A Conversation

Becoming a Global Company: From Kabi to Pharmacia & Upjohn

Jan Ekberg and Nils Bohlin

In 1985, Jan Ekberg became CEO of Kabi, a Nordic pharmaceuticals company that had sales of $250 million and was part of the Procordia group in Sweden. Over ten years he guided the company through a dazzling evolution, as Kabi acquired company after company around the world, culminating in the 1995 merger of equals between Pharmacia and Upjohn. The new company is one of the 10 largest pharmaceutical companies in the world, with sales over $7 billion. In April of this year Jan Ekberg spoke with Arthur D. Little's Nils Bohlin about the key success factors in making mergers work, building a strong and flexible management team, and taking a company through rapid transition.

Nils Bohlin: What kind of situation did you encounter when you took over the leadership of Kabi in 1985?

Jan Ekberg: At the time, my industrial experience was not in the pharmaceutical industry. But Kabi's owners had asked me to take the CEO role, as I had successfully turned around businesses in several other industries, and this was the specific experience needed at Kabi. In 1985 Kabi had to withdraw one of its most international, profitable, and biggest products due to side effects reported from a similar competing product. So 1985 was a year of heavy losses for Kabi. And once something dramatic happens in a company, other weaknesses come to the surface. Kabi's overall management situation and organization structure were in very bad shape. It was a question of life or death for the company.

NB: One of the key things you implemented early on was a comprehensive and very structured turnaround.

JE: There was no possibility of expanding the business from the existing base. First we needed to launch a turnaround effort to create a stable platform for further expansion. There were a couple of new products in the R&D pipeline, but it was impossible to launch them before we had stabilized the total situation. The objective of the change program was to build a financial base for launches of new products and also to establish a new decentralized management structure for the company.

We set up a three-year turnaround program and proceeded to reach our turnaround objectives in just two years. This was very much due to the internal commitment to the turnaround project. Most of the people in the organization were involved one way or another in the project. So all the managers had their own personal objectives. There was strong communication throughout the program. I am convinced that this broad involvement was one of the reasons we succeeded in two years instead of three. So many actions and good decisions pulled us in the same direction through this program.

In the spring of 1987, when the top management saw the initial success of the turnaround program, we decided to focus on the long term. We investigated where the industry was going and what the requirements would be for a company to be effective long term in this industry. On the basis of this analysis, we recommended to the board of Procordia two possible directions. One was to divest Kabi, and the other was to invest heavily and use Kabi as a base for farther growth by combining organic growth with acquired growth. We got approval from the board to invest and grow.

NB: During this turnaround you implemented numerous changes at the management levels in Kabi. What guided your approach?

JE: The management capability was not the best in 1985.1 decided to hire managers from other successful Swedish pharmaceutical companies. At first I didn't succeed, as Kabi was not considered an attractive company to join. However, within three years of the turnaround we totally renewed the management team. Outsiders saw that Kabi was in a building and learning process aimed at really changing the company. We took on six people from other companies, promoted some young people from inside, and created a totally new management team. This group of 10 to 15 people that was formed in those three years, 1987-1990, became the core management team for the future.

NB: What has enabled this team to ride through continuous waves of change over almost 10 years? How have they been able to perform and meet the constantly new challenges?

JE: One important factor is that these people have all been heavily involved in a continuous process of strategic and operational decision-making. They were all part of the planning process, and they have all been part of the key decisions regarding the challenges we have taken on, including our dialogue with the board of directors. Also, they have been asked to work in different roles. Most of them have not been in the same position more than two years. W; have used the best people for specific situations. I believe that it is important to have a cadre of excellent general management people in the company. They should be prepared to take on different positions and play different roles over time. For us, it was possible to move people from running a product development center to managing marketing and sales regions in different parts of the world. My philosophy is to recruit general managers from the market side of the company to ensure that they have been close to the customer, close to the need in the market.

NB: You also developed the management ability to acquire and integrate companies.

JE: In 1987, Europe was a big enough base for a pharmaceutical company – the structure of the industry made it possible to be competitive at that scale. It was the right perspective for a small company such as Kabi to grow from a Nordic base up to a European base. To reinforce our organic growth, we began to acquire and integrate other companies. We started with a sister company in the same group, called ACO. This was a Swedish OTC and generic brands company. We also acquired a German IV-solutions company. That was an important step, which gave us a significant position in the biggest market in Europe. We also acquired a company in Spain, formed an alliance in the Nordic area, and bought a company in Norway. In two years, we grew Kabi from less than S400 million to over $800 million. These experiences taught us how to take over and integrate smaller companies, laying the base for the capability to manage mergers. We treated all these acquisitions more or less as mergers. During the integration processes we made a lot of mistakes, but we built a structured experience base.

NB: How important was this experience in the success of more-significant mergers?

JE: The big steps to becoming a European company were taken in 1990, when it was possible for our mother company (Procordia) to merge with two other companies: Pharmacia, a Swedish pharmaceutical and biotechnology company, and Provendor, a food company. Kabi merged with the pharmaceutical part of Pharmacia to create Kabi-Pharmacia. Overnight we changed from a small Nordic company into a European company, with organizations in all European countries. So in 1990 we reached the objectives we had set for 1994: to be a pan-European company, to have highly profitable sales of about $2 billion, and to have the capability to invest over $200 million in R&D.

Then, soon after this deal was complete, it was time for the next deal. As consolidation in the industry increased rapidly, we saw that it was not possible for us to remain successful with only Europe as a base. We updated our analysis of developments in the industry and defined a new goal: to become a global pharmaceutical company, one of the 25 biggest in the world. In 1993 we acquired the international Italian-based company Farmltalia Carlo Erba, which had a good position in the United States, Latin America, and in Asia-Pacific as well as complementary product lines to Kabi-Pharmacia. That brought us up to $4 billion in sales. We became number 18 on the world-ranking list for pharmaceutical companies with R&D investments of over $500 million and some 2,500 researchers in the company. That was an experience in itself.

NB: What were the new challenges with this merger?

JE: Many questioned the ability of a Swedish company to successfully acquire an Italy-based company. But we have seen other Swedish companies do this successfully – for example, Electrolux acquiring Zanussi. We got access to those experiences. We also reviewed our own experience in the big merger between Kabi and Pharmacia in 1990 and summarized what we had learned. With this knowledge, we were ready. It’s important to say that we didn’t handle this as an acquisition. We took the merger approach – the merger of two more or less equal partners – and we implemented the merger as a process that enabled us to integrate the two companies.

NB: Would you say that this successful merger experience made you ready to take the next step soon after that?

JE: Yes. Since 1994 the total structure of the industry has changed every 12 months. This wave started with the mergers of some of the largest companies in the pharmaceutical industry. These expanded companies can grow faster than all others, since they have more financial resources with which to take risks. They also have all the new techniques and all the new technologies, which can attract the best researchers. And they have about 40 percent of the global market. I’m convinced they will have 50 percent within five years. We concluded that if we were not part of that group, we would be left behind. We had doubled in size before; we were ready to do it again. We had evaluated several alternative ways to reinforce our U.S. position, i.e., to gain the required capabilities and the marketing muscle to launch new products. In the first half of 1995 I made contact with John Zabriskie of the Upjohn Company with the aim of creating an alliance for the U.S. market. However, Upjohn was in the same situation, when it comes to the market in Europe, as we were when it comes to the market in the United States, so we started to discuss broader arrangements. It developed into a merger of equals, creating one of the 10 largest pharmaceutical companies in the world. All the value creation will stay within the company, to the benefit of the shareholders. That is a great thing.

NB: Looking back, it seems your management has exercised strong leadership in taking on new situations. How do you keep people motivated? How do you prevent change from turning into chaos?

JE: I delegated clear individual responsibilities and ensured that they were respected within the management team. At the same time I made myself available as a back-up when needed, to be a partner in discussions, while respecting the integrity of the delegated responsibility. I think it's important that the management team has been involved in all the processes – planning, preparation, policy-making, strategies, presentations to the board. Also, we share the implementation work and are able to take on quite different and rapidly changing roles. We are a more or less seamless team. But what's important is that we can also open up for new members, as we did when we merged with the Italian company. The trust that exists among the team members and the confidence in what we have been able to achieve over the years has also kept the team together in a very good way. We have open communications – all issues on the table, no hidden agendas. We developed approaches to the group decision-making process to take advantage of the collective knowledge in 10 quite different individuals. I ask them each to make their own personal decisions before attending the management meetings. That establishes a very good base for discussion and dialogue within the team. After a while, they see new views and experience new ways of thinking. And through this dialogue we come up with a common decision. Of course, it's not possible to have the whole group responsible for the decision, but it is very important that all the members have the chance to speak their minds. I think that the open give-and-take atmosphere creates a very good base, not only for developing managers but also for bringing the team together.

NB: Wasn't this idea of management team dialogue reflected in your strategic planning process?

JE: We built the strategic planning process on a „proposal and response" basis. We first created a long-term vision of the kind of company we needed to be to compete long term in our industry. From this ambition-driven vision we extracted several objectives. Those objectives were then taken to the various parts of the company as a proposal. It was looked upon as a challenge from the CEO and the top management. Then the different parts of the organization responded to the proposed objectives. They might say, „OK, we accept that one and that one, but this specific objective is way out of line, it's not possible to reach it." So then they proposed another one.

Through dialogue we could come to an agreement on what kind of objectives we were going to reach. Once we reached a target commitment, the detailed planning process started. This became a combination of a top-down corporate view and the bottom-up view of the organization, which involved many people. The different management teams in the organization set objectives for themselves in the context of the corporate objectives. All of this was based on dialogue and consensus.

One thing we've learned is that while we became good at formalizing the „hard," quantifiable objectives, we were not good at developing the nonbusiness objectives – capabilities, human resource objectives, etc. It will be important in the future to develop approaches that integrate the hard and soft objectives.

NB: How did you manage to work with all these objectives in a decentralized matrix structure?

JE: We made it very clear from the beginning who was responsible for what in this decentralized organization. Within the management team we discussed and clarified the delegation of responsibilities.

In the top management team, I used what I called the two-hat philosophy. Everyone on the management team wore one hat for his or her own business responsibility and another hat representing corporate responsibilities. When they were part of the corporate management group, they were not representing their own organizations; they were representing the whole corporation. Then they had to implement the decision in their own business areas. Thus, managers were able to see the whole matrix of the organization in the management meetings and see the role they played in the fulfillment of corporate objectives.

NB: Did you translate this two-hat model further down into the organization as well?

JE: Basically, I think it is important for all managers at all levels to understand the overall objectives and the development of the organization. If you as a manager understand why we are doing things and the underlying vision, it is much easier to adjust your own development to fit into the total picture. Managers must understand this totality to be able to run their own departments. That is why we bring together all the managers within the company once or twice a year in a two- to three-day meeting. The aim of the meeting is for people to accept and commit themselves to the development of the corporate vision. I also visit all parts of the company during the year to explain to all our employees around the world why we are doing what we are doing. I am very much in favor of talking with all the employees and really being present to try to explain the company's objectives to them.

NB: Didn't you use the metaphor of the „Vasaloppet" as your vision of a committed and motivated organization in one of these big meetings?

JE: I'd been asked why the merger with Pharmacia was so successful, but I could not find a simple answer. After a while I understood that when all the daily efforts and small decisions are going in the same direction and adding to each other, this creates a lot of impact to drive the organization and to move the minds of people in the same direction. And then one Sunday morning in March 1990 I was in Sälen in the middle of Sweden watching the start of the annual Swedish ski race Vasaloppet. The 11,000 people starting that race all knew where to go. They had over 90 kilometers ahead of them, and they all knew the interim objectives they had to pass to reach the goal in Mora. They were all very committed, they *were* all highly trained for the task. And then suddenly, when the race was off, we could see how much power can be generated by adding the efforts of all these people together. Then I thought if I had a company of 11,000 people with everyone equally well-prepared, highly motivated, and committed to reaching the same final goal, then no one could beat us.

NB: So releasing this energy level in a motivated organization seems to be the trick?

JE: Right, directed human energy. Because if you are challenging employees with reachable objectives, it's possible to free this energy. If you are a good manager you can do that. It's impossible to understand how to do it from the beginning. But after a while, you will see how far you can reach by having committed, energetic people in an organization. That is the key to everything. It's true that success breeds success. If your people reach their targets and feel that theirs is a well-respected organization, they will generate even more energy. But if they have the feeling that they can't reach the objectives, that theirs isn't a well-respected company – they will create very negative energy, or their energy will go in directions other than development. So a key issue in management is how to handle people, how to work with them, how to guide them, how to appreciate their performance.

NB: What have you been doing to ensure that your people have this high energy level time and time again?

JE: Basically I've been using visible management, setting challenging objectives, and improving communication all the way through the organization. It's very important for an organization to really see and to accept the person who is the natural leader of the organization. In a company of highly qualified people, such as a pharmaceutical company, if the employees don't accept the leadership, and if the management doesn't work in a positive way with all the views coming up from the organization, then it's very difficult to manage and lead such a knowledge-intensive organization. But visible management also requires that you dare to be seen making mistakes and taking risks.

NB: How do you then deal with the aftermath of those mistakes? What do you do to make risk-taking a meaningful decision?

JE: You must learn how to recover. And you must be ready to allow people to take on challenges and take risks. One method I have used is to ensure that the objectives are reachable and thus motivational. So the first thing I did when I came to Kabi in 1985 was to reduce the profit objectives for 1986 and make the organization feel proud when it had reached its objectives. It's important to feel the satisfaction of success.

NB: In the world of management, failure is often irreversible. How do you ensure that managers can learn from their mistakes – without hurting themselves in the process?

JE: Well, to be honest, it's good performance that counts. It's always a very difficult balance. Of course you can learn from smaller mistakes, and if you have made a big mistake then you can move to another position. But it's actual performance that counts. You must learn, and you must also be successful.

It's important for a manager to be able to communicate the vision and explain to the people in the organization why they are doing all this. The objectives must be simple and frequently communicated. A merger, for example, should have a very obvious start and finish, and these should be communicated to the organization.

NB: You have said that mergers are an excellent opportunity to develop people. What do you do mean?

JE: Mergers represent a very good opportunity to develop management skills. We have tried to take middle managers and free them from the daily operation work in the organization and instead use them as resource persons and capability persons, as project and subproject leaders. That allows the middle managers' competency and experience to stay within the company.

NB: Which success factors really matter in a merger process?

JE: We have already discussed clear and strong communication and the direct involvement of key people. Also, management needs to handle the uncertainty a merger creates. The key question becomes: How will this affect me? Employees will focus on defending their positions. Therefore it's important that you make decisions as soon as possible. Take action instead of waiting; you can always adjust afterward. We talk about the second wave of the merger, after a year or so, when you adjust the mistakes made in the first wave.

Open and frequent communication and dialogue is important, not just for communicating the visions and objectives of the new company but also to answer the great many questions from people involved in the organization. Even if you don't think you have anything else to communicate, you should have a big meeting with people and let them talk about their concerns and their questions. Everyone should have the opportunity to express their feelings.

Also, there must be one person who is responsible for the total corporation, and that person must be visible to all people in the organization, so there's no question about leadership. This was easier when our company was smaller. It's very different today, now that we have 34,000 people, but there is still the need for visible management. So in essence it's a question about speed, open communication, and visible management.

NB: Our whole discussion has really been about exercising a learning leadership. The key things that have been running through our discussion include the classical issues of vision, objective-setting, building confidence by reaching objectives, involvement, dialogue, commitment, and accountability. And we have also talked about the softer aspects of management – visible management and people management. Could you in your closing remarks talk about the key areas where management needs more tools and more approaches for handling people?

JE: I think there are two issues. One is to find enough time to sit down and discuss with all the people what is important to them and to the company. My experience is that you generate many ideas by sitting down and talking with people throughout the organization – in the plant, in the lab, etc. – and this gives you a very realistic view of how the organization is perceived. You can never hide anything from an organization.

The other issue is that when you are older, toward the end of your career, you may think you have experienced more or less everything. However, you must listen to the views of the younger generations because they are the new customers and the new leaders, and they will want to have an impact on the development of the organization. So I have tried to involve younger leaders in the development of the company. I started meeting with younger people and younger management, which really gave me a kick. We took a lot of different actions to satisfy their needs. Some were linked to new information technology, reflecting the way they worked. For example, to take a day off to be with their children, they must be able to link their computers at work and at home. There were a lot of other social factors we tried to take care of.

As a philosophy, I think it's important that senior management does not hide in the board room, but instead has a dialogue with the younger generations. For me, it's creating a lot of new ideas.

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