LAW REGIME AND CULTURAL HERITAGE AS DETERMINANTS OF OWNERSHIP: Demystifying the puzzling Canadian Ownership Concentration

We contrast the governance features of Canadian listed firms to those of U.S. and U.K. to test the law regime hypothesis. To examine the Canadian “puzzling” governance we use the “path dependence” hypothesis to compare the governance features of Quebecois firms to those in the rest of Canada and in France.

I. Introduction

La Porta et al. (1998) sustain the view that countries functioning under a Common law regime, mainly the “Anglo-Saxon” model, offer better protection to the small investors and more suitable conditions for the development of large and more liquid capital markets than do countries under Civil law regimes mainly the “Franco-Saxon” countries. Stulz and Williamson (2001) document also that not only law regime but also culture, openness and religion roots are important factors in explaining the degree of shareholder protection and consequently the differences in corporate governance systems around the world.

Disturbingly, neither such appealing institutional arguments nor the law origin stand when we compare Canadian governance structure to other “sisters” Anglo-Saxon countries. In fact, Canada presents broad similarities with U.S. and U.K in regard with capital markets, law regime and culture heritage, yet it displays high ownership concentration. However, previous research on Canadian corporate governance was limited to small samples of public firms and proceeds as if Canadian firms were also organized as their US counter-parts. Indeed, in study, we seek to fill in this gap in our knowledge. Our first contribution stems from conducting in-depth analysis of the ownership structure and means of enhancing control in Canada. We traced back

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1 We would like to acknowledge helpful comments from Larry H.P. Lang, Guy Charest, Jean-Marie Gagnon, and Klaus Fischer. Yoser Gadhoum acknowledges financial support provided by the Social Sciences and Humanities Research Council of Canada. Najah Attig also acknowledges financial support provided by the Excellence Doctoral Fellowship Program of the Social Sciences and Humanities Research Council of Canada.

2 In fact, the two systems differ in many respects. For instance, English Common laws protect private property rights; in contrast, civil codes of French origin (in Napoleonic times) were constructed to solidify State power (North and Weingast (1989)). In addition, the two regime types differ in their ability to deal with changing conditions (Beck et al. (2002)). Civil law relies on changes in statutory law rather than on jurisprudence. Civil Code leaves less room for the judges’ interpretation and claims that justice is better applied with periodically revised fixed rules. By contrast, as argued by Stulz and Williamson (2001), common law countries, with their reliance on a constantly evolving jurisprudence, ensure that ‘the enforcement of laws can adapt to changes in the economy’.
the ownership chain for all the layers till the ultimate owner of almost all Canadian listed firms in the Toronto Stock Exchange.

The second contribution of this paper stems from testing the impact of law regime on ownership structure at the firm-level by contrasting our results to those of “sisters” Anglo Saxon/Common Law countries (i.e. U.S. and U.K.). We focused the comparison between Canada, U.S. and U.K. Under the law regime argument of La Porta et al (1998), we should expect similar ownership structures in Canada, US and UK given that they all have broadly similar Common Law heritage, as well as similar technology and human capital systems and they are both operating in similar institutional frameworks (Morck et al. (2001)). Surprisingly, our results suggest more ownership concentration in Canada and the presence of potential expropriation risk of minority interests by large ultimate owners who seem to make pervasive use of different means (e.g. pyramidal holdings, cross holdings and reciprocal holdings) to enhance their control over their ownership.

Our third contribution stems from testing the “path dependence” hypothesis³ (Bebchuck and Roe (1999)) to demystify the “Canadian puzzle”: why Canadian Ownership is so different from U.S. (and U.K.)? We speculate that the French heritage of Quebec and its Civil law regime may explain its ownership status. The enduring and uniqueness features of Quebec as part of North America are rooted in its history. Our research of the history of Canada gives us some insights that the Canadian ownership structure might have been influenced by the Quebec’s uniqueness within the confederation.

To test this hypothesis, we use nonparametric tests to compare ownership structures of firms that face (almost) the same mantle of legal restrictions, but have different cultures and histories: firms headquartered in the French speaking province (Quebec) and those in the rest of Canada (Anglo-Saxon provinces). Our results suggest that ownership structure and governance system of Quebec is closer to France than to the other provinces in Canada, mainly, because Quebec, like France, has a civil code, but all other provinces operate under the Common Law code. Since politics and law about exhaust the sources of credible exogenous explanations for corporate structure and conduct, Canada would seem to illustrate some form of the path dependence discussed by Bebchuck and Roe (1999).

The paper is organized as follows. In section 2 we describe the construction of the database. In section 3 we examine the ownership and control structure of Canadian firms. Section 4 describes the means of enhancing control. We investigate the puzzling Canadian governance structure by examining the effect Canadian historical (culture) heritage in section 5. Section 6 concludes the paper.

II. Data Gathering and Method of Selection

We consider 1167 Canadian listed firms appearing in the 1996 version of Stock Guide. The year was chosen to allow comparisons with ownership structures reported for other countries in recent studies (La Porta et al. (1999), Claessens et al. (2000), and Faccio and Lang (2002)). Data on the identity and size of direct and ultimate ownership and control stakes are collected

³ According to Bebchuck and Roe (1999) initial conditions of law, regulation and politics put a nation on the path to a corporate ownership structure differing substantially from that of sister nations with similar current legal and political structures.
manually from two competing sources: (1) *The Financial Post* (FP) “Survey of Industrials” and “Survey of Mines and Energy Resources” for 1996 (2) Statistics Canada *Intercorporate Ownership in Canada* (1996). In particular, their information includes the identity of all major shareholders and their stakes, as well as the directors’ ownership for all listed firms. Cases for which sources show disagreements over identity or block size are reconciled through *Stock Guide*. We follow La Porta et al. (1999) and Claessens et al. (2000) in the construction of our ultimate ownership database. We exclude all affiliates of foreign companies since we cannot follow their ownership chain, and, similarly, for the cases with no traceable ultimate owners due to the use of street securities. After screening, we are left with 1,121 Canadian publicly owned firms. Following previous studies, we look at shareholders who control over 10% of the votes and the subset above the 20% threshold.

Our variables belong to three categories: (1) variables related to the (direct and ultimate) control distribution; (2) variables related to the means of enhancing control; and (3) variables related to the existence of an ultimate owner and its type. We also compute the “first ultimate control” over “first ultimate ownership” ratio so as to measure the deviation between control and ownership. To be able to assess whether the second ultimate owner may reduce the first ultimate owner’s potential to expropriate minority interests, we compute the ratio of first stakes (control and ownership) over second stakes. Subsequently, we identify the means used by ultimate owners to enhance their control and accentuate the control-ownership deviation. For that purpose, we use a set of dummy variables to verify the presence of non voting shares, multiple class shares, pyramidal holdings, cross holdings, reciprocal holdings, and the presence of family-related members in top management positions. We also compute the minimum capital needed to control 20% of the votes. This provides a direct indication of the deviation from the one-share-one-vote rule that might signal an expropriation opportunity for the controlling owners.

In parallel, we distinguish between widely-held firms and those with ultimate owners. According to the first definition, a widely-held firm does not have any owner with control rights above the 10% threshold. We substitute the 20% threshold in our second, less stringent, definition. We allow for five types of ultimate owners: 1) a family or an individual, 2) the State, 3) a widely-held financial institution 4) a widely-held corporation, or 5) a miscellaneous investor (i.e., a charity, a voting trust, a cooperative, a minority foreign investor). Each type is a standard binary variable with level 1 or 0. In Appendix I, we illustrate the procedure of data gathering through the case of the McCain Group.

III. Who Owns Canadian Companies

In this section, we describe the distribution of corporate control and ownership of Canadian traded firms. In Table 1, we examine the control distribution (Panel A) and distribution for each ultimate ownership type (Panel B) of Canadian public firms. To compare our results with recent and similar sampling research, which can enrich our discussion and better position our

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4 For example, a firm has 1000-type A shares (three voting rights per share), 5000-type B shares (two voting rights per share), 70 000-type C shares (one-share-one-vote). The total number of outstanding shares is 76 000 (= 1000 + 5000 + 70 000) whereas the total number of voting rights is 83 000 (= 1000x3 + 5000x2 + 70 000x1). The controlling shareholder needs to hold 16 600 (= 0.2 x 83 000) voting rights to control 20% of total voting rights, which means 1000-type A shares, 5000-type B shares, and 3600-type C shares for instance. That is, the controlling shareholder needs 12.63% [= (1000 + 5000 + 3600)/76 000] of the total cash flow rights to control 20% of voting rights.
findings about Canadian ownership, we report also in Table 1 results for two other Common Law/Anglo-Saxon countries: U.S. and U.K5.

In Panel A- Table I, we document that in Canada the first largest and the second largest blockholders control on average 33.58 and 6.88 percent respectively of the firm’s voting power. When we examine the ultimate stakes, we find that the largest block of control and the largest block of ownership average 31.62 and 25.69 percent. The average block of control and ownership in Canada are larger than those reported for U.K. (25.13 and 22.94) and US (18.36 and 16.74).

Next, we look, in Panel B-Table 1, at the types of ultimate owners, at both the 10% and the 20% levels. We find that, at the 10% threshold, only 17.54% of Canadian firms are widely-held. When the control threshold is increased to 20%, this proportion of Canadian widely-held firms rises to 36.24%. These figures are lower than those reported for U.K. (62.79) and U.S. (71.89). These results suggest that similarity in corporate ownership structures among countries with the same Anglo-Saxon heritage and Common Law regime do not stand when we compare Canada, US and UK.

Table 1: Descriptive statistics of ownership and control in Canada, U.S., and U.K.

The table below displays descriptive statistics of corporate control and ownership distribution of 1121 Canadian traded corporations. Data are collected from the Financial Post (FP) "Survey of Industrials" (1996) and Statistics Canada Intercorporate Ownership in Canada (1996). Table 1 displays also results for U.K. and U.S. reported in Faccio and Lang (2002) and Gadhoum, Lang, and Young (2003), respectively.

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5 Data for U.K. is from Faccio and Lang (2002) and for U.S. is from Gadhoum, Lang and Young (2003).
Panel A: Corporate Control Distribution

<table>
<thead>
<tr>
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<th>Average size of direct block of control in %</th>
<th>Average size of ultimate stakes</th>
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<tbody>
<tr>
<td></td>
<td>First largest</td>
<td>Second largest</td>
</tr>
<tr>
<td></td>
<td>Control</td>
<td>Control</td>
</tr>
<tr>
<td>Canada</td>
<td>33.58</td>
<td>6.88</td>
</tr>
<tr>
<td>U.K.</td>
<td>n.a</td>
<td>n.a</td>
</tr>
<tr>
<td>U.S.</td>
<td>18.74</td>
<td>6.33</td>
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Panel B: Frequency distribution of the type of ultimate owner

<table>
<thead>
<tr>
<th></th>
<th>Widely-held firms</th>
<th>Firms with ultimate owner</th>
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<tbody>
<tr>
<td></td>
<td>10% level</td>
<td>20% level</td>
</tr>
<tr>
<td>Canada</td>
<td>17.54</td>
<td>40.26</td>
</tr>
<tr>
<td>U.K.</td>
<td>36.24</td>
<td>63.08</td>
</tr>
<tr>
<td>U.S.</td>
<td>40.26</td>
<td>63.08</td>
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<th></th>
<th>Ultimate owner type</th>
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<tbody>
<tr>
<td></td>
<td>10% level</td>
</tr>
<tr>
<td>Family</td>
<td>56.60</td>
</tr>
<tr>
<td>Widely-held financial institution</td>
<td>17.94</td>
</tr>
<tr>
<td>Widely-held corporation</td>
<td>10.79</td>
</tr>
<tr>
<td>Government</td>
<td>4.46</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>10.88</td>
</tr>
</tbody>
</table>

Remember that generally, the ultimate owner tends to hold influential control stake to generate private benefits at the expense of minority interests and to dominate management. The probability of such exploitation will depend on the type of the ultimate owner, his control and cash flow stakes, and other institutional factors (legal system, investor protection, etc.) as described in La Porta et al (1999). Panel B-Table 1 show that family control is more pronounced in Canada than in U.K. and U.S. More precisely, Canadian families control 41.06 (56.60) % of the voting power at the 20 (10) % threshold which is sharply higher than the proportion of 23.68% and 20.00% of family controlled firms in U.K. and U.S., respectively. Similar patterns are reported for the other ultimate owners, where financial institutions and widely-held firms are controlling, respectively, 11.15% and 9.66% of Canadian firms (at the 20% threshold). These figures are larger than those reported for U.K. (8.94 and 0.76) and U.S. (4.66 and 2.41). Besides, the Canadian government is playing a quite important role in Canadian ownership, where it is controlling, on average, 2.03 (4.46)% of listed firms at the 20 (10)% cut-off, whereas, government control is close to non-existent in both U.K. and U.S.

IV. Means of Enhancing Control in Canada

We examine in this section the mechanisms used by large blockholders to achieve a more concrete separation between ownership and control in order to expropriate more easily small and atomistic shareholders. More specifically, we investigate the use of multiple class voting shares, non voting shares, pyramidal structure, cross-holding, reciprocal-holding, the existence of a second ultimate owner and the dominance of insiders (i.e. the controlling family appoints some of its members to top management positions to enhance its control). Panel A in Table 2 shows that pyramidal, cross, and reciprocal holdings are used to gain control in respectively 33.5, 8.24 and 2.62% of Canadian traded corporations. These proportions are clearly lower in UK and fall drastically in U.S. where 8.46, 1.15 and 0.13% of U.S. sampled firms are controlled through

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6 This refers to federal, provincial, or a local authority including municipality or a government agency.
pyramidal, cross, and reciprocal holdings compared to 21.13, 0.00 and 4.93 % in U.K. Multiple class shares seem to be a preferred mean of enhancing control in Canada where 16.10% of firms have multiple classes of shares, which is higher than in U.S, but however lower than the proportion of 23.91% reported for U.K.

The evidence above may reflect the power of the ultimate owner, in Canada, who tries to use these means to enhance his control without being financially constrained by limiting her/his financial commitments. Such means would offer the ultimate owner the “incentive” and ability to extract rents through the webs of their shareholdings7. In this context, we report that the magnitude of the deviation between control and ownership is relatively high in Canada. Namely, when we compute the minimum capital to control 20% of voting power, we find that a Canadian controlling shareholder needs, on average, only 18.3% of cash flow rights to control 20% of voting power. This ratio is equal to 19.14 in U.K. and 19.32 in U.S.

**Table 2: Means of enhancing control in Canada, U.S., and U.K.**

The table below displays descriptive statistics of corporate control and ownership distribution of 1121 Canadian traded corporations. Means of enhancing control, some dilution proxies, and the correlation matrix of the means of enhancing control are displayed in Panel A, Panel B, and Panel C of Table 2, respectively. Data are collected from the Financial Post (FP) "Survey of Industrials" (1996) and Statistics Canada Intercorporate Ownership in Canada (1996). Data for U.K. is from Faccio and Lang (2002) and for U.S. is from Gadhoum, Lang, and Young (2003).

<table>
<thead>
<tr>
<th>Panel A: Means of enhancing control</th>
<th>Pyramidal holding</th>
<th>Cross holding</th>
<th>Reciprocal holding</th>
<th>Multiple class shares</th>
<th>Non voting shares</th>
<th>Minimum capital to control 20% of votes</th>
<th>Second ultimate owner (10 percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>33.50</td>
<td>8.24</td>
<td>2.62</td>
<td>16.10</td>
<td>6.89</td>
<td>18.30</td>
<td>37.69</td>
</tr>
<tr>
<td>U.K.</td>
<td>21.13</td>
<td>0.00</td>
<td>4.93</td>
<td>23.91</td>
<td>n.a</td>
<td>19.14</td>
<td>n.a</td>
</tr>
<tr>
<td>U.S.</td>
<td>8.46</td>
<td>1.15</td>
<td>0.13</td>
<td>8.19</td>
<td>1.6</td>
<td>19.32</td>
<td>37.08</td>
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<tr>
<th>Panel B: Expropriation proxies</th>
<th>First largest ultimate ownership over first largest ultimate control</th>
<th>Second largest ultimate ownership over Second largest ultimate control</th>
<th>First largest ultimate control over second largest ultimate control</th>
<th>First largest direct control over second largest direct control</th>
<th>Management from controlling families (10 percent)</th>
<th>Management from controlling families (20 percent)</th>
<th>Second ultimate owner (20 percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>0.85</td>
<td>0.30</td>
<td>57.82</td>
<td>4.50</td>
<td>44.66</td>
<td>34.27</td>
<td>16.13</td>
</tr>
<tr>
<td>U.K.</td>
<td>0.88</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>57.00</td>
</tr>
<tr>
<td>U.S.</td>
<td>0.98</td>
<td>0.19</td>
<td>5.72</td>
<td>1.41</td>
<td>24.57</td>
<td>15.11</td>
<td>6.88</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel C: Pearson Correlation coefficients between means of enhancing control in Canada</th>
<th>Pyramidal holding</th>
<th>Cross holding</th>
<th>Reciprocal holding</th>
<th>Multiple class shares</th>
<th>Management from controlling families (10)</th>
<th>Second ultimate owner (20 percent)</th>
</tr>
</thead>
</table>

7 For instance, suppose firm X controls firm Y with 73% of cash flow and voting rights (ownership = control). Firm Y, in turn, hold 13.70% (ownership = control) in firm Z. Hence, firm Z is “ultimately” controlled by firm X through pyramidal holding. According to our method of computation: X holds 10% of ultimate ownership (=70%*13.70%) and 13.70% of ultimate control in Z (=[min(13.70%,70%)]. If for example, Z buys asset from X overpriced by 5000$, then ultimate owners (A) gain, to the detriment of C shareholders, 4500$=5000*(1-ownership of X in Z)=5000*(1-(0.13.70*0.73) (Attig et al. (2002)).
This result would suggest that, despite its democratic Common Law regime, and however developed its financial markets and investor protection mantle; Canadian corporate shareholding confers more separation between control and ownership than “sisters” countries and permits ultimate owners to enhance their control, which may give them indirectly the right to extract undue rents. Hence, agency costs and asymmetric information would be higher in Canada than in U.S. or U.K. For instance, Attig et al. (2003) examine the relationship between stock liquidity and ultimate ownership structure in Canada. They find that the presence of a family and the deviation between ultimate ownership and ultimate control increases the bid-ask spread.

To characterize further the Canadian ultimate owner, we examine whether she/he is the only ultimate owner. We find that in 83.9 (62.31) % of Canadian firms, the ultimate owner is alone at the 20 (10) % threshold. That is on average, one ultimate owner, who holds one block of control exceeding 20 percent, monopolizes the control in 83.9% of Canadian corporations. This proportion sharply falls to 43% in U.K. but surprisingly increases to 93.12% in U.S. Gadhoum et al. (2003) argue that this might be inoperative in the US because minority shareholders can rely on legal protection of their rights. One can argue that the presence of a second ultimate owner may, on the one hand, act as an effective monitor on the first ultimate owner, and weaken the links that lead to expropriation of minority interests.

In Panel B-Table 2, we proxy the private benefits by computing the ratio of largest ultimate block of ownership over the largest ultimate block of control. The closer this ratio to one the weak the separation between ownership and control, and the lower the probability of expropriation of minority interests, ceteris paribus. This ratio is equal to 0.85 in Canada whereas it equals to 0.88 in UK and 0.94 in U.S. In addition, we compute the ratio of the largest ultimate block of control over the second ultimate block of control. This may provide an indicator of the power of the first ultimate owner compared to that of the second ultimate owner. This ratio is equal to 57.82 in Canada, which is ten times bigger than in U.S (5.72). These figures contribute to strengthen the argument that the risk of expropriation is higher in Canada than in “sisters” Anglo-Saxon countries (U.K. and U.S.).

In sum, the deviation of control rights from ownership rights is relatively high in Canada. Such deviation increases the probability of the expropriation of atomistic absentee shareholders.

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8 On the other hand, she/he may collude with the first ultimate owner in common endeavors of various natures, to expropriate even more minority interests.
Pyramidal holdings, cross holdings and reciprocal holdings are pronounced in the Canadian corporate landscape. Another mechanism of strengthening the ultimate control and power of the largest ultimate owner is to appoint a member of the controlling family to top management positions. In this study, we investigate whether a member of the controlling family is the CEO, Honorary Chairman, Chairman, or Vice-Chairman of the Board. For this purpose we only analyze family controlled firms since we cannot collect information on officers and directors appointed by other shareholders, such as the State, financial institutions or other corporations. The only way to obtain information on family membership is by looking at the last name of the officer or director. This method is likely to bias our results towards an under-estimation of family affiliation inside the boards of family-controlled firms. Moreover, our results may also be biased because smaller companies are more likely to have an owner who is also the CEO or Board Chairman. Keeping these drawbacks in mind, we document that 34.27 (44.66) % of Canadian firms have controlling families in top management positions at the 20 (10) % threshold which is higher than the 24.57 (15.11) % reported in U.S. When, we restrict our analysis to family controlled firms, we find that 73.46% of family ultimate owners in Canada appoint their family members to top management positions at the 20% threshold.

Finally, in Panel C, we report correlation coefficients between means of enhancing control in Canada in order to investigate whether they substitute or complement each other. We report positive and significant correlation between all the means of enhancing control. We can infer that ultimate owners have various means to enhance their control and are likely to use many at a time to secure more private benefits. In Canada ultimate owners have in hands various means to expropriate minority interests9.

VI. The Puzzling Canadian Corporate Control

Our data suggest that control and ownership are concentrated in Canada compared to U.K. and U.S. Recall that La Porta et al. (1999) argued that the differences in institutional indexes might explain the differences in corporate ownership structures around the world. Yet, despite the similarity between Canadian and US (and UK) institutional indexes (Table 3), their corporate ownership structures are sharply different.

Table 3: Comparative institutional indexes

The table below displays six country level indexes obtained from La Porta et al. (1998). The index of judicial efficiency is produced by Business International Corporation and averaged by La Porta et al. (1998) over the 1980-1983 period. It produces a rating of the “efficiency and integrity of the legal environment”. Taking values from 0 to 10, the index improves with the score. For the rule of law, La Porta et al. (1998) assign a scale from 0 to 10 a proxy for law and order tradition in the country. Lower scores for less tradition or for less law enforcement. However, high score for corruption index indicates low level of corruption. Risk of expropriation index is an aggregate index negatively related to the opportunistic behavior of controlling shareholders. Accounting rating index ranges from 0 to 90 and is intended to measure accounting standards. GDP per capita refers to gross domestic product per capita in dollars in 1995 (from World Development Report, 1997).

9 In an attempt to deal with this issue more deeply, we classify firms by size. Results are not reported in the text. We find that firm size is not neutral toward the ownership structure.
Furthermore, Canada and the UK have quite similar capital market sizes, but their corporate ownership and control stakes are different. Even more disturbing, Canada displays even better institutional indexes (less corruption and less risk of expropriation and a better rating on accounting standards) than U.S. and U.K. Consequently, we expect less concentrated ownership in Canada than in U.S. and U.K. Our findings show the opposite. The research question remains unanswered yet: why is the Canadian ownership structure more concentrated and so different from the ownership structure in U.S. and U.K.?

In fact, some important features documented through our investigation show the high probability of expropriation of the minority interests by large controlling owners of Canadian corporate firms. This is evidenced by the difference between ownership and control blocks. This appears surprising, as far as Canada has the highest index of investor protection and a Common law heritage (La Porta et al. (1999)). A natural question, then: Why would the Canadian corporate governance system fail to protect adequately minority shareholders? Part of the answer to this puzzling evidence might be found in the history of Canada with its protectionism and nationalism entrenched within the Canadian entrepreneurial culture.

To investigate further the Canadian puzzling corporate ownership structure, we examine the effect of historical culture and politics on shaping the ownership structure in Canada. It seems the arguments presented in Bebchuck and Roe (1999) on path dependency of ownership structure and by Bebchuk (1999) on private benefits of control offer some explanation. Specifically, initial conditions of law, regulation and politics put a nation on the path to a corporate ownership structure differing substantially from that of sister nations with similar current legal and political structures.

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10 They point out that rent seeking that private benefits of control explain intra-country ownership structure differences (yet is not the only source of path dependence).
To elaborate on the eventual sources of path dependence we examine the effects of Canadian historical heritage on shaping Canadian corporate governance\(^\text{11}\). Our research of the history of Canada gives us some insights that the Canadian ownership structure might have been influenced by the Quebec’s uniqueness within the confederation and it is important to question if the Canadian concentration of ownership structure is not a ‘Quebec effect’ consequence. Indeed, French and catholic background of Quebec brings into question the homogeneity of the Canadian ownership structure. To better understand this evidence we first, compare the Canadian structure with those of the US and the UK and, second, examine the effect of Canadian (historical) culture by splitting the Canadian global sample into two sub-samples: firms headquartered in the mostly French speaking province (Quebec) and those in the rest of Canada (mostly English speaking provinces). We speculate that the French heritage of Quebec and its Civil law regime may explain its ownership status.

Under the “Law origin” argument (La Porta et al. (1998)) and the elective affinity between the religious beliefs and the spirit of corporate capitalism heritages (Bebchuck (1999)), ownership structure of Quebecois firms should be more concentrated than that of firms in the rest of Canada, and should be similar to French firms. Mainly because Quebec, like France, has a civil code, in contrast the other provinces in Canada have a Common Law code. Our hypothesis is based on the derivation difference between the two law Codes. In fact, Common law code is derived from court decisions in specific cases, to avoid unfairness and eventual expropriation. As argued by Stulz and Williamson (2001), the advantage of common law countries is that ‘the enforcement of laws can adapt to changes in the economy’. However, the Civil Code does not leave room for judges’ interpretation and supposes that justice is achieved through the application of defined rules. Nevertheless, we should note that traded firms in Quebec and in the rest of Canada are created under the same law: Canada Business Corporations Act. In addition, stock market regulations in the different provinces of Canada are not remarkably different. Hence, despite the differences related to their law origin code, corporate ownership structure in Quebec might not be necessarily significantly different from that of the other Canadian provinces.

To test the hypotheses that the ownership structure in Quebec is similar (or not) to the rest of Canada, we distinguish between firms headquartered in Quebec and those headquartered in the rest of Canada. Then we contrast variables related to control distribution, type of ultimate owner and means of enhancing control between the two sub-samples. This will allow us to examine whether the Franco-Saxon legal system and the political economy in the province of Quebec significantly influence the ownership structure of firms in Canada. Results are described in the following section.

In Panel A, Table 4, we report the control distribution of Canadian Franco-Saxon firms (headquartered in Quebec) and Anglo-Saxon firms (headquartered outside Quebec). The largest direct and ultimate blocks of control and ownership are significantly higher for Quebecois firms (QUBFs hereafter) than for those in the Rest of Canada (ROCFs hereafter). In Panel B and C, Table 4, we examine the type of the ultimate owner at the 10 and 20\(^\text{th}\) thresholds respectively. We note that 18.75 (39.09) % of ROCFs are widely-held at the 10 (20) % cut-off, which is significantly higher than 10.20 (19.04) % reported for QUBFs. Around 90 (82) % of QUBFs have an ultimate owner at the 10 (20) % cut-off. Those proportions are significantly higher than those reported for ROCFs (80.67 and 59.66 at the 10 and 20\(^\text{th}\) respectively). Besides, family control (at 20\(^\text{th}\) level) and government control (at 10 and 20\(^\text{th}\) levels) are significantly more pronounced in Quebec than in the rest of Canada. Nevertheless, financial institution and widely-held

\(^\text{11}\) In Appendix II we summarize the major historical steps and their effects on Canadian governance.
corporation’s control blocks are indistinguishable between the two categories of firms. Overall, these results show that both ownership and control structures are more concentrated in Quebec than in the rest of Canada.

In Panel D and E, Table 4, we examine the means of enhancing control and some expropriation proxies. For QUBFs, the use of pyramidal holding (42.85%) and multiple class shares (31.97%) is significantly higher than in the rest of Canada (31.93 and 13.46% respectively). Similarly, we do not report significant differences for the ratio of the first largest ultimate ownership over the first largest ultimate control. The second largest ultimate ownership over the second largest ultimate control ratio and the first largest ultimate control over the second largest ultimate control ratio display no differences between Quebec and the rest of Canada. Yet, the ratio of the first largest direct block of control over the second direct block of control and the presence of family management in QUBFs are significantly larger than for those in ROCFs. Overall, ownership structure is more concentrated and family and government control are more pronounced in Quebec than in the rest of Canada.

Table 4: Corporate control distribution in Quebec versus the rest of Canada

The table below displays comparative descriptive statistics of corporate control and ownership distribution between firms headquartered in Quebec (a Canadian Franco-Saxon province) and the rest of Canada (Canadian Anglo-Saxon provinces). The sample includes 1,112 publicly traded corporations (155 headquartered in Quebec and 957 in the rest of Canada). The data are collected from the *Financial Post* (FP) "Survey of Industrials" (1996) and Statistics Canada *Intercorporate Ownership in Canada* (1996).
To sum up, our results show that firms headquartered in Quebec display more ownership and control concentration, more pronounced family and government control, and more
pronounced use of pyramidal and multiple class shares than firms headquartered in the rest of Canada.

As a robustness check, we investigate to which degree the French heritage has shaped Quebecois firms. For this purpose, we introduce some ownership and governance indicators of French firms (from France). If the cultural heritage hypothesis holds, we expect Quebecois firms to have more resemblance to France than to U.K and U.S. firms. We report the results of governance features of Canadian, Quebecois, non-Quebecois, French, U.K. and U.S. firms in Table5.

From Table 5, we can see that governance features of Quebecois firms related to control are closer to those of French firms than to the firms in the rest of Canada. For instance, 19.00% of Quebecois firms are widely held compared to 14.00% in France and 39.10% in the rest of Canada. In addition, 81.63% of Quebecois firms have an ultimate owner. This proportion is quite closer to that reported in France (86.00%) and sharply higher than that of the rest of Canada (59.66%). Government and financial institutions in Quebec and France are controlling smaller proportions of publicly traded firms.

The largest ultimate blocks of ownership and control in Quebecois firms are respectively 31.78% and 41.22% compared to 46.68% and 48.32% in France. The ratio of ownership over control is equal to 0.82 for Quebecois firms, which is sharply lower than a ratio of 0.93 for French firms. This means that the deviation between ownership and control is even more pronounced in Quebec than in France. The use of pyramidal ownership, cross holdings and multiple class shares support this evidence. For example, pyramidal ownership is used to control 42.86% of Quebecois firms compared to only 15.67% in France. Cross holding is close to non-existent in France; however it is used to control 10.20% of public firms in Quebec. In addition, 31.97% of Quebecois firms use multiple class shares; this proportion falls to 2.64% in France. Besides, we report that the minimum ownership needed to control 20% of the voting rights is equal to 17.15% for Quebecois firms, which is lower than the 19.93% reported for French firms.
<table>
<thead>
<tr>
<th>Country</th>
<th>Widely-held firms</th>
<th>Firms with ultimate owner</th>
<th>Family</th>
<th>Widely-held financial institution</th>
<th>Widely-held corporation</th>
<th>Government</th>
<th>Miscellaneous</th>
<th>Ultimate owner alone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada (Whole sample)</td>
<td>36.24</td>
<td>62.79</td>
<td>41.07</td>
<td>11.15</td>
<td>9.66</td>
<td>2.03</td>
<td>4.96</td>
<td>83.87</td>
</tr>
<tr>
<td>Quebec (only)</td>
<td>19.05</td>
<td>81.63</td>
<td>57.14</td>
<td>10.88</td>
<td>7.64</td>
<td>6.12</td>
<td>2.72</td>
<td>80.27</td>
</tr>
<tr>
<td>The rest of Canada</td>
<td>39.10</td>
<td>59.66</td>
<td>38.39</td>
<td>11.19</td>
<td>10.00</td>
<td>1.36</td>
<td>5.33</td>
<td>84.50</td>
</tr>
<tr>
<td>France</td>
<td>14.00</td>
<td>86.00</td>
<td>64.82</td>
<td>11.37</td>
<td>3.79</td>
<td>5.11</td>
<td>0.00</td>
<td>64.75</td>
</tr>
<tr>
<td>U.K.</td>
<td>63.08</td>
<td>36.92</td>
<td>23.68</td>
<td>8.94</td>
<td>0.76</td>
<td>0.08</td>
<td>3.46</td>
<td>43.00</td>
</tr>
<tr>
<td>U.S</td>
<td>71.89</td>
<td>28.11</td>
<td>19.82</td>
<td>4.66</td>
<td>2.41</td>
<td>0.00</td>
<td>1.22</td>
<td>93.12</td>
</tr>
</tbody>
</table>

**Panel B: Means of enhancing control**

<table>
<thead>
<tr>
<th>Country</th>
<th>Ultimate Ownership</th>
<th>Ultimate Control</th>
<th>Ownership/control ratio</th>
<th>Pyramidal holding</th>
<th>Cross holding</th>
<th>Reciprocal holding</th>
<th>Multiple class shares</th>
<th>Minimum capital to control 20% of votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada (Whole sample)</td>
<td>25.69</td>
<td>31.62</td>
<td>0.85</td>
<td>33.50</td>
<td>8.24</td>
<td>2.62</td>
<td>16.10</td>
<td>18.30</td>
</tr>
<tr>
<td>Quebec (only)</td>
<td>31.78</td>
<td>41.22</td>
<td>0.82</td>
<td>42.86</td>
<td>10.20</td>
<td>2.72</td>
<td>31.97</td>
<td>17.15</td>
</tr>
<tr>
<td>The rest of Canada</td>
<td>24.68</td>
<td>30.37</td>
<td>0.86</td>
<td>31.94</td>
<td>7.92</td>
<td>2.60</td>
<td>13.46</td>
<td>18.48</td>
</tr>
<tr>
<td>France</td>
<td>46.68</td>
<td>48.32</td>
<td>0.93</td>
<td>15.67</td>
<td>0.00</td>
<td>2.87</td>
<td>2.64</td>
<td>19.93</td>
</tr>
<tr>
<td>U.K.</td>
<td>22.94</td>
<td>25.13</td>
<td>0.88</td>
<td>21.13</td>
<td>0.00</td>
<td>4.93</td>
<td>23.91</td>
<td>19.14</td>
</tr>
<tr>
<td>U.S</td>
<td>16.74</td>
<td>18.36</td>
<td>0.94</td>
<td>8.46</td>
<td>1.15</td>
<td>0.13</td>
<td>8.19</td>
<td>19.32</td>
</tr>
</tbody>
</table>
VII. Conclusion

The separation of ownership from control confronts all corporations with an agency problem. Amongst U.S. corporations, the agency problem is between managers and dispersed shareholders, as managers can expropriate shareholders by appropriating corporate resources for personal consumption. In Canada, agency problems are between controlling owners and minority shareholders, since widely-held corporations are more the exception than the rule (the opposite in U.S.) and the most predominant ultimate owner is family with top management positions in hands of kins.

Our results indicate that, despite the similarities in institutional indexes between Canada and two other Anglo-Saxon countries namely U.S. and U.K., the Canadian corporate structure has very different patterns from those with the same law regime. We contrast the ownership structures of firms headquartered in Quebec and in the rest of Canada in order to investigate the influence of Quebec with its civil law background on the ownership of Canada. We also compared the results of firms in Quebec with those in France. Our results show that firms headquartered in Quebec display more ownership and control concentration, more pronounced family and government control, and more pronounced use of pyramidal and multiple class shares than firms headquartered in the rest of Canada. Ownership structure in Quebec seems closer to France than to the rest of Canada. This gives some support to the hypothesis of law regime suggested by La Porta et al (1998) and the ownership “path dependence” of Bebchuck and Roe (1999).

Our results would suggest that, despite its democratic Common Law/Anglo-Saxon regime, and however developed its financial markets and investor protection mantle; Canadian corporate shareholding confers more separation between control and ownership than “sisters” countries and allows ultimate owners to enhance their control, which give them indirectly the right to extract undue rents, leaving higher agency costs inherent in Canadian corporate market place, particularly within Quebecois firms, than in U.S. or U.K.

We submit that the evidence gathered in this research is important for many reasons. Namely, we documented that Canada, despite its Common Law and Anglo-Saxon heritage and reputed investor protection record, has nonetheless concentrated corporate ownership structure and we showed some indicators of a vulnerable governance system in Canada and mainly in Quebec. The paper can be useful to regulators and law-settlers, at various levels, including disclosure rules in accounting standards and corporate law enforcement, in order to assure and improve the efficiency of the Canadian stock market.
References


Gadhoum, Y., Lang, L., and Young, L., 2003, Who Controls U.S.?, mimeo, The Chinese University of Hong Kong


Appendix I: The McCain Family case

Here is a case showing how the ownership chain of individual companies is traced back to its ultimate owners, the McCain family Group, which includes a large number of listed and non-listed firms. We have first McCain Capital Corporation, which is controlled by GWF Holding Inc. at the 49.2% level of control and ownership. The major shareholder of GWF Holding Inc. is GWF Holding Trusts with a stake of 90.9% of control and cash flow rights. The second major shareholder of GWF Holding Inc. is M.N. McCain Family Trust with 9.0% control and ownership stakes. The McCain family wholly controls both GWF Holding Trust and M.N. McCain Family Trust. In this case, it controls McCain Capital Corporation via pyramidal holdings (GWF Holding Inc. and GWF Holding Trust) and a cross holding (M.N. McCain Family Trust). To compute the ultimate ownership and control stakes held by the McCain family in McCain Capital Corporation, we first consider its holding in GWF Holding Inc. The ultimate ownership stake of the McCain family in GWF Holding Inc. is equal to: 99.9% (= 90.9%*100% + 100%*9%), and the ultimate control is equal to: 99.9% \[= (\min (90.9\%, 100\%) + \min (9\%, 100\%))\]. Then, the ultimate ownership stake of the McCain family in McCain Capital Corporation is equal to: 49.15% (= 99.9%*49.2%) and the ultimate control is equal to: 49.2% (= (\min (49.2\%, 99.9\%))).
Appendix II: Canadian Historical Heritage

We speculate that Canadian ownership structure might have been influenced by the Quebec’s uniqueness within the confederation. The French heritage of Quebec and its Civil law regime may help to explain its ownership status. The enduring and uniqueness features of Quebec as part of North America are rooted in its history, which can be summarized under the following:

i) A French Conquest (1663-1763)

Canada’s European history starts with a French navigator Jacques Cartier claiming the territory for France in 1534. Little has happened before Quebec City was founded in 1608. New France grew very slowly first under French merchant companies. By 1663, New France became a fully-fledged colony of France, under Louis XIV, with the same royal administrative structures as a French province (e.g. justice, financial administration, etc.). With a monarchical government, companies were struggling to gain monopoly that reflects the desire “of the state to better orient and control economic policy” (Young (1988)). Families and hierarchical social structure were characteristics of the “New France” society. More important, social status and professional advancement were decided by birth and nepotism. Overall, the colony was governed by the Custom of Paris, a set of French regulations and laws influenced by a religious and state ideology “that valued paternal authority and responsibility” and protected the French Canadian nation from external influences.

ii) A relatively non-influential British Conquest (1763-1783)

The British Conquest ended a century of French colonization, but despite important changes12, the British Crown allowed Canadian French Catholics to retain the French Civil code and the “fundamental institutions and ideology of pre-industrial society” (Innis (1943), Guindon (1960), and Young (1988)). However, the French-Canadians feared that their interests would be subordinated to those of the English-Canadians, especially because the clauses of the Montreal capitulation do not guarantee the rights of Catholics and the embryonic bourgeoisie of New France was destroyed. They were seeking for “a greater part of the yield of the new economic system” and the preservation of French Canadian rights. This was an important factor in the nationalist movement and “in the push for increased cultural, political, and economic sovereignty”. Fearful of increasingly powerful Canadian francophones, the British Crown sent Loyalists to challenge the predominantly French nature of Quebec. In 1791, the Constitutional Act reinforced the imperial control on political structures in Quebec, but still guaranteed the basic institutions of the French regime and French Civil law. Such Act institutionalized the political confrontation between French Catholic and British Canadians. Nevertheless, a small elite controlled capitalist and political powers, mainly British that continued to favor class and family connections.

iii) The emergence of a nationalist and separatist movement and the state and church interventionism in Quebec

The French Revolution, the prosperity of rural regions, and the rapidly growing French Catholic population marked an increasing dominance of the conservative francophone bourgeoisie and capitalists and a reinforcement of the financial and political positions of the Roman Catholic Church (the 1820s and 1830s). The ascendancy of the Catholic Church over the French-Canadian political and commercial spheres increased generally during the British Colonial period (ending in 1867) and remained important up until the 1950’s after which it receded rapidly. The Catholic Church articulated the values of the French Canadians, expanded

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12 The colony passed from a feudal country to an expanding commercial nation (Wallace (2002)).
the size of French institutional holdings, and provided French élites and nationalists. These élites challenged English Canadian control of Quebec’s economy. They were able to impose a nationalist spirit on Quebec’s government policies. They launched state corporations and favored the French Canadian bourgeoisie at the expense of Canadian anglophones’ economic power (Bradbury (1982)). After the Confederation, the alliance of the clerical hierarchy and francophone bourgeoisie with the industrial producers left the province in the hands of conservative elements that re-shaped economic, political, and social organizations of Quebec.

By the 1960s, the Quebec government was still giving francophones more economic power (e.g. favoring Quebec-based suppliers in government purchasing policies, tax incentives, interest free loans) and followed European, namely French, models of development rather than the “laisser-faire” model used in US and Anglo-Saxon Canada (Wallace (2002)). The nationalist spirit ostensibly led to a separatist movement, an increasingly concentrated ownership of corporations with interlocking directorships and a centralized family management\(^{13}\). To some extent, the nationalist ideology, the protectionist environment with its civil code seems to have influence on shaping corporate landscape in Quebec (e.g. property rights, contracts, creditor/debtor relations and commercial interactions, establishment of Crown corporations)\(^{14}\). For instance, the Charter of the French Language ensures the survival of the French language and employment and business opportunities for French-speaking people. Besides, many anglophone entrepreneurs (e.g. the Bronf mans, the McConnels, the Websters, etc.) seem to be disgusted with the favoritism of the French Canadians and with the threat of Quebec separation, so they decided to move to Toronto.

\(^{13}\) For instance, Paul Desmarais’ empire was favored by the new French political reality during the “Quiet Revolution”. A close friend of P. E. Trudeau, Premier in 1968, who “favored” French Canadians, and close to J. Chrétien, whose daughter is married to a second generation Desmarais, relied on his political and culture connections to secure the path of his business success.

\(^{14}\) e.g. The Caisse de dépôt, the largest holder of Quebec firms’ stocks, initially opposed the bid of LobLaw, the Ottawa-based grocery chain, to acquire the Montreal-based Provigo. More importantly, the Caisse de dépôt “influenced the French firm Carrefours to acquire Provigo…Premier Bouchard openly stated his opposition to Loblaw’s offer and similar takeovers” (Graham et al. (2000)).