



## ***Interview:***

### ***Dimitrios Papalexopoulos, CEO, TITAN Group***

*This interview was given in the context of PwC's 15<sup>th</sup> Annual Global CEO Survey.*

#### ***What, in your view, is the outlook for the global economy?***

Fixing the global economy requires that we unravel the distortions and imbalances which accumulated throughout the system over the past two or three decades. And that cannot be accomplished overnight. I'm afraid that the next two or three years will be difficult both in the US and Europe. And although economic growth in Asia remains strong, I think we will see ups and downs in that region, too. Having said that, I think there are long-term factors that bode well for the global economy and should not be underestimated. For example, the emergence of a middle-class in India and in China is going to be a huge stimulus for the global economy over the next 20 years. Additionally, emerging technological advances – whether in the digital domain, bio-technology, or any number of fields – still have a long way to go before their full positive effect on the economy is felt. So in summary, I am concerned about the next two or three years, but optimistic over the long-term.

#### ***Has it been a particularly volatile year for your business?***

Our business is dependent on two key factors: housing and public infrastructure spending. Housing has been at the epicenter of the financial crisis, especially in the developed world. Public infrastructure depends on government spending and the sovereign crisis has put a halt to that. Moreover, our largest markets are the US, Egypt, and Greece, in that order. So, for the time being, we are in the wrong business in the wrong countries. Having said that, we always knew that ours is a cyclical business – although in the past 15 years or so we might have forgotten exactly what a business cycle looks like. We are now in a particularly bad cycle – but still, it is just a cycle. Fundamentally, our product and business model are not in question. World-wide, concrete is an indispensable building material. Billions of tones of concrete are consumed every year. Although we are going through a down cycle, there is no substitute for our product. Concrete is the most cost-efficient way to build houses and infrastructure and will continue to be so for the next several decades. So after we get through the present cycle, we will be well positioned to face the future.

#### ***What actions have you taken to weather the economic contraction?***

We've taken the obligatory cost cutting measures, which have to happen when your revenue goes down. But at the same time, we've also been working on new sources of revenue. For example, we're developing greener products that provide on the margin a higher perceived value to customers. Even during this crisis, we have not lost sight of the fact that over the long term, it's essential that we continue to make our products more sustainable and environmentally-friendly. Below the surface of the unfolding economic crisis, there remains a deep society-wide concern around the issue of sustainability and the environment. And that is not going away. So, in my mind, it is important not to lose focus on sustainability-related issues even as we work to resolve the acute economic problems of today.

#### ***Looking forward, what might endanger a return to economic health?***

In the short-term, our biggest challenge is to return the financial markets to normalcy so that companies around the world have reliable access to capital at a reasonable cost. My long-term concern is that the free market economies – which have driven tremendous growth over many decades – have also created striking inequalities in income. And that endangers social cohesion. If free market economies spawn a large number of citizens who feel that they aren't benefiting from the system, the system itself may be called into question. So, it's important to address those issues of social cohesion in order to maintain the legitimacy of the free market system.

### ***How does one address that issue?***

You have to engage with society. I am very supportive of the efforts of the World Business Council for Sustainable Development of which we are a member. And one of that organisation's mottoes is "Business cannot succeed in a society that fails". Our business was founded a century ago and we would like to continue to do business for another 100 years. But that kind of longevity requires that we establish long-term relationships with the communities in which we operate. And those relationships must be based on transparency, trust, and mutual benefit.

### ***What should governments be doing to mitigate the economic contraction?***

I'm an engineer, not an economist... But in my opinion, in Europe, there is too much focus on fiscal austerity. Europe would benefit by placing greater emphasis on long-term reform efforts – pension reform, for example. For an economy that is headed towards recession, further fiscal tightening may not be productive. So, I say less emphasis on short-term fiscal tightening and more emphasis on longer term economic reform. In terms of Greece itself, its first priority right now must be to put its fiscal house in order, sharply reduce the size of the state, and significantly improve the quality of its government services, including education. I would also urge the government to take steps to make Greece a more business-friendly place.

### ***In what ways has your strategy changed over the past year?***

We have shifted our strategy from an emphasis on growth to a defensive posture. As I said earlier, we operate in countries that are presently experiencing economic and political crises. So right now our focus is on free cash flow and cost reduction. We have sold a lot of non-strategic assets to deleverage our balance sheet. We have also been actively looking at opportunities for joint ventures and operational consolidation. At the same time, we continue to advance our long-term goals having to do with work safety, sustainability, green products, and improved access to natural resources.

### ***In what ways is the attractiveness of different countries or regions changing?***

Over time, I have come to increasingly appreciate the importance of national institutions – legal, educational or civil service – in each of the countries we operate. Even in emerging markets, there is a surprising amount of divergence among countries in terms of the quality of their institutions. Institutional-building is extremely important for any country that hopes to compete in the global economy. If a country has functioning institutions, it's easier to go through the ups and downs of local political and economic cycles.

### ***Have changes in your geographical focus affected your talent needs?***

Yes, they have. In our industry, as in many others, demand is declining in the developing markets and increasing in the emerging markets. Consequently, we are very focused on developing our talent pool in developing economies. The nature of our business is very local, so it's important to develop the sort of native talent that really understands local conditions and local issues.

### ***How is your approach to managing enterprise-level risk changing?***

We have a risk management process that is embedded in our planning and budgeting process. Its weaknesses have been made evident by the current economic crisis. And certainly, we now have a greater appreciation for how extreme conditions can upend a company's strategy. In the past, our risk management and scenario planning was based on the assumptions that conditions would change incrementally. As events of the past couple of years have shown, that has not been the case. So we have now built into our risk management the possibility of more extreme conditions occurring. And our board of directors has become much more engaged in the enterprise-risk planning process.

### ***In what ways has your response to environmental or social concerns become an element of your company's competitive advantage?***

I'll give you an example. As part of cement manufacturing process we bake materials in ovens that reach 1,600 degrees Celsius. In many cases, we use household and industrial waste as fuel to heat those ovens. In doing so, we reduce our costs, help manage waste in local communities, and reduce our reliance on traditional fuels.

### ***Is your approach to innovation changing?***

Yes, it is changing. We've had more innovation in our organisation in the past five years than the previous thirty. Mostly, we've been focusing on "green" products and services. Let me give you an example. Fly ash is the by-product of coal combustion in power plants; it's what's left over after you burn coal to produce electricity.

Typically, fly ash has to be land-filled at substantial financial and environmental cost. But we have a patented technology which takes fly ash and use electrostatic process to separate it into two materials: a low carbon product that is sold as a branded building material; and a high carbon product that can be reused as fuel. We use this technology to turn a waste material into products that not only have economic value, but social value as well.

### ***Are innovations coming from different parts of your organisation?***

Because of the local character of our business, we do not generally impose detailed top-down plans. Instead, we take a “federalist approach”. As an enterprise, we have an over-arching set of values, a strategic direction, and an operational agenda. But within this context, each of our business units around the world can take initiative. And what we have found is that we are generally more successful when we let our local businesses come up with innovations that we can then replicate in other parts of our group. We’ve learned a lot from our various subsidiaries around the world and we try to disseminate that knowledge widely.

### ***In what ways has talent become a strategic issue for you?***

We have large tasks ahead of us related to talent. One challenge has to do with the shift from developed markets to emerging markets. Because of this shift we have to recruit locally and rely on local management teams. The second challenge is generational. The older white- and blue-color workers that formed the backbone of our workforce are now retiring. And attracting young millennials to a traditional industry and providing them with engaging careers is not easy. It’s fascinating to see, that – for example, in our US subsidiary – it is very difficult to attract good engineering talent to a basic industry like ours. Attracting talent in the developing countries is less of a problem.

### ***Are you confident that you will have the talent needed to deliver your strategy over the next few years?***

Ours is not a “rocket science” business. It’s a simple business. But like any business, it requires workers with a solid knowledge-base and good skills. We try to hire people who demonstrate the right values and basic capabilities. And then we try to use that as the basis for further professional development. It’s important to us to hire people who share our values and enthusiasm and have ability to work with others in an environment of mutual respect. Everything else can be addressed over time. We are focused on our ability in the future to attract talent. Our approach of hiring people with the right values and developing them over time has been successful in the past. Hopefully, it will continue to be successful in the future.

### ***In what areas do you risk falling short of your talent needs?***

On that matter, we face two major risks. One is having a management team with the wrong values. The second is an erosion of our core competencies, which are mostly technical. To mitigate those risks, we spend a lot of time and resources not only in training our people but also in two-way communication with them. I personally spend a lot of time talking to people in the organisation in order to stress the importance of our organisational values, our way of doing business. It takes a lot of work and leading by example to convince people that values count. But if you communicate often and persuasively enough, and make decisions about hiring, firing, and promotion according to your values, then you will eventually succeed.

### ***How is talent factored into your strategic plan?***

We have focused on the human side of our business for a very long time. The head of HR department reports directly to the CEO. And people development is one of the five key processes on which our business is run. Our people development process starts with a performance appraisal and includes 360 degree reviews, open discussions among management teams, individual development plans, career development and succession planning. It is a systematic approach embedded into our business processes. It is far from perfect, but we are continuously working to improve it. One thing to note: The people development process is owned by our line managers – and not by HR. HR is there to facilitate and lend support. But to the degree that our people development process is successful, it’s because it’s been positioned as a priority for the line managers.

### ***What measures are you taking to develop a leadership pipeline?***

I don’t think too many organisations feel that they have an adequate pool of potential leaders. We certainly don’t feel that way. Maintaining a sufficient cadre of leaders and potential leaders is one of the key challenges for every enterprise. Looking ahead, one of the key issues for us is to encourage diversity in our leadership ranks. The issue of diversity becomes particularly decisive as companies internationalise. The Titan Group is a typical example. We were a Greek company for 90 years – but in the last 15 years we’ve become a multinational company. The senior management team, however, remains, to a large extent, Greek and male.

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How does a company like ours develop a multicultural talent pool from which a future management team can be drawn? We have a strong presence in selected countries, but by no means are we a global company. So making that transition to diverse, multicultural management in order to avoid “group-think” and a Greek-centric view of the world is a key challenge for us.

***Are you collaborating with educational institutions to better develop a pipeline of future employees?***

We collaborate with universities in several countries, including the US. We work with American educational institutions on research projects and we recruit undergraduate and graduate students on both a temporary and full-time basis. We look at opportunities as they arise. We’ve found that in comparison to Southern Europe, it’s easier to collaborate with educational institutions in the US.