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Altana CEO reflects on first year in role

Martin Babilas took over the role of CEO at Altana at the beginning of this year, and he spoke recently to *CW* about his experience after almost one year in the job. His previous responsibility was as CFO, and he has been a member of the company's management board for almost 10 years. Babilas replaced Matthias Wolfgruber, who retired as CEO after 13 years, and during whose time at the helm the company grew by a factor of three in terms of sales and profit.

After 18 years working at Altana, Babilas has had plenty of time to become fully acquainted with the company, its businesses, and the industry. The decision to make Babilas CEO was taken in the middle of last year, giving him some time to prepare for the transition, but there are distinct differences in the roles of CEO and CFO, he tells *CW*. "The level of difference is something you cannot entirely prepare for," Babilas says. "The viewpoint is different: as a CFO you concentrate on performance and risk, [whereas] as CEO it's more about growth, strategy, and people. Decision making, communication, and leadership, I would say are the most important factors," he says. The CEO is the last link in the management chain, with a level of responsibility that comes with the job. Communication takes place on a whole different level because of the number and variety of stakeholders. The CEO is also a point of orientation for people inside the company and, to a certain degree, outside.

In addition to the change in CEO, Altana added two members to its leadership team in the middle of last year. Babilas used the leadership changes as an opportunity to reconsider what keeps the company going, what are its strengths, and what it should keep in terms of continuity. But he also took the opportunity to focus on what Altana needs to change, to continue to be successful. An agenda was developed that focuses on the medium-to-long term—the next 5–10 years—the main objective of which was to incorporate a good balance of continuity and change. "We have called it our Keep Changing Agenda, because that term, keep changing, incorporates pretty well the balance between continuity and change," Babilas says. The agenda is to set the main direction for the company and to prepare it for a continuing successful future, he says. The company used broad internal input including an intranet survey with input from management through to workers, to set priorities and areas to concentrate on.

Five main areas were selected as points of focus: to accelerate the company's growth; further differentiate through innovation; focus the organization even more on value creation; advance company capabilities; and help people develop personally. Given the prevailing tough macroeconomic environment, Altana wants to grow faster, especially under its own steam. Additional differentiation will take place through more innovation and increasingly through sustainability. "That is a topic that will be a great opportunity for our industry, but especially for our company," Babilas says. The third point involves a focus on the organization, to create additional value by ensuring that every Altana employee is concentrating on the area where he or she can deliver the greatest value, according to Babilas. The fourth is to advance capabilities in distinct areas within the organization, to take those capabilities to the next level and add competitive advantage. "Last but not

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least, we want to mobilize our people even more,” says Babilas. By this he means enabling people to develop personally, to assume new responsibility, and to increase diversity in Altana’s leadership teams. The company set a target of having women present in leadership teams at a level that reflects the proportion of women in the company overall. The level of women in leadership teams is currently about 20%, compared with roughly 30% across the company as a whole, “so there is certainly some way to go,” Babilas says. “We want to close that gap, especially by enabling women within Altana to develop further and faster than has been the case in the past,” he says.

As an international company, with less than 15% of sales in Germany, and most of its business even outside Europe, Altana wants to ensure that the representation of people from a background that is neither German nor European mirrors the multinational nature of its business. The company’s divisional management teams are already at a level where there is a high degree of international representation. “At the corporate and top management level we still have some way to go,” Babilas says. “But we want to close that as well.”

Altana’s organizational structure is a divisional one, with a decentralized management model. “There are some cornerstones of our strategy that are the same for all business activities within Altana,” Babilas says. “We have a common infrastructure to operate from, but we also want to bundle activities where it contributes value even more, across all the divisions,” he says. The divisions at a high level of strategy function independently. Most of the key elements of a value chain, starting from procurement and raw materials, to selling a final product and everything that occurs in between takes place in the company’s divisions. The divisional organization allows the company to be fast, flexible, and close to its markets and customers, according to Babilas.

Altana concentrates its business activities on growing specialty markets that allow the company the potential for differentiation. “That differentiation potential is exploited in particular through innovation and service, which are the main drivers of Altana’s business model,” says Babilas. Altana is a customer-centric organization, where the customer and the needs of the customer are the starting point for everything the company does. “In our business fields we typically have a global reach, and within our global markets we typically command a leading market position,” Babilas says. “That is true for the vast majority of our business activities,” he adds. These aspects are the cornerstones of the business model, for Altana as a whole and for the strategy of each division. Within that framework, every division has its own distinct strategy. Overall, the challenge is to generate lasting competitive advantage, he says. Altana’s strategy determines what products, technology, and service offerings the company will offer to its customers, in the respective markets, and how to set priorities in terms of applications, in terms of regional markets. “These aspects are the core questions that every strategy needs to answer, and these aspects are actually different from division to division,” he adds.

Altana has, during the last 10 years, managed a healthy level of annual growth, averaging 9%. Roughly half of that has come from acquisitions, and the rest from organic activities. During the last five years, the organic growth rates especially have decreased, as a result of the much more sluggish growth environment, compared with the years before the financial and economic crisis in 2008-09. Altana has defined a target of 5% growth on average, coming from its own activities, roughly double the level that it has reached during the last five years. “We are confident to be able to realize that growth rate because differentiation is an important driver of our business model,” Babilas says. “We invest much more than the industry average in R&D, and we are confident that this will give us a premium on the growth compared with that of the industrial environment in general.”

Within Altana’s growth agenda the company has defined certain action areas. The company intends to concentrate even more on its significant customers, its key accounts, and group accounts, to accelerate growth. It also plans to step up activities in business development, which means introducing products and technology that the company has developed into new application fields, to tap into additional growth. The company will also concentrate on the growth contribution from emerging markets, as it sees the macroeconomic environment recovering in these regions. “We will also continue to engage in acquisitions, not only to complement our portfolio, but to tap additional growth opportunities,” Babilas says.

Altana today is organized into four divisions: BYK additives and instruments, Eckart effect pigments, Elantas electrical insulation, and Actega coatings and sealants. Matthias Wolfgruber, Babilas’s predecessor as CEO, told *CW* that he would have liked to add a division to Altana. Babilas concurs. “The key elements of our strategy, the cornerstones, can also be applied to other businesses within the specialty chemicals universe,” he says. Altana’s organizational structure and business model are scalable. The general objective to complement the company’s portfolio by an activity that makes up a fifth division is still there, according to Babilas. The company nevertheless has stringent criteria for acquisitions in general and, in particular, to the idea of adding a business division. There has to be a strong and healthy fit, and it must fit within Altana’s strategic framework. The company also uses strict value-creation criteria, such that an acquisition has to make financial sense and contribute measurable value to Altana. Integrating an acquisition must also create value and generate synergies. “Only if these criteria are met then we are ready to go ahead,” says Babilas. “The criteria are fairly ambitious, because we believe in the attractiveness of our current portfolio, and the last thing we want to do is to compromise that by entering a new business field that does not really fulfil these criteria,” he says.

The current macroeconomic environment is a major challenge for Altana, according to Babilas. But he says the company’s business model provides an opportunity to find growth pockets and outgrow the market. “And that is our aim, ultimately,” he adds. A challenge that is more internal to the company is the targets it has set in terms of people mobility, and diversity. But providing people with further development opportunities will add to the company's growth. “These top challenges certainly also apply to all of our four divisions,” Babilas says.

Below that big picture, there are individual challenges that the divisions are facing, because they are operating in different markets, and in markets that have their own dynamics, Babilas says. “There’s probably not a single challenge that stands out in the sense that it is really relevant for Altana overall. Altana operates plants in all four divisions in China, and the company says it will continue to invest significantly there. “I’m personally positive when it comes to China,” Babilas says. Altana faced a significant slowdown in its business in China in 2015, perhaps due to a swing in market expectations that took place in spring, but this year is “developing nicely.” The company expects a significant growth contribution from China, compared with other countries, because of the massive infrastructure investments that are taking place there, and because of the business policy of the Chinese government, which is oriented to the long term. “Will that be a linear development? No,” says Babilas “But the trend, in my opinion, will be a very positive one, and that’s why for us it’s a very important country to be active in,” he adds.