The Fording chess game
WHERE ALL THE PLAYERS STAND, DEBORAH YEDLIN, B2

Pulp price recovery seen by spring
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REPORT ON BUSINESS

CANADA'S BUSINESS NEWSPAPER ▪ FOUNDED 1962 ▪ GLOBEANDMAIL.COM ▪ MONDAY, DECEMBER 16, 2002

Body Shop in sale talks

Owner of Canadian franchise seeking buyer for socially conscious retailer

BY MARINA STRAUSS
RETAILING REPORTER

Body Shop Canada is in talks to sell its franchise network as the high-profile pioneer of socially conscious retailing fights off bad publicity tied to its British parent and tries to freshen its domestic stores.

A spokesman for Body Shop Canada confirmed last week that the company "has been approached by a third party" about divesting the operation.

"It's very preliminary," spokesman Barry Waite said. "This is not the first time it's been approached by a third party."

The owners of the privately held franchise system, including Margot Franssen, have been trying to unload the Canadian division "for years," and the British parent has been interested in scooping it up, an industry source said.

"She would love to get out," the source said.

Ms. Franssen and other company executives could not be reached for comment.

Peter Saunders, the recently appointed chief executive officer of parent Body Shop International PLC — and a former Canadian retailing executive — "would love to have it back," the source added. "Her price is too high."

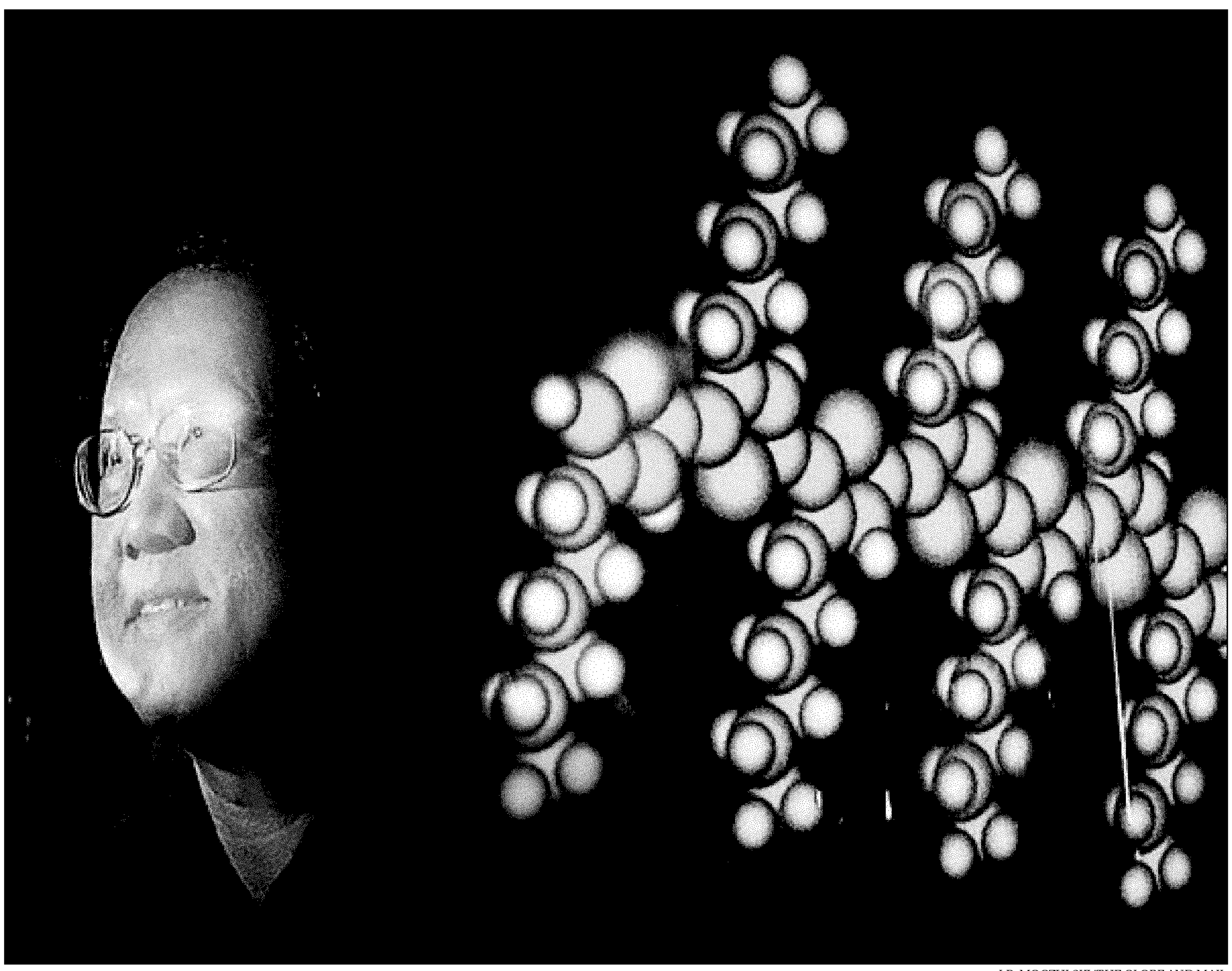
Industry sources were unaware of who has approached Body Shop Canada. The interest in the company comes as the Canadian operation tries to polish its image in the face of deteriorating financial results at its parent and contradictory accounts about founder Anita Roddick, who has promoted herself as a trailblazing feminist and activist for social and environmental responsibility.

Despite the turmoil, the Canadian stores, which ring up sales of an estimated $140-million, have fared relatively well and continue to generate a profit, industry observers say.

"They've held up pretty steady," says retail consultant Ed Strapagiel at Kubas Consultants in Toronto. "They're doing not bad, though it hasn't grown a lot in the last few years . . . it's still highly regarded by consumers."

See BUYER on page B10

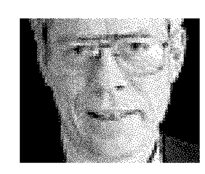
A new vision for TV



J.P. MOCZULSKI/THE GLOBE AND MAIL

Xerox Canada researcher Beng Ong, who holds more than 100 patents, has developed a new kind of plastic that could hold tiny computer circuits, a breakthrough that Xerox says could dramatically lower the cost of television and computer displays. See story on B3.

RIM head's huge gift not all it seemed



Eighty per cent of $100-million donation is still up in the air after firm's stock tanked, SHOWWEI CHU and JOHN SAUNDERS write

Michael Lazaridis, co-founder of the company that makes the BlackBerry pager, has been a Canadian philanthropic hero since he announced a $100-million gift two years ago for a new theoretical physics lab near his corporate headquarters in Waterloo, Ont.

It was called one of the most generous charitable donations in this country's history and the biggest personal gift to pure scientific research. In fact, $80-million of it did not happen — not yet, anyway — although everyone involved has been willing to pretend it did.

The first instalment was $20-million, partly because tax law made it unattractive to give $100-million in one lump. Then the stock market went bad and the rest of the plan changed.

The $80-million, due last year, became what amounts to a series of post-dated cheques payable in 2004 and 2005, a fact never mentioned in public. It was confirmed after Globe reporters checked charitable and securities filings and found no trace of the overdue millions.

At the time of the announcement, Mr. Lazaridis was 39 and already famous, a billionaire on the strength of his shareholding in **Research In Motion Ltd.**

See DONATIONS on page B5

Canada fails to impress U.S. money managers

BY JANET McFARLAND

Major U.S. institutional investors are far more likely to invest in Canadian companies that have a U.S. stock exchange listing and are covered by U.S. analysts, a new survey has found.

A survey of 60 U.S. money managers by New York consulting firm Golin/Harris International also found that investors believe Canada has weaker liquidity, restrictive foreign ownership rules and worse corporate management than the United States.

Golin/Harris senior vice-president Richard Binhammer said the survey found that some stereotypes about Canada have faded, while others endure.

For example, he said he was surprised that investors do not look to Canada primarily for commodity and natural resource stocks. Investors said they feel the best opportunities in Canada are for investing in small-cap and mid-cap companies. Investors also identified technology, telecom and natural resource stocks.

Three-quarters of those who have invested in Canada said they did so because of unique investment opportunities, or because company valuations are attractive.

See SURVEY on page B10

Life of a CEO becoming nasty, brutal and shorter

BY JACQUIE McNISH

CEOs are starting to drop like flies.

A number of high-profile chief executive officers have been nudged out the door or have opted for early retirement in recent months as boards of directors flex more muscle with poor performers. Their departures are signalling a new period of executive uncertainty in which the average tenure of CEOs is rapidly shrinking, and farewells are increasingly brutal.

On Friday alone, two prominent bosses, Robert Brown at **Bombardier Inc.** and Michael Parker at **Dow Chemical Co.**, left their posts with unusually cutting epitaphs.

"The board reached this decision solely in light of the disappointing financial performance of the company over the last eight quarters," said Midland, Mich.-based Dow Chemical.

At Montreal-based Bombardier, the assessment was equally blunt. "The status quo is not acceptable to the shareholders," Paul Tellier, a Bombardier director and CEO of Canadian National Railway Co. who succeeds Mr. Brown, said in a conference call.

So much for the days when companies used such euphemisms as "he wants to spend more time with his family" to explain executive departures.

See CEO on page B5

NATIONAL

The Monday Interview

Scott Tannas, the driving force behind Bank West — set to open next month — sees last week's urging by a Senate committee for new rivals to the big banks as an affirmation of his game plan. **B3**

M&A deals down

Merger and acquisition activity has fallen sharply across Canada and around the world this year as companies anxiously keep an eye on the health of the economy and the stability of the capital markets. **B3**

Amazing Facts

Canada's weak dollar is a major reason for the increasing difference between Canadian and U.S. factory efficiency — a statistic known as capacity utilization — Bruce Little writes. **B4**

Meriton gets financing

Ottawa-based Meriton Networks has raised $17-million (U.S.) in a second round of financing that will help finance trials of its optical switching and transmission product. **B4**

INTERNATIONAL

Taking Stock

Mississippi, embarrassed by the outlandish rewards against companies issued by its juries and worried that firms may stay out of the state for fear of them, has finally passed legislation to cap such judgments. The move, Brian Milner writes, is long overdue. **B2**

Bruce sale develops

According to British newspapers, nuclear power firm British Energy will complete the sale of Bruce Power this week for £300-million ($744.5-million). **B6**

Iraq mulls contract

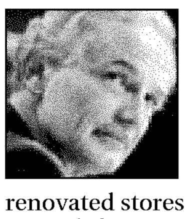
Iraq could award a cancelled multibillion-dollar oil contract with Russia's OAO Lukoil to another Russian company, Oil Minister Amir Muhammad Rasheed said yesterday. **B6**

Fiat head moving on

Having quelled an attempted boardroom coup, Fiat chairman Paolo Fresco is now turning his attention this week to tackling one of the Italian auto and construction conglomerate's biggest problems: its bulging debt. **B7**

MONEY & MARKETS

Market Intelligence



George Heller, president of Hudson's Bay, says his company will soon be debt-free and operating larger, renovated stores in a retailing sector with fewer competitors than a couple of years ago, Douglas Goold writes. **B8**

The Week

Investors who like the safety of index funds will be interested to know that the best performing index of all, the Nasdaq 100, has announced its annual rebalancing, Amanda Lang writes. That means there are 15 unlucky stocks getting bumped from the index, and 15 set to enjoy automatic price gains after their inclusion. That happens as money managers that track the Nasdaq 100 rush to buy up these stocks. **B10**

Telus outlook for 2003 out today
globeandmail.com

Donations made in stock

DONATIONS *from page B1*

RIM's pocket wireless e-mail device has made it a leader in a new industry. News of the gift raised Mr. Lazaridis's profile and that of his project, the Perimeter Institute for Theoretical Physics, of which he is founder and chairman.

He has since been named chancellor of the University of Waterloo as well as Kitchener-Waterloo community leader of the year and Globe and Mail nation builder of the year, the latter on the basis of an on-line reader poll. This month, BusinessWeek magazine put him 41st on a list labelled "The 50 Most Generous Philanthropists," nearly all of them Americans.

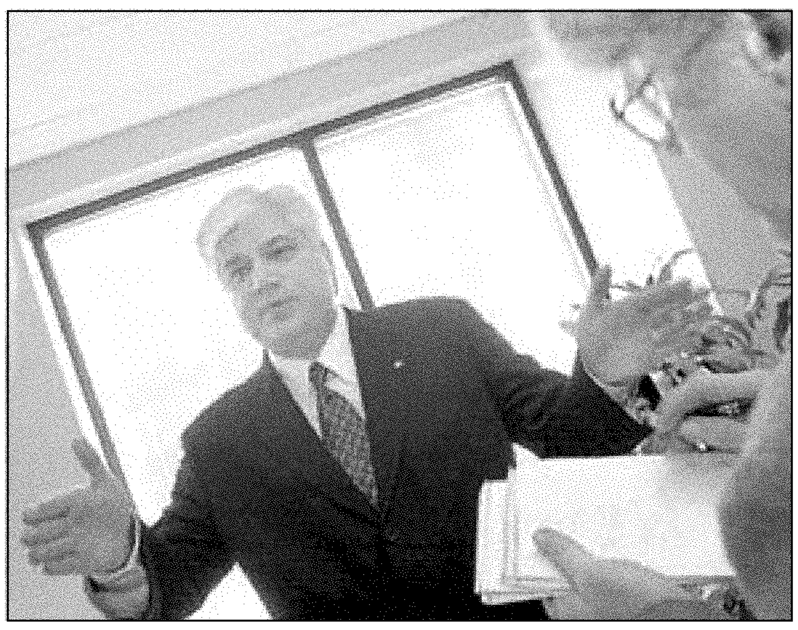
Meanwhile, the federal and provincial governments have earmarked more than $50-million for the institute, which aims to advance knowledge in such areas as quantum gravity, quantum information theory and string theory. Prime Minister Jean Chrétien went to Waterloo in June to announce Ottawa's main contribution, $25-million over five years. It was reported at the time that some bureaucrats resisted the idea, asking whether the national research agenda should be swayed by private undertakings.

The institute, founded in 1999, first drew public attention on Oct. 23, 2000, with the announcement of the Lazaridis gift. It was to be in two parts, $20-million up front and $80-million "over the coming year."

There was no problem with the first part. Mr. Lazaridis gave the institute $20-million worth of RIM stock. Insider trading reports filed with the Ontario Securities Commission confirm the transfer of 105,262 shares valued at $190 each. The institute says it sold the stock and invested the money.

At the same time, the institute announced donations of $10-million apiece from two other RIM insiders, James Balsillie and Douglas Fregin, bringing the founding private contributions to $40-million. They, too, gave shares.

But the tech-stock boom of 1999-2000 was running out of steam, making things awkward for Mr. Lazaridis, now just another multimillionaire.



PATTI GOWER/THE GLOBE AND MAIL

Research In Motion co-founder Michael Lazaridis has watched the company's share price plummet to $21.75 from $190 two years ago, when he made a $100-million charitable donation based on the stock.

On the day of the announcement, $80-million represented only about one-twentieth of the value of his stake in RIM. A year later, with the stock below $27, it was equivalent to a third. RIM closed on Friday on the Toronto Stock Exchange at $21.75, down 35 cents.

The original $20-million was a handsome tax-deductible gift but would not have made the same splash by itself. Some of the institute's smaller donors were taken aback to hear that Mr. Lazaridis has yet to follow through with the rest.

Elmer Alyea, a retired University of Waterloo chemistry professor who made a donation in memory of a late colleague, said he assumed that if a large gift were announced, the money would be there. "It's disappointing," he said. "I guess I don't know the situation, how it developed, why they changed their mind."

Joan Berta, president of Innovators Alliance, an organization of chief executive officers of Ontario companies, said she was "very aware" of the announced $100-million donation and got no hint of a problem when Mr. Lazaridis spoke at an Alliance dinner around the time it was to have been completed.

"If they can't make that commitment, they have to speak up, and these guys know better than that," said Ms. Berta, whose group contributed $100 in lieu of a speaker's fee.

The fate of the Lazaridis donation may ride partly on RIM's fortunes over the next three years in the stock market and a highly competitive business.

Mr. Lazaridis did not respond to e-mail and phone messages, but the institute's executive director, Howard Burton, said he is now scheduled to provide the $80-million, again in stock, in stages over 2004 and 2005.

"Mike's commitment was and still is longstanding. He's staked his integrity and reputation on this and he's a man of integrity and he had no intention whatsoever of not following through with his promise," Mr. Burton said.

He added: "A question that you might ask is: 'Well, why didn't Mike just donate all of the money when the stock was at $190?' "

The answer involves a tax rule that could have altered the institute's charitable status had more than 50 per cent of its funding come from one source, he said. "The irony of this is that Mike did actually want to donate more money at the time."

The 50-per-cent rule generally separates public charities from private charitable foundations, the sort often run by rich families. Private-foundation status would have at least three drawbacks for the institute:

- It would have to spend a set proportion of its assets each year rather than let the money accumulate through investment earnings.
- It could not engage in business activity, which would complicate attempts to cash in on scientific breakthroughs.
- Donors such as Mr. Lazaridis would not qualify for a capital-gains tax break on donations of stock.

A special deal introduced in 1997 forgives half of the donor's capital-gains tax on publicly traded securities donated to a public charity, no small thing for someone whose shares soared to $190 from essentially nothing. The donor also gets the usual charitable tax deduction. In a paper published this year, the Finance Department said a high-bracket taxpayer can save 53 cents in tax for each dollar's worth of stock contributed.

Mr. Burton said the institute was aware of the problem at the time of the announcement and is still working on it. One solution would be to raise enough money from others to balance Mr. Lazaridis's gift.

He stressed that Mr. Lazaridis is determined to complete the gift and that the federal and provincial governments were told of the delay before they announced their funding plans. Officials of both governments said they will want to see the money.

"We know that it's not completely delivered yet . . . so all parties have gone into it with all eyes open and everybody knows that payment of the full $25-million from the feds is indeed contingent upon the private-sector money showing up," said Steve Shugar, policy director of the Natural Sciences and Engineering Research Council of Canada, which handles most of the federal funding.

Directors turn tough on managers who fail to deliver

CEO *from page B1*

The brusque farewells reflect growing pressure on boards of directors to sweep out managers who fail to deliver promised results. By acting decisively with disappointing CEOs, management experts say, directors aim to restore credibility with shareholders.

As businesses hunker down for what is expected to be a prolonged economic slowdown, these experts say more bosses will walk the plank in Canada, where until recently, it was rare to see the ejection of a major company's CEO.

"You've got a lot of boards here who are thinking that maybe it's time for a leadership change," said John Koopman, a partner with executive search firm Heidrick & Struggles Canada Inc.

The increased turnover of CEOs is not a new story in the United States where superstar CEOs at underperformers such as **Ford Motor Co.** and **Vivendi Universal SA** found themselves on the outside as boards responded to riled shareholders. The turmoil has cut the average tenure of a CEO to about three years from about 10 years in the 1980s, according to a recent global study.

Bosses particularly vulnerable in Canada, Mr. Koopman said, are so-called momentum CEOs — such as Bombardier's Mr. Brown — who staked much of their company's future on growth through acquisitions. Generally, dreamers are "falling by the wayside, and nuts-and-bolts executives rising to the top."

Many costly takeovers of the past decade have saddled companies with bloated operations and costs. To turn these businesses around, directors are favouring hard-nosed operators who can improve corporate performance via layoffs, cutbacks and asset sales or writedowns. Such transitions are taking place at **Toronto-Dominion Bank** and **BCE Inc.**, two high-growth companies that are shifting into a tough era of retrenchment under new CEOs.

TD Bank's top executive Charles Baillie announced last month that he is accelerating his retirement as chairman after the bank's severe and unexpected $2.9-billion increase in loan-loss provisions for the year. Saying he was "disappointed and embarrassed" by the loan problems, Mr. Baillie set himself a spring retirement date, a year ahead of schedule.

Bank president Edmund Clark, who takes over as CEO on Dec. 20, is moving quickly to set a new tone of discipline at the bank.

'What we're seeing is dreamers falling by the wayside, and nuts-and-bolts executives rising to the top.'

In an unusual step, TD Bank has classified $11.2-billion in loans as non-core, which it expects to write down over the next three years. The move signals a narrower strategic focus by the bank on its core, mostly Canadian, corporate customers to which it offers multiple financial services such as lending, cash flow management and investment banking.

Restraint is also the new order at Montreal-based BCE, after the abrupt resignation in April of CEO Jean Monty. Mr. Monty's departure came after a disastrous expansion strategy that forced the company to abandon its $7.4-billion acquisition of international carrier Teleglobe Inc. of Montreal.

Under new CEO Michael Sabia, BCE is focusing on reducing costs in its telecommunications assets, and speculation is mounting that the company may sell such non-core assets as Toronto-based Bell Globemedia, which owns The Globe and Mail. BCE has dismissed such speculation.