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The survival of family dynasties within shipping

The paper presents and discusses some preliminary results from the early stage of our research project on family ownership in the Norwegian shipping sector

This is a first draft – please do not quote

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1. Introduction

In the shipping industry family firms still play a prominent role. Some of these family firms have been owned by the same family for three or more generations. They have developed into what we may call family dynasties. Why and how have these family dynasties been able to survive for several generations and continue to be significant players in the shipping sector?

In this paper we will address this question through a study of family businesses in the shipping industry of Norway. The shipping industry has been characterized by large investments and considerable financial risk, as well as pervasive changes in technology and markets over the last 150 years. As a result significant changes have occurred in the structure of enterprises and ownership within the industry. In spite of these changes some of the most prominent shipping firms have been able to continue with the same owner family at the helm for several generations. In fact, the family dynasties in the shipping industry seem to contradict some of the main assumptions in previous research about the preconditions of family business survival.

The paper will first present some theories in previous research on challenges which are claimed to be vital to the survival or failure of family businesses. We will then discuss the relevance of these theories for the shipping industry, based upon historical accounts and other data from four family firms within the industry.

2. Challenges facing family businesses

Among all the firms that are established in a particular year only a minority continue to exist a generation later. Most newly established businesses are shut down within the first five years.

Some firms nonetheless manage to be in operation for years. A special set of cases are family businesses which succeed to the next generation(s). In previous literature it has been shown that such family businesses face some unique challenges, se more below. Failing to meet these challenges may lead to the ruin of the family business or that it has to be sold to external owners. Managing them can be seen as a prerequisite for the survival of a family dynasty.

In the following we discuss six challenges which have received particular attention in previous research: (a) Decreasing interest and work morale among the inheritors of a family business. (b) Risk aversion on the part of the family owners which result in inadequate investments in innovation and reorganization. (c) Too much emphasis upon guarding the family's control of the business. (d) Insufficient recruitment of competent leaders. (e) Fragmentation of ownership and decision-making power with the owner family. (f) Dilution of the family's ownership position as the result of having to bring in external investors or providers of new capital.

(a) Decreasing interest in the family business among the inheritors

A popular perception is that inheritors of family businesses lack the motivation and work morale which characterized the founder of the family business. As a result the family business ends up in problems which frequently results in its demise. "From clogs to clogs in three generations" is a popular expression which catches this perception. Among economic historians this idea has been termed the "Buddenbrooks-syndrome". [1]

In his seminal work on the emergence of managerial capitalism and the modern corporation in United States Alfred Chandler uses a similar idea to explain why British economy at the turn of the 20th century did not manage to keep up with the economic development in USA. His explanation is that British firms, mostly family owned, did not, as their American competitors, invest in large scale production and distribution, international marketing and modern management. The reason for the failure of the British enterprises to make these investments was, according to Chandler, that the owner families were more interested in securing for themselves a sufficiently large and stable income than in developing their companies. As a result the profit of the business was paid as dividends to the owners instead of being invested in necessary innovations. David Landes follows a similar line of reasoning in his popularized book on the histories of famous family dynasties.[2]

[1] P. L. Payne, (1984), "Family Business in Britain: An Historical and Analytical Survey", Okochi og Yasuoka (ed), *Family Business in Era of Industrial Growth*. Tokyo; Theo C. Barker, and Maurice Lévy-Leboyer (1982), "An Inquiry into the Buddenbroooks Effect in Europe". *From Family Business to Professional Management:*.Eighth International Economic History Congress. Budapest 1982

[2] Alfred D. Chandler (1990), *Scale and Scope. The Dynamics of Industrial Capitalism.* Cambridge, Mass.: Harvard/Belknap; David Landes (2006), *Dynasties*. London: Penguin Books.

(b) Risk aversion

As Pramodita Sharma has emphasized, most owner families have a large share of their assets placed in the family business.[3] This implies a concentration of financial risk. Economic losses in the family firm will accordingly hit the owner family harder than investors with a more diversified portfolio of investments, which will induce family owners to be cautious when making new investments and reluctant to raise loans.[4] A defensive investment strategy may prevent the family businesses from developing new products, introducing new technology, and moving into new markets. All of which will tend to weaken the firms' ability to adjust to changes in demand and endanger its survival as an independent family businesses.

(c) Emphasis on control

It is asserted that owners of family businesses want to concentrate all power in their own hands and are unwilling to relinquish control to employed staff outside the family fold or to external members of the board of the company. One reason for this strong control orientation may be that the owners derive a particular pleasure from managing their firm. Another reason is that the owners want to keep the business within the family. Many family owners describe their business as a "baton" which they are obligated to take care of and transfer to the next generation.

As a result of the emphasis on control the owners will be reluctant to involve external capital or the business may fail to attract competent members for the board or the management team, both of which may be detrimental to the continued existence of the firm.

In contrast to the analysis of Chandler (cf. above), William Lazonick points to this preference for control as the main reason why the British family businesses failed to exploit the new business opportunities that opened up at the turn of the 20th century. In order to protect their authority and avoid dependence upon external creditors or shareholders, the British owner families chose to limit expansion and growth. For the same reasons they refused to enter into mergers with other companies. Because of their penchant for control family businesses are, according to P.L.Payne, "doomed" to remain small in size.[5]

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[3] Pramodita Sharma, J.J. Chrisman and J.H. Chua (1997), "Strategic management of the family business: Past research and future challenges". *Family Business Review.* 10:1-35

[4] Agrawal, A. and N.J. Nagarajan (1990), "Corporate Capital Structure, Agency Costs and Ownership Control: The Case of All-Equity Firms". *The Journal of Finance*. Vol. XVL:1325-1331.

[5] William Lazonick (1991), *Business Organisation and the Myth of the Market Economy*. Cambridge, Mass.: Harvard University Press; Peter L. Payne,(1984), "Family Business in Britain: An Historical and Analytical Survey". I Okochi og Yasuoka (red.),*Family Business in Era of Industrial Growth*. Tokyo.

Against this background some scholars, following Payne, have maintained that family ownership is not viable in capital-intensive industries. In capital demanding production there is a continuous need for large investments which one family alone rarely can muster. It is necessary to bring in external investors. Since owner families usually are reluctant to do this, family ownership is more suitable within industries with low capital intensity, as for instance retail, hotels and restaurants, and production of food. According to this line of reasoning family ownership should face problems in a capital-intensive industry as shipping.

(d) Recruitment of sufficiently talented managers

In many family businesses the founder himself holds the position as top manager or the top manager is recruited from the owner family. This recruitment practice implies that CEO is taken from a much more restricted pool of talent than when the manager is recruited from the general market for managers. According to James Coleman this situation generally leads to a lower quality among owner-managers than among professional managers, which may be unfortunate for the success of the family owned firms.[6]

(e) Fragmentation of ownership within the family

When a family business reaches the third generation, there can be a proliferation of owners. There may be a number of grandchildren all having ownership shares in the family business. These inheritors may have different desires, needs, and concerns. Keeping a dynasty together means keeping these many diverse people connected as a family and assuring that they have a unified voice in the governance of the family firm. The dynastic family risk, however, that the family shareholders want to go their separate ways and redeem all or part of their ownership. The outcome may be that the family business is split up into several independent business units. Problems with accommodating the desires of the various family members may also cause the firm to go bankrupt.

In a pioneering study John Ward followed two hundred family businesses within manufacturing from 1924 to 1984.[7] He had no information about those businesses that ceased to exist in this period. Instead, he studied what characterized those that still were “alive” in 1984. A noteworthy characteristic of these businesses was that they had systematically placed

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[6] James S. Coleman (1990). *Foundations of Social Theory. Cambridge.* Mass.: The Belknap Press of Harvard University Press

[7] John Ward 1987), *Keeping the Family Business Healthy*. San Francisco: Jossey-Bass Publishers

the ownership and/or management in the hands of a minority of the family members. In this way the family ensured that the active family owners or managers at any time had sufficient decision-making power and discretion, even if the number of family members increased through the years.

(f) Dilution of the family ownership

Julian Franks, Colin Mayer and Stefano Rossi have studied why the number of large family businesses decreased in the British economy during the 20th century.[88] Their main explanation is that family ownership was diluted through equity issue related to acquisitions. Families were able to retain control by occupying a disproportionate number of seats on the board of the firms. However, the rising importance of hostile takeovers and institutional shareholders made it increasingly difficult for families to maintain control. Potential targets among the family controlled businesses attempted to protect themselves through preferential shares and strategic share blocks, but these defensive measures were gradually dismantled as a result of opposition from institutional shareholders and the London Stock Exchange.

3. The Norwegian context

Norway is a small and open economy as witnessed by import and export ratios representing 30-40 percent of GNP through most of the 19th and 20th centuries. Since the second half of the 19th century shipping has been a very important sector responsible for nearly half of the Norway's foreign earnings and contributing about 10 percent of her GNP by the middle of the 20th century. Until the era of spectacular oil exploration from the 1970ies the merchant fleet was a main object of national pride and an important source of business and employment in related industries. Internationally Norway has consistently held a position among the top five shipping nations since the 1870ies, controlling between 4 and 8 percent of world merchant tonnage. In short, shipping represents Norway's most successful private business sector.[9]

Private business in Norway has a dual structure. On the one hand there is a large number of small, unlisted and geographically dispersed firms, the majority of them owned by the founders or their families. On the other hand there is a limited number of large, listed enterprises with a more dispersed ownership. The public sector has traditionally been an

[8] Julian Franks, Colin Mayer and Stefano Rossi (2004), "Spending Less Time with the Family: The Decline of Family Ownership in the UK". ECGI Working Paper in Finance. Brussel: European Corporate Governance Institute.

[9] T.Bergh et al, *Growth and Development. The Norwegian Experience 1830-1980.* Norwegian foreign policy studies no 37. Oslo 1981

active participant in the economy and remains a large owner at the present time. In 2003 the Norwegian tate owned 40 per cent of the total stock listed at the Oslo stock exchange.

This dual structure with the public sector as a ‘senior partner’ to private business can be traced back to the beginning of industrialization in the second half of the 19th century. Norway had a weak bourgeoisie, and private companies were small with limited financial capacity. In spite of a liberal orientation the public sector had to step in to safeguard the emerging industries, investing heavily in the infrastructure and assisting the establishment of a national banking system, The public sector in this way compensated for the absence of a private ‘organized capitalism’, i.e. large enterprises actively developing new industries. This model has been described as the Norwegian *Sonderweg* to modernization[10] It was finally consolidated as the social democratic governance model after the Second World War when the state shouldered a strong responsibility for post-war industrial development. The entrepreneurial state also manifested itself when the government orchestrated the development of the oil industry in the 1970s.

In contrast to other industries shipping has been relatively free from government intervention. Moreover, shipping companies have traditionally enjoyed special treatment from public authorities with tax regimes adapted to international competition and strong incentives for reinvestment. There are several reasons for this privileged position. The foreign currency earnings generated by the shipping sector has been of vital importance to the Norwegian economy. Shipping has also historically been a significant employer for workers from the rural areas, and at the end of the 20th century became instrumental for maintaining activity in ship yards along the coast. National shipping companies finally played an important role in the development and “Norwegianization” of the offshore industry.

All these factors seem to have motivated Norwegian authorities to treat the shipping industry as a special case, leaving this sector free to develop according to its own business logic. At the same time the shipping sector seems to stand out as a highly competitive international business with an organisational structure dominated by family firms.

4. The population of shipping companies

In this section we first present a general view of the developments in the population of Norwegian shipping companies between 1960 and 2000, cf. Table 1. We then describe the composition of the shipping companies as to their ownership in 1980, 1988 and 2000. In

[10] Francis Sejersted. (1993), Demokratisk kapitalisme. *Oslo: Universitetsforlaget.*

Table 2 we focus particularly upon the number of companies which are owned by the founders of the firm or their families. The information presented in the two tables may serve as a useful background for the following discussion of concrete shipping companies and their histories.

The volume of transactions on the Oslo stock exchange increased strongly from the beginning of the 1980s, and the prices on shares soared. This development was stimulated by a deregulation of the credit market which was implemented by governments led by the Conservative party through a succession of reforms between 1984 and 1986. The strong growth in the stock market, spurred by better access to credit, paved the way for and was linked to an extensive restructuring in the Norwegian economy. This restructuring was reflected in a wave of mergers and takeovers. In several industries the result was a structural concentration around fewer but bigger enterprises. This development reached its climax in 1987, when the stock market collapsed, and both the volume of transaction and share prices fell dramatically.

It has been common practice within shipping to organize limited companies which legally own the ships, either only one or several ships. The shareholders in these shipping companies have been persons or other firms which have contributed with capital to buy and operate the ship(s). The main owner of a shipping company usually organized his shares in the shipping companies into another company which either could be a limited or a liable company. He could be a sole owner or share the ownership with other partners. In addition, the main owner usually had a management agreement with the shipping company which gave him the right and power to dispose of the assets of this shipping company, typically to operate its vessels. Accordingly a particular shipowner often owned shares and had management responsibility for several shipping companies through his owning company.

Table 1. Shipping companies in Norway 1960 – 1988.

	Owner or management firms with only one shipping company	Owner or management firms with more than one shipping company	Total number of owner or management firms	Total number of Shipping companies
1960	44	73	117	209
1980	34	62	96	157
1988			41	50
2000			25	32

Table 1 is based upon information from an annual publication (the first years it was published biannual or even more rarely) called "Norwegian shares and bonds" or "Kierulf's handbook of Norwegian shares and bonds". This publication has existed since the beginning of the 20 th century and was up to the beginning of the 1980s published by Carl Kierulf A/S. From the beginning of the 1980s the publication was published by "Oslo Børs Information" ("Oslo Stock Exchange Information"). It used to be the main source of information on limited companies or corporations in Norway. "Kierulf's handbook" reproduced the main information which the individual companies presented in their annual reports, for instance the name of the members of the governing bodies of the companies, the name of the CEO and in the case of the shipping companies also the name of the manager, the main figures from the companies' accounts, and a short description of last year's activities. "Carl Kierulf A/S" collected the information on the companies both through surveys sent to the companies and directly from their annual reports. Before the publication was taken over by "Oslo Børs Informasjon", each annual publication had a separate volume concentrating only on shipping companies.

During the 1980s "Oslo Børs Informasjon" saw a need to reorganize "Kierulf's handbook" in line with the increased activity in the stock market. Instead of organizing the volumes along the main economic sectors, it started to publish separate volumes on: (i) Companies listed on the stock exchange, (ii) unlisted companies, and (iii) bonds and other securities. In other words, it stopped publishing separate volumes about shipping companies. But it continued to inform whether a company was a shipping company or not.

The publications themselves give little detailed information about how the data on the companies have been collected. The volumes in 1960 and 1980 seem to have been produced in a similar manner and should give comparable and probably quite complete pictures of Norwegian shipping companies. The information in the 1988 and 2000 volumes is based upon data from the standardised data bases of "Oslo Børs Information". There is, however, not given any detailed information about how these data base are constructed and to what is extent they are complete. We are therefore uncertain to what extent the numbers from the 1988 and 2000 volumes are comparable to the ones in the 1960 and 1980 volumes. In the following we assume, however, that the numbers from the three years are comparable.

While the publications from 1988 and 2000 report whether the shipping companies are listed on the stock exchange or are unlisted, the publications from 1960 and 1980 give no such information.

Because of the special structure of ownership within shipping, we have in Table 1 for the years 1960 and 1980 distinguished between the shipping companies itself and the owning or management companies. We have not done this for the years 1988 and 2000. The main reason is that during the 1980s many shipping companies reorganized their owner structure. Shipping companies which earlier were registered as independent firms (frequently owning only one or a few ships) were instead consolidated as subsidiaries within the same shipping enterprise. While for instance Kierulfs handbook in 1980 registered that the owner company

"Wilh. Wilhelmsen" owned 7 different shipping companies, the handbook in 2000 reports only one "Wilh. Wilhelmsen" company.

"Kierulf's handbook of shares and bonds" registered 209 shipping companies in 1960. These companies were owned and/or managed by 117 firms. Among these owner or management firms 73 owned only one shipping company. Quite often the shipping company and the owning (or management) company was the same, frequently carrying the name of the ship owner. 44 firms owned and/or managed more than one shipping companies, in some cases eight different shipping companies. As Table 1 demonstrates there was a reduction in the number of shipping companies between 1960 and 1980. The reduction in the number of owner companies was, however, less pronounced – from 117 to 96 firms. The handbook from 1980 indicates that several of the shipping companies (17) went out of business in the years during the remaining years prior to 1980.

As we can see, the reduction in the number of shipping companies was particularly strong between 1980 and 1988. During this short period 107 shipping companies disappeared from the registers, and 56 owner firms were closed down or merged into other shipping companies. The decrease in the number of shipping companies continued up till 2000. While there were 50 shipping companies in 1988, there were only 32 left in 2000.

One reason for this substantial decrease in the number of shipping companies and owner companies was that during the 1980s and 1990s several companies registered their ships abroad in countries with more favourable conditions for shipping. Another reason was, as already mentioned above, that previously independent shipping firm were technically consolidated within the owner company.

The extensive restructuring of the shipping industry also was a result of the processes described above, i.e. several shipping firms were merged with or bought by other shipping companies. Two of the firms which we will present below, were both taken over and merged into other shipping firms at the end of the 1980s. Their fate may serve to illustrate the general processes which took place in those years.

Table 2 Founder and family ownership in Norwegian shipping companies 1980-2000

	Total	Owned by the founder or his inheritors	Other forms of ownership (dispersed ownership, partnership, owned by an oil company, a foundation or a manufacturing enterprise)
1980	96	89	7
1988	41	35	6
2000	26	22	4

In this table we have focussed upon the owner or management companies. In all the three years (1980, 1988, 2000) Kierulf's handbooks contain information about the main owner in the shipping companies. In some cases the owner is another firm. In many of these cases this other firm has the name of the owner and thus we can know who the owner is. In other cases this is more difficult. For instance, the original owner company may have been taken over by a new owner, who has preferred to keep the original founder's name of the company. In the 1980 publication the editors have in most such cases listed the name of the new owner in a parenthesis behind the name of the owning company. Such information is not available in the 1988 and 2000 editions. In most case the ownership of the companies are well known. In case we have been uncertain about the 2real" owner(s) behind a particular owner company we have consulted other publications. For instance some of the shipping companies have web sides which present brief accounts of the company's history. In these accounts there is frequently information about ownership and changes in ownership.

Table 2 demonstrates that a large majority (89) of the 96 owner and management companies in 1980 were owned by the founder of the company or by inheritors of the original founder. Further, the table shows that founder and family owned shipping companies also dominated in 1988 as well as in 2000. Admittedly, the percentage of all owner or management companies which had this ownership form was less in 2000 than in 1980. But in spite of the extensive restructuring of the shipping industry which took place in the two decades between 1980 and 2000 and the strong decrease in the number of Norwegian shipping companies, founder and family ownership still prevailed in 2000. The main change during the two preceding decades was, however, that many of the small founder and family owned shipping companies disappeared, either laid down or sold, while many of the remaining ones had become bigger.[11]

5. The historic cases – four Norwegian shipping companies

In this section we will describe the history of four Norwegian shipping companies. The purpose is to examine to what extent the challenges which were discussed in the theory section, in reality were felt as such by these companies and eventually how they managed to cope with the challenges.

[11] The names of some of the owner families in 2000 illustrate well the continuity of family ownership within Norwegian shipping: Fred. Olsen, Leif Høegh. Wilh. Wilhelmsen, Bergesen, Odfjell, Solstad, Ugland, Knudsen, Mosvold, I.M. Skaugen, Brøvig, Ditlev-Simonsen

When studying success and failure of companies, we need to avoid confining the sample of cases only to ones which have succeeded in maintaining family ownership. Conclusions based on the examination of cases with only one value on the variable success/failure may be highly biased. It will be impossible to ascertain whether factors that seem to foster survival really are “success factors” unless the successful cases are compared with firms that failed. Accordingly, it is necessary to include companies from both categories and compare their development and fate.

In line with this methodological principle we have therefore chosen to analyse two shipping companies which have managed to preserve family ownership to the third or later generation and two in which the ownership was passed on to external owners during the lifetime of the second or third generation of family owners.

We start with presenting two shipping firms that seem to be good cases for comparison – “Einar Rasmussen shipping company” which was established by Einar Rasmussen in 1936 and “Excelsior” which was established in 1946 by his older brother Bendt Rasmussen. Einar Rasmussen shipping company still exists and is today managed by the grandson of Einar Rasmussen, Dag Rasmussen. Excelsior, however, was taken over by external investors at the end of the 1980s when Bendt Reinhardt (called Reinert) Rasmussen, the son of Bendt, was in charge of the firm. Why did one of them preserve family ownership to the third generation but not the other?

“Einar Rasmussen shipping company” [12]

At the beginning of 1936 Einar Rasmussen worked in a shipping insurance company in Kristiansand on the south coast of Norway. The 1930s were favourable times for tankers, and Einar Rasmussen was inspired by the success of another local shipowner to establish a shipping company of his own. He approached potential investors in the Kristiansand area to provide enough capital to buy a boat. His brother, Bendt, who had been captain on Norwegian ships in international trade for two decades, subscribed for a substantial number of shares and in addition brought in some of his American and European business partners as shareholders. Einar Rasmussen’s previous employer in the insurance company helped him to get a loan in a shipping bank in Bergen.

[12] Johs. Seland (1991), ”Polyflåten gjennom 50 år. 1936-1986”,. Kristiansand: The Rasmussen company; interview with Einar Rasmussen in Kapital 17/2006, pp. 85-89; interview with Rannfrid Rasmussen in Kapital 1/2005.

The first tanker was bought second hand from a shipping company in Oslo and was immediately employed in trade between North-America, Latin-America and Europe. The business was successful, paying solid dividends to the shareholders in 1937 as well as 1938, and another tanker was delivered to Rasmussen's firm from a Swedish ship yard in 1939. In the same year Rasmussen took over two smaller shipping firms from the previous managing owners, each of them owning one ship.

The individual ships were all legally organized as separate companies. Einar held ownership positions in each of the separate companies through a closely held investment firm. In addition, he organized anownership structure where one of these shipping companies – Avant A/S – owned a substantial number of shares in the other companies. Einar Rasmussen thus had ownership control directly through his personal firm and indirectly through Avant. From the outset, Einar Rasmussen deliberately constructed a company structure which could maximize his ownership control.

Aware of the looming war, Rasmussen sold in 1939 one of the newly acquired ships and sold back to the yard a contract for a new ship which was to be delivered in 1941. Instead he invested money in three properties in Kristiansand, an early indication of his careful investment strategy.

Partly thanks to an insurance payment from one of his remaining ships destroyed during World War II, Rasmussen was well positioned to benefit from the growth in world trade during the first decade after the war. He bought new ships second hand In 1949 he already had ten. During the second half of the 1950s he concentrated more on building new ships. He built his company gradually and carefully, emphasizing that new investments had a sound capital basis and assuring that new ships had long term freights contracts. The strength of his strategy was illustrated in connection with the Suez crisis in 1956 which triggered a boom in the shipping market. Rasmussen quickly decided that this boom could not last and transferred all his ships to long term contracts.

During the 1960s Rasmussen's company (or companies) continued to grow. In 1964 he owned 17 ships, tankers and dry-cargo ships. The ships were organized in five different shipping companies. He started to order bigger ships and placed more of his orders with Mitsui shipbuilding in Japan.

At the same time as Einar Rasmussen developed his shipping company he also invested some of the profits in other business activities. He invested for instance in a manufacturing plant, sawmills, a farm, in forestry, and in an engineering workshop. In this way he diversified his assets and thus reduced his economic exposure.

In 1970 a group of shareholders questioned the dividend policy of the shipping companies. They maintained that the dividends which were paid to the shareholders were lower than what should be expected from the real value of the companies. They claimed that they were entitled to a better return on the capital which they had invested in Rasmussen's companies. Rasmussen himself was surprised by this action. He had been used to have loyal shareholders. Now he met opposition. In fact, he had been careful to avoid too generous dividends in order to safeguard his company. According to his biographer, he had also been modest as to his own manager compensation. Rasmussen (and his son) reacted to the demands by the mentioned shareholder groups by buying more shares in the various companies, thus tightening his ownership control.

The 1970s started promisingly with a strong increase in the global consumption of oil. But then the tables turned. In the wake of the war in the Middle East in 1973 the oil producing countries raised the oil prices considerably. At the same time the tank market in 1975 was out of balance with a transport capacity far beyond the need. Rasmussen's company managed well through the crisis, to some extent due to his emphasis upon long term freights contracts. More important was that the firm had moved into the offshore business, buying an oilrig and entering into a joint venture with a large American oil drilling company.

In 1975 Einar Rasmussen died, and his son Einar Rasmussen jr. took over. He continued along the strategic lines mapped out by his father. The company directed more of their efforts toward the offshore sector. During the next years it ordered four service platforms and specialized ships for taking oil at the offshore installations. At the middle of the 1980s the family firm, as several other Norwegian shipping companies, had become quite dependent upon the offshore industry. At this time traditional shipping seemed to be less profitable than in earlier years. Nonetheless, the Rasmussen group continued to be actively involved in ordinary shipping. In 1990 the Rasmussen-group consisted of ten different companies within offshore and shipping as well as manufacturing, forestry, insurance and property management.

During the 1990s and after the turn of the 21st century the Rasmussen family entered more heavily into property development and financial investments, for instance with a large investment in the American oil company Transocean.

From the short description above we can identify some distinguishing characteristics of the strategy of Einar Rasmussen and later his son. His business strategy was marked by gradual and careful growth and by his keeping a watchful eye on significant changes in the world economy. His caution was particularly manifested in the emphasis upon long term freight contracts which could guarantee continual activity through business cycles. At the same time, Rasmussen was able to take a new line and make risky investment decisions whenever new business opportunities opened up, as for instance when the company entered heavily into offshore business.

A prominent element in his company policy was his strong emphasis upon protecting his owner control of the firm. As mentioned above, the various vessels were organized as separate companies. In that way he could benefit from a centralized management of the ships at the same time as he kept full control of the “mother” company. He acquired new shares when he was threatened by shareholders wanting more of the profits being paid as dividends. As we have seen above, he also started early to diversify his assets, thus spreading his financial risk.

Einar Rasmussen seems to have had a particular competence in what we broadly can describe as “finance”. When he established his company in 1936 his main experience was within shipping insurance. Moreover, his biographer reports that he took a particular interest in accounting and banking. Later he continued to follow up these interests by holding posts on the governing bodies in both local and national banks. One may speculate that his interest and competence in finance may have affected significant elements of his business strategy, particularly his careful designing of the ownership structure of his companies and his strategic emphasis on investing economic surplus in other industries.

What about the challenges which are claimed to threaten the survival of a family business (cf. section 2)? How did the Rasmussen company face these challenges? First, the successor generation– Einar Rasmussen and his son Dag – have not shown any signs of weakened work morale or any marked preference for conspicuous consumption. The prudence of the founder seems to have been adopted by the next generations. Secondly, as demonstrated above, there has been no risk avoidance on the part of the owners. On the contrary, they have moved into new business areas whenever seen necessary. Their willingness to readjust their business strategy and take new risks seems then to contradict some of the assumptions in previous research about the shortcomings of family businesses.

On the other hand, the Rasmussen family has strongly prioritized owner control and a concentration of ownership. This policy has prevented a fragmentation of decision making power and blocked any takeover attempts from external investors.

As discussed above, several scholars have maintained that owner families represent a source of talent too narrow for sucessfully managing the family business. We have too little information to assess the validity of this claim in the Rasmussen case. According to the available knowledge neither Einar Rasmussen junior nor his son, however, seems to have lacked the necessary competence to direct the family business. On the contrary, Einar Rasmussen jr. during his years at the helm has led the family firm into new growth. It seems probable that proper training and preparation of inheritors can make most of them qualified to take over the baton as owners and owner-managers. As Simon and Hilt have called attention to, learning to know a family business through following the parents' work and through participating in family discussions about its management gives a profound firm specific knowledge which external managers hardly can match. [13]

"Excelsior" – Bendt Rasmussen's shipping company[14]

When Bendt Rasmussen in 1936 bought shares in his brother's company, he believed that he later on would become partner with his brother. But when Bendt in 1939 retired as captain, Einar Rasmussen denied that they had any understanding about such partnership and rejected to take in his brother as co-manager in the shipping company. After the war Bendt instead worked with an eye to start his own shipping company.

A main obstacle at that time was the post-war difficulties for newcomers in shipping to obtain currency permits to buy new tonnage. Prompted by a previous American business partner of Bendt his brother Einar, however, helped him to acquire the first ship and personally subscribed for nearly two-thirds of the shares of the new company, named Excelsior. Bendt himself bought 16 per cent of the shares.

Bendt Rasmussen junior joined his father and started to work in the firm in 1952. As a previous captain Bendt had his main competence in management of ships and acquisition of transport assignments. Bendt Reinhard himself received a broad training, common among those who were destined to go into shipping. He started as an apprentice in an insurance company in Oslo. Then he worked on board one of his father's ships and later at a shipbroker office in New York. In this way he acquired broad knowledge about the shipping industry and ship broking.

Together father and son developed Excelsior slowly and carefully. In 1964, when Bendt was 70 years old, Excelsior owned four tankers and a fruit boat. As his brother, Bendt concentrated on oil freight. The boats were owned directly by the shipping company Excelsior

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[13] Simon, D.G. and M.A. Hilt (2003), "Managing Resources: Linking Unique resources, Management, and wealth creation in Family Firms". *Entreprenurship Theory and Practice*. 27:339-358.

[14] Bendt Rasmussen (1996), *Gjennom bølger på sjø og land*. Bergen: Vigmostad & Bjørke

and not split into separate companies as Einar Rasmussen did with his vessels. Bendt died in 1966, and Bendt Reinhard formally replaced him as sole owner manager of the shipping company the next year.

In 1973 Excelsior managed three tankers. After OPEC in 1973 agreed upon concerted oil prices among all the members of the oil producer cartel, oil prices increased strongly. Rasmussen concluded that it was time to get out of tank trade. He sold the first ship during the autumn 1973 and the next one in the beginning of 1974.

Instead he turned to the offshore industry. In December 1973 he bought 20 per cent of the shares in a recently founded limited joint-stock partnership (K/S) – Viking Supply Ships - which bought four offshore supply vessels, to be delivered by the ship yard in 1975. In 1974 two more were ordered. It was decided among the limited partners that Bendt Reinhard Rasmussen should be manager of the new company.

In the beginning of the 1970s Norwegian authorities decided to “Norwegianize” the oil business. Norwegian enterprises were invited to take part in the extraction of oil and to become contractors for the oil industry. Various tax deduction schemes and other subsidies were introduced in order to stimulate Norwegian ship yards and shipping companies to build offshore rigs and vessels. In addition, the authorities established favourable tax conditions for limited partnerships which became a significant legal/financial instrument for investments in offshore vessels. As a result, the building of supply boats boomed. Many of those investing in the limited partnerships in the offshore industry were new to shipping and had a short time horizon for their investments. Moreover, many of them were first and foremost motivated by the possibilities to reduce their taxes.

The supply boat industry was new, and one of its first challenges was to recruit and train good crews. Viking Supply Ships could benefit from the experience of Rasmussen and the sailors and officers he had used on his previous ships. Reinert Rasmussen saw competent ship management as the basis of success and put much energy in building skilful ship management and crews. In line with his fathter’s ideas and experience he justified the company strategy in the following words: “Skilful ship managers direct resources optimally, control costs and are the best ones to market the company’s services”.[15]

The end of the 1970s was a turbulent period for the supply boat industry. The tax motivated investments in shipping through companies organized as limited partnerships had led to a surplus capacity of service ships in the offshore industry. The freight market for

[15] Bendt Rasmussen 1996:227

supply boats could not match the large number of boats available. In 1979 alone thirty supply ships were sold, mostly abroad.

By the mid 1980s there remained only four large operators within the supply boat market. Viking Supply Ships was one of them, with 15 supply boats organized into 11 different limited joint-stock partnerships, Rasmussen's company, Excelsior, controlled less than half of the shares in the partnerships, and Rasmussen owned only 28 per cent of the shares in Excelsior.

In 1983 the market for supply vessels suddenly dropped, and Viking Supply Ships had no employment for nearly half of their fleet. At the same time the external partners started to press for better opportunities for cashing in their shares. As mentioned above, many of these investors were mainly interested in the tax-reducing advantages of their investments. The second-hand market for shares in supply boats was quite dead, so the external investors instead suggested to convert their shares in the limited partnerships into Excelsior stock. This idea was particularly advocated by Morits Skaugen jr., himself a large investor and heir to the I.M. Skaugen shipping company. He had bought an investment company – Poseidon – from a large Norwegian insurance company which owned ten per cent shares in each of the limited partnerships constituting Viking Supply ships. In this way Skaugen and the external investors were able to take control of Bendt Rasmussens shipping business.

Rasmussen accepted the solution. In 1985 the 11 partnerships were merged with Excelsior. After the merger Excelsior had 300 shareholders, with Rasmussen controlling 27 per cent of the shares in the enlarged company and Poseidon 20 per cent. At first glance Rasmussen seemed to have come rather favourably out of the merger process. However, new problems piled up – related to the fall in oil prices and the stock market crash in 1987. It became clear that Excelsior needed to extend its credit from the banks in order to survive. As a condition the banks however, demanded that Rasmussen and Poseidon contribute with 8 million Norwegian kroner each in new share capital – an amount Rasmussen was not able to mobilize through friends and family. The necessary capital had to be raised by help of new and old external shareholders, with the effect that Rasmussen's part of the shares in Excelsior was diluted.

Morits Skaugen jr. then offered the other shareholders to buy their shares. In 1989 Poseidon owned 43 per cent of the shares in Excelsior while Rasmussen's part had dropped to less than four per cent. In other words, the process of merging Viking Supply Ships and Excelsior and restructuring the loans had resulted in Bendt Rasmussen completely losing control of the business. Poseidon's shares in Excelsior were soon sold to another large Norwegian investor who had no experience from shipping. Rasmussen sold his last shares, but continued to work for the company as vice-chairman of the board.

Why did Bendt Rasmussen fail? Why did he lose control of his family firm? Was he unable to meet the challenges described in the second section above?

The first two challenges discussed above – decreasing interest on the part of the inheritor and risk aversion – represented no problems in the Excelsior case. The information we have indicates that Bendt Reinhard Rasmussen, as second generation owner of the family firm, was strongly interested in his shipping company and in shipping in general. Even if he and his father built their shipping company in a careful manner, there is no indication that they were averse to risk. The way Rasmussen junior turned the firm around and went into offshore shipping rather bears witness to the opposite.

Since Bendt Reinhard Rasmussen was the sole inheritor of the company, there was no problem with fragmentation of ownership within the family. He did not manage, however, to avoid a detrimental dilution of his ownership in the family shipping company, the last of the challenges discussed above. In his autobiography he complains that the restructuring of the loans and credits forced through by the banks, had removed his control of the company and opened it to raiders. The economic recession in 1986 caused grave concern in an overstretched banking sector and obviously led the banks to act far less understanding and patiently with shipping companies in trouble than had normally been the case.

Nonetheless, Bendt Reinhard Rasmussen cannot escape the fact that he himself did not pay enough attention to ensure that he had sufficient ownership control to ward off any raiders. We have seen that his uncle and cousin in The Rasmussen group at significant turning points strongly emphasized to protect their owner control of the family firm. While previous scholars have pointed to excessive stress upon family control as a threat to survival, the two Rasmussen companies rather demonstrate that concentration of ownership power is a necessary condition for the continued existence of a family firm.

The decision which probably paved the way for the erosion of Bendt Rasmussens position within his own firm, was to allow the external shareholders in the various Viking Supply Ships companies to have their ownership parts converted into new shares in Excelsior. He should probably never have accepted such a solution. After this merger Excelsior was “crowded” with shareholders who primarily were interested in selling their shares and who held no loyalty to Rasmussen.

We have too little information about the details of the process described above. But it seems that Viking Supply Ships were heavily mortgaged, making the companies more exposed during trade recessions. Moreover, even if Bendt Rasmussen too had invested in other industries, it does not seem that he had significant additional assets which could help him get through such recessions. In contrast, Einar Rasmussen sr. invested continually some of his profits in other economic activities and industries. As shown above, the investments he made in properties before World War II gave him a valuable capital basis when he started up again after the war.

“Fred. Olsen”[16]

Our third case is one of the biggest and oldest shipping companies in Norway, with extensive activities in other industries. Fred. Olsen has throughout the 20th century operated on a global scale with companies and economic interests in many other countries. Today Annette Olsen, who is fifth generation owner, is managing director of the family company, and her father, Fred. Olsen, is chairman of the board of the holding company which is the centre of the family firm.

Fred. Olsen shipping company dates back to Fredrik Christian Olsen who in 1848 became owner of two sailing-ships. Soon his two brothers followed his example. Petter Olsen, the actual founder of the family dynasty, bought his first ship in 1852. When his older brother Fredrik Chistian died in 1875, Petter Olsen inherited his ships and a considerable fortune. In 1886 Petter’s son Thomas Fredrik Olsen became managing owner of two sailing-ships which his father up to this moment had managed. Thomas Fredrik had a wide experience before he took over his father’s ships. He had formal training from a commercial school in Oslo, had for several years worked in offices in England and France, and had worked as an officer and a captain on his father’s boats.

[16] Odd Harald Hauge (1993), *Fred. Olsen. Uautorisert biografi*. Oslo: Gyldendal forlag; Knut M. Nygaard (2005), ”Fra seilskip i trampfart til dampskip i linjefart. Fred. Olsens rederivirksomhet i forandringens tegn 1886-1904”. Sjøfartshistorisk årbok 2003:7-127; Rolf Holme (1990), ”Hvitsten og rederfamilien Fred. Olsen fra seilskuter til moderne storrederi”. In: Follominne. Årbok 1990. No. 28:118-133; Alf Reidar Jacobsen (1995), ”Senor Olsens arme”. Økonomisk rapport 95/8:18-26; interview with Fred.Olsen in DNV Forum 95/3:6-11; ”Ufred hos Olsen – men Fred. Har makten”. Article in Farmand 1984/44:20-22.

The two ships which Thomas Fredrik Olsen took over were both organized as part-ownership with Olsen as owner-manager. The other part-owners were mostly family and local investors who were acquainted with Olsen. Six years later he managed 8 sailing ships.

Thomas Fredrik Olsen operated sailing-ships for many years before turning to steam ships. According to the historian Knut M. Nygaard , Olsen methodically prepared for the transition, acquainting himself with the new technology and the particular operating conditions characterizing steamships and by investing in and holding posts on the governing bodies of several steamship companies during 15 years before he ordered his first steam vessel.[17]

Thomas Olsen planned to finance this steamship through a new limited company which should be located in the town Fredrikstad, a centre of timber export. He approached several potential investors in and around the town, but it proved difficult to elicit enough interest for the project. Disappointed by this experience, he chose to reorganize the company into a one-ship company. Moreover, he bought out many of the other shareholders and brought in new shareholders whom he knew personally and could trust. In this manner he increased his control of the new company and affiliated it more closely with the rest of his shipping activities.

Olsen rapidly developed his steam boat company ordering new steam ships and taking over other small shipping companies. In 1914, he controlled 44 small and medium-sized steam ships. This year he took the nest step, from steam to diesel-powered ships, ordering five diesel-powered vessels from a Danish and a Norwegian ship yard. As a pioneer in this transition, he was about to acquire one of the most modern fleets in the world.

Fred. Olsen lost 27 ships during World War I. But the war was nonetheless a very prosperous time for Olsen as for many other Norwegian ship-owners, and the stock exchange prices of the shipping companies increased dramatically. The earnings spurred a wave of peculation. where previously “loyal” shareholders in many shipping firms sold their shares to short-term oriented investors. These investors targeted companies where the owner or manager himself did not control a substantial part of the shares. The investors, having acquired a majority of shares, fired the owner-manager and took control of the assets. The next step was to pay the shareholders vastly inflated dividends and to continue to do so until the funds were drained. Many investors also started their own shipping companies and

[17] Knut M. Nygaard (2005), ”Fra seilskip i trampfart til dampskip i linjefart. Fred. Olsens rederivirksomhet i forandringens tegn 1886-1904”. Sjøfartshistorisk årbok 2003:7-127

ordered new ships. Loans were easily granted without any other collateral than the shares themselves. Towards the end of 1920 the shipping market collapsed.

To Fred. Olsen the speculative investors were no threat. He had full control of all his companies and could avoid any attempts on draining their assets. Moreover, he was never carried away by the wave of investments in new ships. Admittedly, he ordered eight new steam and diesel-powered ships in 1917, but stopped there.

During the war he started instead to invest in “Akers mekaniske verksted” the second biggest shipyard in Kristiania (today Oslo). By help of family and friends he gradually purchased shares, and in 1920 the family owned 70 per cent of the shares in the yard. After the collapse in shipping in 1920, ship owners cancelled orders with Akers. Thomas Fredrik Olsen, however, kept Akers busy by ordering 12 ships which were all launched between 1921 and 1925. His counter-cyclical strategy probably saved Akers and gave him a good reputation with the unions and the public authorities.

As owner manager Thomas Fredrik Olsen centralized many of the decisions. He took significant investment decisions on his own, seemingly with little interference from other shareholders. During the first years he even closed all charters himself. In addition he spent much time on supervising accounts and attending to financial matters.

Thomas Fredrik Olsen died in 1933. At this time the shipping company controlled 60 ships. His three eldest sons were all dead and two daughters did not qualify to take over the family firm. Instead the two youngest sons inherited the family company – Rudolf Fredrik and Thomas Fredrik (jr.). The two brothers inherited 40 per cent each of the shares in Fred. Olsen & Co, the key owning company, and a trusted manager in the family firm – Johan Müller had 20 per cent. A company charter which was written by Thomas Fredrik Olsen senior stated that the oldest male in the family should inherit all the shares..

When the German army in 1940 invaded Norway, the Olsen ships still in Norwegian ports were confiscated by the Germans. The rest of the fleet was included in the Norwegian authorities’ wartime shipping company – The Norwegian Shipping and Trade Mission (Nortraship). The youngest brother Thomas went to England where he became financial advisor to the Norwegian government. The older brother – Rudolf – remained in Norway. In England Thomas managed to obtain a permit to operate some of the family’s ships outside Nortraship.

This business activity gave incomes which allowed Thomas in 1941/42 to buy Waterbury Clock Company in Connecticut in 1941/42, an investment which should prove very profitable. On contract for the American government the company produced advanced equipment for time adjustment of bombs, and after the war the company became one of the world's most successful watchmakers under the name of Timex. And a "gold mine" for the Olsen family, generating very large incomes. In the 1970s Timex had thirty plants in different contries, employing a total of 21 000 people.

The trusted manager Johan Müller died in 1940. According to the family charter, his shares in the family company were transferred to Rudolf Olsen, who however, chose to share them with his brother Thomas. The brothers concentrated their efforts on rebuilding the liner trade, following their father's shipping strategy. This trade gave a steady income.

The brothers did not, however, pay attention to the tanker trade which in the next decades should become a prime growth industry in international shipping. As a result they missed very profitable opportunities. On the other hand they avoided the fluctuations in this market.

In 1949 Rudolf Olsen died, leaving only a daughter. According to the family agreement Thomas now took over as sole owner, but fell seriously ill in 1952. A couple of years later (1955) his eldest son Thomas Fredrik started to work in the family firm. A younger son, Petter, was still only a child. Because his father was reduced by illness, Thomas Fredrik, called Fred. like his grandfather, was delegated much responsibility and decision-making power. Fred. had no education in economics, but a strong interest in art. However, he soon showed a strong business profile deciding that the future belonged to large tankers. In line with this "vision" he bought another ship yard and started to build a new dock with the capacity space for building very big ships. Shortly afterwards this yard – Aker Stord – built tankers of 200 000 tons.

He was also active as a ship owner. During his first ten years he ordered forty new ships, while selling or condemning 25. Fred. Olsen very early spotted the new business opportunities opened up by oil exploration in the North Sea. In 1964 he was instrumental in establishing the Norwegian Oil Consortium, NOCO, which soon was allotted ten blocs for oil exploration. In collaboration with the American oil company AMOCO. He quickly realized, however, that oil exploration was a very risky and very expensive activity. Instead he turned his attention to producing and selling services to the oil companies, a much less risky business in his view. I 1965 Fred. Olsen therefore established two companies to produce equipment for oil exploration. Moreover, Aker, the family's ship yard, signed an agreement with an American oil company, to build an oil rig, thereby employing the yard which had very little else to do. Soon Aker developed its own rig concept – the H3-plattform. The first H3-rig was sold in 1972, and during the next years Aker sold 25 units of this rig type. In addition, Fred, Olsen built oil bases in Norway, Shetland and the Hebrides. From now on Aker concentrated solely on contracts from the oil industry.

During the same period the Fred. Olsen company dismantled a large part of its shipping activities. From 1966 to 1976 the company sold 75 ships and built only 30 new ones – predominantly ferries and small oil service vessels. Olsen only retained a limited liner trade in the North Sea and the fruit trade from the Canary Islands.

In the later part of the 1970s and the early 1980s Fred. Olsen concentrated his energy on Aker and Timex. Aker built oilrigs for Mobil and Shell, but did not earn money. It was necessary to refinance the yard and remove unprofitable production. In the beginning of the 1980s new capital was raised and debt was discharged. Fred. Olsen had to reduce his part of the shares, but the whole operation did not cost him a penny and in 1986 he sold nearly all his shares in Aker with a handsome profit.

At the end of the 1970s Timex also ran into grave problems. After several decades of success the company lost its grip on the customers as cheap digital watches swarmed the market. Fred. Olsen personally stepped in as chairman of the board and started a restructuring of the company. Following several unsuccessful and costly attempts on introducing new high technology products, the whole operation was moved to the Philippines. Today Timex is again very profitable.

Fred. Olsen is heading a very complex system of Norwegian and international companies organized in a structure where all the family's business activities are under his ownership control. His personal company – Fred. Olsen & Co – has only one partner. This company, however, has the management agreement with all the shipping companies. Within the system of companies cross-holding of shares and ownership parts is common. In some of the companies Fred. Olsen himself only holds a few shares. But these shares usually have decisive voting rights. The main purpose of the structure is to minimize taxes and prevent outsiders from "invading" any of his companies. When his father died in 1969, his 19 years younger brother – Petter - inherited nearly half of the firm. But Fred. Olsen managed to keep him side tracked from control of the family firm. Admittedly, his brother has had seats on the various boards, but not real power to influence the companies' policies.

Fred. Olsen is known to be a leader who involves himself in big strategic issues as well as small office questions. He has been characterized as a visionary and remarkably foresighted business leader. But he has also supported rather eccentric and very costly business ideas, for instance during his time as chairman of the board of Timex. Secrecy and total control seem to have been significant mantras in his business operations.

Through the generations the Olsen-family has managed to by-pass the problems which are claimed in the literature to be typical of family businesses. Work moral and commitment to the family firm has been strong among all those who have been at the helm of the Fred. Olsen company. The present Fred. Olsen is illustrating. As a young adult he was preoccupied with art. He was rather reluctant to take over the family firm. But as soon as he accepted to join his father, he went in for the task unreservedly and with strong energy.

Failing competence among the inheritors has not been a problem. Thomas Fredrik Olsen (the second) made a very wise investment when he bought Waterbury Clock Company. His brother Rudolf was well reputed for his early interest and investments in aviation. As mentioned above, fourth generation Fred. Olsen is nearly legendary for his ability to foresee the development in the shipping market. Nonetheless, the family seems to have been alert to any signs of insufficient talent among potential inheritors. Typically, in the fifth generation a daughter has been selected to take over, not the only son. The reason for this choice is probably that her brother has not been able to shoulder the tasks he has been given within the family firm, at least not in a way expected by a coming top leader of a large multinational enterprise.

As we have seen, the first Fred. Olsen approached the transition to steam in a very cautious manner. And his two sons – Rudolf and Thomas Fredrik – hesitated to enter into the profitable tanker trade after World War II. But none them can be characterized as risk averse. On the contrary, it is rather impressive how each generation has been able and willing to move into new lines of business.

The Olsen family has strongly emphasized the need to avoid a fragmentation of ownership within the family. The family charter or agreement which the first Fred. Olsen instituted secured that ownership and power within the family business was concentrated in the hands of only one or two of the inheritors. It is also conspicuous how the family has guarded its ownership against potential external intruders. The family has constructed a very complex company structure with the purpose to maximize family control. It has never compromised its owner control in order to bring in new capital. Typically, the Fred. Olsen shipping companies which are listed on the Oslo Stock Exchange have crossholdings and pyramidal ownership structures which have made them into “family fortresses”, impossible to conquer by any raiders.

The emphasis upon control was established as a family tradition when the first Fred. Olsen after his unsuccessful venture in Fredrikstad in the 1890s, again chose to have only family members, acquaintances and trusted people as shareholders in his companies. He was probably assured about the significance of owner control when during World War I he could witness how other family owned shipping companies were raided. His own ownership position was a bulwark against any attempts at wresting the family firm from him.

The Fred. Olsen case demonstrates, like the two previous ones, that a strong emphasis on control is not a disadvantage to the survival of a family business, as some scholars have maintained. On the contrary, such control is a prerequisite for continued existence of such firms. Moreover, tight control is not incompatible with growth, and family businesses are not doomed to remain small within capital intensive industries as shipping.

However, business talent and intuition will always be necessary qualities to be able to grow and prosper, whether the enterprise is managed by professional managers or owners. In other words, ability to solve the particular problems facing family businesses does not guarantee their survival. The firm needs a business strategy generating profits. The owner managers in the Olsen dynasty seem to have had the necessary talents to develop a viable business strategy, preserving the advantages of family control .

Which elements of its strategy (beyond the emphasis upon control) main explain the success of the Fred. Olsen company? The first generations’ careful building and consolidation of an assorted liner trade laid the foundation for a solid business producing steady incomes. Some of the profits from this liner trade were wisely invested into other industries, thus diversifying the financial risk. A particular characteristic of the Olsen family’s business strategy has been the way they channel and “hide” incomes and assets in and through a series of companies spread around the world. This strategy has prevented tax authorities and probably also competitors from obtaining insight into the variegated business activities of the family. It seems that the family has successfully utilized opportunities to avoid income and inheritance taxes. In this way the family has been able to accumulate assets which have been used for new investments.

Another characteristic is that the owner managers of the family firm have been clever operators in the economic-political landscape. When the family ship yard, Akers, was hard hit by the economic crisis in the 1930s, Fred. Olsen persuaded both national and local authorities to help the yard. Oslo municipality gave the yard subsidized electric power, and the state gave tax relief. Similarly, when Aker again had grave difficulties in the late 1970s, the Ministry of Finance at one particular time guaranteed for the wages of the workers. And a couple of years later the state owned "Guarantee institute for ships and oilrigs" released the yard from a substantial debt. It is also worth mentioning that an investigation into the family firm's international assets in 1973, initiated by Norges Bank, the central bank of Norway, was silently terminated by political authorities. [18]

The particular management style of Fred. Olsen may also be included in a description of the company' strategy. Several observers have characterized the way Fred Olsen has been managed as "enlightened despotism".[19] The central company has a very small administration consisting of loyal employees. This centralized system of decision-making gives the company flexibility. Significant decisions can be taken fast, and strategic moves can be carried out without much delay. But of course, this form of governance is dependent upon the quality of the decisions of the owner manager.

"Laboremus"[20]

The last case we want to discuss in this paper is a small shipping company, originally founded in 1910 as a whaling business, but which later turned into a public held firm mainly involved in tanker and gas trade. It was merged into a larger shipping company at the end of the 1980s.

Laboremus was founded by Tarald Dannevig and Lars Thorsen with the shipping firm T. Dannevig & Co. as manager. In 1919 Dannevig became the sole owner. Laboremus was involved in whaling on and off until 1937. In 1922 Dannevig contracted his first tanker, a turbined ship, and in 1927 the next one, a diesel tanker. Both ships operated on the spot market. Dannevig was strongly reluctant to enter into long term freight contracts with the large oil companies, because such contracts implied too much dependency on them.

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[18] Odd Harald Hauge (1993), *Fred. Olsen. Uautorisert biografi*. Oslo: Gyldendal forlag
[19] Odd Harald Hauge (1993), *Fred. Olsen. Uautorisert biografi*. Oslo: Gyldendal forlag
[20] Bård Kolltveit (1985), La oss arbeide. A/S Laboremus 1910-1985. Oslo: Laboremus; www.skaugen.com. Article on the company's history.

The difficult situation in the tanker market in 1930 and 1931 convinced Dannevig that it was necessary to regulate the market. In line with this conviction, he supported the establishment of a Norwegian tanker pool and later the international organization – Tanker Owners' Committee - which founded an international tanker pool. A liberalist himself, Dannevig nonetheless spent much time during the 1930s encouraging cooperation between Norwegian as well as international tanker companies.

In the 1930s Laboremus had only two small tankers. Dannevig's shipping company was, accordingly, a modest operator in the shipping market. Before World War II he distinguished himself, then, more as a "tanker trade politician" than as ship owner.

During the war both ships were torpedoed. After the war Laboremus received war indemnity for them. To avoid taxation Laboremus was expected to reinvest the money in new ships. Dannevig hesitated, however, to do so. The boom and collapse of the shipping market after World War I had evidently made him pessimistic about the development in the post war market. In 1948 he bought a small steam tanker. Again, he operated the ship on the spot market, most of the time with cargo.

Dannevig was criticized for not reinvesting more of the capital reserves. He himself claimed that public restrictions, tax rules and the unions' wage and welfare claims made it too difficult and risky to invest in new shipping tonnage.

In the 1950s Laboremus could be described as a financial firm as much as a shipping company. Substantial assets were invested in bonds and shares, in Norway and abroad. Dannevig seemed to prefer to keep assets in the form of securities and to receive a steady return on these investments. It is reasonable to characterize his attitudes and behaviour as risk-aversion. In many ways, he resembled those British family owners which Chandler described in his study, who were more occupied with secure income than developing their businesses. In 1954 Dannevig was 75 years old. It is possible that his risk-aversion was a function of his high age.

In 1950 the head of administration in T. Dannevig & Co. – Oscar Bakkevig – was admitted as partner. In 1954, the same year as Dannevig retired as active owner-manager, Bakkevig's son, Einar Bakkevig, also became partner in T. Dannevig & Co. Einar Bakkevig had extensive experience within shipping. He had worked in shipbroker offices in several countries, had passed the exam as average adjuster, been head of administration in another shipping firm, and he had started his own ship broker company.

Oscar Bakkevig died in 1958, and Einar Bakkevig took over as owner-manager of Laboremus. In 1959 the general assembly of Laboremus decided that Einar Bakkevig shipping company should replace T, Dannevig & Co. as sole board and manager of Laboremus.

In 1954 Laboremus finally contracted a new ship, a medium size bulk carrier. Father and son Bakkevig were both eager to expand Laboremus. Einar Bakkevig himself had many ideas and energy to bring new vitality into the shipping company. However, Tarald Dannevig still had a majority of shares in Laboremus, and Bakkevig soon experienced that he used his position to veto any initiative that in his eyes was too risky. When Bakkevig suggested to the shareholders' committee in 1957 that Laboremus should contract a new, relatively large dry-cargo ship, he was voted down by the representatives of Dannevig. In 1959, after sucessful negotiations with Ford Corporation, Bakkevig recommended that Laboremus started transporting cars from Europe to USA and Canada. Once more he was turned down by Dannevig and his representatives in the shareholders' committee.

At the elections to the shareholders' committee in Laboremus in 1962 and 1963 Dannevig's supporters were replaced with representatives more sympathetic to Bakkevig's ambitions and ideas. At that time he had begun to take an interest in gas transport. He was convinced that the demand for natural gas would increase, and that gas transport had a promising future. At the beginning of the 1960s he spent much time on visiting producers and users of gas in order to establish a relation and build trust with potential charterers. And he attempted to learn as much as possible about the gas trade. He came to the conclusion that Laboremus ought to build specialized gas tankers. The shareholders' committee endorsed his idea, and in 1965 the company got its first gas tanker. In the next years two more gas tankers were bought, specializing on freight of ethylene gas. These ships were very expensive to build. The necessary capital was therefore raised by a consortium with Laboremus as one of the participants.

During the 1970s Laboremus continued to buy new gas tankers and chemical-carrying vessels. In 1977 the firm had owner interests in 8 such tankers, all managed by Einar Bakkevig shipping company. Einar Bakkevig had obtained a good international reputation within gas transport. But this trade was volatile, vulnerable to changing business cycles.

In 1976 Laboremus faced serious problems. A general economic recession and high costs in Norway combined with a noticeable debt strained the company's cash flow dramatically. As a result Laboremus was not able to pay the instalments on their loans. The main banks accepted in 1977 that Laboremus postponed the repayment.. But the situation did not improve, and in 1979 the company had an accumulated deficit which was a heavy burden. In 1980 Laboremus attempted to solve the problem buy selling one of the ships to a newly founded limited joint-stock partnership, where Laboremus itself had ten per cent of the shares.

In 1981 Einar Bakkevig suddenly died, and his son Svein took over as manager of Laboremus and owner of the Einar Bakkevig shipping firm. He had joined his father as responsible partner in 1979. Now he faced the challenge to bring Laboremus into calmer waters.

By 1980 Einar Bakkevig owned less than 25 per cent of the shares in Laboremus. At this time the other owners claimed a change in the governance structure of the company. Fearnley & Eger, a large shipping firm and former business partner of Einar Bakkevig and one of the owners of Laboremus, demanded that the board was extended with two new members. The motivation for this change probably was that the other owners wanted to protect their investments and accordingly wanted to have a firm hand on the wheel.

Two years later, a gas pool, Norwegian Gas Carriers with Svein Bakkevig as one of the initiators, was established to strengthen the participants' position in the international gas market. Another initiator of the gas pool was the shipping company I.M. Skaugen which was about to obtain a footing in the gas market. I.M. Skaugen had been a car carrier, the firm had been engaged in oil drilling and had owned offshore supply vessels. It had experience from cruise shipping and bulk trade, and now saw gas trade as an interesting field for its expansion.

As have seen, Norwegian shipping in the 1980s was characterised by the process of building larger business units through takeovers and mergers. The owners of I.M. Skaugen identified a need as well as an opportunity to restructure Norwegian gas carriers. Skaugen bought shares in another significant gas company, and then got hold of more than 15 per cent of the shares in Laboremus. Shortly after I.M. Skaugen had entered Laboremus in 1984, the Skaugen family managed to persuade the other owners to extend the capital stock of the company. The Skaugen family argued that this would improve the cash situation of Laboremus (which we saw was weak) and increase the possibility to contract new ships. As a result of these operations the number of shareholders increased from 200 to 700, and Laboremus received new capital which could facilitate expansion. At the same time, however, Svein Bakkevig's ownership position within Laboremus was significantly diluted. A couple of years later the other owners agreed to relieve Bakkevig of the position as manager of Laboremus. And in 1989 Laboremus was merged into I.M. Skaugen.

This process is very similar to the one which took place in Excelsior before Bendt Reinert Rasmussen lost control of his company and had to sell the rest of his shares to Morits Skaugen (see above). As in the case of Excelsior, Morits Skaugen was the operator and player in the process which removed the Einar Bakkevig shipping company as an owner manager of Laboremus.

Laboremus was a shipping company which failed to meet several of the challenges discussed in the theory section above. Towards the end of his life Tarald Dannevig, the founder of the company, became more and more risk averse. Moreover, he seems to have lost both faith and interest in shipping. He was satisfied with managing a diversified portfolio of investments in shares and bonds. In contrast to findings in previous research, in this case it was not an inheritor which exhibited this behaviour, but the founder himself.

After Dannevig retired, he handed over the owner management of Laboremus to a another “shipping family”, the Bakkevig family. Particularly Einar Bakkevig, second generation in his own family demonstrated that he had ideas and intention to develop the shipping company further. With his strong position as shareholder in Laboremus Dannevig, however, even after his retirement functioned as brake pad and prevented Einar Bakkevig from realizing his plans. Laboremus thus illustrates that a fragmentation of ownership, in this case between business partners and not within an owner family, may be devastating to the growth and effective management of a business enterprise. Laboremus and Einar Bakkevig might have fared much better with a stronger decision making power in Bakkevig hands without interference from other owners. He could have created a profitable shipping business and built capital reserves at an earlier stage. Lack of reserves turned out to be a fatal weakness in a trade as capital demanding as gas transport. With a weak capital basis Bakkevig’s expansion of the gas trade implied that Laboremus accumulated a debt threatening the survival of the company.

This case also illustrates how important it is for a shipowner to have full control of his firm. Bakkevig’s relatively weak ownership position (less than a quarter of the shares in Laboremus) made him vulnerable to opposition among the other owners and to takeover efforts from outside players. The economic difficulties of Laboremus spurred the other owners to take action and motivated external investors to go in and restructure both Laboremus and the gas trade in Norway.

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Conclusions

The shipping industry in Norway has traditionally been dominated by founder and family owned firms. Even today family ownership is a dominating ownership form in Norwegian shipping. Several of the large shipping companies have been owned by the same family for at least three generations. They have developed into what we may describe as family dynasties.

The presence of family dynasties within shipping contradicts standard claims within research on family businesses. In this research it has been maintained that family owners are risk averse and accordingly tend to avoid business activities which require large and risky investments. In line with this reasoning family businesses should be less prevalent within capital intensive industries and should as a rule remain small or medium sized. The Norwegian shipping industry seems to diverge from both of these predictions. Shipping is a highly capital demanding business activity. Nonetheless, Norwegian shipping has been dominated by family businesses, and many of these family-owned shipping enterprises have become large and global operators.

How can we explain that large family dynasties have survived and continue to thrive within the shipping sector?

In order to answer this question we started the paper discussing some challenges facing family businesses according to previous research. The implication of the traditional view is that successful family dynasties must have been able to handle these challenges in a satisfactory way. (And that family-owned shipping firms which did not survive failed to overcome the challenges.)

The empirical cases discussed in this paper indicate that not all the challenges mentioned in the previous literature have been relevant to Norwegian shipping companies. With some exceptions, as for instance Tarald Dannevig in Laboremus, the ship owners and owner managers which we have described above were not risk averse. And, again in contrast to previous research, the inheritors in the various family owned shipping firms presented here were not characterized by failing work morale or lack of interest in the family business.

On the other hand, our shipping cases demonstrate that a focus upon owner control and on avoiding dilution and fragmentation of the ownership is a significant prerequisite for survival. In both the shipping firms which were taken over by other owners (Excelsior and Laboremus), the original owner family had a too small share of the company’s stock. The lack of owner control was not balanced by loyal partners who supported the owner family’s position. In both firms external investors with capital and ideas could easily enter and push the original owners or owner managers aside, take over and restructure the companies.

In the two surviving family dynasties, the Rasmussen Group and Fred.Olsen, special care has always been taken to guard the family's owner control against other investors. In the Fred. Olsen case this was accomplished through a complex pyramidal system of ownership backed by ingenious crossholdings across the many parts of the system. In Fred.Olsen's case the family had also been consistently occupied with concentrating the owner control in the hands of only a few members of the family.

Facing the challenges related to owner control and concentration may be a necessary, but certainly not a sufficient precondition for the survival of family dynasties. It cannot explain why family owned firms are successful compared to enterprises with dispersed ownership and professional management, or that some family owned shipping companies are more prosperous than others. The challenges mentioned are defensive ones, and it is necessary to meet them in order to avoid certain problems. But successful family businesses within shipping must have some other comparative advantages, some positive characteristics which distinguish these businesses from their competitors.

In the description of the Fred. Olsen company we have suggested one such quality. We showed that in this family business all power was concentrated in one pair of hands. Combined with a small administration this power structure has given the owner manager extensive decision-making flexibility. This flexibility may enhance the company's capacity to adapt to continual changes in technology and market conditions.

Another particular quality seems to be that the relations within owner families are often characterized by altruism, loyalty and trust. In many family businesses the owners attempt to extend these trust relations to customers and business partners. As we have seen, the first Fred. Olsen preferred to have owners in his companies which he personally trusted. The same attitude was exhibited by Einar Rasmussen. When Einar Bakkevig planned to go into gas transport, he first spent much time and energy on developing trust with potential charterers. It is possible that this emphasis upon building trust relations give family businesses an advantage compared to managerially dominated enterprises.

On the other hand, we should not exaggerate the importance of trust. Shipping is an industry where competition is fierce, and where the participants are eager to outdo their competitors. Moreover, there are many examples of business partners not honouring the trust they have received. For instance, Bakkevig in Laboremus had to witness that the family's previous business partner, Fearnley & Eger, in the 1980s chose to form an alliance with the investor who finally orchestrated the demise of the family as owner managers. Some years earlier Einar Bakkevig also experienced that Dow chemicals, with which he seemingly had a very close business relationship, forced the freight rates down as soon as their contracts with him expired and the market conditions gave them power to do so.

Instead we want to draw attention to another property of family businesses within shipping. Shipping is no doubt capital intensive. But it is first and foremost a knowledge and information industry. Being a ship owner and operating ships in an international market require a unique package of various forms of knowledge. As Nygaard (2005) shows in his description of the first Fred. Olsen, he had to command knowledge of many aspects of shipping. Of course, he had to be well acquainted with the world of charters and ship broking. He had to have an eye on the general economic situation in the world. He should be familiar with accounting and finance. But it was also necessary that he knew enough about ship technology to be able to evaluate tenders from different yards. And when it comes to the shipping trade itself, gathering and judging large amounts of information is of the essence.

Some of these forms of knowledge are concrete. Others are more subtle and nearly tacit, as illustrated in the frequent use of words as "business intuition" when successful ship owners are described. It seems that the necessary capacities and know-how in shipping has to be acquired through personal experience or through working closely with skilled persons in the trade. Typically some of the ship owners in our cases acquired their knowledge through growing up in a shipping family and by working closely with their fathers. Moreover, they had occupational experience from various fields of the shipping trade. They all had to go a long way to obtain the competencies necessary to manage a shipping company. And the family firm seems to offer a very favourable framework for developing these skills.