

Management Report: Acquisition of Syngenta AG by ChemChina focusing on people management strategies

Executive Summary

This report examines the acquisition of Syngenta AG by China National Chemical Corporation (“ChemChina”) in 2017, identifies the possible issues arising from the takeover which involves a multinational corporation (“MNC”) conducting its management functions across borders, through its global team of 28,000 employees from all walks of life, in a multi-cultural, multi-lingual, and ethnical environment. The objectives of this report are tw-fold; firstly, to evaluate how the merged company has been performing in terms of financial and non-financial indicators since the acquisition in 2017 to 2020, with the use of published reports and other publicly available information; secondly, to recommend appropriate measures to resolve any issues identified with an actionable implementation plan.

Background

China National Chemical Corporation, a state-owned chemical company of the People’s Republic of China, agreed to take over Syngenta AG, a Swiss seeds and pesticides group, in February 2016 for a purchase consideration of USD43 bn. Being the largest takeover by a Chinese company at that time, this proposed acquisition led to much concerns, debates and criticisms. In view of a positive evaluation by its board of directors and the necessary regulatory approvals from various governments, including the United States of America (“USA” or “US”), the European Union (“EU”), Switzerland and the United Kingdom (“UK”), 98% of Syngenta shareholders accepted ChemChina’s offer in July 2017, which culminating into privatisation of the company from SIX Swiss Exchange and New York Stock Exchange in January 2018.

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Under ChemChina's leadership, Syngenta played a prominent role in the reorganization and consolidation of the industry. Syngenta underwent a series of corporate acquisitions, including buying Nidera from Cofco International in November 2017, Strider, a Brazilian agri-technology company in March 2018, Floranova, a flower and vegetable seeds breeder based in the UK, in July 2018, and all the assets of the Cropio Group, another agri-technology company.

In June 2020, ChemChina transferred its entire agricultural business to the Syngenta Group, which includes Adama, a global crop protection company based in Israel, and the agricultural activities of SinoChem. In October 2020, Syngenta purchased Valagro, a market leading producer of innovative biologicals based in Atessa, Italy.

External Business Environment

Through acquiring Syngenta in 2017, ChemChina would become a key player in the global agribusiness sector with annual revenues of USD100bn. Consolidation among agricultural businesses, especially those selling to farmers, was on the rise in response to the plunging grain prices in 2015-16, that led to falling revenues and profitability of many companies in the sector. (Pan (2017))

Overview of Syngenta's corporate business and the business environment

Being a world leading agribusiness, Syngenta operates mainly in three key lines of businesses, namely Crop Protection, Seeds, and Lawn and Garden businesses.

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Crop protection chemicals include insecticides, fungicides, herbicides and seed treatments to control weeds, insects and diseases in crops, and are essential inputs enabling growers around the world to improve agricultural productivity and food quality. In Seeds, Syngenta operates in the high value commercial sectors of field crops (including corn, oilseeds, and cereals) and vegetables. The Lawn and Garden business, comprising the Controls and Flowers businesses, provides professional growers and consumers with flowers, turf and landscape, and professional pest management products.

Business performances of Syngenta are affected, both positively and negatively, by a number of factors, including: (a) general economic conditions; (b) weather conditions (affecting the demand for certain products and the quantity and cost of seeds supply); (c) commodity crop prices; (d) exchange rate movement and (e) Government policies and regulations. For instances, any governmental subsidies or rules regulating the use of agricultural products, genetically modified seeds, or areas permitted to be planted with certain crops, can have an significant impact on the agribusiness sector. The business of Syngenta are also affected by the increasing adoption of biotechnology for agriculture and the genetically modified crops. In future, climate change may have both positive and negative impacts on Syngenta's results, in that it may make growing certain crops more or less viable in different geographic areas, but is not likely to reduce overall demand for food and feed. Syngenta is currently developing and sells products to increase tolerance to drought and heat, and to improve the water productivity of plants. New law may be enacted in the future that limits carbon

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dioxide emissions in the manufacture of Syngenta's products or increases the costs associated with such emissions. Syngenta pursues ways for more energy savings and less carbon dioxide emissions from its production operations. Syngenta operates globally to capitalize on its technology and marketing base. In 2017, the largest market for Syngenta was Europe, Africa and the Middle East, amounting to about 33 percent of consolidated sales (2016: 31 percent), which was followed by North America at 29 percent (2016: 28 percent), Latin America at 23 percent (2016: 26 percent) and Asia Pacific at 15 percent (2016: 15 percent). Markets for agricultural products in Europe, Africa and the Middle East and North America are seasonal resulting in both sales and operating profit for Syngenta in these markets being weighted towards the first half of the calendar year, which largely reflects the northern hemisphere planting and growing cycle. Latin America has its main selling season in the second half of the year due to its location in the southern hemisphere. Asia Pacific sales and operating profit are more uniform throughout the year. Syngenta's most significant manufacturing and research and development sites are located in Switzerland, the USA and China. Syngenta has major research centers focused on identifying new active ingredients in Stein, Switzerland and Jealott's Hill, UK. Syngenta's primary center for agricultural genomics and biotechnology research is in the USA.

External Environment leading to the re-organization/restructuring exercise

We are now in a world of constant, complex changes, any organizational leaders who can react responsibly and quickly would have a better chance to succeed. Those

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leaders who can anticipate and invent the future would be more successfully, given their leadership in their organizations and their industries. Any organizations not surviving the environmental changes are usually led by those who fail to invent the future or even adapt to the changed environment. (Pryor M.G., et al (2008), p.16)

Wischnevsky (2004) postulates that certain circumstances, such as top management changes, environmental shifts and a decline in performance, tend to trigger major organizational change initiatives.

Pryor M.G., et al (2008, p.16) suggested a strategic management model (The 5P's Model) for organizational leaders to strategically and tactically manage an organization in response to the changes in its operating environment and to invent the future for the organization and the industry.

The 5P's Model looks into the details of the Purpose, Principles, Processes, People and Performance of an organization. Of which, People is one of the determining factors of implementing changes (such as streamlining, elimination and empowerment) in the processes and relationships for the organization.

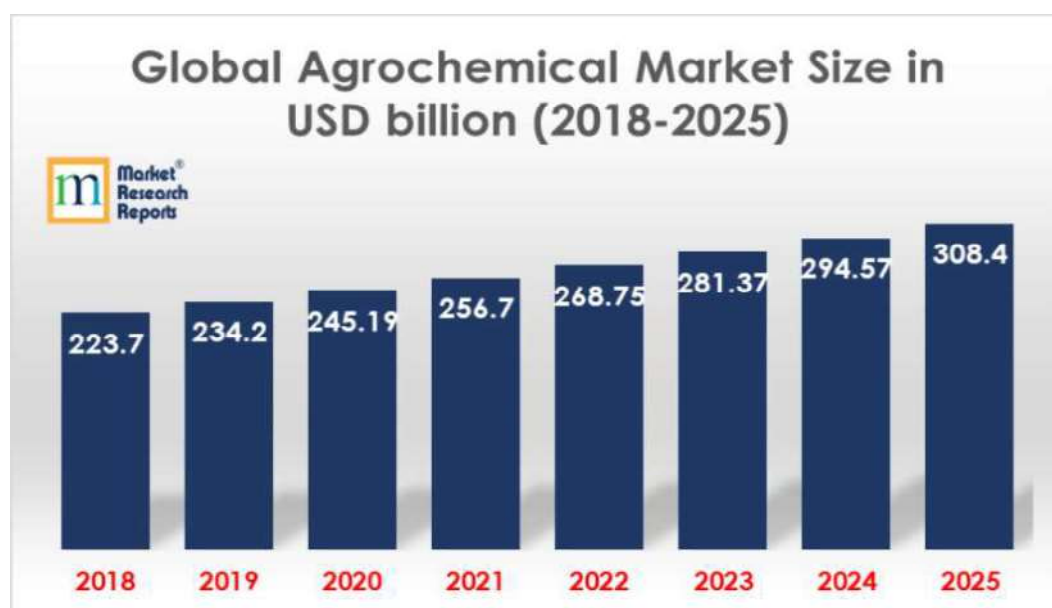
Pryor, et al (2008) sees that “the most profitable change is reinvention of the future, not response to the present. Therefore, organizational leaders should adopt a dynamic strategic management model that enables their respective organizations to be in a state of continuous entrepreneurial reinvention”. (p.13)

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Such a dynamic strategic management model requires 3 elements: transformational leaders, a team for continuous entrepreneurial reinvention or re-alignment,

Global Agricultural Business

According to Market Research Reports, the global agrochemical market was USD223.7 bn in 2018 and is expected to be USD308.4 bn by the end of 2025, growing at a CAGR of 4.69% between 2019 and 2025. The demand for agrochemicals is expected to be the highest in the Asia Pacific. The region is known for its agro-based countries such as China, India, Sri Lanka, and Vietnam which are mainly dependent on agriculture and related industries for economic growth.



Source: Market Research Reports (2018)

According to the statistics from a pesticide consultancy firm, Phillips McDougall (now being part of IHS Markit), as quoted on 30 October 2017 in the AgroPages website, as calculated by distributors, the global pesticide market for crops registered sales of US\$49.920 billion in 2016, dropping by 2.5% year annually. In 2013, sales in

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the global pesticide market reached \$50 billion for the first time, which continued to grow in 2014. However, the market suffered a 9.6% in 2015. In 2016, sales in the global pesticide market continued to drop by 2.5%, to below 50 billion, back to the sales volume in 2012.

From 1997 to 2017, the global agrochemical industry had been going through three waves of M&As, which have all brought revolutionary changes. The industry must wait and see what the latest series of M&As will bring to the industry, in terms of opportunities and challenges.

Through world class science and innovative crop solutions, Syngenta's 28,000 people in over 90 countries are working to transform how crops are grown. The agricultural company is committed to rescuing land from degradation, enhancing biodiversity, and revitalizing rural communities as well as helping to improve global food security by enhancing millions of farmers to make better use of available resources. (M2 Equitybites, 5 April 2017)

Global Agricultural Recovery Expected

The mixed performance of the top 20 agrichemical giants in 2016 appeared to demonstrate that the global agricultural sector was on a track for a slow recovery, with the industry's growth being imminent, a trend that coincides with the industry's performance report for the first half of 2017. Among the previous top six companies, with the exception of Syngenta and Bayer Crop Science that registered negative sales

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growth, DuPont, Monsanto, BASF and Dow AgroSciences all experienced growth at various levels. Certain fast-growing companies also saw varying degrees of growth in their performance during the first half of 2017. In 2016, the sales of pesticides by the top six market leaders saw a decline. (AgroPages, 2017)

While the prices of agricultural products in 2017 fell from their peaks in the period from 2011 to 2013, many markets were expecting a positive performance in 2017. The pesticide market was expected to recover and grow in 2017. According to the projections of Phillips McDougall, sales in the global pesticide market would increase by 1 to 2% in 2017, depending on favorable weather conditions.

According to AgroPages (2021), excluding Nanjing Red Sun, ten out of 11 Chinese companies among the top 20 registered positive sales growth in 2020. Total pesticide sales of the 11 firms reached \$22.7 billion, constituting 37% of the top 20, which was rather substantial! Following the first and second-tier firms, some Chinese agrochemical enterprises also embarked on M&As. Industrial concentration is poised to rise, Chinese agrochemical players to expand, and sales shares in the market to hit new highs.

Key people management issues identified

Being the largest takeover by a state-owned enterprise from the People's Republic of China ("PRC" or "China"), a centrally-planned economy, on a private sector company in a market country, people may have reasons to be concerned about whether the

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corporate management can work effectively and efficiently in spite of the language differences, cultural differences and philosophy of management.

What kind of people management policies and strategies, in terms of gender diversity, ethnic and cultural diversity, that the new Chinese owner needs to adopt to ensure smooth, efficient and effective running of the newly acquired company?

Has the newly acquired Syngenta Group needed to adopt policy to promote innovation and transformation so as to ensure its competitiveness in the global context?

Let us now take a look at the relevant theories, principles, tools and guidelines for people management for guidance.

Motivation for corporate transformation

Argenti, Berman, Calsbeek & Whitehouse (2021, p.3) have identified 6 quantitative indicators that would signal that a company had experienced or was in the midst of a transformation. Such indicators include: (a) increased R&D expenditure, (b) restructuring costs, (c) change in operating margin, (d) mergers and acquisitions, (e) name changes, and (f) public announcements of transformation efforts. Hence, as a consequence of the acquisition by ChemChina, Syngenta was likely to be involved in transformation in one way or another. The term “transformation” is defined as “a fundamental shift in the way that an organization conducts business, resulting in

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economic or social impact.” (p.2)

Why is there a need to undergo transformation? Martin Reeves et al. (2018, p.3) of the Boston Consulting Group found that transforming successfully was most challenging for companies that faced deteriorating market performance.

Argenti, Berman, Calsbeek & Whitehouse (2021, p.3) used RIG’s proprietary metaequity score, which aggregates metrics from the most used and trusted rankings, including RepTrak, BrandZ, Barron’s, Harris’s Reputation Quotient, and Fortune’s Most Admired. Through statistical analysis, the companies were ranked according to their financial and reputational performances. Their assessment found that only 28 of the 128 companies we examined (i.e. 22%) successfully transformed from both a financial and reputational perspective.

The financial transformation (measured by revenue, stock price, market value and total shareholder return) and the reputational transformation (measured by positive reputation on the most used and trusted rankings as a criterion for success), indicate that these corporate transformers brought all of their stakeholders, not just shareholders, on the journey. (p.4)

Hunt, Prince, Dixon-Fyle & Dolan (2020, pp.3-4) found from their empirical study in 2019 that companies with corporate leadership having diversity in terms of gender, ethnicity and cultural backgrounds tend to outperform their peers in the same industry

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over time, whereas those companies lacking diversity tends to lose out. There would be a bigger chance of having outperformance difference with ethnicity than with gender.

Gender diversity

Hunt, Prince, Dixon-Fyle & Dolan (2020, p.3) found from their study in 2019 that companies in the top quartile of gender diversity on executive teams were 25 percent more likely to experience above-average profitability than peer companies in the fourth quartile. This is up from 21 percent in 2017 and 15 percent in 2014.

The higher the women representation, the higher is the likelihood of outperformance. Companies with more than 30 percent women on their executive teams are significantly more likely to outperform those with between 10 and 30 percent women, and these companies in turn are more likely to outperform those with fewer or no women executives. As a result, there is a substantial performance differential (48 percent) between the most and least gender-diverse companies. (p.3). Specifically, female representation on executive teams in the USA and the UK has risen from 15 percent in 2014 to 20 percent in 2019.” (Hunt, Prince, Dixon-Fyle & Dolan (2020), p.4)

Ethnic and cultural diversity

Hunt, Prince, Dixon-Fyle & Dolan (2020, p.4) also found that companies with ethnic and cultural diversity in the top quartile outperformed those in the fourth quartile by

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36 percent in terms of profitability in 2019, slightly up from 33 percent in 2017 and 35 percent in 2014. They concluded that it is more likely to attain outperformance difference with ethnicity than with gender.

Mechanism for corporate transformation

In another study, a research team composed of Copperfield Advisory (“Copperfield”), Insider, and Revolution Insights Group (“RIG”) found that:

- (1) Only 22% of companies in their analysis successfully transformed themselves. A 78% failure rate, even higher than Kotter’s 70% asserted 25 years ago, quantifiably affirms how tough it is to transform an organization;
- (2) Companies that successfully transformed themselves shared a common focus on initiatives that prioritized employees, such as Diversity, Equity & Inclusiveness (“DE&I”) programs and support for women managers’ careers, in addition to competitive pay and access to health care.” (Argenti, Berman, Calsbeek & Whitehouse (2021), p.2)

From the 28 most successful transformers (including Microsoft, PayPal and Hersey), six attributes, mostly related to employee compensation and Diversity, Equity & Inclusiveness, are identified that set them apart from the rest of the pack (p.5):

- Higher employee pay
- More employee stock options
- Higher employee satisfaction at work

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- Diversity and Inclusivity: employing hiring practices with an eye toward equity
- More women managers
- Higher share of women employees

People Are the Catalysts of Successful Transformation

Argenti, Berman, Calsbeek & Whitehouse (2021, p.9) found that companies have a better chance at success if they focus on their people during transformation. Companies prioritized attributes that are fundamentally related to employee engagement, such as diversity & inclusion, in addition to traditional benefits, such as compensation or health care, saw stronger reputations and greater financial returns than other organizations. The firms that listened with intention to their employees and matched their company engagement accordingly achieved transformational success.

Ishak W. (2017, p.1) believes that it is an extraordinary time for innovation. Technological change and industry disruption seem to be accelerating. And digital information networks are linking individuals, organizations, and nations as never before. He observed that many company R&D units lost their luster as cost pressures made them less tenable and also that the digital revolution enabled smaller organizations to make outsized innovation contributions. A new generation of corporate R&D powerhouses has been emerging at technology leaders such as Amazon, Google, and Microsoft. In particular, the advance of artificial intelligence is creating a new set of innovation opportunities for these leaders.

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It is necessary to create and maintain mechanisms and a culture that encourage the embrace of new technologies, kindle the passion for knowledge, and ease barriers to creativity and accidental advances. In addition to those intuitive and extensively covered lessons, i.e. invest; attract talent; focus on linkages between idea development, product creation, and consumer adoption, Ishak (2017, p.1) postulated the need of creating the following corporate culture:

- (1) Practice 'innovation parenting' -- Innovative cultures start with a philosophy and a tone. The corporate transformer must ground creative people in accountability for the organization's objectives, key focus areas, core capabilities, and commitments to stakeholders, and give them broad discretion to conduct their work in service of those parameters, including the budget and deadlines, the latter of which quite often will kill ideas. This trust helps forge an innovation culture. This is important to seek out opportunities to interact with people who interest and excite them. Such exchanges should, in turn, build innovation energy. To help individuals see where their work fits in the knowledge ecosystem, encourage relationships with colleagues in the internal innovation chain, from manufacturing to marketing and distribution. (p.2)
- (2) Bust hierarchy -- reinforce the cultural benefits of innovation parenting by opening up organizational space to allow innovators to bypass barriers and hierarchies that often sap creativity. (p.2)

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- (3) Encourage the unreasonable -- Most companies value unconventional thinking, assuring brainstorming participants that there are no bad ideas and urging them to think outside the box. But you should also encourage the truly impractical in some situations—for example, when conducting scenario-planning exercises to unearth potential competitive threats. (p.3)
- (4) Don't die of indigestion -- Conventional wisdom holds that organizations die of starvation from a shortage of good ideas and projects. In reality, they are much more likely to die of indigestion. R&D researchers should stick to two projects, so as not to overextend the team. Concentrating on two projects allows immersion in a primary project, with the possibility to shift gears to the other project if the first one hits a temporary roadblock.” (p.3)
- (5) Cultivate external relationships -- Relationships that extend beyond the boundaries of the organization are invaluable to acquiring and distributing knowledge and to staying in touch with a diverse array of large companies, start-ups, venture capitalists, national labs, and universities. When others truly understand your innovations, doors to collaboration swing open, giving partners insights into how to further develop and commercialize your technologies. These parties can also help import helpful, new management practices, including better ways to evaluate innovators' performance, faster resource reallocation, and the design of physical work environments that encourage idea sharing and creativity. (p.3-4)

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(6) Hire the best and fast -- No culture can be innovative without great people, and the demands on innovators have never been greater. R&D leaders need to hire people who are willing to join multiple projects and to move from one to another as needed. Call them ambidextrous; call them system thinkers. These are people who want to solve problems that matter and that take them from invention to final product. They constantly push for improvements and create their own luck by sensing what is happening in their field and then applying their observations and experience to problems. At Corning, scientists are not only asked to invent new materials but also to help develop the processes needed to mass-produce them. (p.4) Identifying, recruiting, and retaining deep scientists, inter-disciplinarians, and visionaries requires new thinking and good connections. The corporate transformer should also be prepared to immediately make an offer to a talent, even without an opening at that time. (p.5)

Observations and Findings

ChemChina upholds the core value of “In Science We Trust” and strive to build itself into a technology-driven and world-class comprehensive chemical company. Strategically oriented towards “New Science, New Future”, ChemChina operates in six business sectors covering new chemical materials and specialty chemicals, agrochemicals, oil processing and refined products, tire & rubber products, chemical equipment, and research and development design. It ranks 164th on the “Fortune Global 500” list. It has 148,000 employees, 87,000 of whom work overseas.

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Through the career section of its official website, Syngenta Group makes it clear that the vision, mission, value and policy of the group, as follows:

- Vision: “Help shape the future of agriculture.”
- Mission: “Be inspired to help millions of farmers around the world grow safe and nutritious food, while taking care of the planet.”

In its description of the company, Syngenta Group states it explicitly that “We are a global company with headquarters in Switzerland and operations around the world. Our culture is diverse and inclusive, and our work is meaningful and rewarding.”

With a global team of 28,000 employees operating in 90 countries in 104 production and supply sites, as well as 120 R&D sites globally, it is easily appreciated that the company may potentially face much people management issues.

In Syngenta’s Sustainable Business Report 2017 (p.2), the Chief Executive Officer expressed that “With the closing of the ChemChina transaction, we now also have an owner who understands the importance of taking the long view in support of this direction.” It is clear that the new owner, ChemChina shares the same long-term vision of Syngenta.

Corporate Governance & Management

The Transaction Agreement between ChemChina, its subsidiary China National Agrochemical Corporation (CNAC) and Syngenta AG relating to the ChemChina

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Tender Offer provides the following corporate governance requirements (Syngenta Financial Report 2017, page 50):

- (a) After the first settlement of the Offer, **4 out of 10 members** of Syngenta's Board of Directors shall be persons who have no affiliation with ChemChina or its affiliates (each, an Independent Director);.

- (b) Certain matters will require the affirmative vote of at least two Independent Directors, including, among others,
 - (i) any change in the location of Syngenta's headquarters,
 - (ii) any raising of new debt or making of distributions which would lower the rating of Syngenta to a level below investment grade (by Moody's and Standard & Poor's),
 - (iii) any reduction in Syngenta's Research and Development budget in any given year to a level below 80 percent of the average Research and Development spend in the years 2012– 2015,
 - (iv) any material change in the agricultural sustainability programs or reduction of funding of the Syngenta Foundation for Sustainable Agriculture to a level below 80 percent of the average funding per year 2012–2015,
 - (v) any material change to Syngenta's Health, Safety and Environment Policy and Standards and
 - (vi) any material change to Syngenta's Code of Conduct.

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Approval by the Independent Directors will also be required, subject to certain exceptions, for any transaction between any member of the ChemChina group, on the one hand, and any member of the Syngenta group, on the other hand, if the transaction is not made at market terms. The above corporate governance arrangements shall remain in place until the earlier of (i) five years following the first settlement of the ChemChina Tender Offer and (ii) a re-listing of Syngenta Shares through an initial public offering.

Other than the Board of Directors, Syngenta Group is managed by the Group Leadership Team (GLT) and supervised by the Board of Supervisors. The Group Leadership Team is headed by Erik Fyrwald (CEO), who previously ran Syngenta. Chen Lichtenstein, who previously headed Adama, is CFO of the Syngenta Group.

Talent Management

Syngenta strives to attract and retain talents while creating an environment that stimulates innovation and personal performance and development. (p.51). The company has adopted a “**Materiality Matrix**” for identifying where they can provide the most value, drive their strategy, allocate effort and resources, and direct their external communication and reporting. In the Focus areas of Materiality Matrix, Syngenta have set or plan to set goals or quantitative targets on the most important issues, especially their contribution to food security. Out of the following 16 focus areas, 6 are directly or indirectly related to people:

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- Employee well-being
- Health and safety
- Human rights and fair labour practices
- Safe and sustainable use of Syngenta's products
- Smaller holder empowerment
- Talent attraction and retention

The above reflects how serious Syngenta is in the people issues. In addition, in the list of Monitored Activities, Syngenta share their views, and measure and evaluate performance on these issues to sustain the trust and confidence of their stakeholders, and for them to be a responsible business.

- Community relations and stakeholder engagement

Syngenta Group Sustainable Business Report 2018 (p.3), the CEO stated that “Our people are at the center of all we do.” The company would help people stay safe and look after every worker. (pp.30-33)

Human Resources Management

According to its Sustainable Business Reports, Syngenta Group employed 29,262 employees in 2020, which was 1,593 more than that in 2017 when ChemChina officially took over the company. As shown in “Table 1: Syngenta Non-financial performance summary – People” in latter part of this report, this 5.8% growth in total number of employees can be explained mostly by the increase in staff in its operations

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in Latin America (1,064) and Asia Pacific (534). The total number of senior managers decreased from 339 to 299 or 11.8%.

Senior managers shows similar trend of growing in proportion for Latin America (“LatAm) and Asia Pacific (“APAC”), at the expense of Europe, Middle East and Africa (“EMEA”), with the proportion of senior managers based in EMEA region falling by 7% to 55%, whereas the proportion of senior managers in N.Am. (from 17% to 23%) and APAC from 10% to 11%.

Diversity

The level of diversity for the Syngenta Group has been on the rise: with the number of nationalities in senior management being lifted by 5 to 38 countries. Gender diversity also showed encouraging sign, with the proportion of female employees increased by 1% to 31% of the total number of employees. The proportion of female managers increased slightly from 23% to 25% and that of female senior managers from 17% to 20%.

Employee Development

Syngenta has increased its investment in the leadership and talent development by 50% from USD4.2 mn spent in 2017 to USD 6.3mn in 2020.

Attendance, Health and Safety

The staff attendance improved slightly with turnover rate falling from 11.3% in 2017 to 10% in 2020. An interesting phenomenon is that the proportion of their younger

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employees turning over fell significantly (with age bracket of less than 35 years of age down by 7% to 35% and of the age bracket between 30 and 50 years down by 2% to 41%). Employees aged more than 50 years were observed to have a higher turnover rate. Apparently, the younger employees tended to stay longer than the older staff. The attrition rate increased slightly from 5.2% to 6.3%.

Similarly, the health and safety of employees have also shown improvement with recordable injury and illness rate per 200,000 hours reduced from 0.37 to 0.23. Recordable occupational illness rate per 200,000 hours fell by 67% from 0.03 to 0.01! The cases of recordable injuries fell by 33.8% from 151 to 100 cases.

Financial Performance

Syngenta depicted a rather healthy picture of financial performance. As shown in “Table 3: Syngenta Financial Report 2020 – highlights”, over the period from 2017 to 2020, Syngenta registered an increase in sales of 12.9% from USD12,649 mn to USD14,287 mn, whereas the operating expenses were reduced by 33.4% , resulting in a healthy operating income of USD2,107 mn in 2020. Similarly, the cash flow from operating activities showed a healthy growth of 11.5%, leading to a strong increase of investing activities by 131.7% to USD1,337mn!

Over the 3-year period, total assets increased by 24.3% (or USD4,950 mn) whereas net current assets fell by 33.4% (USD1,785mn). The growth in the total assets were financed mostly by the increase in the non-current liabilities (USD4,932 mn).

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Employee share participation plans

According to Syngenta Financial Report 2017 (pp.63-64), following the successful completion of the ChemChina Tender Offer, all awards under Syngenta employee share participation plans have been settled and Syngenta no longer has share participation plans. During 2016 and 2017 until settlement, the following employee share participation plans were in existence. The Syngenta Long-Term Incentive Plans (LTI) provided selected executive and key employees of Syngenta with the opportunity to obtain the right to purchase shares of Syngenta AG, or the equivalent American Depositary shares (ADS) that were offered to selected executives and key employees in the USA. The grant of share options for Syngenta shares was at the discretion of the Compensation Committee of Syngenta's Board of Directors ("Compensation Committee"), whose members are appointed by the Board of Directors of Syngenta ("Board"). No grants of share options were made in 2017 or 2016. The amount paid to settle these options on completion of the ChemChina Tender Offer was \$143 million.

Reputation and Corporate Business Performance

Through acquiring Syngenta and ADAMA, ChemChina has made it the largest agrochemical company in the world in terms of revenue. Since the official takeover in 2017, Syngenta has been maintaining its number one ranking position most of the time upto 2020. Table 4 (Global Top 10 Agrochemical Companies) shows that its market share as a percentage of total revenue of the global top 10 agrochemical

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companies increased from 19.6% in FY2017 to 20.7%. Syngenta registered a growth rate of 21.2% over the period from 2017 to 2020, which is substantially higher than the average growth rate of 14.4% for the top 10 companies by 6.8%! (Yuan (2017 & 2021))

However, acquiring Syngenta left the company with huge debt and only time will tell how easily ChemChina will integrate the Swiss company. The upcoming merger between Sinochem and ChemChina, rumoured to have been around for years, this could be one of the conditions for the Chinese government to support the Syngenta deal. (Market Research Reports 2021)

Engagement with Stakeholders

Syngenta started in 2012 “Good Growth Plan”, which is aligned closely with the UN Sustainable Development Goals. The company has seen it deliver real, measureable value both for growers and society at large. Their reference farms showed substantial improvements in yield, while the efficiency with which these farms use resources, including pesticides has also improved substantially. These strong results have been achieved while delivering a significant reduction in greenhouse gas emissions, which shows that productivity and efficiency (the key components of a sustainable system) can go hand in hand. (Syngenta Sustainable Business Report, p.4).

Separately, Syngenta continued to build new partnership with key partners, including academics, entrepreneurs, policymakers, associations, NGOs and other private-sector partners, to build programmes that will help farmers to upskill

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themselves and make their businesses more resilient. As these partnerships develop, they will improve food value chains, provide food security for local populations and support farmer livelihoods.

Conclusions

From the above observation and analysis, it can be concluded that after its being acquired by ChemChina, Syngenta continues its business as usual, with the new owner, ChemChina, sharing broadly the same long-term vision and adopting basically the same set-up, approach and processes as it was before 2017. The company has also instituted additional governance measures to safeguard the corporate value, mission, purposes and cultures:

- (a) 40% of Syngenta's Board of Directors are Independent Directors;
- (b) Certain major matters will require the affirmative vote of at least two Independent Directors;

After the takeover, Syngenta continues to register

- (i) organic growth of 5.8% of total employees globally;
- (ii) increase in ethnic and cultural diversity by lifting the number of nationalities in its senior management by 5 to 38;
- (iii) increase in gender diversity, with female managers to 25% and senior managers to 20%;
- (iv) improvement in staff attendance and wellness, by reducing the turnover rate, illness rate and injuries cases.

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Over the period from 2017 to 2020, Syngenta was able to

- (a) maintain its top position in the global agrochemical sector;
- (b) increase its market share for the top 10 agrochemical companies to 20.7%;
- (c) register a growth rate of 21.2% in its agrochemical business revenues, substantially higher than the average 14.4% of the top 10 companies;

In general, Syngenta is rather well positioned in terms of its diversity, equity and inclusiveness and also the corporate culture (such as stakeholder engagement) and leadership to prepare for corporate success.

Recommendations and an implementation plan for recommended changes

With the aging society, escalating concerns on environment, social and governance (particularly focussing on the global climate change and decarbonisation), and also the lasting COVID-19 pandemic situation posing real challenges to the economy in generally and the supply chain in particular, it is recommendable for Syngenta to examine its business process and procedures to explore whether it would be beneficial to go for digitalisation and adoption of robotics/artificial intelligence. This may help reduce the reliance on human resources, the operating costs and enhance efficiency and product quality.

The project can be implemented as follows:

- (1) Undertake an internal preliminary study on the potential impact of the changes in

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business environment on the company;

- (2) Undergo a feasibility study on the possible scope of corporate transformation required to cope with the business environment changes, focussing on the benefits and costs associated with such transformation;
- (3) Appoint business consultant and/or technical consultant(s) by way of request for proposal;
- (4) Prepare a human resource plan for implementing the corporate transformation, in association with the above studies and plans, with the assistance from the global head of human resources.
- (5) Keep abreast of the latest available technology, including hardware and software, to be adopted for facilitating the implementation;
- (6) Prepare a medium-term business plan and the associated budget;
- (7) Prepare a clear corporate communication plan with allowance for contingency and crisis management.

The time horizon for implementing the above may take a number of years, probably at least 3 years. There should be review mechanism on a regular basis, say, monthly, by senior management. Senior management's commitments, in terms of provision of clear direction and sources provision, are of utmost importance.

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Table 1: Syngenta Non-financial performance summary - People

Reporting period October 1 – September 30	2020	2019	2018	2017	2017-2020	2017-2020
					change	% change
Employment						
Employees *1	29,262	28,265	27,732	27,669	1,593	5.8%
Europe, Africa and Middle East *2	12,419	11,860	11,690	12,372	47	0.4%
North America	4,040	4,091	4,120	4,092	-52	-1.3%
Latin America	5,971	5,794	5,676	4,907	1,064	21.7%
Asia Pacific	6,832	6,520	6,246	6,298	534	8.5%
Part-time employees	942	914	912	927	15	1.6%
Turnover rate *3	10.0%	9.5%	12.8%	11.3%	-1.3%	-11.5%
of which: < 35 years	35.0%	34.0%	33.0%	42.0%	-7.0%	-16.7%
30-50 years	41.0%	42.0%	41.0%	43.0%	-2.0%	-4.7%
>50 years	24.0%	24.0%	26.0%	15.0%	9.0%	60.0%
Attrition rate *4	6.3%	6.4%	5.8%	5.2%	1.1%	21.2%
Senior managers	299	292	299	339	-40	-11.8%
Europe, Africa and Middle East	55%	57%	55%	62%	-7.00%	-11.3%
North America	23%	23%	24%	17%	6.00%	35.3%
Latin America	11%	11%	9%	11%	0.00%	0.0%
Asia Pacific	11%	10%	12%	10%	1.00%	10.0%
Diversity						
Nationalities in senior management	38	37	36	33	5	15.2%
Female employees	31%	31%	30%	30%	1.00%	3.3%
Female employees in management roles	25%	25%	24%	23%	2.00%	8.7%
Female employees in senior management	20%	18%	17%	17%	3.00%	17.6%
Employee development						
Leadership and talent development investment (\$m)	6.3	6.9	6.5	4.2	2.1	50.0%
Health, safety and well-being						
Recordable injury and illness rate (IIR) *5	0.23	0.34	0.32	0.37	-0.14	-37.8%
Recordable injury rate *5	0.22	0.31	0.29	0.34	-0.12	-35.3%
Recordable occupational illness rate *5	0.01	0.03	0.03	0.03	-0.02	-66.7%
First aid cases	355	404	378	382	-27	-7.1%
Recordable injuries	100	142	123	151	-51	-33.8%
Cases of recordable occupational illness	5	14	11	12	-7	-58.3%
Cases of work-related stress	12	12	7	7	5	71.4%

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Source: Syngenta Environmental, Social and Governance Report 2020

Notes:

*1 Permanent full-time equivalent (FTE)

*2 Including headquarters (Switzerland)

*3 Includes voluntary and involuntary leavers and restructuring

*4 Includes only voluntary leavers

*5 According to US OSHA definition for injuries and illness (per 200,000 hours)

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Table 2: Syngenta Non-financial performance summary – Business Integrity

Reporting period October 1 – September 30	2020	2019	2018	2017	2017-2020	2017-2020
Corporate conduct					change	% change
Compliance cases reported	264	251	299	215	49	22.8%
Leaders engaged in Leader-Led Compliance Sessions #2	4,864	3,113	3,108	2,263	2,601	114.9%
Completion rate ²	99.70%	92%	99%	95%	4.7%	4.9%
Biotechnology and regulatory compliance						
Employees completing trial regulatory compliance training	2,089	1,984	1,140	1,426	663	46.5%
Field trial locations planted under country regulatory compliance programs # 3	297	475	434	299	-2	-0.7%
Economic value shared						
Economic value shared (\$m)	13,245	13,210	16,298	12,095	1,150	9.5%
Payments to suppliers	7,877	8,659	7,877	7,508	369	4.9%
Employee wages and benefits #4	3,040	2,847	2,755	3,099	-59	-1.9%
Payments to governments (taxes) #5	191	292	168	241	-50	-20.7%
Payments to providers of capital #6	837	787	4,819	593	244	41.1%
Capital expenditure	1,276	601	655	631	645	102.2%
Corporate community investment #7	24	24	24	23	1	4.3%

Source: Syngenta Environmental, Social and Governance Report 2020

Note:#1 Releases that escape beyond the site boundary and cause either environmental impact and/or concern from neighbors and regulators

#2 New KPI introduced in 2016 to capture compliance training

#3 Policy on biotechnology and regulatory compliance reporting was revised in 2017. New KPI represents all trial locations covered by country specific regulatory compliance programs whether they require a permit or not.

#4 Increase in Employee wages and benefits mainly reflects payments to settle share incentive plans in accordance with the terms of the ChemChina takeover transaction

#5 Consists of income and other taxes paid, excluding VAT (included in Payments to suppliers) and employment-related taxes (included in Employee wages and benefits). The decrease in Payments to governments mainly reflects lower income tax payments during the period

#6 Consists of expenditures for dividends, share repurchases (excluding those for employee share plans) and interest on debt. The reduction in Payments to providers of capital mainly reflects lower dividends payments. The dividend paid in the current period was a special dividend as a result of the ChemChina Tender Offer being declared successful

#7 The PwC Independent Assurance Report includes in its scope only the Corporate community investment figure

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used in the calculation of Economic value shared.

Table 3: Syngenta AG Financial Report 2020 - highlights

	Year ended 31 December				% change
(USD mn)	2020	2019	2018	2017	2020/2017
Income statement data:					
Sales	14,287	13,582	13,569	12,649	12.9%
Cost of goods sold	(8,113)	(7,383)	(7,288)	(6,491)	25.0%
Gross Profit	6,174	6,199	6,281	6,158	0.3%
Operating expenses	(4,067)	(4,272)	(4,151)	(6,104)	-33.4%
Operating income	2,107	1,927	2,130	54	
Income/(loss) before taxes	1,610	1,503	1,731	(116)	
Net income/(loss)	1,422	1,456	1,451	(96)	
Net income/(loss) attributable to shareholders	1,421	1,450	1,447	(98)	
Cashflow data:					
Cash flow from operating activities	2,050	838	1,367	1,839	11.5%
Cash flow used for investing activities	(1,337)	(248)	(1,641)	(577)	131.7%
Cash flow used for financing activities	(124)	(204)	(350)	(303)	-59.1%
Capital expenditure on tangible fixed assets	(555)	(521)	(448)	(394)	40.9%
Balance Sheet data:					
Current assets less current liabilities	3,556	3,799	3,828	5,341	-33.4%
Total assets	25,283	22,397	21,182	20,333	24.3%
Total non-current liabilities	(10,547)	(9,181)	(9,073)	(5,615)	87.8%
Total liabilities	(20,793)	(17,926)	(17,038)	(12,333)	68.6%
Share capital	(6)	(6)	(6)	(6)	
Total shareholders' equity	(4,434)	(4,397)	(4,118)	(7,976)	-44.4%

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Table 4: Global Top 10 Agrochemical Companies (2016 – 2020)

Rank FY2020	Company	Revenue (USD mn)			% of total (FY2020)	Revenue (USD mn)			% of total (FY2017)	% change 2020/2017
		FY2020	FY2019	FY2018		Ranking FY017	FY2017	FY2016		
1	Syngenta	11,208	10,588	9,909	20.7%	Syngenta	9,244	9,571	19.6%	21.2%
2	Bayer Crop Science	9,986	10,374	9,641	18.5%	Bayer Crop Science	8,713	8,810	18.4%	14.6%
3	BASF	7,036	7,123	6,916	13.0%	BASF	6,704	6,163	14.2%	5.0%
4	Corteva	6,451	6,256	6,445	11.9%	DowDupont	6,100	6,162	12.9%	N/A
5	UPL	4,662	4,461	2,688	8.6%	Monsanto	3,727	3,514	7.9%	N/A
6	FMC	4,642	4,610	4,285	8.6%	ADAMA	3,259	3,084	6.9%	N/A
7	ADAMA	3,738	3,611	3,617	6.9%	FMC	2,531	2,270	5.4%	N/A
8	Sumitomo Chemical	3,235	2,575	2,538	6.0%	Sumitomo Chemical	2,487	2,380	5.3%	N/A
9	Nufarm	1,720	2,517	2,332	3.2%	UPL	2,296	2,051	4.9%	N/A
10	Jiangsu Yangnong	1,413	1,251	788	2.6%	Nufarm	2,219	1,929	4.7%	N/A
	Total :	54,091	53,366	49,159	100%	Total :	47,280	45,934	100.0%	14.4%
% change YoY :		1.4%	8.6%	4.0%	% change YoY :		2.9%			

Source: Ranking List of Global Top 20 Agrochemical Enterprises for FY 2016 & FY2020, AgroPages (2017 & 2021)

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