Precision Step

12 May 2008 Lothar Steinebach

As part of our M&A; special focus, Barry Mansfield talks to Lothar Steinebach, CFO of German consumer goods giant Henkel.

Success in management is all down to "precision and thoroughness" – that's the verdict of the man who helped build Henkel, the company behind brands such as Sellotape, Persil, Pritt, Loctite and Schwarzkopf, into an €13bn global empire. Lothar Steinebach readily admits that he learned this lesson in the course of his earlier career as an attorney, and that he never imagined he would end up as CFO of the Düsseldorf company when he joined the firm back in 1980. His approach has clearly worked, because, for the full year 2007, Henkel reported operating profit of €1.3bn.

Steinebach was geared up for the latest in a long line of multi-million euro takeovers – Henkel's acquisition of ICI's National Starch, which was completed on 3 April 2008. The deal, approved by ICI shareholders last November, could generate between €240m and €260m in synergies, with up to €180m of these coming from cost savings.

The company has taken over 62% of National Starch, expected to raise Henkel's EBITDA by nearly €500m and sales by €2bn a year. The German group has acquired close to 45 plants, eight regional offices and 5,500 employees.

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The CFO's journey at Henkel has been a long and winding road. After studying law at the Johannes Gutenberg University in Mainz, and later at Ann Arbor in Michigan, US, Steinebach decided to apply for a job with Henkel because his experience of working in the US satisfied the company's needs. It had just completed an acquisition there, with the expectation that there would be many more. But Steinebach soon changed his mind.

"I decided that I'd invested such a huge amount of time and effort in my legal education, I didn't want to go into management after all. I wanted to become an attorney, so that's what I did for 15 years at Henkel."

Steinebach was involved in a series of transactions as Henkel actively expanded its business horizons beyond its immediate focus in Europe. When he first joined, 56% of sales were still in Germany, but by 1996 those figures were down to 22% and today they stand at around 18%. Business abroad has increased dramatically, particularly in the emerging countries, but also the US. As he points out, "The scope and management style of the company has changed dramatically over that time."

"I was always more interested in structuring rather than dealing with problems," says Steinebach. "Doing transactions and pursuing acquisitions and joint ventures was most attractive for me." Later, at the close of the 1980s, he was involved in a transaction that brought him into contact with Ulrich Lehner, who became CEO in May 2000, handing over the reigns to current CEO Kasper Rorsted in April 2008. In 1989, Henkel began to take an interest in American industrial and institutional hygiene company Ecolab. Eventually it took out a bond, which after two years it converted into shares.

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Henkel ended up taking a shareholding, transferring the European business into a joint venture with Ecolab, and selling the non-Europe business to them. "It was a three-part transaction which was very complicated and heavily negotiated, taking about a year to carry out in total," explains Steinebach. "I think at the time Ulrich Lehner decided that should he ever be in a position where he was committed to changing Henkel's management in the finance function, he would approach me to see if I was interested." Sure enough, in 1994, upon returning from a stint in Asia, Lehner – who assumed the CFO position at the time – immediately asked Steinebach if he would join him in running finance.

Steinebach took quick action to shake up the finance management function. Since he entered his current role, Henkel has moved to alter its management structure so that the businesses can run various areas of responsibility centrally from Düsseldorf. "Previously we had local country managers or directors, who had part of the responsibility for the country they were heading. That changed in 2000. Now we have somebody responsible for infrastructure and somebody else for profit and loss of the respective business," he says.

For example, in the cosmetics division, each head of division in a particular country is responsible for profit and loss. Following that change, Henkel has also transformed the way it manages its functions such as finance, purchasing, IT and HR. It now follows the same principle in those areas, with the head of finance responsible for all financial operations worldwide. "There would be too many to report directly to me, so we also have regional heads to whom the respective country heads of finance report."

INTEGRATION AND ADAPTATION

Today Steinebach has around 3,500 employees in total reporting to him indirectly. Earlier this year, Purchasing and IT were also brought into his remit. "It's a large number of people and a huge responsibility, which can only be discharged by travelling quite a bit," he says. "I need to be present in the regions from time to time, which accounts for a big part of the long distance travel I do. Then there is the matter of investor relations, which requires discussions, presentations and roadshows with investors and analysts in the major centres, which for us start with London, New York, Boston, San Francisco, Paris and Frankfurt. There's also a second tier of Milan, Stockholm and Zurich." It's just as well that Steinebach enjoys travelling – it gives him the chance to catch up with some reading and indulge his interest in history.

Of course, top of the agenda for Henkel these days is the company's integration of National Starch, in which the finance organisation is heavily involved. The priority, says Steinebach, is that the finance processes of the National Starch business are adapted so that they mirror Henkel's own.

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"That's something that needs to be worked out in the integration. Right now, we don't know exactly how they do things. We don't know what their IT environment looks like. But we have a lot of experience with integrating entities, so we do have the expertise in-house to manage it."

The inherited staff will also have to report according to Henkel's own format. "From the top their model may look different, and filled with different content. It will be important that they use the same terminology as we do, and that we get the reporting procedures harmonised." There is also the question of whether Henkel should operate its finance function differently in future.

Nevertheless, Steinebach seems confident. "I will admit we don't know whether and how many finance people at National Starch are dedicated to the business. At Henkel we don't have finance people reporting into a business division, except finance controllers. From our perspective we need to get more detailed information to comprehend exactly what needs to be done."

ACQUIRING TALENT

Steinebach is committed to developing new managerial talent over the coming years – while creating a strong management team is important, he says, it must permeate into the organisation. That's why he is currently involved in selecting and grooming talent, so that Henkel has enough strength in depth to develop successors, and also enough strength within the organisation to deal with day-to-day problems. "Many of the initiatives we've kicked off, including talent management, we'll still be working on in five years' time. We have done some spectacular transactions in finance, and that's always been a source of pride."

Business process outsourcing (BPO) has played a part in the Henkel success story. The company has its own version of the shared service centre – one for Europe, in Slovakia, and a second in Manila - where it extends its transactional finance processes. However, according to Steinebach, the company is currently not looking any further into outsourcing.

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"When we began in 2000 there wasn't much available. You could always outsource certain standardised processes, those which are easier to do," he says. "We have tailor made processes for our company, which means it's not easy to outsource. The first step was to standardise our IT systems, so that they could be centralised in the captive service centre."

Defining and operating the optimal mix of own resources and third party vendors, nevertheless, remains a question for the future.

The key benefit of Henkel's shared service centre model comes from standardisation and systems consolidation. "To run a shared service centre, even as an outsourcer, with 1,000 people for 15 companies, is not necessarily that much more efficient than 15 companies having their own service centre with 100 employees," explains Steinebach, adding that further changes in BPO are something Henkel might start to look at from around 2010.

Henkel's ownership structure is known to be quite unusual, but Steinebach says there is huge benefit in operating what he describes as "a family-dominated, not family-owned" company. Although the majority of voting shares are owned by the Henkel family, the firm has a significant amount of outside shareholders, including large funds.

"They expect us to communicate with them," Steinebach smiles. "And they are entitled to the same kind of response they would receive from any other company. The fact that Henkel is listed means it is accountable to the public at large, as with any other company of similar size and scope. However, in our ability to hold a longer-term view in pursuing the strategy agreed with the Shareholders' Committee – the governing body elected by the majority shareholders – we are probably advantaged. It would be difficult for other shareholders to get together and try to force the company to do something against its best interests. In that sense, we are less vulnerable."

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Lehner has commented that he would like to see Persil UK back in the company's hands. However, it turns out that this may have been more of a sentimental reminiscence rather than a statement of intent. Steinebach says the Persil brand was transferred, initially to smaller companies (distributors at this time), which were later bought by Unilever in the UK and France and a number of former Commonwealth nations.

"Of course, it would be nice to have Persil in the UK and elsewhere again, but not nice to pay for it! Ownership of the brand means nothing unless it comes with the business. I don't easily find synergies just from ownership of the brand."

With Henkel now operating as an international company, the issue of regulatory compliance is clearly a source of controversy for Steinebach, who believes the point that the Enron and Worldcom incidents were created by top management has been lost on regulators. "They weren't accidents," he says. "So I think the Americans are going overboard with their bureaucracy. If top management wants to cheat the company you're in trouble. If top management wants to understand and control the company in order to prevent major fraud, then that's possible without Sarbanes-Oxley."

"It's tedious because you have to create a huge organisation to demonstrate that you've done everything conceivably possible to prevent fraud. A very expensive proposition, and I don't think it's worth it. It secures the wrong areas." At Henkel, it seems, the chairman, the family and shareholders just want to be convinced that top management is legitimate.

"There will be more stringent laws in Europe – that's inevitable. We've seen it in Germany, and it's usually in response to a single, quite isolated but high profile event. It's happening everywhere. But I hope, and I don't believe, we'll ever be as intensive and bureaucratic as the US when it comes to regulatory compliance."