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Report on Business

By NICOLAS VAN PRAET

Family-controlled firms post higher returns, study finds

A new study shows Canada's big family-controlled public companies have a better track record for investors than widely held corporations, and the study's authors say the findings prove that lingering investor bias against family firms should be buried once and for all.

"It's not because it's a family firm that it's going to blow up," said lead author Pierre Fournier, a geopolitical analyst at National Bank of Canada. "It's counterintuitive still today, but they're great investments."

The bank's analysis, to be published Friday, found that contrary to conventional wisdom, family firms have continued to thrive in Canada despite the rise of widely held public companies run by professional managers. In addition, the investigation shows that the returns of large family-controlled businesses have been significantly higher on average than those of non family-controlled businesses in recent years.

The findings play into a simmering debate, in North America and Europe in particular, over whether companies should do more with the cash piles they've amassed in recent years. While many CEOs choose to spend on share-buybacks and other things that will prop up the short-term stock price, others who lead family-controlled firms are investing in people and products now that will deliver outsized benefits years down the road.

National Bank developed an index of 30 publicly traded Canadian businesses that are controlled by families to test whether the firms shine here the way they do in other countries. With several big-name, family-dominated businesses including Loblaw Cos. Ltd., Husky Energy Inc. and Canadian Tire Corp., the group beat the S&P/TSX Composite Index on returns by 120 per cent over a 10-year period ending in August, 2015. On an annualized basis, the family index returned 11.3 per cent over the period compared with 5.6 per cent for the TSX Composite.

Five-year returns, while less spectacular, were still 54-per-cent better for the family group. The index included stellar stock performers such as Alimentation Couche-Tard Inc. and CGI Group Inc., as well as several companies in more recent difficulty, such as ShawCor Ltd., a pipe-coating supplier serving the oil and industrial markets. Companies picked had to be listed for at least 10 years and be controlled by families with 25 per cent or more voting power over the shares.

The reasons the authors give for the superior performance by Canada's family companies are the same as those cited in previous research: More cautious borrowing, quicker decision-making capability, stronger corporate culture built on the commitment of founders and better labour relations. Perhaps most importantly, these companies are thinking several steps farther into the future than the typical publicly traded firm.

"What the family firms do differently is play a long-term game," said Mr. Fournier, a former professor of political science and economic policy at Université du Québec à Montréal. "These firms are simply more profitable because they're thinking ahead."

Montreal-based National Bank is the principal lender to several major Canadian firms that are controlled by families, including plane- and train-maker Bombardier Inc. The bank admits that its aim with the study is to "rehabilitate" the reputations of family firms, which continue to suffer prejudice on the part of some investors even as their ranks swell internationally. U.S. consultancy McKinsey & Co. forecasts that, by 2025, family-controlled firms will represent nearly 40 per cent of the world's companies, with revenues of $1-billion or more, up from 15 per cent in 2010.

Many investors won't touch family-controlled firms because they typically have dual-class share structures that many say run contrary to the good governance principles. According to National Bank's analysis, multiple-voting-share structures have little impact on profitability, and it's only when a company underperforms that shareholders perceive them to be a problem.

Families are involved in many of the largest business deals currently taking place worldwide. Belgian billionaire Albert Frère stood behind cement-maker Lafarge in its merger with Holcim. Colombia's Santo Domingo clan holds the keys in Anheuser-Busch InBev NV's effort to buy SABMiller PLC.

"Families matter. In most of the recent M&A transactions, they're everywhere," said Vincent Joli-Coeur, vice-chairman of National Bank Financial. "It's interesting to see all these families working toward long-term objectives at a time when many widely held companies really have to focus on quarter to quarter."