

Foundation Ownership at Ramboll¹²

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Overview

The Ramboll Group is largest Danish engineering consultancy with 12.500 employees and revenues exceeding 1 billion euros. The Group has exhibited impressive growth and good financial performance. It is owned (97%) by the Ramboll Foundation. In this case study I discuss to what extent ownership and governance has contributed to its success.

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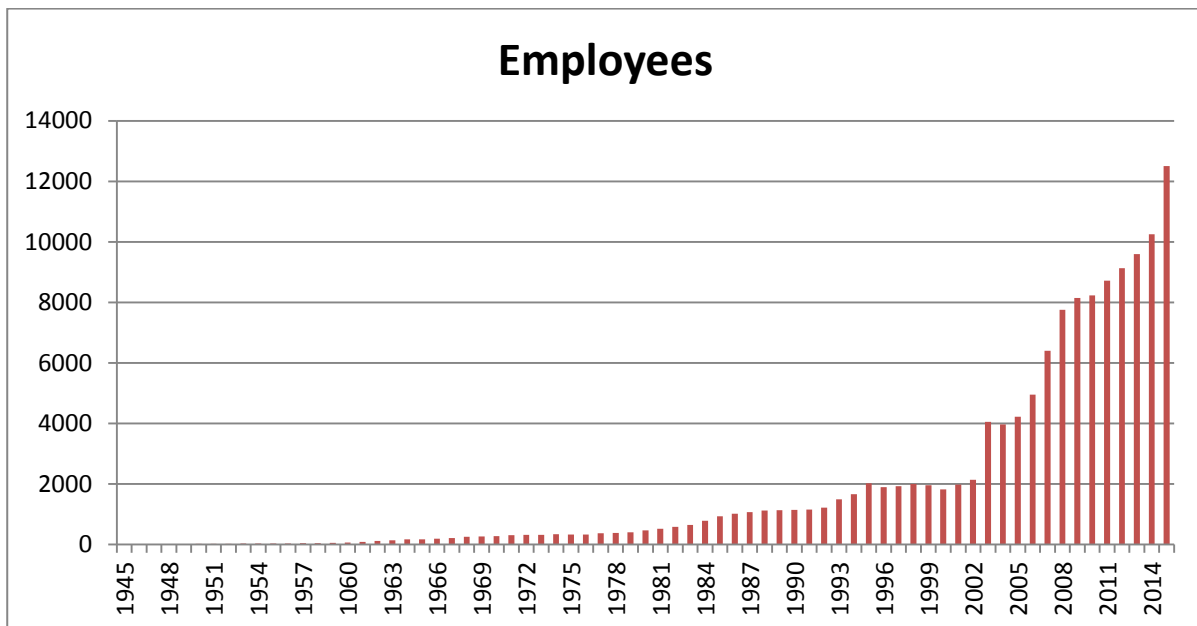
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Introduction

The Ramboll Group is largest Danish engineering consultancy with 12.500 employees and revenues exceeding 1 billion euros. The company is majority-owned by the Ramboll Foundation. It is active in infrastructure, buildings, transportation, environment, energy, oil and gas, telecommunications and management consulting.

The company (originally Ramboll & Hannemann) was founded in 1945 by 2 professors at the Danish Technical University, Børge Johannes Ramboll and Johan Georg Hannemann. While the company was originally a partnership, a foundation was founded in 1971, which acquired the founders' stock. By then the company had grown to 310 employees almost exclusively working on buildings and infrastructure projects for the Danish government. Over time the company has grown by diversification and internationalization as well as increasing sales to private customers.

With the energy crisis of 1973 the construction business was challenged, but the company entered into new business areas like environmental engineering, energy and in 1980 management consultancy. At the same time it began to internationalize its client and employment base. Developments after 1990 have to a large extent been defined by a series of large acquisitions. A snapshot of the company's evolution is shown below in terms of employment (full time equivalents).



As may be seen Ramboll's growth has been impressive. Several jumps are also noteworthy. They reflect mergers and acquisitions which have been an important part of the Group's recent development. Some of the most important events are outlined in the text box below.

Ramboll: Major Events Calendar

1945 Founded by structural engineering professors Børge Johannes Rambøll and Johan Georg Hannemann

1960s Waste treatment and district heating emerge as new business areas

1971 The Ramboll Foundation is established and takes ownership of Ramboll

1970s New business areas in oil and gas and environment

1974 First international office in Tunisia

1980 Gert Hansen (PLS Consult) is acquired to become Ramboll's consulting branch

1985 Informatics (Ramboll Informatik) emerges as a new business unit

1991 Merger with B. Højlund Rasmussen, another foundation-owned consulting engineering firm

1996 Subsidiaries in Germany, UK, Slovakia, Poland and Tunisia are closed

2000 Staff reduction by lay offs

2003 Scandiaconsult a Swedish engineering consultancy, is acquired

2007 Whitbybird, a UK engineering consultancy, is acquired

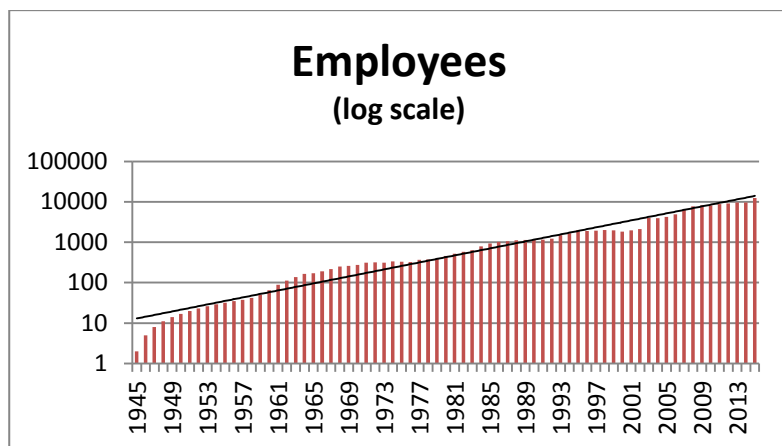
2011 Gifford, a UK engineering consultancy, is acquired

2011 Ramboll Informatics is divested to KMD

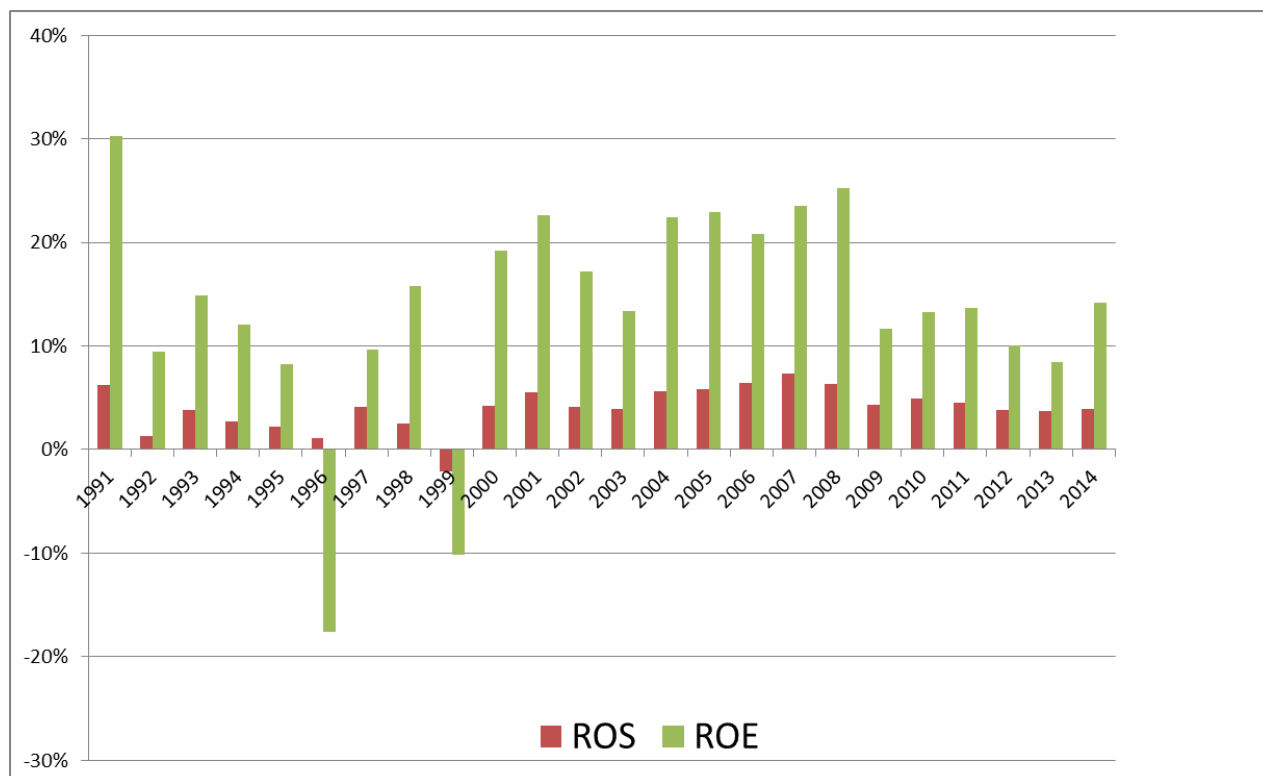
2014 Acquisition of building and construction management parts of Finnish Engineering Consultancy Pöyry

2015 ENVIRON, a US engineering consultancy, is acquired

To some extent these events can be seen as continuation of an underlying growth trend of some 15% which becomes clearer in a logarithmic diagram (see below). A linear trend in logarithms indicates constant annual growth.



At the same time Ramboll's financial results have been excellent for a consultancy business. Below we sketch ROS (Return on Sales, ebit/sales) and ROA (Return on Equity, net income/equity) since 1990. ROS has fluctuated around 4% and ROE has fluctuated around 15%.



The Group's financial performance has improved over time. Average ROS was 2% in the 1990s but increased to 5% since 2000. ROE increased from 9% to 17%. Increased profitability allowed the Group to build more equity so equity growth increased from 8% to 18% while sales growth remained constant. As a result equity turnover (sales/equity) has declined.

	Average 1990-2013	Average 1990-1999	Average 2000-2013
ROS – Return on Sales	4 %	2 %	5 %
ROE – Return on Equity	14 %	9 %	17 %
Sales Growth	15 %	15 %	15 %
Equity Growth	14 %	8 %	18 %
Sales/Equity	5,7	6,3	5,4

Altogether, Ramboll has been a highly successful company and it is interesting to inquire to what extent this success is attributable to its ownership and governance.

At the business level, Ramboll seems to have originally had a competitive advantage in structures and buildings (steel and concrete) derived in part from the technical skills of its founders. Subsequent advantages were derived from first advantages in waste treatment, incinerators and power plants which were a relatively unique feature of Danish energy policy that could be exported around the world. However, the Group has now diversified and grown to an extent that makes it difficult to attribute success to excellence in any particular area. An alternative viewpoint is that Ramboll benefits from its values which are articulated in "The Philosophy" (Rambøll 1986, 2000) and "The Holistic model" (Bligaard Pedersen 1997).

Values

In discussing Ramboll's success it is difficult to get around the legacy of the company's founders Børge Rambøll and Johan Hannemann. Both were professors who wrote doctoral dissertations and textbooks in structural engineering, but they also both shared a humanistic attitudes to life and business. They agreed from the beginning that employee satisfaction and high ethical standards were to be prime goals for the new company. Hannemann possessed a legendary understanding of steel structures, but was also a follower of the Danish religious philosopher Martinus, who advocated vegetarianism and nonviolence. As a scientist and engineer Rambøll specialized in concrete structures, but also played the cello and published several works of fiction, travel description, biography and essays (a total of at least 22 books in addition to many articles and newspaper columns). The two founders imprinted their humanistic philosophy on the company, first in practice and later in writing. For example, the company was not to work for slaughterhouses or the military.

Ramboll's "Philosophy" as described by Børge Rambøll (1986, 2000) has 5 principles.

1. Satisfied employees through employment security, decentralization, *"a spirit of trust and confidence"* and *"awareness of the human dimension"*. Thus, *"All Ramboll's other goals must in fact be regarded as means to an end – required by necessity or circumstance. Means towards achieving that single main goal – satisfied employees."* This also included avoiding risks that would set jobs at risk.

2. Corporate Ethics. Ramboll strives for high ethical standards among its employees and *"is not interested in clients, suppliers or business connections whose ethical standard, in the firm's opinion is objectionable... The firm does not carry out assignments for the military forces"*.

3. Quality rather than quantity. *"Growth must not become a goal in itself...Excessively rapid growth can pose a threat to quality ...It must never be forgotten that in our business an erroneous calculation can cause tragic accidents..."*

4. Senior executives must have a thorough understanding of the firm. *Each single district manager must be capable of acting on his own as chief executive, but nevertheless managers "must work together on terms of equality". "It is essential the information can flow in all directions"*. This enshrines the de facto autonomy of local branches which has since given way to a somewhat more structured approach.

5. Ramboll's surplus will flow back to the firm through the foundation, for example through improving the working environment although a major share must also be available for consolidation. *"All employees are a sort of co-owners, each employee must benefit"*.

Using a total quality management framework Flemming Bligaard Pedersen (who was CEO at the time) operationalized the Ramboll "philosophy" to what he termed *"The holistic model"* (Bligaard Pedersen 1997) which states 3 overall goals for the Group .

- Satisfied employees
- Satisfied customers and a positive impact on society
- Economic independence and freedom

Satisfied employees required e.g. interesting high level work, which has been used as a rationale for international growth and expansion and for achieving a critical mass that allows the company to participate in large, complex projects.

Benefit to society is voiced quite clearly in "the philosophy" which states that the Ramboll is particularly pleased to participate in socially useful projects.

Economic independence and freedom applies both to the company, which can retain its autonomy through self- financing, and to the employees, who can work independently though decentralized decision making.

In the holistic model the foundation is a caretaker of values and goals which require human and technical resources as means to produce consultancy services. The results obtained through these services include customer and employee satisfaction as well as impact on society. Achieving these goals is believed to ultimately determine financial (business) results. Each of these elements is further operationalized through a series of "focal points" (indicator variables).

The values matter to Ramboll. They appear to function as a social glue which promotes cooperation between relatively autonomous employees and departments. They also form a bond between the company and its stakeholders so that employee and customer churn is kept low. Many employees have spent their entire career in the company, and some key accounts date back more than 50 years.

Ramboll also has a good reputation for ethical conduct. Over the past decade it has consistently ranked among the best Danish companies in terms of responsibility and employee relations. Scandals have been few. Management reacted swiftly to apologize and correct the situation when it was accused by the NGO Danwatch of overlooking slave-like work conditions among local business partners in construction projects in Dubai (Danwatch 2011). Ramboll employees are now obligated to inform their superiors if they observe human rights breaches.

However, values do not come without costs. Some would argue that Ramboll's strong emphasis on decentralization and local autonomy has made it more difficult to reap synergies of integration after mergers. Concern for employee satisfaction and ethical standards may also at times conflict with business opportunities.

The Ramboll foundation

The Ramboll foundation was established in 1971 by the two original founders and 3 other partners in the firm. It was motivated by the need for a smooth ownership succession which would enable the company to thrive. Moreover, both the founders had daughters who were not interested in taking over the company. It was decided that the foundation should gradually acquire their stock.

From then on the prime goal was the best interest of the company for example through earnings retention. The employees did feel much of a change since the foundation continued to run the company in the spirit of the founders who remained active in company management and on the foundation board. They even took turns as managers.

Formally, according to the charter (§ 2) the foundation's purpose is

- to own stock in Ramboll companies and thereby to further their survival and development (§ 2.1),
- to support research and education in order to further the development of Ramboll companies
- if need be to support present and former Ramboll employees and their families (2.4)
- to support charitable purposes in general.

Moreover, the foundation board is obliged to work for social responsibility at the Ramboll Group and its associated companies (charter § 7.1). Thus, the foundation is widely regarded as the guardian of "*the values*".

According to the foundation charter, foundation board members are primarily to be elected among past and present managers in the Rambøll Group (charter § 6.8) with no more than two members from the outside. In turn, the foundation is to elect 4-6 highly competent members with good business contacts for the company board, including the chairman and the vice chairman (charter § 6.14).

Governance structure

Ramboll's governance has evolved over time in pace with the company's growth.

As of 2015 the foundation board still consists exclusively of current or former Ramboll employees with Flemming Bligaard – the former CEO of the company – as chairman. The board is currently composed mainly of Danes with one member from each of the other Nordic countries. A high concentration on members with a background in transportation management is regarded as a coincidence.

Rambøll Foundation Board 2015	
Flemming Bligaard Pedersen	Chairman of the Ramboll Foundation, Former CEO, Ramboll Group
Carsten Uttenthal	Deputy Chairman, Former Director, Transport, Ramboll Denmark
Klavs Koefoed	Senior Project Director, Transport, Ramboll Denmark
Annika Holmqvist	Senior Director, Transport and Environment Division South, Ramboll Sweden
Helene Urth	Head of Department for European Policies and Economics, Ramboll Management Consulting, Employee- elected
Marie Kjellerup Thesbjerg	Project Manager, Transport West, Ramboll Denmark, Employee- elected
Helen Kristensen	Head of Department, Ramboll Denmark. Employee- elected
Neel Strøbæk	Group Market Director, Environment, Ramboll Group
Mogens G. Nielsen	Senior Chief Consultant, Ramboll Energy Employee- elected
Mikko Leppänen	Technical Director, Director of Infrastructure West, Ramboll Finland
Jens-Christian Schmidt	Former Regional Director, Ramboll Denmark
Bjørn Tore Landsem	Regional Manager, Ramboll Norway

This structure involves the governance anomaly that the board and CEO of the Ramboll company are ultimately appointed by some of their own employees. For a long time the incumbent CEO Flemming Bligaard Petersen was simultaneously a member of the foundation board and even in earlier times also a member of the company board. While this structure may be claimed to break the chain of command it has parallels in the Danish and Nordic system of employee representation in which employees of the company formally supervise, hire and fire their own top boss. Employees are also entitled to elect members of the foundation board, and in the case of Rambøll this further increases insider control. As mentioned, the foundation charter would allow election of a limited number of outside board members, but as yet the foundation has decided not to use this option.

However, it is not clear that insider control has been a handicap. In some respects it may have been an advantage. One may speculate whether the strategic disruptions created by large scale acquisitions would have been possible with a more clear-cut chain of command involving stronger checks and balances on company management. Alternatively, outside directors with business experience might also have supported growth by acquisitions.

The foundation has not hired a CEO, but is assisted by a secretary from the company, presently Camilla Behrens, Ramboll's general counsel.

Historically, the foundation’s activity level has been low. Given modest donations of a few million DKK, board meetings were focused on company affairs. However, in recent years the foundation has stepped up its donations and sought to clarify its role as an active owner.

In contrast to the foundation board, **the company board** is composed exclusively of outside directors with no previous connections to Ramboll (except for the employee-elected which are mandated by Danish company law). This was not always so, but has been a policy in recent years in order to secure independent supervision of company management – and to avoid short-circuiting the governance system by intervention from company employees. As may be seen, the employee-elected board members also differ from the employee elected members of the foundation board. While one member (Jørgen Huno Rasmussen) has extensive experience in engineering and one can be regarded as an IT expert, most board members appear to be selected for their general business experience rather than for particular functional competencies.

Ramboll Company Board 2015	
Peter Højland	Chairman of the Board, former CEO of Superfos (a listed conglomerate subsequently closed down), professional board member.
Jeff Gravenhorst	Deputy Chairman and designated chairman of the Board, CEO of ISS (a facility management company), board member of Danish Crown.
Niels de Conic-Smith	Board member, former CEO of Ferrosan A/s (a Pharma company) and form McKinsey & Company partner, Chairman of The Board at Royal Greenland A/S.
Øyvind Isaksen	Board member, former CEO of Q-Free, a Norwegian IT Transport Systems company, currently CEO of poLight (a lens producer).
Jørgen Huno Rasmussen	Board member, former CEO of FLS (an engineering company), professional board member.
Merete Eldrup	Board member, CEO of TV2 (a television company).
Steen Christensen	Employee- elected
Anders Rytter	Employee- elected
Steen Nørbæk Madsen	Employee- elected

Over time, the professional company board has influenced Ramboll’s development in many ways, first and foremost perhaps by advocating mergers and acquisitions as a path to growth which to some extent was a break with a philosophy that emphasized organic growth.

Governance issues

The division of labor between the two boards – foundation and company board – has been much discussed. In principle, the foundation board exercises its influence only by electing shareholder representatives to the company board. However, since the foundation will always be in a position to replace the company board, there is a high likelihood that company board members and company managers will listen and comply with suggestions made by the foundation board. For example, in the company’s early history, dismissed

employees would occasionally complain to the foundation which might then respond by a letter to the managers in question asking for an explanation and encourage her to find a solution.

Historically, while founder Børge Rambøll was alive, he would occasionally let his views be known to senior managers – in accordance with the company philosophy which states that information must be able to flow freely in all directions. Given his status and charisma such advice obviously had a strong impact and created some confusion about the role of the foundation board. In one case, the chairman of the company chose to resign following a particular process. Other examples include hiring/firing decisions as mentioned above and discussions about Rambøll's organization, in which Rambøll employees sought to influence the outcome by appealing to the foundation board thus short-circuiting the chain of command. These were exceptions, however, and over time a division of labor has emerged, in which the foundation's exercises its role as an active owner, but does not intervene in the internal affairs of the company, including hiring or firing and organizational issues.

However, as an active owner the foundation does have a legitimate say in major decisions like M&A and in approving general policies and strategies of the company. This is necessary since the foundation has invested almost all of its funds in the company and since the foundation is designated a role as guardian of the company's values. The foundation states its views to the company in an annual memorandum on objectives which clarifies what the foundation expects of the company. According to the memorandum the foundation board expects to be consulted on major investments (> 100 mill DKK), the appointment of the company CEO and major organizational changes. In practice, the memorandum changes little from year to year. In addition, the chairmanship (chairmen and vice chairmen) of the two boards meet regularly and communicate freely as need arises, while the chairman of the company board regularly briefs the foundation board about developments in the company.

The foundation board takes its role as values guardian seriously, and preserving/developing them is a challenge in an organization that has grown fast by international acquisition. It has established a values committee and expects to be consulted on value questions such as signing on the UN global compact. It picks board members carefully taking value questions into account. However, it appears that foundation has never seen the need to intervene or comment on company behavior in this respect.

Incentives

Historically, Rambøll has explicitly relied on a "holistic" view of human nature, according to which managers or employees are not motivated primarily by monetary rewards, but rather by taking pride in doing socially useful work of high technical standards. To a large extent, the company has relied on the standards and ethics of the engineering profession and the sharing of values that are expressed in "the philosophy" and "the holistic model".

However, after 2000 the company has also seen fit to introduce bonus systems in which a share of managerial pay depends on economic performance. Incentives are not as high-powered as has been known in other companies, but they are not insignificant either. Some 20-30% of a manager's total compensation may come from bonuses, if she performs well.

Moreover, the company has introduced an employee share scheme in which employees currently own 3% of the company. Management co-ownership was originally introduced at the request of the banks financing the Scandiaconsult takeover, but the foundation decided to extend the scheme to all employees which therefore have incentives to care about the company's financial performance. While bonuses provide a short term individual incentive, employee shares provide a long-term incentive at the overall company level.

Moreover, the company has explicitly endorsed the idea of "economic profits" which are calculated net of costs of capital (assumed to be in the order of 10%) as a guideline for dividends and investment calculations. Economic profit, it will be recalled, is the central concept in shareholder value management.

The holistic model has also installed a number of performance indicators that are similar to the balanced scorecard that subsequently became a popular management tool.

In addition, a previously quite informal organization has become more structured with responsible division managers complementing the independence of regional offices and individual employees.

Success and Failure

A natural benchmark company for Ramboll is COWI, a Danish foundation-owned engineering consultancy, which has also grown successfully over several decades and was formerly regarded as the industry leader. However, while COWI was a larger company than Ramboll in 2000, Ramboll leapfrogged and overtook COWI by the Scandiaconsult takeover in 2003 plus a number of subsequent acquisitions. Currently Ramboll has 12000 employees against 6000 in Cowi. Moreover, Ramboll has had better financial performance in recent years. What can explain this success?

The Scandiaconsult takeover in 2003 was a watershed event in many respects. Ramboll doubled in size from roughly 2000 to 4000 employees. This enabled the combined company to achieve economies of scale and participate in larger projects. Moreover, after the merger, Ramboll was no longer primarily a Danish company, but a Nordic company with a real presence in Sweden, Norway and Finland. Scandiaconsult was a profitable listed company, and Ramboll learned a lot from its attitudes to shareholder value creation and its economic management systems which contributed to a higher profit rate in subsequent years. The acquisition was debt-financed which took some risk willingness for both the company and the foundation. At the time critics feared that the debt burden would be risky and difficult to carry, but the merger benefitted from an economic boom in subsequent years as well as from a smooth integration process with little top-down pressure from central management in Copenhagen. Some would no doubt see this as a lucky punch. However, it is difficult to argue that luck lasted for 14 years thereafter. Other explanations would include the Ramboll spirit and the visionary leadership of CEO Flemming Bligaard.

Obviously, Ramboll has not been successful in everything. The first major merger with another foundation-owned engineering consultancy, B. Højlund Rasmussen, avoided capital outlays, since the foundations were merged as well. The operation also made business sense, since combined forces enabled the joint entity to

challenge Cowi's supremacy in large government contracts, for example the Great Belt Bridge. However, the two companies continued mostly with parallel organizations and two CEOs which delayed the potential synergies for several years. However, the lessons learned from this experience may have been a necessary condition for subsequent takeovers to succeed.

Subsequently in the last half of the 1990s, unsuccessful internationalization through acquisitions around Europe had to be divested because it turned out not to be financially viable with a formerly state-owned firm in Slovakia as the most painful example. Some large projects in developing countries ended with large losses and somewhat usually Ramboll had to cut costs by layoffs to cope with the first deficit in the company's history. All this heralded a break with the life time employment policies of previous decades. Unsuccessful business areas in IT and development were separated out and divested albeit in an orderly way. Profitability and growth were increasingly regarded as a necessity for retaining independence rather than an option which a foundation-owned company could afford to do without.

To be sure, growth does not guarantee success. The acquisition of UK Whitbybird came at the worst possible time, just before the financial crisis, and the UK division has subsequently been struggling to become profitable. Nevertheless, by then Ramboll had the financial strength to weather the losses and Ramboll managers maintain that *"we have learned a lot and would not be without it"*.

The foundation's role has first and foremost been to support rather than to block the many international acquisitions. While the foundation structure was regarded as a barrier by the incumbent Scandiaconsult, the foundation as a benevolent owner seems to have been a selling point in negotiations with subsequent acquisition candidates, for example the US engineering company Environ.

Discussion

It is tempting, but incorrect to attribute Ramboll's success to foundation ownership. Many other Danish engineering companies are foundation-owned, and Ramboll is an outlier among them in terms of growth and performance. It is more accurate to say that Ramboll's success has resulted from the way foundation-ownership was exercised – its governance. In some ways – fast acquisition led growth, sell offs and spin offs, layoffs, economic incentives, board separation, delegation of responsibility to a professional board, active ownership – Rambøll has challenged and changed the stereotype of a foundation-owned company by introducing elements of shareholder valued based corporate governance.

However, the company has retained many of its essential features – the foundation is in full control, the philosophy and the Ramboll spirit are very much alive, the foundation is still controlled by current and former employees, and the commitment to engineering consultancy is unwavering. Ramboll – and several other cases - show that it is definitely possible to combine excellent financial results with foundation ownership. Thus, the recipe seems to have been retaining foundation ownership but complementing it with alternative governance mechanisms.

For a business company Ramboll is unique or at least remarkable for its commitment to corporate values and the foundation structure seems ideally suited to make this commitment credible over the long term. Foundation ownership entails greater stability and less dependence on the whims of individual owners than

the partnership commonly adopted by engineering companies. However, going forward, preserving – and developing - the company's unique values could be a challenge given its rapidly growing international workforce.

Altogether, foundation-ownership seems to have mattered in the following areas

- solving the ownership succession problem
- ensuring reinvestment of earnings in the company
- guarding company values
- a long term perspective on business strategy
- retaining employees
- providing a unique selling point to acquisition candidates

Going forward, it is not clear that Rambøll needs to continue its fast growth, but an abrupt end of history for the company's impressive growth may not be realistic either. However, as in the past, future growth may potentially be financed by retained earnings, and there is still scope for attracting capital from outside investors without jeopardizing the foundation model.

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