OCTOBER 2013

McKinsey Quarterly

Tilting the global balance: An interview with the CEO of Solvay

The Belgian company is reshaping its portfolio to focus harder on fast-growing markets.

Many companies talk about placing a greater emphasis on emerging economies. Solvay, with headquarters in Brussels, has acted decisively in this respect—first by freeing up resources through the €5.2 billion sale of its core pharmaceutical business in 2010, then in 2011 by acquiring Rhodia, a French rival with an enterprise value of €6.6 billion. Rhodia complemented Solvay's chemical portfolio and added a substantial Chinese business.

Responsibility for directing Solvay's latest international expansion lay initially with Christian Jourquin (CEO, 2006–12) and, more recently, with Jean-Pierre Clamadieu, who had been Rhodia's chairman (2008–11) and CEO (2003–11) and became head of the enlarged group in May 2012. Mr. Clamadieu won many plaudits in his native France a decade ago for leading a radical restructuring at Rhodia, and the task ahead is more complex and no less challenging. He recently talked with McKinsey's Hervé de Barbeyrac and Ruben Verhoeven about the importance of strategic agility, radical plans for the group's top talent, the dangers of "sequential" thinking, and the appropriate role for a global CEO seeking to build a fresh culture.

The *Quarterly*: *Can you summarize the rationale for the Rhodia acquisition?*

Jean-Pierre Clamadieu: I think it was very unusual for a group like Solvay to sell its pharma business without having a specific target in mind for how to spend the proceeds. There was a clear understanding in 2009 that Solvay did not have the scale or the innovative potential to grow in pharma—and an equally firm belief that the group had the fundamentals to succeed in chemicals with the right acquisition. But there was nothing more than an agreement in principle to reinvest in that sector. In my view, that could only have happened because of the controlling shareholding of the Solvay families. Over the past 150 years, these shareholders have demonstrated their commitment to a long-term strategy for the business. In most companies, investors would have wanted their money back and asked for a special dividend.

The *Quarterly*: *How important was it for Solvay to increase its exposure to emerging markets?*

Jean-Pierre Clamadieu: Solvay was too much tilted toward Europe, so this was a significant factor in the choice of Rhodia. If things go according to plan, by the end of the year we will end up with one-third of our sales in Europe, one-third in Asia, and one-third in the Americas. That will be a unique position in the global chemical industry. Asia gets a lot of attention these days, of course, but we shouldn't forget that North America is also a very attractive market because of the very favorable energy scenario which has developed there over the last three to four years. Energy is the key input factor for a large number of our chemical products.

The *Quarterly*: *How do you ensure that Solvay stays focused on these high-growth opportunities?*

Jean-Pierre Clamadieu: The fact that our headquarters is in Brussels and that our top team is still largely European in origin and culture means it is a challenge. We're organized into global business units, or GBUs, not regions, so it is up to each GBU separately to make sure that it has a clear strategy for what Asia and Latin and North America can offer. The job of the corporate team, meanwhile, is to give GBUs the right amount of resources and make sure we exploit our group synergies.

Twelve of our 17 GBUs already operate in Asia—an example is our specialty-polymers business, for which the region is a particular priority. That global business unit has grown historically out of Europe and North America, but it's likely that 40 percent of its sales will soon be in Asia. So the business is scrambling to develop its Asian teams, something that is certainly much easier thanks to the fact that Solvay, as a group, already has around 5,000 people in Asia, of whom about 3,000 are in China. We also have assets, like our large R&D lab in Shanghai. We have some excellent Chinese executives in the other businesses who are helping with the recruitment.

The *Quarterly*: *Is talent a constraint in these markets?*

Jean-Pierre Clamadieu: Solvay has been in Brazil for more than 90 years, China for about 30, and South Korea for 35. In all these countries, we have mostly locals in the key jobs. We bring Westerners in for short, very specific assignments, but the days of sending expatriates in large numbers are largely past. The challenge is that whereas 30 years ago there were few Western companies in a country like China, today most multinationals are there, Chinese companies are developing very fast, and the job market is very competitive. We have to work harder than ever to demonstrate that we can offer local talents a rewarding and exciting career path and opportunities to develop their skills.

The *Quarterly*: *How do you get the best people in the Solvay group as a whole matched with the most exciting opportunities in the business units?*

Jean-Pierre Clamadieu: In some ways, capital is easier to reallocate than people—you can sit in Brussels, look at the annual capital flows of the different businesses, and act accordingly. With people, there is always a tendency to manage in geographic or business "silos." That's why we have recently established a new principle: that the top 300 people in the group are corporate assets. That means we will take a corporate view, obviously in discussion with the GBUs, about the best role for these key individuals. The tendency up to now has been for each business to want to hang on to the good ones. In my view, though, it's important that we offer our top people the chance to contribute to different businesses and acquire different know-how. I am still rather amazed when I travel around and someone says, "This guy started his career in chemicals; now he is in plastics. That's incredible!" This should be the rule, not the exception.

The *Quarterly*: *How do you actually manage the capital-reallocation process?*

Jean-Pierre Clamadieu: Following the acquisition of Rhodia by Solvay, we ended up with a large and diverse set of activities, so it was important to establish at the outset the strategic intent for each one. Which ones would be growth engines? Which ones sustainable cash generators? And which ones were struggling?

This exercise led to the development of what we call a five-year strategic road map, which we will update each year. In some cases, that update is simple because things have worked out much as we expected; in other cases, it calls for a brand-new road map because the industry environment has changed. The annual review allows us to see where the units are allocating their resources, which ones

Jean-Pierre Clamadieu

Vital statistics

Born August 15, 1958, in Chambéry, France

Education

Graduated with a degree in engineering in 1983 from the *École Nationale Supérieure des Mines de Paris*

Career highlights

Solvay (2011–present)

CEO (2012–present)

Vice chairman of the executive committee (2011–2012)

Rhodia (2003–11)

Chairman (2008–11)

CEO (2003–11)

Fast facts

Awarded the title of *Chevalier* of the *Légion d'honneur* in 2005

Serves as chairman of the *Mouvement des Entreprises de France's* (MEDEF) Sustainable Development Commission

Serves as a vice president on the board and executive committee of the European Chemical Industry Council

Sits on the board of directors for Faurecia and AXA are generating cash, which ones consuming cash, and whether the overall financial equation makes sense for the group. Out of this, we are able to see where the capital is flowing and what capital expenditure is required for the individual GBUs.

These annual discussions are intended to send a clear signal to the different management teams: if we agree that you are going to grow, tell us what resources are needed; if we agree that you are there to generate cash and maintain your industry position, you equally know what's expected. Where businesses are struggling—which inevitably they are in the economic environment of mid-2013—you have to make midterm strategic adjustments. An example of this is that by the end of the year, we hope to have constituted a 50–50 joint venture in polyvinyl chloride with INEOS, a leading industry player.

The *Quarterly*: *Do you think managing this sort of change is more difficult in Europe than in North America?*

Jean-Pierre Clamadieu: It is true we have certain regulations, particularly social ones, which make movement and change more complex. But this is just the way everyone in Europe has to operate. Europe has its place, and exciting things are happening here too. A significant number of our R&D facilities are located in this region, we have excellent relationships with universities here, and innovations continue to flow from our European labs. Even though automotive-industry volumes are suffering in Europe, it is still by far the global leader in technology and innovation. When our businesses come up with innovations linked to automotive, the first markets to respond are in Europe. The reality of Solvay is that we are based in Europe and we have a European culture. There is no reason to fight that reality. We have to fight to maintain the competitiveness of our operations here, and we can't and don't want to put chemical assets on a boat and ship them to Asia or North America.

The *Quarterly*: *How do you manage your own time to keep that global perspective?*

Jean-Pierre Clamadieu: I obviously travel around the group. But I am starting to wonder if the classic two- to three-day business trip is still the right way to get this sort of global exposure. For the moment, the priority for Solvay's executive committee is probably to spend time together and to learn to work as a team. The next step, though, could be for members of the top team to spend more significant amounts of time in different geographies. Two to three weeks in a place like Shanghai or Singapore, for example, allows you not only to sit down with local managers but to get to know key suppliers and customers.

I find it quite frustrating when I look at my calendar and see so many dates for next year that are "must do." It's good to organize ahead, of course, but doing so sometimes inhibits flexibility. I am sure it's going to make more sense in the future to take longer trips, and I am now starting to prepare for 2014 with this mind-set. A couple of months ago, I met the global COO of a large Europe-based consumer-goods group who is based permanently in Singapore. After a couple of hours with him, I realized how being based in the European headquarters of a global company gives you a completely different outlook. I am not planning to move to Singapore, but with the benefit of high-quality video and other technology, these days I think we need to spend less time at HQ and longer periods in different regions of the world.

The *Quarterly*: *How do you think about your own role in the transformation?*

Jean-Pierre Clamadieu: Broadly speaking, there are two types of things that I can do as CEO of a global group like Solvay, and it's very important to keep a balance between them. The first is what I would describe as conceptual work: developing strategies with colleagues, preparing plans for better operations and processes, thinking about the appropriate interventions to change the culture. The second role is to be an active change agent in aligning people's energy with the group's priorities: meeting employees, meeting customers, meeting public officials. There's an important loop here—what I get out of an interaction with stakeholders informs the next conceptual exercise and vice versa. It's what makes the job fascinating and rewarding. One day you are thinking about high-level strategy, the next day you are at a plant explaining to people why they should follow you.

In the 18 months since the integration of Solvay and Rhodia got under way, we have pushed ahead simultaneously on developing a common culture for the enlarged group, on devising a new strategic direction for the businesses, and on driving operational improvements. It would have been easier for us to have moved sequentially—to spend the first two years on integration, the next two on operational excellence, and then get around to thinking about strategy and portfolio management in years five and six. Our markets are changing quickly, and there is no alternative but to move forward in parallel. The destination is probably changing as fast as we are moving.

The *Quarterly*: *Solvay celebrates its 150th anniversary this year. Has this prompted any reflections?*

Jean-Pierre Clamadieu: There is a saying that nice trees have strong roots—and I think that's a good image. It's interesting that in the same year, we can both celebrate our 150th birthday and make important changes. The history makes me more confident that the transformation will be successful. Looking back, the group has taken many different turns and made many breakthroughs.

Some people think that for the first 150 years of Solvay's existence life was nice and simple and that now everything is changing. That's just not the reality. Before World War I, we were already very international—indeed, we were the largest multinational in the world—but over the years we have faced a lot of challenges and entered and exited many businesses. The one constant is that we have been supported by long-term-minded family shareholders. My mandate is very clear: to carry out the necessary actions so that in 20, 30, and 50 years Solvay remains a leader in the global chemical industry, an industry that is likely to be very different from what it is today. o

This interview was conducted by **Hervé de Barbeyrac,** an associate principal in McKinsey's Paris office, and **Ruben Verhoeven,** a director in the Antwerp office.