Sweden's enduring business dynasty

STOCKHOLM

They have had their ups and downs, but kept the family firm together for 150 years. Now the Wallenbergs once again consider reinventing their business

"'T'HEY are a bit like royalty," says Peter Thelin, a manager at Brummer & Partners, a Swedish hedge fund. He is describing the Wallenbergs, whose business counts as his most aristocratic investment. The Wallenbergs have been around a long time-even longer than the Bernadottes, the royal family who came to Sweden in the early 19th century when one of Napoleon's marshals was adopted as heir by an ageing Swedish king. But it was under the House of Bernadotte that the Wallenbergs rose to prominence and now run one of the world's most successful family firms.

By the late 1990s the Wallenbergs controlled some 40% of the value of the companies listed on the Swedish stock exchange. Their interests range from Ericsson, a leading telecoms firm, to Astra Zeneca, a Pharmaceuticals company now listed in London, Electrolux, a white-goods manufacturer, and ABB, a global engineering giant. After Volkswagen, the family is also the second-biggest shareholder in Sweden's Scania, for which Germany's MAN, a rival truckmaker, has made a €9.6 billion ($12 billion) hostile bid. There is little that happens in Swedish business that does not involve the Wallenbergs.

What is the secret of their success? The family employs professional managers and has not been afraid to change. Some believe their next reincarnation could be as a private company. Despite denials that this strategy has been discussed, the Wallenbergs have the resources to buy back the shares of Investor, their main company. Moreover, they are making more private-equity investments.

Another generation

Moving with the times has helped the Wallenbergs before and could do so again. Few family businesses manage to survive beyond the third generation. A failure to develop the founder's business, together with disputes over dividing up the spoils, usually does in most family firms. Not the Wallenbergs, where the fifth generation hopes to hand over to the sixth.

The family quickly points to one factor that helps hold their enterprise together: "No one owns it, which means that we cannot consume it though we can certainly destroy it," says Jacob Wallenberg, chairman of Investor. Most of the family's wealth is tied up in the Wallenberg foundations, which have combined assets of some SKr45 billion ($6.2 billion). These non-profit organisations provide grants of about SKri billion a year to science, research and the arts in Sweden. The foundations control 46% of votes at Investor and hold 22% of its capital, as well as owning big chunks of SAS, the main Scandinavian airline, Stora Enso, a huge paper company, and SKF, a maker of bearings.

The first and biggest of these foundations was set up in 1917 by childless Knut Wallenberg as a tax-saving way to keep the family wealth together. "Our first responsibility", says Jacob Wallenberg, "is to return capital to the researchers of this nation." Nor has the family confined itself to business. It has given Sweden a foreign minister, a Davis Cup player and Raoul Wallenberg, a hero of the second world war who rescued Hungarian Jews.

This year is the isoth anniversary of Skandinaviska Enskilda Banken (SEB), one of the Nordic region's biggest banks. It was founded by Andre Wallenberg and marks the start of the empire. Investor was set up 90 years ago for SEB'S equity holdings in response to a law restricting banks' ownership of shares. Marcus Wallenberg (pictured on the left with his first cousin Jacob), is chairman of SEB. Both turn 50 this year.

Each generation of the Wallenbergs has done something to reinvent the family business. Andre Wallenberg was the financier of Sweden's industrialisation. Knut and his brother steered the family firm through the 1920s, when Sweden was badly hit by a global recession. Marcus Wallenberg, the tennis champion and grandfather of the present Marcus, ran the shop like an old-time industrialist-an apt strategy when post-war Europe was being resurrected. Peter Wallenberg, Jacob's father, became Investor's chairman in the 1980s and transformed it into a diversified investment company.

The present Marcus Wallenberg is driving the latest modernisation. He believes that the internet is for him the equivalent of the bet his grandfather placed on aviation. Marcus senior invested in Saab after the company was created in 1937. By 1946, he had sold out of railways altogether to concentrate on planes.

Marcus junior invested in Spray Networks, a Swedish internet portal, but this was a disaster. He also co-financed Bredbandsbolaget (B2), a provider of broadband and phone services. This too seemed to have failed, but Investor continued to back the company and last year it sold B2 to Telenor, a Norwegian media group, for a healthy profit.

Yet the outcome of Marcus Wallenberg's boldest technology investment is still uncertain. In 2000 he agreed to build 3 Scandinavia, a provider of third-genera-

tion mobile-phone services, in a joint venture with Hong Kong's Hutchison Whampoa. It is still leaking money, because subscribers are not switching to its services as fast as expected. The Wallenbergs agreed to fund 3 Scandinavia until 2008, when it is expected to break even. By then they will have paid between SKr8 billion and SKrio billion for their 40% stake. If the firm is still in the red, will they let it go?

Loyal to a fault

The family takes pride in sticking to its companies through thick and thin, but says it will not hesitate to sell when prospects seem permanently dim. When Marcus senior switched from trains to planes, he wrote in a letter to his brother that this meant "a shift from the past to the future, which has been the family motto in previous generations, and is the only tradition worth keeping". These values have not changed, says the younger Marcus. In the 1930s, Investor sold its coal and coke business because other forms of energy were being more widely used. And in the 1980s the Wallenbergs lost confidence in basic chemicals and got out of Kema Nobel.

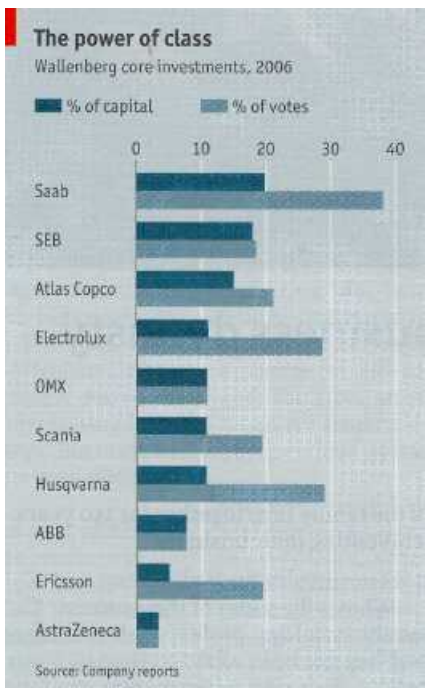
Even so, loyalty and belief in the long term remain pillars of the Wallenberg way of doing business. Firms in the family sphere benefit from a network of carefully fostered contacts. Their bosses swap experiences and help each other search for talented executives. In return, the companies reward the Wallenbergs with multiple-voting shares and board seats. No important appointment is made without them. But this has its detractors and some suspect that the Wallenbergs concentrate more on preserving their powerful network than on the interests of Investor's 130,000 other shareholders.

"People say the Wallenbergs are only kingmakers," fumes Jacob Wallenberg in response. They are not, he insists, and take part in all important decisions on company strategy. Moreover, the family intends to become more actively involved, even though its stakes in some companies are likely to get smaller as a result of mergers among global operators.

Today Investor has the biggest, or one of the biggest, shareholdings in ten blue-chip companies (see chart). But if Investor is to continue to thrive, it needs to do something about its investment discount. The company trades on average at some 25% less than the combined market value of its holdings, minus their share of debt. The firm's current market value is SKrug billion. Although the discount is lower than it has been it is still "the biggest weakness of the Wallenberg empire," says Mr Thelin, the hedge-fund manager. The discount restricts the ability to issue new equity to pay for big acquisitions.

The reason for the discount is the use of dual-class shares. Raffi Amit, who specialises in family firms at the Wharton business school, says that although dual-class shares give families more control, they tend to diminish the value of a corporation because other shareholders suspect the controlling family will grab special benefits for themselves or initiate strategic moves that help their business interests, but not those of other investors.

Perhaps the Wallenbergs should end their multiple-voting shares, especially as they are regularly under fire from Anglo-Saxon investors. But Sweden has long resisted this because some two-thirds of its listed companies have them and it helps keep firms under Swedish ownership in an open economy. Eight of Investor's core investments contain high-voting stock. Only the Anglo-Swedish AstraZeneca and



the Swiss-Swedish ABB have converted to one vote per share. At Ericsson, the 1,000-fold voting rights of the Wallenbergs' A shares were reduced in 2004 to ten times the voting rights of B shares.

Jacob Wallenberg is a combative defender of multiple-voting shares. In his opinion, the Wallenbergs deserve their special rights because of their role in the foundation and development of the companies they have put their money into. Dual-class shares promote corporate Sweden's tradition of strong and involved ownership, says Rolf Carlsson, a management consultant. He thinks the system may survive at firms where Swedish ownership is considered important.

The actions of the Wallenbergs' managers have helped to reduce the discount. So far, SEB is thriving under its newish chief executive, Annika Falkengren. Borje Ekholm took over as chief executive of Investor in September last year after running Investor Growth Capital, the venture-capital arm in New York. Compared with the patrician Wallenbergs, Mr Ekholm cuts a bolder, more hands-on figure. He has certainly been busy making changes.

In May he joined forces with EOT, a Swedish private-equity company, to buy out Gambro, a Swedish medical-technology company. In June he pushed for the spin-off of Husqvarna, a maker of chainsaws and other outdoor equipment, from Electrolux. And in August he sold Investor's stake in WM-Data Nordic, an information-technology consultancy. The deals continue. Apart from the unresolved Scania bid, Atlas Copco recently agreed to sell most of its construction-equipment rental business, also to private-equity investors, for $3.8 billion.

Mr Ekholm intends to look at riskier, but more lucrative, unlisted investments, which now make up 16% of Investor's net asset value. Investor has become a big investor in private equity through its part-ownership of EOT and Investor Capital Partners, a subsidiary based in Hong Kong. Through Investor Growth Capital it finances fledgling companies in health care and technology in America. And it is the owner of other unlisted firms, such as Novare, a head hunter, and Stockholm's Grand Hotel. The advantage of these assets, says Mr Ekholm, is that "our work with them only benefits our investors".

What to buy?

Investor is sitting on a pile of cash and is nearly debt-free. Stockholm's financial circle hums with speculation about what Mr Ekholm might do with this money. He could make a big acquisition or buy back shares. Mr Ekholm says he will look for takeover targets in financial services, technology, health care and engineering. But neither does he rule out a share buy-back.

Could he take all of Investor private and transform it into a gigantic private-equity firm? Simon Blecher, of HO Fonder, an investment fund, calculates that the company could mobilise some SKr25 billion immediately and release another SKr40 billion in the short term, which could go a long way towards a buyout. Investor could then re-list some of its private-equity funds. This has worked for Ratos, a middle-sized Swedish investment firm, which used to trade at a big discount. Ratos now trades at a premium. Mr Ekholm, though, denies that the Wallenbergs have ever discussed taking Investor private.

The next generation, however, is waiting in the wings. The Wallenberg cousins have 11 children between them. "Of course it would be wonderful if they were interested," says Jacob Wallenberg. It is what the family expects. But if the sixth generation takes up the reins it will have its own ideas about the future of the family firm. •

Fonte: The Economist, v.381, n.8499, p. 73-74, 14 Oct. 2006.