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Spotlight

Lessons from "Goodbye Hoechst"

Hermann Simon*

* Simon-Kucher & Partners, Willy-Brandt-Allee 13, 53113 Bonn, Germany, hermann.simon@simon-kucher.com

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The disappearance of the German Hoechst Corporation, is even 30 years after the start of the restructuring still a topic of high interest to managers in the chemical and pharmaceutical industries. Over the years, a variety of publications have described, analyzed and evaluated the restructuring process that has finally lead to the disappearance of the company.

In 2018, Karl-Heinz Seifert has published a book in German language with the title “Goodbye Hoechst”. It is no ordinary book about the decline of a former pearl of the German economy. The author is one of the "experts, players and charlatans" from the subtitle. From 1988 to 1997 he was a board member of Hoechst. Seifert provides a meticulous record of the decline, backed up by numerous internal documents. For me, the book read like a detective story and I felt personally touched. My emotional involvement stems from the fact that I accompanied Hoechst for more than two decades as a consultant, top management trainer and speaker at their management conferences. I know many of the managers mentioned in the book personally.

Founded under the name of Meister, Lucius & Co. in Frankfurt Höchst in 1963, the company grew over the years into one of the largest chemical and pharmaceutical companies in the world. Hoechst occupied top positions in the world market until the 1990s. In 1990, Hoechst achieved a revenue of 45 billion DM, similar to BASF's 47 billion DM and Bayer's 42 billion DM.

In 1994, Jürgen Dormann became CEO, and initiated a major reorganization of the highly complex company. The portfolio was diversified with activities in chemicals (accounting for 27 percent of sales), health (24 percent of sales), fibers (15 percent), polymers (14%), engineering and technology (12%), and agriculture (8%). The company was very international with three quarters of the sales being generated abroad, and research oriented with R&D centers in 17 countries and dedicating a higher percentage of its budget to R&D than competitors. At the same time, profit was below the industry standard.

Seifert names Jürgen Dormann as the main culprit for the demise of Hoechst. Dormann initially headed the influential central management department, a kind of internal strategic think tank. From there he was appointed to the board in 1984, without any operational or international experience. From 1994 to 2003 he served as Chief Executive Office of Hoechst and Aventis, respectively, into which the rest of Hoechst merged. I have to admit that, as a member of the jury, I was co-responsible for Dormann's election to "Manager of the Year 1995" and in 1996, in a speech to Hoechst executives, I praised his America strategy.

I do not deny Seifert's analysis as such. However, I see Seifert's role more critically than he does. While reading the book I repeatedly asked myself why Seifert did not intervene more effectively although he recognized mistakes early on.

Seifert sees Dormann's shareholder value orientation as the root of the disaster. I do not share this view. What Dormann executed was the opposite of shareholder value. Seifert also wrangles with valuations and represses the fact that the stock market value ultimately counts in mergers and acquisitions. In capitalism, value is what the market pays, not what a chemist or an engineer thinks it is.

The lessons which can be learned from the Hoechst case remain highly relevant until today – not only, but especially for the chemical industry. What are these lessons?

1 Avoid over-complexity:

I see the root of Hoechst's demise – different from Seifert - much earlier in an unmanageable over-complexity. This complexity already originate in the split up IG Farben, the German "supercorporation" after the Second World War. Hoechst received a far more diversified portfolio and many more locations than BASF and Bayer. This complexity was further increased through acquisitions and joint ventures under Hoechst's first CEO, the legendary Karl Winnacker, and his successor Rolf Sammet. When I first got to closely know Hoechst in the mid-1970s, the company comprised some 400 companies with a myriad of sites. There may have been some justification for the product portfolio from a purely chemical perspective. The portfolio ranged from pharmaceuticals, where Hoechst was the global number one until the mid '80s, to fibers, paints, cosmetics, photocopiers, agrochemicals, production plants and many other activities. While there may have been chemical commonalities, the markets served were completely disjointed, a problem that some former Hoechst-managers still do not understand until today.

In addition, in some of the subsidiaries Hoechst did not have a real grip. The most prominent example was the French subsidiary Roussel-Uclaf. In spite of owning 76 percent Hoechst could never implement a consistent strategy. The same was more or less true for some 50:50 joint ventures. Hoechst was a deterrent example of over-complexity. The general lesson: Companies should beware of excessive diversification. Managers should not give in to the illusion of being able to control everything. Hoechst paid too little attention to this doctrine. Siemens and Bayer proved to be wiser in this respect. They spun off many businesses when it was still early enough.

2 Highest requirements for top positions:

Seifert provides countless proofs of weaknesses that have crept into management over the years - primarily at the board level, and less so in the management of the business divisions. According to former Hoechst-managers, this misguided development can be traced back to Winnacker, who preferred yesman rather than strong people under himself. One can only be surprised at some of the behaviors. After a major chemical accident at the Griesheim plant in 1993, CEO Wolfgang Hilger only returned from his winter vacation after ten days. I don't have any understanding for such behavior. I expect total commitment from a CEO in major emergency situations.

3 Improve international competencies:

In intense negotations Hoechst's managers were no match for the Americans, the French and later also the Swiss. This is not a Hoechst-specific problem. In the Mannesmann-Vodafone merger 20 years ago the relative powers revealed a similar pattern. Where does this weakness of the Germans come from? Does the Nazi trauma still show its effects? Is the lack of command of the English language a problem? French managers mercilessly play off their political relations. Anyone who studied at Harvard, Oxford or the ENA has a network that German managers generally lack.

4 Take stock market valuations seriously:

The low valuation of German companies is still a sword of Damocles today. This has not changed fundamentally since Hoechst's times. In 2018 Bayer paid 66 billion US-dollars for Monsanto, in February 2019 the market capitalization of Bayer (including Monsanto!) is 63 billion US-dollars (56 billion Euros). How can that be? However, an easy solution for this problem is not in sight. But whether the Germans like it or not, ultimately the market value counts.

5 The board must control, not nod off:

The role of the supervisory board and the German worker-codetermination was detrimental to Hoechst. How can it be that the supervisory board didn't stop Dormann? Erhard Bouillon, whom I personally hold in great esteem, became Chairman of the Supervisory Board after many years as Chief Human Resources Officer. He was not up to the tasks. Even the worker representatives on the supervisory board endorsed Dormann's actions, certainly not a glorious sign of German codetermination.

All these lessons remain highly relevant. We should be grateful to Seifert for presenting this enormous case study on Hoechst's decline. It at least has a positive side. Companies and managers, not only in Germany, can and should learn from the mistakes made.