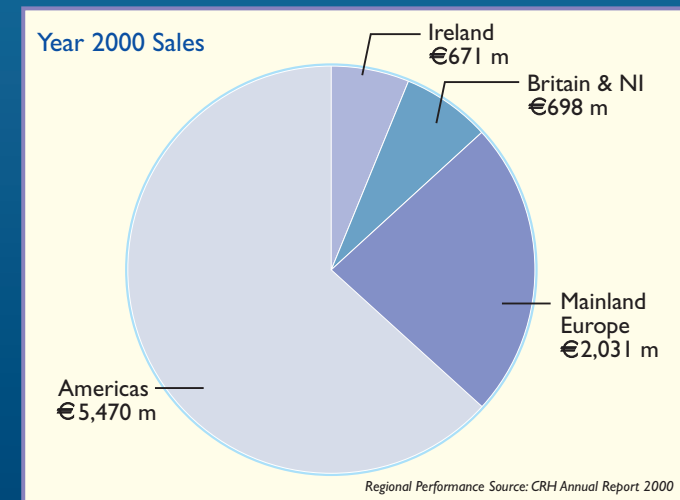


## INTRODUCTION

CRH plc, headquartered in Ireland, is a leading international building materials group with a strong presence across the industry supply chain from construction materials to building products and distribution. The company was founded following the merger of two Irish public companies, Cement Limited and Roadstone Limited in 1970. While the bulk of its activities spread throughout Europe and the Americas, CRH is still very conscious of its Irish roots. A small head office team in Dublin sets the broad strategy for the group.

CRH is a leader in its sector, employing over 45,000 people at more than 1,400 locations in 20 countries. In Ireland, it is the clear market leader and employs over 3,500 people. CRH is listed on the Irish and London Stock Exchanges and on NASDAQ in the US.



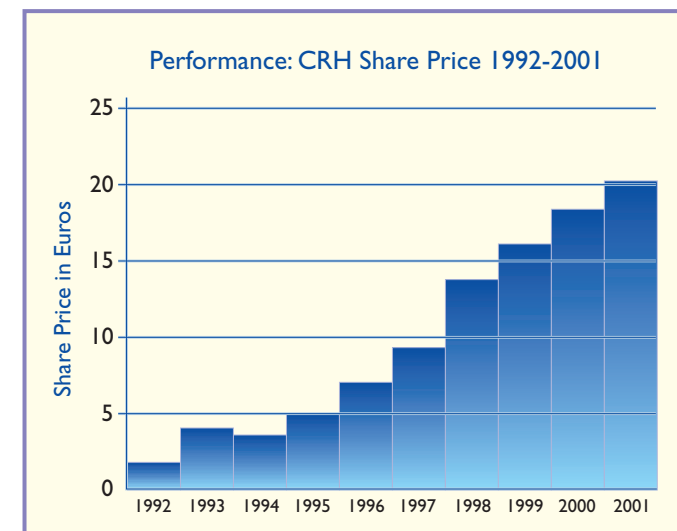
## THE IMPORTANCE OF PERFORMANCE & GROWTH FOR CRH

A cornerstone of CRH's success is its focus on **performance and growth**. In 1970, approx 90% of CRH's business was in Ireland. However by 2000 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 selectively buying other companies, and by ensuring maximum performance through the adoption of a process of **benchmarking** and other measures.

Benchmarking allows management to compare the results of similar practices in different companies. By identifying the most successful way of doing things CRH companies can, through a **continuous improvement programme**, improve performance. In some instances managers move between different CRH companies to improve communication and the transfer of best practice.

## MEASURING PERFORMANCE

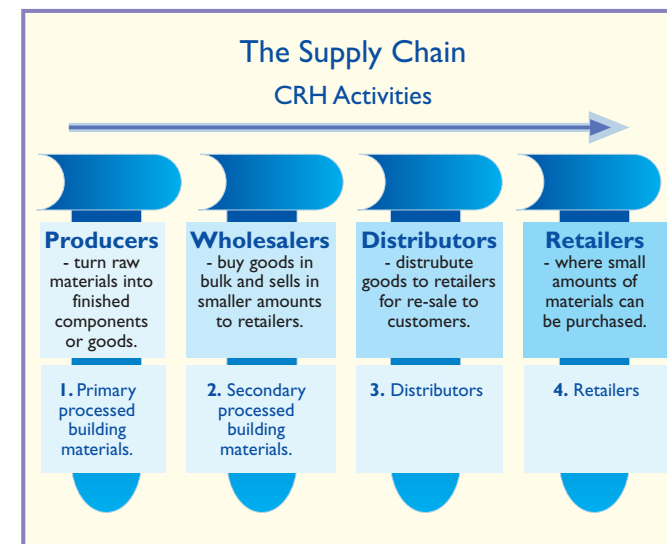
Returning value to shareholders is a key overall objective for CRH. The Group has averaged an impressive 21.5% per annum growth in total shareholder return since CRH was formed in 1970. Indeed, the value of shares in CRH has increased tenfold since 1992.



CRH continually seeks to improve, among other key performance indicators, its **profit margins**. Profit margins can be improved through continuous improvement programmes and by achieving **synergies** between existing and newly acquired businesses. Synergies occur when the combined value of a new business and the existing business is greater than when the businesses are owned and managed separately.

## GROWTH STRATEGIES

Planning for growth is based on developing leading positions in the core business areas in the **supply chain** which management has a deep understanding of. CRH can take advantage of knowledge already gained about the market place by consolidating its position in that section of the supply chain. The need for continuous improvement drives growth in the core business areas in two ways – organic growth or growth by acquisition.



The three core business areas along the supply chain are:

- Primary materials including cement, aggregates (e.g. gravel), and ready-mixed concrete (Producers).
- Building products such as pre-cast concrete products, concrete blocks, paving and roofing products, clay bricks, insulation products, fencing, and glass fabrication (Producers).
- Distribution of materials through DIY stores (e.g. CRH operates about 60 DIY stores in the Netherlands), builders merchants and specialist distribution (Distributors & Retailers).

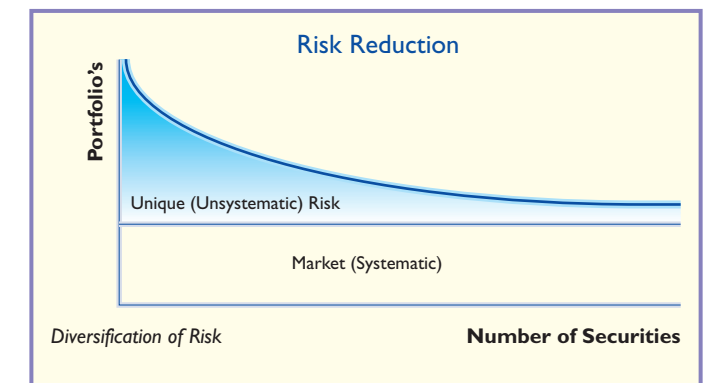
### ORGANIC GROWTH

This is achieved through re-investing profits in low cost production methods and by expanding and upgrading existing operations using best practice across the group. Organic growth can be measured among others using key performance indicators such as **turnover (sales)** or **profitability**.

### ACQUISITION GROWTH

CRH has followed a policy of buying mainly small to medium sized businesses that allow the group to expand geographically into new markets or through new products.

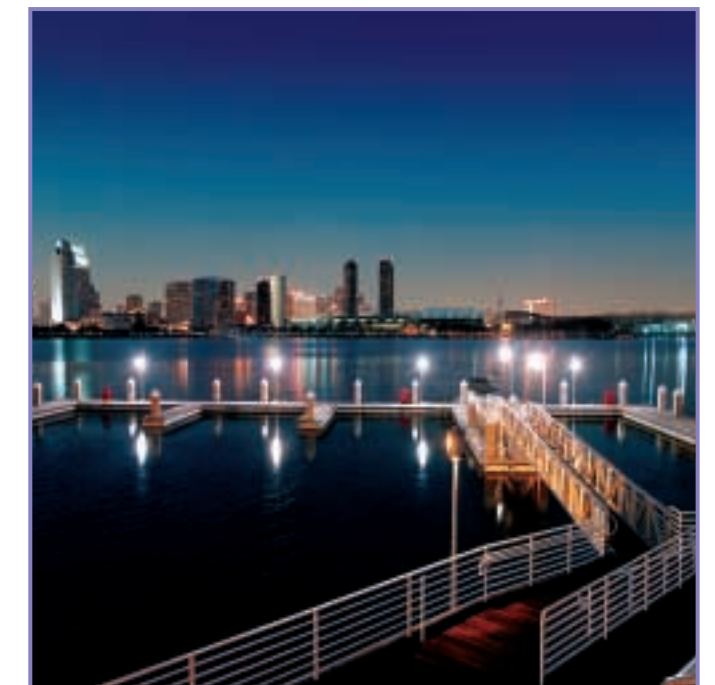
A critical decision was taken in the early 1970s to invest in familiar business areas overseas. This was prompted by the view that it would be unwise for the group to be over-dependent on the small Irish construction market prone to cyclical changes. CRH began to diversify the group's operations **spreading risk** and opportunities across a number of countries, products and markets.



### DIVERSIFICATION OF RISK

Throughout the 1970s and 1980s CRH's expansion overseas concentrated on business areas in which the group operated in Ireland – building materials and products. The group entered Spain in 1987 and benefited significantly in the run-up to the Barcelona Olympics.

Entry to Germany, France, Belgium and Portugal followed during the 1990s. Many successful additions to the group were in the US, where the company has acquired operations in over 700 locations across 46 states. By 2000, operations on the other side of the Atlantic accounted for almost 63% of the group's turnover.

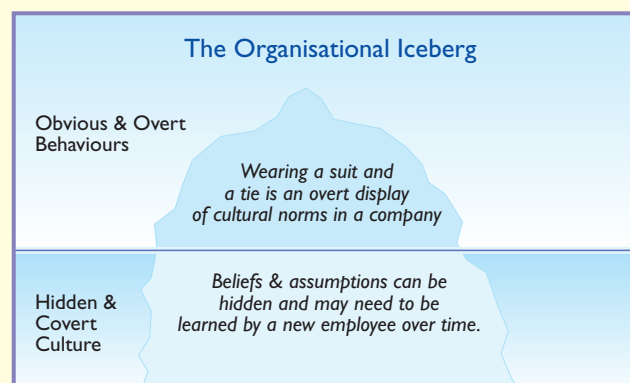


Wheelchair accessible floating dock in San Diego Bay.

In the mid-1990s CRH entered the emerging markets of Argentina and Poland. As late as 1994, CRH had a total of 686 locations in 8 countries, and has increased this to over 1,400 locations in 20 countries on three continents. CRH purchased over 60 companies at a cost of €1.6 billion in 2000. The strategy for buying new companies is based on a tried and tested formula following these main steps;

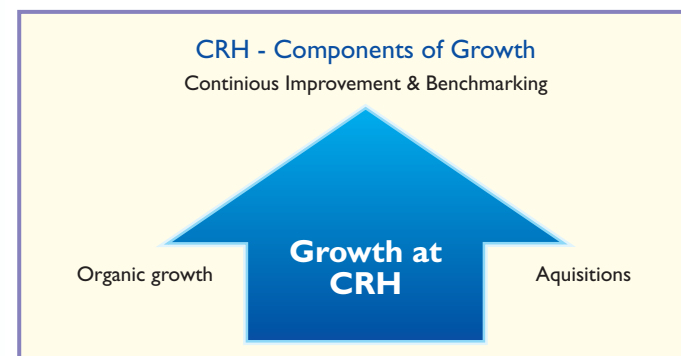
- **Targeting mainly small to medium sized companies**, which tend to be privately owned and family run with a view to including these companies within CRH's long-term development strategy expanding the group's geographic reach for future growth. This strategy is augmented by larger deals from time to time.
- **Acquire companies** that are well run, and in most cases are close to the core business areas of one or more of the group's existing businesses. CRH's strategy is based on building leadership positions in its businesses in regional markets. CRH often purchases several similar companies in a particular region to gain market leadership over time.
- **Conclude take-over deals on terms favourable to both parties**, and retain owners and existing management in the acquired businesses where possible. By retaining the expertise, knowledge and leadership of the original business owners subsequent integration into the CRH group is made easier.
- **The suitability and cultural fit** of businesses being acquired is often assessed over a long period of time. Both companies' management teams get to know each other. Companies have different ways of doing things that result in different behaviours. The federal structure of CRH allows it to integrate a wide variety of businesses in an effective way.

Companies, as groups of people have a culture or a shared understanding of 'how things are done around here'. This includes patterns of behaviours, beliefs, norms and values. Some parts of an organisational culture are less obvious than others as can be seen in the **organisational iceberg**.



CRH ensures that it has a good understand of both overt and covert elements of corporate culture. Overt behaviours include everyday practices or rituals that are obvious. For example taking a full one-hour lunch break becomes a norm that is obvious among employees. Hidden values take time to understand and may include attitudes or group norms that are not so obvious.

Both **organic** and **growth by acquisition** are seen to provide a direct route to CRH's objective of market leadership. This is achieved by enhancing existing and new businesses through continuous improvement and benchmarking.



## MANAGEMENT AND HUMAN RESOURCES

Following completion of acquisitions CRH management devotes considerable effort and resources into **integrating** the newly acquired business. Benchmarking best practice from other CRH companies is done with an aim to reduce costs and increase profit margins in the acquired companies. To facilitate a **cultural fit**, managers are transferred and sometimes established operations act as **mentors** to the newly acquired businesses as integration continues.



*"The big factor in attaining CRH's success has been the quality of the people in our devolved organisation. The combination of seasoned executives in existing businesses, owner-entrepreneurs and their teams who join us from new companies, and highly skilled professionals from development and finance functions, gives us a vibrant mix of talents and cultures. As we expand globally, we are increasing our investment in human resources, and in developing future leaders at all levels of the organisation."*  
**CRH's CEO Liam O'Mahony**

This quote highlights the importance CRH places on human resources in achieving its performance and growth objectives. With only a small head office team in Dublin setting the broad strategy for the group, CRH's success is highly dependent on its management team around the world. The highly **devolved structure** of the company means that a lot of important decisions are delegated to managers throughout the group. Through delegating important decisions employees are motivated and a sense of teamwork is created within the group.

Overall performance depends on the activities and decision making of a large number of people. To achieve this CRH regards its people, both managers and employees, as a major strength and a key driver of the group's growth strategy.

CRH has 14 development teams operating worldwide continually seeking acquisition targets and development opportunities. This ensures that a steady stream of well-run businesses with strong market positions is acquired. In addition to the development teams, the entire group management is also focused on the acquisition process.

### MANAGEMENT TEAMS & DEVELOPING LEADERS

The Group's management team is drawn from three areas:

- Owner-entrepreneurs who joined with their companies.
- Internally developed managers.
- Development professionals.

**Owner-entrepreneurs** join CRH when their companies are acquired and have a deep knowledge of local markets, and are also able to bring new ideas and perspectives to the group.

**Internally developed managers** are often recruited as graduates into operating subsidiaries and develop and grow within the group. They can be expected to rise through the ranks gaining experience and knowledge across a wide range of areas.

**Development professionals** are usually MBA graduates joining one of the development teams worldwide and have proved to be effective in strengthening the management team, providing an ongoing stream of highly qualified and motivated leaders.

The depth and mix of each of these management groups is seen as the basis of achieving cultural fit while also aiding leadership development. CRH takes a special interest in developing future leaders whatever mode of entry to the group. CRH seeks similar characteristics in management recruitment.

*"Investing in people is key to the continued success of the Group, and the development of future business leaders, with the necessary drive, ambition and ability to succeed in a highly competitive environment, is a key priority for CRH."*  
**Jack Golden, CRH Human Resources Director**

As part of the leadership development process, managers conduct formal reviews to identify future leaders. Plans are put in place to develop individuals for further advancement. As part of this process, managers are often assigned to other locations to work with experienced mentors. For example, graduates hired by a CRH company in one country could be sent to a CRH company in the same business area in a different country to learn and bring with them new ideas and return with useful information to their own country. Promotion is primarily from within the Group's existing management pool with rapid expansion of the Group creating many opportunities for advancement. Most managers spend long careers with CRH and staff turnover is low.

## CONCLUSION

Looking to the future CRH's objectives remain unchanged – being a leading building materials group that delivers superior performance and growth. The traditional growth strategy of acquiring small to medium sized operations will continue and the company will keep looking for other opportunities. The group will also continue to focus on performance improvement in order to maximise the full synergies of its major acquisitions.

## TASKS AND ACTIVITIES

1. Despite the fact that CRH is still a predominantly Irish run company the majority of its operations are spread over 20 countries world-wide. Describe how Information Technology, in particular the use of video-conferencing, may be used by the company to optimise communications within the group.
2. CRH's operations in Britain, Northern Ireland and the Americas now account for more than three times the value of Irish and mainland European trade. How do you think the changeover to the Euro impacts on CRH's trading performance?
3. Planning, organising and controlling is a major part of the management function. Demonstrate from your reading of this study, the methods employed by CRH to monitor its performance on the world stage.
4. a) Distinguish between organic growth and growth by acquisition as methods of expanding a business?  
b) Describe the strategies adopted by CRH in their quest to expand internationally.
5. What problems do Irish companies face when they try to expand their business outside of Ireland?
6. Outline the importance CRH places on its human resources especially when grooming staff for managerial positions in the group.



The International Building Materials Group

www.crh.com

## GLOSSARY OF TERMS

### NASDAQ

NASDAQ is short for the National Association of Securities Dealers Automatic Quotation System. This is an electronic quotation system that provides price quotations to market participants about actively traded shares. This market is electronic and is not dependent on one physical place.

### Benchmarking

This is where a company compares its practice against best practice to confirm or otherwise whether it has learned anything. By measuring its performance i.e. products, services and processes against a 'benchmark' of best business practice the business is set to continue to improve.

### Devolved Organisation

In such an organisation the centre delegates decision making to units and managers lower down in the hierarchy.