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How to Lead. Carsten Knobel, chief executive, Henkel

Guarding family spirit in a global group

The head of the German consumer goods company reassures employees as he plans for the long term. By *Olaf Storbeck*

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For Carsten Knobel, history is all important. When talking about the future of the Persil and Loctite maker, the chief executive of Henkel frequently refers to the company's long heritage.

Mr Knobel loves to talk about Henkel's social and collaborative culture, as well as the family spirit that he says has been in the corporate DNA for 144 years. Time and again, he also emphasises the consumer goods group's longstanding sense of social responsibility for every employee.

"There have never been mass lay-offs in the history of Henkel," says Mr Knobel, quickly adding that it was his "clear aspiration" that this unbroken record remains in place during the Covid- 19 crisis and Henkel's continuing restructuring.

Even without the worst public health and economic crisis in modern history, Mr Knobel's job would be challenging. Henkel's former chief financial officer, who joined the company in 1995 after studying chemistry and business administration, rose to the top at the start of 2020 after a series of profit and revenue warnings. They triggered the premature departure of his predecessor Hans Van Bylen, another Henkel lifer.

Mr Knobel vehemently rejects the notion that Henkel was in crisis when he took over, arguing that it was still highly profitable and financially sound. "But the performance fell short of our expectations and change was needed."

The 51-year-old had not even finished his first hundred days at the helm of Henkel when the pandemic struck. Some business areas, such as the one serving professional barber shops, suffered sudden year-on-year revenue drops of 80 per cent.

"That was a total shock," recalls Mr Knobel. "Never before had we seen such dramatic declines." Yet at that point, he took a number of bold decisions. One was not to repeat the mistakes of his predecessors, who had favoured shortterm profits over long-term strategic necessities.

Hence Mr Knobel didn't tamper with a new strategy that he announced just weeks ahead of the pandemic, refraining from cutting budgets for investment and marketing and pushing on with the plan to divest underperforming brands.

> **'If we avoid myopic decisions . . . Henkel can emerge stronger from the [Covid-19] crisis'**

"I was convinced early on that the coronavirus situation will be over at some point," he says. "If we avoid myopic decisions which have negative consequences in the long run, Henkel can emerge stronger from the crisis."

Hammering home that point to Henkel's 52,000 employees, he issued a job guarantee to everyone in early May and even committed not to furlough a single worker. "We wanted to send a clear signal to our employees and to convey a sense of security."

A related decision was to weather the crisis without relying on government-backed emergency loans, and to say so in public. "We paid out €800m in dividends in 2020. For me, tapping government help at the same time had just not felt right." That optimism was vindicated by rebounding sales across all three business units in the third quarter.

With €20bn of annual revenue and a stock market valuation nearly twice that size, the Düsseldorf-based company may be one of Europe's biggest consumer goods groups — but in some ways, Henkel has more in common with a medium-sized, unlisted family company than a multinational.

The majority of voting stock is controlled by the scions of the company founder, and 51-year-old chairwoman Simone Bagel-Trah is a great-great-granddaughter of Fritz Henkel. Moreover, the company is incorporated as a partnership limited by shares, which gives non-family investors less control. "It is extremely important for us to have an anchor shareholder with a longterm view," Mr Knobel says. But he adds that the Henkel family has also always been "a rationale owner".

Striking the right balance between being a socially responsible family firm and the demands of a listed, profit-minded multinational has sometimes been like a tightrope walk.

From 2008, Mr Knobel's pre-predecessor Kasper Rorsted ruthlessly focused the company on efficiency by cutting overhead costs and streamlining production processes.

As a consequence, the operating profit margin rose by 50 per cent and annual payouts to shareholders more than tripled. While some employees in Germany bemoaned the "demise of the Henkel spirit", shareholders were delighted as Henkel's market capitalisation more than tripled.

Yet shortly after Mr Rorsted left Henkel in 2016 to join sportswear maker Adidas as chief executive, the consumer goods group started to lose its lustre. In its beauty care unit, Henkel was slow to react to the rising popularity of natural and eco-friendly cosmetics and the adhesive division was hit by the slowdown in the automotive industry.

Mr Van Bylen repeatedly promised to rekindle growth, but after a series of disappointments he left prematurely at the end of 2019.

The fact that the company then turned to CFO Mr Knobel to turn things round raised eyebrows among some analysts. Wasn't he just another insider like Mr Van Bylen, who was responsible for the group's problems? "Those concerns were understandable, and I did ask myself if I was the right person for the job," says Mr Knobel.

He concluded that his role as CFO had been entirely different to the new one as CEO and that he would be able to adjust to the fresh demands. "In my previous jobs, I have proved that I am capable of changing myself," he says, pointing to more than half a dozen roles he held at the company. "Hence I was confident that I could do the same again."

Moreover, he argues that he had been acutely aware of things that needed to change: more teamwork among senior executives, faster decision-making and maybe even a bit more corporate waste: "In the past, Henkel had become too focused on efficiency," he says, adding that some investments may have been neglected a bit.

So, in early March, Mr Knobel promised to spend an additional €350m on advertising and improving Henkel's IT. He also pledged to make Henkel greener, vowing to make all packaging recyclable by 2025, and to push more eco-friendly products.

All this, he promises, will drive annual sales growth up to between 2 and 4 per cent, compared with just 1.2 per cent over the past two years. "Those targets are not easy to achieve but will require significant change," Mr Knobel says.

One option that is not on the cards is breaking up Henkel's conglomerate structure, he says, arguing that the pandemic had just proved the benefits of a broad portfolio.

But what does he tell investment bankers arguing that pure play companies focused on one market tend to fetch higher valuations on the stock market? "I don't need any investment bankers [for this]," he retorts, arguing it was the management's task to continuously monitor Henkel's portfolio of brands. "And that's exactly what we're doing."