

Questions to prepare the case:

- What are the factors that might have contributed to longevity of the Wallenberg Family Business (FB)?
 - Could you identify the main values transmitted from the first to the fifth generation?
 - How effective has the mentorship process been? and Why?
 - Assess the succession approach of the Wallenbergs. How effective has it been?
 - What are the other strategic options available to the Wallenberg FB in light of the changes that have been taking place in the environment?
 - What would you recommend the family do in order to preserve their FB identity?
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THE LEGACY OF THE WALLENBERG FAMILY¹

In June of 2010 Marcus Wallenberg (Marcus), Chairman of SEB and member of the fifth generation, was sitting in his office thinking about the possible merger between SEB and Swedbank. He was remembering all the values and principles of the family in order to bring his decision to the next board of directors and discuss which would be the right move of the bank taking into account the actual environment and all the history of his family.

The Founder

Andre Oscar Wallenberg (AOW-1816) the founder had a good sense of adventure, idealism, sense of justice, international perspective, and Swedish patriotism. It was his great uncle (Jacob) who shaped these virtues with his book: "My son on the Gallery" while the book recounted the experiences of Jacob as he visited many places in the world; it also served to teach manners and morals. AOW displayed creativity and risk-taking traits; and while he did not excel in school, his dream was to go to the seas. So at the age of 16, AOW's father allowed him to sign up as a sailor's mate on a merchant ship heading to New Orleans, USA. He returned in 1833 with the mindset of a liberal entrepreneur and businessman. After his return he pursued a career in the Swedish Navy and enrolled in the naval base school. AOW started to take education more seriously after a time in Boston when he was influenced by Benjamin Franklin's ideas, time was now a variable; and he learned and understood that money has to be earned by labor and frugality, and that credit should be used carefully.

At the age of 21, AOW and his brother Jacob invested the money in one of the Sweden's first private banks, and in a steel manufacturer industry. Jacob his brother was a lawyer and became AOW's closest friend, advisor, and confidante, the

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cooperation between the two brothers continued throughout their lives and this cooperation would come to serve as a model for continued cooperation among the brothers in the next generation. After moving to Stockholm, AOW studied business by correspondence and became the financial manager for his mother's and aunt's finances. After another voyage to France he learned the language and was influenced by new scientific ideas as well as innovative ideas of banking, accounting, and politics. After his return to Sweden he became embroiled in family conflicts with his mother Laura, aunt Marie and eldest brother Marcus over the management of the family inheritance trust. While the conflict was resolved with Marie disinheriting AOW from her will, AOW ensured family peace and regained his aunt's respect.

In 1845 AOW embarked on another chapter of his life dedicated himself toward building political and economic connections. For a brief time, he became a Captain of the first steamboats in Sweden, then took a job as a newspaper editor where he promoted reforms in the Navy, in the electoral process of Riksdag as well as in science and technology. He started with Jacob a small weekly newspaper that promoted liberal ideas and he expanded his financial management services to include friends from the navy. His banking activity was unusual in the sense he conducted it on the basis of his own capital and for a charitable purpose (Administer financial affairs for wives whose husbands were out to sea).

After he left the navy 1851, it freed him to pursue an "explosion of entrepreneurship". During the next five years, AOW became a retail merchant and wholesale retailer in Sundsvall, the leading steamboat owner in Stockholm, and a pioneer in the Swedish banking industry. As a newly elected member of the Riksdag, AOW managed to get selected to sit on the committee on banking to examine a banking model for the country. In 1856 he founded Stockholm's Enskilda Bank (SEB) as a larger vehicle for AOW to implement reforms to the Swedish banking industry.

AOW also had time to start a family, his first wife Mina Andersson, had four children: a daughter (Oscara) and three sons (Jacob, Knut, Anders). Mina died after having his last son Anders. After he married Anna Von Sydow in 1861, she was 22 years younger than AOW; she had a strong independent personality and shared similar values about the role of the family and society as those of AOW. AOW and Anna had fourteen children together. AOW and Anna shared common values the importance of education not only for boys but also for girls. Both AOW and Anna ensured that "the cardinal virtues for the four children (first marriage) were industry and thirst for knowledge."

In 1878-1879 SEB got involved in domestic investments, however it was a worldwide economic recession affected nearly bankrupt. In order to save their investment, SEB took control of some management positions, and this was the first step in a change in their business strategy, one that combined "Active banking and active management of other businesses". AOW died in 1886, however his political

influence continued to promote women's rights and even introduce a bill in the Riksdag to grant women majority at age 21 and also promoted job opportunities for women in his own bank. AOW left an inheritance of about 3 million Kronor, including stocks and bonds, which the family used to create a new family firm, called Providentia.

The second Generation.

Knut (KW) AOW's second son from his first marriage had been given responsibilities by his father to take care of his younger siblings and develop a strong relationship with his brothers. KW also joined the navy after finishing he worked in SEB and was elected as a board director, and he became AOW's right hand man. AOW said to KW "I sincerely hope that my ideas and my creation, SEB, will not be abandoned and that you will deign to remember that it is easier to maintain than it is to build." KW at the age of 30 had already acquired experience working in various foreign banks, so he succeeded as managing director of the bank. From his second marriage, AOW seemed to favor his first two sons, Gustav and Marcus (MW). MW was the son who would continue his political legacy to promote his ideas for international monetary reform. Gustav was also in the navy school, and after AOW intended for Gustav to follow in AOW's journalism path and taking over the family's shipping activities. KW and MW, though technically half-brothers, also developed a strong relationship similar to the one that had existed between AOW and Jacob in the first generation. After AOW's death, the two brothers continued the family business, with KW managing and consolidating bank's assets and MW consolidating family industrial businesses and divesting unprofitable investments.

MW shift from a legal career to the banking business came at the urging of KW, who by 1893 had tripled the bank's profits and expanded the bank's lucrative bond business. MW on the other hand, focused on the industrial investments of the bank. KW invested most of the income he earned into buying shares of SEB and personally he owned about 20% of the shares. In 1911 KW retired and MW became the managing director. KW continued to serve as a Chairman of SEB until his death in 1938. After his death, KW's fortune was used to set up the Knut and Alice Wallenberg Foundation, which were held under the control of the bank's executive management. One of the lessons learned by KW and MW from 1878-1979 liquidity crises was always to build up the bank's reserves. After KW's death, MW took over as a Chairman and held it until his death in 1943.

The Third Generation.

From 1930's MW has started gradually transferring responsibilities to his two sons, Jacob (JW-1982) and Marcus (MWⁱⁱ -1899). While JW role was firmly plated with the bank and Providentia, MWⁱⁱ's role focused on expanding the industrial sphere of

the family business. After the death of their father, a non-family executive, Johannes Hellner, took over as a Chairman of both the bank and investor.

JW as the eldest son followed in the family's tradition and joined the navy school after completing junior high school. However, he did not become a navy officer like his grandfather AOW. Instead, his next step was to enroll in the Stockholm School of Economics where he studied economics and business administration. After he was sent for training at foreign banks. JW became a Board Member at SEB in 1920 and the managing director from 1927 to 1946 he became Vice-Chair of the board and then Chair from 1950-1969. MWⁱⁱ grew up as a defiant boy with a strong argumentative personality and a high need for independence, and was a risk taker. Despite the conflicts that, as a child, MWⁱⁱ had with JW, his sister and mother the family still nurtured and spoiled him. On the other hand, MWⁱⁱ's father took on the responsibility to mentor him. MWⁱⁱ was somewhat a rebel who did not always follow the conventional route planned by his parents. MW had designed five-year program for both JW and MWⁱⁱ to continue their training program in foreign banks, they spend time in banks in Switzerland, London, New York and France. Their main idea was to learn, not only the routine tasks characteristic of banks, but also new or modern techniques in banking. The second goal was to learn new languages and be fluent at least in three. The third goal was to meet with his network of contacts.

The two brothers continued working toward expanding the bank activities as well as growing the other investment companies, Providentia (Managed by JW), Investor AB (managed by MWⁱⁱ) and the Wallenberg group under the control of the family. However, without their father overseeing them, the relationship between JW and MWⁱⁱ was also characterized by growing friction and conflicts over strategy and decisions. So instead of cooperating together, they divided the management of the different companies under each brother's control. During the 1930's, SEB's Board of Directors, which consisted of five members of the Wallenberg family and six other non-family including senior bank employees as well as two or three independents, met on a regular basis to ratify decisions.

In the years leading to the Second World War and during the war years, the importance of the Wallenberg family's extensive network of contacts in Great Britain, Germany, the US, and other countries became apparent when the Swedish Government asked the family to help Sweden maneuver political and economic threats to the stability of the country. One deal in particular with the company Bosch, who proposed that SEB purchase the American assets of the company and resell them back after the war, involved complex negotiations and double-dealings between JW and MWⁱⁱ, the Swedish Government, the American Government and Bosch officials. After the US declared war to Germany, the Americans planned to expropriate Bosch assets; however, SEB maintained that the assets were Swedish. The Americans charged SEB with abetting the enemy and the case dragged on for ten years, with SEB

agreeing to a settlement and losing money. The “Bosh Deal” was a turning point for the Family Business. After the war, conflicts arose between JW and MWⁱⁱ, and JW was made the scapegoat for the affair.

At the January 1946 board meeting MWⁱⁱ threatened to resign his executive management position and move over to managing the family business’ holding companies if JW continued as managing director of the bank. Johannes Hellner stepped down as Chairman of the board and while JW was the natural member to assume the Chairmanship, the board overlooked him and chose Robert Ljunglof instead as the next Chairman. After Ljunglof passed away 1950, JW became the new Chairman of the board and held until 1969. After becoming managing director of the bank, MWⁱⁱ embarked on a program to modernize the bank’s operations and buildings, as well as clearly focus SEB as a commercial bank. Also, he started the process to repair the rift with his brother. In addition, he shifted the family’s investment philosophy from share ownership to active ownership, which involved the hiring of market research analysts, lawyers, economists, technicians, and other professionals that could help companies under the control of the Wallenberg Group grow, expand, and adapt to changes in the environment. By the end 1940’s the Wallenberg family had the largest ownership concentration of industrial companies in Sweden and between 12-23% of all industrial workers in the country.

The Fourth Generation.

MWⁱⁱ’s marriage with Dorothy Mackay produced three children: Marc, Jr. (1924), Peter (PW-1926), and Ann-Marie (1929). However, in 1935 they divorced, MWⁱⁱ then he married Marianne Bernadotte, who has divorced Count Carl Bernadotte, the nephew of King Gustav V. A few years latter Dorothy married Charles Hambro. One of the conditions of the divorce between MW and Dorothy specified that MW had control of the education of his sons and that they had to stay in Sweden. MW designated Marc Jr.’s first birthday to be the successor in line as head of the family, and that he had already planned for Marc Jr. to follow in his footsteps, in terms of education and training.

The effect of the divorce and subsequent remarriages by both parents contributed to an environment of insecurity for the children. In school Marc Jr. had problems and struggled with courses; and there was also the extra pressure from MWⁱⁱ for Marc Jr. to perform. Afterwards, Marc Jr. enrolled in the navy. Upon completion of hi navy service, Marc Jr.’s grades were insufficient to get accepted into Stockholm School of Economics and instead, he attended Harvard University and received an MBA in 1949, soon after he started his foreign banking training in Geneva. While Marc Jr. was an obedient and compliant son who shows gratitude to his father, PW on the other hand had a strong personality and was more independent, he did well in school and after graduation he joined the artillery unit of the army. After that

he worked once a year at a bank in Lausanne and then he returned to Sweden to study law. PW did not accept his father's authoritarian and controlling style and often clashed over opinions.

Marc Jr. became the managing director and MWⁱⁱ moved to an office close by where he could still watch his son, with his son as his successor, in the bank, he could now afford to devote most of his energy to industry. Also, he wanted his son PW to be part of the board. With the control of board MWⁱⁱ then proceeded to negotiations for the merger with Skandinaviska Banken and brought the subject to the SEB board for deliberations. MWⁱⁱ's definition of tradition differed from JW's which was to follow the path that the older generation has determined, under circumstances prevailing at that time, whereas for MWⁱⁱ tradition was to do what is right at every moment, having given due consideration to the current situation. The board was split with members against saying that the merger was wrong and others in favor. Marc Jr.'s role was to lobby family members to support the merger; and in the process going against his uncle JW, the main challenge came from Knut and Alice foundation, which held 20% of SEB and with JW as a Chairman. Finally, one member of the board abstained from voting and thus MWⁱⁱ and Marc Jr. were able to outvote JW. In 1971 the two banks ratified the merger and it was decided that a new limited banking company under the name SEB would start operations in 1972, with MWⁱⁱ as a Chairman and Marc Jr. responsible for international assignments. However, a tragedy struck the family when, in November 1971, Marc Jr. committed suicide, he was under substantial stress as a result of the merger that affected his relationship with other family members, it was also believed that he had sided with his uncle position against the merger. After the merger of the two banks, difficulties arose between the clash of two different cultures, the patriarchal family style at SEB versus the corporate bureaucratic style at Skandinaviska Banken.

The death of Marc Jr. also brought up the issue of succession, and MWⁱⁱ's work in the last ten years of his life focused on educating, training and mentoring Marc Jr.'s two sons Marcus (1956), Axel (1958) and PW's two sons Jacob (1956) and Peter Jr. (1959). In 1982 PW assumed the Chairmanship of Investor AB and the Knut and Alice Foundation, which exercise a large control over many of the companies under the control of the family, including being the largest shareholder of SEB. PW had strong negotiation skills and was a determined fighter and became the new patriarch of the family. PW continued growing the family's long-term holdings such as SKF, Electrolux, Ericsson, ABB, SAS, etc. Furthermore, while MWⁱⁱ's strategy was focused on niche market companies, PW changed the strategy towards companies with market domination and also from national companies to international vision. Under PW's leadership, Investor AB grew at an average annual compound rate of 20% and its holdings accounted 45% of the Swedish stock market. It was estimated that the Wallenberg family controlled indirectly about one third of Sweden's GNP.

The Fifth Generation

During the 1970's and until his death in 1982, MWⁱⁱ made his mission to groom his four grandsons according to family tradition. He put special care to Marc Jr.'s eldest son, and encouraged him in his educational pursuits, without imposing too much pressure. They both traveled together involving in business meetings, shooting parties or sailing. To a large extent, the training program was the same as Marc Jr.'s three decades earlier. PW also picked his son Jacob and his nephew Marcus to lead the family business to the next generation. Both Jacob and Marcus graduated from American Universities and after following the family's tradition of training in banking and industry, joined the family business. When PW retired in 1996, Jacob was appointed deputy-managing director of the bank, while Marcus was appointed executive VP of Investor AB and the president and CEO in 1999.

In 1999 Marcus in charge of Investor AB, he started investing in Internet and broadband companies, as well as in wireless technologies believing that Internet was to his generation what railroads were to his great-grandfathers' generation. However, many of the investments performed poorly and the family business' share price lost 50% of its value in 2002. In 2005, Jacob became new Chairman at Investor AB and Borje Ekstrom as Investor AB's President and CEO replaced Marcus.

In 2006, the family marked the 150th anniversary of AOW's founding of SEB and under the leadership of Jacob, Investor AB relies more on professional managers and has returned to a strategy of active ownership in the companies the family has invested in, a change from his father's diversified investment approach. As Jacob and Marcus both turned 50, and have been grooming the next generation to take over, Jacob points out that the factor that holds the family business together is that "no one owns it, which means that we cannot consume it though we can certainly destroy it".

Globalization was the biggest challenge at that moment; Jacob said about it "there is an overriding principle that one of my ancestors voiced: Change is really the only tradition worth preserving. We think that there is only one way to survive in the king of global business we're involved in, dealing with multinational companies, if you want to be at the for front and be successful, you have to adapt." As 2010 came to a close, rumors started circulating that the Wallenberg family was pushing for a merger between SEB and SwedBank. The fifth generation has been firmly in control of the different Wallenberg spheres, with Marcus as a Chairman of S-E-Banken, Jacob as Chairman of Knut and Alice Wallenberg Foundation and brother Peter Jr. as its Vice-Chairman, as well as Chairman of Foundation Asset Management AB (FMA), a collective of twenty different foundations founded by the Wallenberg family to manage its assets.

Should Marcus, as a Chairman, support the merger of these two banks? He was remembering the event when SEB merged with Skandinaviska Banken and all the

problems that of the third and fourth generation had had for this reason, especially between his father Marc Jr. and his grant uncle JW who did not want the merger and the consequences of it, which finalize in the Marc Jr. suicide and also with all the family business tradition about the perspective of being in the leader positions of the markets.

Exhibit 1. The Wallenberg Family Business Generational Leaders

