The Transformation of Hoechst to Aventis
Case B: How Dormann used evolution to achieve revolution©

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In the Spring of 1994 Hoechst had some 172,000 employees working in 120 countries across diverse businesses ranging from cosmetics, to dyes, to fibers, to pharmaceuticals and through to engineering. Consistency was achieved across this wide portfolio by the corporate culture that was rooted in the tradition-bound site in the outskirts of Frankfurt. As the regional head of the chemical workers' union who sat on the Supervisory Board commented, "Hoechst is not just any company where one works. Hoechst is a way of life."

By the end of 1999, Hoechst had all but ceased to exist, but its managers could boast of having successfully positioned its component businesses on the threshold of the new millennium. The pharmaceutical and agricultural divisions had been transformed with a European partner into a new French legal entity, Aventis SA. The divested specialty chemicals were doing well under the banner of Clariant, and basic chemicals were prospering at the spin-off company, Celanese.

How had this enormous change been achieved? And were the decisions taken really the best way forward?

1. Setting change in motion

Even before taking over as CEO of Hoechst in April 1994, Jürgen Dormann sent clear signals about how he intended to transform the organization. In speeches and publications after his nomination by the Supervisory Board in the summer of 1993, Dormann made no secret about the fact that he expected change to be an ongoing process that would challenge established ways of thinking in Hoechst, and shake up longstanding power bases. Having seen how recent attempts to achieve change in the company had become stuck because they did not have the buy-in from enough key players, Dormann officially kicked off the transformation process by giving a major speech to the top 120 senior executives of Hoechst and the general managers of the associated companies in Europe, and by setting up a task force with handpicked senior managers from around the world.

"*Aufbruch '94*"

Dormann is often described as introverted and he is faulted for not being a particularly inspiring communicator with large groups, but the speech that he gave immediately after taking over as CEO of Hoechst in April 1994 reverberated through the halls and offices of Hoechst around the world. He called it "*Aufbruch '94*," and this German word for "new beginnings" soon entered the standard vocabulary of Hoechst managers in many different countries. Dormann spoke of the need to grab the opportunity for change, and he outlined key issues he intended to tackle.

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Aufbruch '94 Key Principles

- A corporate vision to guide the company for the next ten years, from which clear goals and priorities could be derived
- New management principles based on less bureaucracy and more trust, transparency, and delegation
- A shift to a regional approach to markets (Europe, Asia and the Americas)
- Structural changes to enable greater flexibility and clearer assignment of responsibilities within the corporation
- Reengineering of business processes to become more strategic
- A renewed emphasis on quality in all processes
- A societal commitment to sustainable development

In his opening sentences, Dormann expressed the belief that many people in the company—and the external stakeholders—were expecting significant change, so he thought he could count on their energy and commitment. The recent slide in performance awakened the sense of a need to change.

> "There was a huge feeling in the organization that they had to catch up again. Hoechst had been quite high-flying in the 1960s and 1970s, and then it went down. Somehow, change was overdue in the mid-1990s," as a consultant who knew the company well put it. The clear and high goals were invigorating. "It was the first time that anybody in Hoechst had said that we had to be among the top three in whatever business we pursued."

The energy generated by the speech was infectious. A young manager working in Japan at the time recalled the excitement with which his German boss had returned from hearing the speech, fired up by Dormann's vision for change and intent on making it happen. It was not until some months later, when new processes and structures were put in place and new priorities established that the full implications of Dormann's speech were understood. He had set in motion a significant cultural change and some managers admitted experiencing concerns and difficulties in adjusting. "To be honest, that was a shock. This change in values took a long time for me to understand," reported a senior manager in Japan.

A Task Force for Change

In the *Aufbruch '94* speech Dormann announced that he had already set up a task force to work on several of the items. A month before taking office in April 1994, Dormann had invited a small and diverse set of people to analyze the strengths and weaknesses of the Hoechst structure and to develop the best possible new structure.

Dormann did not fill the task force with consultants, nor did he draw on his management board. Instead, he selected second and third level managers from different Hoechst businesses all around the world, individuals he had come to know and respect. One of the members later commented: "If you look at the combination that was in the group, the interesting part was that many people were from the periphery." There was Claudio Sonder, who was responsible for Hoechst's Latin American operations; Thomas Hofstaetter, who ran the pharmaceutical business in Japan; and Bill Harris, who headed the fibers business in the U.S. Assigning the chair to Ernie Drew, CEO of Hoechst Celanese, who had come to Hoechst with the acquisition of Celanese in 1987, was a move that caused many raised eyebrows in headquarters. Was Dormann going to let the Americans determine the shape of this

German company? Reinhardt Handte, who was responsible for the specialty chemicals division of Hoechst and respected in Frankfurt, was designated co-chair, "to ensure against over-Americanization," as one member put it.

Several members of the task force were based in Germany, but most of them, too, had foreign experience. Bernd Sassenrath, for example, had worked in the U.S. for Harris in the fibers business, and Knut Zeptner had spent most of his time in the UK and Japan. Peter Jakobsmeier from the corporate center brought in expertise on mergers and acquisitions. Unusually for such a major change initiative, the task force had only one external member, Wilhelm Rall, who happened to come from a consulting company, but "it was not a McKinsey project," Rall and his fellow members emphasized. The designated secretary of the task force, Gerold Linzbach, had been brought in from a staff function working on mergers and acquisitions because Dormann valued his original thinking style. "I looked for some complementarities," Dormann explained. (see **Appendix**: CVs of selected top managers)

The Task Force was soon nicknamed the 'Dream Team,' maybe because everybody dreamed of being on it, maybe because the members had been told that they were free to dream up anything they thought would be good for Hoechst. One remembered the mood:

> "It was opportunity driven. Dormann was willing to change, and for most of the team who were life-long Hoechst employees, this was very exciting."

This was a new situation, with a new CEO who was seen to be breaking with tradition. "We had always had chemists, and chemists don't dream," joked a member of the Supervisory Board. Or, maybe the nickname emerged because some people thought, "these guys were dreaming up something that wouldn't be implemented anyway," as a seasoned Hoechst manager suggested.

For the next six months, each member of the team dedicated half of their time to the task force, while continuing to run their part of the business. The task force did something very unusual for Hoechst at the time: it looked outward to international companies in different industries, to see how they were managing their operations around the world. Instead of benchmarking with Hoechst's German competitors, Bayer and BASF, the task force members interviewed managers in corporations like General Electric, ABB, Ciba Geigy, and Royal Dutch Shell. Claudio Sonder recalled the excitement:

> "We had never done something like this! We had to form our own culture and our own new structure, and we learned a lot. Everybody benchmarked the same company in different regions, so we had a wonderful kaleidoscope of opinions. Some people thought that what was implemented in a company in Japan was wonderful, but the guy who was in a different region said it was horrible. So we had a very nice way to analyze the companies. I think we had the opportunity to pick the best out of each model."

The members of the task force came together from their different regions once a month to pool and assess their findings, and they finalized their recommendations by retreating for a full week to Bill Harris' house in Massachusetts. "It was a kind of organization-building feeling."

Dormann himself only attended the first meeting of the task force, and neither he nor any Board member intervened in the group's work. However, members were confident that Dormann

> "knew where we were and he gave signals, if that was OK or not. But it was not heavy-handed influencing. I think he was pretty secure that by the selection of the right people, he would get the right results."

Not until the report was delivered in September 1994 was the Management Board officially informed about the ideas being generated in the task force. Informal mechanisms of communication ensured that there would be no unpleasant surprises. A Management Board member explained,

> "Of course we knew what was happening. Each of us had one of his people in the team, so we knew what was going on, but we did not make decisions."

The key message the task force sent to Dormann and the Board was that the company needed to have well-defined businesses and clear lines of responsibility. The task force recommended that

- Hoechst be restructured into worldwide business units;
- The country-level operations were to become service providers for the business units, and
- The Management Board members were to focus on strategic issues rather than getting involved in operational matters.

This recommendation entailed transforming the deeply entrenched "centralist functional culture into an entrepreneurial culture," as Claudio Sonder described it. In other words, as people were soon to discover, the proposed structure essentially implied demoting country managers from their thrones as local kings, and it implied drastically reducing the size and power of headquarter staff.

2. Starting to Implement Change

Speeches and task forces abound in corporations, but their messages and ideas are lost if there is no follow-up. All too often reorganizations "don't work because those responsible for implementing them lose their courage half-way through"[2] reflected Horst Waesche, who had experienced blocked change processes in Hoechst's recent past but was persuaded that this would not be allowed to happen in the new Hoechst.

Several key steps were taken to ensure follow-up in Hoechst, but these steps probably would not have sufficed if they had not been flanked by changes in the power structure. The very choice of Dormann, as the first non-chemist to become CEO of Hoechst, represented a significant shift in the power culture of the company. The Supervisory Board had selected Dormann in the summer of 1993 by, based on the recommendation of the Management Board.

Dormann was "the first 'Mr.', not someone with a title like Dr. or Professor" as a Japanese manager remembered, and the choice sent signals for change around the

[2] Fischer, G. (1995). "Augen auf und durch," *manager magazin,* Nr. 12, p. 52-65. *(our translation)*

Hoechst world. This man was being chosen for his business acumen, not for his reputation in the research labs. “We heard that a finance guy had come to the top. That smelled of greater change,” remembered a senior researcher in Japan. Dormann had proven himself on the Management Board as Chief Financial Officer, and he had earned the respect of his fellow Board members and of members of the Supervisory Board through the successful acquisition of Celanese in the United States.

Changes in Top Management

Dormann worked to ensure he had a strong power base above him in the Supervisory Board, at his side in the Management Board, and below him in the next management levels. Not only Hoechst insiders but also the German business press took note of the fact that the Supervisory Board broke with tradition after Dormann took over as CEO. His predecessor, Professor Wolfgang Hilger, did not become Chairman of the Supervisory Board, as the previous CEOs had done at Hoechst. Instead, Erhard Bouillon, a former Management Board member with many years of experience in human resources and industrial relations at Hoechst, became the Chairman of the Supervisory Board. The business press at the time credited Dormann with having orchestrated this unusual decision.[3]

Dormann made significant changes in the Management Board over the first year and a half of his tenure, reducing it in size from 11 to 9 and later to 6 members. Six Management Board members were of retirement age when Dormann became CEO, so he used the demographic dynamics to his advantage to bring in new members with fresh perspectives and to shrink the Board size by not replacing all the members who left. He consciously sought to bring in people he believed would be “change agents who saw from the outside the blocked arteries of headquarters,” as he put it. Not surprisingly, several came from the Dream Team. One of the longstanding members of the Management Board recalled a qualitative change in the nature of discussions that ensued from the constellation on the Board.

> “My colleagues and I used to fight for ‘our’ business, the part we were responsible for, not so much for Hoechst AG. But this changed a lot when the new people arrived because they had international experience and they used to be responsible for the Hoechst overall business in their regions, so they had a different view. They thought of Hoechst as a total entity, rather than being ‘the good old man’ for chemicals, or for dye stuffs, or pharmaceuticals.”

Claudio Sonder recalled the scope of the change not only at the Management Board level, but also at the next level down in the organization:

> “At the board level there was the large departure of the former generation. Ernie Drew came in together with Horst Waesche in January and May 1995, Klaus Schmieder and I came in May 96. And at the division level, there was not a single guy left who had been in charge two years earlier.”

Strategic Management Process

After the Dream Team submitted its proposals, Dormann dissolved it and assigned its members to key responsibilities for delivering change. Besides promoting several of these senior managers onto the Management Board, he asked them to launch the Strategic Management Process, a technique for assessing businesses and for

[3] Fischer, G. (1995)

allocating resources that Dormann had observed working very well under Drew at Hoechst Celanese in the U.S.

Once again, there was the danger of this initiative being seen as the imposition of American ideas, so the choice of experienced and trusted managers from Frankfurt to work on the process was crucial. Dormann selected Guenter Metz, the most senior member of the Management Board and Deputy Chairman of Hoechst, to head the Strategic Management Process Committee. Metz' colleagues characterized him as particularly adept at building bridges between Germans and other cultures, between the older and the younger generation in the Board, and between the old and the new mindset in Hoechst. According to insiders, this was yet another example of Dormann's skill.

> "He picks people who he thinks will do exactly what he has in mind, and then lets them do it. He thinks a lot about people. I think his abilities to observe and feel people out and listen to people are almost unique."

The 35 major business units were evaluated and placed in three categories:

- *Invest* (show potential for growth, driven by technology)
- *Reinvest* (good earnings producers worth reinvesting in to maintain position)
- *Cash-generators* (businesses that made money with little further investment)

Although the evaluation criteria at Celanese had included a fourth category, *Sell* (business to be divested), Hoechst was not looking for specific divestment candidates when it launched the Strategic Management Process. (see **Appendix**: Excerpts from Drew's presentations to investors 1996) Such a comprehensive approach was new to Hoechst. "This was the first time in the history of the company that such a rigorous strategic evaluation of all businesses was conducted under the same parameters," remembered a manager. Ernie Drew described the process and the findings of the first exercise in 1994-95.

> "They were very strict performance criteria. So, if you didn't perform (and at that time over 80% of the businesses did not meet the minimum criteria for performance in their categories) they were required to develop a plan for how to meet the criteria within three years. Or they had to change to a different category."

Another novelty for Hoechst managers was the requirement to include benchmark data in their analysis and planning process as of 1995-6, in order to compare their business with that of key competitors. The benchmarking analysis became an instrument to achieve Dormann's goal of cracking through the internal focus of Hoechst managers. Until that point, if anything, then only Bayer and BASF, the traditional German competition, had been considered relevant.

Few Hoechst managers had experience in developing business strategies. In the past, they had been asked to submit marketing strategies, or budget plans that essentially extrapolated from past performance. Many managers needed to be coached through the new process by members of the Strategic Management Process Committee and often by external consultants as well in the beginning. The incentive to deliver solid strategies was high. Ernie Drew reported succinctly: "We said, 'you are not going to get any capital approvals unless you have a valid, approved

strategy.'" Annual milestone checks were scheduled, and the impact was dramatic, because, as Bill Harris explained,

> "The Strategic Management Process, to the extent that it shone spotlights on businesses that were grossly under-performing, produced crises in those businesses."

That sense of crisis stimulated a willingness to change and improve the business.

The picture that emerged from this analysis revealed to the Management Board members that

> "A lot of the businesses were not up to speed, too small, not enough technology, not enough critical mass, the cost base was too high. We had done a lot of things. We had stretched ourselves too much in the past, so we were mediocre in a lot of things, but not good or top in even a few things."

They also learned a lot about the quality of their managers, their ability to forecast results and to deliver performance.

New organizational structure

Another step Dormann took to implement changes was to put a new organizational structure in place as of January 1, 1995. The new structure reflected the ideas laid out in the *Aufbruch '94* speech and the recommendations of the task force. The key elements of the change were the restructuring of the organization into regional clusters, and the primacy assigned to business units. In other words, the former country-based structure remained only to provide services to the business. The large headquarters was streamlined into a much trimmer corporate center. Staff were reassigned from control functions for the Board to service functions for the businesses.

The vision behind the new organizational structure was to achieve "an international network of innovative and customer-oriented companies," as Dormann had explained in his *Aufbruch '94* speech, and presented to his shareholders in the first Annual Report published under his tenure. Claudio Sonder remembered the process well because he and his fellow task force members were responsible for communicating the change.

> "I was in charge of informing all the European subsidiaries of Hoechst that the country CEO would not be more than an administrative officer for the functions providing services to the business units. You can imagine what this meant, because I was considered the traitor, the guy who came from the outside and I was changing and diluting their power."

The pain was felt in Germany as well. The new model implied a heretofore unknown separation between the corporate center and the German operations. Dormann demonstratively refused to attend the meetings for employees on the Frankfurt-Höchst production site in order to underscore the distinction between his responsibility as CEO of the whole corporation and the responsibility of the newly installed director of the Frankfurt-Höchst plant. Employees were shocked. Many of them still fondly remembered "our Karl" [Winnacker], the first CEO who had built the company back up after World War II. Dormann's predecessors had given the local employees at Frankfurt-Höchst the sense of being the most important part of the Hoechst world because they were close to the center of power. "Professor Hilger was always there for us," complained a labor representative, who was surprised that

Dormann should withhold his personal attention from them at this particular point in time "when there is all this uncertainty around".[4]

Dormann went further still and abandoned the traditional headquarter offices at the Frankfurt-Höchst production site and built a new corporate center. It was just across the Main river - still technically on-site - but local employees felt "it might as well have been across an ocean," explained the chairman of the works council and member of the Supervisory Board, Arnold Weber. The traditions of the company and some of its cultural values and symbols were suddenly being called into question.

3. Seeking focus

In his first letter from the Chairman in the 1994 Annual Report, Dormann informed shareholders clearly and simply: "We are pulling out of those fields in which we have no chance of becoming a lead supplier." The implications of this announcement for the future shape and focus of Hoechst were to be dramatic: management was going to have to make tough decisions on the allocation of limited resources. What had started out as a process of optimizing the diverse businesses Hoechst was involved in turned into a decision to reduce the range of activities. A board member explained:

> "Dormann discovered that he had too many sick businesses and could not bring them all back to health. He had to choose those that had the highest potential for profitability and low cyclical dependence."

The logic behind this was that Hoechst had to avoid the problems it had experienced in the past with the cyclical nature of the demand for products like bulk chemicals.

A first step was to reduce the organizational complexity by restructuring the business areas:

1. Health (pharmaceuticals, diagnostics, cosmetics)
2. Agriculture (crop protection, animal health, seeds)
3. Chemicals (basic and specialty chemicals)
4. Fibres (fibers and polyester packaging resins)
5. Polymers (plastics and films, technical polymers, paints and synthetic resins)
6. Engineering and Technology (Messer Griesheim, SGL Carbon, Uhde, Hoechst CeramTec)

Starting divestments

Another step towards achieving focus was to start divesting businesses, a process that Hoechst did not have much experience with

> "I think the first time Hoechst had divested itself of a business was in the 1980s, some 120 years after the company was founded. Before that, it was always getting bigger. I think that this was the traditional view of how big German companies were doing business, we were not alone in that,"

recalled Klaus Jüergen Schmieder, Chief Financial Officer of Hoechst.

The first major divestment process began in the 1990s. The foray into cosmetics, which had been added to Hoechst's diverse businesses in 1968, was brought to a close. The Management Board decided that they could not make the necessary

[4] Fischer G. (1995), p. 54.

investment into the cosmetics brands Schwarzkopf, Jade, and Marbert, so they were sold in 1995 to Henkel, l'Oreal, and Perform, respectively. This was probably the easiest divestment for Hoechst managers to make, because cosmetics had never been seen as a core activity: it had represented less than 2% of Hoechst's overall sales in 1994.

Among the other steps taken in 1994-1996 to focus Hoechst resources on businesses the management believed it could get the best value from were:

- The synthetic resins business was spun off.
- The company decided to get out of the chemical chlorides business.
- The specialty chemicals business Riedel-de-Haën and the specialty chemical producer BK Ladenburg was sold.
- The textile dye business was moved into a joint venture with Bayer under the name DyStar.
- The European fibers business underwent dramatic restructuring to correct the loss-making situation of these operations: the polyester fiber activities in Europe were transferred to a new, independent company, Trevira.
- The propylene film business was moved into a cooperative venture with Courtaulds plc, and the rigid films into a partnership with Kloeckner-Werke.
- A joint venture was planned with BASF for the plastics business, which represented two thirds of the polymer division’s business.
- The sausage casings and spongecloths business was transferred to Kalle Nato, a wholly owned Hoechst subsidiary.
- SGL Carbon, which had become the largest supplier of carbon and graphite products, was made a joint stock company at the end of 1994 and went public in 1995, with Hoechst selling its stake completely in 1996.
- Uhde, a plant engineering company, was sold in 1996.
- Hoechst CeramTec, a technical ceramics manufacturer, was sold in 1996.
- Specialty chemicals were transferred to Swiss specialty chemicals company. Clariant, whereby Hoechst became Clariant's largest individual shareholder.

Shifting away from activities in the other business areas was more difficult to agree on than for cosmetics. The analysis generated by the Strategic Management Process and Dormann’s commitment to producing high shareholder value pointed towards a focus on pharmaceuticals as Hoechst’s most promising area of activity. The underlying logic, as Ernie Drew presented it, was very simple:

> “At that time, the commodity chemical business, the best one, had a multiple of 12. A mediocre pharmaceutical company would have a multiple of 20 or 25, a good one would be up at 30-35. So, if you are creating shareholder value and you have this choice of businesses, where do you put your resources? You put it into pharmaceuticals. It is that simple, it is that obvious. The agricultural businesses, they would carry in the 20s.”

The concept of shareholder value had gained currency in the U.S. in the early 1990s, but in Germany, Dormann was unusual in his vocal support of the concept, earning himself the nickname “Mr. Shareholder Value.”

The divestment process had dramatic consequences for employees of Hoechst’s diverse businesses, and such decisions require the agreement of labor representatives in Germany. The values and skills of key actors in building on the traditionally good labor-management relationship at Hoechst were significant. The

fact that Bouillon, whose previous management responsibility had been for personnel and had given him experience in dealing with labor relations, served as chairman of the Supervisory Board during much of the transformation period made a difference. A very senior advisor to Hoechst observed that

> "One of the most important characteristics of Bouillon is his very high sense of responsibility for people. He would not have done anything that he would have considered dangerous for people in the company. And I believe that Dormann also shares this sense. This means that the question they posed themselves was: Will the employees, locations, plants have a better future if they are allowed to function independently than if they remain under the Hoechst roof?"

For American managers this attitude was new. As one research manager who had worked both in Frankfurt-Höchst and in the Bridgewater, New Jersey site commented,

> "Here in the U.S., you've got market forces that truly drive your hiring, your firing, whereas in Europe, I think, it's the social forces that drive, rather than the market."

Drew was characteristically direct in his comparison of the different approaches he had experienced on the two sides of the Atlantic.

> "The Americans will immediately go 'bang, bang.' If the American company is the one acquiring, it takes them six months to get everything behind them. They don't waste time. They are not as sensitive to the foreign culture. The Europeans are much more sensitive to the political ramifications of what they are doing."

Exploring alternatives to focusing the business

Not all the members of the Management Board agreed with Dormann that Hoechst would be best served by focusing on pharmaceuticals at the expense of the other activities that the company had built its reputation on over more than a century. Hoechst was the world's largest producer of polyester and acetate fibers. It was not yet a big player in the U.S. pharmaceutical market, but it had a very strong presence in the U.S. fibers market. Seventy percent of Hoechst Celanese sales were generated in the U.S. However, becoming one of the top three global players in fibers and plastics would have required upstream integration, placing Hoechst in competition with companies that were already securely positioned there, like BASF and Royal Dutch Shell. A conceivable option for strengthening the fibers business would have been to move further downstream into textiles, maybe even into fashion. One of the many reasons for not taking this route was that the bad experience in the cosmetics business had left Hoechst managers with the feeling that they were not equipped for success in consumer businesses. Furthermore, in order to ensure a competitive cost base, the production of polyester fibers would have to be moved out of Europe and concentrated in the Far East. However, in the context of social legislation and labor laws in European countries, the closure of European production facilities would be a very costly process.

The greatest resistance to the new direction Hoechst was taking came from the chemicals side of the business. Admittedly, the current figures were not good, particularly in Europe where price pressures caused sales to stagnate, resulting in a 139 million DM decrease in global chemicals profits in 1993. Despite the figures, some argued, chemicals are a cyclical business and they had often done so well in past years as to subsidize weaker areas, including pharmaceuticals. The managers responsible for the chemicals business wanted to turn the division around. They also

feared that narrowing the range of activities would make Hoechst vulnerable because there would be no way of compensating for problems that might emerge in the remaining business. They argued that, despite recent deficits in European industrial businesses, Hoechst had generally been very successful with its past strategy of diversification, and that it should therefore continue as its traditional German competitor Bayer was doing. Bayer was not changing its strategy, it chose to remain a diversified chemical-pharmaceutical company.

Dealing with diverging views

The different views on the need to focus versus the need to maintain a diversified strategy created tensions in the Management Board. Not surprisingly, a power struggle underlay the policy debate. The tensions were probably heightened by the fact that the future careers at Hoechst of several longstanding board members were closely associated with specific business areas. It was neither Dormann's style nor characteristic of the Hoechst culture for differences to be resolved through outright conflict. Ernie Drew, who was accustomed to working in American boards, tried to bring a more confrontational mode of discussion to the Management Board of Hoechst and even recommended to Dormann that he grapple with opponents in as aggressive a way as Jack Welch is reputed to do. But this Dormann refused to do. He continued to talk with dissenters and either obtained their support or "moved them to the sidelines," as one Board member put it.

In spite of internal disagreements among its members, the Management Board did not present competing visions and strategies to the Supervisory Board, but rather a consensual position. This corresponded to the governance view of Martin Fruehauf, who succeeded Bouillon as head of the Supervisory Board in mid-1997. He had a very clear sense of the role of this organ: he believed that its purpose was to advise, support and monitor the work of the Management Board, not to get involved in designing strategy itself. Under his leadership the Supervisory Board discussed and then approved the direction recommended by Dormann.

Another reason the Supervisory Board went along with the strategy to focus the business lay in the business environment. The members were

> "influenced by how we perceived the other companies to be acting, and also by the dominant management philosophy of the time" as one of them reported. "The strategy of diversification, with the subsidization of some areas by others, was rejected as a philosophy by consultants and by major competitors at the time."

Nevertheless, another member recalled that

> "of course some of the Supervisory Board members who had previously been responsible for a particular business area asked 'why did you develop my former business this way?' And of course the union representatives on the Supervisory Board had to ask, 'How many jobs will that cost?' But I would say that the influence of the Supervisory Board was not a very strong one with regard to the new ideas or new structures."

Not until a few years later into the change process would Dormann and his Management Board experience strong resistance to their plans from members of the Supervisory Board.

Acquisition of Marion Merrell Dow

The process of focusing was not only a matter of divesting certain activities, but also of investing in others. The most significant investment made soon after Dormann became CEO was the acquisition of the Kansas-based pharmaceutical company Marion Merrell Dow (MMD) for $7.1 billion in March 1995. With this move, Dormann pursued two goals:

1. To boost Hoechst's access to the U.S. market, and
2. To gain experienced managers of international caliber.

The Management Board members believed that this acquisition was crucial. Without it, Hoechst would have had to leave the North American market, because neither Hoechst nor Roussel had the leadership capabilities that were required to cope with demands of this market. Marion Merrell Dow had a strong sales and marketing presence in the U.S., and had itself been looking around for a partner with a strong European presence. Dow was interested in selling this business because it was in the same focusing mode as Hoechst, but had opted to stay in chemicals and exit from pharmaceuticals.

Not all observers were impressed by Hoechst's choice. Marion Merrell Dow was considered by some to be "a large, but mediocre pharmaceutical company"[5] that had no real research capacity. Rainer Kumlehn, the union representative on the Supervisory Board of Hoechst, recalled the critical voices in the pharmaceutical community in Germany who felt that Hoechst was making a mistake and by buying a company that "did no research, produced nothing, and were no more than a fancy trading company." Kumlehn countered that he and his union believed it was better for Hoechst to take this step than to be acquired by a large American company. They sensed that such a move was needed to ensure Hoechst's position in the league of truly global players.

Perhaps Marion Merrell Dow's strongest asset in the eyes of Dormann and his change-oriented team was state of the art industry thinking, which they hoped to inject into what they still perceived to be an overly German mindset in Hoechst. A younger manager who had observed the process believed that

> "Our management realized that in Hoechst and in Roussel we had only European-focused management. They knew the European market very well. But they had really no idea how to manage the U.S. market, which, being the most important market, needed special management attention."

Dormann had already learned with Celanese how to draw on the skills embedded in an acquired company. He had brought experienced managers like Drew and Harris into Hoechst from Celanese rather than replacing them with Hoechst managers. Marion Merrell Dow also had several key players who were soon assigned to leadership roles in the new multinational corporation, renamed as Hoechst Marion Roussel. Dormann put it very simply: "We bought Marion Merrell Dow to get access to Dick Markham and Frank Douglas, who are a powerful tandem."

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[5] Andrews, E. L. (1998). "Embattled Hoechst sticks to bold plan." *International Herald Tribune,* March 24.

Dick Markham brought a great deal of experience in the industry from his twenty years at Merck before joining the Board of Directors of Marion Merrell Dow. Within Hoechst, he became head of the entire pharmaceuticals business. Dormann valued Markham's ability "to think how big pharma thought, to make big ideas happen, and to build an innovative machine." Frank Douglas, originally from Guyana, brought complementary skills. He came with an M.D., a Ph.D., and eight years of experience at Ciba Geigy, where he had had a brilliant career. He was given worldwide responsibility for research within Hoechst.

From these senior managers and their colleagues, Hoechst was to learn not only how to improve its sales and marketing, but also how to radically reform its research processes in order to become more successful in generating innovative products and getting them approved. The newly acquired American managers also strengthened the resolve of Dormann and his change team to continue down the route they had embarked on, because they brought in a management culture with a clear message: "Focus, focus, focus!"

4. Developing new competences

In order to achieve the vision of becoming one of the top three suppliers in the world and generate an above-average return on capital employed, Hoechst needed to develop several competences it had not previously built on. Most important among these were the ability to develop new drugs and obtain approval fast, and the ability to deal with critical international financial analysts. The traditional research and development methods were too slow to bring a sufficient number of innovations to the market, and the style of communicating to shareholders in Germany proved totally inadequate for dealing with advocates of shareholder value. Developing new competences amounted to changing mindsets in the organization.

Acquiring a new knowledge base in biotechnology

The nature of research in the pharmaceutical industry started to be revolutionized in the early 1980s by biotechnology.

> Defined as **the application of scientific and engineering principles for the processing of materials by biological agents,** *biotechnology* is credited with making it possible to:
>
> - Prevent, cure and treat more diseases than is possible with conventional therapies
> - Develop more precise and effective new medicines with fewer side effects
> - Anticipate and prevent diseases rather than just react to disease symptoms
> - Produce replacement human proteins on a large scale that would not otherwise be available in sufficient quantities
> - Eliminate the contamination risks of infectious pathogens by avoiding the use of human and animal sources for raw materials

The American enthusiasm for the potential of biotechnology was not widely shared in Europe. The sociopolitical environment in Germany, particularly in the state of Hessia in which Hoechst was located, was far more skeptical about the promise of such scientific experiments in the 1980s than were observers in the U.S. The new Green party was strong and environmental concerns dominated the political agenda, leading to restrictive legislation and difficulties in obtaining permits. In business

circles, however, there was a sense that not just Germany, but Europe, had missed the boat in the race to develop leading information technologies, and there was fear that the same might happen in the field of biotechnology. Hoechst managers were concerned that the local restrictive mood would block the company's ability to develop its research competence in this field.

Hoechst's CEO at the time, Rolf Sammet, took a surprising step in order to simultaneously get Hoechst onto the learning curve for biotechnology and send a political message. In 1981 he launched a partnership with the Department of Molecular Biology at Massachusetts General Hospital. The $50 million contract for a ten-year period gave Hoechst the right to send up to four researchers per year to these cutting-edge labs so that they could learn the new techniques and bring them back to the Hoechst research labs. It also guaranteed Hoechst licensing rights to any results of the collaboration. (In 1993 this contract was extended until 2000, and the total investment was in the range of DM 480 million.)

Although Hoechst managers entered into the relationship with the intention of learning, the investment did not bear much fruit. According to the terms of the agreement, "research topics would be mutually agreed and implemented, and Hoechst would have first say in the exploitation of results."[6] In practice, however, both sides were disappointed. Although 29 patents came out of the cooperative effort and 18 researchers were sent to learn the techniques, many Hoechst observers simply labeled the experiment as "a waste." They were irritated with Mass General because they perceived the American lab as having treated the investment as an endowment. A principal researcher at Mass General, whose lab had clearly benefited from the investment, was nevertheless disappointed because he felt it had been

> "Almost impossible to get Hoechst to use our technology" so he felt like "giving up on getting them interested in what we are doing, giving up on having an impact on them."

Dick Markham pinpointed the problem at the senior management level:

> "At the top of the research organization at that time there was an under-appreciation of the importance of the new technologies, so they didn't demand that the people in their groups incorporate those technologies into their projects. So, you could send people all you want, rotate them through, but if the guy at the top isn't insisting that you use those new approaches in your research projects, it's never going to happen."

Douglas, who arrived in Hoechst towards the end of the investment period in Mass General, analyzed why what the individuals learned did not get transferred to their labs after their return. He noted that "the receptor sites weren't here" for the researchers to share and use their newly acquired knowledge. Douglas therefore established accountability not only with the individual researcher but also with his or her manager for ensuring that the skills learned elsewhere would be applied in Hoechst.

The ability to learn with and from external partners was becoming increasingly important in the pharmaceutical industry. Without the competence to work in strategic alliances and joint ventures, Hoechst would not be able to keep up with the competition. A few key managers in Hoechst identified the systemic weaknesses behind the wasted opportunity of the investment in Mass General, and they put

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[6] Taggart, James. (1993) *The World Pharmaceutical Industry*, p. 265.

processes in place to avoid repeating such expensive mistakes in other partnerships. A research manager in Bridgewater, New Jersey, observed that Hoechst had not been clear enough about the objectives of the Mass General venture, and “had just made the investment and somehow retrofitted their expectations after that.” He therefore insisted that researchers clearly define the purposes of all partnerships and identify specific milestones to be achieved along the way.

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Reorganizing Research and Development into Drug Innovation and Approval

Hoechst was a research-driven company. It was proud of its research tradition, and had maintained a higher level of investment into research than many of its competitors. However, top management had come to recognize that spending large sums on research did not automatically lead to the launch of large numbers of innovative products. The member of the Management Board responsible for the pharmaceutical division, Karl Seifert, admitted to a journalist at the time,

> “We were always one of the first companies to come up with new chemical entities, such as the ACE inhibitors, but always one of the latest on the market with them.”[7]

When Markham and Douglas arrived in Frankfurt in 1995 with their new global responsibilities for pharmaceuticals and for research in Hoechst they both saw a need to make significant changes that would entail shifting the mindset about the purpose of research in the organization.

One step was to establish research as a global function, and to get people thinking in a global manner.

> “The orientation back then was still of a German company, a company dependent on the German market with a few outposts, as opposed to a global company that happened to have its headquarters in Germany.”

Markham felt that global thinking needed to be embedded throughout the entire process of getting new products to the market. He wanted to move the thinking away from the approach of getting new products “approved in Germany and then somehow piece something together to try to get it approved in Japan and the United States” towards the goal of

> “developing the product from the beginning with the idea that we are going to submit it in all the regulatory agencies worldwide on the same day, and to get it approved as close to simultaneously as possible.”

Another significant step was the decision to move the core of late stage development to Bridgewater, New Jersey, "in an effort to capture the crosswinds of where research was happening, in the world's largest market,” Dormann explained.

A close look at the range of projects undertaken by researchers in Hoechst revealed that the function suffered from a similar problem as had been uncovered across the whole company during the Strategic Management Process. Markham found that the research and development function of the pharmaceuticals division

> “Was working on too many things and the resources were spread too thin to get anything done well. When we began, there were over 70 projects in development. We did a prioritization and kept 25 out of the stock and stopped about 50. We just stopped funding them. A miracle

[7] Koberstein, Wayne (1996). "Hoechst's Karl Seifert," *Hoechst Ausländische Pulikationen*, Feb. 1, p. 38.

> happened: the 25 all started moving faster in a more consistent way and the result now is that we have one of the better pipelines in the industry."

Considering that it takes an average of 12-15 years to develop a new drug and bring it to market, and that the pre-tax cost of developing a new drug has risen from $500 million in 1990 to close to $750 million in 2000, focusing on carefully selected projects is a crucial determinant of return on investment in research. As Markham pointed out, "deciding what you're *going* to do is easy; deciding what you're *not* going to do is the hard part."

To tackle this challenge, Douglas introduced a rigorous and participative process to evaluate projects. Researchers had to present their projects to their peers and to an external panel, which then decided which projects to pursue and which to drop. In order to achieve maximum buy-in for the outcome, Douglas asked the researchers themselves to design the evaluation process, insisting only that he have a veto right on the names of people selected for a review panel, and that six items be addressed in the presentation:

- The scientific data
- The hypothesis
- The data to support the hypothesis
- The time from the last milestone to the next milestone
- The critical question that needs to be asked
- The commercial assessment of the attractiveness of the project

Having ensured that a robust and transparent process was in place, Douglas

> "Never once made a comment on a project. I left it to the external panel and the internal panel to comment. No one could say that I had a favorite project that I wanted to maintain, or that I didn't like a project."

The goal, as a French research director put it, was to have a "seamless value chain from research to marketing." To achieve that goal Douglas took a significant symbolic step in 1997 that had very practical implications. He changed the name of the function from the traditional label "Research and Development" to "Drug Innovation and Approval." "Why did I do that? To start the dialogue," Douglas explained. He had observed that

> "People were very focused on science. They were focused on doing experiments. But they were not focused on asking the question 'will this experiment tell me whether this component or this project is likely to lead to a drug?' They were not asking the critical question." Changing the name of the function caught people's attention, and "they began to understand that we wanted them to operate differently."

Douglas recognized that changing the label implied challenging the very identity of researchers, and he recalled a conversation with a top scientist who asked,

> "'What am I going to do? I go to congresses and everyone knows me as a researcher. Now I have to tell them that I work in 'Drug Innovation and Approval.' I don't know what my identity is." Douglas responded, "When you can say to them 'I am a drug innovator and here is the drug or the drugs that I have innovated and put on the market,' I do not think that you will have an identity problem."

The output over the next five years of the former research and development function, in its new guise of Drug Innovation and Approval, was to prove Douglas right.

Such management disciplines as targets, milestones, and accountability, were new to Hoechst researchers, who initially deeply resented the cultural change that the introduction of these ideas implied. And, they felt that having to accept changes from American managers who had been acquired from MMD, a company that had no research track record, was adding insult to injury. A Management Board member recalled the mood: “German researchers, the elite of the world - to give them a foreign manager, and an African-American one at that! That was really tough.” Douglas himself pointed out that “it is not usual for a African-American person to be at this level in America either.” He had Dormann’s support, however, and was valued as “an eternal revolutionary who can pick out the most valuable ideas from a whole sea of ideas.” Douglas earned the respect of Hoechst researchers when the changes he implemented bore fruit, but the road was rocky for several years.

Learning to deal with international financial markets
Dormann’s decision to make Hoechst a global leader generating “an above-average return on capital employed” required increasing the exposure of Hoechst to Wall Street investors. The traditional relationship between German companies and their shareholders had not prepared Hoechst managers for the demanding nature of international financial markets. Dormann had set in motion some awareness and learning about financial markets in the 1980's, in order to move the finance department beyond the traditionally German approach of solid accounting, but this thinking had not yet spread into the organization. The institutional investors on Wall Street expected far higher returns for shareholders than German companies had aimed for in the past, and their analysts insisted on obtaining much more information about companies than the German companies had been accustomed to providing. “The stock exchange in Germany just slept, and companies did not pay much attention to shareholders” was the general assessment at the time, reported a senior manager.

Klaus Juergen Schmieder, who became CFO of Hoechst in 1996, remembered well the enormous impact his first exposure to the capital markets in the U.S. had had on him some years earlier while he was based in the U.S. as Treasurer of Hoechst Celanese.

> “The investment bankers came in and talked to me a lot, the exposure was endless. I think it was the first time that I thought about the value of Hoechst. They showed me a graph on which market capitalization was plotted. There was Merck, Pfizer, and Johnson & Johnson, and all the U.S. healthcare companies. At the very end of it were Bayer, Hoechst, and BASF. Our traditional view was that ‘these are the big guys,’ because for me Hoechst was always this huge conglomerate with a lot of size, revenues, people, everything. But all of a sudden, I realized that this was not the case. We were second tier in terms of value. So that was a real eye opener. Hoechst must have done a lousy job up to that point in terms of shareholder value creation if we were so far behind.”

The managers Hoechst had acquired who were experienced in the U.S. capital market, particularly Drew and Markham, along with Schmieder, actively worked on building relationships with the investment community and they coached their German colleagues in how to prepare for meetings with analysts, make presentations, and how to respond to penetrating questions. Horst Waesche remembered the learning curve he had to go through in dealing with

> “the analysts, 30-year-olds who ask all kinds of questions, no holds barred. That was something new for the German culture. They were totally foreign to us—but what we did know was how to deal with the unions.”

The latter skill proved crucial throughout the transformation process in the European locations.

Dormann and his team appeared to have learned very rapidly how to communicate with the analysts. They and their corporate strategy at first earned high praises from the investment community. By 1998 one analyst wrote,

> “Since taking charge of Hoechst AG in 1994, Mr. Dormann has won rave reviews for putting Hoechst, the huge chemicals conglomerate through a breathtaking alchemy … Analysts repeatedly praised the strategy as bold, brilliant, and fundamentally ‘Anglo-Saxon’ in its hard-headed focus on profit”.[8]

The market value of Hoechst more than doubled between 1994 and 1996.

The biggest step was taken in 1997, when the Hoechst shares were listed for the first time on the New York stock exchange. During this period, “Juergen Dormann came as close as any German business executive to being a Wall Street Darling”[9] But in 1997 and 1998 Hoechst experienced the costs that ensue when companies do not meet shareholder expectations. In March 1997 Dormann had to announce disappointing results for 1996. The business press reported that “Juergen Dormann shocked the public with bad results for 1996 and lost a great deal of confidence” because the operating profit for 1996 was only DM 4 billion, a billion less than had been expected as recently as November.[10] The *Economist* noted that “Mr. Dormann was not very successful in explaining to the financial community or to the press what is going on.”[11]

In March 1997 Dormann also announced that he was reversing the decision to take the pharmaceuticals business public. The press had been sensing differences of opinion among Hoechst top management since January 1997. Drew was cited in January as saying that “this IPO (initial public offering) is just a matter of time,” whereas Schmieder was quoted a little later as saying “The question is not ‘when’ but ‘if.’”[12] The reasons for pursuing or canceling the planned IPO for pharmaceuticals reflected different logics within the Management Board. Within the pharmaceuticals division there was great enthusiasm for the plan to float the company, and years later Drew commented

> “I still supported that it should be an IPO because I knew from all the businesses that I had been involved in that when you have some public ownership, you bring a focus on your business.”

Schmieder argued differently:

> “I had this instinctive feeling this was going to be a big negative for the Hoechst shareholder. So I turned to Horst Waesche and Claudio Sonder, and I said ‘let’s really look into this thing,’ and we brought in two or three investment bankers and asked them to tell us if this was a

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[8] Andrews, E. L. (1998).
[9] Andrews, Edmund L (1998). *New York Times*, 21.3., p. D1.
[10] Enzweiler, T. (1997). "In der Zwickmuehle," *Capital*, 7/97, p. 48-52. *(our translation)*
[11] *The Economist (1998).* "Adored no more," 21.3, p. 86.
[12] Marshall, M. (1997). "Drug division has Hoechst split," *Wall Street Journal Europe*, 28. 1, p. 13.

> good idea from a Hoechst shareholder perspective. And they all said 'No! If you really want to maximize the Hoechst shareholder value, don't do it.'"

Schmieder added with a smile that the investment bankers also said quietly "'don't tell our equity people, because they will hate us for it, but if you ask us for our opinion, don't do it!'"

At an offsite meeting in January 1997, the Management Board debated the issue hotly and finally decided "no pharma IPO, but we don't talk about it yet." For Dormann, the decision represented only a tactical change in pursuit of a clear strategic direction. His underlying logic for the IPO had been to generate the capital needed to buy the remaining shares of Roussel Uclaf in order to unite and have full control over the pharmaceutical businesses. "Pharma is the strategy, so we want to control that business 100%," he explained. When the sale of Clariant provided a surge of capital with which to buy the shares, in Dormann's mind the IPO was no longer necessary. Some observers agreed and gave him credit for this consistency: "Lately, Mr. Dormann has gone out of his way to emphasize bad news and deflate expectations. But when it comes to his strategy, he does not budge."[13] However, the sudden announcement of this decision in March led others to revise their opinion of Dormann. "I simply don't trust that man any more," commented a German fund manager.[14]

Instead of improving, things became worse. (see **Appendix**: Summary of statistics 1993-2000) In November 1997 Hoechst posted a sharper than expected drop in 9-month pre-tax profits (19%), and the share price fell nearly 7%. In January 1998 Hoechst researchers did the unthinkable: they started a series of demonstrations every Monday at the gates of the Frankfurt-Höchst site. The German press wrote about what they perceived as a crisis at the top of the company, and it speculated that the largest shareholder, the Kuwait Petroleum Corporation, might be getting ready to sell its stake because the profits trailed far behind those of the competition.[15] By the spring of 1998 there were rumors that Bayer, Hoffman LaRoche, or BASF might be about to acquire Hoechst.[16]

5. Hoechst becomes a "life science company"

In 1997, during the very period in which Hoechst was disappointing its shareholders, it announced that it was becoming a "life science company." The concept created an umbrella for focusing on the pharmaceutical and the agricultural business and using biotechnology and genetic engineering as sources of innovation. On the one hand, this was not particularly surprising, because competitors like Novartis had already taken the life science route. On the other hand, it did mean a major shift away from the chemical industry roots of Hoechst. That life science was not just a new label for the existing portfolio, but a significant change was confirmed when Hoechst sold its specialty chemicals business to Clariant in July 1997, thereby divesting itself of the business on which the company had been founded. Somewhat more than a quarter of the 40,000 employees in Germany at the time were spun off with Clariant. Many of these people were third and fourth generation Hoechst employees, so "it was a big, big, big emotional problem," remembered a longstanding manager.

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[13] Andrews, E. L. (1998).
[14] *The Economist* (1998).
[15] Enzweiler, Tasso (1998). "Hoechst gespalten: Krise in der Chefetage," *Capital,* Nr. 6. p. 36-43.
[16] Scholtes, B. (1998). "Schlucken Bayer und La Roche nun bald Hoechst?" *Berliner Zeitung* 30.5.

The impact was not limited to German employees: even in Japan managers were shocked and worried.

> "For a long time chemicals were said to be core, until the core was further reduced to life sciences only. … and I also felt very attached to the name. Chemicals equals Hoechst. That is very sentimental. Especially in Japan we spent several decades of effort and money to keep the brand name. For what purpose?"

In November 1998 Hoechst announced its intention to spin off its technical polymer activities as well as several of its service businesses. In other words, Celanese, the company Dormann had been so instrumental in acquiring, the company that had injected American change managers into Hoechst, was to be divested because it had no role to play in the life science vision.

The emergence of the vision

The vision of becoming a life science company was not in the minds of Hoechst managers at the outset of Dormann's tenure as CEO. In the *Aufbruch '94* speech the pharmaceutical, agricultural, and industrial chemical sectors were given equal weight. The original intention had been to build on the best businesses in each of the three sectors. The Dream Team and the Strategic Management Process were established in order

> "to figure out how to optimize the organizational structures and to review the portfolio and then to figure out what we wanted to do, and what we wanted to discontinue doing,"

members said. Gradually a "switch from optimizing the existing business to developing something really new" occurred in the thinking of senior managers, Hofstaetter recalled. They discovered that they really had the opportunity to create new structures, develop a new vision, try out new strategies, and change the culture of the organization.

The sense of vision being the outcome of an emergent process was shared by many of the top managers. As Schmieder said,

> "I think as we moved forward things kind of developed. At least, that's the way I look at the process, that we were on a journey to discover what was lying ahead. I don't think that we had this preconceived vision."

Nevertheless, many managers, including Schmieder, had a feeling that Dormann's capacity to envision the future was greater than that of others. "Maybe Dormann had [the life science vision], but he never articulated it." Some managers believed that the ability to see ahead, but not to push the organization faster than it could handle the new ideas, was a particular strength of Dormann's. "He very skillfully allowed the organization and the people to learn," observed a senior manager in Japan.

External factors also contributed to the shift to a life science vision. The creation of Novartis through the merger of the two major Swiss-based pharmaceutical companies, Sandoz and Ciba Geigy, in 1996 was definitely noticed by people in Hoechst. Schmieder recalled that the merger was announced shortly after Hoechst had acquired Marion Merrel Dow, and at the press conference at which "the idea was for us to brag about this Marion Merrell Dow acquisition, we were suddenly in a defensive type of posture. We were being asked, 'Now that Novartis is emerging,

where are you with your strategy?'" Many managers agreed with Waesche that they "did not look at Novartis as a model", but it did serve a catalytic function.

> "When Novartis was formed, we saw what was happening in the industry: it was life science and you had to be large," remembered Drew, adding "that certainly precipitated the thinking that we needed to do another step."

The impact on the member of the Supervisory Board who represented the works council, Arnold Weber, was dramatic. When he heard about the merger between the two large Swiss companies, "that was the first time that I thought, 'My God, is the man [Dormann] right after all? Is that possible in Germany too?" At the very least, therefore, the creation of Novartis increased the willingness within Hoechst to undertake significant change.

The positive response of the capital markets to Novartis and to the label life science did not go unnoticed in Hoechst. Managers in Germany, the U.S. and Japan all commented on the perceived connection between the two concepts that had gained currency in the business community: shareholder value and life science. Their interpretation was that "If you say 'Life Science,' the stock price will increase, the shareholder value will increase. It is a kind of fashion." The role of the analysts was stressed by managers like Waesche, who observed that

> "it was no doubt the capital market which pushed us into this. No question about it, because they don't want conglomerates. Those companies get discounted on the market."

Hoechst managers believed that their businesses were undervalued and would remain so unless they reconfigured them to meet the new market signals.

The label life science was attractive for several reasons. The chemical industry, including Hoechst, had experienced a number of environmental accidents in recent years, so a move away from activities and labels that were associated with pollution was needed. As Novartis managers explained,

> "At the time of the merger [between Sandoz and Ciba-Geigy], the word life science already existed. Novartis then coined the term for an industrial concept. The signal was that we are not just doing chemistry, we are in the business of health care and in the agriculture-business, so we are dealing with 'live materials,' not 'dead chemicals.' Chemicals are artificial. We are dealing with real life, we are constructive."

The other possible terms, like biotechnology or genomics, had negative associations in Europe at the time.

Life science was also a useful label because of its fuzziness. There is no agreed definition of exactly what it includes, so it enabled Hoechst to

> "retain some diversity. It could retain all of the elements of the large diversified chemical-pharmaceutical industry that might conceivably apply to the use of biotechnology and later disciplines,"

speculated a molecular biologist who had close interactions with Hoechst over twenty years. Dormann also saw the fuzziness of the term as an opportunity. Speaking to 120 top executives of Hoechst at the Corporate Conference in Boston in October 1997 he pointed out that

> "The life sciences concept has become quite popular in the investment community because it is believed to be the strongest driver thanks to innovative biotechnology, growing demand, and global dimensions. But, surprisingly enough, there is no clear understanding or definition of what a life sciences business consists of. … Therefore, we have to create our own individual concept for the Hoechst Group."[17]

Managers like Douglas took a very pragmatic approach to the matter. He said, "We happen to be several businesses in a family called Hoechst," and he asked his people to explore the question

> "'Are there synergies in the way we do business? Forget whether the business describes the life sciences or not. Are there things we could do together that would improve each of our abilities to innovate better and indeed to find what I call the white spaces, because we are looking at the problem from a different point of view than the other person?'"

Hoechst appeared to be well positioned to compete at the leading edge of life science. The acquisition of Marion Merrell Dow had given the pharmaceuticals division "the necessary critical mass", as Hofstaetter put it. Hoechst had also been building a strong presence in the crop science area through its joint venture with Schering, AgrEvo, created in 1994. Acquisitions had further grown that business area as well.

The crop science field, however, was not without its problems. The future of the market for the products was unclear and in Europe there was skepticism about the environmental safety and the actual need for genetically modified products. Early on, an experimental field with genetically modified rapeseed had been sabotaged. In addition, within the academic and business communities doubts started to emerge about the usefulness of the shared platform. The markets and the distribution were too different for synergies to occur at that end of the process, and even in research experts were becoming skeptical because, "if there is a commonality, it rests in the very earliest stages of research."

The ability of the life science model to deliver the value it promised was questionable. Reviewing Hoechst's disappointing results a year after the life science vision had been announced, the business press commented,

> "More embarrassing yet, Hoechst is being upstaged by defiantly unrevolutionary rivals, such as Bayer AG and BASF AG. Both companies have held onto their chemical businesses and both reported big jumps in sales and profit last week".[18]

Even Novartis was not to succeed long in maintaining the value of its combined activities under the life science label.

A partner is sought, and found
The generally shared belief in the pharmaceutical industry in the 1990s was that, as Novartis managers put it,

> "You cannot be small and profitable. Some shark will come and make an unfriendly takeover. So the best defense strategy is a certain size so that nobody can swallow you."

[17] Dormann, Juergen (1997). "Target: Hoechst International Management News," Hoechst Internal Publication, Frankfurt, 15.10.
[18] Andrews, E. L. (1998).

During the decade, almost thirty mergers and acquisitions took place in the industry world-wide, most of them as of 1994. (see **Appendix**: Pharmaceutical M&A in the 1990's) The intention was to achieve economies of scale in order to be able to dedicate more resources for expensive research and development. A member of the Supervisory Board put it simply:

> "Who can afford to put DM1 billion at risk every year to bring enough new products to the market? Only the first companies. It is not the magic figure of being number 1, 2 or 3 in the world, it is about being big enough to develop innovative products."

Business journalists observed the shift in assumptions in the industry, and they were skeptical about the logic.

> "There used to be a general agreement that in pharmaceuticals not size but rather speed and the capacity to innovate were the most important factors. Now the managers of the British partners Glaxo and Smithkline are telling us that size is a precondition for speed. . . . The argument of 'critical mass' is overstated. Looking back at the significant innovations from the 1970s and 1980s, they did not come from the labs of the leading companies . . . but rather from the medium sized actors like the Swedish Astra, or the British Glaxo, which did not need to make any acquisitions between 1958 and 1993."[19]

Despite this merger and acquisition trend, the industry remained fragmented. No single company accounted for more than 5% of the world's prescription pharmaceutical sales. The conclusion drawn by top managers in the industry, including Dormann, was that "there is still room for further increases of the market share for the top group."[20]

The picture was somewhat different for the other component of the life science business, agricultural products. There, the top 8 companies dominated a much larger proportion of the market (about 70%). Therefore, if Hoechst wanted to be among the lead players in life sciences it needed to find a partner with strengths in both business areas. In September 1998 Dormann announced to business journalists in Frankfurt that Hoechst had completed its restructuring and had consolidated its portfolio, so the company was "ready for a partner" and was "looking around" but without any haste.

A partner that could guarantee a significantly greater presence on the large and particularly profitable U.S. market was desirable, because Hoechst continued to be relatively small player there. However, most of the German top managers found the idea of a merger with an American company unattractive, because they feared that "Hoechst would disappear if it merged with an American company, including the site and everything." The prospect of being a junior partner in a merger was not acceptable to Hoechst. Weber expressed what many people at all levels of the organization thought, at least in Germany: "I would always have wanted to be number one in a European company rather than being unimportant in an American-German company."

The Hoechst managers who were less averse to choosing an American partner for the merger (mostly Americans themselves) pointed out pragmatically that there were

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[19] Hofmann, S. (1998). "Die Grossen werden auch weiterhin nicht immer die schnellsten sein," *Handelsblatt* 20/21.2, Nr. 36. (*our translation)*
[20] Kobayashi (2000). "Interview with Juergen Dormann," *Nikkei Business*, 6.6, p. 52-55.

no attractive options available on the American market any more. They felt that Hoechst should have made a move earlier, when there had been a wider range of American companies to choose from. By the late 1990s the relative size of American competitors made it impossible for Hoechst to find an equal, but strong, partner in the U.S. A senior German strategic planner, Juergen Lasowski, recalled that

> "Companies like Merck and Pfizer had a market capitalization of between $100 and $200 billion, whereas Hoechst had a market capitalization of $20 or $25 billion. So for them it would have been very easy to absorb Hoechst, just to take it over."

The management was not willing to entertain such a plan, even though one manager admitted that for the Hoechst shareholders this could have been a very lucrative deal, at least in the short run. "Shareholders benefit more in this kind of takeover - they normally get an upside potential of 30, 40, or 50%!"

In November 1998 rumors started emerging in the business press that Hoechst might merge with the French multinational pharmaceutical corporation, Rhône Poulenc. The company had been nationalized by the French government in 1982, and had been reprivatized eleven years later, in 1993. Since that time Rhone Poulenc had been busy separating its life science activities from its industrial chemicals business, and it had been forming joint ventures and making acquisitions to strengthen these businesses. For example, in 1994 it had acquired the remaining 49% minority interest in the Institut Mérieux (and renamed it Pasteur Mérieux Serums and Vaccines); in 1995 it had acquired the UK-based pharmaceutical company Fisons; in 1997 it bought the remaining 32% interest in its principal subsidiary Rhône-Poulenc-Rorer; and in the same year it also created Mérial, a joint venture with Merck. In 1998 Rhône Poulenc had operations in 160 countries and 65,180 employees worldwide, net sales of 13.2 billion Euros and an operating profit of 1.3 billion Euros.

Many Hoechst employees who heard about the rumors were "frankly speaking, not thrilled" as one research manager put it. Although they realized that the acquisition of Marion Merrell Dow had not yet created a strong enough presence for Hoechst in the U.S. market, and they recognized that the speed of mergers and acquisitions in the industry was making Hoechst "a medium sized company in an environment of eat or be eaten," the idea of undertaking a new merger was associated in the minds of many employees with the prospect of further cutbacks in Hoechst operations.

The external commentary accompanying the rumors was skeptical as well.

> "The merger with Rhône-Poulenc would mean that two lame pharmaceutical producers that have both fallen back in the global competition would try together to attain the top of international rankings,"

wrote the Frankfurter Rundschau.[21] True, Hoechst had 30 years of experience in working with a French company, because it had acquired a stake in Roussel Uclaf in 1968, expanded it in 1974, and had bought the remaining shares in 1997. But many managers had experienced the French-German relationship as difficult. In fact, the anecdotal evidence suggested that it was not until they had to work with Americans from Celanese and Marion Merrell Dow that the relationship had improved. Furthermore, the one joint venture Hoechst had undertaken with Rhône-Poulenc in the past, Centeon, had encountered significant difficulties. Although this blood

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[21] *Frankfurter Rundschau* (2000). "Halbzufriedene Gesichter," Nov. 18, p. 13. (*our translation)*

plasma business had been very profitable when it was set up, production in the U.S. was stopped by the U.S. Food and Drug Administration for a year and a half, and it took some years to recover fully.

Nevertheless, on December 1, 1998 Dormann and Jean-René Fourtou, the CEO of Rhône-Poulenc, held a press conference in Strasbourg to announce their intention to create “a merger of equals.” The two men spoke of the respect they had gained for each other over many months and they were confident that they could combine the strengths of their two companies to be a leader in the life science field. They intended to complete the sale of the remaining industrial activities over the course of the following two to three years. The names Hoechst and Rhône-Poulenc would vanish, to be replaced by a freshly minted one: Aventis. (see **Appendix**: Aventis - A World Leader in Life Sciences) Instead of pursuing a merger with an American partner, the two companies had chosen a 'European solution,' so the new company would be headquartered neither in Paris nor in Frankfurt-Höchst, but in the city that houses the European Parliament for fifty percent of every year, Strasbourg. This choice was an important symbolic move. Nevertheless, as Weber pointed out,

> “Let’s not kid ourselves. We have a “European” solution, but formally it is a French company, an SA [Société anonyme], not an AG [Aktiengesellschaft].”

The merger is prepared

The preparation of the merger between Hoechst and Rhône-Poulenc meant managing different constituencies, several of which were either skeptical or outright angry about the idea. The “merger of equals” into a “European solution” was not to be a smooth process.

Hoechst was significantly larger than its new French partner, so it had to reduce its size significantly in order to make the merger work. The traditionally good labor-management relations at Hoechst were put to a severe test. The restructuring process in Hoechst since 1994 had been radical but amazingly smooth. The number of employees had dropped from 172,483 to 97,000 worldwide. Hoechst was proud of its record in handling this process because no German employees had become unemployed as a result of the reductions. Either they had transferred to the spin-off companies, or they had been placed in other companies, or they had taken early retirement.

A Japanese manager remembered with amazement that, other than the phase in early 1998 in which several thousand people from the labs demonstrated at the gates of the Frankfurt-Höchst site,

> “basically everything went without problems. The German unions did not really oppose. I really did not understand that.” He speculated that “probably Mr. Dormann was very skillful in dealing with the leaders of the unions.”

In fact, the credit was due to several more factors and actors. As a German manager explained,

> “Historically there was always a very good labor relationship,” that was underpinned by “intensive dialogue about what to do, where to focus on more, always meetings with the unions on a regular basis. The secret was a very, very strong dialogue.”

The dialogue occurred at numerous levels, from the shop floor to the Supervisory Board, on which labor is represented in Germany both by the unions and by delegates from the company's works council. "The personnel and social policy were central for us" in the works council, Weber reported, recalling that

> "The discussions in the Supervisory Board on the part of the representatives of the employees became longer and longer. We challenged many more things, and we achieved certain things that we needed for our work in the works council. We established conditions in the Supervisory Board that the works council could then use to achieve successes in social policy."

Examples that Weber and his colleague from the union of chemical workers, Kumlehn, considered particularly important were the 4-year employment guarantee and the contract securing the future of Hoechst sites. However, the focus of their thinking was on Germany, and the protection did not reach very far. In Japan, for example, a manager reported that "first the sales force was reduced, then the overlap in research and development was reduced, and more than half the factories were closed."

The Management Board members "took the labor representatives on the Supervisory Board seriously, and we prepared ourselves very well for these discussions." The interaction was not limited to formal meetings. A member of the Supervisory Board explained that

> "In some other industries you just do with your unions what you are formally required to do, but we made a lot of efforts to inform them, to travel with them, to tell them our strategies," and the result of this approach was "since they knew all the steps, it was not so much of a surprise, and we never had a real fight with them."

Looking back over the transformation process he had put into motion, Dormann reflected, "Why did it take 4-5 years and not 6 months to do this? It is about managing processes, constituencies, people."

Dormann's skills at managing multiple constituencies was stretched to the extreme by the intervention of the single largest shareholder - the Kuwait Petroleum Corporation, which held 24.5% of the shares, and was represented on the Supervisory Board. They had never before disagreed with proposals of the Management Board, but suddenly disagreed strongly with the way the merger was being prepared. Further complicating matters, they made their disagreement known immediately before the Supervisory Board meeting in March 1999, at which the merger plan was to be approved. They refused to go along with the idea of first merging the life science activities of the two partners into Aventis, while selling off the remaining businesses over the following two or three years. Dormann was therefore faced with conflicting time constraints: if he met the demands of the Kuwaitis, he risked losing the French partner altogether.

After intense negotiations involving shuttle diplomacy between Frankfurt, Paris, and Kuwait, a solution was found. Instead of submitting to the shareholders a proposal for a two-step process at the shareholder meeting scheduled for May 4, 1999, a more rapid, one-step integration of Hoechst and Rhône-Poulenc was to be undertaken. On May 11, the Supervisory Board of Hoechst held an extraordinary meeting and gave its approval for a one-step merger. A few days later the Boards of both Hoechst and Rhône-Poulenc announced publicly that they were speeding up their integration.

There would be no three-year transition process for the spinning off of industrial chemicals and the other remaining non-life science activities. Celanese AG would be established retroactively as of January 2, 1999 as a separate business.

At the extraordinary shareholders' meeting on July 15 1999, a few of the small shareholders of Hoechst expressed their resentment and tried to delay the decision by bombarding the management with questions over two days. Nevertheless, 99 percent of the share capital represented at the meeting voted to approve the proposed merger. At the final Supervisory Board meeting in September 1999, the members voted on the dissolution of Hoechst, and it thereby made itself obsolete as an organ. As a company incorporated under French law, Aventis SA would not have a Supervisory Board with fifty percent representation of labor, the way Hoechst AG had had for many years.

The practical problems that the change in plans presented at the operational level were significant, but their impact varied across the businesses. While for many parts of the organization the one-step approach meant working frantically to speed up the transition, for the pharmaceutical division it meant slowing the integration down. The first meeting of management teams of the pharmaceutical divisions of Hoechst and Rhône-Poulenc had actually been held in August 1998. During a secret, intense two-day session the managers worked out where they could obtain synergies from merging their operations. Lasowski found the meeting extremely useful.

> "After the first shock, it was a great experience. We did all the work in two days basically, with fine-tuning later on. That was one of the milestones I will always remember."

In February 1999 the future management team of the two-step model Aventis met in Barcelona and Cannes. The management structure and process for the merger was clear and ready to go online as scheduled on July 1. The sudden change in plans announced in March frustrated those who had hoped that the confusion they had experienced a few years earlier during the integration of Marion Merrell Dow would be avoided in the new merger.

Many of the managers in the pharmaceutical division had been involved in the merger of Hoechst and Marion Merrell Dow. American managers in particular remembered the creation of Hoechst-Marion-Roussel as having been too slow and confusing.

> "Decision-making took a long time, there were decisions that were announced and then overturned. And then finally a strategic decision, a strategic sense of direction came maybe twelve months into the merger process, after the merger closed."

Therefore they wanted the new process to work better than the previous one. They were acutely aware of the costs of preparing and implementing a merger.

> "Every two years we have a merger. It is counterproductive. By the time we are ready to implement a new way of business, we are merging with someone else and we change again. We lose talent and we lose people."

Seasoned Hoechst managers hoped that this might be their last merger so that they could simply focus on their work.

The last major official hurdle in preparing the merger was the exchange of Hoechst and Rhône-Poulenc shares for shares in the new Aventis. At least 75 percent of the shareholders in both France and Germany had to be persuaded to give up their shares in the traditional companies they knew in favor of a company that was about to be created. The arguments in favor were impressive:

- Aventis would immediately move into second place among the pharmaceutical giants of the world, with net sales of $11.2 billion, whereas neither Hoechst nor Rhône-Poulenc rated among the top ten.

- In the crop protection business, the other component of the life science vision, Aventis would be the second most powerful company in the industry, building on Hoechst as fifth and Rhône-Poulenc as eighth largest.

- With the combined research budgets of the two companies totaling $2.4 billion, Aventis would hold the first place in the world.

More than 90 percent of the shareholders exchanged their shares for shares in Aventis. Existing Hoechst shares were traded at a rate of 1.33 Hoechst shares for one Aventis share, and Rhone-Poulenc shares were traded one share for one Aventis share.

The Road Ahead
Looking back at the hectic months since the merger had first been announced, and particularly since the dramatic weeks when the decision to speed up the process, Waesche commented “My opinion is that we should be grateful to the Kuwaitis that they pushed us into doing it in one step.” Looking ahead, much remained to be done.

- Hoechst and Rhône-Poulenc brought to the merger debts that added up to more than DM 20 billion.
- Both had an operating profit that was far below that of the industry’s top players. Hoechst reported 9% and Rhône-Poulenc 15%, while the top players generated 20-30%.
- In order to put enough innovative products into the pipeline to produce the returns expected by its shareholders, Aventis would have to become more skilled than its progenitors had been in identifying potential breakthroughs and rapidly bringing them to market.

This would require more than speeding up drug innovation and approval by applying cutting-edge technologies and by managing parallel processes efficiently. Increasingly, it would mean spotting potential innovations, often in small start-up companies anywhere in the world, and developing effective alliances with these organizations whose cultures are very different from that of a large multinational corporation.

The top management team of Aventis bore little resemblance to the Management Board Dormann had worked with during the transformation process. Drew had left Hoechst in 1997 and returned to the U.S., Sonder was the CEO of Celanese, Schmieder was the CEO of Messer Griesheim. Others, too, had moved on. “If you look at the previous Hoechst team, *everybody* is doing OK” commented a senior

manager who had observed the process. Dormann himself, and several close colleagues, were approaching the mandatory retirement age for senior management. Would the organization prove able to identify and develop the caliber of managers needed for the future? Had the organization become too dependent on Dormann's reputed ability to "hold 7000 curricula vitae in his head" and his skill at putting together teams of people with complementary views and competences?

Back in 1993 Dormann had used an unusual metaphor to capture his belief that change must be managed as a never-ending process.

> "Put up tents, not palaces with thick walls and complicated rituals. Tents that you can hear through, and that can easily be taken down and pitched elsewhere if necessary.[22]

In 2000 he was still committed to "continuously trying to open this company to become more transparent, more flexible, and more international." According to this management philosophy of change, not only the form, but also the content might change. In the first annual report for Aventis, published in the Spring of 2000, Dormann and his French colleague Jean-René Fourtou were already hinting that the life science concept as an umbrella for synergies between pharmaceuticals and agriculture might be temporary. Would critics be proved correct in saying that the "soft Rambo" Dormann had miscalculated by listening more attentively to the fad-driven analysts than to the market itself?

By 2000, Dormann and his team had brought Hoechst a long way since 1994, but they still faced some fundamental organizational challenges. For example, how to manage the tension between the need for flexibility of structures, processes and content on the one hand, and the need for continuity, on the other, so that the organization would not exhaust itself in change and lose its sense of orientation? Considering the speed of change in the industry, what would a vision look like that could provide both a long term orientation for management, employees and other stakeholders, while also enabling the required adaptability to permanent and profound changes in the environment? Could the Aventis vision fulfill those criteria?

[22]Dormann, J. (1993). "Geschäftssegmentierung bei Hoechst," *Schmalenbachs Zeitschrift für Betriebswirtschaftliche Forschung,* Vol 12, p. 1068-1077.

Case B Appendix

Appendix 1: Curricula Vita of Selected Top Managers

Jürgen Dormann
Chairman of the Board of Management of Aventis

Born January 12, 1940 - Heidelberg, Germany

Education
Master's Degree in Economics
Career
1963
Management Trainee at Hoechst AG
1965
Fiber sales department
1973
Corporate Staff Department
1980
Head of the Corporate Staff Department
1984
Deputy member of the Board of Management of Hoechst AG
1986
Member of the Board of Management
with responsibilities for the specialty chemicals division, dyes and North America
1987
Chief Financial Officer and responsible for Information Technology
1994
Chairman of the Board of Management of Hoechst AG
since December 15, 1999
Chairman of the Management Board of Aventis, Strasbourg

Other activities
Member of the Board of Directors of IBM, Armonk, NY, USA
Member of the Board of Directors of ABB AG, Zurich, Switzerland
Member of the Supervisory Board of Allianz AG, Munich, Germany

Ernest H. Drew
retired, CEO Westinghouse Industries & Technology Group

Born in Springfield, Massachusetts

Education
Bachelor of Science in Chemistry, University of Georgia
Ph.D. in organic chemistry, University of Illinois, 1962

Career
1963
U.S. Air Force nuclear research officer, attained rank of captain
1966
Research Department, Celanese Chemical Company
1970
Sales Group, Celanese Chemical Company
1974
Vice President and General Manager of Resin Division, Celanese Chemical Company
1975-1987
Various responsibilities including Vice President of Sales and Planning,
and President and CEO of Celanese Canada
1988-1994
President and CEO, Hoechst-Celanese Corporation and member, Hoechst Board of Management
1995-1997
Regional Responsibility for Hoechst in the Far East
1997
CEO Westinghouse Industries and Technology Group

Horst Waesche
Member of the Board of Management of Aventis

Born February 5, 1940 - Lüneburg, Germany

Education
Engineer (tropical and subtropical agriculture)
Career
1966
Agriculture sales department of Hoechst AG
1967
Head of the agriculture departments of Hoechst Singapore and Hoechst Malaysia
1972
Managing Director of Hoechst Malaysia
1975
Corporate Staff Department of Hoechst AG
1977
Managing Director of Hoechst Nigeria
1978
Managing Director of Hoechst Thai Ltd.
1981
Head of the industrial department and deputy managing director of Hoechst Japan Ltd.
1982
President of Hoechst Japan Ltd.
1987
Member of the Board of Management of Hoechst AG, Frankfurt with Board responsibility for AgrEvo, HR Vet and Asia
1995
Board responsibility for Hoechst Marion Roussel, Asia
1998
Board responsibility for Hoechst Marion Roussel, Behring Diagnostics and China

since December 15, 1999
Member of the Board of Management of Aventis
Chairman of the Supervisory Board of Aventis CropScience S.A.

Other activities
Member of the Board of BHF-Bank AG, Frankfurt

Frank Douglas
Executive Vice President and Head, Drug Innovation and Approval, Aventis Pharma

Education
Ph.D. in Physical Chemistry and
M.D., Cornell University

Career in Medicine
Internship and Residency at the Johns Hopkins Meidcal Institution
Fellowship in Neuroendocrinology at National Institutes of Health
Assistant Professor of Medicine and Clinical Pharmacology, and
Director of the Hypertension Clinic, Pritzker School of Medicine, University of Chicago

Career in the Pharmaceutical Industry
1984-1992
Director of Clinical Biology, Ciba-Geigy
Varied positions including Senior Vice President and Director of U.S. Research
1992
Executive Vice President of Global Research and Development and
Member of the Board of Directors, Marion Merrell Dow
1995
Worldwide Responsibility for Research and
Head of Drug Innovation and Approval, Hoechst-Marion-Roussel
1999
Executive Vice President and Head of Drug Innovation and Approval, Aventis Pharma AG
Member of the Board of Directors, Aventis Pharma, AG

Additional Activities
Member of the Scientific Advisory Committee, Science & Regulatory Section of the Pharmaceutical Research and Manufacturers of America
Member of the Board of Directors of Genelabs
Member of the Advisory Board of the Paul Ehrlich Foundation
Member of the Society of Trade, Industry, and Science
Fellow of the High Blood Pressure Council
Former Member of the Chemistry Visiting Committee of the Massachusetts Institute of Technology

Richard J. Markham
Chief Executive Officer of Aventis Pharma

Born 26 September 1950 in Hornell/New York, USA

Education
1973
Graduated from Purdue University School of Pharmacy, Indiana, USA
Career
1973-86
Gained experience as District Manager, Product Manager, Senior Product Manager and Director of Market Planning for Merck & Co., Inc.
1986-89
Executive director of Market Planning for Merck Sharp & Dohme, and then Vice President of Marketing for that division.
1989-91
Vice President of Merck Sharp & Dohme International, responsible for Merck's European pharmaceutical business.
1991-93
Senior Vice President of Merck & Co., responsible for worldwide marketing and sales of Merck pharmaceutical products. President of the Merck Human Health Division.
1993
President and Chief Operating Officer of Merck & Co., responsible for the company's global operations, including pharmaceutical marketing, sales, manufacturing and strategic alliances. Member of the Marion Merrell Dow, Inc. Board of Directors.
1994
President and Chief Operating Officer of Marion Merrell Dow.
1995
Chief Operating Officer of Hoechst Marion Roussel.
1997
Chief Executive Officer of Hoechst Marion Roussel

since December 15, 1999
Chief Executive Officer of Aventis Pharma
Member of the Aventis Executive Committee

Other activities
Member of the board of directors of the Pharmaceutical Research and Manufacturers Association, Centeon LLC., as well as Dade Behring Inc.
Member of the Board of Trustees of the Health Care Institute of New Jersey.

Dr. Klaus-Juergen Schmieder

born October 11, 1948 - Dortmund, Germany

Nationality: German

Education
Ph.D. in Law and Economics

Career

1977 Legal Department, Hoechst AG
1987 Corporate Staff Department, Responsible for German affiliates
1990 Corporate Staff Department, Regional Coordination: Indian subcontinent, China, Pacific
1992 Chief Financial Officer, Vice President and Treasurer of Hoechst Celanese Corporation
1996 Deputy member of the Board of Management: Responsible for the Central Services Finance and Accounts, Law, Patents, Insurance, and Information Technology
1997 Full member of Board of Management of Hoechst AG, Chief Financial Officer
1997 Board responsibility for Corporate Controlling and Corporate Auditing

Claudio Sonder

Chairman of Board of Management, Celanese AG

Born April 25, 1942 – Sao Paulo Brazil

Education
Chemical Engineering, Economics and Management in Munich, Sao Paulo, and Boston;
Program for Management Development, Harvard Business School

Career
1966
Corporate Staff and Sales Administration, Hoechst Brazil
1974
Head of Latin America section within the Corporate Staff Development (ZDA), Hoechst AG
1978
Commercail Director (member Exec. Committee), Hoechst Brazil
1983
Chairman of the Board and CEO, Hoechst Brazil
1994
Head of the Plastics and Films Division, Hoechst AG
1996
Member of the Board of Management, Hoechst AG, Frankfurt – responsible for Celanese and Ticona
1999
Chairman of the Board of Management, Celanese AG

Appendix 2: See attached: Presentation to Investors 1996

Appendix 3: **Key Statistics: Hoechst Group 1993-2000**

	1993	1994	1995	1996	1997	1998	1999[23]	2000[1]
Sales Amounts in DM million	46047	49637	52177	50927	52100	43704	€20452	€22304
of which abroad Amounts in DM million	35697	38768	41135	41758	42081	35051	information not available[24]	information not available[2]
Research & Development Costs Amounts in DM million	2968	3311	3479	3880	3990	3820	€3040	€3291
Operating Profit Amounts in DM million	1476	2318	3591	4013	3653	3171	€2721	€3475
Figures per Hoechst[25] share[26] in DM								
High	312.00	365.70	390.00	72.90[27]	86.80	95.90	€67.90	€93.50
Low	230.70	286.50	278.80	39.30	59.15	58.65	€41.00	€47.82
Price at year's end	310.00	326.50	390.00	71.30	62.30	68.90	€57.70	€93.50
Number of Hoechst shares at year's end (in millions)	58.80	58.80	58.80	588.0	588.0	588.0	779.8	785.9

*Historical Exchange Rates: US Dollars and German Mark/Euro**

Year	1 USD = __ DM	1 DM = __USD	1 USD=__ year 2000 USD *calculated with U.S. CPI
Year average, 1951	4.20 DM	.24 USD	$6.62
December 31, 1980	1.96 DM	.51 USD	$2.09
December 31, 1987	1.58 DM	.63 USD	$1.51
December 31, 1988	1.78 DM	.56 USD	$1.46
December 31, 1989	1.70 DM	.59 USD	$1.39
December 31, 1990	1.49 DM	.67 USD	$1.32
December 31, 1991	1.52 DM	.66 USD	$1.26
December 31, 1992	1.61 DM	.62 USD	$1.23
December 31, 1993	1.73 DM	.58 USD	$1.19
December 31, 1994	1.55 DM	.65 USD	$1.16
December 31, 1995	1.43 DM	.70 USD	$1.13
December 31, 1996	1.55 DM	.65 USD	$1.10
December 31, 1997	1.79 DM	.56 USD	$1.07
December 31, 1998*	1.68 DM .85 Euro	.60 USD	$1.06
December 31, 1999*	1.95 DM .99 Euro	.51 USD	$1.03
December 31, 2000*	2.08 DM 1.06 Euro	.48 USD	$1.00

[23] The figures for 1999 refer to Aventis Group and are in Euros [1 Euro (EUR) = 1.95583 Deutsche Mark (DM)].
[24] Aventis is no longer a German-based company

[25] Hoechst AG
[26] DM 50 nominal
[27] The nominal value of Hoechst shares was lowered from DM 50 to DM 5 in 1996.

Appendix 4: **Pharmaceutical Industry Mergers and Acquisitions in the 1990's**

Mergers and Acquisitions in the Pharmaceutical Industry in the 1990's

1999 Monsanto and Pharmacia & Upjohn
1999 AHP/Warner-Lambert and Pfizer/Warner Lambert (pending)
1999 Roche and Genentech
1999 Warner-Lambert and Agouron

1998 Hoechst AG and Rhone-Poulenc Rorer
1998 Sanofi SI and Synthelabo
1998 Zeneca and Astra

1997 Hoffmann-La Roche and Boehringer Mannheim
1997 Nycomed and Amersham

1996 Ciba-Geiegy and Sandoz
1996 Elan and Athena Neurosciences

1995 Knoll and Boots
1995 Glaxo and Burroughs Wellcome
1995 Gynopharma and Ortho-McNeil
1995 Hoechst-Roussel and Marion Merrell Dow
1995 Pharmacia and Upjohn
1995 Rhone-Poulenc Rorer and Fisens
1995 Schwarz Pharma and Reed & Carnick

1994 American Home Products and American Cyanamid
1994 Hoffmann-La Roche and Syntex
1994 Pharmacia and Erbamont
1994 Sanofi and Sterling (prescription drug unit)
1994 SmithKline Beecham and Sterling (over-the-counter drug unit)

1991 SmithKline and Beecham

1990 Boots and Flint
1990 Pharmacia and Kabi
1990 Rhone-Poulenc and Rorer

Adapted from: PhRMA website, "2001 Pharmaceutical Industry Profile, Chapter 5: The Changing Pharmaceutical Marketplace." Located at: http://www.phrma.org/publications/publications/profile01/ on 27. July, 2001.

Appendix 5: see attached: **Aventis - A World Leader in Life Sciences**