



Leadership development

Management Development Programmes provide leadership training usually to middle or top level managers to assist them in upgrading their skills. The programmes have been updated in response to the changing economic climate. Employees are encouraged to identify opportunities for business development and increased efficiency. Internal promotion is a key source of leadership talent and is used to motivate and reward staff.

Succession planning

CRH places a significant emphasis on succession planning. This is done to develop future generations of leaders from within the organisation and maintain quality employees at all levels. Preparing people for future roles involves a combination of challenging assignments, coaching and formal training.

Employees are aware that during difficult economic times they must work within tighter financial constraints to keep operations within budget.

Managing the future

The overall outlook for 2009 is extremely challenging, given the severe impact of ongoing turmoil in financial markets across the world. There are a number of positives which will provide future opportunities for business, for example, lower energy costs, interest rate reductions and the infrastructure stimulus packages in a number of countries, notably the USA. In this environment, efforts will remain focussed on implementing cost-cutting measures, reducing expenditure and preparing the business for recovery in construction markets.

Regional and product diversity serves to smooth out some of the effects of changing economic conditions and to provide multiple opportunities for growth. Management has responded vigorously to extremely challenging market conditions. All aspects of business have been analysed and cost reduction and cash generation measures have been put in place to deal with whatever trading circumstances may evolve.

Glossary

Acquisition: The act of acquiring something, in this context buying businesses as assets i.e a form of inorganic growth.

Assets: The total resources of a person or business which includes cash, stock, inventory, accounts receivable, goodwill, fixtures, machinery, or real estate, etc.

Balance sheet: A financial statement showing a company's assets, liabilities and shareholders' equity on a given date. It shows what the company owns and what debts it owes.

Decentralisation: When power and authority is delegated throughout the organisation rather than being vested in the hands of a few senior managers.

Diversification: The broadening of business activities to expand into other countries and/or products to add complementary products and services.

Economies of scale: This occurs when more of a good or service is produced, the cost of producing each unit of that good or service is reduced.

Inorganic growth: When a firm acquires other companies, merges with other firms or forms alliances.

Organic growth: Developing existing businesses financed from the reserves of the company.

Rights issue: A rights issue is a way in which a company can raise money by selling new shares. These newly issued shares are offered to existing shareholders in proportion to their current shareholding at a discount from the price at which they will be offered to the public later.

Student activity

1. i) Explain what is meant by the term 'small open economy'.
ii) Briefly outline how CRH continues to grow despite limited market size in Ireland.
2. Distinguish between organic and inorganic growth.
3. Outline the factors beyond the control of CRH that affect it's growth.
4. Explain the term 'decentralised management structure'.
5. Analyse the challenges facing CRH as a result of difficult current market conditions.
6. Evaluate how CRH has responded to the current economic downturn.
7. 'CRH has adopted a strong performance management and appraisal process.' Outline the key elements of this process.
8. Evaluate the arguments in favour of or against CRH further expanding it's operations in the current economic climate.

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The International Building
Materials Group

Managing business in an economic downturn



Learning outcomes

- Economic cycles
- Performance and growth
- Managing a business through a recession
- Strategies for the future

Introduction

CRH plc is an international group of companies, engaged in the manufacture and supply of a wide range of building materials. CRH is headquartered in Dublin and is the largest company quoted on the Irish Stock Exchange employing approximately 80,000 people worldwide.

CRH operates in cyclical industries that are affected by factors beyond its control, such as the level of construction activity, fuel and raw material prices. These factors are in turn affected by the performance of national markets and the global economy.

CRH has taken steps to deal with the current economic downturn and to position the business to take advantage of opportunities when the world's economies begin to recover.

Performance & growth

In the industry sector in which it operates, CRH is a responsible leader delivering consistent performance and growth. In 1970 approximately 95% of CRH's activities were in Ireland.

However by 2008 only 8% of the Group's business was conducted here. CRH realised that as an indigenous company in a small open economy its potential growth would be limited. Management determined that it needed to expand and grow by both re-investing in its existing businesses and selectively buying other companies in new markets. This latter approach is called **diversification**.

Managing a well balanced portfolio of products is key to easing the impact of the economic downturn on business. The Group focuses on three core business segments: Materials, Products and Distribution:

- **Primary Materials:** businesses involved in the production of cement, aggregates, asphalt, concrete and readymixed concrete to construct the building frame.
- **Value-added Building Products:** businesses involved in the production of concrete products and a range of other construction-related products and services to complete the building envelope.
- **Specialist Building Materials Distribution:** businesses engaged in the marketing and sale of builders' supplies to the construction industry and of materials and products to the DIY (Do-It-Yourself) customers.



Since the mid-1970s, the Group has expanded by **inorganic growth (acquisition)** - acquiring/buying firms) and **organic growth** (developing existing businesses financed by the reserves of the company) into an international manufacturer and supplier of building materials. CRH now has operations in 35 countries mainly in Western Europe and North America and in developing markets in Eastern Europe, South America, Turkey, China and India.

What is a recession?

A recession is a general slowdown in economic activity over a sustained period of time. During a recession, production as measured by Gross Domestic Product (GDP), employment, investment spending, household incomes and business profits all fall.

Survival during a recession

Surviving a recession is a major challenge for any company. It is crucial for businesses to make whatever changes are necessary to their operations to ensure they can continue to remain viable at lower levels of commercial activity.

CRH's unique regional and product balance reduces the potential effects of industry and economic cycles:

- **Regional diversification** involves establishing businesses to achieve leadership positions across countries. This has been practised by CRH since the 1970s. The likelihood of all the markets collapsing at the same time gets lower and lower as you develop a strong presence in more and more markets.
- **Product diversification** involves broadening the range of products and services offered to customers in different sectors of the construction industry.

Managing operations

CRH's success as a global business depends, in part, upon its ability to succeed in fast-changing economic conditions. CRH is a **decentralised** Group with many subsidiary companies operating under a wide range of local and regional brand /trade names.



CRH's strategy has been to build leadership positions in regional and local markets. By delegating authority to the local managers decisions can be made promptly by those most familiar with local economic conditions, while central support from CRH Group ensures that sustainable growth is achieved in line with the Group's strategic goals. Central functions include the Board, which sets the strategic direction for the Group, and Human Resources, Finance and IT which support the implementation of day-to-day management policy. As a result, CRH's vision can be described as to focus globally yet manage locally.

During a recession, it is important for businesses to look for new ways to maximise performance. One such way is to improve efficiency across operations. Another way is to re-invest capital through the use of retained earnings/revenue reserves in its existing facilities. This helps to improve energy and operational efficiency and to match capacity to meet current and future demand.

Managing suppliers

Individual operating companies source raw materials in the region in which they operate. Most of these suppliers are based in Europe or North America. Deteriorating demand in these markets requires strict expenditure controls.

Management's current focus is on sourcing quality supplies to achieve cost reductions and to increase efficiency. Central sourcing functions have been established in key markets to take advantage of **economies of scale** and reduce the cost of purchased goods.

Managing finances

Recession strategies

The recent banking crisis has made it more difficult for companies to obtain financing. Monitoring the business by maintaining *liquidity* and adequate *cash flow* is crucial. However, current market conditions have made it more expensive to obtain financing for operations, hence increasing the costs of running a business. Like many companies, CRH is focusing on maximising cash flow from operations and reducing working capital.

Budgeting – Cost savings

2008 saw major changes in the financial, economic and business climate worldwide. Declining markets led to wide ranging cutbacks across CRH's businesses.

The company also slowed its rate of acquisition and its capital expenditure to improve liquidity and take advantage of possible further reductions in the price of **assets**. CRH management also implemented several energy and cost reduction initiatives in 2008 and 2009 to limit the decline in profit.



Division-wide procurement strategies and purchasing programmes contributed to reducing the cost of purchased materials and supplies by availing of economies of scale. Operational Excellence Initiatives have helped to reduce both labour and equipment costs while eliminating waste. Reductions in fixed overhead staffing and other fixed costs have been progressively implemented to maintain a strong **balance sheet** position.

Raising Capital – Sources of finance

In early 2009, CRH management undertook a successful **rights issue**. This allowed existing ordinary shareholders to buy more shares as a way of re-investing back into the business. The funds raised are for further acquisitions as potential assets come onto the market from more troubled industry players.

So far in 2009, despite the very challenging trading backdrop, CRH is operating a healthy cash flow. The Group continues to identify new measures to deal with the evolving trading conditions. CRH believes that its current cash flows, together with the recent rights issue and funds raised through its borrowing facilities, are more than sufficient to meet its expenditure requirements for the foreseeable future.

Financial reporting

In a Group such as CRH it is essential that IT systems give prompt, consistent and reliable financial reporting from the local operating units to the central Group management. Accurate financial reporting is crucial for management particularly during difficult economic circumstances. Decisions on budgeting, raising capital and sourcing of finance all rely on accurate financial reporting.



Managing people

CRH employs 80,000 people in more than 3,700 locations, spanning 35 countries. These people are managed through four Divisions. This year the company is launching a web-based global talent management system replacing a paper-based system.

There is a unique culture of performance and achievement throughout the Group ensuring that, even in the current exceptionally difficult economic environment, CRH has the capacity to deliver performance excellence.



The CRH management team are highly experienced and the development of talented successors is a priority for all managers. Regular formal reviews of *management development strategy* are carried out by each Division with guidance and support provided by the Group Human Resources function.

Typically, CRH managers come from three very different streams, comprising:

- internally developed operating managers who have room to grow in an expanding organisation
- highly qualified finance and development professionals - business builders with vision and future potential
- owner-entrepreneurs who have joined with their companies and provide a vibrant entrepreneurial spirit.

This results in a healthy mix and depth of skills and a wealth of experience at senior level with many senior leaders having managed through previous economic cycles. This gives them invaluable experience to deal with the current downturn enabling them to prepare for the inevitable upturn of the market.

Performance management

Achieving results is a critical aspect of CRH's high performance culture particularly during difficult economic times. CRH has adopted a strong performance management and appraisal process. Employees are set realistic goals and plans are put in place to achieve them. Performance is driven by appraisal, regular review meetings and self-assessment.