



Professor Dr Ulrich Lehner

#### Personal details

Chairman of the Management Board of Henkel KGaA  
Born in Düsseldorf, Germany, on May 1, 1946.

#### Career

since May 2000 Chairman of the Management Board of  
Henkel KGaA, Düsseldorf / Germany

1995 Executive Vice President, Finance / Logistics,  
Henkel KGaA, Düsseldorf / Germany

1991 President and CEO, Asia Pacific  
Henkel Asia-Pacific, Hong Kong

1987 Vice President, Finance / Controlling,  
Henkel KGaA, Düsseldorf / Germany

1986 Head of Central Department Controlling /  
Accounting / Taxes, Henkel KGaA, Düsseldorf /  
Germany

1983 Controlling Department  
Friedrich Krupp GmbH, Essen

1981 Central Department Accounting / Taxes,  
Henkel KGaA, Düsseldorf / Germany

1975 Auditor at KPMG, Düsseldorf

#### Education / vocational training

Business administration and mechanical engineering  
at Darmstadt Technical University:

- Dipl.-Wirtsch.-Ing., Dipl.-Ing.
- Dr. rer. pol.

Tax consultant and auditor

#### Additional notes

Board member of Ecolab Inc., USA, and Novartis, Switzerland;  
Supervisory board member of E.ON, Germany, HSBC Trinkaus  
& Burkhardt, Germany and other companies  
Honorary Professor University of Münster, Germany



## “Innovation is the job of every manager throughout the entire organisation”

Interview with Dr Ulrich Lehner, CEO, Henkel KGaA, Düsseldorf

**Arthur D. Little:** Henkel has pruned its business portfolio in recent years but the scope is still diverse, covering consumer, craft and industrial segments. Can you describe Henkel’s business model?

**Lehner:** We have essentially three main business arenas we compete in: household care, personal care and adhesives. Our strategy is to grow and expand our position in all three arenas. In the industrial adhesives business we follow a global business model, serving global customers in close alignment with global machine tool manufacturers. In consumer goods we have no need for a global position and follow a selective regional strategy.

Overall we develop the business from a multi-domestic approach to a transnational setup. This enables us to follow our customers and adjust costs.

**Arthur D. Little:** What role does innovation play in your business model?

**Lehner:** Innovation is a key pillar in our strategy and driver for profitable growth. Our innovation strategy has two key objectives. First, to achieve top-line growth in existing markets and ensure rollout into new markets. Second, to improve our margins and cost position by strengthening our cost effectiveness.

Following these objectives we have a comprehensive definition of innovation and do not limit the innovation scope to products and services. Innovation at Henkel applies to marketing and sales, production and supply chain, sourcing and administration as well. In this respect innovation is the job of every manager throughout the entire organisation, not only the R&D and product development department.

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**Arthur D. Little:** You have set the target of achieving 30 percent of sales from new products launched over the past three years. How do you differentiate between divisions in managing innovation?

**Lehner:** The innovation formula is certainly different between the businesses. The key driver in our industrial business is the close technical cooperation with customers and machine tool manufacturers. In the detergent and cosmetics divisions, it is consumer insights that are the key to developing winning products and adding value to the lives of our end customers. I am a strong believer that products drive brands and not the other way around. Therefore, innovation in products and services is so essential for Henkel.

We at Henkel believe strongly in a sound equilibrium between market pull and technology push. This is true for both the industrial and consumer divisions.

**Arthur D. Little:** Would you characterise Henkel as a first mover or a fast follower? Whether it is the one or the other, is it a conscious choice that translates into your innovation strategy?

**Lehner:** In the industrial adhesives division we are the world market leader. This leadership is rooted in our technology leadership. Innovative problem solutions are at the core of this leadership position. We are highly committed to strengthening and defending this leadership position because we believe it is one of our key differentiating factors today and in the future.

In consumer products we strive for innovation leadership too. However, in the consumer business innovation is only one of several critical success factors. In addition it is much harder to launch defendable innovations. Consequently we are ready to be, in selected cases, in a fast-follower position. And fast means closing the gap as quickly as possible.

**Arthur D. Little:** What importance do radical and incremental innovations play in your innovation strategy, knowing that they require different mindsets and processes?

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**Lehner:** For our industrial business, breakthrough innovations are somewhat more important than for our consumer businesses. To give you an example: in many applications from aeroplanes to cars, welding, bolting and riveting is increasingly substituted with glueing. In the past, aircraft turbines were build solely by riveting. Today leading manufacturers heavily substitute this technology with adhesive applications. Our close cooperation with these customers gives us the unique opportunity to be at the forefront of radical technology transitions. In fact we drive this transition together with our customers. This offers significant growth and differentiation opportunities for the adhesives business in the future.

In the consumer business, it is more difficult to identify and launch radical innovations. Consumers tend to look for more gradual changes in their usage of our products. Despite this limitation, we are intensively analysing trends that give us the opportunity to launch radical new products. Recent examples from our detergents divisions are the change from powder to liquid detergents, the compacting of formats and the trend to more varieties targeted at specific segments of the market: Fa Joghurt, a shower gel with yoghurt ingredients, was a huge success in exploiting the current trend towards wellness.

**Arthur D. Little:** Where and how do you strike the boundary between corporate and divisional innovation investments in your differentiated business portfolio?

**Lehner:** Of Henkel's € 324 million R&D expenditure in 2005, 12 percent relates to corporate research/new business. The major part relates to the divisions. We believe that we need to be flexible in the allocation of resources. A dynamic equilibrium of corporate and divisional work streams should result in an output level that is higher than each of the two parts could achieve on their own. Our corporate unit provides the fundamental research, which divisions and local subsidiaries adapt to their specific needs. Corporate R&D concentrates on strategic topics in the areas of biology, chemistry and technology. Molecular modelling for technical applications, new materials for aerospace, and nanotechnology are just some examples. These platforms are agreed with the divi-

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sions and handed over at a certain stage of development to the division to translate them into products. Research in the field of nanotechnology has translated into applications in oral care, “Nanoprotect”, a window cleaner based on nanotechnology, and bond-on-command adhesives.

In the balance between corporate and divisions, we as top management and leaders have to make sure that the synergies are identified and leveraged. This is a continuous process in the search for the equilibrium which we have to actively manage and guide to maximise the return on our innovation investment.

**Arthur D. Little:** In the innovation process, how do you at Henkel reconcile the outside-in and inside-out perspectives to create winning new products?

**Lehner:** Henkel is determined to move from the old “make and sell” philosophy to what we call “sense and respond”. We are convinced that the end user/consumer is the critical starting point for the delivery of winning products. The challenge is that the consumer in many cases is not able to articulate his needs properly. Henry Ford was right when he said that if he had asked people what they needed, he would have developed a faster horse.

Our philosophy is to generate powerful consumer insights that guide our product development. We use a multitude of different research approaches to obtain these insights. Most importantly, all managers regularly and personally participate in customer research to stay close to our markets. Just last week, I spend a morning in a washing test with three very different housewives. One was what I would call the “perfect” housewife, the second a single parent and the third the mother of five kids. This example made me again aware how heterogeneous our target markets have become. We are forced to match the demands of a multitude of different segments and niches without increasing the complexity to a point where the cost of complexity damages our profits! This is challenging but we are making progress in this respect with a variety of different initiatives.

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**Arthur D. Little:** How do you manage to combine “top-down” guidance and “bottom-up” imagination for maximum innovation?

**Lehner:** We as top managers are required to set the vision and then enforce the right metrics top-down to guide the organisation. The stage-gate process is one example of a tool that helps us to implement clear gates and guiding principles. Currently we are working on harmonising this process between all divisions to have a transparent measuring system. Our objective is to kill as many less promising projects as early as possible and allocate more resources to those with a superior success probability. This is one key initiative to increase the return on innovation at Henkel.

**Arthur D. Little:** How do you encourage individuals and teams to take risks and do new things?

**Lehner:** 2006 has been declared the “year of innovation” at Henkel. We saw the need to involve everybody in a more active way in our drive to become more innovative. In our new top management team, we decided a year ago to initiate the “year of innovation” primarily to accelerate the mind change of our employees and to enhance the innovation climate in every entity of Henkel.

Six months after starting the initiative, we already have the first positive and encouraging results. Here in my window, I have a supersized “inno”, which is our symbol for the year of innovation. The apprentices of Henkel in Düsseldorf built this one and another even bigger one in metal. The metal sculpture is now standing in the open space at the entrance and I decided to put this supersized one in my window!

**Arthur D. Little:** What role does top management play in driving such an initiative forward?

**Lehner:** Simply speaking, the “Geschäftsführung” has to be at the forefront of the movement and at the same time behind the organisation to support it wherever necessary. This means that we have to set challenging top-down visions linked to achievable stretch goals. But further-

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more we have to live the initiative in every meeting and in our own involvement in day-to-day business. I have become much more outspoken in pushing the organisation at every touchpoint.

Beyond personal communication, we have decided to intensify our communication efforts, leveraging all relevant channels. Internal surveys made it clear to us that our strategy was not cascaded adequately down to the lower levels of the organisation. They just do not know! To us, truly shared values are fundamental for achieving our long-term goals. Our employees – whether at the front line talking to customers or within the plant solving production problems – are closest to the “irritations”, the observation of which is a main source of innovative ideas. We need to release this pool of talent better than we did in the past.

**Arthur D. Little:** What are key elements of a positive innovation climate for you?

**Lehner:** For me, trust, failure tolerance and an open attitude are key ingredients of a culture that fosters innovation. We have to be ready to take risks in an environment where we can manage them properly.

**Arthur D. Little:** We have spent much time on internal resources as a success factor for innovation. How important is “open innovation” to Henkel?

**Lehner:** External partnerships are already very important for us, and their impact will increase further in the future. The time of “not invented here” is long gone. We build intensive partnering networks with our raw material and packaging suppliers. In research, we look for economies of scale via partnering, amongst others with universities and research establishments. Our involvement in venture capital funds is an additional way to increase the flow of new ideas.

Finally we should not forget, as I described earlier, that we are involving our consumers at many touchpoints to learn from them and tap into their idea pool, and to gain insights into their need profiles.

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But again, as said before, it is vital that we take a comprehensive approach, foster a climate of trust and mobilize every employee driven by top management leadership to achieve innovation excellence.

*Interview conducted by Tom Sommerlatte (Chairman, Arthur D. Little Germany), Wilhelm Lerner (Director in the Wiesbaden office) and Herman Vantrappen (Director in the Brussels office and Chair of the Prism Board).*