

Chapter 2

THE HOLDING COMPANY: COHESION AND SYNERGY

The thirty or so members are organized around clusters called “functional Group departments”: financial management, commercial management, accounting, management accounting, etc. The management system is transverse and truly non-hierarchical, because all the members of the holding company are under the direct authority of the General Manager. There is also no organization chart positioning members.

The role of the holding company is to ensure the cohesion, effectiveness and profitability of the whole Group. It conveys, promotes and implements the values and strategy of the General Management. To do this, it supports each manager in his missions; its fields of intervention are multiple and characterised by the functional departments.

Its main objective is to encourage the creation of conditions for the optimal growth of the Group while making each subsidiary more efficient. It works to defend and apply one of the core values, namely the superiority of the collective interest of the Group over individual interests. No conflict of interest should exist (or persist) between employees and the Group; the central objective of the holding company is to advance and develop the Group, its subsidiaries and the people who comprise it.

As the Altrad Group’s management is participatory, the holding company defines, with General Management, the main

elements of the overall strategy of the Group in the short, medium and long term. It promotes the implementation of this strategy in correlation with the long-term vision of the Group.

The holding company diffuses and explains the strategy and ensures its proper implementation. This requires committed involvement, as well as permanent interaction and optimal communication between its staff and the operational subsidiaries. The members of the holding company thus represent General Management. Communication is direct and simple owing to the lack of hierarchical levels.

In line with his particular skills, each member of the holding company thus has the right and the duty to engage in direct management actions in affiliates.

2.1 ROLES AND RESPONSIBILITIES OF THE HOLDING COMPANY

2.1.1 Define, disseminate and implement the overall strategy of the Group within the network of subsidiaries

The overall strategy of the Group allows it to ensure overall consistency, to sustain its activity and to ensure its profitability.

2.1.2 Provide budgetary control and measure performance

The holding company exercises control over the results obtained by the subsidiaries. Periodically, (usually monthly), it consolidates and analyses data from affiliates. The holding company thus analyses differences between forecasts and achievements and recommends remedial action as appropriate. By this budgetary control, it measures individual (each subsidiary) and collective (Group) performances. For this purpose, the Altrad Group has set up a number of procedures to facilitate the work of the holding company and to ensure the consistency and effectiveness of the entire Group. These procedures (see below)

impose a framework on line managers that must be observed. It is therefore the responsibility of the members of the holding company to exercise control over the correct application of these procedures within the subsidiaries. However, this monitoring mission is carried out without harming the initiative expected of the head of each subsidiary.

2.1.3 Implement corrective actions

Simply monitoring performance is not sufficient in itself. The action of the holding company must go beyond this, to the implementation of corrective actions. Comparison of forecasts and achievements can immediately trigger actions to reduce the most significant differences. A difference in sales will lead, for example, to commercial measures, while a difference in the hourly rate will lead to industrial adjustments, and a difference in the overheads will lead to savings, etc. This requires permanent vigilance on the part of the members of the holding company, which must follow the performance of subsidiaries and be able to offer the best corrective actions as soon as possible. Optimizing the achievement of objectives depends on this reactivity and these proposals. It is obvious that the holding company must control the proper implementation of the recommended corrective actions with firmness and diplomacy.

2.1.4 Provide day-to-day technical support to help subsidiaries

The various functional departments of the Group also have, in their respective areas of competence, a technical support function. This support relates to various aspects; the members of the holding company are privileged interlocutors of the subsidiaries in their areas of competence. They must therefore meet the various demands from the subsidiaries with maximum responsiveness and relevance. In the same spirit, the notion of responsiveness should also apply to subsidiaries, and information requested should be provided at the required times.

2.1.5 Design and implement transverse projects

This relates to is a founding principle of the Group: perpetual self-examination. A permanent watch on the activity and performance of the subsidiaries may reveal that transverse projects are necessary. The holding company participates in their development and implementation. These projects can focus on specific topics such as restructuring (industrial, commercial, etc.) or the optimization of functions (logistics, management of vehicle fleet, etc.). The purpose of these transverse projects is to create the conditions for maximum growth, always in the interest of the Group.

2.1.6 Apply the external growth strategy

The development of the Altrad Group since its inception has been based around its external growth strategy, in which the members of the holding company have an important role to play. The holding company participates in the study of selected targets through audits: it conducts site visits and carries out numerous analyses. Once the target is acquired by the Group, the holding company's role is to integrate the new subsidiary into the Group. This integration work is materialized by interventions by the members of the holding company in the new subsidiaries, in order to disseminate the philosophy and strategy of the Group and to present the different standards and procedures in force. Again in this case, tutoring, diplomacy and exemplary qualities are required from the members of the holding company so that the integration of incoming companies takes place successfully and so that expected synergies are achieved.

2.1.7 Look for synergies and manage the progress units

The main objectives of the progress units, whose usefulness has been demonstrated repeatedly and whose results are more than

satisfactory, are to find synergies, to create links and ensure cohesion within the network of subsidiaries of the Group. They also fulfil a role of accelerator for the integration of affiliates (valorization of good practices of the new subsidiary, participation of subsidiaries in the work of the Group, etc.). While progress units include both members of subsidiaries and of the holding company, the latter are responsible for the day-to-day animation of this network and for measuring its performance. This coordination and facilitation work at a central level is indispensable, so that the network's progress units can operate optimally and achieve their objectives.

This organization allows important and frequent multilateral exchanges of information, expertise or methods within the Altrad culture. Communication in a single direction from the top down would clearly lead to failure. The smooth running of a company's project requires the animation of the holding company. It allows the strategy defined by General Management to be disseminated and ensures its correct implementation. Competence and performance can only come from teamwork and cumulating knowledge; coordination allows the creation of synergy between subsidiaries and the holding company and between the subsidiaries themselves. The collection of information being defined in the red zone, the work of the holding company is mainly qualitative; members of the holding company check the reliability and regularity of this information and performance, and intervene if necessary. Few staff are therefore necessary – an excess could even be counter-productive.

2.2 RULES AND PROCEDURES DEFINED BY THE HOLDING COMPANY

The holding company functions effectively because it has implemented a number of rules and procedures in the red zone

which are imposed on the manager of each subsidiary. They are indispensable in order to structure, steer and control the functioning of the Altrad Group.

Below is a (non-exhaustive) reminder of the rules in the Group. The members of the holding company represent the General Management, and therefore the President, Mohed Altrad. Their requests must therefore be treated with respect. This means that all Group members should:

- respect the choices made by General Management; these are decisions established for the good of the Group;
- apply the procedures of the Group;
- respect the time limits on all requests made by the holding company;
- send good-quality, complete information that does not require additional treatment;
- respect and enforce the accounting rules of the Group.

These general rules correspond to a number of procedures which it is obligatory to respect in the Altrad Group:

- recruitment (permanent, limited time, temporary, and work experience staff);
- salary increases and bonuses;
- investment and leasing*;
- working capital requirement (authorized customer credit thresholds, client and supplier payment terms, recovery procedure);
- budget procedure;
- validation of payments to suppliers;
- travelling expenses;
- various Group reports and their time limits.

Remember that validation of all these procedures must be made by the holding company or General Management. The procedure in place for investments can serve as an illustration. As everyone knows, an investment budget is allocated during the

budget process. However, the investment procedure involves validation by the General Management of each investment as it occurs in the financial year. This may appear to be constraining and a reduction in responsibility, but this procedure has a real interest in the life of the Group. In addition to knowing how the investment budget is utilized, this validation is used to ensure that the Group is capable of making this investment by checking the availability of resources, the non-degradation of financial ratios and by ensuring the relevance and ROI*.

The establishment and the proper application of the rules and procedures of the Group can sometimes be perceived as constraints; however, remember that within the Group the common interest should be favoured over individual interests. These rules and procedures allow the Group to meet its own constraints on several levels: accounting, tax, legal, social or financial. The Altrad Group has therefore implemented this structure as well as these rules and procedures to comply with its own constraints – external and internal – particularly its financial ratios and its time limits for communications and other statements, but also to address issues of debt and the requirements to, *inter alia*, finance its growth (external growth and also investments). This red zone allows the holding company to devote itself to essentially qualitative work while granting wide freedom to company heads.