

Leadership

Interview

“Dynamic continuity has been our way of looking at life from the very beginning.”

Jacob Wallenberg, chairman of the powerful Swedish industrial holding company Investor AB, talks to THE FOCUS about how his and his family’s concept of engaged ownership has guided transition processes in the companies where the Wallenbergs have a controlling interest.

PHOTOS: MICHAEL DANNENMANN





“We would rather stay in for the long term. If there’s a problem, deal with it, but don’t leave.”

Investor

Investor



RESUMÉ Jacob Wallenberg



For Jacob Wallenberg, 52, it was not clear from the outset that he would one day step into the shoes of his famous father, Peter “Pirre” Wallenberg. Following his schooling and military service with the Swedish Navy, Wallenberg studied Business Administration at Wharton Business School in the USA, graduating with an MBA in 1981 and then prolonging what he now refers to as his “American experience” by working at JP Morgan on Wall Street for two years. He then moved to London to join the merchant bank Hambros, then eastward, working in Asia for SEB before returning home to Sweden. From 1990 to 1992 he was Executive Vice President of Investor AB, then returned to SEB where he became President and CEO of the bank in 1997. One year later he became Chairman of SEB, a role he has held at Investor since 2005. He is also Member of the Board of Coca-Cola, where he follows in the footsteps of Warren Buffett. Jacob Wallenberg and his cousin, Marcus Wallenberg, the current Chairman of the Board of SEB, are widely considered the most influential business leaders in Sweden. Together with Jacob’s brother, Peter Wallenberg Jr., who is Chairman of Foundation Asset Management, they represent the fifth generation at the helm of the family’s business concerns.

ESSE NON VIDERI has been the motto of the Wallenberg family for 150 years. Roughly translated, it means “to be, not to seem.” Jacob Wallenberg has taken this family principle to heart. He will give an interview on a park bench rather than insisting on an elegant business lounge or top-class hotel and will fly economy class if the need arises. The Chairman of the Board of Investor AB spoke to THE FOCUS at the industrial holding company’s unpretentious headquarters in the old town center of Stockholm.

The Focus: The professed goal of all companies associated with Investor AB is to be best in class. As you once said with reference to Darwin’s theories, being best in class doesn’t mean being the strongest or the most intelligent, but being the most responsive to change.

Jacob Wallenberg: There is an overriding principle that one of my ancestors voiced: Change is really the only tradition worth preserving. We think there is only one way to survive in the kind of global business we’re involved in, dealing with multinational companies – if you want to be at the forefront and be successful, you have to be able to adapt. Looking at the companies we are associated with or at other highly successful Swedish multinational companies, they all have one thing in common – they are the world leaders in their respective fields. This has to do with the fact that, as a small country, Sweden had to go global a hundred years ago because our market was so small. We had to be very adaptable in order to be successful. It was a matter of survival. Since then Sweden’s main strength has always been our international focus. Almost all large Swedish companies have China as their single most important market today, which is remarkable if you consider that this market only started to open just over twenty years ago. To accomplish something like this you need an open mind and a willingness to change.

The Focus: What would you say was the most significant transition you have experienced in your business life?

Wallenberg: Probably the most significant has been globalization and the way it has developed. In the past, Swedish companies were highly protected by the country’s legal environment. No foreigner could buy a Swedish company. But Swedish companies went abroad quite early, as I mentioned, and bought every company they could. They were able to grow and still be protected by Swedish law. Now that Sweden is a member of the

EU, that protection is history. Today foreign companies can come into our country and buy businesses themselves. Suddenly we have to operate under the same conditions as all global companies. This called for a mental shift if we were to avoid being taken over.

The Focus: But you have also witnessed other major changes...

Wallenberg: Of course – take the current focus on customers and consumers, for example. Most of the companies we are associated with are mechanical engineering companies. Consider Electrolux, which produces home appliances such as refrigerators, washing machines and dryers: a classic mechanical industry. And the boards or owners spent their time looking at efficiency – at the company’s production processes and what was happening on the shopfloor. The board looked after resource allocation and working capital. To exaggerate: Did they ever talk about the consumer? Never.

I was on the board of StoraEnso, the world’s second largest paper and pulp company. I joined that board in 1985 and I don’t remember hearing the word “consumer” at the board table a single time during my first three or four years. It was as though they just trusted that God would take care of it; the company had the same customers, year in and year out, and sold very long contracts. The consumer was never an issue. Nowadays, what is the first thing you talk about? Customers – what they are looking for, what kind of quality they want, etc. It doesn’t matter whether your business is paper, banking, dishwashers or mobile phones. There has been a 180-degree change of direction. And once management and the boards realized that this change had taken place, they had to get tens of thousands of employees to adapt their behavior accordingly.

The Focus: That sounds like a slow process...

Wallenberg: When you run a business, you’ll always feel that you’re late in changing, but that’s life. The important thing is what you do when you realize change is essential.

The Focus: Can a company ever afford to delay change until there is no alternative?

Wallenberg: Of course not. You have to be on the ball, talk to people and make sure that you absorb lots of information. Ideally, we should be learning all the time, but often you will not have all the answers despite your best efforts – and then you find things out suddenly. Ultimately, leadership is not about having the best answer

“An investment company is a business like any other. We are subject to change as well.”

at all times, it is about being able to work within your environment and ensure that you have a well-functioning machine. This gives you the ability to change course quickly once you realize that you are on the wrong track.

The Focus: We’ve been talking about the willingness of companies in the Investor portfolio to adopt new business models in the face of change. Does this apply to Investor as well?

Wallenberg: An investment company is a business like any other. For example, we have reviewed the different ways one can invest. There is the public environment, but the private environment and private equity, venture capital and other fairly new asset classes are gaining in importance. We have decided that we should move parts of our portfolio into these new areas. A new development or a new asset class doesn’t necessarily mean you have to shift everything in that direction immediately – there has to be some kind of balance. On the board we talk a lot about how much we should commit to these new areas. So yes, as an investment company, we are subject to change as well.

The Focus: Investor is known for its engaged style of investment. Has that changed over time?

Wallenberg: No, that hasn’t changed. Our basic business model is twofold. First, we are very long term investors. We’ve had some of our holdings for 150 years. Second, we are very active investors. Whenever we make an investment, we make sure we are the lead shareholder so we have a clear voice on the board. From the very beginning, this business model has been the trademark of the way my family does business. In fact, it is more than a model; it is an attitude toward ownership.

But what has shifted dramatically is the execution – the way we make sure we have a voice at the board table. When my grandfather walked into a boardroom, regardless whether he owned a single share or not, he would command the day. His power was based on the strength of his personality and his position in society. When his son – my father – walked into the same boardroom

25 years later, it was not enough to be a strong and well-respected individual. He had to carry some weight in terms of ownership – let’s say ten percent of the company – in order to be considered the leading voice at the table. When today’s generation walks into the same boardroom, it is only ownership that counts and not a name, however great and renowned it might be.

The Focus: How can your principle of “engaged investment” work when your voice on the board only represents a minority interest?

Wallenberg: Let’s assume that a certain company has eight board members. We would normally have one or two board members that we nominate. They represent 25 percent of the share capital and so they’re the representatives of the largest shareholders. The others are representatives of institutional shareholders who have been elected to the board. Now, everyone has respect for the larger shareholder, but – as you said – we still are in a minority. We cannot command that table through the number of board members we have, so we must make certain that we are better educated, more knowledgeable and more on the ball than anyone else at the table. How do we achieve this? At Investor we have ten or twelve analysts who follow our associate companies very diligently. Take Atlas Copco for example: Our analysts follow developments within the company but they also look very carefully at what Atlas Copco’s competitors are doing, how the capital markets are responding, and so on. Ultimately they generate a knowledge base that is very valuable to me as a board member of Atlas Copco. When I go to the board meetings, I am as well prepared as anyone else at the table, if not better. Our purpose is to be recognized as very professional and knowledgeable board members. The other board members not only respect this, they also listen to us. Only by making our voice heard will we make an impact on a company. That’s how we work – it’s a continuum.

The Focus: Is there a standard pattern of interaction between executive management and the non-executive directors on the boards on which you serve?

Wallenberg: From time to time that interaction can be very intensive. But in general I believe that executive management should be left alone. If there is a specific issue on which I have an opinion as a board member, I will call the CEO and ask him or her some questions: how does this work; what is your view; how do you intend to proceed; I’ve read this, have you considered that?

I engage in a dialogue. The German system is slightly different because the executive board is so much stronger than the supervisory board. This can be an obstacle to effective communications.

The Focus: Do you see a special role in transition situations for board members or non-executive directors? What can they contribute to making transition processes smoother or more successful?

Wallenberg: As owners, we only have one objective, and that is to do what is best for the companies we own. We don’t have a hidden agenda. This was why we participated in the formation of ABB. The same goes for the mergers of AstraZeneca etc.

One of Investor’s responsibilities to the companies we own is to encourage innovation and entrepreneurial thinking. These are key ingredients in the companies’ future development. We try to challenge the management of these companies; to ask the critical questions; to be a part of the transition. This is not just part of our board work, but also part of the internal work we do at Investor when we follow these industries. We really try to understand what is happening inside and we speak extensively with consultants and other actors in the marketplace. This puts us in a position to confront what is happening in the individual companies.

The Focus: How important is the long-term investment philosophy that has characterized your family for five generations? Is this culture of consistency a particular asset when it comes to driving transitions?

Wallenberg: Nothing lasts forever, but the business model that our ancestors formulated does seem to be sustainable. Investing for the long term today is highly unusual – most investors do not think in these terms. Pension funds are the largest shareholders in the world today and the problem is that the people who invest on their behalf are normally evaluated on a monthly basis. So they often vote with their feet. We would rather stay in for the long term. If there’s a problem, deal with it, but don’t leave. Our track record is reasonably good – better than the stock market – so we plan to stick with this model. We do not pretend to have all the answers, but there is one thing we do know: how to invest. We are one of the few sources of capital who are willing to invest in industries that take a long time to bring a return. Investing in a new paper mill today means a fifteen- or twenty-year wait before there are returns. Only people who take the long view make investments like this.



“Change is the only tradition worth preserving.”

The Focus: Would you say family-owned businesses have an advantage when it comes to striking the right balance between continuity and change?

Wallenberg: It is the fact that we have a clear business model and value base that are well known, well communicated and tested that makes the difference. The willingness to change is imperative in our businesses, because you will not survive in many industries without it. The world is always changing and so should we. I call that dynamic continuity. And that has been part of our way of looking at life from the very beginning. But does that have anything to do with being a family business? No, it has to do with the values that our ancestors formulated and that we have tested and continue to respect.

The Focus: Have any of those core values changed over the 150 years of your company’s history?

Wallenberg: Not really, but we do move with the times. Today, for example, we partly act as private equity investors. As a consequence we’ve had to adapt our attitude and move to smaller boards, closer correlation between boards and executive management, and a shorter time-frame for evaluation, because that is part of the industry. Our trick is to be fairly far forward on the development curve the whole time.

The Focus: Was it easy for you personally to accept the traditional, historic values of the company?

Wallenberg: It was a learning process. Every generation has to make up its own mind and children will always do the opposite of what their parents tell them. I listened and I read, but I think at the end of the day it comes down to experience. You can’t just be told the best way to do something – you have to try it for yourself. We’ve done



Investor AB The empire of the midnight sun

There is no nameplate on the modest building in the old town center of Stockholm to indicate that this is the home of one of the vital nerve centers of the European business community. But it is from here that one of most powerful families in Europe – the Wallenberg dynasty – controls a global business empire, including vast stakes in blue-chip companies such as ABB, Electrolux, Saab, Ericsson, AstraZeneca, Husqvarna, and SEB.

Investor was spun off more than 90 years ago from SEB, today the second biggest Swedish bank, set up in the 1850s by André Oscar Wallenberg, and many of its long-term holdings date to the 1920s and 1930s.

No other family dynasty in the industrialized world controls its home economy to the extent that the Wallenbergs do in Sweden. Their interests in listed companies account for one-third of the Stockholm stock market. However, the family does not control companies directly, as a large part of its assets are focused within a number of foundations. In addition, the Wallenbergs' shareholdings are often far smaller than the proportion of voting rights that they hold.

In addition to significant holdings in Swedish blue chips, Investor's more recent actions include increasing its investments in unlisted companies, with the goal of having 25 percent of Investor's total assets in private equity within three to five years.

that, but naturally we are colored by history and traditions as well.

The Focus: One of the values for which the Wallenbergs are famous is their work ethic. Is working hard part of your DNA?

Wallenberg: My grandfather and my father worked seven days a week. To them there was no difference between private life and professional life. They never stopped working, and that was what I saw as I grew up.

The Focus: Has this changed?

Wallenberg: Yes, I think so. If I compare myself to most people around me, I work hard, but I've also tried to draw some kind of line between the roles. With the pressure of e-mail, cell phones and permanent connectivity, you have to find a way of stopping the world for a second so that you can reflect and think. You can't just perform the whole time. I find myself not reflecting enough, but because of the responsibility of my job I have to find a way to make this a priority. It is a challenge to find an intelligent way of dealing with that in this day and age. For example, I've declined to take board positions in order to give myself more time. I spend time talking to people about the big picture and I travel a fair bit, which is an excellent way to gain perspective on things. I try to read what analysts write about us, because many of them are extremely well briefed.

The Focus: Many family firms fail in a transitional phase that is specific to this type of company, namely the handover of responsibility from one generation to the next. Your family has now mastered this problematic handover phase successfully for five generations. What do the Wallenbergs do differently and better than other business families?

Wallenberg: It is fair to say that the Wallenberg foundations as the capital owners are the main reason why the family business has survived in Wallenberg hands to this day. The young people in my family who were interested in business were always given the opportunity to work in the company if an older family member thought they had a reasonable chance of success. In the old days they were given the chance to join the bank in junior positions, but then they were basically thrown into the water and it was up to them to swim. This has been the pattern in every generation. One other very important point is that everyone was sent abroad for international schooling. My great-uncle was the first foreigner ever to work as a

trainee at City Bank in 1920, and my grandfather worked at other international banks. I studied and gained my initial work experience in the USA before going on to Britain and the Far East. This international understanding was an important ingredient of my education. It has given me a perspective that I ultimately bring to the boards of the companies we have invested in, all of which are very international. And in addition to the experience we gained in other countries, we were able to make valuable contacts. We have always recognized the importance of international networking. My cousin and I spend a significant amount of time building global networks. As a result, we have an excellent “group of reference” that we can turn to and ask questions and get intelligent answers. This has been hugely valuable to us over the years.

The Focus: Investor is well-known for implementing this idea of networking internally as well, building a strong network of executives from the companies in which it invests.

Wallenberg: That’s something we try to do in many different ways. When we have important overseas visitors coming to Sweden, for example, very often they want to meet us and we always try to invite all the CEOs of the companies in our portfolio. We also try to bring together the management teams from all the countries where we have invested almost every year. We set up a program to address some relevant questions of the day and we invite a prominent keynote speaker, such as Henry Kissinger or Bill Clinton. It is a prestigious event and an excellent opportunity for people to meet each other. We really try to promote this cross-fertilization and networking so that the CEOs feel a connection and are comfortable turning to each other with their questions. Having a good network and knowing the right people are always key to developing a strong business.

The Focus: Do such platforms and networks influence transition processes as well?

Wallenberg: Indirectly. They help us tackle pressing questions. Three years ago, for example, we took on environmental issues. After the World Economic Forum in Davos, suddenly everyone was talking about the environment, but no one did anything. I thought it was important to address the subject with our group of top managers and to bring in an expert, not to tell people what is right or wrong, but to motivate them to go home and do their homework. In the meantime environmental

questions have become very important and our people already had the basic skills in place.

The Focus: You said that you consider the willingness to change a key success factor. How do you make sure it gets embedded in the DNA of a company? Is it all about selecting the right people?

Wallenberg: I think it is. You simply cannot run these companies if you are just going to sit and defend your turf and be a caretaker. A modern manager has to be willing to change with the times. The moment you stop, you’ll be overtaken or taken over. So part of the DNA of any successful leader is a fundamental willingness to adopt change. Someone who is too conservative and unwilling to change will not normally survive for long.

The Focus: Looking at the bigger picture, what are the most challenging issues ahead?

Wallenberg: It always comes back to the individual companies – making sure that they develop as well as possible within their framework. It is a pretty rough world out there: They have to be aggressive, they have to be knowledgeable, and they have to be willing to take risks to maintain their position as world leaders. I consider this the most important challenge. If we meet it successfully, that creates value for the shareholders of Investor – and that is my ultimate responsibility. And then, of course, we must make sure we don’t miss the next business model and that we find suitable ways of transitioning into it. As we are in the business of building companies, our mindset must be that of entrepreneurs.



The interview with Jacob Wallenberg was conducted by Damien O’Brien (left), Egon Zehnder International, Paris, Torgny Segerberg, Egon Zehnder International, Copenhagen, and Ulrike Mertens, THE FOCUS.