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Rona: a tragedy in three acts

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Act I: In July 2012, the American corporation, Lowe's, makes some noise about acquiring RONA, the Quebec-based chain of hardware stores. Coming on the eve of an election campaign in Quebec, the prospect of a foreign acquisition of a "strategic" Quebec company generates strong reactions and a sort of political consensus: "The Quebec government must give itself the means to block such 'hostile' actions." Shaken by this political agitation and likely social fallout, Lowe's pulls back without making an offer. The Quebec government then examines various options to protect local control of corporations against foreign takeovers. The best seems to be that government-controlled or government-friendly financial institutions collectively but independently acquire a blocking position in the shareholders' equity of "strategic" companies. That actually is implemented in the case of RONA.

Act II: Three and a half years later, Lowe's comes back with a "generous" bid for all RONA shares. It will turn out to be a bad deal for Lowe's, as was Rio-Tinto's acquisition of Alcan. The price was too high and the integration issues more formidable than anticipated. However, at the price offered the deal received the enthusiastic support of the executive officers, members of the board and shareholders, including government-friendly institutions. All were substantially enriched by this transaction. Lowe's became the owner of the Quebec corporation but had to make some vague commitments about how many jobs would be preserved and where RONA's headquarters would be located.

Act III: A third troubling act is now unfolding—though it lacks suspense as the outcome is already a foregone conclusion. Lowe's is under pressure in the markets for lackluster performance and its Canadian operations (i.e., RONA) have become a drag on earnings.

In spite of the solemn, albeit vague, commitments to permanent jobs and other things that it delivered at the end of the second act, Lowe's is listed on the New York Stock Exchange and thus must deliver on the only commitment that really counts: doing everything to maintain and drive up the price of its stock. At stake in that very real day-to-day drama are the jobs of its senior executives and the quantum of their compensation. Any hesitation or delay in taking all necessary measures to meet the shareholders' expectations will be severely and swiftly punished.

That is the inexorable law of financial markets, and it also applies to Canadian companies when they are acquiring companies abroad.

One may regret the turn of events at RONA, but it does no good and benefits no one to raise the specter of boycotts and other forms of reprisals against RONA/Lowe's, as some voices are currently doing. So what should be done?

In the Canadian legal and regulatory context, the only obstacle to hostile takeovers comes from the form of a corporation's ownership and control. Mechanisms such as dual-class multiple-voting shares, controlling shareholders, and legal impediments to foreign control (such as exist for banks, insurance companies, air transporters, telecommunications companies)—all these shield companies, not only from any kind of short-term pressures from shareholders, but also from unwanted takeovers.

These days, however, takeovers, foreign or domestic, are rarely "hostile" but instead are usually abetted by willing boards of directors, as in the second act of RONA. When that's true, the only way the Quebec government could block a takeover of a "strategic " company would be through the creation of some informal consortium of institutional funds, such as Investissement Québec, the Caisse de dépôt, the Fonds de solidarité, the Mouvement Desjardins, which would collectively hold a third of all voting shares in "strategic" companies, whatever those may be. But that would be very controversial and would raise many thorny issues.

Let's beware: what starts as tragedy often ends up as farce!

The opinions expressed here are his alone.