

The constant change

Finland's largest timber exporter, the world's largest fur breeder, manufacturer of the world's largest plastic pipes – over its 90-year-long history, KWH has collected many feathers in its cap. KWH's forte, however, has been closing down businesses that do not have a future.

The foundation for this change capability was set by KWH's founder Emil Höglund, who was a start-up visionary a long time before the term was ever coined. This is the story about the family company KWH, told by Emil's sons, Peter and Henrik.



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KWH 90 YEARS

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ANNA JEANNE SÖDERLUND

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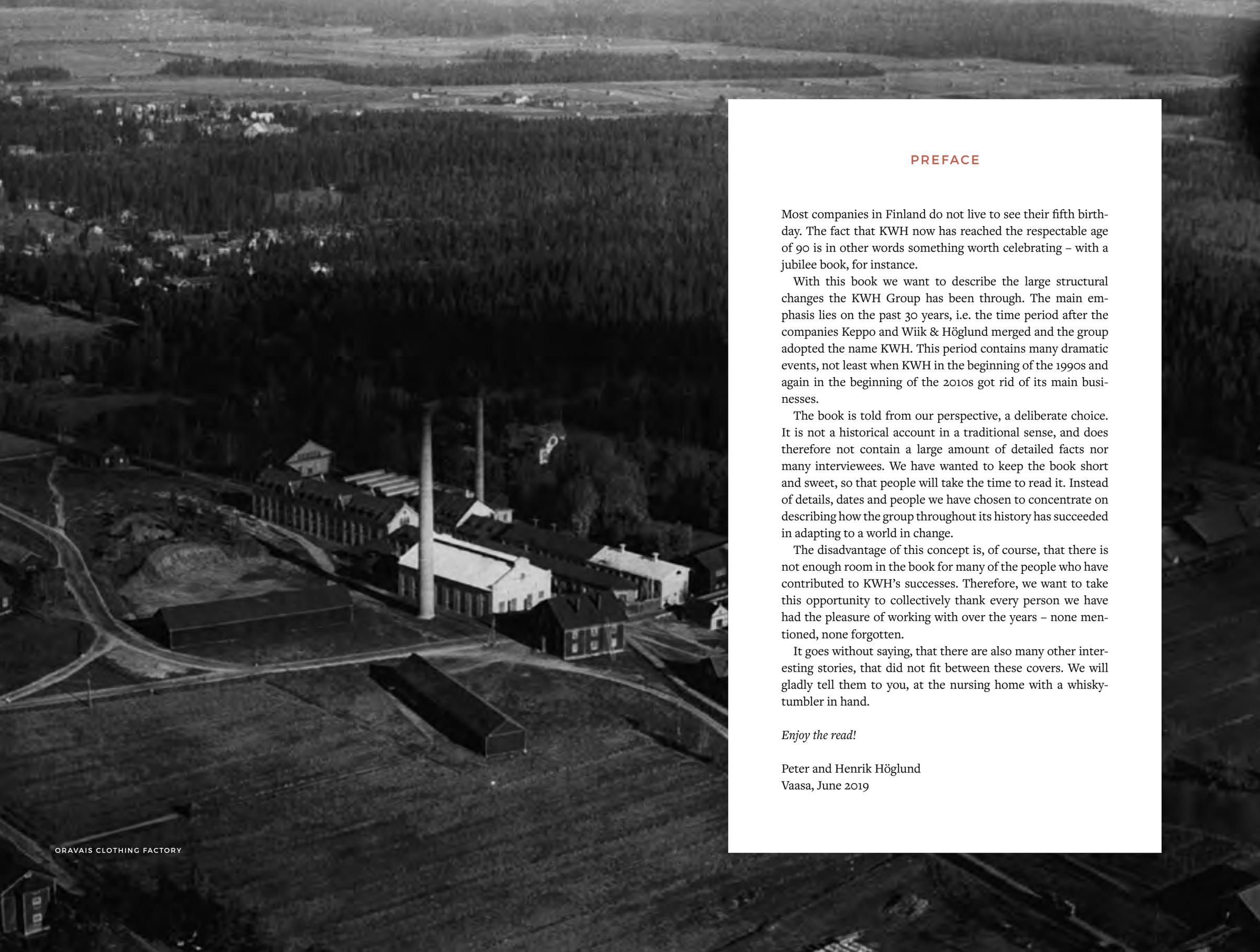
The family business

WHAT OWNERSHIP LOOKS LIKE
IN THE THIRD AND FOURTH GENERATION

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The constant change
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PREFACE

Most companies in Finland do not live to see their fifth birthday. The fact that KWH now has reached the respectable age of 90 is in other words something worth celebrating – with a jubilee book, for instance.

With this book we want to describe the large structural changes the KWH Group has been through. The main emphasis lies on the past 30 years, i.e. the time period after the companies Keppo and Wiik & Höglund merged and the group adopted the name KWH. This period contains many dramatic events, not least when KWH in the beginning of the 1990s and again in the beginning of the 2010s got rid of its main businesses.

The book is told from our perspective, a deliberate choice. It is not a historical account in a traditional sense, and does therefore not contain a large amount of detailed facts nor many interviewees. We have wanted to keep the book short and sweet, so that people will take the time to read it. Instead of details, dates and people we have chosen to concentrate on describing how the group throughout its history has succeeded in adapting to a world in change.

The disadvantage of this concept is, of course, that there is not enough room in the book for many of the people who have contributed to KWH's successes. Therefore, we want to take this opportunity to collectively thank every person we have had the pleasure of working with over the years – none mentioned, none forgotten.

It goes without saying, that there are also many other interesting stories, that did not fit between these covers. We will gladly tell them to you, at the nursing home with a whisky-tumbler in hand.

Enjoy the read!

Peter and Henrik Höglund
Vaasa, June 2019



The childhood | 1

How the Höglund brothers came to lead KWH

It was never written in stone that Peter and Henrik, the young twin brothers, would start working in their distinguished family company. However, when their father died in 1973, the boys faced great responsibilities at the tender age of 23.

After the war, in the end of the 1940s, a record number of children were born in Finland, and the Höglund family did its fair share in contributing to the statistics. Daughters Lisbeth, Ulla and Ann-Maj were born in rapid succession, and in 1949, the much longed-for sons, Henrik and Peter, were born.

Seen through 21st-century glasses, identical twins “Henka” and “Pekka” grow up in what seems like an idyllic fantasy: they spend most of their spare time playing outdoors in the streets and backyards with the neighbourhood kids.

Their home is a nowadays torn-down Jugend building in the corner of Koulukatu and Kirjastonkatu in Vaasa, where the family lives in a 500-square-metre apartment on the first floor. The building is beautiful, but draughty and cold during winter-time.

In the evenings, the neighbourhood children all gather to play, sled down the street towards the inner harbour and roam the backyards, exploring exciting secret stashes. Peter and Henrik remember once even finding some ammunition from the war.

“Children of our generation had a freedom completely different from what children are allowed today. The grown-ups did not interfere that much in what we kids were doing – you just had to make sure you weren’t caught, if you were up to some mischief. In school physical punishment still occurred.”

Peter and Henrik’s father, Emil Höglund, is a successful businessman. Together with Edwin Wiik he has started the Wiik & Höglund company in 1929, in the middle of the worst depression the world has ever seen. Fearless and adventurous, Emil Höglund had set off to the world already in the 1920s to study languages in England – no wonder Wiik & Höglund has its views set on export.

In addition to his commitment to Wiik & Höglund, Emil Höglund also owns 90 percent of the company Keppo, which is in the fur farming business. Furthermore, he is involved in politics and different organisational activities, spending at least two nights a week at the local Swedish members’ club.

When the twins are born in 1949, Emil Höglund is already nearly 50 years old. Although there are certain expectations on the children, especially the sons, to take over the family business, Henrik finds that Emil Höglund did not actively socialise them into become a part of the company, since the age difference was so wide.

“Like most fathers back in those days, our dad was fairly distant. Being already quite old when we were born, there was, in fact, two generations between us in age. I often feel that I today better understand the world of my grandchildren than our father understood ours. But then again, as kids we did not understand much of what he was up to during the days either. He did, however, take us out on Sunday excursions to the factory or the company-owned mink farms, but at that age we were mostly interested in the ice cream, which usually was a part of these trips.”

CATAPULTED INTO THE FAMILY BUSINESS

If their father is distant, their mother Vivi is all the more present, and the one who runs the large household. Vivi comes from a Finnish-speaking evangelical family, but in keeping with the times she chooses to speak Swedish with her children.

Peter and Henrik spend much time together as children, although they also fight with each other every now and then. School is not really interesting to either one of

“Our father was already quite old when we were born, which means there was, in fact, two generations between us in age.”



The Höglund family lived in the so-called Bruun house, in the corner of Koulukatu and Kirjastonkatu in Vaasa. Here, the building is photographed right before it was torn down in 1968.



The Höglund family had five children. In the back are Ulla and Henrik, in the middle Peter and Ann-Maj and in the front Lisbeth. The dog Lassie was also a childhood family member.

The Höglund family



Vivi Höglund
(NÉE KUMPULA, 1912-1995)

Emil Höglund
(1901-1973)

CHILDREN

Lisbeth Holtti (B. 1943)

Ulla Wester (B. 1945)

Ann-Maj von Wendt (B. 1947)

Peter Höglund (B. 1949)

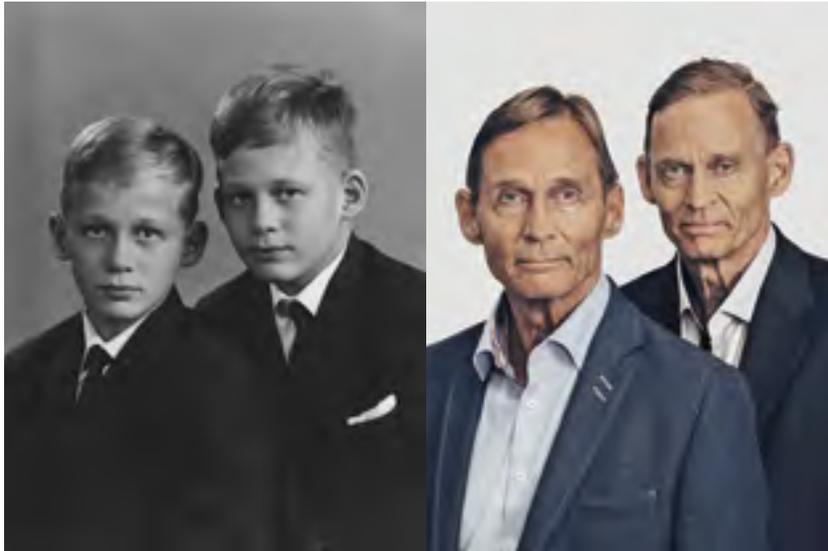
Henrik Höglund (B. 1949)

them – when they reach adolescence, girls and rock’n roll are much more intriguing. Sports is also a great interest from a young age.

Peter struggles in school due to his dyslexia. In those days, dyslexia is an unfamiliar term and is remedied by letting children repeat a year in school. When the boys are 11 years old, Henrik advances into grammar school, while Peter stays in primary school, and the twins are no longer as tight as they have been before.

“Dyslexia makes you creative. When I didn’t know if a word was spelled with e or ä, I would simply choose another word. If I hadn’t struggled in school, I might have chosen a completely different career path than being in the family business. I’ve always been interested in sports, and would have wanted to study the subject, but my grades weren’t good enough.”

Instead, Peter moves to Umeå to study business, after which he starts working at Wiik & Höglund as the chief forester. Also Henrik starts working in the family



Sixty years span between these pictures. Henrik and Peter Höglund not only shared a childhood but also all of their professional lives, and cannot recall ever considerably disagreeing about anything.

company after studying business in Turku. His first position is being the assistant to Karl-Johan “Jukka” Tidström, CEO at Keppo.

In 1973, Emil Höglund suddenly dies in pneumonia at the age of 72. Although he no longer officially is part of daily business operations, he is still the chairman of the board and visits the office as good as daily.

Two years later, in 1975, Jukka Tidström also dies and suddenly the older generation is gone. Henrik is catapulted into being the CEO of Keppo in 1975, taking over after Jukka Tidström. All of a sudden he has advanced from being the assistant to the CEO to being the CEO himself.

“The fact that dad and Jukka died relatively unexpectedly committed us to working for the family company sooner than what we otherwise would have. Under other circumstances we had most likely studied at a slower pace and also taken a longer time in making the final decision on whether or not to actually devote our lives to this. Now that process was accelerated by several years.”

A STAND-IN PRESIDENT

Having two youngsters suddenly lead a company with a hundred million Finnish marks in turnover is naturally not uncontroversial. Some of the long-term executives have a hard time swallowing the fact that they all of a sudden have a boss half their age. Henrik himself, however, takes on his new role with great enthusiasm.

“I don’t think I would have made a good CEO in an operative role. However, the tasks of a group president were as made for me. I got to manage the large pieces of the puzzle – deciding which businesses to develop and which to phase out. During my two decades as the group president that was in essence what I did – reorganize, structure, dispose of the old and invest in new businesses.”

Peter, on the other hand, works in various positions in most companies within the group. Often, he is tasked with taking care of areas with problems of different sorts.

Henrik’s job as the group president entails a lot of business travelling, with many trips also to other continents. However, in the mid-1990s, his physique starts to crumble. Henrik has had auricular fibrillation in his heart since the army, without first knowing the cause of his symptoms; now the symptoms grow worse. In 1996, he is fitted with a pacemaker.

“Getting a pacemaker was like switching on the electricity in my body. Suddenly I had all this energy after having been feeble for so long. But travelling was still too much for me, and in 1997 I decided to step aside as group president and become the chairman of the board instead. This meant that I didn’t have to travel as much.”

Few CEOs enjoy the benefit of having a stand-in ready to jump in when they want to shift down, but Henrik Höglund is one of the lucky ones. His stand-in – or clone, rather – not only has confusingly similar looks, but is also fully in tune with how Henrik thinks the business should be handled. Peter Höglund steps in as the president in 1997 and stays in the position until his retirement in 2016.

The identical twins, Peter and Henrik Höglund, cannot recall a time when they have considerably disagreed about anything. The older the brothers grow, the more similar they become, they find, as age has allowed them to stop caring what other people think and be more themselves.

So, what are they really like, these twin brothers who have led KWH for over 40 years and who both still are on the company board? How would they describe themselves?

“We are introverts, which hasn’t always been easy when put in the position to lead people. As kids we were very shy. We are also cautious but ready to take risks, which might sound contradictory. However, our caution shows in our ability to always look ahead and try to see where the world is going and how that affects the industries KWH is in. The risks we have taken have generally been well considered, never sudden whims. Another characteristic, that probably has been to both our and KWH’s benefit, is that we don’t give up easily. Depending on how you look at it, you can call it determination or stubbornness.”

“Some of the long-term executives have a hard time swallowing that they suddenly have a boss half their age.”



The fur animals | 2

How the world's largest fur breeder shed its skin

In 1987, KWH is still the world's largest producer of furs, only to phase out the business a few years later. The turn might sound dramatic, but shedding its skin has always been the foundation of KWH's entire existence.

"This isn't working, we have to close down the fur farming business."

The words come out of group president Henrik Höglund's mouth during a meeting in the end of 1988. Among the attendees is newly-recruited controller Kjell Antus, for whom Henrik plans most of the heavy lifting in winding up the company, together with head of division Georg Lång.

Henrik is a little concerned that Kjell might find the task too daunting and that he might quit his job because of it. Luckily Kjell stays put.

"I was newly graduated from Hanken School of Economics and had only worked at KWH for some months. Moreover, fur farming was close to my heart as I grew up on a farm. And then this task lands on my table! The notion that KWH would quit producing furs was never on the map, so the news came as a great chock."

Kjell Antus is not the only one to be surprised by the news, for the phase-out is no small change in the group's structure – it signifies a 180-degree turn, putting just about everything on its head.

At the time, KWH is the world's largest fur animal breeder, and the business equals one third of the entire group's turnover. What is more, the management strongly identifies with fur farming. Therefore, it is fully justified to question where the company's heart and soul is, if not with fur farming?

"If all the company's mink sheds had been placed in a row, they would have made up a 250-kilometre-long wall."



In addition to the fur production itself, Keppo also manufactured machines for the fur farming industry. In the picture is an early model of a farm truck.

50 YEARS OF FUR FARMING

Fur farming has a long history within the group, going 50 years back in time. The business started in 1937, when chicken farmer Johan Stuns suggested to Emil Höglund that the two should start a mink farm together. As a keen entrepreneur, Emil was on board at once, despite the fact that neither he nor his new business partner had any experience in the industry. Mink farming was not a big business in Finland during this time. The first years were therefore spent learning the industry through trial and error.

In the following years, the company Keppo was founded for running the fur farming business. Although the industry proved to be extremely cyclical, Keppo performed well all in all.

In 1953, the company prided itself on owning the largest mink farm in Finland. Just over ten years later the company was already the world's largest fur breeder.

At its peak Keppo annually produced over 480,000 mink furs and 130,000 fox furs. To grasp the sheer size of the business, one only has to imagine this: if all the company's mink sheds had been placed in a row, they would have made up a 250-kilometre-long wall.

The business is thus impressively large – why does Henrik Höglund want to shut it down?

The reason is simple: money. The fur farming industry is characterized by good and bad years superseding one another – very profitable years are sandwiched between unprofitable ones, depending on how much customers are prepared to pay for the furs at the annual auctions.



Kjell Antus has spent his entire career at KWH. When he started as a controller in the end of the 1980s, one of his first tasks was to close down the fur farming business. In 2017, he became group president.

In the end of the 1980s, there is once again an oversupply of furs on the market, while an international opinion against fur farming has gained traction. What is more, the Finnish mark is strong, which lowers the price of the furs when they are sold abroad.

All these factors sum up 1987 as a catastrophic year for Keppo. Henrik realises that the game is about to be lost.

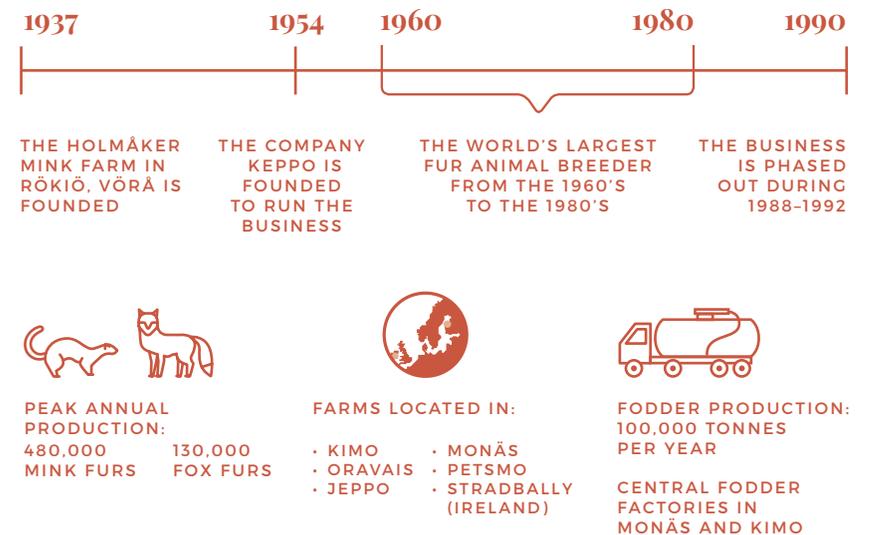
“When I dropped the bomb in that meeting, it wasn’t on a sudden whim, but something I had given careful consideration over several years. In the mid-1970s, when I started as the head of Keppo, the fur prices were also very low and we went through a similar crisis. Hence, I recognised the feeling the low fur prices gave me, and it wasn’t pleasant.”

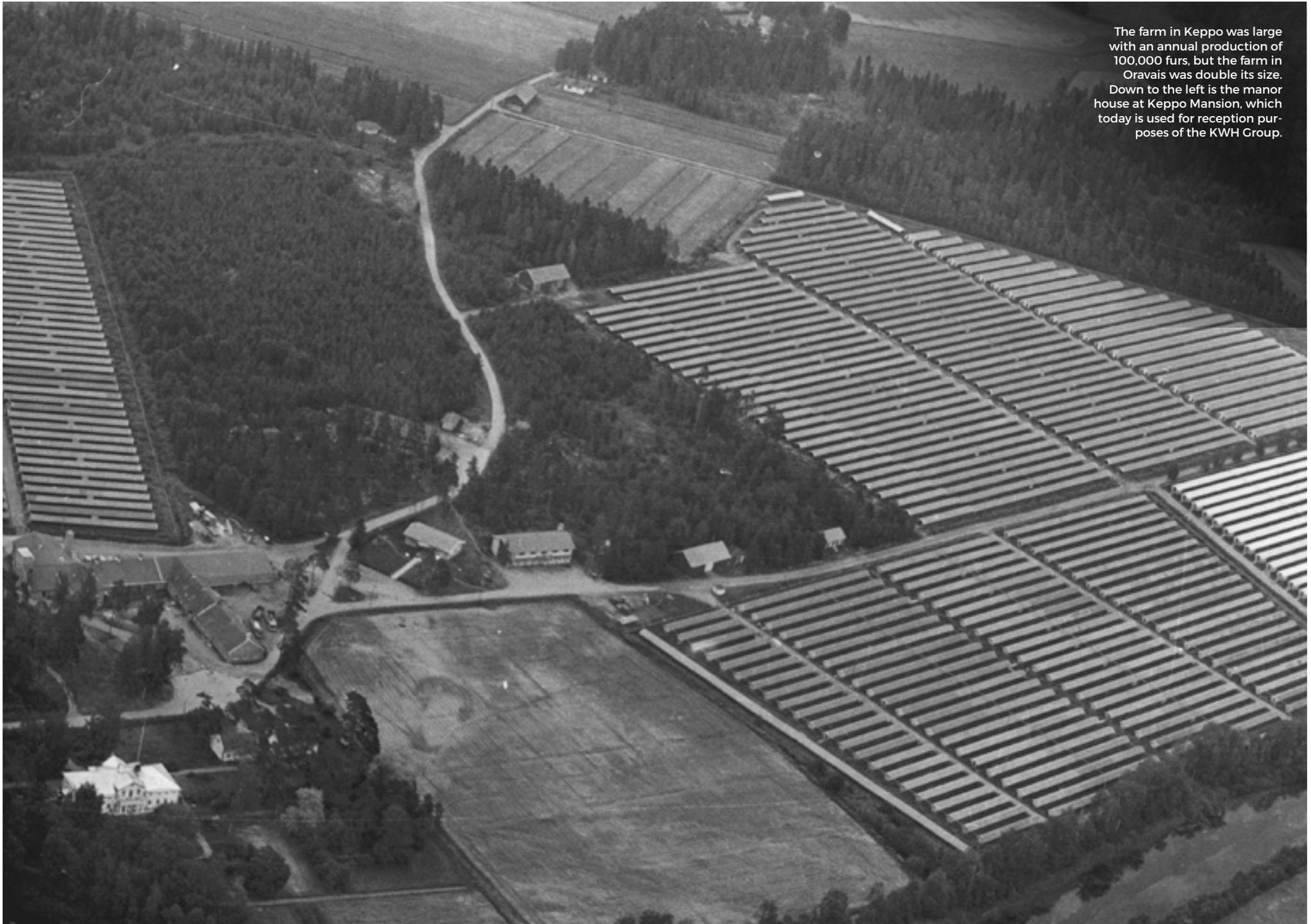
WHEN THE GAME IS NOT WORTH THE CANDLE

The production costs of a fur in 1987 are higher than what the fur is sold for, which does not even cover the fodder of the minks and the foxes. Furthermore, the fixed costs are high, as hundreds of employees need their salaries, regardless of the fur prices.

The auctions where the furs are sold resemble a gigantic lottery, where the end result can be just about anything. Whatever the management’s annual budgets are, Henrik Höglund knows that they will ultimately always be wrong:

KWH’s fur farming business





The farm in Keppo was large with an annual production of 100,000 furs, but the farm in Oravais was double its size. Down to the left is the manor house at Keppo Mansion, which today is used for reception purposes of the KWH Group.

“Of course it cut me to the heart to have to carry through the phase-out, but what felt even worse was seeing the financial figures. We lost half of our equity in the fur farming crisis in the end of the 1980s, and at its lowest point our solidity was 23 percent. A couple more years like that and the entire group could have gone bankrupt.”

Upon consideration and after studying the situation, controller Kjell Antus also agrees that closing down the business is the only way forward:

“After the initial chock had settled, I started dealing with the matter by analysing the figures. It wasn’t hard to see that winding up the company was the only way to go, as the group books were in the red. It’s self-evident that you can’t run a business where a fur costs 100 mark to produce, but is sold for 50 mark.”

In hindsight, it is easy to see that KWH’s decision to phase out the fur farming business already in 1988 was the right thing to do, as the difficult years in the industry continued for a couple years more. Most farms tried to weather the storm and waited longer, but in 1992 already three out of four farms in Finland had closed down shop.

A CARFUL OF SHARES

The phase-out is managed in a controlled manner by KWH over a few years’ time. To avoid heavy losses, furs worth a hundred million have been put in freezers to be sold when the prices slightly rise in the years to come.

The farms which are not closed down by KWH are sold for a nominal fee of one mark to the company management team. In return, KWH obtains half of the potential earnings in the coming years. This turns out to be a real win-win solution. After the Finnish mark is devalued in 1992, farm profitability increases and KWH regains some of its money.

All the same, it is impossible to avoid large losses, as some of the farms cannot be sold, but have to be closed down. Finding an alternative use for a cast-off mink shelter is difficult, if not impossible.

The fodder factories in Kimo and Monäs are sold to the Raisio group. The plant in Kimo is ultramodern and has barely been taken into use by KWH, and now Raisio starts producing pig fodder there. (In 2019, the factory is still in use, but is now making human fodder – pancakes, to be more precise.)

As before, Kjell Antus tends to the practicalities of this sale too. This time his task is to transport the share certificates all the way to Raisio in his Honda Civic.

“Put together, all the hundreds of share certificates mounted up to a pile of several metres. I gathered the certificates, spent a night stamping and signing them, and then crammed them into the luggage boot and back seat of my car. When handing over the shares to Raisio, I received a check of 1.5 million mark in payment, which I redeemed at the Merita bank in Raisio. I was 25 years old, but felt like a big shot looking after that much money!”



At a fur exhibition in Helsinki in 1961 Keppo received an award from minister Ahti Karjalainen (to the right). From the left: Elis Wickström, farm manager in Petsmo, CEO Jukka Tidström and Emil Höglund.

While Kjell puts down long hours in winding up the company, a small worry creeps up: what if he ultimately will also make himself redundant? For what purpose will KWH’s fur farming division need a controller, when there are no employees or farms left?

His worries are in vain. What Kjell does not know at this point, is that he will still be working for KWH 30 years later. After the fur farming division is closed down, he is tasked with straightening out KWH Freeze. On January 1st, 2017, he has climbed as high as one can in the KWH hierarchy: he succeeds Peter Höglund as group president, becoming the first external group president ever.

“Whatever the annual budgets are, they will ultimately always be wrong.”



The pipes | 3

How KWH Pipe joined forces with their competitor

When the fur farming business is phased out, pipe production suddenly becomes KWH's main industry.

However, all things must pass, as big changes are coming also in this field.

On a day in September 2012, a delegation of six people from Ostrobothnia arrive at the luxurious Merilampi lawyer's office in Helsinki city centre. When group president Peter Höglund, CFO Kjell Antus and their small entourage step through the doors, they are met with an army of lawyers and a ten-meter-long conference table filled with legal documents.

This is the culmination of a process of several years, where two bitter competitors not only will bury their hatchet, but also unite. Only some years ago, a fusion between KWH Pipe and Uponor's piping business had sounded like utter fantasies, but in a few hours, it is to become reality.

Kjell Antus feels a bit overwhelmed when seeing the large piles of paper, realizing that the counterpart finds it necessary to have close to 20 lawyers to finalize the merger:

“As we are not an exchange-listed company, this bureaucratic way of working felt alien to us. Altogether the due diligence was 11 000 pages of documents. We had one main contract that Peter and the CEO of Uponor signed, after which I signed some support contracts. Then we left, but two lawyers on both sides stayed at the lawyer's office and continued signing papers all night. Both the signing of the deal and the deal itself had probably gone faster and smoother with more of our counterpart's business people being present, but now we had to do things on the lawyers' terms.”

Right after the meeting at the lawyer's office, the news is announced that the two former cutthroat competitors, KWH Pipe and Uponor's piping business, will merge as Uponor Infra. The negotiations have been ongoing for 3-4 years, and at times Kjell Antus and Peter Höglund have given up hope on the deal ever coming true.

“Two lawyers on both sides stayed at the lawyer's office and continued signing papers all night.”

Throughout the negotiations Uponor's unconditional demand has been to own the majority of stake the newly-formed company – something which ultimately also becomes reality. The fact that Uponor is like a red rag to a bull for many of KWH Pipe's top executives does not make the negotiations easier. And adding insult to injury is the reality that KWH Pipe makes up half of the turnover of the KWH Group at this point in time.

Nonetheless, now the two parties are finally in agreement and the fusion can take place. For anyone who has followed the piping business for some time, the news does not come as a big surprise. An outsider might, however, easily question why on earth two competitors would decide to join forces.

THE FINANCIAL CRISIS RUINED THE PIPING BUSINESS

To find an explanation for the fusion we have to rewind the tape and go back to 2007. The housing bubble bursts in the United States, and what is to be called the financial crisis spreads throughout the world the following year. Calling this financial crisis the worst economic disaster to hit the world since the 1930s is probably not an exaggeration.



KWH started manufacturing pipes in 1955 and the export began shortly thereafter. Here a pipe is lowered into the sea in Stockholm in 1958.

KWH Pipe manufactured pipes in every thinkable size. The largest were three and a half metres in diameter, the smallest 25 millimetres.





The sales company that sold the plastic pipes was in the beginning called Yhdistyneet muovitehtaat (transl. United Plastics Factories).

The heaviest repercussions on ordinary people are averted with massive interventions by governments and central banks over the world. These interventions come, however, with a price tag and most countries see their debt burdens grow.

Many companies survive the financial crisis with a fright, but KWH Pipe's business takes a heavy toll. The company manufactures water and sewage pipes, and who buys these products? Municipalities, of course, which are exactly the type of institutions that soon will be over their ears in debt and have a chronic lack of money.

Peter Höglund gives an illustrative example of the situation in Vaasa, where KWH's headquarters is located, more than ten years after the financial crisis:

"A considerable part of the pipes in Vaasa are from before 1915, and it is self-evident that they should be renewed. But as there is no money, the cost is deferred into the future. The situation is the same all over Finland and also all over the world."

As a matter of fact, the piping business has never been a particularly profitable business, at least not since the 1970s, when KWH's competition caught up to their technology. Despite being the market leader for a long time, KWH Pipe's profitability is low, as the buyer is the society, the products are standardized and the margins consequently are low.

As it does not pay off to export large pipes abroad, KWH Pipe has established business in as many as 15 different countries. Twice the company has tried to set up business in Germany with poor results, the market there being dominated by cartels. Business endeavours in different Asian countries have also not gone to plan. However, lessons have been learnt on how local competitors use cheap poor-quality raw materials, and the difficulty of selling products to princes and government

officials in non-democratic countries. Growing business is therefore difficult and KWH Pipe is stuck in the middle-range segment – too small for scaling benefits and too large and rigid from a local perspective.

AS GETTING RID OF A DULL TOOTH ACHE

All in all, pipes are no easy business and when the financial crisis hits, it becomes even harder as half of the demand disappears. In conditions like these there really are not too many options: one can continue to compete with other companies, and see who goes bankrupt first; or one can choose to join forces with the competitor.

According to Peter Höglund, the decision to merge with Uponor is not an emotional one, even though it means that half of the group's turnover suddenly disappears from the books.

"The pipes were a business where we simply could not get ahead. It was like walking around with a dull tooth ache – you know it's going to hurt when you go to the dentist, so you simply put off doing it. But sooner or later, of course, you have to go. Compared with closing down the fur farming business this was, nevertheless, much easier, and we did not lose as much money."

"The pipes were a business where we simply could not get ahead. It was like walking around with a dull tooth ache."



A rowboat and plenty of manual labour was needed to get this pipe into the water.

The new company is named Uponor Infra and KWH owns 44.7 percent of it. The single most notable change is that all of the piping business is taken out from KWH Group's financial statement, abruptly shrinking the turnover.

After thousands of documents have been signed, one final ordeal remains before the merger can become reality: the competition authorities have to approve of the deal. This formality is made particularly nerve-racking by the fact that the two competitors have completely turned each other inside and out during the negotiations, bearing all their secrets. To not unite at this point and continue as competitors would be strange, to say the least. However, all goes well, and the authorities' only demand is that the new company sells off some of its production lines to its competitors, all to avoid that Uponor Infra will have too strong of a market position.

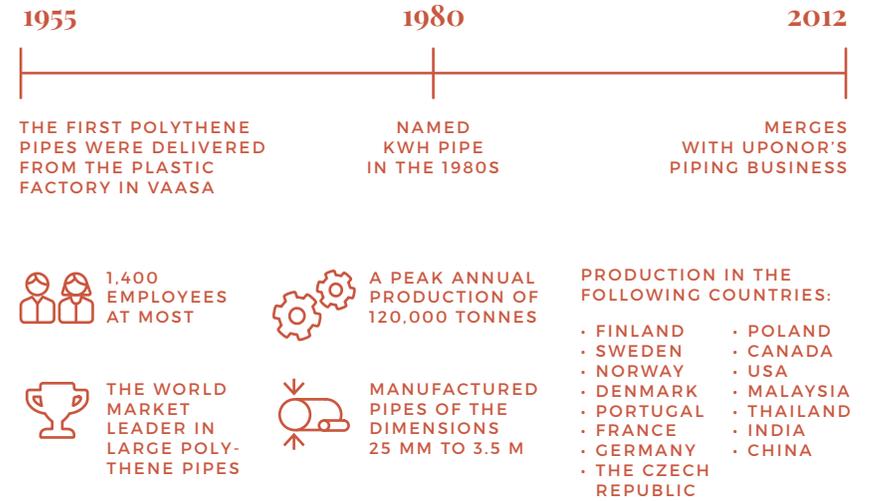
When group president Kjell Antus looks back at the fusion five years later, he finds that everything ultimately turned out well, even though it is hard to know what an alternative scenario would have looked like.

“We rarely go into joint ventures, as they are difficult to control and manage, but in this case, I'd say things have worked out nicely. Surely, we've had some cultural clashes, as Uponor has a corporate mindset, with the piping business only being one of its many divisions, while KWH Pipe had always worked very independently. In a way, we mentally prepared ourselves to leave the piping business when we agreed to own a minority stake in the new company, but we have no timetable for letting go of our holding of shares. We simply see it as a strategic investment, of which we expect certain returns.”



KWH Pipe had factories all over the world. Here then-group president Peter Höglund is on a business trip in India in the 1990s.

KWH Pipe



After a few dramatic years, KWH Pipe merged and became Uponor Infra in 2012. The KWH Group has an ownership stake of 44.7% in the new company.



Mirka | 4

How Mirka became the technological leader in abrasives

When Mirka launches dust-free sanding in the beginning of the 2000s, it is nothing short of a sensation in the industry. However, as many other great innovations, dust-free sanding is a lucky coincidence.

It is just another afternoon in the mid-1990s, when the head of Mirka, Kurt Betlehem, is paid a visit in his office by the technical director, urging Kurt to go down to lab to see what is going on in there.

Kurt Betlehem follows orders, and once in the lab he is met by employees who are all revved up. The reason is that the Mirka lab has experimented with leaving out different elements of the abrasives to lower production costs, and now the developers think they are onto something interesting. The product is nowhere close to being finished, but it seems to be working fairly well. In passing somebody mentions that the new test material does not raise any dust when in use.

When Kurt Betlehem comes home later that evening, his thoughts are still at the office. In the night he has a hard time falling asleep as his thoughts keep going around and around – the idea of a material that does not create dust has made an indelible impression on him. Suddenly, he has a eureka moment:

“I realised that if we could develop a system for dust-free sanding, that would be nothing short of a revolution. As long as abrasives have been used, dust has been a big problem. The sanding dust clogs the material, which has to be replaced, and also makes the air unhealthy to breathe. What if you could remove the dust!”

As often is the case with great innovations, dust-free sanding is born out of a lucky coincidence. With that said, Mirka has, however, for a long time invested greatly in R&D, but the overall goal has mainly been to bring down costs, not to invent a revolutionising new sanding method.

**“Suddenly, Kurt Betlehem has a eureka moment.
What if you could remove the dust!”**



Dust-free sanding has many benefits, especially creating a healthier and nicer working environment.

A couple of years earlier, the large manufacturers in the industry have started replacing the glue, which attaches the abrasive to the sanding tool, with Velcro. Mirka is quick to adopt the idea, but as Velcro is more expensive than glue, the company starts experimenting with ways to cut down material consumption. With this objective in mind, the developers come up with the idea to glue the sanding grits directly onto the Velcro fabric. This way costs are cut by leaving out the paper, which the grits normally are glued onto. Since Velcro is made of a net full of holes, something unexpected happens: the dust is sucked through the holes during polishing.

When Kurt Betlehem comes back to work after his sleepless night, he explains his vision for the R&D department, and it does not take long before everyone is as excited as the head of division himself. Now is the time to roll up the sleeves and start working.

The task is, however, not an easy one. As the threads in the Velcro material are round it is difficult to attach the grits to them – the surface where they are supposed to stick is very small compared to traditional paper.

At the turn of the millennium, after some years of intensive development work, the dust-free sanding concept is finally ready to be launched in the market, and it quickly becomes a hot subject in the industry. No wonder, as it is the first large innovation in the sanding industry in decades. Kurt reveals, however, that convincing customers of its superiority was difficult in the beginning.

“To prove that the system actually worked in practice, our sales people came up with a clever technique, which they used at exhibitions. They would ask customers to remove their dark coats and lay them on the floor under the rotating sanding tool. This way customers could see with their own eyes that their coats were as clean as before when they picked them up again.”



Kurt Betlehem's journey at Mirka is breathtaking: when he came into the company in the mid-1960s, Mirka had less than 10 employees, and when he retired 40 years later, the company had 125 million euro in turnover. Since then, the turnover has more than doubled.

Even though dust-free sanding came into existence through sheer coincidence, the innovative company culture which gave birth to it was no fluke. For a long time already, Mirka had been characterised by a culture that was willing to test and invest in new things, while also keeping a tight rein on expenses.

Long before the tech giants of Silicon Valley came up with the idea of allowing their employees to do whatever they want for a part of their working hours, Mirka had introduced a similar concept. Employees at the Mirka R&D department have so-called playtime 20 percent of their working hours. The management had noticed that this freedom unleashes creativity, which, of course, ultimately benefits the company.

THE BANK WANTED TO SELL OFF MIRKA

The reason why Mirka became a part of the KWH Group in the 1960s was because the company, originally based in Helsinki, was looking for new premises. The owner of Mirka was also on the lookout for a buyer for the company. So Keppo happened to buy Mirka and the company moved to Jeppo, where its headquarters still is. At this point, the company only had a modest nine employees.

Kurt Betlehem started working for the company in his twenties in the mid-1960s, just because he happened to live close to it and was persuaded to apply for an accountant position – despite knowing very little about bookkeeping and actually wanting to study at Hanken School of Economics. Kurt hardly could have imagined that he would devote his entire professional life to Mirka. Nor that he would end up as the CEO of a global company with a turnover of over a hundred million euros. The successes of the latter years stand in stark contrast to the 1960s and 1970s.

“Generally speaking, we spent all of the 1970s building a new factory and getting the production and sales in order. In hindsight, it is easy to see that we started building the factory with too little knowledge and too much belief in the future. The idea was to save money and do everything ourselves, which of course was more expensive in the end, as we made many mistakes along the way. Luckily, through these tough experiences we learned to live frugally, find our own solutions and work hard.”

Henrik Höglund, group president at the time, also remembers that it required great belief in the future to convince people that Mirka one day would be destined for greatness:

“Our people in the fur farming business were often crossed about the fact that the money they made was spent covering for Mirka's losses. The long-term investments we made in Mirka during the 1970s defy all theories on how to run a business. A company on the stock market with quarterly reporting would never do what we did. The reason why we wanted

“The long-term investments we made in Mirka during the 1970s defy all theories on how to run a business.”

to invest in Mirka was perhaps that all the alternatives were so bad – most of the eleven industries we were in during that time were either unprofitable or had poor future prospects. However, looking back now, we can see that pouring money into Mirka was a good strategy. Naturally, everyone did not believe in the strategy – I remember a bank giving me the advice to sell off the entire company.”

Luckily the owners were not interested in selling, as Mirka’s business in 2019 mounts up to over half of the KWH Group’s turnover. In the 1980s, Mirka finally starts making profit once the production is on track and the company starts exporting its products. From there on the business has always been profitable.

When dust-free sanding is launched in the turn of the millennium, Mirka is no longer merely profitable, but also one of the technological leaders in its industry and the third largest company in the entire world within abrasives.

INDUSTRIAL ESPIONAGE IS DIFFICULT IN JEPPU

Although almost 100 percent of Mirka’s production today is exported, most of the company’s manufacturing is still done in Finland. The only exception is the production line in Italy, which was added when Mirka bought the Italian company Cafro in 2017. The reason why industrial manufacturing in Finland still pays off is the fact that Mirka does not compete in low labour costs but rather in innovation and technical excellency.

In addition, there are other hidden benefits in keeping the production in the home country – it makes it more difficult for competitors to do industrial espionage and create pirate copies. Kurt Betlehem remembers one day in the 1990s,



Car repair shops are one of Mirka’s most important customer groups. The company has a large development and test department at the factory in Jeppo.



Today’s high-tech manufacturing at Mirka stands in stark contrast to the company’s first decades. Largely all of the 1970s were spent building a factory, of which much was done by the company itself.

when an English-speaking man turned up in the small town of Nykarleby and raised suspicion.

“The man walked around town trying to talk to people. It soon became evident that he wanted to steer the conversation to Mirka. People caught on fairly quickly and informed us about it. So, we were able to set a trap for the man – we made sure he met with people he thought would give him valuable information, when in fact we fed him with all kinds of made-up figures.”

In other words, being based in a small place means having loyal employees, and that outsiders with bad intentions are quickly discovered. When Mirka in the 2000s starts making sanding tools on a larger scale, it comes naturally to locate the manufacturing in Finland to avoid copycats. This has led to the interesting situation of Mirka being, as far as is known, the only Finnish company to export electrical tools made in Finland to China.

Sanding tools have grown into a business with a turnover of 50 million euro, and also here innovations have been the key to success. The breakthrough came when Mirka found a way to make the tools considerably lighter than before, rendering them more ergonomic and easier to use. Now, as we are closing in on year 2020, the machines are also connected to the Internet, leading to entirely new measurement and follow-up possibilities.

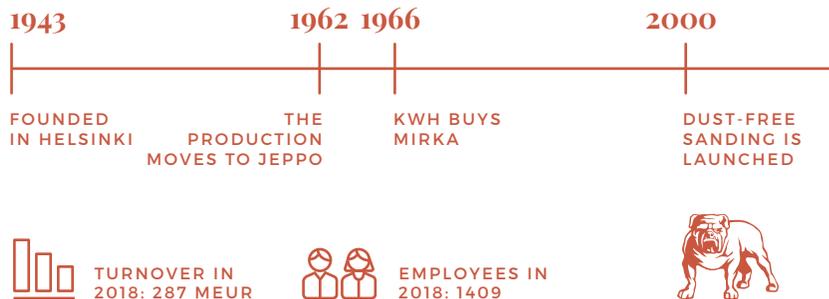
WHAT COUNTS IS THE FEELING

When your career spans over half a century and your company goes from being a small and insignificant one of ten people to becoming one of the world leaders in its industry, quite a few things happen along the way. Most times when Kurt Betlehem has made a difficult decision, he has followed his gut feeling, as every decision always has a certain degree of uncertainty to it, regardless of how thorough one's calculations are.

Often this gut feeling has led him on the right track, just as in the 1990s, when Mirka decided to invest in an ultramodern and fully automated warehouse with pallet racks. Or when Kurt pushed for a Belgian distribution centre, which would replace all the smaller local warehouses in the subsidiary countries. The change led to protests in the local companies, who feared their conditions would worsen, but in the end the solution turned out to be successful.

Mirka

ONE OF THE WORLD LEADERS IN ABRASIVES



Mirka not only manufactures abrasives but also tools. The tool production is in Finland and, as far as is known, Mirka is the only company to export electrical appliances made in Finland to China.

Kurt Betlehem can look back at many moments of triumphs and successes over his career, but two moments in particular make him particularly proud. In the beginning of the 2000s, Kurt was waiting in line to pay his groceries at the local convenience store, when he happened to hear a conversation between two people further down the line. One of them told the other that he had applied for a job at Mirka, to which the other person replied "if they'll have you, you should definitely go".

For Kurt Betlehem, who had lived through times when Mirka could not afford to pay high salaries and therefore had a constant shortage of workers, this was a sign of decades of hard work paying off, and that Mirka now was one of the highest ranked employers among the local residents.

The other moment of pride takes place far away from the local K-market, at a cocktail party in Paris, where all the big sanding manufacturers are gathered.

"The party was thrown at a circus museum, which had an old-fashioned merry-go-round for people to take a ride in. I sat down in one of the boats, when the CEO of one of the world leaders in abrasives approaches me and asks if he can take a seat next to me. He wanted to be able to say that he 'for once was in the same boat as Mirka'. This was a competitor I'd looked up to for a long time and one which had served as a model to us. Now I suddenly realised that Mirka had reached a point where this competitor admired us."



The plastic | 5

How only the water traps survived

Having phased out the fur farming business in the beginning of the 1990s, KWH is suddenly a group of companies, which main products all are made of plastic – water pipes, office plastics, packaging and water traps. In 2019, only the water traps have survived.

In the 1950s, plastic is a new exciting material not yet tainted by the environmental debate of the decades to come. Therefore, it hardly comes as a surprise that the progressive multi-industry company Wiik & Höglund decides to enter the plastics industry.

However, the start is more of a coincidence than a deliberate strategy. At the time, Wiik & Höglund happens to collaborate with a company in Sweden, that offers it the sole right to produce floor tiles in plastic in Finland.

A few years later, KWH buys and launches other businesses in the plastic industry. It seems like only the sky is the limit to what can be made of this new exciting material. Over the decades, KWH produces a number of plastic products, everything from CD cases to nappy tie pants. Long-time group president Peter Höglund also has a real rarity among his Christmas decorations – the traditional local Christmas decoration of the region, Faith, Hope and Love, made 100 percent out of plastic at Prevox in Nykarleby.



One of the numerous plastic products KWH made back in the day were different types of profiles for the construction industry.



Here office plastics are manufactured in a so-called calender, i.e. a rolling-mill that presses the film into a desired thickness.

“Over the decades, KWH has produced a number of plastic products, everything from CD cases to nappy tie pants.”

When the fur farming business is phased out in the beginning of the 1990s, plastic products dominate KWH's product range. Most of the group's turnover comes from water and sewage pipes as well as office plastics – all made in plastic.

For KWH Plast, the mid-1990s is a wonderful time. At the time, there is not an office in the world that does not stock a large amount of binders on their shelves with adjoining plastic sheets. Any talk of a paperless office is brushed aside as unrealistic fantasies of the future. During this time, Peter Höglund works as the head of KWH Plast, which is number two in Europe in office plastics.

“In the middle of the 1990s, we still make excellent results, but then things start to go south. In the end of the 1990s, the green wave gains momentum and PVC plastic gets a bad reputation. We shift to PP plastic, but it is both technically and financially more demanding. To increase profitability and volume we also start making plastic packaging.”

The plastic packages do not, however, succeed, and the company is plagued by profitability problems. During the 2000s, it also becomes obvious that the paperless office no longer belongs in science fiction, but is a real change about to happen. The demand for office plastics drops as computers and digital archives become more popular.

Having fought an uphill battle for years, it is evident that plastic sheets never will be profitable, as demand has dramatically dropped. In December 2008, KWH Plast ceases to manufacture office plastics in Jakobstad after 60 years in the business. Just as many times before, the KWH management finds itself having clung onto a business for too long, which, in hindsight, should have been discontinued earlier.

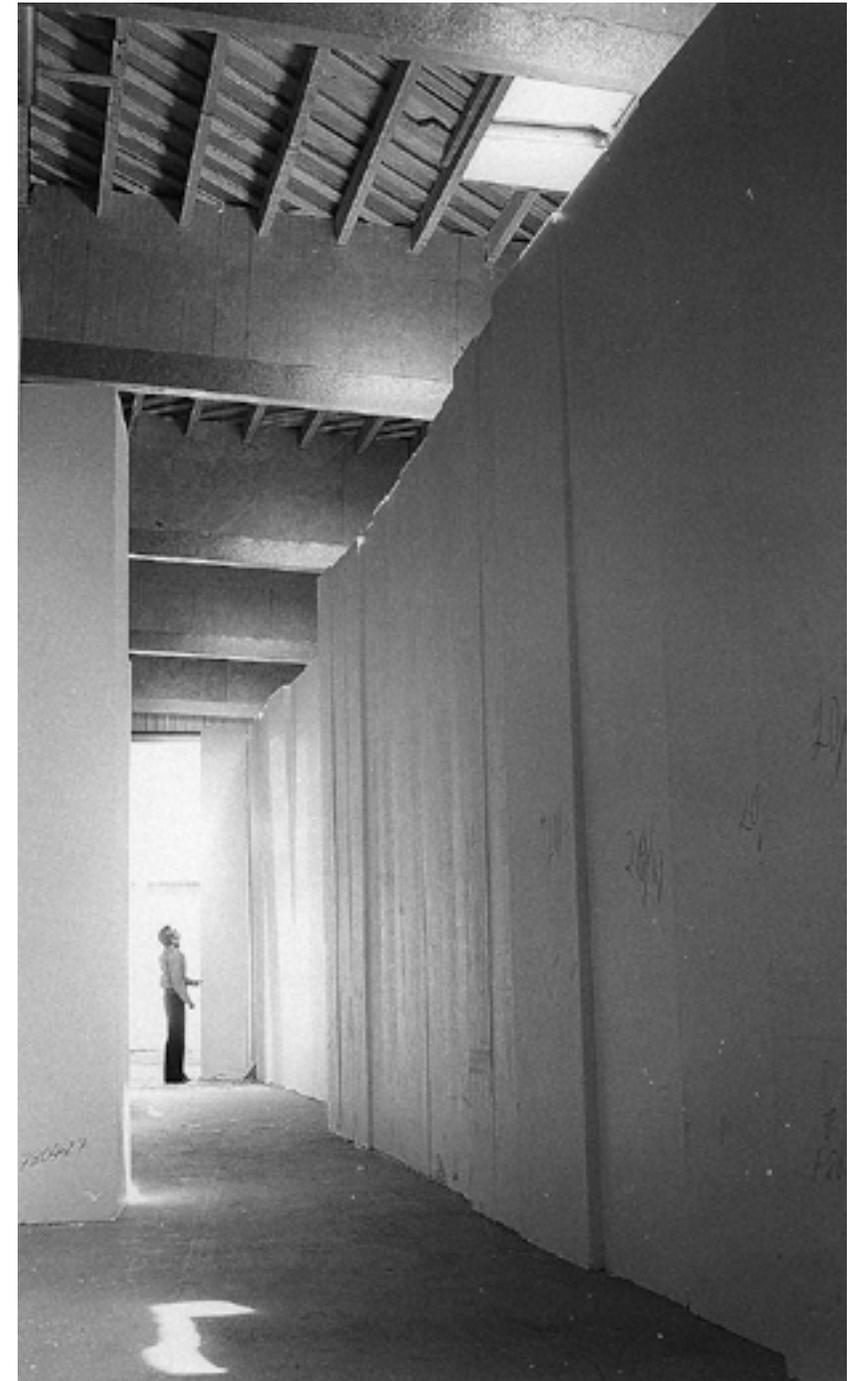
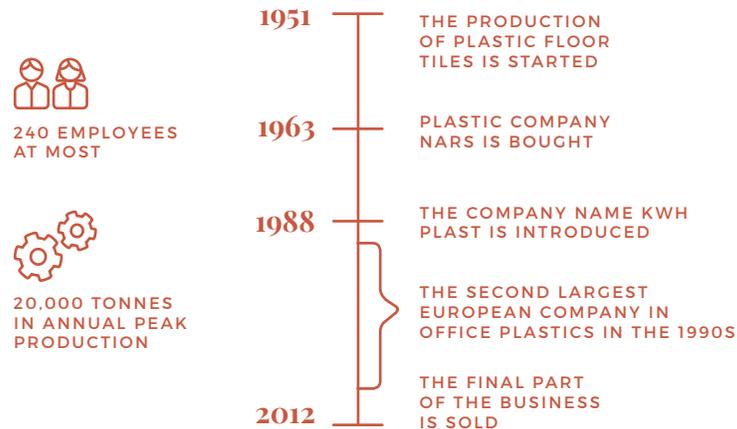
In the years to follow, also other plastic production is sold off: in 2010, Arta Plast Ab buys KWH's food package production, and in 2012, Schur Flexibles buys the production of plastic wraps for food packaging. The KWH Group has once again shown its ability to let go of the old to make way for the new.

Of interest in this context is the fact that KWH Plast's old premises in Jakobstad still are in use today. Now Mirka assembles its electric tools there, and the demand is so high that the business is outgrowing the premises.

THE EXTREMELY NICHED PREVEX TAKES SHAPE

After the merger of KWH Pipe and Uponor's infrastructure business in the mid-2010s, the KWH Group only has one plastic product left among its selection of goods, namely water traps. A water trap is the part of the pipe under the kitchen or bathroom sink, which connects the sink to the drain. In other words, it is something which most people do not notice, as long as it works and the water trap is not clogged by food scraps or hair.

KWH's plastics business



In the 1950s, KWH started manufacturing polystyrene. As most of its plastics production, also the polystyrene was closed down a long time ago.

However, for Prevox water traps mean the world. The company is specialised in water traps and nothing else. In comparison to its competitors, the company is extremely niched, according to Henrik Höglund.

“None of Prevox’ competitors would dare to limit themselves to such a narrow segment. But we’ve had the guts to do it, as our group also manufactures other products than water traps. From a group standpoint, we’ve taken a risk, but not a huge one. We, of course, believe that higher risks yield higher results.”

Being a niche player has paid off and ever since 2010, when the company specialised on water traps, Prevox has seen healthy growth and profitability. Prior to 2010, the company also made spray-casted food packages, but that business never took off. Going even further back in time, Prevox has made all sorts of things in plastic. The company was founded as a family business in 1955, and was merged with KWH’s division for spray-casted plastic products in 1984. At the time, Prevox was a typical company of that period: whenever raw material was available, the company would experiment in making every product imaginable in plastic.

When KWH steps in, the group starts rationalising the business, and when KWH in 2003 becomes the sole owner of Prevox, the course becomes even clearer.

ALSO PREVOX BECOMES INTERNATIONAL

The decision to narrowly niche Prevox’ production is made in 2007, close to the time when also another decision is made to fully automate the factory in Nykarleby. Automating the production in a high-cost country definitely sounds like a smart move in the 2000s, but the management of Prevox and KWH soon come to realise, that things can be taken too far also in this respect. Peter Höglund recalls:

“A water trap has 25-30 components, which makes the many stages of the process susceptible to hold-ups. We learnt that the production is faster and more efficient if it isn’t fully automated, but has a few manual steps in the process. Naturally, automatization is the future, but we simply took too big of a bite of it at once.”

A narrow niche has to come with a wide market, and as a consequence of moving closer to its main market in Central Europe, Prevox buys a Polish water trap factory in 2016. The acquisition is prompted by the company’s most important customer – a large international furniture chain – which for security reasons demands production in two locations.

A question for the future is whether Prevox should continue being heavily niched, or if growth can better be attained with a wider range of products. Prevox will hardly ever become as big as Mirka, simply owing to the fact that the water trap market is smaller than the market for sanding solutions. The long-term goal of the group, however, is for Prevox to reach a turnover of 50 million euro, and when that goal is met the reward is clear: Prevox will become its own business division next to Mirka and KWH Logistics.

Prevox

THE ONLY COMPANY
IN THE WORLD TO
SOLELY SPECIALISE
IN WATER TRAPS



FOUNDED IN 1955.
KWH BOUGHT A STAKE
IN THE COMPANY IN 1984
AND BECAME THE SOLE
OWNER IN 2003



TURNOVER IN
2018: 31.5 MEUR



ANNUAL PRODUCTION
IN 2018: 4.4 MILLION
WATER TRAPS



EMPLOYEES
IN 2018: 262



Prevox is the only company in the world that has dared to only specialise in water traps and nothing else.



The logistics | 6

How KWH Logistics was able to find a new market niche in the ports

In 2019, the fastest growing division in the group is not Mirka, but KWH Logistics, which has found a niche few competitors are interested in. Moreover, Russia has given the company an extra boost.

In February 2014, the world holds its breath as Russia annexes the Crimean Peninsula. The event leads to an unstable geopolitical situation with Western sanctions against Russia, which in turn responds with countersanctions. Some time after the annexation, it becomes evident that the Russian government no longer will export the country's raw materials through the Baltic countries, which are members of Nato.

Alternative routes are therefore needed, and Finland quickly becomes an attractive alternative. For a long time already, substantial amounts of transit traffic, i.e. export goods passing through, have been transported from Russia through Finland.

When KWH Logistics in the end of the 2010s sees its transit traffic heavily grow, it is much due to this new world order. An illustrative example of it is a coal handling plant, which KWH Logistics has bought second-hand, and which in 2019 is installed in Pori to receive coal shipments arriving in trains from Siberia. The plant was earlier based in Estonia, but became redundant due to the circumstances.

In 2019, the transit traffic is so substantial that it has surpassed the domestic stream of goods that KWH Logistics handles. Concurrently, the company has grown into becoming the leading Finnish operator in transit traffic. Highlighting the sheer size of the business is the fact that KWH Logistics is one of Finnish rail transport company VR Transport's largest customers. Every day the KWH-owned subsidiary Rauanheimo unloads 400 freight wagons in the Finnish ports. Rauanheimo would take more wagons into use, if only there were any available.

“In 2019, the transit traffic has surpassed the domestic stream of goods that KWH Logistics handles.”

A CHALLENGING NICHE FOR OTHER PLAYERS

During the 2010s, KWH Logistics has generally seen double-digit growth. In addition to the transit traffic, another important reason for the growth has been the company's ability to find a niche, which competitors either are not interested in or do not have the financial means to enter into.

This niche is in handling goods in the ports. In 2019, KWH Logistics is turned into the largest port operator in Finland, and over the past decade, the company has been able to establish business in all the important ports – 14 in total – from Oulu up north to Kotka in the east. This quick advancement has been possible mainly thanks to the parent company's strong investment capabilities. The competitors neither can nor want to make similar investments, Peter and Henrik Höglund explain:

“The port operators in Finland are either small family companies that lack the capital, or larger corporations owned by industry, most often the forest industry. The small family companies do not have the financial means to make the large investments that the growth requires. The large corporations, in turn, are relatively uninterested in investing in port operations, since it's not part of the owners' core businesses.”

In other words, KWH Logistics has been able to find a very profitable market niche, although the growth has not been free of cost. On the contrary, it has required large investments in new equipment – the earlier mentioned coal handling plant in Pori comes with a price tag of tens of millions of euros. The idea behind these investments is to make the logistics chain smarter and more efficient. KWH Logistics prefers to manage as much of the chain as possible, from factory to ship.



KWH Logistics was made into its own division in 2001, but the company's roots go back several decades in time.

KWH Logistics

OPERATES IN PORT LOGISTICS, FREIGHT FORWARDING, INDUSTRIAL LOGISTICS AND COLD AND CHILLED STORAGE

THE DIVISION WAS
FOUNDED IN 2001
AND BECAME FINLAND'S
LEADING PORT
OPERATOR IN 2019



TURNOVER
IN 2018:
185 MEUR



EMPLOYEES
IN 2018:
512

COMPANIES
WITHIN THE DIVISION:

- ADOLF LAHTI
- BACKMAN-TRUMMER
- BLOMBERG STEVEDORING
- KWH FREEZE
- JALANDER
- MOONWAY
- OTTO RODÉN
- RAUANHEIMO
- STEVENA
- VAASA STEVEDORING



MARKET LEADER
IN FINNISH
TRANSIT TRAFFIC



COLD AND
CHILLED
STORAGE
SPACE OF
80.000 M²



ANNUALLY
HANDLES
13 MILLION
TONNES OF
PORT GOODS

In addition to port operations and transit traffic, there is also a third line of business that quickly grows, namely handling goods and logistics inside factory areas. Growth here is fuelled by the fact that industries to a larger extent are ready to outsource tasks outside their core businesses. At the new pulp mill in Äänekoski, KWH Logistics and VR Transpoint have together built the logistics chain, which starts inside the factory area and continues down to the port in Helsinki, where the pulp is exported.

LOGISTICS WITH A LONG HISTORY

The reason KWH went into logistics was the same as in other group investments: partly coincidence and partly deliberate strategy. The division is born in 2001, when KWH decides to bring together several subsidiaries within the logistics industry under one roof. At the same time, Silja Line's stake in the forwarding company Backman-Trummer is bought and KWH becomes the sole owner of the company. KWH has been part-owner in Trummer since 1954, and therefore we can thank Emil Höglund for the fact that logistics today is a part of the group's main lines of business.

In the 1990s, KWH buys a few port operators from bad bank Arsenal, among them Stevena in Turku. A few years later, port operator Rauanheimo is bought, which is the company within KWH Logistics that has seen the strongest growth in the 2010s.

Part of this division is also KWH Freeze, the leading cold and chilled storage company in Finland. Also for this we find an explanation in history – back in the

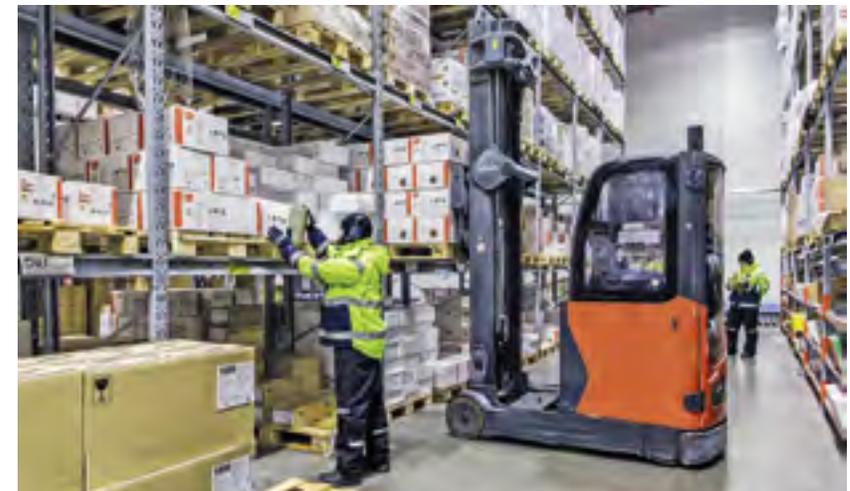
days, KWH was the world's largest fur animal breeder, which annually also made tens of thousands of tonnes of mink fodder. The fodder was mainly made of herring and fish waste and consequently the cold chain needed to be intact.

Today the fur farms have been closed down for a long time already, but the cold-storage plants that were supposed to supply them with fodder are still alive and well. KWH Freeze is no small actor in the industry – half of the frozen food-stuffs eaten in Finland have at some point passed through the company's warehouse in Vantaa.

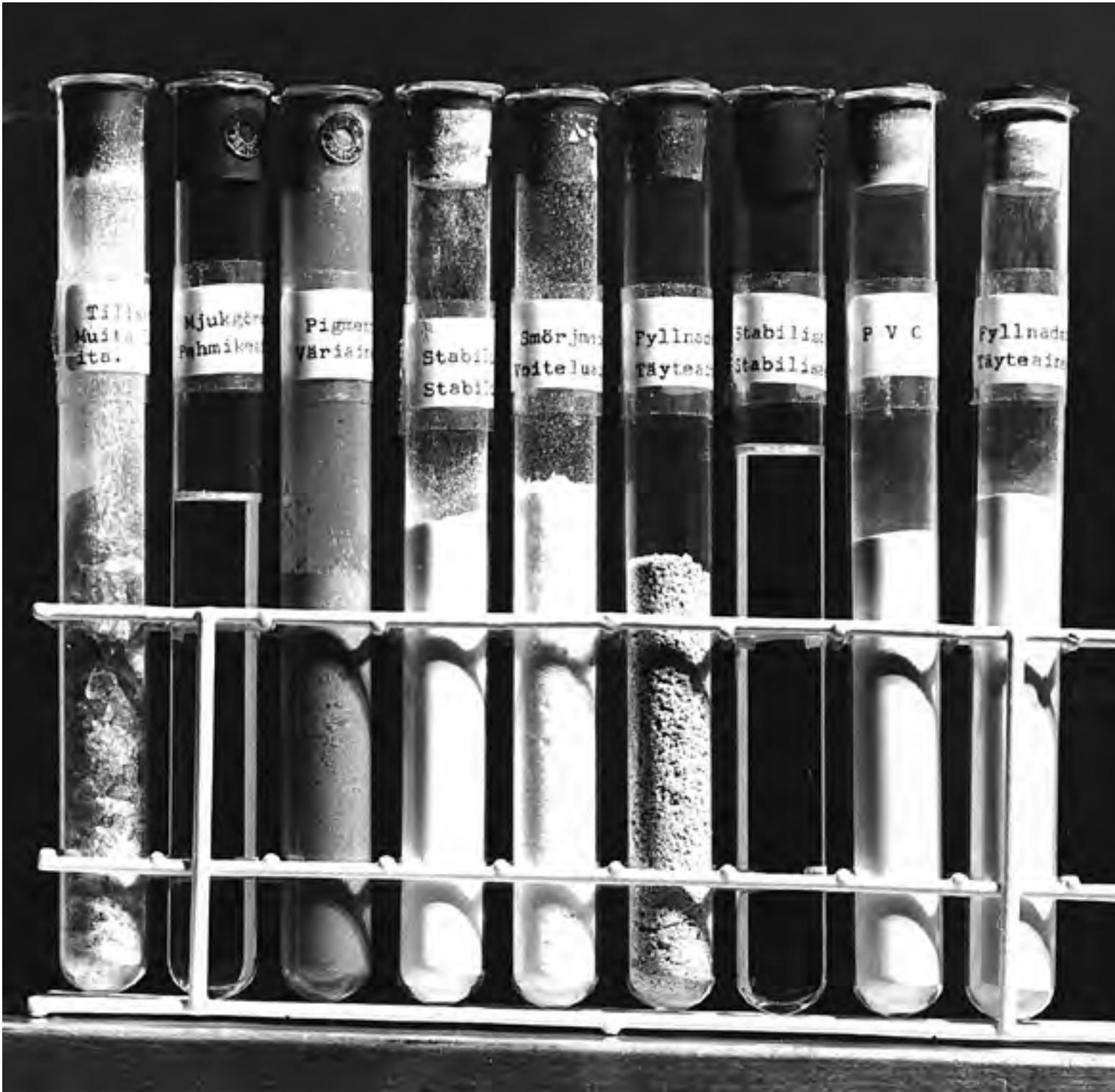
Logistics is a capital-intensive industry and KWH Freeze in itself has 75 million euro invested in properties. The growth in the freezer storage business and the other logistics areas is based in quick decisions on fairly large investments. Customers value a smoothly operating logistics chain, because without it their factories stand still and the companies lose a great deal of money. According to Peter and Henrik Höglund, the investment pace of KWH Logistics is close to hitting a record within the group.

“As a matter of fact, we have never in the history of the group made investments this large. What is nice is that KWH Logistics largely has been able to finance the growth on its own. 30 years ago, we set up a goal to become independent from the banks, which we now are. The world is topsy-turvy, as interest rates are negative and we now lend money to the banks.”

In 2018, KWH Logistics accounted for one third of the entire group's turnover. Due to the solid growth, this share increases, and it is not unlikely that logistics soon will mount to half of the group's turnover, closing in on Mirka both in size and in importance.



When KWH still worked with farm animals, cold-storage plants were needed to store the mink fodder. Today the farm animal business is closed down, but KWH Freeze has grown into the market leader in cold and chilled storage in Finland.



The transformation | 7

How KWH's phenomenal change capability was born

If the founder of KWH Group, Emil Höglund, had lived today, he had probably been called a serial entrepreneur.

Emil's personality set the foundation for what characterises KWH more than anything – the company's ability to renew itself.

When KWH in the end of the 1980s decided to close down its fur farming business, many were shocked and surprised. At the time the farm animals were the largest division in the group and the business had a long history going back several decades – was not closing down as good as selling out the soul of the company?

Anyone who knows the history of KWH also knows that the farm animals never were KWH's soul, just as abrasives are not KWH's soul today, despite Mirka's stunning successes in the 2000s. The soul of KWH cannot be found in a certain industry, it is found on a more abstract level.

The soul of KWH is simply the company's remarkable ability to renew itself. An ability to shed its skin, get rid of the old and invest in something new.

When KWH Pipe is sold and merged with Uponor in 2012, there are plenty of earlier examples in history to look to, as by then the group has already twice done away with its main business.

The first time this happens is in the 1960s, when the global timber trade goes into a crisis and Wiik & Höglund decides to discontinue their timber business. The second time the group closes down its largest division is when the fur farming business is wound up 30 years later.

In addition to these three large dramatic events many other things have happened. Over its 90-year-long history KWH has bought, sold, developed and phased out a large number of smaller companies and industries. Nobody has kept track of the exact number, but it is somewhere around 150 companies. In addition to its

“Everything our father embarked upon was to become the greatest and the best in the world.”

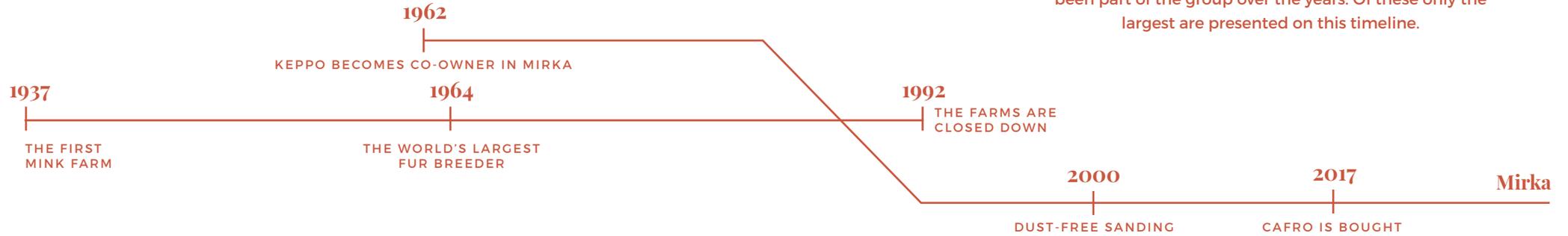


The founders of Wiik & Höglund, Edwin Wiik and Emil Höglund, view their lifework. Emil had a passionate interest in business, and during his lifetime he founded, bought and sold a great deal of companies.

Keppo

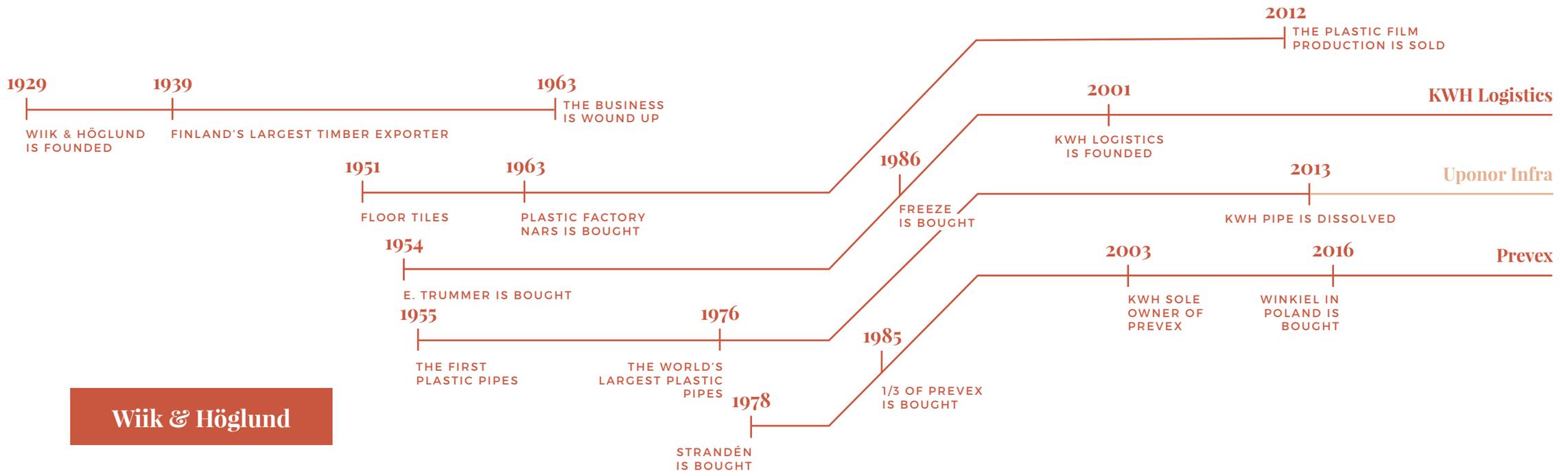
90 years of building companies

Over its lifetime, KWH has had businesses in many different industries. In total around 150 companies have been part of the group over the years. Of these only the largest are presented on this timeline.



KWH Group THE NAME KWH IS LAUNCHED IN 1987, AFTER KEPPO AND WIIK & HÖGLUND MERGE IN 1984.

Wiik & Höglund



main businesses, timber, fur, pipes, plastic and abrasives, KWH has also owned a printing house and a clothing company.

What has brought about this business model of the multi-industry group? A group, that without hesitation makes large, dramatic, but in hindsight wise, decisions business-wise? If one is to single out a main reason, the finger inevitably points to group founder Emil Höglund. His personality has more than anything set the foundation for KWH today – a multi-industry group with narrowly niched subsidiaries that do business in the global market.

A SERIAL ENTREPRENEUR AND START-UP VISIONARY

If Emil Höglund had lived today, he had probably been called a serial entrepreneur or a start-up visionary – terms used today to describe people with a passionate interest in business.

The son of a tailor, Emil's entrepreneurship already shows in 1929 when he as a 28-year-old loses his job and decides to start his own business within the timber industry together with partner Edvin Wiik. What the gentlemen do not know when the decision is made one night in August in 1929, is that the world is about to experience the worst crash in stock market history, with a subsequent great depression, only a few months later. The question is whether this would have changed their decision, as according to sons Peter and Henrik, the entrepreneurial spirit ran deep in Emil Höglund's blood:



In the old days, Wiik & Höglund had six ships of its own, that shipped timber from Finland to Europe. When the timber business was shut down in 1963, it was the first time the group wound up its main business.



At one point, the pipes were KWH's most important division, today they are merely a memory. A multi-industry group is better equipped to succeed in an ever-changing world.

“Our father was a real entrepreneur, good at buying, selling and developing companies. For him the founding process in itself was interesting; seeing companies grow and develop, as if flowers in a garden. Everything he embarked upon was to become the greatest and the best in the world, and he pretty much bought everything that crossed his path or was offered to him. The farm animals were more of a hobby in the beginning, but with his disposition also that business developed over time to become the biggest in the world.”



The name KWH was launched in 1987, a few years after Keppo and Wiik & Höglund merged into one company. To launch the new company name, brochures with animated characters were printed.

Emil Höglund's passionate interest in business made KWH a multi-industry group early on, which in turn gave the company better preconditions to survive different crises. When the timber trade became unprofitable in the beginning of the 1960s and was shut down, KWH had already entered the plastics industry and started manufacturing pipes and plastic sheets.

HOW DOES ONE KNOW WHEN IT IS TIME TO QUIT?

Another trait, which Emil Höglund has passed on, was his ability to keep track of the finances. This is also an important reason for why KWH is still alive and well 90 years after the start of the company.

Emil had attended commercial school and was an accountant by training. This could be seen in KWH's bookkeeping, which early on was exceptionally detailed and comprehensive. According to Peter and Henrik Höglund, the company's accounting is still today more thorough than in many publicly listed companies.

"A lot of companies don't know which of their products and their customers are profitable and which aren't. The accounting practices in many Finnish companies were fairly primitive late into the 1980s, but in our company that has never been the case. Our father started creating budgets long before people even knew what the word meant."

Keeping track of the finances naturally also makes it easier to make the right business decisions. However, regardless of how closely one keeps an eye on the numbers, it is not easy to know when to close down a business. Everyone can see large megatrends, such as offices going paperless due to computers and cloud services, but how can one know exactly when to stop manufacturing office plastics?

If you do it too early you probably lose revenue, and if you are too late – well, then it can simply be too late. According to Peter and Henrik Höglund, the risks are, nevertheless, bigger with the latter option:

"We've never been too early in phasing out any of our businesses. In hindsight, it is always easy to see when it would have been optimal to quit something, but when you are at the centre of events it's hard to know when the right moment is. It's only human to hope for things to change for the better for a little too long."

KWH'S QUARTER IS 25 YEARS LONG

A company's management rarely has the overall perspective of a situation and the courage to close down their business. KWH's strength therefore lies in its group structure, where the task of the group management is to look to the interest of the entire group and not only a single company. The structure as an industrial development company enables a long-term strategy, with more investments in development than most other companies dare to make.

Mirka and Prevex are two good examples of companies that would probably not have had the same possibilities to develop had they been owned by someone else. Mirka sustained losses for many years, but with KWH's long-term owner strategy the work finally started bearing fruit during the 1980s. Since the turn of the millennium, Mirka's development has been nothing short of phenomenal and the company is now the crown jewel of KWH and the most important business of the group by far.

"Many people thought we were crazy, investing that much money in Mirka. In the 1980s, a bank even gave us the advice to sell off the entire division! But our strategy has always been to develop the companies we own for the long-term. The development has been financed with revenues from other businesses that at the time have been profitable. In other words, we plan for the distant future – our quarter is 25 years long."

WHAT DOES THE FUTURE BRING?

In the end of the 2010s, Mirka is an extremely successful company. It has already for a long time been able to outgrow the industry average, and moreover it has for the past two decades been the obvious technology leader in the industry, being the first company in the world to introduce the concept of dust-free sanding.

For the moment, things look good, but Henrik Höglund has been in the game for too long to know that nothing lasts forever:

“Until now, the cycles in our main industries have been 50 years. Even though it today seems unlikely that Mirka would not continue to be profitable, it is clear that the day will come. When that is, nobody knows, of course. For the time being we’ve been able to win market shares and grow faster than the industry on average, but there will be a day when Mirka will start to develop more on the industry’s terms.”

Sometimes society moves in a direction that renders entire industries unprofitable or radically shrinks the demand for a certain product. When post-war construction weaned off and new materials started replacing wood, suddenly no one wanted to buy Wiik & Höglund’s wood products. When computers took over in the workplaces, binders became superfluous and nobody needed KWH Plast’s plastic sheets.

Sooner or later society will develop in a direction where the need for abrasives changes. Mirka will probably be affected when cars become self-driving – cars without drivers crash less often than human drivers, and some estimates show that car crashes will be cut down by as much as two thirds. This, in turn, means that the need for auto repair decreases and thereby also the need for abrasives. Furthermore, materials develop and will in some cases even become self-healing. Naturally, in these cases sanding is not needed at all.

Also KWH’s second main industry, the logistics, is associated with many risks, not least political ones. KWH Logistic’s rapid growth in the 2000s is partly due to the strong growth of transit traffic from Russia. However, one erratic decision from the Russian government can change the situation radically.

“We must keep our eyes open all the time and be prepared for things to go south. That is the only way we can be ready for what is to come. One shoe always has to be laced, so that you have enough time to put on the other when the race starts.”

“Until now, the cycles in our main industries have been 50 years.”



KWH has been in many different industries, including the clothing industry. Oravais konfektion (trans. Oravais Clothing) made, among other things, women’s clothing, and was closed down in 1988.



The family business | ∞

What ownership looks like in the third and fourth generation

In 2019, KWH has about fifty owners, but in the next generation there will already be three times more. When will the ownership of the family business become too divided to work effectively?

A large number of children can in many ways be a blessing, but when it comes to owning and leading a family business, things are undeniably easier with fewer people in the game. However, although the Höglund family can be characterised as a large one, and KWH consequently has many owners, the company is still family-owned 90 years after it was started.

Back in the days, Emil and Vivi Höglund were blessed with five children – Lisbeth, Ulla, Ann-Maj, Peter and Henrik – and all five of them have three children each, except Ulla who has two. Most of the children in this third generation are already KWH shareholders, while others still wait to become that. Furthermore, there is a fourth generation, i.e. Emil and Vivi Höglund’s great grandchildren, who either are or will become shareholders.

As if this was not enough, there is also another family in the picture. Almost eight percent of the KWH Group is owned by Karl-Johan “Jukka” Tidström’s descendants, as he originally owned 10 percent in Keppo, which later on was merged with Wiik & Höglund.

In other words, the KWH Group has a good number of shareholders – about fifty, to be more precise. Of these, more than a third are under age. When the company celebrates its 100th anniversary in 2029, the number of shareholders can easily be close to a hundred, depending on when the shares are passed on to the next generation. With the reproduction pace of the Höglund clan, the number of shareholders will probably close to double for each generation to come.

How many owners can a family business have? When are the benefits of a family-owned company outweighed by conflicts of interest, inefficient corporate governance and a lack of commitment? Peter and Henrik Höglund, who have led KWH since the 1970s, have thought a great deal about the matter.

“In our generation there are still dominating shareholders, even though none of us longer own more than ten percent of KWH. But the more the ownership is spread out, the less the company in practice works like a family business, and the more it starts to resemble a

company on the stock market to its management. The ownership becomes less active and takes the shape of a financial investment. We’re not there yet, but we’re heading in that direction.”

PERSONAL SACRIFICES

While Peter and Henrik themselves have dedicated their careers to the family business, none of their children nor nephews or nieces have taken such an active role in KWH. Of the shareholders only Carl-Magnus Tidström and Peter’s son Thomas Höglund today work within the group.

On the other hand, there are many private business owners among the shareholders, which perhaps does not come as a surprise, given that the dividends of KWH have made the owners financially independent and free to do whatever they want.

When Peter and Henrik took over the management of KWH in the middle of the 1970s, they were 25 years of age. The previous generation had passed away and they were needed to steer the ship. Giving someone that kind of responsibility at such a young age is not realistic today, according to Henrik Höglund.

“I was probably too young and foolish to fully understand what I was getting myself into, but both Peter and I just went for it because it was so damn fun! Not just the successes, but also the setbacks. It’s been a constant battle and change, but we’ve enjoyed it. Naturally the job has also claimed some sacrifices. When my oldest son was little, I was more or less travelling for months at an end, and once when I came home, he didn’t recognise me. However, I’ve been able to be more present with my younger sons, and therefore know now how to change nappies. One of the great joys in life has been seeing my sons take care of their own children. In this sense, things have really developed for the better. When it comes down to it, it is good that today’s young fathers are not prepared to sacrifice themselves for the company.”

Peter Höglund has also had to make personal sacrifices for the sake of the family company. In the end of the 1980s, Peter and Henrik bought KWH shares from their sister Lisbeth. She wanted to sell, and the brothers jointly wanted an ownership stake of over 50 percent, as they felt it was needed to efficiently lead the company.

To be able to buy the shares Peter and Henrik took on big loans, which became an especially large burden on Peter as he, as opposed to Henrik, already had a big mortgage. Peter remembers that period as quite stressful.

“When my oldest son was little, I was travelling for months, and once when I came home, he didn’t recognise me.”

In the picture are all shareholders that were present at the KWH shareholders' meeting in April, 2019. Sitting, from the left: Ann-Maj von Wendt, Caroline Nordenswan, Ulla Wester and Christer Tidström. The middle row, from the left: Johanna Peth, Birgitta Backman, Christian Höglund, Johanna Höglund, Janneke von Wendt, Ulrika Nygren, Sofia Kohtala and Carl-Magnus Tidström. The back row, from the left: Fredric Tidström, Anders Höglund, Björn Höglund, Peter Höglund, Ola Tidström, Henrik Höglund and Carl-Henrik Höglund.



“I had recently bought both a summerhouse and a house and therefore already had mortgage to pay. Now this gigantic loan was added on top of it. I had taken out the loan as a currency loan as the interest rates were lower, but this of course also meant that the loan fluctuated with the exchange rates. After the devaluation of the Finnish mark in 1992, the disadvantages with the currency loan became particularly obvious. For almost ten years the interest rates were higher than my total income. I had not made it, had I not been able to borrow money from our mother and one of my sisters, and it goes without saying that life was a little hard-knock during this time.”

Although the arrangement put a strain on Peter’s personal finances, it proved to be a wise one in the long run – seen from both the brothers’, the company’s and the other shareholders’ perspectives.

For one thing, nobody can hardly question Peter and Henrik Höglund’s ability to lead KWH and make the group flourish and grow. For another, the new ownership arrangement brought about a shareholders’ agreement, which gave the minority owners a strong position in the company. The agreement has turned out to be so well written that it still in 2019 works to everyone’s satisfaction.

AN AGREEMENT THAT HAS AGED WITH DIGNITY

What is the idea behind this long-lasting agreement? Among other things, it regulates how much of the profit is paid as dividends, and what is to be done if someone wants to sell their company shares. The shares are first to be offered to other shareholders or the company itself, and if shares are sold to outsiders, other shareholders have the right to sell their shares at the same price.

The clauses that regulate stock sales have, however, rarely been used, as only marginal changes in the ownership have taken place over the past twenty years. Primarily shares have been assigned to children and grandchildren.

The agreement also controls how the shareholders are represented on KWH’s board of directors. On the board sits representatives of five owner families, as well as two external members. Every family decides internally who is to represent the family on the board. The person does not necessarily have to be a family member, although they most often are.

Being a board member as a family representative has turned out to be very popular among the shareholders, which only goes to show that there is real commitment to the company. That commitment, in turn, is required if a company is to be family-owned.

GOING OR NOT GOING PUBLIC?

Even as there is a well-working shareholders’ agreement and committed board members the question from the beginning of the chapter still remains: how long can KWH continue to be a family-owned company? And if it will no longer be family-owned – what will it be?

In theory, the entire company or parts of it could be sold to an external entity. Another scenario is that the company merges with another company. This model has already been applied in the case of KWH Pipe and Uponor Infra.

Listing the company is also not inconceivable for a company of KWH’s size. This option, however, is seen as fairly unrealistic by Peter and Henrik Höglund.

“Going public comes with lots of disadvantages, such as increased reporting and a ton of rules and demands, and last but not least also higher dividend taxes. Furthermore, listed companies are often led more by their management than by their owners. We have not had to list the company on the stock market for 90 years, and none of the current owners think it’s a good idea. As the company is solid, there is also no need to go public to gain capital.”

Nonetheless, for a long time already, it has been required that KWH is managed as effectively and professionally as a listed company – after all, KWH plays in the premier league, not in the third division. A part of this requirement is to train the members of the board to be up for the task – something which is particularly important as KWH’s board members are recruited from a considerably smaller group of people than in other companies of the same size.

Most companies in Finland and in the world are not listed, and there is of course no law of nature that requires companies to go public just because they have reached a certain size. Generally, the benefit of family-owned companies is their farsightedness, which often is impossible to achieve with the quarterly reporting required on the stock market. Just think of Mirka’s unprofitable decades that set the foundation of the company’s good position today.

For family ownership to work the owners need a clear vision of what they want to do with their company. If taking out dividends is their only interest, one might as well invest one’s money elsewhere.

“It’s highly unusual for family businesses to survive into the fifth generation, but what KWH’s fate is remains to be seen. If the situation today is to go on, it calls for owners that are competent and willing to commit and train themselves to work on the board. And as there are so many owners and will be more in the future, there also needs to be others, who are willing to take on a more passive role.”

“For almost ten years the interest rates were higher than my total income.”



EPILOGUE

The story about the KWH Group is not only a significant Ostrobothnian tale, but also an important story about Finnish industry. It has been a privilege and a pleasure to be entrusted with the task of telling this story.

Writing good factual text generally demands good source material. For this book the premises have been the best possible, as much of it is based on interviews with Peter and Henrik Höglund. Peter and Henrik's ability to express themselves is admirable, and they have in a direct, honest and analytical way described the events of the past decades. These giants in Ostrobothnian industry have also not been afraid of exposing their failings and failures, which are essential to creating an interesting story. Only reading about the successes becomes boring in the long run.

After I sent the first couple of chapters for a read-through, I got the following reply from Henrik: "I read your text with great pleasure. I think the style is very entertaining and that this will be a book that people will enjoy reading. This is going to be great!"

That email was nice to read, as it confirmed that we had the same vision for the book: it was not to become a boring thick novel gathering dust in the bookshelf, but a story that its readers will take in with pleasure and curiosity, rather than a sense of duty.

Bearing in mind all the dramatic turns KWH has experienced over its history, the group seems to be in the middle of an unusually harmonious period. The only thing one can say for certain about the future is that the harmony will not last forever. I look forward to seeing what the future has in store for the company.

Anna Jeanne Söderlund

The writer

