

Notes for a Speech to the Canadian Club of Toronto

R.B. Bryce - Chairman of Royal
Commission on Corporate Concentration

Hold for release
1 P.M. Mar. 29, 1976
Check against delivery.

"What is the Commission on Corporate Concentration Doing?"

Mr. Chairman

I wish to thank you for your invitation to talk to your Club at this time. It provides a convenient opportunity to give some answers to the question I have used for the title of this talk - What is the Commission doing?

One reason that we have been asked this question is that the Commissioners have deliberately not sought publicity, apart from what was necessary to conduct public hearings.

Compared to some Royal Commissions this one has not attracted much attention. To most people the subject matter probably seems complicated, unfamiliar and dull. Moreover, we, the Commissioners, are trying to keep our own minds open and not talk too much about the issues before we have had a chance to read and hear what people want to tell us and study the subject at length.

There are four stages in the work of a Commission such as this one. The first is to study what has already been written on the subject. The next stage is to invite others to furnish us with information and opinions, by means of briefs and discussion at public hearings. The third stage, which overlaps the second, is to initiate research to fill important gaps that we have found. The final stage, which we have not yet reached, is to analyse the information and arguments that have been assembled, assess them and write a report.

The Commission was set up 11 months ago when the government was concerned about the proposal of Power Corporation to take over control of Argus but was unable to reach a decision as to whether or not such a merger would be contrary to the public interest. The government decided however, not to focus the inquiry on the particular case but directed the Commission to study and report on "The Nature and Role of Major Concentrations of Corporate Power in Canada" and their "Economic and Social Implications for the Public Interest".

This mandate was so broad that it would take several years and a large staff to explore all its ramifications, while in fact the government wanted a report this year. The Commissioners accepted the assignment with the intention of completing their work this year. Consequently it was necessary for us to focus our attention first on what we felt to be the most important aspects of the subject.

In June last year we issued a public statement on our plans and invited Canadians - both individuals and organizations - to send us their views on anything within our terms of reference but drawing attention to the particular aspects we wished first to consider. We also advertised our invitation widely in the press. Our detailed announcement got little press attention, however, because of more exciting news at the time.

As a result of our invitation, we have received about 120 briefs. Of these 40 were from large corporations. About a dozen were from business associations and another dozen from other associations. 43 were from individuals, and of these about half were highly critical of Big Business. Half a dozen briefs were from small or medium sized businesses. Four were from experts whom we had arranged to have testify. Two were from political parties - the NDP and the Communist Party. One - a very business-like brief - was from a trade union.

We had hoped to get a larger number of briefs from interested and qualified individuals - lawyers, accountants, economists, sociologists, and businessmen. There were a few of these, but not many. It is understandable that the man in the street may not have been sufficiently aware of our mission even to write us a letter but the lack of response by individuals does suggest that the concern about big business in the country is not one that is alert and vocal. However, there were some outspoken critics of the system and in most cases they did a good deal of work to put their views forward on particular companies or subjects. We might have had more such briefs if we had been able to pay expenses of preparing them, but on a subject as broad as ours we felt there was no reasonable way for us to decide who should qualify for financial support from public funds.

It has only been recently that any such support has been given to help public interest groups to present their views and I feel that this is an issue to which governments should in future give some systematic consideration.

After studying the briefs we received, we held 21 days of public hearings in Toronto, Montreal, Ottawa, Winnipeg, Calgary and Vancouver.

The purpose of this first round of hearings was to bring out what the participants felt were the relevant issues in regard to corporate concentration and the information and arguments relating to them.

We have now arranged another series of hearings in April, May and June. As a result of the information gained earlier, we will focus attention on particular subjects during these Spring hearings. A number of witnesses are being invited to speak about subjects on which they have special knowledge. In contrast to our earlier hearings, less than a third of the witnesses this Spring will be representing corporations.

In order to get a wider public response, we are also planning a series of more informal, unstructured hearings in some of the areas of Canada we have not yet visited in order to hear people we have not heard before.* We will hear any individuals or local organizations who let us know they wish to discuss our subject. We will start with some cities in the Atlantic Provinces in Mid-May. If the pattern is successful we will do the same in the other regions in June, dividing up the work among the three Commissioners.

Apart from the hearings, we will continue to welcome briefs, and correspondence or, when opportunity arises, conversations about any aspect of corporate concentration. By mid-summer however we expect to be working on the substance of our report and it will get progressively more difficult to take into account views or information after that, unless it is in response to specific questions.

Of course we have had to read much more than briefs in approaching the broad subject of our enquiry. We and our staff have studied many articles and books. Many people have helped us by calling attention to useful material. There is a vast American literature about many aspects of the corporation and its implications but good Canadian material is not so abundant. There has been a fair amount written on what is now called competition policy, and a good deal on legal issues, and quite a lot on foreign control and its consequences. But if Canadians are going to take an informed and active interest in questions relating to big business there will need to be more serious studies written in future about the effects of size on business behaviour and efficiency, and about the social implications of big business. It would also help to have a larger number of objective analytical histories of individual Canadian businesses.

* At these meetings we will not require any written submissions.

We have endeavoured to meet some of the needs for additional studies by commissioning about thirty research projects to provide us, and later others, with more facts and analyses on a number of subjects relating to major corporations and their implications.

A dozen of these studies will be reports by financial analysts on the structure and finance of large diversified enterprises - "conglomerates" to use the American term which we do for convenience and not in any critical sense. These will be based on information that has been publicly available at one time or another but which will now be drawn together and analysed by professionals. This will help us to meet the obligation to report on the nature and role of these corporate concentrations.

Three of the studies will relate to large but not diversified corporations and their economic and social impacts. One of these firms is a major Canadian refining and manufacturing company, with extensive operations overseas. A second is a very large resource-based company selling mainly in the export market. A third is the Canadian element of a large multinational company in a high technology industry. These have been selected to illustrate the nature, role and implications of such large businesses in Canada. These studies are being done by professional economists with the cooperation of the companies.

Another three studies are econometric in nature. One is intended to measure quantitatively the relationship between the size or other dimensions of corporate structure and corporate economic performance. A second is analysing the relationships between corporate size and diversification and financing. A third is a statistical study of the patterns of corporate complexes taking into account both degrees of ownership and the extent of interlocking personnel. It will analyse the effects of different definitions of control on industrial concentration ratios.

The other studies relate to legal or financing or social questions. One is a detailed study of Canadian requirements for disclosure of corporate information, comparing these with American requirements and making various suggestions for changes. Two other legal studies relate to the laws and rules applying to mergers and takeovers and the influence of tax laws upon such acquisitions.

On the financial side we are receiving a study on the sources of business finance and how they have developed since the report of the Commission on Banking and Finance in 1964. We are making another study of venture capital financing arrangements. These have a bearing on whether middle sized companies can grow without having to merge into larger corporate groups.

On the social aspects of corporate concentration we have three studies in progress. One is a comparison between the personnel policies and practices of very large businesses and those of middle sized businesses. Another is a study of the concepts of social responsibility of corporations as they have developed thus far in Canada and as they may be expected to develop in future. The third is a study of the recent changes in laws in Canada concerning political contributions and their relation to corporations as a source of funds for political parties. We have some other potential social studies still under consideration.

There are several other minor research projects I have not time to mention today, as well as the increasing activities of the research officers on our staff.

What I have said of our research projects gives some indication of the subjects in which we are interested. Other important issues showed up in our first series of hearings, and I would like to highlight a few of them.

One of the most important issues which came up relates to the considerable extent of oligopoly in Canadian industry. In essence, oligopoly is a situation where there are only a few large sellers in a market, though there may also be a number of smaller ones and competition from imports. * takes place between a few sellers, they each take into account the action and reaction of their rivals in deciding on their prices, their marketing techniques and their terms of sale. In these circumstances it appears to be usual for one seller to be the leader in establishing prices for particular products, and for others then to adopt the same price, in what is sometimes described as "conscious parallelism", while endeavouring to compete in other respects. There is an opportunity in some such situations to enter into some kind of agreement or collusion. Our Canadian law does not forbid or prevent oligopoly as such. It does forbid price agreements or other collusive action, such as market sharing, intended to reduce the competition and the potential instability in the market.

The question that arises is whether these many oligopolies are harmful and whether something should be done to reduce their extent, or influence the nature of the competition in them. It is on this issue that the degree of corporate concentration in Canadian industries seems closest to constituting a possible danger to the public interest. Moreover there is some controversy among economists, in the U.S. as well as in Canada, about the nature of competition in such industries and its effect on the public interest.

A related, but subsidiary question is whether the component parts of large conglomerate firms behave and compete in different ways than independent companies do. We shall want to form a judgment on this in appraising the economic implications of the growth of conglomerates.

* The important thing is that because the main competition

In the hearings we received many accounts of the role of mergers and acquisitions as part of the process of business growth and development. It is an economically important role but one is tempted occasionally to wonder whether acquisition gets to be something of a game which may involve risks to the public as well as to private interests. There seem to be plenty of businesses available for acquisition, particularly for those wishing to diversify. Indeed one of the issues we explored in public was whether there were reasonable chances for successful middle sized businesses to grow without having to merge into a larger corporate group. The key factors appear to be the availability of suitable financing without loss of control, and the presence of good management as well as dynamic enterprise in the growing independent company.

There were a number of issues discussed which related to corporate control and management. One of these was the relationship between controlling shareholders, whether corporate or individual, and minority shareholders. Problems can arise not only in regard to differential treatment in takeovers or merger agreements, but also in transactions between a corporation and insiders in control of it, or other corporations they control. At first sight this may appear to be an issue between the private interests concerned and it has been dealt with to some extent in recent legislation. However, given the great economic need for equity capital investment in Canada the effectiveness of measures to protect minority investors may be a matter affecting the public interest as well.

A second internal issue we discussed is, what is the effective role and real responsibility of outside, non-controlling members of Boards of Directors? Does it go beyond friendly advice and assent, except in the rare instances where the Board must take the initiative to remove or replace a chief officer? Has the establishment and use of Audit Committees pointed the way to an increasing role and importance of such Committees of outside directors?

This question of the real influence of outside directors is of importance in appraising the significance of interlocking directors. The widespread existence of interlocking directors has been a subject of some debate over the concentration of power in a relatively small corporate elite. This degree of influence also affects the reality of the interconnection which these directors-in-common form between many large Canadian companies.

In our public discussions we endeavoured to ascertain what economic benefits or disadvantages arise from having a diversity of large businesses under a single control. Does the larger group provide a better access to sources of finance? Is there a better selection and scrutiny of top management? Is the strong participation in the Board or Executive Committee by experienced senior executives from a parent company always a help or sometimes a handicap to the management of a large subsidiary?

Some claimed that conglomerate companies could allocate capital among their diversified subsidiaries or divisions more efficiently than the capital market does among independent companies. It is hard to establish how generally this would be true. One can think of cases where it looks as though a conglomerate did well, but others where they did not perform as expected.

The social implications of corporate concentration were less clearly defined in our hearings than were the economic. There were several discussions on evidence submitted by corporate witnesses to show that the incomes paid by corporations to their workers had increased much more proportionately than the incomes paid to shareholders or to managers. Some witnesses argued strongly that government should have a direct role in major corporate decisions because of their important social consequences. Others argued that corporations were thwarting or distorting urban development in order to get excessive profits. A number of witnesses spoke about the social responsibilities of businesses, especially big businesses, and what had been done or should be done in this field. It is one to which much more attention has been directed in the United States than in Canada. An experienced sociologist testified about Canadian writing on social issues relating to business and the need for more work to be done on these subjects.

Finally I should note that there was one very broad issue raised by several witnesses before us, and by others in their briefs. Their point, if I can sum it up, was that given the major constraints under which even the largest Canadian corporations now operate - the law, the actions of governments, the strong trade unions, and the forces of international competition - and given also the perilous condition of the Canadian economy particularly the serious effects of inflation on capital markets, labour markets and the costs of construction - and given too the precarious state of Canada's balance of international trade and payments, surely this is no time to be imposing new restraints upon business operations. I am not sure this argument comes within the Commission's terms of reference but I would expect it will be forcefully presented to the government and parliament, whatever we say in our report.

Well Mr. Chairman that is what I have to say about our activities, but without anticipating the conclusions we will reach on the various issues I have mentioned.

I will finish with a more general observation. In recent years Canadians in many walks of life have been questioning our economic and social institutions and the system of values on which these are based.

During the past year our worsening economic situation and the realization that we are not going to be as prosperous as we had expected has sharpened these anxieties about the working of our society. Big business is one of those institutions which are the subject of anxious but ill-defined concern. I hope the program of the Commission that I have outlined will help to define what important problems there are in this area and assist in solving them.