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Jørgen Mads Clausen

Danfoss

Denmark has its fair share of famous family businesses, but few stand out as prominently as the engineering group Danfoss. Founded in 1933, Danfoss today is one of the country's most successful businesses, with its products sold across the globe. Chaired by second-generation family member Jørgen Mads Clausen, Danfoss is owned by the Clausen family through a foundation structure, which is also the focus of the family's impressive philanthropic efforts. The ownership structure was designed to put the business first, and it continues to work extremely well more than 45 years since it was put in place.





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Jørgen Mads Clausen,
Chairman of the Board, Danfoss

Many great businesses start from a spare bedroom in an entrepreneur's house. But few stay in that room for more than a few years after the business gets going. Not so Danfoss, the Danish engineering company. From 1933, when Mads Clausen founded the business, until 1962, when Danfoss was very well established and employing 5,000 people, the attic in Mads's parents' farm was the center of the company's headquarters. Those 29 years in the attic say a lot about Danfoss's very strong links to the community where it all started. Even today, the farmhouse and its attic play a central role for Danfoss – as the company's museum.

Danfoss is now one of Denmark's biggest and most successful businesses. In 2016, the engineering giant had sales worth €5.3 billion. Based in the town of Nordborg on the island of Als in southern Denmark, and not too far away from the farmhouse where it all began, Danfoss employs about 24,000 people around the globe. The Danish company is perhaps most famous for its radiator heating valves, which adorn most of the world's central heating systems. "We have made more than 500 million heating valves," says Jørgen Mads Clausen, Chairman of

Danfoss and the eldest son of Mads. "They are on practically every radiator in the world." Danfoss makes valves and components for many other products, including refrigerators and air conditioning units. It is also prominent in solar and wind power, and provides heating and cooling systems on a mass scale for urban areas across the world. In fact, it is at the top of the game when it comes to energy-efficient and climate-friendly technologies.

Danfoss is also very much a family business. Set up by Mads Clausen, the business passed to his wife Bitten and their five children when he died in 1966. Six years later, Bitten set up the Bitten and Mads Clausen Foundation, which effectively controls the business through holding 85% of the voting rights in the company. Another 14% of voting shares are held separately by family members, which means that the family controls 99% of the voting shares in the business. Mads's and Bitten's eldest son Jørgen Mads Clausen took over the management of Danfoss in 1996, and he remains Chairman today. There are nine members of the third generation, several of whom now work for Danfoss.



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Success from year one

The story of Danfoss's rise to success is one of Denmark's greatest corporate tales. Behind it all stands the colossal entrepreneurial figure of Mads Clausen. Born into a family of farmers, Mads had little time for agriculture. "He found it boring," says his son Jørgen. Instead, he trained as a mechanical engineer and, in 1932, got a job manufacturing refrigerators. "Refrigerators back then were like the mobile phones of today," says Jørgen. "Everyone wanted one, and they were cutting-edge technology."

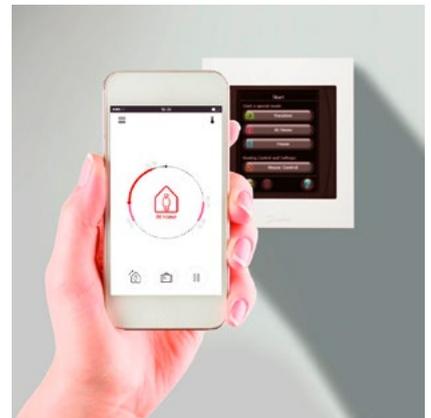
Mads soon started designing his own refrigerator valves, his invention arising partly from necessity, for it was back in the early 1930s when the Great Depression was at its fiercest. Jørgen says that every country wanted to export and no one wanted to import goods, so the reliance on making products locally grew apace. Mads was not just good at making refrigerator valves, he also had a niggling entrepreneurial urge to do it all himself. So he quit working for someone else and set up the business in his parent's farmhouse. Success was pretty much instantaneous. In his first year of operations, Mads sold 466 refrigerator valves. The following year, sales quadrupled. The business flourished and, soon, Mads moved into other areas, such as the now world-famous Danfoss heating valves.

After World War II, Danfoss continued to expand and, in 1952 and 1953, the number of employees tripled to 2,000. "At the time, there were no organizational charts. So if you asked a member of the staff who was their boss, all of them would say my father." That very flat hierarchical structure at Danfoss remains a feature of the business today.

After Mads's death, Bitten took over and appointed Danfoss's non-family Finance Director as its new President. Jørgen, who trained as an electronics engineer, came into the business in 1981 as Research Director and gained a seat on the executive committee 10 years later. In 1996, Jørgen became CEO of Danfoss and expanded the company's international operations, particularly in Eastern Europe and China. "When I became CEO,



Danfoss is perhaps most famous for its radiator heating valves, which adorn most of the world's central heating systems.



Danfoss Link™ Central Controller is the centrally placed main unit for controlling the climate throughout the house.



The pioneering product: the expansion valve was the very first Danfoss product, which founder Mads Clausen developed in the early 1930s. Today, the fifth generation of the valve is sold around the globe.



Jørgen Mads Clausen takes time out with his wife Anette.



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The headquarters of Danfoss Drives is in Grasten, Denmark.



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Jørgen Mads Clausen

we had zero employees in China. Today, we have 4,000,” says Jørgen. Another of Jørgen’s big achievements is delivering on his insistence that Danfoss should be number one, or at least number two, in all its product ranges. “Today, we have pretty much achieved that goal in most of our relevant markets. To be number one is not about prestige or ego. It is about being number one to get the cheapest component prices from our suppliers.”

In 2008, at the age of just 60, Jørgen stepped down as CEO and appointed non-family member Niels Christiansen to replace him. Why so soon? “I thought it was time to step down,” says Jørgen. “I had this fantastic man (Christiansen) here and, if I did not offer him the top job, he might have left.” Since the appointment of a non-family CEO shortly after Mads’s death, the family owners have always been pretty happy with outsiders running the business. Christiansen represents the fourth non-family CEO. “If we are to survive as a family business, we have to be as professional as a listed business,” says Jørgen. “And, of course, there are sometimes advantages in being a family business, so we should use these as well.”

The man on the moon

Danfoss’s success has been determined to a large extent by the innovation of two generations of the Clausen family and its great non-family professionals. But how does a multibillion-euro business, which is now more than 80 years old, continue to be innovative? Jørgen says that innovation at Danfoss is a bit chicken-and-egg in its interpretation – first you need the technology, then you get the innovation. “There is a difference between innovation and technology. In my opinion, it is about having the technology to innovate.”

He also talks about the idea of promoting the concept of “the man on the moon” within the entrepreneurial culture of the company. “This is the idea that we should have some product ideas that are not just about being a bit better than yesterday’s products, but should be more like putting a man on the moon.” Innovation led to the first moon landing, but how they got

there was also due to meticulous planning. “Innovation should be risky, but not too risky,” he adds. “It is alright to come with wild ideas, but they should be feasible.” This encourages good innovation, which can be translated into products and services customers want, says Jørgen.

Clearly, innovation is at the heart of Danfoss’s engineering ethos. Equally, innovation as a family business has been a strong feature of the company, particularly through its foundation ownership structure. This has created a business very much at ease with itself as it progresses toward the time when the third generation of the Clausen family takes more control. No doubt, Mads and Bitten Clausen would be proud of all those achievements if they were to see the business today.

Jørgen Mads Clausen

Chairman of the Board

Company name: **Danfoss**

Generations: **Second and third**

Founded: **1933 in Nordborg, Denmark**

Industries: **Infrastructure, food supply, energy and heating**

Employees (2016): **25,300**

Revenue (2016): **€5.3b**