

Case 7: Switzerland

Holcim Group: Building sustainable value

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Not just a target or an aspiration. It is a promise and it will happenⁱⁱ.

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The Holcim Group is a leading global provider of materials for the construction industry, particularly cement and aggregates (crushed stone, gravel and sand). The company also offers ready-mix concrete, concrete goods and asphalt including associated servicesⁱⁱⁱ.

As major economies around the world continue their rapid expansion and growth in urban areas, so too has the need for materials to build these developments increased. The need for viable, alternative products that use less energy to produce, are easier to maintain and will withstand natural and human interventions never encountered before has created an ideal market for Holcim.

The famous Swiss Schmidheiny family has long been associated with the business now known as Holcim. Under Ernst Schmidheiny's leadership, the family merged its existing assets in the cement industry with Holcim's forerunner company based at Holderbank in 1912, and Ernst joined the board. Expansion and further amalgamations in the cement industry continued with some investment in Europe and later global expansion until Ernst's death in a plane crash in 1935. The family continued its involvement with the cement business. The company first listed on the SIX Swiss Exchange in 1958. Although it is a public company, Thomas Schmidheiny, grandson of the founder, directly or indirectly controls about 18 per cent of the shares in Holcim. In 1976, Thomas Schmidheiny joined the management team and in 1978, he became a member of the supervisory board. He was CEO from 1978 until 2001, and also chair of the board between 1984 and 2003. He continues to serve as member of the board.

Today, the group operates in 70 countries across all continents and employs a workforce of some 80,000. It has a market capitalisation of around US\$23 billion. An era of strong financial performance came to an end during the global financial crisis that affected the European and North American construction industries severely. Holcim's net sales dropped by nearly 17 per cent between 2008 and 2009, achieving net revenues of US\$19 billion^{iv}. Operating profit in 2009 was over US\$2.5 billion. In 2008-9, the company had instigated rigorous cost-cutting measures across the group to cope with the predicted drop in sales. The one area where the company refused to cut corners was in sustainable development, which lies at the core of its strategy. Holcim takes its environmental and social responsibilities seriously even under poor economic conditions.

Holcim's business strategy is based on three main pillars: concentration on the core business (construction materials), geographic diversification and balancing local and global requirements. Geographic diversification guarantees stable earnings for the group. Indeed, its continuous growth in strong emerging markets as well as in developed economies has helped the company weather the global financial crisis. Through recent moves in China and India, Holcim has further strengthened its position in regions of high economic growth and increased demand for cement and related products.

Holcim aims to achieve 'local responsibility with global leadership'. This means striving for a balance between the conditions and needs of each specific market while applying group-wide standards and systematic benchmarking worldwide. To manage its global focus, the company culture is characterised by openness, respect and understanding for people from a wide range of cultural backgrounds.

One of the challenges in being innovative in a globally distributed organisation is how to transfer knowledge and exchange experience. Holcim has developed systems designed to achieve a faster and more effective group-wide roll-out of innovations through internal cooperation. In 2009, the group began implementing a newly developed knowledge management system called iShare. The iShare platform captures key business knowledge contained in its various companies and at corporate headquarters and makes this available to employees in a readily accessible form. In 2010, the system contained 10,000 important documents on a wide range of topics.

CEOs and senior executives do not seem to be celebrated at Holcim, and information about the Schmidheiny clan is not widely disseminated. For example, no mention is made of the Schmidheiny family in the firm's history on the website. However, Thomas Schmidheiny is reputed to be one of the richest men in the world, with investments in many businesses. His successor, current CEO Markus Akermann, was an inside appointment following a role as CEO in Latin America. Similarly, not a great deal of information is available in the media about him as CEO of Holcim.

The group aims for the highest standards of business conduct through adhering to the Swiss Code of Best Practice for Corporate Governance. In addition, the company has its own Holcim Code of Conduct, which it applies worldwide.

Sustainable development

The Holcim Group's vision is to 'provide foundations for society's future'. It also wants 'to be the world's most respected and attractive company in the industry'^v. The group places sustainable development at the core of its business strategy. This is aimed at ensuring that the company's commitment to achieve its vision is driven across all aspects of the business and in all locations.

The strategy incorporates the three principles of the 'triple bottom line', namely assessing economic, environmental and social impacts of the business. This is reinforced through group-wide sustainable development targets. The strategy is represented graphically in Figure 3.7, showing that the paramount objective is creating value. The three strategic pillars – product focus, geographic diversity and local management to global standards – in turn drive value growth and are supported by five mindsets: sustainable environmental performance, better cost management, marketing innovation, human resource excellence and CSR. All this rests on the 'people' base, acknowledging that Holcim employees form the most important foundation for creating value^{vi}.

Organisational goals drive the achievement of the strategy, namely^{vii}:

- Continually set the highest standards of customer satisfaction in the industry.
- Secure the strongest competitive market positions.
- Partner with suppliers to deliver value-for-cost procurement for the group and customers.
- Be recognised as an employer of first choice.

- Empower employees and integrate them fully into the global network.
- Selectively grow the group's worldwide presence.
- Demonstrate commitment to sustainable development.
- Be acknowledged as a valued and trusted partner in the community
- Be the most recommended stock in the industry.

Figure 3.7 Representation of Holcim's strategic elements^{viii}

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The CEO, other members of the executive team and functional managers comprise the steering group leading Holcim's integrated approach to sustainable development. The steering committee has group-wide responsibility that includes coordinating learning platforms, targets, coordinators and developing and implementing policy within its remit^{ix}.

Suppliers to Holcim are required to complete a self-assessment of compliance with international social accountability standard SA8000 and environmental standard ISO 14001 as well as conforming to OHS and human rights standards. One of the firm's sustainable development targets was that by the end of 2009 more than 75 per cent of the group companies would be screening suppliers on these criteria. In fact, about 92 per cent of companies in the Holcim Group screened suppliers for OHS compliance in 2009, and more than 80 per cent screened for environmental and labour standards^x.

Sustainable construction and innovation in materials also feature heavily in the Holcim business but as drivers of revenue and opportunity rather than cost. One challenge faced by Holcim is in encouraging customers to demand more sustainable and eco-efficient products when new products often take time to build credibility and win trust. Through the innovation and development of products that contain recycled or co-processed materials, Holcim plans to build competitive advantage as well as promote awareness of sustainable products among stakeholders^{xi}.

Economic sustainability

Holcim recognises the indelible link between commercial performance and a commitment to sustainable development. Financial performance is not compromised for sustainable development practices or vice versa; both go hand in hand. The business seeks ways to integrate sustainable development in every area affecting financial performance, including revenue generation, customer satisfaction, supplier relationships, innovation, global development and waste treatment. Many of these provide insights into how Holcim turns problems into opportunities. For example, revenue is generated from creating world-class sustainable buildings, customer satisfaction drives innovation in building materials and supplier relationships afford strong compliance with Holcim's code of conduct, including avoiding bribery and corruption.

One issue for Holcim is the tension that can exist with thinking globally and acting locally. Holcim recognises the essentially local nature of capital-intensive cement plants producing aggregates such as sand and gravel. Operational and logistical issues associated with transporting goods prohibit operating at a distance. Holcim has embraced this as an opportunity to work closely with the communities in which it operates. As a large employer, supplier and purchaser, Holcim has the capability to generate financial benefits and contribute to the

health of a region by creating employment along the value chain as well as by generating income, taxes and additional employment for the region^{xii}.

Environmental sustainability

Given the high energy demands and carbon dioxide (CO₂) emissions involved in producing cement, Holcim is increasingly challenged to innovate to protect the environment. Holcim is concerned about influencing the future by developing products that require less energy to cool, heat and light. The cement manufacturing process provides room for improvement by reducing the resources and energy used, CO₂ emissions and encouraging use of alternative fuels.

Holcim participates in a range of environmental discussions at various levels. First, Holcim is active in fora such as the World Business Council for Sustainable Development (WBCSD). WBCSD is a CEO-led global association of about 200 companies dealing exclusively with business and sustainable development. Markus Akermann, CEO of Holcim, was a vice chairman of the WBCSD in 2010, whereas Stephan Schmidheiny, philanthropist brother of the former CEO, is honorary chairman^{xiii}.

Second, the Holcim Foundation promotes dialogue on sustainable construction among architects, planners, construction engineers and investors throughout the world and leverages Holcim's resources to benefit society. In one instance, this led to a partnership between two organisations to address imminent and future challenges of housing and rural infrastructure in India^{xiv}. In 2009, Holcim spent about 1.4 per cent of net income before taxes (CHF\$36 million) on social projects worldwide, benefitting about three million people^{xv}.

Third, Holcim contributes to R&D in many different areas of environmental impact. Group targets in place to reflect its environment impact include the following:^{xvi}

- minimising and mitigating CO₂ emissions^{xvii}
- substituting clinker in cement with mineral components^{xviii}
- monitoring and decreasing atmospheric emissions including NOX, SO₂ and dust
- use of alternative fuels to decrease fossil fuel use while conserving natural resources
- implementation of effective waste management methods
- environmental impact and compliance analysis.

The seriousness with which the company pursues its environmental goals is demonstrated by its approach to CO₂ emissions. In 2009, earlier than expected, CO₂ emissions per tonne of cement were 20 per cent lower than the reference year of 1990^{xix}. The new target for 2015 is to reduce CO₂ emissions by 25 per cent relative to the 1990 benchmark.

Many other approaches are used to reduce the impact of Holcim's operations on the environment, including the following:^{xx}

- optimising transport costs via innovative transport initiatives
- reclaiming concrete from demolition sites for reuse
- cement quarries implementing rehabilitation guides and plans

- assessing environmental and social impact to measure the impact of quarrying activity on biodiversity
- installing closed-loop water cycles and monitoring to improve water use efficiency.

The group is building links to others in the construction materials industry aimed at driving sustainable development across the sector and beyond. An example of this is a collaboration with the World Conservation Union (IUCN). This alliance allows Holcim to focus on ecosystem and biodiversity conservation in its own operations and also to contribute to broader goals in the communities where Holcim employees live and work^{xxi}. Such alliances play a key role in the company's contribution and commitment to environmental sustainability.

Holcim continues to be recognised as a sustainable enterprise by various indices including the Dow Jones Sustainability Index, where Holcim was the world sector leader in the construction industry between 2005 and 2008. The company is a Sustainable Asset Management Group (SAM) Gold Class member and listed on the FTSE4GOOD sustainability index, thus being acknowledged as a leading company in sustainability worldwide and across sectors. It has achieved awards for its sustainable development from all over the world.

Social sustainability

Holcim's approach to social sustainability starts with a broad-reaching definition of its stakeholders. The 2007 Sustainability Report cites stakeholders as people or institutions who are affected, or might be affected, by Holcim's activities on a local, regional or global level. Stakeholders also include those who can influence activities and in fact everyone who can contribute to Holcim's business success. Key stakeholders include clients, employees, shareholders, suppliers, community, the government and regulators, politicians, media, non-governmental organisations and society at large^{xxii}. The company attempts to manage relationships with the stock exchange, market analysts and external investors very carefully as part of its overall stakeholder management.

The company consults and collaborates widely with its stakeholders, including with local communities regarding the impact of cement manufacturing and its other operations. Topics span activities in community development, economic development, education, environment and health^{xxiii}. The group takes global stakeholder feedback into account in assessing its sustainable development priorities. Mapping social, environmental and economic issues against global stakeholder views assists the organisation in identifying gaps and prioritising activities.

An area of top priority for Holcim's social sustainability is OH&S. The company's OH&S policy states, '

We provide healthy and safe workplaces by striving for zero risk to our employees, contractors and visitors^{xxiv}.

Holcim adopts a systems approach to OH&S management with 19 components represented in its OH&S pyramid^{xxv}. The company has implemented a broad-ranging approach across every country and every unit. A set of key measures analyses and monitors performance and drives results.

Rigorous assessment provides information on areas where the majority of incidents and accidents occur and helps determine the appropriate response. Responses may include provision of equipment, resources, training, procedures, safety design or other actions. Clear organisational accountabilities are supported by a robust program of training, communication, strict procedural

discipline and locally developed policies and action plans. There is zero tolerance for breaches of the five cardinal safety rules, and very stringent consequences follow any breaches under Holcim's long-term vision of 'zero harm to people'. The cardinal rules of safety are implemented globally with a training package including posters, presentations and movies sent out to all group companies. Some decisions are also made at a local level to support specific initiatives. Despite enforcing these systems and measures, in 2009, 28 fatalities marred the company's performance in the area of safety. However, the firm had reached its targets on lost-time injury rates that same year.

The ultimate responsibility for employee health and safety rests with each manager and every employee. Any manager has the power to close a workplace, as do safety inspectors who regularly inspect sites. Over the three years prior to 2007, contractors were involved in twice as many fatal accidents as Holcim employees. Therefore, contractor safety has become a major priority. An example of this occurred when a manager found contractors demolishing part of a site without wearing gloves or masks. Within five minutes, the site was closed down and contractors were not allowed to return until they were working safely. The contractor firm involved has not done any further work with Holcim since that time^{xxvi}. Thus safety and zero harm to people remain strongly top of the collective mind at Holcim.

Human resource sustainability

Human resource practices at Holcim are broad and deep in their application. The strategic pillars of the organisation rest on the foundation of people who give their best on a daily basis and, in turn, Holcim's people are given plenty of attention, support, training, development and opportunity. Employee satisfaction is monitored through an employee engagement survey, which was developed and piloted in seven countries in 2007^{xxvii}.

At the very basis of human resource sustainability is the commitment that Holcim will always pay at least the local minimum wage. However, about 90 per cent of group companies pay above this amount^{xxviii}. Diversity is also significant in the group, with 60 nationalities represented in the nearly 2000 top and senior management positions^{xxix}.

Individual development plans are in place for employees. Formal and informal 'dialogue' sessions are used to discuss achievement against objectives and progress on development actions. Succession management is reviewed annually and the process is integrated into the Holcim Board and Compensation Committee meeting cycle^{xxx}. Programs are in place for identifying talented employees, promoting from within wherever possible and providing succession planning throughout the organisation. One outcome is that internal applicants filled about 80 per cent of senior manager positions, according to the 2009 annual report.

Recruitment and induction are extensive processes, well documented in the Holcim *Human Resources Handbook*. Recruitment involves checking positions against succession and development plans. The induction process may take one to three months to complete. After two weeks on the job, each employee provides feedback as part of a 'Fresh Eyes Report'^{xxxi}. This report aims to capture any valuable observations and feedback a new employee may have.

Developing employees is a well-managed process at Holcim, with the emphasis being on both technical expertise and social skills. Learning is given high priority in employee development, including via leadership programs and management training. Regular training at all levels ensures that employees develop and fulfil

their potential in the best possible way. This mainly falls within the ambit of the individual companies. To strengthen know-how and skills, Holcim has developed tools that enable the group to rapidly spread the expertise on hand.

Holcim's values are designed to promote understanding, commitment and drive in all employees to achieve the strategy. The three company values are strength, passion and performance. Strength refers to being a solid partner and is based on the integrity of Holcim's people and its global leadership and competence. The next value, passion, means delivering on promises to each other and stakeholders as well as doing the best for customers. Performance involves embedding dedication, commitment and care into everything staff members do, including in relations with other employees, customers, local communities and the environment.

More than half the global workforce at Holcim is represented by an independent trade union. Group companies report that, on average, a minimum of five weeks' notice is given to employees prior to implementing significant operational changes^{xxxii}. During 2008–9, about 6 per cent of the workforce had to be cut. This was done in ways intended to minimise the social impact of this drastic action in accordance with union agreements. Most cuts were made in the economically worst affected markets of Europe and North America.

Afterword

Since this case was written, Holcim has merged with French cement group La Farge with a different leadership culture. Details are at: <https://www.lafargeholcim.com/>.

Has the merger changed the Holcim culture and if so how? In 2017, an analysis was done of training materials used at Holcim and the conclusion was that honeybee principles were still in action there, with a strong focus on sustainability.

NOTE: This case was published in Avery, G.C. & Bergsteiner, H. 2011. *Diagnosing Leadership*. Tilde University Press, Melbourne.

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ii Comment made during visit on 1 July 2008.

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x Holcim Sustainable Development Report, 2010, p. 13.

xi Holcim Corporate Sustainable Development Report, 2007, p. 8.

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- xiv Holcim Corporate Sustainable Development Report, 2007, p. 11.
- xv Holcim Sustainable Development Report, 2010, p. 27.
- xvi Holcim Corporate Sustainable Development Report, 2007, pp. 28–31.
- xvii Despite a 103 per cent increase in global cement production between 1990 and 2007, the increase in absolute net CO² emissions was only 70 per cent.
- xviii Substituting clinker with mineral components, such as slag or fly ash, reduces both the fuel and raw materials required per tonne of cement produced.
- xix Holcim Sustainable Development Report, 2010, p. 6.
- xx Holcim Corporate Sustainable Development Report, 2007, pp. 14–17.
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