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## Can Swiss industrial group ABB gear up for growth?

Chief executive has dramatically slimmed down head office and introduced tough delivery targets to boost performance

**Sylvia Pfeifer** in London JANUARY 6 2023

Björn Rosengren took the reins at ABB in March 2020 with a mandate to shake up the Swiss industrial group after years of underperformance.

Events — a global pandemic, production shutdowns in key markets and an economic downturn — may have proved an additional challenge but have done little to slow him down.

Almost three years on, the 63-year-old Swede has unpicked ABB's highly centralised corporate structure and parted with most, if not all, non-core businesses. ABB's four strategic divisions — electrification, motion, process automation and robotics — have been broken down into 20 autonomous businesses.

Along the way, ABB's head office has shrunk from 18,000 to just 800 people. Some 7,000 of the original 18,000 have gone to work directly for the different business units. The company employs about 100,000 people in more than 100 countries.

Rosengren's guiding principle is accountability. After a career spent whipping other industrial companies into shape, including Swedish engineer Sandvik, before landing at ABB, Rosengren said "people like accountability".



ABB boss Björn Rosengren: 'People like to work for successful companies. I think that's more important than heritage' Accountability, he said, is key, crediting it as one of the factors behind the success of private equity groups. People there are "incentivised, meaning that if they make a success of the company, their future will be bright, at least financially". Today, ABB similarly incentivises people and gives full accountability.

Each of the different businesses has its own management team and is responsible for its own costs. Each also has its own strategic mandate and within that, needs to deliver first on stability, then profitability and then growth.

Performance is closely monitored, with a scorecard system that contains about 15 key indicators. Comparisons of current and past performance are critical in order to gauge the direction of each business and whether it is healthy, said Rosengren.

He is unapologetic if the approach entails shedding underperforming businesses or parting with heritage.

“People like to work for successful companies. I think that’s more important than heritage,” he added.

His method, he insisted, had begun to pay off. When he started, just 30 per cent of businesses were in their third “growth stage”. Today, 70 per cent are growing.

Despite his focus on decentralisation, Rosengren says there are reasons to keep the units together as one group within ABB: all have the same purpose, which he defines as enabling a “sustainable and energy efficient future with technology leadership in electrification and automation”.

There is also collaboration between the businesses — but only if it makes sense, either by adding value to customers or by being more cost efficient.



ABB provides services and expertise to the car industry © Luca Siermann/ABB

Andrew Wilson, equity analyst at JPMorgan who has a “neutral” rating on the company’s stock, said Rosengren deserved credit for making a “tangible improvement in the way ABB is run”.

“People underestimated his ability to repeat the same playbook he used at Sandvik at ABB, a bigger and more complex beast where others had tried and failed before.”

ABB’s balance sheet is in better shape but more remains to be done, including the disposal of the company’s power conversion unit, acquired as part of a \$2.6bn deal for General Electric’s industrial solutions business in 2018 and which helps companies run infrastructure more efficiently. A sales process is under way.

An original plan to float its electric vehicle charging business last summer was postponed due to the wider market rout. ABB in November [raised about SFr200mn](#) from selling an 8 per cent stake. The private placement gave the business an equity value of SFr2.4bn-SFr2.5bn, with investors expecting a surge in demand for charging points.

ABB's financial performance has also begun to improve, although third-quarter income, announced in October, was hit by a non-operational provision in connection with a [legacy project](#) in South Africa.

Investors say a key target this year is hitting a margin of at least 15 per cent on operational earnings before interest tax and amortisation — one year ahead of plan.

Rosengren also points to a [strong order intake](#), increasing 4 per cent on a reported basis and 16 per cent on a comparable basis from last year to \$8.19bn in the third quarter.

“I think the most important [thing] is that we have to stay with 15 per cent over a business cycle, meaning that we should also be able to deliver over 15 per cent in the downturn,” said Rosengren, stressing that conditions look more challenging next year.

Cevian Capital, which bought into the stock in 2015 and had been agitating for a new strategy, said it is happy with the results so far.

Robert Schuchna, a partner at Cevian, said Rosengren had “successfully deconglomeratised” ABB in how it is organised and run. The result was a company that is “significantly more dynamic, competitive and profitable”.

“The 15 per cent margin is a big improvement, but in our view the company can and will become more profitable,” added Schuchna.

On the growth front, ABB has set a revenue growth target of 4 to 7 per cent in constant currency through the economic cycle. “The bit where the jury is still out is, can you sustainably match the peer group growth rates over the long-term,” said JPMorgan's Wilson.

Some of the company's growth will come through acquisitions, notably small to medium-sized ones to help divisions strengthen their market positions. Rosengren said ABB had a “huge pipeline” of such deals and expected to do five to 10 a year.

William Mackie, head of capital goods research at Kepler Cheuvreux, said 2022 had been the “year in which the company has done all the housekeeping, including decentralising, cleaning up legacy contracts and selling everything apart from the power conversion business”.

The coming year, he added, would be “all about driving for growth”.

For Rosengren, one of the main challenges on the horizon is the rising political tension between different parts of the world. ABB's strategy to be local in most of the countries it operates in, however, should provide some protection.

He is also worried about the rising regulatory push associated with Europe's push towards a greener economy, which contrasts sharply with America's strategy of [offering incentives to companies to invest](#).

Europe's politicians are aware of the need to act. But the question is: will the different member states agree on something.

"I am European and I would like to see a healthy Europe in the future," Rosengren said.

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