FATHER AND SON: The same family in leading positions for five generations is highly unusual in today's business world. Thomas Wilhelmsen with his father Wilhelm Wilhelmsen, fifth and fourth generation respectively.

A FAMILY AFFAIR

Throughout its 150-year-long history, WW has been a family-controlled company. Could this be one of the reasons for its survival? New research sheds light on this type of companies in general.

Text: Einar Chr. Erlingsen Photo: Kaia Means

NEW INSIGHT: Professor Øyvind Bøhren sheds new light on family dominated companies in his book. (Photo: Norwegian Business School)

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FAMILY-OWNED COMPANIES

- A company where one family owns 50.1 % or more of the shares is defined as a family company.
- 68 % of all Norwegian companies with limited liability fall into this category.
- In three out of four family-dominated companies the major owner is both CEO and chair.
- Family-dominated companies appear to be more profitable than other companies.

NORWAY: Questions regarding family dominated companies have been a major concern for the last five years to Øyvind Bøhren, professor and founding director of the Centre for corporate governance research at the Norwegian Business School. Over these years, he and his colleagues and students have researched close to 100 000 Norwegian companies from 1994 to the present. A major focus of their research has been the company's ownership structure, and how this influences its behaviour and financial performance. The results were recently published in a book, a first of its kind on the subject: "Owners, the board and management", subtitled "Corporate governance in Norway"(title translated from Norwegian).

UNPLOUGHED GROUND. When his interest in family-dominated companies was first aroused, he was surprised to find that there was very little research published on the corporate governance and economic performance of family companies. This is particularly true for family companies that are not listed on the stock exchange (private as opposed to public firms). Which was even more surprising when taking into consideration that family ownership is the dominant form of company ownership everywhere in the world.

'Even after my 35 years of teaching, it was an eye-opener to discover how little is actually known about private company's in general and family firms in particular. We didn't even have the vocabulary to describe key findings in Norwegian, so we had to invent some new concepts on the way,' says professor Bøhren.

Like most other people, he was surprised to find that for every employee in a stock-listed company, there are no fewer than seven people working in non-listed companies. For annual company turnover, the comparable figures are one to four.

The roles are dramatically reversed, however, when it comes to public and political interest in the two types of ownership – which in turn has influenced the financial and operating framework a family-dominated company has to work within.

'We can't state that there is a conscious discrimination against family ownership. But there is definitely a lack of knowledge that sometimes results in less insightful public regulation for family-owned companies compared to firms not controlled by families. Taxation seems to be one important example,' says professor Bøhren.

PROSPECTS FOR SURVIVAL. Among the many interesting findings is what appears to be a two per cent higher average return on assets (ROA) in family dominated companies compared to non-family companies (6.7% as compared to 4.7%). This tendency is especially clear in small companies with one dominant owner.

'These owners are mostly also the company's CEO, and they tend to think that "it's my own money anyway". Thus, they are more likely to be more considerate spenders than managers who primarily manage other people's money," says professor Bøhren.

'Such companies also tend to be more "hands on", and in general swifter to take action when something appears amiss.'

The studies carried out at the Centre for corporate governance research can only indirectly answer whether family-dominated companies have improved prospects for long-term survival:

'Generally speaking, these companies tend to be more careful regarding how they position themselves. If you place all your eggs in one basket, you'll definitely watch them well. On the other hand, being too careful may in itself be a threat to long-term survival. Especially if it is combined with a reluctance to recruit leaders from outside the family,' says professor Bøhren.

'So the old saying that the first generation creates, the second consolidates and the third generation wastes is more than mere words?'

'Actually, studies from Denmark indicate that the waste starts already with the second generation. A "founding talent" is only rarely inherited.'

'So when the fifth Wilhelmsen generation, represented by Thomas Wilhelmsen took over as CEO only last year, it must have been rather unusual in today's business world?'

WE CAN'T STATE THAT THERE IS A CONSCIOUS DISCRIMINATION AGAINST FAMILY OWNERSHIP. BUT THERE IS DEFINITELY A LACK OF KNOWLEDGE THAT SOMETIMES RESULTS IN LESS INSIGHTFUL PUBLIC REGULATION FOR FAMILY-OWNED COMPANIES COMPARED TO COMPANIES NOT CONTROLLED BY FAMILIES. ØYVIND BØHREN

'From a corporate governance perspective, the key may be that unlike most family companies, WW is a public company with a significant minority stake held by non-family stockholders. Public companies are monitored more closely than private companies, both by regulators and the financial press. Moreover, almost half the WW equity is not controlled by the family. This means the family will have a hard time managing the firm in a way that just benefits themselves at the expense of the minority. Choosing a family CEO without the proper skills would fire back in terms of lost market value, lost reputation, and stockholder unrest. This illustrates that potential conflicts between the company's stakeholders and sensible ways of handling them are vital components of corporate governance,' says Øyvind Bøhren.