Dow Leading in Turbulent Times
By Dr. Timothy G. Nash

(Editor’s note: Below is a follow-up to the Op-Eds “Dow Managing in Turbulent Times” (February 2009) and “Dow Managing through Turbulent Times” (April 2010), written by Dr. Nash for The Midland Daily News).

It will be five years ago this coming March 2014 that The Dow Chemical Company stock sold below $6.00 a share and many of us in Midland wondered whether the company could avoid bankruptcy and/or a hostile takeover. The promising K-Dow joint venture had collapsed amidst plunging oil prices and the worldwide “Great Recession.” The cancellation of the K-Dow joint venture and its expected revenues simultaneously put in jeopardy Dow’s acquisition of highly regarded specialty chemical company Rohm and Haas. Dow intended to use $9 billion from the K-Dow venture and other assets to acquire Rohm and Haas, a pivotal part of Dow’s strategy to move more deeply into the lucrative specialty chemicals business. In early 2009, Dow’s leadership team and board of directors found itself in the middle of an “economic perfect storm -- a storm no one had predicted, which threatened to drive the U.S. and world economy into a second Great Depression. Storied companies, from financial giants like Lehman Brothers and AIG, automobile giants General Motors and Chrysler, and formidable chemical companies such as LyondellBasell, either filed for bankruptcy or closed their doors forever during this turbulent time. Upon careful reflection, I am not sure any of us truly realize the level of courage, vision and leadership it took to steer Dow through the turbulent times leading to its current position as a world leader--not only in the chemical industry--but in manufacturing in general.

Andrew Liveris and his leadership team deserve high praise for an exceptional job well done when many would have melted under pressure or delivered something less than heroic. I have known Andrew for more than ten years and find him to be a brilliant and thoughtful leader, a man of integrity, vision, courage and insight. I have had my differences with Mr. Liveris over the years regarding government subsidies for green energy and export restrictions on natural gas. Yet, in general, I find him to be one of the finest CEO’s and leaders in the U.S. and global business communities. When the going got tough for Liveris and his team in late 2008 and early 2009, they never blinked. Andrew and his team rallied and were able to cut costs, bring the Rohm and Haas acquisition to fruition, pursue rightful damages arising from the collapsed K-Dow joint venture (while preserving 100 percent ownership in its high-margin plastics franchise) and invest for profitable growth in attractive sectors and regions, such as the Company’s world-scale Sadara joint venture in Saudi Arabia.

The transition from a company caught in the midst of an economic perfect storm in 2009, to the transformation of The Dow Chemical Company of today was nothing short of remarkable and can be best summarized by the following four accomplishments:

1. Getting the financial house in order
Dow pursued arbitration with Kuwait’s PIC, seeking damages related to the cancellation of the K-Dow joint venture. Dow ultimately received a direct cash payment of $2.2 billion for damages related to the cancellation, the largest arbitration outcome in the history of the ICC. Dow sold low-performing businesses in an effort to significantly strengthen its balance sheet and enhance productivity. Since 2009, net debt to total capital is now at 34.7 percent, net debt to EBITDA is 1.7X (TTM, 3rd Quarter), corporate debt has declined since 2010, resulting in reduced interest expense of $300 million. The company has steadily increased the quarterly dividend since 2009 and Dow stock has increased almost 630 percent since its March 2009 low dramatically outperforming the S&P 500 (up 260 percent) and The Dow Jones Industrial Average (up 240 percent) over the same period (see Exhibits 1-4).

2. Preparing the company for survival and the future

Peter Drucker, in his best-selling classic, Managing in Turbulent Times, noted that leaders in turbulent times need to ensure their organizations have the following four attributes: a) the capacity to survive, b) structural strength and soundness, c) the ability to survive a ‘blow’ and adapt to sudden change, and d) the ability to capitalize on new opportunities. Hind-sight is always 20/20, yet it is obvious that Mr. Liveris and his leadership team made certain that the aforementioned attributes were vital parts of the fabric of Dow. Today, the company is one of the most globally nimble and respected manufacturing companies in the world and a leader in the specialty and advanced materials space. Dow has successfully transformed its portfolio from 60 percent basic and 40 percent specialty products to a portfolio that today has more than 60 percent of its portfolio built on high margin, market-driven businesses including electronics, water, agriculture, coatings, infrastructure and packaging. Today, Dow technology is making automobiles stronger and lighter, cell phones smaller and faster and food healthier. The company’s global footprint in manufacturing and sales allows it to take advantage of growing strategic markets around the world while enhancing manufacturing at home due to low cost feed stocks and America’s energy renaissance.

3. The Human Element

In today’s go-go global economy, Wall Street and corporate boards are looking for scorecards and measurement metrics to determine management’s capability and leadership acumen. It is not obvious to some, but should be to all, that many of a great leaders attributes are not measurable. They are the soft and personal elements of a leader: a confident glance, a warm smile, a rallying speech that often turns defeat into victory. In 2009 and 2010, Andrew Liveris never made excuses, he never strayed from the path of responsibility, and he never hid behind the cover of his office or his home. He believed that Dow’s best days were ahead. When he wasn’t traveling to personally meet with customers, bankers, credit rating agencies, or financiers to convince them that Dow was an exceptional company, he was doing what a good leader should do: he was attending community events, he shopped in local grocery stores or supermarkets, he answered peoples questions and let this town know that Dow was in good hands with Liveris at the helm and his leadership team behind him. With tenacity and grace, vision and courage, Liveris never let comments and other people’s thoughts detour him from
leading Dow out of the global economic abyss to the position of respect and success it enjoys today.

4. The need for calculated risk-taking

In the November 2013 issue of the *Harvard Business Review*, noted business consultant, Ram Charam, in an article entitled: “You Can’t be a Wimp: Make the Tough Calls,” commends Andrew Liveris for his decision-making skills over the past five years, which, in Charam’s mind, saved the company and positioned it for the future. Not only did Dow not go bankrupt or suffer a hostile takeover, it was positioned to lead on multiple fronts from basic chemicals to specialty chemicals all because the leadership team had a clear-cut vision that was able to navigate turbulence and uncertainty.

In my opinion, the future of The Dow Chemical Company is in very good hands. The company is strong, flexible and global with a leader and leadership team that has been tested and proven to be capable of leading in all conditions this complex and rewarding global economy has to offer. Three cheers to Mr. Liveris, his leadership team, and the 54,000 employees that make up The Dow Chemical Company.

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