

Interview

Managing growth and profitability in the chemical industry

Interview with Hariolf Kottmann, Chief Executive Officer (CEO) of Clariant*

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Since 2008 Hariolf Kottmann, holding a PhD in organic chemistry, is Chief Executive Officer of the Swiss specialty chemical company Clariant.

The corporation is headquartered in Basel and is operating in 53 countries worldwide. In 2015, Clariant occupied 17,213 employees of which around 1,100 (6.4%) are working in R&D. By focusing on the four business areas care chemicals, catalysis, natural resources, and plastics & coatings, the company generated sales of CHF 5,807 mn.

The JoBC team interviewed Hariolf Kottmann about his perceptions regarding challenges for management as well as current developments arising from the chemical industry.

JoBC: *Mr. Kottmann, what do you think makes management in the chemical industry specific?*

Kottmann: In the first instances the chemical industry is based on the same management principles like other industries. But to a certain extent our industry has to consider some characteristics – like the high R&D investments, the dependence on fossil resources, the energy intensity as well as the fact that the chemical companies are highly influencing their ecological and social environment. These factors may not have the same importance for companies of other industries. Furthermore, the cycles of new product developments are long-term oriented. This means that the establishment of new product capacity as well as supply chains takes more time compared to other industries. At the same time our industry faces volatile markets – what has been highly specialized chemistry yesterday, is nowadays mass production. These characteristics of the chemical industry indeed require optimal strategies developed by management.

JoBC: *Considering Clariant's 'period of extensive restructuring' over the past years, how decisive is the organizational structure for successful management?*

Kottmann: The organizational structure is the fundamental of every company. If the structure does not support the company in doing business, there is something wrong. At Clariant we recognized the need to change and took action. The change of the organizational structure was driven on management level. Thereof, we had the chance to shape the organization in a manner, which ensures optimal communication throughout the whole organization. It was a long process to change the patterns of our organization, nevertheless it paid off at the end. Clariant reinvented itself by overcoming the established structures and is today one of the most successful companies shaping the industry of chemical specialties.

JoBC: *Continuing with the interdependence of management and organizational structure: How is this affecting the corporate's strategy and business activities, regarding for example the production or the R&D?*

Kottmann: As a company in the chemical specialty industry, you must be able to react with increasing flexibility and speed to global changes. The growth market of today can be the crisis market of tomorrow – just think of what we're experiencing in Brazil. What counts is a lean, flexible organization enabling our management to make the right decisions.

On top of that, you must succeed in responding equally to the specific wishes and needs of both your customers and other stakeholders. Depending on the market, customers of the chemical industry expect our products to give both them and their end customers a competitive edge. As a rule, we as a specialist chemical company deliver products and solutions that are processed further by other chemical companies. It is therefore vitally important for us to have locally based corporate activities such as research and production in addition to marketing and sales. Only then can we analyze the market accurately and register trends and needs that

may exist only there.

This is especially important from a management perspective. For example, to meet this challenge and deliver exactly the right solutions our customers want, we at Clariant have established a very clearly structured "idea-to-market" process. This includes customers, local contacts and our R&D experts right from the start.

JoBC: Could you please explain the peculiarities for R&D & innovation in more detail?

Kottmann: Our innovation is based on our analysis of megatrends, market developments and consumer needs. Together with our local customers, we develop ideas from the results. We speak to them and find out what problems they want to solve. Their requirements form the basis for the development of our innovations. We then develop a concept based on scientific standards that also comprises the delivery chain, the product registration and ensures the raw material supply.

And to make that possible everywhere, we have built up a worldwide R&D network. We have about 40 local "technical application centers" near our customers which are managed by the respective business units. This network is coordinated in Frankfurt-Höchst, where the "Clariant Innovation Centre" (CIC) acts as a sort of hub, a global competence center for chemical research, development and process technology.

JoBC: What are you focusing on in the local centers?

Kottmann: In Shanghai for example, we are building a center to concentrate on new catalysts that are specifically suitable for process technologies applied in China. In Brazil, a laboratory is currently being built to move ahead with applications for the cosmetic industry. It is specifically related to hair shampoo ingredients. Hair care is highly prized in Brazil, where the population structure is responsible for the greatest variety of hair types in the world. Consequently, it is of great importance to be present in the respective markets, without compromising the potential synergies.

JoBC: Speaking of potential synergies, are interdisciplinary and cross-industry innovations valued and already part of Clariant's daily business?

Kottmann: Absolutely, although the potential is more important than the volume. One example is Open Innovation. We have gained initial experience here, for instance in the area of functional packaging. We developed our Open Innovation Ini-

tiative jointly with the University of St. Gallen and Stanford University. The goal is the active and strategic integration of external knowledge into the company. We obtain this knowledge not only by using the generally available internet providers and our Open Innovation platform. We also actively invite external partners, start-ups or universities to contribute ideas and solutions to our Open Innovation focus fields. This results in the development of project-related, long-term partnerships. In return, we offer these partners access to financing opportunities, marketing, infrastructure and practical know-how. It's therefore a win-win situation for all concerned. I see great potential for this in the future.

JoBC: There are further capabilities besides interdisciplinarity which are highly demanded nowadays. Which challenges do you see especially in the area of employees' behavior as well as recruiting and education?

Kottmann: In order to develop service and product offers beyond established value-adding chains, a company needs the corresponding know-how: in biotechnology, material sciences, process technology, information technology or nanotechnology. The classic professions – chemists, chemical engineers, but also commercial professions – continue to play an important role. However, the great challenge is to find appropriate experts on the labor market, because we are competing here for the best talents.

This is the reason why we practice employer branding. We must be able to communicate why our company offers better opportunities to people who want to develop themselves and become part of our innovative culture. Here again, what counts is not just expert knowledge, but rather openness for new ways of thinking. I am convinced that only an open corporate culture enables us to use the opportunities in areas of innovation.

A change of mind-sets that reflects the corporate culture is extremely important. There are still too many chemical bureaucrats - in our company too. To meet the challenges of megatrends and corporate change, we need a change of attitude and behavior, a cultural transformation from the center of the organization. We must all ask ourselves every day: What does my customer want? Where is the added value for him? What does that mean for me and my company? What contribution can I make? Along with Business Excellence therefore, the area of People Excellence has therefore a high priority for us.

JoBC: The idea of sustainability is still challenging the chemical industry. Apart from developing the

right products, how could sustainability be supported by management?

Kottmann: In our view, sustainability is an important motor of innovations generating additional growth. I am convinced that companies will in five years from now find it difficult to run their business successfully and remain socially accepted without taking account of sustainability. We have for instance established the “Portfolio Value Programme” initiative. This involves investigating our entire product range according to stringent sustainability criteria. If a product meets this test and shows an excellent sustainability profile, we identify it with our own EcoTain® label. Products in the range not meeting these demands are substituted.

We have furthermore introduced a sustainability index as an integral part of our Stage Gate process. This enables us to examine research projects at an early stage for compliance with sustainability criteria – a further measure to secure our long-term success.

Switching to renewable raw materials for selected applications is another of our objectives. We therefore rely increasingly on innovative products that can be derived from renewable raw materials in these areas.

One example is the production of surfactants from saccharides (sugars). We can use an intermediate stage in this process from bio-feedstock to end-product to develop, for instance, an innovative product that plays an important role in manufacturing paints and lacquers. This product is ideal for manufacturing odorless paints, which is particularly relevant for internal spaces. Because it is produced from renewable raw materials and does not harm aquatic organisms, it also has an outstanding environmental profile. This allows our industrial customers to use corresponding ecolabels for their end products, for example a lacquer you can buy in a DIY shop. This is becoming increasingly essential in the market.

JoBC: Turning to another current trend, do you have an idea of how organizations will be affected by the ‘Smart Industry’ movement, also known as ‘Industry 4.0’?

Kottmann: Digital technologies will influence the specialist chemical industry. They may not be as visible or as pioneering for us as for other sectors like the automotive or machine-building industries. But they will definitely affect us, starting with the growing transparency of, for instance, the flow of information or commodities along the value-adding chain. And digitalization will succeed in turning a customer’s requirements into entirely new busi-

ness opportunities reaching far beyond the actual products.

JoBC: Which areas will be influenced by these developments?

Kottmann: I can give you a current example from our Oil & Mining business unit: in oil production, plant operators and their suppliers are challenged by the wide distribution of the production facilities. The shale oil boom in the USA has created thousands of them. Visiting these sites and locally controlling the processes naturally demands much cost and effort expenditure. Oil production requires small volumes of special chemicals. Partners have helped us to develop software (VeriTrax analytics) that collects and automatically integrates key parameters and analysis data from the production plants and the corresponding laboratories, to which our engineers have direct access. They process the data and supply them to the laptops or smartphones of our customers. The key advantage is the combination of analysis and delivery. Veritrx Delivery identifies the production site via GPS data, computes the required amount of special chemicals and loads the order straight into the appropriate SAP system. This reduces data input and processing costs while increasing efficiency and quality at the customer’s end. And the field personnel does not need to climb into their pickups so often.

In this case, digitalization helps us to enter new terrain and differentiate ourselves from the competition. The example shows why we must constantly query our business approaches and consistently align ourselves towards customers and markets so that we do not miss such opportunities. It also has an influence on our employees. The issue here is a different way of working and the right attitude, which is why we are calling for a “change in mind-set”. Our basic and further training activities are also affected, and so is the way we approach potential employees.

JoBC: Finally, how do you evaluate the current pressure to change in the chemical industry?

Kottmann: To my mind, the constant change in our surroundings and the resulting consequences for specialist chemical companies are nothing new. Our global markets were and remain very dynamic and subject to continuous change. A company that seeks to be sustainably successful must therefore also change and develop permanently. Every company must keep asking itself what right it has to exist. We will not have earned our “license to operate” until we are able to explain to our stakeholders why our company should exist at all.