Growth reimagined
Prospects in emerging markets drive CEO confidence

14th Annual Global CEO Survey

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Interview Transcripts
Interview with Zhou Zhongshu
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PwC: When you consider the prospects of China’s economic development in 2011, what indicators do you pay special attention to?

ZZ: 2011 is an important year because it is the first year of the 12th Five-Year Plan. China’s Central Economic Work Conference has just closed. I would mention two indicators: GDP and CPI. The objectives of GDP growth have been fulfilled, but the CPI is too high. The objective for this year was to keep it below 3.5% but now it has reached 5.1%. I think that GDP growth will be OK, perhaps slowing a little, to about 8%, but we will face considerable pressure if we want to keep the CPI below 4%.

In 2011, I think that the economic work of the government will be focused on structural adjustment, inflation control, the transformation of economic growth, and expanding domestic demand. Structural adjustment and expanding domestic demand are especially important. I’m cautiously optimistic about economic fundamentals. After all, 2008 and 2009 were the lowest points during the global economic crisis; 2011 cannot be worse. I am cautious in my optimism, however, because there are many complicated factors involved: the economic environment both at home and abroad is quite complicated and both enterprises and the government face great challenges. For China, the first year of the 12th Five-Year Plan will be a cautious year. But in the long run, I think the economy of China will maintain stable and rapid growth in the next few years before growth begins to slow down. Another point is that now what we emphasise is the transformation of economic growth. In the future, we will not be able to depend too much on export and investment. That’s why we will turn to expanding domestic demand. This is an obvious change.

PwC: Can you say something about the strategic adjustment of China Minmetals during the economic crisis? What do you think were the most effective aspects of the strategic adjustment?

ZZ: 2008 and 2009 was a difficult period for us, starting in September 2008. China Minmetals is a corporation operating in the nonferrous and ferrous metals industry. For us, September 2008 was the watershed, from the highest point to the lowest. As a corporation with a 60-year history, we have always been the leading enterprise in the industry so we felt it deeply. We made some preparations for the financial crisis in 2008 and 2009. We took three measures, which I still remember clearly. First, we decided it was essential to keep our management steady and avoid cash flow problems. We had to have enough liquidity to avoid a capital crunch. Second, we planned to strengthen the internal management of the corporation to reduce costs and increase efficiency. Third, a financial crisis can be an opportunity. This was an opportunity for us to expand or invest with low cost. Looking back, we can say that these measures were effective. At that time, I said that as the leading enterprise in the industry, we shall be the last to fall and the first to stand up. Actually we didn’t fall. The financial crisis led to an industry reshuffle, which gave us the opportunity to get what we wanted. For example, we went abroad to get resources, something which might have been quite difficult before the financial crisis. We also successfully acquired the core assets of OZ Minerals, the third largest mining corporation in Australia. One and a half years after the acquisition, we have maintained good cash flow and profit. To implement the Nonferrous Metal Industry Promotion Planning of the State Council, we
carried out the strategic restructure of Hunan Nonferrous Metals (HNG). We restructured Changsha Research Institute of Mining and Metallurgy. We also have another mining corporation, Luzhong Metallurgy & Mining Group Corporation. With Hanxing Metallurgical Mine Administration, we now own the two largest single mining plants. These corporations have greatly enhanced our strength and laid the foundation for the building of an internationally competitive metal mining group.

PwC: Why did you think it necessary to carry out strategic adjustments at this time?
ZZ: The government is carrying out strategic adjustments. So are we. As I said earlier, the government is focusing on structural adjustment and the transformation of economic growth. For a large corporation like us, there are both advantages and disadvantages. If we can also adjust our own strategy, tactics and management according to the strategic adjustment of the government, it will be a great opportunity for us. If not, we will face serious risk.

PwC: Last year, most CEOs said that they still planned to increase innovation inputs although the economic environment was not favourable. What measures did China Minmetals take in innovation promotion?
ZZ: We have taken two important measures. First, as we own more than 500 companies, we are carrying out a restructuring covering many aspects. This is not only the requirement of the government, but also necessary for enterprise development. We are accelerating this process and, perhaps in the near future, we will become a joint-stock company. Restructuring requires a lot of human, financial and material resources. It also needs scientific and technical support so we have restructured two research institutes to provide that.

Through these institutes we can advance our business development in the future, especially in areas such as resource development and smelting and processing. New technology is needed to support and guide our future. Otherwise, development will be hampered especially when we are prospecting in deep places and deep oceans. The two research institutes will support us in this.

PwC: In terms of overseas investment, do you see changes in the potential of different countries and regions, especially after the financial crisis? Have these changes affected China Minmetals’ foreign investment strategies?
ZZ: I share the common view that emerging economies are developing faster than developed economies during this financial crisis. We continue to have two markets and two resource streams. I rely on ‘two’, not ‘one’. Although we are highly dependent on external resources, China has its own resource advantage. Our ‘small’ nonferrous resource is in China and our ‘big’ nonferrous resource is in foreign countries. So we still stick to two lines. I am optimistic about China. And I feel we have opportunities overseas. Our key regions include South America, Africa and Southeast Asia.

PwC: Given the cultural differences across regions, how do you adapt your company to local cultures, in particular regarding human resources? How do you make sure the corporate culture and strategic goals are properly aligned?
ZZ: Human resources pose a really significant challenge. Previously, we were only a trading company, but now we are a corporation with R&D, industrial and trading activities.
spanning all parts of the supply chain, encompassing the upstream, middle stream and the downstream. Thus, our corresponding human resources face a bottleneck on further development. That’s something we need to solve.

Our solution is two-fold. First, we delegate the management of human resources to different levels of our multi-tier management. The corporation level is responsible for tier-2 people or tier-3 people. People below that are all under the management of their relevant tiers. Second, there are two ways to place human resources, especially when pooling people resources for the future. One is open recruitment, recruiting anyone with a real talent from society. The other is developing the people we need in-house. China Minmetals has trained MBAs in Canada twice. Those MBAs now have critical roles in addressing our problems on the ground. Still there are problems to be solved. For instance, we do not have enough managers for mines, plants and for capital operations. Luckily, we have done our preparation early, and given the 60-year experience behind us, we’re doing better than other companies, though some difficulties exist in addressing those issues.

When we acquire foreign companies, we acquire their ownership. Their teams are what we would like to capitalise on. After acquisition, we manage three aspects of the company. One is the board of directors, second is business scope, what it should be engaged in and what it should not, and the third is vision setting: this is something wholly set by us. The successful implementation of those three aspects is ensured by performance review. This management philosophy has generally achieved visible results. We use foreign managers to manage foreign companies because they have the best management team already; it’s totally impossible for us to go over there and manage them well. We have learnt some lessons in this regard.

**PwC: Is there any other area that is important to you? If there is, will you consider making investments in that area?**

**ZZ:** We will, in general. The areas I talked about just now are priorities. We will make other investments if an opportunity exists. We have a foreign management team. We feel it’s an excellent team, especially after the acquisition of two companies. Now once there is a project available, we pass relevant information to it. The team is generally able to make rapid decisions after making a quick study of the project. This has placed us in a favourable position. Several Canadian mines may be handled by similar teams in the future.

**PwC: Given the present Chinese conditions, human resources management is facing real wage pressure. Does China Minmetals have some forward-looking views on salaries to prevent the brain drain of your best talents?**

**ZZ:** We have done well in salary management. We have handled the issue well, targeting mainly the professional people and the human resources departments. This is not a big problem for us. On salaries of foreign employees, people may be more worried. They say, well, you said you will retain all the management teams so how will you pay them? I think it’s easy: we just do what the market does. People get paid at the level corresponding to market rates. When we held our recent road-show, we asked some local management teams about their views: they said they feel very good in this big family of China Minmetals and enjoy their work here.
PwC: Do you feel a company should undertake some government functions in eradicating poverty and combating climate change?

ZZ: We don’t talk about government functions; we talk about corporate responsibilities. Because as a central enterprise, we have three responsibilities: economic responsibility, corporate responsibility and political responsibility. China Minmetals has joined the UN Global Compact and I attended the meeting this July at the UN. I also delivered a speech as the only Chinese enterprise. Why did we bother to join such an organisation? Because we feel it’s a platform to make us known and we need to follow up a trend there.

Nowadays, when you make investments abroad, foreign governments don’t care how well you do in operations, they care about how well you do in fulfilling your corporate responsibility. This responsibility is not only important to foreign countries, it is important to China. We have delivered sustainability reports for three consecutive years to the UN. This organisation has 10 binding principles which can be summed up in five strands. For a business, the first principle is making contributions to economic development. The second is making contributions to social progress. The third is making contributions to safety production and environmental protection. The fourth principle is making contributions to philanthropic undertakings. The fifth principle is operating according to the law. Only when you are bound by those five principles can you do well in developing your company and achieve sustainable development.

We have been evolving our understanding of this philosophy and making constant progress. The UN Secretary-General asked for an exclusive meeting with me on this matter. He made three comments. First, he expressed his appreciation for our participation in this global enterprise organisation. Second, he noted that we had done well in developing mining activities in third world countries. He said we had not only promoted the development of local economies, but had also maintained a harmonious relationship with the local communities there, giving a good example to other businesses. Third, he said he could see that I had diplomatic experience just like him. I said, no, you’re different, you’re a professional diplomat. I was just seconded by the government to the Commercial Office to be a counsellor. However, he said that this was important experience. And I agreed that it enables me to see things from a long-term perspective and from a different perspective.

PwC: My feeling is that the five aspects you talked about are right things to do, especially given the size of the investment portfolio of China Minmetals.

ZZ: One more comment on this. When I was in Australian mines and mines in Laos, I said, suppose the mine here has 10,000 cows, our company then possesses 5,100 of them. Why? We have a controlling share of 51% of this ‘pasture’. We made investments to help them develop their own pastures. We employed 20% of the local residents, addressing their employment issues. In addition, we developed local healthcare services, and played our part in addressing the drinking water issue and local school development. So now when the local national leaders pay a visit there, in addition to the viewing the operation of the mine, they visit the local community: they are more interested in seeing changes taking place in that community.

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PwC: You are still expanding, so are you satisfied with your efforts in developing talents, in particular, high-level managers? What’s your goal?

ZZ: I ask people to think about two points when undertaking an M&A or in restructuring a company. First, business integration should achieve the effect of one plus one being larger than two. Second, corporate culture integration should achieve the effect of one plus one equalling one. If we are unable to achieve the second aspect for a company, we would rather not have that company. Why? If you cannot meet the second requirement, you cannot successfully manage the companies you have acquired. So these two points are our fundamental principles. We have not had any big failures in our M&A and restructurings so far. I would say that my degree of satisfaction is 70%. We still have challenges to meet; the remaining 30% of satisfaction lies in training to come and culture management. China Minmetals is a company with a brilliant culture. I didn’t create this corporate culture. Its culture comes from the accumulated history of the company. However, while I am the boss, I’m responsible for summing up, crystallising and developing the very best elements in our corporate culture. We have already proposed a new value proposition: we value what we have created and what we have not created. This actually refers to two aspects: material resources and human resources. Only when we can do well in both aspects can we expect to deliver a top international corporation. We hope to do this within five to ten years.