TALENT & TECHNOLOGY

DRIVERS FOR SUPPLY CHAIN LEADERSHIP

EPCA INTERACTIVE WORKSHOP REPORT SUPPLY CHAIN & LOGISTICS, BRUSSELS, 2 AND 3 JUNE, 2014

EPCA

THE EUROPEAN PETROCHEMICAL ASSOCIATION

TALENT & TECHNOLOGY

DRIVERS FOR SUPPLY CHAIN LEADERSHIP

BRUSSELS, 2 AND 3 JUNE, 2014

EXECUTIVE SUMMARY

The 4th Interactive Supply Chain and Logistics Workshop explored the theme of Talent and Technology initially launched at the 46th Annual Meeting in Budapest. Some 50 Supply Chain leaders from chemical producers, Third Party Logistics Companies ('3PLs'), and Fourth Party Logistics Companies ('4PLs'), as well as academics and consultants gathered in Brussels over two days to listen to stimulating keynote speakers, and to debate the challenging questions facing the industry in animated round table discussions.

The Workshop focused on leveraging talent and technology, as drivers for continuous supply chain improvement, in a changing and increasingly competitive environment. There was a clear message that companies need to understand their business model in order to apply the right points of leverage, and that there is a raft of technology and tools available – but companies need top talent to select the most effective technology, and to execute effectively.

Supply Chain leaders should engage with senior business executives using terms that they understand if they really want to influence the business strategy and for supply chain to be fully established as a value-adding strategic capability, supporting growth in new and emerging markets. This means that companies have to develop supply chain talent programs to equip their leaders to face future challenges. Additionally, there may be opportunities to include customers in the process of developing commercial capabilities and collaborative alliances.

The Workshop took the opportunity to review the results of the EPCA/Borderless survey of Supply Chain Leadership, People and Organization. This confirmed that attracting and retaining supply chain talent remains a concern, underpinned by intensifying demographic, regulatory and competitive challenges. The industry is challenged by gender diversity, across all functions, and the barriers to gender diversity are varied and entrenched. Mobility also remains an issue to be addressed.

Finally, the attendees were left to consider the proposition that 3rd generation strategies cannot be managed by 2nd generation organizations, and 1st generation managers (Sumantra Ghoshal) 3rd generation environments favor collaborative networks, effective knowledge transfers and game-changing innovation – whereas it has to be recognized that the demand for process control in the chemical industry tends to foster 1st generation management.

A powerful presentation on the Eurocrisis by Professor Paul De Grauwe of the London School of Economics provided a stimulating evening diversion for the attendees, and prompted an active Q&A session on the various scenarios facing the Eurozone.

Once again, the interactive Workshop format proved to be a successful and well received model, with the evaluation forms recording a 100% level of satisfaction. The number of attendees making repeat appearances at the Workshop is testimony to the enthusiasm and support for this event.

DAY 1:
MONDAY JUNE 2, 2014

**NEIL
MOON**
AGILITY CHEMICALS

CHAIRMAN'S WELCOME AND OPENING REMARKS

Welcoming delegates, the Workshop chairperson Neil Moon, Strategic Enterprise Vice President – Chemicals, Agility Logistics, and member of the EPCA Supply Chain Program Committee, introduced the Workshop as another step in a continuous process which EPCA has been leading for a number of years. EPCA has used Supply Chain and Logistics as a platform to promote the maturity of the Supply Chain profession and the value it can bring to corporations, to advocate on behalf of the career opportunities which the function represents, and to open up routes to the Board. Nevertheless, there is still work to do in improving awareness of the function at Board level.

Neil reminded the participants of the need to respect competition rules, referring them to the Do's and Don'ts in the delegate pack, and proceeded to introduce the first speaker.

**DR DAVID
GONSALVEZ**
MIT

THOUGHTS ON TECHNOLOGY AND TALENT BY DR DAVID GONSALVEZ

Professor of Supply Chain Management at MIT-Zaragoza Logistics Program. Research Associate, MIT Center for Transportation & Logistics

"Just as the shark has evolved over thousands of years to become the epitome of efficiency – moving forward even as it sleeps – so it is for the supply chain. It has to continuously strive for increased efficiency while in constant operation. In either case, stagnation implies a death spiral."

Developing this theme, David Gonsalvez agreed that two key elements in the quest for continuous improvement are technology and talent.

"The amount of data available, the speed of processing and the ease of use and combination have reached a stage where true large economic gain can be realized.

As Brynjolfsson and McAfee from MIT say 'economic growth driven by smart machines is here today'. New skills and teaching are essential to retrain people to work with smart machines!" We appear to have reached the "knee of the curve" – things are about to take off – and we will need talent to manage this new paradigm. Nevertheless, as Keynes pointed out, we have to face the reality of technological unemployment.

David highlighted three key challenges which companies are facing today:

- Technology is developing at a rate which outpaces adoption and absorption by an organization
- Knowledge is becoming increasingly specialized
- A talent for integration and coordination (sometimes between competitors) is required for effective use of technology and specialized knowledge

David suggested a number of guiding principles to address these challenges, although he acknowledged that there are no "silver bullets" or a single answer for all companies.

- Understand your business and what gives you a competitive edge
- Use the right technology and tools
- Integration and cooperation are often key to achieving significant results
- People with talent are required to implement the previous three principles

DAVID ILLUSTRATED HIS THREE PRINCIPLES WITH SOME FASCINATING CASE STUDIES:

Understanding your business and competitive edge:
Inditex has a single high-tech warehouse in Zaragoza which handles the distribution (by truck and air) of all Zara Woman products to 2,000 stores (replaced twice per week) across the globe (3.5 million pieces per week). This business model would probably not work for other retailers, but for Zara their competitive edge depends on:

- Fast fashion; with twice weekly delivery to stores
- Readiness to accept stock outs and sacrifice sales for limited production runs
- No advertising (but Zara customers return every 17 days), and savings invested in supply chain

Right tools and technology
David used his experience in the automotive industry (General Motors) to illustrate the improvements that can be obtained when

"NEW SKILLS AND TEACHING ARE ESSENTIAL TO RETRAIN PEOPLE TO WORK WITH SMART MACHINES!"
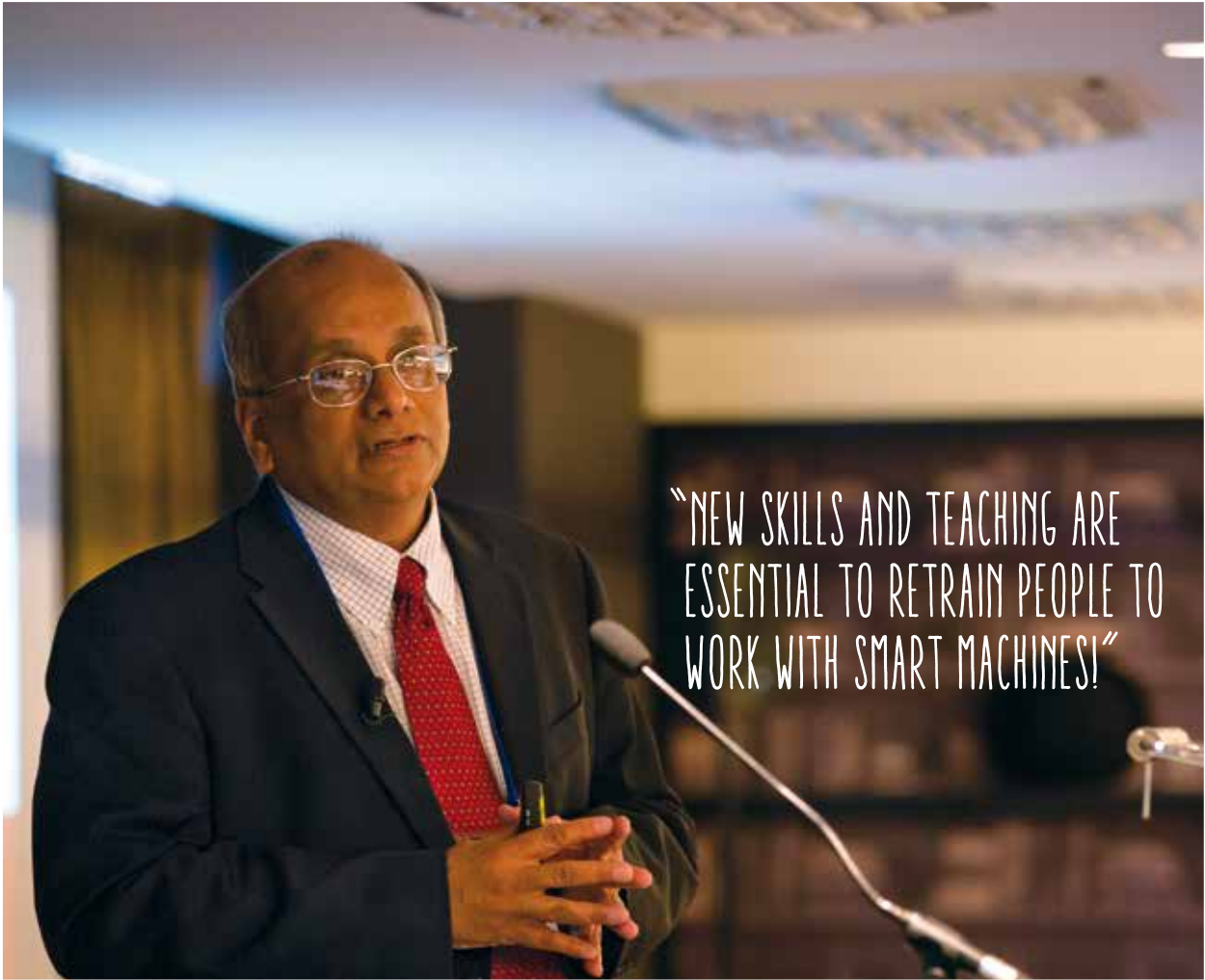
talent is applied to big data. In the late 1980s most automotive assembly plants were introducing robots into body shops, and PLCs (programmable logic controllers) were becoming standard at every station along the entire assembly line. However, despite the availability of vast amounts of data and statistical charts, production teams were still managing bottlenecks in the same way as they had always done. That is, until 'talent' came along, and said "there's a better way to do this". "They applied queuing theory and used the minute-by-minute data collected from PLCs to populate their models so that lo and behold they could start predicting floating bottlenecks. To cut a long story short they were able (with a good roll-out team – another type of talent) to improve throughput by 5% or more; so it's about having the right set of tools (queuing theory), coupled with the right technology (PLC data collection) and the right people to make it work."

Integration and Cooperation

There are approximately 13,000 official medallion taxis in New York doing more than 410,000 trips per day. Detailed data on every trip is available from the NYC Taxi and Limo Commission, showing the average trip fare to be about $9, and cost about $7. A detailed analysis and optimization of all the trips (conducted by Jordan Analytics) showed that huge improvements could be made in cost and waiting times, with fewer taxis. Central coordination and optimization would deliver cost savings of 30-40% – but instead the authorities have increased the number of medallion taxis from 13,000 to 15,000, adding to congestion and pollution. Integration of the existing technology, however, could reduce the number of vehicles needed, improve waiting times and reduce costs. The point here is not to fault New York City, but to show that implementing cooperation and coordination is often a lot harder than technology development.

TALENTED PEOPLE MAKE IT HAPPEN

"Talent is not just about being 'smart' but the ability to cooperate and get things done even without direct authority." David believes that companies can enable growth and nurture talent by:

- Sponsoring student projects
- Actively engaging in university research projects
- Having targeted education for employees
- Rewarding non-traditional roles (e.g. integrators)
- Leveraging talent at suppliers and customers

He sees a lot of students going into supply chain because it is global, action-packed and challenging, but it is up to companies to keep them engaged and motivated.

PETER MARSHALL
THE DOW CHEMICAL COMPANY

RESPONSE FROM PETER MARSHALL,

Director Supply Chain Operations, Europe Middle East Africa, The Dow Chemical Company

Peter began his presentation with a Safety Moment, as a reminder of the responsibilities of a chemical company and the implications for Supply Chain. "The nature of our products has important ramifications for the way supply chains are set up and operated, what is outsourced, and what is retained as a core competency. This in turn has implications for talent development – how do we ensure our supply chain professionals are fully prepared for specific chemical industry responsibilities?"

Peter drew the audience's attention to the fact that in the EPCA/Borderless Survey just 55% of respondents view Supply Chain and Logistics as a value-adding strategic capability; yet 63% of respondents are aligned to Supply Chain Management (SCM) or Logistics - so it seems there is still some work to do to convince even our own people! Nevertheless, Peter's personal experience with business leaders reflects a more positive attitude to the strategic capabilities of SCM, and support for it being used by business leadership teams.

"The supply chain is essential to business strategies for growth into new and emerging markets as companies launch new products and make tradeoffs between the efficiency of scale, and the complexity of market differentiation. Supply chain leaders must show,

in financial and strategic terms, how supply chain relates to these key priorities." Do we always talk the financial language that businesses want to hear?

SCM is essentially a people business and its success depends on having talented professionals who are ready to take on future challenges. Peter referred to a recent Gartner report, which explores the 5 "Supply Chain talent pillars" that provide a basis for strategy and execution in talent development (Competency Development, Career Paths, Training and Development, Recruiting and On-Boarding, and Performance Management). Peter acknowledged that most companies still focus on the last three traditional elements, yet insisted that more attention must be paid to the quality of competency models and career path architecture if they are to materially improve their supply chain capabilities.

"Do the people 'flying our supply chains' have the right competencies?" – a question Peter asked himself as he boarded his flight from Zürich to Brussels.

Peter described the Dow supply chain talent program as one that takes into account the different entry points into the organization, and considers various educational and training requirements as well as career paths. This is customized to suit each level in the organization, e.g. Technician, Specialist and Leader, and the specific needs of different areas of the organization. He illustrated the program with the following examples:

- Dow has centralized certain operational roles into a Business Process Service Centre which enables professional training and on-boarding, and local higher education linkage
- There is a graduate recruitment rotation program with partner universities, an

**ERIC
HERMAN**
DAMCO

RESPONSE FROM ERIC HERMAN,

Global Chief Commercial Officer, Damco

Eric Herman made a brief introduction of Damco to the audience. Damco is a company focused on a global presence, long-term customers and a "physical asset-lite" structure. It attempts to differentiate itself from other forwarders through its IT capabilities and more than 11,000 people assets. The competency of its people, the attitude of the organization, and its capability to handle unexpected situations and challenges are designed to distinguish it from its competition.

The Damco position with respect to people is based on the three pillars of Care, Nurture, and Respect, and consistent with the principles of the UN Global Compact. Every effort is made to enhance employee engagement, the importance of values, and sharing of information. There is a lot of work put into collaboration, diversity, and ensuring access to the best talent.

Nurturing a customer-centric mindset starts with the 'Grow' graduate program, at the entry level, the 'Impact' commercial leadership program for middle level managers, and the 'Lead' global talent program for medium to senior level management. Each of the respective programs is owned by a Damco functional leader, and Eric is responsible for the 'Impact' program.

Describing the Impact program in more detail, Eric explained that this is designed to strengthen Damco's commercial capabilities, create "change agents", and foster internal and external collaboration. To this end, customers are invited to deliver part of the training curriculum. In Year 1 a series of 3 workshops

"WE WANT TO ENCOURAGE DIVERSITY OF THOUGHT IN THE WORKPLACE"

(based in a developing area, developed area, and HQ) provide the toolbox, and this is followed in Year 2 by "back home applications", supported by Regional workshops, which continue to build capabilities.

The Impact community (Class of 2014) comprises 76% non-Western participants, 45% women, and an average age of 33.

Overall, the Damco population is 50% female. Eric reported on the Damco diversity targets which include 35% female General Managers in 2018 (currently at 23%), and 28% female Directors in 2018 (currently at 18%). They have even more aggressive national diversity targets over the same period. They also recognize that they face some particular local issues, and have introduced, for example, special care programs in China to reduce attrition rates of females leaving the company after having their first child.

Finally, Eric shared details of the Damco People Network pilot project – an internal social network/community designed to enable connectivity, communication and collaboration – and in turn foster the ease, efficiency and fun of getting work done. Eric explained that it is still early days for the pilot, and left us with the thought that "although the Tool doesn't stop anyone accessing the site, behavior does."

internship program, specific expectations on APICS certification, as well as an internal SC academy program
• Future senior executives are expected to have cross-functional experience and therefore it is common for commercial or manufacturing leaders to take on supply chain assignments – and learn that supply chain is not as simple as it looks.

Finally, Peter shared some thoughts on diversity at Dow. Over one third of the global supply chain leadership team members are women, and the VP Supply Chain is also a woman.

"Women now represent the majority of university graduates in developed economies, control 80% or more of all consumer purchasing decisions, and account for 70% of new business start-ups in the US. They are a critical, valuable part of the global talent pool." Peter made it clear that this is not a matter of political correctness at Dow – indeed there is a Women's Innovation Network at Dow which is a strategic resource for leaders looking to develop their female talent as well as for women wanting to invest in their own careers. "It's not just gender diversity that's important to us at Dow…we want to encourage diversity of thought in the workplace."

ROUND TABLE DISCUSSIONS

At this point the delegates joined tables of around ten people to consider the following questions, and report back to the whole group. The responses are summarized below:

TABLE ①

What are the key drivers for the company you work for and what is its competitive edge?

There was a natural reluctance to share this information, so the table discussed some more general examples:

❶ Agency model
- Managing joint capacities more efficiently the individual cannot do this him/herself
- Improved transparency
- Improved utilization

❷ Platform / portal model
- Connecting all relevant portal-users to provide information
- Improved efficiency
- Enable collaboration, where individuals cannot do this alone

Is Supply Chain / Logistics a strategic capability? Definite YES!

How can Supply Chain / Logistics increase its contribution to building a competitive edge?
- SC has to be seen as a serious business partner – contribution to business success via target agreements
- Make SC part of decision making
- Need to have visible careers in and via SC
- Demand young talent, and not allow it to become a dumping ground

TABLE ②

Are you aware that Responsible Care® is more than HSSE?[1]

Attitudes have to change from seeing it as a "burden" and "cost" of compliance to seeing it as a differentiator for the industry

Apart from the HSSE risk, the biggest risk is making the industry less attractive for future talent / generations

Need to apply the "Responsible Care for people" principle

❶ Use RC in recruitment / talent spotting > it is appealing to the young generation
❶ Young recruits will tell you whether you really live up to RC or not – so no lip service
❸ Get young recruits youngsters into direct contact with very senior leaders (as advisors/shadows)

Are you familiar with the United Nations Global Compact Initiative?
Not well-known so there is an opportunity here!

[1] Health, Safety, Security and Environment.

TABLE ③

Who decides on technology selection in your company? Are users included in the process?
Functional needs defined by business Build or buy?
- Advice (external)
- Internal or customer requirements
Other technology: 3D printing

What is the importance of customer response in your SC/Logistics competitive edge?
- Variance between needs of commodity producer and specialty producer
- Culture:
  • Manufacturing industry/need
  • Financially

Similarities between chemical industry and Zara (e.g. create own market(s))

How does SC service business and market?
Meet needs of specific customers
Volume – Saudi exports

Online orders – segmentation – silicones

④ TABLE COLLABORATION

Is your organization prepared for collaboration?
- Issues:
  - Cultural diversity
  - Trust
  - Silos: breaking down power pyramid
  - Leadership and resistance to change
  - "Size is important"
- Creation of new supply chain organizations

Do you promote collaboration between different units of your organization?
- One face to the customer
- Continuous improvement and cross-functional matrix organizations
- Internal collaboration seems more advanced than external
- Dichotomy between male and female attitudes to change

Do you develop internal communication networks like Damco?
- Social media
  - Cultural issues – but increasing level of adoption – blogs, Facebook, Twitter, discussion forums, "jammer"

Do you reward collaboration success?
- Recognition of collaboration
  - Motivational programs, joint events, traditional, classic recognition schemes, supplier awards, team awards

⑤ TABLE TALENT

How do you recruit?
A wide range of recruitment programs identified:

- Target experience in segments
- Headhunters
- Define skills/competencies and provide requirements to universities
- Bring in students – 2/3 months – then decide (Also from other internal functions)
- Graduates – 2-year training
  Businesses choose from a "pool" of graduates (diversity in USA) (also target non-USA)
- Group has trainees
  Small companies in the group pull from this pool (Train by sending internationally + experience)
- Chosen polytechnics and universities
  Projects – select
- Small enterprises have other sources:
  - Website
  - Headhunters
  - LinkedIn

Do you have talent development best practices in place?
- Training development programs
  Also internal learning sessions
  Internal vacancies – people educating people

- Education background
  Personality and experience
  Chemical engineers:
  gap / IT / SC graduates

- With new technology need higher and higher qualification and talent
  Ramping it up as above

- Talent development
  Big companies have programs – but can lose best people to rest of organization
  Medium-sized companies – more difficult

How do you retain and develop talented people?
- Career path planning
- Training and development
  (personal & SC)

- Performance management
- Recruiting
  Building bridges
  IT – project – sales
  (due to new technology)
  Process management

Regionally specific
Europe not such a problem
Asia/Middle East: difficult
Pay? All the above

LSPs: job hop in first ten years
Medium/small-sized companies – have to give opportunity to grow
LSPs: involve employees in customer projects

Diversity is an issue:
Difficulty for trucking – re: gender
Need leadership
Strong culture

FEEDBACK ON ROUND TABLE DISCUSSIONS FROM THE SPEAKERS

Following the feedback from the Chairs of the round tables, the keynote speakers had an opportunity to comment on the feedback and elaborate on any outstanding points.

On the subject of Board level representation for Supply Chain, David Gonsalvez made a very strong point that if companies spend more than 50% of their revenue on the supply chain they cannot afford not to be represented on the Board. When one takes into account the out-of-pocket expenditure on feedstock, other raw materials, freight, packaging, storage, and forwarding costs, versus Research, Selling and Administration (RS&A) expenses and variable manufacturing costs, many companies will find that the supply chain comprises the majority of their cash costs.

David also described the importance of Supply Chain to Apple, who are major recruiters of MIT graduates, but use them almost exclusively to monitor supply chain performance and improvement opportunities.

Eric Herman commented on David Gonsalvez's point about understanding your business model and securing a competitive edge. He asked if we always really know what the business model is, and what the appropriate supply chain should be.

Eric also made a point which captured the delegates' attention. He suggested that the chemical industry's Responsible Care® program should be extended to the people in the organization, as a way of connecting young people with the industry and its leadership.

Peter Marshall picked up on this point, suggesting it would be a way of connecting young people to the industry's sustainability programs. He is also a strong advocator for chemical engineers being taken through business and commercial training in order to understand the broader industry picture.

**PROFESSOR PAUL
DE GRAUWE**
LONDON SCHOOL OF
ECONOMICS
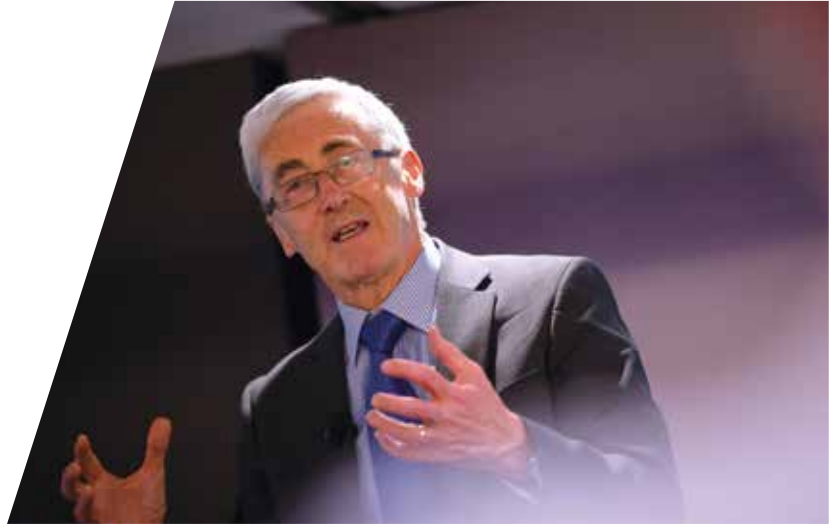
**DINNER SPEAKER AND KEYNOTE
ADDRESS BY PROFESSOR PAUL DE
GRAUWE**

John Paulson Chair in European Political Economy, London
School of Economics

"Is the Eurocrisis Over?"

In a stimulating, if somewhat sobering dinner speech, Prof. De Grauwe took the delegates on a political and economic "tour de force" of the Eurozone, covering debt, deflation, labor costs, austerity, and the design failures of the Eurozone. Prof. De Grauwe also offered some thoughts on how to redesign the Eurozone, and prospects for the future.

He pointed out that the most striking legacy of the financial crisis, and the austerity measures implemented to ostensibly repair the finances of the debtor nations, is that there is no evidence that the various programs have increased the capacity of the debtor nations to service their debt. On the contrary, tax incomes have been reduced, and debt to GDP ratios have continued to rise. Even if these countries start to run a primary surplus of 3% it will take Greece 30 years to halve the current debt level, Italy 21 years, Ireland/Portugal 20 years, and Spain 16 years. Prof. De Grauwe asked "How patient do we have to be?"

To answer the question in the title of his speech, Prof. De Grauwe made it clear that the Eurocrisis is not over, and is only likely to be resolved if the creditor nations are willing to accept debt restructuring and the Eurozone design failures are corrected. According to Prof. De Grauwe there are two fundamental design failures. Firstly, the Euro is a centralized currency without a country. This means that all other macro-economic policies are organized at the national level; where all booms and busts originate. When a boom turns into a bust the implications for the rest of the

union can be acute. Secondly, there is no lender of last resort for the government bond market. Governments of member states cannot guarantee to bond-holders that cash would be there to pay out at maturity. This lack of guarantee can trigger a liquidity and eventually a default crisis. Nothing was put in place to stabilize an intrinsically unstable system, resulting in a Eurozone split between creditor and debtor nations.

Since 2012 the ECB has assumed the role of lender of last resort with its "Outright Monetary Transactions" program, which has saved the Eurozone (at least for now). If the German Constitutional Court ruling on the legality of OMT is upheld, then all bets are off.

So what solutions are open to us?
Budgetary union. "This is needed for two reasons: firstly, such a consolidation creates a common fiscal authority that can issue debt in a currency under the control of that authority; secondly, by consolidating (i.e. centralizing) national government budgets into one central budget a mechanism of automatic transfers can be organized." This, of course, requires a far-reaching degree of political union and there is currently little desire in Europe to transfer sovereignty over taxing and spending to Brussels.

Banking union. "This is key in resolving the deadly embrace between sovereign institutions and banks." There are three components necessary for this to work, including common supervision, common deposit insurance, and common resolution. Common supervision will start at the end of 2014 through the ECB.

Finally, Prof. De Grauwe explored three scenarios for the future – optimistic, muddling through, and break up.

His view of the optimistic scenario is that it can only be found in official circles, and represents ivory tower thinking: "we simply don't have the right governance to sustain the Eurozone."

Muddling through is the most realistic scenario – policy-makers band-aid each emerging crisis, and then wait for the next. This can be sustained as long as the current politicians remain in power, but eventually it will be rejected.

Finally, the breakup scenario: muddling through will eventually hit a wall, and some countries will leave, resulting in the eventual disintegration of the Eurozone. "This has now become a scenario with some plausibility", and the only way to prevent it from happening is to take the necessary steps towards a fiscal and banking union.

Prof. De Grauwe made a special reference to the "fairness economy". Not only in Europe but in many parts of the world, there is a perception that the current political and economic systems are unfair. The likely result will be that the electorate will eventually reject unfair systems. He said "capitalism cannot survive if it is not inclusive."

To close his address, Prof. De Grauwe indicated that "The Euro is a currency without a country – if we want to maintain the Euro we have to create a single country, and if we do not want to create the country, the Eurozone is unsustainable in the long run."

There followed a lively Q&A session and animated dinner table discussions.

LEADERSHIP, PEOPLE AND ORGANIZATION 2014

THE WAY AHEAD FOR PETROCHEMICALS, CHEMICALS SUPPLY CHAIN AND LOGISTICS SECTORS

DAY 2:
TUESDAY JUNE 3, 2014

**NEIL
MOON**
AGILITY CHEMICALS

CHAIRMAN'S WELCOME AND OPENING REMARKS

Welcoming delegates, the Workshop chairperson Neil Moon briefly summarized the outcome of Day 1, and once again reminded the delegates of the need to respect competition rules by referring them to the Do's and Don'ts in the delegate pack. He then introduced the first speaker.

**ANDREW
KRIS**
FOUNDING PARTNER
BORDERLESS
RESEARCH

CONCLUSIONS OF THE EPCA/ BORDERLESS SURVEY

Despite still feeling the after-effects of the previous day's activities, the delegates' attention was quickly focused on a challenging, often light-hearted speech from Andrew Kris, interspersed with some serious messages and key take-aways.

Andrew took the delegates through a high-level review of the important messages and conclusions derived from the survey and drew on his own insights from other research surveys as well as his experience as an executive search consultant. **The main messages which Andrew drew from the survey are:**
• Attracting and retaining supply chain talent is a concern
• There are intensifying demographic, regulatory and competitive challenges
• The survey offers interesting perspectives on organizational readiness, people related policies, recruiting and retention, gender diversity, and mobility

Andrew had some strong comments to make on the apparent reluctance of the industry to look for fresh ideas outside of its own industry. If you want fresh ideas and disruptive technologies, don't go to your neighbors! The chances are they'll be working in a similar pattern to your own, with the same systems and processes – this will probably not ensure that you acquire best practices Instead he used the example of a technology company which discovered best practices from a law firm.

Andrew also reminded the delegates that the "War for Talent" was first recognized by McKinsey in 1997, but the industry still faces areas of specialist expertise which are difficult to fill – e.g. regulatory compliance. Hence there are good reasons for looking at industries, such as automotive or pharmaceuticals, which have extensive compliance experience as a source for this expertise.

Andrew looked at the top 5 producer company priorities:
• Ensuring safe operation
• Growing in emerging markets
• Developing and retaining people
• Meeting revenue commitments
• Improving productivity

"YOU CANNOT MANAGE THIRD GENERATION STRATEGIES WITH SECOND GENERATION ORGANIZATIONS AND FIRST GENERATION MANAGERS."

Sumantra Ghoshal

He understood that safe operations are clearly a priority in the chemical industry, but why isn't recruitment figuring more prominently than revenue commitments? Companies need people to achieve revenue growth, improve performance and deliver results.

He also noted that service providers rate cultural fit as the most relevant criterion when recruiting externally. The risk here is that the organization will be less open to embracing disruptive technologies, or less able to respond to them when introduced by the competition.

Companies need to consider what their people give as reasons for getting up in the morning and going to work. What is the emotional driver, the big motivator which distinguishes them from other companies, and attracts the best talent? Andrew suggested that the regular mission statement and search for shareholder value may not be the most important factor driving today's generation.

Finally, Andrew took some time to consider the issues of diversity and mobility. He noted that a high proportion of respondents in the survey had felt their companies were challenged by gender diversity, and, with his own company comprising more than 80% women, he felt well placed to discuss the issue! Borderless has a "Women on Boards" program which is designed to prepare and develop women to be 'Board Ready'. He also shared with the delegates the degree of mobility he had experienced as an executive at The Dow Chemical Company, and how that diversity was critical in preparing him for general management. He acknowledged that expats are probably three times the cost of a local employee, but companies have to make the capital investment in both assets and people if they want to achieve their growth and revenue objectives.

PROFESSOR MARC BUELENS
PEOPLE MANAGEMENT AND LEADERSHIP, VLERICK BUSINESS SCHOOL

FROM FIRST TO THIRD GENERATION MANAGEMENT: THE ROLE OF INCLUSIVE LEADERSHIP

"You cannot manage third generation strategies with second generation organizations and first generation managers." Sumantra Ghoshal

As the final keynote speaker, Prof. Buelens delivered a powerful message to the delegates on the characteristics of 1st, 2nd, and 3rd generation management and organizations. He described the EPCA survey, like other forms of market research, as one representing 2nd generation behavior, and he noted that the survey points to the need for more diversity – which by implication means more inclusive (3rd generation) leadership.

However, Marc warned the delegates that "diversity is dangerous". 1st and 2nd generation management will not feel comfortable in a 3rd generation organization where people are not motivated by corporate performance targets and mission statements.

He reminded the audience that 1st generation managers tend to kill innovation, because although the company may have "plenty of great ideas, they struggle with innovation because they need a whole hierarchy of people to have an intelligent look at those ideas." 1st generation management (as represented by the likes of Henry Ford and surprisingly Steve Jobs) also tend not to listen too closely to customers but have a clear vision of what they need to do in terms of developing and marketing their products. Marc made a strong point that there is nothing wrong with 1st generation management in itself – a safety officer at a nuclear plant, and manufacturing leaders of chemical plants need to be 1st generation!

2nd generation managers are "clever" people and therefore deserve respect, they set the strategy, design the structure, and impose controls through performance appraisals and individual goals (Management 101).

However, in a 3rd generation organization it has to be acknowledged that smart people are often found outside the company itself: 'Nerds' want to be on the outside. "A third generation environment favors collaborative networks, effective knowledge transfers and game-changing innovation." Marc shared the example of Rob McEwen and the Goldcorp challenge. He stunned the gold mining industry by sharing his company's proprietary geological data so that people all over the world could do the gold prospecting for him. McEwen hoped that outside experts would tell him where to find the next six million ounces of gold. In return he offered $575,000 in prizes to the participants with the best methods. Word spread fast around the Internet and within a few weeks submissions came in from all over the world as more than 1,000 virtual prospectors chewed over the data. In all, more than 110 sites were identified, with 50% of these being previously unknown to the company. Of these new targets, more than 80% yielded significant gold reserves. McEwen believes that this collaborative process cut two, maybe three, years off the company's exploration time. And the value of this gold has so far exceeded $6 billion. The prize money was only a little over $500,000,

so it was a fantastic return on investment, and much cheaper than continuing with unproductive exploratory drilling.

By venturing outside his company's walls McEwen turned Goldcorp from a struggling enterprise into one of the most profitable in the industry.

"There is always a larger number of smart people outside your enterprise boundaries than there are inside." Don Tapscott

In a similar move, P&G slashed one third of its R&D organization and moved it to Innocentive – as Marc said, "it's not just a little bit of this, and a little bit of that."

Inclusive leadership means giving all your people a voice, because a 3rd generation organization is a learning organization, based on shared information and self-regulation. But how do you unleash the creativity of your organization without risking anarchy? How do you convert brilliant ideas into successful products without the structure of a second generation organization?

Marc felt strongly that "modern companies face the challenge of focusing on developing

a climate of inclusivity, because only this will make diversity work. On the other hand focusing on diversity will not create inclusivity."

Marc left the delegates with some ideas on how to build an inclusive, 3rd generation organization.
• Start from the most demanding clients
• Think collaboration
• Build infrastructure to enable real communication
• Embrace unusual talents, but diversity without inclusion will not work
• Go for squads, not teams
• Simplify

(Some of these are themes which EPCA has been expounding for a number of years)

ROUND TABLE DISCUSSIONS

At this point the delegates joined tables of around ten people to consider the following questions, and report back to the whole group. The responses are summarized below:

TABLES 1, 2 AND 3
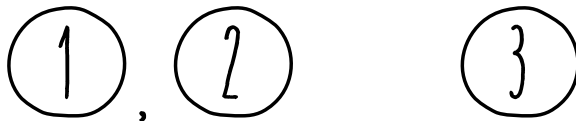
People & Talent

Hires for specific functions / long-term
- Majority hires with long-term perspective
  - Investment in people, capability to move
  - Different backgrounds required
  - Geographic diversity / remote working
  - Technology to foster geographical diversity
- Career path for specialists
- Generalist equally needed
  - Difficulty to move specialists (set their passion free)
- Look at centers of interest and build on those curiosities
- Look for talent outside our borders
- Looking for people who challenge, bring fresh ideas, and the ability to surprise may not always gel with the need to bring effective results

Mobility
- Mobility important to grow people, broaden experience, give response
- Main success factor
  - Family support with professional tools and expertise
  - "cost/financial" investment to be accepted

Diversity
- Value and importance of diversity is acknowledged
- Subtle/open discrimination still there
- Respect and capability to embrace diversity under development
  - Actively working to hire diversity
  - Push to implement is specific to the situation
- Diversity is much more complex a question than originally thought (need to look at all aspects of gender, ethnicity, sexual orientation, generation, individual values, ideas)
- Large international corporations need to address the challenge of building internal teams / local leaders understanding the head office but dealing with issues in the local culture
- There can be a dichotomy between short and long-term goals
- There can be practical challenges – working hours vs. personal preferences, longer time for alignment and decision-making
- Leadership is critical – if diversity is not a priority for the leadership team, it won't be further down the line

Excellent example: Dubai port: remote crane operations to attract women crane operators

Leadership
- Give people a chance to explore their ideas (electricity)
- Celebrate people
- Learn to deal with conflicting "new ways" vs. "traditional ways" (consensus/speed)

3rd generation
(including Table 4 comments)
- How relevant is it for the chemical industry? There has to be a balance between 3rd generation and the needs of the industry (1st and 2nd generation controls, structures, processes, and procedures)
- "With smart targets, we lose our dreams"
- Select areas where 1st and 2nd generation structure must prevail + areas where 3rd generation is possible
- Is it possible that strong leaders will eventually develop in the same direction > an evolutionary process that 3rd generation might develop into 1st and 2nd generation?
- There is a need to create a culture where "rebellions" can be nurtured for the benefit of the company
- One table polled the readiness of their organizations for 3rd generation: 30% Yes; 60% Undecided; 10% No
- The new organization has to reconsider the status of salaried workers
- Does 3rd generation put the unity of the organization at stake?
- Future business growth is in markets with a younger population mix – is the younger generation ready to embrace 3rd generation organizations?
- "What got us here will not get us there" - 3G thinking will help the industry to "beat the challenges" in mature markets. How do you educate people when the jobs of today will not be those of tomorrow? Do you let people use the internet?
- Create an environment which attracts brainworkers: food, open-plan, brand and reputation ("Nerds march on their stomachs").
- 3G is uncomfortable; need to build trust. People want light-handed leadership. Unleash creativity but not anarchy
- The relationship between producers and 3PLs is a traditional 1st and 2nd generation. Can we move together towards 3G?
- How do you mentor and coach in 3rd generation? Do you need to? Do you simply allow leaders to emerge rather than be appointed?
- Converting brilliant ideas into products usually needs 2nd generation processes with "squads", not teams

4 5

TABLES AND

Innovation & Technology

- All delegates saw innovation as a key driver of success
- Most innovation comes from "bottom up" – so need to make all people count
- Innovation coming from the coal face. EPCA drivers workshop showed they were completely in-tune with 3PL management
- But middle management often a barrier! Young people soon fitted into 1st and 2nd generation mould, "contaminated" by conservative environment in chemical industry
- 3G is in teams/squads. Challenge is following through on ideas from empowered teams + today's virtual teams. How to achieve inclusivity in virtual teams?
- "Right to make mistakes"
- Change of ownership issues – private equity may not have the long-term vision
- Continuous improvement through constant challenge
- Pockets of culture create friction-threat, or tolerated at the most
- Current economic uncertainty not conducive to 3G. Ideas + thinking
- "Generation Y" initiatives – but many companies prevent access to online social networks and the internet – negative impact on reading and training
- How do we dissolve hierarchy without losing support from the people?
- How often are decisions made at the top, and then people told to find innovative solutions? Macro vs. micro approach - micro approach is usually more innovative
- How quickly can innovation be copied? – But not an excuse not to be innovative!

FEEDBACK ON ROUND TABLE DISCUSSIONS FROM THE SPEAKERS

Following the feedback from the Chairs of the round tables, the keynote speakers once again had an opportunity to comment on the feedback and elaborate on any outstanding points.

Professor Marc Buelens reiterated that a 2nd generation company is not a learning organization. In order to move to the 3rd generation, companies have to introduce a radical rule or rules: e.g. the Google rule which says that for 20% of the time you can do what you want. Another company introduced a bonus scheme whereby half of the bonus would be based on the performance of the weakest performing business unit. As a result internal collaboration improved as the top performers shared information with the weaker units in order to raise the overall corporate performance level.

Andrew Kris encouraged companies to look for the difference which will inspire young people to join the business. There has to be something special which generates emotional attachment. Contradictory or hollow Vision and Mission statements which often do no more than state the obvious are not the answer.
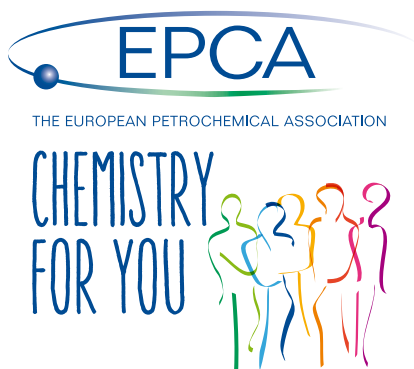
Peter Marshall felt that there are times when management has to put themselves in the place of the minority to understand a contrarian viewpoint. There are occasions when this may lead to a counter-cyclical decision which is necessary in order to do something different and distinguish the company from the mainstream.

David Gonsalvez concluded that an organization must be constantly offering challenge and opportunity if the motivation in the organization is to be maintained. With respect to diversity he used the General Motors example where, in the case of equal candidates, the candidate offering the greatest diversity would get the vote. He strongly believes that there need to be actionable policies in place (not just the right sounding corporate statements) if real progress is to be made on diversity.

EPCA IN ACTION