



# Commodity Trading Leadership

Bridging the succession gap

SpencerStuart

## **Contents**

Introduction	1
The changing commodities landscape	2
The qualities gap: trader to leader	3
What it takes to be a leader	4
The succession challenge	6
Ten qualities a trading leader needs	9
Looking ahead	10
About the authors	11
Spencer Stuart's global commodities expertise	12
About Spencer Stuart	12

## Introduction

As the global commodities market has evolved in recent years, the value of effective leadership in trading organisations has increased. The dilemma that trading companies face is that it is hard to find a trader who will make a great leader, yet it is almost impossible to be an effective leader of a commodities trading operation without trading experience.

The purpose of this paper is three-fold: to explore why so few commodities traders are interested in or suitable for general management or strategic leadership positions; to consider what a good leader looks like in the context of a trading company; and to recommend how companies can identify and nurture future leaders and help them make the transition.

Our research included in-depth conversations with over 40 senior trading executives from across the world, representing all commodity groups. We discovered a growing succession gap between those who trade commodities and those responsible for leading them.

## The changing commodities landscape

As commodities markets continue to become more globalised and move towards new and higher levels of specialisation, the race to match demand through efficient supply is speeding up. Commodities houses (we use this term for merchants, corporations and in-house operations alike) are looking for synergies across the supply chain as a way of maximising revenue and reducing risk. This is occurring across all extractive industries from energy to metals to agriculture.

“We need an integrated approach. Everyone is combining asset management with commodity trading. You lose value if you separate those two. The last thing you need is different silos in the current market environment. We need portfolio management rather than pure trading. At the moment it’s all about vertical integration.”

The transition to more renewable energy, increasing liquidity, volatile foreign currencies and commodity prices, constantly changing regulations and government intervention — all these have a powerful impact on trading/supply operations. This impact is strategic in nature and at the same time has practical implications for operations. So deep knowledge of operational issues and the commodities supply chain is becoming more desirable at the strategic level.

The result of these changes is new, ratcheted-up competition in trading operations and risk management. High performance in both market and credit risk management is now imperative. To reach that level, commodities houses are rethinking their operational and financial performance, business strategy and incentives, and evaluating whether they are leveraging technology and assets effectively.

We have based our thinking on three categories of trading organisation. Traditional trading organisations (asset-backed producers); balanced trading organisations (vertically integrated trading companies with a focus on both asset-backed and speculative trading); and speculative trading organisations (asset-light traders often with a short-term horizon, e.g. hedge funds, whose focus is on financial commodity markets, not physical ones).

Balanced organisations tend to provide the best training for executives, and we see that the more progressive organisations are themselves adjusting towards the balanced model, principally because they realize that trading alone is not enough to stay competitive. Executing trades is not building a business, and so it is essential to have full knowledge and information of the entire value chain. The right people at the right level in an organisation must be able to understand risk and the use of trading in a more integrated environment.

## CATEGORIES OF TRADING ORGANISATION

Traditional	Balanced	Speculative
National Oil Companies Miners Farmers Food & Beverage Companies	Merchants/ Trading Houses Oil Majors Utilities Metal Producers	Investment Banks Hedge Funds Financial Traders Private Equity

### The qualities gap: trader to leader

There are four main barriers preventing traders from moving into senior executive or general management positions:

**PERSONALITY:** Not all technically competent people make good leaders and this is especially true in commodities trading. It is in the successful trader's DNA to look after their own P&L and focus on the short term. The underlying attitudes and temperament that make traders successful will usually count against them unless mitigated by soft skills, among them emotional intelligence, which are mostly irrelevant to their lives as traders.

**MOTIVATION:** Traders can do just as well or better financially by trading than they can by moving into an executive leadership role. Any trader moving into a leadership role must be motivated by more than money, at least in the short term.

**EXPERIENCE:** Traders can become highly successful in their narrow field, but unless they gain exposure to the wider value chain they will not develop the strategic thinking capability essential in a leader. Many traders are too tactical to progress. They adopt a short-term disciplined approach to trading that is focused primarily on generating immediate profits and may therefore lack broader problem-solving skills.

**DEVELOPMENT:** In many organisations there is no clear path from trader to trading executive and beyond. Traders with the potential to move into leadership roles must be identified early and given opportunities to develop a broader set of skills. Companies must have a clear understanding of the range of skills, experience and qualities needed and where possible deploy sophisticated assessment tools that can predict the effectiveness of potential leaders.

## What it takes to be a leader

Nearly all those we interviewed emphasized how important it is that leaders have themselves been traders, not just because they need to understand the complexities but because traders are more likely to listen to what they have to say.

**“Most successful trading companies are run by traders who have learned the give-and-take of business. They manage assets and risk and make constant adjustments. When it comes to risk and assessing risk, executives with trading training are the best.”**

Professional credibility derives from the trading record, the trader’s attitude to risk and the ability to think tactically about it. Carrying that credibility forward into a management role is essential. “You need the respect of the traders. You need to know what they are talking about. You need to have traded something before. My definition: You need to deeply understand your subject matter (20%) and you need to be visionary + inspiring (80%).”

As an executive, credibility comes from the capacity to make important decisions and to explain this process up and down the organisation. A good trading executive will be able to manage risk and be confident when making decisions. “They have to be able to correct mistakes made by others. Only then they will earn the respect of their colleagues and traders.”

Leaders need to be able to build confidence, to exercise moral courage and to influence others throughout the trading house. These qualities are the product of time and experience. There was a worry that traders might struggle here without the right guidance: “They cannot inspire anyone. Perhaps you could give them leadership training from an early stage in their career. They need to work on it immediately. However, if they don’t have any other drivers in life than money it could be difficult.”

As a trading house moves toward the balanced model, other professional abilities will be required of those who lead: risk management, credit control, trade finance and a knowledge of physical trading. Higher volatility in markets is better for traders and yet it is extremely difficult to manage in a volatile market; stability and equilibrium tend to be better for management. Good leaders are able to ask the right questions and deal with an acceptable level of uncertainty. They can see beneath both volatility and stability to the factors that cause them. They are also able to deal

with the paradox of needing both a strategic and tactical mindset, of being ‘risk on’ while maintaining risk control.

“It’s easier to be a trader than a leader. As a business leader you will be taking decisions for the traders. That’s the difference. Most of the successful leaders in commodity trading today got their feet on the ground through gaining a full understanding of all the operational issues relating to the physical movement of commodities and the risks to which one can be exposed. You need to understand all aspects of risk in physical trading in order to move into general management.”

Leadership at all levels depends on the culture of the trading house. Perhaps more than any other category, the simple idea of “the way we do things around here” has both power and reach. Time and again we encountered the view that many traders lack soft skills; this was seen as their biggest handicap. One CEO put the matter clearly: “Leaders have to be suited for the job description of chief cultural officer. People are the most important asset in trading.”

Along with a broader appreciation of risk and physical trading, successful leaders in this area need to possess soft skills. This was seen as the biggest handicap for traders, many of whom lack the patience to delegate, to develop people and work on a different basis from what they are used to. Trading attracts plenty of individuals who see no allure in the prospect of management — such an idea is anathema to them.

“As a VP you need other incentives than just money; you take a pay cut that shows what you are really made of. You are not glued to the screens, but instead focus on people and processes, on coaching, training and guidance. You pick the right people to develop and then test them on their ability to work with people. But you need to have an interest in how other people think. If not, it doesn’t work.”

It is important to note, however, that those who do well in trading over time are often quite rounded individuals and develop some excellent skills that underpin their success. These include, for example, the ability to manage relationships.

“As a trader the market tells you if you’re right. As a manager no one tells you: time will tell. Traders are used to an immediate response. They make a lot of decisions under very uncertain circumstances. These are different dynamics than you will find in management. As an executive you need broader intrinsic skills: you need to understand the motivation of everyone involved.”

Looking to the future, trading organisations will benefit by having leaders who reflect the diversity of the world they operate in, both in terms of nationality and gender. “We are developing and becoming better traders and better leaders, but our universe is still too narrow, and other careers and functions are much more top of mind.”

So how can trading leadership attract a different sort of gene pool? Companies could begin by thinking more deeply about the incentives and rewards that could stimulate interest — and not just in terms of money. Spotting potential leaders from the trading community is one thing; motivating them to make the substantial shift into an executive role is quite another.

## The succession challenge

Relying too much on one individual is both a tactical and strategic risk. In the new context of integrated commodities trading, houses must develop teams and broaden their expertise.

“I think a lot of trading companies have a serious succession issue. The biggest problem for some of them is that they are driven by one person. I wonder if they have really thought about succession. What if the leader falls away? Will they crumble?”

In the past, talent has tended to move from the older established trading organisations to younger fast-growing companies. Today these more established firms are better at retaining their best people. They know that good succession planning begins with the proper management and retention of talent. This entails coaching,

guidance and delegation — identifying potential successors early, letting the right people lead parts of the business and having the patience to help them develop and grow.

“As a leader you need to be able to deal with delegation. Leaders should emerge by their early 40s and will have been identified at an earlier point in their careers. The best leaders will keep coming from the older established firms which have well established and disciplined business models that are adaptable and innovative.”

Whether a trader makes a successful transition into management depends less on their exceptional trading ability and more on their organisation’s capacity to plan succession, to clear a pathway for talented traders with leadership ability to take on an executive role.

The succession process should concentrate on developing breadth rather than depth of experience through carefully managed and supervised delegation. The larger trading companies offer the opportunity to do broader, more strategic work, to operate in interdisciplinary teams, and to understand the detail and complexity of the supply chain, whatever commodity is at the start of the chain of business.

An important part of the leadership succession process is creating a pathway for credible individuals to occupy a place of authority in the management structure where they can apply refined judgment to uncertain situations and encourage others to follow.

#### GROWING A COMMODITIES LEADER



Identifying the executives of the future is made far easier by structured, rigorous assessment. Leaders need not only to exhibit a range of cognitive abilities, including what we call Executive Intelligence<sup>1</sup>, but also have the capacity to develop the soft skills and EQ to equip them to manage relationships effectively and cope with the many nuances inherent in a management role.

Whatever the route, the transition from trader to executive is tough. Respect is earned by trading and easily lost by managing poorly or by failing to understand the trading scene. “It’s very difficult. You need to have patience. Do it step by step. Get exposed more and more along the way.”

Developing traders to move into leadership positions through careful succession planning is considered by many to be the ideal solution, however it is not the only way to develop strategic expertise. Another is to recruit individuals with a broad business background into the organisation: “In my previous role as the CEO of a large energy trading company, I championed an executive trading programme geared towards recruiting a diverse group of top MBAs with strong analytical backgrounds and solid industry experience to join the group on a commercial, operational or financial leadership track.”

Although it is clear that many traders have no interest in pursuing an executive career, a strategic rather than a tactical or operational view of trading may, in fact, provide better rewards over time. Successful traders can move on to create their own business where income can grow exponentially. This is where strategic intelligence counts.

“If you lead a business and own a part of it and then grow it, your potential income will grow exponentially; 10 traders working for you can make you more money than you could as a sole trader. If you want to make money in trading you should not copy the business model of your competitors, but you should be inventive and creative, like the ancient explorers.”

<sup>1</sup> Executive Intelligence refers to the unique set of capabilities that enable executives to perform at the highest level — their social intelligence, self-awareness and ability to accurately analyze situations and make decisions. Spencer Stuart has developed a proprietary methodology for measuring these capabilities, providing a new level of accuracy, objectivity and predictive validity in the assessment of senior executives.

## Ten qualities a trading leader needs

While many of these traits are to be found in the best leaders regardless of sector or type of business, these are the most desirable qualities in trading leaders cited by those we interviewed for this study. Many traders have a number of these traits, but to be an outstanding executive they will need to possess all of them.

1. **CREDIBILITY.** Respected for having a high intellect and strong trading experience (although an executive need not have been the star trader).
2. **DEPTH OF UNDERSTANDING.** Knowing the subject matter from a technical and physical perspective, e.g. supply chain, logistics, financial, legal, etc.
3. **STRATEGIC AND TACTICAL THINKING.** A combination of taking the broader view and a close attention to detail.
4. **A DEEP UNDERSTANDING OF RISK.** Balancing the ability to exploit opportunity control trading risk.
5. **AN ENTREPRENEURIAL MINDSET.** Looking for and identifying the gaps and responding rapidly to market opportunities.
6. **A STRONG BACKBONE.** Conviction, strong nerves and resilience.
7. **PEOPLE SKILLS.** The ability to inspire and motivate a team of traders, to shift easily between states of collegiality and authority.
8. **THE ABILITY TO RECRUIT, TRAIN AND RETAIN TALENT.** A successful trading enterprise requires stability, continuity and effective leadership succession.
9. **A CAPACITY FOR BRIDGE BUILDING.** Communicating effectively with management and the wider business; speaking both languages.
10. **EXECUTIVE PRESENCE.** A combination of qualities including composure under pressure, lucid communication skills and the confidence born of humility.

## Looking ahead

As the commodities trading environment becomes increasingly global, commodities markets are continuously evolving and it is becoming vital for companies to be able to anticipate and adapt to changing models and circumstances. Organisations need to give serious thought to their future leadership needs and question whether they have in place the right models for identifying, assessing and developing the next generation of leaders inside their organisations.

What is at stake here is more than personal ambition or individual qualities and skills; it is the strategic future of the sector, a future that will be shaped by people who have an operational and tactical understanding of the fundamentals of risk and physical trading as well as the soft skills, intellectual acuity and innovative drive to work at the highest strategic level. Such people are rare.

## About the authors



James Trimming co-leads Spencer Stuart's European activities in the commodities sector and is a member of the firm's Financial Services and Industrial practices. James has completed senior management assignments across sales, trading and research for clients including leading investment banks, commodity producers/trading firms, utilities and hedge funds in Asia, Europe, the Middle East and United States. Prior to entering search, James worked for an international private client business where he was responsible for managing high-net worth individuals



Sebastiaan Stoové co-leads Spencer Stuart's European activities in the commodities sector and is a core member of the firm's Energy and Industrial practices. Sebastiaan has completed senior management assignments across metals, energy and agricultural commodities. In addition to upstream and midstream executive positions he focuses on functional roles across different asset classes. Prior to entering search, Sebastiaan worked for an investment bank and two international trading firms.

The following Spencer Stuart consultants also participated in this study:

- > Cliff Howe (Calgary)
- > Jeff Hylar (Houston)
- > Rob Miesen (Amsterdam)
- > Koichi Naruse (Tokyo)
- > Hugh Thorneycroft (London)
- > Mike Wheatley (Melbourne)
- > Peter Williamson (London)

## Spencer Stuart's global commodities expertise

Spencer Stuart has a market-leading team of commodities specialists with deep sector and functional experience across Europe, the US, Asia and Australasia. During the past couple of years, our dedicated team has conducted a significant number of searches across multiple sectors including oil & gas, power, agriculture and metals and mining. Our clients span the entire commodities spectrum and range from large multinational companies to smaller companies focused on a single product or asset class. We play a key advisory role for our clients by helping them either to strengthen their existing business model or to diversify into new strategies. Our commitment to strengthening leadership within the commodities sector is underpinned by a global network of offices which ensures that we are able to source the best talent, wherever it may be located.

## About Spencer Stuart

Spencer Stuart is one of the world's leading executive search consulting firms. Privately held since 1956, Spencer Stuart applies its extensive knowledge of industries, functions and talent to advise select clients — ranging from major multinationals to emerging companies to nonprofit organisations — and address their leadership requirements. Through 55 offices in 30 countries and a broad range of practice groups, Spencer Stuart consultants focus on senior-level executive search, board director appointments, succession planning and in-depth senior executive management assessments. For more information, visit [www.spencerstuart.com](http://www.spencerstuart.com).

## Worldwide Offices

Amsterdam t 31 (0) 20.305.73.05	Hong Kong t 852.2521.8373	New Delhi t 91.124.485.4444	Sydney t 61.2.9240.0100
Atlanta t 1.404.504.4400	Houston t 1.713.225.1621	New York t 1.212.336.0200	Tokyo t 81 3.5223.9510
Barcelona t 34.93.487.23.36	Istanbul t 90.212.315.0400	Orange County t 1.949.930.8000	Toronto t 1.416.361.0311
Beijing t 86.10.6535.2100	Johannesburg t 27.11.557.5300	Paris t 33 (0) 1.53.57.81.23	Vienna t 43.1.36.88.700.0
Bogota t 57.1.618.2488	London t 44 (0)20 7298.3333	Philadelphia t 1.215.814.1600	Warsaw t 48.22.321.02.00
Boston t 1.617.531.5731	Los Angeles t 1.310.209.0610	Prague t 420.221.411.341	Washington, D.C. t 1.202.639.8111
Brussels t 32.2.732.26.25	Madrid t 34.91.745.85.00	Rome t 39.06.802071	Zurich t 41.44.257.17.17
Budapest t 36.1.200.08.50	Melbourne t 61.3.8661.0100	San Francisco t 1.415.495.4141	
Buenos Aires t 54.11.4310.9100	Mexico City t 52.55.5002.4950	Santiago t 56.2.2.940.2700	
Calgary t 1.403.538.8658	Miami t 1.305.443.9911	Sao Paulo t 55 11.2050.8000	
Chicago t 1.312.822.0080	Milan t 39.02.771251	Seattle t 1.206.224.5660	
Copenhagen t 45 3334.6700	Minneapolis/St. Paul t 1.612.313.2000	Shanghai t 86 21.2326.2828	
Dallas t 1.214.672.5200	Montreal t 1.514.288.3377	Silicon Valley t 1.650.356.5500	
Dubai t 971.4.426.6500	Moscow T: 7.495.797.36.37	Singapore t 65 6586.1186	
Frankfurt t 49 (0) 69.61.09.27.0	Mumbai t 91 22 6616.1414	Stamford t 1.203.324.6333	
Geneva t 41.22.312.36.38	Munich t 49 (0) 89.45.55.53.0	Stockholm t 46 8.5348015 0	



SpencerStuart