of ownership and profit appropriation@ (1995: 778-79). Corporate head offices thus tend to function as economic nuclei, around which cluster providers of advanced and specialized producer services -- consultants, lawyers, accountants, software houses, designers, advertising agencies -- whose physical proximity to head office facilitates efficient interaction (Sassen 1994; Daniels and Moulaert 1991; Daniels 1993; Medcalf 1996).

Moreover, these producer service providers and their corporate clients are not merely key actors in the global economy; they comprise an affluent and dynamic segment of the local economy, a rich market for local enterprises, reaching right down the Afood chain@ to low-paid domestics and restaurant workers (Sassen 1994). Consequently, the arrival or departure, expansion or contraction, of global and regional head offices -- the specific and tangible consequences of reorganizing corporate governance -- implicates a Aspace economy@ which differs in important ways from that associated with, say, manufacturing or distribution operations (Sassen 1995).

ALocalized Globalisms@: The Canadian Case

If this three-fold process of consolidation is occurring -- consolidation of corporate control, of head office functions, of producer services -- one might expect that its consequences would affect Canada in particularly dramatic fashion. Much of Canada=s wealth is owned by foreign -- especially American -- investors,[6] and many of its largest corporations[7] are actually subsidiaries of transnational corporations based abroad, principally in the United States.[8] Moreover, Canada=s economy is heavily dependent on international trade,[9] a very high proportion of which is with the United States[10] and takes the form of intra-firm transactions.[11] And finally, integration of the two countries is proceeding apace at many levels (Arthurs 1998), facilitated by the North American Free Trade Agreement (NAFTA) and other regimes which have liberalized the rules for transnational trade and investment.

This process of integration provides the context within which corporate consolidation is occurring (Grinspun and Cameron 1993). It is a context fraught with risks. On the one hand, relatively few large transnational companies are Canadian-owned;[12] it is therefore unlikely that they represent the means whereby Canada will regain on the home-country swings what it loses on the host-country roundabouts. On the other, the Canadian federation -- one of the most decentralized in the world -- seems unwilling or unable to muster the will or mobilize the means to reduce its exposure to the consequences of business decisions initiated by foreign companies. Consequently, transnationals are, and likely will be for the foreseeable future, a dominating presence in the economy. Because they and their subsidiaries are employers, taxpayers, purchasers of goods and services, shapers of market behaviour and popular culture, political actors, and contributors to charities and civic culture, their three-fold consolidation is almost certain to have profound social, economic and political effects within Canada.

The restructuring of Canadian subsidiaries of transnational corporations

Considerable, but incomplete and somewhat anecdotal, evidence suggests that two related trends have indeed developed. First, changes in the governance of foreign-based (and especially American-based) transnationals have led to a corresponding decline in the autonomy, range of functions and actual numbers of their subsidiaries. Second, as predicted, these corporate changes may be affecting the market for producer services in cities where regional head offices tend to be located, such as Toronto, Montreal, Calgary and Vancouver (Sassen 1994: 82-85; Hutton and Ley 1987; Michalak and Fairbairn 1993; Coffey and Sheamur 1996). Before examining this evidence, however, it is important to understand the legal context within which subsidiaries operate.

(a) The legal context for Canadian subsidiaries of foreign-based transnationals

Canadian law imposes few constraints on the corporate structures through which foreign-based transnationals do business. For example, in Ontario -- the country s commercial heartland -- a company incorporated abroad may obtain a license as an Aextra-provincial@ company with only minimal formalities.[13] Even this small inconvenience can be avoided if the foreign company chooses to operate from its base abroad -- for example, American border cities -- and merely export goods to Canadian customers.[14] Nor do adverse tax consequences of any significance attach to firms doing business in Canada without incorporating there.[15] Only in a few policy-sensitive sectors -- financial institutions, insurance, transportation and communications -- are there specific requirements for a Canadian corporate identity, and for predominant local shareholding,[16] and these requirements may soon be outlawed by some future version of the proposed Multilateral Agreement on Investment.[17]

Nonetheless, foreign transnationals doing business, producing goods or offering services in Canada have usually incorporated subsidiaries for that purpose. There were reasons to do so in earlier times: tariffs and other government policies gave advantages to industries which could identify themselves as ACanadian;@[18] and practical difficulties of transportation and communications argued for the creation of local management structures empowered to conduct business without frequent reference to a foreign head office. Then, as these original reasons for incorporating became less important, a new set of factors came into play. Subsidiaries might have better knowledge of local market conditions, media relations and labour practices. They might be better able to deal with governments and regulatory agencies, and to identify suppliers and attract customers. They might even attract a cohort of local investors not readily available to foreign transnationals, or gain access to capital or subsidies provided by financial institutions and governments to Canadian companies. And finally, in some cases at least, establishing a subsidiary might facilitate access by the parent transnational to other foreign markets (Anderson 1987).

Of course, like domestic firms, transnationals which opted to incorporate a subsidiary could choose amongst several structures: a wholly-owned private company, a public company in which the foreign parent was the dominant shareholder, a widely-held public company in which the parent=s holdings were relatively dilute, or a joint venture or partnership with another firm. In recent years, however, trade liberalization, globalization and regional economic integration have redrawn the map of corporate responsibility and reporting. Many manufacturing subsidiaries -- which formerly served the Canadian market as Aminiature replicas@ of their parent firms -- now operate under world or regional mandates (Litvak 1990; 1993). Using improved communications technology, head offices now can (and do) exercise close control over Canadian finance, sales or human resources functions. The growth of electronically-accessible global capital markets has diminished the need for stocks to be listed on Canadian exchanges. And deregulation and tax reduction -- proceeding apace everywhere (Arthurs 1996b) -- have made local political sensitivity and influence less crucial to corporate decision-making. For all of these reasons, many foreign-based transnationals operating in Canada have opted to subordinate, simplify, even eliminate, the governance structures of their subsidiaries.

Formal corporate structures are often altered: many transnationals acquire 100% ownership of their publicly-held subsidiaries; public companies are converted into wholly-owned private companies -- Ataken private@ in the parlance of the trade; the numbers of directors on subsidiary boards are reduced; and outside directors are replaced with insiders who are themselves officers or directors of parent firms. And, it appears, in addition to, or in lieu of, formal restructuring, parent firms informally tighten control over their subsidiaries by redefining their mandates, reducing the authority, status, and number of their executives or transferring key subsidiaries to head office. Each of these strategies will be explored below.

(b) The declining local character of foreign-owned subsidiaries: a preliminary study

Using widely-accepted lists of leading Canadian corporations,[19] as well as returns under the *Corporations and Labour Unions Returns Act* (CALURA),[20] I have undertaken a study of the largest 115 subsidiaries of foreign-based transnationals in 1985 and 1995. During this decade, the incidence of transnationals within the top echelon of companies declined somewhat. In 1985, the 115th-ranked subsidiary of a foreign-based transnational was 265th on the list of leading companies; in 1995, it was 299th. However, this does not indicate that foreign transnationals in the aggregate were any less dominant in the local economy, in terms of their income or the value of their investment (Statistics Canada 1997); indeed, it may simply indicate that, since the advent of the FTA/NAFTA, some transnationals have begun to serve Canadian markets by simply shipping goods across the border rather than by producing and distributing them through a Canadian subsidiary.

However, the character of subsidiaries of foreign transnationals changed considerably in the ten years after 1985. In 1985, 47.8% (55) of the top 115 foreign-owned subsidiaries were specifically identified as privately-held. In addition, a further 20.8% (24) whose public or private status was not specified were listed as being owned 100% abroad, presumably by a parent transnational firm. Thus, in total, 68.6% (79) of these companies had no Canadian shareholders. By 1995, 94 of the top 115 subsidiaries were specifically identified as privately held, while a further three, described as public companies, were owned 100% abroad, again presumably by a foreign transnational; in all, 84% (97) had no Canadian shareholders.

This impression of the increasing privatization of leading firms, and of their diminishing local ownership, is confirmed by tracing the metamorphosis of the top 115 firms from 1985 through to 1995. Of the 115 top foreign-owned subsidiaries in 1985, 45.2% (52) did not appear on the 1995 list of leading firms. Of these, 24.3% (28) were still operating, but were producing revenues too low to merit inclusion on the list. No information was available on two firms. The remaining 19.2% (22) disappeared from the list because they had experienced some sort of corporate transformation, as had a further 8.6% (10) which appeared on both the 1985 and 1995 lists. In all, 27.8% (32) of the 115 foreign-owned subsidiaries on the 1985 list went through a corporate transformation: 16 were converted from public to private companies, six were dissolved, 11 were amalgamated with privately held companies, and one was amalgamated with a public company.[21]

Nor was a change in corporate form the only indicator of increasing control by foreign transnationals of their subsidiaries. A change in the composition of the boards of directors of subsidiaries also occurred. Overall, companies which had been reorganized during this decade -- for the most part, by being taken private -- reduced the size of their boards by roughly half, from an average of 10.3 directors per company in 1985 to only 5.17 in 1995. The number of outside directors on their boards fell even more dramatically.[22] All of these companies had outside directors in 1985. By 1995, 55% (15) of those surviving had completely eliminated outside directors, and 28% (8) companies which had retained outside directors had reduced their complement from an average of 4.9 in 1985 to an average of 2.8 in 1995. On average, each company still-surviving from 1985, but reorganized and/or privatized, appointed only one external director in 1995.[23]

One must be cautious in drawing conclusions from these figures. However, comparison between major subsidiaries which were restructured and those which were not underlines the point. On average all major subsidiaries had boards comprising 8.57 directors in 1985; by 1995 that average had fallen to 6.68; on average they had 3.25 external directors in 1985, but only 2.35 in 1995. But as noted above, those which had been reorganized had even fewer directors, and considerably fewer external directors, than those which had not.

Because these companies were foreign-based transnationals, an attempt was made to identify the residence of board chairs, directors and CEOs in order to determine whether more direct personal control was being asserted over subsidiaries by the senior officials of their parent firm. Despite some gaps in the data, and recalling the overall reduction in both the size of boards and the presence of external directors, we can nonetheless draw some conclusions. From 1985 to 1995, while most directors were still Canadian residents, there was a discernible increase in the percentage of non-resident external directors -- from 9.36% in 1985 to 16.6% in 1995; however, there was hardly any change in the percentage of non-resident internal directors - 36.8% in 1985 as opposed to 37.8% in 1995. Likewise, there was a significant increase in the percentage of board chairs resident abroad -- from 36% in

1985 to 44.6% in 1995, although only a handful of these were from outside the company. Finally, while 92.5% of subsidiaries had a resident CEO in 1985, that number had declined to 86.6 % in 1995.

In sum, the data suggest that during the decade 1985-1995, a modest trend developed to appoint more non-resident directors, chairs and CEOs. It would be fair to assume that, to this extent at least, parent transnationals increased their control over subsidiaries. However, this development was overshadowed by the more striking trend toward smaller boards generally, the reduced presence of external directors, and especially the virtual disappearance of external directors from the boards of companies which had been taken private or otherwise restructured. To the extent that external directors once represented a potential source of power and influence in corporate decision-making, their ability to shape the destinies of subsidiaries of foreign-owned transnationals appears to have diminished considerably.[24] This last is subject to an important *caveat*: an extensive literature testifies to the difficulty generally encountered by directors (and shareholders) in seeking to control management (Berle and Means, 1968; Ziegel *et al*. 1994, c.5). Finally, the elimination of Canadian shareholders and directors from subsidiaries which have been taken private may well engender several adverse consequences on a broader scale: reduced portfolio choices and profits for Canadian investors, reduced exposure to advanced management techniques for local managers and directors and arguably, in the absence of local scrutiny, inflated dividends, management fees and other exactions paid by wholly-owned subsidiaries to their foreign parents (Sadeque 1991).

These developments reignited a debate over 1975 federal legislation requiring that the majority of a corporation=s board and of each board committee be resident in the country.[25] The issue is, of course, whether the residence (or, for that matter, the nationality) of a subsidiary=s directors or senior executives affects its behaviour vis-à-vis its employees, customers, suppliers, the communities in which it operates or its parent firm. A parliamentary committee expressed Aagreement with the view that a company operating in Canada should have a Board that will provide a Canadian perspective on issues that are discussed in Board deliberations@ and recommended retaining the residency requirement for the Board itself, although not for its committees (Senate of Canada 1996). However, several academic commentators contend that there is little correlation between the nationality or residence of directors and CEOs and their performance (Morck and Yeung). Indeed, Daniels and Halpern have urged that Athe absence of artificial entry barriers@ to corporate office holders in Canada should be viewed in a positive light Aespecially when differences in the home and host country environments are relatively insignificant@. Subsidiaries, in their view, have no need of a senior echelon of resident managers or directors; their corporate structures could be streamlined; and their conversion from public to private companies would enable them to make efficiency gains through the de-layering of management structures, and reduced filing, accounting and legal fees. So considerable are these potential savings, they argued finally, that protection for Canadian minority shareholders against the consequences of privatizing such subsidiaries should be limited, lest this Aretard the timely rationalization of dysfunctional organizational structures@ (Daniels and Halpern 1996). On the other hand, some academic commentators are less sanguine about entrusting the country s future to the unmediated self-interest of foreign-based firms (Courchene 1996: 208) and favour public policies which might resuscitate corporate Canada (Gillies 1992) -- if indeed it is possible to do so in the face of opposition or non-cooperation from global investors and transnational corporations.

(c) Informal shifts in the structure of power within foreign transnationals

As suggested above, transnationals appear to be reducing the autonomy of their subsidiaries, even without altering their formal structures, although this is difficult to document. A narrower mandate for the subsidiary, reduced power and responsibility devolved to its executives, less scope for locally-generated business initiatives, or the centralization of key functions such as R & D, may in fact be signs of diminished autonomy for the subsidiary, but will seldom be announced as such. Nor is it easy to detect or interpret more subtle indicators such as the seniority or personal reputation of the CEO appointed to run a subsidiary, the likelihood that that individual will be promoted to higher office in the parent firm, the reporting lines and required levels of approval which link the subsidiary=s senior executives to their counterparts in the transnational. It is even difficult -- without detailed case studies -- to determine whether, in a specific case, the Ahollowing out@ of a subsidiary results from the parent firm=s desire to consolidate and rationalize its global operations, or its wish to reduce its governance costs by Adelayering@ management.

However, acknowledging all these difficulties of evidence and evaluation, informed observers do detect a fundamental shift in the formal and informal governance structures of subsidiaries. For example, a 1994 survey of CEOs of Canadian foreign-owned subsidiaries reports that a significant number (over 40%) -- especially those in the high tech manufacturing sector, in larger firms and in firms with US-based parents -- perceived that during the past five years, their autonomy had been diminished, and that they had been subjected to closer oversight by the relevant operating division of their parent firm. These changes were often accompanied by an redefinition of the company=s mandate, from purely Canadian to continental or global markets (Rhéaume and Warda 1995).

Academic research and anecdotal evidence reinforce the survey results. For example, case studies of efforts by subsidiaries to expand their mandates reveal, on the one hand, that aggressive pursuit of extended mandates by Canadian executives might sometimes succeed, but also that they would often be frustrated by head-office directives and the competing claims of other units, particularly those located in the United States (Birkinshaw 1995a). Newspapers have reported the resignation of the external Canadian directors and the CEO of a Canadian subsidiary in protest against the reduction of the subsidiary=s autonomy by the parent firm (Schreiner 1995), the less frequent appointment of Alocals@ to senior executive positions in Canadian subsidiaries, with parent transnationals Apreferring to call the shots from US headquarters@ (Milner 1994) and other manifestations of Athe absolute faith of the US parent in its central position within the global constellation@ leading to Aa fundamental lack of concern about the differences between the United States and Canada@ (O=Neil 1996).

(d) The effects of diminished subsidiary autonomy on corporate behaviour and public policy

Do these changes in the formal and informal governance of subsidiaries actually alter their behaviour? If so, are the changes positive or negative? And if negative, what public policies might provide an effective response?

On the one hand, it would be unwise to overestimate the potential autonomy of any subsidiary, whatever its formal relationship to its parent transnational, whatever its management culture. The parent company is almost always the dominant, if not the sole, shareholder in the subsidiary, and its nominees -- increasingly Ainside@ directors -- are almost always able to control board decisions. In the event that outside directors exhibit unseemly independence, the parent firm can replace them, take the subsidiary private or wind it up altogether. Senior executives of the subsidiary are usually appointed by the parent company, directly accountable to its officers and dependent upon them for career advancement. And operations of the subsidiary are often directly controlled by the transnational parent through contractual arrangements covering intellectual property, the supply of key parts and machines, product mandates, finances and other matters. In short, the subsidiary will almost always act in response to the directions of the parent firm.

But the issue, in reality, is not whether the subsidiary can act in contravention of its mandate, or against the wishes of its parent, but rather how the subsidiary can win the approval of its parent for its initiatives, how it can influence the parent=s decisions to invest or disinvest, how it can become a more significant actor within the overall transnational organization, and especially how it can secure a wider margin of discretion to make decisions locally instead of referring them to head office. This latter point is especially important, as it speaks to the high volume, low visibility executive judgments which shape the character and profitability of the subsidiary -- local sourcing of goods and services, sales strategies which take account of local market conditions, industrial relations policies which reflect local law and practice (Kumar and Holmes 1997). Such interstitial judgments, indeed, are particularly likely to reflect a tendency by local executives to internalize the values, customs and style of the host country (Drache 1994; Milkman 1991), a well-known phenomenon amongst diplomats who, for this very reason, are regularly reassigned from country to country and from foreign to domestic postings.

It is not that an ardent host-country nationalism will necessarily corrode strong corporate loyalties or subvert corporate plans. On the contrary: utilization of local methods, vocabularies and contacts may be the best way, in specific contexts, to achieve the transnational=s goals. However, even when recast in these more modest and potentially positive terms, the capacity of subsidiaries to influence decisions of the parent transnational must surely be declining. In this current phase of globalization, the Aleverage@ of their directors and senior officials -- their Canada-specific knowledge and influence -- is a wasting asset. To the extent that global capital markets have diminished the importance of access to local financing, external directors are no longer needed to reinforce the company=s credibility with local banks and pension funds. To the extent that NAFTA, the GATT and ultimately the MAI have erased tariffs and diminished other disadvantages for foreign firms, the need for local directors to influence government policies diminishes. To the extent that improved communications technology allows the parent to monitor more closely the performance of its subsidiaries, the oversight functions of the subsidiary board are arguably made redundant. To the extent that marketing is now undertaken by means of transborder advertising prepared by American advertising agencies and disseminated by American television and magazines, Canadian managers need no longer concern themselves with such matters. These facts may explain why as transnational corporations alter their governance structures, to reinforce centralized control and diminish the autonomy of their subsidiaries, ACorporate Canada@ -- the community of directors and senior executives of Canadian domestic corporations and foreign-owned subsidiaries -- is being Ahollowed out@.

CONCLUSION:
DOES THE AHOLLOWING OUT OF CORPORATE CANADA@ ADVERSELY AFFECT ANYONE OTHER THAN MEMBERS OF A HIGHLY PRIVILEGED BUSINESS ELITE?

If we accept the rigorous logic of trade liberalization and continental integration, Canadians should generally benefit from the country=s unique form of Alocalized globalism,@ which makes it so easy for transnationals in effect to treat their disempowered subsidiaries, in Canada and elsewhere, as an integral part of their Ahome country@ operations. These subsidiaries can operate with minimal corporate structures, minimal requirements to adapt to local laws and labour markets, and minimal inconvenience in terms of socio-cultural and physical distance. They can often secure *de facto* subsidies -- for example health care, training and improved infrastructure -- which lower the costs of production. They can restructure their Canadian operations to achieve continental economies of scale with relatively little risk of political or regulatory reprisals, especially now that their subsidiaries enjoy privileged access to the American market under NAFTA. If these advantages lead transnationals to increase investment in their Canadian subsidiaries, if those subsidiaries acquire more extensive facilities, a greater share of global production, new technologies, and improved job opportunities, the economic benefits can be expected to trickle down to employees, suppliers and local communities.

However, such potentially positive results -- which are by no means guaranteed, and which did not materialize during the first half of the 1990s (Merrett 1996) -- must be balanced against possible negative consequences, many of which flow from the Ahollowing out of corporate Canada.@ Less autonomy and less leverage for the executives of subsidiaries within the transnational corporate structure may lead to fewer Canadian-based initiatives and greater exposure to adverse investment decisions and job losses decreed at head offices. Less tolerance for a distinctive local managerial vernacular may lead to the erosion of Canadian commercial practice and industrial relations conventions. And fewer specialized functions being performed in fewer and less powerful subsidiary head offices may lead to a declining market for producer services in Canada=s major cities. Indeed, some studies are beginning to suggest that we may see a decline in demand for producer services (Daniels and Moulaert 1991; Harrington 1989; Francois 1990; Nicolaïdis 1993) such as legal services (Arthurs 1996b) and industrial R & D (Birkinshaw 1995a). If this trend develops, consequential effects are likely to include declining urban economies, a falling-off of much-needed private support for higher education and the arts (Murray 1991), exacerbated industrial conflict, (Arthurs 1996a; Lucio and Weston 1994) and the ramifying consequences of all of these upon the quality of community life. For instructive examples, we need look no further than the decline of economic, social and cultural activities in American cities such as Buffalo, St. Louis and Pittsburgh -- all of which have suffered the departure of head offices and of activities symbiotically related to them.

The essence of the problem is that transnational companies and their subsidiaries constitute a considerable presence in Canada -- a social, political and cultural presence as well as an economic presence. They are major consumers of producer services, powerful participants in policy networks and public debates, benefactors or sponsors of artistic, educational, sporting and humanitarian organizations and events, shapers of land markets, urban skylines and popular culture and, through the example they set in their employment practices, influential in defining local attitudes concerning gender, race and class. Moreover, their executives and employees -- in their personal capacities -- are often an important clientele in metropolitan markets for specialized goods such as upscale clothing, food and housing. Consequently, consolidation within transnational corporations, which weakens the form, function, character and leadership of their subsidiaries, is likely to have important effects on the life of all communities in which they are a significant presence.

Canada is obviously not the only country which might be affected by changes in the operational and governance structures of transnational corporations. But Canada is more vulnerable than most because of its geo-political location, its dependency on exports, its willing accession to junior partnership in an integrated continental economic system, its ongoing constitutional and political crises and its failure to develop a significant number of home-grown transnationals. True, these vulnerabilities can, to an extent, be seen as merely the obverse of all the favourable factors which make Canada an attractive destination for American and other foreign investors; and it is possible that with hindsight we will be seen to have gained more than we have lost as the result of our unique encounter with globalization. However, for the present, each time a transnational corporation rejigs its organization chart, each time the role and structure of its subsidiaries is redefined, not just an enfeebled and vulnerable Corporate Canada but all Canadians are put at risk.

Canada's experience of globalization is unique: the experience of all countries is unique. But it is an experience from which, perhaps, other countries can learn. It invites scholars and policy makers to move beyond generalizations about the aggregate effects of the global economy to more nuanced and empirically-grounded accounts of what globalization portends for particular states, communities and economic sectors. It serves as a reminder that globalization is no respecter of persons, that it can adversely affect privileged local elites -- often its principal enthusiasts -- no less than the poor and powerless. And finally, Canada's experience suggests that globalization may succeed in insulating the central institutions, agencies and processes of corporate governance not just from national laws and policies, not just from the implicit responsibilities of membership in civic society, but even from the socializing influences which help management to operate effectively within specific circumstances, communities and cultures. Can globalization survive such success?

FOOTNOTES

[1] I would like to express my appreciation to the Canadian Institute for Advanced Research and the Social Sciences and Humanities Research Council of Canada for their financial support; to Aine O'Flynn, Troy Ungerman, Kelly Gallagher-Mackay and Raziel Zisman for their research assistance; and to the editors, as well as Stan Beck, Mary Condon, Ron Daniels, Wendy Dobson, James Gillies, Ed Waitzer and many others for their insightful comments.

[2] During the early 1990s, 37,000 parent firms -- 90% originating in the developed countries -- controlled over 200,000 foreign subsidiaries or affiliates. The largest 100 of these firms -- excluding banking and financial institutions -- owned total assets of about US$3.4 trillion, of which about US$1.3 trillion was held abroad, comprising one-third

of the foreign direct investment originating in their home countries (UNCTAD 1994). According to another estimate, using different parameters, 83 transnationals are responsible for 70% of all foreign direct investment (Gillies and Morra 1996).

[3] Likewise, one might argue that without globalization, the corporation itself would have been unthinkable: many of the earliest European corporations were established specifically to conduct trading ventures in Asia, the Americas and Africa. However, an early and still persisting alternative form of globalization was undertaken by ethnically-homogeneous trading networks of Jewish, Chinese, Lebanese and East Indian traders (Landa 1994).

[4] The Royal Dutch/Shell Group of Companies was created in 1907 when a British and a Dutch firm merged whilst retaining their separate identities. In 1930, Lever Brothers and Margarine Unie created the Unilever Group comprising a British entity, Unilever PLC, and a Dutch one, Unilever N.V. More recently, in 1988, ASEA of Sweden and BBC Brown Boveri Ltd. of Switzerland formed ABB Asea Brown Boveri Ltd.

[5] A survey of 83 transnational firms responsible for 70% of the world’s foreign direct investment, concludes that “only a few ... have foreign representatives on their boards [which] are predominantly made up of citizens of the home country of the company” (Gillies and Morra 1996: 33).

[6] American-owned companies control 11.4% of the assets of Canadian companies, but a strategic 20% share of the operating revenues; other foreign transnationals own 10 % of the corporate assets and account for 10% of the operating revenues of Canadian companies (Statistics Canada 1997).

[7] Transnationals comprised 5 of Canada’s top 10 companies (by revenue) in 1985, and 37 of its top 100 companies (Canadian Business 1986). In 1995, the numbers were almost identical: 5 of the top 10 companies, and 35 of the top 100 (Composite of annual surveys from The Globe and Mail’s Report on Business Magazine, “The Top 1000”; The Financial Post, “The Financial Post 500”; and Canadian Business, “The Performance 500”).

[8] As of 1991, the United States accounted for 63.3% of Canada=s foreign direct investment. All the EU countries collectively accounted for 23.4% and Japan for 4.1% (Niosi 1994). Foreign-controlled firms earned more revenue per dollar of assets (and paid a higher ratio of taxes to profits) than Canadian firms (Statistics Canada 1997).

[9] Exports account for 40-45% of the Canadian GDP (Historical Statistical Supplement 1995/96), a greater proportion than in any other G-7 country except Germany (Blank 1993).

[10] Over 80% of Canada=s merchandise exports go to the United States (Weintraub 1994).

[11] Transactions involving Canada=s American-owned subsidiaries and their parent firms are estimated to account for over 60% of Canada=s total exports to the United States (Krajewski 1992). Weintraub suggests that fully 70% of Canada=s merchandise exports to the United States are not at arm=s length: about 40% are intra-firm transfers, and another 30% result from licensing and inter-firm understandings (Weintraub 1994).

[12] UNCTAD ranks three Canadian-based transnationals as 34th, 65th and 74th amongst the largest 100 such companies, only one of which is listed as Ahigh growth.@ The other two are listed as Ano growth@ and Adecline.@ In all, the survey identifies 1396 Canadian-based transnationals amongst a world total of 37,530. Some of these may themselves be subsidiaries of foreign-based transnationals (UNCTAD 1994: c. 1).

[13] *Extra-Provincial Corporations Act*, R.S.O. 1990, c. E.27. See generally Van Duzer (1997: 135-38).

[14] The obligation to obtain an extra-provincial license arises when a corporation begins to carry on business in a province. For example, in *Success International Inc.* v. *Environmental Export International of Canada Inc.* (1995), 23 O.R. (3d) 137 (Gen. Div.) the plaintiff, an Aextra-provincial corporation@ which had carried on business in Ontario but had failed to comply with licensing requirements, was found not to be entitled to seek access to the courts to enforce an arbitrator=s award. In Ontario, taking orders or buying or selling goods or services through traveling representatives, advertisements or the mail is not deemed as carrying on a business (Van Duzer 1997: 138).

[15] A pending amendment to s. 219 of the *Income Tax Act*, R.S.C. 1985 (5th Supp.) c. 5., appears to place Abranch operations@ of non-resident companies in the same position for tax purposes as subsidiaries which are incorporated in Canada.

[16] See e.g. *Telecommunications Act*, S.C. 1993, c. 38. and *Bank Act*, S.C. 1991, c. 46.

[17] A draft version of the MAI, whose discussion was abandoned by the OECD in 1998, contemplated that in principle country-specific exceptions or reservations could be negotiated among the Parties to the Agreement, so that a country could maintain laws and regulations which did not conform to MAI disciplines (OECD 1997). The reality is that these exceptions or reservations would not likely survive the negotiating process or if they did, they would have to be abandoned due to the competitive pressures generated by the implementation of the MAI. The current Seattle Round of WTO negotiations will address many of the issues raised previously in OECD discussions of the MAI.

[18] Under the National Policy of Sir John A. Macdonald, tariffs, subsidies and other positive and negative measures were used to encourage the development of Canadian manufacturing, transportation, resource and commercial enterprises. This policy was followed, with some deviations, until the movement towards trade liberalization following World War II and even, to some extent, until the advent of free trade with the United States in 1988 (Supply and Services Canada 1985).

[19] See note 7, *supra.*

[20] R.S.C. 1985, c. 43. The legislation requires all foreign-based corporations and labour unions in Canada to file annual returns revealing (in the case of corporations) their dominant shareholders and the names and addresses of their directors and senior executives. While most corporations appear to comply with the legislation, the information supplied is clearly incomplete and subject to the normal frailties of self-reporting.

[21] Total exceeds 32. Two companies were first taken private and then dissolved.

[22] AOutside directors@ are those who do not hold a management position in the company, its parent or affiliates.

[23] Six companies had been dissolved by 1995, and no information was available for the remainder.

[24] American-based transnationals have historically tended to use subsidiary boards less extensively than other transnationals (Kriger and Rich 1987).

[25] *Canada Business Corporations Act*, R.S.C. 1985, c. 44, ss. 114(3) and 115(2).

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