

CEO ROUNDTABLE: RAISING GROWTH CAPITAL

RAISING CAPITAL: FAMILY BUSINESS

November 20, 2008

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The private equity players in Canada are looking for those business owners who are clear that they want to grow. Such an entrepreneur is Charles Loewen, the fourth generation leader of Loewen Windows, who spoke at the CEO Roundtable "Raising Growth Capital: Resilience in the Global Marketplace."

David Simpson, who teaches entrepreneurship at Ivey and founded the Business Families Centre, led the CEO Roundtable discussion. Kicking off the discussion, Simpson asked, "Charles, how can companies manage their growth?"

How Do We Manage Growth?

Loewen Windows has been scaling back for the past two years as their prime market has been the U.S. housing industry. "We have seen the slowdown for a few years now and have had to adjust our sales targets and a number of people."

Being fourth generation in a family business which is a town's main employer, means Charles Loewen pays a great deal of attention to managing the steep curves of growth as well as the pull-backs. If that means his management team's recommendation to cut jobs, he listens and acts. "You have to put your ego aside."

Business choices rather than family choices build growth and Loewen says he has been influenced by Peter Drucker who he was fortunate enough to meet. Drucker said, "Leaders decide two things: defining what business you are in and placing the right people in defined roles."

Executive Summary:

Dealing with big swings in market conditions has been familiar to C.P. Loewen which has survived for four generations. What can owners learn about resilience and family business?

Charles Loewen, C.P. Loewen Enterprises



David Simpson, The Business Families Centre at Ivey



More than a decade ago, Charles Loewen realized that with the changing world, he needed to re-craft what business Loewen Windows was in and take a hard look at his team. The original people who had grown Loewen Windows were no longer a good fit and he needed to face that reality. "The hardest thing to do is to replace people who are in over their heads. What do you do with them? Stepping back and yielding responsibility to others is tough." But Loewen remembers when Peter Drucker was asked how to change culture and performance.

Drucker answered tersely, "Change the people."

Loewen knew that meant himself, too.

Growth is complex and difficult. One of the main issues that arises in every operation is business governance. Since then, Loewen Windows has had nine years of Board of Directors experience. Loewen Windows' performance shows it was an excellent move and Charles Loewen gave a word of advice to owners: consider Director Protection. Prospective board members will normally ask for such protection, as it is a point of sensitivity because of the legal landscape around board membership.

Having a formal Board of Directors is also great for crisis management. "One would be surprised at the benefits a knowledgeable Board could bring," Charles Loewen commented.

Manage the "Family Effect"

"Family governance is too often part of the business governance," says Loewen. Once in-laws are considered, the situation gets even more complex; in fact, nothing is as complex as transitioning from generation to generation. "The need for family governance systems increases during periods of transition," says Loewen.

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- Charles Loewen,
C.P. Loewen Enterprises

While one always remains a family member, they can not all be a business member. A family member will not necessarily perform well in a position of leadership. Understanding the importance of circumscribing the roles is vital. There is always a "family effect", but it is up to the management

team whether it is positive or negative. It is a positive experience as Mr. Loewen goes to the bank, suppliers, and customers; they want to see him. In his case, the family element builds trust and comfort.

Family effect can also be highly destructive if not managed. Processes are needed to ensure negative effects are eliminated. Loewen believes that being part of family business is a privilege and comes with important responsibilities. In the town, if you are not fair and even handed, it has dire consequences.

Don't Do Lingering Successions

Another relevant subject is, of course, succession. Loewen's father passed away when he was in his fifties, and the children inherited the business in their thirties. As a result, the succession was sudden, but meant he had to grow up fast. He has seen owners linger on far too long.

"Moving owners into less engaged roles is often appropriate. Start to plan for this transition earlier than you think is necessary," advises Loewen. "Most CEOs and owners have a three year plan, but it is frequently a rolling plan. For many, it was a three year plan, six years ago."

Loewen's success rate in recruiting the right people is at best fifty percent. Thus, it is important to allow a significant amount of time to build a team. Talented successors will boost growth and will want to stay on in their roles. Loewen said, "I've seen owners continue on in the businesses unhealthily and fail to grow the people in their business and family."

Shareholder succession is always difficult, and in fourth generation it is even harder. If planning is insufficient, circumstances will drive the decision-making, determining who the key stakeholders will be. The reason for avoiding this, according to Loewen, is because "It's usually more fun fighting over dividends than over who is going to run the business when you're dead."

Charles Loewen is a Mennonite, and believes in the continuity of the business and the community around it. He prefers not to use the word "ownership", but instead uses the word "stewardship". He views himself as being part of the generational pipeline and labels himself as part of the G3 (third generation). He sees it is his responsibility to look after the environment, his community and pass on a healthy going concern. As an example, Loewen Windows donates about \$1 million each year to charities and foundations through their philanthropy company which is run very well by one of his brothers.

Grow Your Vision

Charles Loewen says, "If a business owner can create a big enough family vision, it is often good practice to establish a holding company. The primary wealth driver may be windows for Loewen Windows, but it does not have to stay as that. If it makes more sense to make money some other way, be open to change. Don't be tied to windows. Have a bigger vision than a product."

Redefining what business you are in is really about redefining your business and this needs to be done at least every five years.

When Charles Loewen took over the company, they were in the business of making windows. They became the dominant player in Western Canada and when there was a downturn, the main competition headquartered in Toronto found themselves over extended and went out of business. Then Loewen Windows ratcheted up their vision to become the premium window supplier to the construction industry and, again, achieved this vision.

"We have a wonderful team and they can now go away and come up with ideas. One of these was that due to premium market exposure, we now know the top end housing market very well. We know they like to surround themselves with beautiful and unique things. We now want to make that part of our vision," Loewen says. "We moved into retail and have location across the US and we serve the high end market. Instead of selling Loewen Windows only, we can sell a variety of window designs from Italy or China." This moves Loewen to a world vision and away from selling one product to becoming a channel for beautiful windows. Loewen added, "We fill a hole in the wall. We can do that in many ways. We do not have to be making that item. We can also source it as we know tastes of our target market. This is part of our new vision."

Family Can Always Own Shares

Loewen wants to nurture good capitalists in his offspring. He tells his family, "If your intention is to take wealth and dissipate it, tell me." Some of the family members have done just that and cashed in their shares, and that is fine.

Charles Loewen's mission is to create a chain of stewardship like many other family businesses have done. There may be a leader but the others in the generation may participate by just holding shares with no business participation.

David Simpson agreed: "Participating in a family business is not the same as being part of a business family."

"That is correct," agreed Loewen. "James Hughes discusses this in his book *Family Wealth: Keeping it in the Family*. Real family wealth is the ability to *create* wealth. If a family has created the ability to build social relationships and organisations, even if their fortune is taken away, they will rebuild it."

Many family businesses resist the idea of meritocracy. According to Charles Loewen, "If that is your approach then your gene pool will limit the scope and size of your business."

Loewen also points out that most talented people will not enter a family business unless it has meritocracy. Creating as much wealth as one can is the key purpose, not hiring family members.

Step Away From Being All Things

Charles Loewen recalls how he became too many things in the business, making Loewen Windows vulnerable to his departure. He gave up his role as Chairman of the Board and stayed on as CEO, and intends to keep those roles separate.

“If you, as the owner, do not set an agenda,” warns Loewen, “circumstances will drive your decisions.”

The CEO Roundtable was sponsored by **The National Post** and **Loewen & Partners**.

About the author



Jacoline Loewen raises capital for business owners and is the author of *Money Magnet: How to Attract Investors to Your Business*.

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