

JOHN SIMON

KONE'S PRINCE

THE COLORFUL LIFE OF PEKKA HERLIN

OTAVA PUBLISHING COMPANY LTD.

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Where necessary, interviews and quotations translated by the author.

ISBN 978-951-1-55854-5

OTAVA
KIRJAPAINO
Keuruu 2026



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FOREWORD

Some time after my father's death, my mother and I discussed the idea of having someone write his biography. The idea was not new. My second cousin, the author Harri Sirola, whose fictionalized description of my father is quoted in this book, had wanted to do it. Other potential biographers appeared as well, but the book remained unwritten. However, "the outstanding business leader of his era ... brilliant in discussion...", as one of Pekka Herlin's contemporaries described him, deserves to have his history recorded.

In a 2002 interview, I noted that many respect my father but few would want to be like him. This book reveals in considerable detail the reasoning behind this statement. Living with Father's contradictory personality, his hopes and his reality, was not easy. Not for himself, but not for those who were near him, either.

This book points out many difficult situations in which my father was a participant. This was true for me as well. I recall many difficult and troubling particulars about our relationship. All too often, this incomparable gamesman drove me between a rock and a hard place.

Nevertheless, when I think of Father now, it is the positive memories and experiences that usually come to mind. In my earliest memories I am sitting on his lap on a combine harvester in the fall of 1959. We are threshing grain. That harvest trip was a powerful experience for a small boy: my earliest memory of my mother is from the evening of

that same day. Pleasurable recollections from a bit later include hunting and sailing experiences as a youngster. Less pleasant were violent arguments during my teen-age and early adult years. Positive memories from when I had grown include, for example, many discussions about agriculture. In the end he provided me with strong support in advancing KONE's affairs.

Upon Father's death in 2003, his necrology appeared in KONE's in-house magazine, written by the Corporate Communications Department's John Simon. John's article seemed to me to be well balanced. Reading it, I thought if Pekka Herlin's biography were someday to be written, I hoped John would do it. He was also among those my father relied on within the KONE organization. This biography is based largely on the many versions of the truth that emerged from interviews with colleagues, relatives and friends. In some instances I remember things differently from the way they are recounted here; in others, I recognize the events but disagree with the interpretation by those doing the remembering. Despite these differing opinions, or perhaps because of them, I think this book does justice to the memory of the man who embodied these contradictions, my father.

Kirkkonummi, May 11, 2008

Antti Herlin

PREFACE

When Antti Herlin first approached me about writing a biography of his father, I had already been working for KONE for 22 years. Starting as the editor of the company's English-language in-house magazine, I had gradually been given greater responsibility for internal communication for the entire global organization. I knew Pekka Herlin a little, but mostly I had observed him at work in my role as communications officer.

Though I had never written a biography, the challenge appealed to me. Antti assured me that I would have access to company and family archives and that his mother was supportive of the project. What worried me was the subject, himself. I had found Pekka difficult to approach when he was alive. What was there to make me think that I would be more successful now that he was no longer around?

There were other problems to consider as well. Although my work with KONE ensured that I would have an insider's understanding of company affairs, I lacked the kind of political and economic background that would be needed to make sense of many of the developments I would be writing about. My Finnish language skills were sufficient for the interviewing that would be required, but how would I get through the archives and all the documentation that needed to be covered?

Nor were my reservations purely technical. Kirsti and Antti Herlin

wanted me to write this book, but would I have anything to say? What was I being asked to do? I had a lot of respect for what Pekka accomplished during his life, but I wasn't at all sure that I wanted to write about his personal life. While he was alive, I had found it wiser to keep my distance. Why would I want to get closer to him now?

Looking back on the project, I see that my concerns were not only justified but helped make this a better book. When I set out, I had nothing to prove. I was neither a fan nor a detractor. All I really had was skepticism about my ability to capture this enigmatic man on paper. I finally decided that the best thing I could do was tell a story. It would not be the only possible story, but it would be one that had reliable input from his relatives, colleagues and friends and background from the files, articles and letters that are quoted extensively in the pages that follow. I tried to allow those who were close to him to tell the story, preserving as best I could their voices along with their recollections.

Two strong arguments define the story I finally told. One is of Pekka Herlin as a man of national stature. He played a pioneering role in bringing Finland – largely isolated for centuries by geography, language, powerful neighbors, and poverty – into the global economic mainstream. Under Pekka's leadership, KONE became Finland's first multinational company and one of its greatest success stories.

The other theme concerns the tensions that defined his extremely complex personality. They are reflected in chapter titles such as "Farmer or Industrialist?" and "Apollo & Dionysius". Though these conflicts may have contributed in certain ways to his extraordinary success, they also resulted in a lot of unhappiness for those who were closest to him.

I would never have been able to write this book without the tremendous support I received from Pekka's immediate family. I owe my greatest thanks to Kirsti and Antti Herlin, who supported this project every step of the way. The open and candid participation of Antti's siblings – Hanna, Ilkka, Niklas and Ilona – has also been invaluable. No one can read this book without being impressed by the candor and strength of this remarkable family. Pekka would probably have been furious about some of the things they reveal – and proud as hell.

I also need to thank my KONE colleague, Helena Tuokko, who transcribed the Finnish-language interviews, helped me interpret Pekka Herlin's difficult handwriting, and corrected the errors in every draft of the manuscript. The critical assistance and unstinting encouragement I received from Otava's Leena Majander, Eva Reenpää and Jukka Hartikainen had much to do with shaping the finished product.

Finally, I want to thank my KONE colleagues and the many others who contributed so much to this project. I would be remiss not to name KONE's Geri Wendt, Samppa Jokipii, Tuomo Erola and Pekka Pohjola and want to recognize the special contribution of Antti Blåfield, Erkki Rantala, Kalle Michelsen, and Charley Hart as well as my wife, Hannele, and my sister, Pat.

Pekka Herlin was too big a man to be captured in one book. I assume that other biographies will follow. My final sentiment in handing over this manuscript is that it has been an honor and a privilege to have had the opportunity to write the first one.

Helsinki, May 2009

John Simon



THE PRINCE

Because how one ought to live is so far removed from how one lives that he who lets go of what is done for that which one ought to do sooner learns ruin than his own preservation: because a man who might want to make a show of goodness in all things necessarily comes to ruin among so many who are not good. Because of this it is necessary to a prince, wanting to maintain himself, to learn how to be able to be not good and to use this and not use it according to necessity.

Therefore ... let him not care about incurring infamy for those vices without which he might hardly save the state; because, if one considers everything well, one will find that something that appears a virtue, if followed, would be his ruin, and that some other thing that appears a vice, if followed, results in his security and well-being.

Macchiavelli, Niccolò, *The Prince*, translated by Angelo M Codevilla,
Yale University Press, New Haven & London, 1997, pp. 57–58.

Pekka Herlin, at 186 cm (6' 2") and at least 100 kilos (220 lbs), cut a dashing figure as a young man. [Photo by Timo Tapiovaara, 1968]

GREAT EXPECTATIONS

May 10, 1968

A soft, southerly breeze was floating off the bay as father and son walked the path from the “Main Building” of Thorsvik Manor toward the dock. The older man strode purposefully, elegant and erect in his tuxedo. The son shuffled nervously alongside, a cigarette dangling from the corner of his mouth. A few paces behind, their wives followed in long dresses, quietly discussing preparations for the evening; preparations that were, in any case, too late to change.

The first week of May 1968 had been a bit cool in southern Finland, but on Friday the 10th the temperature had climbed to a pleasant 15° Celsius (59° Fahrenheit). Although it was now nearly 8:00 p.m. and the sun was gently descending toward the Gulf of Finland, the evening was still warm enough for the women to be outside with only shawls to cover their shoulders. Deep blue liverwort and white wood anemone covered the forest floor near the waterfront, adding to the festive air of the reception awaiting the distinguished guests who would soon be arriving.

Pekka Aksel Herlin, two months shy of his 36th birthday, had taken over the presidency of KONE Corporation from his father, Vuorineuvos (a title bestowed on the most distinguished leaders of industry by

the Finnish government) Heikki Hugo Herlin in 1964. As they peered out over the water, looking to see whether the boat carrying Swedish industrialist Marcus Wallenberg and his entourage was approaching, Pekka well knew how much was riding on this evening. If all went as he had planned, KONE would make a dramatic and totally unprecedented leap from the rapidly thinning number of mid-sized elevator companies being gobbled up by the major international players in the industry to the exclusive ranks of those doing the gobbling. Although he had prepared meticulously for this moment, he had no experience with negotiations at this level. His wife, Kirsti, remembers that everyone's nerves had been on edge throughout the day.

"I was very excited as the time approached, that I remember clearly. It was terribly exciting. Pekka was also very wound up, and when your parents are involved, you always have to worry whether they'll say something foolish. Pekka's mother may have been the most excited of all because she couldn't speak Swedish. Minnamäki [*Pekka's older sister*] was there to help her. Minnamäki spoke really fluent Swedish and was prepared to say whatever was needed." [Kirsti Herlin. Interviews conducted by the author unless otherwise indicated.]

Finally the powerful motorboat swung into view and settled into a mooring at the Thorsvik dock. Some of the Swedish delegation had arrived that morning by plane, but the Wallenbergs preferred to travel from Sweden on their own boat and would be returning the same way once the evening's activities drew to a close.

Anna (Mrs. Heikki) Herlin and Kirsti had been unsure about any number of protocol issues governing a country-house reception that would include not only distinguished guests from Sweden but the President of Finland, Urho Kaleva Kekkonen, and his wife. Kirsti recalls:

"So many tiny details, like should we wear short or long dresses. And then, when it was decided to wear long dresses, nobody told Margit Leskinen [*wife of Deputy Minister of Trade and Industry Väinö Leskinen*], and she showed up in a short dress! At the time she must have felt pretty embarrassed." [Kirsti Herlin]

Fortunately Marianne (Mrs. Marcus) Wallenberg broke the ice shortly after stepping off the boat. During the introductions, Kirsti realized that her guest, in her own hurried preparations for the evening's festivities, had left a chain of safety pins clipped to her coat. The following is Kirsti Herlin's account of the incident.

"When Mrs. Wallenberg arrived, she had on a long, bright green evening dress with long sleeves. A chain of safety pins was dangling from the lapel of her coat. She had forgotten it there! She was a very warm and friendly person. Said she had practically come straight from the barn after the evening chores. She took care of their huge herd of cows.

"A really good mood prevailed the whole time. It probably helped that they arrived by motorboat and the weather was lovely. They had a big boat, and they had certainly slept during the trip over and left straight back to Sweden in the middle of the night.

"Mummi [*Grandma*], Pekka's mother, then arranged for the grandchildren to come from behind the window to see what was happening. They made it seem as if they just happened to be playing on the lawn and were there to bow and curtsy to the guests. I remember that Hanna, Antti, Marianna [*their cousin*] and Ilkka were there, but I don't recall whether the younger ones were as well." [Kirsti Herlin]

Hanna Herlin (now Nurminen) was one week shy of her 13th birthday at the time.

"Mummi had carefully planned that her lovely grandchildren would be cavorting there on the lawn. I don't remember what I was wearing, but Mummi had certainly chosen my clothes. I don't remember everyone who was there, but there were several of us. And the location was where there used to be a tall maple tree. We were under its branches when everyone came from the dock, near where Mummi and Ukki [*Grandpa*] had planted a burning bush. That's where we children greeted the guests. The Bird Boy statue is still there today, on the lawn. Maybe we were called to come and say hello. In any case, I knew the role I had been assigned – that of a happy, smiling, tow-headed Finnish child – and I tried to perform it as well as I could.

“I remember very clearly saying hello to Mrs. Wallenberg. She had a dark blue coat over her evening dress, and there were safety pins hanging from the lapel. I thought, ‘How strange to have safety pins at such a fancy affair.’ Mother later explained that such fine people don’t have to pay attention to things like safety pins.” [Hanna Nurminen]

* * *

May 1968 was a tumultuous month, filling the Helsinki papers with more than their normal share of eye-catching headlines from around the globe. The morning of Friday, May 10th *Uusi Suomi* trumpeted “Now It Begins” (discussions open in Paris between representatives of the United States and North Vietnam) [*Uusi Suomi*, No. 126/1968, Friday, May 10, 1968, p. 1] and “An Appeal to Moscow from Prague” (Radio Prague appeals to Moscow to allow the “Prague Spring” democratization to proceed without intervention from other Warsaw Pact countries, whose troops are rumored to be massing along the Czech border) [*Uusi Suomi*, No. 126/1968, Friday, May 10, 1968, p. 1]. The next day’s news included pictures of the first barricades thrown up by protesting students in the streets of Paris [*Ilta-Sanomat*, No. 109/1968, Saturday, May 11, 1968, p.1]. Earlier in the week, reports had reached Finland of the occupation of the Sorbonne by radical students, fighting in the streets of Saigon, the fatal shooting of four students by National Guardsmen at Kent State University, an agreement between Biafra and Nigeria to open negotiations in Uganda, and Bobby Kennedy’s victory over Hubert Humphrey and Eugene McCarthy in the Indiana Democratic Primary.

Meanwhile, Pekka Herlin was busily preparing to make news of his own. And while it would not shake the world to the same extent as the Soviet invasion that brought the Prague Spring to an abrupt end, the deal he would agree to that evening with Marcus Wallenberg would have a profound impact on Finland’s future. Not only would it influence the way Finnish companies would do business from that time forward, it would help bolster the confidence and self-awareness of Finns in general as they moved out from under the shadow of their powerful neighbors and began to claim a global identity of their own in the last third

of the 20th Century. It would also begin to establish the legend of Pekka Herlin, outside-the-box thinker and industrial pioneer.

According to Pekka's mother, Anna Herlin, as recounted to her grandson, Olli Blåberg, in a 1994 interview (she was 93 years old at the time) in the same room in Thorsvik's Main Building where the guests had gathered 26 years earlier for dinner, preparations for this important event had been made in greater haste than she would have liked.

"Heikki wasn't home, he was in London or somewhere. And then it was just announced that Wallenberg, his top engineers, and their wives, were coming here. So then we had to begin organizing. I had never organized anything like this with Pekka before although I had with Heikki, of course.

"When Pekka got an idea in his head, then that was the way it was going to be. It had to be done his way. Even if at first he wasn't really up to it. I never would have dreamed up something like that. For example, he brought in a *maitre d'* from some restaurant. Oh my gosh, there were so many detailed arrangements!

"The food was prepared here, and it turned out really well. They were amazed, those Swedes. It wasn't good home cooking but more like fine cuisine. Pekka said not to annoy 'him'. I didn't know who he meant, was it Kekkonen or someone else, but he was afraid that I would annoy somebody." [Anna Herlin, interviewed by Olli Blåberg, February 20, 1994]

Twenty-seven years after the event, Pekka described the circumstances leading up to the meeting at Thorsvik in a more laconic fashion.

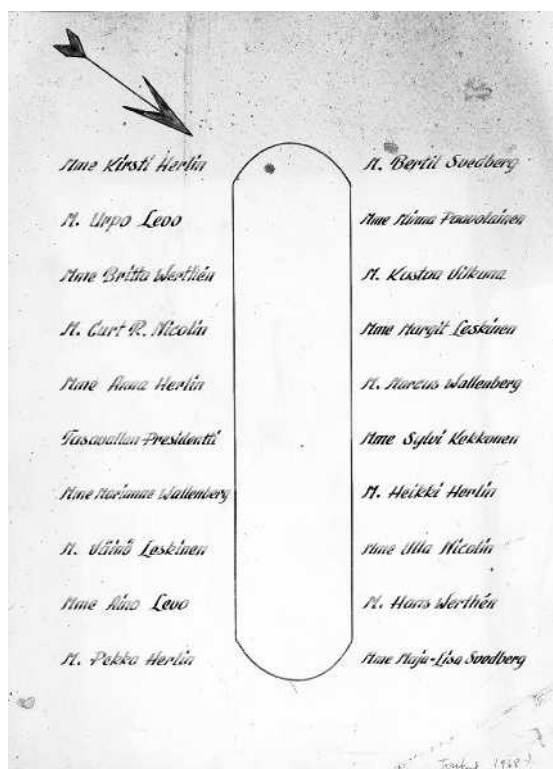
I didn't have the kind of home where I could have organized dinners like that. Father was in the United States at the time. I called him there and told him that I had invited some guests. [Blåfield, Antti, "Oman tien kul-kija", *Optio*, April 6, 1995, p. 9]

* * *

Sometime after the Wallenbergs arrived but before Finland's President Urho Kekkonen and his wife Sylvi joined the party, Pekka guided Marcus Wallenberg into a side room and proposed a deal in which KONE would acquire a 49% share in ASEA's elevator business, which was losing money, in return for a 30% financial interest and 20% of the voting power in KONE Corporation. ASEA (the acronym stands for Allmänna Svenska Elektriska Aktiebolaget or General Swedish Electrical Corporation) was Scandinavia's leading elevator company at that time with nearly 1.5 times KONE's annual output (1700 elevators to KONE's 1200). The discussion, which had been carefully prepared by key KONE and ASEA negotiators during the months leading up to the meeting, apparently took no more than ten minutes.

After President and Mrs. Kekkonen arrived, everyone sat down to dinner at the long table in the dining room, ten to a side. On one side sat Pekka Herlin, Aino Levo (wife of Kekkonen's long-time adjutant, lieutenant general Urpo Levo), Väinö Leskinen (Deputy Minister of Trade and Industry), Marianne Wallenberg (wife of Marcus Wallenberg), President Urho Kekkonen, Anna Herlin, Curt Nicolín (managing director of ASEA), Brita Werthén (wife of Hans Werthén, managing director of Sweden's AB Electrolux), Urpo Levo, and Kirsti Herlin. Facing Kirsti Herlin on the other side was Bertil Svedberg (a Swedish consultant and KONE representative for crane sales in Sweden), followed by Kirsti's sister-in-law Minnamäki Paavolainen, Kustaa Vilkkunen (Kirsti Herlin's father and one of President Kekkonen's closest advisors), Margit Leskinen (wife of Väinö Leskinen), Marcus Wallenberg (co-head, with his brother, of the Wallenberg industrial empire that held significant interests in, among others, Stockholm's Enskilda Bank, Saab, Ericsson, SKF, Electrolux, Scania and ASEA), Sylvi Kekkonen (wife of President Kekkonen), Heikki Herlin, Ulla Nicolín (wife of Curt Nicolín), Hans Werthén (managing director of Electrolux), and Maja-Lisa Svedberg (wife of Bertil Svedberg).

Seating arrangement for
the dinner at Thorsvik
the evening of May 10,
1968.



Despite his youth, Pekka Herlin had already served three and a half years as KONE Corporation's president. His selection for the job at such an early age was perhaps less surprising than it might seem at first: he was the only son (there were three daughters: Minnamä, aged 37 at the time, and 31-year-old twins, Meeri and Liisa) of the company's previous president, who was also the principal shareholder and chairman of the board of directors. Heikki Herlin had, himself, ascended to the KONE presidency at the age of 32, setting a precedent for regime change while the principal owner (his father, Bror Harald Herlin) was still vigorous and able to provide his son with guidance from his position as chairman of the board. According to this scenario, when taking over the presidency in 1964, Pekka Herlin reset the timer to ring again in 1996.

Getting Marcus Wallenberg and President Kekkonen together for dinner at Thorsvik was not easy to arrange. In approaching Wallenberg, Pekka had enlisted the help of Hans Werthén, the widely respected Wallenberg confidant who became president of Electrolux in 1967. Werthén was to prove an invaluable mentor to the younger Herlin, not only in negotiating a relationship with ASEA but also in understanding the complexities of international business.

“He was someone Pekka discussed international business with a lot. When Pekka and I took pleasure trips to Sweden together, as we often did by boat, Pekka would sometimes spend the whole day there with Werthén. He must have given Pekka a lot of advice. They were really good friends. You could see that they were kindred souls.”

[Kirsti Herlin]

Pekka had been introduced to President Kekkonen, on the other hand, by his father-in-law, professor Kustaa Vilku. Vilku had often been described as the Kekkonen regime's (1956-1981) gray eminence. Vilku had helped convince the Herlin family to provide strong support for Kekkonen's 1962 re-election bid. When an April meeting between Kekkonen and Wallenberg in Helsinki failed to materialize [letter from PH to Hans Werthén, April 18, 1968, KONE archives], Pekka set out to arrange the dinner described above before the onset of summer vacation.

* * *

At stake was no less than the future of KONE and Finland's elevator industry. KONE was Finland's largest elevator company, a big fish in a small pond. During his six-year apprenticeship as administrative director of KONE (1958-1964), Pekka had come to realize that the industry had entered a period of radical consolidation. The big three – America's Otis and Westinghouse and Switzerland's Schindler – had already begun buying up small and mid-sized companies before W.W. II. That KONE was one of the key targets is confirmed by Otis' own account of its post-war expansion.

...in Europe, various companies had benefited from neutrality to establish themselves as European players during and immediately after the war: the Swiss Schindler, Sweden's ASEA, Kone in Finland. One of [Otis vice president for international operations Percy] Douglas' first recommendations was that Otis should do as it had done 20 years earlier in Italy and establish factories in each of these countries to spoil their home markets. This could be undertaken, after all, with a certain high moral relish. [Goodwin, Jason, *Otis: Giving Rise to the Modern City*, Ivan R. Dee publisher, Chicago, 2001, p. 194]

Mid-sized companies were also under growing pressure from the rapid pace of technological innovation. Electronic group controls employing relays and later transistors were introduced in Europe in the early 1960s, creating a strong divide between companies with proprietary technologies and those dependent on licensing agreements and imported componentry. This gap would grow even wider in the 1970s with the application of microprocessor technology to elevator controls.

Elevator companies – especially the smaller ones – were basically mechanical engineering specialists. Having to develop or acquire electronics expertise, not to mention computer competence, was a huge and expensive step. Paying a licensing fee for technology to one of the bigger companies was a temporary solution but one that compromised the licensee's independence. Only those manufacturers able to rely on their own technology and ongoing research and development could truly call themselves independent suppliers.

A second important driver of consolidation was the weakening of national protectionist barriers. This process was set in motion by the creation of the European Coal and Steel Community (ECSC) in 1951, the European Economic Community (EEC) in 1957, and the European Free Trade Association (EFTA) in 1960. Although elevators still had to be installed and maintained locally, the time was approaching when it would no longer be possible to use national norms and standards to restrict the entry of foreign competitors into local markets.

Hubert Faure, COO of Ascenceurs Otis of France in 1964 and later to

become president, CEO and chairman of Otis, foresaw the impact that the unification of European markets would have on the elevator industry and began acting accordingly.

“I can’t tell you at all what was the understanding of Mr. Schindler, of people at KONE, and so forth in 1964. I have no idea. I saw that customs duties were being phased out and so one had to rationalize manufacturing. I suspect not many people saw this at that time, and that is what gave me an advantage.” [Hubert Faure]

Throughout Europe, where most of the world’s elevators were located, the heads of ageing elevator companies were beginning to realize that they would have to make significant investments in new technology and R&D in order to maintain competitiveness. Even then, they would still be vulnerable to attack. Increasingly, these third- and fourth-generation descendents of their companies’ founders chose to accept the best available offers from aggressive multinationals rather than wage a protracted and costly battle they seemed destined to lose.

Pekka clearly understood KONE’s options at the time: KONE either had to grow and invest or prepare itself for sale. According to Seppo “Samppa” Jokipii, a friend of Pekka’s from their days together at the Helsinki School of Economics:

“Pekka’s view from early on was that something had to be done, that was clear. Mid-sized companies were sentenced to die. Only small and large companies would survive.” [Seppo Jokipii]

Pekka’s oldest son, Antti, who became CEO of KONE in 1996 and chairman of the board after the death of his father in 2003, confirms that Pekka felt his back was against the wall. Lars Eriksson, who was one of KONE’s senior managers from 1955 through 1972 (before moving on to board membership through 1978), later wrote that Pekka had threatened to sell the company in the mid-1960s if he couldn’t figure out a way to turn it around. [PH: *ystäviltä* 15.7.1992, Painojussit Oy, Kerava, 1992, p. 18]

Figures tell the story. KONE’s growth had been stagnant throughout the 1960s. Reported sales during the period 1961-1966 produced a curve

that was depressingly flat (and would look even worse if adjusted to reflect the period's steep inflation):

1961	38.8 million Finnish markkas			
1962	40.9	”	”	”
1963	39.9	”	”	”
1964	39.5	”	”	”
1965	43.1	”	”	”
1966	41.4	”	”	”

Compounding the problem was a similar struggle with profitability. KONE's net income dropped from 108,000 Finnish markkas (FIM) in 1963 to FIM 73,000 in 1964 and was still only FIM 105,771 in 1966. According to KONE's chief auditor at the time, Antti Helenius, these figures may have benefited from some creative bookkeeping to keep the bottom line in the black every year.

[KONE's] situation in the 1960s was altogether weak, which was apparently not generally known at the time. This meant that Pekka as president took control of a company that was operating at a loss and whose debt burden was heavy. [PH: ystäviltä 15.7.1992, Painojussit Oy, Kerava, 1992, p. 24]

The minutes of the March 15, 1967 meeting of KONE's board of directors explain something about both the loss and the corrective bookkeeping measures:

The board discussed the principles for the closing of the books for 1966. The extraordinary costs incurred with the move from one factory to the other and the low price level for domestic elevators have resulted in the year's financial result showing a loss. The board decided, however, to report a profitable result by using untaxed reserves. [Minutes of the KONE board of directors meeting No. 269/67, 2, p. 1]

One key impediment to improving profitability was the old, cramped, multistory former margarine factory on Haapaniemenkatu (Haapaniemi Street, currently home of Theater Academy Helsinki), where KONE had manufactured its elevators since 1927. Soon after he took over as president in 1964, Pekka had his team begin planning a huge (10,500 m²) purpose-built factory with a 61-meter-tall test tower. It was to be built in Hyvinkää, some 50 kilometers to the North, where KONE's crane production had moved in 1943 before the worst of the bombing of Helsinki. Although KONE's total elevator production in 1966 was only a little over 1,000 units/year, the factory's capacity was designed for easy expansion to annual production of 2,000 elevators, a figure Pekka considered the minimum required for survival. The goal was to make a quantum leap in both output and productivity at the same time. Matti Matinpalo, later to become director of the KONE Lift Group, explained the decision to KONE employees in the company's in-house magazine:

Productivity goals have not been achieved... at the Haapaniemi Street facility. In studying the causes, the only possible conclusion was that a cramped, multifloor, poorly laid-out factory building requiring production flow in many different directions no longer meets today's requirements. From there a decision was reached: we must build a new, modern factory designed for elevator production. [Matinpalo, Matti, "Hissitehtaan suunnitteluvaiheet", *Hissilehti* No. 5, 1966, p. 4]

Long-time KONE financial director Arvo Tuononen says that such radical moves were inevitable even though the financial performance of the company in the mid-1960s hardly supported massive investment.

"We were inefficient, and productivity was very low as a consequence of the space. Then, when you build a box like we did in Hyvinkää, with such production lines, plan it all from the beginning and make it efficient, well the simple fact that Schindler or Otis or Asea-Graham could have come here forced us [*to find a way to reach an order-intake level of 2,000 units/year or more*]. Necessity is the mother of invention, as they say. We simply had to do it." [Arvo Tuononen]

The one bright spot in KONE's grim statistical picture was the growth in exports. By 1966, 50% of KONE's elevator production and 60% of its cranes were being delivered abroad. A 31% devaluation of the Finnish markka in 1967 gave further support to industries dependent on export. But the lack of a large and reliable domestic market still left KONE vulnerable to attack from abroad.

Already in 1962, Pekka had reacted strongly to what he perceived as a threat posed by ASEA. The Swedish conglomerate attempted to increase its influence – it already held a 14.2% shareholding – in Finland's Strömberg, a company best known for producing electric motors (and, incidentally, KONE's parent company from 1910 through 1924). In a heated reply to an editorial that appeared over the name of Bank of Finland director Klaus Waris in the newspaper *Uusi Suomi* the morning of December 14, 1962, Pekka denounced ASEA's motives.

As I have had to compete with ASEA on both elevator and crane markets, I know its business policies quite well. That is why I believe that ASEA's goal in making this offer is precisely to gain control of Northern Europe's electrical machinery markets.

Although I consider it probable that the outcome would be very questionable for Strömberg, I am not writing this letter out of concern for Strömberg. Rather I see a very strong threat to KONE Corporation were ASEA to gain such a strong foothold in Finland. Already during the past few years ASEA has threatened KONE because of the foothold we have achieved in the Swedish market. Among other things, they have warned us that if we do not withdraw from the Swedish market (our largest export market, where our exports are larger than Strömberg's) they will force us to do so through their operations in Finland. Up to now I have been able to ignore this because they have simply not been able to compete in Finland in the articles I produce. Should ASEA's influence in Strömberg grow, however, I consider it probable that in the name of "technical rationalization" they will undertake the manufacture of elevators here and, in this way, pressure us out of the Swedish market. If they set their sights on crushing us, it is likely that I

will not be able to resist many years. [Letter from Pekka Herlin to Klaus Waris, December 14, 1962, KONE archives]

Finland's parliament eventually blocked ASEA from gaining control of Strömberg (delaying Strömberg's eventual acquisition by ASEA and then Asea Brown Boveri by 25 years), but Pekka had already seen the writing on the wall. For the future head of KONE, only two choices were available: grow rapidly or prepare to sell out.

* * *

Pekka was an early and unwavering proponent of growth. One of his favorite sayings was from Lewis Carroll's *Through the Looking Glass*: "It takes all the running you can do, to keep in the same place." [Carroll, Lewis, *The Annotated Alice*, "Through the Looking Glass", Bramhall House, New York, 1960, p. 210] For Finnish industry, with its tiny population (4.5 million in 1968) and poorly developed domestic markets, the only way to run faster was to increase exports. Finns, who have no fossil fuel of their own and whose country is traversed about 500 kilometers from its northernmost point by the Arctic Circle, like to say that they must export or freeze. Pekka's father had clearly understood the importance to KONE of creating a broad export base. As soon as Pekka took over as president in 1964, however, he began to think of an even more audacious alternative. What if, instead of focusing exclusively on producing equipment in Finland and selling it abroad, KONE were to branch out into truly multinational operations?

In the mid-1960s, quite a few Finnish companies were more active exporters than KONE. The pulp and paper industry, especially, had strengthened its sales capacity outside Finland. But no Finnish company had acquired, built or was otherwise involved in running an international network of local operations requiring local sales, installation and maintenance organizations. In other words, there was no such thing as a truly multinational company that was owned by Finns or headquartered in Finland.

November 25, 1966, Pekka contributed a comprehensive analysis in layman's language of the threat posed to existing Finnish companies by