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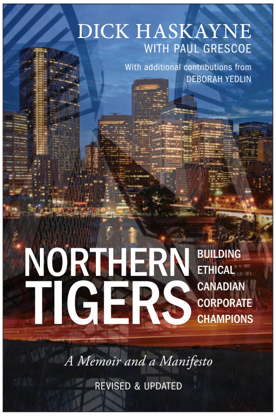

NORTHERN TIGERS: Building Ethical Canadian Corporate Champions

Dick Haskayne with Paul Grescoe

With additional contributions from Deborah Yedlin

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CHAPTER THIRTEEN

THE COMPANIES THAT DID

Northern Tigers

RON MATHISON AND I WERE sitting not long ago in his handsome boardroom in downtown Calgary, talking about Tigers.

Not many Canadians have heard of Ron. He didn't appear in Peter Newman's comprehensive 1998 business book, *Titans*, though he should have. If locals know Ron at all—this quiet-spoken but dynamic young man keeps a pretty low profile in this larger-than-life town—they may recognize him as the owner of the popular Penny Lane retail mall, an old city-centre complex where he plans to build a twin office rower project. Or they may know him as a deeply generous (but usually anonymous) donor to UNICEF's work in Africa and to various University of Calgary programs, including business fellowships and the Hotchkiss Brain Institute. The local business press, however, knows him as a former principal and head of corporate finance at Peters & Co., an investment firm specializing in oil and gas, and as president and CEO of Mateo Investments. Matco Investments is a merchant bank that helps restructure ailing companies such as Calfrac Well Services, a now booming public enterprise that focuses on hydraulic fracturing in oil fields, and Iteration Energy, a junior natural-gas company that grew out of another junior and a failed biotech company and was recapitalized to create a market value of more than $300 million.

For someone who likes to stay out of the public spotlight, Ron has a bit of a swashbuckling side. Close friends are aware of his fondness for polo—he's even taken his equipment overseas and borrowed a local horse to play in the Paris Open. And they know that when marrying Tara, a lawyer, he imported an elderly monsignor from Calgary to perform the church service in romantic Rome (after my wife Lois kept urging them to get hitched, for heaven's sake).

I'm one of his much-older friends. In fact, I knew his father before knowing him, when Ken Mathison and I grew up across the back lane from each other in Gleichen. His dad worked in our butcher shop and then became a manager in Burns packing plants. Ron occasionally swept the floor of our meat market long after I'd left home. Later, when he was deciding what to do at the University of Manitoba, Ken told him I'd done all right with my chartered accountant's training, so that's what Ron studied instead of taking law. He says I'm kind of a proxy father when his own isn't around, and over the years, we've become so close that he sometimes visits to ask personal advice. He did that in 2002, on the day the Scripps Clinic called him in Calgary to report that an aortic aneurysm was threatening his life and he had to consult a local cardiologist immediately (I got him in to see my specialist, and he recovered nicely from an operation in Houston to replace the aorta in his heart). It's not just a one-way street: For instance, when I needed help with evaluating land I was donating to the U of C, Ron had his in-house expert appraise it and suggest how I should structure the deal. And, most important of all, as someone who never had a son, I value my close relationship with a smart and caring man who's a couple of decades younger than me

What few people know about Ron Mathison is that he was a key silent partner in one of the more extraordinary success stories in the Oil Patch: Canadian Natural Resources, our second-largest gas producer. Ron was among a small group of investors who, in 1988, saw the possibilities in a bankrupt oil and mining company, operating only in Alberta with nine employees and a measly market capitalization of about $1 million. Among Canadian Natural's major financiers were Murray Edwards, a Regina chartered accountant's son and commerce grad who wound up doing deals at Peter & Co. In Calgary; fellow lawyer Jim Grenon, also at

Peters; and engineer Allan Markin, who'd just left the presidency of Poco Petroleum after its stock collapsed. This was at a time when most of the smart money was saying the oil business was on the decline. But Al became chairman of the restructured company, which bought land from majors such as Texaco and turned into a stock market darling as Dome Petroleum had.

Unlike Dome, CNQ (as the market calls it) has survived and flourished, with Murray taking an active part in the operation. It went from a standing start to becoming today's giant—with 2,500 employees producing 530,000-plus barrels of oil equivalent per day from operations in North America, the North Sea, and West Africa. Part of its growth resulted from building on the very high multiples of its share price to issue more stock or to make more acquisitions. CNQ is valued at about $22 billion and seems fated to go nowhere but up since announcing in late 2005 that it would bet $25 billion on expanding its presence in the Alberta oil sands. If its ambitious plan succeeds, it could become one of the world's biggest independent producers. Ron retains a sizable investment in the company.

The point of all this is that Canada needs more Ron Mathisons and Murray Edwards and more homegrown, domestically based Northern Tigers like CNQ, EnCana, and Fording.

Ron was all of forty-eight the day we were chin-wagging in his boardroom in the HSBC Building. Our conversation roamed across the range of Alberta and Canadian business, including the hot house environment in Calgary that has created so many major companies, in and outside of the petroleum industry.

"Penn West is another one that was in Murray's sphere," Ron remarked. Murray Edwards chaired and was a prominent investor in what became Penn West Energy Trust, the major conventional oil and natural gas income trust in North America (ranked forty-sixth by profit, ahead of Enbridge, CP Rail, and Barrick Gold, in *Report on Business* magazine's most recent survey of Canadian companies). "It started from a market capitalization of about two or three million dollars, and it's now in the $6-billion range, you know."

"And that's not just due to today's high energy prices," I noted. "These companies have grown in a time when oil and gas prices were down and these guys were smart enough to capitalize on it."

Both of us agreed that such accomplishments haven't been limited to the petroleum industry. Murray, as an example, is chairman of Magellan Aerospace of Toronto (ranked nineteenth among Canada's largest tech companies), which makes aeroengine and aerostructure components as well as advanced products for military and space markets. "By most standards, Magellan is a dramatic success," Ron said, "and Murray also has a ceramics protection firm that makes armoured materials and has done extraordinarily well." Part owner of the Calgary Flames, he's also the major shareholder in Resorts of the Canadian Rockies, which owns the Lake Louise ski area and eight other ski resorts.

There are seven major railways in North America, and two of them—our biggest, CN and CP—are Northern Tigers. In 2005, CN's profits, which are higher than any of its North American competitors, rose by 24 percent to $1.6 billion as Canada's global trade exploded, especially with Asian customers. That was also CP's busiest and most successful year ever as its profits increased 32 percent to a record $543 million. The companies' share values have also hit all-time highs.

In the financial world, Manulife (as I've already explained) and at least the Big Five Banks are certainly Tigers. Collectively, they've posted better stock market performances than their counterparts in any other country.

We boast technological giants with a global reach. Our largest is the plane and train manufacturer Bombardier, which despite its struggles over the years, had a $249-million profit in '05, helped by higher sales of business jets, where it remains the world leader. Research In Motion (RIM), despite being sidetracked by its long patent fight over the BlackBerry handheld wireless device, held its grip on three-quarters of the U.S. market. SNC-Lavalin Group Inc., the engineering and construction multinational, has projects in more than one hundred countries. Our major telephone companies, Montreal-based Bell Canada and Vancouver-based Telus have taken on Tiger proportions and remain strong despite the Harper government's decision to prevent them from becoming income trusts to avoid corporate taxes.

Mining? Alcan is the second-largest aluminum producer on the planet; the largest in food flexible, pharmaceutical, and cosmetics packaging; and a leading metal trader. Peter Munk's Barrick Gold recently took over Vancouver's Placer Dome and became the world's prime gold producer.

Even our food manufacturers stand tall beyond Canadian borders. The largest, Maple Leaf Foods, the Toronto-based meat processor and animal feed supplier, exports to nearly eighty nations and has operations in North America, Mexico, the United Kingdom, Europe, and southeast Asia. Chairman Wallace McCain's brother Harrison is co-founder of New Brunswick's McCain Foods, the next largest, one of our biggest private companies with $5.7 billion in annual sales and twenty-four thousand employees. It's the world's major producer of frozen French fries, which it sells along with other food products in 110-plus countries.

One of Canada's strength has been our emergence as an energy superpower ever since the petroleum industry began recovering in the mid-1990s, a decade after Ottawa finally stopped influencing oil prices. Oil and gas companies now make up nearly 30 percent of the value of the TSX-and the effects are being seen from sea to sea to sea. Even those provinces without booming oil and gas fields share in the $27 billion the industry paid to governments in 2005. In Alberta, the oil sands—the world's second-largest deposit of crude—promise an economic impact of a $1.4-trillion bonanza in a province that is already debt-free and rolling in more money than the Klein administration seemed to know what to do with (I was disappointed when it distributed $400 in resource-rebate Ralphbucks to every Albertan).

The top Canadian-controlled energy companies (in order of recent market capitalization) are EnCana, Suncor Energy, Canadian Natural Resources, Petro-Canada, Talisman Energy, Nexen, Canadian Oil Sands Trust, and Penn West Energy Trust. Two of them—PetroCan and Suncor—are among Canada's five biggest integrated oil companies, whose profits rose by more than a third in 2005 to $9.6 billion.

There's another brand of companies that—despite their lineage and the fact that each has a single major foreign shareholder—might be considered at least honorary Northern Tigers. In the Oil Patch, three of the most obvious giants in size and reputation are Imperial Oil, Shell Canada, and Husky Energy. The first two are wholly owned subsidiaries of Exxon in the U.S. and Royal Dutch Shell in Holland, respectively, while Husky's controlling shareholder is Li Ka-Shing of Hong Kong. But for all intents and purposes, they act like the best domestic corporations, maintaining their operational headquarters in Calgary with independently run boards of directors and social and cultural consciences that seem unmistakably Canadian in cast. Few people would dispute, for instance, that Imperial has been one of Canada's finest corporate citizens in its largesse to the communities in which it operates. This long-time resident (here since 1880) donates in disproportionately high volumes to the usual charitable causes. But it also has a history of fostering Canadian culture—everything from its no-strings financing of an early attempt to save one of the country's most esteemed print publications, *Saturday Night* magazine, to its recent $4-million gift to the Glenbow Museum, the largest in the Calgary institution's history.

And that's just a sampling of Canada's corporate champions, so many of whom have emerged in only the last ten and even five years.

I'VE LOOSELY DEFINED SUCH TIGERS as Canadian businesses with the strength and agility to withstand takeover attempts from foreigners. Two of their obvious attributes, of course, can be size and global reach—as David O'Brien, EnCana's chair, explains: "Northern Tigers are powerhouses that are sufficiently large and diversified that they can compete around the world."

Or as his former CEO, Gwyn Morgan, describes them, "Canadian-headquartered companies that can play offence against the best in the world."

Despite those definitions, EnCana itself has stepped back from operating around the globe to concentrate on its North American assets. Which leads to my qualification that Tigers don't necessarily have to rank among the biggest and most diversified performers on the world stage. They can simply be strong enough to flourish primarily in their own domestic markets. Though Mike Grandin chairs Fording, which thrives because of its international sales, he says, "I don't think this has to be true for every company. With a lot of companies—and there's all kinds of evidence of this for large and small companies—your ability to create value is more local than global. There are industries where if you have a large share of a very large market, you may not generate the best margins because you may be number five or ten in a market that's supporting twenty or thirty competitors. But in a more localized market—and you can define 'market' in terms other than geography—maybe you have the largest market share, and therefore, you really do have a competitive advantage and generate much higher returns on invested capital. So I don't think every company has to be a global leader."

On the other hand, Talisman Energy is one of Canada's most international petroleum giants, with production operations in the U.S., the North Sea, Norway, Algeria, Trinidad and Tobago, Indonesia, Malaysia, and Vietnam (about 40 percent of its natural-gas reserves lie in Asia). In 2005, it paid $2.5 billion cash for London-based Paladin Resources PLC and its holdings in the North Sea while selling some of its own wells there and a parcel of non-core oil properties in Canada—where it remains an active natural-gas producer in Alberta and B.C. Throughout the 1990s, CEO Jim Buckee oversaw about $4 billion in acquisitions to turn BP Canada, the former British Petroleum branch plant, into Canada's largest oil producer by volume.

Jim has always had a global view of things. Born in England, graduating from the University of Western Australia with an honours science degree and then getting his PhD in astrophysics at Oxford University, he worked for Shell, Burmah Oil, and BP's parent company in Norway, Alaska, and London before coming to Canada. Dr. Jim Buckee is now a Canadian citizen.

When he arrived in Canada, onshore petroleum prospects in North America were considered to be mature, he reflects: "We used to say go deep, heavy, or ugly—into seawater, heavy oil, or nasty politics. To limit yourself to onshore North America, as EnCana has done, makes things unnecessarily tough for yourself. Suncor's different because it's got a particular line of business—and incidentally, I'd say one quite hard to replicate, too." In 1992, "the price of gas was $1 or $1.50 MCF and oil was at $17 or $18 a barrel. The basin here is very mature for conventional oil, and the price of gas was very low. So when we were left independent, given my experience and other people's in what's now called Talisman, the obvious thing to do was to get an international footing to get to less mature areas and have access to bigger prizes. We've hired people who like doing that and, over the period, developed a lot of in-house expertise, both commercial and technical. As for being Canadian—first of all, the flag is a good entree, and secondly, we have access to a lot of geologists, geophysicists, engineers, and so on who we can deploy around the world.

"The other Canadian idea that we exported was having large working interests [in other countries] and controlling everything. When we went to the North Sea, we did in most cases a series of deals until we got 100 percent or near enough in all our oil fields. And that's proved to be very successful."

Now he realizes that Talisman is a tempting target for foreign buyers, possibly even the hungry China National Offshore Oil Corp. Staying independent is important to Jim: "We have choice of where and how much to invest and the timing of it. If you're a branch office, you have to go and beg for capital. When Talisman goes to various countries, it's *us*—you have to talk to us because we call the shots. If we were owned by something else, that wouldn't be true. And we facilitate a lot of other people coming to Canada, too—like the Indian energy minister—and having the

World Petroleum Congress in Calgary. A lot of the reason they come here is because they want us to invest in their countries—us and other people who invest internationally. They come through here and want to make friends, want to be allies. The Chinese are big friends."

At this writing, while Talisman has been approached by a couple of foreign corporations about a possible takeover, none has ever made a concrete offer. "In 2005," Jim points out, "Talisman's share price nearly doubled so [shareholders would] have been silly to have accepted any premium at the beginning of that year. A 20 to 25 percent premium wouldn't have done it—we did much better going with the market."

In defining a Northern Tiger, it might be a surprise to learn that many of us diehard nationalistic business people don't necessarily believe that a domestically based corporate champ has to be owned by a majority of Canadians. The problem is that Canada doesn't offer a large enough pool of homegrown investors to support large enterprises. Gwyn Morgan again, speaking generally as well as specifically about EnCana, says, "You can't build a huge, publicly owned enterprise without a lot of support internationally. So our independence as a company depends upon multinational investors. Because otherwise, our stock will not be priced competitively versus the value of the assets—and we will disappear. … [But] there is no thing that any of those shareholders do that directs management of the operation or headquarters. What they do is provide capital for us to take advantage of the market." In other words, having a broadly based range of investors, foreign or domestic—and not being beholden to a single influential block of shares—can ensure a Canadian company's independence.

However, the big danger is when a company is taken over entirely by a controlling shareholder and its headquarters is exported from this country. Other nations have similar problems, including the United States. Here in Canada, with a climate of low interest rates and private equity firms hungry to spend an excess of cash, billions of dollars have been exchanged in hostile mergers and acquisitions of our domestic corporations. In recent years, we've lost icons such as Dofasco, Molson, CP Ships, Hudson's Bay Co., and newer ones such as the B.C. gas giant Terasen Inc., industry-leading winemaker Vincor International, Trimark Financial Corp. (Canada's sixth-largest mutual fund company), Zenon Environmental (a global pioneer in water and wastewater treatment), Geac Computer Corp. (our largest software venture), and ID Biomedical Corp. (a developer of vaccines, contracted by Ottawa to prepare for a possible flu pandemic). In too many cases, their fates as Canada-centred enterprises remain in doubt. But at least one story has had a happy ending: A Saudi prince had taken over Fairmont Hotels & Resorts, but in the autumn of 2006, Oxford Properties Corp.—the property wing of the Ontario Municipal Employees Retirement Fund—returned seven of Fairmont's prestige hotels (including Jasper Park Lodge and the Banff Springs Hotel) to Canadian ownership.

What does it really matter if we lose strong domestic companies to foreign buyers? The question was raised anew in mid-2006 when Phelps Dodge of Phoenix made its abortive double play for both Inco and Falconbridge. Teck's Norm Keevil, whose own bid for Inco had failed, said Inco's Scott Hand "sold out Canada for his own purposes." In my view, despite the debates on both sides, the most important factor is where the head office is located and management decisions are made. It's not just an issue of flag-waving patriotism. It's the possibility of losing the vital infrastructure and support systems surrounding corporate headquarters that make a community and a country thrive. You become a branch-office nation. (How much can a headquarters matter to an individual community? My friend Jim Shaw of Shaw Cable pointed out to me that following the 1995 move of the corporate HQ from Edmonton, Calgary has gained about 1,800 jobs related specifically to running the relocated head office.)

As the details of the proposed Phelps Dodge deal surfaced, I was pleasantly surprised to read an editorial in the *Globe and Mail* that criticized Finance Minister James Flaherty for his offhand comment defending the merger: "I haven't heard any suggestions they are going to move the mines." It's true that, as Canadians, we own our natural resources and benefit through royalties on their extraction—whether by foreign or domestic companies—and we should be most concerned with having them developed efficiently and with the biggest payback to the nation. Both the current Conservative government and its Liberal predecessor have encouraged such investment as being crucial to overall growth and more jobs. And sometimes even Canadian subsidiaries of foreign companies have developed indigenous expertise that's exported to other countries, profiting our home economy.

Yet in its editorial, the newspaper—which is not exactly a fan of government involvement in free enterprise—urged Ottawa to use the *Investment Canada Act* to review the Phelps Dodge takeover for its long-term net benefits to Canada:

> The head offices for Inco and Falconbridge will move to Phoenix, Ariz. The new company will be traded in Canada but its primary listing will be in New York. The two mining giants will no longer be included in the benchmark S&P/TSX composite index. As a TD Newcrest report observed this week, the loss to a U.S. buyer "is a severe blow to the relevance of Canada's equity markets."

There's another factor—a financial one of great import to Canadian taxpayers—that needs to be considered in any discussion about losing our corporations to non-Canadian acquisitors. Many foreign companies burden their branch plants in other countries with debt. The payment of this debt then becomes tax-deductible—in other words, national governments stand to lose considerable amounts of corporate taxes when this ploy is practised.

As it turned out, Phelps Dodge was trumped by another foreign corporation, Companhia Vale do Rio Doce SA of Brazil—the world's largest iron-ore miner—which acquired Inco. And Falconbridge went to Xstrata PLC of Switzerland, which paid an astonishing $18 billion in cash. Peter Foster in the *National Post* scoffed at the loss of these Canadian companies, arguing,

> Economic nationalism amounts to a form of primitivism that still sees the nation as a tribal unit engaged in a trading "battle." This requires it to promote domestic "champions," and exercise discretionary violence on private companies/tribesmen in the name of the public good.

On the other hand, Peter Munk, chairman of Barrick Gold Corp. of Toronto, the world's largest gold producer, said putting Inco, Falconbridge, and Teck together was a once-in-a-lifetime opportunity. Addressing Canadian mining executives, he said, "This opportunity will never arise again in your generation and not in your children's generation to put together a group like that. That's when you've got to have the determination and the balls and the courage."

In conversation, the thoughtful David O'Brien underlines and expands on those concerns, which I share: "Having Canadian-based, strong international companies is a critical element in this country's own identity and its future. If you have the head office of a major international company here, it enables your best and brightest to work in Canada rather than having to go somewhere else for the top jobs. It supports all kinds of other services that involve these best and brightest—from the lawyers to the marketers to the actuaries to the accountants. It supports other industries around it and actually helps small businesses get started, in many cases, as service to the big company. This is also where the research then occurs, the innovation.

"So to have a number of Canadian global champions is the lynchpin to economic success. It's not sufficient in and of itself because you need entrepreneurial businesses as well, among other things, but you've got to have a reasonable number of Canadian-based, globally competitive, or at least internationally competitive, companies.

"And having them is also very important in terms of supporting the universities, the cultural events, the social needs—all that. You know, the communities that get the philanthropic support are the ones where the heads of companies and the head offices are located. And you just watch an oil company taken over by an American company: Within two years, you've lost nine-tenths of that community support because the heads of that company live elsewhere and that's where they're focused. They don't have a stake in the community here, nor are they aware of it—they don't meet local people on a regular basis.

"As someone in charge, you find yourself in that conundrum: You have a responsibility to your shareholders and a responsibility to the larger community, and [you] try to find a route where you can marry the two. That's what we try to do in EnCana, by saying one plus one will make two and a half when we put them together. The stock price will go up, and before you know it, everyone will be better off. We had to find a way where it worked for the country *and* for the shareholders."

LIKE MANY OF MY FRIENDS and colleagues, I've been paying attention to the ideas raised in two bestselling business books—and wondering what they mean for Canadian corporations confronting the global economy. In *Good to Great*, while discussing the best corporate leaders being ambitious for their companies rather than themselves, Jim Collins mentions Colman Mackie, the late, great CEO of Gillette. I was intrigued by the two hostile takeover attempts, and a proxy fight he faced, and how he led the counter-attacks to save this legendary American enterprise that invented the safety razor in 1901. Instead of pocketing the windfall Mackie would have gained by capitulating to the investment group leading the proxy battle for control of his board, he and his senior people fought back by contacting thousands of investors individually, one telephone call at a time. Long-term shareholders were happy that management won, because secret projects then under way to develop new kinds of razors led to a decade of high stock values. The lesson: At a time when foreign raiders are eyeing Canada's most valued assets, such dedication to a company and its vision of greatness should be an inspiring tale for Canadian executives.

The other book is Thomas Friedman's *The World Is Flat*, in which he describes how the planet's economy has been transformed by the advent of the Internet and email, Web browsers, and search-engine software like Google's, all linked to a global telecommunications network through such technology as cheap, powerful computers and high-speed fibre optic cable and broadband connections. For the first time, any individual as well as any company located anywhere around the globe now have the potential to compete and propel development internationally—in effect, levelling the economic playing field and flattening the world. Friedman quotes the CEO of India's Infosys Technologies Limited as saying that all these wonders brought together at the start of this century "created a platform where intellectual work, intellectual capital, could be delivered from anywhere. It could be disaggregated, delivered, distributed, produced, and put back together again—and this gave a whole new degree of freedom to the way we do work, especially work of an intellectual nature."

These technologies form the basis of the burgeoning offshore-outsourcing movement in which a local company contracts with an overseas company to provide services that could be done in-house. An excellent homegrown example of this practice is Sun Life Financial's decision to become our first major insurer to outsource some of its domestic life insurance underwriting jobs to accountants and other university graduates in low-cost, high-productivity India. The company, Canada's second largest after Manulife, sells insurance there and in China and other Asian countries. "For Sun Life," CEO Don Stewart says, "the future lies beyond Canadian borders."

How can Canada create more of these Northern Tigers? Corporations themselves have to decide whether the goal is worthwhile and achievable. And if it is, they have to weigh the options for getting there—and all the challenges involved.

Go global: Globalization can be both beneficial and bad for Canadian corporations. The good might be obvious: Our companies grow in size and strength when they begin operating around the world. But they can also profit by reacting positively to the competition they face in leaving their own small ponds and leaping into deeper, wider waters.

Editorial writers seized on a Statistics Canada study in 2005 that showed foreign-based manufacturers operating in our country were generally much more productive than Canadian controlled ones. But in fact, the study made a good case for our domestic producers to expand beyond their borders. It turned out in a careful reading of the statistics that the plants of Canadian companies with foreign operations were just as productive as foreign-owned plants operating in Canada—and even performed somewhat better in the areas of innovation and research and development. A major factor in their achievements seems to be the honing of the products and skills they have to do when competing with rivals in a larger arena.

For all the benefits of going global, there can also be a dark side, as I learned at Home Oil when we were drilling for oil in Guyana: You have to deal with foreign governments and unrest in developing nations. In another example, Talisman Energy was charged with complicity in the horrors being perpetrated in Sudan, where a consortium of international petroleum firms was drilling for oil in that war-torn African nation. Amid criticism from activists and even shareholders, the company sold its stake there in 2003. “The situation became intolerable,” Jim Buckee says. And SNC-Lavalin has been embroiled in a dispute raging between the socialist government and its Marxist opposition in India’s Kerala State. The company was accused of “cheating” and “treachery” over a contract to renovate and expand hydro-electric dams—while at the same time it had agreed to donate $27 million to build a community cancer centre.

Gerry Maier, who represented Conoco in many nations—including troubled Chad—views globalism at its best as a unifying force in the world, as I do: “In the long run, after working internationally and integrating North American and European ideas and the cultures of other countries, I can see it as being nothing but positive in terms of reducing strife between nations and even within nations themselves.”

Or *create a powerful niche*: Suncor Energy drew the first commercial barrel of synthetic crude from the Alberta oil sands and, since 1967, has produced more than a billion barrels in its core business. It also has conventional natural-gas production in western Canada and refining, marketing, and retail operations in Ontario and Colorado. With more than five thousand employees and $10. 5 billion in annual revenues, it places fifth among oil and gas producers in Canada. It has achieved that ranking without either going global or getting into the mergers and acquisitions game. As CEO Rick George explains, Suncor's secret has been to identify its strength and to excel in it: "If you think about it, we sit as the pioneer and the largest single investor in the oil-sands business—that is what we do—in the second-largest oil basin in the world. And in a great country next to the biggest market, I mean, we're fully occupied, working day and night, trying to continue to grow that business, I just cannot see why you would split off and go outside the country at this point.…

"For at least the fourteen years we've been a public company, there have always been rumours, and most people would put us on the list of potential takeover targets. And what I tell employees and our management team is, 'Listen, your only defence on this issue is a good offence. So if you want to stay independent, then what you have to do is deliver environmentally, socially, and financially. Suncor today has a cash flow multiple higher than our international competitors, and the reason is because of good strategy, good execution. You have to do that to earn the right to be independent. It is our only protective armour—and it's also one of the things that drives a lot of us to work: How do we continue that performance so that we can stay an independent company?'"

Rick was raised in small-town Brush, Colorado, the son of the local electrician and TV-shop owner. With engineering and law degrees, he went to work for Sun Oil, spending a decade in Britain before coming to its Canadian subsidiary, Suncor, where he and his family are now proud Canadian citizens: "I haven't forgotten my root, and I'm still proud to be an American, but I've been fifteen years in this country and I would say I'm more emotionally tied to Canada." He turned what was once called "the unluckiest company in Canada" into a thriving corporation that had a market capitalization of $1 billion on going public in 1992 and is at $40 billion today. "We moved this business from being one of the high-cost oil producers worldwide to what we believe is the lowest-cost one in North America," he says with well-earned satisfaction.

Contrast Suncor's accomplishments with the fates of MacMillan Bloedel, which pursued too many niches where it had little expertise, and NOVA Corp., which was torn between its quite disparate pipeline and chemicals niches. In both cases, the companies couldn't present a comprehensible explanation of themselves to analysts and investors. The idea is to focus on a sphere of operations that makes both business and story-telling sense.

But grow bigger: Whether a company goes global or confines itself to a narrow specialty within Canada, sheer size does matter if it wants to ward off takeover artists. In *Northern Edge*, Tom d'Aquino and David Stewart-Patterson write, "As the global evolution of the financial services industry is making clear … size is becoming increasingly important even for niche players." They quote Charles Baillie who, at the time, was the TD Bank's chair and CEO:

> We have seen a tremendous pick-up in technology spending by our competitors around the world and with the Internet and the advantages it gives to those who move first-settling for second is not good enough. We have to get to be one of the top three or four names across North America. If we don't spend and get the brand known, others will pass us by. We have to do things on a much bigger scale than we really dreamed of before, and even if we're really good, it's incredibly uphill in this new world.

To go big, you must first dream big and then make sure your vision can become a viable reality. Al Markin, Murray Edwards, and their people at Canadian Natural Resources did that in preparing for a $6.8-billion launch of the Horizon Oil Sands Project in the forest and muskeg north of Fort McMurray. It's only the first stage in what's expected to be a gigantic mine and plant, producing five hundred thousand barrels of crude a day. But before going ahead in 2005, they spent four years and more than $400 million to plan their dream, incorporating everything from a private landing strip for 737s to an on-site Tim Hortons to entice six thousand or more workers to the plushest camp amid the sands. Again, good growth strategy, great execution. (And a long-term strategy built from within. As McGill University management professor Henry Mintzberg says, "Strategy is a continuous process. Any CEO that hires a consultant to give him or her a strategy should be fired.")

Another, more direct way of growing is to merge, as Fording, EnCana, and TransCanada Corporation did. Mergers fashioned to create companies strong enough to withstand hostile takeovers can be good things. But I'd like to add a caveat here, one I've only mentioned before: Studies show that the large majority of such alliances don't achieve their desired goals. Too many take place for all the wrong reasons. If I can quote myself from a speech I gave to the Canadian Club in 1998 just after one of the good mergers, between NOVA and TransCanada:

> Management egos have played a large role in many unsuccessful transactions and, unfortunately, that human trait has not disappeared. I will not exempt boards of directors from their responsibility in this area because they are there to ensure that shareholders don't get hurt by ego-driven deals.
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> The revenue and income of investment bankers are driven by the fees earned from these mega-transactions, and accordingly, it is natural for them to propose mergers to managements who often fall in love with the idea without exercising enough of their own judgment.
>
> Financial institutions have often aided and abetted mergers by facilitating the financing of unsound deals. There are lots of examples close to home, with one of

> the largest being the Dome takeover of Hudson's Bay Oil and Gas.
>
> Sometimes governments unwittingly create policies and regulations that encourage fundamentally unwise transactions. The Canadianization effect of the National Energy Program is a good example.

Another quick caveat about reshaping companies to become less vulnerable to predators: Though I approved the decision to turn Fording Coal into an investment trust, I realized the problems these financial vehicles can create. Investment bankers increasingly want to turn viable companies into trusts—with the result that there's a quick payback for investors and the companies might have little motivation to grow by making foreign or domestic acquisitions or investing in R&D to compete in a global market.

Precision Drilling of Calgary is one Canadian company that should have taken this caveat to heart. Hank Swartout founded Precision in 1951 and turned it into our biggest contract driller and oil field-services provider, earning $424 million in profits during 2004. But a year later, he decided to convert it into an income trust that would trade at a higher-value multiple than a conventional company. The problem was that unlike Fording, which has all of its assets contained within Canada, Precision had substantial holdings in the U.S. And now they would be a big drag on the proposed financial vehicle because, under domestic regulations, the income they produced couldn't easily be absorbed into a tax-free trust. So the company sold its international contract drilling and energy-service divisions to an American competitor for roughly $2.3 billion. That left Precision a wholly Canadian operator rather than an international one, no longer bragging about its bold global direction (though it did inch back into the U.S. in 2006 by providing a drilling rig to one customer, and it had plans for ten more rigs there within two years).

Precision used to pride itself on its R&D, which was surely sharpened by competing in the wider world—now severely shrunk. This unhappy side effect of trusts seems true for some other industries too, such as the high-tech field: Bob McWhirter, president of Toronto's Selective Asset Management, says," Huge research and development expenditures usually can't co-exist with dividend payouts." Even Hank Swartout himself has said the trend to trusts is "not the best thing for Canada." And when Stephen Harper's government surprised the investment community in the fall of 2006 by deciding to tax income trusts, my friend Gwyn Morgan wrote: "The shareholders and employees of Canadian businesses provide the funds needed to run government programs and services. Therefore, research, reinvestment and growth are crucial to the future living standards of all Canadians. To the extent that trusts may have limited these things, the government had reason to be concerned."

Above all, be courageous: Canadian corporations can be much less aggressive than their foreign counterparts. The hostile takeover of Dofasco by a European steel superpower demonstrated that in spades. In the most recent wave of mergers and acquisitions washing over Canada—a trend that shot up by 22 percent in 2005 over the previous year and was expected to continue climbing throughout '06—our companies have mostly been the fall guys. Ken Smith, a managing partner at Toronto's Secor Consulting, watches such deals and concludes, "I think we've been conservative to a fault in M&A.… We are timid." And less ambitious about putting on ample weight by expanding to hold off pillagers. That was the sin we committed at Hudson's Bay Oil and Gas all those years ago in dealing with the sharks of Dome Petroleum. Today, among companies that have learned this lesson is Canfor Corp., the second-largest Canadian lumber producer, which in early 2006 bought the profitable timber producer New South Companies Inc. of South Carolina. As well as fattening Canfor up, the deal gave it access to operations down south that would not be affected by any future U.S. softwood-lumber trade duties or a rising Canadian dollar.

Of course, there's a possibility that in expanding, you might make some mistakes. If you do, there's comforting counsel from Sir Wilfred Grenfell, the brave missionary doctor who ministered to the people of Newfoundland and Labrador: "It is courage the world needs, not infallibility.… Courage is always the surest wisdom."

WHAT ROLES SHOULD GOVERNMENTS take in creating the conditions to breed corporate champions of Tiger proportions? Plenty of them, as it happens. I created a little stir a few years ago in arguing that the federal government should keep its 18.8 percent stake in Petro-Canada. "PetroCan is a different animal than it was in earlier times. It used to be an energy-policy instrument, as opposed to a business," the *Globe* quoted me as saying in a column devoted to my apparent turnaround about Ottawa's involvement in the Oil Patch. Now, I said, having the feds keep a significant piece of the former Crown corporation is palatable to the West and gives the senior government a useful window on the industry.

For an old capitalist, I do have some contrarian views about government intervention in the Canadian economy. For instance, I've already stated my hesitation about having the big banks merge. The *Bank Act* states that large banks (with equity in excess of $5 billion) must remain "widely held," and I approve of its stipulation that no party can own more than 20 percent of any class of voting share of a widely held bank and 30 percent of any nonvoting shares. In effect, the legislation prohibits control of a large financial institution by any single shareholder or group of shareholders. We have a very good banking system, and any attempt to reduce competition could harm consumers.

There's obviously a part for governments to play in overseeing utilities, as well. By their very nature, power and water utilities are monopolies that need regulation. They're better being publicly owned and operated, just as police forces and prisons are. Water resources are a particular challenge: Canadians have to make damn sure we have enough fresh water before shipping it out of the country—and if we have, we can and should supply them with our excess in a deal that protects our interests. Peter Lougheed, Alberta's respected former premier, predicted a while ago that the U.S. will be aggressively seeking our fresh water within three to five years. "We must prepare, to ensure we aren't trapped in an illadvised response," he wrote. "It would be a major mistake for Canada to handle this issue badly. With climate change and growing needs, Canadians will need all the fresh water we can conserve particularly in the western provinces." If I can quote Professor Mintzberg again, "We all value private goods, but they are worth less without public goods—such as policing and economic policies—to protect them."

Letting my capitalistic tendencies kick in once more, I have to argue that most things run far more efficiently under free enterprise. Two of our biggest transportation companies, which went private, make my case. CN, as a government-backed railroad, was poorly run and bleeding cash, and today, it's an aggressive competitor throughout the continent, with a share price that jumped by 1,000 percent in the past decade. Air Canada, for most of its history, was a ward of the government that Ottawa had to keep baling out, and now it seems on its way to becoming one of the most successful airlines in the world, co-existing more peaceably with the upstart WestJet.

Where Ottawa *can* help enormously is in the realm of taxation. Like my friend Dominic D'Alessandro of Manulife, I believe that people in a privileged position have even more of an obligation to pay our fair share of personal taxes (and Canada has the highest level of income tax among G-8 nations). But like my friend Gwyn Morgan of EnCana, I know that so many Canadian corporations today have to compete unfairly with the rest of the planet.

"If we pay higher taxes here than our competitors in Houston, then they are going to have an equity advantage. They are going to be more highly valued," he points out. "As long as Canada fosters a level playing field in terms of its domestically domiciled companies, there's no reason why we shouldn't be able to compete." His point is that the field is not always as flat as it could be: In a world of rivals paying their workers shockingly low wages, there's a case to be made for some tax relief for Canadian manufacturers in areas like the deduction for capital cost allowance on machinery and equipment. And the C.D. Howe Institute report that Canada's business investment taxes are the third highest in the world—only China and Germany have higher effective tax rates than Canada—and Canadian businesses are at a significant disadvantage, particularly within North America.

Some observers believe governments can properly practise more direct kinds of intervention with business and industry to save Canadian head offices from the foreign interlopers. The *Globe and Mail*'s well-informed and opinionated Eric Reguly was writing not long ago about the proposed Phelps Dodge foray into the Canadian mining jungle. He pointed out that it was clear three years earlier that we needed a consolidation of the corporate tribes to prevent a grab by the likes of BHP Billiton or Rio Tinto (who had even considered Phelps Dodge then as a possible buyer?). The columnist asked,

> Why didn't the federal finance and industry ministers and the premier of Ontario lock the CEOs of Inco, Falconbridge and Vancouver's Teck Cominco into a room and bash their heads together? The message: Whatever it takes, guys, we'll help you make it happen . . . . Imagine if the mergers had been encouraged in the steel industry?

Though the wording of his suggestion might seem a little over the top, I admired his sentiments and wondered if he was correct in his conclusion: "With Dofasco gone and Stelco and Algoma essentially open for offers, the Canadian steel industry is pretty much finished."

If we don't want this to happen to the petroleum industry, governments must create the climate to nourish champion oil and gas companies. Pierre Alvarez, president of the Canadian Association of Petroleum Producers, points out strongly that the domestic industry is part of a highly integrated global energy-delivery network. "Maintaining internationally competitive fiscal and regulatory regimes in Canada is critical when this is one of the highest-cost places in the world to find and develop oil and gas. Attracting global investment to capital projects in the oil sands or offshore and developing technology here at home are key to the health of the sector and to sustaining Canada's strong growth prospects."

Is the government listening? Well, in the fall of 2006, Prime Minister Stephen Harper had a private session with Calgary business leaders at which I was pleased to hear that one of the priorities of his government was to provide the environment to develop more Canadian corporate champions. I hope I don't sound cynical in quoting the late Scottish-born businessman and philanthropist Andrew Carnegie, who said, "As I grow older, I pay less attention to what men say. I just watch what they do."

NOT ONLY IS CANADA BETTER off for having companies strongly competitive beyond our borders, but so too is the world. Canadians *can* do it, and in the doing, they bring a distinctive mindset and a wealth of attributes to their business dealings around the globe. Tom d'Aquino and David Stewart-Patterson, who are as passionate about Canada as I am, spell out some of what gives us our northern edge:

> Canadians are well positioned to triumph in the global economy. We have an ideal geographic location, with three oceans on our coasts and a common border with the most dynamic market in the world. We have a diverse, multicultural, and multilingual population. We have one of the most effective federations in the world, with an honest legal and regulatory environment. We invest heavily in human capital. We welcome large numbers of new immigrants every year. We have vast open spaces, a beautiful landscape, and massive resources, including a large percentage of the world's water supply. We have relatively secure borders.

As far back as 1981, I was telling the story about meeting the chief economist of a large Swiss bank who was on a global tour. When he asked me to describe our current situation in Canada, I listed a litany of problems, from the National Energy Program to ridiculously high interest rates. That sage old guy looked at me and said, "You Canadians are very funny people."

How in the world could you say that? I wondered.

"In Switzerland, we view Canada in quite a different light. You're blessed with a very large and beautiful country—situated next to the United States, your largest trading partner, across an undefended border. Your natural resources are enormous: water, oil, gas, minerals, coal, agriculture, forestry, and fishing. You're successful in manufacturing, as evidenced by the Auto Pact. You have high-tech capabilities with companies such as Northern Telecom. First-class infrastructure: Consider your roads, water and sewer systems, electricity, hospitals, schools, airports. You have developed capital markets and sound financial institutions. And an educated workforce. Canada is a very young country of only twenty-five million people, yet it's a member of the G-7 and recognized as one of the more powerful countries in the world.

"Mr. Haskayne," he summed up, "you seem to be a country in search of a problem!" It became obvious to me that all the issues I identified as negative were all within our control, whereas all the attributes he cited were part of our natural heritage built by our forefathers.

Rick George of Suncor brings the state of his adopted country up to date when he says, "I know it's a bit of a cliché, but the next couple of decades are ours to mess up. We have a very good strong democratic process; we have good fiscal balance and responsibility. Do we need to invest more in our universities and our infrastructure; do we need to continue to have a track record of improving environmentalism? Absolutely. But we've got great trade balances, a set of young people coming up who hopefully will again change society, the resource in a resource-scarce world. If we manage things really well, this [era] should be ours."

Nowhere do our strengths seem more apparent than in my hometown of Calgary, which brims with opportunity. You don't have to spring from a certain privileged class to succeed here. Ron Southern of the ATCO Group was a fireman's son. Harley

Hotchkiss, the former oilman and now chair of the NHL board of governors, grew up on a Depression-era farm in Ontario. Al Markin of Canadian Natural Resources was raised in one of Calgary's poorest neighborhoods. Ron Mathison is a classic example of what you can accomplish in this city—this country—if you're prepared to educate yourself, work hard and well, and have a little luck, too.

When young Ron Mathison and I sat and talked about all this not long ago, he told a story that typified the possibilities existing here today: "There's a fellow four years older than me who recently left a very large international company that was so enamoured of his skill set that they wanted to move him to their international headquarters, and he said, 'It's a great promotion, one of the top jobs in the Oil Patch, probably in the world, but I think I'd rather stay in Calgary.' He's one of the many Saskatchewan farm boys who wandered into engineering school, and thirty years later, he looks up and wonders if he should hop back into one of the other large companies here—the EnCanas or PetroCans—or does he do something on his own. 'His own' is a strategy to consolidate a number of companies in the oil and gas business who would function much better with larger-scale operations.

"So he comes in to see me and says, 'Do you think that this is a pipe dream?' This particular consolidation strategy involves $5 billion and is well formulated and would play well on an international stage. And he's able to come to any one of a number of offices around town and say, 'I think I need $10-$50 million of startup capital, and do you think it's a dream?' 'Well, it's not a pipe dream,' I said, 'and in fact, if we can come to terms, why don't we just do the deal right now?'"

Along with a growing breed of damn fine entrepreneurs, we have a whole lot else going for us in Canada. We lead the world in having the highest percentage of university degrees and college diplomas of any major industrialized nation. We have (according to the magazine *Foreign Direct Investment*) the fewest hurdles to overcome in launching a business, and (predicts the *Economist*'s Intelligence Unit) we'll be the second-best country in which to do business over the next five years. That's based on our business, political, and institutional environments and our macro-economic stability, market opportunities, policies towards private enterprise and foreign investment, foreign-trade and exchange regime, tax system, financing, labour market, and infrastructure.

We also have that Canadian mindset, which is generally caring and insistent on integrity. Canadian Oil Sands' Allen Hagerman, of a younger generation, says, "We can do anything here. We have a well-educated population, we have resources, we have good infrastructure. Canada is the luckiest country in the world. We sit right on the doorstep of the largest consuming nation on earth, a democracy and a friend. But Canadians have a compassionate and a nurturing nature, which is different from Americans, and we should be out there on the global stage. We have something different to contribute."

"I think Allen is absolutely right," agrees Enbridge's Pat Daniel. "And this is one of the advantages that Canadian companies like ours have in operating internationally. Enbridge has operations in Colombia and Spain, but we don't bring any real political axe to bear when we go into another country. No baggage, and we go in as very technically confident, every bit as confident as our American peers. We are very conservative, very considerate of other people and other cultures, and therefore we work very well internationally. That's a real competitive advantage Canadians have got—and we just need to leverage it a little bit more. Because we are good, and we don't really tell enough people how good we are."