UNIVERSITY OF CALGARY
HASKAYNE SCHOOL OF BUSINESS

Q&A

Haskayne Hour

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Question	Answer
Question for **Jeff**, now that you have been a part of the business in both private and public, what would you say the pros and cons of each structure would be?	**Jeff:** From my perspective there are 3 major benefits of being a public company; 1. the stock market provides a constant and immediate valuation of the company, 2. The stock market provides liquidity for the shareholders, and 3. The stock market provides an efficient platform to raise additional equity for the company which is usually the reason that companies go public in the first place. However, I believe that there are real costs to being public beyond just the financial costs (legal, accounting and compliance costs); the most significant of the non-financial costs is the short term focus that the stock market inherently imposes on publicly traded companies.
Do you think that family-controlled governance best practice needs to be different than publicly held companies?	**Liena:** I think the basic principles of good governance stand for both family and non-family firms: good governance aims at creating value for the firm, while ensuring information access and securing commitments at multiple levels. Beyond that, I don't think there is a 'one size fits all' formula (e.g., for Board composition) that is unique for family firms. Having a strong Board with relevant competencies, as well as an ability to provide objective outsider scrutiny, is a factor, but the same could be said about firms with dispersed ownership.
Question to **Jeff**: Under what conditions do family firms exhibit the most severe governance problems and what are the main sources of those problems?	**Jeff:** Succession at the CEO level is difficult at the best of times. It is even more difficult when there are family ties and emotions involved in the decision-making process.
Question for **Jeff** - How did your family and business go through the decision making processes to go public and private? What governance structures or practices were relevant through those decisions?	**Jeff:** There were two things. The first was having outsiders in decision making roles – in our case that was a board of directors the majority of whom were independent of the family and the management. The second was engaging consultants who could look at our internal strengths and weaknesses and the external threats and opportunities more dispassionately than we could from the inside.

Follow-up for **Liena** on Jeff's response - Is Jeff and Trimac's experience consistent with the academic research?	**Liena**: This is consistent with documented best practices in making important strategic decisions in family firms.
How have you handled family members employed for your firm who are underperforming? Please describe your strategies used for grooming your family members for positions in the company, vs. using the company to financially "support" these members.	**Liena:** I am aware of some cases where an underperforming family manager had a capable nonfamily employee appointed 'under' him/her, so that the star employee would boost the family manager's performance. This situation should be avoided at all costs, as these actions demoralize employees and actually undermine the reputation of the family. Ideally, performance of family members is managed the same way as that of nonfamily employees (coaching, training, incentives); the family's ability to implement this kind of merit-based performance management practices, however, hinges on family members' understanding (from the get-go) that they are held to the same (or even higher) standards of performance as nonfamily employees. In terms of grooming successors, in some successful family businesses, it starts very early; I have talked to some family leaders who, as teenagers and young adults, spent many summers working for their family firms in low-skill jobs (warehouse staff; labourers; grape pickers; drivers). This allowed them to learn the intricacies of the business, but also instilled the idea that jobs given to them would always be commensurate with their education and experience. Future family managers are often required to get relevant education and to have 'outside' experience before assuming a position in the family firm. Some successful family firms require future leaders to develop entrepreneurial skills – Mars family, for example, requires that any family member who wants to have a leadership position in the firm must set up and run a successful new venture.
As a major stakeholder in a family business, how can you trust that you have not missed an important aspect of strategic decision-making? How do you develop confidence that your due diligence has been sufficiently thorough and that your own personal influence has not unduly impacted the process?	**Liena:** There are several ways to introduce checks and balances into strategic decision-making to ensure objectivity: (1) Delegating decisions to capable non-family managers (and empowering them to implement these decisions) – e.g., appointing a non-family CEO. (2) Purposefully subjecting the company to outsider scrutiny (e.g., consultants; outside Board members). (3) Structured decision-making processes (e.g., with formal analytical tools employed), especially in relation to decisions that are deemed to be susceptible to biases (e.g., divesting of a heritage asset). (4) Rigorous benchmarking of performance (against all relevant competitors, both family and non-family).

	(5) Family offices – discussed in the next answer – can provide the needed due diligence when it comes to resource allocation and investment decisions.
Family offices are growing rapidly. Role of family offices in family firms?	**Liena:** I think family offices – which are definitely gaining momentum – represent an effective tool for safeguarding against bifurcation bias. Family offices can ensure that the family's value system is in line with the commercial logic of the business, and help balance the family's needs (ultimately, wealth preservation and deployment) with business needs, in terms of specific investments and resource allocation. Family offices can also introduce objective/professional scrutiny into asset allocation decisions (and take emotion out of decisions) in a way that is acceptable to family members. Family offices can also help link various stakeholders (and sometimes peers and other industry players, in cases of multi-family offices) and thus facilitate collaborations.
How do family firms ensure ethical decision-making when developing and implementing their strategies?	**Liena**: I think both family and non-family firms need to work checks and balances into their routines to ensure that commitments at multiple levels are consistently met. Based on my own research in this area, I can conclude that many, if not most, large-scale ethics/sustainability crises result not from intentionally malevolent/unethical managerial behaviour, but rather from benevolently intended, but unproductive behaviour – overcommitment; changes in priorities; failure to adapt to change; information asymmetries, etc. Proper strategic governance can address these issues. I do agree, however, that family firms may face additional challenges in this realm, because of the family's significant latitude in decision-making, as well as family members' reluctance to monitor and control each other. Here, safeguards described above (delegation of decisions to professional/non-family managers; purposeful exposure to outsider scrutiny; structured decision making; benchmarking of performance; strict meritocracy) can help. Generally, research shows that family firms fare better in the realm of ethical/ESG practices than their nonfamily counterparts, as discussed below.
Can family firms be better than non-family ones in terms of rationally dealing with stakeholders and ESGD demands?	**Liena:** Private family firms (and more generally, private firms) are not subjected to ESG demands of external stakeholders to the same extent as public firms, so they can focus on what they think is reasonable and right (and is not detrimental to economic value) – which actually results in better environmental and social performance. Academic research consistently shows that family firms are better at SCR and social innovation, and are perceived by the public as better community citizens. There are several reasons for that, aside from the one mentioned above. Family firms' long-term orientation (and associated 'patient capital') means that they pursue social/environmental initiatives over a long term – and sometimes it takes a while to make a difference to a complex cause.

	Senior family leaders are also often involved in local politics (e.g., the Du Pont family), which makes them deeply knowledgeable about relevant ESG issues, and significant latitude in strategic decision-making allows family firms to pursue causes that they know are relevant (as opposed to the ones imposed externally, as discussed above). Family firm leaders are often emotionally attached to their 'home communities' (sometimes to a fault, as we touched on during the discussion!), which often means that they will contribute to the well-being of the community. In terms of the public perception, family ownership is often associated with a perception of reliability and enduring commitment; smart family leaders capitalize on this. For example, when Siemens experienced a bribery scandal a few years ago, the Siemens family (which usually keeps a low profile) went public with a commitment to transparent governance practices; the family's vocal involvement helped Siemens restore its reputation.