NUCB BUSINESS SCHOOL

REV: June 22nd, 2019

Insight Note

Michelin 2018

Case Synopsis

In May 2018, Florent Menegaux was voted in as Michelin's new CEO, marking a turning point for the French tire manufacturer who had been led by Jean-Dominque Senard since 2012. 2017 had been a very successful year: sales were the highest they'd ever been (nearly reaching €22 billion), financial objectives were met both in terms of operating income and cash flow, and Michelin's global footprint was strengthened. Yet the rapidly changing environment – increased competition, stagnant growth in the tire market, new customer expectations, and the rise of new technologies – pushed Menegaux to define a new direction for the French tire company. A product-focused strategy was no longer relevant for the future as he set out to diversify Michelin's growth and expand more quickly in new markets and segments. However, Michelin was a 130-year-old industrial company with strong embedded traditions and values. If it was expected to keep up with the fast-paced environment and carry out the new strategy, Menegaux was convinced that a profound transformation was needed – both on a managerial and cultural level. As he makes plans for his first year in office, several questions are raised for the newly appointed CEO. Does he have the right strategy moving forward? How can he implement the necessary change within the organization? How can he create the conditions and the framework so that people can adapt their behaviors while upholding the Michelin identity? This case study will start by exploring Michelin's rich history and the evolution of the tire industry in recent years. It pursues by analyzing the company's strategy under Senard and the initiatives that were taken in order to maintain a competitive position. Finally, it puts Menegaux in a situation where he is faced with potential levers that can be worked on in order to move forward with the transformation.

Case Objectives

- Understanding the logic behind Michelin's strategy to remain competitive in recent years, through constant product innovation and operational excellence
- Understanding that operational excellence for companies isn't enough for long-term competitiveness
- Understanding what evolutions companies are facing today and why they need to change
- Reflecting on the idea of change within companies and learning about ways to initiate it
- Understanding how elements within an organization work together
- Reflecting on how change in culture and management can be implemented in highly structured companies

Target audience & classes

This case study can be used both for undergraduate and graduate courses, in either:

- Strategy
- Leadership & Organizational Behavior
- Change Management

It is suggested that this case be used towards the middle part of the course.

Case Questions

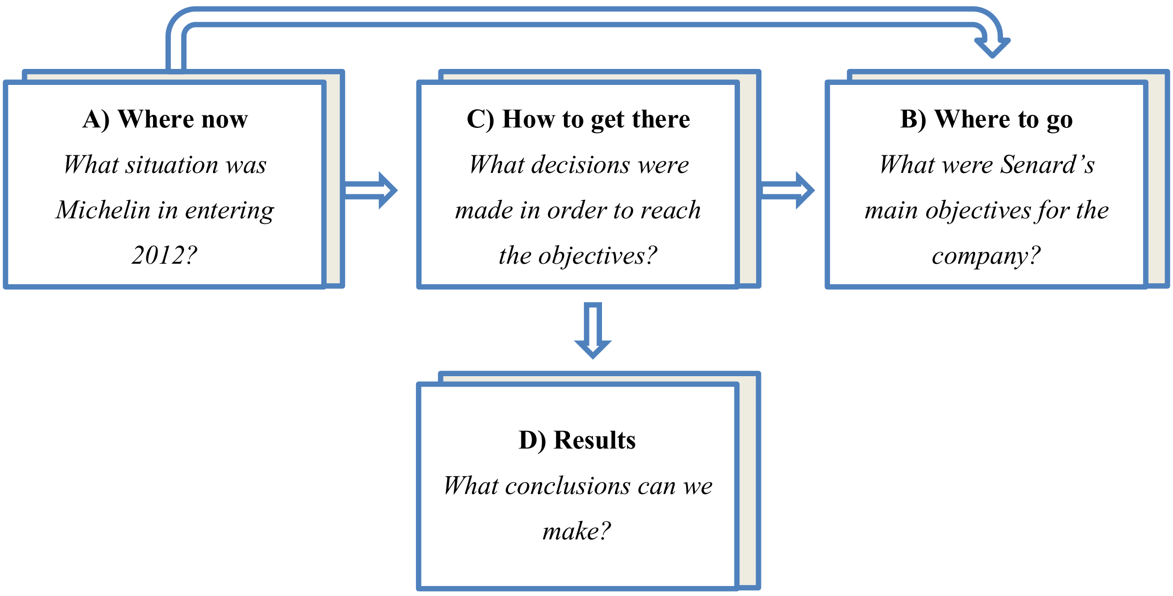
1. Assess Michelin's strategy under Senard. What can you say about it? Is it adapted to the context?
2. What are your thoughts about Menegaux's change in strategy? Do you see any risks or challenges?
3. *"To deploy our strategy in a powerful manner, we must transform our operating modes and quickly adapt our behaviors while upholding our purpose and our values"*. To what extent do you agree with this statement?
4. What could be some of the 'risks' that Menegaux talks about when thinking about the changes to be made?
5. What road map should Menegaux present to the Board?

Case Question Analysis

1. Assess Michelin's strategy under Senard. What can you say about it? Is it adapted to the context?

The aim of this question is for students to use logical frameworks in order to organize the different elements found in the case. By doing so, they will be able to analyze the decisions made by the company and judge them more effectively, based on the internal and external context analyses.

Students can use the *Where are we now/Where to go/How to get there* framework in order to structure the elements from the case and asses the direction taken by Senard.



A) <u>Where now - Situation Analysis</u>

In order to analyze the situation in the best possible manner, we will be looking at Michelin's internal and external context through a 3Cs and Five Forces analysis, which can then be transposed into a SWOT analysis.

External Analysis
5 Forces, 3Cs (consumers & competitors)

Internal Analysis
3Cs (company)

➡

SWOT
Recap

➡

Conclusion
Michelin situation analysis in 2012

Company

- *Strong worldwide brand recognition.* Through its legendary brand icon, intensive marketing campaigns, presence in automobile competitions around the world and product quality allowing it to win awards, Michelin has established itself as an indispensable brand in the tire and automobile industries. The guidebooks also strengthen the company's position outside these areas. Maybe beyond the brand recognition is the strong brand name, able to adapt to locals by sounding local. This is especially important in countries where people are patriotic in their purchases, such as the United States for example.
- *Innovation & Technological leadership.* This is something that has defined Michelin throughout its history. From the radial tire in 1946 to the to the XDR in 2001, the company has always strived to come out with breakthrough innovations in the tire industry which asserts its position as technological leader. Michelin's constant focus on innovation is a major factor in this, where R&D spending represents a high percentage of revenues (3%). There is also a true innovation culture with the Progress ideas employees can propose.
- *Global presence.* In 2012, Michelin had operations set up in over 170 countries with strong positions in Europe and North America, and increasingly in Asia.
- *Wide range of products and services.* Michelin is present on all product segments and is able to reach a variety of customers through the different brands it owns.
- *Solid financials.* Looking at Exhibit 1, the financials are positive for Michelin in 2012 with an increase in net sales compared to the previous year ($1.57 billion). Michelin also has a strong free cash flow.
- *High dependence on mature markets.* According to Exhibit 6, 40% of sales are in Europe and 38% in North America. These are markets that are not expected to grow much in the future compared to Asia, where Michelin's position is still weak.

Customers

B2C

- More access to information through internet which makes it easier for them to compare products and prices. They take less time to understand the performance of tires and are price sensitive even though quality is important
- No longer attached to a specific brand and are multi-product buyers

B2B

- Increasingly seeking solutions that can optimize their costs and the management of tires for their fleets

Competitors

Michelin's competitors can be organized in three different categories:

- *Traditional players.* Bridgestone remains leader in the market and is able to generate revenues that are 70% higher than Michelin's on the passenger car and truck segments.
- *New low-cost Asian players.* Increasingly gaining market share both in emerging and mature markets, at the expense of Michelin's and traditional players.
- *New type of competition in distribution.* Online retailers are selling and distributing tires, which affects Michelin's distribution network that it partly controls (through Euromaster)

We can sum up the above information into a simplified table:

Michelin 3Cs analysis (2012)

Company	Customers	Competitors
• Strong worldwide brand recognition • Innovation culture • Technological leadership • Global presence • Wide range of products and services • Solid financials • High dependence on mature markets	• B2C: more price sensitive and able to compare products online • B2B: want to optimize costs and want tire management solutions	• Traditional players (Bridgestone) with a strong worldwide presence and able to generate better revenues on several segments • Low-cost Asian contenders eating away market share worldwide • New competition in online retail

Let's now analyze the dynamics of the tire industry through a 5 forces analysis:

Porter's 5 Forces Analysis

	Level	Explanation
Threat of new entrants	Moderate	Tires are products that ensure road safety and require specific knowledge and expertise. Investments in production plants and research are expensive, which makes it difficult for new comers to enter the market. Nonetheless, this has not prevented the arrival and rise of new manufacturers from Asia able to compete heavily on prices.
Threat of substitutes	High	There are no substitutes for tires per se, but customers have the choice in different mobility options. Urban population is expected to reach 60% by 2030 which could possibly translate in the decline of number of cars needed. Especially with the availability of public transportation and other mobility solutions surfacing.
Supplier Power	Moderate	Michelin relies on a wide range of raw materials in order to produce its tires. Highly focused on quality and performance, it's not easy for Michelin to change suppliers (standards on sourced materials) and is dependent on the fluctuations of raw material prices. Furthermore, there are many big and consolidated suppliers able to dictate the prices set.

Buyer Power	High	With the increase in the number of manufacturers, especially low-cost ones, buyers can choose from many different products from different brands. The switching costs are very low: once their tires are used, they can easily switch and aren't locked in. For normal customers, internet has allowed them to research tires online before buying which gives them increased power given the competitive context. For fleet companies, technology has changed their expectations from tire manufacturers; they no longer want just tires but solutions
Industry competitors	High	Michelin has to deal with numerous competitors on all fronts: low-cost and high cost/high quality players. Some Asian players are even buying Western companies (Pirelli). All regions and all product segments are under the constant threat of competitors, where technological evolutions are changing the landscape (online retail, automated production facilities)

The tire manufacturing industry is under intense pressure and remaining competitive and asserting a dominant position can prove to be challenging for all tire makers. For Michelin, there are also other key risk factors including **activists** (able to put pressure on the company's governance) and **NGOs** (able to challenge their image and position in developing regions). ➔ This shows that Michelin is facing new types of shareholders and stakeholders that it shouldn't ignore.

Michelin SWOT analysis (2012)

Strengths	**Weaknesses**
▪ Strong worldwide brand recognition ▪ Innovation culture ▪ Strong technologic leadership ▪ Global presence ▪ Wide range of products and services ▪ Solid financials	▪ High dependence on mature markets – Europe & North America ▪ Weak presence in emerging markets ▪ Dependence on raw materials and their price fluctuations
Opportunities	**Threats**
▪ Digitalization ▪ Emerging markets ▪ Growing volume sales of tires ▪ B2B clients seeking improved solutions for their fleets ▪ Consumers increasingly using internet to research or buy tires	▪ Competitors – old and new ▪ New shareholders and stakeholders ▪ Digitalization – automated plants from competition ▪ Global economy ▪ Consumers increasingly using internet to research or buy tires

Conclusion: Michelin is an established and respected brand around the world. They are able to offer high quality products for all vehicle segments thanks to a strong culture of innovation and technological leadership. However, the tire industry is under pressure with a high concentration of emerging lower-priced competitors as well as high-end players battling for innovation leadership. With a weak presence in developing markets and the rise of the digital age, Michelin can nonetheless expect to capitalize on the growth projections of tire volume sales in the years after 2012. Meanwhile, they will have to pay close attention to the external evolutions that may be a problem in the future.

B) <u>Where to go – The Future</u>

Goals set by Senard for 2017:

⇒ Reach $2.9 billion in operating income
⇒ Savings of $1.2 billion
⇒ Maintaining positive cash flow every year (2012-2017)
⇒ Expand global footprint (double emerging market sales by 2020)
⇒ Grow sales 25% in volume

<u>Conclusion:</u> The goals here are mainly financial and focused on performance. Indeed, Michelin had caught up to its competitors with a 30% increase in productivity through the Michelin Manufacturing Way. The launch of the "new dynamic era of growth" shows that Michelin believed much more could be done in terms of efficiency to remain competitive on the market.

C) <u>How to get there – The Choices</u>

In order to achieve the objectives that were set out, Michelin initiated several actions:

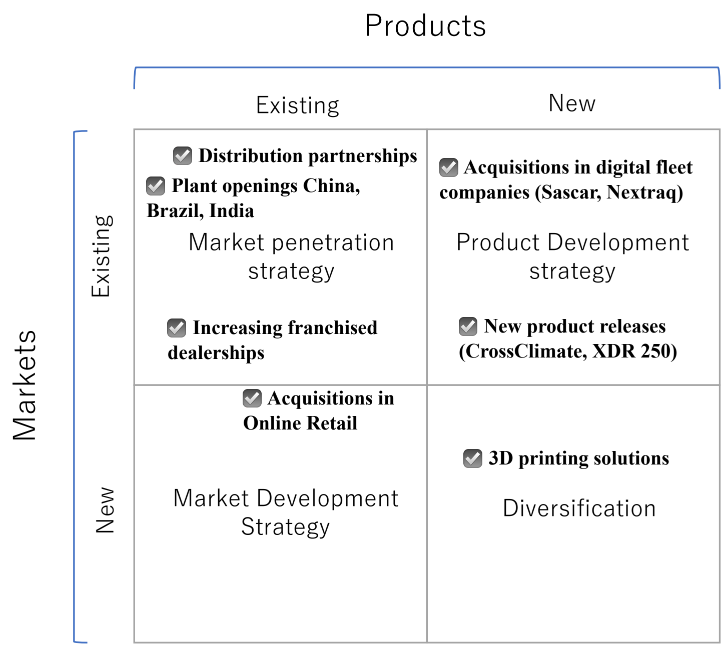
- **Cost-cutting plans:** The launch of the OPE system was designed to enhance the efficiency of administrative processes and improve responsiveness of the supply chain, which in the long run would lead to significant cost reductions (€450 million by 2017). Michelin also proceeded with the shutdown of underperforming factories in traditional markets (Europe) which can be interpreted as a direct response to the pressure from low-cost Asian manufacturers. Indeed, salaries in Europe are higher and the factories are not more efficient, as demonstrated by the automated Sentury tires factory able to produce the same quantity of tires as Michelin's new plant in China (12 million).
- **Increased the production capacity in plants:** Still building on the MMW, Michelin is spending up to €2 billion in factories around the world to ramp up production and efficiency.
- **Product innovations:** R&D expenses remained high between 2012-2017 (as seen in Exhibit 1 of the case) and are above the 2.6% industry average. This has led Michelin to keep introducing new innovative products to the market, such as the CrossClimate which is the world's first summer tire also approved for winter use. The high pricing strategy is in line with these introductions, as Michelin is trying to differentiate through superior performance and quality.
- **Expanding the distribution network**: Michelin is doing this in three different ways. First, they're increasing the number of franchised dealerships (they've increased from 2,000 to 5,000) which is a way for them to further penetrate the market with their existing products. Second, they've established distribution partnerships (such as with Sumitomo in North America in 2017) that is also a way for them to reach out to more customers and increase their sales. But maybe the most interesting is the third way, where Michelin is entering the online retail market through acquisitions. Beyond the existing market of tire consumers, this could be a way to capture a new market of consumers.
- **Expanding fleet solutions offering:** With the acquisitions of Sascar and Nextraq, Michelin is developing

its services in the B2B segment. These moves can also be seen as a way for the company to strengthen its knowledge in the digital world that is becoming indispensable for companies today.

- **Investments in emerging markets:** The French manufacturer is already present in Asian markets and is very localized if we consider the quote "In China, people think it's Chinese". However, as Exhibit 10 shows, Asia represents a small portion of total sales compared to the other markets (23%). As a response Michelin is opening up production plants such as the one in Shenyang in 2013. This can be seen as a move to reach these markets more easily and take advantage of their growth.
- **Investments in 3D printing solutions**: Creation of a JV with AddUp, this is a new way area of exploration for Michelin who is starting to look at ways to capitalize on high-performance materials expertise.

We can plot some of these strategies on the Ansoff matrix to see how Michelin is trying to beat competition. As we can see, they are acting on all areas at different degrees.

<u>Michelin Ansoff Matrix</u>



<u>Conclusion:</u> Despite small diversification initiatives, Michelin remains a company that is highly focused on tires and expanding their sales and production as much as possible. A big part of Michelin's strategy is also to increase their operational efficiency, in response to the accrued competition and necessity to maintain a lean production system. Are these strategies adapted to the context? The following TOWS analysis shows how the company is leveraging its strengths in order to seize opportunities and battle the threats of the environment. We can thus conclude that the strategies are adapted to the evolution of the environment, but only the results can tell if it is the right way forward in the future.

Michelin TOWS Analysis

MICHELIN	Strengths	Weaknesses
	▪ Strong financials, money available ▪ Strong financials, money available ▪ Technological leadership & innovation culture	▪ High dependence on mature markets compared to emerging ones ▪ High cost structure ▪ Loss of market share in traditional markets
Opportunities ▪ Consumers increasingly using internet to research and buy tires ▪ B2B clients seeking improved solutions for their fleets ▪ Growing volume of tire sales ▪ China biggest automobile market	**New product releases** **M&A Digital fleet solutions**	**Increase production capacity in plants** **Factory opening Shenyang**
Threats ▪ Innovative and strong traditional competitors ▪ Low-cost competitors able to offer lower prices ▪ Digital distribution competitors	**M&A Online retail**	**Cost-cutting plans**

D) Results

⇒ Exhibit 1 in case: $2.8 billion operating income in 2016, $2.63 billion in 2017. Even though it's a bit shy of the $2.9 billion aimed for, we can notice a significant increase from 2011 ($1.94 billion). In this sense, we can say that the financial objective of operating income is nearly met. This can be explained by the efforts of cost-reduction and production efficiency investments.

⇒ Michelin has maintained a positive cash flow during the 2012-2017. Despite the numerous acquisitions and investments projects, we can assume that Michelin used financial leverage to finance its projects.

Financial objectives are met

⇒ According to Exhibit 9, the volume of sales has not increased at the expected 25% rate

⇒ Exhibit 10: Shy growth of sales in Asian market, have been under 2012 numbers during 2013-2016 period.

Growth objectives not met

2. What are your thoughts about Menegaux's change in strategy? Do you see any risks or challenges?

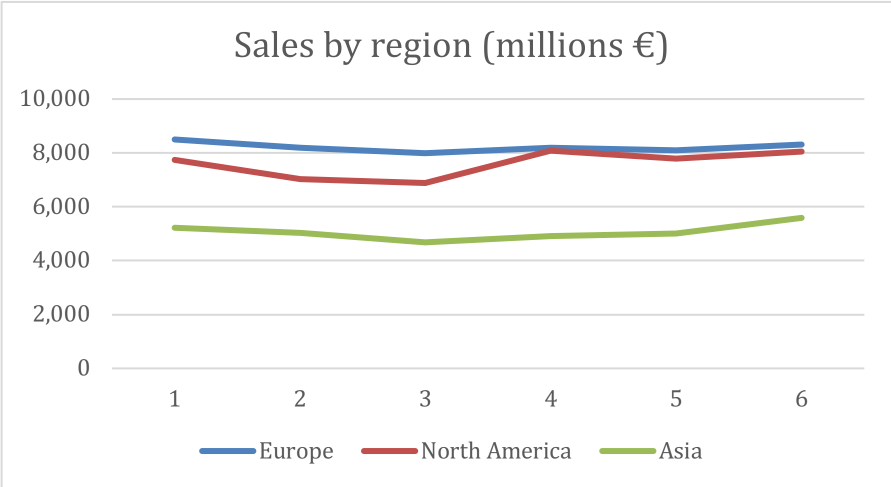
> This question is intended to get students to express their opinion on why they believe this decision could be good or bad for the company. There is no right or wrong answer, but it will give them the opportunity to defend their position given the current situation.

Michelin SWOT analysis (2018)

Strengths	**Weaknesses**
▪ Strong worldwide brand recognition ▪ Innovation culture ▪ Strong technologic leadership ▪ Global presence ▪ Wide range of products and services ▪ Solid financials ▪ Extensive distribution network (physical and online) ▪ Entry in high-tech materials market	▪ High dependence on mature markets – Europe & North America ▪ Weak presence in emerging markets ▪ Dependence on raw materials and their price fluctuations ▪ Losing global market share ▪ Premium pricing makes it hard to gain market share ▪ Sales in regions and segments haven't made much progress ▪ Rigid and centralized structure – lack of flexibility and agility
Opportunities	**Threats**
▪ Digitalization ▪ Emerging markets ▪ B2B clients seeking improved solutions for their fleets ▪ Consumers increasingly using internet to research or buy tires	▪ Competitors – old and new ▪ New shareholders and stakeholders ▪ Digitalization – automated plants from competition ▪ Global economy ▪ Consumers increasingly using internet to research or buy tires ▪ Low growth in tire industry expected (2%) ▪ Differentiation and innovation is becoming more costly ▪ Urbanization of population, shift in car usage trends

A) Makes sense because of context

This new strategy makes sense given the evolution of the environment and Michelin's current situation. As seen in the previous question, Michelin did not meet its growth objectives of 25% (actually far from it with only 3-4%) which shows that the market structure is very complex and competitive. The French manufacturer is also pursuing a top performance, high price strategy which makes it even harder to grow sales on a worldwide level. In mature markets, Michelin has to fight to remain competitive. Not only are traditional players being aggressive (Bridgestone in the US with its operations and acquisition of Firestone) and competing on the premium segment, but Asian manufacturers are progressively gaining market share (Exhibit 6 in case). ChemChina acquiring Pirelli is an example that shows that tables are slowing turning. If you look at sales in Europe alone, you can see that they have been decreasing since 2012 for Michelin. This is explained by competition but also the reduction of margins that the company is generating. In developing markets, Michelin is making considerable efforts to increase their presence. But again, given the sales results, it's hard to see how they will be able to grow even more. Overall, Michelin is losing global market share every year and has to find other levers of growth.



B) Makes sense because of recent decisions

Before Menegaux became CEO, Michelin started making strategic choices that fit the direction of the new strategy. They started capitalizing on their expertise of high-tech materials through the JV they created, but this is a very small step. The ambition for the future is that this business segment will represent €5-7 billion of Michelin's total sales. Acquisitions in the services & solutions segment also justify Michelin's choice to focus on this area. We also need to keep in mind that Menegaux was COO before taking charge of the company, so he was involved in all the decisions that would later guide his vision for the future.

C) Operational excellence is not enough…and is not a strategy

What we were able to see with previous strategy under Senard is that there was a high focus on productivity and operational excellence (Michelin Manufacturing Way, cost-cutting programs, increased performance in plants, etc.). It's advised that students refer to Michael Porter's article 'What is Strategy'[1] where it is stated that operational effectiveness allows companies to perform better but is not a strategy since best practices are easily emulated. It does contribute to superior performance and has been extremely important for Michelin in its quest to remain attractive on the market. But competition based on operational effectiveness alone is mutually destructive and companies have, in the end, no other choice than to buy their rivals. Just looking at Exhibit 5 in the case gives an idea of how tire manufacturers have been growing throughout their history – mainly by purchasing other brands. It seems that the future for these tire manufacturers goes beyond just tires, in a world where people mobility is constantly changing.

D) However, there are risks

As for all companies when they change strategies, there are several risks that need to be taken into consideration. In the case of Michelin, students can think about and discuss several of these:

- By wanting to expand and grow into more diverse businesses, there is a risk of **losing focus on the core**

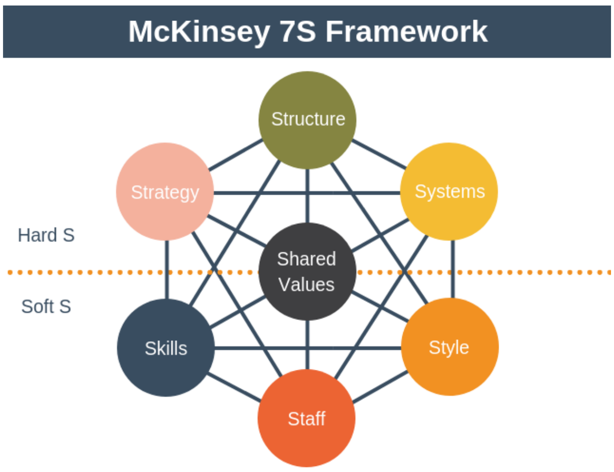
business (tires). In a context where competition is intensifying, will Michelin be able to keep up if they start looking into other areas?

- When wanting to diversify into other segments, there is a risk that Michelin will **lack the necessary skills or expertise.** Michelin is a company where much of the culture and knowledge revolves around the tire business. These new businesses Michelin is looking into will require different skill sets than what the company has grown used to.
- Michelin's approach in diversification at the moment mainly relies on acquisitions. These inorganic methods of growth are a way to acquire expertise and knowledge, however, there is a risk of **integration among the companies**. Will the smaller entities fit the culture and traditions of Michelin?
- Another risk is that Michelin might **lose its level of operational excellence** that it had worked so hard to achieve through the Michelin Manufacturing Way and the efficiency-based decisions made under Senard.

Regarding these risks, would you suggest that it's a right decision for Michelin? Are there any other ways forward? Students here may express their opinions by relying on their own knowledge and personal experience. Some might agree that diversification is necessary given the evolution of the market and mobility future, and some might even suggest that Michelin should push the diversification aim even further. Others might put more importance on the associated risks, and the possibility that Michelin might lose ground when faced with the accrued competition.

3. ***"To deploy our strategy in a powerful manner, we must transform our operating modes and quickly adapt our behaviors while upholding our purpose and our values". To what extent do you agree with this statement?***

It is recommended to look at the first part of this question through the lens of McKinsey's 7S framework. It helps diagnose how a company operates by focusing on seven key areas. For an organization to be successful, according to the framework, these seven elements need to be aligned and work in harmony with one another – especially when implementing any kind of change. Changing just one element could significantly impact the others.



When analyzing these areas, several important questions can be asked:

- *Strategy:* What is the organization doing to remain competitive or solve the business problem?
- *Structure:* What organizational structure is needed in order to execute the strategy*?*
- *Systems:* What business systems are needed to execute the strategy?
- *Style:* What leadership style will help achieve the strategic objective?
- *Staff:* How should the company help people in their growth?
- *Skills:* What skills need to be developed and how?

With these questions in mind, we will be able to build the framework and apply it to Michelin in order to understand how the elements work together. We will first look at the interaction between these elements with the previous strategy, then look at Menegaux's desired design as he is reflecting on ways to transform the organization.

A) Under Senard, the elements of Michelin's organizational design were aligned and consistent with product and performance

Based on the information provided in the case, we can construct the 7S framework for Michelin under Senard's leadership.

Michelin 7S Framework (current situation)

Strategy	(1) Product-centered (2) Growth through investments in emerging markets and distribution network (3) Reducing costs through operational excellence
Structure	(1) Autonomous product lines organized in silos (2) Centralized corporate functions (3) Decentralized operational functions
Systems	(1) Centralized HR information systems (information not shared) (2) Variable pay mainly based on individual performance (3) Top-down communication
Style	(1) A management model: give direction, get results and develop people (2) Command-and-control, micro-management
Skills	(1) Standard initial training, train for the job (2) Classroom training (3) Focus on hard skills
Staff	(1) Following standards and procedures (2) Low personal risk (3) Focus on individual performance (4) Michelin manages employee career
Shared Values	(1) Product quality focus (2) Excellence over speed (3) Respect (4) Control

As seen in question 1, Michelin had followed a very product and efficiency-oriented strategy in trying to cope with the evolving environment. The organizational structure was suited for this type of strategy because by evolving around product lines, it guaranteed global coherence and reduced product-related redundancies. Given the centralized organization, decisions naturally trickled down in a top-down approach which fitted the leadership model that managers were asked to adopt. Effectively implementing and communicating the strategic decisions made by top management exemplifies this perfectly, and the performance-oriented behavior links back to the strategy of operational excellence. The compensation structure furthermore encouraged individuals to meet the personal objectives set by management. The skills needed were translated by the training Michelin gave its employees, mainly focused on what was expected from the job and the skills required to perform it. Through its career development program, Michelin had in a way control over the aspirations of its employees and could manage how they would be allocated to areas around the organization. All of these elements fit one another and are reflected perfectly in the shared values of the company: product quality, excellence over speed, respect and control.

Conclusion: All the elements complement and reinforce each other. They make sense given the strategic direction of the company in the period leading up to 2018..

B) With a change in strategy and vision, the design has to work in a different way

However, Menegaux's new strategy and vision for the future naturally affects the other elements of the 7S framework. Indeed, expanding into new businesses and meeting the evolving demands of customers will require the organization to be less rigid and bureaucratic. Contact redundancies between Michelin and the clients are normal with the current structure because of the focus around distinct product lines. Beyond structure, improving customer responsiveness will, in turn, lead the required skills to evolve. Decisions will have to be made on the spot and not wait for hierarchical approval: people will need to be empowered and allowed to make those decisions. In order to ensure this, the leadership model will have to change and create the conditions for more empowered and autonomous teams. Which will only be consistent if they are drivers of their own development. And finally, this will have a direct impact on the shared values. In this sense, students could disagree with Menegaux when he says "while upholding our values", and could bring students to discuss about what these values could be in the future.
With the information provided in the case, especially Exhibit 13, students can characterize the vision that Menegaux has for the different domains, and how he sees them working together:

Michelin 7S Framework (desired situation)

	Current	Desired
Strategy	(1) Product-centered (2) Growth through investments in emerging markets and distribution network (3) Reducing costs through operational excellence	(1) Customer-centered (2) Growth through diversification of offering (3) Improving agility through empowerment of people
Structure	(1) Autonomous product lines organized in silos (2) Centralized corporate functions	(1) Interdependency between business lines and regions (2) Reduce complexity of corporate functions

	(3) Decentralized operational functions	(3) Consolidated operational functions
Systems	(1) Centralized HR information systems (information not shared) (2) Variable pay mainly based on individual performance (3) Top-down communication	(1) HR information systems shared with everyone (2) Variable pay mainly based on team and company performance (3) Development of social networks
Style	(1) A management model: give direction, get results and develop people (2) Command-and-control, micro-management	(1) A leadership model: empower people and create environment that drives engagement (2) Letting go of control and being a servant leader
Skills	(1) Standard initial training, train for the job (2) Classroom training (3) Focus on hard skills	(1) Continuous training, train for competencies (2) Digital, on-the-job training (3) Focus on soft skills
Staff	(1) Following standards and procedures (2) Low personal risk (3) Focus on individual performance (4) Michelin manages employee career	(1) Able to take initiative and flexible decision-making (2) Collective risk taken within learning environment (3) Focus on individual performance (4) Michelin manages employee career
Shared Values	(1) Product quality focus (2) Excellence over speed (3) Respect (4) Control	(1) Customer experience quality focus (2) Speed over excellence (3) Care (4) Solidarity and accountability

Conclusion: In order to reach his desired structure, Menegaux will have to lead a transformation on many different fronts.

C) Change has already started at the bottom in terms of people development

Michelin launched the 'Empowering Organizations' project in 2012 aimed at finding ways to carry out autonomous operation. The goal in the end was to find a model where employees could be empowered and work autonomously, in order to increase agility and flexibility. It had worked on a small scale but now needed to reach higher levels. The challenge Menegaux now is facing is getting this initiative to carry out to all functions within the group, which would be in line with his vision for the future.
What can we say is interesting about this initiative directed at changing employee behavior and the way they work? It's a change process that isn't defined or marked out, and very different from John Kotter's theory[2] of the 8-step process to successfully carry out change. It starts at the bottom with front-line teams and has employees figure out their own model for change.

D) Organizations lose their relevance when the rate of internal change lags the pace of external change

Gary Hamel, What Matters Now[3]: "Organizations lose their relevance when the rate of internal change lags the pace of external change". This quote can be applied to Michelin's case quite effectively, where the elements described above haven't evolved over some time now.

- The last organizational restructuring dates back to 1996 and was designed to help Michelin better achieve its financial performances. In 20 years, the environment is completely different, and companies are expected to go beyond performance to meet the complexifying needs of customers

- Leadership model implemented in 2011 is relevant today with what is expected from managers and teams, but it doesn't fit what is expected from employees in the future
- The values have remained the same since 1996, focused on the notion of respect. Should company values always stay the same?

These are examples that show that Michelin hasn't evolved much internally in recent years, in contrast with an external environment of new technologies, new customers and new competitors. This reference can allow students to think about the need for change in organizations.

E) <u>Too much change could be harmful for a traditional company like Michelin – preserving history and roots is key</u>

Transformation and change sounds appealing and necessary on paper, but it's a whole different story when it comes to real life situations. Menegaux must keep in mind that the company has a rich history that has allowed it to be successful up until now. Michelin's DNA and culture run deep, it's what has led the company to constantly innovate and differentiate from competitors with high-end, quality products. That's what he seems to suggest when he talks about "purpose", but his vision (Exhibit 13 in the case study) reveals a complete change in how Michelin does things.

4. What could be some of the 'risks' that Menegaux talks about when thinking about the changes to be made?

Following the major domains of the 7S framework, students can think about the risks associated with the desired organizational design.

<u>Strategy:</u> refer to question 2

<u>Structure:</u>

- Silo organizations are very comfortable and understandable structures to follow. They tell exactly where people are, who their superior is, what job they need to perform. The idea of this new structure could lead to increased internal confusion and stall operations if a restructuring is decided. Will people know who to report to? Will they not be frustrated with an organization they can't fully understand? A decentralized structured means loss of central control and by not being organized around product lines, it could create product-related inefficiencies.
- Reducing central staff could increase the workload for employees and most likely lead to demotivated teams

<u>Systems:</u>

- The question of individual and collective variable pay is raised here, where students can discuss what they think is better for employees within a company. Collective pay has several disadvantages that need to be taken into account. It could cause tensions within a group, where some could consider their performance to be superior to others and have a feeling of injustice. It also doesn't push for individual results and can cause people to be less invested in a group.

- By freeing information, HR employees will have a sense of losing power

Style:
- Resistance from managers who will see their responsibilities and power diminish
- If managers protest, some will have to be removed which goes against the Michelin culture

Staff
- More empowerment could cause employees to ask for higher pay
- Risk of people being lost in their career perspectives

Shared Values: A change in shared values might damage Michelin's identity, causing employees to lose their strong sense of belonging to the company

5. What road map should Menegaux present to the Board?

This question is intended to lead to a subjective discussion where students are expected to express their opinion on what needs to change and what shouldn't. Personal knowledge or experience can guide them as they reflect on the risks mentioned in the previous question. Maybe some will have experienced change within their company on at least one of these areas and are willing to share how it might have gone well or wrong. The teacher here can also ask this question as a group assignment where students will have to provide answers to the following table, derived from the 7S framework. Naturally, most elements in in the table here will come from the previous questions. But the idea is for them to decide either "go" or "no go". If they answer "go", they will have to suggest how they would go about changing it.

	Where now	Where to go	Risks to move	Go/No go	How to get there
Strategy					
Structure					
Systems					
Style					
Skills					
Staff					
Shared Values					

As a guide, the teacher can use the Epilogue to see what Michelin actually did. (The Epilogue will be in the next version of the Insight Note).

REFERENCE

[1] Michael Porter, “What is Strategy”, Harvard Business Review (1996) product number 4143

[2] John Kotter, “Leading Change”, Harvard Business Review (1995)

[3] Gary Hamel, “What Matters Now”, Jossey-Bass (2012) p.86