

## Chapter 3

### THE SEARCH FOR SYNERGIES

True collegial, interactive management obviously cannot be reduced to a combination of Participative MBO, common procedures and periodic meetings, however valuable their effect on impetus and dynamism. The point being that in a group like ours, entrepreneurial culture outweighs management culture. It is not enough to manage well; we need to take action, innovate and take risks. Commitment to goals, respect for procedures and budgets, and openness in relation to sister companies, although indispensable and effective, are not the infallible combination for the development of a group with widening horizons. There are more and more opportunities to be seized, but more and more threats to successfully overcome.

Our international experience has quickly enabled us to uncover certain basic differences between the various markets, which need to be specifically addressed. The extent of disparities in production costs, for instance, gives some low-wage countries a competitive edge that challenges the economic interest of automation. Moreover, the huge potential of some markets (compared to which the French or European markets seem pathetically narrow) offers high levels of activity and economies of scale to actors established in these markets – further accentuating the effect of low salaries, to our detriment. To cope successfully with these challenges, we now need to

strengthen our economies of scale – or even compensate them when our production is not the strongest in the market. This can be done by apprenticeship (increasing productivity through know-how, mastering processes, etc.), using our experience to gain an advantage over our present and future competitors, as suggested by the Boston Consulting Group.

The world has changed a lot, and will change even more in the coming decades. The new order imposes a duty on a group like ours to go beyond good management ensured by acquired procedures and to take advantage of our leading position in many markets to consolidate our forces and contain the arrival of any newcomers. For this we need to invent new approaches and methods to optimise our competences. We need a whole range of techniques to increase our added value or distinguish ourselves through the innovation, services and quality of our products compared to the more basic proposals of our future low-cost rivals.

#### A. NETWORK ORGANISATION

The starting point of our thinking was that we could not escape worldwide competition through prices. If we did nothing we could not survive without relocating and deeply restructuring our Group, with the disastrous social consequences this would entail. This is the scenario that many companies with a strong labour coefficient are now experiencing. But it is possible to imagine an alternative, benefiting from all the forces of the entities in the Group through a network organisation based on flexibility, reactivity and the search for synergies.

In fact, the configuration of the Altrad Group in the past was not very different from a dynamic network organisation, which classically relies on exchange relationships between the actors (companies in the Group) who link their particular skills and competences with other actors, under the

supervision of general management and the Group's transversal services.

This type of organisation generally translates as a reduction in costs: the companies in the network gain advantages in terms of outside suppliers, the transaction costs inherent to finding appropriate prices, negotiation, and working out separate contracts for each transaction and their follow-up (R. Coase, O. Williamson). Such costs are lower between two members of a network than between an unrelated buyer and seller.

But organising the Altrad Group into a dynamic intragroup network also produced unexpected reactions from specialists who were more familiar with networks outside the Group. When a problem arises (as bitter experience has shown) an outside subcontractor or supplier may refuse to accept the financial consequences or may even take advantage of the situation by raising tariffs, whereas a network organisation reduces the risk of a company turning away from a sister company. The two are linked by mutual solidarity and responsibility, unless of course, despite the input of know-how in the Group network, the company is still not competitive. But even in the event of resorting to an outside supplier, one entity's purchasing experience will benefit all the others, through the good relations established with the new supplier. The Group may even ask the supplier to join the dynamic network at a later date. Experience has thus led to identifying three types of networks: the intragroup network composed of all the Group entities (subsidiaries, functional services, production sites and commercialisation sites); the network outside the Group, comprising all the outside partners (suppliers of components, materials, etc., producers and assemblers, distributors, financial establishments, logistics firms, etc.); and finally the overall network encompassing the first two.

Above all, we have learnt "along the line" that cost reduction is *not* the sole objective of a network organisation. Rather, it is a way of ensuring survival in the face of heavy price competition

and of differentiating oneself by investing in quality and innovation by valuing the distinctive competences of the various actors.

Network organisation thus implies enhancing coordination between the research departments within most of our companies, as well as between sales department or production workshops – all potential sources for designers to find new products and processes or spot new opportunities.

It is worth noting here that centralisation is as far removed from the spirit of working in a network as monopolisation is from healthy competition. Coordination is not synonymous with combining such and such an activity into a new, specialised unit. Nor does working as a network mean reducing teams, even those working in the same area, or getting them to compete, but harmonising their work in a dynamic atmosphere of emulation. While it may be advisable to eventually give up duplicated activities between companies for the sake of competitiveness, any redeployment of resources must only be decided after a close analysis of the distinctive competences of the companies. It is vital to avoid losing any strength, competence or know-how contributed by one of the companies in the Group.

This has led to the Altrad Group's decision to create inter-company and inter-functional progress units instead.

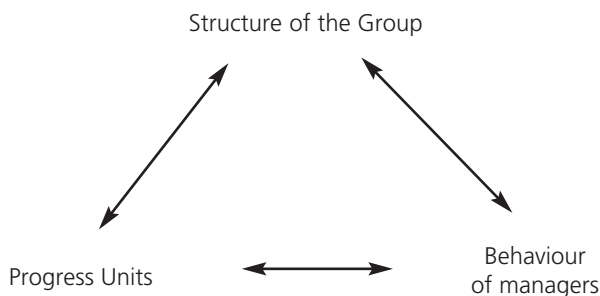
#### B. A MANAGERIAL INNOVATION: PROGRESS UNITS

Progress units (PU) must not be confused with places for the staff to discuss work issues or WEIT (Work Environment Improvement Teams), periodic meetings to exchange views between a superior and his immediate subordinates, semi-autonomous groups and quality circles. The main difference lies in their composition and purpose:

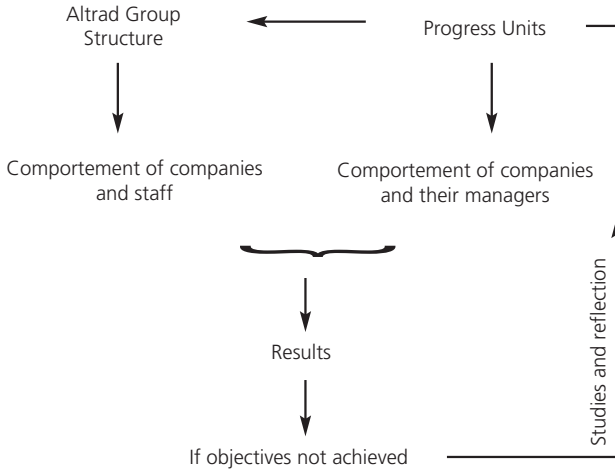
- PUs are composed of senior staff only (company heads and senior operational or functional staff) from the companies concerned by the issue presented to each progress unit by General Management. They are characterised by transversality, continuity and permanence;
- in terms of purpose, the aim of a PU is to work on an issue together, to exchange and compare experience and competence and to propose measures to increase Group competitiveness, reduce costs (including hidden costs), stimulate innovation and accelerate its diffusion throughout the network. And this is done even if the proposal seems at first sight to be unfavourable to one of the companies in the group.

The role of these PU is not restricted to issuing proposals. Once they have finalised a project, it is the progress unit coordinator's responsibility to ensure the proposals are applied in all the companies concerned.

Links with the progress units will gradually bring about changes in the behaviour of the members of the Altrad Group, who already interact with the group structure and subsidiaries. At the same time, the setting up of these PU has reduced the structural inertia revealed by any change in the structure chart, giving more flexibility and reactivity to the Group and its member companies. The linear relation "structure  $\Rightarrow$  behaviours" or the more generally interactive relation "structure  $\Leftrightarrow$  behaviours", has been replaced by a new dynamic process:



Progress units have changed the very structure of the Altrad Group (I will come back to this later), as summarised by the diagram below:



One of the goals of the PU is to develop and link up the competitive advantages of our Group. To do so, we have applied the concept of value chain developed by Michael Porter as a tool to analyse the sources of competitive advantage. The general principle is simple: to gain a competitive advantage, the company can, according to Porter:

- perform its activities at a lower cost than its competitors (cost leadership strategy),
- or offer a difference that customers are prepared to pay a higher price for (differentiation strategy).

Porter distinguishes two basic types of activity:

*1. The main activities of the company are classified into five main areas:*

- Inbound logistics: receiving materials and components, handling, storage, stock control, scheduling transport and return to suppliers, etc.

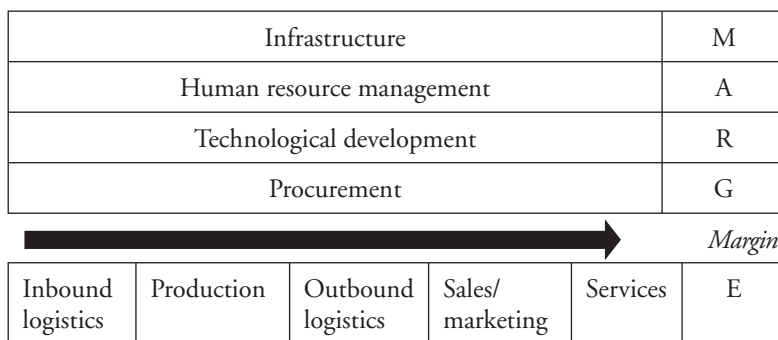
- Production: machine operation, assembly, equipment maintenance, etc.
- Outbound logistics: storing finished products, handling, delivery, processing orders, timing charts, etc.
- Marketing and sales: sales force, advertising, promotion, relations with distributors, price-fixing, etc.
- Services: installation, repair, after sales service (ASS), replacement parts supply, etc.

*2. Support activities enabling the main activities to be carried out, classified into four areas:*

- Infrastructure: general management, accounting, management control, quality management
- Human resources management: recruitment, training, remuneration, etc.
- Technological development: study and development of new products, taking out patents, standardisation, etc.
- Procurement: buying raw materials, supplies and consumables, office equipment, etc.

All these activities, whether main or support, create value or margins.

The value chain  
(Porter, 1986)



Applied to the scale of the Group, an analysis of the sources of competitive advantage must obviously be carried out not by just one, but by all its entities. Hence, in theory, the need to create nine proposal units (one per “main” or “support” activity) to which each company engaged in these activities delegates a representative. This is where the value chain concept comes in, by defining the interconnections between our companies and the value-creating activities that might warrant joint action:

	<i>Sources of interconnection</i>	<i>Possible joint action</i>
Infrastructure, HRM	Identical needs, Group compatibility, joint capital, etc.	Management meetings, joint use of cash flow, joint hiring and training, joint system of remuneration, etc.
Procurement	Same raw materials, suppliers, consumables, office supplies, etc.	Joint search for suppliers, central purchasing, etc.
Technologies	Joint technology for a particular product or process, incorporation of one product by another, etc.	Joint development of technology, joint studies, development, etc.
Production	Identical or similar manufacturing processes or methods of assembly, identical or similar quality control processes.	Joint manufacturing of parts, centralised assembly, etc.

Any such project nevertheless requires close analysis, particularly in terms of advantages and disadvantages. Joint action can generate sizeable competitive advantages but it can also provoke negative effects, referred to by Porter as the costs of compromise. For example (for an interconnection related to

the market), realising that there are customers in common may lead to joint action by setting up a common brand. This would offer the double competitive advantage of reducing communications budgets and enhancing notoriety and image. In doing so, the company nevertheless exposes itself to the costs of compromise, i.e. the risk of customers hesitating before bulk buying from a single firm.

Finally, the member companies in the Altrad Group, because of its very diversity (geographically and activity-wise), did not present the same interconnections: the same customers but different competitors, or the same production but big differences in marketing approaches for different markets... We therefore had to find their interconnections two by two, using a research matrix.

This phase of the analysis revealed a rich web of interconnections between the companies in the Group, with numerous value-creating activities that warranted forming a network. The strongest potential synergies were found in production, Research & Development, purchasing, outbound logistics, total quality and safety/security. Wherever it seemed profitable and constructive to study exchanges between several companies, whether in regard to a specific function, a particular product or a certain type of customer, a progress unit was set up to facilitate the implementation of a network organisation. In other words, transferring certain activities from the companies which created the least value to more competitive companies. Company A, for instance, deals with recruiting for company B, which has lower performance or is simply less able to do so, but this does not mean it will recruit for company C, whose staff requirements are less compatible. Company C will deal with producing technical documents for A, but not for B, which works in another language. As for company D, it will deal with designing such and such a part for the three other companies, but hand over its rental and equipment installation services to one of the

other companies. In short, like the players around the table in a game of strategy (no doubt a fitting comparison to competitive market conditions), it is a question of ensuring the optimal distribution of the cards in the team. No one player necessarily holds all the trumps, but each player has the cards they are in the best position to play to ensure that the team wins the game.

A PU was set up for concrete mixer production, another for innovation in the scaffolding division, etc. In some cases, a PU may concern a regional block (Southern Europe and North Africa, Central Europe, etc.) marked by certain regional specificities, whereas another will extend beyond geographical borders. In a Group that functions as a network, in fact, notions of spatial proximity and accessibility fade as decision criteria, giving way to the notion of response time to fluctuations in demand. Proximity then becomes a question of response time and transport cost reduction. This led to the first step of creating fifteen progress units:

- in production, four PU, each examining a specific type of product: scaffolding, concrete mixers, products for local authorities, and wheelbarrows;
- in Research & Development, four PU also, examining the same specialities;
- in purchasing for materials, parts and production supplies, only two PU, respectively for concrete mixers and scaffolding;
- in Marketing-Communication-Sales, three PU: Marketing, Market surveys and looking for outlets, Communication (these PU will be set up gradually, only the first already exists on an informal basis);
- finally, in more specific areas but with high synergy potential: a Logistics PU (outbound), a total Quality PU and a Safety/Security PU for goods and information.

These PU will vary in lifespan. Some focus on a specific problem and will disappear once a complete solution has been

found. Others have a more permanent vocation but will evolve over time, even in regard to composition, particularly with the arrival of new companies in the Group network.

Each PU is an entity in its own right, like the companies and the functional management team, with a duty to work out its own annual budget, define its objectives and main missions, and present its findings once a year at the meeting of management and company heads. In addition, the head of the PU sends a monthly activity report to General Management. PU activity is then assessed by General Management and a remuneration system is provided for.

Each PU gets together twice or three times a year, but its members communicate with each other as often as possible, directly, by phone or Internet meetings organised by the head of the PU. He then sends a report of the meetings to General Management, the members of the PU and the team of company heads.

The success of a PU depends on the active participation of its members, their creativity and enthusiasm, but also on the ability of the head of the PU to lead. Far from simply coordinating schedules, agendas and reports, he is responsible for inspiring the members of the PU to innovate, to be enterprising and, ultimately, to succeed in creating the conditions to optimise the Group's value chain. It is in order to give them the means to meet this challenge, i.e. real decision-making and executive power, that the structure of our Group has shifted toward a new direction, as referred to in the following chapter.

### C. THE SYSTEM OF LEADERSHIP IN A MATRIX STRUCTURE

The setting up of progress units, by introducing another dimension in the Altrad Group structure, has led to a reconsideration of the system of remuneration and leadership of those directly involved, i.e.

- progress unit heads (permanent or provisional),
- progress unit members, who are also company heads or representatives,
- company heads who are not members of progress units.

The new system of remuneration and leadership, in accordance with the Group's remuneration policy of harmonisation and variability, will have to incorporate two basic principles of our collegial and interactive management. The first is the principle of transparency, i.e. that each member of staff must know the exact modes and indicators used to calculate his remuneration. The second is the principle of participation, which imposes fixed objectives according to a two-way process and the control of contradictory performances as opposed to unilateral control.

Finally, this remuneration system will be designed with performance in mind, a multiple-meaning management concept based on three notions: efficacy, efficiency and effectiveness.

- Efficacy measures the degree of accomplishment of a fixed objective, which is usually quantitative (turnover, market share, volume of margin, etc.) to facilitate control and measurement of the discrepancy between objective and realisation, which may be qualitative (image, technological advance, etc.)
- Efficiency (productivity, or yield) measures the optimisation of the means used to obtain the result, quantified in terms of economic profitability (operating profit / fixed assets + WCR), production output (share of total production capacity that is effectively used) or administrative productivity (added value / overheads)
- Effectiveness measures the extent to which the staff adheres to and collaborates in reaching objectives. This can be seen in rates of absenteeism or in a qualitative assessment of behaviour, respect for the Group culture, the approach of a company head to his colleagues, his action in favour of the Group, ethics, etc.

Effectiveness, an essentially qualitative factor, is no doubt the most difficult variable to measure. It calls for modes of assessment (collegial modes, for example) that are not liable to subjectivity. A contradictory presentation of the assessment, giving the party concerned the opportunity to defend himself, also helps the person accept the mark they get, avoiding any sense of injustice leading to grudges, demotivation and other perverse effects. Judicious indicators are needed to measure effectiveness, such as staff adherence to objectives, respect for Altrad Group ethics, the social atmosphere, level of staff satisfaction, etc. These indicators also provide a comparison between the companies, progress units and other entities in the Group. They are particularly useful to Group management when one considers how hard it is to make this type of comparison on the basis of efficacy or efficiency, established according to a contextual denominator (results) specific to each entity.

The system of remuneration for company heads in the past included a variable part based on two financial indicators: operating profit and Working capital requirements (WCR). Overhauling the remuneration system led to rethinking about refining the efficacy criteria (in the short, medium and long term), and, even more, introducing the criteria of efficiency and effectiveness. Three merit bonuses were initially introduced, on a trial basis:

- two bonuses for efficiency, respectively based on the ratio between the company's operating profit and fixed assets (ratio R1) or WCR (ratio R2);
- an effectiveness bonus directly fixed by the President of the Group.

Our aim was that two thirds of the bonuses paid to company heads should be based on the new criteria of efficacy, efficiency and effectiveness, thus considerably reducing the weight of the company's Operating profit in the profit-sharing calculation. Finally, this scheme in no way excludes other types of motivation bonuses, provided they are calculated according

to accurate procedures. They may be collective (the federating power of this type of recompense is well known) or individual, based for instance on progress or effort, or measured according to travel-time put in by participants coming from the furthest geographical distance.

The progress unit members and heads also had to be recompensed in the form of profit sharing related to the progress obtained through their action, not only in terms of financial rewards but also by validating other needs, often experienced more by senior staff, such as recognition, being part of a collective spirit, self-esteem, personal achievement, etc. (Altrad, 1992).

The most delicate part was to make a precise evaluation of progress as the grounds for rewarding the contribution of the PU. On a collective basis, this may consist of reaching set objectives, achieving results without overspending the budget, or respecting the schedule in the specifications sheet, etc. On an individual basis, rewards may be granted according to personal commitment, regularity of attendance, level of participation, number of proposals made, etc.). Yet this assessment may prove to be relatively complex, depending on the nature of the missions given to the PU. Progress can be direct or indirect, specific or gradual, more or less long term, quantitative or qualitative, tangible or intangible, immediately obvious or, on the contrary, very discreet. Not to mention the extension of this progress, which may only initially affect a narrow sector, specifically targeted by the intervention of the PU, before slowly spreading, horizontally or vertically, to act as an example or model to emulate. It may work its way through the rich complexities of Altrad culture to areas beyond those originally targeted. This calls for different evaluations or assessments relying on complex elements like performance, with its three components: efficacy, efficiency and effectiveness, as in the case of company heads. And these assessments need to be made on the

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basis of open, dialectical, collegial, participative and contradictory procedures.

It is a complex issue so it is perhaps advisable to start out simply, knowing that it is always possible to refine and complete the initial system. Therefore we have set up:

- two bonuses for efficacy, calculated on the basis of the increases in turnover and volume margin, resulting from the proposals made by the progress unit;
- two bonuses for efficiency, calculated on the basis of increases in operating profit for the companies concerned, attributable to the progress unit, expressed either as fixed assets (ratio R1'), or WCR (ratio R2');
- a distributive bonus for effectiveness, rewarding the level of contribution made by members of the PU and fixed by the President of the Group after assessing the economic value of the progress generated by the PU. This follows a dialogue with the head of the PU to assess the adherence of the PU to Group objectives and respect for its ethics.