

This article originally appeared in Financial Post Magazine and is part of a series of business case studies. We hope that you enjoy this reprint provided courtesy of the Series sponsors.

FINANCIAL POST MAGAZINE NEW VENTURES CASE SERIES

On the Case.

## SMALL BUSINESS.

# The right help is hard to find

Mélanie Kau needs a senior executive. Can her family business succeed with a new helmsman?



**Stewart Thornhill**

Executive Director,  
Pierre L. Morrissette  
Institute for Entrepreneurship,  
Richard Ivey School of Business,  
University of Western Ontario

FAMILY-OWNED COMPANIES PRESENT SPECIAL CHALLENGES TO THOSE WHO RUN THEM. THE REASON? THEY CAN BE QUIRKY, DEVELOPING UNIQUE CULTURES AND PROCEDURES AS THEY GROW AND MATURE. THAT'S FINE, AS LONG AS THEY CONTINUE TO BE MANAGED BY PEOPLE WHO ARE

STEEPED IN THE TRADITIONS, OR AT LEAST ABLE TO ADAPT TO THEM. BUT WHAT HAPPENS WHEN A FIRM GROWS TO A POINT THAT IT MUST HIRE OUTSIDE PROFESSIONAL HELP TO REMAIN COMPETITIVE? THAT CAN BE A DIFFICULT TASK FOR ALL INVOLVED. JUST ASK MÉLANIE KAU.



IT WAS A spring morning early in May 2008 and Mélanie Kau had just concluded a meeting with her buying team at Mobilia Interiors Inc., a family-owned retail chain specializing in imported designer furniture. Kau, the president of the Montreal-based company, usually enjoyed these meetings. Sourcing the products that filled Mobilia's stores had been one of her favourite tasks ever since she joined the firm in the mid-1980s. Today, however, she was feeling some regrets. Not that the meeting had gone poorly. Kau had called her buying team together to begin discussing their plans for Mobilia's spring 2009 product line-up, and the talk had been quite rewarding. What bothered Kau came at the end. As she was gathering her papers, she glanced at her schedule. The next two weeks were packed solid — and not with the important sourcing strategy sessions that she so enjoyed.

Kau sighed. As her company had grown, so had the complexity of the issues she was required to manage. Once, she could spend up to 50% of her time on buying activities, a key differentiator for Mobilia. In recent years, that figure had dwindled to 10%, crowded out by other commitments to operations, finance and human resources. Kau was determined to unclog her schedule so that she could concentrate on the parts of the business that mattered most to her. The question was, how? The most obvious answer would be to hire a dedicated operations executive, preferably one with experience at a large company. There would be a double benefit to

# SMALL BUSINESS.

such a move. Not only would Kau be able to delegate some of her duties — freeing up time to focus on purchasing and sourcing — she would also be giving herself the opportunity to hire someone who could bring problem-solving skills and best practices to Mobilia. The trick would be finding and training the right candidate, someone who would have the requisite combination of experience and a willingness to work in a family-owned enterprise steeped in its own culture. That was a tall order and getting it right would mean the difference between success and failure.

Kau's father, Hans, founded Mobilia in 1959, launching it from a single boutique above a grocery store. He soon developed a reputation for innovative business practices, something that became ingrained in the company culture. In the 1980s, for instance, Mobilia became the first Canadian retailer to import affordable furniture covered in Italian leather, a luxury that had traditionally been available only to well-heeled shoppers. A decade later, it became a Canadian pioneer of the big-box format for furniture stores.

Mobilia's growth continued under Mélanie Kau's leadership. In her first 10 years as president, starting in 1996, she quadrupled the company's sales and opened nine new stores, adding close to 180,000 square feet of showroom space in Montreal, Ottawa and Toronto. The accolades followed, with Kau earning a spot on Caldwell Partners' prestigious "Top 40 Under 40" annual list.

As Mobilia grew, Kau found herself frequently mulling over the idea of hiring an operations executive. But each time, she decided against it after an analysis of the situation. She had always found ways to manage her increasing workload, whether it be making meetings shorter, increasing the time between follow-up meetings or dividing work up amongst her team. By early 2008, however, the demands placed on Kau had simply become too much. Her workload had essentially doubled in the past eight years, and there

was little left she could do to lighten the load. It was becoming increasingly apparent that she would have to bring in executive help, probably sooner rather than later.

There were several issues with this decision, however. For starters, a hire would be expensive, as a successful candidate would expect a six-figure salary — money that would come straight off Mobilia's bottom line. Training a new executive would also take time. It would be weeks, even months, before Kau knew whether her investment was paying off. More significantly, Kau was reluctant to bring in a person who hadn't risen through Mobilia's ranks. Even though the firm was almost 50 years old, it was still a family business, and most of the senior employees had been promoted into their current positions. All were familiar with the company's history and unique culture. Any new executive that Kau might hire would need to be sensitive to that environment. Complicating matters, Kau would not be looking for someone who would merely act as a "caretaker" executive overseeing existing procedures. Kau wanted someone who could take an active role in remodelling Mobilia's systems and processes to make the company more efficient.

All told, Kau knew that bringing in a new person — especially someone with new ideas about best practices — would be difficult. Mobilia employees and managers would be asked to change the way they had been doing things. Making successful transitions would require much patience from everyone involved. Productivity would likely fall during the initial stages of the transition as employees shook off old habits and adapted to new procedures. There was also a risk that best practices introduced by a new executive wouldn't work at Mobilia, due to subtle differences between the company itself and the firms where the new best practices had been developed. Kau would have to trust the operations executive to make judgment calls about what was right for her firm.

Lastly, Kau was concerned that an outside executive coming into Mobilia, a fast-growing firm, would likely exhibit strong, entrepreneurial traits — just the kind of person who might one day strike out their own and become a competitor. Kau wanted someone who would be loyal to Mobilia. Would she be able to find someone who was just "entrepreneurial enough?"

For all the challenges, the thought of hiring a veteran executive still appealed to Kau: She simply had too much work on her plate. Even if there were risks, Kau knew that the status quo was not acceptable. Something had to change. What she needed most was confidence in knowing that she would make the right decision.

**Hiring a senior operations executive creates challenges, but the positives significantly outweigh the negatives**

INNOVATIVE IDEAS.  
RELEVANT EXPERTISE.

# The Expert View

**By Jacoline Loewen,**  
Partner  
Loewen & Partners

KAU SHOULD BE concerned about hiring an outside executive. Yet, if I were on her board, I'd be concerned that her time is skewed away from the sourcing of product — Mobilia's competitive advantage — which she does very well. Her effectiveness is weakened because of an operations bottleneck, which may cost Mobilia its hard-earned market position.

First, Kau ought to make it a practice to ask for advice from mentors, other business owners or even a regular advisory group. CEOs need networks of peers that they can access to discuss business challenges and explore solutions.

Second, Kau is concerned about paying a high salary to attract a top professional. She need not worry. The recession has put talent on the market. By offering a moderate salary to a mature professional, someone experienced in family business, along with the opportunity to buy a stake in the company, Kau can preserve cash flow. If the executive is good, Mobilia's profit margin will improve, thus increasing the value of the executive's equity.

Finally, one of the characteristics I consider when assessing the strength of a company is the ownership structure. If all the shares rest with one "rugged individual," it shows a family business is still in its infantile stage, even if the revenue is strong. That desire to hold on to equity is a common trait in entrepreneurs. Even Sam Walton initially resisted sharing equity in Wal-Mart. But Walton quickly saw the results when he shared profits, and then equity with his executives and team. I think Kau would enjoy a similar experience.

This case study was prepared by *Financial Post Magazine* and the Pierre L. Morrissette Institute for Entrepreneurship at the Richard Ivey School of Business (University of Western Ontario). The case method is a key learning tool in the cross-enterprise leadership approach used at Ivey. The views represented here are solely those of the case authors. Some details may have been changed to protect privacy.

**By Rick Howard**  
Owner/Director, Zodiac Swim & Specialty Camp,  
Camp Tamarack, Zodiac Swim School

KAU'S DILEMMA IS very familiar. Our business — which consists of childrens' services, including a swim school, day camp and overnight camp — has faced the same decision at various times regarding whether and how to bring in a senior management person, along with the pros and cons associated with such a decision.

Zodiac Swim School, for example, was started by my wife, Ellen, as an after-school business 31 years ago. When the business was small, she could have her hands in everything. At a certain point, however, you need to let go for the good of the business and for your own well-being. About two years ago, I convinced Ellen that, just as we had put senior management in place at our two camp operations, we needed a similarly strong person for the swim school. We had done this half-heartedly before, with outside and inside junior candidates, mostly unsuccessfully. So we hired an assistant swim director (ASD). The positives have far outweighed the negatives. We pay the ASD a significant salary, but the increased productivity, fresh perspective and better lifestyle for Ellen prove the correctness of our decision.

In hiring such a person, you can look for candidates internally and externally. There are risks in both options, but there are benefits, too. A smart junior employee who shows potential can be just as good as an experienced external professional, especially when it comes to understanding your business culture. Kau should evaluate her options and make an offer. By the sounds of the challenges she faces, it's probably a move she cannot afford to avoid.

# The Outcome

ULTIMATELY, KAU determined that she could no longer afford to run Mobilia completely from her own desk. The number of tasks she had to oversee and manage was simple too much for one person, especially with her own focus on the important issue of product selection and sourcing.

"So we made the decision to hire a senior operations executive," Kau says. "Looking back, we were at an important inflection point in terms of where we were on the company's growth path. If we did not bring someone else onboard, we could have experienced flat growth prospects as the organization scrambled to cope."

With a senior operations executive in place, Kau has been able to devote more time overseeing Mobilia's purchasing activities. "It's been a balancing act for all involved, especially for myself," she says. "Entrepreneurs are used to fixing everything by themselves. Growing the company past a certain stage requires entrusting key players to do their part. Success comes from our collective effort." **FP**

Each year, our company works with thousands of entrepreneurs and business owners to help them pursue their dreams. If you're like the companies featured in the Financial Post Magazine New Ventures Case Series, or you're launching a company, expanding your business or exploring new products, services and markets, look to us for the resources and experience to guide your growth and success.



**BDO** Dunwoody LLP  
Chartered Accountants  
and Advisors

www.bdo.ca | 1-800-805-9544