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Résumé de l'article

Depuis plusieurs années, les modèles d'affaires de nombreuses entreprises évoluent vers la financiarisation. Au détriment de leurs activités industrielles et commerciales, celles-ci se concentrent de plus en plus sur les transactions financières maximisant leur valeur actionnariale à court terme. Sears Canada en est un exemple. L'entreprise qui était un fleuron canadien a demandé la protection en vertu de la Loi sur les arrangements avec les créanciers des compagnies à l'été 2017 pour, par la suite, être liquidée. Notre étude met de l'avant les pratiques des actionnaires, du conseil d'administration et les arrangements financiers ayant conduit à un tel effondrement financier.

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ABSTRACT

For a number of years, many firms' business models have been moving toward financialisation. To the detriment of their industrial and commercial activities, companies are focusing more and more on financial transactions that maximize short-term shareholder value. Sears Canada is one example. The company that was a Canadian flagship sought protection under the Companies' Creditors Arrangement Act in the summer 2017, to be liquidated at a later date. Our study examines the practices of shareholders and the board of directors as well as the financial arrangements that led to such a financial collapse.

Keywords: Financialisation, Institutional investors, Corporate governance, Bankruptcy

Résumé

Depuis plusieurs années, les modèles d'affaires de nombreuses entreprises évoluent vers la financiarisation. Au détriment de leurs activités industrielles et commerciales, celles-ci se concentrent de plus en plus sur les transactions financières maximisant leur valeur actionnariale à court terme. Sears Canada en est un exemple. L'entreprise qui était un fleuron canadien a demandé la protection en vertu de la Loi sur les arrangements avec les créanciers des compagnies à l'été 2017 pour, par la suite, être liquidée. Notre étude met de l'avant les pratiques des actionnaires, du conseil d'administration et les arrangements financiers ayant conduit à un tel effondrement financier.

Mots-Clés : Financiarisation, investisseurs institutionnels, gouvernement d'entreprise, faillite

Resumen

Desde hace algunos años los modelos de negocio de numerosas empresas evolucionan hacia la financiarización, concentrándose cada vez más en las transacciones financieras a corto plazo, capaces de maximizar su valor bursátil, en detrimento de sus actividades industriales y comerciales. Sears Canadá ilustra esta tendencia. La empresa, que era una reconocida firma canadiense, solicitó la protección de la Ley sobre los Arreglos con los Acreedores de Compañías en el verano de 2017, y posteriormente fue liquidada. Nuestro estudio presenta las prácticas de los accionistas y del consejo de administración, así como los arreglos financieros, que condujeron a su colapso financiero.

Palabras Clave: financiarización, inversores institucionales, gobierno corporativo, concurso

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Sears Canada was a large retailer that began operations under the Simpson-Sears banner in 1953. At that time, it was the first to distribute a catalogue to 300,000 households across Canada and developed its mail order business Canada-wide. Over the years, it also extended its activities to department stores and mall outlets, selling clothing, furniture and appliances, automobile-related services, floor covering, electronics, etc. In 2001, its revenues totalled CAN$6.7 billion, making that year a landmark in the company's growth. In the summer of 2017, Sears Canada sought protection under the Companies' Creditors Arrangement Act.

Sears Canada is a concrete example of a company where shareholders and the board of directors preferred to maximize short-term shareholder value and extract it rather than ensure the company's long-term survival and preserve the interests of other stakeholders. In the fall of 2017, following a financial collapse that had spanned several years, more than 16,000 employees were laid off with no severance pay and the employees' pension fund posted a deficit of $270 million. The story of Sears Canada provides the opportunity to illustrate how financialisation, which has played a growing role on the world stage in recent years, actually operates within organisations. The aim of our study is to identify, from a corporate governance perspective, the events, the players and their actions that led to the financial death throes of this highly reputed Canadian company, based on a historical interpretive approach and a process of abductive reasoning (Lukka and Modell, 2017).

The company's official documents were analysed, revealing that over a 17-year period, while its sales were plummeting and it was investing very little in renewing its image, Sears Canada paid out close to $3 billion in dividends to its shareholders. After an examination of the official documents available on the Canadian Securities Administrators site, we sought to determine, through the lens of agency theory, the most plausible explanations for what occurred. Our observations proved to be incompatible with the explanations provided by theories applied in corporate governance and strategic management, which led us to seek a more coherent explanation of the evolution of the events leading to the rout of Sears Canada. We drew on literature and documents on the financialisation movement that is sweeping the globe, one indication of which is the very significant growth of activist hedge funds. These funds are private investment vehicles that acquire stakes in public companies to influence change in the firms they target (Ahn and Wiersema, 2021) in order to increase shareholder wealth on the short term, often to the detriment of the company's long-term survival.

Analysis of the key financial events that affected Sears Canada in recent years confirms the huge impact that a hedge fund can have on organisations' strategic decisions and their sustainability. In view of the similar cases that have occurred in the last few years in the United States (e.g., PepsiCo, Yahoo [Tchotourian and Koffi, 2018], Dupont, Apple, Microsoft, eBay, Hess, Proctor & Gamble [Christie, 2019]), Europe (e.g., Lagardère, Atos Origin, Deutsche Borse, TUI, Cewe Color, Freenet, Balda, Techem, Munchener Ruck, Heidelberger Druck [Ben Arfa and Labaronne, 2016; Bessler, Drobetz and Holler, 2015]), and Canada (e.g., Canadian Pacific, Telus, Tim Horton, Air Canada, Agrium [Tchotourian and Koffi, 2018; Allaire and Dauphin, 2016; Berthelot and Serret, 2018]), an examination of the Sears Canada case will shed light on the circumstances that lead to this type of financial collapse and that have major impacts on the organisations' other stakeholders.

These circumstances should be of particular interest to regulatory bodies in countries where corporate financialisation is becoming ever more widespread. Financialisation is increasingly identified as a serious problem for the economic development of industrialised countries (Assa, 2012). Some countries have already amended certain regulations to limit the scope of tactics employed by hedge funds or other financial market actors focused on short-term profitability goals (Taleska, 2018)[1]. Others, like Canada, have been slow to intervene, opting for a more liberal approach. Sears Canada and its stakeholders are among the first victims of this growing trend. Among other things, this analysis will point up the tactics the hedge fund used to expropriate the value of the other Sears Canada stakeholders. Identifying these tactics is important because it will then be possible to determine regulatory solutions that can protect small investors, numerous stakeholders and, from a broader perspective, our societies' economic development.

The rest of this article is broken down into four parts. The first presents an overview of current knowledge on corporate financialisation. The second section covers the research method. Then, the third section analyses the facts surrounding Sears Canada's financial meltdown in the 2000s up to the time it closed

1. Some studies on the possibility of changing the paradigm or introducing new regulations have also been carried out (Lipton, Rosenblum, Niles, Lewis, Watanabe, 2016; European Commission, 2018).

its doors in January 2018. Lastly, the final section reviews the results, the study limitations and future avenues of research.

Corporate fainancialisation

Krippner (2005) sees financialisation as "a pattern of accumulation where profit making occurs increasingly through financial channels rather than through trade and commodity production". Palley (2013) defines it as a financial neoliberalism characterised by the domination of economic and macroeconomic policies by the interests of the financial sector. This financial neoliberalism has the following repercussions: 1) an increase in the importance of the financial sector over other sectors of activity of the economy (and the unprecedented emergence of complex financial products); 2) the transfer of revenues from other economic sectors to the financial sector; and 3) an increase in income inequalities and stagnating salaries (Palley, 2013) (particularly with the relocation of production).

At the firm level, Davis and Kim (2015) point out that financialisation is reflected "in the form of a stronger emphasis on maximizing shareholder value and an increased engagement in financial activities by nonfinancial corporations", which corresponds to doctrines arguing for shareholder primacy in corporate governance (Davis and Kim, 2015). In concrete terms, these doctrines, which are associated with agency theory, have led to the introduction of senior executive compensation schemes with very sizeable components based on performance indicators determined by profits (e.g. bonus) or even based on share price (e.g. stock options or even deferred share units). These components, which make it possible to minimize moral hazard issues between shareholders and senior executives, are intended to better align the interests of the two groups. However, once senior executives' interests are tied to those of investors, these investors' expectations have significant repercussions on corporate strategies. For some firms with shareholders whose short-term goals are to maximize value, strategies that previously focused on "retain and reinvest" now seek to "downsize and distribute" (Davis, 2017).

Senior executives may also take a short-term view because of their compensation design, the imperfections of financial markets or career opportunities (Palley, 2013). As Palley (2013) explains, some researchers (Stein, 1989) have found that senior executives' perspectives are rationally tied those of investors and the importance they attach to the current stock price, since a share of their compensation is in the form of stock options or restricted stock tied to the stock price, as prescribed in agency theory. Others point to noise traders and the bias that they can introduce against long-term projects by imposing a higher discount rate on them (Shleifer and Vishny, 1990) or the asymmetric information respecting the quality of firms' earnings streams (Webb, 1993; Palley, 2013). Narayanan (1985) focuses rather on the reputation that senior executives can build for themselves by making decisions that yield short-term profits. Palley (2013) offers two other explanations. The first lies in managers' risk-aversion, which provides an incentive to form portfolios of projects to spread their own-reward risk. The second is related to the probability of quitting. According to Palley (2013) a high level of managerial turnover will tend to exhibit a greater degree of short-termism. In seeking to maximize short-term profits, senior executives can improve their outside job offers.

Auvray, Dallery and Rigot (2016) explain corporate financialisation by: 1) the emergence of corporate raiders as investors; 2) the fact that shareholders can withdraw share capital, which drives firms to offer more and more, and 3) investor's interest in liquid assets that protect them from eventual falling stock market prices. These liquid assets are generally in the form of dividends or share buyback programs. However, not all investors share this short-term perspective.

Fichtner (2013) sees hedge funds as agents of change towards financialisation, which is brought about by two mechanisms: on the one hand, the use of the markets for financial speculation in the short-term horizon, which results in distortions in the markets in which they operate, especially commodities markets; on the other, financialising the target firms by encouraging them to implement measures to create short-term shareholder value, for example by the payment of special dividends, the introduction of a share buyback program or the sale of divisions not considered to be part of the firm's "core competency" (Fichtner, 2013). According to Fichtner (2013), in "these ways hedge funds and private equity funds transfer capital gains and income to the financial sector". The United States and the United Kingdom are two countries where hedge funds are well entrenched. Both countries have long experience as financial centres and are also world leaders in terms of the liberalisation and deregulation of finance (Fichtner, 2013). But the trend has now reached global proportions. Organisations in many countries are targeted by hedge fund activism designed to extract the firms' value on the short term (Becht, Franks, Grant and Wagner, 2017). The target firms tend to be underperformers that have a lower market value than their industry peers (Dai, 2013; Ahn and Wiersema, 2021), but that nonetheless have a significant potential for cash extraction on the short term. For example, these firms could have undervalued assets or unused cash flow. These types of investors also consider the composition of the board and the person serving as chair. According to Dai (2013), tactics activist hedge funds use (after having acquired a significant number of shares) typically include regularly communicating with the board/management with the aim of enhancing shareholder value; making formal shareholder proposals; publicly criticizing the company and demanding change; launching a proxy contest in order to replace the board; or seeking board representation without a proxy contest or confrontation with the existing management board. In the opinion of Brav, Jiang, Partnoy and Thomas (2008) and Bebchuck, Brav, Wei and Thomas (2020), the firms targeted by activist hedge funds experience increases in pay-out and operating performance, as well as higher CEO turnover.

Like American, British, Italian (Erede, 2013), German (Mietzner and Schweizer, 2014; Bessler, Drobetz and Holler, 2015) French (Bessière, Kaestner and Lafont, 2011; Ben Arfa and Labaronne, 2016), Japanese (Buchanan, Chai, Deakin, 2014), and other organisations, Canadian firms are increasingly being targeted by hedge funds (Becht, Franks, Grant and Wagner, 2017). For instance, Allaire and Dauphin (2016) cite the example of Canadian Pacific Railway, where over 6,000 employees were laid off after a hostile manoeuvre by Pershing Square hedge funds in 2011. Berthelot and Serret (2018) studied the actions taken by the board of directors and senior management of Agrium Inc. to fend off an attack by Jana Partners hedge funds. Other cases, such as Tim Hortons, Valeant Pharmaceuticals Inc., Talisman Energy and Home Capital Group Inc., have also made the headlines. Sears Canada is another example that merits closer examination. A study of the events that led to Sears Canada's financial rout brings to light the tactics and factors that enabled one shareholder to blatantly expropriate the firm's other stakeholders.

Research methods

The facts surrounding the fall of Sears Canada were analysed through a historical review of official documents archived on the site of the Canadian Securities Administrators (www.sedar.com). The documents analysed were the firms' proxy circulars, annual reports and official news releases from 2000 to 2018. Proxy circulars are official documents issued by companies inviting their shareholders to the annual general meeting or soliciting proxy votes. In Canada, their content is governed by Securities Acts (National Instrument 51–102 Continuous Disclosure Obligations). They contain information on the firm's major shareholders, directors and governance practices, as well as its practices respecting director and executive compensation. The content of annual reports is also regulated (National Instrument 51–102 Continuous Disclosure Obligations). Among other things, they must include Management's Discussion and Analysis and the financial statements. These analyses were complemented by an analysis of the firm's media coverage during this period, which was performed using the EUREKA database. This database contains archived articles from over 1,500 English- and French-language journals and newspapers published in Canada, the United States, Europe, Africa, and Asia.

Our research is grounded in an interpretive history approach. According to Carnegie and Napier (2017):

> (…) interpretive history is often described as being analytical or explanatory in approach—the aim is to explain phenomena using a broader frame of reference. This can range from a simple redescription of phenomena using categories from outside the narrative, to using grand social theories of great breadth to interpret apparently local phenomena as aspects of universal structures (Llewellyn, 2003).

We applied an abductive rather than an inductive approach (Dubois and Gadde, 2002)[2]. An initial analysis of the documentation revealed that the agency and other theories that are often applied in the fields of governance (i.e., stewardship theory, property right theory, transaction cost theory, management entrenchment theory) and strategic management (i.e., knowledge-based theory, institutional theory, the resource-based view, organizational learning theory, social network theory) are inconsistent with the empirical observations. We thus looked for other explanations, one of which is the financialisation of the economy and the short-term interests of certain investors, which seemed to us to far better

2. According to Lukka and Modell (2017), abductive and inductive reasoning have a similar starting point (empirical observations), but whereas induction implies a kind of semi-automatic generation of theoretical generalisations or pattern from data, abduction proceeds through a skilful development of theoretical explanations with the help of everything that is known empirically and theoretically about the question being examined.

explain our empirical observations. In fact, by moving between empirical observations and theories (Dubois and Gabbe, 2002), we were able to enhance our understanding of the theoretical contributions of studies on the actions of investors seeking short-term gains, as well as of why and how Sears Canada did not survive the vagaries plaguing the retail sales sector.

Findings

The birth and growth of Sears Canada

In 1953, Sears Canada began its operations as Simpsons-Sears Limited, the result of a joint venture between Sears, Roebuck Co.[3] of Chicago and Simpsons Limited[4], a Canadian chain of department stores and mail order business that posted sales of $100 million in 1951 (Wright, 2017). The aim of this equal partnership was to create a Canadian mail-order network and a Canadian department store chain modelled after Sears, Roebuck Co. Simpsons-Sears' business activities were launched in 1953 when the first Spring/Summer catalogue was printed and sent to 300,000 Canadian households. The company subsequently opened retail stores in all Canadian provinces.

In 1978, the Simpsons-Sears shares held by Simpsons Limited were sold to Sears, Roebuck Co. The firm was renamed Sears Canada Inc. in 1984 to illustrate its independence. In 1999, Sears Canada acquired the shares and brand name of the bankrupt chain, T. Eaton Company Limited. For the first time in its history, Sears Canada acquired locations in a number of urban centres, including Toronto, Vancouver, Victoria, Winnipeg, Ottawa, and Calgary, all Eaton's flagship stores.

On entering the next decade, the only entity that directly or indirectly owned or had control over more than 10% of Sears Canada common shares was Sears, Roebuck and Co.[5], which held 58,044,018 common shares or roughly 55% of the outstanding common shares. The rest of the firm's common shares were held by a large number of minority shareholders.

Table 1 presents Sears Canada financial data from 2001 to 2004, the company's last glory years. In 2001, Mark A. Cohen was appointed Chairman and CEO, replacing Paul Walters, who had held this position since 1996. Three out of ten of the firm's directors, that is, 30%, were from Sears, Roebuck and Co. Sears Canada's sales peaked in 2001, reaching $6.7 billion. Thanks to the firm's profitability, shareholders received dividends representing a return of between 1.12% and 1.50% (dividend yield [dividend per share/stock price]). Since Sears Canada was established in 1953, its strategy had always been to "retain and reinvest" (Davis, 2017) in operating assets. However, it should be noted that the decrease in revenue as well as the low return on assets (ROA) and return on equity (ROE) tend to indicate that the organisation was under performing.

TABLE 1
Sears Canada 2001–2004

Date	2001	2002	2003	2004
CEOs	M. A. COHEN			
				B. HOLLISTER
Compensation	5.38	4.29	3.49	8.98 2.04
Revenue ($)	6,726.40	6,535.90	6,222.70	6,230.50
Net earnings ($)	94.10	52.20	124.50	128.70
Total assets ($)	3,993.40	4,061.30	4,139.20	4,226.40
Cash flow from operations ($)	241.70	486.00	306.40	338.60
Dividends ($)	25.60	25.60	25.60	25.60
Redemption of shares ($)	-	-	-	9.30
Return on assets (ROA) (%)	3.7	4.3	4.3	3.7
Return on equity (ROE) (%)	5.9	3.2	7.3	7.0
Stock return (%)	-11.42	-8.28	-4.75	7.69
Dividend yield (%)	1.27	1.41	1.50	1.42

All financial data in millions of dollars.

3. Sears, Roebuck and Co. was incorporated in 1893 by Richard W. Sears and Alvah C. Roebuck. At this time, the focus of the company was to provide rural residents with products at prices as low as those of general stores through a catalogue service. The firm issued its first catalogue in 1896.

4. Simpsons Limited was established in 1858 by Robert Simpson.

5. Note that after experiencing a significant deterioration in its financial performance in the early 90s, Sears, Roebuck and Co. implemented a successful strategic repositioning, which consisted in selling or spinning off all its nonretail businesses and focusing on retail business with a new performance measurement system aligned with the employee-customer-profit chain operational model (Rucci, Kirn and Quinn, 1998). At that time, Sears, Roebuck and Co. was able to redirect its organisational culture to focus more on customer service. These changes enabled the organisation to substantially increase its revenues.

ESL Investments takes over Sears Roebuck Co.

In 2003, Edward S. Lampert, an American fund manager, and his investment firm, ESL Investments, based in Greenwich, Connecticut, acquired more than 50% of the shares of Kmart (the third largest retailer in the United States with sales of US$23 billion), which was then bankrupt (Vallières, 2004). Following this takeover, the investor sold 68 of Kmart's 1,513 stores to Sears, Roebuck Co. and Home Depot for US$846 million (Vallières, 2004). At this time, ESL Investments also held 14.6% of Sears, Roebuck Co. shares (Vallières, 2004).

In 2004, Kmart took over Sears Roebuck Co. and created a new entity under the name of Sears Holdings Corporation. This transaction made Edward Lampert and ESL Investment the owners of 50% of the outstanding shares of Sears Holdings Corporation, which in turn held 54.3% of Sears Canada's outstanding shares.

Changes at Sears Canada

The arrival of Edward Lampert at the helm of Sears Holdings Corporation brought major changes to Sears Canada's governance and strategies. Table 2 provides information on the firm from 2005 to 2010. During this time, revenues fell from CAN$6,237 to CAN$4,938 billion and net earnings from CAN$770.0 to CAN$149.8.

On August, 2004, Sears Canada Inc. announced that it had appointed Brent Hollister as its President and Chief Executive Officer and that the "contract of Mark A. Cohen, who had been Chairman and Chief Executive Officer, has been terminated by the board as a result of strategic differences over the future direction of the business" (Sears Canada Inc., 2004). A few months later, in March 2005, Alan J. Lacy, who also served as Chairman of the Board and Chief Executive Officer of Sears, Roebuck and Co., was appointed Chairman of the Board of Sears Canada.

TABLE 2
Sears Canada 2005–2010

Date	2005	2006	2007	2008	2009	2010
CEOs	**B. HOLLISTER**					
		D. L. ROGERS				
Compensation	1.50	3.18 1.39	1.79	3.49	1.13	0.72
Revenue ($)	6,237.60	5,932.80	6,326.40	5,733.20	5,200.60	4,938.50
Net earnings ($)	770.80	239.20	308.50	288.60	234.70	149.80
Total assets ($)	3,290.80	3,060.30	3,001.70	3,237.30	3,404.80	3,072.20
Cash flow from operations ($)	270.70	256.40	225.30	165.90	496.10	73.10
Dividends ($)	1,557.10	12.90	-	-	-	753.40
Return of capital ($)	470.00	-	-	-	-	-
Redemption of shares ($)						43.00
Return on assets (ROA) (%)	4.3	6.1	8.02	8	7.3	4.0
Return on equity (ROE) (%)	61.1	21.3	32.58	22.6	14.9	8.6
Stock return (%)	91.19	49.5	-28.06	5.92	18.1	10.96
Dividend yield (%)	80.63	0.45	0.0	0.0	0.0	36.51

All financial data in millions of dollars.

On August, 2005, Sears Canada announced that it had entered into an agreement to sell its Credit and Financial Services business to JPMorgan Chase & Co for approximately US$2.2 billion (Sears Canada Inc., 2005a). On September, 2005, Sears Canada Inc. proposed that roughly US$2.0 billion from the sale of the Credit and Financial Services business be distributed to shareholders as an extraordinary cash dividend (Sears Canada Inc., 2005b).

As Table 2 shows, these decisions led to an exceptional dividend yield of 80.63% in 2005 and stock returns of 91.19% and 49.5% in 2005 and 2006 respectively. Sears Canada did not pay a dividend in 2007, 2008 and 2009. On January 1, 2005, the price of a Sears Canada share was CAN$16.99, compared to CAN$17.98 on December 31, 2005 (ex-dividend date period); the share's exceptional yield can thus be explained by the exceptional dividend paid.

On December, 2005, Sears Holdings Corporation announced that it wished to acquire all the outstanding common shares of Sears Canada remaining for $16.86 per common share in cash. In response, the board of directors set up a special committee made up of six Sears Canada independent board members to study the offer, as required under Canadian regulations. This committee then retained Fasken Martineau DuMoulin S.R.L., a renowned Canadian law firm, and hired Genuity Capital Markets to prepare an independent valuation of the company and a fairness opinion in respect of the Sears Holdings' offer. Genuity Capital Markets concluded that the fair market value of Sears Canada common shares was between $19.00 and $22.25 per share. Also, the Sears Holdings offer appeared inadequate to Sears Canada's minority shareholders. With its official offer, Sears Holdings Corporation raised doubts about a number of elements on which Genuity Capital Markets' valuations were based. On February, the board of directors of Sears Canada Inc. unanimously recommended that shareholders reject the Sears Holdings Corporation offer. On March, Sears Holdings Corporation extended its offer until March 31, 2006. In this notice of extension, Sears Holdings Corporation noted that six independent directors would not be standing for re-election at the forthcoming annual meeting of Sears Canada and that it had launched a search for new independent directors. However, it pointed out that it sought "to nominate and elect other directors who are either Sears Holdings or Sears Canada employees. Given its majority ownership of Sears Canada, Sears Holdings believes it is appropriate that a majority of the directors of the new board of Sears Canada be employees of either Sears Holdings or Sears Canada." Lastly it indicated that:

> In the event that Sears Holdings does not acquire a majority of the minority of Sears Canada, Sears Canada will face the increasingly competitive Canadian retail environment without the financial and operating benefits of being owned 100% by Sears Holdings. Therefore, Sears Holdings, consistent with its practice in the United States, will support the elimination of the recent practice of Sears Canada of paying quarterly dividends of $0.06. In addition, Sears Holdings would not support any special dividend or distribution to public shareholders in 2006 (Sears Holdings Corporation, 2006).

That same day, Sears Holdings Corporation announced that it had taken up 10,161,968 common shares and that it now owned approximately 63.2% of the outstanding shares of Sears Canada Inc (Sears Holdings Corporation, 2006).

On April, Sears Holdings decided to raise its offer to $18.00 per common share and extend the expiry date to August 31, 2006. Sears Holdings also announced that it had entered into an agreement with Vornado Realty LP and Bank of Nova Scotia, Scotia Capital and the Royal Bank of Canada, which would enable Sears Holdings to acquire the majority of the common shares held by minority shareholders.

On April, 2006, Sears Canada Inc. announced that Brent Hollister, its President and Chief Executive Officer was stepping down. He was replaced the same day by Dene Rogers. In the past, Rogers had been Executive Vice President, Restructuring and Business Improvement, at Sears Holdings and prior to this had held the position of Executive Vice President and General Manager of Kmart Store (Sears Canada Inc., 2006).

Between February and August, three minority shareholders (Hawkeye Capital Management LLC, Knott Partners Management LLC and Pershing Square Capital Management L.P.) joined together to oppose Sears Holdings Corporation's attempt to acquire all the outstanding shares of Sears Canada. The minority group issued a press release announcing its intention to take all the legal steps necessary to thwart Sears Holdings Corporation's offer in order to ensure that Sears Canada would remain a public company and to protect minority shareholders wishing to retain their shares. The group members held approximately 14.3% of the outstanding common shares. On May, they filed a complaint against Sears Holdings with the Ontario Securities Commission. The complaint questioned the conduct of Sears Holdings and asked the Commission to determine whether the deposit agreement with Vornado and the support agreements with Bank of Nova Scotia, Scotia Capital and the Royal Bank of Canada granted collateral benefits and whether Sears Holdings had acted in a coercive or abusive manner pursuant to its offer. On August, 2006, the Ontario Securities Commission issued an order requiring Sears Holdings to comply with the regulations and cease their contravention. The Commission thus prohibited the transactions contemplated by the Sears Holdings offer until Sears Holdings complied with the conditions established by the Commission. Among these, the Commission required Sears Holdings to exclude from the calculation of the required majority of the minority approval the votes attached to the shares of Sears Canada held by or acquired from Bank of Nova Scotia, Scotia Capital and the Royal Bank of Canada.

In August and September, Sears Holdings appealed the order on several occasions before the Divisional Court, the Court of Appeal and the CCVMO, which all rejected these appeals. Finally, Sears Holdings succeeded in convening an extraordinary shareholders' meeting in order to examine a special resolution to consolidate all the common shares of Sears Canada, issued and outstanding, on the basis of one post-consolidated common share of the corporation for 75,563.719 pre-consolidated common shares of the corporation. This was followed a proxy battle, which Sears Holding Corporation lost.

In the following years, Pershing Square Capital Management and its group acquired a number of Sears Canada shares. On December, 2006, Pershing Square announced that its group managed 4,534,000 Sears Canada common shares. Since this investment raised its interest to over 10% of Sears Canada's share capital, it had to be disclosed under Canadian legislation. On January 31, 2007, the group acquired 150,000 shares and finally, on October 6, 2008, it acquired 673,500 more, boosting its final stake to 17.3%. For its part, Sears Holdings Corporation acquired 326,700 Sears Canada common shares on November 11, 2008, thereby increasing its interest to approximately 72%.

On April, 2010, Pershing Square Capital Management and its affiliates reached an agreement on the sale of all the shares they held in Sears Canada, that is, 18,660,880 shares, amounting to an interest of roughly 17% at $30 per share, whereas the share closing price was $29.52. Subsequent to this transaction, Sears Holdings Corporation became the only shareholder to hold over 10% of Sears Canada shares, with an interest of 90.4%.

From a financial perspective, the years from 2005 to 2010 saw an ongoing decline in the firm's total revenues, which fell from CAN$6,237.0 million to CAN$4,938.5. Net earnings dropped from CAN$770.8 million to CAN$149.8. Total assets decreased from CAN$3,290.8 million to CAN$3,072.20 million and cash flow from operating activities plummeted from CAN$270.70 million to CAN$73.10 million. In 2008, Sears Canada announced that it was redesigning its retirement program. The company introduced a defined contribution plan effective July, 2008, replacing the defined benefits plan. According to the February, 2008 financial statements, accrued benefit assets (including the Sears Registered Retirement Plan, Non-registered Pension Plan and Other Benefits Plan) totalled CAN$23.3 million.

Eight members sat on the board of directors during this period, four of whom described themselves as independent. According to information disclosed in the proxy circular dated March, 2010, only three of the four independent board members (out of eight in all) held Sears Canada shares at that time. E. J. Bird owned shares worth CAN$84,280; R. Raja Khanna held shares for a value of CAN$44,548 and D.E. Rosati had shares worth CAN$62,608, reflecting little personal engagement on the part of the firm's board members. One of the independent directors was a Certified Public Accountant, another a Chartered Accountant, and the other two had legal expertise. In all, three directors had legal knowledge and four, financial expertise. It was noted that President and CEO Dene Rogers graduated from Yale University, but only his experience with Sears Holdings and Kmart Holdings was mentioned, not his area of expertise.

Rogers' compensation went from CAN$1,391,512 (12% of which was in the form of long-term incentive plans) in 2006 to CAN$716,316 in 2010 (with no long-term incentive plan). His compensation peaked at CAN$3,491,440 in 2008, when it included CAN$2,094,830 in a long-term incentive plan. On the whole, Rogers' compensation does not appear to be excessive. According to a study by the Canadian Centre for Policy Alternatives, the average compensation for Canada's CEO Elite 100 in 2010 was CAN$8.38 million (Mackenzie, 2012).

On May, 2010, when Sears Holdings Corporation held about 92% of the outstanding shares, Sears Canada announced an extraordinary cash dividend of CAN$3.50 per share (approximately CAN$376.7 million [Sears Canada Inc., 2010] and filed a normal course issuer bid that permitted the company to purchase for cancellation up to 5% of its issued and outstanding common shares), representing 5,381,049 common shares. The company renewed this offer in May 2011. It was to pay CAN$43 million in 2010 and CAN$42 million in 2011 for these two purchases. In the same news release, dated May, 2010, CEO Dean Rogers, commented that:

> Canadians are still feeling the effects of the economic recession. The Consumer Confidence Index in April, 2010 at 84.8% was lower than it was three months earlier in January, 2010 at 96.6%. In addition, a planned reduction in catalogue impressions of 16.6% and the strong Canadian dollar, which prompted cross-border shopping, also impacted sales. In response, we are lowering prices to offer Canadians exceptional value and providing special services like deferred financing and equal billing payments to make it easy for customers to manage their household budgets for appliances, furniture, electronics and home improvement items such as roofing and air conditioners (Sears Canada Inc., 2010).

Then, on September, 2010, Sears Canada announced the payment of a second special dividend of $3.50 per common share for a total of some CAN$76.7 million. These two dividend payments provided a dividend yield of 36.51%, as indicated in Table 2.

Table 3 presents key information on Sears Canada from 2011 to 2016. During this period, sales continued to decline, dropping from CAN$4,619.30 to CAN$2,613.60. The company posted net losses in 2011, 2014, 2015 and 2016, and cash flow from operations was negative as of 2012. The return on assets (ROA) was negative from 2012 to 2016.

TABLE 3
Sears Canada 2011–2016

Date	2011	2012	2013	2014	2015	2016
CEOs	C. McDONALD					
			D. CAMPBELL			
Compensation	0.94	1.06		R. BOIRE		
			0.94	0.84	B. G. STRANZL	
				2.52	1.16	
					5.61	3.04
Revenues ($)	4,619.30	4,300.70	3,991.80	3,424.50	3,145.70	2,613.60
Net earnings ($)	(60.10)	101.20	446.50	(338.80)	(62.70)	(321.00)
Total assets ($)	2,730.70	2,504.70	2,392.30	1,774.10	1,633.20	1,244.40
Cash flow from operations ($)	85.00	(79.90)	(25.80)	(264.60)	(201.50)	(341.40)
Dividends ($)	-	101.90	509.40	-	-	-
Redemption of shares ($)	42.00	9.70	-	-	-	-
Return on assets (ROA) (%)	0.3	-1.4	-1.9	-6.4	-7.7	-13.7
Return on equity (ROE) (%)	-4.3	9.3	41.5	-41.2	-12.1	-82.7
Stock return (%)	-36.08	-15.81	88.74	-8.95	-47.63	-69.31
Dividend yield (%)	0.0	10.49	38.49	0.0	0.0	0.0

All financial data in millions of dollars.

On June, 2011, Sears Canada announced the appointment of Calvin McDonald as its President and Chief Executive Officer, replacing Dene Rogers. From that time on, the company saw a high turnover of CEOs. Calvin McDonald, Douglas Campbell, Ronald Boire and Brandon Stranzl were appointed on June, 2011, September, 2013, January, 2015, and July, 2015, respectively. As the table shows, Boire and Stranzls' total compensation was significantly higher than that of their predecessors.

On May, 2012, Sears Canada announced that Sears Holdings, which held approximately 95% of its shares, had indicated that its board of directors had approved a plan to distribute a portion of Sears Canada shares through a partial spin-off by way of a pro rata stock dividend to Sears Holdings stockholders. An official announcement was made on November, 2012[6]. Immediately after this distribution, Sears Holdings held around 51% of the Sears Canada issued and outstanding shares. ESL Investments Inc. and Edward Lampert obtained 27.6% (28,158,366) of Sears Canada common shares (Sears Canada Inc., 2012). On December, 2012, Sears Canada announced a special dividend of $1 per common share for a total of about CAN$102 million. The income statement for this fiscal period showed a gain on lease terminations of CAN$167.1 million. While the dividend yield for this year was 10.49%, the stock return was -15.81% (including the special dividend of $1 per share).

Throughout 2013, Sears Canada carried out a number of sales and reorganisations. First, on June, it announced that it planned to conduct a series of transactions relative to two stores located in shopping malls under which Sears would receive a total of $191 million on their completion. Sears Canada also agreed to sell an option on a third store to co-owners for a financial consideration of $1 million. The co-owners had five years to exercise this option for a total cost of $53 million.

On September, Sears Canada announced the appointment of Douglas Campbell as President and Chief Executive Officer, replacing Calvin McDonald. According to journalist Marina Strauss of *The Globe and Mail*, a leading Canadian newspaper, just prior to this date, McDonald, who was in the habit of jumping onto a plastic milk crate to address his employees, picked up one for the last time.

> He had it set down in the middle of the dowdy grey cubicle farm outside the executive offices on the seventh floor of the Eaton Centre office tower in Toronto. Hundreds of employees crowded into the overheated room to hear what he had to say. Mr. McDonald told his team that it was time for him to move on—that the board did not support his growth strategy for the department store, so he could no longer continue to lead it. He told them he still thought Sears could win, he believed in what they had accomplished and was proud of their commitment. Tears began to well up in his eyes as he spoke. Some of the staff began to cry, while others looked on with strained, pale faces. When he was done, executives and managers formed a receiving line. It took more than an hour to get through it. Some had questions, others wished him well. Marinella Gonzalez, who had worked for the company as a planner, helping to budget and forecast merchandise purchases for almost 14 years, gave him a big hug. "It was very sad," she recalls. "He apologized. He tried to comfort people. He was going to bring this company forward. We thought he was going to save us." Beneath the tears, though, Mr. McDonald was angry. He, too, thought he was brought in to save the company, but now he's not so sure. "I joined with a clear growth mandate," he says now. "I had an agreement with the board, to show that this business could perform. But it needed investments in almost every area—in the stores, online, in the supply chain, the systems." The money needed for those investments never came"(Strauss, 2017).

Mr. McDonald added that to fund his growth plan, he agreed to sell off some particularly lucrative store leases, hoping that some of the hundreds of millions freed up could be reinvested in the company. However, most of the money was paid out in the form of special dividends (Strauss, 2017).

On October, 2013, Sears Canada announced it would be selling its leases on five stores for $400 million, a transaction that would cost 965 employees their jobs. Shortly afterwards, on November, 2013, Sears Canada announced the finalisation of an agreement with Montez Income Properties Corporation to sell its 50%-joint-venture interest in eight properties for approximately CAN$315 million. It was soon after this, on November, 2013, that Sears Canada reported it planned to pay out a special cash dividend of $5 per common share to shareholders, totalling roughly CAN$509 million, or slightly more than 55% of the liquidity received through these transactions. Furthermore, to finish off this year of change,

6. Each holder of Sears Holdings' common stock will receive 0.4283 common shares of Sears Canada for each share of Sears Holdings common stock held by such stockholder at the close of business on November 1, 2012.

on November, 2013, Sears Canada announced that it would be reorganising its repair services and parts business and instituting major changes at its head office, which would result in more staffing cuts. As Table 3 indicates, the dividend yield for 2013 was 38.49%. Finally, in January 2014, Sears Canada made two important announcements; first, that it had concluded an outsourcing agreement with IBM, a contract that would eliminate 1,345 jobs; and second, that it would be revamping the structure of its stores to increase efficiency and improve the chain of communication between management and employees in-store. This reorganisation would lead to the lay-off of some five employees per store.

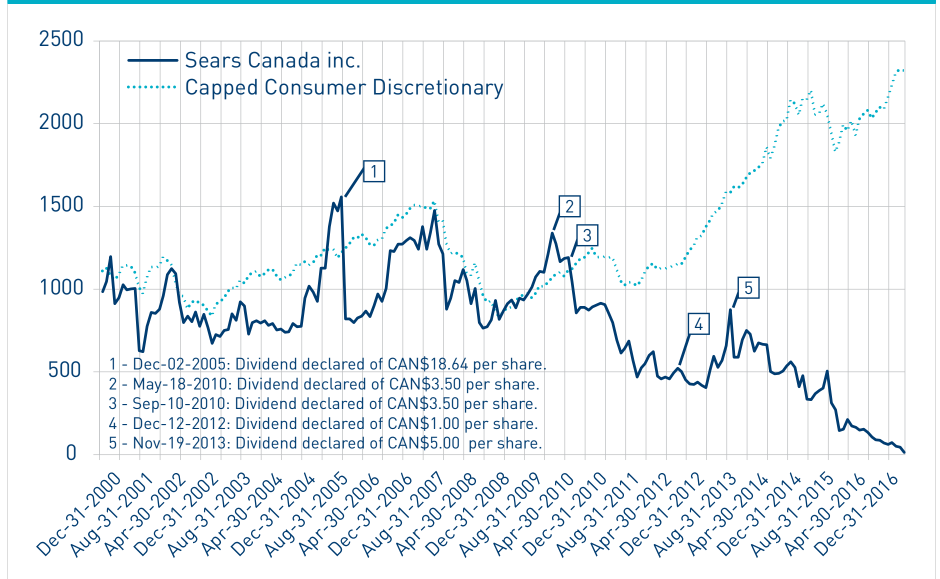
On May, 2014, Sears Holdings issued a press release announcing that it was exploring strategic alternatives for its 51% interest in Sears Canada, including a potential sale of Sears Holdings' interest or of Sears Canada as a whole. On October, Sears Holdings declared that it was offering shareholders rights of up to 40,000,000 shares of Sears Canada pro rata to the number of shares they held. ESL and its affiliates thus acquired 20,614,594 shares, making them the owners of 49.5% of the outstanding shares of Sears Canada, while Fairholme Capital Management, another hedge fund, acquired 9,619,123 shares equal to a total interest of 11.4%. From then on, hedge funds had direct influence over Sears Canada thanks to their considerable stake in the company.

On March, 2015, Sears Canada entered into an agreement with Concord Pacific Group of Companies to sell and lease back three of its properties for $CAN 140 million. Over the course of 2016, Sears Canada concluded several sales transactions and attempted to restructure its operations. On April, 2016, it carried out a transaction for the sale and leaseback of its National Logistics Centre in Vaughan, Ontario to Tamworth Properties Inc., for total net amount of CAN$100 million. Subsequently, on May, 2016, it announced a ten-year agreement worth approximately $200 million with CGI to support its strategy to re-engineer its technology platforms. In June, Sears announced a major revamping of its organisational structure and activities. The goal was to achieve a Sears 2.0; in other words, the total re-invention of Sears Canada as a retail store. Towards the end of the year, the company also concluded several major real estate transactions for the sale of some of its facilities.

Graphic 1 presents the evolution of Sears Canada's stock price from December 2000 to April 2017, comparatively to the S&P/TSX Capped Consumer Discretionary

GRAPHIC 1

$1,000 invested in Sears Canada inc. ($CAN)/S&P/TSX Capped Consumer Discretionary Index



Index. As can be seen, Sears Canada's stock price shows a very long decline, whereas the S&P/TSX Capped Consumer Discretionary Index began to climb as of 2009. It should be noted that ESL Investments, alone or through the Sears Holdings Corporation, wanted to acquire all of Sears Canada's shares and the firm's falling stock price facilitated this acquisition, making it less costly. As well, the short-term yield of ESL Investments did not lead to an increase in stock price, but instead to the cashing-in of a significant share of the dividends paid (according to the number of shares held). The share return (including the dividend) for a small shareholder from January 1, 2001 to April 30, 2017 is 2.42% per year; over the same period, the return of the S&P/TSX Capped Consumer Discretionary Index was 5.3% per year. Note that this performance is not that of ESL Investments and Sears Holdings Corporation, which was presumably much higher. Its performance is impossible for us to determine because we do not know the acquisition value of the Sears Canada shares held by Sears Roebuck Co.

In 2017, the firm's restructuring initiatives did not seem to be progressing as well as expected. The years from 2011 to 2017 were marked by a significant decline in total revenues, which fell from CAN$4,619.3 million to CAN$2,613.6, and net losses, which soared from CAN$60.1 to CAN$321.0 million. The company's total assets shrunk from CAN$2,730.7 million to CAN$1,244.4 million and cash flow from operating activities went from CAN$85.0 million to CAN$(341.0) million. The January, 2017, balance sheet reported a retirement benefit liability of CAN$308.6, representing 24.8% of the firm's total assets and 30.2% of its total liabilities. The other important account in liabilities was accounts payable and accrued liabilities, which, at CAN$319.8, amounted to 31.3% of total liabilities. Also, at this date, property, plant and equipment posted an acquisition cost of CAN$2,032.6 million and an accumulated depreciation and impairment of CAN$1,805.5. Their net accounting value was thus 11.17% of the total tangible assets value.

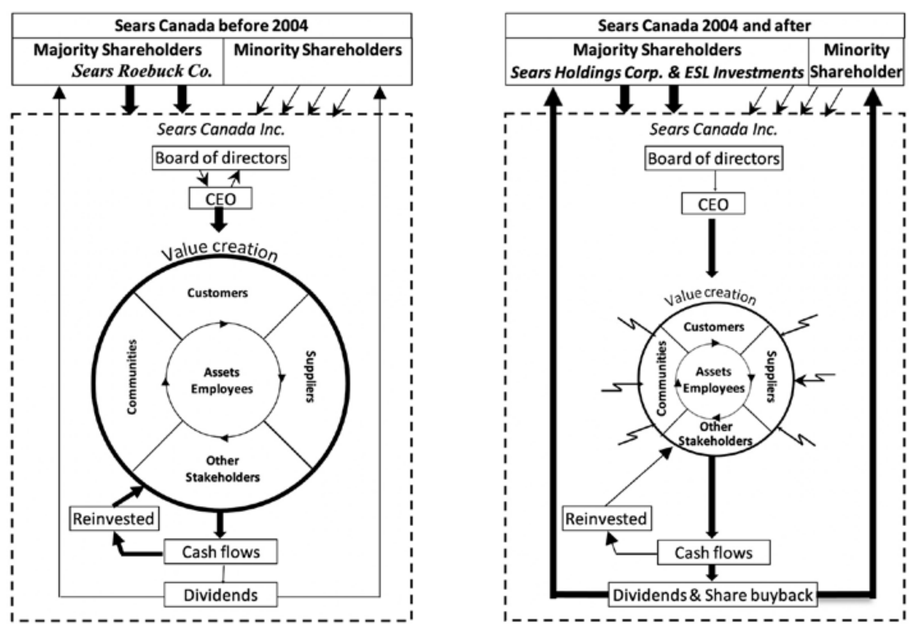
In June 2017, Sears Canada Inc. applied to the Ontario Superior Court of Justice for protection under the Companies' Creditors Arrangement Act in order to continue to restructure its business (Sears Canada Inc., 2017). Sears thus secured financing of CAN$450 million to enable it to continue its activities and begin soliciting sales and investment with the aim of obtaining proposals to acquire the firm or its assets and terminate its restructuring in order to exit the protection of the Companies' Creditors Arrangement Act as soon as possible. It also announced the closing and liquidation of 54 stores, leading to the elimination of 2,900 jobs. On the same day, Sears Canada received notice from NASDAQ that its shares would be delisted on July, 2017. On June 29, the company also received notice that its shares were to be delisted from the Toronto Stock Exchange. Finally, having received no viable proposals, Sears announced, on October, 2017, that it would be closing down its activities and liquidating all its stock, furniture and fixtures and equipment in its 82 remaining stores.

Given the nature of the financial transactions concluded from 2004 to 2017, questions could certainly be raised about the roles the directors played in the company's financial collapse. According to the 2017 official proxy circular, the board was composed of seven directors, including CEO Brandon Stranzl, four of whom were independent. Two of these directors had training and/or experience in investment, one in law, one in retail sales, one in digital technology and one in accounting. As well, CEO and Chairman Brandon Stranzl, as a Chartered Financial Analyst and member of the New York Society of Security Analysts, had financial expertise. Stranzl's total compensation in 2016 amounted to CAN$3,039,118 (without share or option-based awards) and was CAN$1,959,987 in 2015 (including CAN$295,000 in option-based awards). Only two directors held Sears Canada shares, worth CAN$5,100. None of the other members, including the CEO, held any shares. In addition, four (five including the CEO) had been appointed less than two years earlier. This board is typical of all the boards since 2006. Traditionally, "the overwhelming emphasis in governance research has been on the efficacy of various mechanisms available to protect shareholders from self-interested whims of executives" (Pye, 2013). In this case, governance practices seem instead to support the opposite scenario. In actual fact, the firm and its stakeholders were the ones that needed protection from the shareholders.

According to Ong and Wan (2008), boards have the following four roles: 1) monitoring how the CEO is chosen, evaluated and rewarded and determining how shareholders' wealth can be maximized; 2) providing advice to top managers, 3) developing strategy, from the articulation of a strategy mission to reviewing strategy implementation, and 4) resources provision, which refers to the board's ability to bring resources to the company (i.e., legitimacy, experience, stakeholders' relationships, capital). The different roles defined in prior studies do not deter situations where majority shareholders want to maximize their wealth on the short term. In fact, the example of Sears Canada shows that a hedge fund can get away with expropriating a large share of corporate wealth from other stakeholders. Decisions were made to pay out close to CAN$3.4 billion in dividends from 2005 to 2016. Numerous stakeholders were impacted by these decisions, including many employees (18,000 according to La Presse+ (2018)), who not only lost their jobs but were also hit by pension plan deficits, as well as suppliers and all the customers who were entitled to warranties or even extended warranties on products they'd purchased, not to mention lenders and small investors.

Figure 1 presents the governance structure, the stakeholders and the value creation process pre- and post-2004. Before Sears Roebuck Co. was taken over in 2004, as a major shareholder, it no doubt had considerable influence over Sears Canada's decisions, but the value creation process, including the assets and the employees, interacted in a way that could be described at least as "appropriate" with Sears Canada's stakeholders. A major share of the cash flow

FIGURE 1



generated was re-invested in the firm and its value-creation processes. In addition, a small portion of the cash flow was paid to its shareholders in the form of dividends. It should be noted that during this period, the stock return was very low, not to say negative. As of 2004, the value-creation processes and the cash flow was transformed. The sale of a number of major assets (and lay-offs) was converted into cash flow, while reducing the possibilities for long-term value creation and affecting the value attributable to certain stakeholders, particularly the firm's employees, suppliers and communities. These cash flows were then paid out in the form of dividends and share buybacks rather than reinvested in value creation processes. These tactics, deployed by hedge funds eager for short-term financial returns, weaken the organisations targeted. In the case of Sears Canada, where the firm also had to deal with growing competition from Walmart and Costco, for example, in Canada and substantial changes in distribution methods owing to the growth of online sales and competition from organisations like Amazon and eBay; the firm did not survive.

Despite the ever-increasing incidence of this type of scenario, no legislation was passed in these years to prevent this hedge fund from downsizing and distributing. Even more disturbing is the fact that even the financial papers failed to expose this selfish behaviour and these short-termist strategies. Few employees actually understand what really happened at Sears Canada. And hedge funds are now investing in a number of Canadian companies or have others in their sights.

Conclusion, implications, and future research

Sears Canada is a concrete example of a company where the major investors, hedge funds, preferred to maximize short-term shareholder value rather than ensure its long-term survival and preserve the interests of other stakeholders. In the fall of 2017, following a financial collapse that had spanned several years, more than 16,000 employees were laid off with no severance pay and the employees' pension fund posted a deficit close of $300 million. The story of Sears Canada provides the opportunity to focus attention on the players involved in this financialisation movement and their actions. Our study thus identifies, from a corporate governance perspective, the players, who are essentially the investors, the board of directors and the CEOs, and their actions that led to the financial death throes of this renowned Canadian company. The company's official documents were analysed, revealing that over an 18-year period, while its sales were plummeting and it was investing very little in renewing its practices and image, the company paid out $3.4 billion in dividends to its shareholders.

This case shows that current Canadian regulations are unable to prevent such situations from arising. Yet attacks by hedge funds are becoming increasingly widespread in most Western countries. More and more companies are buying back considerable numbers of shares or paying substantial dividends instead of investing in growth. These buybacks or dividend pay-outs can stem from investors' demands, as was the case with Sears Canada Inc. They can also result from actions endorsed by boards of directors to block the advent of hedge funds, which are known to target companies with larger cash positions (Dai, 2013). However, these preventive actions expropriate the company's wealth for current shareholders to the detriment of long-term growth and other stakeholders. It is also disturbing to note that the significance of these actions seems to have escaped the notice of journalists. In fact, only a small number of insiders, mainly informed investors, directors and executives, are aware of and understand these transactions. Most small investors, employees, suppliers and customers are uninformed and/or do not understand how these financial transactions can impact them. Furthermore, few avenues are currently available in Canada, or in a number of other countries, to prevent such transactions (Ahn and Wiersema, 2021).

Improving directors' competencies and precisely defining their roles and duties (Tchotourian and Koffi, 2017) are two of the paths researchers have suggested to counter abusive diversions of wealth to investors. Traditionally, boards of directors have been seen as a mechanism to monitor managers on behalf of investors. Given the rampant growth of financialisation worldwide and the significant growth of hedge funds with short-term perspectives, reviewing the role of boards of directors could be worthwhile. Shouldn't boards diligently represent and act for the firm they represent and not only for investors? Following legislation in the U.S., Canada's Bill C-97 requires directors and executives to pay more attention to the interests of the other stakeholders and the organisation's sustainability when making their decisions. This bill, which will amend the Canada Business Corporations Act, will perhaps help limit the emergence of situations where investors can expropriate these other stakeholders, as was the case with Sears Canada. It could also be relevant to review regulations on dividend payments, share buybacks and the short selling of shares. Since these are the main means short-termist investors use to reap financial benefits, regulations more specifically targeted to protect firms and other stakeholders from the expropriation of wealth should be a priority for financial market regulatory organisations.

This study has some limitations. Its observations are based only on publicly available official documents since we had no access to formal or informal discussions of the board of directors or among management during the period covered by the study. It is also important to point out that our analysis does not cover all the reasons underlying Sears Canada's collapse. Some strategic decisions and the advent of new actors (e.g., Walmart, Costco, Amazon) and new technologies (online sales) on the Canadian retail sales scene, which are not examined in this study, also likely contributed to Sears Canada's decline.

This study paves the way for other empirical studies that could contribute to the literature on the short-, medium- and long-term effects that financialisation can have on individuals, firms and countries' economic development. It illustrates the impact financialisation can have on a firm's stakeholders. This impact can also be reflected, for example, in the delocation and exploitation of workers in countries where labour laws are underdeveloped; tax avoidance and non-payment of a fair share of taxes in countries where organisations exploit public resources; and excessive pollution in countries with lax legislation.

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