INSEAD

Creyf's (Solvus Resource Group):

David against Goliath in the European Temping Industry

TEACHING NOTE

04/2004-5198

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Abstract of Creyf's Group Case

In only six years, Creyf's developed from a little-known general Belgian temporary staffing agency into a major European provider of HR services. In the year 2000 its consolidated turnover reached over €1 billion and the company was ranked No.5 on a European scale. The key to this unique track record had been its decentralized structure and a strong entrepreneurial spirit in combination with small-scale acquisitions in accordance with its dual strategy of diversification and regionalization.

Although the company had clearly done well with this dual strategy, Creyf's CEO/CFO management duo feared that in the new millennium it could no longer be maintained. They felt that the company's scope of activities had become too large to guarantee maximum productivity and that its widespread international subsidiaries had become difficult to coordinate.

They believed that time had come to narrow down the company's strategy and start focusing on where the money was, i.e. on the specialized activities of the group. Consequently, the potential acquisition of the IT consulting group, Bureau Van Dijk CS (BvDCS), was regarded as an opportunity to seal the intended strategic shift.

However, not everybody at the company was as convinced that the current strategy had to be abandoned. Moreover, the fact that Bureau Van Dijk was asking an astronomical price raised concern with regard to the opportunity cost of this acquisition.

A board meeting was scheduled on Wednesday 28 March 2001 to decide on the hotly debated takeover of Bureau Van Dijk. Convinced of the strategic importance of this acquisition, CEO Michel Van Hemele was ready to take up the challenge and prove his many opponents wrong. But would he succeed in this ambitious mission? Would the board be supportive of his arguments?

Preface

We decided to use the announcement of the BvD acquisition as starting point for the case as it seemed to be a crucial decision moment for the company as shown by the dramatic impact on the company's share price (see Figures 8 and 9 of this teaching note).

Teaching Objectives

This case opens opportunities for discussion on:

- **The drivers for internationalization and a move back towards local business**

What is driving companies in the temping industry towards internationalization? Economies of scale, better access to inputs, pan-European legislation and liberalization, client demand for cross-border contracts or the competitive interaction between different players? How can local companies survive?

- **Entry Modes in Foreign Markets**

How to select target markets? Which entry mode will likely guarantee the benefits we are pursuing? To what extent are the acquisitions of the company a strategy on their own or an instrument through which the strategy can be realized?

- **Organizational Structures and Blueprints**

How to choose between centralization and decentralization? How and along which dimension should the company be structured? How should the center rule and what role should the subsidiaries play?

- **Managing the Implementation Process**

How to put the blueprint into action? How to get from the current strategy and organization to the desired strategy and organization? How to overcome the barriers?

Classroom Utilization

This case is developed for use in executive or MBA courses in International Business or International Strategy and Management. From our experience, there is a possibility for related undergraduate courses as well, given the simple nature of the business and its attractiveness to young students. In view of the case objectives (see above), a position in the first half of such courses is suggested, as previous discussion and elaboration of frameworks for international strategy analysis seem helpful for this case.

It can be used separately or in combination with one or two other cases: *The European Temporary Work Services Industry in 1994* and *Vedior International's European Strategy: the French Revolution*.[1] Depending on the emphasis put on the international industry and the global-local analysis in a course or seminar, one might divide the time between the cases differently. It should, however, be clear that each of these can be used as stand-alone cases, and that each combination of the three cases offers opportunities for slightly different settings, approaches and learning methods.

From our experience, the combination of the Industry Note with the Creyf's case flies well in class. However, it is <u>not</u> essential to start with the Industry Note as the key elements of the temping industry are widely recaptured and updated in the Creyf's case. On the other hand, if you do combine both sessions, a minimum of 75 minutes discussion on the Industry Note and a minimum 60 minutes on the Creyf's case will do, possibly spread over two separate sessions. A 10 minute timeframe is suggested for the update material on both the industry and Creyf's/Solvus Group. Finally, 5 minutes can be spent summarizing the crucial key-learning points.

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1 Van Heck N. & Verdin P., *The European Temporary Work Services Industry in 1994*, INSEAD/Leuven, 1999. Van Heck N., & Verdin P., *Vedior International's European strategy: The French Revolution*, INSEAD/Leuven, 1999.

We feel that the discussion on the Creyf's case goes smoothly when applying the role play method. You may want to ask the students to prepare their roles in advance according to the role-specific assignment questions suggested below. Otherwise, you may choose to assign the roles at the beginning of class, ideally with a 10-15 minute break for group preparation during the session.

We also provide three PowerPoint presentations that the instructor could use to support the role play discussion, the key learning points of the case, and the update on Creyf's Group.

Suggested Setting

Session 1:	Temporary Work Services Industry in 1994 (90 minutes) (See teaching notes on this Industry Notes)		
Session 2:	Case Creyf's Group (75 minutes)		
	0-15 minutes:	STEP 1:	Preparation of role play
	15-45 minutes:	STEP 2:	Elaborating the different perspectives or positions of role play)
	45-60 minutes:	STEP 3:	Summary of key issues emerging during role play and conclusions
	60-70 minutes:	STEP 4:	What happened next?
	70-75 minutes:	STEP 5:	Key-learning points

Supporting Reading

The choice of the supporting reading depends on the role of the different topics in the overall course. The following articles and books give some useful background for class discussion:

- Bartlett, C. and Ghoshal, S. "Tap your subsidiaries for Global Reach', Harvard Business Review, November-December 1986, 87-94.
- Bartlett, C. and Ghoshal, S., "Managing across Borders: New Strategic Requirements", *Sloan Management Review, summer* 1987, 7-17.
- Birkinshaw J., *Entrepreneurship in the Global Firm*, (London: Sage, 2000), 154pp.
- Bleeke, J., Isono, J., Ernst, D. and Weinberg, D. "The Shape of Cross-Border M&A" and "Succeeding at Cross-Border M&A", *The McKinsey Quarterly*, 3, 1990, 15-26 and 46-55.
- Garette, B. and Dussauge, P. "Alliances versus Acquisitions: Choosing the Right Option", *European Management Journal*, 18(1), 2000, 63-9.
- Verdin P. and Van Heck, N., *From Local Champions to Global Masters: A Strategic Perspective on Managing Internationalization*, Palgrave, 2001.

Teaching Plan

Our plan is structured into four steps which should take a total of one hour, plus 15 minutes for role play preparation if necessary. A detailed explanation of each step follows:

STEP 1: Preparation of Role Play (15 minutes)

If possible, it always helps to situate the case setting by providing some background and introducing participants to the key facts and issues of the case at the beginning of the class and/or at the end of the preceding course session.

We propose two different ways of addressing the role play: one can either try to simulate the board meeting of 28 March 2001 (allowing for four different roles) or choose to have an open discussion with all stakeholders (allowing for up to eight different perspectives).

In the case of a **simulation of the Board Meeting**, the following perspectives could be addressed:

- CEO of Creyf's Group (Michel Van Hemele)
- Manager of Creyf's Interim Belgium
- Member of Ackermans & Van Haaren (reference shareholder)
- Chairman of Creyf's Board

In the case of an **open discussion** with different stakeholders, up to nine different roles could be involved:

- CEO of Creyf's Group (Michel Van Hemele)
- Manager of Creyf's Interim Belgium
- Member of Ackermans & Van Haaren (reference shareholder)
- Chairman of Creyf's Board
- Financial Analyst
- HR Manager of NIKE (key client of Creyf's)
- CEO of Adecco
- CEO of Vedior
- CEO of Bureau Van Dijk CS

The benefit of these role plays is to bring out the complex tensions or conflicts between the different stakeholders or the different levels of decision-making that are implicitly involved in this issue. This typically turns out to be lively, realistic and dynamic as different participants identify with different players in the game, so that the strongest arguments come up and the widest range of interests and aspects is brought out. The challenge of the case decision then is to deal with all the resulting tensions.

The assignment for each role player is to state and support their position on what to do in light of their own interests and responsibilities, being as realistic and truthful to the setting and description of the case material as possible. If participants come up with 'wild' positions they should be reminded that the assignment must be in line with the case as described.

More specific assignment question for each role are indicated below. We find it useful to ask participants to hand in the answer to their question at the beginning of the class as it makes for a more in-depth role play discussion.

- Assignment question for CEO Creyf's/ Financial Analyst/CEO Bureau Van Dijk CS:

  "From your perspective are you for or against the acquisition of Bureau Van Dijk? Why?"

- Assignment question for Manager of Creyf's Interim Belgium/ Chairman of Creyf's Board/HR Manager Nike/ Member of AvH:

  "Taking into account your perspective, do you feel the acquisition of Bureau Van Dijk would be in line with the existing strategy or would it be a good opportunity to change the strategy and move in another direction? Why?"

- Assignment Question for CEO Adecco/ CEO Vedior:

  - *"Taking into account your perspective, do you feel this acquisition would be in line with the existing strategy or would it be a good opportunity to change the strategy and move in another direction? Why?"*
  - *"Would you be interested in acquiring Bureau Van Dijk yourself? Why?"*

The participants assigned to this role might have to look up additional information on the specific company!

STEP 2: Elaborating the Different Perspectives or Positions – Role Play (30 minutes)

[A PowerPoint Presentation is provided to accompany this role play discussion in class]

The second step consists in identifying what likely positions each of these players would take and why. A number of different positions are possible for many of these roles – although there is no need to discuss all these options in the classroom. We simply list some possibilities here to give you an idea of what to expect or what you may wish to elicit.

CEO of Creyf's Group

- It is crucial to focus the company's strategy
  - The dual strategy has become too expensive
  - The dual strategy has become unmanageable
- The focus must be on specialized divisions
  - Higher margins

- Too late to create a competitive advantage in general temping
- In favor of the acquisition of Bureau Van Dijk CS
  - High price reflects goodwill
  - Expects further growth in IT Sector

Manager of Creyf's Interim Belgium

- Not convinced the dual strategy must be abandoned
  - Positive share price evolution over the last few months
  - Good financial results of the group
- Concerned about the opportunity cost of the investment
  - We would spend a huge amount of money on something that is not our core business!
  - Our key clients mainly use our services in general temping
  - Why not spend this money in our general temping segment?
  - Speed up our internationalization in Italy (or elsewhere)!

Member of Ackermans & Van Haaren

- Not convinced we should abandon the existing strategy
- If the current strategy has become unmanageable, should we then completely change the strategy or would we be better off trying to restructure the current portfolio?
- Can we not combine the best of both?
  - High market share of General Temping
  - High margins of Specialized Temping
- Temping = a local business
  - Key success factor: "Being better than the competition in every single location/business you are in."
  - What we need is to create critical mass in every segment (general/specialized)
- Why go for this large acquisition when we have clearly been successful in small-scale investments?
  - The high asking price! Is Bureau Van Dijk CS really the best we can go for? Are the financial results of the company not signaling a poor performance? Why pay so much?

Financial Analyst

- P/E ratios: this acquisition goes against financial logic - a low P/E company buying a high P/E company in this case.
- Hence, the company is willing to pay a very high premium for the expected earnings of Bureau Van Dijk CS!
- BUT what if Bureau Van Dijk CS' expected earnings fail to materialize? The company would be forced to take into account an impairment of goodwill, which would negatively influence its net results.
- Why take so much risk for something that is not the core activity of the group?

HR Manager of Nike

- We spend a large amount of money in the general temping services of Creyf's. We hardly ever make use of the specialized services of the group.
- For us the added value of working with Creyf's is situated in:
  - The pro-activity of the group, its innovation
  - Its willingness to invest in our 'partnership'
  - The stability of this partnership
- Will this investment in specialized temping influence the company's future willingness to invest in general temping?
- Will this strategic shift negatively influence the stability of our relationship?

CEO of Bureau Van Dijk CS

- The high asking price reflects the growth potential in our sector
- Convinced that synergies do exist:
  - For Creyf's: this is an investment in future earnings
  - For BvDCS: we can benefit from Creyf's international network to facilitate our own expansion

STEP 3: Summary of Key Issues Emerging during Role Play and Conclusion (15 minutes)

Of course, the completeness of these arguments is less important than letting the dynamics of the class set its own course. We would rather have the arguments be thrown back and forth and have really animated debate between the various parties, than to try and come up with the most complete or correct set of arguments and proposals.

In the course of the discussion, the teacher should keep track of the key issues coming up and seize the opportunity to summarize the main arguments being developed. S/he can make several asides to remind participants of the history and background of Creyf's internationalization strategy. It is worth raising the following aspects as summarized below:

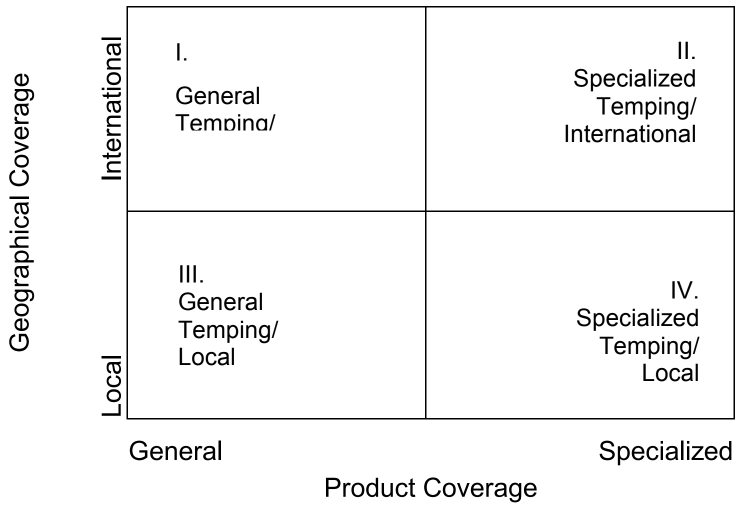
- The position of Creyf's group in the industry
- Entry modes in foreign markets
- The organizational structure of Creyf's Group

[A PowerPoint Presentation is provided to accompany the explanation of the key learning issues]

1. Position of Creyf's Group in the Industry in the year 2000

a) The two-by-two matrix

We suggest going back to last classes' results from the discussion on the different valid strategies for different players in the European market. Referring to the conclusions from it, the teacher could ask the students to position Creyf's Group in the two-by-two matrix used in session 1. We suggest drawing the following matrix on the blackboard.

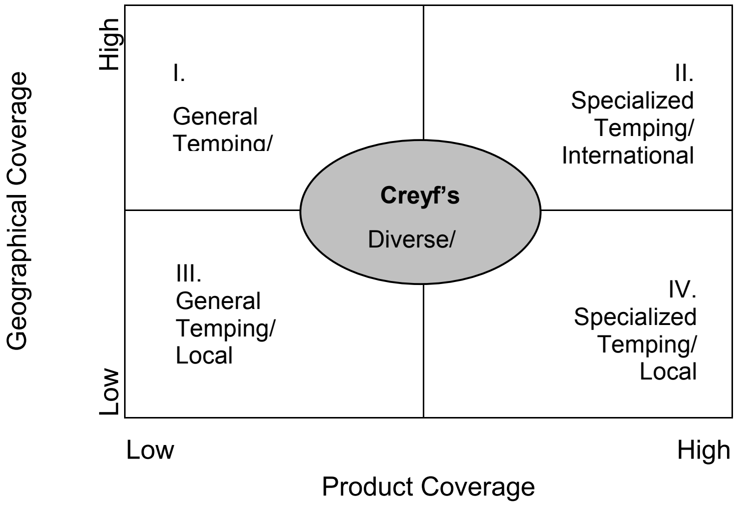


The horizontal axis of this matrix refers to the degree of product diversification of a company. In the temping industry one could argue that companies merely focusing on the general temping segment tend to have narrow product coverage, whereas companies active in the specialized activities of the sector reflect broader product coverage. The vertical axis of the matrix refers then to the degree of geographical coverage a company possesses. Hence, one could make a distinction between local and international companies.

We use the above criteria (geographical/product coverage) to position Creyf's Group in the industry since we believe that these characteristics are seen to be of strategic relevance to the business. We notice, however, that both on the geographic as on the product axis, students tend to hesitate over where to position the company. Their judgment seems to depend on the standards used to "measure" the criteria.

- When measuring the degree of internationalization, some students tend to look at the number of countries the company is active in. Others look at the way the turnover of the company is distributed among its international network. Where does the company earn the most? Some students even argue that a company is only truly international when it is active in countries very different from its own.
- When measuring the product coverage of the company, again students tend to use different instruments. Should one count the number of activities the company is involved in? Or look at the distribution of turnover/profits among the different segments?

Needless to say, the choice of instrument will influence the exact outcome of the judgment. However, in general terms, students seem to more or less agree with the fact that Creyf's Group is situated somewhere in the middle of the two extremes (as shown in the figure below).



b) Evaluation of Creyf's Position in the Industry

This points to one of the key discussion elements of this case: has the dual strategy brought the company into the dangerous (unsustainable) position of being "stuck in the middle"?

To answer this question one should first attempt to analyze the "winning" strategies for the industry. Which quadrant of the matrix reflects the most profitable position for a company in this industry? Where is the beef?

We then try to analyze both axes from this perspective. However, the debate about successful strategies in the temping industry may not produce one single answer (if it does, the teacher has probably overlooked some aspects and not played 'the devil's advocate' during the session). Although the notes below should not be considered the 'real truth', we found in various sessions that students could more or less agree on these key points. The teacher's goal should not be to drive the students towards this type of conclusion or to let opinions converge towards this. On the contrary, we find that strongly diverging opinions are the strongest basis for this session.

Product Coverage: Where is the Beef?

Should a company in this industry generalize or specialize to be successful? Should it focus on its core business or should it go where the money is? To organize the debate, the teacher could draw up two columns summarizing the pros and cons for each of the options (see below).

Without wanting to generalize, one could probably conclude that a focus on specialized temping would be a more realistic strategy for most players in the industry. So to answer the question: the beef would therefore be in the right hand side of the two-by-two matrix.

GENERAL TEMPING	SPECIALIZED TEMPING
PRO □ Core Business □ Key Clients	**CON** □ Diverse portfolio (Amalgam of different companies)
CON □ High turnover, limited profit □ We have no cost leadership □ Hard to beat the competition	**PRO** □ High profit □ We can make a competitive difference

International Coverage: Where is the Beef?

We then find it useful to continue the discussion by asking why Creyf's Group wanted to internationalize.

Creyf's Group used some very pressing and convincing arguments for internationalization:

1. "It's eat or be eaten"

Why wait until some of the bigger competitors show an interest in our assets or act upon their attraction to our activities by acquiring us? Rather move ourselves, by acquisition or merger, than be swallowed. Rather eat lunch than be lunch.

However, as we are often reminded, fear rarely gives the best advice. Whether eating (or not) is the right thing to do should not depend on a concrete or perceived threat from other companies to take over your company. Even if and where a 'defence' may be in order, there are alternative scenarios, alliances for example.

Indeed, the whole case struggles with the question how Creyf's Group (David) should position itself to win the competitive battle with the Goliaths of the industry (like Adecco). But maybe the real question should be whether a head-on competition is inevitable: they may be able to exist alongside each other as David and Goliath belong to separate strategic groups.

2. "We have to be where the clients are"

In the current business environment, it would not be surprising if you came to the conclusion that a bigger share of your clients are operating internationally. What choice do you have but to follow the client into foreign markets if he chooses to do so? Ask the students now what they think, whether this motivation makes sense. The purpose is to criticize their motivation in the following manner:

Of course, there is some truth in this reasoning. Look at all the companies that got involved in international operations by an accidental order from a client in the domestic market requiring the same products in one of its international subsidiaries. The trap, however, lies in blindly following the client (Verdin & Van Heck, 2001). Before you do so, it may be worthwhile asking why your clients are doing it. The argument implicitly assumes that the client has good reasons for internationalizing, which may not always be the case. Therefore, the first thing to do is to understand your customer's business and strategy: what is he after? The client may be driven by economies of scale in his value chain, but how does that affect you? Will you receive any benefit from following the client or will you simply bear the cost?

A rightfully internationalizing client may nevertheless see little incentive to buy from you in other markets. Why would the client stick to the same supplier in different markets if the scale in his own operations was what he wanted in the first place? The question is what the value of working with the same supplier would be. Take, for example, a cross-border contract between a multinational and a temp agency. Shortly after the official signing of the international contract, the client realized that the real benefits of cross-border temping were limited and the contract was hard to manage. The subsidiaries had a valid reason for not buying locally from the centrally contracted agency – there was no benefit to them at all!

3. "Our home market is saturated"

The typical growth path of a national champion moves from expansion of activities in the national market, to entering foreign markets to find additional growth potential. Looking for opportunities across the border is a natural next step. In some instances, the home market is simply too small for the ambitious growth of the company.

However, before you conclude that the market is too small or saturated, we invite the instructor to ask a few additional questions. Is it because Creyf's' growth in the domestic market has slowed over the past two years that the market has reached saturation? Internationalization should not be an excuse for not becoming more competitive or innovative at home, or getting a larger slice of the market. If you cannot compete in a market you know and where you are already an established player, how can you guarantee a better position in a new and foreign market? Entering another market will probably not make your home market bigger or less saturated.

4. "Our business is too cyclical"

The argument for geographic diversification claims to reduce the vulnerability of the company to economic cycles in a particular market. The underlying rationale is straightforward: through geographic diversification companies can switch their fixed costs from one country to another when times are good or bad. By doing so, they can reduce uncertainty, either on the demand side – security of demand – or on the supply side – security of inputs to production.

In general, the temping business is considered cyclical. Hence there are considerations to make around geographic diversification. In order to hedge, the economic cycles in different countries should not be fully linked to each other. There may be reservations about this condition, especially in light of the economic integration and regionalization taking place all over the world – Europe, Asia, Latin America. Hedging also assumes that fixed costs can be swapped – all or partly – from one region or country to another. However, this only applies to industries where the machines produced can be shipped from one place to another – but this is not the case for most service companies (like the temporary work businesses) where the fixed costs are often primarily personnel and where local 'inputs' should 'produce' locally.

The purpose of the above discussion is to make the students understand that in response to many often-heard internationalization motives, the right questions and remarks should be raised. We find the table below a useful device to illustrate this.

INTERNATIONALIZATION DRIVERS IN THE TEMPING INDUSTRY: Often heard slogans and one-liners	**…BUT…**
• Follow the customer! They are international	• In reality cross-border contracts are more the exception than the rule! • What do customers value most - international presence or quality of the relationship?
• Our competitors are already doing it!	• What counts is not what the competition is doing and how you can copy them, but why they are doing it and how they expect to benefit from it. • Even if your competitor benefits from being international, does it automatically make sense for you to do the same?
• Geographic diversification to counter the cyclicality of the business	• Most of the national markets are closely linked in terms of economic cycles (even more in a unified European market) • In this business the (fixed) resources cannot be easily shared cross borders. Here the fixed costs are often primarily personnel and local 'inputs' should 'produce' locally
• Eat or be eaten (rather make a move yourself than be swallowed)	• Fear rarely gives the best advice • If and where a 'defense' may be in order, there are alternative scenarios (e.g. alliances) to M&A
• Our home market is saturated so we have no choice but to go abroad!	• But are you sure you can do things better than many of the players already in those foreign markets?
• Foreign competitors are entering my home market!	• But is your entering their home markets going to 'solve that issue'? Are the critical success factors in the foreign market similar to those in your home market?
• Only a few large players will survive! Bigger is better!	• But can a large company really do better than a smaller company? Is size the only thing that matters? Is size leading to bigger profits?

Figure 1: The Internationalization Slogans (Verdin & Van Heck, p.55-56)

To separate the sense from the nonsense, the slogans from the real benefits of internationalization, we find the CONELEARN framework (Verdin & Van Heck, 2001) most useful. It aims to help evaluate what internationalization can bring to the company. The main reason for using it is to help structure the internationalization debate and to make people think about aspects of internationalization they would otherwise have overlooked or not given due attention to. The key objective is to illustrate what companies can get out of their international presence – in other words, the real benefits.

The framework distinguishes between three main types of internationalization benefits: cost advantages (Co), network benefits (Ne) or learning opportunities (Learn).

The cost advantages of internationalization can be economies of scale, better access to inputs, moving up the learning curve, and leveraging existing know-how and resources across markets and locations. The network benefits refer in the first place to internationalization benefits to the customer (and hence indirectly to the company). These benefits have to do with 'being where the customer is'. By learning opportunities it is meant that companies may get better, more competitive and stronger through internationalization.

Next, the teacher should put the following chart on the blackboard. It represents the CONELEARN framework.

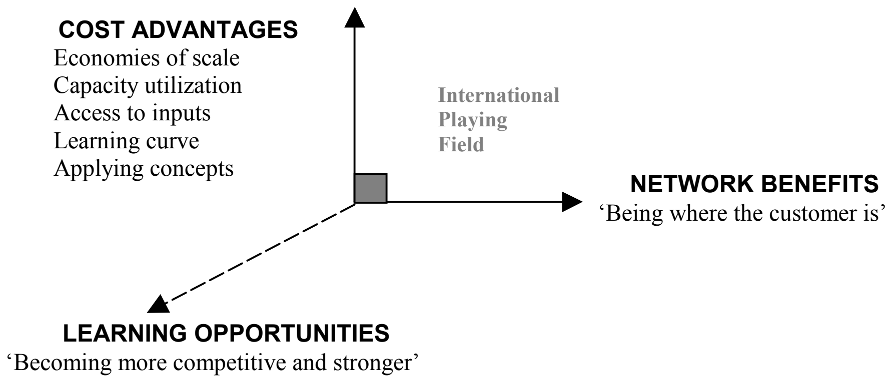


Figure 2: What are the benefits of internationalization?

The teacher should ask the students what the internationalization benefits are for Creyf's Group:

- Network benefits? **No/Very limited**

  In this case, we have seen how Creyf's group repeatedly expressed the hope of reaping network benefits through its internationalization strategy. However, a critic could question the real added value of cross-border contracts in this industry.

- Cost advantages? **No/Very limited**

Furthermore, cost advantages seem to be rather limited as little possibility of standardization exists.

Therefore, one could conclude that the 'international playing field' is somewhat small in this sector, turning temping into a very local business.

- Learning opportunities? **It depends**

  In the local temping business with limited cost or network benefits, internationalization benefits still may exist along the third axis. However, in this sense, one could hastily conclude that all companies should internationalize, if only to learn, whatever the size of their international playing field. But it is important to realize that learning will not happen automatically. It requires a much longer time perspective than cost and network benefits. It requires intrinsically different organizations and management practices. So look before you leap! This third axis is not a good excuse to be missing out on potentially critical cost and network advantages! If learning is going to be the key driver and benefit of internationalization for Creyf's Group, they will need the right organizational structure to make that happen. In the next section we will go deeper in into these pre-conditions.

Without jumping to conclusions, one could therefore wrap up that temping is quite a local business, turning the lower quadrants of the matrix into the more realistic strategies for this industry.

c) Stuck in the Middle?

If we bring our former conclusions together, a more local strategy with focus on specialized activities seems the most profitable approach for this sector. This corresponds with quadrant IV of the two-by-two matrix.

Earlier, we said that most students tend to position Creyf's Group somewhere in the middle. Can we thus conclude that the company finds itself in the unsustainable and dangerous 'stuck in the middle' position? Surprisingly, the answer is 'no'. They are not stuck in the middle – in fact they are at the edge of what is possible in this sector!

d) Acquisition of Bureau Van Dijk

To finish off the debate on Creyf's position, it would be interesting to evaluate the BvD acquisition in the light of these conclusions. As this acquisition would incorporate a local, specialized player, it might be a good thing to do from a strategic point of view. However, from a financial point of view the acquisition probably raises concern. Indeed, the acquisition goes against all financial logic – a low P/E company (Creyf's group) seeking to buy a high P/E company (BvD). More information on this P/E game (the advantages and limits) can be found in the *Saatchi & Saatchi (A)* case - condensed (and teaching note).[2]

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2 Van Poeck E., Verdin P., *Saatchi & Saatchi: Pioneers of Globalisation in Advertising*, INSEAD, 2003. (On the basis of the earlier Saatchi and Saatchi case (ref. nr. 09/90-120, INSEAD, 1989) by Sumantra Ghoshal, Professor at INSEAD and Alice Avis, MBA)

Entry Modes in Foreign Markets

The teacher should start a discussion on the entry mode by making a list on the blackboard of all the possible entry modes:

- Export
- Foreign Direct Investment (FDI)
- Merger & Acquisition
- Licensing
- Joint-Venture & Alliances

Once you decide to enter a certain market, the question remains as to which entry mode to use. Different market entry modes have typically diverse advantages and disadvantages. When choosing an entry mode in a specific market, you should in our view equally take into account the type of benefits you are pursuing. Different entry modes offer different potential with regard to the relevant benefits. The figure below attempts to illustrate possible links between the different entry modes and axes in the CONELEARN framework.

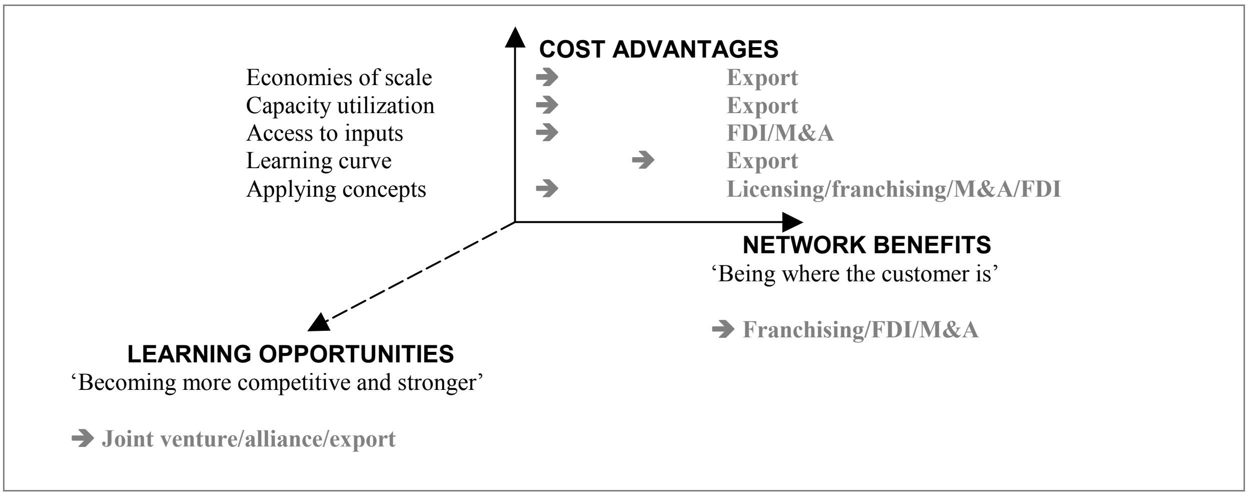

Figure 3: Which entry mode to use?

Obviously there is not an exclusive, one-to-one relationship between the target market description or entry mode and the benefits it gives access to. Nevertheless, we distinguish certain hierarchies within entry modes depending on the desired benefits. If a blend of different ideas and diversity of markets is what you would like to capture, it may not be right to think about export first. Joint ventures and alliances in unknown markets seem more obvious entry modes for learning.

It is interesting then to analyze whether the entry mode chosen by Creyf's Group actually takes into account the benefits they are pursuing.

Here, it is important to make a distinction between the benefits the company was seeking with its internationalization strategy and the benefits we can realistically expect to be present.

- The benefits Creyf's Group was seeking (see above)
  Cost advantages (scale economies), network advantages
- The more realistic benefit (see above)
  Learning opportunities

Creyf's Group has clearly made use of an acquisition-based strategy to speed up its internationalization. The instructor should now ask the students to what extent this entry mode has been the 'right' vehicle to capture the benefits the company was after.

If we look at the figure above, we understand that (up to a certain point) M&As are appropriate to pursue cost advantages and network benefits. However, as we have seen in the previous section, the CONE benefits seemed to be rather limited for Creyf's Group. On the other hand, we saw that learning opportunities were an option but only if certain conditions were fulfilled. Yet by using the CONELEARN framework we can already see that M&As are probably not the most appropriate medium to apply if learning is what you are after!

On the other hand, although selecting the 'right' entry mode is recommended, it is definitely not sufficient to capture the benefits you seek. The management of the chosen vehicle will contribute as much to its success as the selection itself and vice versa – it is not because a vehicle is seemingly not delivering the required benefits that the vehicle itself was wrong.

Therefore, it may be interesting to spend time discussing the organizational structure and management style of Creyf's Group as well. Learning opportunities cannot be captured when no attention is paid to the channels enabling the transfer of knowledge.

Organizational Structure and Management of the Group

The case clearly indicates that Creyf's management has chosen to give independence to local management and to use generally informal coordination mechanisms ('management by traveling around'). To evaluate this management style, one should again ask whether the organizational structure is indeed related to the benefits they are seeking via their international strategy.

At the risk of generalizing, we would state that the optimal degree of formal coordination probably declines as one moves from cost, through network to learning benefits (Verdin & Van Heck, 2001). One could therefore expect that the informal coordination style of Creyf's would indeed facilitate cross-border learning.

The preceding observation has important implications for the relationship between company headquarters and subsidiaries. If international learning is indeed the benefit the company is seeking, you may want to look for highly competent subsidiaries which can transfer their knowledge to the whole organization.

According to Bartlett and Ghoshals' framework (1986), such subsidiaries would be identified as 'strategic leaders' or 'contributors'.

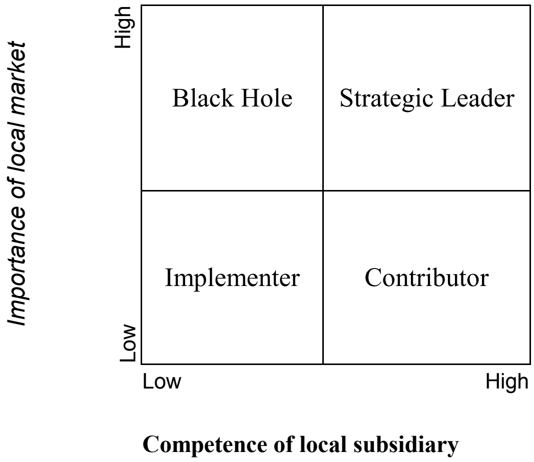

Figure 4: The role of subsidiaries (Bartlett and Ghoshal, 1986)

However, as indicated, in order to capture learning opportunities one should establish channels throughout the organization to enable the transfer of knowledge. Yet it does not seem as if Creyf's Group has made any real effort to capture potential learning opportunities.

It is thus far from clear that Creyf's Group is capturing any real benefits with its internationalization strategy. One wonders to what extent the company's internationalization strategy has become a strategy on its own, rather than remaining a vehicle to achieve the strategy.

STEP 4: What Happened Next? (10 minutes)

[A PowerPoint Presentation is provided to accompany the update of the company]

Since some important changes have taken place in the company after the case setting, it may be nice to end the class with a brief update of the current situation. The update slides (see Exhibit 5) provide some additional information on:

- The acquisition of Bureau Van Dijk CS
- The further acquisition strategy of the company
- The organizational and managerial changes
- Masterplan 2005

1. The Acquisition of Bureau Van Dijk CS

a) Did they buy Bureau Van Dijk CS?

- **March 2001**

Takeover negotiations between Bureau Van Dijk CS and Creyf's come to an abrupt end.

- **May 2001**
  - Two months later, Creyf's buys BvDCS for €69.4 million (€60 million of this amount reflects the payment of goodwill)
  - The majority shareholders of BvDCS agree to hand over their shares in exchange for Creyf's bonds. Creyf's owns 52.15% of the shares
  - Creyf's announces a public takeover bid on the remaining shares of BvDCS.

- **November 2001**

  Creyf's owns 94.14% of BvDCS'shares

b) Was it a successful acquisition?

- **June 2002**

  The CEO of BvDCS, Jean-Paul De Nys, is arrested on suspicion of forgery, fraud and money laundering with regard to BvDCS. Justice suspects that the amount involved is a couple of million euros.

- **December 2002**

  BvDCS announces a major profit warning given its poor financial results (see below).

X €1000	2002	2001	Δ
Turnover	37 739.35	35 920	+ 4.85%
Operating Result	- 2 665.92	3 720	- 171%
Profit on Ordinary Activities	- 3 182.53	3 670	- 186.72%
Net Result	- 5 521.06	1 850	- 389.43%

Figure 5: Financial results of BvD (2002)

- **February 2003**

  Partly within the planned transition to IFRS (International Financial Reporting Standards), the group decides to implement an extraordinary amortization of goodwill as the result of an impairment test at Bureau Van Dijk to the tune of €38 million euros.

2. Further Acquisitions of the Company

December 2002	Acquisition Geotec – The Netherlands (Secondment & Projects)
November 2002	Acquisition Sprint – France (Temporary Staffing)
September 2002	Acquisition Wessel Coenen - The Netherlands (Services & Consulting)
June 2002	Acquisition Connexio - Poland (Temporary Staffing)
May 2002	Strategic alliance Kliq - The Netherlands
May 2002	Acquisition Top Interim/Top Drill - France (Temporary Staffing)
April 2002	Acquisition API/GPS - Belgium (Temporary Staffing)
Marsh 2002	Acquisition Royal Personal – Switzerland (Temporary Staffing)
February 2002	Acquisition CPE – Germany (Temporary Staffing)
January 2002	Acquisition Consulenti - Spain (Temporary Staffing)
January 2002	Acquisition Transition Professionnelle - Switzerland (Temporary Staffing)
January 2002	Acquisition Arber – Switzerland (Temporary Staffing)

Figure 6: The acquisitions of Solvus in 2002

If we take a closer look at the acquisitions that the company carried out after the setting of the case, we see that a significant number of general temping agencies have been added to the group, still on a regional basis. The acquisition strategy of the year 2002 does not reflect the intention of Creyf's management duo to start focusing on 'where the money is'. Therefore, one cannot conclude that the acquisition of Bureau Van Dijk was the start of a new strategic focus at Creyf's.

3. The organizational and managerial changes

- **November 2001**
  - Creyf's Group develops a new corporate identity for its general temping division: "Creyf's". This goes hand in hand with the development of a system of common values characterizing all the general temping subsidiaries: proximity, entrepreneurship and passion.
  - Alain Dehaze becomes Manager of Creyf's International.

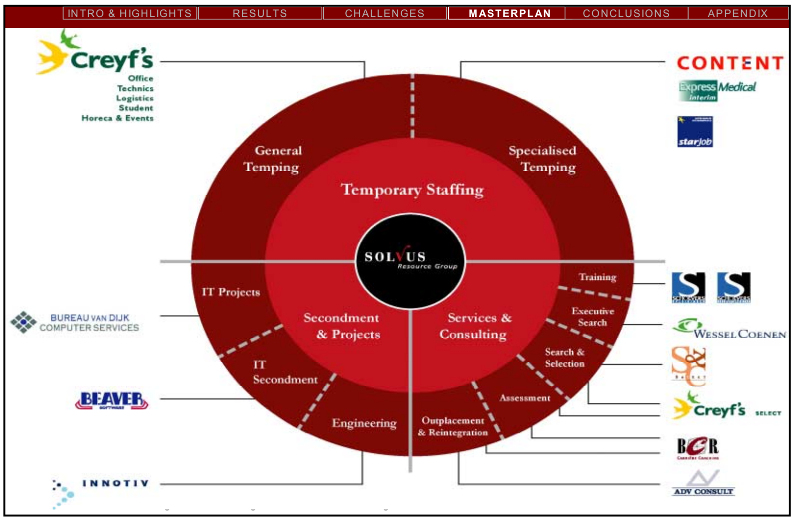

Figure 7: The cluster organization

- **January 2002**
  - The holding society, Creyf's Group, changes its name to "Solvus Resource Group". The new name is intended to clarify the distinction between the general temping division of the group (Creyf's) and the holding society.
  - Creyf's management launches the cluster organization (see diagram above). The subsidiaries of the group will now be formally organized on an activity-related basis.
- **December 2002**

Michel Van Hemele unexpectedly leaves Solvus to become chairman of Carestel. His successor is Alain Dehaze, former Manager of Creyf's International. Solvus' share price is hardly affected by the change in management.

As illustrated in the figure below, we can clearly distinguish two important moments for Solvus' share price: the announcement of the acquisition of BvD and the announcement of the departure of Michel Van Hemele.

It is precisely because of its impact on the company's share price evolution that we have decided to use the acquisition of BvD as the key decision issue of the case. The first figure shows the dramatic impact that the announcement of the BvD acquisition had on the share price. The second figure then demonstrates that, as compared to the average stock prices at that time, the company was not significantly underperforming but it surrendered all the out-performance it had gained during the tenure of Michel Van Hemele and its acquisition strategy.

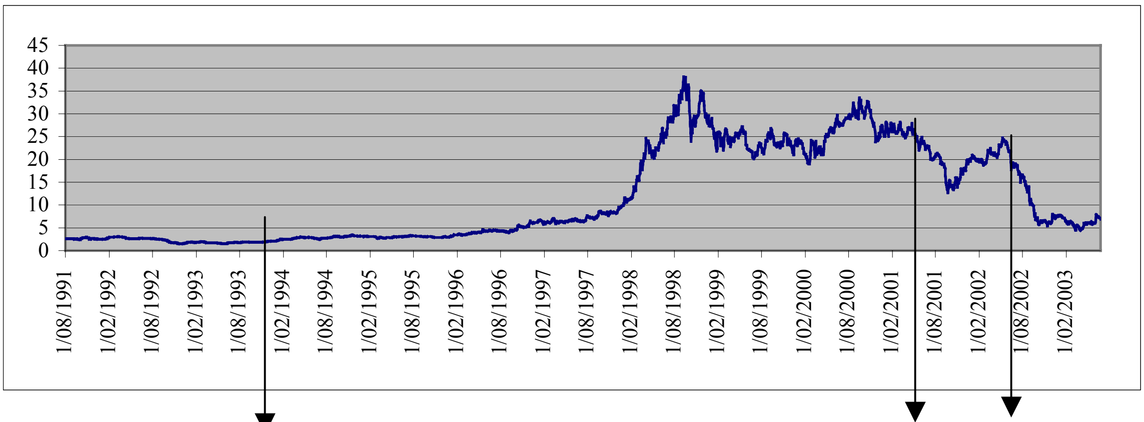

Figure 8: Evolution of stock price in absolute level

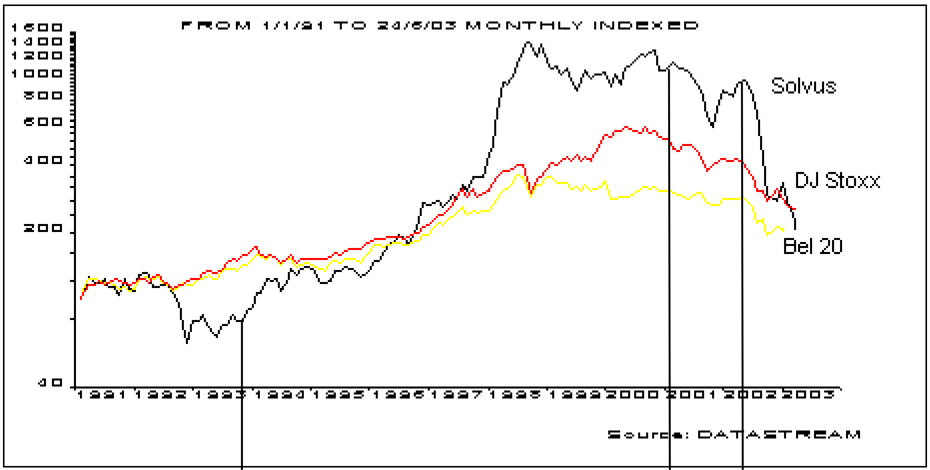

Figure 9: Evolution of stock price compared to average (logarithmic scale)

Appointment of Michel Van Hemele as CEO

Acquisition of BvD

Announcement of departure Michel Van Hemele

- **February 2003**

  Bart Gonnissen and Michel Van Hemele are reunited. Gonnissen leaves Solvus to become the new CFO of Carestel. Once again the company's share price is severely hit by the announcement.

- **March 2003**

  Alain Dehaze tries to recover the market's confidence and announces Masterplan 2005, containing the strategic directions of the coming three years.

4. Masterplan 2005

- **New Group Executive Committee**

  In the place of the CEO/CFO duo, the group will come to be headed by a broader 5-person Group Executive Committee.

- **Re-organized geographically, locally driven**

  Masterplan 2005 abandons the activity-related (cluster) structure and provides for the expansion of a group organized along geographic lines and powered locally. According to Dehaze, this country-by-country organization will realize maximum benefits of scale.

- **From entrepreneurship to entrepreneurial management**

  Keep the good things from the past but combine it with new management tools, strict controls and profit-related remuneration.

- **Operational Excellence**

  Profitability becomes the absolute priority. Strict policy in terms of controlling and centrally steered financial reporting. Active cost management, better balance structure and restriction of financial costs.

- **Dual strategy remains**
  - General temping: will be further developed mainly by organic growth
  - Specialized temping: will be developed by organic growth or by external growth in markets with low penetration ratio or big growth potential.

STEP 5: Key Learning Points (5 minutes)

To end the session on the Creyf's Group case, we find it useful to list on the blackboard some key learning points of this case:

- To position the company in the temping industry, we have used the two-by-two matrix, based on the product and geographical scope of a company. We used those criteria because they are strategically relevant in the business.
- Be careful when interpreting the two-by-two matrix. If the sector is clearly local then a company finding itself in the middle is not "stuck in the middle", even though at the end of what is realistic in that sector.
- In the end, the way you position the company is a case of judgment based on the relevant criteria.
- Internationalization is about carefully analyzing the possible benefits and deciding which entry mode, strategy and organization to use to capture those benefits.
- We should make a distinction between the benefits the company was seeking through its internationalization strategy and the benefits we can realistically assume to be present.
- M&A is only a vehicle towards internationalization, not a strategy on its own!
- Even when there are neither cost benefits nor network advantages, a company can internationalize to obtain learning opportunities. In other words, it still can internationalize to become world class.

"If you are world class, what are you waiting for?

If you are not world class, what are you waiting for?"

- **<u>BUT</u>**: Be sure not to use learning benefits as an excuse for missing out on potential crucial cost advantages and network benefits. If learning is what you are after, you had better establish the channels to capture the transfer of knowledge. It's a long-term commitment and needs to be managed carefully. The learning benefits must be significant to overcome the many barriers to internationalization.