

Interview

Four Guidelines For Profitable Growth

An Interview with Jürgen Hambrecht, Chairman of the Board
of Executive Directors, BASF AG, Ludwigshafen am Rhein, Germany



Jürgen Hambrecht

EDITORS' NOTE After receiving a doctorate in organic chemistry, Jürgen Hambrecht joined BASF in 1976 as a Chemist in the company's polymers laboratory. In 1985, he became Head of Research and Purchasing at Lacke und Farben AG (now BASF Coatings AG), and five years later, was appointed President of the Engineering Plastics division. In 1995, he moved to Hong Kong as President of BASF's East Asia division. Hambrecht was appointed to the board of executive directors in 1997 and assumed his current position in 2003. He additionally serves on the supervisory board of the German construction company Bilfinger Berger AG, is Vice President of both the German Chemical Industry Association and the Federation of German Industries, and is Chairman of the Asia-Pacific Committee of German Business.

COMPANY BRIEF Based in Ludwigshafen am Rhein, Germany, BASF AG (www.basf.com) is the world's largest chemical company, with about 150 major production sites and more than 95,000 employees around the globe. It operates through five principal business segments: oil and gas exploration and production (through subsidiary Wintershall AG), plastics (including polyurethanes and engineering plastics), performance products (superabsorbents, surfactants and coatings), chemicals (petrochemicals, catalysts, and intermediates), agricultural products (fungicides, herbicides, and insecticides) and fine chemicals. With customers in over 170 countries

in Europe, Asia, and the Americas, the company (NYSE: BF) reported sales of \$50.6 billion and an EBIT before special items of \$6.5 billion in 2005.

BASF has always been known for having an excellent management team, which is quite difficult when you're recruiting across disparate cultures. How do you do it?

Let me start by saying that BASF's excellence is based on the four strategic guidelines that we have set for ourselves: earning a premium on our cost of capital, helping our customers to be more successful, forming the best team in the industry, and ensuring sustainable development. This is our formula for profitable growth.

Forming the best team in industry is something that is very close to my heart. I think the entire BASF team is 100 percent convinced that only with the best team in the industry will we remain the leading chemical company. Internally, we have a long-lasting culture of recruiting, training, and keeping people within the company. As a result we have been able to create an excellent team, which I am extremely proud to be a part of. Nevertheless, if we want to continue to have the best team, we have to keep improving, and we have various different tools with which to achieve that.

Last year, I introduced our so-called Leadership Compass, which enables everyone to know our most important values: clarity and a sense of reality; performance and speed; enthusiasm and inspiration; strategic and operational leadership. At the end of the day, it comes back to my three personal guiding principles. The first is respect for everybody. The second is empathy, so that you are able to read between the lines. And the third is authenticity. I don't want to have actors; I want to have action. I want to have straightforward people, who will tell it to you straight and who are performance oriented. It is exactly these people, who can provide their teams with a lot of inspiration and motivation.

Is this hard to do globally, given all the cultural differences?

There are certainly cultural differences between the regions. In Europe and North America, the emphasis is on the individual, whereas in Asia, people still tend to follow a clear hierarchy. That said, however, when it comes down to the basic principles of our Leadership Compass, I think there are no major cultural differences. We talk about this constantly within the company. The most important thing is for each leader on the

leadership team to live the Leadership Compass; everyone has to stand for those principles and set the example.

For most companies, success depends on keeping customers. Everyone wants to serve their customers, but how do you do it better than other people?

I have already talked about our four strategic guidelines. Well, our second strategic guideline is to help our customers be more successful. So what I'm looking for, and what the entire team is looking for, is understanding our customers' problems, and even understanding the problems of our customers' customers. That way, we can develop solutions and services that are better than what is already on offer, thus adding real value. By going along this track we can help our customers be more successful, we can build better and stronger partnerships and grow faster and more profitably.

You seem less autocratic and more team oriented than many corporate leaders. Does this come naturally to you?

It may have something to do with our corporate culture here in Germany. We have a two-tier board system, which I think is very positive. The CEO is never the Chairman, but is rather the speaker for the board. I have no additional rights beyond my colleagues on the board, and that is why we have more of a team approach than in some other corporate systems. Nevertheless, one clearly has to keep listening, questioning, and thinking one step ahead. When decisions have to be made, I prefer to make them jointly, so that everyone understands those decisions. Quite clearly, it's not in the culture of our company to make autocratic decisions, and never has been.

BASF is the biggest chemical company in the world. What have you done to help improve market penetration, as far as territory is concerned?

This relates to our strategic guideline about helping our customers be more successful. In this area, our activities can be highlighted by three major points. The first is that we have to be where the customers are – we have to enter growth markets as early as possible. This is why we entered China and India early on, to help our customers be more successful in those regions.

The second major point is that we are getting closer to customers through our portfolio optimization. This is clearly evident in our recent acquisitions of Engelhard, Degussa Construction Chemicals and Johnson Polymer. In some busi-

nesses, contact with customers has become less personal and more automatic, because it often takes place through e-commerce. This can be an opportunity, if you run your business accordingly, and we do this.

And the third major point is innovation. We try very hard to offer the best solutions to our customers, and often this process is innovation driven, to the extent that we are exploring future growth areas. We have five growth clusters: energy management, raw material change, nanotechnology, plant biotechnology, and white biotechnology.

You have expanded considerably in China, which is potentially the biggest market in the world. Are you positive about the future of China and your business there?

Yes, I am very positive. We are happy with our activities in China as they give us the opportunity to participate in this high-growth market. Of course, there are challenges in China as in every market. For example, we have some issues with intellectual property and trademarks in China. But the government has recognized these challenges and is addressing them. Nevertheless, it will take a little bit of time for China to really bring this issue to a level that's acceptable to the rest of the world.

Talking more generally about the overall political situation, China is a huge country with different ethnic groups and differences between rural and urban life. Certainly, there are frictions, but the government is addressing these, and it is clearly aiming to achieve social harmony. So, for the next five or six years, which is as far as I can look, I don't think we'll see any major obstacles, imbalances, or disruptions to our business in China.

How is your relationship with the Chancellor of Germany, Angela Merkel? To what extent can you help her?

I think the CEO of a company like BASF with headquarters in Germany needs a regular dialogue with the top politicians. I had discussions with [the former Chancellor] Gerhard Schroeder and I have talks with Angela Merkel. Chancellor Merkel is very open to the views and needs of the business community. What we need in Germany is change, and she knows this.

What are you planning to do for the future of the company?

The mission we have – and this is something the entire team agrees with – is to remain The Chemical Company through profitable growth. In order to achieve this, we need to earn a premium on our cost of capital, our first strategic guideline. In the past, the chemical industry did not have a very good track record in terms of earning a premium on the cost of capital. We have achieved this in the past two years, and we are very proud of that.

Of course, we will continue to constantly optimize our portfolio. This is done through acquisitions and divestitures, but also by constantly improving our operational efficiency worldwide.

Is the share price where it should be?

I would like to see it higher. I think that European shares, and especially German shares, are being discounted in the market.

Do the analysts really understand the vision you have and how you plan to grow?

It is our job to explain the strengths of BASF. And as we are quite a complex company, this is not always easy to do. But I believe that there is

an understanding of the unique position of BASF as The Chemical Company. And there is a growing understanding that we are not a raw materials business, but a high technology company that offers chemistry as the solutions to many of the questions of tomorrow.

You have a deep feeling for cars and the paint that goes onto them. As Head of Research, earlier in your career, you helped make a breakthrough in developing water-based paints in order to reduce emissions. Do you still have a sharp eye on all of the products you helped to develop?

Sure. But this baby will always have a special place in my heart. The water-based electrocoat and base coat are a big success. But one has to be realistic: there will be other technologies coming along in the future, perhaps without any emissions whatsoever. And cars will also be built differently in the future.

If we take that a little further, what is the company doing to help the world?

That's a very good question. BASF is focusing very much on sustainability, and this is our fourth strategic guideline. At the end of the day, sustainability means economic, ecological, and social success. All three factors have to come together. I'll just mention a few examples. When it comes to ecology and economy, our Near-Zero Energy house project is relevant. Energy efficiency is one of the major objectives we urgently need to accomplish on this earth. This is particularly true in North America, and especially in the U.S., where the consumption of energy is much higher than in other areas of the world. That is why we have built a model home in Paterson, New Jersey. The results are stunning: we can save as much as 80 percent of the energy needed to heat and cool a house in comparison to a conventional home. This shows very clearly, what innovative chemistry can achieve. Of course, we also need energy efficiency in China, in India, and in Europe – it is truly a global issue. And BASF has global answers.

A second example is nutrition. Nutrition is certainly not an issue in Europe or North America, but a big issue in countries like China, India or in Africa. We are developing plants that have a much higher yield – at least 20 percent more – and can live through drought and maybe even survive in salty soil. We are also developing plants that can be used for energy purposes and as a renewable material for use in the chemical industry in order to help the environment.

The third example is products that we have developed to help people's daily lives – wonderful things, like a special fiber that incorporates insecticides, which is used to make mosquito nets. This is especially useful in Africa, where malaria is devastating. We are also continuing our corporate social responsibility activities. We are a founding member of the UN Global Compact initiative and a member of Transparency International. As part of our neighborhood activities, we have a project in Germany called Knowledge Factory, which promotes knowledge generation at the kindergarten level. Germany has a certain weakness in this area, so this project is of great importance.

The public, like many analysts, are not aware of all the good things the chemical industry does, and how it contributes to daily life. Do you think the industry needs to do

more to promote its value to society?

Yes, I do think the chemical industry, and even specific companies, need to do more to explain the real added value the industry brings to human life. We are trying to do it with our European image campaign "Invisible Contribution – Visible Success." The American Chemistry Council is also doing it with its campaign called "essential2," and there are many other examples. In North America, BASF runs a campaign with the tagline: "Helping make products better." I think this is an excellent campaign and it really resonates with the public. I was standing in an elevator once and people began talking. When I told them that I work for BASF, they said, "Oh, the company that makes everything better!" But then I asked, "Do you know what we make?" And the answer was, "No, We don't know. But you make everything better." That is why we need to better explain the added value chemistry can bring.

There's a second aspect to this. I think we need to make clear that risk management is essential. And I don't mean risk avoidance. Maybe this is less of an issue in North America, but it's a key issue in Europe, and we need to address this constantly. People need to be more willing to take risks and proactively manage them, rather than just avoiding them. The chemistry that people encounter in school is complicated, smells bad and is dangerous. But the chemical industry is not like that. The chemical industry is about making modern life work.

What frustrates you the most?

I sometimes get frustrated when things move too slowly. Also, the low perception about the chemical industry among the general public is slightly frustrating.

Young people are the future of any company. What advice would you give to young people who are just starting out and want to succeed in business?

The first thing is that you have to have a vision of your own, and then you need to work hard to become one of the best. You need to be among the best in order to really grow. Sometimes it's difficult to do that on your own. You may need somebody to help and direct you, like a mentor. I always had people to whom I could talk. A mentor may help you to be self-critical, which I think is the most important thing. And you need to have both feet on the ground.

Do you have any hobbies?

Yes. I'm an enthusiastic skier and I like sailing. I'm also enthusiastic about modern art, and modern ballet. I also have a modest art collection.

You used to play soccer a lot. Do you still play?

Very seldom, because I'm getting to an age now where I'm no longer quick enough to pull my leg away from tricky tackles.

You have four children. Is it difficult to manage a company and still spend enough time with your family?

It is very difficult, I have to admit. A company like BASF is very demanding, and trying to set an example for other people is sometimes very time-consuming. So my family sometimes loses out. I need to be very disciplined about spending time with my children.

You have to get twice as many kisses when you come home?

Or I have to give twice as many. ●