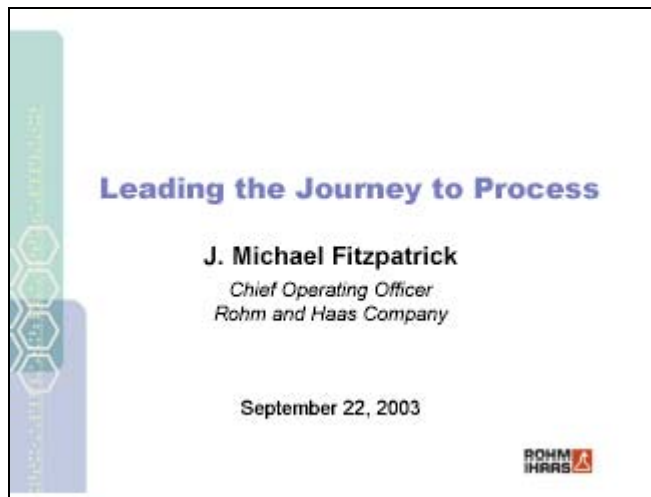
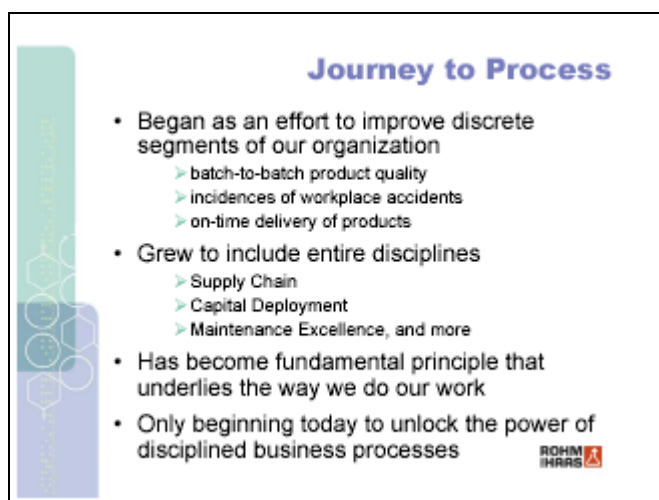


J. Michael Fitzpatrick
President and COO, Rohm and Haas Company



I. Introduction

My story may be a little different than some of the others you'll hear during the conference – first, because I will describe a journey to a process that has been underway for almost two decades, a long time.



As you might expect, we started our journey with tentative steps, have experimented with lots of ideas along the way, and think we have only just begun to unlock the real power of coordinated, disciplined and well executed business processes.


And while I believe we have come very far and have accomplished quite a bit, I am convinced that our journey still has far to go. I know I will spend the rest of my Rohm and Haas career focused on business process improvement and that my successor, and others who come after him or her, will be at this for many more years to come. Today, operating efficiently on a global basis is just as essential to the future of our company as having the right business portfolio. Failing to understand the critical role of business process in today's global economy is like screaming down a winding mountain highway at 90 miles an hour without guardrails. You might be exhilarated by the ride, but sooner or later, you'll fly out of control, with little chance of survival.

At Rohm and Haas, we have been able to chart the progress of our journey in clear terms. Attention to business processes has brought us considerable benefit:


- We've taken more than \$700 million in operating costs out of the organization -- \$200 million during the 1990s when we were a company with \$3.2 billion in annual sales, and more than \$500 million since 1999 when we became a \$6.5 billion company through a series of acquisitions.
- We've handled more than 40 transactions – acquisitions, divestitures, joint ventures and alliances – during the past five years, and the integration efforts that followed.
- And we are about three quarters of the way through a \$300 million global ERP implementation that is on time and on budget – something my friends at SAP tell me puts us in the running to be the first company to every complete an implementation of this scope with this kind of efficiency.

But let me begin by telling you a little bit about my company, and myself.

Rohm and Haas Company




Otto Rohm




Otto Haas

- Founded in 1909 by a scientist and a businessman
- Science-driven, technology leader and global
- History of innovation in specialty materials



Early Croton production – Pennsylvania



Rohm and Haas was founded in Philadelphia in 1909. Otto Röhlm was a scientist. Otto Haas was a businessman. Together they invented a novel product for the leather tanning industry that took the hair off hides and softened the hides into leather. I'll tell you that our technology replaced the state of the art substance that was used at the time -- dog dung; specifically Turkish dog dung. So to say that our original invention was welcomed by the leather industry would be a gross misstatement.

Rohm and Haas Company

- Breakthrough in Plexiglas in 1930s
- Water-based paints
- Preservatives
- Adhesives
- Water purification
- Electronic materials
- Morton Salt










From the very beginning, we have been science-driven, technology driven – and global. Rohm and Haas technology has been behind:

- the invention of Plexiglas in the 1930s – a glass substitute that enabled the U.S. government to build the lighter weight military aircraft used in World War II and beyond. Later, this same technology would be used to make skylights, car taillights, illuminated signs, bank teller windows and hundreds of other products.
- the introduction of water based latex paints in the 1950s. Today, our technology is preferred for use in interior and exterior paints of all kinds. We are the chemistry behind low-odor paints, paints with lower air emissions and are therefore more environmentally friendly. We provide the technology that improves the hiding power of paint, retains color better and meets the specific weather and cultural needs of countries in all regions of the world. Although you'll rarely see our name on paint can labels, our technology is in most of the paints you'll find on the shelves of Home Depot, Lowes, your local hardware store and branded paint stores. In fact, our technology is behind the number one 'best buy' paint features in the September issue of *Consumer Reports* magazine.
- We make preservatives for shampoos and conditioners; the adhesives behind some of the latest innovations in food packaging and building breakthroughs; and ion exchange technology that makes soft drinks sweeter, drinking water cleaner and prescription drugs more effective.
- Some of our most astounding technical breakthroughs in recent years has been in electronic materials. Our photoresist and other technologies are essential for building cutting edge semiconductor chips. These are technical marvels in themselves – the equivalent of building a 15 or 20 story functional building on the space of your fingernail with circuitry patterns and conduits that allow electrons to travel faster and faster – thus giving your computing device greater speed and efficiency.
- We also are fortunate to own Morton Salt, renowned for the blue package, the Umbrella Girl and the slogan, *when it rains, it pours.*TM and have recently

extended this brand into a line of water softeners that can be purchased in stores like Wal-Mart and Menards.

Rohm and Haas Company Today

- A specialty materials company with sales of more than \$6 billion
- Focused on delivering technically advanced products and services to customers in more than 100 countries
- Approximately 17,000 employees
- More than 100 manufacturing sites and technical centers in 26 countries around the world







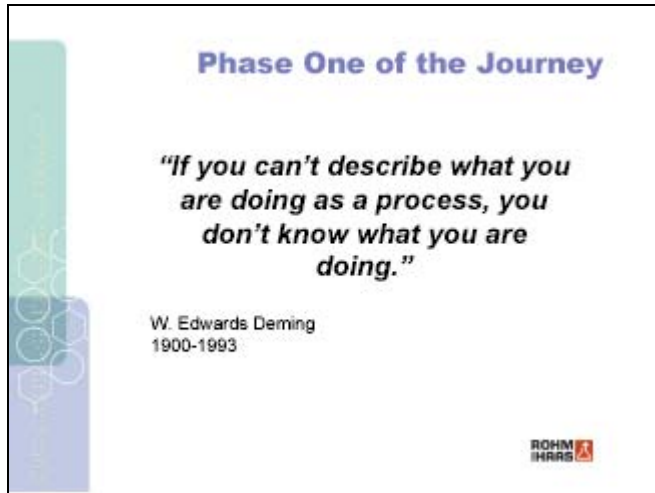



We made our first overseas sales in 1913. Today, about half of Rohm and Haas revenues are generated outside of the United States. We have a network of manufacturing and research facilities that extends through 26 countries. More than half of our 13 business units are based outside of our Philadelphia headquarters, and we employ about 17,000 people worldwide.

My own career experience reflects the character of the company. I was trained as a scientist and joined Rohm and Haas in 1975 after some post-doctoral work at Harvard. After several years in research, I worked on the business side and took posts in Brazil, Italy, Mexico and the U.K. before returning to the Philadelphia area in 1993 to become head of research, chief technology officer and, for the past four years, President and Chief Operating Officer of Rohm and Haas.

II. Phase One – Experimentation

It might be difficult to pinpoint exactly when Rohm and Haas embarked on its modern-day journey to process, but there's no doubt about how it started.



It was our North American Region operations manager who brought W. Edwards Deming to Rohm and Haas in the early 1980s. U.S. business was then fascinated with the roaring success of Japanese firms – Toyota, Sony, Hitachi – when just decades before they had been devastated by the effects of World War II. Deming, a U.S. born statistician, was regarded as the genius behind Japan's business turnaround, after going to Japan in 1950 and introducing the discipline of statistical measurements into manufacturing operations.

Rohm and Haas's manufacturing plants began to implement Deming's theories and followed his 14 principles. We learned how to read control charts and talked about minimizing total cost by continually improving the systems of production and service. Rohm and Haas's leadership used quality control charts to track big impact items like batch quality and on-time delivery of our distribution networks, but we also used it for smaller items as well.

Quality Circles

Circles bring change to Carodel

- Used quality circles and statistics to solve both macro and micro issues
- Began to experiment with total cycle time and other improvement methods

ROHM HAAS

A story that appeared in our internal newsletter in May of 1983, might give you an insight into the extent of our experimentation in the early days. “Circles bring change to Carodel” describes how quality circles were being introduced into the hourly workforce on a voluntary basis. Workers in every department were encouraged to form teams and to identify projects to work on to improve plant operations. My favorite segment in this article is about the first team to report – the Distribution team, which called themselves the “Rail Roaders.” Let me read you just a brief quote from one of the members of the team:

“We made up a list of what we thought were the problems in our area, and we took a vote. The one that came out on top was the big flock of pigeons that roost up on the platforms around our storage tanks. They leave quite a mess. It costs money because we have to wash down those platforms, and it’s a quality problem, too – it could contaminate the product.”

Now I know there are smiles on some of your faces, but listen and see if you don’t hear the buy in to the concepts of measurement tools. A guy by the name of Ed takes up the story at this point:

“We did a pigeon count on all three shifts and plotted them out on a chart so we know how many birds we were talking about. We brainstormed a lot of ways of getting rid of them and each of us picked one way and investigated it. We kept a chart of each method, what it would cost, how long it would take and so on. Finally

we came up with what we thought was the best method. We presented it to management. We must have done a good job, because they told us to go ahead and do it. . . .We're going to track our progress and measure how long it takes and how well it works.”

I won't bother you with the solution to the pigeon problem, but I can assure you that the Rail Roaders of North Carolina were a success. As you've probably already guessed, Rohm and Haas was gaining, too. We were introducing quality circles and control charts and beginning to weave quality into the fabric of the company's culture. And here's how we knew we were making progress. The article ends:



“Ronnie Osborne, the maintenance worker who thinks [quality circles] are the best thing that ever happened at Carodel, explains why: ‘We have more unity than we ever had before,’ he says. ‘Management's behind this 100 percent – we know that for sure. They listen, and we're proud of what we do in the circle.’”

So for us, leadership lesson number one on our journey was to instill understanding of the tools and buy in for the process at every level. We encouraged people to play with the tools in order to get more comfortable with the concepts.

As I mentioned, we used quality metrics to measure far more than pigeon counts. And we experimented with other metrics to improve. For example, our early exposure to the electronics industry brought us the notion of Total Cycle Time – measuring efficiency of the supply chain in terms of the amount of time it took to complete each step and looking for faster ways of conducting business.

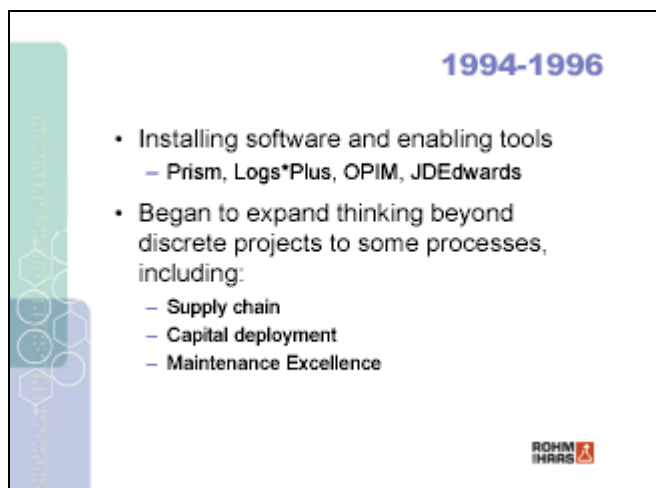
1993 a Pivotal Year

- Volume up 12%
- Sales up 7%
- Earnings down 17%
- Internal processes broken
- 'We'll use technology to improve operations and work flow'



The pivotal moment of change for Rohm and Haas occurred in 1993. There was demand for our products – the company made and shipped 12 percent more product that year, but sales grew by only 7 percent. Far more alarming was the decline in earnings – a 17 percent decline, absent unusual charges, and the negative cash flow that forced us to borrow to pay dividends. In a capital intensive, highly competitive industry, we were not able to leverage our assets and turn very good demand for our technology into robust returns for our shareholders.

Clearly the existing ways of doing business were not working. Our internal engine was broken. We needed to make improvements, and make them quickly. Our chairman at the time, Larry Wilson, charted our course, “We’ll use technology to improve operations and work flow, and we’ll determine the true value of every activity.”



In 1994, 1995, and 1996, we spent a great amount of time focusing on what were then viewed as three discrete internal processes – supply chain re-engineering, capital deployment and maintenance excellence. By this time, I was back in Philadelphia and held the job of Chief Technology Officer. In our organization, this included responsibilities for research and development, manufacturing operations and distribution. Our first task was to create and install enabling tools and software with names like Prism, Logs*Plus, OPIM and JDEdwards. The greater challenge was to get people to change their behavior, abandon the old ways of doing things, and embrace the new tools. We obtained good results.


The supply chain re-engineering effort was essential. By 1996, the supply chain represented the single largest set of costs in Rohm and Haas -- \$800 million annually. And, unlike price increases or the cost of raw materials, supply chain costs are much more within our control. We set – and met – a goal to remove \$75 million in operating costs and \$100 million in cash by lowering inventory by 1997. This alone led to a five-point improvement in our return on net assets, or RONA.

Put simply, supply chain reengineering was intended to strip out unnecessary costs from all activities required to meet the customer's need for product. Scheduling, warehousing, shipping, packaging, raw materials planning, payment and customer service were all controllable activities which could be made more efficient and have a positive affect on RONA.


Supply Chain Excellence

FORMULA

AtoHaas links savings to the Supply Chain



- In 1996, supply chain represented \$800mm, largest single controllable factor within the company
- Set – and met – goal to reduce costs by \$75mm and eliminate \$100mm in cash within two years
- Many, many efforts, each with small payoffs that summed to a greater whole

ROHM
IHARS 

This is a story about just one of our businesses – AtoHaas, which began as Plexiglas in our early years, but by this time was part of a joint venture with another company. Their portion of supply chain costs amounted to approximately \$19 million a year. By focusing on each of the sub-processes of the supply chain, they were able to reduce their costs by \$5 million, or more than 26 percent of the total. Their savings didn't come from one insight, or a single project, but rather through a series of hard-won efforts – changing the vendor used to supply lids on product containers netted \$65,000; changing the size of bags on another line brought in another \$130,000.

I use AtoHaas as an example for two reasons – their experience exemplified what happened in other parts of the company. A team of people sat down and mapped out the ideal state for each small portion of the process and identified the tools, tasks and organizations needed to reach it. Then it was a matter of 'persistence and insistence' to get the job done. Hard work. Detailed work – but necessary to make the change happen. As one AtoHaas manager said at the time, "There's a lot going on and it's easy to get lost in the detail. The key point to remember is that the goal of all of this is to make AtoHaas our customers' preferred supplier and to achieve the lowest costs for our products."

So leadership lesson number two for me was to be willing to dive deep into the detail, but never forget the ideal state and keep focused on the goal.

The other reason I chose this example is because of Bob Petrich, who then was director of the Global Supply Chain effort for the company. Bob was the first of a handful of key managers I identified as having the right combination of skills, experience and attitude that would help improve the processes of the company. He was able to see both the detail and the big picture, and had the characteristics of a bulldog. He also had an uncanny knack for establishing the right metrics for measuring progress toward a goal.

Other Mid-1990s Successes

- **Capital Deployment:**
 - building emulsion plants in half the time and at half the cost (also known as 50/50)
- **Maintenance Reliability:**
 - A 5% increase in production nets 1.5 percentage point increase in RONA (return on net assets)

ROHM
HAAS

In addition to supply chain, Rohm and Haas also concentrated on improving its capital deployment process and maintenance excellence programs. I'll mention those just briefly.

Capital Deployment. As you might have heard, Rohm and Haas has a lot of manufacturing plants. That's because about half of our products are based on acrylic emulsion technology, which includes a fair amount of water in the formulation. Among other things, these emulsions are used to make the basic component in latex, or water-based paints. It makes sense, then, for us to locate our plants close to where customers need them, rather than shipping large volumes of water great distances. But each time we build a plant, we add to our asset base. And since these plants were often were built very far apart – in northern Europe one year and in China the next, there was a lot of variation in the type of valves, pipes and fittings that might be chosen to build one plant over another. We realized that, with all our experience, we should be able to build these plants more efficiently. First we set a goal to be able to build a new emulsion plant in half the time and at half the cost than we could five years

earlier. We identified best practices across our existing network and looked for efficiencies in how we might build and operate a new one. Then, for the first time, we established corporate-wide engineering standards and practices for these plants. We met our goal within two years.

Maintenance Reliability. It used to be that we would run our plants for 50 weeks out of the year, then schedule a two-week period when the plant would be taken offline. During that period, we would do maintenance checks, install new equipment or software, check the electrical systems – everything – then start the plant back up again for another 50 weeks. At least that was the plan. But when we looked at the data, we found that most of our manufacturing sites had to deal with operational hiccups on an ongoing basis. They seemed like small things, but they added up. For example, one part of our Houston plant counted up the number of minor outages they experienced in a six month period and quickly realized that they could recapture more than 60 days of uninterrupted production time if they could eliminate them. This would mean real money. A 5 percent increase in production output for the company with no increase in costs would improve our return on net assets by 1.5 percentage points. So maintenance reliability became a competency we aimed to achieve.

Phase II – Moving to a New Level of Business Process Competency



Phase II – The Need to Rise to a New Level of Competency

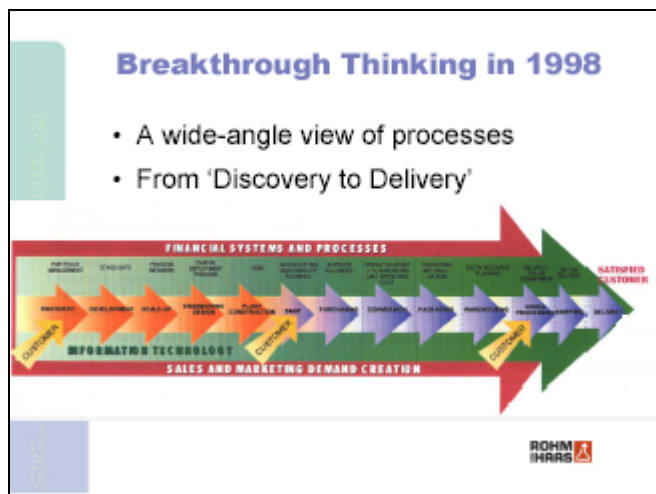
- By the late 1990s, multiple process improvements in place, but they were perceived as isolated
- Multiple initiatives left a sense of *'program du jour'*
- Needed insight to see the white spaces and opportunities for further process improvement

ROHM
HARRIS

By the late 1990s, we had achieved some terrific process improvements, but they had come at a price. We had imposed new software, new processes and new jargon on the workforce, and they were yelling for us to stop. We had created a series of disjointed processes – each with some degree of success. And when you have disjointed processes, there are inefficiencies. And although it's not always easy to see these white spaces, these are the very places where the opportunities for improvement exist.

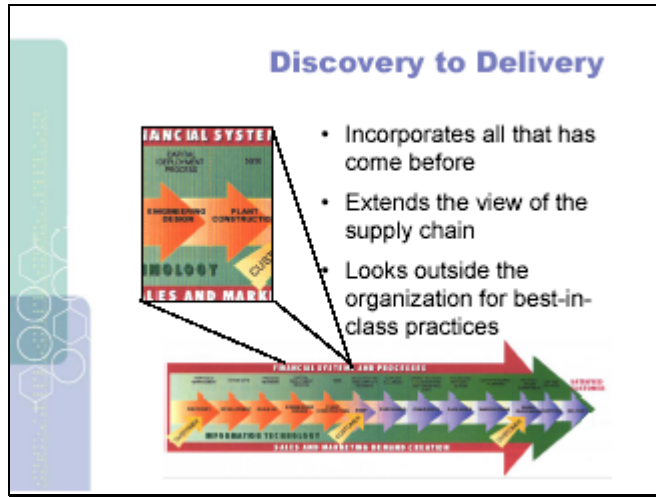
Rohm and Haas needed to move to a new level of business process capability. In part, the catalyst for change came from the organization itself. There was great resistance building to the 'new programs' that were being introduced. There was talk about senior management imposing the "program du jour." There was a lot of frustration and an appearance that perhaps we didn't know what we were doing.

I wanted to show the organization that the discrete parts were, in fact, a part of the whole, part of an overall effort to improve the total performance of the company.

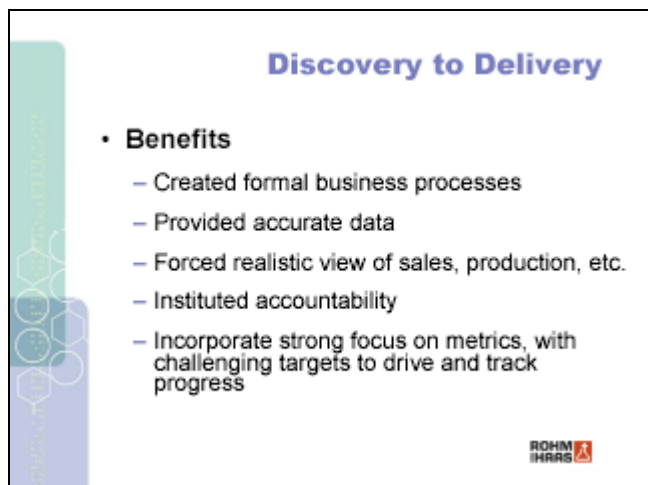


Early in 1998, I recommended to the Board of Directors that Rohm and Haas adopt a new perspective on business processes. We had largely identified and driven out simple inefficiencies in the existing processes, and the real power of the process would come if we could extend our notion of the supply chain to include everything involved from the discovery of new products to meet market needs to the efficient

delivery of these products right to our customers' loading docks. The ultimate goal was to have a satisfied customer.



You can see that this discovery to delivery horizon incorporated many of the discrete programs I've already mentioned. It also added the concept of Class A MRPII as the process framework for the operations strategies. Class A represented the combined learning across many manufacturing companies in a variety of industries and has us looking outside of Rohm and Haas for best practices in planning and control processes.



In its ideal state, this strategy brought the following benefits:

- It created formal business processes, from top management to the shop floor;
- It created a single plan, with one set of numbers to be used by all;

- It provided accurate data for inventories, bills of materials, and so on;
- It forced realistic plans for sales, production, shipping and so on;
- It instituted clear accountability and ownership throughout the process;
- And it incorporated a strong focus on metrics, with challenging targets to drive and track progress.

I'm pleased to say that the proposal was met with enthusiasm, and we set about trying to make this happen.

Let me spend a few moments giving you some insight into what was going on in our organization at the time – an inside baseball look at the change process, if you will.

While there was ringing endorsement for this discovery to delivery perspective on business processes, the implementation was met with fierce resistance. My predecessor had tried to get similar thinking adopted. He told me that he knew the path that had been outlined and defined was the right one. And there was no shortage of evidence of other companies implementing similar efforts and getting excellent productivity gains as a result. Yet he confessed that he had never been able to break through the organizational resistance, even with the backing of the top-most levels of the organization.

Overcoming Resistance

- Education
- 'House-to-house fighting'
- Leveraging opportunity provided by management change
- Progress came – slowly at first, then with increasing force

ROHM
IHRS

So rather than mandate the change and then sit back and wait for the logic to be embraced, I embarked on a campaign that continues in some form to this very day.

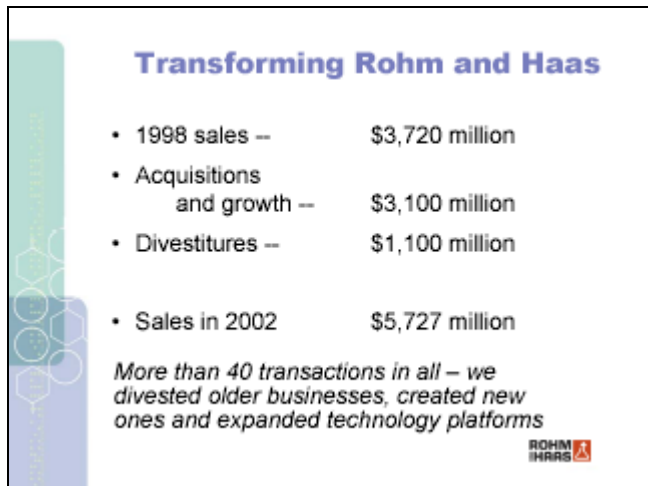
There was an education component – we put on seminars for our business leaders and their direct reports; we circulated articles, we conducted training sessions – anything we could do to draw attention to this idea and the soundness of it.

But the real change took place in what I call “house-to-house fighting.” I met with every business leader individually. I described the effort, explained why we needed to do it as a company, personally asked for their support. I, and a few close members of my team, were relentless. Again, this is the insistence and persistence I spoke about earlier as being an essential characteristic of a leader who wants to implement process change across an organization.

I’ll confess that I did also have the benefit of some temporary, special leverage at the time. Rohm and Haas was in the process of transition at the very highest levels. Our chairman and president were about to retire and I, along with one or two colleagues, appeared to be in line to succeed them. I don’t know how much the people I was working with wanted to be careful not to alienate someone who might end up being their next boss, but if it helped me get the opportunity to explain the need for change, I wasn’t above using that to my advantage.

Progress was slow. It was like a winter ice pack breaking up with the spring thaw. There was no single dramatic change of heart, but at the beginning, one small piece would break off and a work group would begin to flow in the right direction, then another crack in the entrenched way of doing things would appear, then another, and then another, larger portion of the organization would theoretically begin to move downstream. Change wasn’t noticeable at first, but it did begin to gain momentum. Finally, it appeared inevitable. The need for broad, integrated business processes that touched all parts of the company was apparent. You could see it coming. It was a force that could not be resisted.

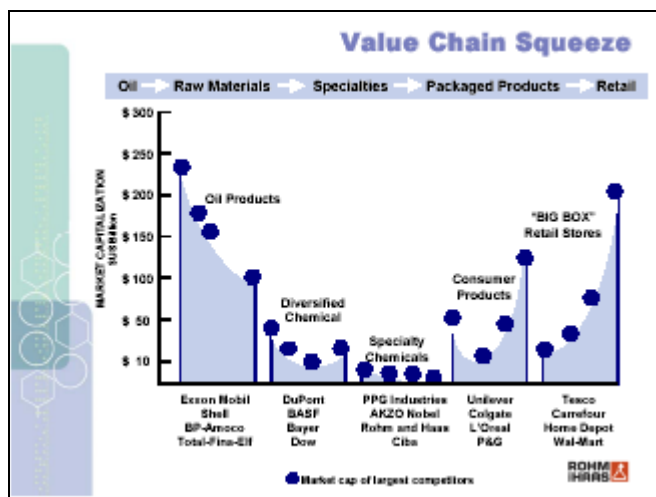
Phase III – Acquisition and Integration



And then in 1998 we began to profoundly change Rohm and Haas and transform ourselves into an entirely new company.

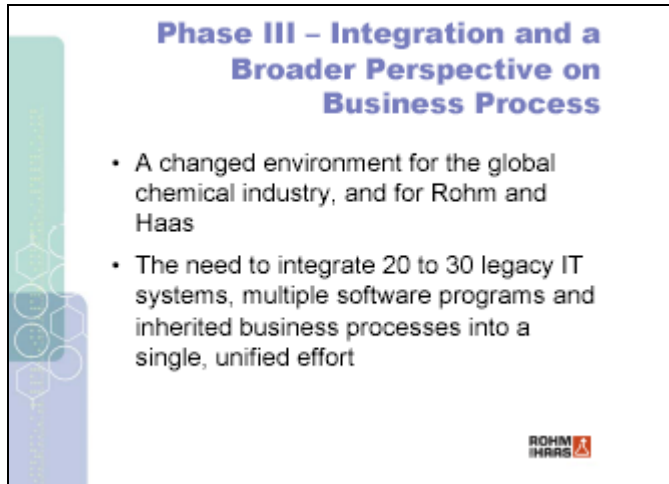
This chart shows you the extent of the changes. We made ourselves considerably larger, expanded the technology base upon which our product portfolio rests and created two new businesses – Electronic Materials and Adhesives and Sealants. In the process, we let go of many of our legacy businesses, including the Plexiglas/AtoHaas business and a large Agricultural Chemicals business.

This transformation was essential to our future. The global chemical industry is consolidating, competition is fierce, and the power in the value chain is shifting and creating incredible pressure on product pricing. This chart, which we affectionately call the ‘squeeze chart’ in Rohm and Haas, gives you a visual idea of what I’m talking about.



You probably have heard about the changes in the petrochemical industry over the past few years. They, too, have been consolidating, becoming larger and able to keep more control over pricing for raw materials like oil and natural gas, which are key building blocks for the chemical industry. Diversified chemical companies are next. We buy basic, sometimes called “commodity”, chemical products from them and then manipulate the polymers so that they can give special characteristics to consumer products or electronic devices. On the right, you’ll see the effect of one of the biggest changes affecting manufacturing in the past 10 years, and likely to affect us for years to come – the rise of ‘big box’ retailers like Wal-Mart, Home Depot and similar outlets based in other countries, like Carrefour and Tesco. These are the people who boast of ‘low, low prices’ to attract customers, and have the size and clout to pressure those farther back on the value chain to be able to offer them. I’m not complaining – as a consumer, the same quality of product at lower prices has to be regarded as a good buy, so it’s a phenomenon that is likely to continue.

But what it means to companies like mine is that we have to be more nimble, able to respond faster to changes in the marketplace and far more efficient than our competitors. And while there’s no let up in the ongoing demand for innovative new products, technologies like the internet and the faster cycles for new products mean that we will get good premium prices for the products we introduce, but the length of time we can count on that higher margin is shortening all the time.



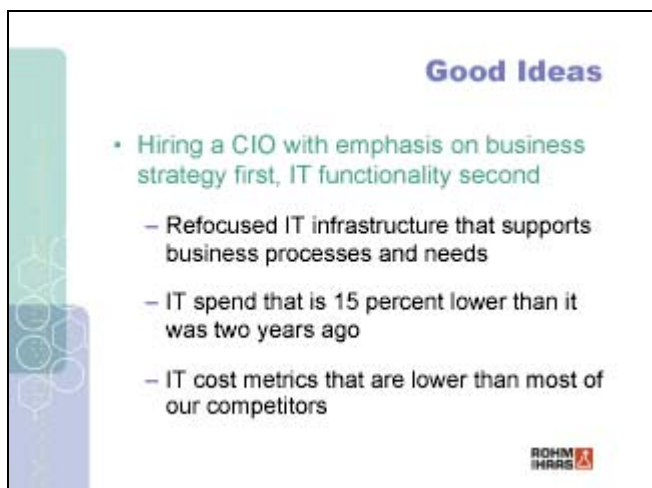
Phase III – Integration and a Broader Perspective on Business Process

- A changed environment for the global chemical industry, and for Rohm and Haas
- The need to integrate 20 to 30 legacy IT systems, multiple software programs and inherited business processes into a single, unified effort

ROHM
HAAS

While others might view this set of circumstances as sizable disruptions to an effort to improve global business processes, I viewed them as an opportunity. The extent of the changes we made in the portfolio meant that we were supporting 20 or 30 legacy IT systems, different software programs and business processes that had to be integrated into one. *We had* to do something to stitch all these organizations together. We had to move toward integration, and business processes were the ideal way in which to accomplish it.

It was my great honor to become President and Chief Operating Officer of Rohm and Haas in January 1999. Essentially, it means that now I'm the guy who's responsible for the operating business processes of Rohm and Haas, not just the guy who's clamoring for the change. Be careful what you wish for, right?



Good Ideas

- Hiring a CIO with emphasis on business strategy first, IT functionality second
 - Refocused IT infrastructure that supports business processes and needs
 - IT spend that is 15 percent lower than it was two years ago
 - IT cost metrics that are lower than most of our competitors

ROHM
HAAS

There are three things that we've done since then that I think will result in an even better and stronger Rohm and Haas in the very near future:

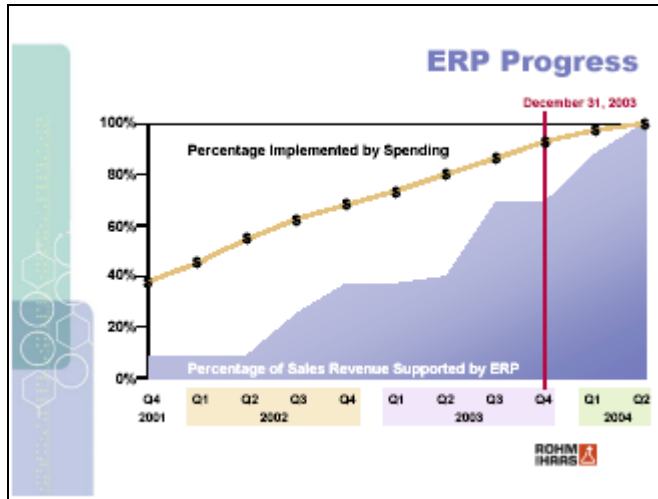
First, I hired Anne Wilms, who serves as Chief Information Officer of the company. It was coincidence that our former CIO was set to retire just as we made the portfolio transformation. It gave me an opportunity to seek a different kind of leader for this group, one who understood business strategy and market dynamics as equally well as she understood the latest breakthroughs in information technology. If we were going to be effective in knitting together business process systems for the new organization, we needed a CIO who could understand business needs first and foremost, then translate those needs into IT terms. I don't think even the rest of Rohm and Haas understands what a pivotal role she has played in re-building the IT infrastructure of the company with fresh thinking and ideas. This infrastructure includes not only a new ERP system, which I'll discuss in a moment, but also common desktops, integrated e-mail and financial support systems that are fully connected on a global basis. And today, we are spending about 15 percent less on IT than we were two years ago, and our costs per personal computer, per employee and IT costs per sales dollar are all in the lower third of our peer companies.

Good Ideas

- A global ERP system
 - Single instance data
 - Breaks down legacy/institutional barriers
 - Creates interdependencies and interactions
 - A \$300 million effort; implementation is 75% complete

ROHM
HAAS

My second point of pride is the implementation of a global ERP system – a \$300 million effort that we began to implement in 2001 and will be finished by mid 2004. By the end of this year, 2003, more than 70 percent of our sales will be supported by this system. Most important, this implementation has occurred thus far without significant disruption to operations or customers.



As I mentioned at the outset, very few companies have been able to make this claim when implementing a system as sophisticated and far reaching as this one. The smartest thing we've done is to insist that the new ERP system be based on single instance data. This fosters collaborative work across the traditional chimneys of an organization and creates interdependencies and interactions that have to take place. There are no longer any individual ice floes, but rather one river running all together.

Good Ideas

- Using lessons/disciplines of the past
 - Define the ideal state
 - Map existing processes
 - Identified tools, tasks and organization needed to 'make it happen'
 - Persistent and insistent about reaching the goal

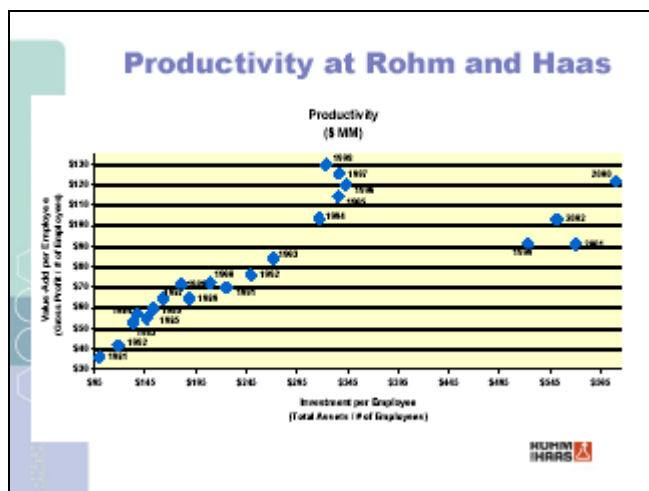
ROHM IHARS

The third thing I'd like to point out is that we are, in many ways, following the same business principles we were following a decade ago, but with far more sophistication and with incredibly powerful new tools:

- We have defined the ideal state;

- We have mapped our existing processes, and
- We have identified the tools, tasks and organizations we need to make it happen,
- And we are being persistent and insistent about reaching our goal

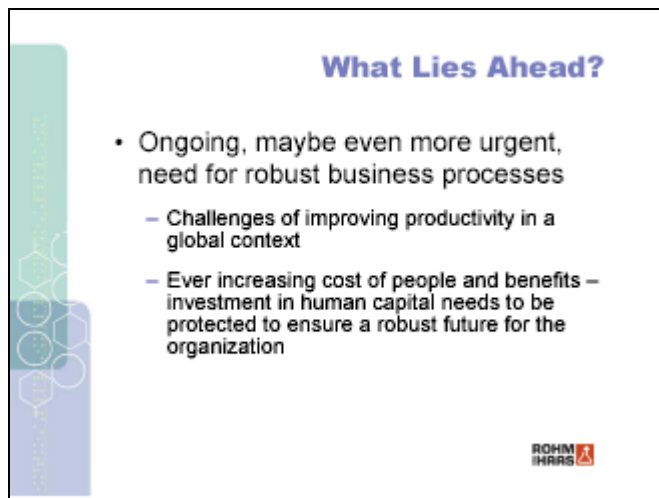
The result will be a far faster, far more efficient organization. The power of having 17,000 people around the world reacting to the same data, looking at the same information about our customer's orders, buying patterns and delivery schemes across multiple businesses presents an almost endless list of opportunities for us to respond faster to market changes, and to get product to customers' doors faster and with less cost than our competition.



This slide tells our story in a snapshot. It measure productivity over the time period I've spoken about today – the value add contribution of employees, measured by gross profit per employee on the y-axis, versus assets per employee along the x-axis.

If you look at it for a moment, you'll see our journey to process expressed in rough numerical terms. During the experimentation of the 1980s, we made some improvement, but the real progress came in the mid- to late 1990s, during the second phase of our journey, when we were looking at process improvements in a decidedly more holistic way. Then you can see the disconnect caused by the transformation of the company and the growth in size due to acquisitions. But I'd like to draw your attention to the right side. Admittedly, we did lose a little productivity in the past couple of years – and it would be fair to attribute at least a reasonable portion of it to the

effects of the recession. But note, please, that as we are getting our act together and creating and implementing our global ERP system and training new generations of managers in the value of business processes, we are gaining traction and expect to make good progress improving productivity in 2003.



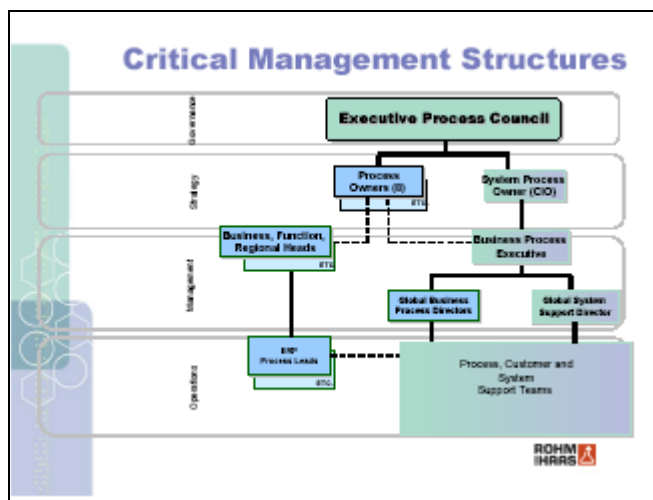
What lies ahead?

At Rohm and Haas, we're far from finished. There's so much more to do. Even as we are approaching the end state I envisioned back when the discovery to delivery arrow was first created back in 1998, I can see that the world has changed so much that our original design could soon become obsolete, unless we pay constant attention to it. I am personally convinced that my own organization – and any company that aspires to succeed in a global manufacturing environment – will continually have to invest in process efficiencies and better work processes.

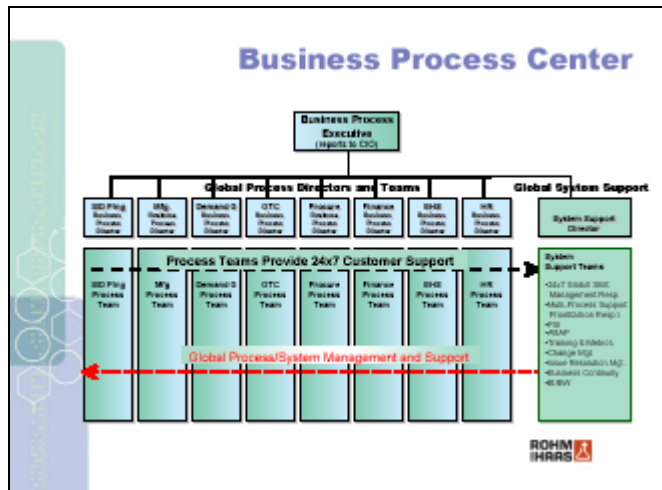
Here's just one example of what preys on my mind. I mentioned our workforce a moment ago. 17,000 people. The decision to hire a new employee is an investment, and a sizable one, about \$100,000 a year for the average Rohm and Haas employee, if you factor in salary, benefits, pension, health care, security, IT support, work space, etc. And if you believe that that person, or his or her successor is likely to have a role in your company for 20 years, that investment totals up to \$2 million per employee. You want that asset to be operating as efficiently as anything else. Now consider that most American companies of our size might expect to see an increase in health and benefits costs of more than \$100 million between 2003 and 2004. That's \$100 million

in increased costs that has to be offset by an improvement in productivity of equal or greater magnitude within the next year. Eliminating positions might be a strategy, but it only solves the problem in the short term, and you've probably just blown away an investment in human capital that you've been making for several years in your workforce. A far better point of focus is to drive the efficiency and productivity of our organization on an ongoing basis. This is an urgent priority, and must be relentless.

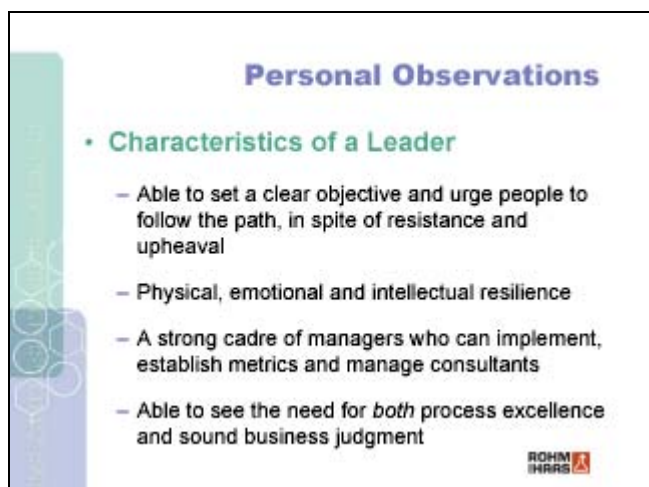
And the systems we build must be able to handle a seamless shift in manufacturing and customer support as our customers move around the globe from Europe to the US to Asia to Latin American and back again. We must be nimble and ready to move in order to be successful.



These next two charts give you a sneak preview of work we are doing today. Note that I have created an Executive Process Council, one that oversees all aspects of business process improvement. You'll see that our CIO will ultimately have responsibility for the quality and execution of the business processes, but that our business, functional and regional executives also have clear management responsibility for success.



This second chart supports my basic philosophy about how business processes should be structured. Note that there is a small, core team of people who benchmark best practices, and intimately understand the theory and measurement tools behind business processes and can teach them, but the responsibility for implementing, tracking and improving the business processes themselves resides within the businesses. Business process excellence does not stand apart, but is an integral part of the day to day business success itself.



Personal Observations

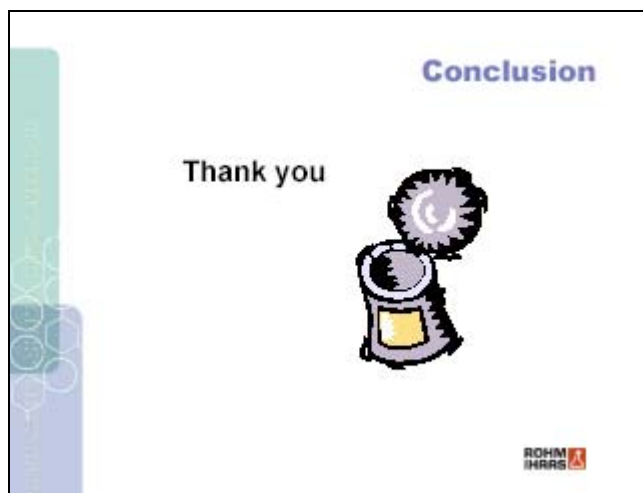
One of the things Mike asked me to address this afternoon were some personal reflections on what kind of characteristics I think it takes to be a leader during turbulent times.

I'll be frank. If you're the kind of person who thrives on approval and being popular, this probably isn't a career path for you. Leading a transformation means that you will disrupt people's lives, create turmoil, question what has been done in the past and persistently push people to move from old to new ways of doing things. You have to be physically, emotionally and intellectually resilient, or it will wear you down.

And the kind of role you play is critically important as well. In each phase of our journey, the job of the people at the top – of the former CEO and President and of Raj Gupta, our CEO and me today – is to set the objectives, clear the path, supply the resources and organizational support that are needed, and to then make certain that things are happening.

In each phase of our journey, we have relied also on managers who could implement the process, establish metrics, measure results, manage the consultants. They are persistent and insistent that the change, indeed, does happen.

My final observation is that process excellence without sound business judgment will put you out of business every time. You can have the best discoveries, the newest innovations, that latest IT systems and technology – but if it is divorced from supporting true business needs, it ultimately will fail the entire organization.



Conclusion

I appreciate the opportunity to have shared with you the journey Rohm and Haas has followed for the past 20 years, and I hope our insights might help you on your own journey to process. I described it the other day as having had some similarities to a game of kick the can. You remember it. You see a can on the street and kick it forward. Sometimes it goes in a straight line. Sometimes it veers off the path in one direction or another, and sometimes you get distracted and forget about it for a moment. But you always go back to it, give it another nudge, make a little more progress. And, ultimately, you reach the goal. At Rohm and Haas, we still have our sight on the goal, and we are making refinements and adjustments all the time. And progress, real progress, is being made on our journey to process.

Thanks very much.

