THE GLOBE AND MAIL

Guest Column

# Family firms tend to reject outsiders

jacoline loewen
Special to Globe and Mail Update
Published Wednesday, Jul. 27, 2011 9:10AM EDT
Last updated Wednesday, Jul. 27, 2011 9:26AM EDT

Every family business has its battles over growth. Advisers can wax poetic about how to increase wealth, but owners inevitably think they know best and often trust only their children to take charge.

Nowhere are these differences as stark as they are on the subject of embracing professional help to build the business.

The subject remains an awkward stumbling block for too many family firms, which control up to 40 per cent of GDP and 43 per cent of the jobs in Canada. The federal government is keen to see growth and it wrings its hands over the dearth of big Canadian family businesses such as worldwide titans Wal-Mart, Smucker Foods, Samsung or BMW.

A study by McKinsey found that a key reason family businesses survive beyond the second generation is through the appointment of professional management. With an outsider as CEO, a family business tends to live past the third generation. It's particularly interesting to note that these legacy businesses tend to outperform corporations, both public and private. But that sizzle does not sell the steak.

When you ask in-laws or second generation sons and daughters in family businesses to explain the allergic reaction to professional management, they frequently sigh and tell you founders tend not to listen to advisers. To understand the reluctance of owners is to work in their shoes, which typically means 15-hour days. They achieved success by doing it all themselves. It is counterintuitive to seek help, especially when the expertise costs money.

The next generation, in general, is under paid but it is the first line of resource for employment and trust. Families in the jewellery business, for example, have the pressure of working with high-value products that can be easily stolen.

Family members may not be the sharpest knives in the drawer, but they fulfill the trust requirement of the job description.

In private, family business owners will explain that any amount of time spent on succession planning, exit strategies or learning about private equity is time spent not earning money. They rarely even approach the discussion of bringing in professional CEOs. There is a higher sense of achievement from the daily work than there is from getting out the red pen and planning. “It is faulty logic,” says Tom Deans, who worked in a family business and wrote a treatise on his experience in *Every Family’s Business*.

“That is the common reaction, but as soon as family businesses do put in the tools, they start to run better. Few family businesses have a planning culture. The entrepreneur is a problem solver who is great at putting out fires. This is very different from the problem of how to protect the equity in the business and the retained earnings. The biggest problem, in fact, is the long-term plan for the business.”

Family firms turn to their accountants first, and then their lawyers, who are smart but, in fairness, are not business experts. Owners are basically relying on professional technicians who are trained to take instruction, not to take the often- frightening risks necessary to grow a business. Lawyers may not want to forge relationships with professional CEOs, and they may have a light sprinkling of knowledge about private equity partners who, they assume, will ruthlessly bring in their own lawyers and accountants.

Why would these professionals press owners to bring in outside management and risk their relationship? Laissez-faire, mon ami.

Family business should be turning to wealth managers who know how to diversify money and minimize risk. “They must evaluate and anticipate the need to re-invest, divest, partner or exit,” says Guillaume Lagourgue of UBS Wealth Management.

Taking on private equity partners for a five-year period reduces risk with fresh capital, but it also forces the awkward truth – maybe it is time for family members to step aside and make room for a professional CEO. With these changes, a family business is far more likely to become a legacy beyond the founder’s lifetime. Once an owner experiences the new wealth, in hindsight sharing control seems like a no-brainer.

Bringing professional management into a family business also challenges the family lifestyle, the comfortable power, the good-enough revenues that pay mortgages. The cost of letting go of some of that control will boost a family’s wealth for retirement. It could also produce a legacy Canadian family business that does not end up sold as a branch office.

*Special to The Globe and Mail*

*Jacoline Loewen is a private-equity expert for business owners and the author of* Money Magnet: Attract Investors to Your Business. *She is the director of* Loewen & Partners and the Exempt Market Dealers Association.

*Join The Globe’s Small Business LinkedIn group to network with other entrepreneurs and to discuss topical issues: http://linkd.in/jWWdzT*

---

© 2011 The Globe and Mail Inc. All Rights Reserved.