Leadership Q&A

Control What You Can Control

Craig Rogerson, chairman, president, and CEO of Chemtura, talks to *CEP* about leading a global specialty chemicals company out of bankruptcy to profitability by pruning first — *i.e.*, divesting nonstrategic businesses — to stimulate new growth. Rogerson explains his approach of controlling what he can control to navigate today's relatively tough macroeconomic conditions and his contemplation of what he refers to as a transformational transaction that will profoundly change Chemtura.

What would you say defines your leadership approach?

Craig Rogerson: My basic leadership principle or approach is to put together a very strong team then let them do their job. But there's clearly more to it than that, and a lot of that is around communication. The first thing that's critical is establishing a shared vision, and I'd emphasize the "shared" part of that. There has to be buy-in throughout the organization that where we're trying to go is where we all agree we're trying to go.

Then you develop a strategy on how to get there. And that strategy is not just the fundamental steps you take to get there, but also how you're going to operate along the way. That's where the value system and the culture of the organization come into play, and establishing that relative to how you're going to achieve your vision is critical. Again, communicating that all along the way is important. Negotiating targets upfront … I call them commitments instead of targets … is key. There has to be a feeling that there's an obligation to our stakeholders — which include our employees, our shareholders, our banks, and our customers — that we're going to do what we said we're going to do.

Of course, along the way there will be issues, and a lot of change. It's a very dynamic environment, but these cannot be excuses. They are challenges and opportunities, and as in any good plan, we have to develop contingencies to ensure we deliver on our commitments, on those things that we promised. So we have a lot of communications within the businesses and within the functions to ensure that our actions are helping us meet those commitments.

I'd say my leadership strategy comes down to establishing a team of strong leaders who buy in on the vision, developing a strategy, negotiating the commitments along the way, monitoring progress, and communicating clearly. At the end, you need to also recognize and reward delivery of results. Those are the clear steps from my perspective on how we progress the company forward and deliver on our overall directive, which is creating value for our stakeholders.

Does having a lean company help with this communicating and being able to meet targets you're going to deliver?

Rogerson: We've gone through several divestitures, and as we've done that we've had to eliminate stranded costs. A way to do that while maintaining, or even improving, the effectiveness of the organization is to control and minimize layers. You reduce the number of handoffs, have fewer shared accountabilities so people understand more clearly what they're accountable for, and you give your people the authority and tools to deliver and execute or implement their jobs. With fewer layers, there are fewer ears to hear the messages and fewer chances of miscommunication as it passes through the organization. All of that should be helpful, and it probably is, but it doesn't always work the way you like. There are still challenges with communication, especially in a global company because of things as straightforward as language barriers, cultural differences, and different operating environments — different countries that perceive things differently.

How do you apply your leadership approach in navigating through challenging macroeconomic conditions, such as fluctuating oil prices and the sluggish Chinese economy?

Rogerson: First, we have to recognize what those issues are, and then we need to transparently communicate the actions we're going to take to mitigate the challenges or take advantage of the opportunities that may come from those conditions.

Specific to the sluggish Chinese economy, we've had to make some changes. We've recently started up one of our largest plants that we built over the last couple of years. It's not a good time to be starting up a new, large-capacity facility in China, so we have to talk about what that means for us. One thing it means is that people have to be more flexible in their jobs. We're going to rotate people through different parts of the plant rather than staffing up as originally intended. It must not be viewed as a diminished opportunity for the people there. They'll have to learn more and thereby have the opportunity to further develop their skill set, and we've been very open about that and how we're going to react to the changes that are impacting us.

The project for the plant in China was put together assuming we were going to produce high-end lubricants and polyurethane products, high-end products that we produce elsewhere in the world for markets elsewhere in the world. When we put that project in place three years ago, our view was that both the western companies located in China that are our customers in Europe or North America and the larger nationalized Chinese companies were going to need the highest end of our pyramid of products. As the market has slowed down, there's not enough room at the top of that pyramid, so we have to move down to the more standard products in those same categories. To do that, we need innovative solutions, and one of the innovative solutions is to make products that are "market standard" using local raw materials that are lower cost but don't necessarily meet the tighter specifications for our top-of-the-pyramid product line.

All we can do is look at what we can control in light of this situation and be very transparent and practical in discussing the actions to be taken. With a small organization, you can do that more directly than in a large organization, where it may be viewed as being imposed from the top.

How does streamlining Chemtura's portfolio fit into your overall growth strategy for the company?

Rogerson: It's a little bit counterintuitive. When I got here, we were in financial difficulty and subsequently went into bankruptcy in 2009, which we came out of in 2010. During this process, one of the things we did was look at the eight businesses in our portfolio to determine which would give us the best opportunity for innovation-driven growth, market leadership, the ability to maintain a certain margin, and the potential to grow in faster-growing regions. Out of those eight businesses, three of them didn't fit these general criteria, so we looked at divesting them over time as we worked to increase their overall value. Some of them were ready to go right away. So we did that. It's the approach of pruning to focus our energy on areas of future growth where we can win.

We've made significant capital investment in organically growing the businesses that remain in the portfolio. Our Chinese plant was a big investment. We've also made investments in South Arkansas and in Amsterdam, and we just made an investment in our plant outside Rome. We stepped up investment by approximately 50% more than we had spent previously during this phase. That was the organic growth.

During this period of time, our portfolio management manifested itself in divestitures, but we also looked at acquisitions. That's been more difficult. Again, we look at it through a lens of creating value for our shareholders. Over the last couple of years, with sales multiples high, it's been a good time to be a seller, and we've been a seller. It has been more difficult to create value as a buyer these past few years.

How is this consistent with our growth strategy when we have been selling off businesses? My answer is that we have to focus the portfolio on where we can win. We'll look at bolt-on acquisitions, which are relatively smaller acquisitions, to enhance our current businesses, while at the same time also look for a transformational transaction that will basically and profoundly change Chemtura as we go forward.

You use the term transformational transaction. How do you envision transforming Chemtura?

Rogerson: When I talk about a transformational transaction, it's something that would dramatically increase the size of Chemtura. And there are reasons why I think that makes sense. There's the external reason — large market cap companies usually trade at a higher multiple, so you get a valuation improvement if you're bigger. Clearly, if you're larger, you can leverage your fixed corporate costs across a broader revenue base, so the impact per sales dollar is less.

However, more important, from my perspective, is that if you're larger, you can invest more in basic research. I'm talking about research where you're looking for discovery versus just iterative application development. If you want something that's a home run, a new product that could end up being the foundation or the catalyst for a new business, you need to do research. If you're bigger, you can afford to invest consistently in research. I think that's a significant advantage of being a larger specialty chemicals company.

To your question, I think it would be difficult to find a target partner that lays right on top of our four businesses. We're leaders in all of our businesses, so it would be hard to get much larger in our direct market or product areas. An attractive partner would likely be something that is a close adjacency, providing additional verticals where we would be able to leverage either our market access, our technology, or our business model. Clearly, it would need to be industrial specialty chemicals, but it would not be fully overlapping the things that we do now. I would envision a potential acquisition or merger partner being more of an ingredients type business. We have a portfolio of additives now, so I think an ingredients business would be consistent with what we do and how we service our customers to provide value.

A transformational transaction doesn't mean we necessarily have to buy something. It could be buy, merge, or sell, depending on the size of the other party in the deal. I'm kind of agnostic to that. I am convinced that now is a good time to do something because we're on a good trajectory. We had a very strong 2015, and 2016 looks very strong. So we're working really hard to execute on one of these transformational transactions to put Chemtura in a better position to compete and win and to deliver on our objective of creating shareholder value.