

2006
Family Business Honours



Case Study of 2006 winner

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The Family Business Honours Award for Public-Private Partnership

Caledonia Investments plc

JPMorgan 
Private Bank

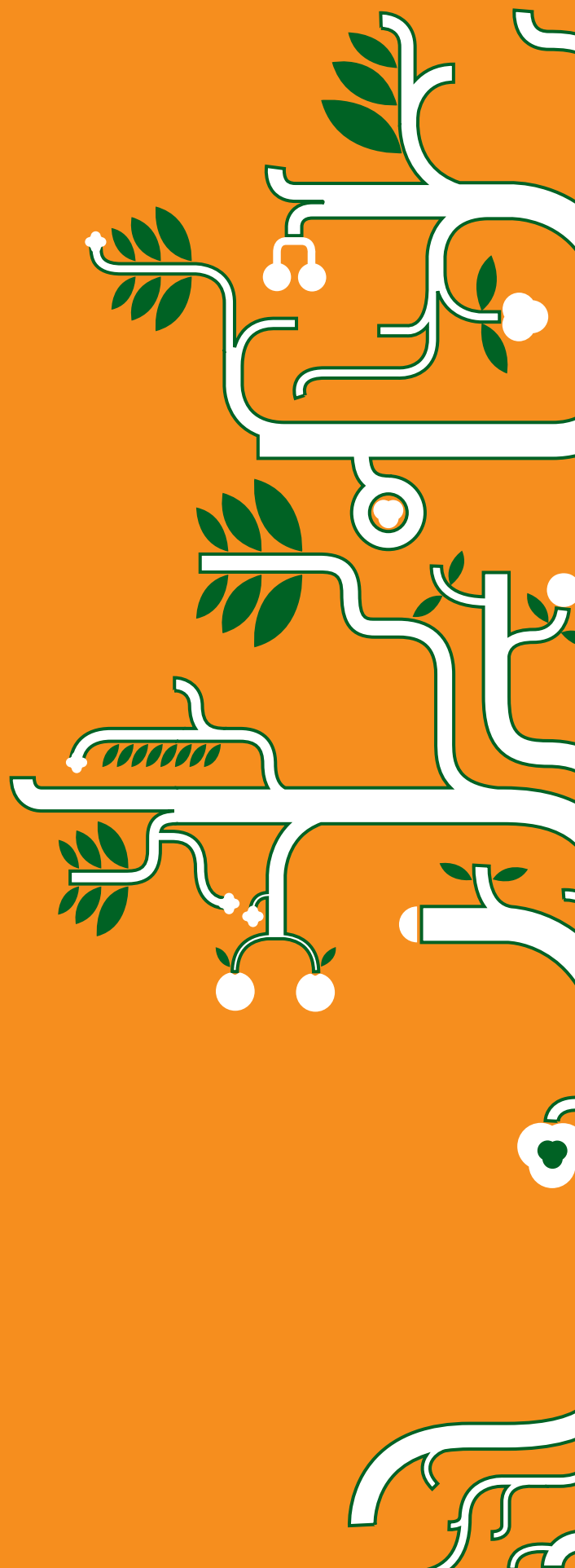
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The Family Business Honours Award for Public-Private Partnership 2006 Caledonia Investments plc



Upon arrival in Bombay in the 1860s, Charles Cayzer, great-great-grandfather of Caledonia's current Executive Director, Jamie Cayzer-Colvin, set up a shipping company. The story goes that in order to avoid negative associations with the British Raj he decided against an English name for the business.

In an ingenious stroke of Victorian branding, a Scottish name was chosen instead and The Clan Line was born, the forerunner of Caledonia Investments. Just as this branding set them apart in the 1870s, Caledonia continues to be different, both by reputation, with a unique approach to work in the investment industry and by way of mixed family and public ownership. In its modern form, Caledonia keeps a tight ship with 46 crew members operating in a model of partnership and teamwork.



First impressions

Caledonia's premises in Buckingham Gate, central London, speak volumes of its heritage in the shipping industry. The walls are adorned with oil paintings of great vessels on seas of many different shades of blue and green. The offices boast several impressive replicas of ships in glass cases, and there is even the ship's bell from The Iron Duke mounted on the wall in the reception. The founder's son-in-law was Admiral Lord Jellicoe, who commanded the British navy during the First World War. The Iron Duke was his flagship during the battle of Jutland.

Opposite is a crest with the word *Tendimus* inscribed. In Latin, this means 'we reach out': a perfect summation of what the company has always striven to accomplish in its worldwide expansion of sea-faring trade. The sense of adventure is further reinforced on the top floor, where visitors are greeted outside the lift by two life-size cheetahs.

Caledonia Investments at a glance

Brief description:	Caledonia Investments is an investment trust company listed on the London and New Zealand stock exchanges. The company holds a diverse portfolio of global investments.
Industry sector:	Investment trusts – Global Growth Sector
Founding year:	1870
Founder:	Charles Cayzer
Number of employees in 2006:	46
Ownership structure:	See below
Generation:	5th
Net asset value (NAV) in 2006:	£1.307 billion

Public-Private Partnership

Family firms are diverse – not only because all families are different, but because they have different ownership structures. In the UK, there are fewer firms with combined public and private ownership than on the continent. It was therefore felt that UK-listed family businesses should receive special recognition in this year's JPMorgan Family Businesses Programme, not only to honour their contribution to the economy but also to enhance public understanding of their potential as a unique source of wealth creation.

We have applied the same criteria for public family firms as we have for the other firms in the programme, namely: social responsibility, business success and family governance. Overarching these three are the principles of sustainability, suffusion and “familiness”. Sustainability refers to the capacity for excellence to endure over time, while suffusion means that the best practices underpinning success are spread throughout all levels and functions of the business. Family values constitute the intangible, unique and inimitable advantage that the family confers to the business by way of leadership, stewardship and/or legacy. Such values form the rock upon which the organisational culture of the business is based. In the case of the Public-Private Partnership award, these criteria are applied within the context of a public company that adheres to a mandatory set of governance rules.

In terms of business success, Caledonia has consistently delivered stellar performance. The market capitalisation as of February 2007 was circa £1.2 billion. Total shareholder return increase over the past five years is 242% (outperforming the FTSE All-share by 189%); 311% over the past 10 years (201% outperformance). Caledonia has outperformed the FTSE global growth investment trust index over five and 10 years, and their investment ranking over the past decade is:

- 4th out of 31 trusts (1 year)
- 1st out of 28 trusts (3 years)
- 1st out of 27 trusts (5 years)
- 2nd out of 21 trusts (10 years)

This year represents the 39th consecutive year of annual dividend increase.



Social responsibility is more a matter of personal choice for individual family members for a company that is publicly listed, rather than a position taken by family shareholders. However, Caledonia does back any employee who is involved in philanthropy, either with time off *in lieu* or by matching its employees' charitable donations. A number of senior executives are involved in charities and several have their own charitable foundations. Yet, as a public company, there is a limit to the amount of corporate charity work in which they can engage while remaining faithful to their fiduciary duty to the shareholders.

Family governance issues are also different at Caledonia. Primarily guided by corporate governance rules, these cover to a large extent what is necessary to manage the relationship between business and family. The Cayzer Family Trust operates largely as a family office, providing a conduit between the family and the business.

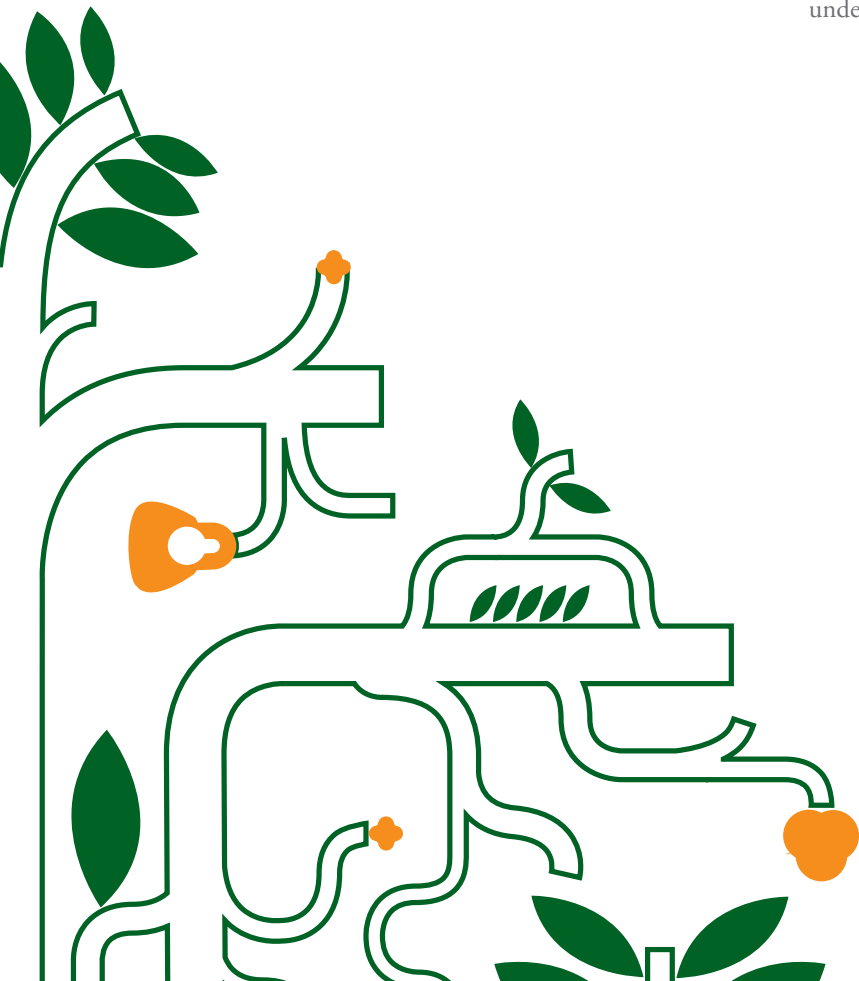


A brief history of Caledonia Investments

The Clan Line began as a cargo and shipping company in the 1870s. The company retained that focus until after the Second World War, when it evolved to include other interests such as shipyards, hotels and travel services. In 1955, Clan Line merged with Union Castle Line to become British and Commonwealth Shipping.

In the 1970s, British and Commonwealth began diversification into financial services as passenger shipping declined and cargo shipping evolved into container shipping. By the mid-1980s, the business had evolved into one of the country's largest financial services companies.

With the move from the third to the fourth generation, the family thought it was time for a change. Family shareholders were becoming increasingly uncomfortable with the reduction in control over British and Commonwealth, caused by its expansion using shares as currency. In 1987 they decided to sell their stake in British and Commonwealth and to concentrate their collective investment in Caledonia, whose function until that time had primarily been as a holding company. This was a timely decision: the sale took place just prior to the Black Monday stock market crash and, two years later, British and Commonwealth went into receivership under its new management.

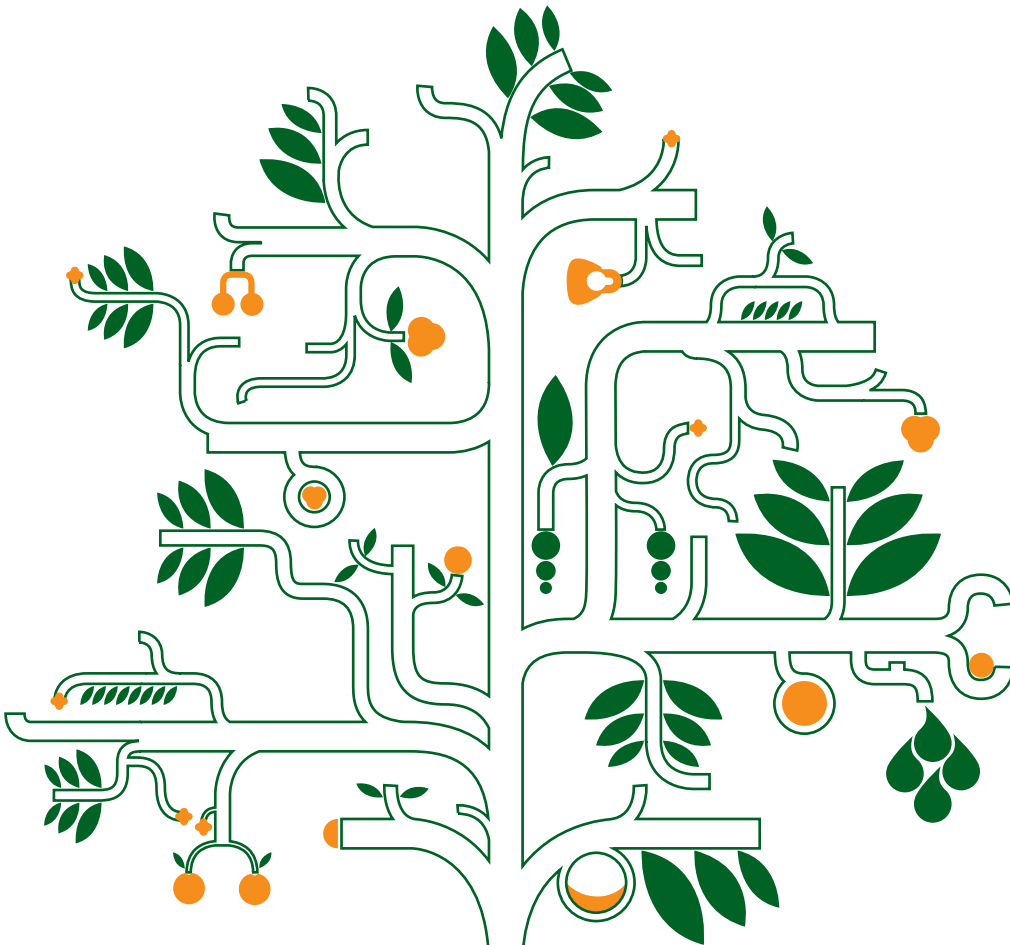


Ownership

Ownership structure of Caledonia

Caledonia is a public limited company quoted on the London and New Zealand stock exchanges. The Cayzer family owns approximately 46% of the issued ordinary share capital, the largest element (33%) being held by the Cayzer Trust Company Ltd, a private company 100% owned by Cayzer family members. The other 13% is held directly by Cayzer family members. Five members of the Cayzer family are involved in the management of the business, four being main board executive directors and one a non-executive director (out of a total of 12 directors).

The remainder of Caledonia's share register is split between institutional shareholders (23%) and retail shareholders (31%). The largest of the institutional shareholders is Sofina, a Belgian listed investment company, with 4.7%. No other institutions have shareholdings over 3%. The shares held by retail investors are either held directly or through private client fund managers and stockbrokers.





Ownership dispute

In 2001, the Cayzer Trust faced a dispute between shareholders with regard to the structure of the trust and how easily family shareholders could access its capital. The dispute arose because of a conflict between those who wanted to access value and those who were not prepared to break the Cayzer Trust. At that point in time, breaking up the trust would have forced Caledonia to liquidate and sell off its own assets. The Cayzer Trust's holding in Caledonia Investments had to be carefully considered, since it represented a third of the business ownership, which at the time equalled roughly £250 million.

To settle the dispute, a Governance Committee consisting of non-family members was set up. The committee was led by a non-family, non-executive director, Charles Allan-Jones, who helped facilitate negotiations with those who wanted to leave the trust. In the end, Caledonia Investments paid out a special dividend which allowed family members to exit, redeeming their shares at a discount. The event amounted to a major exercise in pruning family involvement in the business. The number of family members with ownership was reduced, yet Caledonia remained subject to the same level of family control.

The disagreement was very much in the public domain. As the threat of liquidation was sensationalised in the media, Caledonia found its reputation in the firing line, particularly with regard to its long-term investment philosophy. However, given the favourable outcome of the dispute (the recent performance of Caledonia shares demonstrates that a liquidity event would not have been in the interest of the entire group of shareholders), Caledonia's reputation remained unharmed. One of the lessons learned by the company and family throughout this ordeal was to move away from its "fairly secretive and very discreet" attitude, and to begin to communicate more openly. The company has become more media-savvy and now issues financial updates on its website on a monthly basis.

Company philosophy

Company values

As a publicly listed financial services company, Caledonia’s values and ethos are primarily metrics-based. The objectives specified include:

- Outperform FTSE All-Share index over five and 10 years
- Generate absolute returns over five and 10 years
- Pay a progressive dividend

More broadly, management operates to the following ends:

- Cautious approach
- Care not to overpay
- Seek out opportunities resulting from market corrections
- Seek out further opportunities in India and the Far East

Long-termism

The long-term approach adopted by Caledonia is made possible via the family affiliation:

“The business model, with its strong family shareholder base, has enabled the company to think long-term... It is important to look a potential investor in the eye and say with confidence that we’ll be around for as long as it takes and we will not be discussing exit strategies 10 minutes after making the investment.”

Jamie Cayzer-Colvin, Executive Director and family member

Being able to adopt a long-term stance is one of Caledonia’s unique selling points. Not only does it provide a sense of security to its partners and customers, it is also conducive to two other key strengths of the business: relationship-building and partnership.





Relationship-building

The first meeting between Caledonia and potential partners is described as a meeting of minds, where mutual interest and liking is sought. Choosing the right people to work with is essential to the Caledonian investment model, since it builds on the concept of a long-lasting partnership. In contrast to most of its peers, Caledonia does not appoint external managers for its investments, but deals with them directly. This means the business is able to remain close to its partners. Networking and trust-building are cornerstones of Caledonia's approach.

“We are happy to spend years getting to know people. Over time that relationship may develop into an investment.”

Jamie Cayzer-Colvin, Executive Director and family member

On one occasion last year, Caledonia was considering supporting a management buy-out. Some two months after the start of the negotiations, the Wall Street bank conducting the sale contacted Caledonia to find out why it, unlike others, had not spent considerable time in the data room. The bank was concerned that Caledonia was not a serious bidder. However, Caledonia's focus was not the data room, but the people. In this case it had many meetings with the management team and vendors, unlike the other bidders, who failed to meet with the management even once.

Jonathan Cartwright, Chief Financial Officer, describes:

“We are dependent on management teams wanting us... it is a symbiotic approach. We are building relationships, and credibility.”



Partnership

“We don’t try to run businesses or buy cheap businesses without good management. Our philosophy is that we want to back good people, who run good businesses. We want partners.”

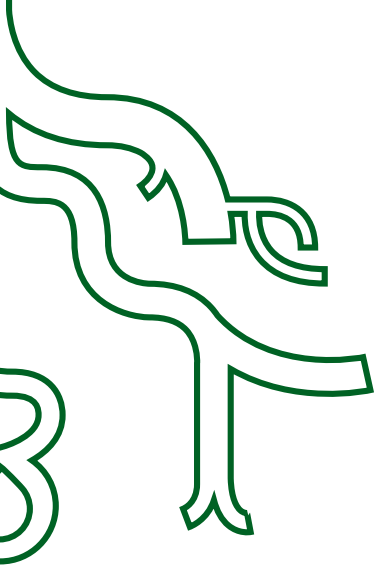
Jamie Cayzer-Colvin, Executive Director and family member

The notion of partnership also manifests itself in how the Caledonia staff organise themselves. For example, there is very little differentiation in role titles. Apart from Chairman, Chief Executive and Chief Financial Officer, the company uses only executive or non-executive director titles. This collegiate model has been in place since 1987.

When the non-family Chief Executive Officer Tim Ingram first arrived, there was a push for the introduction of a functionally differentiated way of operating. However, this was resisted on the grounds that the networks created by each person in the company can lead them in different directions, so the staff need to retain their flexibility. Furthermore, it was felt that single functions can become somewhat entrenched. The non-differentiated approach gives the people of Caledonia an opportunity to evolve and exercise more personal responsibility. Non-family investment executive Mark Neale describes what keeps him attracted to Caledonia:

“It’s the teamwork... and the people – both family and non-family. Being able to work in a small team is not that common in other investment companies. Also, every year my role develops further here.”

Caledonia executives work in pairs. It is believed that any investment opportunity requires two pairs of eyes, one of which nearly always belongs to a director.



Opportunism and reinvention

Caledonia has reinvented itself several times over the years, yet its core has remained consistent. Being able to trade one opportunity for another also requires a dispassionate attitude:

“We can get passionate about our business but we must not let emotions run it. The trick is not getting too attached... don't go down with the ship.”

Jamie Cayzer-Colvin, Executive Director and family member

As a commercial enterprise, Caledonia has made diversification one of its markers of success. Having gone from building and servicing ships and cargo to other types of transport and finally focusing on investment, the company has always looked for the next opportunity and remained flexible.

Family and non-family

The Cayzer family is not one single family, but rather a series of families who share a common ancestor, without necessarily knowing each other intimately. This allows them to take a professional approach to the family business.

When it comes to family members working in the company, there is no discrimination in favour of family members. The lack of differentiation in titles affirms this. Family executives are, however, “spotlighted” due to their kinship status. There has never been a situation where arbitration was required – family and non-family working together is described as a “self-disciplining situation”, which builds on the ethos of the organisation.

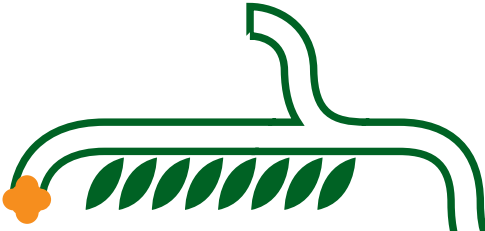
Leadership

The family Chairman, Peter Buckley, stepped down from his position as CEO at age 63, and has been an Executive Chairman since 1994. It is stated in the company articles that non-executives must retire at age 70. Since Caledonia is a public company, succession is an issue for the board, directed by a non-executive working closely with the CEO. Having a family member as Chairman is not a requirement in the business, although it is referred to as traditional.

“From a personal point of view, it would be nice to see a family member as part of the leadership... it would no longer be a family business without family representation.”

Jamie Cayzer-Colvin, Executive Director and family member

The Chairman’s role in the company is primarily related to the “huge body of knowledge” that he possesses. The relationship between the Chairman and the non-family CEO, Tim Ingram, is described as a “good working relationship, building on consultation”. Tim, very much the CEO, guides the business, and Peter provides leadership on a different level.



Governance

As a public company, Caledonia must adhere to corporate governance. In fact, the business perceives itself very much as a public company, but with the added benefit of family ownership, whose presence is required on the company board level.

“Our biggest shareholder should have a substantial representation on the board.”

Jonathan Cartwright, non-family CFO

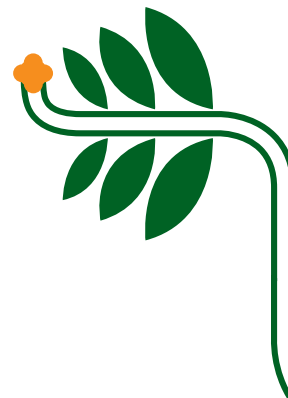
However, given the family shareholding, it can be more difficult for family representatives to work in the business, since their performance is perhaps more closely monitored because of the family connection. At the same time Caledonia believes that the family’s presence confers an advantage to the business, whose model relies on strong family control to create a unique identity and brand. The prevailing view, however, seems very much to be that business comes before family; the business should not support the family, but vice versa.

Family issues are kept apart from the business via the Cayzer Trust, which has a separate, non-family CEO. In essence, it operates like a family office. On a regular basis, the CEO of the Cayzer Trust meets with family members to keep them informed of developments and to gather information from their side.

Caledonia and the Cayzer Trust have chosen not to go down the formal family governance route. Regulation and bureaucracy do not appeal to them; they prefer to retain the right to be flexible and opinionated, which differentiates them from their big corporate counterparts. There is no written family constitution outlining the rules governing the family’s relationship to the business. This is perceived as a function of the leadership style espoused by the family Chairman:

“Any organisation reflects the style of its leader... and it is not his way of doing it. I hope the need never arises. Sustaining performance over time is the [most important task].”

Jonathan Cartwright, non-family CFO



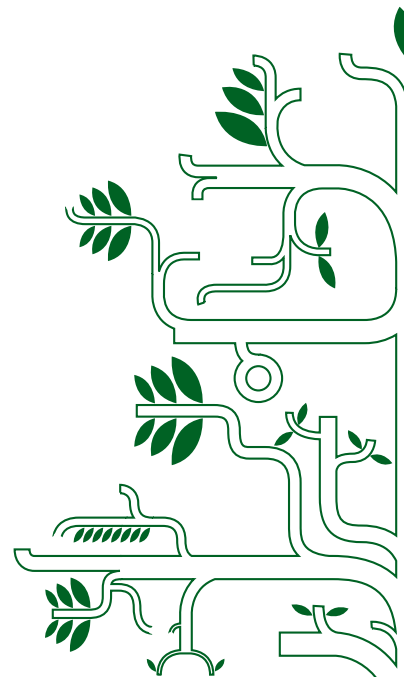


Challenges going forward

As the company continues to grow, there is a sense that the family feeling might be lost to a mass of bureaucratic regulation. With growing assets, there is pressure to employ more people. This in turn puts pressure on the company culture to change from being very flexible and informal in style toward a more process-oriented and formal approach to decision-making.

There is a drive within the business to capture the interest of the next generation of the family, a challenge the business faces in the long term. To address this, internships have been organised for both family and non-family. There are also get-togethers aimed at informing interested young family members about the business and what it does.

Succession is seen as a challenge not only for the family, but for the business.





Nigel Nicholson is Professor of Organisational Behaviour at London Business School, where he is directing a major initiative on leadership in family firms. He has published twelve monographs and over 200 articles on many aspects of business psychology, leadership and organisation. He is a much sought-after executive speaker and directs two major leadership programmes at London Business School: High Performance People Skills and Proteus, one of the world's most innovative executive programmes.



Chris Hancock is a Director of JPMorgan Cazenove, JPMorgan's investment banking business in the UK. He is responsible for the delivery of investment banking services to private individuals and families resident in the UK and has led JPMorgan's Family Business Honours Programme in the UK since 2004. Chris studied classics at Oxford University and qualified as a Chartered Accountant before entering investment banking. He joined JPMorgan in 1999, moving to work exclusively with privately held businesses in 2002.



Åsa Björnberg is the IFB Research Fellow at London Business School. Her research focuses on psychology, leadership, culture and the next generation of family businesses. Åsa helps family firms develop effective top management teams, and creates education programmes for their next generation members. Her consultancy experience includes international blue-chip corporations, primary schools, NGOs and hospital clinics. For example, she consulted to the organisations that provided psychosocial support to children in Sarajevo in the aftermath of the Balkan war. At London Business School, Åsa coaches teams in MBA and executive education programmes. She also runs a private bilingual coaching practice in London.

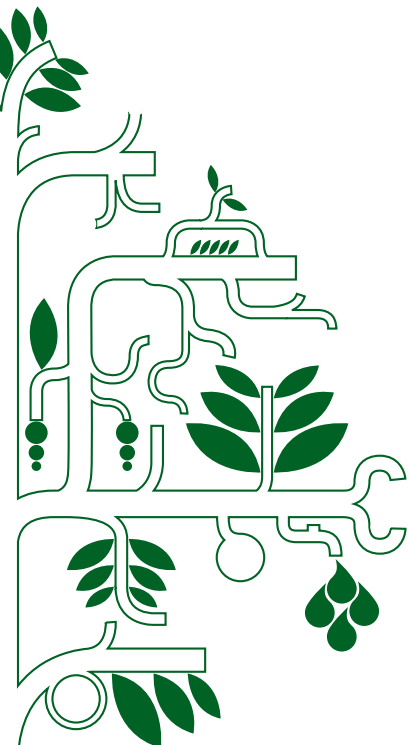
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