# Losing the Battle for Dow Jones


By Morten Bennedsen , INSEAD Professor of Economics and Political Science

**Enduring family businesses cannot rely on history; each new generation must remain active and committed if the firm is to stay relevant and strong.**

When the Murdoch phone-hacking saga hit the headlines in July 2009, senior members of the Bancroft family were aghast at the thought that Dow Jones, a company which had been a source of wealth and pride to their family throughout most of the twentieth century, was now part of an organisation being exposed for using methods which were both dubious and morally repugnant.

“If I had known then what I know now, I would have pushed harder against the Murdoch bid,” Christopher Bancroft, reportedly **told** his cousins Leslie Hill and Elizabeth Steele.

Bancroft was trustee for 19 percent of the Bancroft family’s voting shares in Dow Jones when the company was taken over by Rupert Murdoch’s News Corp in 2007. At the time all three relatives had been directors on the company’s board and were now living to regret how easily they had lost it.

"We were shown the exit by people whom we should never have trusted," Bancroft said. But, as Steele pointed out, the decision was not so clear cut. Indeed, as noted in my recent **case study** with Brian Henry and Yupana Wiwattanakantang, by the time the company was sold, the family mantra of "Never sell Grandpa's paper" had become little more than a token.

### Loyalty and an offer too good to refuse

The younger generation of Bancrofts had few ties to the Dow Jones Company or its flagship newspaper, *The Wall Street Journal*, and Murdoch's offer to buy the property for US$5 billion, or $60 per share – a 67 percent premium on its price at the time – was tempting. At that price the Bancroft family stake was valued at US$1.2 billion. If they turned it down, the prospects for an independent Dow Jones were bleak, the company's CEO Robert Zannino had explained to family members after returning from a secret breakfast meeting with Murdoch.

Later Dow Jones board members would question Zannino's loyalty. "He was talking about what a disaster it would be if we didn't take this offer," one board member noted. "We hired this guy because he said he could turn the company around, and now he says it's hopeless."

### A long history

The Dow Jones Company had been the Bancroft family's pride and joy since 1928 when Clarence Walker Barron left the property to his son-in-law Hugh Bancroft. Hugh died in 1933, and henceforth family members played a much more passive role in its management. A listing on the New York Stock Exchange in 1963 placed a minority of shares in the hands of the public, but the family maintained majority ownership with family shares transferred into trusts. Hugh had three offspring and as the branches of the family grew, the shareholdings were further divided, leaving fewer shares per member and divisions which created disparity and fostered resentment within the family.

To shield the company from hostile takeovers, a dual share structure was introduced in 1984, with Class B shares having 10 times the voting power of Class A shares, allowing family members to raise cash by selling shares while retaining 80 percent control of Class B stock.

### Blinkered to change

By 2003, as the Bancrofts progressed to the fifth generation, there were about three dozen adult descendants and family relationships grew tenuous. Willing to take the dividends but with little thought as to how the company was running, family members lived extravagant lifestyles, travelling often and settling down in locations as far flung as Hawaii and Rome.

It was a precarious situation and when the internet began to eat into print media's advertising income, Dow Jones, which relied on *The Wall Street Journal* for 70 percent of its profits, struggled to survive. CEO Peter Kann and his predecessors were newspapermen who failed to see the potential of online journalism. They had refused to diversify; by the time the industry's transformation became too obvious to ignore, the company had lost crucial first-mover advantage. Meanwhile Bloomberg News and Thompson had invested in technology that allowed traders to use electronic financial information and even Reuters had invested more than US$1 billion in technology in the early 1990s trying to keep up.

Lulled into passivity with dividends which in some years exceeded the company's profits, the Bancroft family's lack of oversight allowed Kann to continue making mistakes. Roy Hammer, the family trusts' principal trustee, blindly supported the CEO. Hammer's response to continued poor performance was to sell off Dow Jones stock as the share price fell. In 2002, when Hammer received a serious takeover proposal from Arthur Sulzberger, the publisher of the *New York Times*, he informed Kann but did not bother to consult with the Bancroft family.

Finally in 2005, an investment advisor sent the family a warning letter, suggesting a group of self-appointed family members form an advisory board to oversee management. A family gathering agreed that four family members on the board, including Leslie Hill, would push Kann for results. They eventually forced his resignation, replacing him with Dow Jones' then COO, Zannino – the first non-journalist to run the company since 1933.

Less than 18 months later Murdoch invited Zannino to breakfast and presented him with his bombshell proposal.

**Family divided**

It was only when Zannino laid out the details of Murdoch's generous takeover offer, did the Bancroft family realise how undervalued their company had become.

From the outset, family elders opposed the sale, as did newsroom employees. William Cox Jr, who spent his entire career at Dow Jones, **insisted** he wouldn't sell if the offer was more than $100 a share. "If you give it over to Rupert Murdoch it will be ruined…I want to see the company stay in the family," he said.

The older generations, despite having treated the shareholding as a cash cow, had a strong emotional connection to the company. However, for many younger Bancrofts, less wealthy and less steeped in Dow Jones as a family legacy, the offer was an opportunity. As one member **told** a *WSJ* journalist at the time, "It's a dream come true for a number of people. But it's a deal with the devil."

Some family members questioned whether **Dow Jones had enough scale to survive** as a standalone company in the newly transformed news and financial-information industry; and, with the announcement of the US$17.2 billion Thomson Reuters merger making competition even tougher, the idea of selling the company to Murdoch gained momentum.

In the end, Murdoch's deep pockets (which covered the advisory expenses for all the family trusts) won. The Bancrofts knew if they said no to the deal they would be punished by outside shareholders who would sell off their stock in droves. But the decision was not easy and family tensions ran high, as disagreements expressed privately came into public view. Leslie Hill, who constantly opposed the bid, resigned from the board in protest. Her son, Crawford Hill, told the family in an **email** "we are…now paying the price for our passivity over the past 25 years."

His cousin Elisabeth Goth Chelberg, who had tried to get the family more involved in management in 1997, **insisted**: "The family ownership/trust structure, the dividend policy and our lack of requiring management's accountability, have put us in the position we're now in with Dow Jones. There is no going back."

There was, she added, no vision to support a no vote.

### The contribution of each generation

There are two lessons to be learned from the Bancroft story, the first being the importance of family assets. When a family firm loses its legacy, reputation, network and values, it becomes much more vulnerable to losing control. And the second: family businesses cannot rely on history. To remain successful, each generation has to define what they can contribute to the company, and to make a conscientious effort towards maintaining family unity. Keeping the family together is vital to ensuring the longevity and sustainability of a family holding.

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