

INTERVIEW WITH DR ATTILA SIMON, CEO OF HEREND PORCELAIN
MANUFACTORY LTD.

**„WHAT IS LUXURY TODAY,
TOMORROW WILL BE NO LONGER ...”**

Q: Please introduce the company briefly.

A: The Herend Porcelain Manufactory was established in 1826, we celebrate its 190th anniversary this year. The question is usually asked why Herend or in Herend as at the beginning there were no skilled labour and no resources that are needed to produce porcelain. Basically we did not have anything that was required for establishing such a manufactory. The reason lies in the technology of porcelain manufacturing as many firing stages are needed for the ‘white gold’, the porcelain to be born. First the plastic paste is made from the blending of kaolin, feldspar and quartz. After making the rawware the biscuit firing comes at 1000 °C. Then the porcelain goes through the glazing and it is fired again at 1400 °C. This is how white porcelain is made. After that it goes to the painters and depending on the pattern the porcelain goes through further firings even 5 or 10 times. This firing process links to the establishment of the Manufactory as in the 19th century the manufactories operated with wood-fired kilns. The nearby Bakony Hills provided the amount of wood needed for firing. We think the wood and wood-fired kilns are the reason why the Herend Porcelain Manufactory was established between the Bakony Hills and Lake Balaton. Today Herend Porcelain Manufactory is the biggest porcelain manufactory in the world based on its profit, number of employees (750 workers), and export markets (about 60 countries). Herend is a porcelain manufactory and not a factory that is why we emphasise the word manufactory in the name. To this day we apply artisan technology to make both white and painted products. Mór Fischer was the one who established manufacturing luxury porcelain products since 1839. His idea was that Herend needs to compete in the international market of luxury porcelains. The milestone of the international introduction was the 1851 Great Exhibition in London, where Queen Victoria ordered a whole collection for Windsor Castle. It was followed by other great exhibitions in Vienna, Paris, Philadelphia, Saint Petersburg, and to this day we have kept this concept. The question may arise what makes a manufactory a manufactory? First of all, apart from doing everything by hand it has its own white and finished ware production, its own specialised vocational school and has a lot of forms (16000 white forms and 4000 patterns). Herend also has its own master training, and considers as important to preserve traditions. It is in our

strategy to preserve the traditions of applied arts and to pass them on to the next generations. The ownership structure of the manufactory is also special: 75% of the shares are owned by the employees and 25% by the Hungarian state; the latter minority interest is non-marketable. Considering this, the question may arise what the elements are that make this company successful, since if we look closely, employees and owner are in an antagonist situation in terms of their interests. The owner wishes to force down wages, to decrease social benefits and to make more investments in order to gain more profit later. Opposing this, an employee wants high social benefits and wages and low investments to be able to finance employee benefits. For the success of a company operating in this kind of ownership structure it is indispensable to operate profitably and that both parties have the ability to compromise.

Q: In today's western world there is a widely criticized growth constraint: the basic criterion of success is the ability to grow generating huge profit and expanding markets. Is it typical for such a product range or is it a value to remain small?

A: When we talk about being a small enterprise we should not forget that Herend Porcelain Manufactory's 2015 annual turnover was cca. 5 billion HUF, the pre-tax profit was around 900 million HUF. Manufactory does not mean a small size organisation. It rather means a philosophy and a production technology, but obviously in this kind of ownership and organisational structure growth is vital. We think that a company should grow at least to the point where it can still finance its operation and investments without external support. This means a continuous growth and income rise. If we assume that expenditures are steadily increasing then turnover needs to increase as well to reach the usual profit rate. Even in a case of a manufactory continuous growth is forced. However, there is a very exciting question we have been contemplating on recently, whether sustainable development is really sustainable. Why cannot we say, that we do not need 20% annual growth, less would be also enough? The big dilemma of the 21st century is whether sustainable development is a meaningful constraint for a business enterprise. At present we wish to grow in turnover, profit, investments, the number of export markets, acquisitions, so in everything which is measurable we want to reach a higher quality level.

Q: Who are your leading competitors in the international markets?

A: This is an interesting question. At first we can say that the other porcelain manufacturers. If we consider competitors from this perspective, Herend has only one rival that is a German

manufactory, which was established 100 years earlier than us. There are no other competitors at the moment who manufacture hand-made luxury porcelains. If someone wishes to buy high category porcelain then Herend is today unavoidable. On the other hand if we take profit, export markets and number of employees into consideration, we have to say that the German company is neither our rival any longer. So we can say that today Herend is Europe's (if not the world's) leading porcelain manufacturer. I think Herend has rivals not within the porcelain making industry but among the other luxury product making companies. We can also examine this from another aspect, whether these companies are members of the French luxury industry association Comité Colbert. If we look at its members, we can see that Herend is the only one among the porcelain making companies of Central and Eastern Europe. The previously mentioned German manufactory is not and cannot be a member of the Comité Colbert. If we examine Hungarian companies, we can see that neither of them is a member of this luxury industry association. So if we examine our position from this aspect, we can see again that Herend is a leader in its own sector.

Q: A layman may think that traditional porcelain manufacturers in the market are the Chinese and would be surprised to learn that a Hungarian company can be at the world's forefront with its technology.

A: If we examine Chinese porcelain as competitor of Herend, then I have to say that they are very strong in mass production, so in this sense the cheap dumping Chinese porcelain ware is not a competitor of our sector but of those companies that also make mass-produced porcelains. In our sector where luxury porcelains are manufactured the appearance of Chinese porcelain makers is not relevant.

Q: Can I ask you whether management problems in Herend differ from those of other medium- or large-sized businesses?

A: What do you mean exactly?

Q: I mean the management tasks: strategy, controlling and human resource management.

A: No, I do not think so. Our daily operative tasks are exactly the same as at other companies including multinational companies.

Q: Then let's talk about change management, of which I think we can learn a lot from you.

A: First I would like to refer back to our previous conversation: there are so many people who consider change management to be something negative. They think the company is in trouble that is why change management is needed. I think a company always needs change management if its market position significantly differs from the optimal business environment. So the most important task of the management is to map the optimal business position in which the company can operate and its sustainable growth can be guaranteed. First we need to map the optimal strategic operation environment, which includes stable increasing market demand and a non-substitutable product with high selling price. So if there are no competitors and there is continuous demand for our product, we can reach a high sale price. The optimal environment also consists of calculable exchange rates, especially in case of an exporting company such as Herend. The Manufactory depends in 90% on export which means that 9 out of 10 products leave Hungary. Furthermore, the optimal business environment includes the decrease of work-related taxes, predictable long-term tax policy, the flexibility of employment regulations, supporting energy politics, strong competition of suppliers so we can push down supplier prices, low raw material prices, low inflation, cheap bank and financial resources, easily accessible government subsidies, increasing quality of vocational education, strong employee motivation, high creativity, loyalty and the ability of intensive innovation. If all this is present, the company operates in an optimal business environment, and the management could relax as everything is ideal. However, we constantly have to examine how our company differs from the previously mentioned optimal operation environment. Here we need to make a three-fold analysis: global economic environment, national environment (where the business enterprise operates) and business environment, which is the environment resulting from the characteristics of the company's operation. If we take the first then we need to consider globalisation which is unstoppable. For example we need to arrange price structure or product range according to globalisation. Globalisation is today a phenomenon that all exporting companies need to consider. Our global economic environment includes the challenges of technological development as well. We are convinced that we are at the threshold of the fourth industrial revolution. The challenges of demographic change, the new consumption behaviours and the appearance of a new type of workforce are also part of the global economic environment. We then come to the problem of Generation Z that will soon be on the job market and it is very important whether we can communicate with these young people or not. In our experience they live in a difficult virtual world and it is not really easy for them to perceive circumscribed feedbacks. So this is another

global economic phenomenon we have to consider. The Generation Z as future employees are essentially the output of universities. The Generation Z phenomenon derives from the output of higher education. The *mass revolution* phenomenon belongs to the global economic environment, too. It means what is luxury today, tomorrow will be no longer. What is not available today, tomorrow will be available for the masses. Luxury industry manufacturers continuously need to create new luxury needs in customers. Looking for the economic poles of global economic environment, Asia will be revaluated in the near future. Looking at the economic power centres, namely the trio of Europe, the United States and Asia, every business enterprise needs to pay attention to Asia. We must not forget that the world's three highest GDP possessors Japan, China and India are all in Asia. It is an important fact even if China's GDP has decreased recently.

Q: Sorry, I only want to ask you whether it is a conservative technology which is not developing so quickly.

A: Companies that live in the past will disappear therefore in our case tradition and innovation must be present together. Our Manufactory has 16000 white forms and 4000 patterns so we have in total 64 million different products. Nevertheless every year we create 300-400 new Herend products. We cannot change much the porcelain manufacturing but innovation has an important role in product design and in novelties brought to the market. In our industry it is also vital to renew year after year, so a continuous innovation and renewal is absolutely necessary.

Q: Can you tell me some innovations so that I understand this?

A: As the result of our innovation Herend porcelain does not embody old times anymore, it is rather an unavoidable and natural part of 21st century's home decoration. Thanks to innovation Herend has found its way to the modern age, we succeeded to harmonize the traditional values of Herend porcelain and the expectations of 21st century's modernity.

Q: Does it mean design innovation?

A: Basically yes, we call it product development or product innovation.

Q: What is the proportion of traditional and modern design in sales?

A: Constantly there are customers who go back to traditional patterns but the rising new generations are continuously looking for novelties. The question may arise: who are the customers of Herend? The answer is that returning ladies over 35 years. All of them are of typical criteria: Those who once purchased Herend porcelain will return and purchase again (it is actually love for a lifetime).

The majority of our customers are ladies.

Our customers are mainly over 35, which influences our marketing strategy as well.

Q: Do you examine that those who returned after coming and purchasing once how had decided to purchase this brand?

A: I think the decision is based on what people bring from home, whether they have already met the culture Herend represents and whether it has appeared in their socialisation process. On the other hand, when they search for a value and for an international brand, an emotional link has already been formed with Herend porcelain.

Q: How did economic recession affect the Manufactory?

A: It is difficult to give a concrete answer to this as we had to make radical reforms and paradigm change between 2005 and 2007 due to the fact that the Manufactory's profitability had decreased around 2005 because it had operated according to the old paradigms. At that time the company changed its cost structure which allowed flexibility. Due to this when the international crisis came around 2008-2009, the Herend Porcelain Manufactory already had such an organisational structure that it could adapt to the market changes therefore the Manufactory was basically able to be profitable even in this period.

Q: Can it be because luxury market operates in the same way in recession or does not fall back that much?

A: Customer behaviour for luxury products differs a bit from mass production. If wealthy people experience their incomes will decrease in the coming years they will hold back consumption but a bit later. Therefore they think they still can afford to buy luxury products. So when the signs of recession are heavily present in mass production and for mass products, it does not appear in the luxury industry so much. On the other hand, when luxury receptive people feel that the recession is over they are more brave to start purchasing earlier than those who even have problems of

buying everyday products. In my opinion, customers of luxury decrease their expenses a bit later, and they start spending earlier again than customers of mass products.

But coming back to the basic idea of our conversation, if we find that the international, national and company environment differ from the optimal business environment, change management needs to be applied. What we have to do is adapting our operation model to an optimal template. How does it look like? First it is very important that the management decide on the methodology of change management. It starts with an analysis of what, when and how is going to happen. This analysis must be communicated to the management centres within the company. Next step is declaring the stages that lead towards the optimal environment, and setting objectives. It is vital to prioritize when setting the objectives what to change first and later. Then we need to determine in a timetable for these actions. There are immediate and long term actions. After that we need to map the enabling and braking forces: who can we rely on in actions and change management. Another step is determining the leadership style followed by communicating and measuring the actions. It is important to communicate the results of actions to the stakeholders. This is followed by comparing the results with the objectives and if they differ we need to restart a correction process. It is also important to separate from each other the two stages of change management: the phase of stabilisation and the phase of actual reforms. Stabilisation means basically emergency aversion. The phase of actual reforms means when our long term abilities are adapted to the changing environment. That is how we need to operate in the future to avoid emergencies. Both have risks. The danger of stability is, if it is successful, that the organisation calms down and do not step into the phase of actual reforms, which could endanger the long-term operation of the company. I think there is no standardized stability method; each company has to find its own way to do it. The phase of actual reforms means altering the rules that have been set before. Organisations need to close the past and sharply separate valuable elements from unimportant things. We must decide what to keep from the past for the future and what to forget. Of course we need to find a company management innovation for that.

Q: What are those things that can be taught from this in management studies and those that can only be learnt at work?

A: I think the classic methodology can be taught. Nevertheless a leader must have intuitions. I would argue that in today's world decisions must be always made rationally and leaders must ignore their intuitions. I think that excellent leaders do have intuitions, and they should listen to these intuitions! In answer to your question I say there are some elements which can and must be learnt, but basically leaders must acquire company-specific knowledge.

Q: If it is not a too sensitive information I would be really interested in a past situation when a change management decision was not successful or there was a situation which the Manufactory did not solve efficiently or the environment changed quicker and correction was needed. Since these are the most instructive things when we make a bad decision that we need to correct and stabilise the situation.

A: I am in a lucky situation as I have never experienced bad decisions. I think that all situations we had to solve with change management have so far been successful. The most difficult is when we feel that many talks and requests do not hit the target. Those who may think that if a leader orders to do something it will be done accordingly are wrong. It is like riding a horse. The excellent horse riders make the horse go wherever they want without spurring. Hurting a horse can lead to troubles. The same is true for a company. If I order to do something, employees may do it, but if in the lower divisions they do not identify themselves with my request, the managerial decision will not achieve the targeted effect. That is why I say that sometimes we had to take a longer road to have the decision realised even if we lost time. But as I said there have not been made any wrong strategic decisions. The other thing that comes to my mind considering this is that every leader can be measured objectively. Every job title has a measurable parameter and it is important to find these in all our colleagues' work. As for the director, these indicators are the growth of turnover, cost efficiency and profit. These describe the effectiveness of a director in the life of the company. The list could obviously continue with the size of investments, number of employees, innovation ratio etc. As for sales managers, the difference between annual plan and exact achievement can be measured and see the per cent the latter has in the total turnover of the company. It is vital for a company manager to find an objective measure based on which he/she can evaluate each colleague's work and efficiency. Beside the objective feedbacks a company manager should also pay attention to give subjective feedbacks.

Q: In these kinds of interviews I always ask the interviewees to introduce briefly their career including the most important leadership milestones.

A: By qualification I am a jurist. I graduated from the Faculty of State and Law of Eötvös Loránd University with summa cum laude honour. Then I worked in a law office where I spent my internship. Herend Porcelain Manufactory was looking for a jurist so at the end of my internship but before my final exam I got that job. I made the law examination during my career here. First I became a member of the MRP (Employee Stock Ownership Plan)

management which is the Manufactory's biggest ownership body, and then in 2003 I became the head of the executive management. I also graduated as a law specialist of European law in order to gain proper law knowledge in the Manufactory's openness to the world. Since 2005 I have been CEO of the Herend Porcelain Manufactory.

Q: What is the importance of the type of bachelor degree in a career?

A: I am convinced that for a company manager position a law or economics degree is very good. If I need to choose between the two then I say that a law degree is more important. Economic knowledge can be acquired from year to year, especially when a leader is surrounded by brilliant experts in the field, but knowledge of law can only be learnt at university. To this day, I care of all the legal affairs of the company which allows me to keep my hand on the vein of the company. So I think that law degree is very important for leading a company. It is very simple to lead a company economically. If people ask me about the secret of profitability and Herend's success, I always answer in a funny way: we have to try to have higher turnover than expenditures every day, every week, every month and every year. If this is fulfilled, the manufactory cannot be anything but profitable.

Q: What would you advise to higher education as an experienced leader?

A: In my opinion the lack of professional workforce can be a problematic area in the next 3-5 years. This means that companies used to choose from oversupply of workforce, but in the future they will have to face a shortage of professional labour. There will be a strong competition for well-qualified professionals. The lack of professional qualifications can be a serious lack of resources in companies. Like financial resources, a company needs to gather the best appropriate workforces and build them into its organisation. If we talk about workforce then obviously we get to the point to mention higher education and education in general. It is inevitable to improve Generation Z's lack of knowledge appearing in the output of universities, which is the responsibility of higher education. The main competences that need to be improved are communication skills, learning hierarchy- and regulation-focused approach, and openness towards the real world besides the virtual one. But the most important would be to have some working knowledge when entering the labour market. Dual education can be an effective way to solve the problems of lack of professional workforce in companies as well as of insufficient working knowledge. In this way, a company can provide its own workforce in advance and integrate the future workforce into the company



culture with helping its socialising process and teaching practical company knowledge at a lower cost structure than in the labour market. However, it is vital to adopt dual education to company practice, so it will not be efficient if students go to higher education institutes from Monday to Friday, and the prospective employer only receives them for the weekend. Dual education works successfully when higher education considers the professional expectations of the internship provider companies.

Q: What I see from the educational institute’s point of view is that the relationship with the companies does exist but it could be more intensive. If I look at international examples, companies and non-profit organisations have more active relationship with higher education. Why do you think it is difficult to motivate companies to be part of education and bring actual daily problems? I have to admit that here in Veszprém it works quite better than in many other cities of Hungary. I have mainly experience in Budapest and Szeged. It was very difficult to integrate companies into education especially in Budapest. Though I have tried my best to invite at least one company expert to each module so students had an idea about the workplace where they would work and learned about future dilemmas and problems.

A: I think there are many reasons from the side of higher education as well as of business sector. One reason for this may lie in the subject, namely, in the past business sector and higher education institutes did not communicate. It is difficult to change as people are reluctant to change. Those who do not want to change have a highly developed enemy image. They often say: “Why should we change if everything has been good in a way it is?” The other reason is in the demographic situation. In the recent years, higher education institutes were flooded with applicants so they were easily able to acquire the number of students they needed. However, the unpleasant demographic change and the change of higher education concept will cause that not all graduating secondary school students will automatically be higher education students. I think the competition for students will make the leaders of higher education institutes want and dare to change their routines. Until now, the favourable demographic situation and the high number of applicants have not made the intense communication of higher education towards business sector absolutely necessary. Obviously there have always been some exceptions. Those universities and colleges that have already had active relationship with business partners have now become education institutes providing competitive degrees.