

The Geography of Directors and Business Growth

An Analysis of Canada's Largest Firms

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Introduction

- Economic geography provides a service to business decision-making by contributing to our understanding of business expansion and contraction
 - What contributes to business growth?
 - What contributes to business decline?
 - From a “business geography” perspective, what can businesses do with this knowledge?

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Introduction

- This study examines the connection between firm-level change and the key knowledge and influence connections that link Canadian cities, nationally and globally
 - Focus: the inter-firm and inter-city linkages embodied in the *boards of directors* of Canada's leading corporations

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Why Study Corporate Boards?

- Boards of directors sit at the top of the modern corporate hierarchy
- Board members
 - Assess the results achieved by the corporation
 - Convey high-level knowledge and advice to top executives
 - Provide an influence mechanism extending between firms (in the case of shared board members among multiple businesses)

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Why Study Corporate Boards?

- Because we have data on their operation and composition, analysis of corporate boards provides us with a window on something we do not ordinarily see
 - Inter-personal and inter-organizational links among the most powerful and influential individuals in national and global economies (Mizruchi 1994; Domhoff 2002)

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Boards and Geography

- For business researchers, boards are especially interesting because of their complexity
 - Organizationally, boards typically include a mix of individuals from inside and outside the firm
 - Geographically, boards can include members from close to the corporate HQ, and others from further away

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Boards and Geography

- The body of research related to the foregoing has established three key things
 - 1. Director networks have geographically-complex structures**
 - These structures make director networks effective transmitters of knowledge and influence among business cities (O'Hagan and Green 2004)

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Boards and Geography

- The body of research related to the foregoing has established three key things
 - 2. Director networks have a complex relationship with other elements of the urban-economic environment**
 - These include personal factors for directors (such as their residence and education), and metropolitan factors (such as regional economic trends) (O'Hagan et al. 2008; O'Hagan and Rice 2011)

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Boards and Geography

- The body of research related to the foregoing has established three key things
 - 3. Director network configurations have some relationship to regional economic change**
 - Example: the director network of the US industrial belt has been regionally focused as the region declined – relatively few national and international connections (Green 1983; O'Hagan and Rice 2011)

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Boards and Geography

- The point of departure for the present study: research has yet to link board geographies to business change at the firm level
 - General question: do growing businesses have board member geographies that are distinctive from the board geographies of declining firms?**

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Case Study: Data

- Two datasets**
 - 1. Firm-Level Change:** data from Financial Post 500 and Dun & Bradstreet, defining the top 1000 firms in Canada for 1991 and 2006
 - Product: database of corporate revenue changes (growth or decline) for firms that existed in both 1991 and 2006 (n=234 firms)
 - 2. Director Data:** database of directors (names, work locations) for every firm above included in the Financial Post Directory of Directors (n=118)

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Top Ten Firms by 1991-2006 Revenue Change (Growth)

Firm Name	Headquarters City	3-Digit NAICS	Inflation Adjusted Revenue Change, 1991-2006 (%)
Power Corp. of Canada	Montreal, QC	551	+13,191.8
CGI Group Inc.	Montreal, QC	541	+3,888.5
ThyssenKrupp Canada	Calgary, AB	331	+2,709.3
Precision Drilling Corp.	Calgary, AB	213	+2,621.9
Cott Corp.	Toronto, ON	312	+2,194.0
Intrawest Corp.	Vancouver, BC	531	+1,771.1
Motorola Canada Ltd.	Markham, ON	517	+1,352.1
Husky Energy Inc.	Calgary, AB	211	+1,261.7
Teck Cominco Ltd.	Vancouver, BC	212	+1,171.9
Graham Group Ltd.	Calgary, AB	237	+1,065.3

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Marubeni Canada Ltd.	Vancouver, BC	421	-49.7
Hydro One Inc.	Toronto, ON	221	-51.7
High Liner Foods Inc.	Halifax, NS	311	-54.7
Société Générale (Can.)	Montreal, QC	523	-56.5
Chrysler Credit Canada	Hamilton, ON	523	-62.4
Four Seasons Hotels Inc.	Toronto, ON	721	-65.4
Cdn. Broadcasting Corp.	Ottawa, ON	513	-69.8
ITT Canada Company	Toronto, ON	336	-71.6
John Deere Ltd.	Hamilton, ON	421	-82.6
Falconbridge Inc.	Toronto, ON	212	-90.7

Top Ten Firms by 1991-2006 Revenue Change (Growth)

Bottom Ten Firms by 1991-2006 Revenue Change (Decline)

Case Study: Research Question

• “Linkage Geographies” Question

– *Region-Based Analysis*: do growing firms differ from declining firms in their inclusion of directors from outside of their host region?

– *Regions of Canada defined as*:

- BC
- Prairies (AB/SK/MB)
- Ontario
- Quebec
- Atlantic (NB, PE, NS, NL)

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Case Study: Research Question

• “Linkage Geographies” Question

– *Region-Based Analysis*: do growing firms differ from declining firms in their inclusion of directors from outside of their host region?

– *Also define two regions outside of Canada*

- USA
- World (outside of Canada/USA)

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Case Study: Findings

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Firm/Director Links by HQ Region and Director Region for Growing Canadian Firms, 2006 (n=96 firms)

HQ Region	Director Region				Grand Total (%)
	Within-Region Directors (% of Regional Total)	Outside-Region/ Inside Canada Directors (%)	Foreign/US Directors (%)	Foreign/All Other Directors (%)	
British Columbia	43 (52%)	28 (34%)	7 (8%)	5 (6%)	83 (100%)
Prairie Region	86 (54%)	45 (28%)	18 (11%)	10 (6%)	159 (100%)
Ontario	210 (67%)	48 (15%)	40 (13%)	14(5%)	312 (100%)
Quebec	164 (63%)	63 (24%)	21 (8%)	13 (5%)	261 (100%)
Atlantic Region	14(54%)	11 (42%)	0 (0%)	1 (4%)	26 (100%)
National Total	517 (62%)	195 (23%)	86 (10%)	43 (5%)	841 (100%)

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Firm/Director Links by HQ Region and Director Region for Declining Canadian Firms, 2006 (n=18 firms)

HQ Region	Director Region				Grand Total (%)
	Within-Region Directors (% of Regional Total)	Outside-Region/ Inside Canada Directors (%)	Foreign/US Directors (%)	Foreign/All Other Directors (%)	
British Columbia	0 (n/a)	0 (n/a)	0 (n/a)	0 (n/a)	0 (n/a)
Prairie Region	36 (95%)	1 (3%)	1 (3%)	0 (0%)	38 (100%)
Ontario	74 (83%)	8 (9%)	7 (8%)	0 (0%)	89 (100%)
Quebec	6 (35%)	10 (59%)	1 (6%)	0 (0%)	17 (100%)
Atlantic Region	0 (n/a)	0 (n/a)	0 (n/a)	0 (n/a)	0 (n/a)
National Total	116 (81%)	19 (13%)	9 (6%)	0 (0%)	144 (100%)

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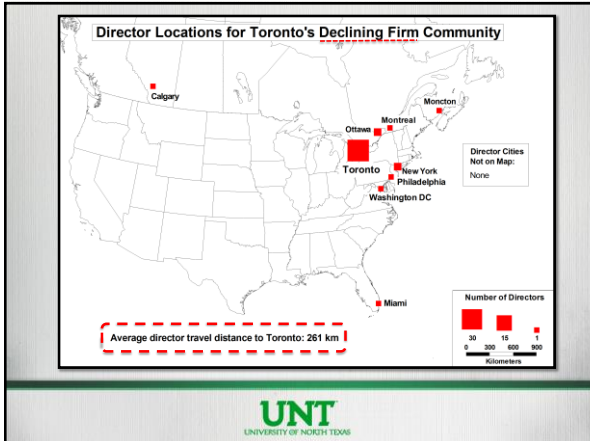
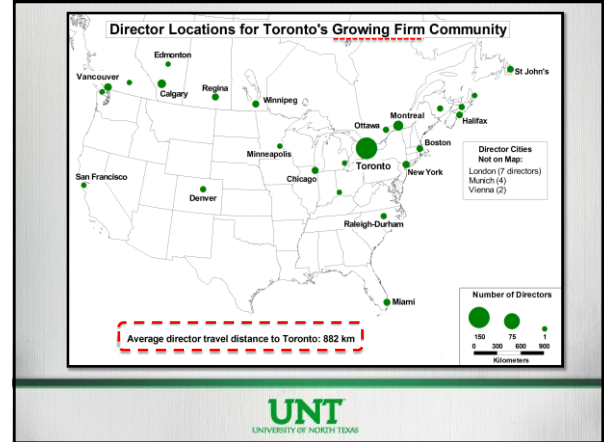
Firm/Director Links by HQ Region and Director Region for Declining Canadian Firms, 2006 (n=18 firms)

A chi-square analysis substantiates the difference between the two groups of firms

Test: compare the two tables, combining the "Foreign/US" and "Foreign/All Other" values to meet the chi-square test minimum value requirements

Result: calculated chi-square value of 19.87 (p=0.00)

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Conclusion

- Canada's growing and declining firms have distinctive regional orientations and network characteristics
- Growing firms are more likely than declining firms to invite long-distance board member participation
- Growing firms can be interpreted as securing for themselves specialized knowledge and participating in global influence networks

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Conclusion

- Canada's growing and declining firms have distinctive regional orientations and network characteristics
- Declining firms can be interpreted as having low participation in these same networks

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Conclusion

- Application
 - This research supports the contention that board member geographies have an important relationship to corporate performance
 - Businesses should assess their boards relative to their strategic knowledge gathering and influence management needs
 - Businesses ought to consider board member location as they review their corporate positioning

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Conclusion

- For more details on this research, please see the published version of this paper:

Rice, M.D., S. Tierney, S. O'Hagan, D. Lyons, and M.B. Green (2012) 'Knowledge, influence, and firm-level change: A geographic analysis of board membership associated with growing and declining businesses in the Canadian economy', *Geoforum* 43(5), 959-968.

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