

UNDERSTANDING ORGANISATIONAL STRUCTURES

INTRODUCTION

CRH plc, the international building materials group, has its headquarters in Ireland and operates in 22 countries in three closely related core businesses:

- ▶ primary materials
- ▶ value-added building products
- ▶ specialist building materials distribution.

Listed on the Irish and London Stock Exchanges and on the NASDAQ in the US, CRH consistently delivers long-term growth in total shareholder return, averaging over 18% per annum since the Group was formed in 1970. CRH maintains a rigorous focus on improving

existing operations through experienced local management teams. These regional platforms and management structures generate the profits, cash flow and organisational strength to support CRH's ongoing programme of development.

CRH grows by investing in new capacity, developing new products and markets and by acquiring and growing medium-sized companies. This long-term development strategy is supported by occasional larger acquisitions that extend the Group's geographic reach or product range and offer new strategic platforms for future growth.

CRH's strategic vision is to be an international leader in building materials, delivering superior performance and growth. CRH now has over 50,000 employees at more than 1,600 locations. Its organisational structures are critical to ensuring that its performance and growth objectives are met.



EVOLUTION OF A COMPANY

Indigenous firms in Ireland are Irish owned, usually locally based and operate in the national marketplace. However the growth of free trade, membership of the EU and the small size of the Irish market has meant that a natural progression for Irish companies has been to grow by developing overseas. This enables them either to sell into international markets or to set up production and marketing operations overseas.

This has led CRH plc to acquire operations in many diverse countries, from Russia in the east, to the United States in the west. Companies such as this are known as **transnational companies**. These tend to make strategic marketing and business decisions on a country-by-country basis. Transnational companies such as CRH differ from global or multinational companies such as McDonalds because they treat each country or region as a self-contained market and make their business decisions accordingly.

CRH acts rather like a group of local businesses. It identifies a suitable local base and appropriate companies for conducting business in each region and maintains local brands in each area. Therefore the CRH range of products and services is not standardised. A global or multinational business however, makes all its business decisions (financial, operational, corporate, marketing or HR) on a global basis treating the world as a single marketplace.

Each of CRH's businesses manufactures products that are in demand locally. From a marketing perspective, this allows CRH to promote known brands based on the specific needs of the local region.

UNDERSTANDING ORGANISATIONAL STRUCTURES

Organisations are made up of a series of building blocks. Jobs must first be designed and then logically grouped into departments. Departments can be based on function, (sales, production, administration) or location. Reporting relationships must be clarified and those responsible for authority and decision-making must be identified.

The growth of CRH plc has been largely **inorganic**. It has developed by acquiring small and medium sized companies that operate within CRH. This structure could make an organisation unwieldy and expensive to maintain, with layer upon layer of managers, each with a diverse range of views on product and customer issues, strategic growth and development of the business.

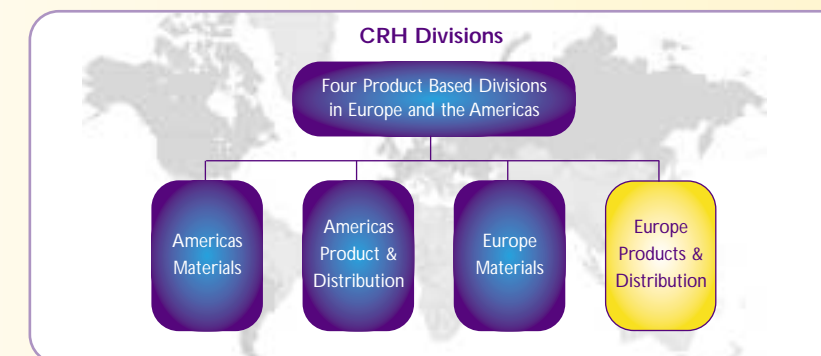
To overcome this, CRH has established a cohesive, focused and proven organisational structure into which acquired businesses are assimilated. This allows each company in the Group to manage its own business at an optimum level while contributing to the group's overall success.

CRH adopts a dual **business focus**. Overall strategic objectives are set by the Group, but individual companies operate according to the needs of local markets.

A clear focus on profitability and strong cash generation is maintained. Each operating company must deliver measured returns and reach specific performance levels. Subject to this, the organisational structure must allow for specific country, market and cultural needs, and maximising competitive advantage through strong market positioning and local knowledge.

CRH has organised itself in the first instance on a *product basis* with four Divisions in Europe and the Americas:

1. Europe Materials
2. Europe Products & Distribution
3. Americas Materials
4. Americas Products & Distribution

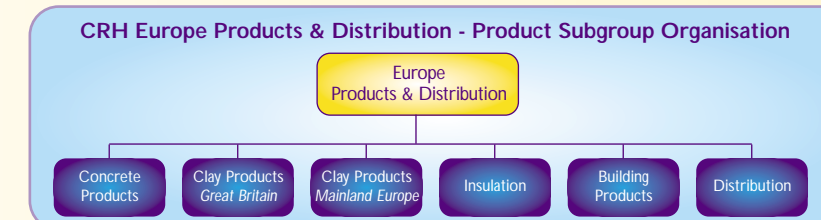


There are small corporate head offices at Product Group and central Group level. These provide general strategic direction and support in areas such as Human Resources, Finance and Information Technology.

This Product Group organisation allows each of the four Divisions to:

- ▶ focus on its own business development
- ▶ internally share best practice in product and process technology and know-how

Within each Division, there are subdivisions also on a product basis, for example in Europe Products & Distribution:



Establishing reporting relationships also involves determining how many people will report to each manager. This is often referred to as the **span of control**. A manager can interact with employees in three ways:

- a. on a one to one basis (direct)
- b. in a cross relationship which is among employees themselves
- c. via groups of subordinates (Group)

The resulting span of control is then said to be either wide or narrow and is a crucial factor in structuring organisations. CRH operates a **decentralised** system of management and organisation. This means that power and authority is delegated throughout the organisation rather than being vested in the hands of a few senior managers (as might be the case in a centralised organisation).

In CRH, local managers are given a high degree of individual responsibility and local autonomy. They are a mix of the original owner-entrepreneurs of the operating companies, homegrown CRH managers who have advanced through their companies, and well-qualified finance or development professionals.

The individual operating companies within each product division are often small to medium sized companies that are market leaders in their product area.

CRH has successfully structured itself in a decentralised and product focused way by applying a number of strategic principles.
Stay with the business you know – 'stick to the knitting'
 CRH concentrates solely on supplying the building and construction industry through core businesses in primary materials, value-added building products and distribution. This concentration in a specific area of activity helps to create valuable synergies and operating strength.
Market leadership is built in local markets - By paying fair prices for good companies, through negotiated deals that meet owners' needs and allowing for future business growth.
Growth platforms - CRH's presence in 22 countries and its broad range of products in many regional areas create more opportunities for future growth.
Value-added acquisitions - Most of CRH's acquisition growth has been in the purchase of medium-sized companies, but from time to time larger acquisitions are made because they offer a significant strategic opportunity and a platform for future growth.
Unique balance - A balanced business portfolio across regions, products and all building and construction sectors helps smooth the effects of industry and economic cycles.

BALANCING LOCAL STRENGTH WITH CENTRAL SUPPORT

We can extend our analysis of the organisational structure of CRH by examining communications and reporting in the Group. This analysis also highlights key issues for any transnational company that develops in an inorganic way.

Cultural and language differences, the geographical spread across 12+ time zones, the different products and sectors served, and the devolved structure of CRH demand very effective communication methods. CRH considers personal contact to be essential for effective management, but this is supported by many other means of communication:

- ▶ Video conferencing and email are used for timely and targeted communication.
- ▶ The CRH Intranet allows information sharing
- ▶ Internal newsletters are published in many business units
- ▶ The CRH Group "Contact" magazine is produced centrally, published in six languages and distributed to all businesses
- ▶ 12 "Best Practice" groups are established to promote operating synergies groupwide
- ▶ Product Group and business unit conferences take place regularly
- ▶ An annual CRH Management Seminar is attended by a mix of new and established business managers from all regions
- ▶ Works councils exist in many European businesses and at an annual forum EU-based employee representatives and management consult

INTERNAL FINANCIAL REPORTING

In a Group such as CRH it is essential that IT systems give prompt, consistent and reliable financial reporting:

- ▶ within the decentralised operating units
- ▶ from these units to the Products Groups and to the Group overall

If we specifically compare IT across the European and American Divisions a number of differences emerge.

In the USA, each Product Group operates a common and standardised IT system. This means that consistent reporting is assured, installing the IT systems into newly-acquired companies is easy, and cost effectiveness is high.

In Europe, the situation can be very different. For example, the Europe Products & Distribution division is arranged around clear product lines but the individual businesses within that division operate in several different languages, currencies and legislative frameworks. There are many different national or local standards, including legal, accounting, banking and taxation regulations, VAT and payroll requirements. There is no cost-effective single IT system that caters for all the national differences encountered across Europe and also fits the operating needs of CRH's businesses.

CRH's financial systems must firstly ensure that the day-to-day running of each 'business within the business' works at an optimum level. Beyond this, CRH Group's reporting must be designed to account for the critical differences in legal and accounting standards, so that the operating results can be analysed with some comparability by senior managers. CRH has clear performance criteria for each type of business in its portfolio. These have different capital intensities that require different margins to deliver a target return on net assets.

Human resources, employee development and internal training functions must also cater for local and cultural differences, while complying with Group policies and standards. CRH has a strict Code of Business Conduct, which requires its employees and companies to be ethical and responsible members of the business communities in which they operate.

MANAGEMENT DEVELOPMENT PROGRAMMES

As the business environment becomes more complex, the need for sharing, learning and exchanging ideas continues to grow. A healthy mix and depth of management in CRH keeps the organisation keep in touch with the changing demands of the sector.

CRH operates management and leadership development programmes at different levels across the Group. For example, CRH Europe - Products and Distribution offers a number of courses on:

- ▶ management development
- ▶ technical competencies
- ▶ operational management
- ▶ health and safety
- ▶ customer service

These courses are designed to focus on 'performance now' with an emphasis on building future competency. They allow for sharing best practice and developing operational expertise while supporting the personal education of employees. Training modules that have proved to be successful are transferred across the Group.

EXECUTIVE DEVELOPMENT PROGRAMMES

On a regional basis Executive Development Programmes assess and develop 'known' talent (specific employees are selected for the course). This exposes these employees to senior management within their division during a one-year personal development programme.

LEADERSHIP DEVELOPMENT PROGRAMMES

Leadership Development Programmes take place at the central office for each division. Level I focuses on CRH culture and business approach. An external academic input provides learning and reference points and the course develops core leadership skills. Level II candidates comprise proven performers who have strong potential. Participants are drawn from across the Group. This course has a strong practical bias and also highlights CRH culture.

With the potential of a high proportion of salary being variable (as it is performance-based) CRH's market-driven remuneration policies are central to attracting, retaining and motivating exceptional managers.

CONCLUSION

CRH plc is a complex multinational organisation with an organisational structure that has evolved over time to maximise return in terms of productivity and growth. A devolved structure of management ensures that local market requirements are met. The Group provides strategic direction and support and sponsors extensive training programmes for employees at all levels in the organisation.

GLOSSARY OF TERMS

Delegation - Delegation involves the transfer to others of responsibility for carrying out certain tasks, functions or decisions.

NASDAQ - An acronym for the National Association of Securities Dealers Automated Quotation system. This does not have a physical trading floor that brings together buyers and sellers. Instead, all trading on the NASDAQ exchange is done over a network of computers and telephones.

Synergy - When business units merge the sum of the potential of the two merged units is greater than the sum of output of the two enterprises if they remained separate.

Transnational - Transnational companies make strategic, marketing and business decisions on a country-by-country basis.

Multinational - A company which does business in many countries but may have a standardized product or service.

TASKS & ACTIVITIES

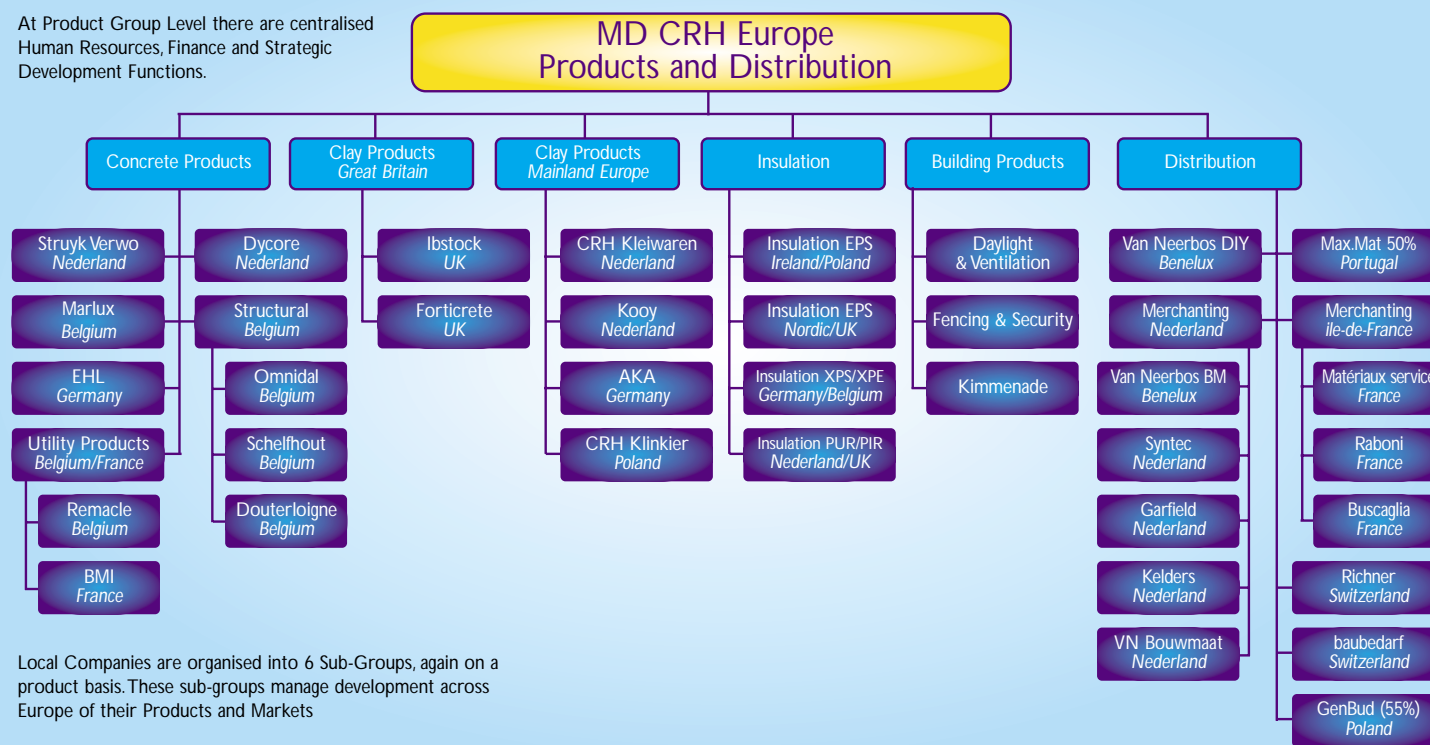
- 1) One difference between a transnational company and a multinational company is that the former can make strategic, marketing and business decisions on a country-by-country basis. What do you think are the benefits of this approach to management?
- 2) Define the following items
 - a. Management Structure
 - b. Organisational Structure
 - c. Span of Control
 - d. Devolved Organisation
- 3) What are the implications for following a standardised approach on an international basis? Discuss each of these under the two headings provided:
 - a. Entering a completely new market with a current product.
 - b. Entering a current market with a new product.
- 4) What are the differences for CRH between doing business in North America and in Europe? How many of these will have been changed by the introduction of the Euro?



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CRH Europe - Products & Distribution

At Product Group Level there are centralised Human Resources, Finance and Strategic Development Functions.



Local Companies are organised into 6 Sub-Groups, again on a product basis. These sub-groups manage development across Europe of their Products and Markets