

“Risk Control is in My Blood” ——An Interview with Dr. Ling Wen, President and CEO of China Shenhua Energy Company Limited

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About China Shenhua

China Shenhua Energy Company Limited was incorporated in Beijing in 2004 as a subsidiary of Shenhua Group Corporation Limited. H shares and A shares of China Shenhua were listed on the Hong Kong and Shanghai Stock Exchanges in June 2005 and October 2007, respectively.

China Shenhua is a world-leading coal-based integrated energy company focusing primarily on coal, power, railway, port, shipping, and other related activities. With the largest coal reserves in the country, China Shenhua is China's biggest coal supplier. In 2011, it reached a coal production volume of 281.9 million tonnes and a revenue of USD \$33 billion (RMB 208.2 billion). In 2012, it ranked 126th among Forbes Global 2000 companies. The company's size, efficiency, and safe production standards have made it a model in the Chinese coal industry. As the world's largest coal producer, China Shenhua is actively striving to be globally competitive.

Profile of Ling Wen

Dr. Ling Wen is the Executive Director, President, and CEO of China Shenhua Energy Company Limited, and a Director and Executive VP of Shenhua Group Corporation Limited. He joined Shenhua Group as CFO in 2001 through an open selection process and became CEO of China Shenhua in 2006. Prior to joining the company, he worked in the Industrial and Commercial Bank of China (ICBC) for eight years.

In 2005 Dr. Ling led the listing of China Shenhua on the Hong Kong Stock Exchange through which the company raised USD \$3.3 billion. That amount was the highest in the coal industry worldwide, breaking the record of state-owned enterprise (SOE) IPOs overseas in terms of share value increase over face value. In October 2007, Dr. Ling led China Shenhua's second IPO in the China A share market (Shanghai), raising USD \$10.6 billion (RMB 66.6 billion). China Shenhua, currently the largest coal producer in the world, has significantly increased revenue and production, improved risk management and control, and fulfilled social responsibilities, while striving to lead the global coal industry.

Dr. Ling holds a PhD in Engineering, and is a guest professor at Renmin University, Harbin Institute of Technology, China University of Mining and Technology, and several other academic institutions. He is a member of the National Assessment Committee of Higher Education Institutes of the Ministry of Education, an executive member of the Chinese Society of Quantitative Economics, and a senior member of the Society of Management Science of China.

On the afternoon of April 5, 2012, we interviewed Dr. Ling Wen, President and CEO of China Shenhua, in Shenhua's Beijing headquarters. The main topics of the interview included the philosophy behind Dr. Ling's management style, the influence of his early experience in another industry on his management style, the challenges faced when taking Shenhua public, and the management practices he has implemented in the company.

“The CEO's responsibility is to collect talent in the management team [and] let the members fulfill their own responsibilities”

Christopher Marquis & Chen Zhang: It is a great pleasure to interview you, Dr. Ling. Could you please describe your management philosophy? What leadership style do you follow in Shenhua?

Ling Wen: Leading China Shenhua has been challenging. My PhD is in Engineering, and I had no experience in the coal sector before joining Shenhua. Some may ask how you can be a good leader of a coal company if you know little about coal and mining. It sounds like allowing a layman to lead the experts.

I think, however, that my lack of coal mining experience is advantageous. What is the main responsibility of the CEO in a management team? My philosophy is that a CEO's duty is to gather management talent, allow members to fulfill their own responsibilities, give them authority, help them to understand procedures and regulations and to communicate with each other.

For example, in my management team, I might have a mining expert, a coal transportation expert, and an accounting expert. My responsibility is to bring their talents together, clearly define each member's responsibilities, and clarify the relevant authorities and processes. If a project or an issue

is within an individual's sector of responsibility, I will grant that person the authority to make the decision. If the issue deals with multiple areas, I will gather various relevant executives to discuss our best approaches. If the issue exceeds their authority, I must make the decision. If the decision is beyond my authority, I must communicate with the board of directors, or even discuss it at the shareholders' meeting. Those are basic corporate governance principles, and we have followed them well in Shenhua.

Marquis & Zhang: You mentioned the leadership challenge of lacking previous experience in the coal sector, the primary area of Shenhua's business operations. What was it like when you first joined Shenhua Group, coming from a different industry background? How did you deal with the difficulties, if any, at that time?

Ling: I worked at ICBC, the largest bank in China, for eight and a half years before joining Shenhua. When I first came to Shenhua Group, my number one disadvantage, despite having various advantages, was my limited knowledge of the coal sector. I knew little about converting coal to liquids, power generation, or even railway and port operations, so I had much to learn. In 2002, my first year in Shenhua, I spent all of my time in the coal mines, the ports, and the railway stations, working hard to familiarize myself with all these areas. Although I might not be an expert, I wanted to understand coal-industry basics, rules, and regulations.

My second limitation was that I was not an accounting expert initially. So I had to learn much about accounting from, for instance, people at KPMG and PWC. I even applied to join accounting associations and finally joined the Australian and British associations of accountants. My newly



acquired accounting knowledge included an understanding of the differences between Chinese and international accounting principles.

Marquis & Zhang: You worked in the banking industry for some time before joining Shenhua. Has this early banking experience influenced your management style?

Ling: My banking experience has helped me in tasks such as reading financial reports, especially when trying to understand and manage risks. For example, when reading a balance sheet, I can try to discover the main risks and determine how to avoid them.

Second, my banking experience has developed a conservative attitude toward communicating with investors, and they have come to know my style. For example, if I estimate how much coal we will produce, or how much revenue we can generate this year, investors usually expect that the actual figures will exceed those estimates, because we have always performed above our promises. If you review my communications with investors throughout the past years, you will find that I keep my promises, because I was a banker. I know how to foster a good reputation, and know that I must be reliable. If I set a target, I must do my best to meet it.

Also, the banking experience taught me the importance of transparency and corporate governance, particularly for public companies.

“Risk control is in my blood”

Marquis & Zhang: We know that taking Shenhua public was a big accomplishment. What key challenges did you encounter when leading China Shenhua to being listed in the Hong Kong and Shanghai exchanges?

Ling: We made the first IPO in Hong Kong in 2005. It was very challenging. I cannot stress that enough. We finally succeeded because I had a good team to form and execute our strategy and Shenhua’s management agreed with my proposal. However, my greatest challenge was that I had no experience with IPOs. I came to Shenhua through a 2001 open talent search to find a CFO who could lead Shenhua in its efforts to go public. I was selected although I had no experience with the IPO process. So I had to learn a lot from the banking industry, investment banking in particular. I had to learn the rules, what the experience would be like, what we should do, and how we should communicate with regulators, investors, analysts, and so on.

Other challenges were important too. First, regarding the purpose for taking Shenhua public, I was frequently asked, “why should we do it?” It’s quite clear today, but seven years ago, few people were clear about it. I had to convince the management team that if we wanted to make Shenhua a global company, we had to take the company public. It’s about transparency, compliance with the rules, and so on. So we had to do it.

The second challenge was to decide where we should be listed. I always go for the best. So at the very beginning, my ambition was to have a triple IPO in Hong Kong, New York, and Shanghai. But at that time New York was a poor choice because of the clauses in the famous Sarbanes-Oxley Act. I also received advice from the State Council that it was a bad time to simultaneously list the company in Hong Kong and Shanghai. So we finally made it in Hong Kong first. But I set the goal for my team to provide a good example by carrying out an IPO in the best way possible.

Finally, we faced the significant challenge of determining the share price. My team had no financial advisors, and the bankers we consulted told me that the process was going well and that the



number of buyers tripled our target. However, when I discussed the price issue with all three bankers on the final day, I wanted to set the price at 7.50 Hong Kong dollars per share, while they wanted it to be at 7.25. They argued that all the buying deals could be withdrawn during the final stage, and that we had to accept the IPO discount and the China discount, because Shenhua was a Chinese company. But I disagreed. I was so confident in Shenhua and was so sure that our investors could receive a great return that I would not accept discounts. The negotiations lasted 26 hours, and finally they accepted setting the share price at 7.50 Hong Kong dollars per share, only 45 minutes before the deadline. That price allowed us to set various records in China's capital market.

Marquis & Zhang: Apart from the effort to take Shenhua public, did you bring particular management practices to Shenhua? If so, why?

Ling: In 2006, I took over the CEO position of China Shenhua when the former CEO retired. Since then, I have designed and established the risk management system for Shenhua, which currently works well.

The main requirement for a company in the past was cost control. Winners at that stage were those who, compared with competitors, had the lowest unit cost. Then, the main requirement became innovation. A company such as Apple that can make iPad 1, iPad 2, iPad 3, and the iPhones will certainly conquer the market. In the future, once a company has established cost control systems and applied new technologies, the most important factor is risk control. It's very important to establish a risk control system.

Traditional risk management has primarily focused on preventing losses, but contemporary risk management not only involves loss prevention measures such as internal control, but also

incorporates activities that are focused on profits and returns, such as allocation of capital and adjustment of performance evaluation based on risks. For a large, complex SOE such as China Shenhua, it is inadequate just to ensure internal control and compliance; we also need to benefit from risks and manage risks comprehensively to maximize the value of our company. Today, China Shenhua has established a risk-oriented internal control system that features production safety, economic safety, and political safety.

In my view, risk control is by no means the routine work of a single department or simply an isolated part of corporate operation. Rather, it should be the core of overall corporate operation. Risk control is in my blood. Therefore, I strive to integrate risk management into all Shenhua's processes, hoping that it forms a self-learning, self-organizing, self-adapting, and self-optimizing system that will implement risk control throughout daily operations and management. I hope that the idea of risk management will become so deep-rooted that everyone will clearly know what risks may exist in their work tasks and responsibilities, and will instinctively prevent and respond to risks.

Marquis & Zhang: In your book *Theory and Practice of Risk-Oriented Internal Control System: China Shenhua's Exploration*, you discussed how building up a risk-oriented internal control system has greatly enhanced the company's risk management capability. Interestingly, this is not just a stand-alone system; it has also affected the organization's culture. How has the system been implemented in Shenhua?

Ling: Shenhua is a well-known state-owned enterprise (SOE), but it is also a young company. Established in 1995, we have a history of merely 17 years. First, I had to determine how to work with the company's existing staff, just like a restaurant chef



who must make delicious dishes with the materials at hand. Based on the reality in China, and especially in an SOE, I could not say, “Oh, I don’t like this guy. Go away.” Although we could not fire employees, we had to work hard to change them. I had to understand that.

Second, I realized that Shenhua already had a very good culture in recognizing safety as the top priority because, as a coal company, we face a great deal of safety risk. For instance, in the coal sector, one index is the fatality rate per million ton of coal produced. China’s central government has worked to reduce that number, and the average figure has fallen from about 4 in 2002 to about 0.5 now. At Shenhua, however, that number is about 0.01 or 0.02, far below the national average. We believe that safety is our top priority.

At the same time, we recognize that safety should not only be about human life, but also about our business operations and corporate governance. So we promote this safety culture into all aspects of corporate governance, management, and risk control.

Besides, I try to communicate to the Shenhua team that previous experience, though successful in the past, cannot overtake regulations, strict processes, or risk management, and now is the time for Shenhua to change our growth pattern and adopt healthy, sustainable development. Being young cannot be our excuse; we must act increasingly more mature. As a public company, we need risk control. I believe that transparency, corporate governance, and risk management are becoming increasingly important.

“We want to be a leading player on the world stage”

Marquis & Zhang: In terms of future development, what important targets do you think Shenhua should work toward?

Ling: Currently, Shenhua has solid revenue and good production volume. However, almost 99% of the revenue and production happens in China. Shenhua is still a domestic company rather than a global company. In the future, making Shenhua a global company will be a main goal for the management team. We have much to do to achieve this target. We want to be a real leader in all sectors—in technology, in social responsibility, in employment, in safety, in merger and acquisitions, and so on. In a word, in each aspect, we must be the best in the coal sector, and even in the mining industry.

We aspire to be a leading player—not only in China but in the world. Currently a weakness for Shenhua is an ability to grow through mergers and acquisitions. We are very good at greenfield projects and coal mine development, but we are very inexperienced in M&A. To expand Shenhua’s operations, we should have two balanced wings. One is organic growth, and the other is M&A.

Marquis & Zhang: Another global trend that has been important to the Chinese government is environmental issues. As a coal company, what environmental protection aspects are China Shenhua working on?

Ling: In China, coal represents over 70% of the total primary energy supply. One reason is that we have relatively large coal reserves and limited oil and gas. Another reason is that power produced from coal is very stable and reliable to sustain the rapid growth of the Chinese economy. So the question is not whether we should use coal. Rather, we should focus on, first, how to make coal production greener and, second, how to use coal more cleanly. We have taken many approaches that I think are good to the environment.

For example, in Shenhua’s coal-fired power

plants, we have de-sulfur, de-ash, and de-NOx devices. All our power plants have de-sulfur devices, and more than 50% have de-NOx devices. In Australia, no power station has de-sulfur devices yet. Besides, we are applying the CCS, or Carbon Capture and Storage, technology. Our first CCS demonstration plant in the Erdos coal mines has been put into operation, injecting 100,000 tons of CO2 two kilometers deep into the earth annually.

In addition, we try to effectively minimize pollution in our mining operations. It may look strange that a coal mine area is like a garden with flowers, trees, and grass. It's very clean. Before we started our projects in Shendong, the green coverage was only 3%. But now the green area has grown to 70%. So we have really done a lot. Today we have built up NICE, or National Institute of Clean-and-Low-Carbon Energy, a national institute funded by Shenhua.

Many companies, scientists, and politicians are focusing strongly on the carbon issue. However, who has taken real action? Shenhua has. We must do so. As the largest producer and a leading company in the coal sector, we must be responsible to the society and the public.

“You must balance work, family, and health”

Marquis & Zhang: We see that these years you have been working really hard on these endeavors, such as striving for global leadership for Shenhua and establishing the risk control system. How do you understand your position as CEO?

Ling: I have been the CEO of China Shenhua for more than six years. I understand that in the West, even good leaders may leave after eight to ten years, thinking “all of my ideas and talent have been invested in this company, and now I have nothing

else to add here.”

Fifteen years ago I was a young man at ICBC, only 34 years old. When I saw the leaders and senior people at ICBC headquarters, I joked with my colleagues that if some leaders were above the age of 50, subordinates would calculate how much time must pass until the leader retired and the position would be open. That was bad. I began to think that when people got to their 50s, it might be time for them to think about switching positions. I, for instance, can become a university professor, given my PhD degree, knowledge, and experience. If I were to become a professor sometime in my later life, I could not only give my position to a younger person but also share my knowledge and experience with university students. The story at ICBC happened about 15 years ago. Now I'm very close to 50, and I still think about it sometimes.

But deep inside I ask myself, if I remain in this position, what can I devote to Shenhua? What can I do? Would somebody else, or somebody younger, perform better in this position? During the past several years, I have devoted all my passion, all my knowledge, and all my experience to Shenhua. I'm confident that somebody will be able to do a better job when I leave in the future.

Marquis & Zhang: Do you wish to share anything more in terms of your management experience?

Ling: One important thing is my philosophy about human beings. I used to travel frequently, and was always busy and tired. Then I realized that some of my colleagues were dying very young, and I read *Chasing Daylight*, by the former Chairman and CEO of KPMG. He was in his 50s, very young and healthy, traveling a lot, and playing golf. But one day he suddenly learned that he had a serious



cancer and had only about 100 days left to live. He made a serious plan for what he should do before his death and he carried it out. That included talking to his family members and telling them how much he loved them. Then he died.

In Shenhua, each year I convene several meetings attended by heads of the subsidiaries to discuss our strategy, our main tasks, and plans for performing the year's work. At one meeting, I distributed copies of *Chasing Daylight*, and advised them, "You must do your work as well as you can, but at the same time, you must care about your

family and your health as well. I don't need you to put all your time into work. No. You must balance your work, your family, and your health."

Maybe this is my style. I have many hobbies. I like traveling, photography, gardens, music, and dogs. Someone told me that after he left his position as CEO, he felt lost and didn't know what to do. For me, it should not be much of a problem. I have a lot to do. So I think my philosophy is: your company, or your business, is not your whole life, it's only part of it.

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