



Harri Kerminen

*President & CEO
Kemira Oyj*

Personal

Born in 1951

MBA, Helsinki University of Technology, 1998

M.Sc. (Eng), Helsinki University of Technology, 1976

Career

2008: Kemira Oyj, President & CEO

*2006-2007: Kemira Oyj, BA Pulp & Paper Chemicals,
President*

*2000-2006: Kemira Oyj, BA Industrial
Chemicals, President*

*1996-2000: Kemira Chemicals Oy, Vice President,
Human Resources*

1994-1996: Kemira Chemicals Oy, Plant Director, Finland

1992-1994: Kemira Engineering Project Manager, Finland

*1992: Kemira Kemi AB, Production Manager,
Sweden*

*1991-1992: Kemira Engineering, Project Manager,
Sweden*

*1991-1992: Kemira Engineering Project Engineer,
Belgium*

*1990-1991: Kemira Engineering, Project Manager,
Finland*

*1989: Kemira Engineering, Manager,
Project Department*

*1989-1990: Kemira Engineering, Project Manager,
Finland*

*1988: Kemira Engineering, Project Engineer,
The Netherlands*

*1986-1989: Kemira Engineering Manager, Plant Design
Department*

1985-1987: Kemira Engineering Project Engineer, Finland

1985: Finnre Oy, Consultant

*1984: Finnish State Railways, Manager, Chemical
Laboratorium*

*1982: Finnish State Railways, Development
Manager*

1977-1982: Finnish State Railways, Design Engineer

Professional Memberships

Tikkurila Oy, Chairman of the Board

Chemical Industry Federation of Finland,

Deputy Chairman of the Board

Kemira

‘The customer is the determining factor’

Harri Kerminen – President and CEO, Kemira

You have just returned from a trip to Mexico. What took you there?

I visited our local operations in Mexico and was feeling out the business opportunities in the country. As a leader it is important for me to be out there in the field.

How would you characterise your leadership style?

I have always tried to be with the organisation as much as possible. Not only with my colleagues at managerial level, but also with many others. That way the organisation gets an unfiltered understanding of what senior management thinks. It also works the other way round: it allows me to really understand the things that matter and make quick decisions, since I know what is happening. After all, the knowledge is in the field.

»» *Compared to many other companies in our industry, the Kemira culture is very dynamic. We are able to react and decide very quickly.* ««

Would you then describe Kemira’s culture as participatory?

The way we manage the company today is quite different from how we did it in the past. There have been times that managing was about allocating the available resources to the different companies of the group rather than really operating the company. Today we believe top management should be very involved in the business, speak to the key people in the business, really understand what is going on.

Does this participatory approach give you a competitive advantage?

Compared to many other companies in our industry, the Kemira culture is very dynamic. We are able to react and decide very quickly. We can do so because of the high level of participation of the organisation in what we do. People can and want to participate in the strategy planning phase, which is very important for the implementation. If people can participate throughout the process, they are much more involved. And this of course has a very positive effect

on the subsequent implementation of the plans: it just goes faster.

How do you know that your people find the participatory approach effective as well?

We think that company culture can and should be developed. Therefore you must measure. We do this, for example, through a global survey amongst all our employees every year. We have a good process of analysing and benchmarking its results and we feed this back into the organisation. This makes sure that every unit agrees on the topic.

» *Today the customer is the determining factor. We are now focusing on customer segments and moving away from thinking in terms of product segments.*

What else in your management approach is differentiating?

« A differentiating success factor is that we try to add the marketing view and customer perspective to our technology-based business. But, to be fair, I'd say we can still make a lot of progress in that. I would like Kemira to be more marketing-driven. That is not so easy since the company culture is – or at least was – bulk-driven. Hence our new customer-focused segmentation approach. I strongly believe in a market-driven approach for Kemira.

What impact does customer-focused segmentation have in practice?

In the past, products and geographies determined the company. Today the customer is the determining factor. We are now focusing on customer segments and moving away from thinking in terms of product segments. We want to know what customer segments to be in, and then how we want to serve these. You don't need to do everything yourself. You have to ask yourself what the best business model is. For example, should you consider partnering? This is very fundamental work. We need to send a signal to our company that we need to think about different business models.

Kemira has changed its business portfolio already quite a bit in the past 10 years. What drives these changes?

The key is to identify where we can be competitive and add value. So first of all we must find and hold a position in

the marketplace where we can add value and be a market leader, or have a technology that is truly differentiating, and preferably both. Secondly we need to understand and believe in the profitability prospects of the industry we are active in. You can be a market leader in a certain industry, but if the industry as a whole does not have the best potential, it is wise to reconsider your efforts. For example, we held the number two position in fertilizers, but we saw the market deteriorating and decided to divest this business. We have been in many businesses in the past, including explosives. But don't think these changes are easy. If you come from fertilisers, if that's what's in your genes, it is not so evident to abandon it.

Late last year you announced a strategic review for the whole firm. What are the key starting points for that review?

We are looking at everything, even the portfolio. Companies should always review their portfolio. Which customer segments will we be in? When thinking of Kemira, oil is not the first thing that comes to your mind, but we have significant sales to the oil sector. So we ask ourselves: what will be our strategy towards oil companies? Is our current product offering sufficient, or can we do better somehow? Now with our new customer-focused segmentation, that is one of the things we are reviewing.

What else drives the changes in your business portfolio?

» You can be a market leader in a certain industry, but if the industry as a whole does not have the best potential, it is wise to reconsider your efforts.

We also look at our position in the value chain. What is your role as a company? Are you integrated all the way back into the raw materials, such as oil, gas and salt, or are you looking at the downstream side, focusing on the customer? The level of integration is always an issue in the chemical industry. What is best depends on the cycle. At Kemira we have shifted back and forth, but we have never covered the entire value chain. Currently we are contemplating a big shift in this sense. That goes back to our moving to a customer segmentation away from a product segmentation, which is inherent in the backwards-integrated mentality. We want the company to start thinking "What does the customer need, and how do I get it for him?" instead of "What products do I have, and to whom can I sell them?" I

wouldn't say that the former is always better, but it is for us given who we are today.

Talking about the cycle, how do you cope with the current economic developments in the US, on one hand, and the booming Middle East on the other hand?

We are not highly impacted by the credit crisis. The US recession may lead to price pressure on our US businesses, but we are more and more positioning ourselves as a solution provider instead of a product manufacturer. In general we want to compete less on price and more on technology, and that should help us also during a recession, wherever it takes place. Likewise, we are not highly impacted by the expansion of the base chemicals sector in the Middle East. It may present both opportunities and threats, but that is just business as usual, isn't it?

» *Something like the dollar/euro exchange rate should never be an excuse for bad results. After all, the exchange rate is what it is. You should accept and adapt to it.*



What about the impact of currency exchange rates?

The US dollar/euro exchange rate does have a bigger impact, and our management should understand its long-term effects. We have businesses that are not affected at all and we have businesses that are negatively impacted, albeit not on a very large scale. Some businesses really do feel the impact. Our European titanium dioxide business, for example, is suffering from US exports to Europe.

How do you cope then with the impact of major exchange rate changes?

Something like the dollar/euro exchange rate should never be an excuse for bad results. After all, the exchange rate is what it is. You should accept and adapt to it. For me it's just a matter of facing and understanding it. You cannot change overnight; it always takes some time to adapt. But in our long-term strategy, we take this into account and decide what to do based on the analysis of the future of the industry and our position in it. At the same time, let's not forget that a large part of our business is local, wholly based in Latin America and Asia, and counted in local currency. Often those currencies are dollar-based, so the profits coming back to Helsinki are lower in euros. But that doesn't mean the business in those countries is any better or worse.

In the past few months, Kemira's share price has gone down due to a profit deterioration for the firm. Does this relate to strategic choices made in the past?

The main reason is the rising oil price, which translates into higher raw material costs. Given our contracts with customers, it takes time to feed these rises through. But it's definitely an incidental phenomenon. I cannot easily see any correlation to strategic choices made in the past. Even if we had known the current situation in advance, I still think we should have made the same choices. We still believe in where we are and where we are going.

You have taken over the helm at Kemira at a challenging time. What short-term actions have you initiated to deal with the present situation?

First of all I expect that our managers manage profitability. We have some 130 legal entities and thousands of customers to whom we supply thousands of products, from plants all around the world. This makes up a big matrix, which doesn't make it that easy to understand the contribution of each individual product-customer combination. But we have the ability to manage it all. Our managers need to know their individual impact in this big picture. It is important that they exactly understand product profitability and try to understand this from a corporate point of view. If you make a change in pricing, what impact does it have? Do all of our products still contribute sufficiently? How do raw materials add to the total cost picture? What changes can and do we need to make in our product portfolios and suppliers? This is easier in some markets than in others, but it is a very operative and fact-based exercise.

»» *What emotions tell you comes from somewhere. When you feel that it's right, it's mostly right.*

At the same time, you have stated that assured people trust their intuition in decision-making.



You need good systems and databases in order to be able to make the right decisions. But intuition also is an information system. And intuition is related to field experience. It is important not only at the operational level, but even more so at the strategic level. What emotions tell you comes from somewhere. When you feel that it's right, it's mostly right. Especially when changes happen, you feel when

something is wrong or something needs to be changed.

How do you feel about “sustainability”?

We should look at sustainability not as a threat but an opportunity. The European REACH directive about chemicals is a costly exercise for Kemira, but it forces us to look at everything a bit differently. When sustainability is impacting everyone else as well, it should not be so problematic – it raises the bar for everyone. Compared to “old-fashioned chemicals thinking,” people tend to think less in a “blaming” way these days: blaming government, blaming society, etc. We have all become more ethical. Everyone understands that you need to take care of the environment and safeguard the future. This is part of today’s business. It must be done, it should be done and it will give an advantage in the future.

How is “sustainability” part of Kemira’s business today?

Some 40 per cent of Kemira’s business is confirmed by auditors as “environmental business” related and that figure grows every year. I would like to have more “environmental business” such as water, where the attitude is positive. That will grow our business, contribute to our good reputation and attract more (talented) people.”

»» *We should look at sustainability not as a threat but an opportunity.*

««

How do you cope with the talent challenge?

In most countries it has been relatively easy to recruit enough young talent and organise knowledge. We haven’t faced a lot of difficulties in our home base or other developed countries. Even in emerging areas like South America and Russia it has not been difficult given our name and brand recognition. But in those areas the challenge is to get experienced people. Even if you find them, they are very expensive and their loyalty is an issue. On top, it is absolutely not obvious to use Western people in those countries. We therefore try to attract people from outside the chemicals industry.

Kemira is highly respected in the chemical industry for its strong track record. How important is the relationship with Kemira’s board?

Trust is very important in the relationship with the board and owners. It is very important that this communication channel is transparent, open and honest.

Mr. Kerminen, thank you very much.

It's been a pleasure.

*Interview conducted by Peter Nieuwenhuizen
and Victor Hanenburg*