

# LESSONS FROM A CEO: *Making a mega-merger work*

## AN INTERVIEW WITH HEXION CEO CRAIG MORRISON



Craig Morrison

Any merger comes with its share of challenges — identifying the right leadership team, retaining key people, building common systems and processes, and establishing a vibrant culture that supports the strategy of the new company. Hexion Specialty Chemicals embraced these challenges — multiplied. Shortly after it was formed in 2005 through the merger of Borden Chemical, Resolution Performance Products and Resolution Specialty Materials, and the acquisition of Bakelite, Hexion also absorbed the decorative coatings and adhesives business of Rhodia Group, the wax business of Rohm and Haas, the ink and adhesive resins business of Akzo Nobel, and the adhesives and resins business of Orica as well as Arkema. Following a phase of integration and restructuring in 2006 and 2007, it pursued, ultimately unsuccessfully, the acquisition of Salt Lake City-based Huntsman Corporation.

Today, Hexion is the third-largest specialty chemical company in the world with annual sales of more than \$6 billion. It is the world's largest producer of thermosetting resins and has a leading position in various end-markets and geographies.

### HEXION SPECIALTY CHEMICALS AT A GLANCE

- > The company serves the global wood and industrial markets through a broad range of thermoset technologies, specialty products and technical support for customers in a diverse range of applications and industries. Its resins are used in bonding, binding and coating applications in a multitude of industries and for thousands of end-use products. The company is organized into three divisions: Epoxy & Phenolic Resins, Coatings & Inks and Forest Products.

**Headquarters:** Columbus, Ohio

**Revenue:** \$6.1 billion (2008)

**Employees:** Approximately 7,000 employees worldwide

**Geographic reach:** Hexion has 94 manufacturing facilities in the Americas, Europe and Asia Pacific region

**Ownership:** Hexion is owned by an affiliate of the private investment firm Apollo Management

- > “The degree of volatility and the rate of change are unprecedented in our lifetime. The challenge for any senior leadership team is to build an organization that is flexible and robust enough to successfully manage within this type of dynamic environment. Business processes and leadership skill-sets will have to continue to evolve at an increasingly rapid rate for one to be successful. The ability to accurately assess and face up to this challenge will ultimately determine success or failure. Risk management, strategy and organizational development skills will be at a premium.” — Craig Morrison

Hexion Chairman and CEO Craig O. Morrison led the merger and subsequent integration of the businesses. Prior to joining Hexion, Morrison was president and general manager of Alcan Packaging's Pharmaceutical and Cosmetic Packaging business.

Morrison provided his perspective to Spencer Stuart consultant Wolfgang Zillessen on the challenges of the integration, his top priorities for the business and how his team kept the organization focused on day-to-day operations amid the disruption of the merger.

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**What challenges did you expect in creating Hexion at the time when you accepted the job as CEO?**

Obviously, we knew that simultaneously merging four companies would be very challenging with a high degree of risk. One of the most immediate challenges was identifying and selecting the top two layers of management in the organization. Sixty-five percent of the organization came from one of the other companies, and I had no familiarity with their management teams. Getting to know the organizations while simultaneously moving in an expeditious manner was a significant undertaking. The second challenge was around retention of key personnel. Whenever a merger is announced, a big risk is the potential loss of the most talented people. Clear communication around the logic of the merger and the opportunities embedded in the new organization was essential in our case. The third challenge was to ensure that we identified the right list of projects to achieve our synergies. Making wrong decisions on site closures or organizational structure could have unintentionally destroyed significant value. Finally, while driving the above changes, we had to ensure that we didn't lose sight of serving our customers and meeting our financial commitments.

**How would you describe the sequence of events or major milestones completed since the creation of Hexion?**

Clearly, the first major milestone was designing the organization and selecting the senior management team. This activity was our top priority following the merger in May of 2005 and took place throughout the remainder of that year. A second significant milestone was to install a common SAP-based information system and surrounding business processes. This initiative began in 2006 and was critical to driving a culture that was process and data driven.

In the latter part of 2006, we began to reassess our strategy, and the resulting strategic plan eventually led to the announced Huntsman merger. Ultimately, that merger didn't take place, but it sent a strong message to the organization that forming Hexion was the first step of a larger strategic plan. Throughout the merger process, there were also quarterly and annual financial milestones which were critical to maintaining credibility with our owners, Apollo, and outside constituencies such as bondholders and analysts.

**What were your main priorities when you first arrived and why? What were some of your earliest decisions?**

The first order of business was to get out and meet with the various parts of the organization. This was critical from a communication, familiarization and assessment standpoint. People were extremely nervous about where they stood as a result of the merger, so senior management visibility was very important. The second key priority was to execute a multi-phased communication plan to explain the rationale behind the creation of Hexion to both internal and external audiences. The third priority was to ensure that we kept the car on the road as we worked through a very time-consuming and distracting merger process.

The earliest decisions associated with our initial priorities focused on the organizational structure

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and selecting the top two to three layers of the organization. The other key time commitment was the project selection and tracking process for meeting our synergy targets.

**How did you build your management team in the first place given the many corporate cultures you needed to integrate?**

The first critical decision was to identify the core cultural values for Hexion. This was a process that involved senior managers from each of the four companies. I have witnessed a number of very successful organizations with very different cultures. However, a common element of their success was that they had a consistent set of cultural values. Identifying our values and understanding the type of culture that we wanted to drive was a key part of the process.

Once our core values were identified, two critical elements of the process followed: Determining if a particular leader was a good fit within the culture that we were trying to establish and whether or not he/she was capable of delivering on operational commitments. Having only one of these two criteria was insufficient for building a successful company; we needed leaders who were on board with our strategic plan and who had the ability to deliver the results we were committed to.

**What were the right qualifications for a leader on your executive team?**

The environment demanded leaders who were comfortable with an accelerated rate of change. The combination of private equity ownership, a four-way merger and volatile market conditions required executives who could operate well in an extremely dynamic environment. At the same time, we needed people who were process-oriented and analytically driven. Hexion was made up of a very disparate set of corporate cultures and processes. We needed to quickly create a common methodology for running the business, and we needed leaders who were

capable of implementing those processes. Possibly most important of all, we needed leaders who could accurately assess people and knew how to build a team. Ultimately, their ability to execute would be dictated by the organizational capability that they developed. The last trait I looked for was a strong results-driven orientation blended with an ethical commitment to get the job done in the right way.

**Given the sequence of events, how did you keep your organization motivated and focused on innovation, clients and markets?**

There were a number of important elements. One of our key success factors was identifying a core group of senior managers who could concentrate on the integration process thereby allowing our general managers to focus on associates, customers and running their businesses on a day-to-day basis. Of course, they would also be involved at the appropriate time to provide input to the process.

The second thing we did was to structure the company around specific business units with profit-and-loss responsibility. We developed common functional processes and, at the same time, created manageable business units and pushed decision making down into the organization. Again, this allowed those closest to the market to remain focused on driving the business results. The last critical action was developing an incentive compensation system that aligned with our financial and marketplace objectives. Obviously, merging four companies simultaneously was a very disruptive process. I give our organization a tremendous amount of credit for staying focused during the initial 18 to 24 months when so many difficult decisions were being made and executed.

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**What were the major obstacles that you had to overcome in building Hexion?**

The most significant challenge was to get the organizations to accept and buy into the culture that we were trying to drive across Hexion. In some cases, they were very different from the legacy cultures that existed. Most leaders will say that they are process-oriented, participative and results-oriented. However, there may be a very large variance in how effectively they focus on those elements. Our objective was to identify leaders who could walk the talk and deliver results. Some adapted very easily and accepted a new way of running the business; others were unable to adapt and eventually left the company. The second related challenge was to assess the appropriate rate of change. It is one thing to know where you want to go; it is another thing to appropriately pace the rate of change so that you get there in an acceptable time frame. The final challenge was to communicate often enough, using a variety of communication tools, to get our key messages across to the organization.

**Did you have a big picture in mind right at the beginning and how far did it have to be adapted as you went along?**

There was a very clear strategy behind creating Hexion. The initial four-way merger and subsequent bolt-on acquisitions were all in line with that strategy and it eventually led to the attempted merger with Huntsman. Although the merger attempt was not successful, it was entirely consistent with our strategic objectives. The fundamental direction of the strategy to use Hexion as a growth platform has remained consistent. However, as the global economy and credit markets evolved, key elements of how we could execute that strategy changed dramatically and inevitably opened up or limited our options. So, there is a natural ongoing strategic assessment process that must take into account current market conditions, limitations and opportunities. As dynamic as the market has become, strategy is anything but stagnant.

**Looking at the history of events, what if anything would you have done differently over the past couple of years?**

In hindsight, having gone through significant organizational change and facing adverse outside market conditions, there are certain decisions that I would have made differently. For example, in some cases, key hires that we made did not work out the way we had anticipated and people had to be replaced over time. Also, the timing on the Huntsman acquisition and the developments in the global economy did not work out the way that we had hoped. We modeled recession scenarios, but did not accurately project the depth of the recession or its combination with a severe credit crisis. There are other situations where I would have preferred different outcomes, but the above examples are representative of events that we would have handled differently in retrospect.

**What personal qualities, skills and experience are most valuable to the CEO? What experiences from your past have you drawn on most often as a CEO?**

To me, the most critical skill is the ability to assess, build and develop a team. As a CEO, real leverage comes from working through others; you are only as good as the team that you build around you. A second key skill is the ability to effectively communicate internally and externally. I once heard a very successful CEO say that his most critical skill was that of being an actor, telling a story in a convincing way so that people understand the message and buy into the objective. A third skill that is becoming increasingly critical is the ability to assess and manage risk. The world is changing so quickly that not continuing to evolve and keep up with the pace of change may prove to be the greatest risk of all. I think this is proving to be true across all industries and is most certainly true in the chemical industry.

In terms of drawing on my background, I am fortunate to have operated in a variety of world-class organizations. As an aviator in the Marine

Corps, I learned that risk was a natural part of the job and that making rapid, analytically based decisions was an inherent part of the job. Those who couldn't did not last very long in that environment. While working at GE Plastics, I felt that I was in one of the world's premier organizations for assessing and developing talent. I learned a tremendous amount about organizational development and selecting people. I also learned the importance of owning up to and correcting mistakes when you make them. While working as a consultant at Bain & Company, I learned a great deal about developing a strategy and how to effectively communicate to a wide variety of audiences. I've drawn on each of these experiences repeatedly during my tenure as CEO.

**What are your key leadership challenges for the future?**

In my opinion, the greatest challenge facing management today is the degree and speed of change that is occurring across multiple fronts. All you need to do is to look at the volatility over the past five years in raw materials, credit markets, Western end-use markets and the rapid growth of the BRIC countries. The degree of volatility and the rate of change are unprecedented in our lifetime. The challenge for any senior leadership team is to build an organization that is flexible and robust enough to successfully manage within this type of dynamic environment. Business processes and leadership skill-sets will have to continue to evolve at an increasingly rapid rate for one to be successful. The ability to accurately assess and face up to this challenge will ultimately determine success or failure. Risk management, strategy and organizational development skills will be at a premium.

**What other lessons learned would you like to share with executives in similar situations?**

Two key lessons that I learned at GE have been validated at Hexion. The first is that we frequently underestimate the degree of change that an organization can handle. I have been amazed at the resiliency of our organization even as we managed through a four-way merger. At times, I felt like we were pushing beyond acceptable limits and yet the company continued to meet the challenge.

The second lesson has to do with the critical nature of selecting and managing the development of people and the organization as a whole. Jack Welch used to constantly preach that everything else is irrelevant if you don't get the right people in the right job. That has most definitely been verified at Hexion. When we made the right choices, all other elements seemed to evolve as planned. When we didn't get it right, invariably everyone was forced to manage one layer below. These points are probably obvious to most leaders; however, it is amazing how challenging it can be to effectively execute the obvious.

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*Based in Frankfurt, Wolfgang Zillessen is a member of the firm's Industrial Practice and leads the global Chemicals Practice.*

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