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Canada's family firms continue to outperform widely held corporations

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Canadian Tire chairperson Maureen Sabia is seen during the company's annual general meeting in Toronto, Ontario, May 8, 2014.

Canada's big family-controlled companies continue to be winners for their investors, outperforming widely held corporations despite lingering shareholder criticism of the dual-class stock structures most of them have.

A new study by National Bank of Canada tracking the performance of 43 major family-controlled firms countrywide found they tallied an absolute return of 206 per cent over a 13-year span from June, 2005, to June, 2018, besting the 133-per-cent return for the S&P/TSX Composite Index. The companies, which include corporate pillars such as Onex Corp. as well as budding newcomers such as Shopify Inc. and Knight Therapeutics Inc., returned 9 per cent on an annualized basis over this time versus 6.7 per cent for the TSX Composite, the research found.

Family companies with unequal voting rights have been the subject of debate for decades, with some critics predicting they would eventually be pushed to the margins by public corporations run by professional managers with greater power to raise capital and generate profit. The fear persists that such dual-class shares will erode the long-term integrity of markets by letting business founders run roughshod over other investors.

But the bank's research suggests that family firms, in Canada at least, are not only surviving, but thriving, as they try to balance the interests of their stakeholders. If senior U.S. regulator Robert Jackson Jr. warned earlier this year of special classes of stock entrenching "corporate royalty" in perpetuity, National Bank's study suggests Canada's kings and queens are making money for everyone while trying to improve governance.

"You have to have a controlling shareholder that's confident enough to want to be challenged on everything and a board that has the courage and willingness to step up," said Maureen Sabia, chairperson of Canadian Tire Corp., part of the National Bank proprietary family index.

Directors who take the time to deeply understand the business and get involved in strategy are better positioned than shareholder activists to address the concerns of investors, Ms. Sabia said in an interview with The Globe and Mail. "You can't know, from the outside, however much you study the company, as much as the insiders know."

"To me, the most important factor here is the tenure of management of family-owned companies," said Serge Godin, founder and executive chairman of Montreal-based CGI Inc., Canada's biggest IT services company, which he controls through a special class of stock.

The chief executives currently in charge of the 100 largest family businesses in the United States have already served an average of 13 years compared with the typical CEO tenure of five years, according to research by Forbes. The situation in Canada is thought to be similar.

"When you have 13 years, those people have much more time to master their environment, to master their competition," Mr. Godin said. "I don't think it's a matter of competence. I think it's really a matter of longevity."

Family businesses, defined by National Bank as a founding family controlling at least 10 per cent of the voting rights or a non-founder controlling a third or more of the voting rights, are playing the long game, the study's authors say. In that sense, they're simply more profitable because they're thinking way ahead and they want their directors and managers to think that way, too.

At a time when fewer companies are going public, in part because their founders don't want to fall prey to aggressive activists or get consumed by the short-term focus of markets, family-controlled companies with dual-class shares are staking out a middle ground, says Andrew Molson, a public-relations executive and director of family-held Molson Coors. That is, they're public but they're able to hold the agitators at bay.

"I look at a dual-class share structure as a mechanism that can be used in public markets to ensure that you have the presence of long-term, committed, knowledgeable shareholders," Mr. Molson said. "Maybe it's not a mechanism that's for everyone."

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. U.S. consultancy McKinsey & Co. forecasts that, by 2025, nearly 40 per cent of the world's companies generating revenues of US$1-billion or more will be emerging-market family-owned businesses, up from 15 per cent in 2010.

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