

Leadership Is About Setting the Tone

Interview with Jürgen Dormann, Former CEO Aventis, today Chairman of the Supervisory Board, Aventis. President and CEO, and Chairman of the board of ABB, Strasbourg, France. July 12th, 2001

In the Spring of 1994, Jürgen Dormann became CEO of Hoechst, a Frankfurt based multinational with 172,000 employees working in 120 countries across diverse businesses ranging from cosmetics, to dyes, fibers and pharmaceuticals. Today, the former Hoechst campus near Frankfurt hosts 40 separate spun off companies. The pharmaceutical divisions have been transformed with a European partner into a new French legal entity, Aventis SA, headquartered in Strasbourg, France. With a market capitalization of some 70 billion euros Aventis ranks as the second-most valuable company on the German DAX. The conversation begins with Mr. Dormann taking me to the roof of the new Aventis headquarters in Strasbourg, pointing out and telling me about the mountains, villages, and buildings around this beautiful part of Alsace.

C. O. Scharmer: Jürgen Dormann, in April 1994 you took over as CEO of Hoechst. A few weeks later in your "Aufbruch" speech you called for unprecedented change throughout the entire company. What happened in the weeks prior to that speech?

Jürgen Dormann: To really answer that question, we would actually have to talk about the history of the company, but we can't do that for time reasons. We wouldn't even be able to limit ourselves to the post-war period. You have to remember that the company was founded in 1863. So, I'll try and summarize here. **I joined the company in 1963 as a 23-year-old.**

From this point on, over the decades, I went through what you could call "socialization", or "getting to know" the company from many, if not all aspects, including the international ones. Above all, I came to know and understand many people. Not "many people" in the sense of the 170,000 or 180,000 employees working there at any one time, but rather, many people who were in key positions. I was able to do this thanks to my career path from 1963 until I became CEO of the company. I got to know the company from a variety of quite different perspectives, commercial, regional, in various functional areas and staff positions, through having business responsibility for a number of departments, and so on. This is not unimportant for the question of how you approach the problems and issues as we did back then. And it probably provides interesting subject matter for you against the background of the question, can you do it better if you have these insights and experiences, or can you do it better if you are coming from outside, just saying: there's the problem, now let's go at it. I don't want give you any premature answers to this.

I. Begin slowly and cautiously talk about the change necessary

So, you have to have some idea about what you want to do, and how to bring it about. **And the idea doesn't just arise in the preceding weeks and months, but rather it has developed gradually over time.**

I recognized that at some point it was a real option for me to become CEO. This realization came to me in 1987 when the then-current CEO, in agreement with the Chairman of the Supervisory Board, asked me whether I was ready to move beyond the experiences I so far had had, and become CFO. This covered Finance and Accounting, and everything associated with this functional area in a classical German industrial conglomerate. I really didn't think I was prepared for this, as I had no training or education in this area. But I saw this unusual step of handing me this position as a hidden sign that it could be a sensible move for me in order to round out my background. So you see, one can't talk about 1994 without seeing 1963 as a starting point, and without recognizing the various steps up to that point, for example, the fact that I integrated the large American company Celanese into the Hoechst organization.

From this point on, then, I began slowly and cautiously to talk about the changes which were necessary in order to rise to the challenges we faced. **I did this first within a small circle of people, which then turned into a ring, which then at some point began to radiate outwards quickly, - no, not quickly - actually slowly at first, but fast enough out to the worldwide organization.** You could see this later

when I put my team together, when I took people from Brazil, from America, and elsewhere, but predominantly Hoechst people who had, though, broad experience in other cultures. In their management positions overseas they had experienced more freedom, the entrepreneurial freedom to make decisions, more so than they would have had in Frankfurt.

COS: You said that this circle developed gradually. Exactly how did this come about? Could you say more about this?

Jürgen Dormann: That's not so difficult because for a long period – in retrospect too long a period – I worked in the central coordination unit of the company as the head of the Corporate Staff Department and its predecessor organizations. And if you look at the people I'm talking about, who are still active and still in a variety of interesting positions, then you'll see that they had been working closely with me since the beginning of the 1980s. Then, a new element arrived on the scene with the Celanese acquisition. From here I was able to build up my management or talent pool. I had to do so through external growth, since among the names of the team members, it was quite obvious that the Anglo-Saxon element was not sufficiently represented. For the feasibility of the approach and its progression, many factors have to come together. It's more than just the team and the people and the common philosophy, or the targeted technical and cultural direction. There also needs to be a sound **feeling for what is feasible**, for timing and execution. This includes a feeling for what has to be done and when, and in what order. This doesn't mean doing things in a dogmatic fashion along the lines of intellectually sorting things, one, two, and three. No, it means **keeping your eyes open** for what is opportunistically possible. This often throws your planning off-step, where you have to have the courage to move out of the planned sequence and leap-frog from step 2 to step 5, and so on. There are examples of this - the Clariant transaction is one: We took the chance to divest our specialty chemicals business to Clariant, which had just been spun off by Sandoz.

II. Unavoidable moments of conflicts

If you want to bring about change, if you are really determined to do this, and you also have the support for it, then there are unavoidable moments where conflicts have to be resolved.

This has to happen at that point where the conflicts, if left unresolved, threaten the achievement of the goal. The introduction of new structures at Hoechst led to some pretty strong reactions. For example, when we changed the pharma R&D structure at the Hoechst site, there were several thousands of people – Hoechst employees but also people from the neighborhood and politicians - out marching by while holding banners and signs, going by the Corporate Center protesting and chanting and claiming we were endangering our strong academic tradition. The overall consequence was that politics, the media, and all types of functionaries said, hey, that's not right what that guy is doing, it's just not acceptable, he's going against the principles of the consensus model. Of course you can't start such changes every two weeks or so, but where it is decisive you have to take clear actions. We're deluding ourselves if we think that up to then we'd been doing a good job here. I mean, the products that we have today are the result of these changes. Otherwise we would have stayed on the academic track with new titles and lectures and new molecules. We also introduced that new name– it's no longer "Research and Development", now it's "Drug Innovation and Approval". This expresses that we moved our focus away from mainly academic interests towards bringing excellent and useful products to patients and doctors. This was an important paradigm shift.

III. Creating a dream team

Another point is that in 1994 I had to make a number of key personnel decisions. As a rule, these were made together with those affected, which were brought about in the sense that these people moved into new positions, left the company or took early retirement. This was an issue because in this early phase, the team members weren't just supposed to handle the abstract portfolio. No, they also had to play a part in the implementation of change at the decisive points. Having people who were able to foster change was of course very important in this decisive phase. This decision can be carried out in a socially sustainable way, but it has to be carried out.

COS: And now again about this choice, your choice, of this circle of people who became part of the so-called “Dream Team”. In the case study it’s pointed out that one of the qualities that differentiates you from others is that you have an “eye” for these people, that you have the ability to sense their capabilities. You just described the context, but just what is it that you’re looking for, and what do you see when you’re considering people for your team?

Jürgen Dormann: This process can’t be understood in rational terms alone. And now I’ll make the connection back to 1963 when I joined a very hierarchical, very internally-oriented, and very German organization, and the development within it, but also towards the outside world. I’ve always had an extremely strong external orientation, and I’ve never been satisfied unless I’ve had an eye or an ear pointed to the outside, outside of the company. This has nothing to do with loyalty, but rather with the necessary external orientation in regard to culture, science, technology, sociology, societal development, political development, and so on. And we’re all a part of this. For a while I was even active in politics, in my very early years, but more out of the desire to influence school politics in the state of Hesse when my children went to school there. You develop an eye for people in their diversity, but probably more as well in regard to their values and the consistency in their basic stands on certain issues. You can see their willingness to acknowledge change, but also the ability to hold the line where it counts, showing character, whatever that is. The ability to see these things becomes more acute over the course of time. I have rarely brought people into top positions whom I didn’t know well. In the end, I really don’t know what the “eye” is. But at least it has resulted in a very low error rate measured against how well we did in achieving our common goals. Of course you make mistakes, of course you can misread people, but overall I believe that I have picked up some experience along the way.

COS: What I’ve heard from you is that it’s not just rational “seeing” alone, but basically more of a feeling, sensing, and intuition.

Jürgen Dormann: Many people like to think of me as coolly calculating, or a strategist, or something along those lines. Well, yes, that’s what I am, but no, that’s not what I am! I am very controlled regarding my emotions, but if someone thinks that I have no emotions, then they’re seriously misjudging me. And whether it’s appropriate or reasonable to show your emotions or preferences, that is a completely different question. Talking about personal decisions, you need the right mixture, there are different levels to consider. First you assess, who can help me here? Then, there are the natural instincts or the emotions, where you say, actually only this or the other person comes into question. And then comes the point about looking at the very different types of people coming with different influences. For example, a person who has lived 20 years in Brazil has been shaped differently than if he or she had lived in Asia for 10 years. You may then have two or three people in mind, and then you ask, is there a significant difference in the rational, in the learnable, in the skills? No. Then you take the one who is closest to you emotionally. **I’m not so moved by the emotional side that I would have just brought anybody into a position where I didn’t take the two other criteria into consideration - can this person help us to reach our goals, and does he or she have the right skills? Purely emotional? No. Purely rational? No. But in the right combination, and here I’ve rarely been completely off the mark.**

But when I did go wrong, then I needed one or two years until I noticed it, or until I was ready to admit that it was the wrong decision. Then, though, I am fairly clear about it and quick in correcting the situation. Then the rational, or the primary goal, is very much in the forefront. This doesn’t mean that the personal relationship has to suffer as a result, but it invariably does.

COS: In our first discussion in the company’s old brick headquarters building in Frankfurt, that must have been in 1996, you said, ‘actually I’m not the CEO here, but rather the “Generaldirektor”, that’s how the people see me’.

Jürgen Dormann: In the negative sense of someone who comes in and “gives the orders”.

COS: Yes. And back then you said that one of the main challenges you were wrestling with concerned the issue how to transform the then quite hostile atmosphere among the various groups within the company. Was there a point in time where you saw that now something had changed in the atmosphere, that the “Herr Generaldirektor” had changed into someone different?

IV. Establishing a competitive and market-driven orientation

Jürgen Dormann: This position, this function, it has such a strong effect on you, and it makes such an impression that **even if the new CEO is a different type of person than his predecessor, he's still in the system, in history, and with that "walled in" feeling**. Not because of the bricks in the building, but because of the walls in the heads of people. You also have to take the different groups of people into consideration. There are of course different "layers" in a company, like the rings of an onion. Here I'll leave it up in the air whether you should peel it from the inside out, or from the outside in. In such large structures which have grown with success over decades, there are attitudes, successfully practiced behavioral patterns, along the lines of, 'we've made it through so much, we'll make it through this as well, we won't bump our heads on anything'.

Where success came fastest, though, was where I was fastest in establishing a competitive and market-driven orientation. Those closest to the market reacted much quicker, and were in sympathy with this direction. There were those far from the marketplace, central departments for R&D, engineering, purchasing and so forth. They were far from the business side until their functional structures were affected by the "shining beacon" of the market economy. These people reported to the Board of Management and their overhead costs were dished out to those on the business side, accompanied by the attitude of, 'you're the businessmen, show us your profits'. The poor business managers who reported to the Board, and there was one Board member responsible for each department, they had to deal with these costs structures.

An introduction to values is an introduction to principles, with the competitive system put on the test stand, testing alternatives, internally, externally, offering no pardon. I would say the first visible signs probably came after 12 to 24 months. After that, though, they came increasingly fast. **This happened after the first walls began falling, and the probability grows that our productivity won't disappear, or the team won't disappear**, or other natural wonders won't occur. You have to wait for a while during the initial phase for visible success in terms of change, which you're asking about, but then **all of a sudden it happens like the "domino effect"**. If you would go back today, I'd be happy to go with you if you'd like, and go to the Hoechst campus or the Hoechst industrial site, with the many companies there, around 40 or so, you would see how the market orientation has brought fresh impetus and prosperity.

COS: What? More than 40 companies?

Jürgen Dormann: At least. No more simply passing costs on, now it's supply and demand, independent of the companies that we've newly acquired. These companies have moved onto the site because they saw business opportunities among the other companies located in the area. **Once the system began to show signs of improvement, and resistance to the changes began to weaken, the process of change started to become self-enforcing and accelerating**. It shouldn't be underestimated that all I did was just add the spirit of competition to our ways of doing things. This spirit was added to ideas and people.

I brought many people back into the leading inner circle, people who belonged to the company for a long time but who hadn't grown up in this "inner realm" because they managed country businesses far away from the German headquarters. I put them into key positions at the corporate level. The introduction of the competitive system, the disbanding of functional areas, and so on, this all has had an influence on other German companies, regardless of whether they'll admit it or not. If you look around at the site structures found in Germany today, the basic concept is for the most part identical with, or based greatly on what we have done.

COS: And in the process there was the one factor of bringing in the experience and key players from the periphery. The other element which stands out is that you were just as aware of those things that you don't do, as you were of those that you do. Can you comment on this? What does leadership have to do with the things one does not do?

V. The job of the CEO

Jürgen Dormann: Oh, quite a bit. Again, this can't be looked at removed from the historical context. If in a company of this strength and dynamism, a Chairman of the Board insists that the approval of every new computer which is purchased has to go across his desk, how motivated are his service people? . Sorry, what was your question? Let's stick to your question.

COS: Which you haven't been doing!

Jürgen Dormann: What am I not doing? I'm not doing a thing – and maybe that's the point. I have consciously shown you the mountains and the landscape. **My job is - besides setting the tone - my job is to impart the principle of competition, bring in values, and exert an influence on important personnel and strategy decisions. Beyond this - I try to keep out of the business.** For most questions there is someone in the company who can do what has to be done better than I can. And when in doubt, when someone says, oh my goodness, maybe I'm going beyond my competence, they invite themselves up to have a cup of tea with me, and the person says, so here's where we stand, this is the question facing us. To some extent these may also be operational questions, but important ones. It's an incredible education for an organization to allow people to do this.

In the meantime, **I have developed a certain respect and consistency for this, something I didn't have 20 years ago. If someone comes to me for the third or fourth time with the idea he's going to get a decision, I say, no, you can drop by again any time, but have you thought about this or about that, and did you talk with this or that person? It might even be someone from a different company, but I say give him a call because he's also dealt with this issue.** That is also a function of time, and you can see this if you look at such an organization and how its investment decisions are made. That's why I mentioned the bit about the computer. There used to be the Corporate Staff Department where all investment proposals over \$200,000 had to be sent for approval. My intimate knowledge of the company comes from my time serving there as the gatekeeper for this whole bureaucratic process. Why on earth should I be dealing with decisions about whether to spend one or two million? This is a corporation with a market capitalization of some 60 billion euros!

So back to my point: doing nothing is an excellent decision - declining to make decisions, acting instead as a discussion partner who is always available, willing to talk with anyone who wants to see him. But it is also part of the system, the educational process, and the belief in the system. At the beginning we had a system where the managers, starting with engineering, purchasing, and accounting, let's say, or the scientists and research management, would have to first all be in agreement before the managers out in the marketplace were free to do what they wanted to do. There I was, as the director of the Corporate Planning Department, the interface of all these conflicting interests, with direct access to the CEO, but with no real power. So, these are the experiences that you have. I'd like to say something else about another development, since there were more internal issues. There was the change in research, and the line-up of new key people like Frank Douglas, for example, who is one of several Americans in our senior executive management team. Have you ever met or heard of him?

COS: I've read about him.

Jürgen Dormann: Well, we're in such a position today because **we were always scientifically very good.** In the past, our approach was based on arrogance, assuming that we have these great products which sell themselves. That's why we don't need marketing, and we don't need an organization in America. The changes we made in research were based on changes in people. When I brought these people in, for example Frank Douglas and Dick Markham, there was resistance from all sides, including employees and all the way up to the Supervisory Board level.

COS: What made you so sure of what you were doing back then?

Jürgen Dormann: My "eye" – what we were talking about earlier. I said, I'm not budging one inch. If you want to dismiss me from this position, you can do so, but right now this is my job, not yours.

COS: And then?

Jürgen Dormann: With these people and the organizational changes we made, we brought ourselves and our technologies into the international scientific network. Today we are highly-valued partners, whether our people are on the East Coast, or in San Francisco, or England, or here in France or Germany. We are reliable, we respect our partners, we seek mutually beneficial arrangements, and we are fully part of the give and take of the network.

We no longer say, 'we know everything' and 'Frankfurt is the center of the universe'. I put a lot of emphasis here on making a distinction between individual actions which had an impact, and the systemic aspects, such as introducing competition and the opening up to the outside.

Look at the people we're getting nowadays! Look at who Frank has been able to bring on board over the last two years, top people from the competition. Of course, success breeds success. But he's also getting young people, fresh out of college, regardless of whether they're from here or abroad. We never would have got these people before. Any way, bringing about this integration into the larger network has been part of my influence. It has a lot to do with seeing and matching people with challenges and opportunities. All I do is cast what you called my "magic eye" on the people I am interacting with in order to sense whether he or she is the right person for the respective constellation of challenges and opportunities.

But I'm not calling the shots on how to run a particular business. How could I? There is definitely a difference between whether you have been prepared and trained to work in our core business, pharmaceuticals, or whether you are able, as I am, after many years, to lead a large company from here to there. The skills and the abilities and the traits, including the negative ones, and all the things that I can't do but have tried to compensate for with my team, are not the same management criteria that you would need to run a pharmaceutical company.

COS: You said that one of your main functions is to set the tone in the company.

Jürgen Dormann: Defining the values, setting the tone, and finding the right people.

COS: How do you set the tone?

Jürgen Dormann: You set the tone first by living out your values yourself in your immediate environment. Second, you locate and eradicate any areas which are in permanent conflict with the tone and values you want to set. And here we come to the point I mentioned earlier, where if you've made a mistake, you've got to correct it straight away. A top manager can be as efficient as he or she wants to be in the short term, but if he doesn't align himself with the values, and with others, he doesn't have a chance here in the long term. So, the process of setting the tone and living the values is never complete, it will go on for years. But we try, and we give the impression to the outside that we're making an effort, and so we continue to get good people. It's a long process, actually it's one that will never end. It can only be a continuous striving for improvement.

VI. What is the company today?

COS: When you look at the overall transformation process, what actually happened to Hoechst? Did the old Hoechst come to an end? Or is it living on here today in some other form?

Jürgen Dormann: No, no - it is something completely new. We know our roots, and the learning processes which we're talking about, and the change processes which I've just been trying to describe. We encountered so many things along the way, which makes questions about legal entities or new corporate bodies of much less importance. I don't want to say that these questions were unimportant because it was a huge undertaking to structure all the legal issues and keep everything under control. I was only in it here with ideas, and during the negotiations, and I was able to make a contribution others might not have been able to make. But, actually carrying it all out, and dealing with the legal structures and the necessary interim steps that had to be taken, this was done by the team.

Let me return to the divestiture of Celanese. About a year or 18 months prior to the divestiture, I told Claudio Sonder that this was something we really should do. I told him, get yourself ready to lead this thing without telling the others that that's what you're going to do. He wasn't even responsible for that business at the time, but in my view - and here we're back to the "eye" - I knew he had the potential, the personality, and the ability to be the CEO of this kind of company. What had to be done there was carried out in close coordination between him and the CFO, and a number of other people. But here, as elsewhere, I always had a "champion" in place. And when something didn't work out, the "champion" had to be replaced.

Can you imagine, though, what kind of energy and power is set free in someone when he or she knows, this is my turf, I can shape it, mold it, and when it's done, I'm the one who can take responsibility? Incredible emotional, intellectual, and psychic powers are released in these people, and they act like a power source radiating out to the immediate circle of people around them.

COS: What have you learned over the years about what makes up the company as a whole?

Jürgen Dormann: I learned that **success is the beginning of failure if you don't stay open and able to change.** Since large corporations like Hoechst or others have stood so well for so long without being forced to gradually adapt themselves to changing conditions, a more dramatic acceleration process becomes necessary in the end. So, this inability to adapt was conditioned to some degree on the company's past success. When I look at where we are now and I see our initial successes, I have to say that I'm still very aware that they are only "initial" successes. This is because the world around us is changing, and particularly so in the area where our activities are focused. The health sector is experiencing very rapid change, and this underscores the need for us to be integrated into our environment. **It is simply a "given" that a company has to adapt to its social context, and to the wider world in which it operates. We exist as part of social and political systems, and we have to adapt to their structures.** This is especially true regarding health, a subject which affects each and every one of us. It's something which shapes health care systems, societies, and overall political systems, and it is a field where we face major challenges.

That is one side of the story. The other is the continuing process of opening up to the outside. We've come a long way in comparison to the situation ten years ago. We're witnessing the accelerated application of new technologies and knowledge, whose interrelationships and linkages are becoming incredibly complex. The shift in the relationship between the "inside" and the "outside" is resulting in the ever greater importance of information technology. I'm trying to reach out, beyond where we are now, to bring into the present how the networking and the research structures will look in 10 years. We have to have the skills, and we have to be able to see things from a wider, larger perspective.

But in the sense of your question about what makes up a company, and the issues related to introducing the market orientation and linkages with social issues, I would say that there are no fixed points or fixed cost areas which are not touched. Everything is alterable, it's all a function of time and place. Take the example of research and production. What used to be the most important things in our balance sheet were the fixed assets, tangible things. This is now goodwill, this is now the people who we have to keep motivated. In other words, they are our real capital assets, and they can get up and walk away if we don't set the right tone and the right values. We try to anticipate the future by understanding that you can't regard things which appear to be "givens" as certainties. You have to operate with this knowledge when setting priorities and selecting product areas to enter into. The health sector involves many therapeutic areas, so we have to set priorities and decide where we want to be, and whether we want to be a "fighter" or someone who's seeking the path of least resistance. While certain things may look secure and promising for the future from today's perspective, they may look completely different ten years from now. You have to maintain the openness to the outside within the context of social, political, and scientific systems, and you have to have the courage to carry out the necessary changes quicker than the others.

COS: When I visited you last time in Frankfurt I was struck by that Greek phrase over the entrance to the main lobby. It read, *panta rhei*: "everything is in flux". So, do you still believe in that view of the world?

Jürgen Dormann: Absolutely. Everything is in flux. That is the reality we live in and have to cope with.

COS: What does it take to operate in this kind of environment?

Jürgen Dormann: What it takes is to learn to organize using “tents” rather than “palaces”. With tents you are much more likely to organize around the opportunities you see emerging. With palaces you are confident and comfortable. But when you find yourself out of sync with your social and business context, the palace walls will start to crumble, regardless of how thick they may have been.

COS: And the leader in this kind of environment is “the one who isn’t doing a thing”, as you said.

Jürgen Dormann: Right. But I was using my “eye”, seeing what was going on, and sensing which people had the potential to rise to the occasion.

COS: Maybe that’s what leadership is about.

Jürgen Dormann: Maybe, yes.

COS: Thank you very much for this conversation.

Jürgen Dormann: My pleasure, I enjoyed it.

